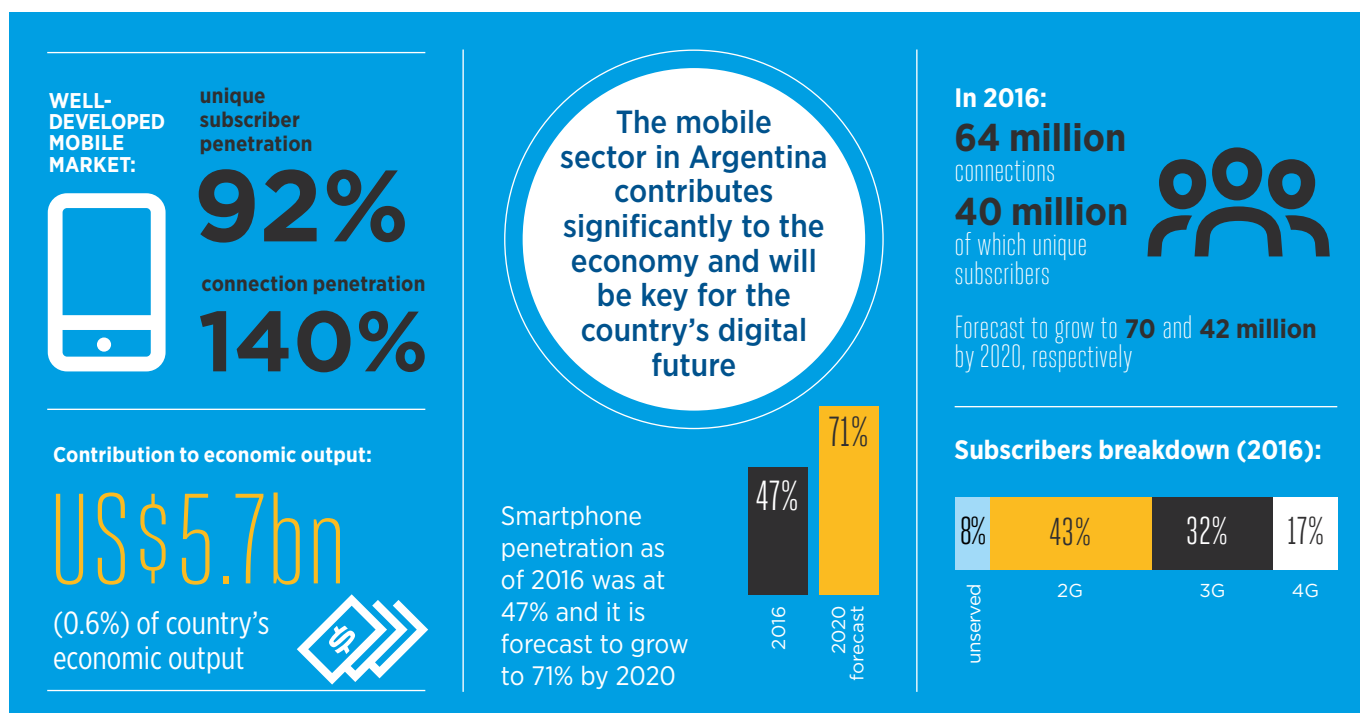


Reforming mobile sector taxation in Argentina: A path towards a more efficient tax system, greater digital inclusion and increased prosperity

Mobile telephone services play an increasingly important role in supporting and delivering development, economic growth and social inclusion. In Argentina, 2G connectivity is ubiquitous but the country has not yet transitioned fully to next generation technologies, especially amongst low income and rural groups. In particular, the lack of affordability of mobile services is constraining the potential for further growth due to high levels of taxation in comparison to other sectors and regional benchmarks. Through policy reform, the Government of Argentina has the opportunity to simplify and rebalance the current tax system applicable to the mobile sector, and realise its wider tax agenda. Ultimately, it will generate higher revenues for the Government, and significant economic and social benefits.



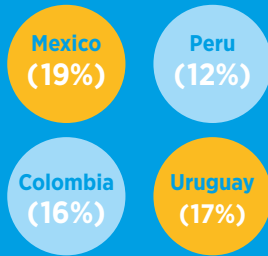
Taxes on the mobile sector are disproportionately high, compared to levels in other sectors and international benchmarks

The total tax contribution of the mobile sector in Argentina accounts for

44%

of its total market revenue.

This is high compared with other countries, including



In 2016, the total tax contribution is estimated at

US\$2.3bn,

which is **0.3%** of Argentina's output and **2%** of Argentina's net tax revenue.

In comparison, the mobile market revenues in Argentina account for approximately **1.2%** of GDP, which means that the sector over-contributes to tax revenues with respect to its size in the economy.

The mobile sector is more heavily taxed than some other sectors in the economy.

For instance, the mobile sector has the fourth highest corporate tax burden in comparison to other sectors of the economy (4.6% of Gross Value Added (GVA)), and the second highest tax burden in terms of VAT (6% of GVA).

