Offline and Out of Pocket:

The Impact of the Social Media Tax in Uganda on Access, Usage, Income and Productivity

Report by

POLLICY

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Key Findings

Affordability: A quarter (25%) of respondents made an income of less than UGX100,000(US$27) per month. Paying the social media tax for one-month accounts to >6% of their total monthly expenditures.

Access: Around 56% of persons interviewed pay their social media taxes, whereas 38% continue to use a VPN to access “over-the-top” services.

Usage: A significant drop in accessing social media was reported. While 33% of respondents would access social media platforms more than 10 times a day prior to the tax, this number dropped down to just 6.6% after the taxation.

Productivity: One-third of respondents used social media for business activities and of these respondents, 74% reported reduced income following the tax implementation.

Approval: A majority of respondents, 86% feel that the social media tax should be removed, with only 7.2% percent feeling that it should not be removed and 6.3% were neutral.

Introduction

Following a brief tweet stating that 'social media encourages gossip' by President Yoweri Museveni of Uganda, a new tax was introduced by the Ugandan Parliament on July 1st, 2018 requiring an excise duty on over-the-top services over the internet. In a letter to the Ugandan citizens, the President wrote that the social media tax is intended to reduce borrowing from outside the country and improve the low GDP:tax ratio. In the national budget speech for 2018/19, it was projected that the new tax would generate projected revenue of up to UGX486Bn (~US$129M) per year by 2022/23.

What is the Social Media Tax?

The Social Media tax requires users to pay a tax of UGX200(US$0.05) per day to access over-the-top (OTT) services. According to MTN Uganda, OTT services can be defined as "the transmission or receipt of voice or messages over the internet, including access to virtual private networks". Some of the most notable examples are Facebook, Whatsapp, Twitter, LinkedIn, Instagram, Skype, Google Hangouts, and Tinder. Mail services such as Gmail are not considered a taxable OTT service.

Major internet service providers (ISPs) in Uganda have blocked access to these platforms and a user must first pay their social media tax, on a daily, weekly, monthly, quarterly or annual basis), to access these OTT services. Payments are made using Mobile Money and access would previously expire at midnight, but now lasts a 24-hour period from the time of payment. Furthermore, a 1% excise duty is charged on the mobile money transaction required to pay the OTT tax resulting in a total payment of UGX202.

Many Ugandans opposed the new taxation and resorted to using circumvention tools such as virtual private networks (VPNs), though telecommunication operators have threatened to block access to these VPNs under the directive of the government. The Executive Director of Uganda Communications Commission (UCC), Mr Godfrey Mutabazi recently commented on this circumvention, “We have all the systems needed to block the virtual private networks already here and the government will move anytime to effect it.”

A recent tweet by the Uganda Communications Commission showed that tax revenue generated from the social media tax reduced from UGX5.6 billion in July 2018 to UGX3.9 billion at the end of September 2018. There was a marked reduction in the number of subscribers paying the social media tax, from 8.04 million people in July 2018 when the tax came into effect, to 6.84 million in September 2018. The report also stated that the number of internet subscribers dropped by over 3 million in this time period, from 16 million to 13.5 million.

Taxation of Internet-based services has been on the rise across Africa in recent months. In neighbouring Tanzania, bloggers must be vetted by the government and are charged an annual fee of $930 before producing any online content. In Zambia, the government plans to roll out a tax on internet calls at a cost of ZMK0.3 (US$0.03) per day. In Kenya, recent legislation has led to the introduction of new price changes that have increased the cost of internet access through a 50% excise tax hike passed on to customers.

In Benin, a proposal to charge CFA Francs 5 ($0.008) per megabyte of OTT services as well as a 5% fee on OTT services was struck down after a peaceful protest campaign #TaxePasMesMo (“Don’t Tax my Megabytes). Similarly, in Uganda, #ThisTaxMustGo became a rallying cry against the social media tax.

