SIM Cards: a taxing issue

Citizens provide facts and opinions

1. Introduction

On 25 June, 2013, the National Assembly approved the government budget for 2013/2014. The budget was passed during a plenary session in Parliament with 235 lawmakers voting in favor and 35 voicing their disapproval (83 MPs were absent for the oral vote). The government budget focused on tax increases, as a means of raising revenue to fund the TZS 18.2 trillion budget.

A few days after the approval of the budget, it became clear that the government had imposed a once-a-month levy of TZS 1,000 for every SIM card. Surprisingly, Members of Parliament and ordinary citizens who were following up the budget speech claimed that the levy, subsequently dubbed the "SIM Card Tax", was not discussed in Parliament. It led to a national debate among citizens, mobile phone operators, media houses, technocrats and Members of Parliament.

This brief contributes new findings to the SIM Card Tax debate, presenting the most recent data on this topic available. The findings are based on the fifth round of *Sauti za Wananchi*, Africa's first nationally representative mobile phone survey. Calls were made between 16 and 30 July 2013; data include responses from 1708 households. This brief also presents findings from the National Panel Survey, 2010-2011; and the *Sauti za Wananchi* baseline survey which was implemented between October and December 2013. The baseline survey was conducted among 2,000 households (face to face interviews).

This brief's key findings are:

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Twaweza ni sisi

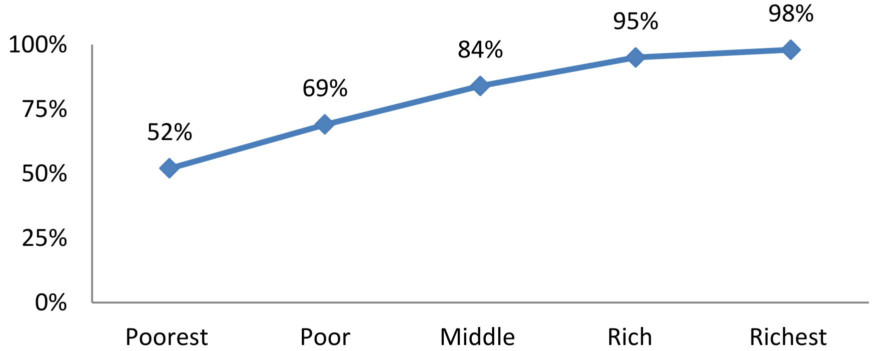
- The SIM Card Tax represents one week of airtime for the poor
- Less than half of Tanzanians are aware of the SIM Card Tax
- Most Tanzanians (83%) disagree with the introduction of the SIM Card Tax

2. Four facts on the SIM Card Tax

Fact 1: 80% of households own at least one mobile phone

Sauti za Wananchi data show that phone ownership in Tanzania is concentrated in urban areas. However, a majority of citizens in rural households (75%) are living in a household in which at least one member owns a mobile phone. Figure 1 below shows that the richest[1] households are about twice as likely to own a mobile phone as the poorest households. Nevertheless, one out of two households in the poorest group have a mobile phone. This means that changes in the cost of mobile communication are felt by people in all walks of life.

Figure 1: Mobile phone ownership at the household across wealth quintiles



Source of data: Sauti za Wananchi, Baseline Survey, October –December 2012.

Fact 2: The SIM Card Tax represents one week of airtime for the poor

How much do Tanzanians spend on air time? The data pictured below are from the National Panel Survey 2010-2011[2] (NPS, mainland data only). Figure 2 shows the distribution of average monthly airtime expenditure by income group.

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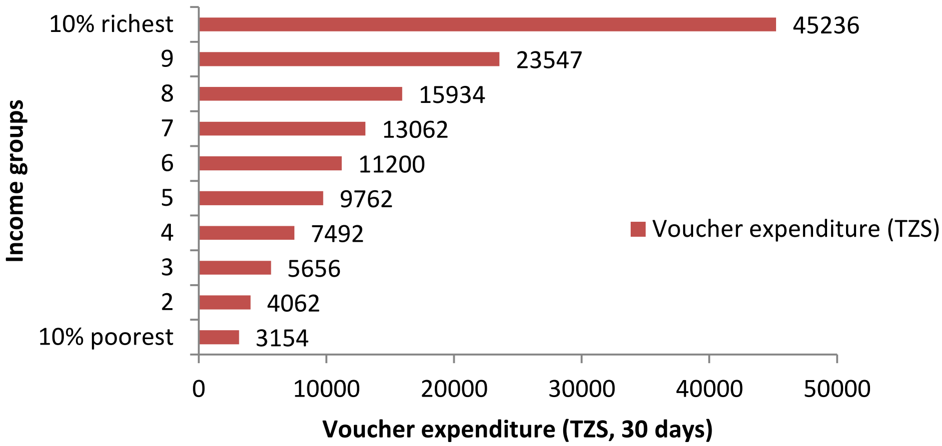
[1] The richest and poorest respondents are defined using a wealth index which is calculated using household ownership of selected assets, in which 20% respondents with the highest ownership of the selected assets are the richest while 20% of the respondents with the lowest ownership are the poorest.

