



IMPACT OF TAXATION ON SOCIAL MEDIA IN AFRICA

MARCH 2019

SOCIAL MEDIA

Contents

1	Executive summary	1
2	Introduction	4
3	Country background	6
3.1	Macro-economic and technological outlook	6
3.2	Social media usage	10
3.3	Digital development plans	14
3.4	Conclusion	15
4	Analysis of taxes and principles	16
4.1	Taxation principles	17
4.2	Taxation in selected countries	25
5	Impact and alternatives to social media taxes, and next steps	31
5.1	Potential impact of the proposed taxes	31
5.2	Alternatives	37
5.3	Next steps	39
6	Conclusion	40

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1 Executive summary

The Internet has had significant economic impacts, as an increasing amount of activity moves online. Like every other economic activity, taxation is an area that has been affected by the Internet and the move to a digital economy. In response, there is a recent trend towards taxation of over-the-top (OTT) services and social media, notably in sub-Saharan Africa (SSA). Social media services continue to grow in size and popularity and have attracted the attention of governments in need of revenue. In this paper, we examine the impact of taxation on social media in five countries in SSA: Benin, Cameroon, Kenya, Uganda and Zambia.

In order to understand the development of social media- and Internet-specific taxation and assess its potential impact, we examine the socio-economic and information and communications technology (ICT) context of the five selected countries. The main findings are summarised below:

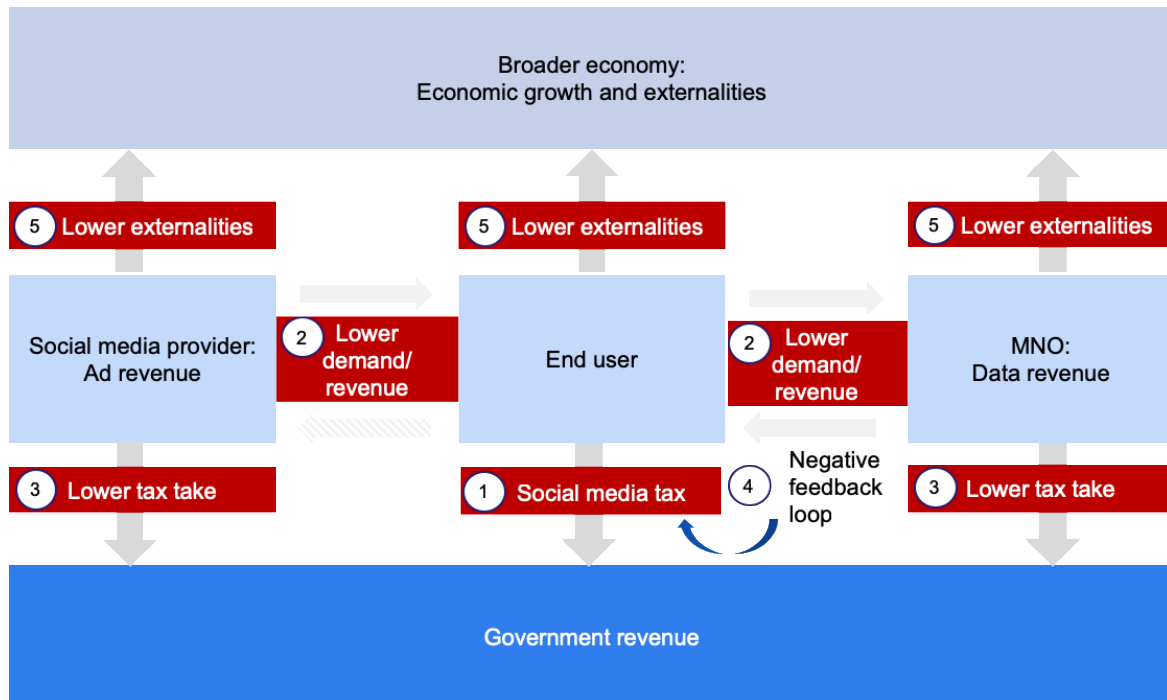
- The five countries are in line with, or below, the average Gross Domestic Product (GDP) per capita for SSA, with substantial poverty levels. While ICT is a well-recognised driver of GDP growth, all five countries except Kenya have lower-than-average levels of ICT development, suggesting this should be a policy priority across the region.
- Availability of mobile broadband significantly outpaces adoption in all of the countries, suggesting that an increased focus on stimulating demand is important in order to drive ICT development and economic growth. In particular, affordability of broadband is low across the selected countries, with existing taxation of data usage already quite high in most countries.
- Affordability is not the only demand-side factor that limits service availability; access to relevant content in local languages is also important. Social media is a significant source of relevant local content, by allowing access to communication and information from family, friends, businesses and government. Social media usage is strong in many of the study countries, but could grow, while governments themselves are significant users of social media.
- In recognition of the importance of ICT, all five countries have defined digital development plans which focus on increasing Internet adoption by users, as well as increased usage by businesses and government.

Against this background, we show how the proposed or already-imposed social media taxes are likely to run counter to these government plans, and to the broader objective of improving ICT as a source of economic growth. Taxation is of course a well-recognised and long-standing necessity for every government. However, how taxes are structured, imposed and levied is critical. Taxation principles generally avoid discriminatory taxes on a particular product or service, except in limited circumstances – for instance, where consumption of the good has a negative impact on individuals or the wider society. Neither of these applies to Internet access in general, or social media usage in particular.

With the rise of the digital economy, however, many governments and regions have had to rethink their policies to apply appropriate tax principles to digital services. We show that the social media taxes considered fall short of internationally accepted digital taxation principles. This is particularly true as social media is typically free for users, and a tax imposes challenges both in terms of significantly distorting demand and in terms of tax collection.

Imposing a tax on a free service can thus have a big impact, as shown in Figure 1.1 below.

Figure 1.1: Impact of taxation on social media [Source: Analysys Mason, 2019]



1. Since no revenue was gathered from users before, the provider will have to develop a means of charging, or pass the responsibility to a third party, such as the mobile network operator (MNO).
2. This will potentially have a significant impact on demand, beyond what one might expect from a small price increase, because there is a step jump in demand between a free service and charging for a service.
3. This in turn will lower revenue and taxes. For instance, according to the Uganda Communications Commission (UCC), the number of Internet users declined by 15.7% in the first three months after the social media tax was implemented in July 2018, alongside lower usage of social media. This negatively affects tax revenue from services that are supported by social media, such as sales of data or advertising (which are already taxed via corporate taxation).¹

¹ Source: RIS (2019), *OTT tax causes massive decline in estimated internet users in Uganda*. Available at: <https://researchictsolutions.com/home/ott-tax-causes-massive-decline-in-internet-subscriptions-in-uganda/?fbclid=IwAR0g1-LGuZQUOMxLkV7g%E2%80%A6>. See also Box 2 for more details.

4. The lower usage of social media will also lower the returns from the social media tax. The UCC showed a 29.1% decrease in OTT tax revenue in the three months following the implementation of the tax.²
5. Finally, the lower usage of the Internet and social media will lower the economic benefits of Internet access.

Based on our assessment of the social media taxes proposed or already imposed in the five countries under consideration, the tax legislation can be expected to have predominately negative implications on all market stakeholders directly or through spill-over effects and externalities. In carrying out this assessment, we examine the impact on each set of stakeholders, including general users and those below the poverty line, MNOs, OTT service providers, governments and the broader economy. We then present examples that reflect experience of implementing similar taxation in other countries and can be used to inform alternative taxation considerations. Finally, we outline potential next steps towards a more detailed, longer-term study on social media taxation, to assist governments in balancing their need for revenue with the needs of developing the ICT sector in their countries.

² *Ibid.*

2 Introduction

The Internet has had significant impacts on every aspect of our lives and a corresponding impact on the economy of virtually every country in the world, as an increasing amount of activity moves online. Individuals can use the Internet to communicate, interact, for entertainment and to improve their job prospects and earnings. Businesses can use it externally for marketing and sales, and internally to become more efficient and join global value chains. Governments can use it to interact with their citizens and better deliver services. In recognition of these positive impacts, nearly every government has plans to develop a digital economy. The arrival of the Internet and the shift towards a digital economy necessitated changes in all economic activities, introducing new use cases and reshaping old ones; taxation is one of the areas that has been affected in this process.

In particular, there is a recent trend towards taxation of over-the-top (OTT) Internet services and social media, notably in sub-Saharan Africa (SSA). Social media services continue to grow in size and popularity and have attracted the attention of governments in need of revenue. More specifically, some governments claim that traditional telecoms revenue – and associated taxes – is shifting to OTT communications applications. However, it is important to have a thorough understanding of social media services in order to anticipate the impact that taxing them would have on all associated services, key stakeholders and the wider economy.

One of the striking features of many OTT services, social media included, is that they are largely available free of charge to users. This not only maximises the user base and revenue from associated advertising, but it also provides a reason for people to use data services from their operator, in order to access these OTT services. Imposing a tax on an otherwise free service is rare, partly because truly free³ services themselves were relatively rare before the rise of the Internet, and partly because taxes are typically imposed on retail sales, corporate income or personal income.

It is thus important to understand the impact of a tax on social media services within the context of OTT services. It is also important to understand the broader impact of these services within the economic context of the country imposing the tax. Numerous studies have shown that increased access and usage of the Internet has a positive impact on Gross Domestic Product (GDP) and employment, by making companies more efficient, increasing their market size, generating entrepreneurial opportunities and providing employment opportunities.⁴ In particular, it has also been shown that increased use of social media can increase GDP per capita.⁵

³ As opposed to services provided for a non-monetary consideration, e.g. barter.

⁴ See, for instance, World Bank (2016), *Exploring the Relationship Between Broadband and Economic Growth*. Available at: <http://pubdocs.worldbank.org/en/391452529895999/WDR16-BP-Exploring-the-Relationship-between-Broadband-and-Economic-Growth-Minges.pdf>.

⁵ Source: WIK (2017), *The Economic and Societal Value of Rich Interaction Applications (RIA)*. Available at: <https://www.wik.org/index.php?id=879&L=1>.

In this paper, we examine the impact of proposed or already-imposed social media taxes in five countries in SSA: Benin, Cameroon, Kenya, Uganda and Zambia. We summarise digital taxation principles used by a variety of international bodies and show how the social media taxes fall short of these principles. Recognising the need to raise revenue, which underpins these taxes, we highlight alternative approaches based on other countries' experience with digital taxation.

The remainder of this paper is structured as follows:

- Section 3 outlines the socio-economic and technological background of the selected countries
- Section 4 presents key taxation principles and an assessment of the taxes considered or implemented across the five focus countries in relation to these principles
- Section 5 discusses the impact of taxation on social media services, presents alternative approaches and considers requirements of a potential deeper quantitative study on the subject
- Section 6 sets out the conclusions of the paper.

3 Country background

The socio-economic and ICT context of a country is essential to understand the importance of taxation of Internet access and social media, and fully assess its potential impact. In this section, we examine five countries that are considering or have implemented this type of taxation. We look at the macro-economic environment of each country and the current state of adoption and usage of mobile Internet and social media services. We note that all five countries have a long-term plan for digital development to improve their economy and incorporate social media services in their own outreach to citizens.

3.1 Macro-economic and technological outlook

Macro-economic data shows that although all five selected countries have exhibited consistent growth in GDP per capita over the last five years (and before), they remain below the average for SSA (Figure 3.1). Moreover, a significant share of the population in each of the five study countries remains below the poverty line defined by their respective governments (Figure 3.2). This indicates that there is room for boosting economic growth and social welfare in all five countries, which increases the importance of ensuring continuous growth of key industries such as the telecoms/ICT industry.

