

POLICY BRIEF ON THE STATE OF TAXATION ON THE DIGITAL ECONOMY

Executive summary

Digital economy refers to an economy that is based on digital computing technologies also known as internet economy, new economy and web economy.

Digital economy is taking the world into the fourth industrial revolution, how do we tax jumia, amazon, Spotify and YouTube, to name a few? What are the challenges and how do we solve them?

The question therefore to be addressed is how the internet has changed the way we do business by incorporating digital transformation.

It will look at the four pillars:

- Future of work – people will no longer work in physical offices but remotely
- Customer experience – an experience of engagement with brands that is personalized
- Digital supply of networks- creation of new intelligent digital networks to change how commerce is carried out
- Internet of things- it is imperative for any digital business to understand both its physical and digital asset inventory at any given time

In the international plane, digital economy and its taxation has moved towards VAT where it is remitted by consumers. However, this is a challenge in terms of establishing where a customer is located and pricing the digital service as the VAT rate will be different for each customer.

Summary of the problem

TechCrunch, a reputed American tech reporting agency, shared a rather interesting thought: uber which is the world's largest taxi company, owns no cars, Airbnb the biggest home rental service, owns no houses, Facebook the largest repertoire of digital media and content, is not a creator of content, Alibaba, the largest retail service, has no inventory.¹

This really does put into context the state of affairs in the way the world conducts its business today. The reality is, this is the future and companies have decided to adapt, through digitization and digitalization in a bid to transform business. Most of the companies that have not moved with the change have found themselves out in the cold. An example of this is Kodak which in 1996, was ranked the 5th most valuable company in the world, commanding two thirds of the world's market share and being valued at 31 billion US Dollars.² All this came to a change when digital cameras and social media apps such as Instagram took the world by storm. Kodak's market capitalization was valued at 109.58 million Us Dollars in 2019,³ while Instagram under the mother company, Facebook Inc., was valued at

¹Tom Goodwin, 'The Battle Is For The Customer Interface | TechCrunch' (*Tech Crunch*, 2015) <<https://techcrunch.com/2015/03/03/in-the-age-of-disintermediation-the-battle-is-all-for-the-customer-interface/>> accessed 9 April 2019.

²Andrew Hudson, 'The Rise and Fall of Kodak' (2018) <<https://www.photosecrets.com/the-rise-and-fall-of-kodak>> accessed 12 April 2019.

³Wall Street Journal, 'Eastman Kodak Co.' (*Wall Street Journal*) <<https://quotes.wsj.com/KODK>> accessed 12 April 2019.

100 Billion USD in 2018,⁴ bringing Facebook Inc.'s Market Cap value at 511.15 Billion USD as at 12th April, 2019.⁵

Africa, is not left behind in all this. Today, 35.9% of the African population is estimated to be connected to the internet,⁶ most of these being young people owing to the fact that Africa's population is largely youthful with the average age being 19.4 years.⁷ Compared to the world's internet penetration average of 56.1%, Africa is a giant consumer of internet and internet products.⁸ This is subject to increase since according to data from the UN, 68% of the world population is projected to live in urban settings by the year 2050 with Africa and Asia accounting for 90% of this increase.⁹ This means, by 2050, there will be even more people demanding internet infrastructure in Africa, a growth that governments should well be prepared for.

The figures above can be understood clearly by breaking down the arbitrary concepts of digital economy. Digital economy has been described as economic activity arising from the interconnections and hyper connections between people, businesses, data and processes; this is driven by the large scale interconnection on the internet and the internet of things.¹⁰

The internet of things (IoT) has been described as encompassing the eliminating of the line between the physical and digital world where software and internet domains is the keeper of information on business assets and people.¹¹ According to the OECD on the parameters of digital economy, the following are the important markers of a digital economy;

- infrastructure
- empowering society
- innovation
- and technology adoption
- jobs and growth

⁴Emily McCormick, 'Instagram Is Estimated to Be Worth More than \$100 Billion - Bloomberg' (*Bloomberg.com*, 2018) <<https://www.bloomberg.com/news/articles/2018-06-25/value-of-facebook-s-instagram-estimated-to-top-100-billion>> accessed 12 April 2019.

⁵YCharts, 'Facebook Market Cap' (*Ycharts.com*) <https://ycharts.com/companies/FB/market_cap> accessed 12 April 2019.

⁶Internet World Stats, 'Africa Internet Users, 2019 Population and Facebook Statistics' (*Internet World Stats*, 2019) <<https://www.internetworldstats.com/stats1.htm>> accessed 13 April 2019.

