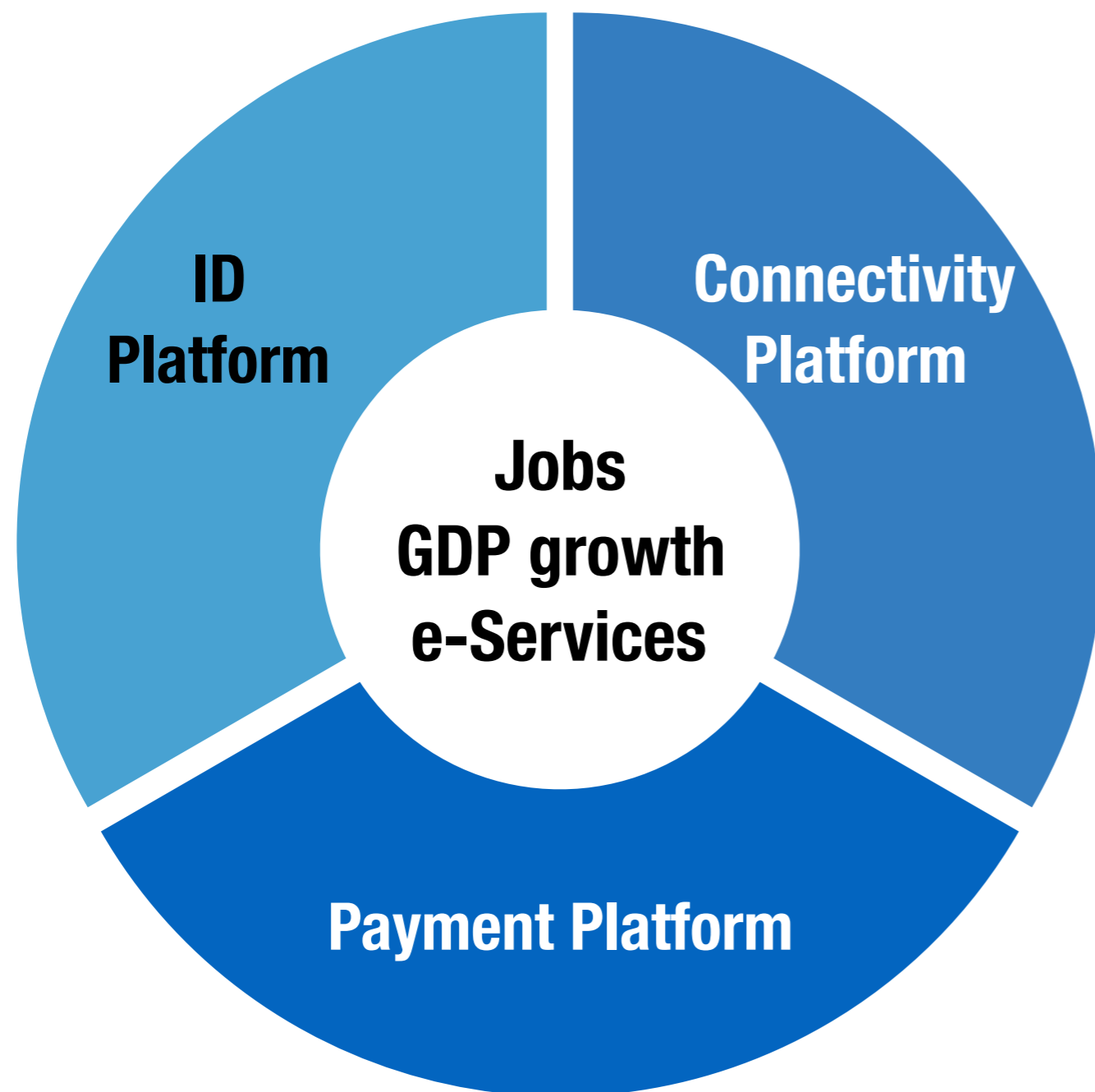


# OTT AND OTHER ICT SECTOR TAXES

Dr. Christoph Stork & Steve Esselaar  
Research ICT Solutions

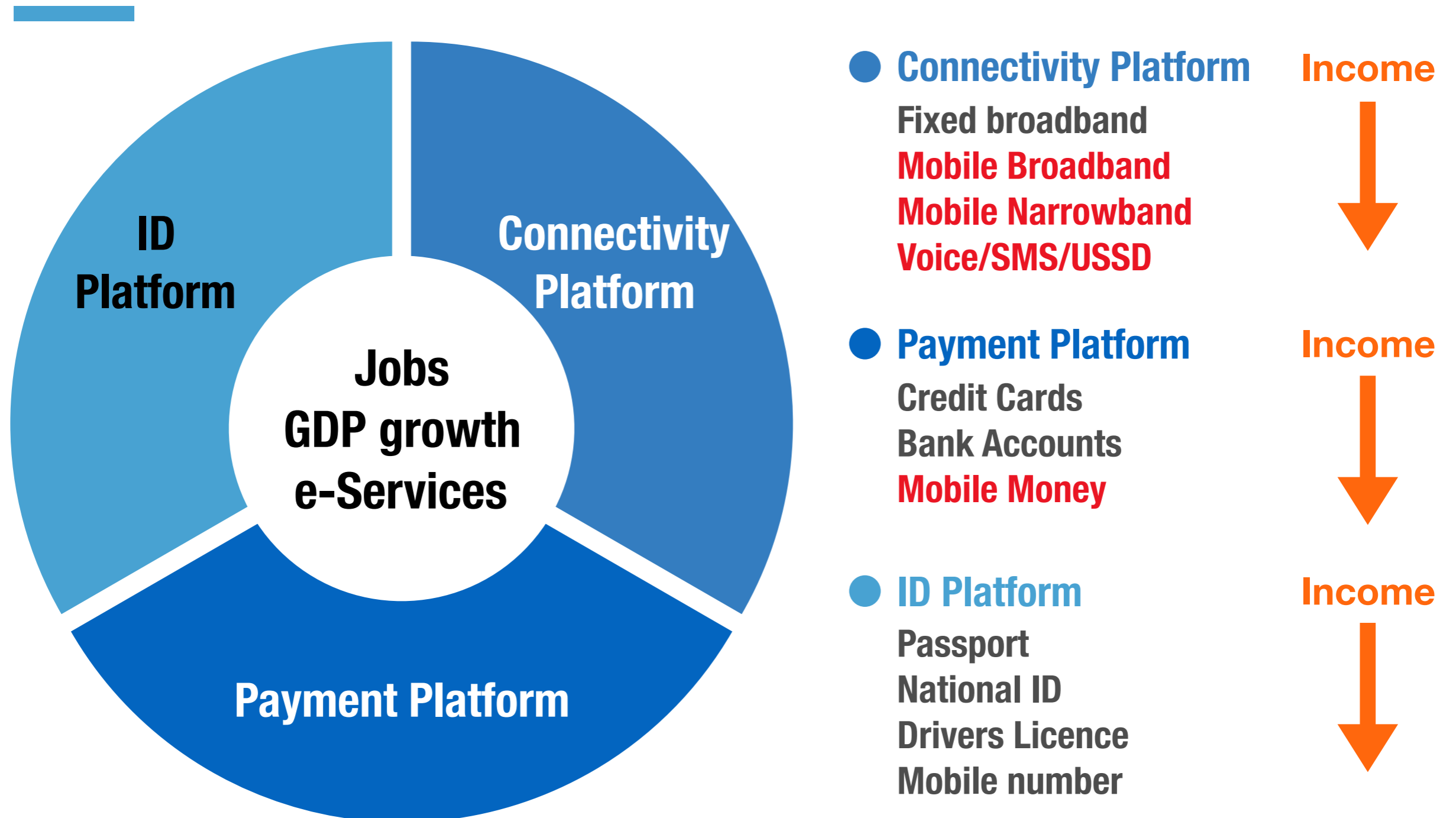
31 October 2018

# The ICT sector supports all three platforms needed for development

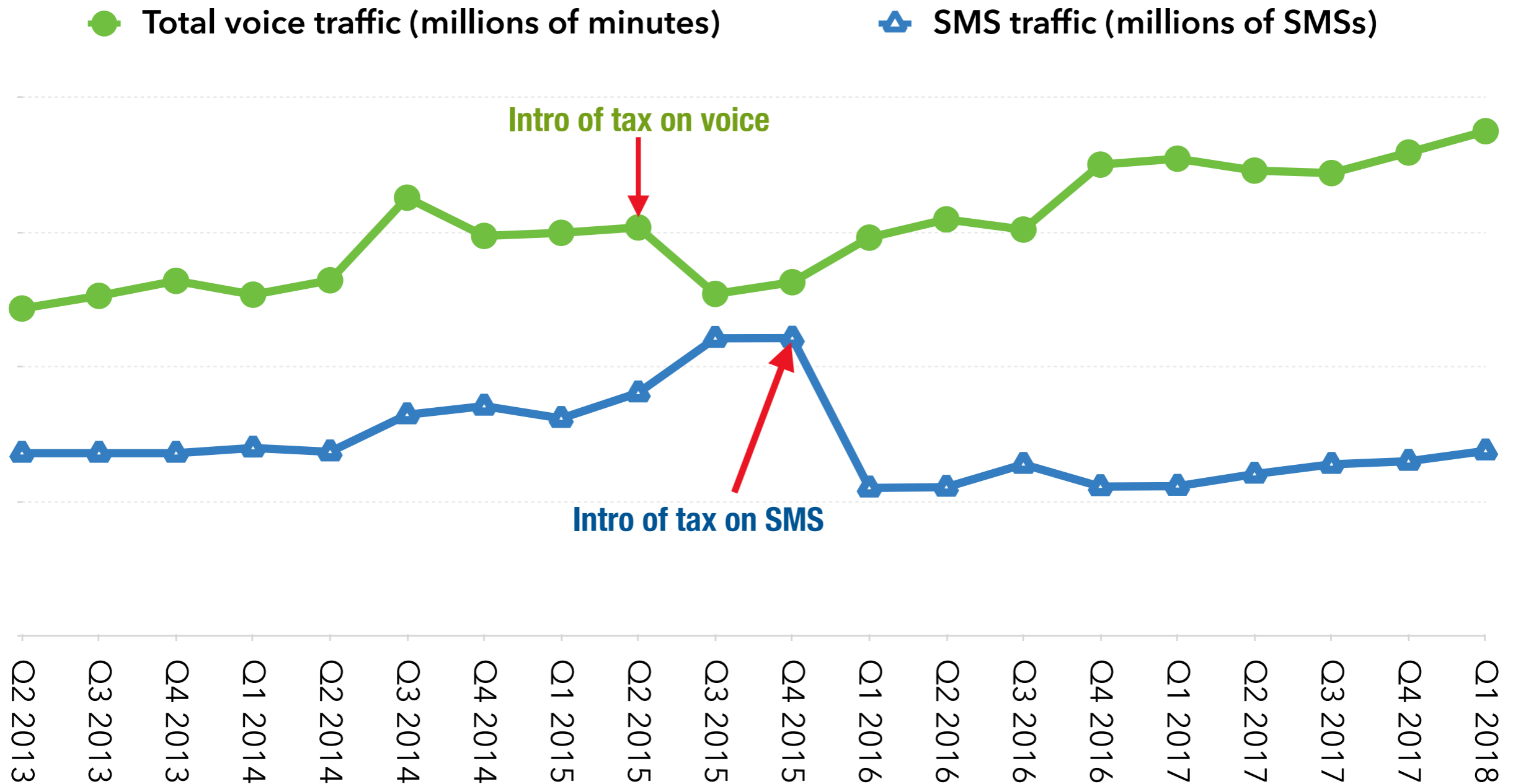


- **Connectivity Platform** **Income**  
Fixed broadband  
Mobile Broadband  
Mobile Narrowband  
Voice/SMS/USSD
- **Payment Platform** **Income**  
Credit Cards  
Bank Accounts  
Mobile Money
- **ID Platform** **Income**  
Passport  
National ID  
Drivers Licence  
Mobile number

# ICT taxes weaken connectivity and payment platforms and disadvantage the poor



# After introducing new taxes, ICT revenues are likely to continue to grow, but from a lower base. Example Guinea:



# EXAMPLE: ICT SECTOR TAXES IN UGANDA

# Uganda's government is using the ICT sector as source for additional tax revenues instead of using the ICT sector as a growth engine

