Paying Taxes 2012
The global picture

A fair, sustainable tax system – how can governments create an environment that fosters business investment and economic growth?

Doing Business
THE WORLD BANK IFC

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Contents

Foreword 1

Key themes and findings 3

About Paying Taxes 5

Chapter 1: Findings of the World Bank and IFC's *Doing Business* 2012 report 9

Chapter 2: PwC Commentary. A fair, sustainable tax system – how can governments create an environment that fosters business investment and economic growth? 21

Chapter 3: Using the Paying Taxes data around the world 59

Appendix 1: The Paying Taxes methodology 95

Appendix 2: About *Doing Business:* measuring for impact 101

Appendix 3: The Paying Taxes reforms summarised by the World Bank and IFC 107

Appendix 4: The data tables 111

Foreword

Over the last three years the world has experienced an extraordinary financial and economic upheaval. The financial turmoil continues to reshape the economic landscape and to present difficult choices for governments in terms of public spending and fiscal policy. Severe damage has been caused to the public finances in many economies and difficult measures are being taken to repair them. In an increasingly global economy, business investment, capital innovation and skilled people will quickly flow to countries where tax systems encourage and offer the prospect of economic growth.

Governments in economies of all sizes and at all stages of development are struggling with the tax policy choices available to them. While taxes are essential for economic and social development, it is important that the taxes levied do not hinder the ability of companies to generate a sufficient and consistent return so that they can reinvest and grow their business.

But while the perspective of business and government on what the optimum amount of taxes to levy may differ, there should be a common agenda regarding the administration of tax systems and the need to ensure that it is simple and efficient. Both benefit from tax systems which are simple to administer and where levels of compliance are high.

The quality of the rules that underpin the administration of the tax system is therefore very important. If care is taken to create a system which is easy to administer, then it is more likely that businesses will operate within the formal economy and as a consequence that government will be able to collect the revenues that it needs to fund expenditure on infrastructure, education and public health. This expenditure supports productivity, a key driver of economic growth, and so helps to promote a virtuous circle of development.

Our Paying Taxes study demonstrates again that reform of tax systems around the world is continuing. There is an increasing focus on improving the administrative aspects of tax systems including the use of electronic filing and payment for tax returns, the reduction in the number of taxes per base and an increasing use of self assessment procedures.

Governments, business and civil society all benefit from a fair, stable and sustainable tax system which can help to encourage growth. Articles included in this report continue to demonstrate the engagement of government with tax reform giving insights into how the Paying Taxes data has been used and providing details of the reforms that have been and are being implemented.

We welcome feedback and encourage users of this report to provide additional input and comments, so that the value of the data can continue to be enhanced for the future.

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Key themes and findings

The impact that tax systems have on companies is important and governments should continue to develop tax systems which foster business investment and economic growth.

The private sector plays an essential role in contributing to economic growth and prosperity including paying and generating taxes.

On average, around the world our case study company makes 28.5 tax payments in a year, takes 277 hours to comply with its tax affairs and has a tax cost of 44.8% of its commercial profits.

It is important to look at each Paying Taxes indicator separately as they measure different aspects of the tax system.

Tax rates matter.

The size of the tax cost for business matters for investment and growth. Keeping tax rates at a reasonable level can encourage the development of the private sector and the formalisation of business.

Tax administration matters.

Efficient tax administration can help encourage businesses to become formally registered and the economy to grow, to expand the tax base and increase tax revenues. Both business and government can benefit from tax systems which are simple to administer and where levels of compliance are high.

The downward trend in the Paying Taxes results continues, driven by many successful tax reforms showing that improving the tax system for business is high on governments' agenda.

The average Total Tax Rate has fallen by 8.5%, more than 1% for each year, the time to comply by 54 hours, more than a day a year and the number of payments by five.*

When considering how the tax system impacts business, and what companies contribute to public finances it is important to look at all of the taxes that companies pay.

For our case study company the Paying Taxes results show that on average more than nine taxes are paid with corporate income tax representing just 12% of tax payments, 25% of the compliance time and 36% of the tax cost.

Paying taxes is easiest in high income economies, while only 22% of low income economies are in the first or second quartile for the overall ranking.

Tax revenues are a more sustainable source of financing for developing countries than debt or aid, so good tax systems can help to meet the Millennium Development goals.

The majority of economies in the Paying Taxes study charge corporate income tax or a similar tax on the profits of the case study company.

Only ten economies do not levy a corporate income tax or similar tax on our case study company and in a further three no corporate income tax is paid due to the availability of generous reliefs and allowances.

Multiple employer social contributions can add to the tax cost, and also to complexity and the compliance burden.

Multiple taxation raises the cost of doing business increasing the number of payments that need to be made and the number of hours required.

The time needed to comply with VAT varies considerably around the world and even between neighbouring countries.

Administrative procedures vary from country to country and this has a significant impact on how long it takes to comply with VAT.

Different government practice in administering other taxes can also impact the compliance burden.

Complicated or ambiguous tax rules, additional layers of taxation and the need to deal with different tax authorities can all increase the complexity and compliance burden.

Efficient online systems make paying taxes easier for both business and government.

Electronic filing and payment reduces the amount of paperwork, allows a more targeted and risk based approach to audit and compliance and can help eliminate corruption.

The Paying Taxes study enables governments to benchmark their tax system.

The use of a case study company enables a comparison with relevant peer groups including geographic neighbours or economies in the same economic grouping.

The purpose of the Paying Taxes study is to provide data to inform the discussion around tax policy, tax administration, and to encourage dialogue on reform.

Dealing with tax audits and disputes was the area that most contributors wanted to improve followed by the approach of the tax authorities.

*See figure 2.6

About Paying Taxes

In the words of Oliver Wendell Holmes, U.S. Supreme Court of Justice in 1904, "Taxes are what we pay for a civilized society." Governments need sustainable funding for social programs and public investments to promote economic growth and development. Programs providing health, education, infrastructure and other amenities are important to achieve a common goal of a prosperous, functional and orderly society. Those programmes require governments to raise revenue.

The private sector plays an essential role in contributing to economic growth and prosperity. Companies contribute to socio-economic development by employing workers, improving the skills and knowledge base, buying from local suppliers and providing products and services that improve people's lives. They also contribute to government revenues through generating and paying taxes.

The Paying Taxes study is unique because it generates a set of indicators that measure the world's tax systems from the point of view of business and also because it covers the full range of taxes paid in 183 economies, measuring how business complies with the different tax laws and regulations in each economy. As well as corporate income tax on profits, business pays employment taxes, social contributions, indirect taxes, property taxes and a whole variety of smaller levies including environmental taxes. The impact that tax systems have on business is therefore important.

This is the seventh year that the Paying Taxes indicators have been included in *Doing Business* project run by the World Bank Group. The indicators measure the ease of paying taxes for a small to medium-sized domestic company, in all of the 183 economies that it covers.

"Taxes are what we pay for a civilized society."

Oliver Wendell Holmes
U.S. Supreme Court of Justice (1904)

The objectives of the study are:

- to provide data which can be compared between economies on a like-for-like basis;
- to facilitate the benchmarking of tax systems within relevant economic and geographical groupings, which can provide an opportunity to learn from peer group economies; and
- to enable an in-depth analysis of the results which can be used to help identify good practices and possible reforms.

Paying Taxes uses a case study scenario to measure the taxes and contributions paid by a standardised business and the complexity of an economy's tax compliance system. This case scenario uses a set of financial statements and assumptions about transactions made over the year. Tax experts from a number of different firms in each economy (including PwC*), compute the taxes and mandatory contributions due in their jurisdiction, based on the standardised case study facts. Information is also compiled on the frequency of filing and payments, as well as the time taken to comply with tax laws in an economy. The case study company is not intended to be a representative company, but has been constructed to facilitate a comparison of the world's tax systems on a like-for-like basis.

Paying Taxes covers both the cost of taxes which are borne by the case study company and the administrative burden of tax compliance for the company. Both are important from the business point of view and these are measured using three sub-indicators:

- the Total Tax Rate (the cost of all taxes borne);
- the time needed to comply with the major taxes (profit taxes, labour taxes, and mandatory contributions, and consumption taxes); and
- the number of tax payments.

All three sub-indicators are equally weighted to arrive at an overall ranking, however it is important to look at each one separately, as each measures a different aspect of the tax system, generating important findings that are not necessarily revealed in the overall ranking.

The results for each sub-indicator, split by type of tax, and the full set of rankings, calculated on a basis which is consistent with previous years, are included in Appendix 4 of this publication. Further details are also available on the PwC website. The full methodology for the case study company and the indicators is explained in Appendix 1, and a description of the *Doing Business* project as a whole is set out in Appendix 2.

Chapter 1 of this publication sets out the perspective from the World Bank Group. It looks at why tax rates and tax administration matter, and includes a discussion of reforms and good practices with a focus on electronic filing, one tax per base and self assessment.

Chapter 2 provides a further analysis by PwC of the sub-indicators, which includes a look at the average picture for ease of paying taxes around the world, an assessment of how the Paying Taxes results have changed over the years and a focus on each of the indicators using a sample of economies and some regional and economic comparisons.

Chapter 3 includes a number of commentaries from PwC firms around the world which illustrate how this data is being used in practice to inform and stimulate discussion with governments. These commentaries also refer to some of the reforms that have been and are being implemented to address the issues arising in such dialogues.

* 'PwC' refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network.

Paying Taxes covers both the cost of taxes which are borne by the case study company and the administrative burden of tax compliance.

Paying Taxes and Doing Business

As for previous years, the overall paying taxes ranking included in this report continues to use a simple average of the percentile rankings for each of the sub indicators. These rankings are set out in Appendix 4.

This year the rankings in this report differ from those used by the World Bank Group in the *Doing Business 2012* report where a change of the methodology is being piloted to address a number of issues that have been raised through discussion with various stakeholders. The *Doing Business* report has applied a threshold to the ranking for the Total Tax Rate to seek to mitigate the effect of low Total Tax Rates on the rankings.

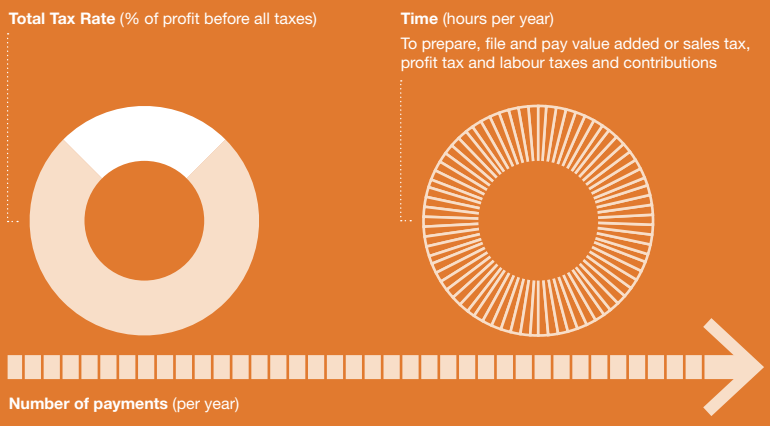
Findings of the World Bank and IFC's Doing Business 2012 report

Imagine a woman named Amina who owns a manufacturing company in Morocco. In 2004 she had to make 28 payments and spend more than 44 days (358 hours) to comply with tax regulations. Today, thanks to changes over the past seven years, her administrative burden is lighter. The government merged many taxes and eliminated others, and now Amina needs to make only 17 payments a year as measured by *Doing Business*. A new electronic filing and payment system, now fully implemented, saves Amina 15 days a year (120 hours). This is time she can invest in developing her business. "New technology makes compliance easier and more transparent," said Mahat Chraibi, a partner at PwC Morocco. "This is one example of how technology helps to bridge the development gap."

Doing Business records the taxes and mandatory contributions that a medium-size company must pay in a given year and also measures the administrative burden of paying taxes and contributions. It does this with three indicators: payments, time and the Total Tax Rate borne by a case study firm in a given year. The number of payments indicates the frequency with which the company has to file and pay different types of taxes and contributions, adjusted for the way in which those payments are made. The time indicator captures the number of hours it takes to prepare, file and pay three major types of taxes: profit taxes, consumption taxes, and labour taxes and mandatory contributions. The Total Tax Rate measures the tax cost borne by the standard firm (Figure 1.1).

In 2004 Amina had to make 28 payments and spend more than 44 days (358 hours) to comply with tax regulations. Today, thanks to changes over the past seven years, her administrative burden is lighter.

Figure 1.1: What are the time, Total Tax Rate and number of payments necessary for a local medium size company to pay all taxes?



With these indicators *Doing Business* compares tax systems and tracks tax reforms around the world from the perspective of local businesses, covering both the direct cost of taxes and the administrative burden of complying with them. The methodology looks at the statutory incidence of taxes, and includes all taxes and contributions that the case study firm is obliged to pay. This does not mean that the entire burden falls on the firm; eventually the cost is shared among the owners, customers, workers and suppliers of the firm. The indicators do not measure the fiscal health of economies, the macroeconomic conditions under which governments collect revenue or the provision of public services supported by taxation.

Why do tax rates and tax administration matter?

Oliver Wendell Holmes, a former U.S. supreme court justice, said, "Taxes are what we pay for a civilized society." Governments need sustainable funding for social programs and public investments to promote economic growth and development. Programs providing health, education, infrastructure and other amenities are important to achieve a common goal of a prosperous, functional and orderly society. And they require that governments raise revenues. This is so even in low-income economies that often receive large amounts of external assistance to help meet their needs. Taxation not only pays for public goods and services; it is a key ingredient of the social contract between citizens and the economy and thus key to building effective government. How taxes are raised and spent shapes the legitimacy of governments by promoting their accountability to taxpaying citizens and by encouraging effective administration and good public financial management.[1]

All governments need revenue, but the challenge is to carefully choose not only the level of tax rates but also the tax base. Governments also need to design a tax compliance system that will not discourage taxpayers from participating. Tax rates and burdensome tax administration remain a top obstacle to business. Recent firm surveys in 123 economies show that companies consider tax rates to be among the top three constraints to their business, and tax administration to be among the top eight.[2] Firms in economies that rank better on the ease of paying taxes tend to perceive both tax rates and tax administration as less of an obstacle to business (Figure 1.2).

Figure 1.2: Tax administration and tax rates perceived as less of an obstacle in economies that rank better on the ease of paying taxes

Note: Relationships are significant at the 1% level and remain significant when controlling for income per capita.
Source: *Doing Business* database; World Bank Enterprise Surveys (2006–10 data).

[1] FIAS 2009. "Taxation as State Building: Reforming Tax Systems for Political Stability and Sustainable Economic Growth." World Bank Group, Washington, DC.
[2] Companies ranked 16 obstacles to business in World Bank Group Enterprise Surveys in 2006–10 (http://www.enterprisesurveys.org).

The size of the tax cost for businesses matters for investment and growth.

Why tax rates matter

The size of the tax cost for businesses matters for investment and growth. Where taxes are high, businesses are more inclined to opt out of the formal sector. A recent study shows that higher tax rates are associated with fewer formal businesses and lower private investment. A ten percentage point increase in the effective corporate income tax rate is associated with a reduction in the ratio of investment to GDP of up to two percentage points and a decrease in the business entry rate of about one percentage point.[3] A tax increase equivalent to 1% of GDP reduces output over the next three years by nearly 3%.[4] Research looking at multinational firms' decisions on where to invest suggests that a one percentage point increase in the statutory corporate income tax rate would reduce the local profits from existing investment by 1.3% on average.[5] A one percentage point increase in the effective corporate income tax rate reduces the likelihood of establishing a subsidiary in an economy by 2.9%.[6]

Profit taxes are only part of the total business tax cost – less than 36% on average. In República Bolivariana de Venezuela, for example, the nominal corporate income tax is based on a progressive scale of 6–34% of net income, but the total business tax bill, after taking into account deductions and exemptions, is 63.5% of commercial profit because of one other profit tax, four labour taxes and contributions, one sales tax, one property tax and three other taxes.

Keeping tax rates at a reasonable level can encourage the development of the private sector and the formalisation of businesses. This is particularly important for small and medium-size enterprises, which contribute to growth and job creation but do not add significantly to tax revenue.[7] Typical distributions of tax revenue by firm size for economies in sub-Saharan Africa and the Middle East and North Africa show that micro, small and medium-size enterprises make up more than 90% of taxpayers but contribute only 25–35% of revenue.[8] Thus imposing high tax costs on businesses of this size might not add much to government tax revenue, but it might cause businesses to become informal or, in the worst case, to never exist at all.

In Brazil a tax simplification scheme for microenterprises (SIMPLES) that consolidated several taxes, leading to a reduction in the overall tax cost of 8%, resulted in an 11.6% increase in the business licensing rate, a 6.3% increase in the registration of microenterprises and a 7.2% increase in the number of firms registered with the tax authority. Budgetary revenue rose by 7.4% as a result of increased tax payments and social security contributions. SIMPLES was also found to increase the revenues, profits, paid employment and fixed capital of formalised firms.[9]

Businesses care about what they get for their taxes. Extensive and efficient infrastructure is critical for the sound functioning of an economy because it plays an important part in determining the location of economic activity and the kinds of activities or sectors that can develop. A healthy workforce is vital to an economy's competitiveness and productivity – so investing in the provision of health services is clearly essential for economic as well as moral reasons. Basic education increases the efficiency of each worker, and good-quality higher education and training allow economies to move up the value chain beyond simple production processes and products.

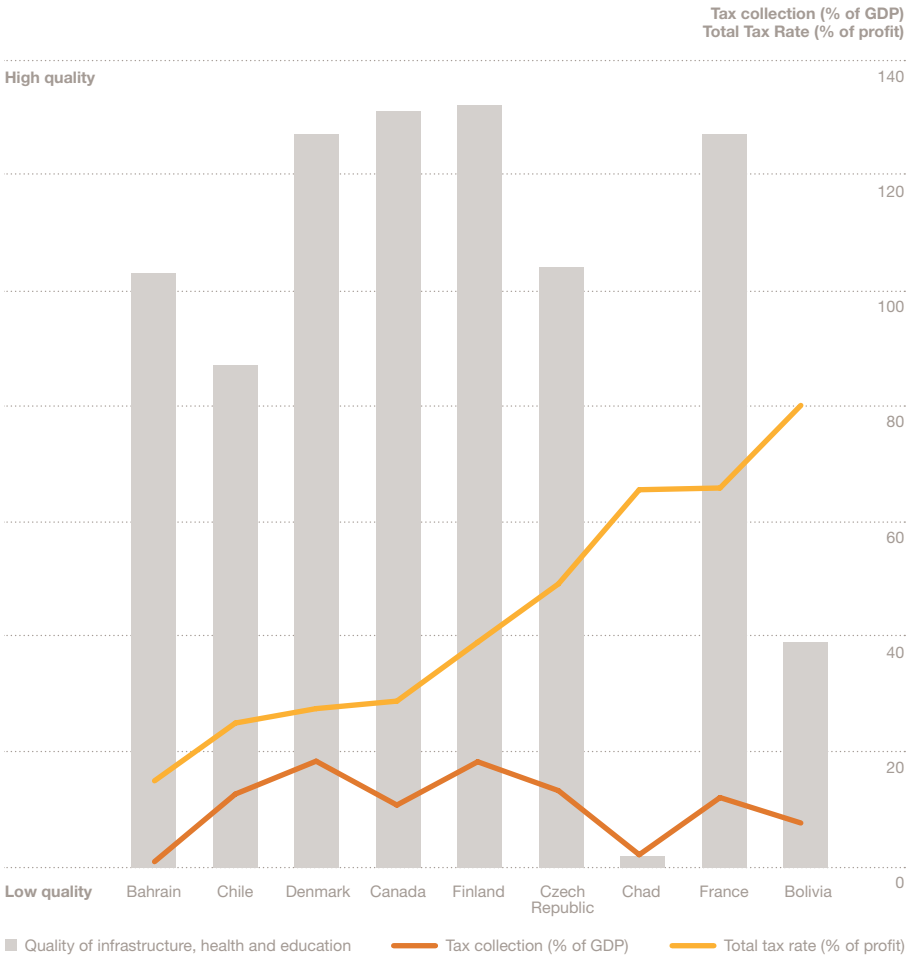
[3] Djankov, Simeon, Tim Ganser, Caralee McLiesh, Rita Ramalho and Andrei Shleifer. 2010. "The Effect of Corporate Taxes on Investment and Entrepreneurship." *American Economic Journal: Macroeconomics 2* (3): 31–64.
[4] Romer, Christina, and David Romer. 2010. "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks." *American Economic Review 100*: 763–801.
[5] Huizinga, Harry, and Luc Laeven. 2008. "International Profit Shifting within Multinationals: A Multi-Country Perspective." *Journal of Public Economics 92*: 1164–82.
[6] Nicodème, Gaëtan. 2008. "Corporate Income Tax and Economic Distortions." CESifo Working Paper 2477, CESifo Group, Munich.
[7] Hibbs, Douglas A., and Violeta Piculescu. 2010. "Tax Toleration and Tax Compliance: How Government Affects the Propensity of Firms to Enter the Unofficial Economy." *American Journal of Political Science 54* (1): 18–33.
[8] International Tax Dialogue. 2007. "Taxation of Small and Medium Enterprises." Background paper for the International Tax Dialogue Conference, Buenos Aires, October.
[9] Fajnzylber, Pablo, William F. Maloney and Gabriel V. Montes-Rojas. 2011. "Does Formality Improve Micro-Firm Performance? Evidence from the Brazilian SIMPLES Program." *Journal of Development Economics* 94 (2): 262–76.

