Rethinking mobile taxation to improve connectivity

Summary

GSMA Intelligence

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Summary

Mobile is the main gateway to the internet for consumers in many parts of the world today, particularly in developing countries. Despite this, governments in many of these countries are increasingly imposing – in addition to general taxes – sector-specific taxes on consumers of mobile services and devices and on mobile operators. This poses a significant risk to the growth of the services among citizens, limiting the widely acknowledged social and economic benefits associated with mobile technology.

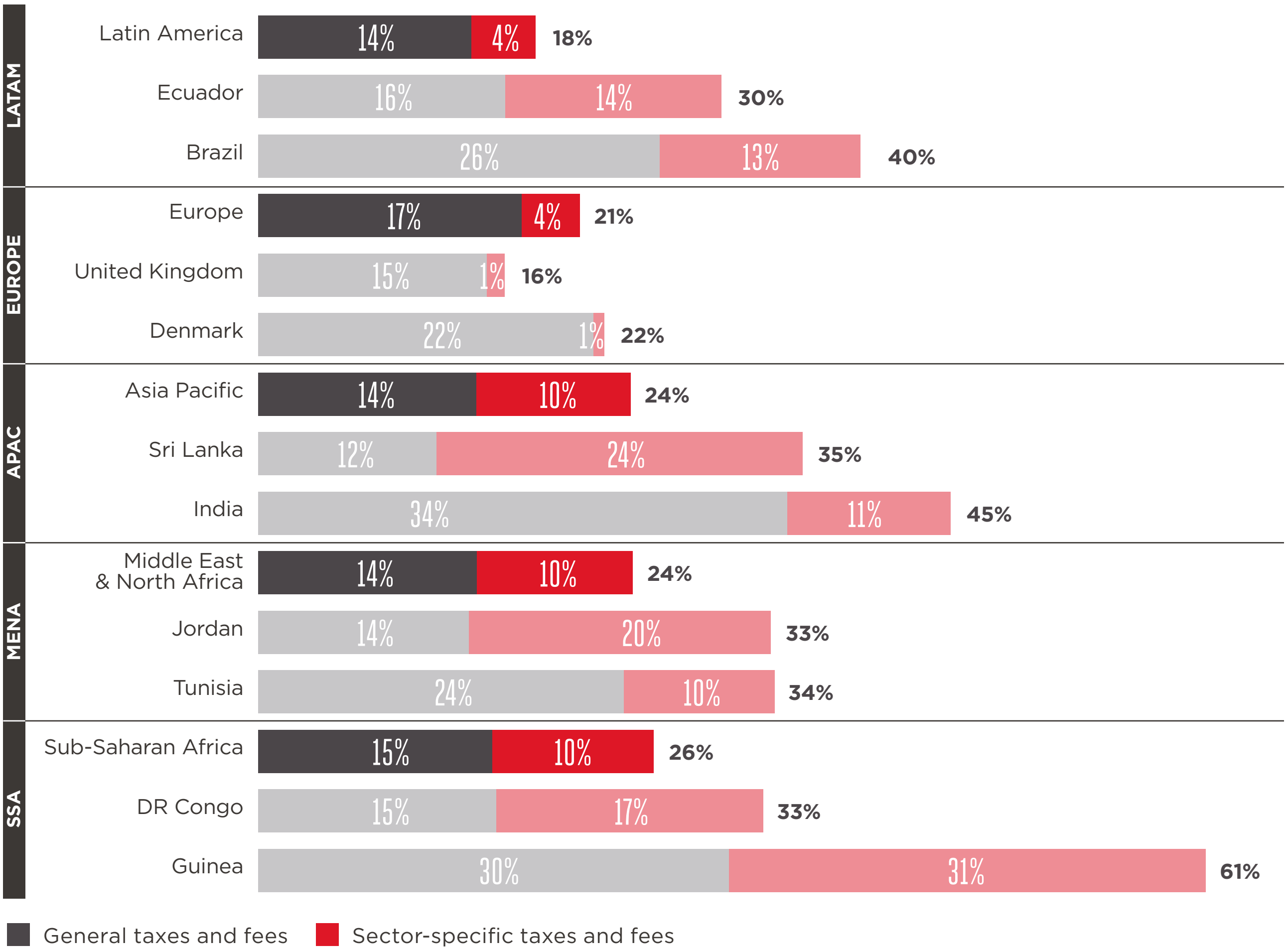
Mobile consumers and operators are subject to a substantial tax burden, increasingly driven by sector-specific taxes

