

Mobile taxation as a barrier to digital inclusion in Ghana

Jessica Bruce, Business Manager – Government & Regulatory Affairs, GSMA

A4AI-Ghana Expert Workshops
11th February 2015
Accra, Ghana



AGENDA



- Overview of the GSMA's Digital Inclusion programme
- The benefits of mobile and the link with taxation
- Taxation on mobile is higher than on standard goods
- Transitioning to a taxation structure where mobile is treated equally to standard goods



THE GSMA'S DIGITAL INCLUSION PROGRAMME:

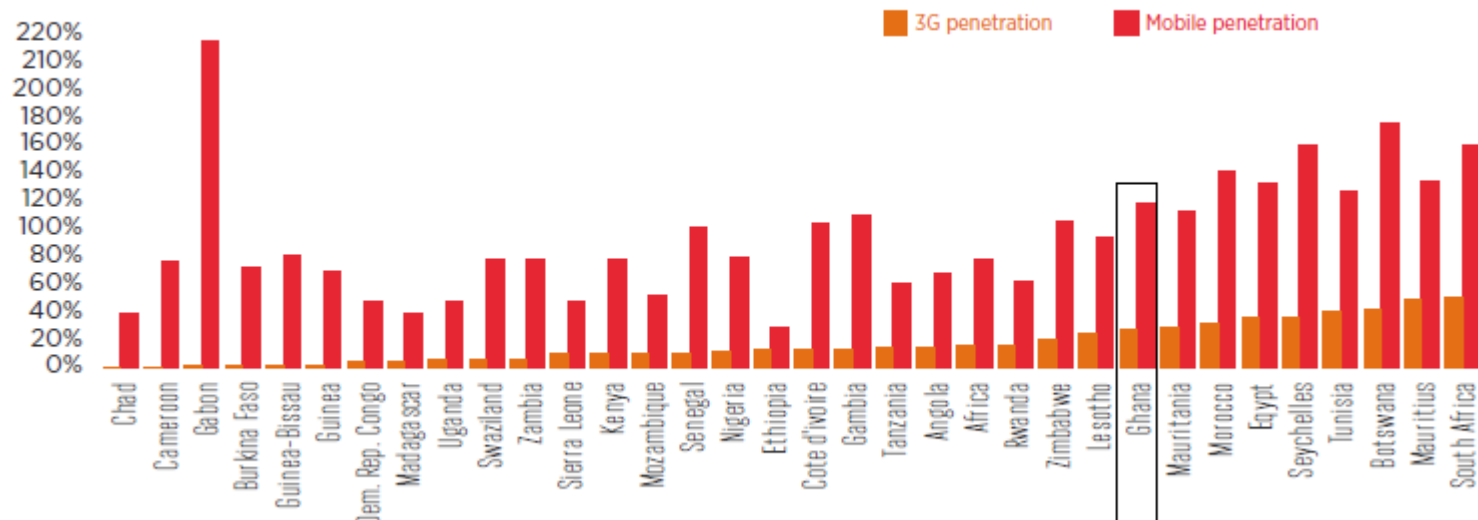
**SUPPORTING THE
CONNECTION OF AN
ADDITIONAL 1B PEOPLE TO
THE MOBILE INTERNET BY
2020**

DIGITAL INCLUSION IN GHANA: AN OVERVIEW



- The mobile sector in Ghana has enabled 12.6 million Ghanaians, about 50% of the population, to access the benefit of mobile communications
- **Only 12% of the population are regular internet users**