But how effectively tax revenue is converted into public goods and services varies around the world. Recent data from the World Economic Forum show that in economies such as France high tax rates fund high levels of public goods and services such as infrastructure, health, primary education, higher education and training (Figure 1.3). The data show the opposite for economies such as Bolivia and Chad. Economic development often generates additional needs for tax revenue to finance a rise in public spending, but at the same time it requires the economy's ability to raise revenue to meet these needs. More important than the level of taxation, however, is how revenue is used. In economies such as Canada and Denmark Total Tax Rates are moderate, but the public services provided rank high in a global comparison.[10] In developing economies high tax rates and weak tax administration are not the only reasons for low tax collection. The tax base is much narrower because most workers earn very low wages or are in the informal sector.

Why tax administration matters

Efficient tax administration can help encourage businesses to become formally registered and the economy to grow – and thus expand the tax base and increase tax revenues. Administration that is unfair and capricious will bring the tax system into disrepute and weaken the legitimacy of government. In many transition economies in the 1990s, failure to improve tax administration when new tax systems were introduced resulted in very uneven imposition of taxes, widespread tax evasion and lower-than-expected revenue.[11]

Figure 1.3: High tax rates do not always lead to high tax revenue or good public services



Note: Quality of infrastructure, health and education refers to the average of the rankings on infrastructure, on health and primary education and on higher education and training as measured by the Global Competitiveness Index (see http://gcr.weforum.org/gcr2010/). Tax collection covers corporate income, value added and personal income taxes.
Source: World Economic Forum 2010; U.S. Agency for International Development, Fiscal Reform and Economic Governance Project (2009 data); *Doing Business* database.

[10] World Economic Forum. 2010. *Global Competitiveness Report 2010–2011.* Geneva: World Economic Forum.11. Bird, Richard. 2010. "Smart Tax Administration." *Economic Premise* (World Bank Group) 36: 1–5.
[11] Bird, Richard. 2010. "Smart Tax Administration." *Economic Premise* (World Bank) 36: 1–5.

Compliance with tax laws is important to keep the system working for all and to support the programs and services that improve lives. One way to encourage compliance is to keep the rules as clear and simple as possible. Overly complicated tax systems are associated with high evasion. High tax compliance costs are associated with larger informal sectors, more corruption and less investment. Economies with simple, well-designed tax systems are able to help the growth of businesses and, ultimately, the growth of overall investment and employment.[12]

Low tax compliance cost and efficient procedures can make a big difference for firms. In Hong Kong SAR, China, for example, the standard case study firm would have to make only three payments a year, the lowest number of payments globally (Figure 1.4). In Singapore it would have to make five payments, still among the lowest requirements in the world. In Ireland, complying with profit tax, value added tax, and labour taxes and contributions takes only 76 hours a year, less than ten working days. These numbers are among the reasons that these three economies rank among the top ten.

Recent research found that it takes the *Doing Business* case study company longer on average to comply with value added tax than to comply with corporate income tax. But the time it takes the company to comply with value added tax requirements varies widely, and the research shows that differences in administrative practices and in how value added tax is implemented are key reasons for this. Compliance tends to take less time in economies where value added tax is administered by the same tax authority as the one that deals with corporate income tax. The use of online filing and payment greatly reduces compliance time. The frequency and length of value added tax returns also matter. Requirements to submit invoices or other documentation with the returns add to compliance time. Streamlining the compliance process and reducing the time needed to comply is important for value added tax systems to work efficiently.[13]

Figure 1.4: Who makes paying taxes easy and who does not – and where is the Total Tax Rate highest?

Payments (number per year)

Fewest		Most	
Hong Kong SAR, China	3	Senegal	59
Maldives	3	Congo, Rep.	61
Qatar	3	Côte d'Ivoire	62
Georgia	4	Serbia	66
Norway	4	Tajikistan	69
Sweden	4	Venezuela, RB	70
Singapore	5	Sri Lanka	71
Bhutan	6	Jamaica	72
Mexico	6	Romania	113
Timor-Leste	6	Ukraine	135

Time (hours per year)

Fastest		Slowest	
Maldives	0[a]	Cameroon	654
United Arab Emirates	12	Ukraine	657
Bahrain	36	Senegal	666
Qatar	36	Mauritania	696
Bahamas, The	58	Chad	732
Luxembourg	59	Venezuela, RB	864
Oman	62	Nigeria	938
Switzerland	63	Vietnam	941
Ireland	76	Bolivia	1,080
Seychelles	76	Brazil	2,600

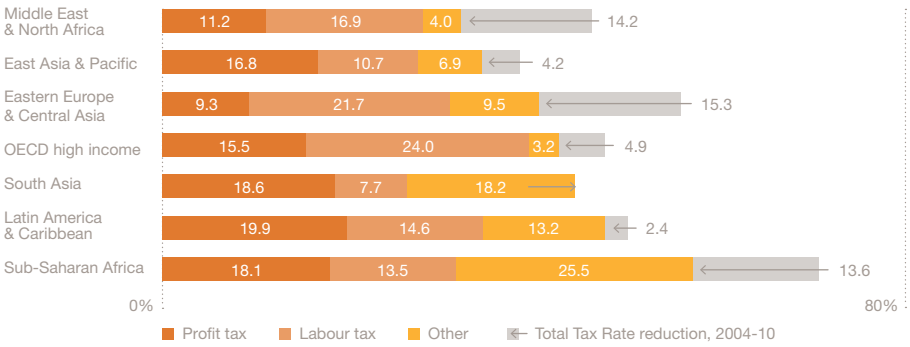
Total Tax Rate (% of profit)

Highest	
Colombia	74.8
Bolivia	80.0
Tajikistan	84.5
Eritrea	84.5
Uzbekistan	97.5
Sri Lanka	105.2[b]
Argentina	108.2[b]
Comoros	217.9[b]
Gambia, The	283.5[b]
Congo, Dem. Rep.	339.7[b]

Note: The indicator on payments is adjusted for the possibility of electronic or joint filing and payment when used by the majority of firms in an economy. See the data notes for more details.
[a] In Maldives, where the hotel and tourism industry provides most tax revenue, the 3 major types of taxes covered by the time indicator do not exist.
[b] Where the data show that taxes exceed profit, the company must apply a price markup of more than 120% of the cost of goods sold to pay its taxes under the assumptions of the *Doing Business* case study. See the data notes for more details.
Source: *Doing Business* database.

[12] Djankov, Simeon, Tim Ganser, Caralee McLiesh, Rita Ramalho and Andrei Shleifer. 2010. "The Effect of Corporate Taxes on Investment and Entrepreneurship." *American Economic Journal: Macroeconomics 2* (3): 31–64.
[13] Symons, Susan, Neville Howlett and Katia Ramirez Alcantara. 2010. *The Impact of VAT Compliance on Business.* London: PwC.

Figure 1.5: Eastern Europe and Central Asia has biggest reduction in Total Tax Rates



Note: The increase in the average Total Tax Rate in the South Asia region is driven by one major reform in one economy that increased the Total Tax Rate in 2010 by 48.4 percentage points between 2004 and 2010. Without this outlier, the average Total Tax Rate for the region would be 38.4%. The data sample for DB2006 (2004) includes 174 economies. The sample for DB2012 (2010) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies.
Source: *Doing Business* database.

Regulatory reforms and global good practices

In the past seven years more than 60% of the 183 economies covered by *Doing Business* implemented changes aimed at simplifying tax administration and reducing the tax burden – 244 such reforms in all. In 2010/11, 33 economies made it easier to pay taxes or reduced tax rates. Introducing electronic systems to make compliance easier was the most common feature of tax reform for the first time since 2004. Over the past seven years the most common features were reducing tax rates, introducing electronic systems and simplifying tax compliance by reducing the frequency of filing or allowing joint payment and filing of several taxes.

Reducing tax rates

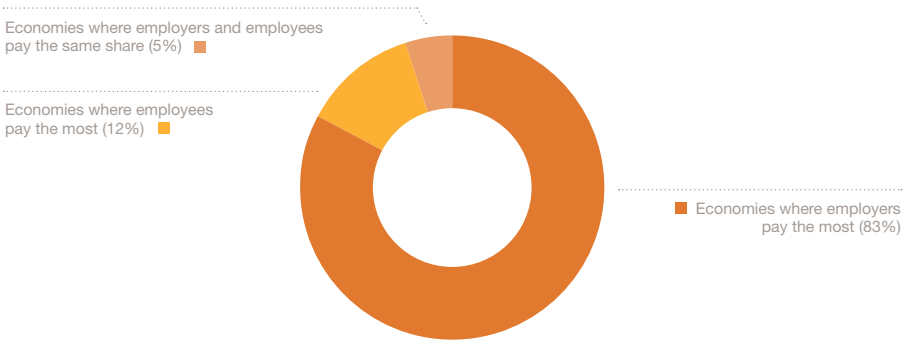
The Total Tax Rate measures the burden of all the taxes that a company must pay in relation to its commercial profit. Thus all kinds of taxes that impose a cost on the firm are considered: profit taxes, property taxes, labour taxes and mandatory contributions paid by the employer, certain sales taxes, and other payments that do not require filing, such as property transfer taxes, stamp duties, dividend tax, capital gains tax, financial transactions tax, environmental tax, and vehicle and road tax.

Globally, the average Total Tax Rate is 44.8% of profit. For the 174 economies included in the sample in *Doing Business 2006*, the average is 7.4 percentage points lower than it was seven years ago (Figure 1.5). This reduction reflects the 133 reductions of profit tax rates by two or more percentage points recorded by *Doing Business* in the past seven years – including those in eight economies in 2010/11. These eight economies, most of which had statutory tax rates of more than 30% on companies' profit, had an average Total Tax Rate of 75.3% before these reductions. Until 2010/11 reducing profit tax rates was the most common feature of tax reform globally. Economies in Eastern Europe and Central Asia, and OECD high-income economies reduced profit tax rates the most, followed by sub-Saharan Africa.

Labour taxes and government-mandated contributions paid by the employer account on average for 36.2% of the Total Tax Rate in the 183 economies covered by *Doing Business*. In some economies the statutory incidence of labour taxes falls on the employee rather than the employer. This case is beyond the scope of the *Doing Business* analysis and is not captured by any of the paying taxes indicators. Twelve economies do not require the payment of any social security contributions or labour taxes – Afghanistan, Bangladesh, Botswana, the Comoros, Eritrea, Ethiopia, Georgia, Lesotho, Maldives, Timor-Leste, Tonga, and West Bank and Gaza.[14] But the other 171 economies studied (93.4% of the total) collect some form of social security contributions, paid by the employer, the employee or both. In nine economies – Brunei Darussalam; Hong Kong SAR, China; Kiribati; Kosovo; the Federated States of Micronesia; Palau; Serbia; St. Lucia; and Vanuatu – the employee and employer pay the same share of social security contributions, while in 20 economies the employee pays a higher share than the employer (Figure 1.6).

In five economies taxes and mandatory contributions for the standard case study firm add up to more than 100% of profit, ranging from 105.2% to 339.7% (see Figure 1.4). *Doing Business* assumes that the case study firm has a gross margin of 20%.[15] Because taxes are calculated on the gross amount, the size of the margin directly affects the ratio. For example, in the Democratic Republic of Congo, where the Total Tax Rate equals 339.7%, the company would have to have a gross profit margin of 30% to be able to meet its tax liability.[16]

Figure 1.6: In most economies employers pay a larger share of social security contributions



Note: Includes 171 economies that levy labour taxes or social security contributions. Personal income tax is not included.
Source: *Doing Business* database.

[14] This does not include personal income tax; it includes only labour taxes and social security contributions mandated in addition to any personal income tax.
[15] That is, sales are 120% of the costs of goods sold.
[16] Here, gross profit margin refers to sales minus costs divided by sales, where the sales have been adjusted to a level at which the case study company's profit in the Democratic Republic of Congo would exceed the amount of taxes due. Given the original assumption in the case study of a gross margin of 20%, or 120% of the costs of goods sold, in the Democratic Republic of Congo sales would have to be 142% of the costs of goods sold for the case study company to be able to meet its tax obligation.

Making tax compliance easier

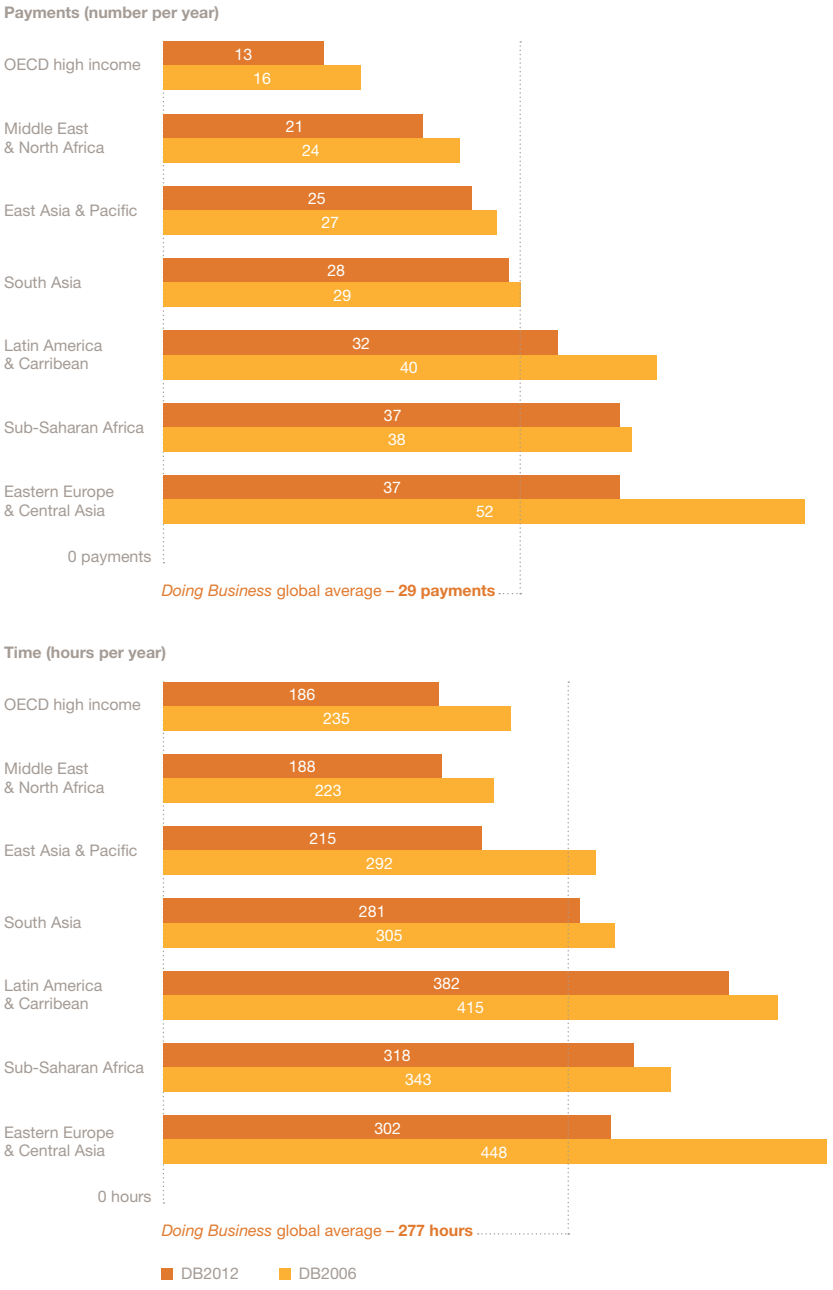
Complying with tax regulations takes 29 payments and 277 hours a year on average. This reflects improvements, with tax compliance taking five payments and 46 hours fewer today than it did seven years ago (Figure 1.7).

And making the process easier continues to be a concern. In 2010/11, 23 economies made compliance easier, by introducing or enhancing electronic systems, simplifying tax compliance or merging or eliminating some taxes (Figure 1.8). Eleven of these did so as part of ongoing reforms that had begun in 2009 or earlier. For example, *Doing Business* has recorded reforms easing tax compliance in Mexico every year since 2005/06. In 2010 Mexico continued to reduce the administrative burden on businesses by eliminating some filing requirements for firms, including the obligation to file yearly value added tax returns.

Offering electronic filing and payment

An electronic system for filing and paying taxes, if implemented well and used by most taxpayers, benefits both tax authorities and firms. For tax authorities, electronic filing lightens the workload and reduces operational costs – such as the costs of processing, storing and handling tax returns. At the same time, it increases tax compliance and saves time. For taxpayers, electronic filing saves time by reducing calculation errors on tax returns and making it easier to prepare, file and pay taxes.[17] And both sides benefit from a reduction in potential incidents of corruption, which are more likely to occur with more frequent contact with tax administration staff.[18]

Figure 1.7: Administrative burden eased the most in Eastern Europe and Central Asia



Note: The data sample for DB2006 (2004) includes 174 economies. The sample for DB2012 (2010) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies. DB2006 data are adjusted for any data revisions and changes in methodology and regional classifications of economies.
Source: *Doing Business* database.

[17] Che Azmi and Kamarulzaman 2010. Che Azmi, Anna, and Yusniza Kamarulzaman. 2010. "Adoption of Tax E-filing: A Conceptual Paper." *African Journal of Business Management 4* (5): 599–603.
[18] James, Sebastian. 2009. *A Handbook for Tax Simplification.* Washington, DC: International Finance Corporation. Available at http://ssrn.com/abstract=1535499.

Rolling out an electronic filing and payment system and educating taxpayers in its use are not easy tasks for a government. The necessary infrastructure must be put into place, especially where not all citizens have broadband access. Consider the example of India, where the Central Board of Direct Taxes took a series of steps to ensure a smooth process:

- Publishing detailed help manuals on the forms and how to complete them on its website.
- Providing free, downloadable software for preparing tax returns on its website.
- Organising, in collaboration with the Institute of Chartered Accountants of India, live phone-in question-and-answer sessions with accountants.
- Distributing CDs with software and help content to accountants, trade bodies, and professional and business associations through tax offices throughout India.
- Setting up help centres at all field office headquarters.
- Organising meetings and seminars with taxpayers and tax practitioners.
- Answering taxpayers' queries by phone and e-mail at the call centre.

India is far from the only one to undertake the challenging process of introducing an electronic option. By 2010, 66 economies had fully implemented electronic filing and payment of taxes. Twenty of them adopted the system in the past seven years. Ten OECD high income economies have made electronic filing and payment mandatory. And this trend is likely to continue. In the next few years many other OECD high-income economies, having introduced requirements for electronic filing and payment for larger businesses, plan to extend them to smaller ones.[19]

Figure 1.8: Who made paying taxes easier and lowered the tax burden in 2010/11 – and what did they do?

	Feature	Economies	Some highlights
Easing compliance	Introduced or enhanced electronic systems	Armenia, Belarus, Belize, Colombia, Costa Rica, Georgia, India, Republic of Korea, Morocco, Nicaragua, Peru	Colombia established mandatory electronic filing and payment for major taxes, including corporate income tax and value added tax.
	Simplified tax compliance process	Armenia, Belarus, Burundi, Finland, Georgia, Mexico, Montenegro, Romania, Rwanda	Burundi reduced the frequency of payment for social security contributions from monthly to quarterly.
	Merged or eliminated taxes other than profit tax	Belarus, Canada, Côte d'Ivoire, Iceland, Republic of Korea, Montenegro, Romania, Seychelles, Sri Lanka, Ukraine	Côte d'Ivoire retired the contribution for national reconstruction, a tax it had established 5 years before.
Reducing tax rates	Reduced profit tax rate by two percentage points or more	Canada, The Gambia, Greece, New Zealand, Sri Lanka, Togo, Ukraine, Republic of Yemen	New Zealand's 2010/11 budget reduced its corporate income tax rate from 30% to 28%.
	Reduced labour taxes and mandatory contributions	New Zealand, Turkey	Turkey lowered its social security contribution rate from 19.5% to 14.5% by offering a 5% rebate to companies complying with all their social security filing and payment liabilities by the deadlines.
Introducing new systems	Introduced new or substantially revised tax law	Belarus, Czech Republic, Oman, Ukraine, Republic of Yemen	The Czech Republic revised its tax legislation to simplify provisions relating to administrative procedures and relationships between tax authorities and taxpayers.
	Introduced change in cascading sales tax	Democratic Republic of Congo, St. Kitts and Nevis	The Democratic Republic of Congo replaced its sales tax with a value added tax.

Source: *Doing Business* database.

[19] World Bank Group, Investment Climate Advisory Services, Global Tax Team.