In 2017, mobile taxes on consumers and industry accounted for, on average, 22% of market revenue.[1] Almost a third of these payments are taxes specific to the mobile sector, which are levied on mobile operators and consumers in addition to other, economy-wide, general taxes.

Figure 1

Consumers and operators are paying taxes in excess of 30% of market revenue in many countries

General and sector-specific taxes and fees as a proportion of market revenue (2017)



Source: GSMA Intelligence

1 Based on our survey of mobile operators in 86 countries worldwide.

This varies significantly across regions: markets in Sub-Saharan Africa are subject to some of the highest overall tax burdens, with markets there paying on average 10% of revenue as sector-specific taxes; this can, however, be as high as 31% in Guinea.

In 2017, almost 1.5 billion consumers in 60 countries were subject to sector-specific taxes when buying mobile services or devices, with a third of these in Africa and the Middle East.

- The number of countries where consumers pay sector-specific levies almost doubled between 2011 and 2017. There have been around 120 sector-specific tax-rate rises or new levies introduced during this period.
- Half of the 120 sector-specific tax increases were sector-specific taxes on usage, concentrated in Africa and the Middle East.

Sector-specific taxes reduce affordability and investment

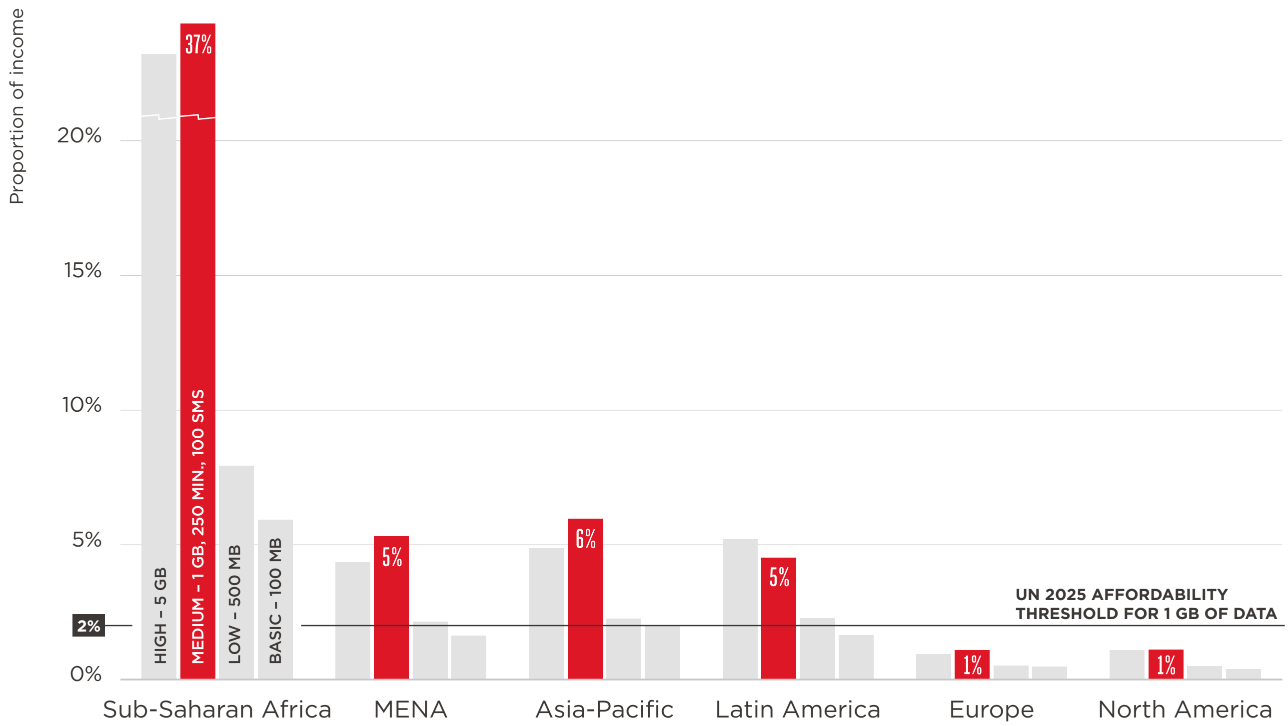
Affordable mobile internet access is important for consumers and society, given its power to transform societies and modernise economies. Mobile internet improves communication and access to information, boosts productivity and makes markets more efficient. Keeping mobile internet affordable allows more people to start realising these benefits, and allows existing users to consume more data – with more advanced, data-intensive technologies delivering even greater benefits.