## Uganda's excise duties

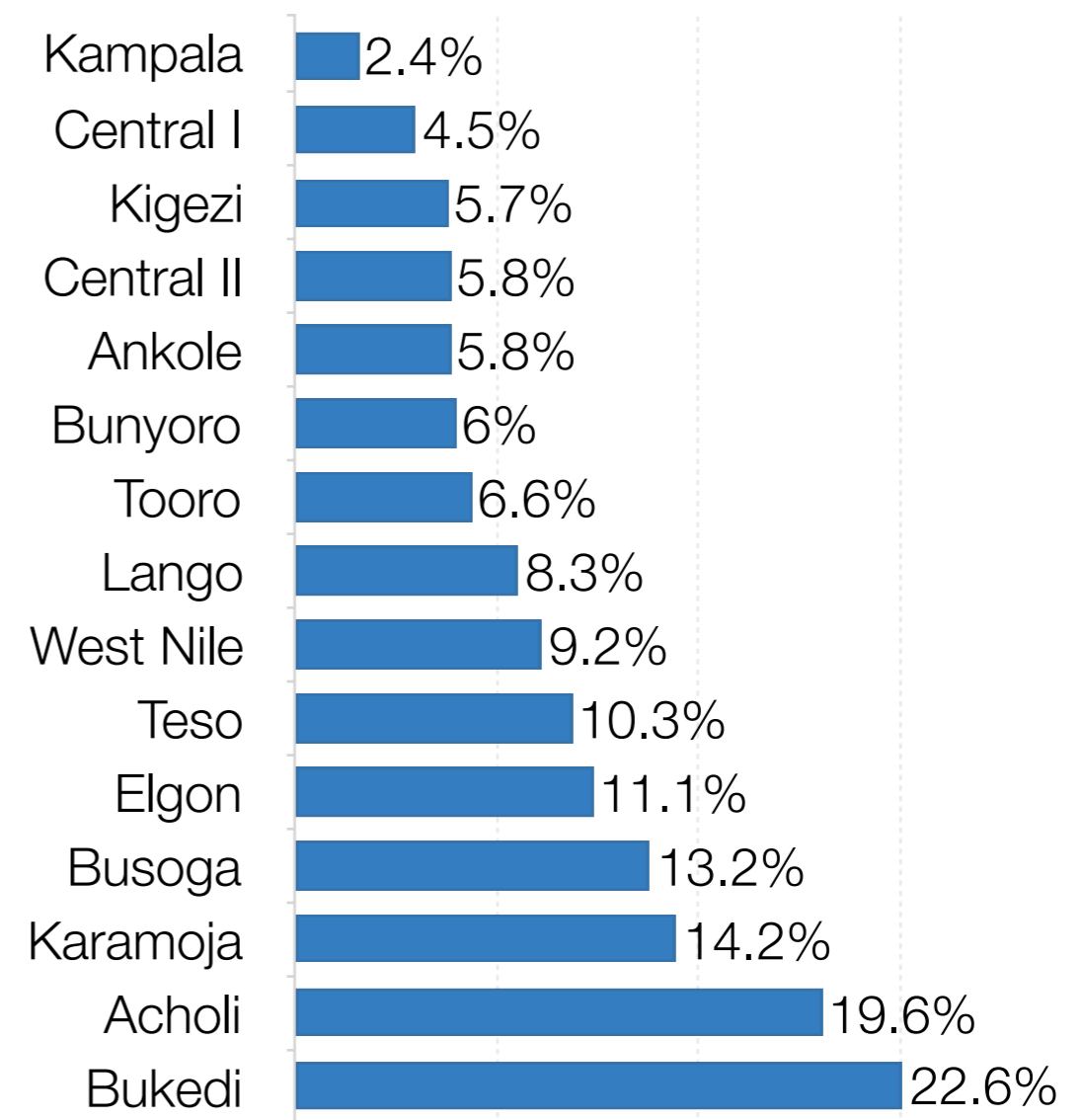
April 2002	July 2014	July 2018
Airtime 7%	Airtime 12%	Airtime 12%
	VAS 20%	VAS 20%
	Landlines 5%	Landlines 12%
	MM fees 10%	MM fees 15%
		1% MM tax on transaction value of payments, transfers & withdrawals*
		OTT tax 200UGX per day

\* An amendment bill is currently before parliament to reduce the tax to 0.5% on withdrawals only.