Mobile and 3G penetration rates

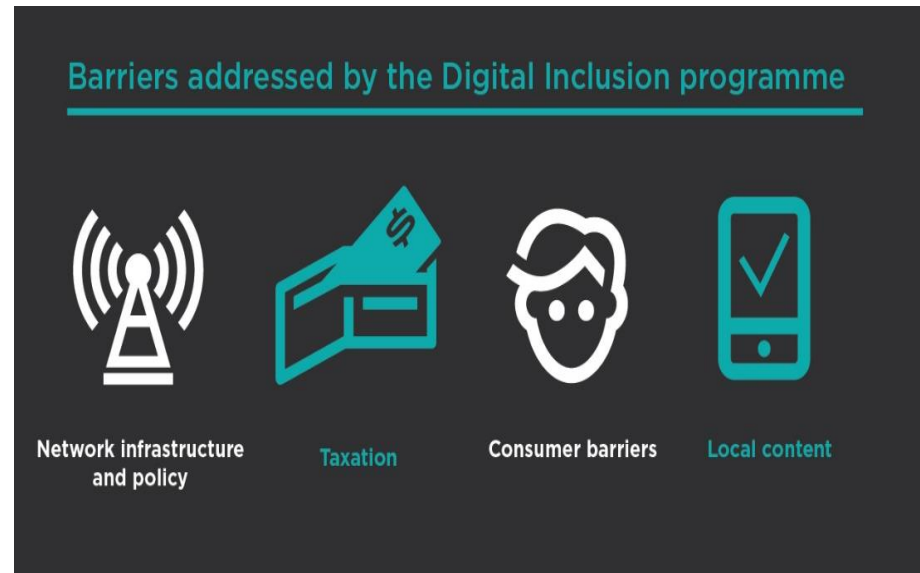


Source: GSMA Intelligence Database

BRIDGING THE DIGITAL DIVIDE IN GHANA



- **Coverage gaps and quality of service issues remain**, requiring infrastructure investment
- Even where coverage exists, many Ghanaians cannot **afford** mobile devices and services, lack **awareness** of mobile's benefits, or aren't offered relevant **content**
- GSMA's Digital Inclusion programme aims to reduce these barriers



Improving networks and coverage, and encouraging Ghanaians to access mobile services, are challenges for both operators and the government

THE BENEFITS OF MOBILE AND THE LINK WITH TAXATION

MOBILE DELIVERS SOCIO-ECONOMIC BENEFITS



Mobile supports digital inclusion

Mobile supports long-term economic growth and fiscal stability through the industry's supply chain and by increasing productivity

Mobile helps the government of Ghana achieve its ICT and wider social objectives

Digital inclusion enables millions to benefit from exchange of ideas and information

Mobile is critical to achieving connectivity and economic growth

WHAT DO THESE BENEFITS MEAN FOR TAX POLICY?



Consuming mobile services creates numerous positive impacts, i.e. positive spillovers

To benefit from these positive spillovers, governments tend to encourage consumption (e.g. through a subsidy)

In industries such as tobacco and alcohol (“economic bads”), governments use taxation to discourage consumption

Is mobile taxation in Ghana discouraging consumption of mobile services?

MOBILE IS TAXED ABOVE STANDARD RATES



Mobile operators contribute 40% of their revenues to the government through taxes and fees


The turnover of the mobile sector directly contributes 3.2% of Ghanaian GDP

The mobile sector provides over 9% of Ghanaian tax revenues

**TAXATION ON MOBILE IS
HIGHER THAN ON STANDARD
GOODS**

TAXES ON MOBILE SECTOR: CONSUMER TAXES



		TAX BASE	TAX TYPE	TAX RATE	
Taxes on consumers	Devices		VAT	15%	
			Customs Duties (and additional charges)	Up to 25%	
			National Health Insurance Levy	2.5%	
	Services	Activation, mobile broadband, airtime vouchers, calls and SMS		VAT	15%
				Communications Service Tax	6%
				National Health Insurance Levy	2.5%