Figure 3.1: Evolution of GDP per capita⁶
[Source: World Bank, 2018]

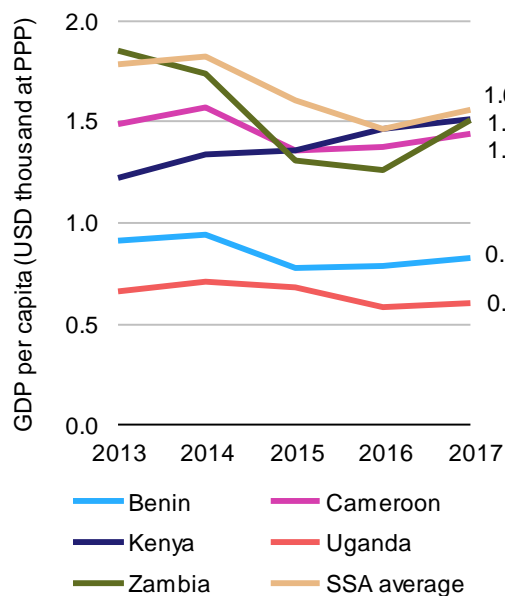
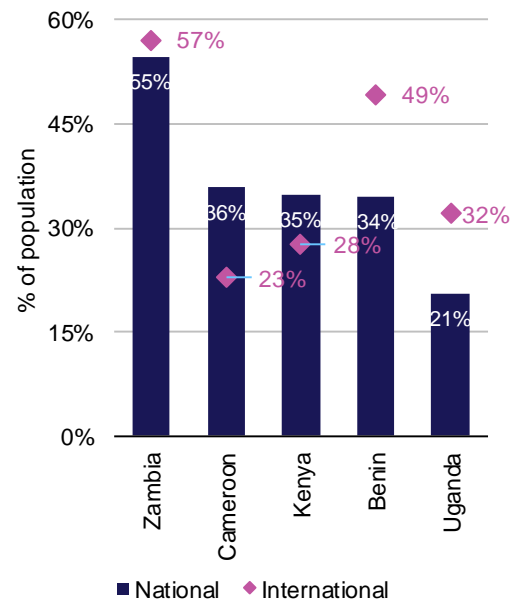


Figure 3.2: Share of population below national and international⁷ poverty lines, 2017
[Source: Euromonitor, 2018]



⁶ The SSA average excludes high-income countries.

⁷ The national poverty line is estimated based on Euromonitor; the international poverty line is taken as USD1.90 per day, which is the World Bank's 'USD1 a day' poverty threshold (originally defined in 1999), expressed in 2011 prices and measured in purchasing power parity (PPP) terms.

Figure 3.3 shows that mobile penetration (in terms of voice and SMS usage) in most of the selected countries is on par with the SSA average.⁸ However, according to the ICT Development Index (IDI),⁹ the overall level of development in ICT in all five countries could be improved, as shown in Figure 3.4. The IDI measures countries on a scale of 1 to 10 – in 2017, the top-ranked country was Iceland, with a score of 8.98. The relatively low performance in SSA is linked to the fact that most ICT usage still comes from basic telecoms services.

Figure 3.3: Mobile penetration
[Source: GSMA Intelligence, 2018]

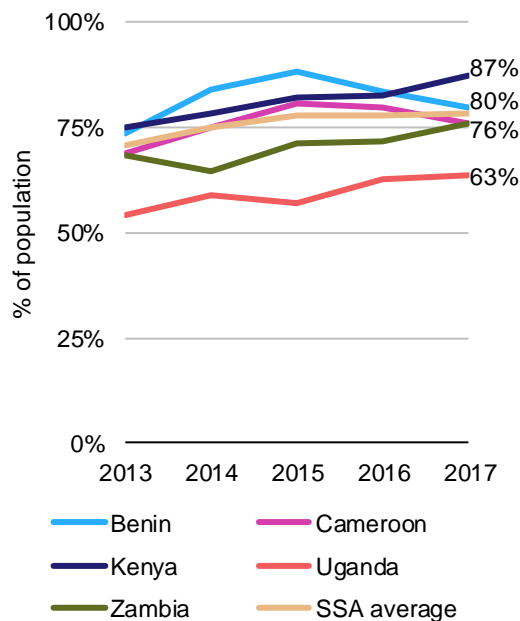


Figure 3.4: IDI, 2017 [Source: International Telecommunication Union (ITU), 2018]

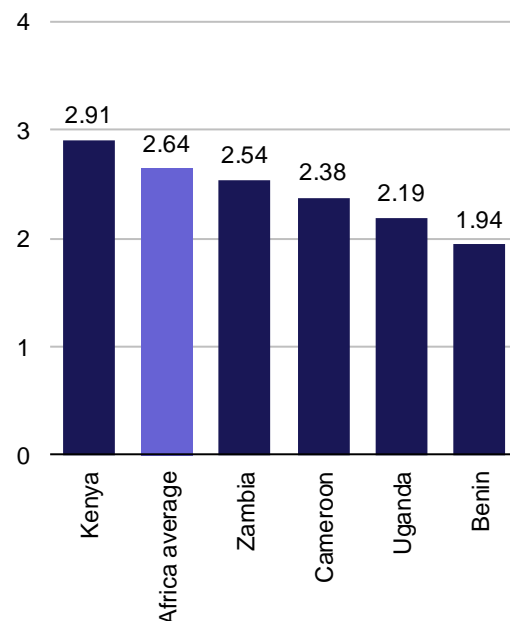


Figure 3.5 shows that adoption of data-intensive broadband services (3G and 4G) is substantially below the level of population coverage in each country. This indicates that take-up is not limited by service availability, but rather by demand-side factors such as affordability, which can have a significant impact on mobile broadband adoption and usage.

⁸ Despite the decline in mobile penetration in Benin due to the closure of services from mobile operators and licence revocations.

⁹ The IDI is an index published by the ITU which monitors and compares developments in ICT between countries and over time. The IDI combines the following 11 indicators into three groupings: access, measuring ICT readiness (fixed-telephone subscriptions per 100 inhabitants; mobile-cellular telephone subscriptions per 100 inhabitants; international Internet bandwidth (bps) per Internet user; percentage of households with a computer; percentage of households with Internet access); use, measuring ICT intensity (percentage of individuals using the Internet; fixed-broadband subscriptions per 100 inhabitants; active mobile broadband subscriptions per 100 inhabitants); and skills, measuring ICT capabilities (mean years of schooling; secondary gross enrolment ratio; and tertiary gross enrolment ratio.). See <https://www.itu.int/en/ITU-D/Statistics/Pages/publications/mis2017/methodology.aspx>.

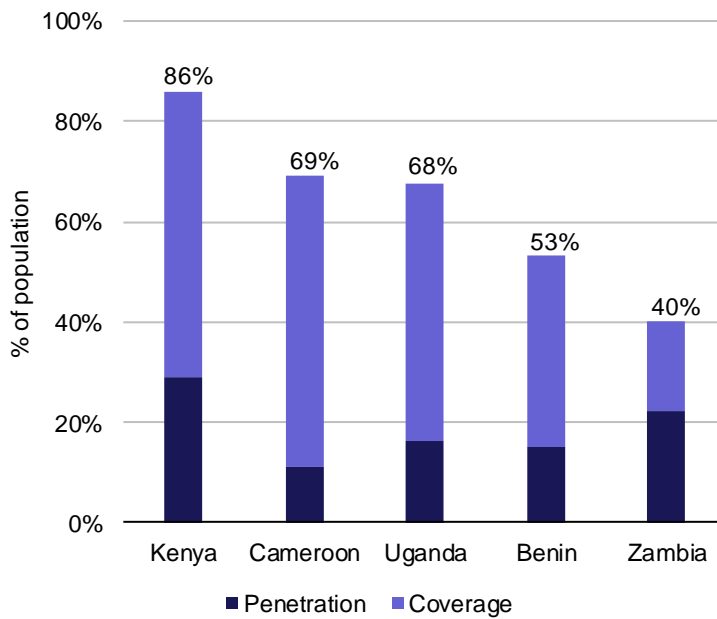


Figure 3.5: Coverage and penetration of 3G and 4G services¹⁰

[Source: GSMA Intelligence, 2018]

Indeed, pricing data collected by the Alliance for Affordable Internet (A4AI) shows that, in three out of the five study countries, the price of entry-level broadband services as a percentage of the monthly gross national income (GNI) per capita is higher than the African average (Figure 3.6).¹¹ Additionally, it should be noted that the UN Broadband Commission for Sustainable Development (UNBC) set a target of 5% for this affordability metric in 2011 and amended this goal in 2018 as 2% of monthly income for 1GB of data usage, to be reached by 2025.¹² The relatively low affordability in the five study countries may be depressing data usage, which is significantly below the 1GB target set by the UNBC and A4AI.

¹⁰ The combined 3G and 4G coverage equates to 3G coverage.

¹¹ Alliance for Affordable Internet (2017), *Price of Broadband Data (1GB mobile prepaid) as % of GNI per capita*. Available at: <https://a4ai.org/mobile-broadband-pricing-data/>.

¹² UNBC (2018), *2025 Targets: Connecting the Other Half*. Available at: <https://broadbandcommission.org/Documents/publications/wef2018.pdf>.

The UNBC targets refer to 'entry-level' data plans, which originally denoted packages of 500MB. However, A4AI states that the target of 1GB for 2% of GNI per capita would better account for income inequality. Additionally, the definition of an entry-level data plan can be expected to change by 2025, in line with international growth trends in data consumption.

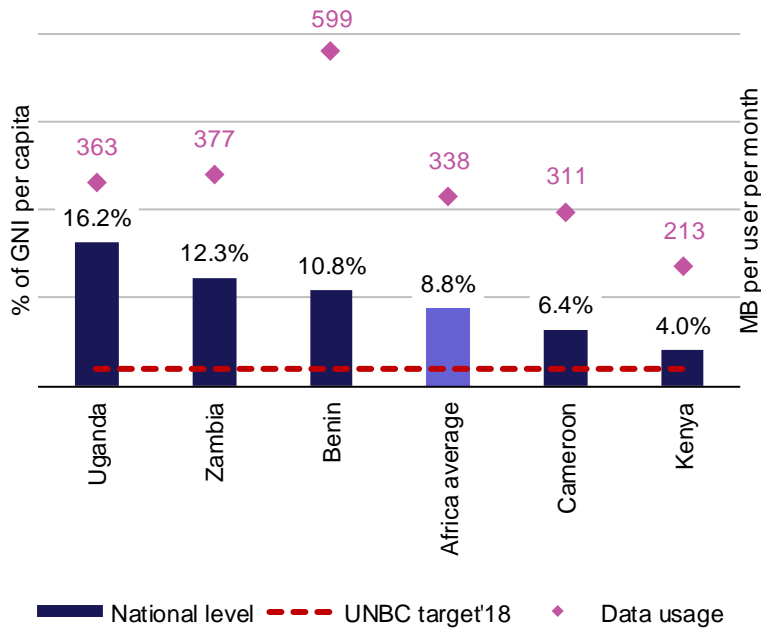


Figure 3.6: Pricing of 1GB of data (mobile prepaid) as a percentage of monthly GNI per capita; monthly data usage per connection, 2017 [Source: A4AI, UNBC, Analysys Mason Research, 2018]

The total cost of mobile ownership (TCMO) for mobile consumers can be split into two components: an initial fixed fee and a recurring usage fee. The former includes the device cost, device tax (VAT, sector-specific tax, custom duties), activation and connection charges.¹³ The second component includes the cost of using mobile services such as voice, SMS and data following the initial investment, and comprises the recurring, and most significant, share of the TCMO. The TCMO is therefore sensitive to taxation applied to the usage, which comprises a general sales tax and sector-specific taxes.

Figure 3.7 shows that the taxes that mobile consumers are subject to in most of the selected countries are higher than the average for the region, driven by the introduction of a specific tax on mobile usage on top of general taxes such as VAT. We note that this level of taxation does not include revenue and other taxes levied on mobile operators, which can pass the burden onto consumers by increasing the service price, further affecting affordability.¹⁴

¹³ Available data (from GSMA Intelligence) shows that handset tax in Cameroon was approximately 29% in 2016, and Kenya has implemented tax exemptions, removing 16% VAT on handsets. The selected countries do not apply connection and activation taxes.

