DIRECTORATE OF INFORMATION & COMMUNICATION


Venue: Addis Ababa, Ethiopia

**Taxing the digital economy: COVID-19 heightens need to expand resource mobilization base.**

The COVID-19 pandemic has brought to the fore, the focus on the rapidly growing shift to a digitalised economy across the globe. The social and economic lockdowns imposed by government worldwide has pushed many individuals and companies onto online platforms to conduct their business. While other sectors of the economy have come to a standstill, the digital sector has boomed. This has huge implications for business models going forward, and makes it even more urgent that solutions be found for the taxation of the digital economy that are equitable for source and market jurisdictions.

These two very important issues, which will have a significant effect on revenue collections in the foreseeable future, will be at the centre of deliberations when African tax officials and policymakers meet virtually on the 26th and 27th August 2020 at the High-Level Policy Dialogue. Now in its fourth edition, the dialogue brings together African tax policymakers and tax administration officials to discuss crucial tax issues impacting the continent. This year’s dialogue is being jointly organised by the African Tax Administration Forum and the African Union Commission, and is being supported by the African Development Bank.

The unprecedented COVID-19 pandemic has demonstrated the inter-linkages between the world’s economies and trade supply chains, and has further revealed the structural weaknesses and vulnerabilities in the economies, social and health systems between and within countries. It has disrupted societies and devastated economies throughout the world. Governments have implemented unprecedented lockdowns to curtail the spread of the pandemic, global economic activity has plummeted resulting in a worldwide recession, reduced tax revenues and increased unemployment.

Africa has not been spared, albeit that the COVID-19 pandemic hit the continent later than other regions of the world and has seemingly been not as severe in terms of infections and mortality rates. The impact on African economies has been severe. International and intra-African trade has been drastically reduced as a result of lockdowns, movement restrictions and closure of borders and airports.

According to the African Union Commission, Africa’s GDP growth is projected to contract by between -4.9% and -2.1% in 2020, which would lead to a reduction of between US$135 billion and US$204 billion from pre-COVID–19 GDP of $2.59 trillion. The crisis has also increased poverty with the African Development Bank estimating...
that COVID-19 pandemic will push between 28.2 million and 49.2 million more Africans into extreme poverty. The contracting economies are expected to translate into weaker fiscal positions for governments across the continent at a time of maximum need. Not only will the impact of the pandemic adversely impact Domestic Resource Mobilisation (DRM) efforts, it will also likely lead to a reduction in overseas development assistance as donor countries face their own cash crunch in the midst of economic turmoil.

Already African countries are reporting a reduction in tax revenues, especially from the non-digitalised sectors. The decline in the prices and demand for commodities and the impact of the pandemic of the travel and tourism sectors, which African countries mainly depend on for tax revenues, have led to significant loss of revenue losses. In the light of this crisis, it is imperative that African policymakers respond with heightened urgency to the issues raised by the impact of the COVID-19 pandemic on African economies and take a closer look at the proposals for the taxation of the digital economy and their likely implications for revenue collection for the continent’s states.

African countries must rethink their economic and fiscal policies to ensure that the recovery after COVID-19 is faster, with a more significant impact on the lives of their citizens. Regarding tax policy and tax administration measures, now more than ever it is critical that tax practitioners on the continent collaborate and pursue tax measures to shore up revenue that will foster economic development and bridge the gap that will arise due to a reduction in aid.

On the table as a source of untapped revenue must be businesses in the digital economy who have a significant economic presence in African countries and benefit from economic activity but have little obligations to pay tax because they do not have a physical presence in these countries. This has become even more urgent because the COVID-19 crisis has increased the dependency on digital services as these remain most feasible given the need for social distancing. For example, in the last few months, we have seen a boom in the adoption of video conferencing services such as Zoom and Microsoft Teams. As African citizens continue to acquire more digital services, the growth, expansion and remote presence of digital multinationals in Africa, will continue to impact tax revenues across the continent.

The taxation of the digital economy has been a hot topic on the international tax agenda for some years, with a drive towards finding a consensus-based global solution. To this end, through the OECD’s Inclusive Framework on BEPS, 137 countries, of which 25 are African countries, have been working together on proposals to address the tax challenges arising from the digitalised economy. Although some progress has been made, it now seems unlikely that a global consensus will be reached by October 2020 as intended. Although the disruption caused by the COVID-19 crisis has not helped, there are other sticking points, particularly with the United States on binding arbitration and the imposition of interim digital services tax by a number of countries like France and India.
African countries too have considered various options on taxing digital services. In recent times, 10 African countries – Kenya, Nigeria, South Africa, Egypt, Tanzania, Mauritius, Uganda, Cameroon, Ghana and Zimbabwe have either implemented or indicated that they plan to implement unilateral direct or indirect tax approaches in taxing the digital economy.

For more details and registration for the upcoming 4th High-Level Policy Dialogue, visit https://au.int/en/newsevents/20200826/4th-high-level-tax-policy-dialogue

For further information please contact:

Doreen Apollos, Directorate of Information and Communication | African Union Commission | E-mail: ApollosD@africa-union.org | www.au.int|Addis Ababa | Ethiopia

Romeo Nkoulou Ella | Media and Communications Unit | ATAF Secretariat
Email: rnkoulouella@ataftax.org

Directorate of Information and Communication | African Union Commission, E-mail: DIC@african-union.org | Website: www.au.africa | Addis Ababa | Ethiopia

Follow Us: Facebook | Twitter | LinkedIn | Instagram | YouTube