Electronic filing and payment of taxes has made a big difference for businesses in some economies in Latin America and the Caribbean. Belize, Colombia, Costa Rica and Nicaragua had made online filing and payment available since the beginning of 2000. But the new systems were fully implemented only in 2010 because taxpayers needed time to get used to them. The biggest improvements: Nicaragua reduced the number of payments by 22 and compliance time by 15 hours, and Costa Rica cut payments by 11 and time by 26 hours.

Companies saw similar improvements in the ease of tax compliance in Georgia, where most were able to take advantage of the electronic system only recently. India made paying taxes easier by introducing electronic filing for the state value added tax in 2010. This lowered the total number of payments from 56 to 33. Unlike the Latin American economies, India made electronic filing and payment mandatory, phasing in the change over time – first for corporate income tax, in 2006, then for the federal value added tax, in 2009.

Keeping it simple: one tax base, one tax

Some 235 years after Adam Smith proclaimed simplicity to be one of the pillars of the effective tax system,[20] multiple taxation – where the same tax base is subject to more than one tax treatment – appears to be making tax compliance inconvenient and cumbersome for taxpayers in many economies. Multiple taxation increases the cost of doing business for firms because it increases the number of payments they must make and frequently the compliance time as well. Different forms have to be filled out, often requiring different methods for calculating the tax. In Haiti, for example, the case study business is subject to the local tax on profit in addition to the corporate income tax. Multiple taxation also complicates tax administration for tax authorities and increases the cost of revenue administration for governments. And it risks damaging investor confidence in an economy.

Forty-nine economies have one tax per tax base for taxes measured by *Doing Business* (Figure 1.9). This keeps things simple. Having more types of taxes requires more interaction between businesses and tax agencies. It also complicates tax compliance. In 17 economies businesses must prepare one return for corporate income tax and another for an additional tax on profit. In India, Lesotho, São Tomé and Príncipe, South Africa and Ukraine, besides the profit tax, companies are subject to a tax levied on dividends distributed to shareholders.

Figure 1.9: Good practices around the world in making it easy to pay taxes

Practice	Economies[a]	Examples
Allowing self-assessment	145	Argentina, Canada, China, Arab Republic of Egypt, Rwanda, Sri Lanka, Turkey
Allowing electronic filing and payment	66	Australia, Colombia, India, Lithuania, Mauritius, Singapore, Tunisia
Having one tax per tax base	49	Hong Kong SAR, China; FYR Macedonia; Morocco; Namibia; Paraguay; United Kingdom

[a] Among 183 economies surveyed.
Source: *Doing Business* database.

[20] Smith, Adam. 1776. *An Inquiry into the Nature and Causes of the Wealth of Nations.* Facsimile of the 1st ed. Amherst, NY: Prometheus Books, 1991.

In the past seven years 40 economies eliminated and merged some taxes to simplify tax compliance and reduce costs for firms.

Businesses in the Republic of Korea no longer need to calculate numerous taxes on the same base. Starting with the 2010 tax year, property taxes and city planning taxes are being merged with other taxes. And thanks to an effort aimed at unifying social security laws and administration, businesses can now file and pay four labour taxes and contributions jointly. This freed them from the requirement to file additional returns and bear additional tax compliance costs.

Canada continued efforts to harmonise and simplify its tax system. After harmonising federal and provincial profit taxes beginning in the 2009 tax year, the country unified federal and municipal sales taxes in Ontario and British Columbia, lessening the tax compliance burden. Beginning in the 2010 tax year businesses are subject only to the federal harmonised sales tax, which replaces the former federal goods and services tax and provincial sales tax. The harmonisation creates a tax regime that is easy to administer and easy to comply with.

In the past seven years 40 economies eliminated and merged some taxes to simplify tax compliance and reduce costs for firms. Another way to make compliance easier when firms are subject to numerous taxes is to allow joint filing and payment of taxes levied on the same base. Firms in Colombia face four different taxes on salaries – but can meet these tax obligations by filing one form and making one payment. In most OECD high-income economies taxes levied on the same base are paid and filed jointly, and as a result the average number of payments across all economies in this group is only 13. Compare this with the average of 29 payments across all 183 economies covered by *Doing Business*. Joint filing and payment of taxes is not widespread in Latin America and the Caribbean, where the average is 32 payments, or in Sub-Saharan Africa, where the average is 37. Seventy-two economies allow firms to file and pay several taxes jointly, greatly reducing the time they must spend to comply with these taxes.

Adopting self-assessment as an effective tool for tax collection

Driven by a desire to reduce administrative costs for tax authorities and aided by modern technology, most economies have adopted the principle of self-assessment. Taxpayers determine their own liability under the law and pay the correct amount. For governments, the computer system and software for self-assessment, if they function well, ensure effective quality control. Self-assessment systems generally make it possible to collect taxes earlier and reduce the likelihood of disputes over tax assessments.[21] They also lessen the discretionary powers of tax officials and reduce opportunities for corruption.[22] To be effective, however, self-assessment needs to be properly introduced and implemented, with transparent rules, an automated reporting process, penalties for noncompliance and risk assessment procedures for audit processes.

Economies that have introduced their tax system recently or undertaken major revision of their tax regulations have tended to adopt self-assessment principles. These include all economies in Eastern Europe and Central Asia and almost two-thirds in East Asia and the Pacific, the Middle East and North Africa, and South Asia.

[21] OECD Forum on Tax Administration. 2011. *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series (2010)*. Paris: OECD.
[22] Imam, Patrick A., and Davina F. Jacobs. 2007. "Effect of Corruption on Tax Revenues in the Middle East." IMF Working Paper WP/07/270, International Monetary Fund, Washington, DC.

PwC commentary

A fair, sustainable tax system – how can governments create an environment that fosters business investment and economic growth?

The private sector plays an essential role in contributing to economic growth and prosperity. Companies contribute to socio-economic development by employing workers, improving the skills and knowledge base, buying from local suppliers and providing products and services that improve people's lives. They also contribute to government revenues through paying and generating taxes. The impact that tax systems have on companies is important and governments should continue to develop tax systems which foster business investment and economic growth. This is particularly important at present following the financial crisis and a global recession, as governments around the world are looking to the private sector as the engine for a return to economic growth.

Following the downturn there is also an increased focus on the role that tax can play in international development. Tax revenues would be a more sustainable source of financing for developing countries which are currently reliant on debt or aid. However our analysis of these results shows that tax rates tend to be higher and the compliance burden heavier in the lower income economies. Paying taxes is often easier for companies in high income economies, which tend to have mature tax systems and more streamlined compliance processes. Reforming the tax system, by ensuring rates are at a reasonable level and making it easier to pay, will encourage local businesses to register and pay their taxes and can help developing country governments increase their tax revenues.

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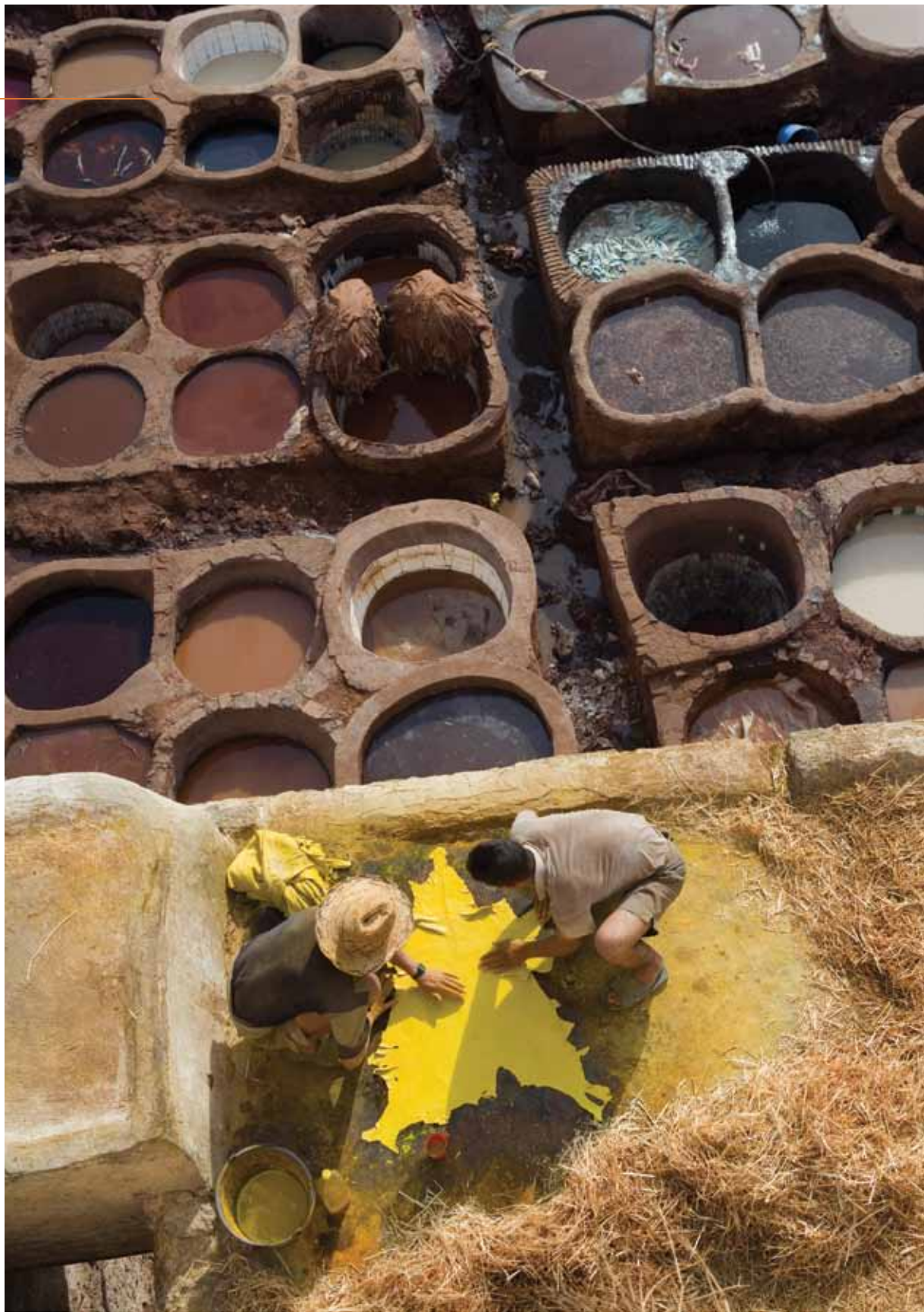
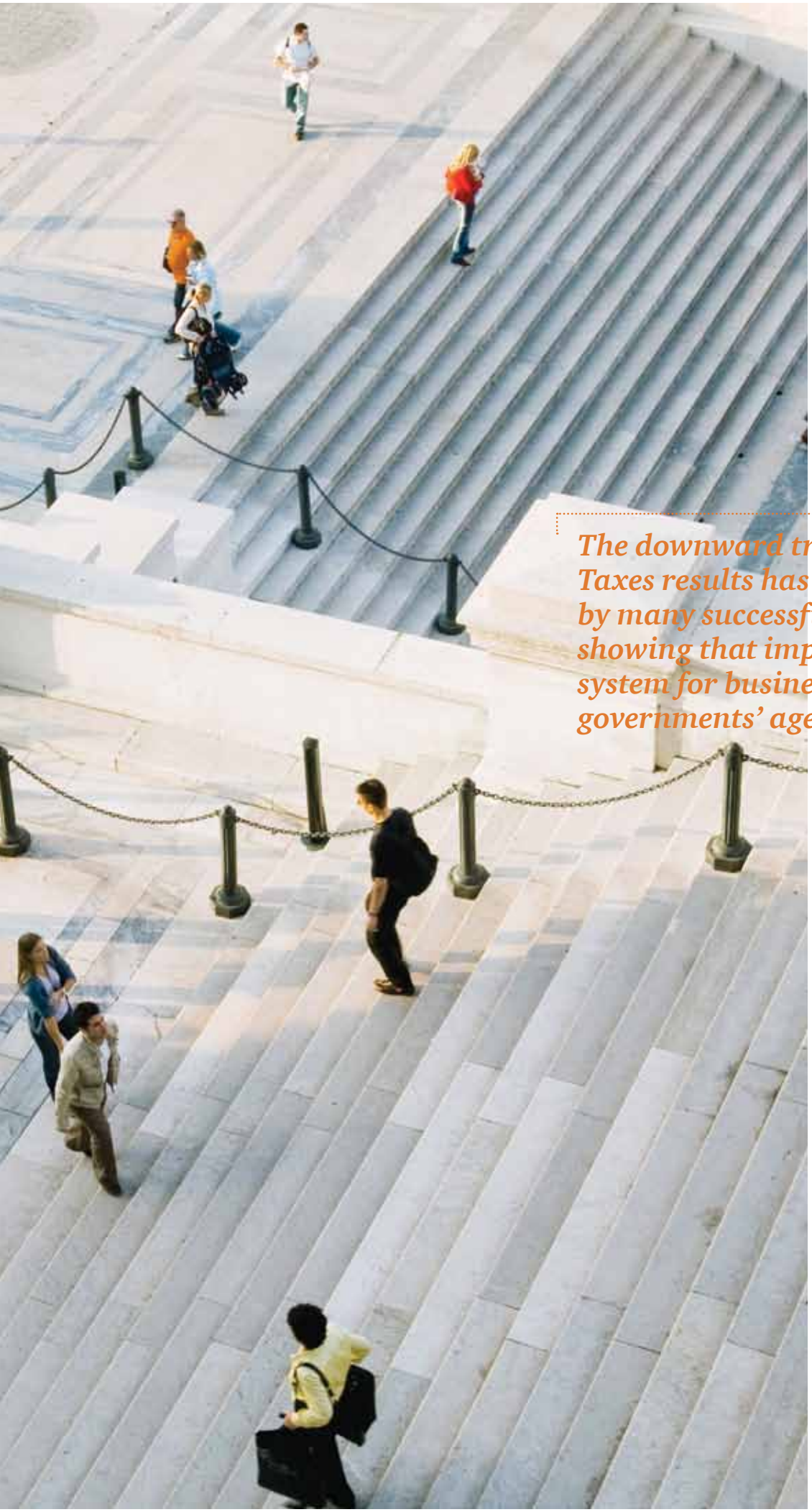




The downward trend in the Paying Taxes results has been driven by many successful tax reforms showing that improving the tax system for business is high on governments' agenda.

The Paying Taxes study looks at tax systems from the business perspective. The tax system is an important element of governments' regulatory framework for the private sector and can be seen as a barrier to doing business. The World Bank Group has carried out Enterprise surveys in more than a hundred countries over a number of years. These show that the business community everywhere in the world cares deeply about the tax system. In a survey by PwC,[25] chief executive officers around the world identified the tax system, along with labour laws, as the areas of regulation they would most like their government to improve. Our analysis shows that during the seven years that this study has been undertaken, paying taxes has become easier with a steady reduction in the results for all three indicators. The downward trend in the Paying Taxes results has been driven by many successful tax reforms showing that improving the tax system for business is high on governments' agenda. Around the world governments have reduced tax rates, reformed their tax rules, simplified the process for filing and paying taxes and introduced online systems. This has resulted in an average improvement on all three Paying Taxes indicators of around 16%. However there is still a wide range of results and for some economies paying taxes has not become easier, and in some cases has become worse.

The Paying Taxes study measures three aspects of the tax system for business – one relating to the tax cost (the Total Tax Rate) and two to the compliance burden (the time spent on tax compliance, and the number of tax payments). The administrative burden and cost of complying with taxes is important from the business perspective, as well as the rate of tax paid. Our analysis shows that different administrative practices used by government play a key role in lowering or increasing the compliance burden. We continue to suggest that this area should receive even more attention going forward. Easing the compliance burden to make tax collection more efficient brings benefits for both government and business. The less time business spends on tax compliance the more time it has to focus on building the business and contributing to economic growth. At a time of pressure on government budgets it may be difficult to reduce tax rates. However, governments can do much to reduce the burden on business by simplifying administration.

Companies pay and generate many different taxes. As well as corporate income tax on profits, these include employment taxes, social contributions, indirect taxes and property taxes. The Paying Taxes results show on average that more than nine taxes are paid around the world, with corporate income tax representing just 12% of tax payments, 25% of the time spent on tax compliance and 36% of the tax cost. When considering how the tax system impacts business, and what companies contribute into the public finances, it is important to look at all of the taxes and contributions that companies pay.

Levying tax is not an easy task for governments, and there is no single model for the best tax system. Governments need to ensure that their tax system supports their economic and social objectives, helping to create economic prosperity and stability, enabling them to provide the services required by their populations. Developing tax policy which supports government policy is very important; how the policy is administered is critical to ensure that tax laws are properly implemented, and to allow taxpayers to meet their obligations easily. Paying Taxes provides a wealth of data on how the tax system impacts business; and enables governments to benchmark aspects of their tax system on a like for like basis with peer groups of economies.

The purpose of the Paying Taxes study is to provide data to inform discussion of tax policy and tax administration, and to encourage dialogue on tax reform. Every year the results generate great interest and are discussed with governments, business and other stakeholders around the world. In chapter 3 we again provide feedback from a number of countries showing how the results are being used.

The Paying Taxes study is unique for a number of reasons, such as the large number of economies included, the breath of the taxes covered, the focus on both tax cost and compliance burden, and the time series from the six years of the study. In this section we provide a PwC commentary on the results for 2012, to highlight a number of themes, and assist readers in how to use the results.

[25] *12th Annual Global CEO survey – Redefining Success* – published by PwC in 2009.

The average picture for the ease of paying taxes around the world

Figure 2.1 shows the global average result for each of the Paying Taxes indicators, and also shows the range of results across the 183 economies in the study. On average, around the world our case study company makes 28.5 tax payments in a year, takes 277 hours to comply with its tax affairs (or nearly seven weeks on a 40-hour week), and has a tax cost (Total Tax Rate) of 44.8% of its commercial profits.

Paying taxes has got easier in the last year (average result in Paying Taxes 2011, 29.9 tax payments, 282 hours to comply, and a Total Tax Rate of 47.8%). Further discussion of the downward trend in results over the years of the Paying Taxes studies is on page 28.

Figure 2.1 also breaks down the global average results by type of tax. A consistent message from the Paying Taxes study is that corporate income tax is only part of the tax burden on business. Figure 2.2 shows that on average corporate income tax accounts for only 12% of the tax payments made by the case study company, 25% of the time spent on tax compliance, and 36% of the tax cost. These percentages have hardly moved over the years of the Paying Taxes studies. When considering tax reform, it is important that governments look at all the taxes that companies pay.

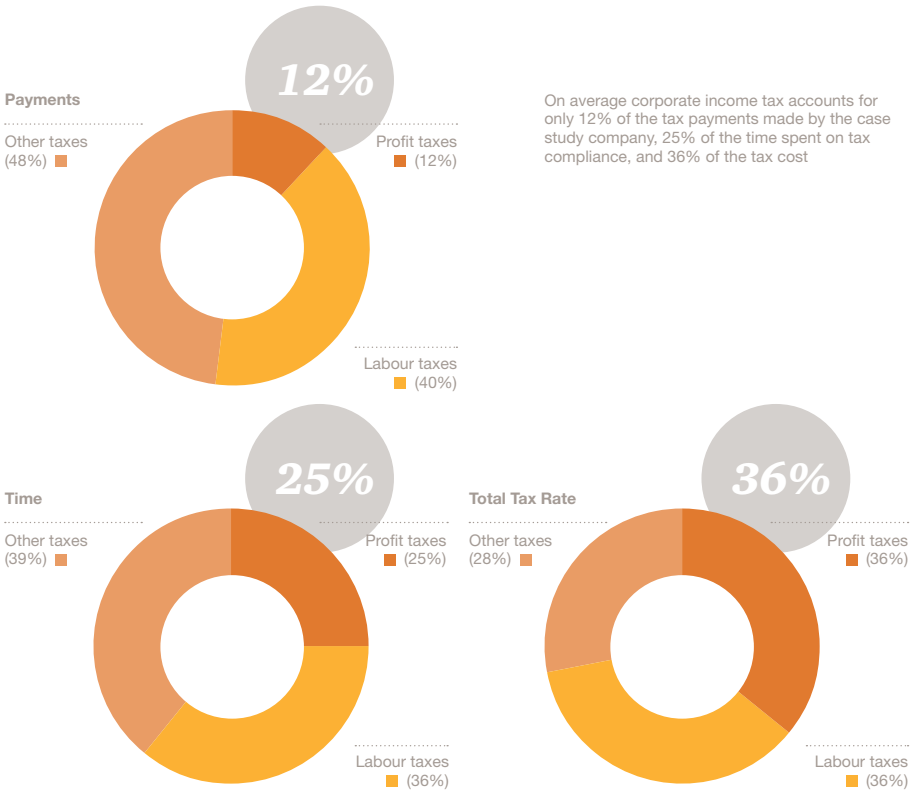
On average, around the world the case study company pays 9.3 different taxes, including taxes on profit, labour taxes and social contributions, consumption tax, property taxes, and others. Further information on the different taxes that have to be paid around the world is on page 45.