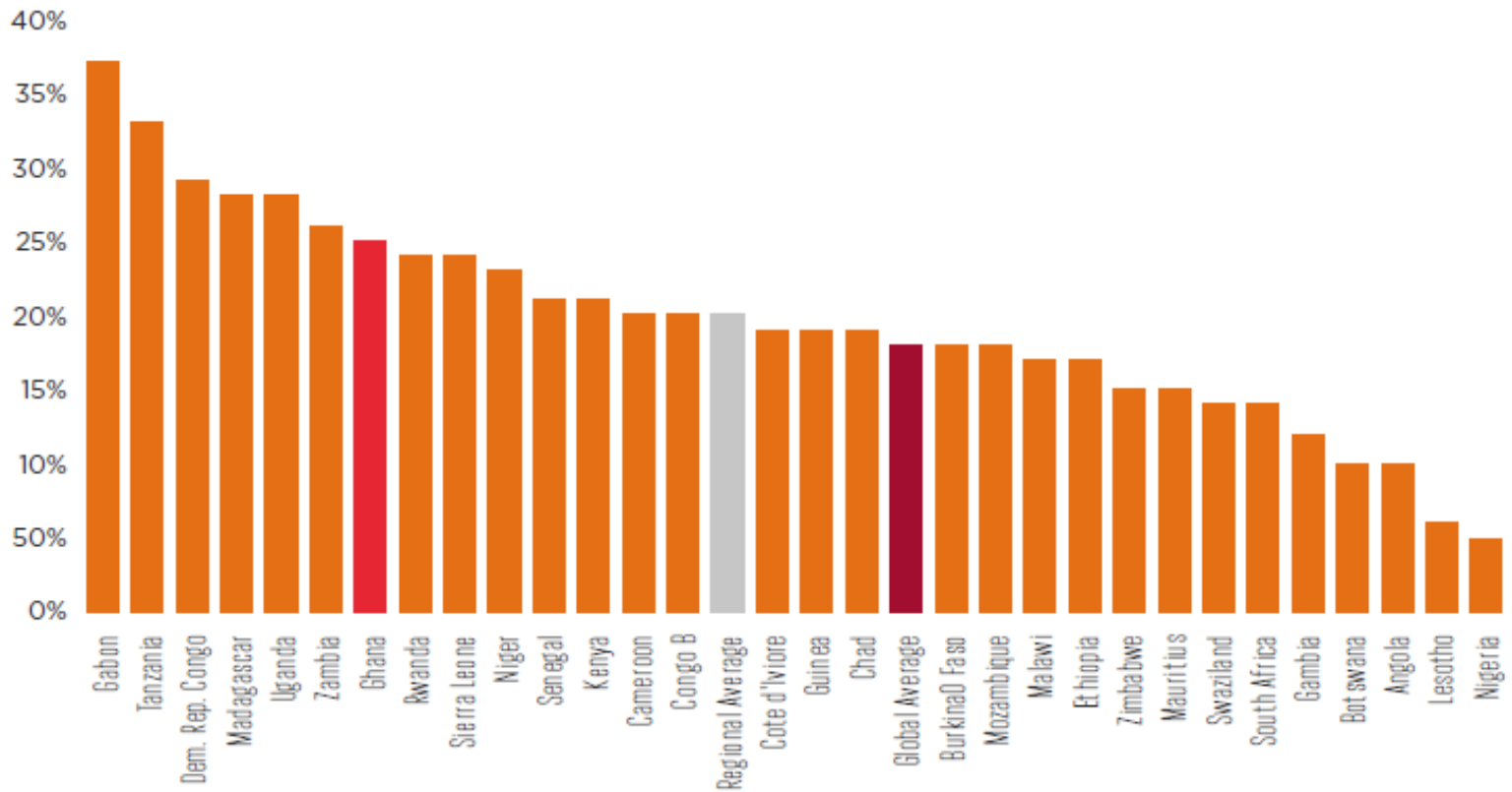
Key: Consumer taxes on devices Consumer taxes on services  Mobile-specific

Source: Deloitte analysis based on mobile operator data

TAXES ADD TO MOBILE OWNERSHIP COSTS










Taxation as a share of the total cost of mobile ownership

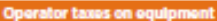
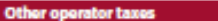



Source: GSMA/Deloitte (2011) "Global Mobile Tax Review"; data from mobile operators in Ghana 2014

TAXES ON MOBILE SECTOR: OPERATOR TAXES



		TAX BASE	TAX TYPE	TAX RATE	
Taxes on operators	Imported network equipment and SIM cards		VAT	15%	
			Customs Duties (and additional charges)	Up to 20%	
			National Health Insurance Levy	2.5%	
	Taxes	Profits		Corporation tax	25%
				National Fiscal Stabilisation Levy	5%
		Termination/Interconnection revenues		SIIT	GH¢ 0.19
	Annual regulatory fees	Net revenues (gross revenue - Interconnection - NHIL - VAT - CST)		CST on Interconnection	6%
				Ghana Investment Fund for Electronic Communications (GIFEC)	1%
			Variable licence fee	1%	
		Fixed amounts		International Gateway Licence	\$100k
				Right of way fees for fibre rollout	\$4000/km on average
				Microwave fees	Per link
		Per phone number		Numbering fee	Up to \$0.50 per number

Key:  Operator taxes on equipment  Other operator taxes  Mobile-specific

**TRANSITIONING TO A TAX
REGIME WHERE MOBILE IS
TREATED EQUALLY TO
STANDARD GOODS**

FINDING THE RIGHT BALANCE



Taxation on the mobile sector is an important source of revenue for the government and delivers short term benefits to government revenues

However this comes at the cost of long-run socio-economic development and growth and is thus counter productive

How do we balance these two factors?