¹⁴ Source: GSMA Intelligence (2017), *Taxing mobile connectivity in Sub-Saharan Africa*. Available at: https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/07/Taxing-mobile-connectivity-in-Sub-Saharan-Africa_July-2017.pdf.

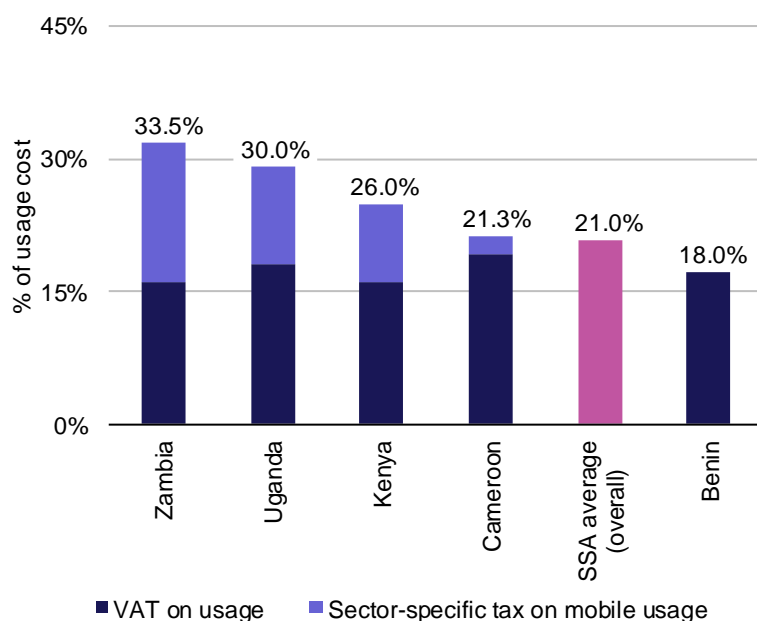


Figure 3.7: Usage tax, 2016 [Source: GSMA, 2017]

However, affordability is not the only factor which has an impact on Internet adoption. Studies have shown that other factors affecting demand include the availability of relevant content in local languages. According to the World Bank, 80% of global Internet content is only available in one of ten languages (English, Chinese, Spanish, Japanese, Arabic, Portuguese, German, French, Russian and Korean).¹⁵ Even if social media services are provided through platforms from multinational companies, the content is locally relevant, coming from friends, colleagues, governments and other local actors. For instance, on LinkedIn there can be news about local jobs, local networking and other opportunities for professionals. Therefore, reducing access and usage to social media services can impede Internet adoption and usage, in turn limiting economic growth.

3.2 Social media usage

Research on social media usage in the selected countries shows that a substantial share of Internet users are active users of social media platforms; as mobile broadband accounts for a high share of total Internet connections, it can be stated that most of the active social media users access the service through their mobile devices (Figure 3.8).¹⁶ This emphasises the interdependency between consumption of social media and data/Internet services, suggesting that taxation of access to (or use of) either would result in a decline in usage of the other, as described further below, with corresponding impacts on economic activity.

¹⁵ Source: World Economic Forum (2016), *Internet for All: Framework for Accelerating Internet Access and Adoption*. Available at: http://www3.weforum.org/docs/WEF_Internet_for_All_Framework_Accelerating_Internet_Access_Adoption_report_2016.pdf

¹⁶ We note that countries with a lower Internet access rate, such as Cameroon, generally have a higher social media usage, because the early adopters of Internet tend to be the most active.

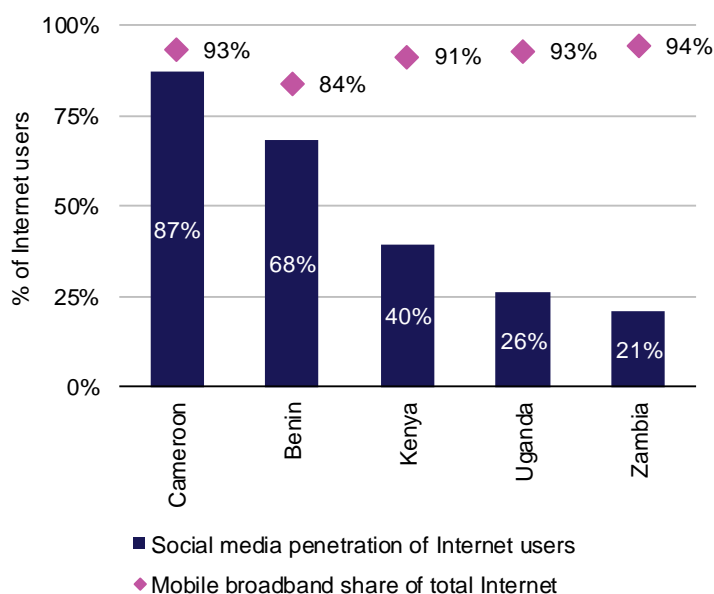


Figure 3.8: Social media users as a share of total Internet users, and mobile broadband connections as a share of total broadband connections, 2017
[Source: Hootsuite, We Are Social, ITU, Analysys Mason Research, 2018]¹⁷

However, it is also worth noting the overall level of demand for social media services. For instance, while 87% of Internet users in Cameroon are using social media, most of them with mobile broadband, only roughly 10% of the population is using mobile broadband. Thus, while social media users have a visible platform, based on the nature of social media, it is easy to overestimate their number, and the corresponding tax opportunity.

Nonetheless, for those who use it, social media plays an important role. Social media use cases include features that are unique to developing markets or play a more significant role there than in developed countries – just as it is said that mobile telephony leap-frogged fixed in developing countries, services such as social media leap-frog more traditional substitutes where those are less available:

- *Consumers* – In developing markets, the relative ease and traditionally low cost of social media use drives the expansion of functionality and the importance of the traditional purposes of social media – communication and information. There is evidence that social media platforms are used to connect neighbourhoods and communities, creating groups and networks based on geography, profession or interests. These networks are then used for information dissemination, outreach, crowd-sourcing of funding or information, or as a platform for classified advertising, i.e. as a means of job search and recruiting, peer-to-peer trade and commerce, event planning and organisation, and other functions.¹⁸

¹⁷ The share of mobile broadband connections and the number of social media users are based on Hootsuite (2018), *We Are Social – Digital in 2018 in Eastern Africa (North)*. Data on the number of mobile broadband users is based on ITU and Analysys Mason Research data.

¹⁸ Sources:

BBC UK, *Letter from Africa: Inside the gated communities of WhatsApp*, 16 January 2018. Available at: <https://www.bbc.com/news/world-africa-42653088>.

Financial Times, 'Tweets and crowdsourcing transform African lives', October 2015.

National Youth Development Agency (NYDA), *Using Social Media in the Job Hunt*. Available at: <http://www.nyda.gov.za/JOBS-Database/Pages/Using-Social-Media-in-the-Job-Hunt.aspx>.

Why We Post (UCL Research Project), *Social media has created new spaces for groups between the public and private*. Available at: <http://www.ucl.ac.uk/why-we-post/discoveries/10-social-media-has-created-new-spaces-for-groups-between-the-public-and-private>.

- *Business and e-commerce* – Digital advertising is not yet as lucrative in developing markets as it is in developed countries.¹⁹ As a result, social media platforms adjust their business model in developing markets to address local conditions and needs. One way they achieve this is by offering their platforms to small and medium enterprises (SMEs) and online retailers as a means to deliver customer service. For instance, businesses use WhatsApp for customer outreach, targeting popular WhatsApp groups and creating broadcast lists. Additionally, WhatsApp has rolled out a standalone Android-based business app focused on developing markets; the app includes features such as business profile, flexible and customisable messaging tools, metrics and account verification. In the future, the use cases may evolve to include integration of payments and remittances into social media and messaging platforms.²⁰
- *Governance* – Social media offers governments an easy and straightforward communication pathway to the population. Experience of developed markets shows apparent benefits and efficiencies of using platforms such as Twitter and Facebook for political engagement, crisis communications and ongoing response. For instance, Facebook’s Town Hall feature, introduced in 2017, allows US citizens to connect with government representatives at state, local and federal levels. Although government use of social media in developing countries is currently less organised, there have been instances where policy announcements and comments were made over social media – for example, information shared by the Zambian Information Minister on the subject of the new online call tax (featured in this report) was delivered via Twitter posts and responses. The Uganda Communications Commission (UCC) also communicates results of its market reviews, including number of Internet users and tax revenue from OTT services, via Twitter. Presidents of all five selected countries have Twitter accounts, and all of them, with the exception of Benin’s President Patrice Talon, can be considered active users of the platform.

Figure 3.9 demonstrates that governments of the selected countries generally have considerable social media presence and a commitment to developing and/or improving e-government services, all of which helps to promote the availability of local content, which stimulates Internet demand.

¹⁹ Source: Quartz Africa.

²⁰ *Ibid.*

Figure 3.9: Government services and social media presence [Source: Analysys Mason, 2019]

Country	President's social media presence ²¹	Ministry of Communications' social media presence ²²	E-government services
Benin	✓ Facebook, Twitter, YouTube	✓ Facebook, Twitter, YouTube	<ul style="list-style-type: none"> In December 2018, Benin's National Information Systems and Services Agency signed an agreement with Estonia's e-governance agency to develop e-government services based on Estonia's expertise
Cameroon	✓ Facebook, Twitter	✓ Facebook, Twitter, YouTube	<ul style="list-style-type: none"> Multiple operational e-services, both for direct citizens' use (e.g. e-health) or for internal government use (e.g. e-procurement)
Kenya	✓ Facebook, Twitter, YouTube	✓ Twitter, YouTube	<ul style="list-style-type: none"> Over 250 government services offered exclusively online
Uganda	✓ Facebook, Twitter, YouTube	✓ Facebook, Twitter	<ul style="list-style-type: none"> Approx. 250 websites across ministries, departments and agencies, and local governments Approx. 300 systems and applications supporting provision of e-services
Zambia	✓ Facebook, Twitter	✓ Facebook, Twitter, ²³ YouTube	<ul style="list-style-type: none"> Zambia's Online Services Index is slightly above the regional average As mentioned above, development of e-government is one of the priority areas of the country's ICT plan

²¹ The President's presence on YouTube is generally through a State House channel.

²² The Ministry of Communications' presence on YouTube is represented here by the presence of the ICT regulatory authority: ARCEP BENIN (Benin), Agence de Régulation des Télécommunications (Cameroon), Communications Authority of Kenya and Zambia Information and Communications Technology Authority (ZICTA).

²³ ZICTA, an ICT regulatory body under the Ministry of Transport, Works, Supply and Communications.