# Uganda's excise duties on ICT Sector violate best practice principles

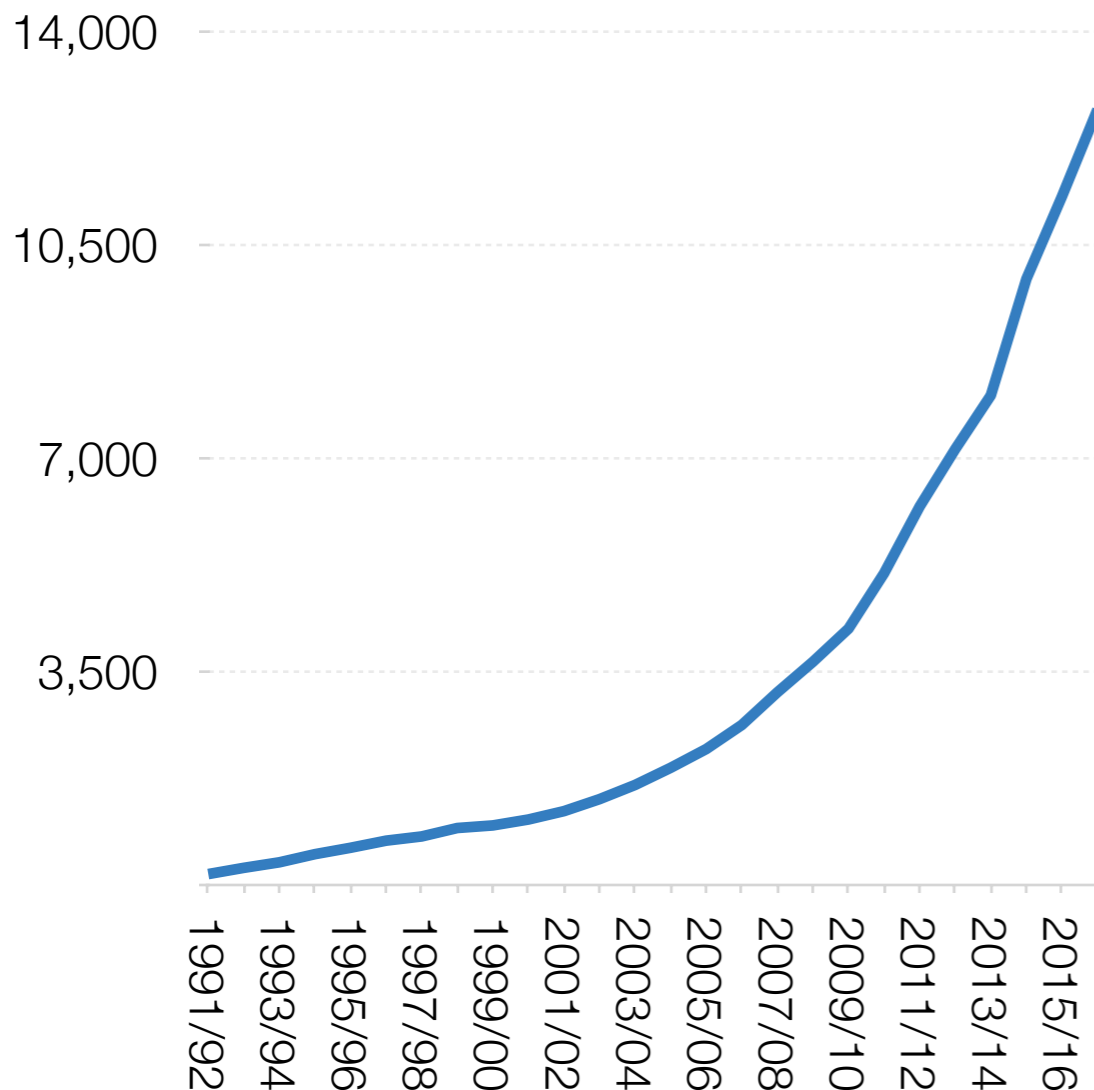
- Not broad-based: single out ICT sector
- Penalise positive externalities
- New taxes are not simple and enforceable
- New taxes significantly affect competition
- Regressive not progressive tax