This Report

In November 2018, we set out to understand how perceptions towards the Social Media tax had evolved 5 months into its implementation. We conducted 2 focus group discussions and in-person interviews with 1000 Ugandans from four geographically diverse regions (Central, North, East and West), with the full engagement and approval of local community leaders. We wanted to understand how these new taxes impact the social and economic aspects of the day-to-day lives of Ugandans, and to further the cause for inclusive and equitable access to the internet.

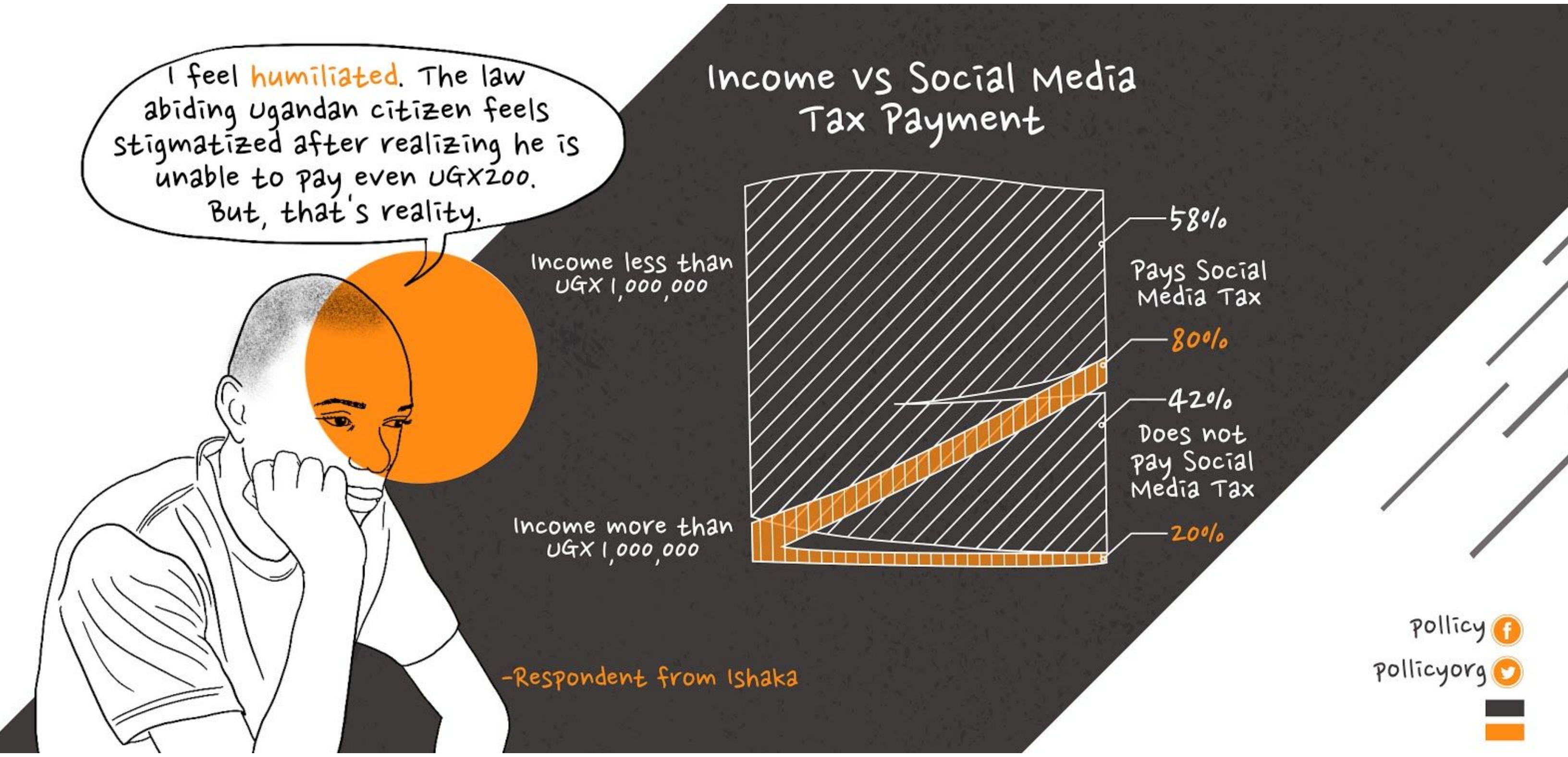
We spoke to persons who owned a smartphone, in the areas of Kampala, Jinja, Gulu and Bushenyi, with a final sample size of 976 after data cleaning. The interview comprised three main sections: demographic information, perceptions on social media tax and perception on mobile money tax. Mobile data collection tool KoboToolBox was used to collect the data. The interview tool was pretested in the Kampala area. Ten enumerators collected the data in the four districts over an eight days period.