3.3 Digital development plans

In recognition of the impact of ICT on their economies, all of the countries under consideration in this paper have defined digital development plans and targets for ICT development. While broadband infrastructure is an important element of these plans, they also focus on the demand side, increasing usage by businesses and governments, which also has the benefit of helping to promote Internet adoption by introducing new use cases for it.²⁴

Benin: Plan TIC Benin, eNNOV Benin 2021 The plan aims to make the ICT sector a fundamental pillar of the national economy and position Benin as the digital gateway to West Africa by 2021. The plan states that the digital economy is crucial for driving social inclusion and welfare, stimulating job creation and economic development, and increasing transparency and accessibility of governance. On the demand side, the plan targets Internet penetration of population and businesses of 80%, alongside and through improved usage of ICT in the tourism, education, agriculture, commerce, administration and cultural sectors.²⁵

Cameroon: Strategic Plan for a Digital Cameroon 2016–2020 The plan identifies three dimensions of the digital economy: infrastructure development, creation of new industries and businesses, and transforming existing sectors via the use of ICT. The plan recognises the positive effect digitisation has on growth, productivity, and competitiveness of enterprises and the overall economy, and recognises its cross-sectional nature. Implementation of the plan requires a variety of cross-sector actions, such as improving governance, enhancing human capital and digital confidence, and providing appropriate financial resources.²⁶

Kenya: Connected Kenya 2017 Master Plan The plan aims to render Kenya the ICT hub of Africa and support social and economic objectives of the Kenya Vision 2030. Targeting 80% adoption of ICT services among Kenya's households and businesses, the plan recognises the sector's potential to drive GDP growth, productivity improvements, job creation and innovation. The plan's key strategic pillars include enhancing productivity, competitiveness and growth of existing industries, creating new businesses driven by ICT implementation, and enhancing the delivery of and access to public services through strategic and innovative use of ICT. The

²⁴ The importance of demand-side policies focusing on improving ICT access and adoption is emphasised in sources such as:

World Economic Forum (2016), *Internet for All: Framework for Accelerating Internet Access and Adoption*. Available at: http://www3.weforum.org/docs/WEF_Internet_for_All_Framework_Accelerating_Internet_Access_Adoption_report_2016.pdf.

GSMA (2018), *State of Mobile Internet Connectivity 2018*. Available at State of Mobile Internet Connectivity 2018.

Internet Society (2016), *A policy framework for enabling Internet access*. Available at: <https://www.internetsociety.org/resources/doc/2016/a-policy-framework-for-enabling-internet-access/>.

²⁵ Source: The Presidency of the Republic of Benin.

²⁶ Source: Ministère des Postes et Télécommunication du Cameroun (MINPOSTEL).

plan places an emphasis on developing e-government functionality as an efficient and transparent means of providing public services to citizens.²⁷

Uganda: *Uganda National Broadband Policy*

The plan, which was adopted in September 2018, prioritises the provision of universal connectivity, increasing the affordability of ICT services and digital inclusion, and achieving optimal and efficient distribution of resources over a five-year timeframe. E-government service delivery is stated as one of the guiding principles of the policy implementation.²⁸

Zambia: *National Information and Communication Technology Policy*

Launched in 2006, the policy aims to create a favourable business environment, promote Zambia as an attractive destination for ICT-related investments, and facilitate achievement of Millennium Development Goals.²⁹ One of the goals set in the plan necessitated public access to information, ICT tools, content and services. More recently, in February 2018, the Zambian National Assembly held a workshop to discuss its next ICT plan; the workshop emphasised the importance of promoting e-government policies and programmes and enhancing the use of ICT in the public sector.

3.4 Conclusion

All of the countries under consideration in this paper are still at relatively early stages of macro-economic and technological development. As such, they could benefit from harnessing socio-economic growth stimulated by further development of the ICT sector.

Affordability of access to, and usage of, data services in the selected markets is generally lower than internationally defined targets, indicating that current pricing may be prohibitive even without implementation of additional taxation. In particular, the percentage of the population under the poverty level in each country suggests a high elasticity of demand for the taxed services, necessitating careful consideration of the taxation's impact on take-up, revenue and sector growth. Indeed, as we show below in Box 2, the impact of the recently imposed social media tax in Uganda is quite high.

The countries' ICT plans and substantial social media presence imply that their governments recognise the importance and potential of data services (e-government services in particular) and social media platforms. As such, there is a need to make sure that any data or social media taxation considered does not contradict or impede development objectives. The next section highlights how taxes can have an impact on usage, and in turn how reduced usage can slow economic growth.

²⁷ Source: Kenya ICT Board.

²⁸ Source: Uganda Ministry of Information, Communications Technology & National Guidance.

²⁹ Eight goals defined by the United Nations Development Programme (UNDP) focused on reducing poverty and improving health, education and welfare.

4 Analysis of taxes and principles

Taxation is the most important source of revenue to support government services, including economic development, security and welfare of the population. The way in which governments raise tax revenue is of crucial importance to ensure a balance between revenue generation and economic growth, and between the efficiency of the tax system and its equitable distribution.

It is particularly important to consider the unintended consequences of a tax. A tax on usage of a service may raise the desired revenue when imposed. However, usage may fall as a result, which lowers the long-run revenue from the tax. Worse, the lower usage of the service may have spill-over effects, affecting broader sectors of the economy with negative impacts on economic growth. We believe that is the unintended impact of a social media tax. Such result has already been highlighted in Uganda, where the revenue from the recently imposed social media tax fell almost 30% in the first three months after the tax was imposed, as shown in the following table.³⁰

Figure 4.1: Impact of social media tax in Uganda [Source: Uganda Communications Commission, January 2019]

	Jul 2018	Aug 2018	Sept 2018	Three-month change
Internet OTT tax revenue (UGX)	5 600 066 400	4 099 842 000	3 968 898 800	-29.1%
Internet subscriptions	16 098 825	13 742 346	13 579 150	-15.7%
Total OTT taxpayers	8 049 413	6 871 173	6 844 528	-15.0%

With the rise of the digital economy, many governments and regions have had to rethink their policies to apply appropriate tax principles to digital services. In this section, we provide an overview of general taxation principles and consider how they apply to taxation of social media and Internet services, given the specific characteristics of these services. We then analyse the types of taxes that are being considered or have already been imposed across the selected countries and assess their level of adherence to the guiding principles.

³⁰ See Box 2 below.

4.1 Taxation principles

General taxation principles

In assessing the impact of a specific tax, it is important to note that any tax, by increasing the cost of the good or service that is being taxed, will decrease the number of users of the service, the level of usage, or both. While sometimes this is one of its intended purposes (e.g. for tobacco), most often it is a by-product of the necessary act of raising government revenue. The impact of a tax is informed by the way in which it is imposed; it is therefore important to consider the following aspects:

- *Access-based versus usage-based* – This principle refers to whether there is a flat tax on a service or the tax scales with consumption. For example, a tax on the purchase of a car or a yearly tax will increase its cost and likely affect purchases of new cars. However, once that tax is paid, there is no impact on how much the car is used. On the other hand, imposing a tax on fuel prices will lead to a decline in the distance driven by a car, and may also have a negative impact on car ownership as it increases the overall price of driving.
- *Direct versus indirect* – This principle refers to whether the tax is paid directly by the consumer or levied on the provider. Direct taxes include an income tax, paid by an individual or corporation to the government. Indirect taxes include sales taxes, paid by the manufacturer or vendor and passed on to the consumer. The costs and challenges associated with enforcing and collecting the tax differ depending on whether the tax is collected from the consumer or from a service provider, as does the impact on usage. An indirect tax is immediately noticeable to consumers and affects purchases of the product or service, while a direct tax does not have an impact on purchases of any particular product or service.
- *Broad versus focused* – This principle refers to whether a tax targets a wide range of industries or is directed at specific sectors or services. The effect of a general tax such as VAT, which has an impact on all goods or services in an economy, is diffused and would be lower than if the same revenue were targeted with a specific tax on a narrow set of goods or services. In addition, a more general tax is less likely to distort consumption between services. For instance, a significant increase in fuel tax may push car drivers towards other forms of transport, while a general increase in VAT would be less likely to have this effect because it would affect all modes of transports equally.
- *Foreseen versus sudden* – Advance knowledge of changes in taxation with appropriate transition rules helps all economic actors, including consumers and businesses, to engage in long-run planning, while suddenly enacted taxes generate uncertainty and confusion. For instance, a sudden increase in taxes on a staple good like fuel affects consumers' budgeting and planning and makes it more difficult for suppliers to organise their production and distribution facilities.

- *Static versus dynamic effect* – Finally, it is important to distinguish between the immediate, or static, impacts of a tax, and its long-term or dynamic impact. For instance, revenue from a tax on fuel is fairly predictable in the short run, when it is difficult to change consumption. However, it would be a mistake to assume that the revenue would remain stable, or even grow, using existing consumption patterns, as the dynamic effect is that consumers would alter their usage to consume less fuel, while manufacturers may sell more fuel-efficient vehicles, and thus tax revenue may fall.

Typically, a service-specific (excise) tax is applied to products the consumption of which is personally or socially harmful (such as non-ecological fuel, alcohol or tobacco), or on luxury goods, whose consumers are generally more able to absorb the tax. OTT services, including social media, do not normally meet the standard criteria for excise taxes: the Internet brings benefits to the whole economy, and its user base is widening, due in part to government digital development plans. The short- and long-run impact of imposing a specific tax on a service such as social media would have the same impact in terms of the reduction of usage, but it could also lower associated revenue, reduce productivity across multiple sectors of the economy, and negatively impact GDP and employment in the long term.

We now translate these general principles to OTT services, including social media. We start by analysing some of the economic characteristics of social media.

Economics of social media

In assessing taxes on social media services, it is important to understand the economics of the industry. In general, we use social media to interact with others; the bigger our network, and the more we can do, the more valuable the service. Users of social media services can include family, friends, students, colleagues or customers. While there is a widespread view that the primary use of social media is casual communication or socialising, it has a broader range of use cases and can provide individuals and businesses with news and information, advertising space, online storefronts and customer service channels, government communications and multi-platform integration. It can also be used by schools to provide instructional material, and facilitate group projects.

In addition, there are several features of social media that are unique to OTT services:

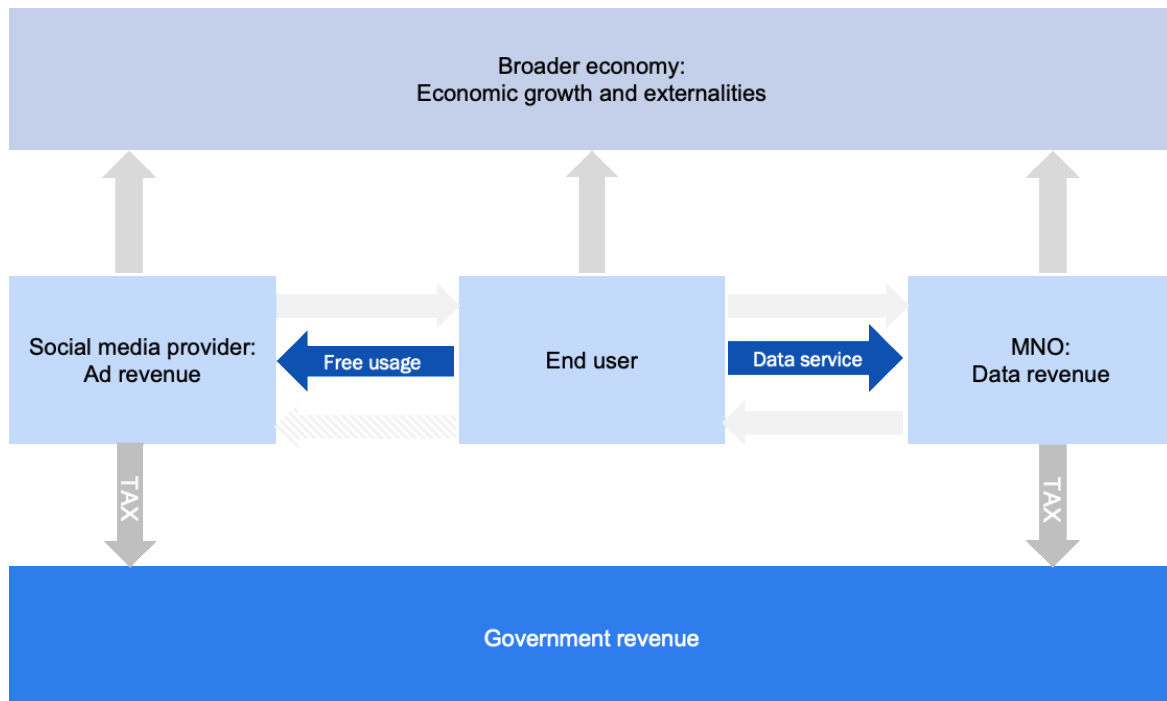
- Firstly, many of these services are free to users, including all notable examples of social media platforms, with revenue originating from advertising. This is an example of a *multi-sided platform*, where platforms must attract users in order to attract advertisers and content developers to attract additional users. Offering the service to the user for free is an effective tool for increasing the user base, in order to attract the advertisers that generate revenue and associated taxes.
- Secondly, unlike most traditional telecoms services, OTT services are not standalone; as their name indicates, they are delivered ‘over-the-top’ of data services. These are *complementary services* – where the increased use of one service (OTT) increases the use of the other (data). A tax that decreases the use of OTT services will lead to a decline in data usage, and *vice versa*.