The UN's Broadband Commission recently established the "1 for 2" affordability target. This requires that 1 GB of data should cost less than 2% of monthly income per capita, to ensure that, by 2025, the remaining 55% of the global population that is offline becomes connected. Many countries will struggle to accomplish this target: the purchase of 1 GB of data currently represents 5–37% of income in Sub-Saharan Africa, MENA, Asia-Pacific and Latin America – clearly unaffordable levels that are between 2× and 18× the threshold that the UN aims to achieve by 2025.

Figure 2

Mobile internet remains unaffordable for many users across the world

Total cost of mobile ownership as a proportion of income, all earners (2017)



Source: GSMA Intelligence

These affordability problems are in part explained by consumers bearing an increasing tax burden. Consumer taxes were 19% of the total cost of mobile ownership (TCMO) in 2017, which represents an increase since 2011 – partly driven by the numerous sector-specific tax increases. In several markets (for example, Turkey, Congo and Argentina) taxes account for more than a third of TCMO for consumers. All of them have sector-specific taxes in place.

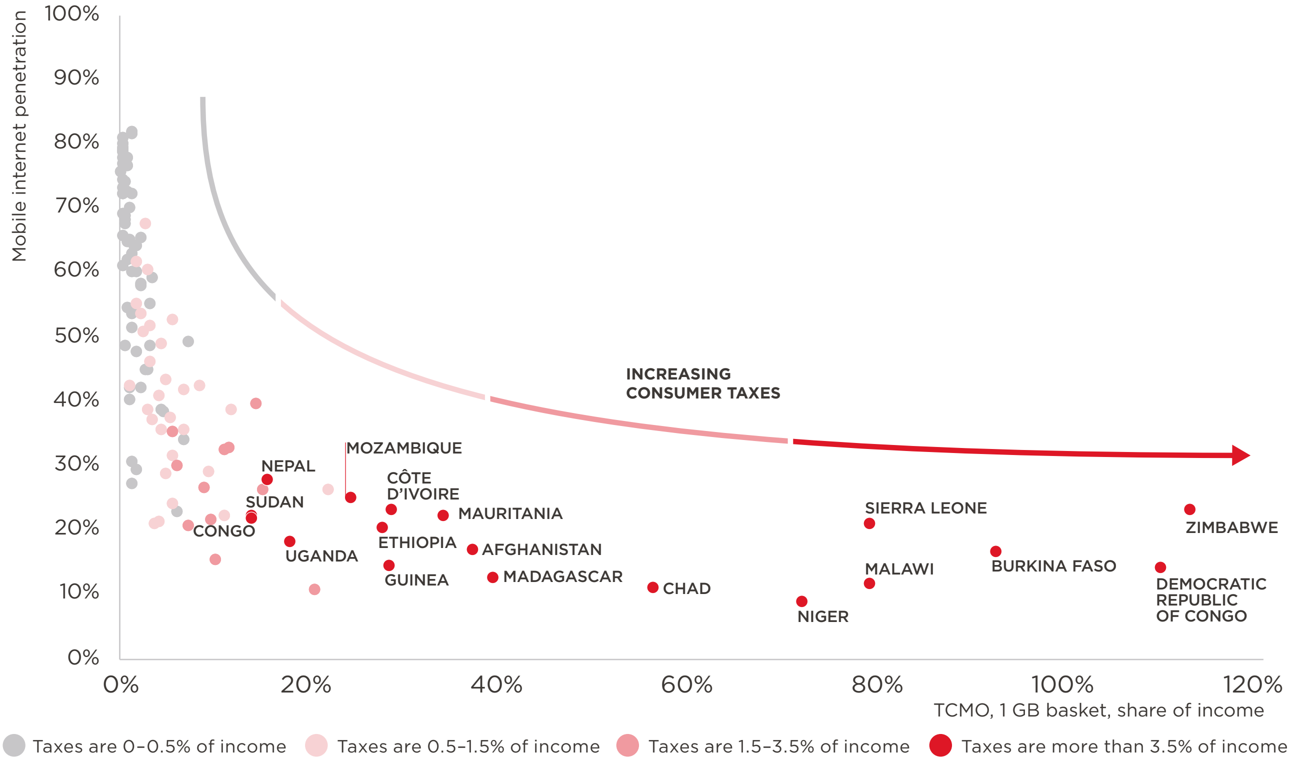
Affordability can be improved by alleviating the tax burden faced by consumers. In Africa, Latin America, the Middle East and Asia-Pacific, consumer taxes alone (at over 2% of income) already make services unaffordable for the 1.2 billion people that represent the bottom 20% of the income pyramid – this is before even taking into account the actual price of the service and devices.

Reducing the cost of mobile ownership is important for governments, as lower consumer costs are associated with higher levels of mobile connectivity. In particular, where the burden of tax is lower for consumers, the cost of mobile ownership is lower. For countries where taxes account for more than 3.5% of consumers' incomes, reducing taxes could be an important strategy to improve mobile connectivity.

Figure 3

How consumer taxes increase the cost of mobile ownership and restrict mobile internet penetration

Total cost of mobile ownership for 1 GB (as a proportion of income) and mobile internet penetration (2017)



Source: GSMA Intelligence

Investment is also hindered by sector-specific taxation as operators' cash flows are reduced, making them more reliant on capital markets to invest. High tax burdens on the mobile sector affect the case for investment as consumers reduce their use of mobile in high-tax markets.

