

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

The Electronic Transaction Levy, popularly known as E-levy, was introduced in Ghana by the Electronic Transfer Act 2022 (Act 1075) to enhance domestic tax mobilisation and expand the tax base. But how has this affected Digital Financial Services in Ghana?

INTRODUCTION

In November 2021, Ghana’s Minister of Finance announced in the 2022 Budget Statement to Parliament the government’s plan to expand the tax net by imposing levies on all electronic transactions across digital platforms, targeting the informal sector (MoFEP, 2022a).

At the time, Ghana’s Tax-to-GDP of 12.5% was not only below the Sub-Saharan Africa’s (SSA) average of 16.5% and Ghana’s target of 20%, but it was also insufficient to support the government’s major programmes (MoFEP, 2022a). The government was witnessing a decline in several tax revenue sources, necessitating innovative approaches to raising revenues.

Additionally, before the policy announcement, Ghana experienced significant growth in e-commerce, social media shopping, and the use of digital payments (MoFEP, 2022a). This growth was marked by:

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

Therefore, taxing e-commerce presented a strategic opportunity to generate additional revenue.

When first introduced, E-levy was pegged at 1.5% on all electronic transactions, including mobile money payments, bank transfers, merchant payments, and inward remittances (MoFEP, 2022b). E-levy was implemented in May 2022, following the passage of the Electronic Transfer Levy Act 2022 (Act 1075). A modified phased approach was adopted, where charging entities temporarily used their systems to assess and collect the levy (MoFEP, 2022b). In July 2022, the second phase introduced the GRA Common Platform for assessing the levy (MoFEP, 2022b). A review of Act 1075 led to the enactment of the Electronic Transfer Levy (Amendment) Act 2022 (ACT 1089),



Research team on the field

which reduced the levy to 1% on electronic transfers, partly in response to public reactions to the initial rate (MoFEP, 2023). E-levy is borne by the sender in all transactions, except for inward remittances. All cumulative transactions up to GH¢100 per day (GH¢3,000 per month) are exempt. The levy was projected to raise GH¢6.96 billion (US\$1.1 billion) in 2022 and approximately GH¢26.90 billion (US\$4.5 billion) from 2023 to 2025 (PwC, 2022). Revenue from E-levy was expected to support various government initiatives, including entrepreneurship, youth employment, cyber security and digital infrastructure, and road infrastructure.

RESEARCH OBJECTIVE AND RESEARCH QUESTIONS

This project sought to examine the effect of the introduction of E-levy on the supply of retail digital financial services (DFS) by various agents, including mobile money vendors and other small-scale non-bank financial institutions such as micro-credit, remittance firms, Fintechs and Savings and Loans companies.

The research investigated the following questions:

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

METHODOLOGY

To achieve the main objectives of the project, a mixed-method approach was employed, incorporating both quantitative and qualitative methods.

Quantitative

- A survey of mobile money agents (vendors) was conducted across all sixteen (16) regions of Ghana in July 2023.

Qualitative

- Key Informant Interviews (KIIs) were conducted with small-scale non-bank financial institutions, including micro-credit companies, remittance firms, Fintechs and Savings and Loans companies.

Background of Responding Enterprises (N=3,167)

Figure 3.1: Location of Enterprises

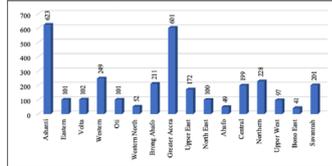


Figure 3.3: Size classification of enterprises

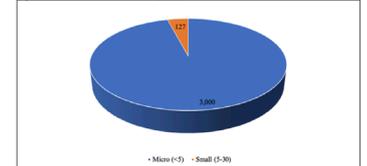


Figure 3.4: Legal Status of Enterprises

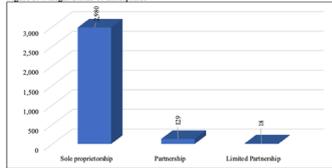
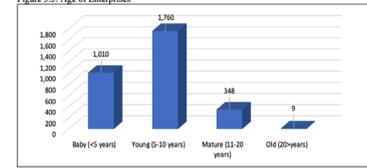