What did we find out?

First things first, who did we speak to? In terms of gender, 48% of our respondents were female and 52% were male. Only 20% of them were formally employed, with a high proportion claiming self-employment (45%), while the remainder were either unemployed (22%) or partaking in informal/casual labour (12%). About 6.3% of respondents self-reported a disability. Most (42%) had completed secondary school, while 32% had attended university-level education.

Affordability

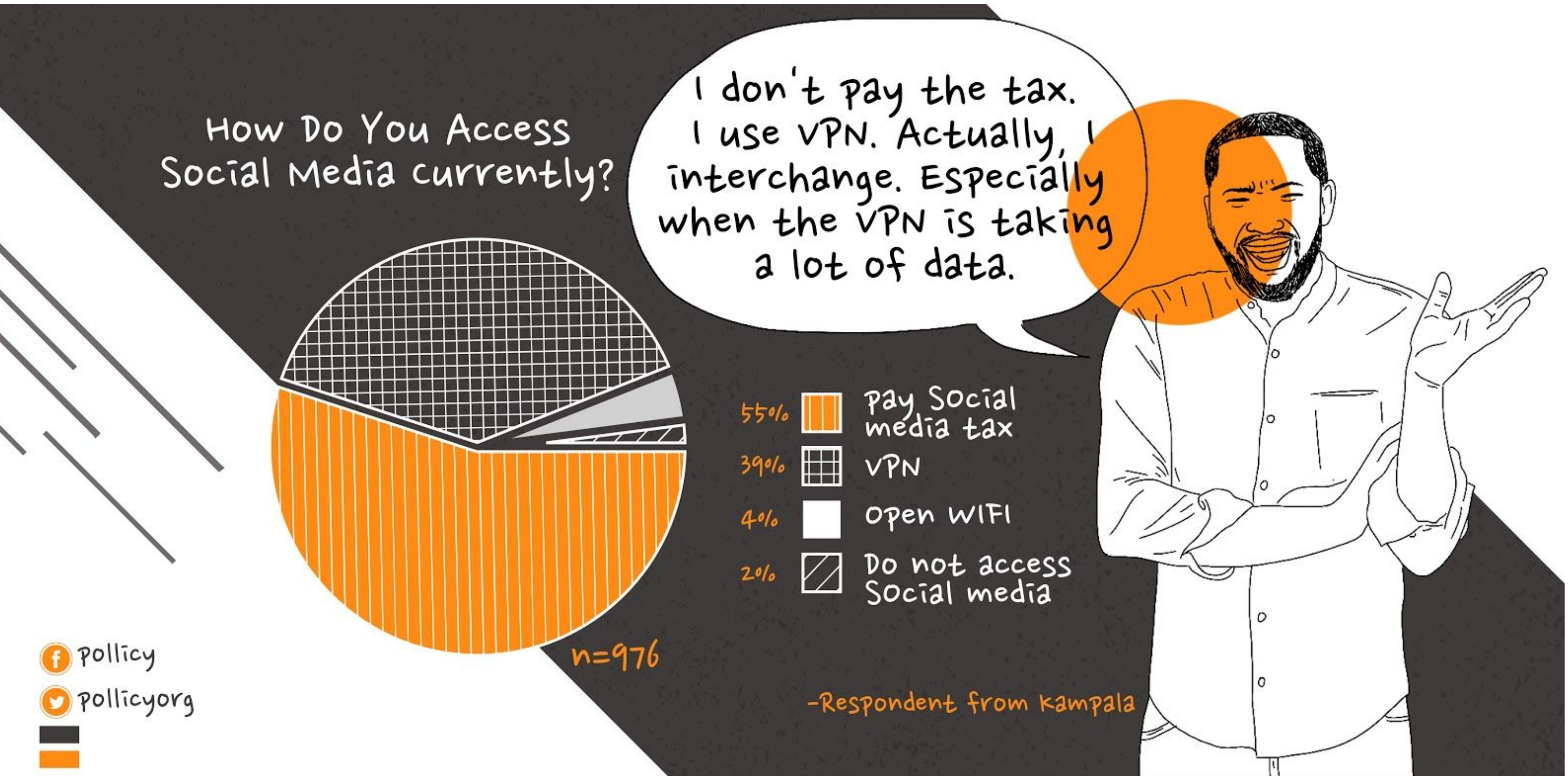
On average, most respondents (93%) made below UGX1,000,000 (US$270), with a quarter of respondents making less than UGX100,000($27) per month. In terms of payment behaviour, 80% of respondents making over UGX1,000,000 were paying their social media taxes whereas only 55% of respondents making under UGX1,000,000 were paying the tax. The Alliance for Affordable Internet exemplifies this by showing how the cost to access just 1GB of data for Uganda’s poorest will account for nearly 40% of their average monthly income. Paying the social media tax alone for one month amounts to UGX6000, which is already more than 6% of the monthly income of a quarter of the respondents we spoke to!