**Social media tax of UGX 6,000 per month as % average individual income**

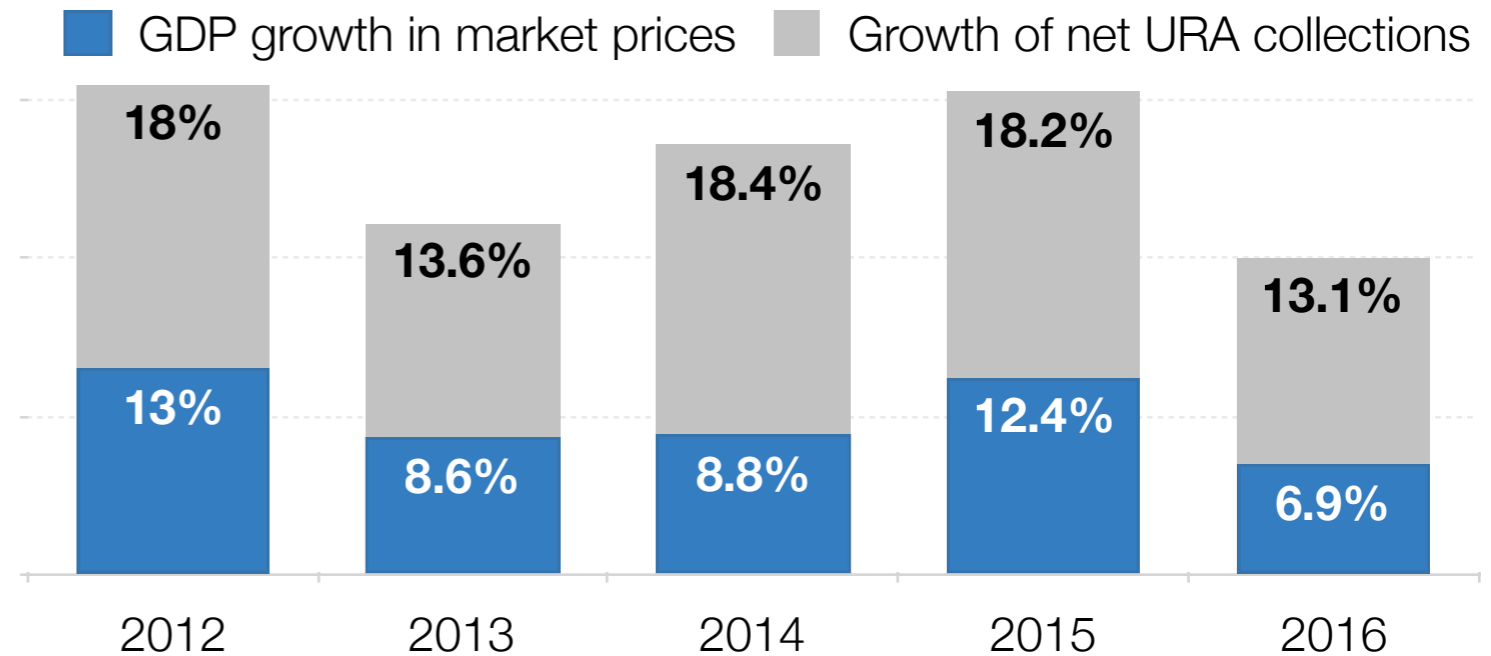


# GDP is growing, tax revenues growing even quicker and tax to GDP ratio is improving, hence no reason to impose new taxes on ICT sector