REBALANCING TAXES ON MOBILE



Policy implemented



Short-run impacts



Long-run impacts



Tax reform enforced

Fall in government revenues in the short-run

Increase in government revenues and penetration in the long-run which spurs economic growth

BEST PRACTICES FOR REBALANCING TAXES



1
In general, taxation should be broad based

2
Taxes should account for sector and product externalities

3
The tax system should be simple, understandable and enforced:

4
Incentives for competition and investment should be unaffected

5
Taxes should not be regressive:

TAXATION IN PRACTICE IN GHANA



Alignment of taxes on the mobile sector in Ghana with these principles

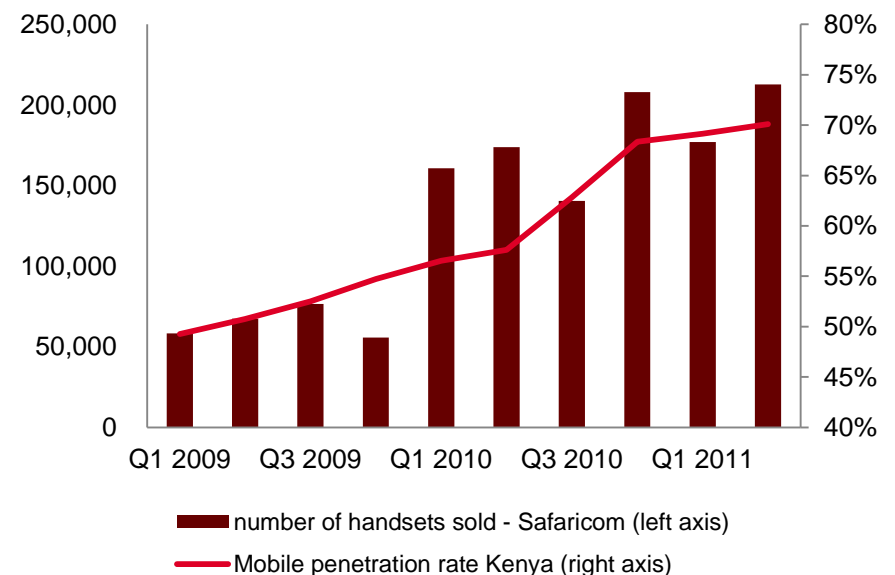
Tax	Broad-based	Accounts for externalities	Simple and enforceable	Incentives for competition and investment	Equitable (not regressive)
VAT	Green	Red	Green	Green	Red
NHIL	Green	Red	Green	Green	Red
CST	Red	Red	Green	Red	Red
Customs duty on handsets	Green	Red	Red	Red	Red
GIFEC	Red	Green	Green	Red	Green
Licence fee	Red	Red	Green	Red	Green
NFSL	Red	Red	Green	Green	Green
Corporate tax	Green	Red	Green	Green	Green
Customs duty on equipment	Green	Red	Red	Red	Green
SIIT	Red	Red	Red	Red	Green
Interconnection fees	Red	Red	Red	Red	Red

CASE STUDY: 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

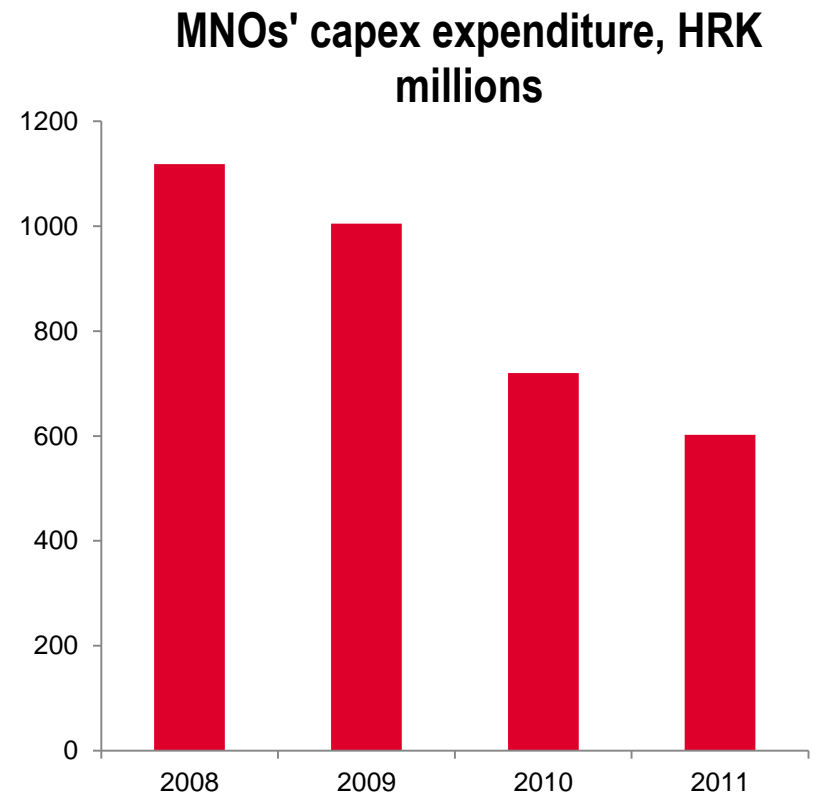


Source: Deloitte/GSMA Mobile telephony and taxation in Kenya 2011

CASE STUDY: LUXURY TAX IN CROATIA



- In 2009 the Government introduced a 6% tax on MNOs' gross revenue from mobile calls and SMS.
- Volumes of mobile calls and SMS decreased (for the first time) in 2010 by 4% and 14% respectively.
- This led to a reduction in investment in network expansion and other capital expenditure.
- The 6% tax on calls and SMS was removed in 2012 by the Croatian government.