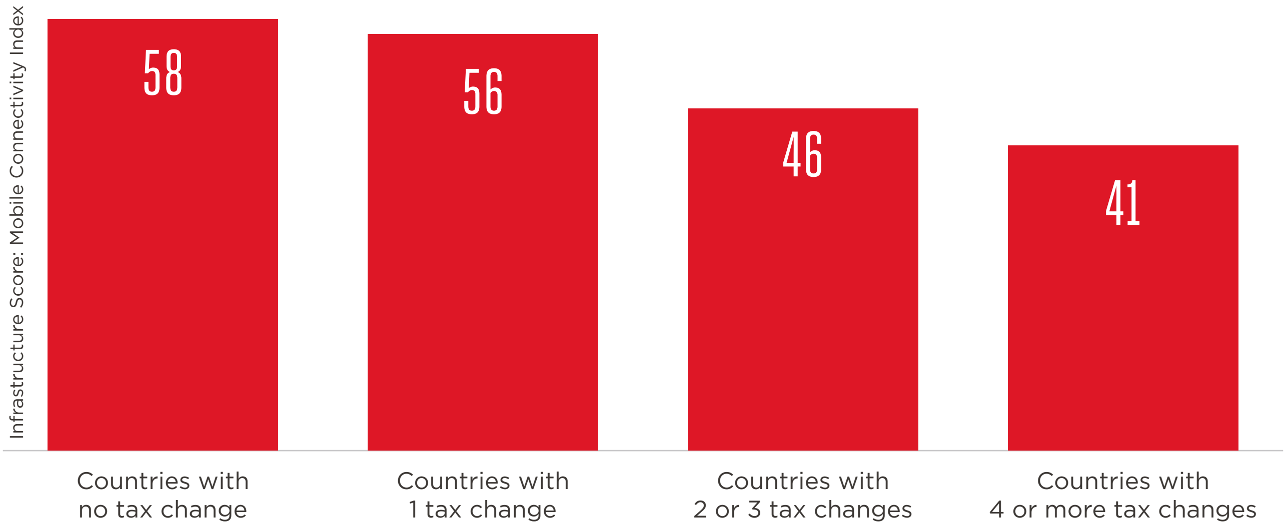
There is also a relationship between consumer tax volatility, which creates uncertainty, and the state of mobile infrastructure. Markets where consumer taxes were changed four times or more over the period 2011–2017 (for instance, Bangladesh, Brazil and Egypt) have an infrastructure rating[2] that is on average 17 points lower than markets where consumer taxes were not changed. High tax levels and uncertainty can create poor environments for operators considering investments in the deployment of new technologies and networks, including 4G and 5G.

2 As measured in the GSMA Mobile Connectivity Index 2017. The infrastructure enabler score measures the availability of high-performance mobile internet coverage.

Figure 4

Markets with higher tax uncertainty score lower on infrastructure provision

2017 Infrastructure score from the GSMA Mobile Connectivity Index according to number of consumer tax changes (2011–2017)



Source: GSMA Intelligence

Rebalancing sector-specific taxes and regulatory fees can promote connectivity, economic growth, investment and fiscal stability

Sector-specific taxes do not take into account the wider economic benefits of mobile. A strategy of tax revenue maximisation will result in countries missing out on the benefits of mobile to consumers and the global economy. In addition, since mobile enables e-government services, it has a large part to play in helping tax administrations become more efficient.

Reductions in sector-specific taxes can increase the affordability of mobile services and boost demand, which adds value to the economy through the knock-on impact on other industries and the increased productivity of workers with mobile connections. The wider mobile industry is able to support more jobs and increase investment in infrastructure, which has a further positive impact on the economy. GSMA studies find that demand can be stimulated to the point that government tax revenues also increase in the medium term.

Table 1

Modelled impact of selected tax reforms after five years

	ARGENTINA Eliminating excise duty on mobile services (4.2%)	**SRI LANKA** Removal of telecoms levy on voice and SMS (25%)	**TUNISIA** Eliminating customs duties on network equipment
GDP impact	+ $1,830 million	+ $878 million	+ $161 million
Tax revenue impact	+ $980 million	+ $165 million	+ $42 million

Source: Reforming mobile sector taxation in Argentina, GSMA, EY, 2017; Reforming mobile sector taxation in Tunisia, GSMA, EY, 2018; Reforming mobile sector taxation in Sri Lanka, GSMA, EY, 2018.

Governments across the world have recognised the importance of policies that support the ICT sector, resulting in digital agendas that set ambitious connectivity objectives, often relying on mobile networks to fulfil them. A number of principles for reforming sector-specific taxation and fees should be considered by governments, to align mobile taxation with that applied to other sectors and with the best practices recommended by international organisations such as the World Bank and IMF.