[2] National Bureau of Statistics (NBS) [Tanzania]. 2011. Tanzania National Panel Survey Report (NPS) - Wave 2, 2010 - 2011. Dar es Salaam, Tanzania: NBS. (www.nbs.go.tz)

Figure 2: Monthly voucher expenditure



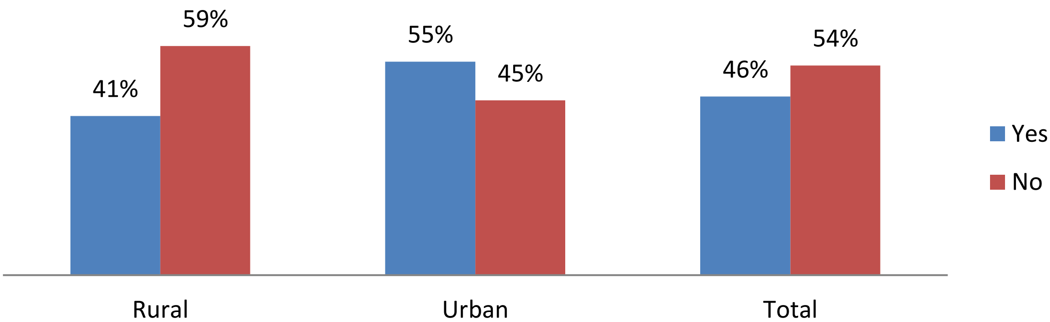
Source of data: NBS*, National Panel Survey*, 2010-2011.

The NPS asked item by item questions on household expenditure. For phone vouchers, the data show that 56% of Tanzanians bought airtime in the 30 days before the interview and, on average, they spent TZS 16,348.

Since the SIM Card Tax has a fixed value, the poor are disproportionately impacted. The poorest ten percent of households spend less than the TZS 1,000 SIM Card Tax per week on airtime.

Fact 3: Less than half of Tanzanians are aware of the SIM Card Tax

Figure 3: Are you aware that the Government has introduced a new TZS 1,000 SIM Card Tax?

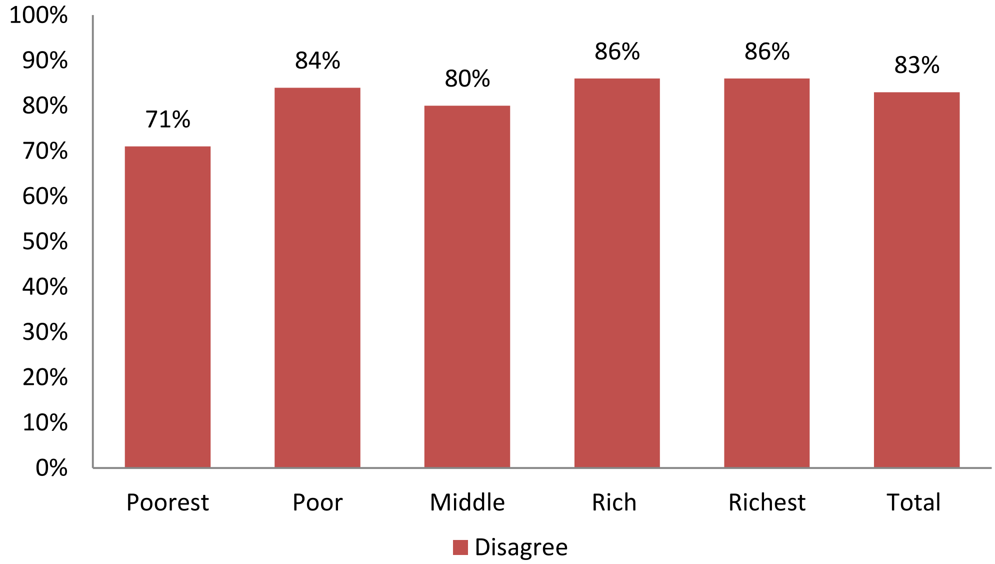


Source of data: *Sauti za Wananchi,* Mobile Phone Survey – Round 5, July 2013.

