

## **PRESS RELEASE**

### **Proposed Communication Service Tax Would Price Millions Out of Internet Access**

A new ICT tax being considered by the National Assembly would prevent over 50 million Nigerians from being able to afford a basic broadband connection. Analysis by the Alliance for Affordable Internet (A4AI)-Nigeria Coalition shows that the proposed 9% tax to be levied on consumers of communications services would result in an additional 10% of the population — equivalent to nearly 20 million Nigerians — being unable to afford a basic broadband plan. The analysis suggests that the passage of such a tax is likely to threaten Nigeria’s ability to achieve its goal of 30% broadband penetration by 2018 and to undermine the socio-economic progress spurred by increased connectivity.

The Communication Service Tax (CST) Bill 2015, currently in front of the National Assembly, would require consumers of voice, data, SMS, MMS and pay TV services to pay a 9% tax on the fees paid for the use of these services. This tax would be collected on top of the 5% Value Added Tax (VAT) that consumers already pay when they purchase devices and communication services, the 12% custom import duties paid on ICT devices, and the 20% tax levied on SIM cards. Mobile operators and service providers will be responsible for collecting consumer payments and must fulfil additional reporting obligations that are likely to increase operational costs and therefore service fees for consumers.

Increasing access to and use of the Internet and communication technologies is central to Nigeria’s development agenda. Though Nigeria can currently claim to have some of Africa’s most affordable Internet prices (500MB priced at [5.4% of average income](#) in 2014), broadband penetration stands at just 12%. The reality is that 40% of Nigerians earn less than half of the average income; this means that a basic mobile broadband plan [actually costs the majority of Nigerians anywhere between 7-18%](#) of their monthly income. The addition of this tax would increase the cost to connect across the board, with women and low-income populations likely to be the hardest hit.

Commenting on the proposed law, Dr Ernest Ndukwe, National Coordinator for the A4AI-Nigeria Coalition, said:

*“Balanced fiscal policy must consider affordability of broadband and ICT, and should not put into place additional barriers that would make Internet access unaffordable for hundreds of millions of Nigerians. Nigeria is far behind the more developed countries of the world when it comes to broadband use, and the introduction of the CST will only widen this gap. The National Assembly must reconsider the passage of the CST and its impact on the development of broadband in Nigeria. After such a review, if the introduction of a CST is deemed an absolute necessity, it must consider a lower tax rate than 9%, one that would enable it to achieve fiscal revenue targets without undermining broadband affordability and access.”*

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## **Response of the Alliance for Affordable Internet (A4AI)-Nigeria Coalition to the proposed Communication Service Tax**

### Current mobile broadband affordability situation in Nigeria

- A4AI has continued its engagement with government and other stakeholders in the ICT space in Nigeria in the pursuit of advancing Internet affordability and access in Nigeria
- Increased access to the Internet has significant and well-known positive socio-economic benefits for the individual user, their community, their business, and the country as a whole.
- However, reality of Internet access in Nigeria is that it's all about mobile. Only about 13% of Nigerians get broadband access via mobile vs less than 1% from fixed services. (Sources ITU 2015, and GSMA Intelligence 2016).
- Nigeria aims to achieve 30% broadband penetration by December 2018 (Source: The National Broadband Plan). Current figure is clearly some way off this target and needs measures to boost growth in usage.
- A4AI studies have confirmed that one of the main reasons the rate of Internet adoption and use is rather slow in Nigeria is the high cost of data subscription.
- According to the ITU, [a 500MB plan costs typically 5.4% of average monthly income in 2014](#). The current definition of affordability used by the UN Broadband Commission is where the price of a broadband plan is less than 5% of average monthly income. If we are to use this definition Nigeria is on the cusp of affordability.
- However, [A4AI's 2015/16 Affordability Report](#) shows that while in Nigeria the average income in 2014 was US\$2970 (GNI per capita, source: World Bank), 40% of the population actually earned less than half that amount. In practice this means that a 500MB mobile Internet plan priced at 5.4% of "average" monthly income actually costs the majority of Nigerians anywhere between 7-18% of their monthly income.
- It is therefore right to say that any measures that will increase the cost of services for consumers are regressive, taking Nigeria backwards in terms of its attempt to achieve affordability.