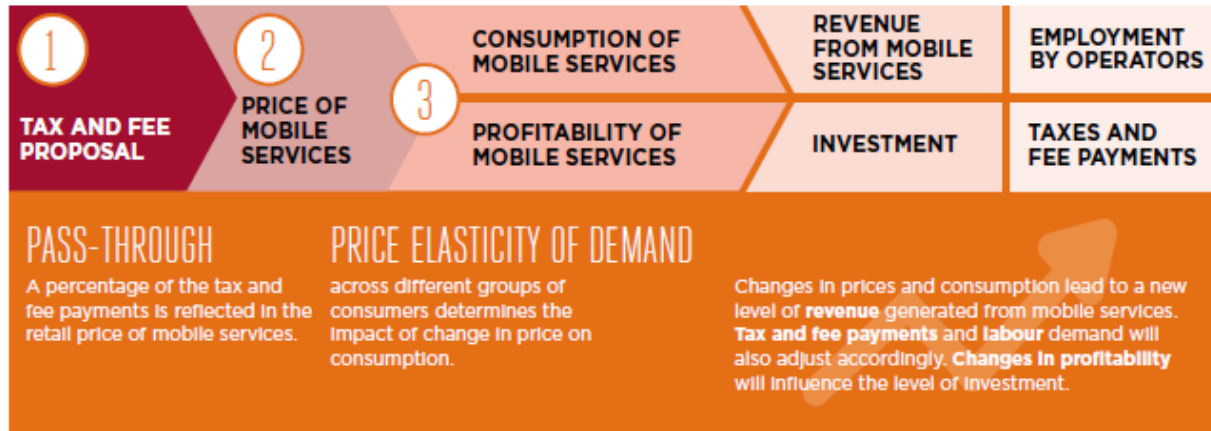
Source: Operator data. 2011 figures are based on scaled up data from the first half of the year

OPTIONS FOR TAX REFORM

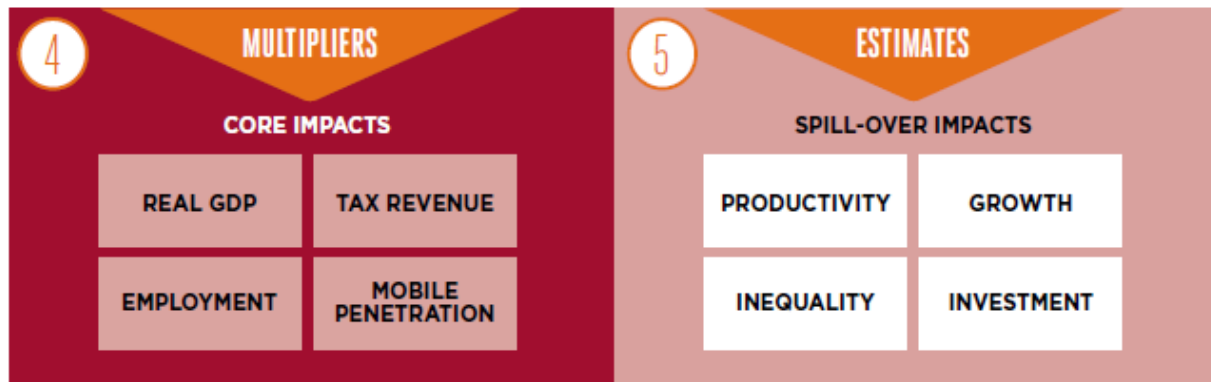
MODELLING OPTIONS FOR TAX REFORM



Sector impacts



Economy-wide impacts



Direct impacts are extrapolated onto the economy using multiplier factors, adjusted for the size of the country and market structure.