As a result, the static assessment of a tax on social media must consider these economic impacts. An increase in the effective cost of social media consumption would reduce its usage and possibly shrink the user base, and this would in turn lower the benefits of social media for all its users. In addition, a reduction in social media use would translate into lower associated advertising revenue, as well as a decline in Internet usage and data service revenue. In addition, all of the governments of all the countries studied in this report use social media as a communication channel, and therefore would see a loss of participation on these platforms should the tax reduce the user base.

Furthermore, it is important to understand the dynamic (or long-run) impacts of a tax. Numerous studies by governments, intergovernmental bodies, trade associations and research organisations have highlighted the positive impact of increased Internet access on GDP and employment through boosting stakeholders' access to information and services, improving market efficiency and reducing transaction costs, and generating new businesses and revenue streams. Studies have shown that a 10% increase in broadband access in a country can increase GDP per capita growth by more than one percentage point, an attractive boost in growth at any level of development.³¹ Thus, actions that lower Internet usage would have long-term impacts. In turn, a 10% increase in the use of social media has been estimated to generate a 0.33% increase in GDP per capita.³²

The economics of social media are summarised in Figure 4.2 below.

Figure 4.2: Economics of social media [Source: Analysys Mason, 2019]



³¹ See footnote 4.

³² See footnote 5.

Digital taxation principles

The rapid evolution and increasing importance of the ICT sector over the past decades has spurred important discussions on what taxation framework would enable governments to raise revenue without inhibiting sector growth and adhere to broader development goals. As a result, multiple governments, intergovernmental organisations, trade associations and research bodies have drafted frameworks of principles that should guide implementation of taxation in the ICT sector. Due to the pervasive nature and widespread adoption of digital services, the implications of taxation on all stakeholders, other industries and the overall economy need to be considered in addition to the fundamental principles of tax policy.

Below, we outline best-practice principles for taxation of the digital economy considered in international legislation and discussion.³³ These principles will form the basis of the qualitative analysis of specific Internet and content service taxes in the selected markets.

Neutral and broad-based Neutrality dictates that the same principles of taxation should be applied to different forms of business activities, while a broad taxation base implies that the tax burden is split across multiple industries rather than focused on a specific sector.

This allows the same level of tax revenue to be raised with lower tax rates applied across multiple sectors and economic activities, and ensures that deadweight loss from supply and demand changes is minimised and optimal allocation of means of production is not compromised.

Excise taxes and other forms of tax focused just on social media or ICT will have a larger impact than a broader and lower tax to raise the same revenue. An important consideration is that ICT services can be both a production input and a consumption good, and a tax on economic inputs endangers economic efficiency.

Effective The effectiveness of a tax reflects the extent to which it can be collected and used in accordance with the purpose of its implementation. It is therefore directly connected to concepts of simplicity and enforceability, which inform the level of compliance with the tax.

³³ Primary sources used include the following (while different organisations have different concerns, all focus on developing taxation principles for the digital economy):

OECD (2015), *Addressing the Tax Challenges of the Digital Economy*. Available at: <http://www.oecd.org/ctp/addressing-the-tax-challenges-of-the-digital-economy-action-1-2015-final-report-9789264241046-en.htm>.

GSMA Intelligence (2014), *Mobile taxes and fees. A toolkit of principles and evidence*. Available at: https://www.gsma.com/publicpolicy/wp-content/uploads/2014/02/Mobile-taxes-and-fees-A-toolkit-of-principles-and-evidence_fullreport-FINAL1.pdf.

European Parliament (2016), *Tax Challenges in the Digital Economy*. Available at: [http://www.europarl.europa.eu/RegData/etudes/STUD/2016/579002/IPOL_STU\(2016\)579002_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2016/579002/IPOL_STU(2016)579002_EN.pdf).

ITU (2013), *Taxing telecommunication / ICT services: an overview*. Available at <https://www.itu.int/en/ITU-D/Regulatory-Market/Documents/Taxation%20Study-final-en.pdf>.

ITIF (2013), *A Policymaker's Guide to Internet Tax*. Available at: <http://www2.itif.org/2013-policymakers-guide-internet-tax.pdf>.

Ease of avoidance should also be considered in this context, as it diminishes the effectiveness of the tax and can potentially result in suboptimal distribution of tax burden. If some individuals are able to avoid the tax, with little or no risk of being caught, it may not be seen as fair or effective by those who pay.

A tax on a free service will impose new collection costs, or need to be raised indirectly, introducing both enforcement issues and unintended effects, for example on complementary goods and services. Further, a tax that can be avoided by accessing an online service via Wi-Fi, for instance, will not be as effective. At the same time, imposing a new tax indirectly via another company such as an MNO may impose increased administrative costs.

Equitable

Equity considerations are concerned with the distribution of the tax burden across different income groups either directly (through tax structure and levels) or indirectly (through redistribution of tax revenue).

Equity means that the tax is not borne disproportionately by lower-income individuals, households and entities. This is generally achieved by ensuring that the tax is progressive rather than regressive, i.e. increases in proportion to the taxable amount. At the same time, it should not be discriminatory, so that those with equivalent income and assets pay the same taxes.

A flat tax for accessing a service is generally more regressive than a tax that scales with usage, noting, based on the above, that usage taxes can also be distortionary. A tax that limits access to social media or data services would increase the affordability barrier, leading to a decline in service take-up and reduced growth across associated business streams.

Limiting distortion

Tax policy should aim to minimise deviations from default consumer behaviour that it induces. Controlling the effect that taxation has on consumer choice maximises market efficiency and economic growth.

Additionally, excessive taxation has the potential to distort competition by raising barriers to entry or forcing businesses to exit the market or move operations to other jurisdictions.

As discussed below in Box 2, studies show that introducing a tax on an otherwise free service can lead to significant distortion due to the high elasticity of demand. Such a tax is guaranteed to lead to users altering their level of service consumption, resulting in excess burden, or distortionary cost.

Conscious of spill-over effects and externalities

In addition to the direct effects a tax has on an industry's stakeholders and its contribution to national income, impacts on other sectors and cash flows such as investment (spill-over effects) should be considered; when considering spill-over effects, alignment of the tax policy with the country's broader goals and principles (such as ICT development goals) should be assessed.

It is further important to consider the sector's externalities – indirect effects it has on welfare of parties that did not explicitly choose to incur the effects. The vector of these effects can be positive or negative, and consumption of goods and services with positive externalities (e.g. education) is generally supported or subsidised, while negative-externality products (such as tobacco or alcohol) can attract heavier taxation.

The ICT industry and Internet services, including OTT, specifically are increasingly used across different areas and therefore positively affect their productivity and growth; ICT further creates positive externalities through reducing transaction costs and material requirements, as well as through the aforementioned network effects. Decreasing social media and/or data service usage can therefore have spill-over effects.

Avoiding double taxation

Repeated taxation, i.e. taxing a product that is a part or extension of an already taxable business (for example, taxing of calls on top of taxing airtime), should in general be avoided.

Repeated taxation can also mean taxation of a good or service that is perceived as free due to being bundled in the price of a different product (for example, taxing access to specific content through an already paid channel).³⁴

The ICT sector in many countries tends to be heavily taxed,³⁵ including customs on devices and excise taxes on data packages; additional taxes will further reduce uptake and usage. As noted above, social media and data services can perform the role of both a production input and a consumption good, and this can further result in implied multiple taxation of the same economic output.

³⁴ Cascading taxes, which are applied at each stage of manufacturing of a good or delivery of a service, build up at every stage without deduction for taxes in the previous stage, and can be quite distortionary. In particular, they reward vertical integration, such that the intermediate taxes are not imposed.

³⁵ Source: GSMA Intelligence (2014), *Mobile taxes and fees. A toolkit of principles and evidence*. Available at: https://www.gsma.com/publicpolicy/wp-content/uploads/2014/02/Mobile-taxes-and-fees-A-toolkit-of-principles-and-evidence_fullreport-FINAL1.pdf.

1. Box: Taxation of a ‘free’ service

Economics is often called the study of scarcity – how to allocate products and services when supply is limited. In free markets, price is the mechanism that brings demand in line with supply. On the Internet, however, many OTT services are free for users, and the result is an economics of abundance where supply is seemingly unlimited at a zero price, and all demand can be met.

This is due to the nature of free services – in his book, *Free: The Future of a Radical Price*, Chris Anderson emphasises that in digital markets, the marginal cost of reproducing a service is minimal, allowing service providers to respond to market competition by offering services at a zero price point.³⁶ Of course, even if something can be offered for free, that does not mean it will be so. Reasons for offering it free are the potentially high cost of adopting a charging mechanism and the significant impact on demand. The demand-side reaction to a free price is a substantial step jump from even a very low price. Research studies have shown that something that is not relatively attractive at a low price becomes much more attractive at a free price, even when the price of a preferred product also comes down.³⁷ This is partly because there are no costs associated with the transaction when it is free, partly because it makes the choice easier since there is no cost of trying it, and partly because a free service seems to convey an increased valuation to consumers.

Of course, free services have a cost that must be recovered – even if the marginal cost is low, there is a fixed cost of creating the service. Offering it for free essentially implies that the cost of the free product is shifted from one party to another or from the present into the future. Two primary business models for achieving this in relation to social media and data services are direct cross-subsidies and multi-sided platforms:

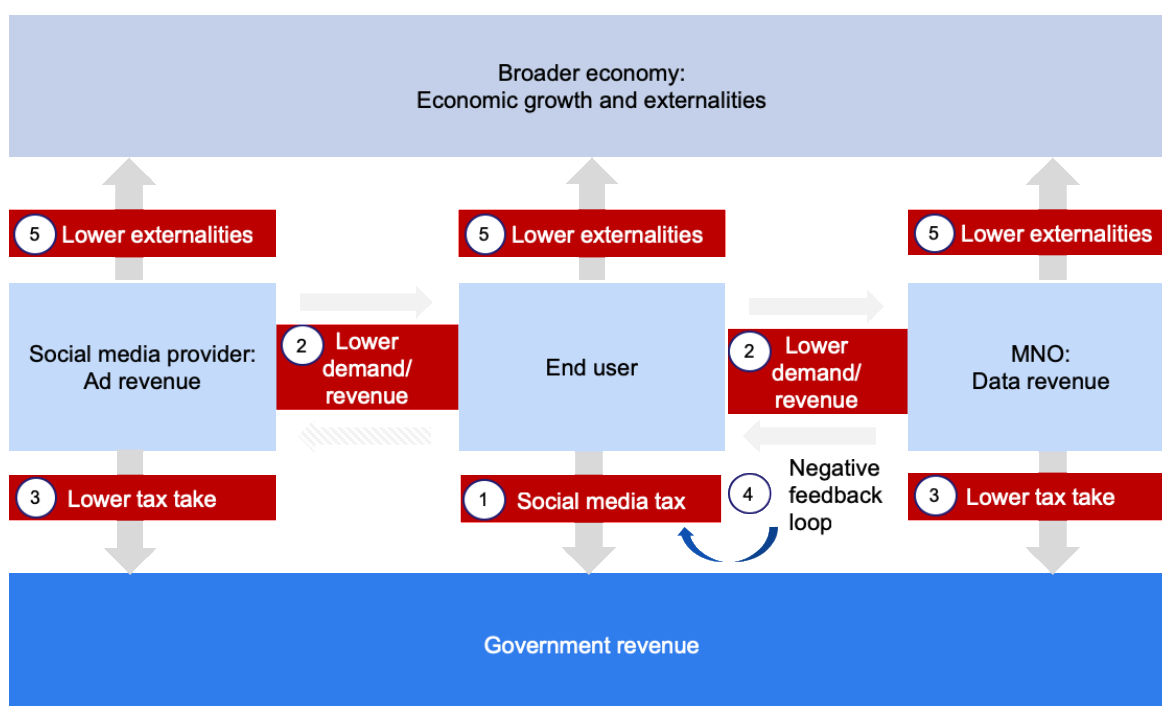
- *Direct cross-subsidies* occur when a consumer is given a product for free as an incentive to purchase another product. For example, MNOs in Oman regularly introduce offers providing allowances (in data volumes or days of usage) for the use of a variety of social media platforms in order to stimulate take-up of specific tariffs and services. In Kenya, Safaricom also appears to include free WhatsApp access in its data bundles.
- *Multi-sided platforms* appear when the size of one group of users impacts the size of other groups. For instance, content developers and advertisers are interested in the number of people who may use their content or view their ads. This has always been true for media including newspapers, radio, television, and is now also true for social media. A social media service is provided free to consumers, who use it to interact with one another, and like with all ad models, advertisers are interested in reaching the largest-possible audience.

