

GSMA

Accelerating Smartphone Adoption Through Tax Reform: Evidence from South Africa





1. Insight focus

Entry-level smartphones function as essential rather than luxury goods, making their affordability a digital policy priority. Removing taxes on these devices can lower barriers to smartphone ownership and expand participation in the digital economy.

This is particularly relevant for low-income users, for whom the cost of a device can represent a significant share of their monthly income. Taxes on entry-level smartphones place a proportionally greater burden on those least able to afford them.

Accelerating adoption of entry-level smartphones requires a multi-stakeholder approach, as their affordability is influenced by multiple actors across the ecosystem, including manufacturers and chipset suppliers, mobile network operators, distributors and retailers, device financing providers, and governments.

Affordability barriers emerge across production costs, taxation, distribution inefficiencies, financing constraints and limited perceived value of smartphone ownership.

Rising global memory and chipset prices further compound these challenges by increasing manufacturing costs at a time when digital transformation, 5G deployment and AI readiness increasingly depend on widespread access to capable devices.

While expanding smartphone adoption requires action from a range of stakeholders, governments play a central role in removing tax barriers that affect handset prices.

South Africa's removal of the 9% ad valorem luxury excise duty on entry-level smartphones, effective from 1 April 2025 for devices priced below R2,500 (approximately USD 150), demonstrates how targeted tax reform can accelerate smartphone adoption.

Key findings: South Africa's entry-level smartphone tax exemption

Entry-level smartphone sales reversed their pre-reform decline. Average monthly growth in entry-level smartphone units sold shifted from -7.9% before the reform to $+6.2\%$ afterwards, marking a clear break in trend.

Consumers shifted away from feature phones towards smartphones. Compared to the month before the tax removal, entry-level smartphone sales volumes rose by 80% , while feature phone sales volumes fell by 87% , indicating a substitution effect towards higher-capability devices.

Increased sales of lower-cost smartphones did not undermine overall smartphone market value. The value of smartphone sales increased from R2.7 billion per month before the reform to R3.1 billion per month afterwards, coinciding with higher adoption of entry-level smartphones.

2. South Africa's luxury tax exemption on entry-level smartphones

Effective 1 April 2025, South Africa removed the 9% ad valorem (luxury) excise duty on entry-level smartphones priced below R2,500 (approximately USD 150). According to the National Treasury's 2025 Budget Review, the

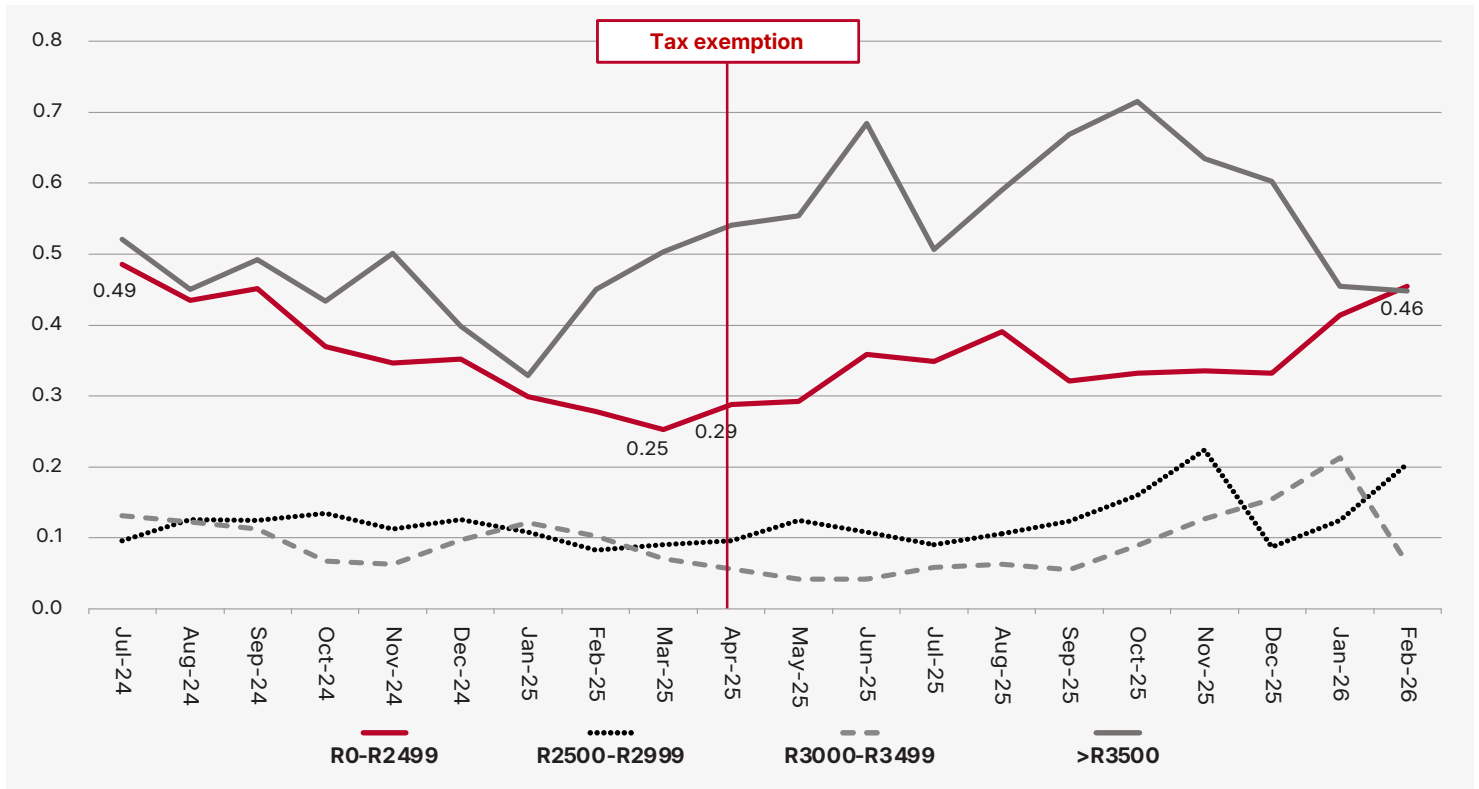
measure aimed to improve smartphone affordability at the lower end of the price spectrum and support digital inclusion among low-income households.