Figure 3.5: Age of Enterprises



Background of Responding Enterprises (N=3,167)

Figure 3.7: Premises

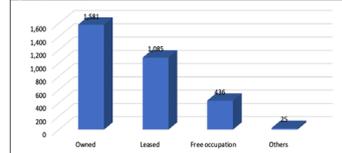


Figure 3.8: Gender of Owner

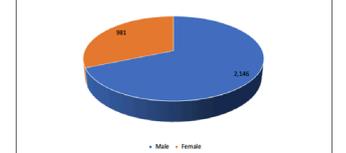


Figure 3.13: Ownership of Bank Account

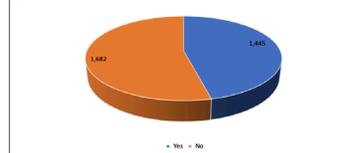
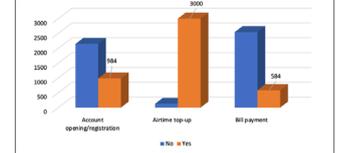


Figure 3.15: Other Services Offered by Responding Firms



MAIN FINDINGS FROM QUANTITATIVE SURVEY

The quantitative survey asked mobile money vendors several questions related to their customer base, turnover, financial inclusion, and the main obstacles to doing business. For questions concerning customer base and turnover, respondents were asked to provide average figures for the periods before the levy was introduced, immediately after its implementation, and during the first month of 2023.

Effect on customer base

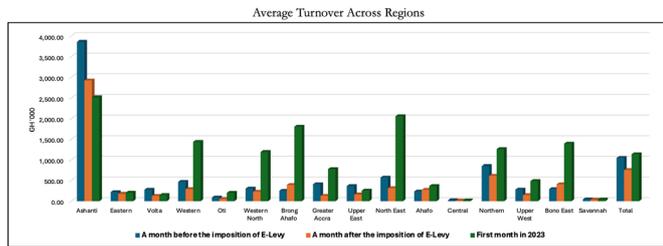
- Most vendors reported a decline in the average number of customers immediately after E-levy was implemented. However, these numbers gradually increased by the first week of 2023.



- Enterprises that recorded average monthly transactions of less than GH¢1,000 experienced an increase in their customer base during the first week of 2023.

Effect on Average Turnover

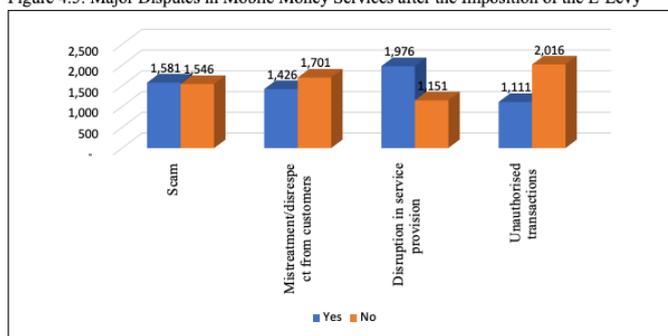
- Most vendors reported a decline in the average turnover when the levy was introduced. There was, however, a recovery in early 2023 which was quite substantial in most regions.



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

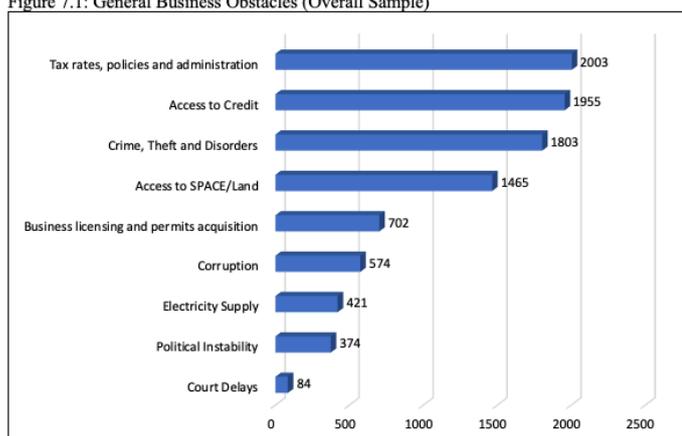


General Obstacles

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

Volatility in average turnover and customer base was attributed to owners having been defrauded in the past and perceiving tax rates, policies, and administration as obstacles to doing business