Figure 2.1: The global average result for each indicator

Tax type	Total Tax Rate	Time to comply	Number of payments
Profit taxes	16.0%	70	3.4
Labour taxes & contributions	16.2%	99	11.5
Other/Consumption taxes	12.6%	108	13.6
Total	**44.8%**	**277**	**28.5**
Minimum	0.2%	0	3.0
Maximum	339.7%	2600	135.0

Note: The table shows the average results for all economies in the study.
Source: *Doing Business* database

Figure 2.2: Corporate income tax is only part of the burden



Note: The chart shows the average results for all economies in the study.
Source: PwC analysis

Figure 2.3 shows how all the different taxes that have to be paid contribute to the results, using Rwanda as an example. In Rwanda, our company pays nine different taxes. Corporate income tax (21.2%), the business license (3.1%), social security (3.4%), and accident insurance contributions levied on the employer (2.3%), are the largest elements of the tax cost (Total Tax Rate 31.3%). Value Added Tax (VAT) is not a cost to the case study company, but does add significantly to the compliance burden. VAT accounts for 53% of the hours to comply and 22% of the tax payments.

The Paying Taxes study measures three separate aspects of paying taxes. Two of the indicators relate to the tax compliance burden, and one to the tax cost. It is important to look at each Paying Taxes indicator separately as they measure different aspects of the tax system. Figure 2.4 compares two economies with contrasting results, Albania and Sweden. Taxes are high in Sweden, providing for high quality social services and reflecting a good standard of living for citizens. But it is easy to pay taxes in Sweden, resulting in less compliance time and fewer tax payments for our case study company. The Total Tax Rate in Albania is below the world average, but it is a more difficult compliance environment, with more hours needed for tax compliance and more tax payments.

Figure 2.3: How different taxes impact on the results – Rwanda

Tax	Total Tax Rate	Number of payments	Time to comply
Corporate income tax	21.2%	5	22
Social security contributions	3.4%	4	48
Accident insurance	2.3%	0	-
Value added tax (VAT)	-	4	78
Business license	3.1%	1	-
Property tax	0.2%	1	-
Property transfer tax	0.1%	1	-
Vehicle tax	0.5%	1	-
Fuel tax	0.5%	1	-
Total	**31.3%**	**18**	**148**

Note: This table is an illustration of the impact of the different taxes on the results using Rwanda.
Source: *Doing Business* database

Figure 2.4: The three indicators measure different aspects of the tax system – Albania and Sweden

	Albania	Sweden	World average
Total Tax Rate	38.5%	52.8%	44.8%
Time to comply	371	122	277
Tax payments	44	4	28.5

Note: This table compares the results for Albania and Sweden with the world average.
Source: *Doing Business* database

Which economies have good results in the Paying Taxes study?

The purpose of the Paying Taxes study is to benchmark the world's tax systems from the perspective of a company paying taxes. It is unique in that it covers all the different taxes paid and looks at both the cost and the compliance burden. Governments around the world have consistently shown great interest in the results of the study as it enables them to make comparisons with their geographic neighbours, and with economic peer groups, and to identify best practice.

Figure 2.5: Which economies have good results in the Paying Taxes study?

Economy	Number of taxes	Total Tax Rate	Time to comply	Number of payments	Online systems
Singapore	5	27.1%	84	5	✓
Ireland	9	26.3%	76	8	✓
Mauritius	8	25.0%	161	7	✓
Canada	11	28.8%	131	8	✓
Kazakhstan	8	28.6%	188	7	✓
United Kingdom	8	37.3%	110	8	✓
Norway	4	41.6%	87	4	✓
Finland	9	39.0%	93	8	✓

Note: This table shows the Paying Taxes results for selected economies together with other key information.
Source: PwC analysis

Figure 2.5 is a list of some of the economies that do well in Paying Taxes 2012, with their indicator results and other key information. These are economies at the top of the rankings for the overall paying taxes ranking. They all have similar features in their tax systems and could potentially offer a model for other economies.

The eight economies in Figure 2.5 all levy the three main taxes in the fact pattern of our case study company – corporate income tax, employer social contributions, and VAT. The social contributions levied on the employer are between 40% and 80% of the total amount levied on employer and employee combined. They also all have online systems for our company to file and pay its tax.

The economies that do well in the Paying Taxes study include Singapore, Ireland, Mauritius, Canada, Kazakhstan, UK, Norway, and Finland.

Corporate income tax is a common tax around the world and is levied on our case study company in 95% of economies. Several economies at the top of the rankings do not levy corporate income tax in the fact pattern of the case study company and are therefore excluded from the list. They include The Maldives, Qatar, the United Arab Emirates, and Timor-Leste. For a discussion of corporate income tax and why the statutory rate is often not a good measure of the rate paid, see page 33.

VAT is the predominant form of consumption tax and is used in 83% of the economies. Economies at the top of the rankings that do not have a VAT include Hong Kong SAR, China, Seychelles, and several economies in the Middle East. These are also excluded from the list. For a discussion of the impact of VAT on the compliance burden, see page 41.

Economies at the top of the rankings that do not levy an employer social contribution on the case study company include Macedonia and Botswana. Some economies also levy most of their social contributions from the employee, for example Denmark, where 28% of social contributions are levied on the employer and 72% on the employee. These economies also do not feature in the list. For a discussion of how employer social contributions increase the tax cost, see page 35.

Sixty six economies in the Paying Taxes study have online systems for our company to file and pay its tax. See page 47 for a discussion about how online systems make paying taxes easier.

How have the Paying Taxes results changed over the years?

In the years that the Paying Taxes study has been carried out there has been a trend to a lower tax burden on business. Figure 2.6 compares the global average results this year (2012) with those measured in the first study six years ago (Paying Taxes 2006). The average Total Tax Rate has fallen by 8.5% (more than 1% for each year); the time to comply by 54 hours (more than a day a year); and the number of payments by 4.7. There are reductions in all types of taxes across all of the three Paying Taxes indicators.

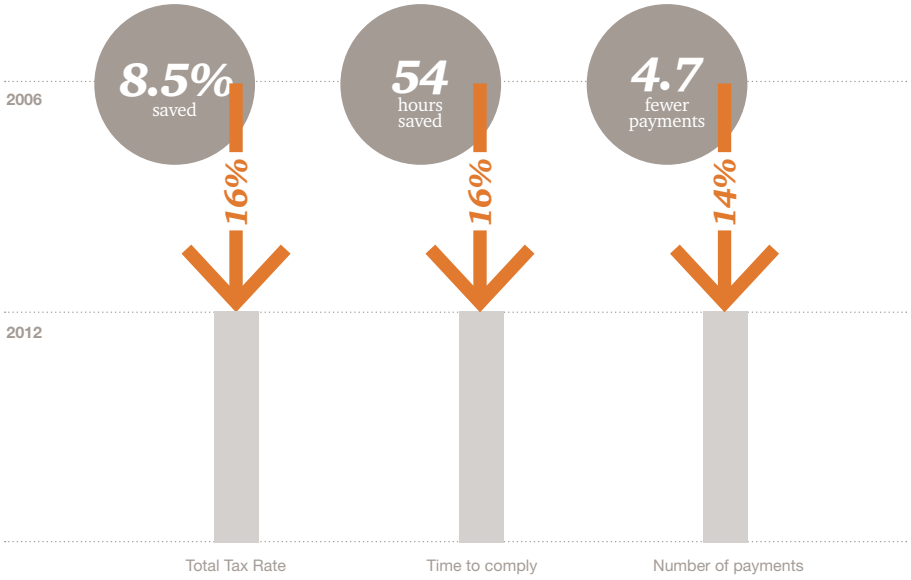
Tax reforms around the world have driven this downward trend. The *Doing Business* project tracks tax reform and Figure 2.7 summarises their findings. Since the study began, there have been 133 significant reductions in the statutory rate of corporate income tax (CIT). Rates of labour tax and social contributions have been reduced 38 times. There have been 47 taxes eliminated and the introduction of VAT in 15 economies have also contributed to the fall in the average Total Tax Rate.

Elimination of multiple taxes per base (49 economies now have one tax per base) and simplified processes for paying taxes (45 economies have revised their tax code) have helped to reduce the time to comply. The fall in the number of payments reflects the positive impact of electronic file and pay systems, introduced or enhanced in 48 economies, compared to six years ago.

The Netherlands is a good example of an economy where there has been a strong government focus on reform and easing the compliance burden. Figure 2.8 compares the results for The Netherlands in Paying Taxes 2012 and 2006. Reforms have included simplifying the rules for computing corporate income tax and filing tax returns, quarterly filing of VAT returns to assist companies' cash flow, and common definitions for calculating the wage withholding tax and social contributions.

Figure 2.6: The global average results – Paying Taxes 2006 and 2012

	Total Tax Rate			Time to comply			Number of payments		
	2012	2006	Change	2012	2006	Change	2012	2006	Change
Profit taxes	16.0%	19.4%	-3.4%	70	86	-16	3.4	4.1	-0.7
Labour taxes & contributions	16.2%	17.5%	-1.3%	99	120	-21	11.5	13.1	-1.6
Other/ Consumption taxes	12.6%	16.4%	-3.8%	108	125	-17	13.6	16.0	-2.4
Total	44.8%	53.3%	-8.5%	277	331	-54	28.5	33.2	-4.7



Note: The table and chart show the global average result in 2012 compared to 2006 and the degree of change.[26]
Source: *Doing Business* database

Figure 2.7: Tax reforms around the world have driven a downward trend in the results

Type of reform	Number of reforms
Reduction in CIT rate	133
Reduced rates of labour taxes and social contributions	38
Elimination of taxes	47
VAT introduced	15
Simplified process for paying taxes	40
Revised tax code	45
Electronic systems	48

Note: The table shows the number of economies which have implemented certain types of tax reform.
Source: *Doing Business* database

Figure 2.8: Paying Taxes in The Netherlands

	2012	2006
Total Tax Rate	40.5%	48.5%
Number of hours	127	250
Number of payments	9	20

Note: This table shows the results for The Netherlands in 2012 compared to 2006.
Source: *Doing Business* database

[26] The changes/trends quoted in this table, and generally in Chapter 2, reflect the movement in the global averages for all economies included in each study for 2006 and 2011. There are eight more economies in the 2011 study than in the 2006 study. The trends referred to in Chapter 1, are calculated on the basis of only the economies that were included in both studies.

Paying taxes is easiest in high income economies

High income economies tend unsurprisingly to have better results in the Paying Taxes study. The World Bank Group's Development Indicators[26] categorises the paying taxes economies into four income levels – high income (47 economies), upper middle income (50), lower middle (54), and low income (32). Figure 2.9 shows that 83% of the high income economies have an overall paying taxes ranking in the first or second highest quartile, compared to 22% of the low income economies.

Figure 2.10 shows that in high income economies, on average the model company makes fewer tax payments, needs less time to comply with its tax affairs, and has a lower tax cost.

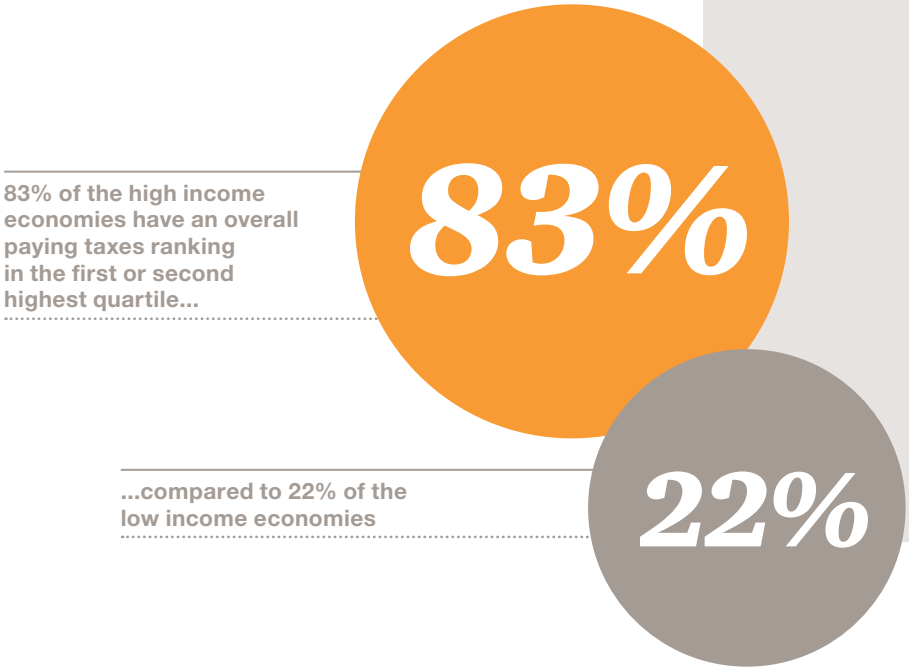
The compliance burden is easier for our company in the high income economies. In high income economies it makes 15.2 payments on average and needs 168 hours to comply with the main taxes. This compares to 38.3 payments and 271 hours in the low income economies. High income economies tend to have more mature tax systems, with streamlined compliance processes and electronic systems.

The tax cost for our company is also heavier in the low income economies. The average Total Tax Rate is 67.8% compared to 37.4% in high income economies. Taxes on profit are higher (18.7% compared to 13%) as well as other taxes (36.1% compared to 4.2%). However, labour taxes and social contributions are higher in the high income economies (20.2% compared to 13% in the low income economies).

It is important to stress that the lowest tax cost is not necessarily the best model. Taxes provide essential government revenue and business has an important role as a taxpayer. What is important is that the tax system supports business investment, economic growth, and social well-being. Higher taxes should flow through to a stable business environment, good infrastructure, and a better quality of life for citizens.

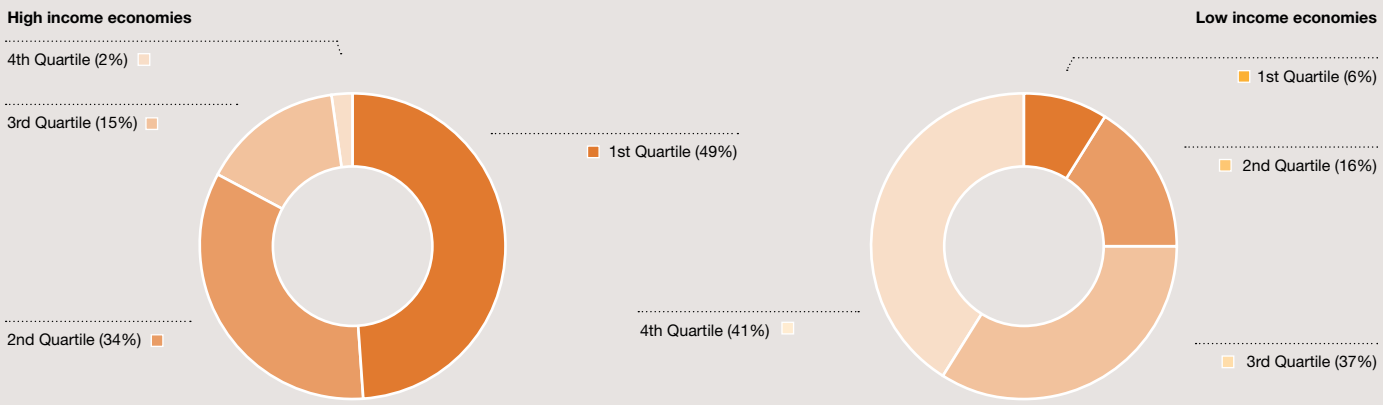
Good tax systems can help to meet the Millennium Development Goals.[27] Today there is an increased focus on the role that tax can play in international development. It is clear that tax revenues are a more sustainable source of financing for developing countries than debt or aid. Developing countries need to be able to raise their own tax revenues to fund the services they provide, and to show citizens that there is a link between the tax they pay and the services they receive in return.

But there are many challenges to tackle in increasing tax revenues in developing countries, including combating capital flight, reducing the size of their informal economies and helping their tax authorities to monitor compliance and collect taxes due. The Paying Taxes results show that tax rates tend to be higher and the compliance heavier in the developing world. Reducing tax rates, broadening the base and making it easy to pay, can be important in encouraging local business to register and pay their taxes.



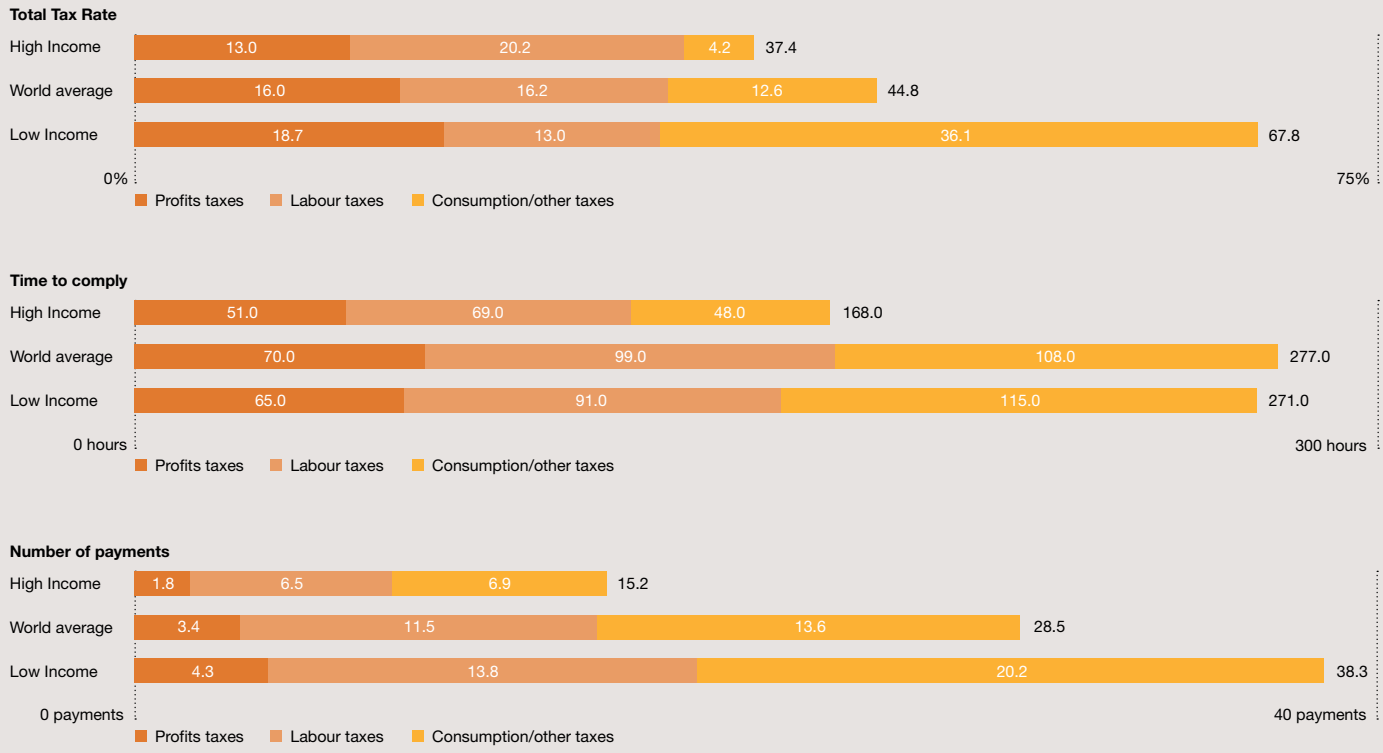
[26] http://data.worldbank.org/about/country-classifications
[27] UN Millennium Goals: end poverty and hunger, universal education, gender equality, child health, maternal health, combat HIV/AIDS, environmental sustainability, global partnership http://www.un.org//millenniumgoals/

Figure 2.9: The overall paying taxes rankings for high and low income economies



Note: This chart shows percentage of high income and low income economies in each quartile of the ranking for the overall paying taxes ranking.
Source: PwC analysis

Figure 2.10: The Paying Taxes indicators – average results for high and low income economies



Note: The chart compares the average result for the Total Tax Rate, time to comply and number of payments in high income economies, low income economies and the world average.
Source: PwC analysis

What we measure – the Total Tax Rate

The Total Tax Rate measures the tax cost for our model company. Corporate income tax, employer social contributions, and all other taxes borne by the company are expressed as a percentage of profit before all of these taxes (called the commercial profit in the *Doing Business* project methodology).