³⁶ Anderson, C., *Free: The Future of a Radical Price*, Hachette Books (2009).

³⁷ In one seminal study, participants were offered a high-quality Lindt truffle chocolate at USD0.15 *versus* a lower-quality Hershey Kiss chocolate at USD0.01, and 73% chose the Lindt at the higher price. When the price for both fell by USD0.01, such that the Lindt truffle was USD0.14 and the Hershey Kiss chocolate was free, the ratio almost flipped with 69% taking the free Hershey, even though the difference in prices was the same. Thus, going from a price of one cent to free increased demand from 27% to 69%. See <http://web.mit.edu/ariely/www/MIT/Papers/zero.pdf>.

Imposing a tax on a free service can thus have a big impact, as shown in Figure 4.3 below.

Figure 4.3: Impact of taxation on social media [Source: Analysys Mason, 2019]



1. Since no revenue was gathered from users before, the provider will have to develop a means of charging, or pass the responsibility to a third party, such as the MNO.
2. This will potentially have a significant impact on demand, beyond what one might expect from a small price increase, because there is a step jump in demand between a free service and charging for a service.
3. This in turn will lower revenue and taxes. For instance, the UCC announced a 15.7% decrease in estimated Internet users in the first three months after the social media tax was implemented, alongside lower usage of social media.³⁸ This negatively affects tax revenue from services that are supported by social media, such as sales of data or advertising (which are already taxed via corporate taxation).
4. The lower usage of social media will also lower the returns from the social media tax. The UCC showed a 29.1% decrease in OTT tax revenue in the three months following the implementation of the tax.³⁹
5. Finally, the lower usage of the Internet and social media will lower the economic benefits of Internet access.

³⁸ See Figure 4.1.

³⁹ Source: RIS (2019), *OTT tax causes massive decline in estimated internet users in Uganda*. Available at: <https://researchchartsolutions.com/home/ott-tax-causes-massive-decline-in-internet-subscriptions-in-uganda/?fbclid=IwAR0g1-LGuZQUOMxuLkv7g%E2%80%A6>. See also Box 2 for more details.

4.2 Taxation in selected countries

We now apply the taxation principles discussed in the preceding section to the taxes that have been imposed or are being considered in the five countries that are the focus of this paper.

Active and potential taxation of social media and the Internet

Figure 4.4 outlines recent taxation considerations in regard to social media and Internet services across the selected countries. We examine the way each tax is applied, the government-stated purpose for its introduction and responses it has elicited to date.

Figure 4.4: Summary of social media and Internet taxation in selected countries [Source: Analysys Mason, A4AI, Cipesa, EY, Deloitte, KPMG, media publications, 2018]

Country	Tax structure	Stated aim	Implementation stage	Implementation burden	Avoidance channels	Response and effects
Benin	5% of voice, SMS and Internet price + CFA5 (USD0.009) per MB for data used to access social media and OTT services on top of a 10% sector-specific turnover tax	Strengthening MNOs' market presence through taxing OTT providers operating on their networks	Enacted on 19 September 2018 and withdrawn 5 days later	Not explicitly defined, but collection of tax and control of OTT usage are presumed to be relegated to MNOs; no indication as to whether the MNOs would keep any of the tax revenue collected	Not clear as the tax was not implemented, but potentially Wi-Fi, virtual private networks (VPN) ⁴⁰	Protests from the public and industry, citing potential negative impacts on consumption, implementation difficulties and pricing collusion opportunities
Cameroon	FCFA200 (USD0.35) per download of a mobile application developed outside Cameroon	Raising tax revenue and supporting domestic application development	Proposed in November 2018 as part of the draft 2019 Finance Bill	Not explicitly defined but presumed to be levied on consumers when downloading foreign mobile applications in app stores	Not clear due to the nascent stage of tax development, but potentially VPN, sideloading apps, sharing of application packages over Bluetooth or USB ⁴¹	Definitive public response not identified through the public domain. Potential effects include reduced usage of, and revenue from, mobile apps

⁴⁰ Accessing a social media service through Wi-Fi does not involve a mobile operator – in fact, it can be done through devices that do not have mobile data access such as a tablet – and thus can avoid a social media tax imposed by a mobile operator. If a user does not pay the tax, their access to relevant social media services can be blocked, but this can be avoided by using a VPN, which encrypts the traffic and thus usage cannot be detected. That could lead to efforts to block access to VPNs, starting a technological tit for tat that is likely to have unforeseen consequences with respect to legitimate uses of VPNs.

⁴¹ Typically, mobile apps are downloaded through app stores such as Google Play, where a tax could be imposed. However, mobile apps can also be 'sideloaded' by avoiding the app stores, and presumably the tax. For some operating systems that require loading apps through app stores, this requires 'jailbreaking' the phone to load the apps, which can affect the security of the telephone.

Country	Tax structure	Stated aim	Implementation stage	Implementation burden	Avoidance channels	Response and effects
Kenya	Increased (from 10% to 15%) excise duty on telephone and Internet data services	Raising funds to be redistributed towards health services	Enacted by the President on 21 September 2018	MNOs, passing the burden onto consumers through an increase in price	None apparent	The tax increase elicited a negative response from the public, ⁴² and the incumbent Safaricom has stated that it “ <i>regrets the impact</i> ” the increase would have on customers. ⁴³ The Law Society of Kenya filed a lawsuit against several governmental authorities, claiming due legislative process had not been followed and that the tax would significantly limit the accessibility of Internet and online services, including e-government platforms
Uganda	UGX200 (USD0.05) per 24 hours of social media services use; total UGX202 (USD0.06) given the 1% excise duty on mobile money transactions incurred when paying the tax	Reducing the amount of ‘gossip’ (false information, in particular pertaining to politics and the government), promoting local content over imported content	Effective as of 1 July 2018 as part of the Excise Duty (Amendment) Bill	Consumers responsible for making fee payments via mobile money channels, MNOs required to process payments and monitor and block usage for those who do not pay	Wi-Fi, VPN	The tax has elicited public protests and criticism from organisations promoting affordable and effective ICT policy in Africa, resulting in the law being referred for review. Lawmakers voted to preserve the tax. Within a few months, the number of Internet users has declined, as has the tax revenue earned. See Box 2 for more details

⁴² See <https://businesstoday.co.ke/im-moving-moon-new-internet-tax-shocks-kabogo/>.

⁴³ See <https://qz.com/africa/1428989/safaricom-ups-data-sms-voice-calls-prices-after-kenya-tax-hike/>.

Country	Tax structure	Stated aim	Implementation stage	Implementation burden	Avoidance channels	Response and effects
Zambia	ZMW30 (USD0.03) per day of Internet call use	Reducing the 'unfair advantage' of OTT providers, ensuring competitiveness and protecting jobs in the telecoms industry	Passed on 13 August 2018, waiting to be implemented	MNOs responsible for identification of Internet calls and collecting fees	Wi-Fi, VPN	The Zambia Chamber of Commerce and Industry stated that the tariff would be detrimental to entrepreneurs, raising the already high price of doing business in the country. The public also criticised the tax, arguing that access to Internet call platforms is paid for as part of the purchase of data bundles. The Bloggers of Zambia, together with MISA Zambia (organisation promoting freedom of expression), issued a statement decrying the tax as a threat to " <i>freedom of expression, access to information, media rights, freedom of assembly online and <...> the enjoyment of digital rights</i> " ⁴⁴

⁴⁴ See <http://www.africanews.com/2018/08/14/zambians-protest-introduction-of-tax-on-internet-calls/>.

Assessment based on digital taxation principles

Figure 4.5 provides an assessment of, and commentary on, the taxation of social media and Internet services in the selected countries, considering the taxation principles defined in Section 4.1.⁴⁵

Figure 4.5: Assessment of social media and Internet taxation in selected countries [Source: Analysys Mason, 2019]

Principle	Assessment of adherence	Comment
Neutral and broad-based	Low	<ul style="list-style-type: none"> All the taxes reviewed have a narrow focus on telecoms services and, additionally, in Benin, Uganda and Zambia, on OTT services
Effective	Low (except Kenya) Medium (Kenya)	<ul style="list-style-type: none"> Enforceability of taxation is supported by placing the responsibility for tax collection on MNOs and Internet service providers (ISPs) (Benin, Zambia) and by the relative transparency and ease-of-use of digital channels. It is not clear how the tax would be collected in Cameroon However, enforceability is offset by the necessity to develop and control requirements to service providers on identifying, limiting or blocking access to certain services Additionally, enforceability is affected by the difficulty of controlling the use of potential channels for avoidance, such as VPN and Wi-Fi services In Kenya, the tax can be imposed effectively on services sold by the MNOs. However, accessing the Internet over Wi-Fi would not be taxed, and can lower the revenue
Equitable	Low	<ul style="list-style-type: none"> Flat rates imposed on access to OTT services (in Cameroon, Uganda and Zambia) are regressive, as the poorer the user, the higher the share of their disposable income that the fixed fee represents Taxation in Benin and Kenya scales with usage; however, it still raises the barrier to Internet accessibility for the poorest
Limiting distortion	Low	<ul style="list-style-type: none"> The high ratio of tax increase to disposable income in the study countries, along with the implicit taxation of a free product, can be expected to cause substantial deviation from the equilibrium amount of taxed services that would be established between demand and supply in the absence of the tax
Conscious of spill-over effects and externalities	Low	<ul style="list-style-type: none"> None of the tax bills reviewed appear to consider the potential loss of positive externalities or the negative effect of ICT taxation on the sector's stakeholders and other industries The nature of excise taxation, which is used in Benin and Kenya, implies that ICT and OTT services are perceived as luxury or negative-externality goods
Avoiding double taxation	Low	<ul style="list-style-type: none"> Taxation of social media and OTT data usage, in addition to taxation of telecoms services through excise or corporate tax, implies that data sales are taxed multiple times Excise taxation essentially implies a duplication of taxation on service providers' revenue, causing a further increase in pricing due to sellers passing the burden onto consumers

⁴⁵ Taxation assessed is summarised in Figure 4.4 and includes legislation that is in the process of being implemented or, in the case on Benin, has been withdrawn.