**Net URA Collections in UGX billion is growing exponentially year to year**



**Tax has grown faster than GDP since 2012 (Sources: URA and UBOS)**



**IMF: tipping point of for the GDP: tax ratio associated with significant acceleration of development and growth is between 12.75% and 15%**

World Bank and GoU	2015	2016	2017
Uganda's Tax to GDP Ratio	12.9	13.5	14.2



**Some policy makers believe that most money leaves the country only because an MNO is foreign owned. Yet half of airtime is kept by the state: net taxation is 44.6%**

How much of 1,000 UGX goes to state?	Airtime	Tax	% going to STATE
VAT 18%	180	180	100%
Excise duty 12%	120	120	100%
Average staff cost	86	17	20% PAYE
Average Commissions	276	28	10% withholding tax
EBITDA	338	101	30% corporate tax
Total	1,000	<b>446</b>	<b>44.6%</b>
Source	MTN AFS: <a href="https://bit.ly/2nddMRS">https://bit.ly/2nddMRS</a>		

**338 - 101 = 237 UGX, less than a quarter, could abroad if there would be no investment**

**EXCISE DUTY ON THE VALUE OF  
TRANSACTIONS IS DEVASTATING  
FOR TRANSACTION VOLUMES**

# Mobile money tax threatens to cripple the mobile money sector

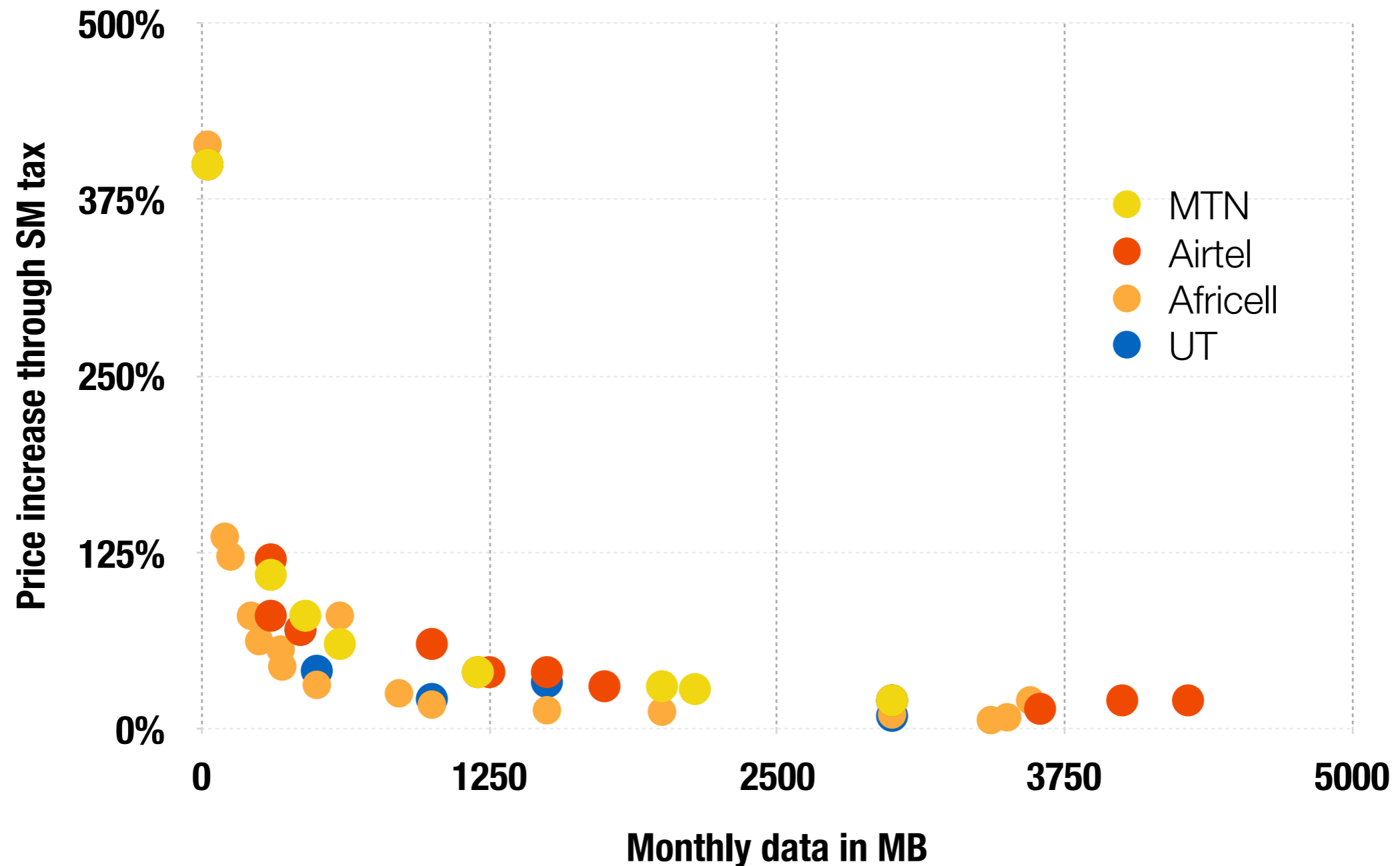
Mobile money transaction value changes for July 2018

