A fiscal environment for digital inclusion and economic growth through fiscal stability

More than 5 billion people have access to mobile communication, but only around two out of five have the opportunity to access information through the Internet. While the top 3 billion in the global income pyramid are connected to the Internet, we know that the next billions will have lower incomes, and be more dependent on affordable services from a cost-effective digital industry.

We exist to connect our customers to what matters most, always striving to empower societies. Telenor's business of connecting people and providing services that make life easier has a great equalising potential. Telenor's ambition is to continue to provide access to all enabling people to improve their lives, build societies and secure a better future.

Today Internet connectivity impacts nearly every part of our lives and is a catalyst for economic growth which should be accessible to everyone. One of the prerequisites for realizing this is a stable and transparent fiscal environment that supports investment, digital growth and inclusion. Governments play a vital role in ensuring fiscal support for the inclusion of all citizens into the digital economy through affordable and efficient digital services.

In this paper, we describe Telenor's view on how governments should advocate a stable and predictable tax system that will encourage investment, promote digital inclusion and ultimately spur social-economic growth.

Telenor's view is that a stable and predictable fiscal policy framework should rest on three pillars:

1. *Taxation policies must be based on universal tax principles as advocated by IMF and World Bank*

2. *Tax levies must be based on predictable legislation applied by objective authority, and tested by independent court systems to encourage sustainable long term social-economic growth and encourages new and continuous investments*

3. *Non-sectorial taxes and rational consumer taxes will promote and increase productivity, affordability and expedite digital inclusion*

Telenor strongly believes that governments, by adopting the above 3 key pillars of fiscal framework, will significantly increase the government perception while strengthening the foundation for domestic and international investment. This will further promote digital inclusion and spur social-economic growth.

Taxation based on universal tax principles

Taxation is one of many sources of income that provides government with the funds to invest in development, relieve poverty and deliver public services - directed towards the physical and social infrastructure required to enhance a nation's long-term growth.

However, in many cases policy-makers face a difficult challenge in formulating good tax policies that strike the right balance between raising budget revenues short-term, and ensuring that the taxation does not deter participation in the tax system or discourage investment and business growth long-term. It is important to recognise the fact that whilst taxes are an important source of income to governments, it is also a significant cost to investors and consumers.

To mitigate the challenges of implementing good and fair taxation, governments need to ensure that their tax rules facilitate domestic and international investment decisions. Tax rules and collection must therefore be based on predictability, transparency, anti-corrupt governance, neutrality, and fairness. Provided that such important basic criteria are met, a solid tax system should serve to sustain current investment and improve the framework for attracting further increased foreign and private investment.

To support robust and fair tax systems, Telenor Group encourages governments to implement universally acclaimed and trusted tax principles as advised and advocated by international organisations such as the International Monetary Fund (IMF) and the Word Bank.

Some examples of general best practise and accepted tax principles are:

- The tax base should be as broad as possible, with universal taxes shared equally between different industries and individuals. This is as an important principle which will strengthen the general support for the tax system, and secure legitimate public revenue.

- All businesses must be treated equally, based on neutral and objective criteria. Corporate income tax should not be discriminatory based on industry type. This is an important principle which will secure investment decisions based on profitability and prospects for growth

- The tax system should be simple, transparent and accountable. It should be reasonably easy for companies and individuals to keep track on tax rules, report filings, and be compliant at any time. Simple tax systems also reduce the risk of loopholes and tax erosion.

- Tax levies on exercising governmental authority versus the rendering of services, must clearly be differentiated and subjected to relevant tax rules. The granting of a (time limited) licence or other exercise of governmental authority (such as spectrum licence over a period of time) is not rendering of a service, and should not, under generally acceptable principles, be subjected to any direct or indirect taxation.

Tax levies must be based on predictable legislation, applied by objective authority and tested by independent court to encourage new and continuous investments

Throughout our markets, there is a tendency towards non-legitimised and non-transparent taxation, poor governance among tax collectors, and administrative neglect of legal provisions and verdicts. Poor governance takes many forms, including denying legitimate VAT refunds, double taxation, illegitimate re-classifications of capital, or outright neglect of court rulings and decisions.

International reports and surveys concludes that vague tax provisions, multiple tax instruments, arbitrary implementation of tax laws, limited opportunities for redress of taxpayers' grievances, and laws that give excessive discretion to tax authorities will trouble existing investors and deter potential new foreign and domestic investors.

As a major and long-term investor, Telenor encourages tax authorities to design and implement tax and regulations that are easily understandable and enforceable. This will strengthen predictability, investor confidence, and trust. Taxation, tax collection, and enforcement should:

- be based on transparent legislative principles
- be based on published rules and not arbitrary decisions
- allow tax disputes, to be addressed through clear arbitration procedures where tax administrations and courts should act independently of political influence, and never delay cases unnecessarily

Judicial court systems must be independent of executive state power, abide to the rule of law only, and subject to self-recruitment. Judicial Court systems must have the power to secure timely implementation of legal rulings and verdicts.

Avoiding sector specific taxes and rationalising consumer taxation will promote and expedite digital inclusion and increase productivity

Taxes and fees levied on mobile services appear to be increasing over time and at a faster rate than other sectors in the economy. This is obviously a very short-term benefit, as high taxes and fees will hold back the growth of mobile services and thereby the economic benefits such services offer.

A study by GSMA[1] has estimated that a one percentage point reduction in the tax burden on mobile broadband would result in up to 1.8 percentage point increase in penetration, and an up to 0.7 percentage point increase in GDP over five years in emerging markets. Further, income data from the World Bank and usage data from the GSMA, suggest that among groups of countries with similar income levels, Internet usage is determined by the level of taxation, i.e. higher tax levels are accompanied by lower levels of Internet usage.

Making mobile services affordable through reductions in the taxes and fees burden will, with great probability, increase the uptake and usage of digital services among the poor, and empower their access to the global information community of the Internet.

[1] GSMA (2012), The Impact of Taxation on the Development of the Mobile Broadband Sector