How does one efficiently administer Whatsapp tax?

Baraka Cassian

GUEST COLUMNIST

Lawmakers in Uganda recently introduced changes to their Excise Duty Act that would see social media users pay an equivalent of Sh180 for each day they use internet messaging platforms like Whatsapp, Facebook, Viber or Twitter.

This comes into effect from 1 July 2018 and with an estimated 17 million active internet users, this "social media" tax is expected to increase the country's tax base and curb unproductive social media usage in the country.

This move by our neighboring East African Nation is consistent with similar tax reforms made by a number of other Sub-Saharan African countries, aimed towards taxing e-commerce activities brought about by our adoption of the internet.

However, as users of social media and the internet seek to come to terms with this new reality, a question comes to mind - how does one reasonably implement and enforce tax on internet applications?

This appears to be a point of contention across the world with many tech giants such as Google, Apple and Facebook facing litigation in jurisdictions they operate as other nations are looking to collect their fair share of taxes from internet related activities.

It is without a doubt that platforms like Whatsapp and Instagram have grown to become extremely popular and important communication tools in Tanzania.

There are many cases of how a number of users have managed to successfully create and market their businesses through the said platforms. As we await the presentation of the various tax reforms included in Tanzania's 2018 Finance Bill, I have set out below three issues that Governments should look at when considering taxes on Uganda's proposed social media tax as an example, it is unclear how the authorities would be able to correctly identify Ugandans accessing social media sites and subsequently collect the appropriate levy on a daily basis.

A practical method would be accessing the data through telecommunication companies that run and operate networks which mobile users are registered to.

However, this would neglect various cases including mobile phone users who access the internet through a roaming sim-card registered in other countries, non-mobile users who access social media sites only from their personal computers and those who use virtual private networks (VPNs) that route data through remote servers. Such exceptions create loopholes that could make it difficult to identify and appropriately tax under such a scheme.

A second issue to consider is the potential double taxation that might arise under such reforms. An individual paying tax on social media usage would have also paid taxes on the data recharge bundle purchased to access the internet.

An additional third tax might also apply in the event that the individual used social media for taxable income earning activities which are separately taxable. Side effects of double taxation include limiting any innovation or investments in this industry, which might hinder progress for any forward-facing economy.

Finally, a key challenge lies in identifying and taxing only the intended applications without wrongly taxing unintended service providers who accidentally fall under the same umbrella. Using the Uganda social media tax as an example, the specific wording of the bill refers to imposing excise duty on "over the top services".

Over the top services are further defined as "transmission or receipt of voice or messages over the internet..."

Whilst the original intention might be to tax specific messaging platforms like Whatsapp, this broad definition would also include any other mobile applications that were not designed for social media but happen to offer similar messaging functions.

Examples include ride-sharing applications like Uber or video hosting applications like YouTube, which might not have been the targeted services but also offer messaging transmission services and would therefore be caught under this definition.

In summary, technological innovation continues to grow at a very fast pace fueled by the widespread adoption of the internet.

These changes have created new industries and equally disrupted traditional industries including banking, finance, transportation and retail.

Whilst these developments have been welcomed by the general public, governments around the world have faced challenges in updating traditional tax laws and introducing new reforms to accommodate such progress.

We hope any tax reforms introduced through this budget address some of the issues raised and provide for a fair tax environment for all parties involved.

Baraka Cassian is a registered tax consultant and a Associate CPA in Public Practice. He can be contacted through baraka@cassian.co.tz.