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# Are Digital and Traditional Financial Services Taxed the Same? A Comprehensive Assessment of Tax Policies in Nine African Countries

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## Introduction

Several African countries have introduced taxes on digital financial services (DFS) during the past decade. Given the size and rapid growth of the telecom and DFS sector, DFS taxation is considered an opportunity to broaden the government's revenue base. These recent developments need to be considered alongside the framework for taxation of traditional financial services (TFS) delivered by banks and other formal financial institutions – such as credit unions, insurance companies and microfinance institutions.

The working paper analyses key legislative, tax and regulatory policy instruments, comparing the tax framework in nine countries in Africa: Burundi, Côte d'Ivoire, Ghana, Kenya, Rwanda, South Sudan, Tanzania, Uganda and Zimbabwe.

## Is the landscape for DFS taxation different to that for TFS?

The tax regimes for digital and traditional financial services differ from each other and vary from country to country. The differences are driven by the type of company and particular business model, perceived differences in above-normal profits between telco/DFS providers and banks/other formal financial institutions, and by the fact that banks are regulated bodies, given their central role in the economy. The main differences relate to specific taxes on transaction fees and underlying transaction values, certain provisions – such as VAT exemption for financial services – being often not or differently applied to telco/DFS providers, and turnover taxes that apply to telco/DFS providers but not companies in the traditional finance sector.

The landscape of taxation for DFS is more complex than for traditional finance, given the variety of special taxes raised on providers and users. This can cause uncertainty about future taxation, making pricing decisions more difficult for DFS. Both providers of DFS and, especially, consumers may be affected by the proliferation of taxes.

Varied approaches to taxing the DFS sector result in a different tax burden to traditional finance and to other regions. The country case studies show increased DFS taxation of mobile money for telecom providers and their users. The tax system does not fully recognise the broader network of technology providers, such as fintechs offering DFS – these are often left outside the scope of sector-specific taxes, although are usually within mainstream taxation.

## Are customers of telecom/DFS and TFS taxed differently?

Specific DFS taxes on transaction fees and values (underlying amounts) often differ from taxation of banks and other providers of TFS. Governments generally impose specific taxes on using rather than providing DFS.

- The research shows parity in the taxation of **transaction fees** in the digital and non-digital financial systems, with a few exceptions. Of the nine countries in the study, three countries levy excise duties on DFS transaction fees (Kenya, Uganda and Tanzania). Several countries levy general value added tax (VAT) on transaction fees (Rwanda, Tanzania, Côte d'Ivoire and Zimbabwe). Rwanda and Zimbabwe only impose VAT on transaction fees delivered by telecom providers; banks are exempt. Differentiated taxes on transaction fees may affect consumer choice in a price-sensitive market.
- Four countries with taxes on underlying **transaction values** show great diversity in tax design – this shows missed opportunities for peer-to-peer learning and improvement, and issues with double taxation. Various countries imposing taxes on digital transaction values – Tanzania, Uganda, Zimbabwe and Ghana – experienced lower yields than forecast. Differences in the tax framework for transaction values may unintentionally create an uneven playing field for the DFS sector compared to banks and other TFS providers.
- Governments and tax authorities frequently see telecom goods and services – necessary for gaining access to DFS – as attractive and easy to tax. A cascade

of many taxes, such as VAT and excise duty on telecom goods (e.g. mobile devices) and services (e.g. internet), may create an additional burden on consumers who use digital technologies to access financial services, and constrain DFS market growth.

## Are telecom/DFS and TFS providers taxed differently?

In some countries. Côte d'Ivoire, Ghana and Rwanda levy specific taxes on revenue or turnover of telecom/DFS providers, in addition to general taxes that affect the wider economy, such as corporate income tax. Côte d'Ivoire levies specific turnover taxes at 7.2 per cent on companies performing mobile phone money transfer operations. Regulatory frameworks restrict telecom/DFS providers from increasing consumer prices in response to their additional tax costs.

## How can governments level the playing field between DFS and TFS?

Governments can take the following steps to level the playing field for taxation of DFS and TFS, while not over-complicating the tax framework.

- African countries can explore ways to eliminate the tax differential between consumers who choose to transact traditionally or digitally, while guaranteeing the tax base from a thriving difficult-to-tax industry. It is necessary to have a tax framework that treats the telecom and financial industries the same.
- It is important that governments assess complementary reforms to foster competition and ensure users benefit from lower taxation. Although phasing out consumption taxes on DFS transactions to ensure digital financial inclusion seems attractive, it will only be beneficial if competition or regulation prevents telecom/DFS providers from raising fees/charges by the same amount. Many markets are not fully competitive, and regulatory regimes often recognise tax as an admissible cost for calculating an otherwise-capped price.
- Further analysis of taxation of DFS users in more countries could identify progressive DFS tax models, with higher tax rates on higher transaction values, combined with a tax-free bracket for common transaction amounts.
- Targeted evidence-based research, underpinned by a deeper impact analysis of taxes on DFS and consultation with providers and users, is needed to secure government revenue and economic growth.
- Regional blocs could work towards a consistent, coordinated approach to taxing DFS and mobile money. A logical starting point for national policymakers and officials would be to conduct a joint study of intra-regional coordination of DFS taxes. This could define the optimal regional approach that is politically feasible.

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### Further reading

Munoz, L., Mascagni, G., Prichard, W. and Santoro, F. (2022) *Should Governments Tax Digital Financial Services? A Research Agenda to Understand Sector-Specific Taxes on DFS*, ICTD Working Paper 136, Brighton: Institute of Development Studies, https://opendocs.ids.ac.uk/opendocs/handle/20.500.12413/17171

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