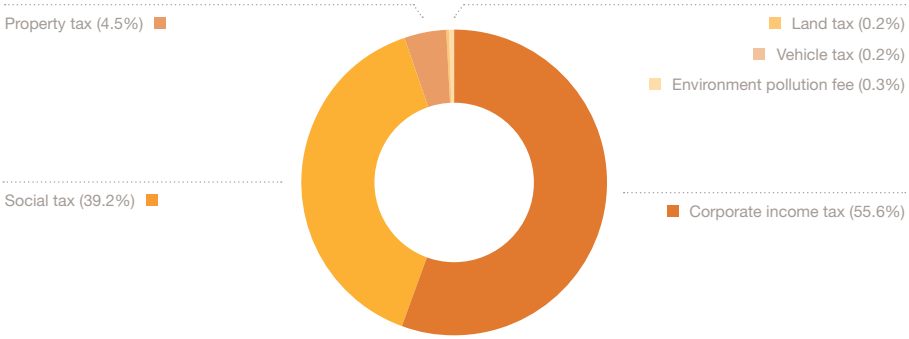
Figure 2.11 shows how the Total Tax Rate is calculated, using Kazakhstan as an example. All taxes borne by the case study company in Kazakhstan total KZT 7,601k which represents 28.6% of commercial profit. The pie chart in Figure 2.12 shows the six different taxes borne by percentage. The largest taxes borne are corporate income tax 55.6% of the Total Tax Rate, and the employer social tax 39.2%. Figure 2.13 shows how the Total Tax Rate for Kazakhstan compares to the average rate for neighbouring economies in Eastern Europe and Central Asia,[28] and to the world average. It shows a lower percentage for labour taxes and for other taxes than for both these groupings.

Figure 2.11: The Total Tax Rate calculation for Kazakhstan

	(KZT) '000	(KZT) '000
Profit before tax (PBT)		23,153
Add back above the line taxes borne:		
Social Tax	2,964	
Property tax	369	
Land tax	17	
Environment pollution fee	23	
Vehicle tax	13	
		3,386
Profit before all taxes borne / commercial profit		**26,539**
Corporate income tax on PBT after necessary adjustments	(4,215)	
Above the line taxes borne	(3,386)	
Total taxes borne		**(7,601)**
Profit after tax		18,938
TTR = Total taxes borne / commercial profit		**28.6%**

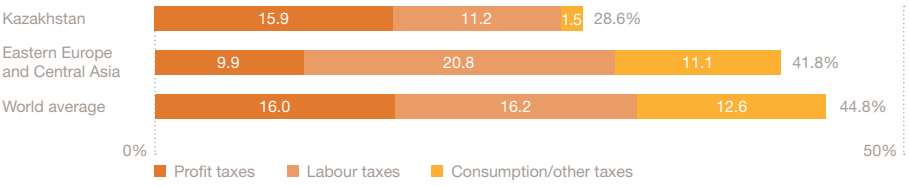
Note: The table shows an example of the calculation of Total Tax Rate for Kazakhstan.
Source: PwC analysis

Figure 2.12: The Total Tax Rate for Kazakhstan, by percentage



Note: The chart shows the components of the Total Tax Rate for Kazakhstan split by percentage.
Source: PwC analysis

Figure 2.13: Total Tax Rate for Kazakhstan compared to Eastern Europe and Central Asia, and to the world average



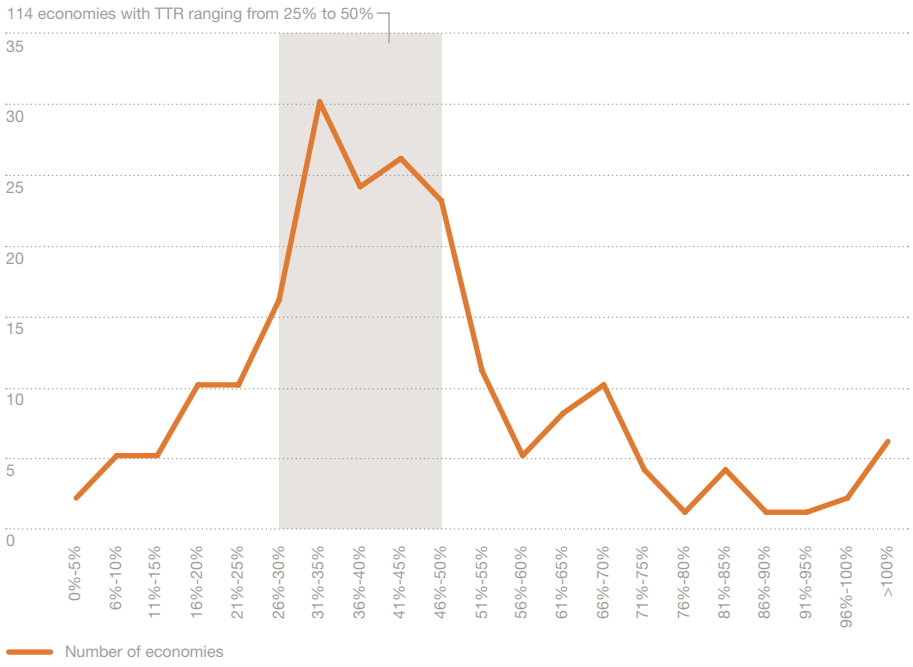
Note: The chart compares the Total Tax Rate for Kazakhstan with the Eastern Europe and Central Asia, and the world average.
Source: PwC analysis

[28] Central Asia and Eastern Europe includes Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Macedonia FYR, Moldova, Montenegro, Russian Federation, Serbia, Tajikistan, Turkey, Ukraine, Uzbekistan.

The average Total Tax Rate around the world is 44.8%, split profits taxes 16.0%, labour taxes 16.2%, and other taxes and contributions 12.6%.

There is a wide range of results for the Total Tax Rate across the 183 economies in the study. Figure 2.14 plots the distribution of results and shows that 114 economies (62%) have a Total Tax Rate between 25% and 50%. 27 economies have rates below 25%; and 42 over 50%.

Figure 2.14: Distribution of Total Tax Rate results – 114 economies have Total Tax Rates between 25% and 50%



Note: The chart shows the distribution of Total Tax Rate for all economies in the study.
Source: PwC analysis

Taxes on profit – why the statutory rate of corporate income tax is often not a good indicator of the rate of tax paid

Paying Taxes measures the amounts of tax that would actually be paid by a company with the same fact pattern as our case study. Research using the Paying Taxes results shows that for corporate income tax the amount paid may be quite different than the headline statutory rate. (PwC research to be published in 2012.)

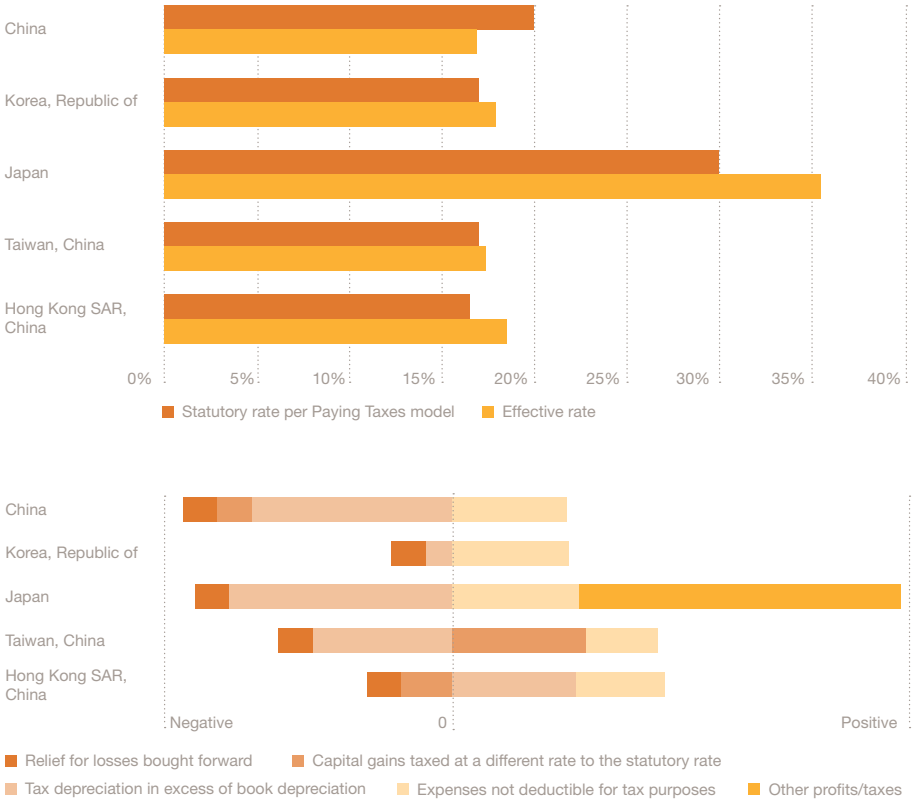
The great majority of economies in the Paying Taxes study charge corporate income tax, or a similar tax, on the company's profits. Only ten economies do not levy corporate income tax or a similar tax on a business with the fact pattern of our case study company. In a further three economies, no corporate income tax is actually paid in the year measured, due to generous reliefs and allowances. However, 30 economies charge the capital gain in the fact pattern separately to capital gains tax (rather than as part of the profits chargeable to corporate income tax, and often at a different rate); and 22 economies charge additional taxes on the profits of the company. As discussed on page 45, on average the company pays 1.3 taxes on its profits. See Figure 2.15 for a summary.

Figure 2.15: What taxes on profit are levied around the world?

In calculating the amount of corporate income tax due, adjustments are required to the company's commercial profits to calculate the taxable profits. These will include adding back business expenses which are not deductible for tax purposes, and deducting tax depreciation for qualifying capital expenditure. These will be required by tax law and will differ between economies. The required tax adjustments mean that there will be a difference between the statutory rate of corporate income tax and the rate of tax that is actually paid by the company on its commercial profits. This difference can be greater or less in different economies.

Figure 2.16 shows the position in five neighbouring economies in Asia Pacific. It compares the statutory rate of corporate income tax for the case study company with the effective rate of tax paid, and shows the main reconciling items. In China, the statutory rate is 20%, but the effective rate of corporate income tax paid is lower at 16.9%. The main adjusting item is accelerated depreciation for tax purposes. In Japan, the statutory rate is 30%, but the effective rate is above this at 35.5%. Non-allowable items and two additional taxes on profit increase the tax cost.

Figure 2.16: Corporate income tax rates for a selection of Asian economies



Note: This chart compares the statutory rate of corporate income tax with the effective rate of corporate income tax and shows the reconciling items.
Source: PwC analysis

Employment taxes and social contributions – what is included in the Total Tax Rate

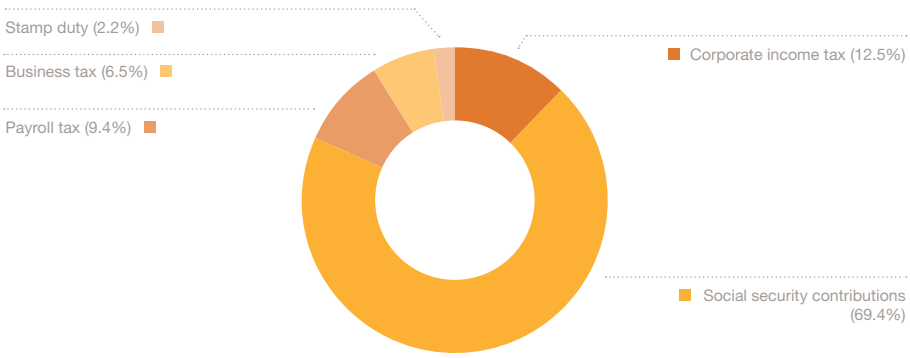
Employment taxes and social contributions (called labour taxes in this publication) levied on the employer are a significant cost for business. Figure 2.2 shows that on average, across all the economies, labour taxes are 36% of the Total Tax Rate (compared to an average 36% for taxes on profit and 28% for other taxes borne).

It is important to stress that what is included in the Total Tax Rate are the labour taxes that are borne by the employer and not those that are levied on the employee. Employee taxes are not included in the measure of tax cost (the Total Tax Rate). They are, however, included in the measure of the compliance burden (the hours to comply) where the employer is responsible for deducting them and paying them over to the government.

Labour taxes levied on the employer can include payroll taxes and taxes on benefits, as well as social security payments and other social contributions. Figure 2.17 shows a breakdown of the Total Tax Rate for France as an example. In France, the case study company pays an employer payroll tax, calculated on the wages and salaries (9.4% of the Total Tax Rate), and employer social security contributions (69.4% of the Total Tax Rate).

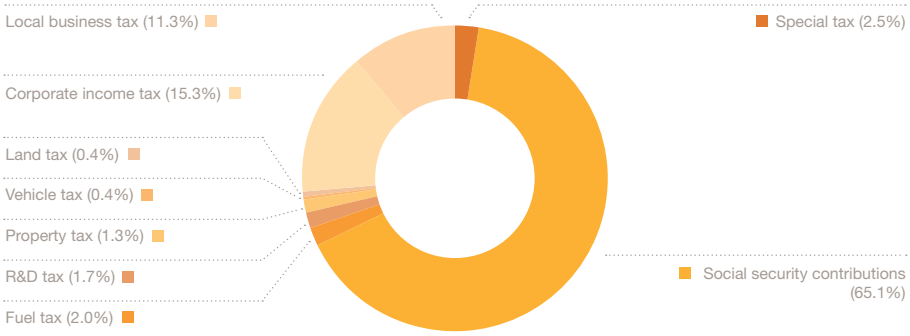
In some countries, multiple employer social contributions can add to the tax cost, and also to complexity and the compliance burden. For example, there are six different social contributions borne by our case study company in Hungary, together making up 65.1% of the Total Tax Rate (Figure 2.18). In Hungary, the cost of employer labour taxes is 34.1% of commercial profits, more than twice the world average of 16.2%. The time needed to comply with labour taxes in Hungary, at 146 hours, is also well above the world average of 99 hours.

Figure 2.17: The Total Tax Rate for France, 65.7% - by percentage



Note: The chart shows a percentage breakdown of the Total Tax Rate for France by tax.
Source: PwC analysis

Figure 2.18: The Total Tax Rate for Hungary, 52.4% - by percentage



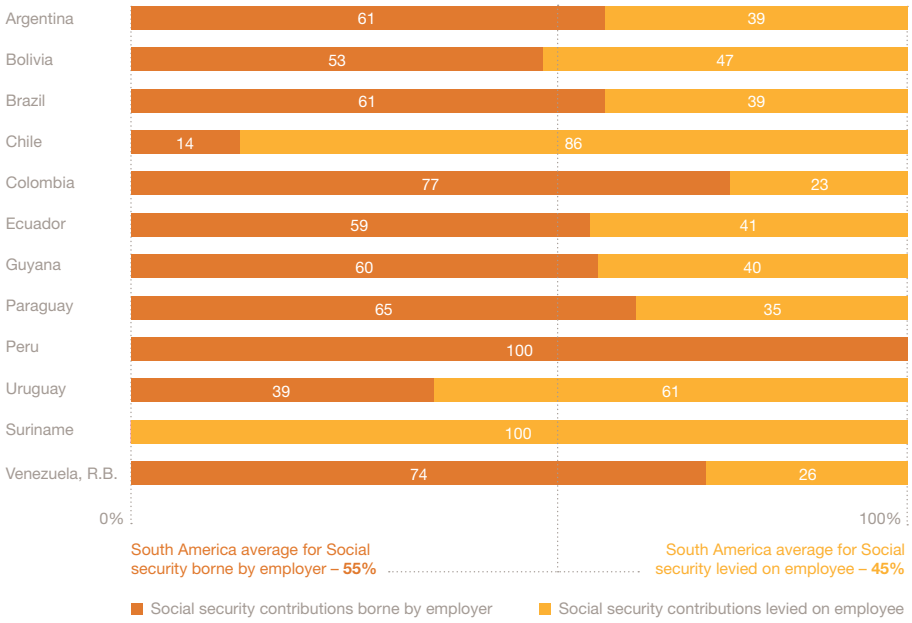
Social security contributions	Tax rate
Pension contribution	51.7%
Rehabilitation contribution	4.6%
Health care contribution	3.8%
Training contribution	3.2%
Unemployment contribution	1.6%
Community tax	0.2%

Note: The chart shows a percentage breakdown of the Total Tax Rate for Hungary together with a list of social security contributions.
Source: PwC analysis

In most economies, social contributions are levied by government, partly on the employer and partly on the employee. As explained, the Total Tax Rate measures the tax cost for the case study company and therefore only includes those levied on the employer. The Total Tax Rate results are therefore affected by the government policy choice in each economy on the split of social contributions between employer and employee.

Figure 2.19 shows this split for economies in South America, using the Paying Taxes results. On average in these economies, the split is 55% borne by the employer and 45% by the employee. Three economies are outliers. In Chile, (86%) and in Suriname (100%) a higher percentage is levied on the employee. In Peru, 100% is borne by the employer.

Figure 2.19: Social security contributions borne and collected in South American economies



Note: The chart shows the percentage split of social contributions in South American economies between those levied on the employer and those levied on the employee.
Source: PwC Analysis

In the three economies in the African Union with Total Tax Rates over 100%, cascading sales taxes add dramatically to the figures.

The impact of cascading sales taxes on the Total Tax Rate in Africa

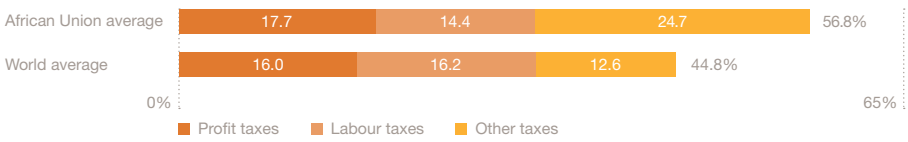
A feature of some African tax systems is the high cost of other taxes in the Total Tax Rate. Figure 2.20 shows the average Total Tax Rate in the African Union[29] is 56.8%, compared to the world average of 44.8%, and that a large part of the difference relates to other taxes.

In the three economies in the African Union with Total Tax Rates over 100%, cascading sales taxes add dramatically to the figures. Cascading-style tax systems add extra tax costs to each consumer so that an element of them is borne by each company in the supply chain. A Total Tax Rate of over 100% means that a company in that economy with the 20% mark-up of our case study could not make enough money just to pay all its taxes.

Three economies in the African Union still have cascading sales tax systems. This is down from five in the last Paying Taxes study as Burundi and Sierra Leone have changed to a VAT system.

Figure 2.21 shows the impact of cascading sales tax systems in Democratic Republic of the Congo , The Gambia, and Comoros and the percentage by which the Total Tax Rate is increased. If these three economies are excluded from the dataset, the revised average Total Tax Rate for the African Union is 42.6%, compared to a revised world average of 40.9%. For the remaining economies in the African Union, other taxes are 10.9% of commercial profit on average, compared to 8.8% on average around the world.

Figure 2.20: The Total Tax Rate for the African Union compared to the world average



Note: The chart shows the average Total Tax Rate for the African Union, by type of tax, compared to the world average.
Source: PwC analysis

Figure 2.21: The impact of cascading sales taxes on the Total Tax Rate in Africa

Economy	Total Tax Rate	Sales tax element	Proportion of Total Tax Rate
Congo, Democratic Republic of	339.7%	221.0%	65%
The Gambia	283.5%	221.0%	78%
Comoros	217.9%	176.8%	81%

Note: The table shows the Total Tax Rate for three economies in Africa which have a cascading sales tax and the proportion of the Total Tax Rate attributable to the sales tax.
Source: PwC analysis

[29] African Union includes Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Dem. Rep.), Congo (Rep.), Côte d'Ivoire, Djibouti, Egypt (Arab Rep.), Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia (The), Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Principe, Senegal, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia, Zimbabwe

What we measure – the time spent on tax compliance

The time to comply measures the compliance burden for the case study company. Contributors in each economy are asked to estimate the time needed for compliance activities across the three major types of taxes it complies with. This includes corporate income tax; labour taxes and social contributions (both those levied on the employer and those levied on the employee, which the employer deducts through the payroll); and consumption taxes. Compliance activities for each type of tax are grouped under three headings – preparing the tax figures, completing and filing the tax returns, and paying the taxes.

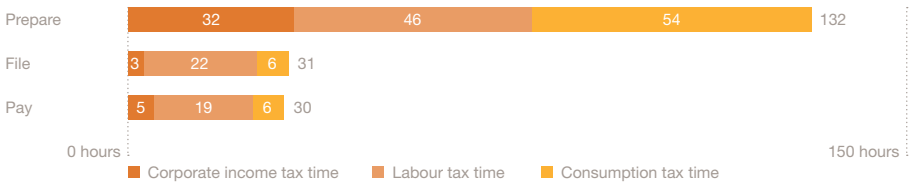
Figure 2.22 shows how the time to comply is calculated using Colombia as an example. In Colombia a total of 193 hours are needed, or nearly five weeks of full time work (with a 40-hour week). The most amount of time (87 hours or over two weeks of full time work) is spent on labour taxes. Split by type of compliance activity (see Figure 2.23), 68% of the total hours (around three and a half weeks) are spent preparing the tax figures.

