

The Effect of the Electronic Transactions Levy (E-Levy) on Retail Digital Financial Services in Ghana

E-levy was introduced in Ghana to enhance domestic tax mobilization and expand the tax base. But how has this affected the use of Digital Financial Services in the country?

INTRODUCTION

In November 2021, Ghana's Minister of Finance announced the government's intention to widen the tax net, and rope in the informal sector, by placing a levy on all electronic transactions across all digital platforms (MoFEP, 2022a).

At the time, Ghana's tax to GDP of 12.5% was not only below the SSA average of 16.5%, and the government's target of 20%, but insufficient to support the government's major programmes (MoFEP, 2022a). The government was witnessing a decline in several of its tax revenue sources and there was a need to explore innovative ways of raising revenues.

Also, Ghana has witnessed significant growth in e-commerce, social media shopping and the use of digital payments with (MoFEP, 2022a):

- Increased internet penetration, in which there are over 16.99 million active internet users (53% of the population) as of 2023
- Increased mobile money transactions, rising from GH¢150 billion in 2017 to GH¢986 in 2021

Therefore, taxing e-commerce appeared to be an opportunity to generate more revenue

When first introduced, E-Levy was pegged at a rate of 1.5% fee on all electronic transactions including mobile money payments, bank transfers, merchant payments and inward remittances (MoFEP, 2022b). The tax was implemented in May 2022, following

the passage of the Electronic Transfer Level Act 2022 (Act 1075), with a modified phased approach where charging entities temporarily used their systems to assess and charge the levy (MoFEP, 2022b). In July 2022, the second phase saw the introduction of the GRA Common Platform for the assessment of the levy (MoFEP, 2022b). A review of the Levy subsequently led to the introduction of the Electronic Transfer Levy (Amendment) Act 2022 (ACT 1089), which imposed a lower levy of 1% on electronic transfers partly in response to reactions to the earlier rate (MoFEP, 2023). The tax was borne by the sender in all transactions, except for inward remittances.



Research team on the field

All cumulative transactions up to GH¢100 per day (GH¢3,000 per month) were exempted.

The levy was projected to raise an amount of GH¢6.96 billion (equivalent to US\$1.1 billion) in 2022 and rise to about GH¢26.90 billion (US\$4.5 billion) from 2023 to 2025 (PwC, 2022). The revenue from e-levy is expected to support several government initiatives including entrepreneurship, youth employment, cyber security and digital/road infrastructure, among others.

PROJECT OBJECTIVE & RESEARCH QUESTIONS

This project sought to examine the effect of the introduction of e-levy on the use of retail digital financial services by various agents including mobile money vendors and other small-scale non-bank financial institutions (i.e., micro-credit, remittance companies, Fintech and Savings and Loans companies).

The research questions investigated were as follows:

- What was the immediate impact of the e-levy on the operations of firms offering digital financial services?
- What actions were taken by firms to mitigate the overall effects of the levy?

METHODOLOGY

To accomplish the main objectives of the project, a mixed-method approach was employed (i.e. quantitative and qualitative).

Quantitative

- A survey of mobile money agents (vendors) across all sixteen (16) regions of Ghana (July, 2023)

Background of Responding Enterprises (N=3,167)

Figure 3.1: Location of Enterprises

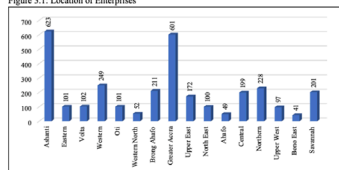


Figure 3.4: Legal Status of Enterprises

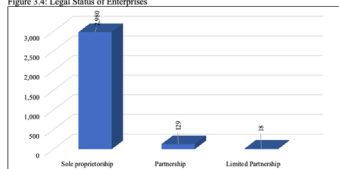


Figure 3.3: Size classification of enterprises

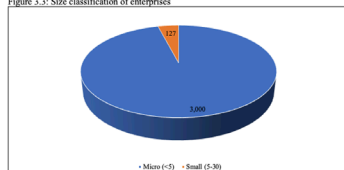
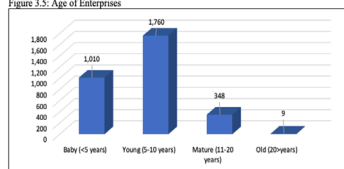


Figure 3.5: Age of Enterprises



Qualitative

- Key Informant Interviews (KII's) with small-scale non-bank financial institutions (i.e., micro-credit, remittance companies, Fintech and Savings and Loans companies).

