Mobile Sector Taxation

Affordability and Incentives
ROLE OF THE GSMA

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SHAPING THE FUTURE OF MOBILE

INDUSTRY FORUM
Enabling industry collaboration and consensus

POLICY ADVOCATE
Promoting policies that foster growth and investment

MARKET THINK TANK
Delivering insight and analysis from global industry data

BUSINESS CATALYST
Serving the global mobile ecosystem through events such as Mobile World Congress

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GSMA By The Numbers

**MEMBERSHIP**
- 800 mobile operators in over 220 countries
- 230 associate members

**MOBILE REACH**
- 6.6 billion mobile connections
- 3.2 billion individual subscribers

**PRESENCE**
- Offices in 9 countries serving every region
- Staff based in 26 countries representing 36 nationalities

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Governments need to raise tax revenue in order to finance public expenditure and ensure fiscal stability. However, they must also ensure that these policies are not negatively impacting economic growth. To do so, governments must endeavour to ensure a competitive market environment, whilst ensuring that taxation policy does not distort incentives to consume and invest.

The GSMA has studied the impact of mobile-specific taxation in raising the cost of mobile ownership. The *Global Tax Review 2011* finds that mobile-specific taxation has been on the rise in many developing nations.

Taxes levied on only one sector, as opposed to broad-based taxation, distort consumption and investment by discouraging use of these services.

High sector-specific taxation is correlated with:

- Lower growth of mobile services
- Lower 3G/4G penetration growth
- Lower contribution to economic growth

What do governments aim to achieve through taxation, and what are the effects?
The Transmission Mechanism Of Mobile Sector Taxation

Re-balanced Mobile Taxation → Price of mobile services → Consumer demand

Pass-through rates

Price Elasticity of Demand

Infrastructure Investment

Operator Revenues

Coverage and quality of mobile services → Productivity, Investment and Employment → Economic Growth

Economic Multiplier Effect

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Evidence from removing the handset VAT in Kenya

- The Kenyan government exempted mobile handsets from VAT as of June 2009, in order to promote mobile phone usage and allow increasing numbers of Kenyans access to the benefits it entails.

- Penetration rates increased from 50% to 70% of the population in Kenya, above the average penetration rate in Africa in 2011 (63%).

*Source: Deloitte/GSMA Mobile telephony and taxation in Kenya 2011*
At low levels of taxation, buyers and sellers may not be substantially affected by the change in price.

At high levels of taxation, buyers and sellers are may substitute away from a given good or service.

In theory, there exists an optimal level of taxation at which the tax revenue of the government will be maximized.

At a high level of taxation, it may be optimal to reduce taxes to increase tax revenue.

However, higher taxes raise prices, reducing consumer demand. This erodes the tax base (i.e. the government receives a larger share of smaller base). As a result there exists a point where further increases in taxation begin to reduce government receipts.
What reforms should policymakers implement to improve mobile sector taxation and foster development in the sector?

There are four ways in which government can consider improving the current structure of taxation in the mobile industry and align with these 5 key principles:

1. **Realignment towards a broad-based tax system**

2. **Reduce complexity and uncertainty of mobile taxation**

3. **Carefully consider the impact of taxation on new and emerging services**

4. **Reduce taxation on access**

Pursuing these options does not necessarily imply a fall in government tax revenues, whilst enables a country to access the benefits associated with the spread of mobile telephony.