Device
For a majority of respondents (97.4%), the only means to access the internet was through their phone. Only 0.7% had access to a computer and only 0.2% used internet cafes.

Access
When it comes to payment, around 56% of participants say that “they pay their Social Media taxes”. Interestingly, 38% of respondents continue to use a VPN while 3.7% use open WiFi. Men and women tended to have similar rates of OTT payment and VPN usage. A majority of respondents (58%) pay their social media tax on a daily basis, with 25% paying weekly and only 16% paying on a monthly basis.

Students have claimed that the tax affected their education: “Yes, I pay. It’s actually a personal requirement now because most times our instructions at school are sent through Whatsapp. It’s the easiest way of communication to groups of students, so we must pay to access it. Using, of course, all ways, even paying when there are no options.”
- Respondent Kampala



Usage

In terms of usage, prior to the implementation of the social media tax, 33% of respondents would access social media platforms more than 10 times a day, but this number dropped down to just 6.6% after the taxation. While previously only 5% accessed social media platforms “a few times a week”, this number rose to 29% after the taxation.

Economic Activity

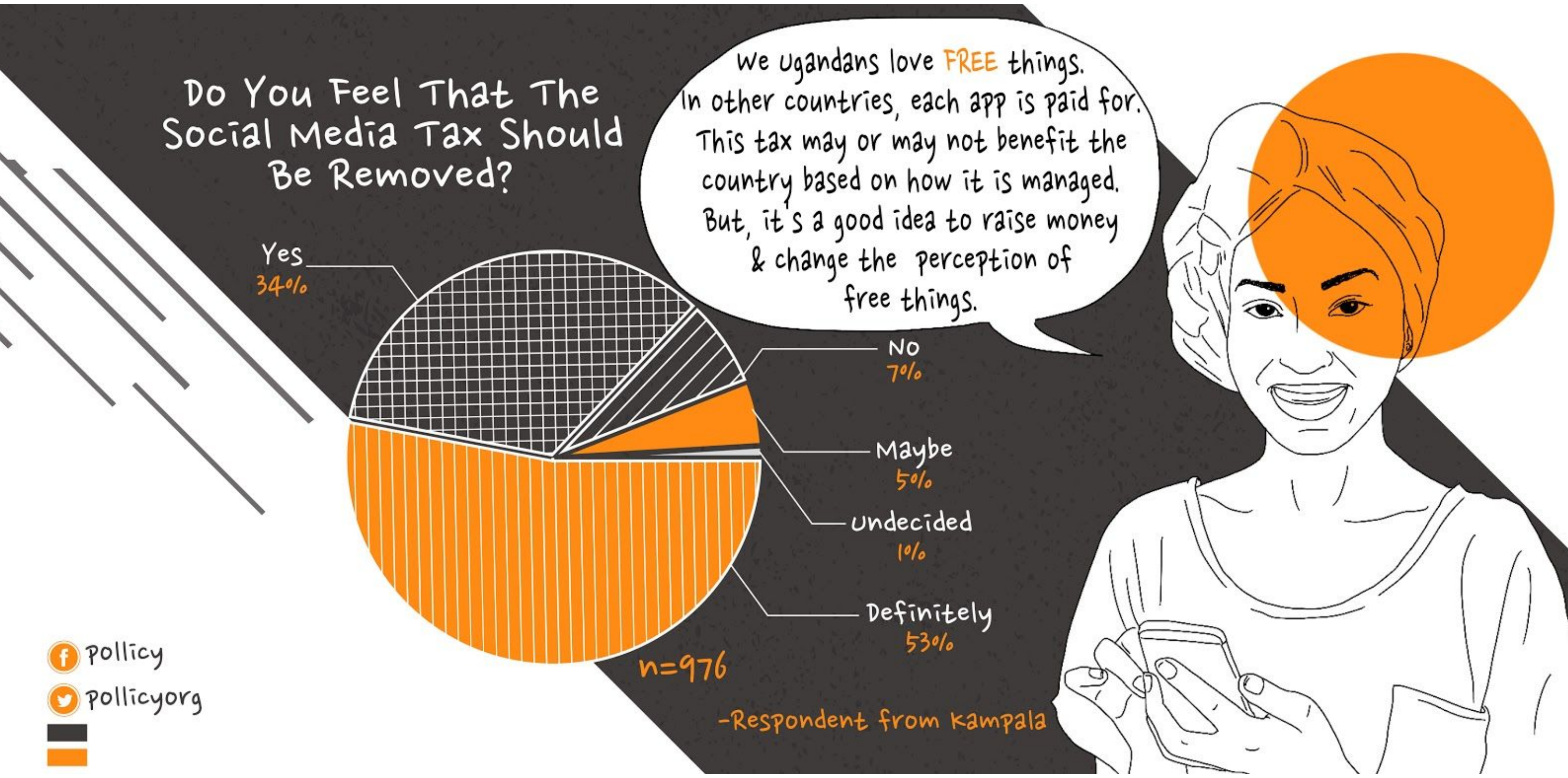
One third of respondents used social media for business activities and of these respondents, 74% reported reduced income following the tax implementation, while 20% reported that their income remained the same.

Approval

Thirty percent of respondents were **strongly** against the social media tax, while 51% were not in favor. Only 12.7% were supportive of the taxes and 6% were neutral. A majority of respondents, 86% feel that the social media tax should be removed, with only 7.2% percent feeling that it should not be removed and 6.3% were neutral.

Around 79% of respondents disagree that the social media tax will reduce gossip and conspiracy theories. Fifty-nine percent disagree that it will reduce on the country's debt burden, whereas 28% did agree that it might actually reduce debt thus achieving the original intention for the implementation of the tax. In terms of reducing game betting, 72% disagree that the tax will make a difference.