Background of Responding Enterprises (N=3,167)

Figure 3.7: Premises

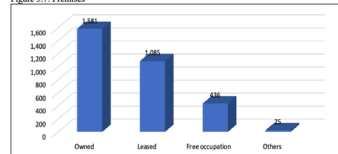


Figure 3.8: Gender of Owner

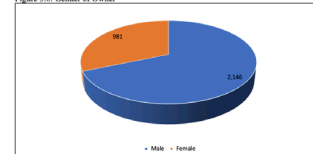


Figure 3.13: Ownership of Bank Account

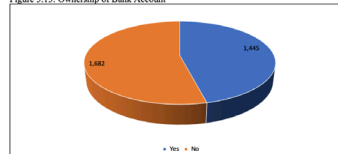
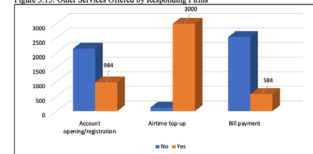


Figure 3.15: Other Services Offered by Responding Firms



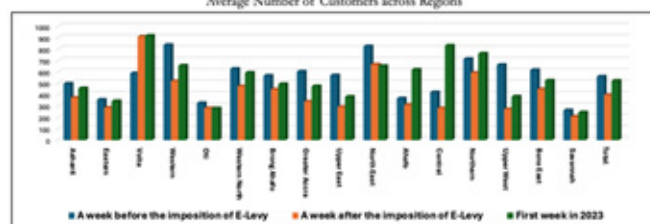
MAIN FINDINGS FROM QUANTITATIVE SURVEY

The quantitative survey asked mobile money vendors several questions related to their customer base, turnover, financial inclusion and main obstacles to doing business. Particularly for questions related to customer base and turnover, the respondents were supposed to provide average numbers before and after the levy was introduced and the first month of 2023.

Effect on Customer Base

- Most vendors indicated a decline in the average number of customers immediately after the e-levy was implemented. The numbers, however, gradually increased in the first week of 2023

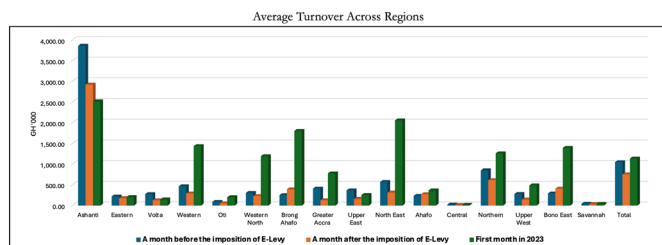
Average Number of Customers across Regions



- Enterprises that recorded average monthly transactions of less than GHC1,000 witnessed the most increases in customer bases in the first week of 2023

Effect on Average Turnover

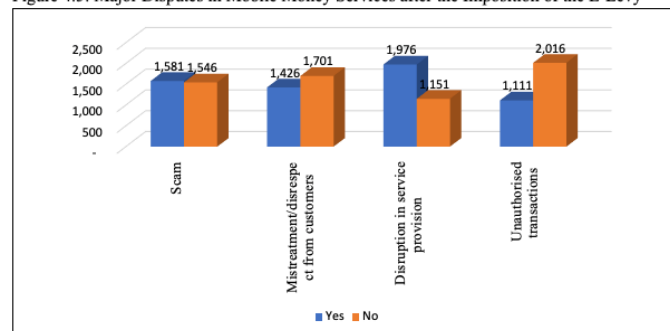
- Most vendors reported a decline in the average turnover when the levy was introduced. There was, however, a recovery in early 2023 which was quite substantial in most regions.



The Effect on Financial Inclusion

- Not many changes were observed among the various indicators of financial inclusion used in the survey.