Entry-level smartphone sales reverse decline after tax exemption

Prior to the April 2025 tax exemption, entry-level smartphones priced at ≤R2,499—the category targeted by the policy—were the only smartphone segment experiencing a sustained decline in sales. Following the tax

removal, the segment returned to positive growth, reversing its downward trajectory. Average monthly sales growth increased from -7.9% before the exemption to +6.2% afterwards, indicating a break in trend.

Figure 1:
Monthly smartphone sales by price band (million units)



Source: Counterpoint Research; GSMA analysis.

The rebound in entry-level smartphone sales also reflects the impact of the tax relief on a large segment of the smartphone market, as entry-level smartphones represent the second-largest smartphone category by market share after premium devices. Lower-income and price-sensitive

consumers tend to be concentrated in this segment, suggesting that the policy targeted a broad consumer base for whom affordability improvements matter most for smartphone uptake.

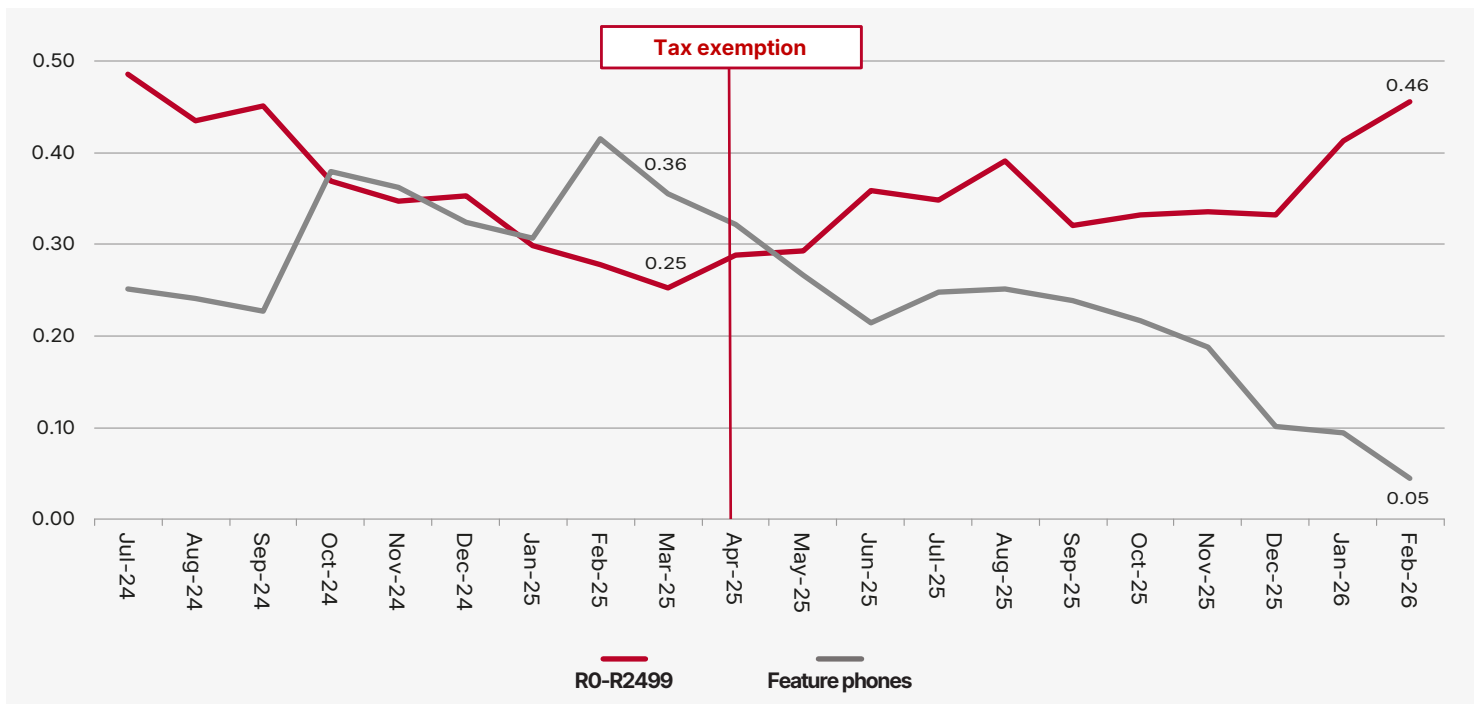


Substitution away from feature phones

Following the removal of the luxury tax, entry-level smartphone sales recovered while feature phone sales declined, indicating substitution towards higher-capability devices. Between March 2025—the month before the tax removal—and February 2026, entry-level smartphone sales rose by 80%, while feature phone sales fell by 87%.

These opposite trends suggest that the tax relief influenced device choice at the lower end of the market. By narrowing the price gap between feature phones and smartphones, the tax removal encouraged consumers to switch to smartphones.

Figure 2:
Monthly sales of entry-level smartphones and feature phones (million units)



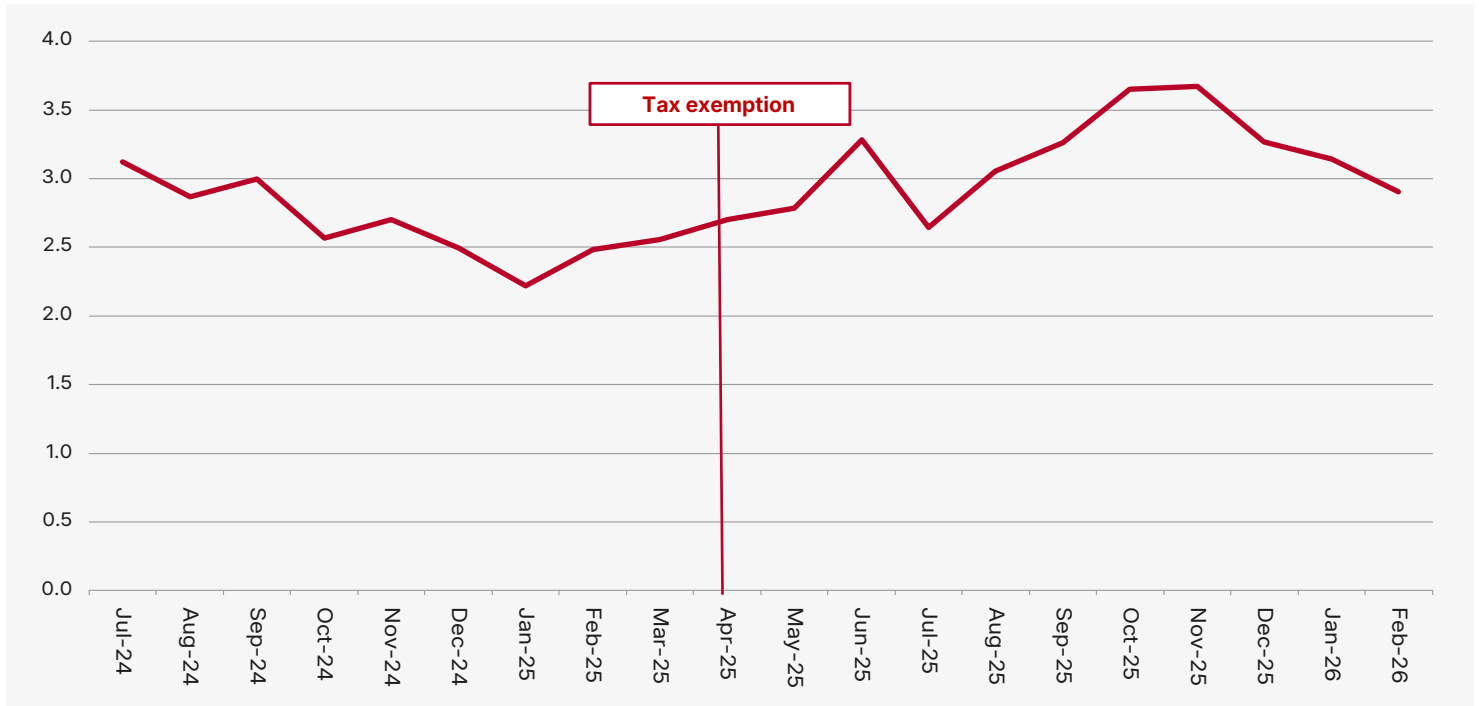
Source: Counterpoint Research; GSMA analysis.

