

Mobile Money Taxation and Informal Workers: Evidence from Ghana's E-Levy

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Summary of Working Paper 146

In recent years, more and more governments in lower-income countries have been introducing taxes on mobile money transfers as a means to raise revenue. These are often explicitly promoted as a way of taxing informal economic activity, but critics point out their potential negative impact on lower-income groups. Ghana's electronic transfer levy (E-levy), introduced in May 2022, is a particularly interesting case study. It was explicitly justified as a way of taxing Ghana's informal economy but includes a 100 cedi (\$8.80) per day threshold to limit the tax burden on lower-income groups. Using data from a new survey of 2,700 self-employed informal workers in the Accra Metropolitan Assembly (AMA) collected in April and May 2022, we examine the likely impact of the E-levy on informal workers from an equity standpoint (with reference to earnings, gender and occupational sector), and explore how this relates to how the levy is perceived.

We find that, while the overall effect of the E-levy is highly regressive – with users in the bottom quintile paying the largest share as a proportion of their income – the threshold is effective in sheltering some lower-income users from facing a new tax burden. We also find that home-based informal workers are disproportionately burdened by the tax, relative to street vendors and market traders. Further, we find that most informal workers disapprove of the E-levy, reflecting both concerns about its impact on equity and disappointment with the government's performance. Notably, while women are less likely to be liable for E-levy payments, they are substantially more likely to disapprove of its introduction.

Context of the E-Levy in Ghana

When the E-Levy was proposed in Ghana in 2021, the reform was explicitly framed as being motivated by a desire to tap into the 'enormous potential' for tax revenue in the informal economy – assuming that the informal economy was not already subject to tax. The tax faced widespread public opposition on several grounds: it placed a burden on taxpayers, could roll back progress on the

digitalisation of the Ghanaian economy, and could increase the hardships of workers in the informal economy already hard-hit by the pandemic.

In the face of this widespread public opposition, and unable to immediately marshal the numbers to pass it in parliament, the administration embarked on a nationwide campaign to sell the tax to the Ghanaian public – framing it as a tool to mobilise revenue for development without further recourse to external aid. The E-levy was rolled out in May 2022, with supposedly pro-poor amendments such as the 100 cedi daily threshold, a lowered tax rate, and a promise that the E-levy would fund development projects favouring low-income earners.

Impacts of the E-Levy in Ghana

Our analysis of the E-levy's impact highlights negative impacts on equity, in line with concerns of informal workers. While the tax's daily threshold does cushion low-earners, it does not fully address their disproportionate burden – remaining highly regressive. We find that women in Accra's informal economy are substantially less likely to support the E-levy, while older and more educated individuals are more likely to support the E-levy. Some of the other features of informal businesses hypothesised to shape support for the E-levy – income and access to a bank account – do not appear to do so. Overall, these results support the idea that, rather than just being about the concept of mobile money taxation, public perception in Ghana, at least among informal workers, is deeply dependent on people's evaluation of the current government, and their trustworthiness – not just in collecting a new tax, but also in spending it.

Policy Considerations

1. **Attention to Payment Threshold:** While the threshold probably does shield some lower-income groups from E-levy payments, it will be important for policymakers to monitor the effects of this threshold, especially in the context of inflation.

- 2. Attention to Regressivity:** The fact that the tax is regressive despite the threshold should be a relevant factor informing wider tax policy in Ghana, and feed into consideration of how to spend the income generated through the E-levy.
- 3. Trust in Government:** The cyclical relationship between low trust in government and economic neglect strongly informs the debate around the E-levy. Following the introduction of the E-levy, these dynamics emphasise the importance of Ghanaian policymakers rebuilding trust, especially with lower-income groups.

Research agenda

There is currently only limited data and research available on the implications of mobile money taxes on equity in contexts of high informality and minimal access to traditional financial services. Critically, other possible

outcomes, including the broadening of the tax base, or enabling better social spending, are hardly explored at all. While this paper aims to fill this knowledge gap by providing an empirical evaluation of the E-levy's equity impacts, key questions remain. Continued research is needed in the perception and behaviour around the E-levy over time, as well as deeper investigation into the gendered nature of the mobile money taxation.

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Further reading

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Credits

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