East African Revenue Authorities Seek a United Front on Taxing Digital Economy

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Tax Authorities in the East African Community (EAC) are seeking a united front on how tax the digital economy. The initiative is part of the directives adopted at the 48th East African Revenue Authorities Commissioners General (EARACG's) meeting held virtually on 11th November, 2020. The regional heads of Revenue Administrations from Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda deliberated on some strategies to enhance revenue performance and trade facilitation in the EAC.

It is worth noting that all the East African Revenue Authorities (EARA) reported declining revenue performance from d March to September 2020 due to the COVID-19 pandemic with the greatest decline being registered in month of May 2020. Between July to September 2020, the revenue growth in the region ranged from -44.9% to 2.1%. This was unprecedented bearing in mind that the revenue in the region has on average been growing at double digits.

The period also accounts for a major paradigm shift in the economic landscape, with businesses shifting to online platforms such as social media and e-commerce to reach their consumers. To adopt to this shift, the Tax Authorities resolved to develop a joint strategy to address taxation of the digital economy targeted at widening the tax base and generation of additional revenues. The strategy will leverage on the explosion of digital businesses in the EAC region. It targets both international and local online based firms, backed by already existing legislative developments on taxing online transactions in the Region.

requires that online content creators pay Tsh. 2,100,000 ($900) in registration and licensing fees. In 2019 Uganda introduced the "Over-The-Top" (OTT) tax which charges a daily levy of Ush. 200 ($ 0.05) on the use of social media services such as WhatsApp, Facebook and Twitter. The newest frontier is Kenya's introduction of the Digital Service Tax (DST) and the Value Added Tax (Digital Marketplace Supply) Regulations, 2020.

In Kenya, the implementation of DST took effect from 1st January 2021. The regulation provides for taxation of income from digital-based transactions executed by residence within the jurisdiction of the Republic of Kenya. The tax is administered in form of withholding tax, payable at 1.5% of the gross transaction value at the time of transfer of payment to the service provider, and is offset against corporation tax payable at the end of the financial year.

The VAT- Digital Marketplace Supply Regulations, 2020 on the other hand is expected to take effect in April 2021. The Regulations provides the mechanisms for accounting for VAT on taxable supplies made in Kenya through a digital marketplace by foreign suppliers. The tax payable is set at the standard rate, currently 16% on the value of the taxable services offered by a non-resident digital marketplace to a customer who is resident in Kenya. The Regulations also requires that non-resident providers of digital services register for VAT in Kenya within 6 months from the date of publication of the Regulations, through a simplified tax registration framework.

Other forms of taxes targeting the digital marketplace in the region include Excise Tax on mobile phone-based financial transactions (Kenya-12%, Tanzania-10% and Uganda-1%) and Excise Tax on internet data services in Kenya-15%, among others.

In developing the digital taxation strategy, the Authorities will work closely with the East African Community Secretariat and the African Tax Administration Forum (ATAF) on an agreed framework on how to address base erosion, profit shifting and illicit financial flows within the Region as well as fast-tracking the integration of domestic taxes systems. The EAC Authorities will also pursue the establishment of a Committee on Tax Affairs at

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