Capacity Building

Mobile Sector Taxation

Affordability and Incentives

Mercy Ndegwa- Government and Regulatory Affairs

18 November 2014

ROLE OF THE GSMA

WE ARE THE GLOBAL INDUSTRY VOICE 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

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

Role Of Mobile Taxation

What do governments aim to achieve through taxation, and what are the effects?

- 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.

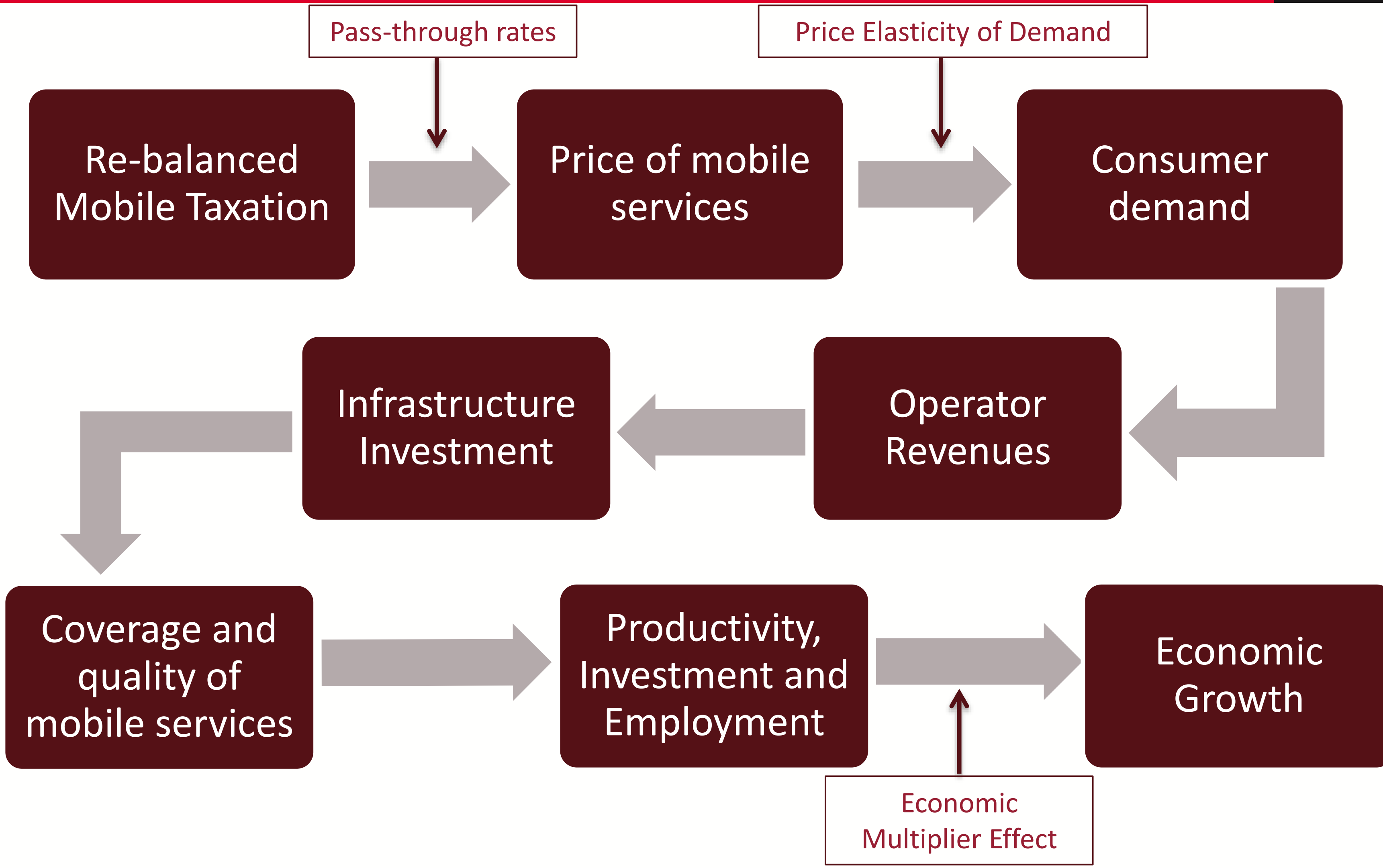
High sector-specific taxation is correlated with:

Lower growth of mobile services

Lower 3G/4G penetration growth

Lower contribution to economic growth

The Transmission Mechanism Of Mobile Sector Taxation

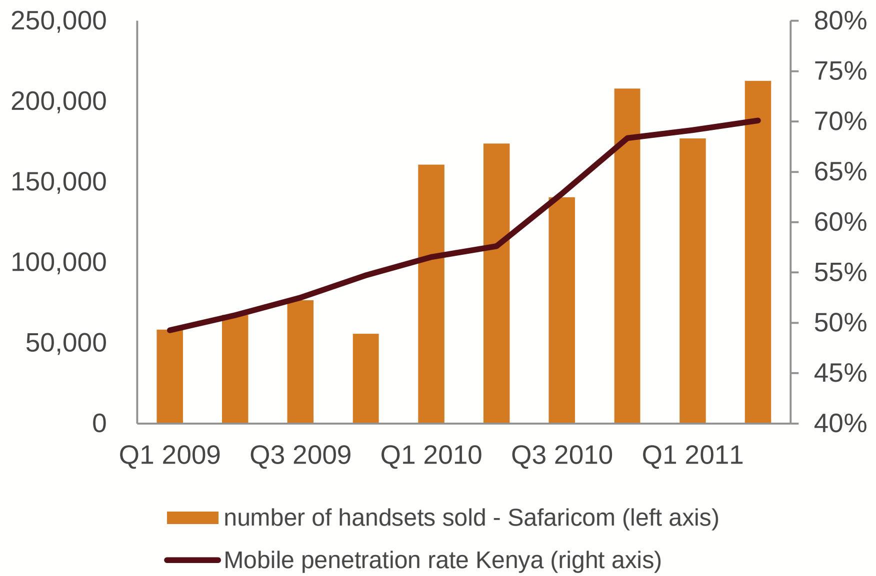


Rebalanced Taxation Can Widen the Tax Base

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%).

Increase in handset sales and penetration after the removal of VAT on handsets



Source: Deloitte/GSMA Mobile telephony and taxation in Kenya 2011

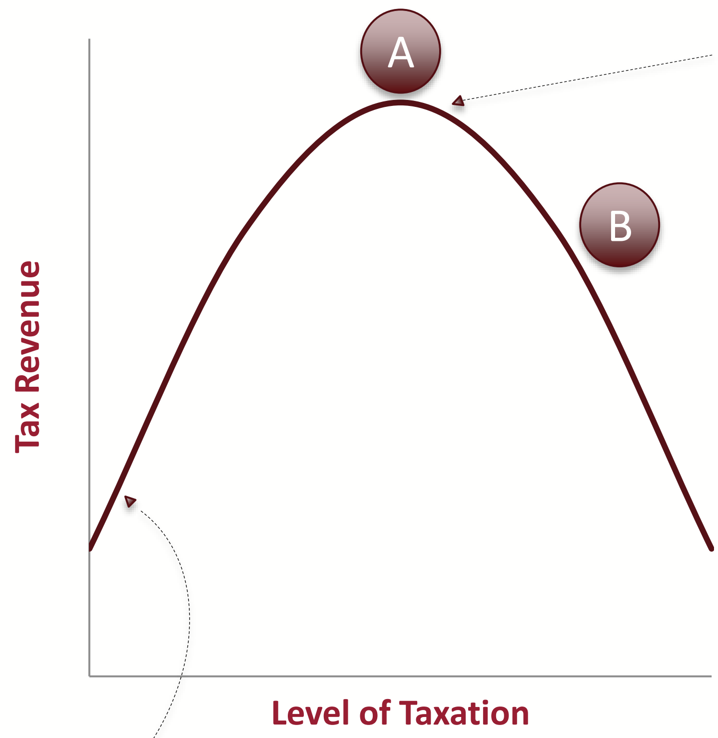
Capacity Building

Tax Reform Can Increase Government Revenues

Maximizing revenues when setting mobile taxation

- 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.**

The Laffer Curve



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

As the level of taxation rises, the government takes a greater share of mobile revenues, hence receives higher tax receipts

Key Messages For Governments and Regulators

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.