Figure 7.1: General Business Obstacles (Overall Sample)



KEY INFORMANT INTERVIEWS (KIIs)

- Given that E-levy was not designed to be borne by suppliers of DFS, its overall impact on firms was negligible.
- However, the levy did affect the use of most DFS platforms immediately after its implementation, as customers reverted to cash-based transactions to avoid the tax, primarily due to misinformation or inadequate information.
- The subsequent increase in DFS utilisation can be attributed to people becoming more informed about strategies to minimize or avoid the tax burden.

POPULAR MITIGATION STRATEGIES

The KIIs revealed several popular mitigation strategies:

- Avoiding bank-to-mobile money transfers and instead opting for cash-out transactions, which are exempt from the levy.
- Conducting money transfers between agents (i.e., agent-to-agent transactions)
- Limiting daily transfers to GH¢100, as transactions below this threshold are exempt from the levy.
- Making transfers to specific 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 implementation of E-levy initially led to a decline in the use of mobile money services, with both the customer base and average turnover dropping significantly. However, as users generally became more aware of methods to avoid the levy, transactions volumes began to rise again.
- While there have been significant improvements in the overall use of DFS, the digital payments sector continues to be constrained by existing tax

rates, policies, and administrative challenges.

- Most mobile money vendors helped customers avoid the tax by suggesting exempt transfers, such as agent-to-agent transactions, which undermined the government's revenue generation efforts.
- The reduction of the levy rate from 1.5% to 1% was generally effective in encouraging the renewed use of DFS.

RECOMMENDATIONS

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

- The government should **regularly review the E-levy**, given its significant impact on the use of mobile money transactions after its implementation.
- The GRA and relevant government institutions should provide **comprehensive public education on taxation**, addressing the widespread tendency to avoid paying E-levy and countering the general perception of tax misuse.
- Policymakers should invest in **comprehensive public education campaigns** to inform citizens about the E-levy, its implications, and the benefits of using DFS.
- When designing future tax policies in the digital space, policymakers should **prioritise financial inclusion objectives** and ensure that such policies do not disproportionately burden vulnerable groups.

- Tax authorities should design future digital tax policies to **encourage compliance and reduce the burden on stakeholders**.
- Tax authorities should ensure that digital tax policies **are flexible enough to adapt to evolving circumstances**, maintaining their relevance and effectiveness over time.
- The government should ensure future E-levy revisions **aim for neutrality**, minimising economic distortions and avoiding discrimination between different stakeholders.

REFERENCES:

Ministry of Finance and Economic Planning (2022a). Budget Highlights, retrieved from <https://www.mofep.gov.gh/sites/default/files/budget-statements/2022-Budget-Highlights.pdf>

Ministry of Finance and Economic Planning (2022b). Budget, retrieved from https://www.mofep.gov.gh/sites/default/files/budget-statements/2022_Budget_Statement_v3.pdf

Ministry of Finance and Economic Planning (2023). Budget, retrieved from <https://www.mofep.gov.gh/sites/default/files/budget-statements/2023-Budget-Statement-V5.pdf>

PwC 2022) Budget Digest. <https://www.pwc.com/gh/en/assets/pdf/pwc-ghana-2022budget-digest.pdf>

This policy brief was prepared as part of the ReFinD project, led by Prof. Festus E. Turkson, Prof. Peter Quartey, Prof. Agyapomaa Gyeke-Dako, Dr. Priscilla Twumasi Baffour, Dr. Emmanuel Adu-Danso, Dr. Emmanuel Abbey, and a team of Research Assistants. The project team extends sincere gratitude to all stakeholders who provided the necessary data and support to complete this report, and to the ReFinD Research Initiative for funding this project.

Published by:

ReFinD Research Initiative

 ISSER, University of Ghana

 refind.isser@ug.edu.gh

 www.refind-isser.ug.edu.gh

 [ReFinD_ISSER](#)

 [ReFinD_ISSER](#)

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.