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

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

5.4m 2007

Threefold increase

15m 2017

9.6 million
Sri Lankans newly connected

40%
HAVE ACCESS TO MOBILE INTERNET

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

**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.

Unique subscriber penetration

72%

Connection penetration

126%

Contribution to the economy:

$298m

0.4% of Sri Lankan GDP (2017)

Contribution to tax revenues:

$246m

2.2% of total tax revenues (2017)

Mobile operators are subject to high sector-specific taxes at **20%** of their total revenue

But affordability of mobile services can be improved to support mobile adoption...

5.3%

2%

The total cost of a **1GB** basket represents **5.3%** of the monthly income of the poorest **20%** of Sri Lankan consumers.

*This is higher than the United Nations' "1 for 2" affordability target set for 2025, which seeks to ensure that a **1GB** data basket costs no more than **2%** of monthly income for all income levels.*

Taxes contribute significantly to the affordability barrier and limit investments in 3G/4G

The share of the sector's tax contribution is 1.9 times the size of the sector's revenue as a share of GDP. Share of total tax contribution of the mobile sector in its total market revenue:

26%**

This is high compared to countries in South East Asia, including Indonesia (**23%****), Malaysia (**20%****) and Thailand (**14%***)

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

**Unless stated otherwise, data is from 2017 *2015 data **2014 data. Source: EY analysis using GSMA and operator data*
***This estimation does not capture the impact of the removal of the VAT exemption on telecommunications services introduced in November 2016, and the exemption of Telecommunications Levy on internet services introduced in September 2017 either*

Economic impacts of tax reform

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.

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

	Price of services	Additional investment in the economy	Total new unique subscribers	GDP growth	Total new jobs	Annual gain in tax revenue by 2022
Eliminating the 25% Telecommunications Levy on voice and SMS	-9.7%	$338 million	1.6 million	$878 million	11,000	$165m
Eliminating the Telecommunications Development Charge (TDC) and the Outgoing Local Access Charge (OLAC)	-1.7%	$94 million	0.4 million	$203 million	3,900	$41m

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.

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