	Total	Cash in	Cash out	P2P	Bill Payment
MTN	<b>-29.4%</b>	-26.5%	-25.2%	-45.7%	-22.9%
Airtel	<b>-33%</b>	-32%	-28%	-44.7%	-35.6%

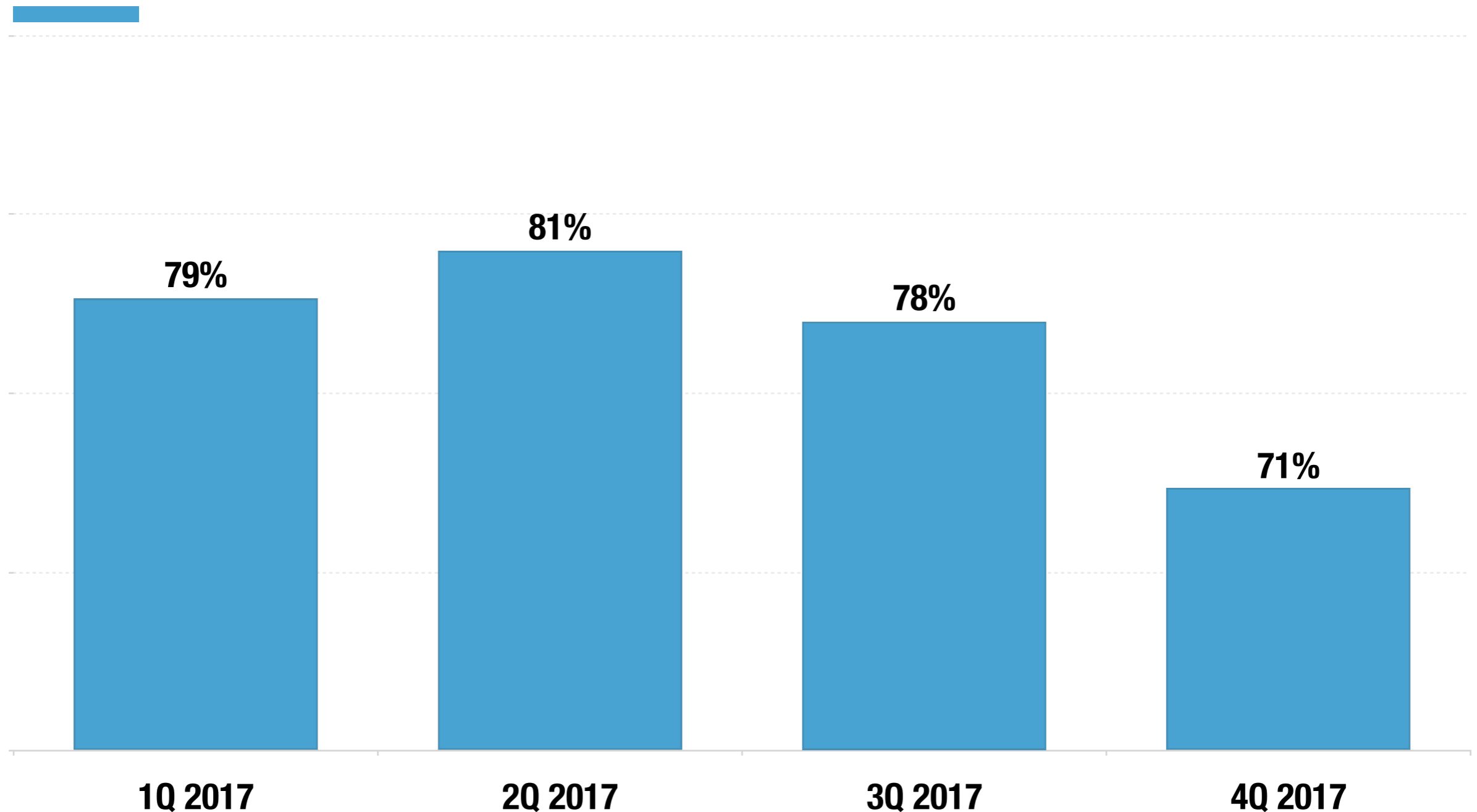
- New mobile money taxes:
  - May lead to a 15% reduction in mobile money agents: 7,800 jobs
  - Slow financial inclusion efforts (including formal banking)
  - Distorts competition i.e., discriminates against a single payment channel
- We are unable to calculate the effect on GDP growth and employment for Uganda. There is no study that modelled the impact on GDP.