Table 2

Best-practice principles of taxation applied to the mobile sector

Taxes should be as broad based as possible	Taxes and fees on the sector beyond general taxes distort markets and affect levels of prices and investment. Reducing these sector-specific taxes leads to increases in the adoption and use of mobile services. By extending the user and tax base, reductions in taxation have a positive impact on government revenues in the medium to long term. Phased reductions of sector-specific taxes and fees represent an effective way for governments to signal their support for the digital connectivity agenda and to benefit from economic growth resulting from the reductions, while limiting significant negative impact on public finances in the short term.
Tax systems should be simple and certain	Uncertainty over future taxation reduces investment as the risk of future tax rises is priced into investment decisions. In addition, numerous sector-specific fees levied on different tax bases raise compliance costs for mobile operators and the tax administration. Governments should seek to limit unpredictable tax and fee changes, and streamline their levies of taxes and fees.
Taxes should not undermine affordability and access to services	One of the surest ways to lower the take-up of mobile services is to tax access to the market. Removing these taxes has the potential to increase the taxable base for the government. • Luxury taxes on handsets and SIM cards, and other activation or connection charges create a direct barrier for consumers to connect and access mobile broadband, especially in developing markets and for the poorest. To enable more users to gain access to the mobile market, governments should choose to address affordability barriers caused by taxes on devices and connections. • Like any other tax that targets access, import duties applied to handsets restrict access to mobile services. Governments should align their tax policies with the WTO´s Information Technology Agreement, aimed at eliminating import duties on technology products.
Taxes should not undermine investment	Taxes on revenues are particularly distortive as they continue at the same level regardless of whether the operator makes a profit or loss, or whether it is investing in new innovative networks. Moreover, when used to set up or replenish universal service funds (USFs), the frequent delays or lack of disbursement of collected levies wastes operators' financial resources.
Spectrum should be effectively priced to facilitate better quality and more affordable services	The approach to awarding spectrum needs to balance *ex-ante* and *ex-post* fees in a transparent way to ensure operators do not pay twice for access to the same resource as this would discourage investment. By adopting a long-term perspective, setting modest reserve prices and prioritising spectrum allocation, governments and regulators can support operators in the delivery of high-quality and affordable mobile services to consumers.

Source: GSMA

	SUB-SAHARAN AFRICA	MIDDLE EAST & NORTH AFRICA
Average tax payments as a percentage of revenue (2017)	GENERAL 15%; SECTOR-SPECIFIC 10%; TOTAL 26%	GENERAL 14%; SECTOR-SPECIFIC 10%; TOTAL 24%
Percentage of countries with sector-specific tax (2017)	63%	56%
Number of sector-specific increases or introductions 2011 to 2017	41	24
1 GB of data as a proportion of income, all earners (2017)	37% (UN AFFORDABILITY TARGET 2025: 2%)	5% (UN AFFORDABILITY TARGET 2025: 2%)
Taxes as a proportion of income, 20% lowest earners (2017)	27% (TCMO UN AFFORDABILITY TARGET 2025: 2%)	3% (TCMO UN AFFORDABILITY TARGET 2025: 2%)

ASIA PACIFIC	LATIN AMERICA	EUROPE

Average tax payments as a percentage of revenue (2017)

	ASIA PACIFIC	LATIN AMERICA	EUROPE
GENERAL	14%	14%	17%
SECTOR-SPECIFIC	10%	4%	4%
TOTAL	24%	18%	21%

Percentage of countries with sector-specific tax (2017)

ASIA PACIFIC	LATIN AMERICA	EUROPE
33%	57%	17%

Number of sector-specific increases or introductions 2011 to 2017

ASIA PACIFIC	LATIN AMERICA	EUROPE
24	15	15

1 GB of data as a proportion of income, all earners (2017)

	ASIA PACIFIC	LATIN AMERICA	EUROPE
1 GB of data as a proportion of income	6%	5%	1%
UN AFFORDABILITY TARGET 2025	2%	2%	2%

Taxes as a proportion of income, 20% lowest earners (2017)

	ASIA PACIFIC	LATIN AMERICA	EUROPE
Taxes as a proportion of income	3%	4%	0.7%
TCMO UN AFFORDABILITY TARGET 2025	2%	2%	2%

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To download the full report, visit:

gsma.com/rethinking-mobile-taxation-to-improve-connectivity

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