Digital inclusion in India:
The impact of taxation on the development of mobile services

There are one billion mobile connections in India, making it the second largest mobile market in the world.

The dramatic development of the mobile sector in recent years has delivered widespread social and economic benefits and incubated a thriving ecosystem of device producers, sellers, airtime distributors, mobile Value Added Services creators, and other service providers.



Mobile has the potential to further its contribution and provide the perfect platform to achieve the goals of the Digital India initiative. **Addressing the challenges that limit digital inclusion** and growth in mobile penetration in India is key for this to be realised and in order to increase broadband capacity:

- Despite low usage prices for mobile services, affordability remains a large barrier: the poorest must spend over 10% of their annual income just to afford a basic mobile phone, and even for the richest a premium phone is estimated to cost 8.5% of their annual income
- Incentives for investment and FDI in the sector are affected by a number of factors such as the strong rural-urban divide, spectrum availability issues, high Right of Way (RoW) fees and low average revenue per user (ARPU) which is around 25% of the global ARPU
- Availability for local content and digital literacy remain barriers for many Indians, only 24% of women and 39% of men report they can use mobile internet without any help
- Investment in infrastructure is constrained by an excessive tax burden on the sector. In 2014, tax and fee payments represented around 31% of market revenues
- 11% of revenues were paid in Regulatory fee payments, higher than for other South Asian countries such as Bangladesh, Pakistan and Sri Lanka and these are not aligned to best practice principles of taxation identified by the IMF
- Uncertainty surrounding changes to tax policy, such as the new Swachh Bharat cess and proposed Goods and Services Tax, could deter greater investment in the mobile sector

Supportive policies by the government, including a more balanced taxation structure, are required to allow the mobile industry to develop and deliver the benefits of digital inclusion. A recent study conducted for the GSMA by Deloitte reviewing mobile taxation in India, identified a number of priorities for policy change and quantified the potential socioeconomic and fiscal benefits of tax reform in India:

Reduce existing revenue-based taxes and regulatory fees on the mobile sector: By directly affecting prices, taxes and fees on revenue tend to distort production and consumption behaviour which may limit usage of digital services by creating a cost barrier for the digital inclusion of the poor. Revenue taxes and fees reduce the ability of mobile operators to finance investment in digital infrastructure, and may in the long term reduce government revenues.

TAX REDUCTION SCENARIOS - ADDITIONAL IMPACTS BY 2020*

	MARKET PENETRATION	MOBILE BROADBAND CONNECTION	MOBILE REVENUES NET OF TAX	ECONOMY WIDE INVESTMENT	GDP	PEOPLE LIFTED OUT OF POVERTY	TOTAL TAX REVENUES
REDUCING THE LICENCE FEE FROM 8% TO 6%	33 M	11 M	INR 6,800 crore	INR 27,000 crore	INR 84,000 crore	2.2 M	INR 14,000 crore
REDUCING THE SPECTRUM USAGE CHARGES FROM 3%-8% TO 1%	69 M	23 M	INR 14,000 crore	INR 58,000 crore	INR 1.8 lakh crore	4.7 M	INR 28,000 crore

*Comparing the value in 2020 of these indicators to the base case where no reform takes place.

- **Align the tax framework to that of developed economies:** The GST reform will align India's consumer taxation framework to that of developed economies. In these economies, taxes and fees on revenues are very rare. Reducing taxation and regulatory fees on revenues could contribute to further evolution of the tax framework.
- **Reconsider the balance between spectrum payments of different nature:** When spectrum is auctioned, the price paid by operators captures the benefits obtained by the operator having access to this scarce resource. However, in addition to this price, operators also pay the spectrum usage charges. As spectrum auctions become the norm in allocating spectrum, there is scope to reduce the revenue-based spectrum usage charges to cover only the administrative costs of managing it.
- **Apply phased reductions of taxes and regulatory fees:** A phased reduction of mobile specific taxes and regulatory fees offers the government the opportunity to benefit from the economic contribution from mobile whilst limiting short-term fiscal costs.
- **Facilitate the development of emerging services through supportive taxation:** The growth of mobile data and other innovative applications opens up the possibility for the sector to increase its economic value through a whole new generation of products and services, ranging from healthcare to education and finance.
- **Reduce taxation complexity and uncertainty of mobile taxation:** There is a history of disputes between mobile operators and the Indian authorities, for example, regarding interpretation of the basis on which licence fee and spectrum usage charges are levied. To foster an environment that encourages investment in mobile service provision, simpler taxation is needed.

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