Figure 2.22: Analysis of hours to comply in Colombia - 193 hours

Compliance process	Corporate income tax	Labour taxes	Consumption tax
Preparation			
Data gathering from internal sources (for example accounting records)	6	20	24
Additional analysis of accounting information to highlight tax sensitive items	16	12	24
Actual calculation of tax liability including data inputting into software/spreadsheets or hard copy records	5	10	6
Time spent maintaining/updating accounting systems for changes in tax rates and rules	0	0	0
Preparation and maintenance of mandatory tax records if required	5	4	0
Total	**32**	**46**	**54**
Filing			
Completion of tax return forms	1	12	6
Time spent submitting forms to tax authority, which may include time for electronic filing, waiting time at tax authority office etc	2	10	0
Total	**3**	**22**	**6**
Paying taxes			
Calculations of tax payments required including if necessary extraction of data from accounting records	2	6	0
Analysis of forecast data and associated calculations if advance payments are required	1	6	0
Time to make the necessary tax payments, either online or at the tax authority office (include time for waiting in line and travel if necessary)	2	7	6
Total	**5**	**19**	**6**
Grand Total	**40**	**87**	**66**

Note: The table shows the calculation of the hours to comply in Colombia split between type of tax and compliance activity.
Source: *Doing Business* database

Figure 2.23: Hours to comply in Colombia by compliance activity



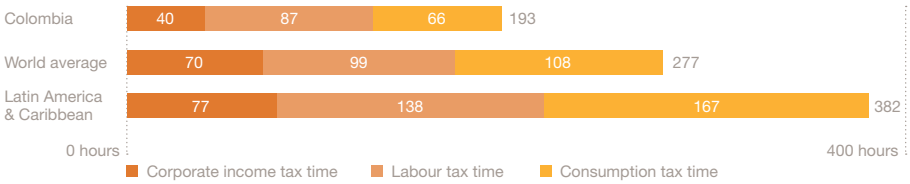
Note: The chart shows the hours to comply in Colombia by compliance activity.
Source: *Doing Business* database

Figure 2.24 shows how the time to comply in Colombia compares to the average in Latin America, and the Caribbean,[30] and the world average. It shows that our company spends less time on tax compliance than on average in both these groupings, across all the three taxes.

The average time to comply around the world is 277 hours, split corporate income tax 70 hours, labour taxes and social contributions 99 hours, and consumption taxes 108 hours.

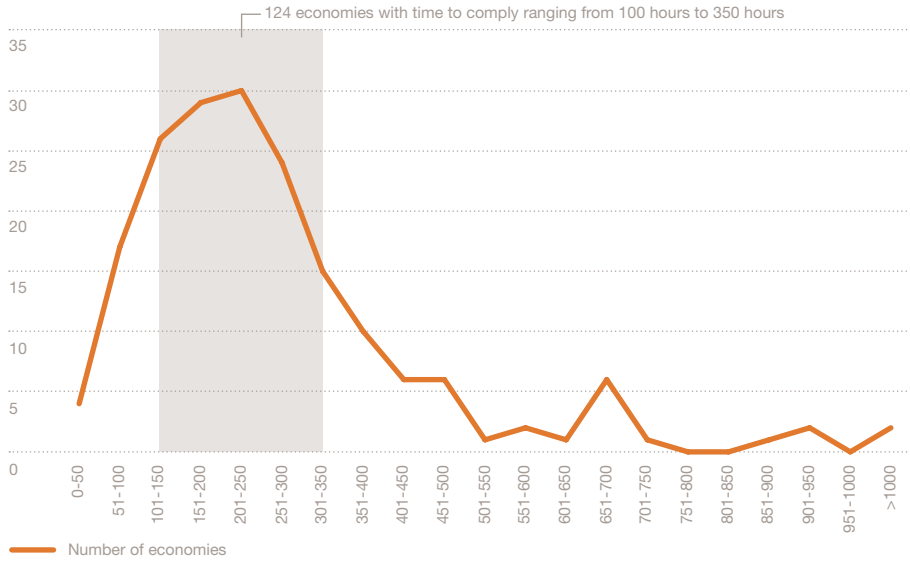
There is a wide range of results for the time to comply in the Paying Taxes study. Figure 2.25 shows the distribution across the 183 economies included. There is a concentration of results, with 124 economies between 100 and 350 hours. 21 economies take less than 100 hours, and 38 economies need more than 350.

Figure 2.24: The hours to comply in Colombia compared to Latin America and the Caribbean, and the world average



Note: The chart compares the hours to comply in Colombia with the Latin America and the Caribbean, and the world average.
Source: *Doing Business* database

Figure 2.25: Distribution of the time to comply results – 124 economies have between 100 and 350 hours



Note: The chart shows the distribution of results for the time to comply.
Source: PwC analysis

[30] Latin America and Caribbean includes Antigua and Barbuda, Argentina, Bahamas (The), Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela (R.B).

It takes longer to comply with VAT than it does with corporate income tax

On average, it takes the model company longer to comply with VAT than it does for corporate income tax. Figure 2.26 shows that on average, across the 151 economies with VAT, the model company needs 123 hours to comply with VAT compared to 74 hours for corporate income tax.

VAT is the predominant form of sales tax system used around the world. 151 of the 183 economies included in the Paying Taxes study have a VAT-type sales tax system. Of the other 32 economies, 15 have a different form of consumption tax and 17 have no consumption tax which applies to the case study company.

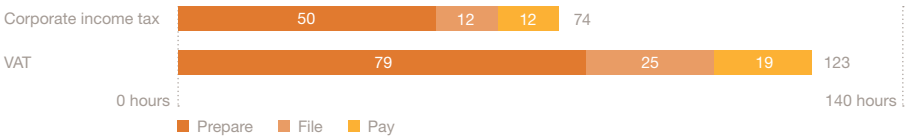
The time needed to comply with VAT varies considerably around the world and even between neighbouring countries. For example, in the European Union countries there is a common legal framework for VAT systems, but the time needed to comply still varies considerably, from 24 hours in Finland and Luxembourg to 195 in Bulgaria. Research carried out using data from the previous Paying Taxes studies shows that administrative procedures vary from country to country, and that this has a significant impact on how long it takes to comply with VAT (see *The impact of VAT compliance on business*).[31]

The frequency at which VAT returns are required, and the amount of data requested in the returns, impacts the time to comply. Figure 2.27 shows the results of an analysis of a sample group of 30 economies. The time to comply increased by an average 54% in economies where monthly VAT returns are required, compared to those whose returns are less frequent, either bi-monthly or quarterly. And the time needed for each return increased by over 100% where there were more than 20 boxes to complete on the return.

The compliance burden also increases where invoices have to be submitted with VAT returns. Figure 2.28 shows an average increase of 70% in the time needed where invoices have to be submitted.

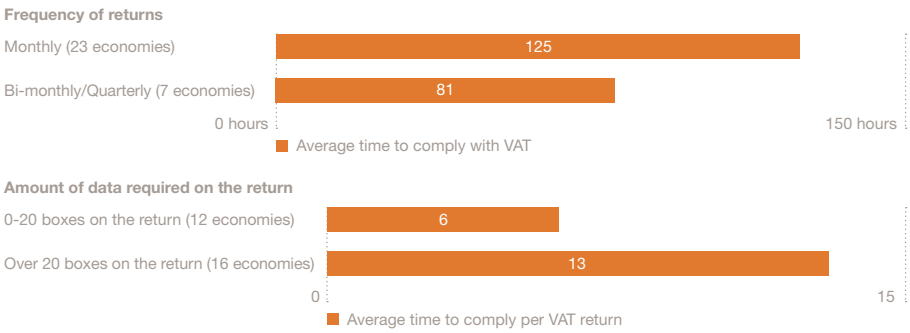
As shown in Figure 2.24, the hours to comply include any time spent in updating accounting systems for changes in tax rates. The Paying Taxes research shows that in the years spanning before and after the financial crisis (January 2008 to June 2011), 40 economies changed their VAT rate. 74% of the rate changes were an increase, and 26% a reduction. Eleven economies changed their rate more than once. For example, in the UK the rate of 17.5% was reduced to 15% from December 2008, returned to 17.5% on 1 January 2010, and increased to 20% on 4 January 2011.

Figure 2.26: On average, it takes the company longer to comply with VAT than with corporate income tax



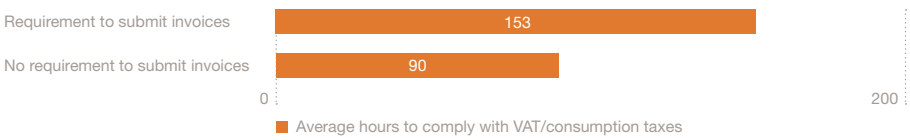
Note: The chart shows the average time to comply with corporate income tax and with VAT for the 151 economies with VAT.
Source: PwC analysis

Figure 2.27: The frequency at which VAT returns are required and the amount of data required impacts the time to comply



Note: The chart shows (1) the average time needed to comply depending on whether VAT returns are required to be made monthly or less frequently and (2) the average time per VAT return where more or less than 20 boxes have to be completed, both for a sample group of 30 economies with VAT.
Source: PwC analysis, *The impact of VAT compliance on business*, September 2010

Figure 2.28: Compliance time rises where invoices have to be submitted to support returns



Note: The chart shows results for 161 economies providing data on the requirement to submit invoices with the VAT / consumption tax returns.
Source: PwC analysis, *Paying Taxes – The compliance burden*, September 2011

[31] *The impact of VAT compliance on business* September 2010 – http://www.pwc.com/gx/en/tax/indirect-taxes/impact-vat-compliance-business.jhtml

Different government practice in administering taxes can impact the compliance burden.

The way in which tax is administered by government does vary around the world and this affects the compliance burden for business. We recently published the results of a study which looks at how governments around the world administer their tax rules and how different practices can increase or ease the compliance burden for business. (See *Paying Taxes – the compliance burden*.)[32] These results use data from the Paying Taxes 2011 study. It also includes views given in interviews with a small number of leading experts, from the private and public sectors, with a wealth of experience in this area.

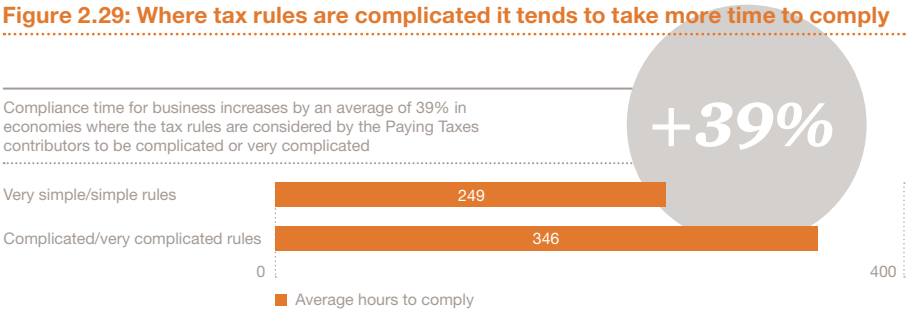
The study covers a range of aspects of tax administration, from the complexity or simplicity of the rules; the paperwork needed for tax compliance; the approach of the tax authorities and what happens in a tax audit to government being transparent about the taxes they receive and how they spend them.

Complicated or ambiguous tax rules increase the compliance burden for business. Figure 2.29 shows that the compliance time for business increases by an average of 39% in economies where the tax rules are considered by the Paying Taxes contributors to be complicated or very complicated.

Tax systems around the world vary in their degree of centralisation. Some are quite centralised, with most taxes levied and administered at the national level. Others are quite decentralised, with additional layers of taxation at the provincial or regional and local levels. Decentralised tax systems bring benefits by making local government more independent, and also more accountable to citizens. But layers of taxation can increase the complexity and compliance burden for business. Figure 2.30 shows that the time needed for our case study company to comply with its tax affairs increases with more levels of taxes.

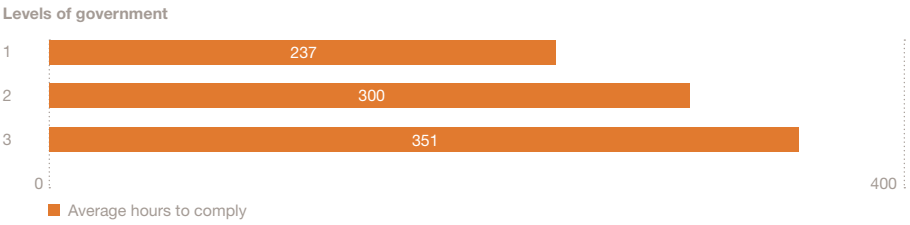
The compliance burden also rises where taxpayers have to deal with different tax authorities for different taxes. Corporate income tax and VAT are administered by the same authority in the majority of economies (70%). However, as shown in Figure 2.31, the time to comply rises by 31% if there is a separate tax authority for indirect tax. Social security contributions are administered separately in the majority of economies (67%), and the time to comply increases by a similar amount (30%).

Figure 2.29: Where tax rules are complicated it tends to take more time to comply



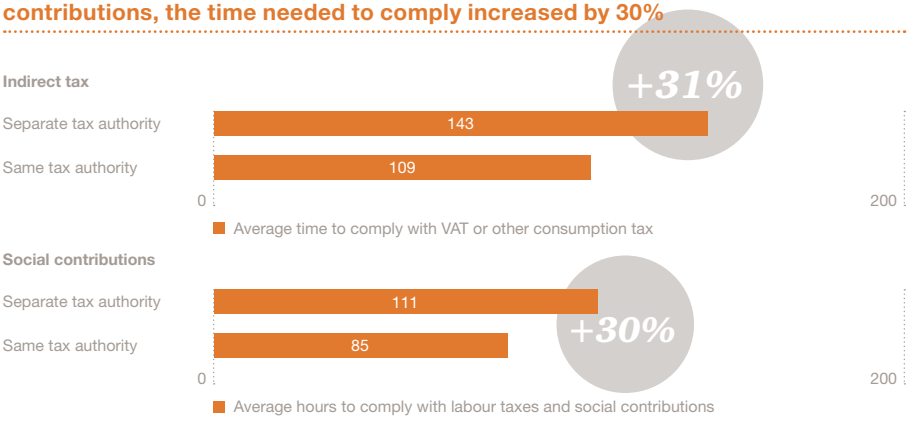
Note: The chart shows results for 155 economies providing data on simple/complicated tax rules.
Source: PwC analysis, *Paying Taxes – The compliance burden*, September 2011

Figure 2.30: The time to comply increases where there are more levels of taxes



Note: The chart shows results for 157 economies providing data on levels of government that can levy taxes.
Source: PwC analysis, *Paying Taxes – The compliance burden*, September 2011

Figure 2.31: Where there is a separate tax authority for indirect tax or for social contributions, the time needed to comply increased by 30%



Note: The chart shows results for 160 economies providing data on their indirect tax and social security contributions authority.
Source: PwC analysis, *Paying Taxes – The compliance burden*, September 2011

[32] *Paying Taxes – The compliance burden* – http://www.pwc.com/gx/en/paying-taxes/compliance-burden.jhtml

What we measure – the number of tax payments made in a year

The number of payments measures the number of times the case study company has to pay taxes in the year and how it makes these payments. It includes all taxes, whether these are levied on the company, or like VAT, are administered by it. It provides a measure of the number of taxes which must be complied with. It also takes into account the method of payment and the use of electronic filing and payment. Where the majority of businesses, like the case study company, file and pay their taxes online, the number of actual payments is reduced to reflect the efficiencies of going electronic. Also, where taxes are paid through a third party, such as fuel tax paid to the fuel distributor, the number of payments is taken as one to reflect the lack of compliance burden.

Figure 2.32 shows how the number of payments indicator is calculated, using Japan as an example. Our model company makes three payments of corporate income tax and inhabitants tax in a year, monthly payments of health insurance, and quarterly payments of VAT. However, these are all reduced to one payment per tax in the indicator result to reflect the status of online filing and payment in Japan. Some taxes are paid jointly with others, so that no separate payments are required or recorded in the indicator result. This includes welfare pension insurance, child allowance contribution, and workmen's accident compensation. The remaining taxes are either paid annually, such as depreciable fixed assets tax and business premises tax, or are embedded in a payment to a third party (fuel tax). In Japan, our company makes 66 actual tax payments in a year, but this is reduced to 14 for the number of payments indicator.

Figure 2.32: The number of payments calculation for Japan

	Doing Business indicator	Actual payments	Notes
Corporate income tax	1	3	Online filing
Enterprise tax	0	2	Paid jointly
Inhabitants tax	1	3	Online filing
Health insurance	1	12	Online filing
Welfare pension insurance	0	12	Paid jointly
Child allowance contribution	0	12	Paid jointly
Workmen's accident compensation	0	2	Paid jointly
Employment insurance	1	2	Online filing
Consumption tax	1	4	Online filing
Fixed assets tax	1	4	Online filing
City planning tax	0	1	Paid jointly
Depreciable fixed assets tax	1	1	
Business premises tax	1	1	
Real property acquisition tax	1	1	
Stamp tax	1	1	
Automobile tax	1	1	
Automobile tonnage tax	1	1	
Fuel tax	1	On each refuelling	Embedded in third party payments
Registration and license tax	1	1	
Tax on interest	0	1	Tax withheld at source
Total	**14**	**66**	

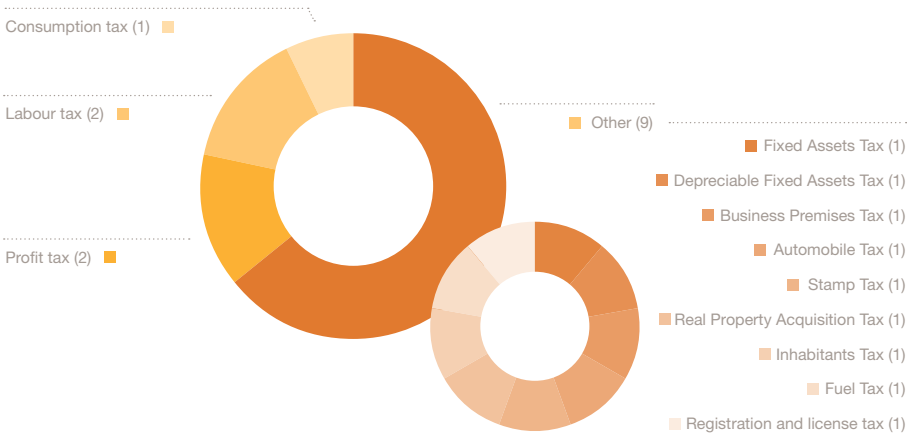
Note: The table shows an example of the calculation of the number of payments for Japan.
Source: *Doing Business* database

The pie chart in Figure 2.33 shows the number of payments by type of tax. It shows how the high number of taxes that have to be paid in Japan (20) compared to the world average (9.3) contributes to the result. Figure 2.34 shows how the number of payments for Japan compares to the average number for neighbouring economies in Asia Pacific,[33] and to the world average. It shows how the results for Japan are favourably impacted by the status of online filing and payment.

The average number of payments around the world is 28.5, split profit taxes 3.4, labour taxes 11.5, and other taxes 13.6.

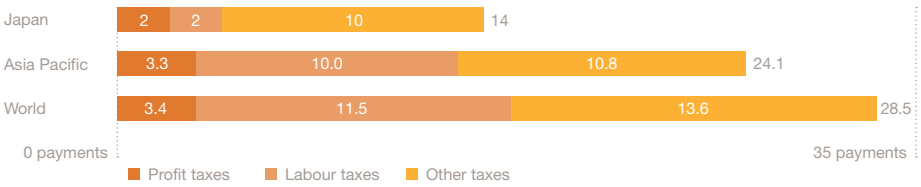
As for the other Paying Taxes indicators, there is a wide range of results around the world for the number of taxes. Figure 2.35 shows the distribution of results. 119 economies have between six and 35 payments. Only seven economies have fewer than six payments, but 57 economies have more than 35.

Figure 2.33: The number of payments for Japan



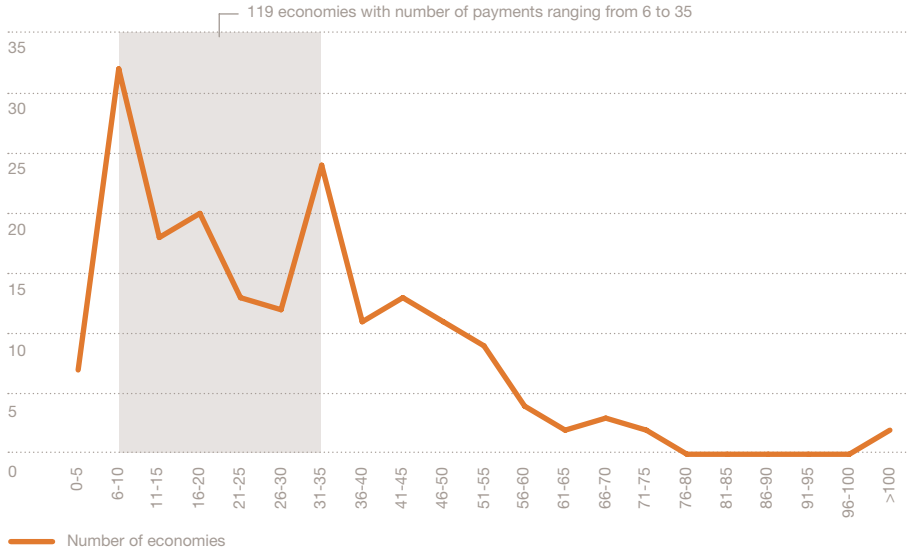
Note: The chart shows the number of payments for Japan split by type of tax.
Source: *Doing Business* database

Figure 2.34: The number of payments for Japan compared to Asia Pacific and world average



Note: The chart compares the number of payments for Japan with Asia Pacific and world average.
Source: PwC analysis

Figure 2.35: Distribution of the number of payments results – in 119 economies there are between 6 and 35 payments



Note: The chart shows the distribution of results for the number of payments.
Source: PwC analysis

[33] Asia Pacific includes Afghanistan, Australia, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Fiji, Hong Kong SAR, China, India, Indonesia, Japan, Kiribati, Korea (Rep.), Lao PDR, Malaysia, Maldives, Marshall Islands, Micronesia (Fed. Sts.), Mongolia, Nepal, New Zealand, Pakistan, Palau, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Sri Lanka, Taiwan, China, Thailand, Timor-Leste, Tonga, Vanuatu, Vietnam.