In general, most respondents found the tax frustrating (38%). They felt a limitation in communication and information (33%) and increased expenses (18%). Few people vented their frustrations in having to use mobile money to pay the social media tax.



Minority Groups

Persons with disabilities (6.3% of respondents) are a particularly marginalized population in relation to the tax. Recently, Uganda National Association of the Deaf (UNAD) Executive Director Joseph Mbulamwana [commented](#) "Most of the deaf people are really poor. Before introducing OTT tax, we were communicating well but with the new taxes, our phones are off. We want to communicate but we cannot. It is like the government is closing our mouth and does not want us to communicate", insisting that the government should subsidize the tax.

Mobile Money

In addition to responses on the social media tax, we also asked respondents about their attitudes and behaviors in relation to the recent mobile money tax. Originally set at 1%, the tax was reduced in October 2018 to 0.5% on withdrawals of money transactions. Put to the vote, the tax was retained after 164 out of 288 Members of Parliament voted in favor.

A month after the Mobile Money tax was introduced, MTN mobile network reported a drop by 50% in mobile money transactions. Ms Elsa Muzzolini, the MTN mobile money General Manager stated, "revenue to government has slowed down from 50 per cent to 30 per cent because of reduced earnings since most people have abandoned mobile money".

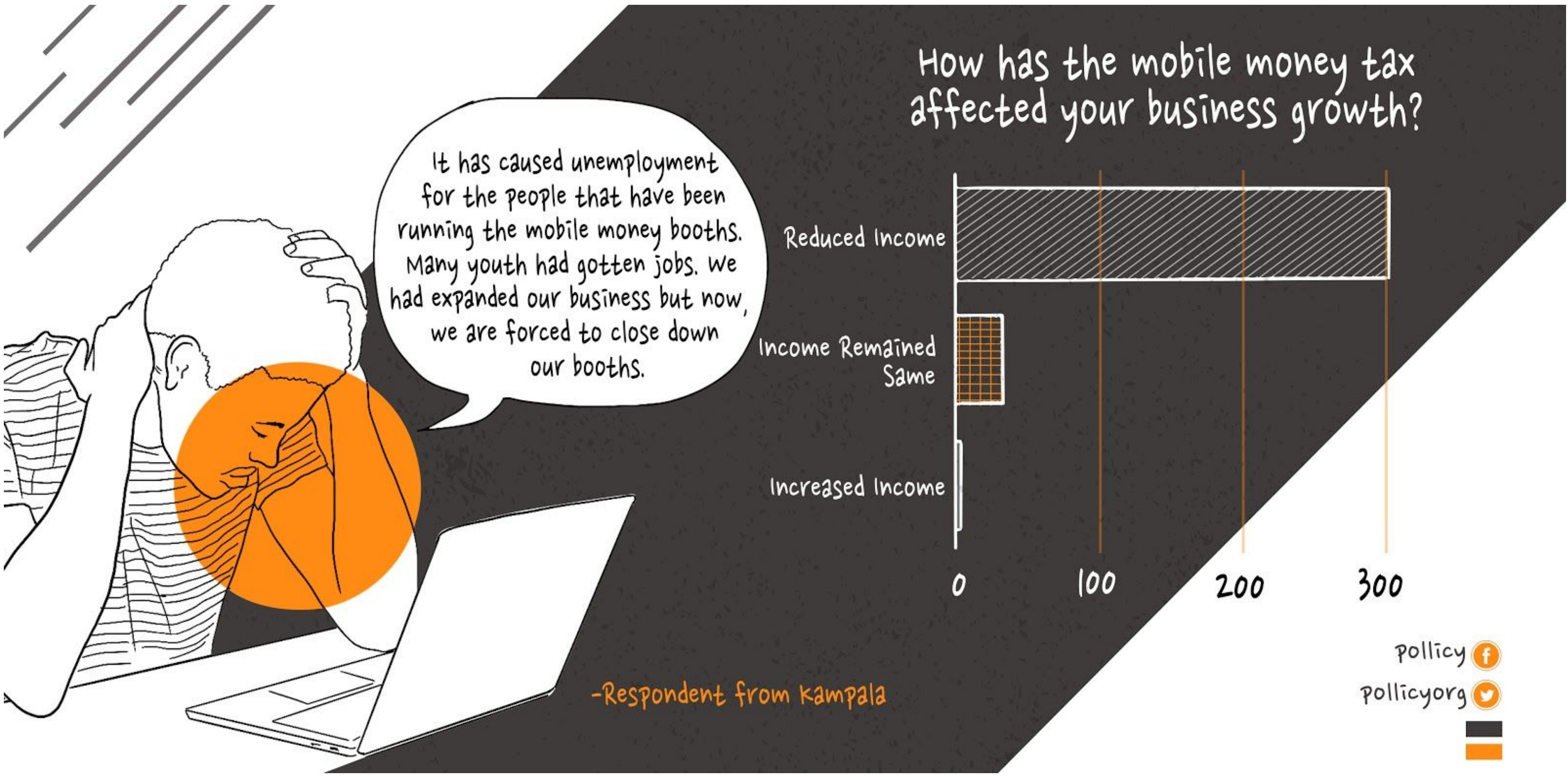
Of our 976 respondents, 97.6% had used mobile money services in the past 6 months. Despite being a requirement to pay the mobile media tax, the top current use of mobile money was for supporting the household and school expenses (56%). Business transaction (23%) and airtime top-ups (16%) were the next top uses and only 4.7% for paying the social media tax.