The assessment presented in Figure 4.5 above indicates that the range of taxes considered or already imposed in the selected markets would be unlikely to generate revenue in an efficient way, as it would be offset by a negative impact on consumption, technical and administrative difficulties in implementation, and a reduction in welfare surplus. The impact of taxation on the ICT sector is bound to have short- and long-term effects on the broader economy, especially due to the developing nature of the selected markets. In the next section, we show more specifically how the taxes will impact the different stakeholders, and alternative approaches that could be taken.

5 Impact and alternatives to social media taxes, and next steps

As discussed in Section 4, taxation legislation that has been considered and/or implemented in the five selected countries does not adhere to principles of taxation that may be considered best practice in a digital economy. As a result, these taxes can be expected to have predominately negative implications on market stakeholders directly or through spill-over effects and externalities. Below, we outline the mechanisms of how stakeholders in and beyond the ICT sector could be affected by the taxation in question. We further present several case studies that reflect the experience of implementing similar taxation in other countries and can be used to inform alternative taxation considerations. Finally, we outline potential next steps towards a more detailed, longer-term study on social media taxation.

5.1 Potential impact of the proposed taxes

Users are likely to see increased Internet access or usage prices

Users of social media and Internet services are affected by the tax directly as service providers pass on the tax burden to them through a price increase. This, in turn, leads to reduced accessibility and affordability of ICT services and a subsequent decline in consumption.

As presented in Figure 5.1, monthly data usage in the selected markets ranges from 213MB (Kenya) to 599MB (Benin). Applying 1GB data prices (assuming that price scales linearly with usage)⁴⁶ indicates that daily spending on data comprises 0.9% (Kenya) to 6.5% (Benin) of daily GNI per capita. This means that most of the selected countries have higher pricing than the target level defined by the UNBC, despite the target referring to packages of 500MB–1GB. Figure 5.1 further shows that taxes considered in each of the five study countries would push the spending to substantially higher levels (except for Kenya, where the increase of excise tax from 10% to 15% would only generate a 0.03% increase in the ratio of spending to income).⁴⁷

⁴⁶ This is a conservative assumption, as, typically, lower-allowance bundles have a higher price per MB.

⁴⁷ Service usage assumptions used to calculate the post-tax increase:

Benin: 1/3 of data traffic is used on social media; average share of mobile broadband usage time spent on social media in Ghana, Kenya and Nigeria in 2018 is 76% (Source: Hootsuite, Digital Report 2018). We conservatively adjust this down to represent the share of traffic rather than time.

Cameroon: average use of three OTT apps; according to a 2015 study of the US market, the majority of users spent their time on five non-native applications (Source: Techcrunch, 5 May 2017). We adjust this number down to account for just OTT platforms.

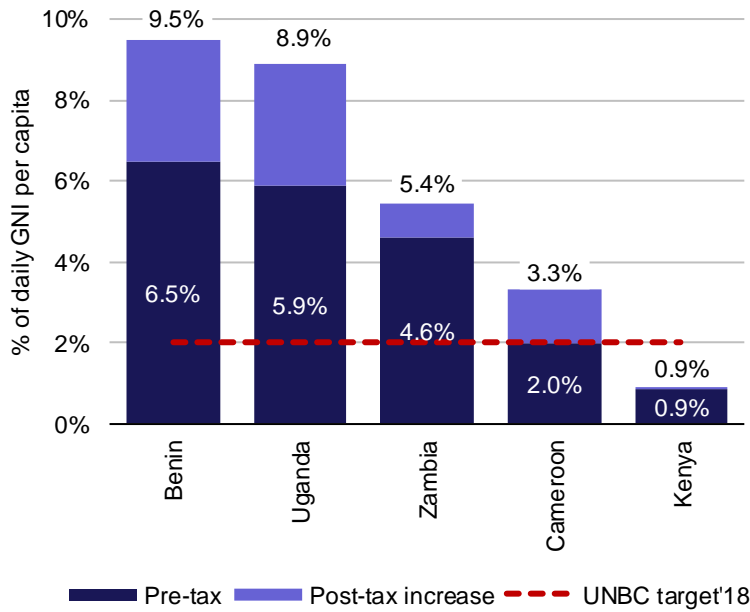


Figure 5.1: Daily data spending as a share of daily income per capita⁴⁸ [Source: Analysys Mason, UNBC, A4AI, 2018]

The above implies that for all selected countries except Kenya, large portions of the population who are below the international poverty line of earning USD1.90 per day would be spending substantial shares of their income on data usage, emphasising the negative impact of taxation on service affordability to the poorer population.

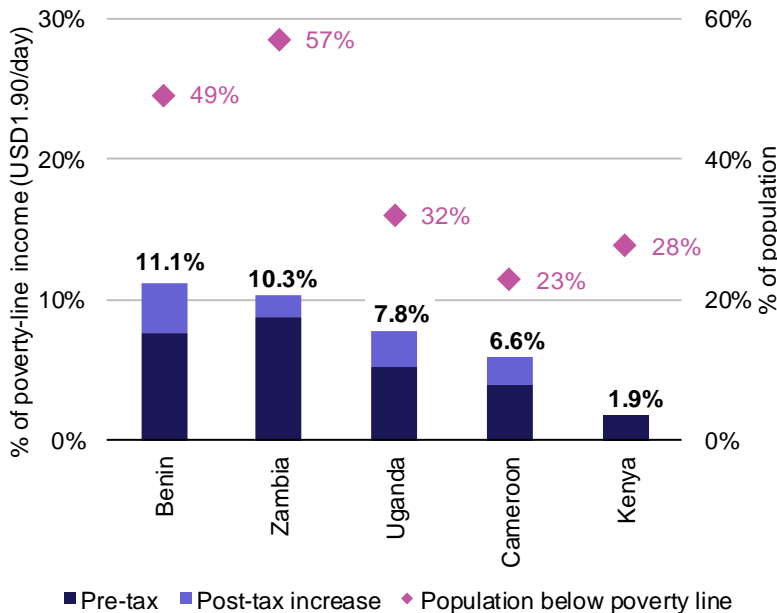


Figure 5.2: Daily data spending as a share of the international poverty-line income and share of population below the poverty line [Source: Analysys Mason, Euromonitor, A4AI, 2018]

⁴⁸ The UNBC targets refer to 'entry-level' data plans, which originally denoted packages of 500MB. However, A4AI states that the target of 1GB for 2% of GNI per capita would better account for income inequality. Additionally, the definition of an entry-level data plan can be expected to change by 2025, in line with international growth trends in data consumption.

As mentioned in Section 3, SMEs and online retailers can use social media platforms for advertising and customer outreach and support, benefiting from seamless integration of promotion, negotiation and sales that the platforms provide. Social media can facilitate SMEs' access to regional, national and international markets, while minimising costs associated with such expansion.

The increased cost of social media and Internet usage would not only make it more expensive for businesses to maintain their presence on the social media platforms, but the return on this investment would be diminished due to the decreased usage from consumers the businesses aim to engage. This can put significant additional pressure on entrepreneurs in the selected countries, which are situated (with the exception of Kenya) in the lower half of world rankings based on ease-of-doing business.⁴⁹ In Uganda, following the introduction of the social media tax, e-commerce enterprises stated that the tax introduced barriers to accessing clients and reduced competitiveness of their products. For example, the online platform Jumia Uganda claimed that the tax put a strain on its work with 3000 sellers, 1000 hotels and over 200 restaurants, as these operations relied heavily on social media for marketing and communication.⁵⁰

2. Box: Impact of the social media tax in Uganda

The social media tax imposed in Uganda in July 2018 already provides evidence of the impact of the tax. According to the UCC, the number of Internet users declined from 16.1 million in July, when the tax was introduced, to 13.58 million in September, a fall of 15.7%. The reduction in tax revenue was even larger, from UGX5.6 billion in July to 3.97 billion in September, a fall of 29.1%.⁵¹

In addition, in November 2018, Pollicy, a technology consulting and development firm aimed at improving government service delivery, conducted two focus group discussions and interviews about the tax with 1000 Ugandans across geographies, gender, employment and education. All those interviewed had a smartphone, and thus were already online, unlike a significant percentage of the general population. The results provided more nuance to the overall numbers reported by the UCC:

- In terms of affordability, of the 25% people surveyed that were earning less than UGX1 million per month, only 55% paid the social media tax. For these respondents, the monthly social media tax would be at least 6% of their income. 80% of those with an income above UGX1 million paid the tax.
- Prior to the introduction of the social media tax, 33% of respondents accessed social media platforms more than ten times a day, but after the tax was introduced this number dropped to 6.6%; while previously only 5% accessed social media platforms 'a few times a week', this number rose to 29% after the tax was introduced.

⁴⁹ Source: The World Bank, *Rankings and Ease of Doing Business Score*.

⁵⁰ Source: Cipesa (2018), *Why Uganda's government should take a different path to social media and mobile money taxation*. Available at: <https://cipesa.org/2018/08/why-ugandas-government-should-take-a-different-path-to-social-media-and-mobile-money-taxation/>.

⁵¹ Source: RIS (2019), *OTT tax causes massive decline in estimated internet users in Uganda*. Available at: <https://researchchartsolutions.com/home/ott-tax-causes-massive-decline-in-internet-subscriptions-in-uganda/?fbclid=IwAR0g1-LGuZQUOMxuLkv7g%E2%80%A6>.

- For those who continued to use social media, 56% paid their social media tax, while 38% avoid it by using a VPN, and 3.7% avoid it by using Wi-Fi.
- One respondent in Kampala pointed out that school instructions are sent through WhatsApp, and thus students have to pay the tax to get the instructions.
- A third of the respondents reported using social media for business, and of these, 74% reported reduced income as a result of the tax.⁵²

MNOs and ISPs may face declines in usage and revenue, as well as tax-collection burden

In Benin and Zambia, the purpose of introducing the taxation has been stated to be at least partially attributed to the aim of protecting traditional telecoms operators' revenue and jobs from erosion brought on by the 'unfair advantage' enjoyed by OTT services operating on their platforms. However, research shows that the decline in MNOs' revenue is generally attributed to factors such as competitive pressures, regulatory uncertainty and price wars, rather than to OTT presence. In fact, research and surveys show that OTTs are used as a complementary product to Internet access services, rather than as a substitute: increased OTT use is likely to drive data usage and associated revenue for MNOs, offsetting their impact on services such as voice and SMS.⁵³ Furthermore, the introduction of social media and Internet taxation can be expected to have a negative impact on traditional operators via:

- A reduction in the customer base and average data usage, which may lead to a decline in average revenue per user (ARPU) and overall revenue.⁵⁴ In Uganda, the drop in customer base and data usage has already been seen from the UCC data cited in Box 2 above.
- The burden of establishing mechanisms for tax collection and compliance (monitoring use, blocking access to selected services, collecting taxation and remitting it to the government, providing records of usage and billing to the tax authority);⁵⁵ notably, Internet access providers may be required to block or limit access to not only the taxed platforms, but also services that

⁵² Source: Pollicy (2019), *Offline and Out of Pocket: The Impact of the Social Media Tax in Uganda on Access, Usage, Income and Productivity*.

⁵³ Source:

Esselaar, S. and Stork, C., (2018), *OTTs driving revenue growth*. Available at: https://www.researchgate.net/publication/325987960_OTTs_Driving_data_revenue_growth.

WIK (2017), *The Economic and Societal Value of Rich Interaction Applications (RIA)*. Available at: <https://www.wik.org/index.php?id=879&L=1>.

⁵⁴ Source: Cipesa (2018), *Why Uganda's government should take a different path to social media and mobile money taxation*. Available at: <https://cipesa.org/2018/08/why-ugandas-government-should-take-a-different-path-to-social-media-and-mobile-money-taxation/>.

⁵⁵ Source: Ooni (2018), *Uganda's social media tax through the lens of network measurements*. Available at: <https://ooni.torproject.org/post/uganda-social-media-tax/>.

could circumvent the block, enabling users to avoid the tax (e.g. VPN).⁵⁶ As noted in Box 2 above, 38% of users in Uganda avoided the tax by using a VPN.