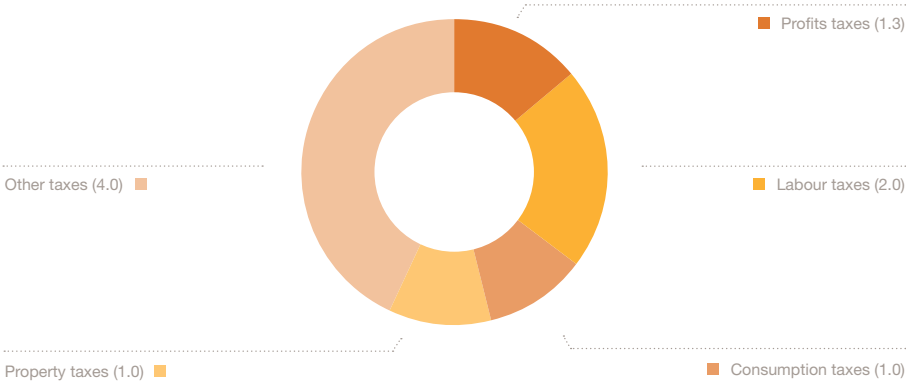
How many different taxes have to be paid around the world

Corporate income tax is one of many different taxes paid by business. Around the world, our case study company has to comply with 9.3 different taxes on average, including labour taxes, consumption taxes, property taxes, and other taxes, as well as taxes on its profits. Figure 2.36 shows how the average figure of 9.3 is split by type of tax.

Profit taxes (average 1.3) include corporate income tax, but also other taxes levied on profits, such as enterprise tax and inhabitants tax in Japan, or education tax in Nigeria. Labour taxes (average 2) include a variety of taxes and social contributions that relate to employment and can be levied on the employer or on employees, for example payroll tax and social security contributions in France, or training/ apprentice tax in Kenya. Consumption taxes (average 1) include VAT, which is used in the majority of economies, but also other types of consumption tax, such as sales tax in Malaysia or cascading sales tax in The Gambia. Taxes on property (average 1) include taxes on property ownership and use, such as real estate tax in Peru and taxes on the transfer of property, such as stamp duty and property transfer tax in Jamaica.

As Figure 2.36 shows, there are many other taxes levied on business (average 4). These include taxes on interest and cheque transactions, taxes or license fees for road vehicles, road maintenance levies, advertising taxes, and taxes on energy usage, refuse collection and sewerage.

Figure 2.36: Global average number of taxes paid by the case study company – 9.3 taxes



Note: The chart shows the average result for all economies in the study.
Source: PwC analysis

Figure 2.37: Number of taxes in Sweden and Kenya

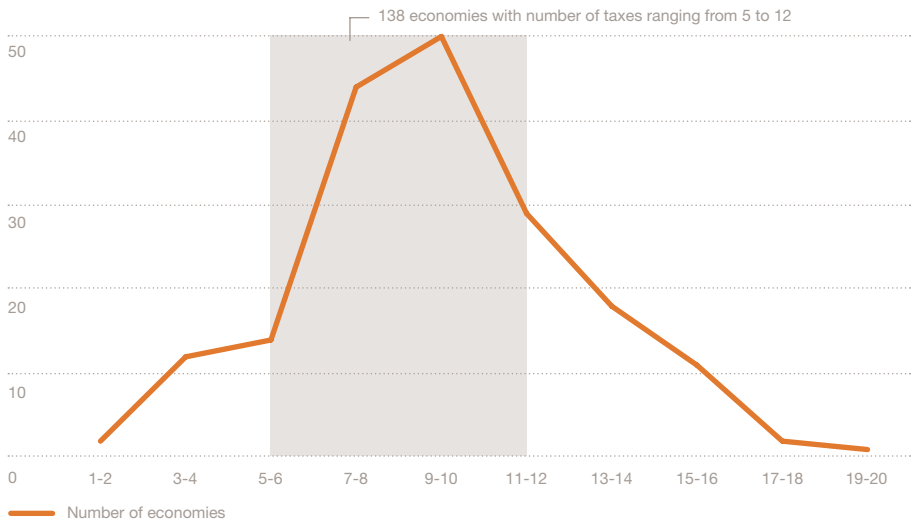
	Sweden - 5 taxes		Kenya - 16 taxes	
Tax base	Tax	Total Tax Rate	Tax	Total Tax Rate
Profit	Corporate income tax	15.7%	Corporate Income tax	33.1%
Labour	Payroll tax	35.5%	Social Security (NSSF)	5.3%
			Training or apprentice tax	1.5%
Consumption	Value added tax (VAT)	-	Value added tax (VAT)	-
Property	Real estate tax	0.6%	Land Rent	0.1%
			Land Rates	0.3%
			Stamp duty on contracts	0.0%
Other	Fuel tax	1.0%	Single business permit - manufacturer	4.2%
			Single business permit - trader	0.8%
			Standards levy	3.5%
			Fuel tax - excise duty	0.4%
			Road maintenance levy	0.4%
			Petroleum development duty	0.0%
			Tax on cheque transactions	0.0%
			Advance Motor Vehicle tax	0.0%
			Tax on interest	0.0%
Total Tax Rate		52.8%		49.6%

Note: The chart compares the number of taxes and how they contribute to the Total Tax Rate in Sweden and Kenya.
Source: PwC analysis

Multiple taxes add to the complexity and the compliance burden for business. Two examples, Kenya and Sweden, provide a good illustration of the variation in the number of taxes levied on business (see Figure 2.37). Both economies have a similar Total Tax Rate (Kenya 49.6%, Sweden 52.8%). However, Sweden follows what may be seen as good practice and raises these revenues by levying just five taxes – one tax per tax base. There is corporate income tax, payroll tax, VAT, real estate tax, and fuel tax. In contrast, Kenya levies 16 taxes with corporate income tax, two labour taxes, one consumption tax, three property taxes, and nine other taxes.

Figure 2.38 shows the distribution of results around the world for the number of taxes. A hundred and thirty eight economies have between five and 12 taxes; 14 economies have fewer than five taxes; and 31 more than 12.

Figure 2.38: Distribution of results for the number of taxes – 138 economies have between 5 and 12 taxes



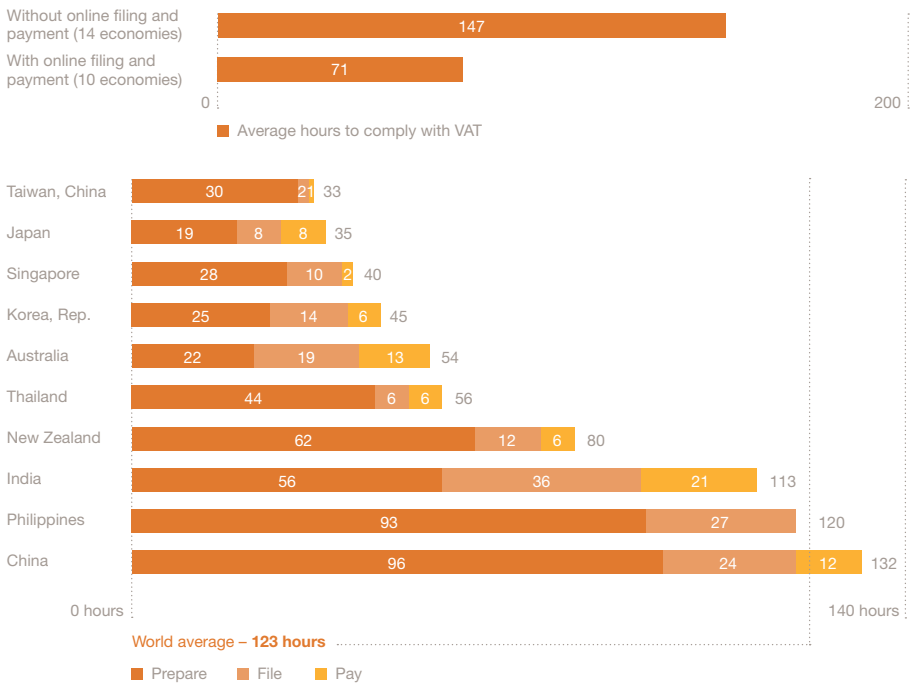
Note: The chart shows the distribution of results number of taxes.
Source: PwC analysis

Efficient online systems make paying taxes easier

Effective electronic systems for filing and paying taxes lighten the compliance burden, bringing efficiency benefits for both business and government. The advantages of electronic filing are that it reduces the amount of paperwork and lowers the cost of administration. Increased automation also allows a more targeted and risk based approach to audit and compliance. And electronic payment, rather than payment in cash or by cheque, reduces interactions with tax officials and can help eliminate corruption.

Figure 2.39 shows the time needed to comply with VAT in the ten economies in the Asia Pacific region which have VAT-type sales tax systems and online systems to pay and file these taxes. On average, the time needed to comply across these economies is 71 hours, which compares to the world average for VAT of 123 hours. Figure 2.39 also shows the impact of online systems on the tax compliance burden and compares the average time for these economies to those in Asia Pacific which also have VAT but do not have online systems. In economies where taxpayers like our case study company typically pay and file their VAT online, the average VAT compliance time is reduced by 52%.

Figure 2.39: Time to comply with VAT in Asia Pacific – online filing and payment



Note: The chart shows 1) the average hour to comply with VAT on economies in Asia Pacific which have VAT comparing those which do/do not have online filing and payment and 2) the time to comply with VAT the economies with online filing compared to the world average.
Source: PwC analysis

How the Paying Taxes results vary by region

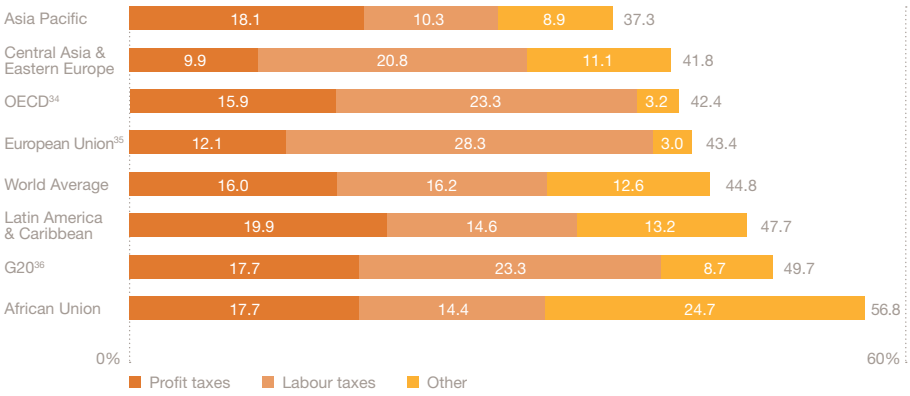
The purpose of the Paying Taxes project is to provide quantitative data to stimulate and inform discussion around tax policy and tax administration, and to encourage dialogue on tax reform. The Paying Taxes study enables governments to benchmark their tax system with relevant peer groups on a like for like basis, including geographic neighbours or economies in the same economic grouping. In this section we show how the results vary by region around the world, using selected regional and economic groupings of economies.

Figure 2.40 shows a comparison of the average Total Tax Rate. The African Union has the highest average Total Tax Rate (56.8%), and Asia Pacific the lowest (37.3%), compared to the world average of 44.8%. Both regions have profit taxes that are a higher percentage of commercial profit than the world average (African Union 17.7%, Asia Pacific 18.1%, world average 16.0%), and employer labour taxes which are lower than the world average (African Union 14.4%, Asia Pacific 10.3%, world average 16.2%).

The biggest difference between the two regions is the other taxes levied on our case study. In the African Union, these are 24.7% on average, compared to 8.9% in Asia Pacific, and 12.6% worldwide. On page 38 we discuss the impact of cascading sales taxes on the Total Tax Rate in Africa.

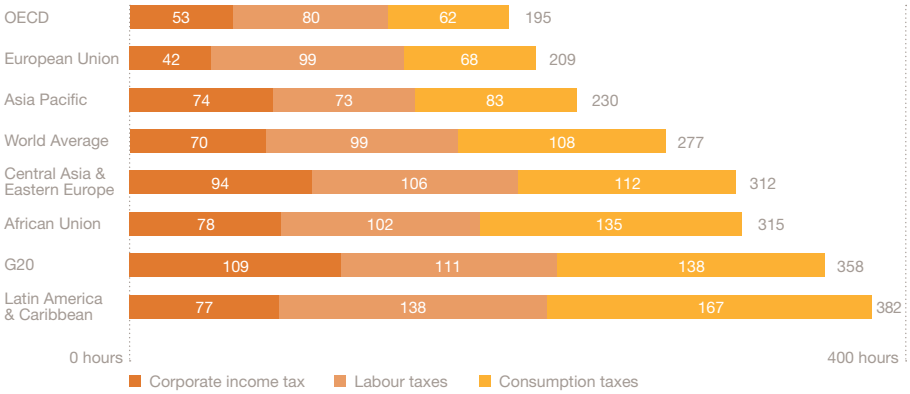
Latin America and the Caribbean is the region where it takes longest to comply with tax, and the average time needed (382 hours) is nearly twice that for the Organisation for Economic Co-operation and Development (OECD) countries (195 hours), and well above the world average (277 hours). Figure 2.41 shows a comparison of the average time to comply by region. The OECD countries tend to have more mature systems with streamlined tax paperwork and good electronic systems. The average time needed in OECD countries is below the world average for all the three main taxes – corporate income tax, (OECD 53 hours, world average 70 hours); labour taxes (OECD 80 hours, world average 99 hours); and consumption tax (OECD 62 hours, world average 108 hours).

Figure 2.40: Comparison of the Total Tax Rate by region



Note: The chart shows the average result for the economies in each region and the world average for all economies in the study.
Source: PwC analysis

Figure 2.41: Comparison of the time to comply by region



Note: The chart shows the average result for the economies in the region and the world average of all economies in the study.
Source: PwC analysis

[34] OECD member countries include Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea (Rep.), Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

[35] The European Union includes Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom.

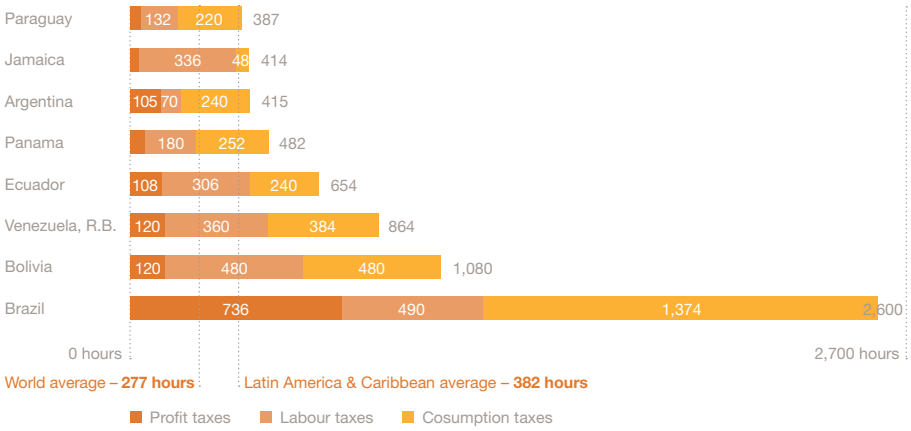
[36] G20 member states include Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea (Rep.), Mexico, Russian Federation, Saudi Arabia, South Africa, Turkey, United Kingdom, United States.

A quarter of the economies worldwide where the company spends more than 350 hours on tax compliance are in the Latin American and Caribbean region. Figure 2.42 shows the hours needed in these eight economies by type of tax.

The OECD countries also have the fewest tax payments, with an average 13.1 compared to the world average of 28.5, and 37.9 in Central Asia and Eastern Europe. This is not because the OECD has fewer taxes (10.7) compared to Central Asia and Eastern Europe (9.0) and worldwide (9.3). It is because in the majority of OECD countries the company can file and pay its taxes online.

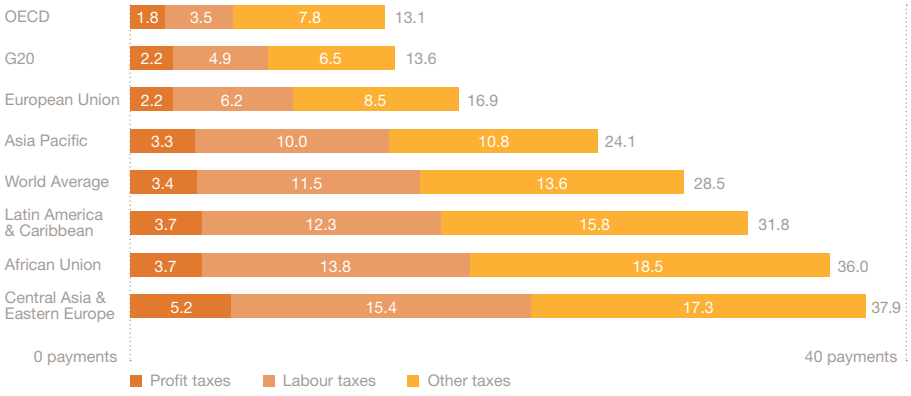
Figure 2.44 compares the average number of payments and taxes between the OECD economies with online systems (32 economies) and those without (two economies). It clearly shows the impact of online systems on the number of payments results.

Figure 2.42: More than 350 hours are needed for tax compliance in eight economies in Latin America and the Caribbean



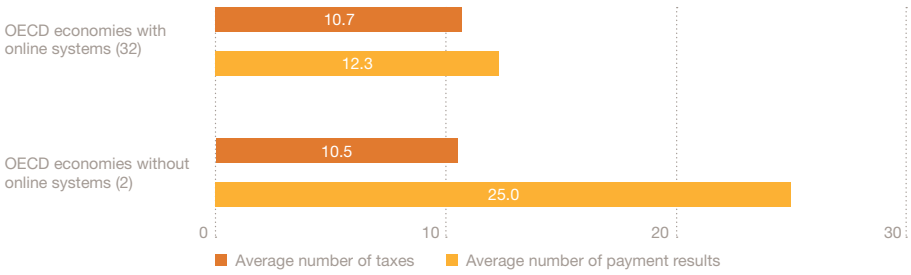
Note: The chart shows the hours to comply for economies in Latin America and the Caribbean where it takes more than 350 hours.
Source: PwC analysis

Figure 2.43: Comparison of number of payments by region



Note: The chart shows the average result for the economies in the region and the world average of all economies in the study.
Source: PwC analysis

Figure 2.44: The number of taxes and tax payments for the OECD economies



Note: The chart compares the average number of taxes and average number of payments results for OECD economies with and without online systems.
Source: PwC analysis

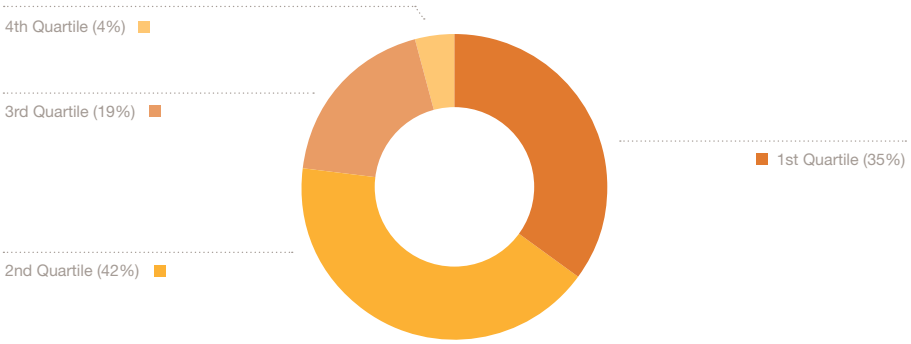
Paying Taxes in the European Union

Twenty six of the twenty seven European Union (EU) countries are included in the Paying Taxes study (Malta is not included). Many of them have good results. Figure 2.45 shows that over 77% of EU economies have an overall ranking as calculated in this study in either the first (35%) or second (42%) quartiles.

In the EU, the company spends 208 hours on tax compliance, makes 17.0 tax payments, and has a Total Tax Rate of 43.4%; all of which are below the world average. Figure 2.46 compares the average results for the EU with the world average. Some 69 hours (or 8 days) less are needed for compliance, 11.5 fewer payments, and the tax cost is 1.4% lower. Particularly for the two indicators that measure compliance, (rather than cost), paying taxes is easier than in some other regions.

