DOES THE DIGITAL ECONOMY OFFER OPPORTUNITIES FOR DOMESTIC RESOURCE MOBILISATION? PART I-WITH MR BOYD MULEYA

In this week's Monday opinion, we explore the digital economy, and its potential for Domestic Resource Mobilization (DRM) in Zambia. This article will focus on harnessing tax opportunities within the Information and Communications Technologies (ICTs) sector.

ICTs have emerged as one of the key sectors contributing positively to Gross Domestic Product (GDP), particularly during the COVID-19 pandemic. ICTs stands out as anoption for economic diversification and broadening of the country's tax net.The latter emphasizes the importance of the digital economy and how Zambia can use ICTs to identify key avenues for DRM and leverage locally developed solutions to its current debt problems.

The digital economy refers to the network of economic activities, commercial transactions, and professional interactions facilitated by ICTs to provide goods and services. It is the economy based on digital technologies, to put it succinctly.

Physical shops, goods, and cash payments are the foundations of the traditional economy. Traditional businesses have gradually adopted aspects of the digital economy, such as accepting debit cards and selling online. As the digital economy progressed, some businesses abandoned their physical stores in favor of selling directly from an e-commerce site, which was then delivered to customers' homes. Physical goods are no longer available for some digital services. Netflix and Spotify, for example, do not require any physical goods and instead stream everything over the internet.

With that said, we now draw our attention to the question 'Does the Digital Economy offer Opportunities for DRM.'

Digital technology has a lot of potential for increasing DRM, especially in terms of how tax administrations can improve their efficiency and assist taxpayers with compliance. For example, digital technology allows taxpayers to pre-fill tax declarations with third-party data, reducing the burden of tax compliance by allowing them to simply check and confirm the pre-filled information. An area which the Zambia Revenue Authority (ZRA) has made steady progress thus far.

E-invoices willallow government to track sales by using cash registers to record transactions and sending information electronically (in real time) to a server that the ZRA can access. Indirect taxes, such as Value Added Tax (VAT), can benefit greatly from such a system in terms of administrative efficiency. Zambia uses Electronic Fiscal Devices (EFD) that ZRA issues to VAT registered taxpayers. The EFD Law was passed through VAT Act No. 17 of 2015. The rollout is intended for all VAT taxpayers to have these devices, but this is being done in phases and currently, about 4,000 have been covered from an VAT population of around 15,000.

Given that transactions are electronic and easily taxable, mobile technologies and services provide ample opportunities for DRM. In Sub-Saharan Africa, the mobile industry generated $110 billion in economic value in 2016, equivalent to 7.7 percent of GDP, and about $13 billion in tax revenue.

The number of mobile subscribers increased at a 14.2 percent annual rate from 2.2 million in 2008 to 7.9 million in 2018, reaching 45.1 percent unique subscriber penetration in Zambia. In 2017, the mobile sector generated $533 million in revenue, accounting for 2.1 percent of Zambia's GDP. In same year, mobile operators contributed $188 million in direct economic value to Zambia (0.7 percent of GDP) (African Development Bank, 2020).

The growing mobile money ecosystem opens new avenues for raising funds. For example, the government can introduce the selling of bonds through mobile money, allowing small investors to invest as little as K1,000 in the government securities market.There is also the possibility of introducing an e-levy for the mobile industry. The mobile sector can aid DRM by promoting financial and digital inclusion and significantly increasing the financial sector's efficiency and helping Government finance its development.

In the developing world, mobile phone services are becoming increasingly important in promoting economic growth and social inclusion. By increasing internet and broadband access, mobile penetration and affordability improve digital connectivity, lowering barriers to trade, commerce, communication, service delivery, and human development. Financial inclusion through mobile payment platforms, digitally enabled local entrepreneurship, innovative health and education delivery systems, and an increasing number of e-government initiatives are examples of these benefits (GSMA, 2018).

Taxing the digital economy is a possibility not only for Zambian-registered businesses and individuals, but also for foreign businesses, whether they have a physical presence in the country or not. Other options include taxing the digital economy through digital companies like Netflix and Facebook, which do not have a physical presence in Zambia but have a large pool of customers, and Multinational Enterprises (MNEs), particularly mining companies, which stand out as suspects in most cases of illicit financial flows through various tax avoidance and evasion schemes.

Zambia's National Development Plans (NDPs), National ICT policy, Electronic Communications and Transactions Act, 2021, Information and Communications Technologies (ICT) Act No. 15 of 2009, and Postal Services Act No. 22 of 2009 have all demonstrated a commitment to improve digitalization's inclusion and efficiency mechanisms. On February 28, 2017, the Zambia National Data Center was officially handed over to the government as phase one of Smart Zambia project. What remains to be seen is how the government will coordinate efforts to effectively tax the digital economy, particularly MNEs with no physical presence in Zambia.

Join us in next week's Monday Opinion aswe engagemore on how Zambia can benefit from the Organization for Economic Cooperation and Development's (OECD) two-pillar solution of granting each country tax rights over companies that do not have a physical presence in it, as well as the global institutionalization of a minimum tax rate.

About the author
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