Fact 4: Most Tanzanians (83%) disagree with the SIM Card Tax

Across all income groups, large majorities, 83% on average, disagree with the SIM Card Tax. Surprisingly, among the poorest households a relatively lower proportion (71%) disagree with the SIM card tax.

Figure 4: To what extent do you agree with the decision of the Government to introduce the new SIM Card Tax?



Source of data: *Sauti za Wananchi,* Mobile Phone Survey – Round 5, July 2013.

3. Discussion and conclusion

The 2013-14 budget speech[3] showed that Tanzania has a fiscal deficit of TZS 6.7 trillion or about TZS 136,735 per capita. The deficit is covered by grants (donors pay) and borrowing (future generations pay). Against the backdrop of these budget numbers, the SIM Card Tax raises three questions. (1) Should Tanzania aim for a more balanced budget? (2) If yes, is an expenditure reduction better than a tax increase? (3) If increasing tax revenues is better, is the SIM Card Tax the preferred tax instrument – e.g. is it better than a tax on, say, gasoline?

[3] In Swahili: http://www.mof.go.tz/mofdocs/msemaji/HOTUBA%20YA%20SERIKALI-BAJETI.pdf; in English: http://www.mof.go.tz/mofdocs/msemaji/Budget%20english%202013.pdf.

The official answers to questions (1) and (2) are, respectively, somewhat positive and negative. The budget takes into account the priorities set in the annual development plan of 2013/2014 and the *Big Results Now*[4] initiative. To attain these objectives investments in key priority areas – energy, transport, agriculture, water, education, resource mobilisation – are foreseen: that is, greater expenditure rather than less. The Ministry of Finance is tasked to find resources to finance these expenditures while trying to keep borrowing under control. As their guidelines state: "In considering the scope for revenue gains, the Government will improve tax administration and maximize domestic revenue collection" (Guidelines, Ministry of Finance and Planning Commission, 2012; p36).[5]

In this context, is the SIM Card Tax a good tax instrument? Economic analysis and tax theory state helpful but contradictory principles: (a) taxes should be relatively easy and cheap to administer (b) taxes should distort economic choices as little as possible (c) society should consider the resulting after-tax income distribution as "fair".

The SIM Card Tax scores well on the first two questions: phone companies have a (mandatory) client administration that makes tax administration simple while the tax is "lump-sum" – it is not linked to how much you call. For economists this is the holy grail of taxation: once you have paid the TZS 1,000 tax, your phone bill and thus behaviour are not affected by the tax anymore. But the strong point is also the weak point: since the tax is a fixed amount it is necessarily "regressive". This means that the SIM Card Tax is a higher proportion of poorer people's income. Is this fair?

A further advantage for the Ministry of Finance is that the SIM Card Tax represents a long cherished goal: it widens the tax base – that is, it spreads direct taxes to the wide and fast growing population of phone users so that more people are contributing to the national public finances. Broadening the tax base makes sense economically (more contributors reduce locally heavy tax distortions) and politically (taxation requires representation, inclusion) but requires the benefits of the corresponding public expenditure to be tangible, visible and widespread. No taxation without accountability.

However, the main argument against taxing SIM cards is the huge potential for economic growth they represent. Recent research (Aker and Mbiti, 2010) provides

[4] *Big Results Now* aims to catalyse change in six key sectors: energy and natural gas, agriculture, water, education, transport, and mobilization of resources. http://www.pmoralg.go.tz/quick-menu/brn/index.php

[5] Source of data: Guidelines for the preparation of annual plan and budget for 2012/13, Tanzania budget frame, Ministry of Finance and Planning Commission, 2012.

four routes through which mobile phones benefit African economies. First, mobile phones increase access to and use of information: this reduces search costs and increases competition and efficiency of markets and firms. Second, mobile phones are a growth sector, providing jobs but also a steady flow of new technology. Third, mobile phones have the potential to improve informal insurance networks, spreading shocks over family members even if they live far apart. Fourth, mobile phones promise to improve service delivery, in health, education and agriculture, but particularly in finance: SIM cards are increasingly used for money transfers and banking services in a largely non-banked rural economy. Information flows and financial services are crucial for economic growth, and the concern is that the SIM Card Tax should not undermine that.

This brief has presented key data on the SIM Card Tax in relation to people's use and incomes, public opinion on the matter, and a brief discussion on its desirability as a tax and budget management instrument. Our point is that a careful consideration and debate of these issues should inform thinking on whether the SIM Car Tax should stay in place or be repealed.