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Mobile internet and tax collection: the end of the trade-off?

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Abstract-

For decades, regions such as Latin America, South Asia and Africa have favoured sector specific taxes on mobile internet consumers and providers. Despite their known negative effects on internet adoption and investments, tax authorities generally considered these as an efficient way to generate tax revenues. Since then, fast growth in internet adoption and the ensuing broad digitalization of society have been increasingly linked with greater tax revenue collection by the public sector, with a series of direct and indirect channels through which the effect takes place. We conduct novel empirical research for one of these regions, Latin America and the Caribbean (LAC), and provide robust estimates through different empirical approaches. All our results confirm positive direct and indirect links between mobile internet adoption and usage and public sector tax revenue. Importantly, the net tax collection effects of the removal of sector-specific taxes on mobile internet consumers and operators are neutral to positive depending on the simulated scenario. The results have important implications for policymakers, especially tax authorities, and highlight the large opportunity cost in these regions not just in connectivity terms but also in foregone tax revenues.

Index Terms- Telecommunications; Mobile broadband; Taxation; Tax revenue

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