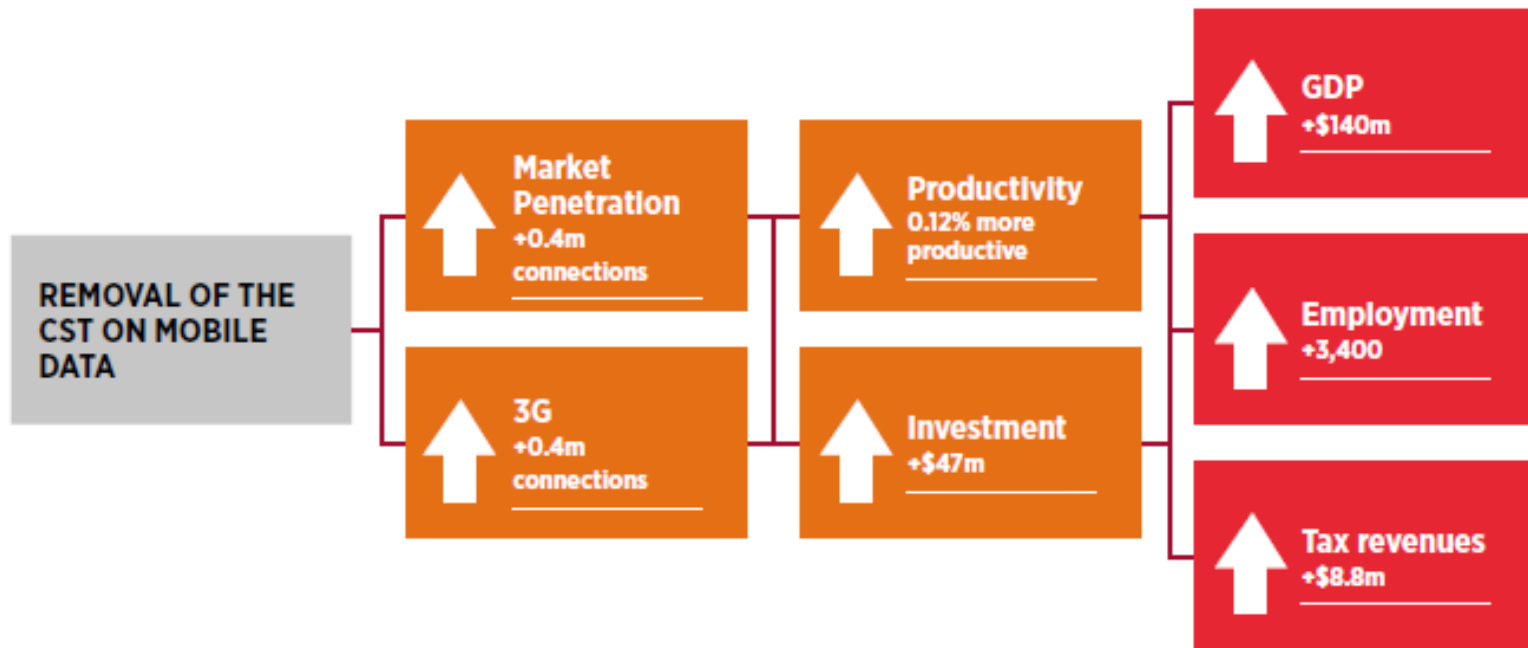


Other metrics use concepts well-developed in research, including previous GSMA/Deloitte work on the impact of penetration on economic growth, to quantify spill-over effects.

MODELLING OPTIONS FOR TAX REFORM (1.1)