OTT service providers would see declines in service usage and revenue and corresponding investment

Taxation of access to, or usage of, OTT services would naturally lead to a reduction in usage and a subsequent decline in revenue, halting OTT development, investment, job creation and innovation.

The government of Uganda has argued that the OTT use tax would help to promote development of local OTT services over consumption of ‘imported content’. However, the current language of the legislation potentially makes it applicable (and detrimental) to local developers of OTT services just as they apply to foreign services.⁵⁷ In addition, these local services may be taxed in other countries as they expand their services, if only as part of a retaliation on the taxes imposed in their home country.

Finally, the negative impact on OTT businesses may endanger infrastructure investment. In Uganda, Facebook and Google have been involved in network deployment projects in partnership with national providers; OTT providers could be forced to reduce their spending on such initiatives if their business development in the country is affected by tax considerations.⁵⁸ Other providers, seeing lower usage, may also reduce investment. In addition to the impact on those already investing, such taxes may create uncertainty about future taxes, and this uncertainty can further impact investment.

Governments’ new tax revenue may be offset by tax loss across the ICT sector

Taxation is the most important source of revenue to support government services. However, it is important to consider net taxation rather than taxation of separate services: while government would enjoy a revenue increase from taxing additional services such as social media or OTT, this increase is bound to be offset – and, potentially, completely negated – by the drop in service usage across the entire range of telecoms operations, which would result in a decline in telecoms revenue and the associated corporate tax. For those at or below poverty levels, in particular, the increased cost could significantly lower usage – as we are already seeing in Uganda – and resulting tax revenue, along with other economic impacts.

⁵⁶ *Ibid.*

⁵⁷ Services currently affected by the tax include exclusively foreign-developed platforms for messaging, photo and video sharing, Internet voice and video calling, blogging and dating. It is not immediately clear whether similar local platforms do not exist or have not had the tax applied to them at the time of writing.

Source: *Ibid.*

⁵⁸ Source: Cipesa (2018), *Why Uganda’s government should take a different path to social media and mobile money taxation*. Available at: <https://cipesa.org/2018/08/why-ugandas-government-should-take-a-different-path-to-social-media-and-mobile-money-taxation/>.

Efficiency of e-government platforms could be compromised

As detailed in Section 3, governments of the selected countries have considerable social media presence and invest and promote development of e-government services; delivery of public services over the Internet is also explored and emphasised across the countries' digital development and broadband plans. Governments can use social media to establish an easy-to-use, transparent and efficient channel of interaction with the population, communicate news, changes in policy or urgent crises messages, and increase awareness of relevant trends, events and opinions.

Data services, in turn, support the use of social media services, as well as of specific e-government platforms and websites. Taxation on these services could compromise the efficiency of social initiatives promoted or delivered online, i.e. cause a decline in the number of people reached by the service, the level of service utilisation or the extent to which the initiative is able to address its target socio-economic audience in a financially sensible way. This means that social benefits from tax revenue distribution may be offset by the increase in the cost of accessing vital services.

The wider economy may be affected across a range of socio-economic parameters

The individual effects on separate stakeholders described above have further economy-wide implications, delivered in the form of externalities or spill-over effects. Taxation of businesses within the ICT sector can be expected to affect the following metrics across the wider economy:⁵⁹

- *Productivity* – Extensive use of ICT across an increasing range of industries and economic activities implies that productivity could be affected if this use were taxed.
- *Welfare and equality* – Taxation of a communication and information service that increasingly constitutes a basic necessity, especially on a regressive basis, could translate into a widening income gap. Furthermore, social welfare can be affected if the effect of taxation on net government revenue is negative.
- *Employment* – A decline in the profits of service providers hit by taxation could mean a reduction in the pace of job creation.
- *Investment and innovation* – Similarly, the levels of investment and innovation tend to decline in industries that are heavily taxed and therefore offer limited opportunity for market growth and profit generation.

⁵⁹ Sources used:

WIK (2017), *The Economic and Societal Value of Rich Interaction Applications (RIA)*. Available at: <https://www.wik.org/index.php?id=879&L=1>

Cipesa (2018), *Why Uganda's government should take a different path to social media and mobile money taxation*. Available at: <https://cipesa.org/2018/08/why-ugandas-government-should-take-a-different-path-to-social-media-and-mobile-money-taxation/>.

GSMA Intelligence (2014), *Mobile taxes and fees. A toolkit of principles and evidence*. Available at: https://www.gsma.com/publicpolicy/wp-content/uploads/2014/02/Mobile-taxes-and-fees-A-toolkit-of-principles-and-evidence_fullreport-FINAL1.pdf

- *Growth* – The above factors ultimately inform the pace of socio-economic growth, which can be expressed in GDP, disposable income, employment, financial inclusion or rate of transition towards the tertiary economy.
- *Exports* – In addition to the above, such taxes may spread to other countries, if only in retaliation for the existing taxes. Companies developing OTT services in a country that is imposing an OTT tax may find their own revenue impacted by similar – potentially retaliatory – taxes as they try to move abroad.

5.2 Alternatives

International experience

The five countries we focus on in this study are by no means the only ones seeking to increase their tax base by looking to the growing digital economy for revenue. The results of digital taxation in other countries we examined has largely mirrored those in the five study countries. In two countries we looked at – Nigeria and Hungary – the digital tax was revoked or not imposed due to stakeholder response and the likelihood of adverse effects. In the Democratic Republic of Congo (DRC), a tax was imposed and – as in Uganda – showed negative effects.

In one case, in Australia, a tax was imposed on sales of digital services such as streaming video, supplied from abroad. This tax was used to close a tax loophole by equalising the tax already paid by domestic suppliers, and thus meets the aforementioned criteria for an effective and equitable tax. This is not the case for the taxes in the five countries analysed in this paper.

We now look at alternative approaches. Most of these are general taxes, but we also examine one interesting digital tax that is being formulated by the Organisation for Economic Co-operation and Development (OECD) and G20 group of countries.

Alternative approaches

The taxation principles presented in Section 4 highlight the challenges arising from the taxes currently imposed on social media in some countries; they also point the way towards taxes that could be applied to earn the same income without the distortionary impact. Broadly speaking, the taxes that would be aligned with the principles defined in Section 4 would be those that are imposed on sales, such as VAT, on individuals' income, or on the income earned by a company within a country. Figure 5.3 lists some of the taxation alternatives to social media services.

Figure 5.3: Alternative approaches to taxation of social media [Source: Analysys Mason, 2019]

Principle	Issues with social media tax	Alternatives
Neutral and broad-based	Should not focus on one sector or activity	Alternatives such as VAT or income tax cover a broad range of economic activities
Effective	As social media is free for users, tax is gathered through MNOs, and avoidable with other forms of access	A tax such as VAT is imposed at the point of sale and can be incorporated into the final price
Equitable	Many of the social media taxes are flat, imposing more on those with low usage and/or low income	VAT is a percentage of sale, so it is neutral; income taxes can be progressive
Limiting distortion	Imposing a tax on an otherwise free service can significantly distort adoption and usage of that service	Alternatives such as VAT or income taxes are imposed where income is earned or spent
Conscious of spill-over effects and externalities	It is important not to focus on inputs to economic activity, such as social media or mobile data, but rather tax the resulting outputs	General taxes on income will pick up the benefits of increased usage of ICT services
Avoiding double taxation	Mobile data is already taxed – as mobile data is used for social media, this is another imposed tax	Taxes on sales or income do not generally result in double taxation

These taxes will not avoid social media. Imposing a tax on income, for instance, will include income derived from social media, but avoid the downsides of a tax aimed just at social media. As discussed above, social media is a multi-sided platform. Usage is made free to maximise the user base and to grow the network, which in turn connects individuals and businesses, and provides greater levels of economic opportunity. As we have seen in Uganda, taxing social media can significantly decrease usage. This decreased usage generally lowers economic activity and corresponding tax revenue.

A smaller user base and lower usage also limits the attractiveness of social media to advertisers and damages this emerging market. Instead, a broader tax on advertising income, regardless of the medium, will increase revenue as the user base increases. That said, there are worries in most countries about how to best tax multinational companies in a digital economy. For a number of years, the OECD and the G20 group of countries have been working on how to address the tax challenges of the digitalisation of the economy, and recently made progress in this effort.⁶⁰ This would ensure that countries will receive a fair share of the advertising tax revenue from allowing social media to flourish in their economies without imposing specific taxes. Today, 128 countries are involved in this process, including Benin, Cameroon, Kenya and Zambia.⁶¹

⁶⁰ See http://www.oecd.org/tax/international-community-makes-important-progress-on-the-tax-challenges-of-digitalisation.htm?utm_source=Adestra&utm_medium=email&utm_content=International%20community%20makes%20important%20progress%20on%20the%20tax%20challenges%20of%20digitalisation&utm_campaign=Tax%20News%20Alert%2029-01-2019&utm_term=demo.

⁶¹ As of February 2019, there were 128 Members of the Inclusive Framework on Base Erosion and Profit Shifting (BEPS). See <http://www.oecd.org/tax/beps/beps-about.htm>.

5.3 Next steps

In order to establish the impacts of a tax on social media, the next step would be to conduct a more detailed quantitative study of the impact of the tax, both on the usage of social media itself, and also on the use of mobile data. This would be done in two phases:

- First, going back several years, show how increased usage of social media has helped to promote increased usage of mobile data, and *vice versa*. This would precede the imposition of a social media tax.
- Second, look at the result of the tax on social media usage, and the corresponding impact on mobile data usage. This would look at data after the tax.

Such a quantitative study would require data from MNOs on pricing, adoption and usage, and from social media providers on the number of users and their level of social media usage. Data from all MNOs would be ideal, to the extent that the social media tax is imposed differently, to capture any corresponding substitution effects. It would also be important to gather data from MNOs regarding the number of users paying the social media tax, and the number of blocked users. Given the timing of the imposition of the tax, the study would best focus on Uganda, as it is the country with the most direct mechanism of taxing social media and the legislation has been in place for sufficient time to build on emerging assessments of its effects and outcomes.

6 Conclusion

In conclusion, a number of governments, in search of much-needed revenue, have begun to propose or impose taxes on the usage of social media. At one level, this is an understandable target for taxation – it is a rapidly growing and popular service, provided largely by foreign companies, there is no existing tax directly on those services, and they are free for users. However, such a tax runs counter to the norms for digital taxation put forward by international organisations, and thus requires deeper analysis to understand its full impact, based on the economic characteristics of such services. In particular, we highlight four aspects:

- First, imposing a tax on an otherwise free social media service can have a significant impact, because studies show a significant gap in usage between something that has even a small price and something that is free. In addition, as a free service has no need for a payment mechanism onto which a tax can be included, it must be gathered by another entity, in this case the MNOs, adding additional costs and enforcement challenges.
- Second, social media services operate as a multi-sided platform – among all the relationships, the free access to users helps to promote advertising, which generates revenue. When usage of social media falls, as a result of a tax, that can also lead to a decline in revenue from associated advertising.
- Third, social media services and mobile data are complementary services – an increase in usage of one tends to increase the usage of the other. A social media tax that reduces usage of social media will also reduce mobile data usage and associated revenue.
- Finally, ICT services, in general, including social media services, are not just consumption services, but are also inputs to productive services across the economy, as well as government services. Again, a decrease in usage can depress economic growth levels.

Tax principles discourage imposing taxes on particular services, unless they are luxury goods – for which the demand is not price-elastic – or have negative impacts – where the goal is to decrease usage. Social media services are in neither category. While a full study will reveal the extent of the impact of a social media tax and interplay with complementary services, this study highlights the known negative impacts of such a tax. Alternatives include an economy-wide tax on economic activities, such as sales or income, which will have the least distortionary impact on economic growth. The OECD/G20 efforts will help to ensure income from multinational providers will be fairly taxed.