Only 4.2% of respondents have completely stopped transaction on mobile money whereas 70% said that they transact less money than before the excise duty. When queried about how they have replaced using mobile money services, 38% responded that they now save their money at the bank or transact person-person (14%). Twenty-eight percent have no alternatives.

A majority, 87%, indicated that the mobile money tax has resulted in reduced income and business growth, and in turn, 97% feel that the mobile money tax should be completely scrapped.

Solving the GDP: tax ratio

We asked an open-ended question to respondents on alternate solutions to raise taxes other than the social media and mobile tax. Major solutions were to combat corruption (15%), tax harmful commodities like alcohol (8%), tax civil servants (4.6%) and tax investors/remove tax holidays (8%).



Focus Group Discussions

Two focus group discussions with 8-12 participants were conducted in Ishaka-Bushenyi and in Kampala. Several participants, especially the youth, felt insulted at having to pay the new taxes given the high unemployment rates and low wages. Furthermore, they felt that the taxes were introduced very suddenly, with little consultation of the people and explanation of the purpose and intended outcome. While most understood the need for raising government revenue, they were not confident in the funds being used for social good given their perceptions towards corruption and mismanagement. They want to see their taxes at work.

“Most of the youth are not employed. Asking us to pay a tax of 200 Uganda shillings is a big insult to us. Let them actually get us daily income and then even double the tax.’’
- Respondent Ishaka

What’s next?

Talking to our respondents from across the country has shown the perceptions and behavior of a small subset of Ugandans towards the social media and mobile money taxes. Overall, respondents are struggling to make the payments which have resulted in a reduction in access and usage, as well as negative impacts on economic growth, income and savings. Communication has reduced amongst respondents and other sectors such as education and business are, in turn, affected.

Given that a majority of respondents reported reduced income, it would be worthwhile to further understand how the increased revenue projected by the government compares to the reduced revenue within the population and in turn, GDP, of the country. Furthermore, the negative impacts on minority groups such as those with disabilities, and in areas of education, access to information, and communication could far outweigh any revenue-related benefits. At a time when the world scrambles for data and information, restricting access can have far-reaching consequences for Uganda.

We hope that African governments considering the implementation of such internet-based taxes can adopt an evidence-based approach to developing policy for the ICT sector, in a manner that simultaneously builds the economy while also increasing access and innovation.

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