Economic impact in 2020 of removing the CST on mobile data

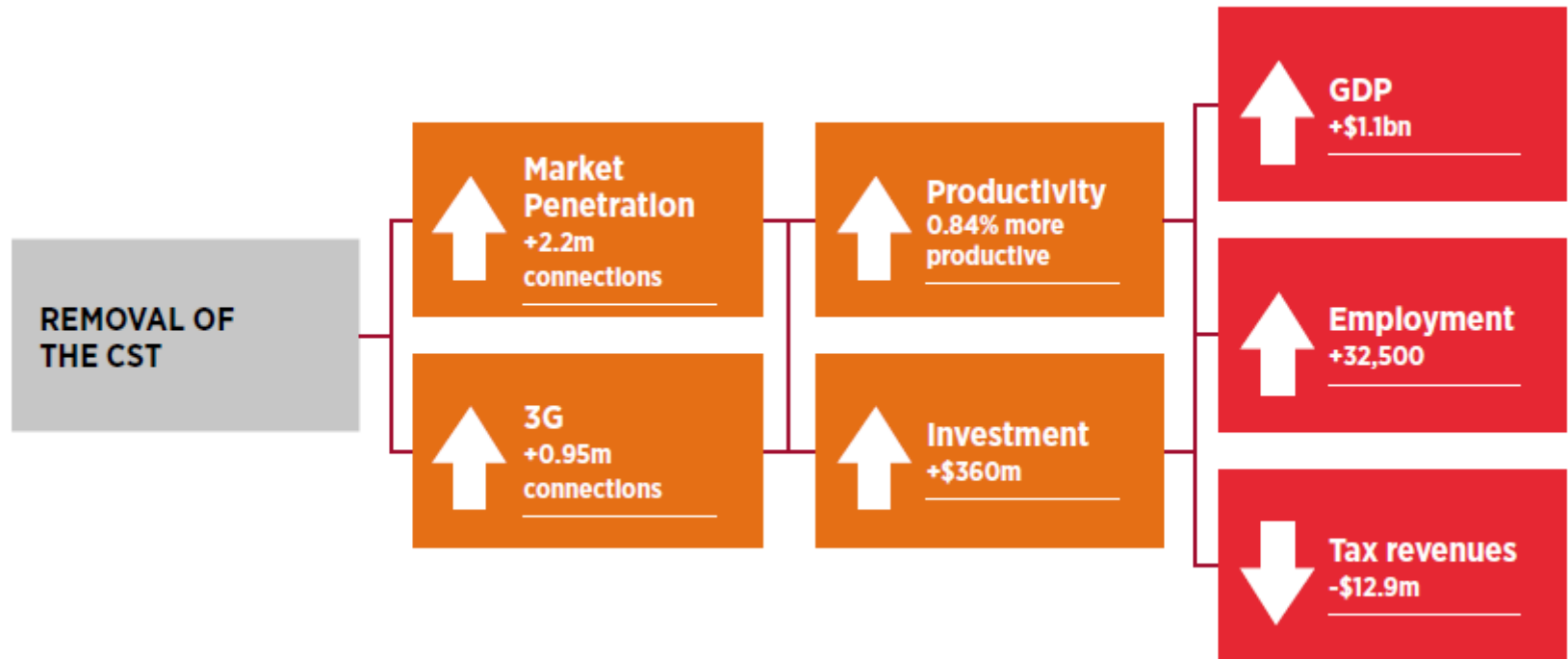


Source: Deloitte analysis based on mobile operator data

MODELLING OPTIONS FOR TAX REFORM (1.2)



Economic impact in 2020 of removing the CST on all services

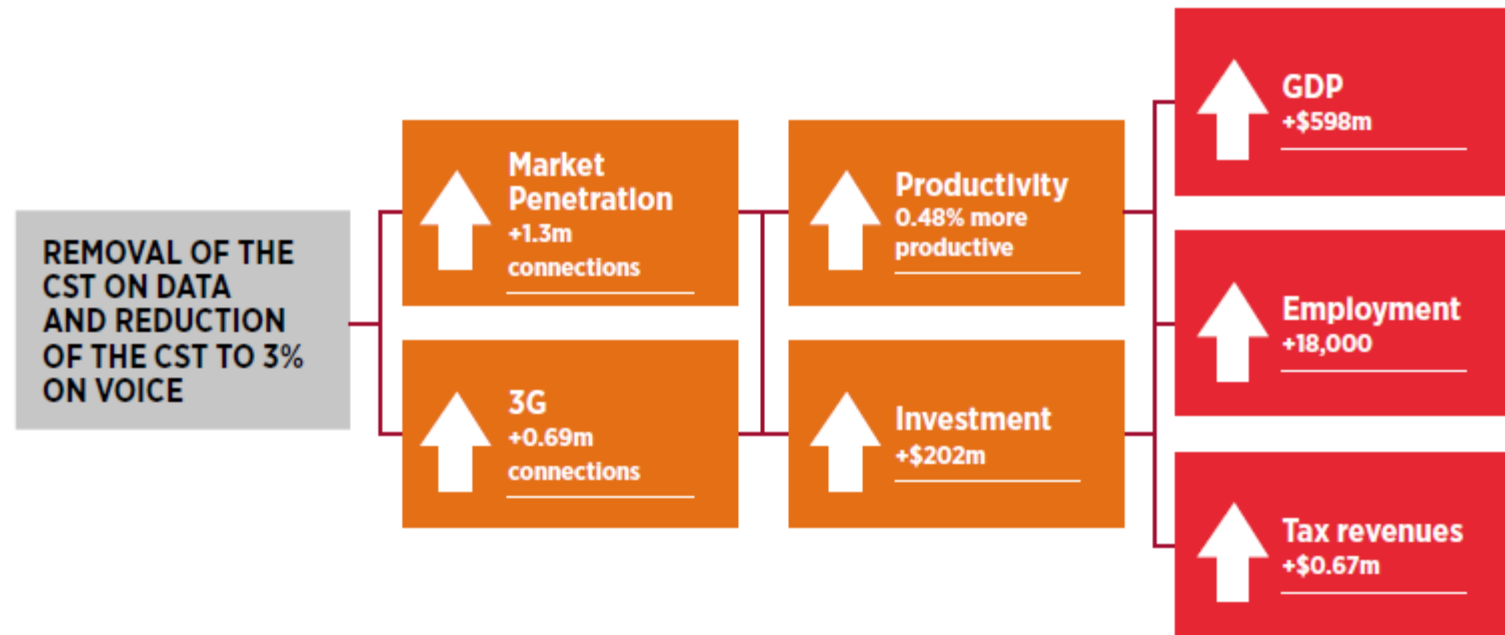


Source: Deloitte analysis based on mobile operator data

MODELLING OPTIONS FOR TAX REFORM (1.3)