Affordability of handsets and mobile services is a constraint to mobile internet connectivity that particularly affects the lower-income groups.

1

The total cost of ownership for the poorest 20% is

8.5% of income,

which is above the affordability threshold for broadband use suggested by the UN Broadband Commission for Sustainable Development (5%).

These figures refer to a 500-MB per month data package.



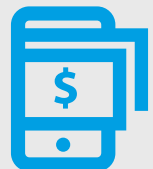
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The lack of affordability is driven by mobile sector taxation:

2a The proportion of consumer taxes in the cost of mobile services in Argentina is third highest in the region, behind only the Dominican Republic and Brazil.



2b Taxes account for a significant proportion (57%) of the overall cost of a handset in Argentina. This is the highest level in the region.



The current tax system applicable to the mobile sector is complex, leaving considerable scope for reform in line with efficient taxation principles

PRINCIPLES OF TAXATION FOR THE MOBILE SECTOR:

- Taxation should be as broad-based as possible
- The use of specific taxes should be limited and based on a clear rationale of externalities
- The tax system should be equitable
- Taxes should not undermine the affordability of mobile services
- Taxation should not discourage investment
- The tax system should be certain and simple
- The costs of collection should be minimised

The tax system in Argentina is not always aligned with internationally recognised taxation principles set out by organisations such as the OECD and the World Bank:

The mobile sector is heavily taxed by different levels of Government (federal, provincial and municipal). Despite being a necessary commodity, mobile services are either taxed at the standard rate of VAT (for individuals), or at an increased rate (for businesses). This makes mobile communication more expensive for businesses and affects their global competitiveness, particularly for small and medium enterprises (SMEs), which represent 99.8% of the total enterprises employing people in Argentina.

Mobile-specific taxation, such as excise duty on mobile services (*Impuesto Interno al servicio*) reduces affordability and adds complexity to the tax system. Sector specific taxes on mobile devices in Argentina represent a significant share of the total cost of devices per month. Mobile specific tax payments are equivalent to around 10% of total mobile sector revenue. This is one of the highest shares in Latin America, surpassing other countries such as Brazil (7%), Mexico (3%) and Chile (0.1%).

The provincial turnover tax (*impuesto sobre los ingresos brutos*) is particularly distortive for investment and reduces competitiveness. With different tax rates depending on the origin and destination of goods, the turnover tax also acts as an interprovincial tariff barrier. Over recent years, it has increased sharply, partly because it is not very visible to consumers.

Taxes such as the excise duty on electronics (*Impuesto Interno a dispositivos*) undermine the affordability of mobile services. It produces higher mobile handset prices for Argentinian subscribers, and inhibits the electronics sector's full integration into the world economy.

Reforming and reducing the tax burden on the sector would lead to considerable growth in mobile penetration, particularly amongst low income groups, and growth in the economy, through increased GDP, investment, employment and fiscal revenues. These impacts would result through the positive externalities generated by mobile services leading to productivity gains across the economy.

Economic impacts of tax reform

The GSMA has commissioned Ernst & Young to estimate the impacts of three potential tax reform scenarios on the mobile sector and the wider Argentina economy, using a Computable General Equilibrium model. The results of this study are presented in the report “*Reforming mobile sector taxation in Argentina: A path towards a more efficient tax system, greater digital inclusion and increased prosperity*”. The summary table below provides an overview of the main results.

Estimated impacts of tax reductions over a five-year period

| | Price of mobile services | Total investment by operators | Total new unique subscribers | GDP growth | Total new jobs | Annual gain in tax revenue by 2022 |
|---|------------------------------|-------------------------------|------------------------------|------------|----------------|------------------------------------|
| Elimination of <i>Impuesto Interno al servicio</i> (4.2%) | -3.7% | +US\$16m | +1 million | +US\$1.8bn | +16,100 | +US\$980m |
| Elimination of <i>Ingresos Brutos</i> (6.7%) | -6.0% | +US\$23m | +1.6 million | +US\$2.9bn | +25,600 | +US\$1.6bn |
| Elimination of the <i>Impuesto Interno a dispositivos</i> (17%) | -7.4% price of mobile phones | Not applicable | +0.44m | +US\$1.2bn | +19,300 | +US\$192m |

IMPACT ON AFFORDABILITY

The cost of a 500-MB data basket after the elimination of the *Impuesto Interno al servicio* would decrease from 8.5% to 8.2% of monthly income for the poorest 20%. The elimination of *ingresos brutos* would reduce this cost to 8.1%. As a result, around two thirds of the new subscribers under each tax reduction will be from low-income households.

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 US\$3.3bn after the elimination of *Impuesto interno al servicio*, US\$5.3bn after the elimination of *Ingresos brutos*, and US\$442m after the elimination of the *Impuesto Interno a dispositivos*.

For the full report visit the GSMA website at www.gsma.com/mobiletaxation-argentina

Source: Figures as of 2016, for further information please see full report.



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