⁷worldometers.com, 'Population of Africa (2019) - Worldometers' (2019) <<http://www.worldometers.info/world-population/africa-population/>> accessed 14 April 2019.

⁸Internet World Stats (n 6).

⁹UN DESA, '68% of the World Population Projected to Live in Urban Areas by 2050, Says UN | UN DESA | United Nations Department of Economic and Social Affairs' (2018) <<https://www.un.org/development/desa/en/news/population/2018-revision-of-world-urbanization-prospects.html>> accessed 14 April 2019.

¹⁰Deloitte, 'What Is Digital Economy? | Deloitte Malta | Technology' <<https://www2.deloitte.com/mt/en/pages/technology/articles/mt-what-is-digital-economy.html>> accessed 4 April 2019.

¹¹Jacob Morgan, 'A Simple Explanation Of "The Internet Of Things"' (*Forbes.com*, 2014) <<https://www.forbes.com/sites/jacobmorgan/2014/05/13/simple-explanation-internet-things-that-anyone-can-understand/#17c319d61d09>> accessed 8 April 2019.

Infrastructure includes the physical components of a healthy internet including mobile internet access, next generation internet access and what have you.¹²

Empowering society involves the manner in which people access the internet and use it to better themselves and their livelihoods; fully exploiting their potential.¹³ Innovation and technology amplifies the role ICT has to play in the new business models coming up in the world and its use as a means of innovation.¹⁴ Jobs and growth examines the sphere of employment creation and just how ICT is changing the world of work.¹⁵

Tax in the digital economy is important since this is an area in business that sees billions of dollars in profit annually. The backbone of this profit is the transactions between users, who are residents of countries. Thus, African countries need to tap into this source for revenue to realize the resources needed. Thus with this in mind, the importance of a tax regime that understands a digital world and also quite necessarily, makes up the said digital world is underscored. This then brings us to the next part of the policy brief, methodology.

Methodology

In coming up with this brief we examined the tax regimes across 8 different countries in Africa, from the North, East, West, Central and South. These include: Libya, Uganda, Cape Verde, Rwanda, South Africa, Morocco, Congo and Namibia.

Libya- registered companies in Libya are expected to pay a corporate tax of 20% flat rate.¹⁶ The problem with this is the fact that most companies conducting business online or running a large scale digital presence are not registered in the country. Following the unrest in the country, there came the need for reliable digital payment methods, of which, many were not successful owing to problems including high transaction fees.¹⁷

Uganda- in Uganda, companies pay a 30% corporate tax rate and a variable presumptive tax for smaller businesses.¹⁸ Individuals are required to pay a further 200 Ugandan Shillings before they can access popular social media apps, including WhatsApp and Facebook.¹⁹ The effect of this is that the number of people using the internet has significantly reduced since July 2018 when the tax law was introduced.²⁰

¹²OECD, 'Toolkit for Measuring the Digital Economy' (2018) <<http://www.oecd.org/g20/summits/buenos-aires/G20-Toolkit-for-measuring-digital-economy.pdf>>.

¹³ibid.

¹⁴ibid.

¹⁵ibid.

¹⁶tradingeconomies.com, 'Libya Corporate Tax Rate | 2019 | Data | Chart | Calendar | Forecast | News' (*Trading Economics*, 2018) <<https://tradingeconomies.com/libya/corporate-tax-rate>> accessed 8 April 2019.

¹⁷Khadeja Hussein, 'Digital Payment Methods in Libya' (*medium.com*, 2018) <<https://medium.com/@khadejahussein/digital-money-libya-11883c69242e>> accessed 10 April 2019.

¹⁸Uganda Revenue Authority, 'Uganda's Tax Structure FY 2017/18' (2017).

¹⁹Daily Monitor, 'Uganda Misses Social Media Tax Revenue Target - The East African' (*The EastAfrican*, 2018) <<https://www.theeastafrican.co.ke/business/Uganda-misses-social-media-tax-revenue-target/2560-4842910-xa2c0rz/index.html>> accessed 12 April 2019.

²⁰The Guardian, 'Millions of Ugandans Quit Internet Services as Social Media Tax Takes Effect | Global Development | The Guardian' (*The Guardian*, 2019) <<https://www.theguardian.com/global->

Namibia- in Namibia, companies are required to pay a general rate of 35% and there is provision of a standard VAT rate of 15% which includes imported goods and services.²¹ Unlike Uganda, Namibia has no specific provisions on digital transactions.