### Current Mobile sector tax regime in Nigeria

- Mobile operators paid approximately [USD 850 million in taxes and regulatory fees to the government in 2014 and USD 760 million in 2013](#).
- The taxes and regulatory fees currently applicable to mobile phone operators fall under several categories, including duties on imported equipment, regulatory fees, taxes on profits, environmental taxes. Also those taxes that are more relevant to the consumer include taxes on handsets, SIM cards, and services. GSMA suggests that it is this latter set of taxes that we are of utmost concern as they have the most direct impact on the affordability of Internet access for Nigerians.
- Currently a VAT of 5% applies to devices and communication services purchased by the consumer.
- In addition, handsets (12%) and SIM cards (20% and 35% special levy) attract additional custom import duties and levies.

## Proposed “Communications Service Tax” (CST)

- Specifically, the CST is proposed to be a “9% charge for the use of the communication service” (Section 4 of the Bill), where communication service refers to voice, SMS, MMS, data, and pay per view TV.
- The focus of A4AI here is on Internet affordability; i.e., data costs.
- Clear that tax is to be born by consumer; all consumers.

## Implications for affordability of mobile data

- Compliance and responsibility for collecting payments placed on mobile operators. Compliance is likely to add a number of operational costs to operators. For example, rather than annually, all service providers are to file tax returns and pay the tax due not later than the last working day of the month immediately after the month to which the payment relates. So while the 9% tax is to be paid by consumers, experience indicates that there may be an additional burden placed on consumers as operators’ operational costs rise.
- Using the income distribution data from [A4AI’s 2015/16 Affordability Report](#) and an example of the current price of a 1GB plan, we can estimate what the impact of the CST will mean for affordability of mobile broadband plans (where affordability is defined as price less than 5% of average monthly income). We can use two scenarios (or prices from two operators):
  - a. One of the cheapest plans is [the offer of 1GB for ₦1000](#) we note that (assuming VAT is already included in the advertised price):
    - Without the CST, at this price 80% of the population can afford this plan.
    - With the CST, this proportion drops to 70%; meaning that a further 10% of the population or approximately 18 million people can no longer afford this mobile broadband plan because of the proposed CST.
  - b. Alternatively, following the ITU’s criteria we use the cheapest price of the *largest* mobile operator; in this case [the closest size plan offer is 1.5GB for ₦3500](#). Using this price and assuming VAT is already included in the advertised price:
    - Without the CST, this 1.5GB plan is only affordable for the top 2 income deciles or 20% of the population with the highest income (i.e. for those groups the price is less than 5% of their average monthly income).
    - With the CST, the plan remains affordable for the top 10%, but becomes close to unaffordable for the next 10% of income earners (4.9%).
    - The CST will also make it much harder for the remaining 80% of Nigerians to afford this 1.5GB plan.
- Keep in mind that we are looking at the price of a 1GB or 1.5GB plan as a % of monthly income. Note that this is a small amount of data to be consumed in a one-month period ([1GB is approximately equivalent to only 4 minutes of high quality video per day](#)) and limits the potential socio-economic benefits of using the Internet in countries like Nigeria, where almost [half the population is illiterate](#). If we use larger data plans then of course the tax burden increases, meaning that fewer people will be able to afford the broadband plan.
- According to the [WEF Global Gender Gap Report 2015](#), women in Nigeria are estimated to earn 57% of what men earn annually. As we have shown, it is the lower-income

groups that are most likely to either not be able to afford a broadband plan before the CST, or are no longer able to afford it after the CST. Given the wage gap, women are more likely to be in these lower-income groups and will be disproportionately impacted by the additional tax.

Summary and Recommendations:

- While the impacts of the CST on the sector as a whole are major, the above analysis shows the direct, possibly unintended, impact on the consumer and specifically those in low-income groups and women.
- Balanced fiscal policy must consider affordability of mobile broadband and should not put in place additional barriers that make Internet access unaffordable for millions of Nigerians. This is important given the relative low levels of broadband Internet use in the country. Nigeria is lagging far behind the more developed countries of the world and introduction of the CST will further widen the gap.
- The goal of the proposed CST is to improve revenue generation as stated in the Bill (See Explanatory Memorandum in Bill). With that in mind, we recommend that government should consider other alternatives
- Our position, therefore, is that the National Assembly reconsiders the passage of the CST bill. However, if the tax must be introduced the government must consider a lower tax rate that enables it to achieve fiscal revenue targets without undermining broadband affordability and access.

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