Tax reform in Tanzania: Improving mobile access by lowering affordability barriers

Mobile-specific taxes represent a significant barrier to mobile access and affordability in Tanzania.



Mobile services have had a transformative effect on social and economic development in Tanzania, with more than a third of the population owning a mobile phone. In addition to Tanzania's population using mobile services to connect with family, friends and business partners, they are also accessing vital information and services like m-health and m-government, and making financial transactions.

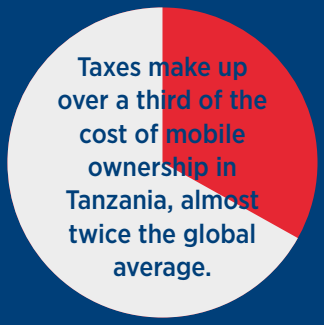
To ensure Tanzanians can fully seize the mobile opportunity, policies that support mobile access and socio-economic development are required.

A recent study conducted for the GSMA by Deloitte on mobile taxation in Tanzania assesses the impacts of taxation on the economy, identifies priorities for policy change and quantifies the potential socio-economic benefits that could be achieved through reduced taxation[1].

The mobile sector contributes

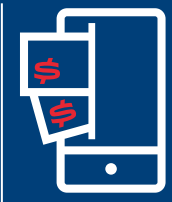
3.8% of Tanzanian GDP

11% of government tax revenues



Key findings

As a result of mobile-specific taxes such as the 17% airtime excise, mobile services are taxed at a higher rate than alcohol and tobacco.



Taxes on mobile have increased several times over the last decade.

The Surtax on International Incoming Traffic increases the costs of trade for Tanzanian and regional businesses and risks reducing remittances from abroad.

Had the tax not been introduced, operators may have had an additional

110 million minutes

of incoming international calls over 15 months[2].

Rebalancing taxes on mobile would support the Tanzanian government's Vision 2025 digital and financial inclusion objectives. It would also enable the government to recover revenues thanks to additional GDP growth and mobile use. For example, the government may consider rebalancing taxes towards goods and services that do not create positive benefits for wider society. In particular:

- Reducing the airtime excise to 10% could enable an additional 1.7million connections, increasing productivity and generating US$0.5 billion in additional GDP in 2020.
- Removing the airtime excise on data could promote digital inclusion by enabling one million additional 3G connections, a 14% increase in access.
- Removing the 10% tax on m-money transactions could decrease affordability barriers to financial inclusion.
- Removing the Surtax on International Incoming Traffic is expected to reverse the drop in incoming calls that occurred after the tax was introduced. Removing the tax could generate up to US$1 million in corporate tax revenues and make the economy more competitive.
- Removing customs duties on network equipment can encourage investment in infrastructure and help extend access to the 30 million unconnected Tanzanians.

1. GSMA/Deloitte (2015), "Digital Inclusion and mobile sector taxation in Tanzania"
2. For more details on the impact of this tax, see GSMA/Deloitte (2014), "Surtaxes on International Incoming Traffic in Africa" http://www.gsma.com/publicpolicy/wp- content/uploads/2012/03/Surtaxes_on_International_Incoming_Traffic_in_Africa_EXSUM_WEB.pdf

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