Cape Verde- in Cape Verde, a 15% sales tax rate is charged on the purchase price of certain goods and services.²² In corporate tax, resident companies are expected to pay 22% on profits made both within and outside the Cape Verde territory, while non-resident companies with permanent establishment in the country, pay 22% in corporate tax on their profits as well.²³ The worldwide principle applied in the country might be rather applicable when dealing with digital companies registered in the country and conducting business elsewhere.

Democratic Republic of Congo- corporate income tax is paid on profits by companies running any operational activity in the country.²⁴ The rate is 35% and it is taxed on a territorial basis non-resident companies with permanent establishments in the country are also subject to the 35% tax rate.²⁵ Mobile money transfer services and farming technology are some of the ways in which digital networks are being used in the country.²⁶ However, a problem faced by this regime is the fact that the infrastructure in the country is poor, mobile services are quite expensive to the population and the taxation regime is rather complex thus making it costly to conduct business in the country.²⁷

Rwanda – It has a corporate tax rate Of 30% that it charges on companies registered in its country.²⁸ Rwanda was named east Africa’s number one ICT nation by UNCTAD and have been coming up with various digital solutions such as e health that reports maternity and mortality through the phones. The application manages patient information and oversees the distribution of drugs. To support this practice, free phones have been distributed to community health workers.

South Africa – it has a corporate tax rate Of 28% that it charges on companies registered in its country.²⁹ A point worth mentioning is that they have digitized their mining industry; they do everything from mapping to finding the exploration sites. The drones are also used to pick up samples for surveyors that will be used to gather data. The country has also launched a medical diagnosis application known as VULA, connecting health workers and specialists.

development/2019/feb/27/millions-of-ugandans-quit-internet-after-introduction-of-social-media-tax-free-speech> accessed 12 April 2019.

²¹Nyasha Musviba, ‘Namibia Taxes Overview | South African Tax Guide’ (*sataxguide.co.za*)

<<http://www.sataxguide.co.za/namibia-taxes-overview/>> accessed 10 April 2019.

²²PWC, ‘Cabo Verde - Taxes on Corporate Income’ <<http://taxsummaries.pwc.com/ID/Cabo-Verde-Corporate-Taxes-on-corporate-income>> accessed 13 April 2019.

²³ibid.

²⁴PWC, ‘Congo, Democratic Republic of the - Taxes on Corporate Income’

<<http://taxsummaries.pwc.com/ID/Democratic-Republic-of-Congo-Corporate-Taxes-on-corporate-income>> accessed 11 April 2019.

²⁵ibid.

²⁶GSMA, ‘Digital Inclusion in the Democratic Republic of the Congo: Taxation to Support Mobile Affordability, Growth and Investment’ (2015).

²⁷ibid.

²⁸tradingeconomics.com, ‘Rwanda Corporate Tax Rate | 2019 | Data | Chart | Calendar | Forecast | News’ (*Trading Economics*, 2018) <<https://tradingeconomics.com/rwanda/corporate-tax-rate>> accessed 11 April 2019.

²⁹tradingeconomics.com, ‘South Africa Corporate Tax Rate | 2019 | Data | Chart | Calendar | Forecast | News’ (*Trading Economics*, 2018) <<https://tradingeconomics.com/southafrica/corporate-tax-rate>> accessed 8 April 2019.

Morocco has a corporate tax rate of 31% that it charges on companies registered in its country. It has come up with a financing policy that promotes financial inclusion through transformation of the digital economy. Its main objectives is to small medium enterprises, support development of digital platforms and digital infrastructure such as mobile payment and e commerce platforms. Lastly, enhance digital entrepreneurs by financing startups.³⁰

As you can see outlined above the mentioned countries have innovations that are digital based but covered under corporate taxes and some are not registered as well leading to loss of revenue.

Conclusion

This brief sought to raise awareness on the unpreparedness of the countries in Africa when it comes to the taxation of the digital economy. Among the challenges posed include complex taxation systems, a large percentage of poor citizens, weak laws that do not stand the test of cross-border digital commerce and general public unrest. It cannot be stressed enough that the digital economy is the future of business and work and economic growth as a whole. Therefore, countries ought to consider tapping into this as a source of revenue.

Recommendations.

Creation of a digital tax rate and a process of taxing digital companies that can be used to effectively collect revenue at their places of registration or place of value creation.

³⁰tradingeconomics.com, 'Morocco Corporate Tax Rate | 2019 | Data | Chart | Calendar | Forecast | News' (*Trading Economics*, 2018) <<https://tradingeconomics.com/morocco/corporate-tax-rate>> accessed 8 April 2019.

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