# IMPACT OF SOCIAL MEDIA TAX IN UGANDA

# The social media tax of UGX 200 a day a discriminates against low usage data bundles - i.e. the poor



**UGX 6,000 per month expressed as share of MTN Uganda's ARPU indicates that most users will not be able to afford it.**



# The economic cost of the social media tax is likely to be a 2.8% less GDP growth leading to **less** tax revenues overall

- MNOs report a drop of subscribers that used data by 20%.
- A 20% drop in active internet users translates into 2.8% forgone GDP growth, i.e. **USD 737 million** less in GDP and **USD 105 million** less in taxes per year.
- The expected tax revenue of the social media tax for the financial year 2018/19 is **USD 75 million** representing a net loss in tax revenue of **USD 30 million**.

Authors	Countries	Effect on GDP growth of 10% additional broadband penetration
Czernich et al 2009	OECD, 1996-2007	0.9- <b>1.5%</b>
Koutroumpis 2018	OECD, 2002-2016	0.82%- <b>1.4%</b>
OECD 2013	EU countries, 1980-2009	1.1%
Qiang et al 2009	Low income countries 1980 and 2006	<b>1.4%</b>
Scott 2012	Low income countries 1980 and 2011	<b>1.35%</b>

# Removing excise duty on airtime (from 2002) is tax neutral (USD 2 million), while benefiting the poor

UGX billion		With excise duty	Without excise duty
Direct	Excise Duties (URA 2016/17)	194.3	0
	Implied industry airtime revenues	1,619	1,969
	MNO Profits from airtime (35%)	567	689
	VAT	291	354
	Corporate Tax	170	207
	<b>Net direct tax impact</b>	<b>656</b>	<b>561</b>
Indirect from increase in mobile subscribers	Additional GDP		608
	Additional tax revenues		86
<b>Overall Impact tax impact for 1st year UGX billion</b>		<b>656</b>	<b>647</b>
<b>Overall Impact tax impact for 1st year USD million</b>		<b>177</b>	<b>175</b>



# EXAMPLE BENIN

# ICT taxes in Benin would have slowed economy down and led to net tax loss

- Tax introduced on the 25th of July 2018
  - 5% of the pre-tax price for all services (voice, SMS, Internet)
  - 5 CFA tax, per megabyte
- Taxes were withdrawn on the 22nd of September 2018 after a meeting between the President and mobile operators

**Tax for different types of monthly data consumption in MB**

	100	500	1,000	2,000	5,000	10,000
Tax at 5 CFA per MB in CFA	500	2,500	5,000	10,000	25,000	50,000
Tax at 5 CFA per MB in USD	0.87	4.34	8.68	17.36	43.40	86.80

# Tax impact calculator

- The 5% on voice and SMS: USD 3 million less GDP growth and USD 0.5 million forgone taxes
- The 5% on data: USD 12.75 million less GDP growth and USD 2 million forgone taxes
- The 5F CFA per MB: USD 313 million less GDP growth and USD 48 million forgone taxes (based on 1GB average consumption)
- MTN's average consumption is 1.8GB

Country Name <input type="text" value="Benin"/>			
	Airtime in %	Data in %	Data fee in local currency per month
Additional tax	5%	5%	5000
Impact on subscribers	-376,883	-208,092	-5,114,297
Forgone GDP growth in USD million	-3.13	-12.75	-313.47
Forgone GDP growth %	-0.03%	-0.14%	-3.38%
Forgone tax in USD million	-0.48	-1.96	-48.27
<b>Source: Worldbank</b>			
	Tax_to_GDP_Ratio	15.40%	
	GDP in USD million (current prices)	9,274	
<b>Subscribers (Source: GSMA)</b>			
	Mobile Subscriber Year 1	6,139,969	
	Mobile Subscriber Year 2	8,945,131	
	Mobile Broadband Subscribers Year 1	1,550,272	
	Mobile Broadband Subscribers Year 2	2,269,504	
<b>Prices &amp; Elasticity (Source: RIS)</b>			
		Local currency	
	Price OECD 30 Calls 100 SMS basket Year 1	6,475.92	
	Price OECD 30 Calls 100 SMS basket Year 2	4,134.44	
	Period	Q2 2012-2018	
	Price 1 GB Monthly Prepaid Mobil Year 1	5,000.00	
	Price 1 GB Monthly Prepaid Mobil Year 2	4,068.83	
	Period	Q2 2015-2018	
	Voice price elasticity of mobile subscribers	-0.84	
	Data price elasticity of mobile broadband subscribers	-1.83	

# CONCLUSIONS & RECOMMENDATIONS

# Unleash, not squeeze, ICT sector

- OTT taxes prevent the poor from participating in tomorrow's information society
- The more people that have broadband access, the easier it will be to serve them with e-gov, e-health, e-education and financial services.
- Dropping ICT excise duties will serve Africans better and grow tax revenues faster, creating a win-win situation.

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