Reforming mobile sector taxation in Sri Lanka: Promoting growth in the Sri Lankan mobile sector and wider economy through a more efficient tax system

Mobile telephone services play an increasingly important role in supporting and delivering development, economic growth and social inclusion.

In Sri Lanka, the mobile market has expanded rapidly over the past decade and there is significant scope to further increase penetration. Despite this strong growth Sri Lanka still ranks below a number of regional peers when it comes to connectivity.

Today about 28% of Sri Lankan citizens are still excluded from mobile services.

The Sri Lankan mobile market has scope to grow even further...

3-fold increase

9.6 million
Sri Lankans newly connected

5.4m 2007
15m 2017

40%
Have access to mobile internet

*Source: GSMA Intelligence

The lack of affordability of mobile services is one of the factors limiting connectivity growth. High levels of taxation in comparison to other sectors and regional benchmarks are contributing to the affordability barrier, particularly so consumer taxes.
The GSMA has commissioned EY to estimate the impacts of two potential tax reforms on the mobile sector and the wider Sri Lankan economy, using a model of the Sri Lankan mobile sector and a Computable General Equilibrium (CGE) model of the economy. The summary table below provides an overview of the main results.

| Economic impacts of tax reform | Through policy reform, the government of Sri Lanka has the opportunity to further simplify and rebalance mobile sector taxation, leading to increased productivity across the economy, as well as increased digital and financial inclusion |

**Estimated impacts of tax reductions over a five-year period (2019-2023)**

<table>
<thead>
<tr>
<th>Tax Reform</th>
<th>Price of services</th>
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<th>GDP growth</th>
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**WHAT IS THE IMPACT ON GOVERNMENT REVENUES?**

**These tax reforms are self-financing**

The Government may face an initial cost in the first year following the reform, but tax reforms would boost productivity, leading to higher GDP and taxation revenue in the medium-term. Over a five-year period, the cumulative fiscal gain would be:

- $475m from the elimination of the 25% Telecommunications Levy on voice and SMS; and
- $125m from the elimination of the TDC and OLAC.

**Economic impacts of tax reform**

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