Economic impact in 2020 of removing the CST on mobile data and reducing the CST to 3% on voice and SMS services

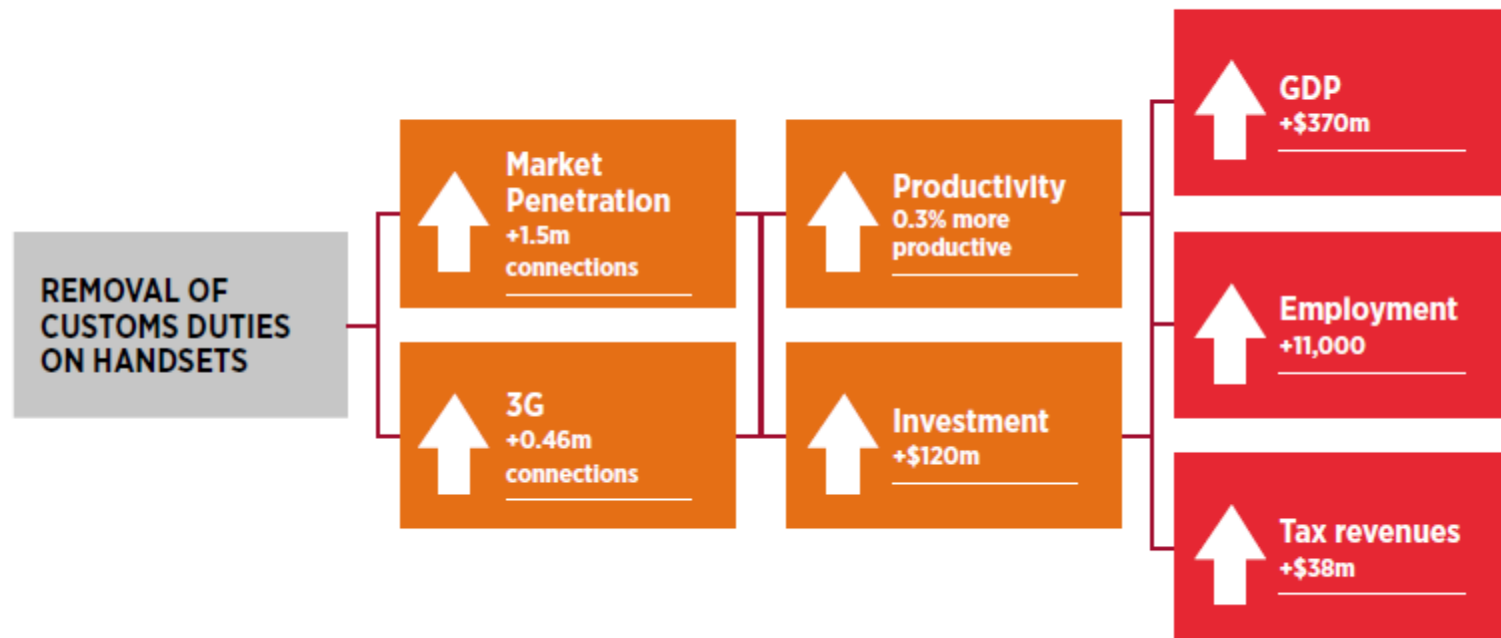


Source: Deloitte analysis based on mobile operator data

MODELLING OPTIONS FOR TAX REFORM (2)



Economic impact in 2020 of removing customs duties on handsets



Source: Deloitte analysis based on mobile operator data

REMOVING THE SIIT & CST ON INTERCONNECT



Costs of the SIIT

+USD 0.75m annually in corporate tax

Over USD 5 million annually from international trade

+USD 1m annually in remittances, bringing a wider knock-on contribution in the wider economy

Growth of Ghanaian businesses and attraction international investors

REMOVING CUSTOMS DUTIES ON EQUIPMENT



Investment projects, including quality of service upgrades and extension of 2G and 3G coverage, must be economically viable for operators

Especially in rural areas, investment may be economically unviable

Operators already face pressure on revenues due to declining ARPU and high taxes

Customs duties on network equipment also put pressure on operators