Growth in entry-level smartphone adoption and overall smartphone market value

Before the April 2025 tax exemption, smartphone sales value averaged R2.7 billion per month between July 2024 and March 2025. Following the reform, smartphone sales value increased to R3.1 billion per month between April 2025 and February 2026, representing a 15% increase.

This coincided with higher sales of entry-level smartphones, suggesting that the tax relief supported adoption of lower-cost devices without weakening overall smartphone market value.

Figure 3:
Monthly smartphone sales value (R billions)



Source: Counterpoint Research; GSMA analysis.





3. Potential tax revenue impact

Governments often hesitate to remove or reduce taxes on mobile devices because of concerns about revenue loss. However, tax reforms targeted at entry-level smartphones can encourage greater smartphone uptake, especially among low-income users, while increasing mobile internet adoption and mobile data consumption. Broader internet access can support greater participation in the digital economy and higher levels of taxable economic activity, contributing to tax base expansion.

Our analysis of South Africa's luxury tax removal shows that total smartphone market value increased by 15% following the reform, rising from R2.7 billion to R3.1 billion per month. At the same time, entry-level smartphone sales rose by 80%, alongside an 87% decline in feature phone sales, indicating substitution towards smartphones

and an expansion of the mobile data user base. These trends suggest that tax reforms targeted at entry-level smartphones may support broader revenue gains through the following channels:

- Higher VAT collection from mobile data services: Mobile operators collect VAT on mobile data services, with VAT collections increasing alongside mobile data consumption.
- Greater corporate tax revenue: Increased mobile data usage supports higher operator revenues and corporate income tax payments.
- Greater digital economy formalisation: Smartphone-enabled mobile money and digital payments can help bring informal businesses into the tax system, contributing to tax base expansion.

4. Policy recommendations

Removing taxes on entry-level smartphones can improve affordability, especially for low-income users, and accelerate smartphone adoption, making tax reform an effective policy tool for narrowing the usage gap.

South Africa's removal of the luxury tax on entry-level smartphones provides a replicable policy model for advancing digital inclusion through tax reform. Treating entry-level smartphones as essential rather than luxury goods can reduce barriers to smartphone ownership and limit the regressive effects of device taxation on lower-income consumers.

Rising global memory prices are increasing the cost of entry-level smartphones and worsening handset affordability challenges. This reinforces the urgent need to reduce or eliminate taxes and import duties on these devices to help offset growing price pressures and address the usage gap.

Tax reforms targeted at entry-level smartphones can encourage greater smartphone uptake, mobile internet adoption, and mobile data consumption. This can support participation in the digital economy and contribute to tax base expansion.

