

Kenya set to lower excise duty on mobile phone airtime

Following the high elasticity of demand for mobile services in Kenya, mobile service providers have been urged to lower excise duties on mobile phones and airtime in a bid to increase the demand for these services.

By Joyce Joan Wangui 11 Jun 2007

In a recent call, Kenya's Minister for Communication and Information Mutahi Kagwe noted that lowering the excise duty on mobile phone airtime would result in increases in tax collection. The move, he noted would be beneficial not only for Kenyans but the East Africa community and the COMESA region at large.

The lowering of the excise duty is a joint venture in the three East African countries of Kenya, Uganda and Tanzania, which is expected to fuel economic development in the region. Currently the excise duty in Kenya stands at 10% while Uganda levies the same at 12% and Tanzania at 7% respectively.

A study carried out last year by consultancy Deloitte for the association of mobile telephone operators, GSMA indicated that East Africans pay taxes of between 25% and 30% on mobile phone services, which includes VAT and excise duty compared with an average of 17% across Africa. And following this study, says the Minister, it is imperative that the duty is indeed removed.

"This call could not have come at a better time. In the medium term, reducing mobile service taxes would see an increase in tax receipts while the long term effect would lead to a reduction in tariffs, hence boosting usage of mobile services," said Kagwe.

Most people in East Africa often shy away from using mobile phones due to high taxes on airtime, a situation if not contained would hinder effective communication.

The study also envisages a boost in investment in the mobile telephony sector. This would be brought about by a rise in VAT due to the reduction in tariff on mobile phone airtime. In a wider perspective, as more people have access to mobile phones and affordable airtime, this is expected to boost communication between business people and their clients hence leading to an improved economy and an increased GDP in the three countries.

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