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How should Africa's digital payments be taxed?

By Philip Mader

Africa's governments need tax revenue to fund everything from education and social welfare to paying international debts. No wonder governments are eyeing digital financial services (DFS) – a rapidly growing, highly profitable industry – for additional revenue.

However, critics have warned of the potential for such taxes to bear heavily on lower-income people. So, how can governments collect much-needed revenue from the booming DFS sector, while avoiding curtailing its growth and innovation and unfairly burdening the poor?

Governments can collect taxes from the DFS industry in two ways:

- **Many currently earn excise taxes on DFS and corporate taxes from provider companies.** Some experts, such as former Kenyan Central Bank governor Njuguna Ndung'u, argue these taxes are too high. While it is too early to say conclusively what impact these are having on mobile money market growth, such taxes in major markets have not prevented Safaricom from becoming East Africa's highest-valued company.
- **Several governments have also introduced direct taxes on DFS payments.** Ghana's e-levy is the latest. Unsurprisingly, this has proved unpopular, as in Uganda and Côte d'Ivoire, resulting in an initial slump, then partial recovery, in DFS usage. Longer-term effects remain to be seen.

"Taxing digital payments out of existence would help no one. But under-taxing means forgoing much-needed revenue forpublic goods that can benefit everyone."

The right policy mix depends on context, with digital pioneers such as Kenya facing different choices. But there are two cautionary messages governments should heed:

- **Carefully consider the impact of transaction taxes on people on low incomes.** New research evidence from Ghana suggests the e-levy to be highly regressive, with informal sector users in the bottom quintile paying the largest share as a proportion of their income. This adds to the already highly regressive transaction fees (often 3% or more) and interest (sometimes 100% or more annually) charged by providers.
- **Exercise caution in using DFS data to expand the tax net.** Governments are increasingly exploring DFS as a way to "broaden the revenue base by reducing tax avoidance and evasion", as the World Bank's David Malpass recently put it. But the implication that DFS data could be used to tax the informal economy more heavily risks a disproportionate impact on the poorest, for whom the informal sector exists first for survival, not primarily for tax avoidance.

A fair and efficient tax system should burden the broadest shoulders most. Citizens quite rightly expect that multinational corporations, including DFS operators, should pay tax in the markets from which they generate revenue.

Nobody benefits from taxing DFS out of existence. In fact, DFS has the potential to make tax payments easier, thus benefitting both taxpayers and governments. However, under-taxing DFS would be forgoing revenue from which all can benefit.

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