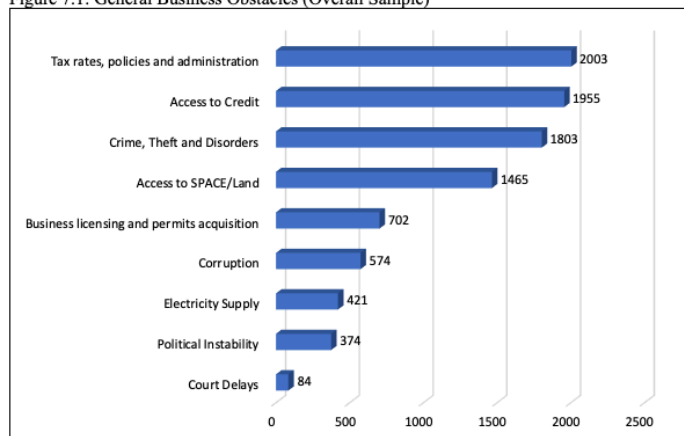
Figure 4.5: Major Disputes in Mobile Money Services after the Imposition of the E-Levy



General Obstacles

- Most of the vendors identified tax rates, policies and administration as the primary challenge affecting their operations.

Figure 7.1: General Business Obstacles (Overall Sample)



Volatility in Average Turnover and Customer Base was mostly explained by the number of owners, ever having a fraud experience and perceiving tax rates, policies and administration as an obstacle to doing business

KEY INFORMANT INTERVIEWS

- Given that the e-levy, by design, was not intended to be borne by the suppliers of digital financial services, the overall effect on firms was negligible
- The e-levy, however, did affect the use of most digital financial services immediately after its implementation as customers reverted to cash-based transactions to avoid the tax mainly due to misinformation, or inadequate information.
- Subsequent increases in the utilisation of digital financial services (DFS) can be explained by people becoming better informed about the strategies to avoid the tax burden.

POPULAR MITIGATION STRATEGIES

The KII's revealed some popular mitigation strategies:

- Avoiding bank-to-mobile money transfers, and rather opting for other methods like cash-out transactions, which are exempt from the levy.
- Conducting money transfers between agents (i.e., agent to agent)
- Limiting daily transfers to GHC100, as transfers below this threshold were exempt from the levy.
- Making transfers to specified merchant payments, such as commercial establishments registered with the Ghana Revenue Authority (GRA) for Income Tax or Value Added Tax purposes.
- Transfers from a school's corporate mobile money merchant wallet to teachers and casual workers via mobile money, where the school can claim the levy as an allowable expense.

CONCLUSION

- The immediate introduction of the e-levy led to a decline in the use of various mobile money services. Both customer base and average turnover declined significantly. However, as people generally became aware of ways to avoid the levy, transactions began to rise again.
- While there have been some significant improvements in the use of digital financial services more generally, the digital payments sector remains constrained by tax rates, policies and administration.

- Most mobile money vendors assisted customers by suggesting transfers that avoid the tax in totality, e.g. agent-to-agent transfers, which effectively undermined the revenue generation agenda.
- The reduction of the e-levy rate from 1.5% to 1%, was generally useful in encouraging the re-use of digital financial services.

RECOMMENDATIONS

Based on the conclusions from the study, the following recommendations are made:

- The government must **review e-levy** on a regular basis given the extent to which it swiftly affected the use of various mobile money transactions after its introduction.
- The Ghana Revenue Authority and any relevant government institution must provide **proper public education on taxation** as there is a general tendency for people to search for ways to avoid it. There is a general perception of the misuse of taxes.
- Policymakers should invest in **comprehensive public education campaigns** to ensure that citizens are well-informed about the e-levy and its implications, as well as the benefits of using digital financial services.
- When designing future tax policies in the digital space, policymakers should **prioritize financial inclusion objectives** and ensure that tax policies

do not disproportionately burden vulnerable groups.

- Tax authorities should ensure future tax policies in the digital space are designed to **encourage compliance and reduce the burden on stakeholders**.
- Tax authorities should ensure that tax policies in the digital space should **possess the flexibility to adapt to evolving circumstances** to retain their relevance and effectiveness over time
- The government should ensure that future revisions to the e-levy **aim for neutrality**, minimizing economic distortions and discrimination between different actors.

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About ReFinD

ReFinD is a sub-grants-awarding research initiative that aims to support interventions that will effectively expand the reach and efficiency of agent network operations through public policy and commercial solutions that can plausibly be scaled. It is implemented by the Institute of Statistical, Social and Economic Research (ISSER), University of Ghana, with funding from the Bill & Melinda Gates Foundation, with focus on research based in LMICs in Sub-Saharan Africa, South Asia, and Southeast Asia.