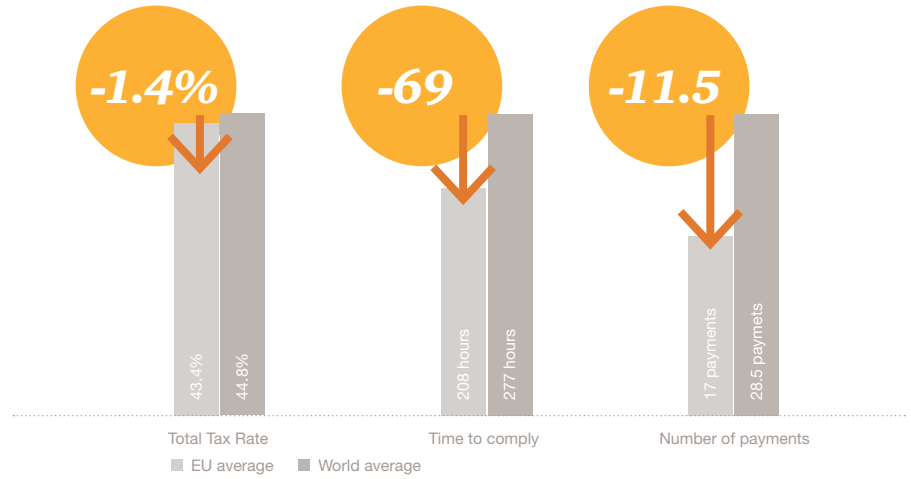
Labour taxes and social contributions are a large part of the tax burden in the EU. Figure 2.47 shows that on average labour taxes account for 36.7% of the number of payments, 47.5% of the time to comply, and 65.1% of the Total Tax Rate. The company pays 2.7 different labour taxes on average, compared to 2.0 around the world.

Figure 2.45: The overall paying taxes ranking for the European Union



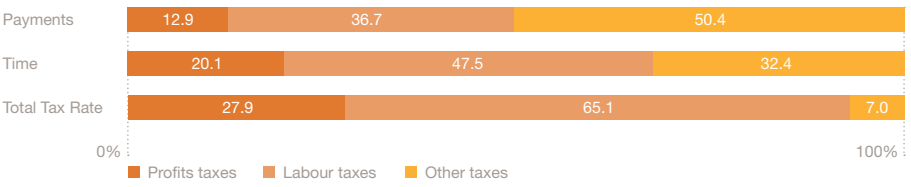
Note: The chart shows percentage of economies in the European Union in each quartile of the ranking for the overall paying taxes ranking
Source: PwC analysis

Figure 2.46: Paying taxes in the EU compared to the world average



Note: This chart compares the average results for the European Union with the world average.
Source: PwC analysis

Figure 2.47: Labour taxes are a large part of the cost in the EU

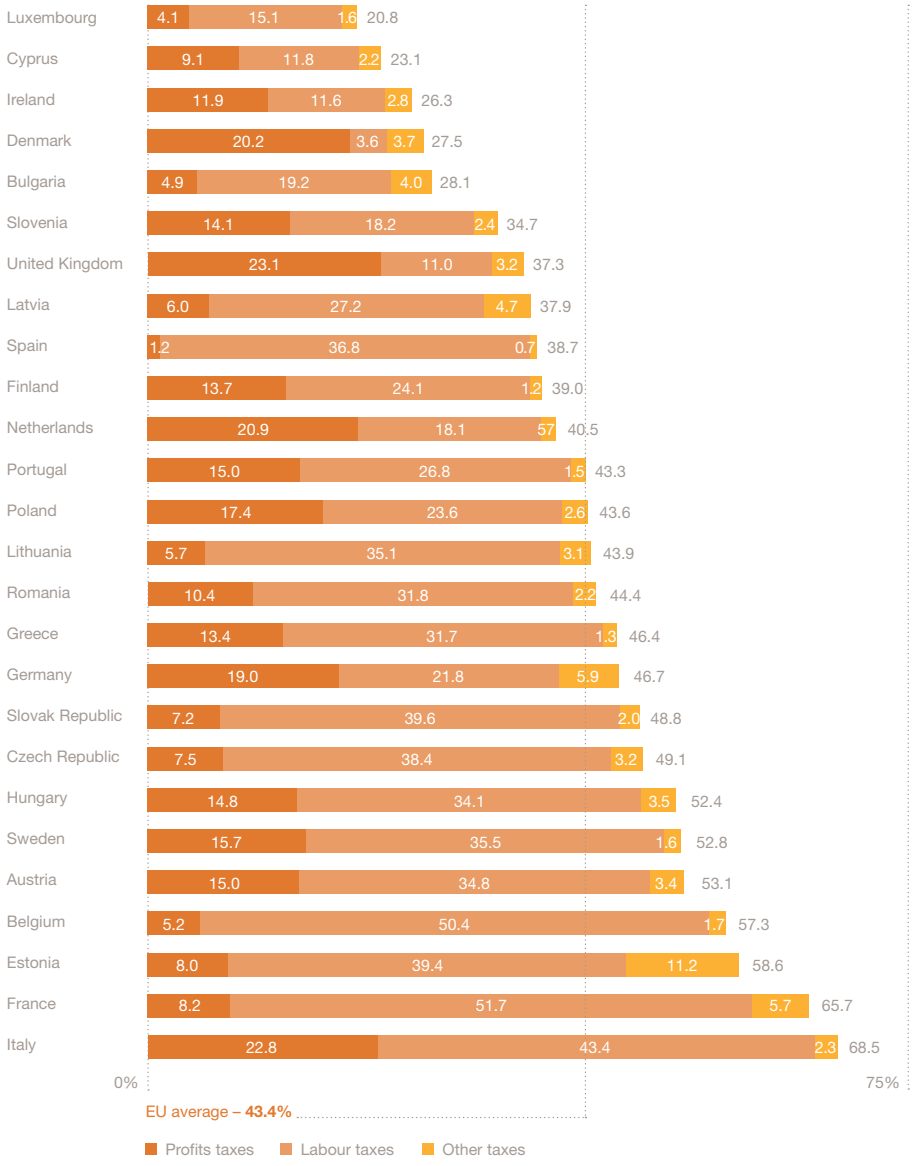


Note: The chart shows the average results for the EU economies in the study.
Source: PwC analysis

At 28.3% of commercial profits on average, the cost of labour taxes in the EU is well above the world average (16.2%). Figure 2.48 shows the Total Tax Rate by economy, split by type of tax. In 81% of the EU economies, labour taxes and social contributions levied on the employers are the majority of the tax cost (above 50%). As mentioned above, lower Total Tax Rates are not necessarily the best model. What is important is how governments use the tax revenues they raise from business and other taxpayers, and that higher rates contribute to prosperous and stable societies.

Profit taxes are 12.1% of commercial profits on average in the EU. The section on page 33 explains why the statutory rate of corporate income tax is often not a good measure of the rate of tax paid on profits, and this can also be seen in the EU economies. For example, in Ireland the statutory rate of 12.5% is below the average for our company in the EU 21.8%. However, taxes paid on profits in Ireland are 11.9%, which is very close to the EU average. Tax depreciation is less generous in Ireland than in some other EU economies, and the capital gain in the fact pattern of our case study company is taxed separately at the higher rate of 25%.

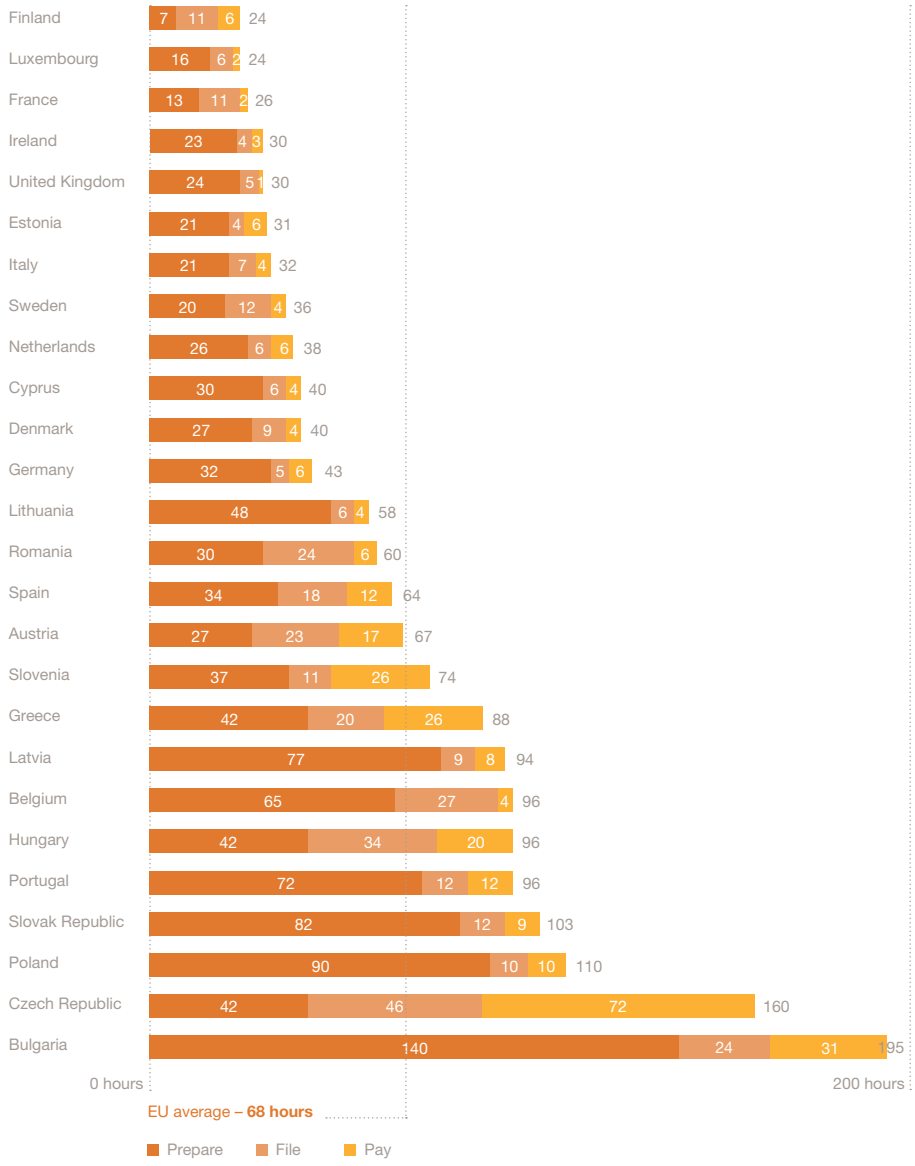
Figure 2.48: Comparison of the Total Tax Rate in the European Union



Note: The chart shows the Total Tax Rate for the economies in the European Union.
Source: PwC analysis

Figure 2.49 shows the time to comply with VAT in the European economies. Although there is a common legal framework for VAT, the time to comply varies considerably, from 24 hours in Finland and Luxembourg to 195 hours in Bulgaria. On page 41 and also in our research published in September 2010 (see *The impact of VAT compliance on business)*, we discuss how different administrative practice by governments can affect the time needed to comply with VAT.

Figure 2.49: Comparison of the time to comply with the VAT in the European Union



Note: The chart shows the time to comply with the VAT for the economies in the European Union.
Source: PwC analysis

Paying taxes in sub-Saharan Africa

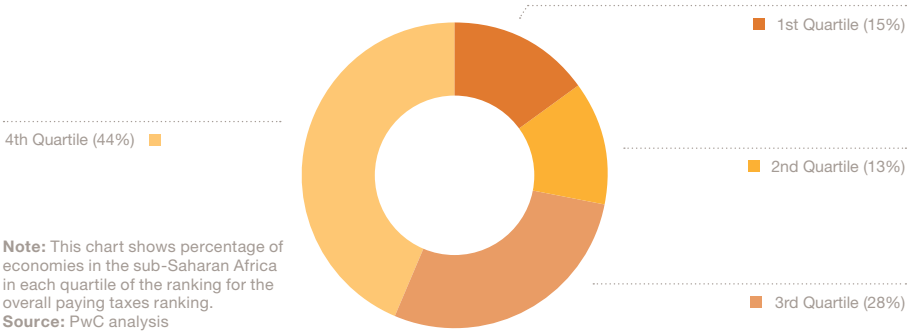
There is a wide range of Paying Taxes results for the economies in sub-Saharan Africa. Two economies (Mauritius and Botswana) rank in the top 25 for the overall paying taxes ranking, but nearly half the economies come in the bottom quartile (44% – see Figure 2.50).

In sub-Saharan Africa, the company spends 318 hours on tax compliance, makes 37.0 tax payments and has a Total Tax Rate of 57.1% all of which are above the world average. Figure 2.51 compares the average results for sub-Saharan Africa with the world average. The tax cost is 12.3% higher, 41 hours or 5 days more are needed and 8.5 more tax payments.

Figure 2.52 shows a breakdown for the results for sub-Saharan Africa by type of tax. Consumption taxes and other taxes add to the burden in these countries. They represent 51.2% of payments, 43.2% of the hours and 44.7% of the tax cost.

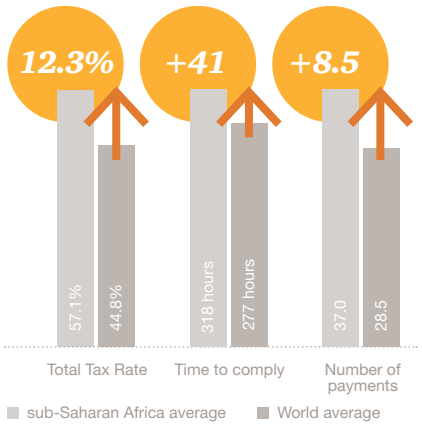
Figure 2.53 shows the Total Tax Rate for the Economic Community of West African States (ECOWAS), split by type of tax. There are considerable differences in the make-up of the Total Tax Rate across these countries. Half the economies (seven) in ECOWAS have Total Tax Rates above the world average, yet all of these are low income economies (apart from Senegal).

Figure 2.50: The overall paying taxes ranking for sub-Saharan Africa



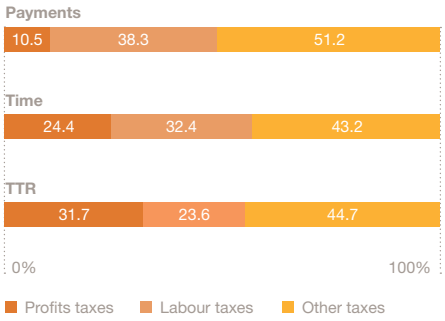
Note: This chart shows percentage of economies in the sub-Saharan Africa in each quartile of the ranking for the overall paying taxes ranking.
Source: PwC analysis

Figure 2.51: Paying taxes in sub-Saharan Africa compared to the world average



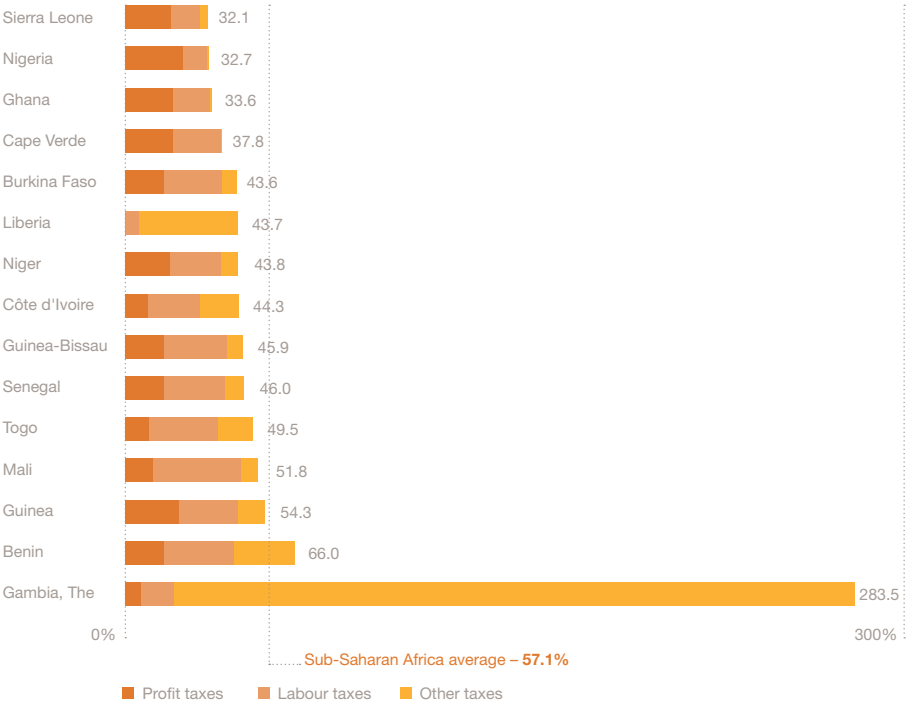
Note: The chart compares the average results for the sub-Saharan Africa with the world average.
Source: PwC analysis

Figure 2.52: Consumption taxes and other taxes add burden to sub-Saharan Africa



Note: The chart shows the average results for the economies in sub-Saharan Africa.
Source: PwC analysis

Figure 2.53: Comparison of the Total Tax Rate in the Economic Community Of West African States (ECOWAS)

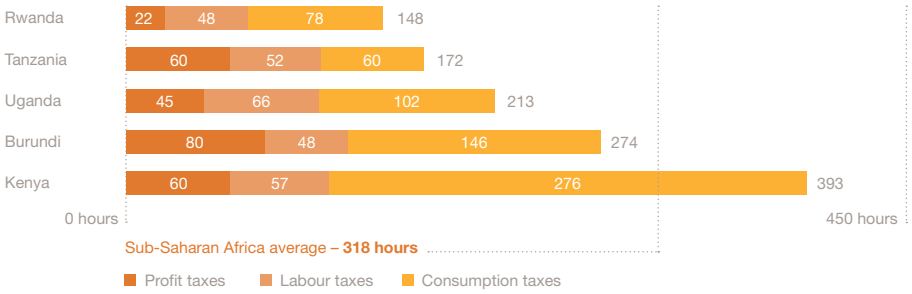


Note: The chart shows the Total Tax Rate for the economies in ECOWAS.
Source: PwC analysis

Figure 2.54 shows the time to comply for the East African Community (EAC), split by type of tax. It shows that the largest amount of time is generally spent complying with consumption tax. All of the five economies in EAC have VAT, yet the time needed to comply, ranges from 148 hours in Rwanda to 393 hours in Kenya, reflecting different rules and administrative procedures in these economies.

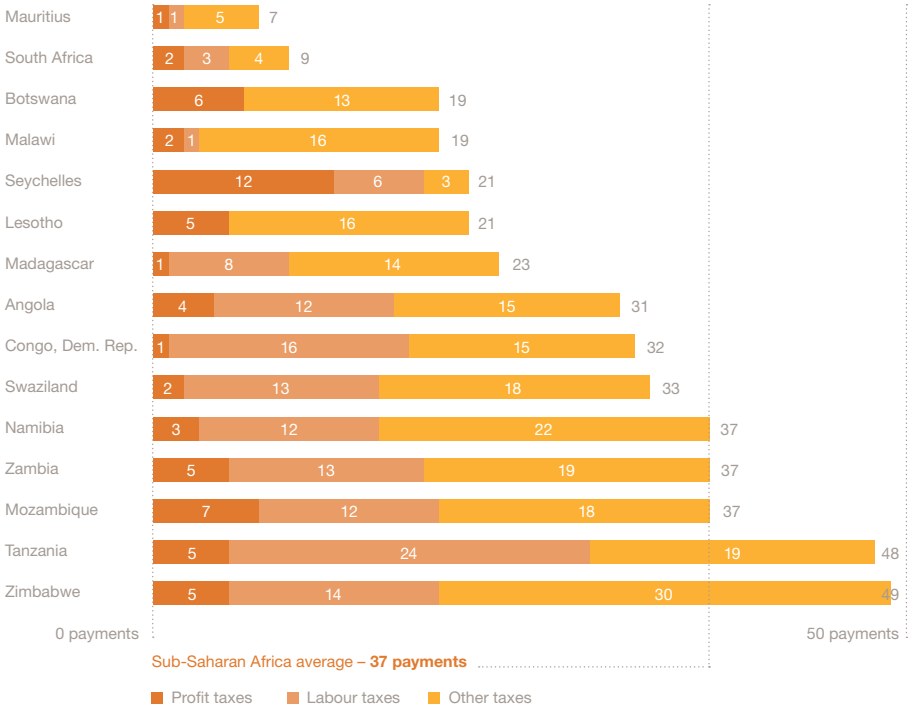
Figure 2.55 shows the number of tax payments for the Southern African Development Community (SADC), split by type of tax. On average, the company pays 8.4 taxes in these economies, below the world average of 9.3. In most of the SADC economies, taxes are filed and paid manually. Only the economies with the lowest number (Mauritius and South Africa) have online systems.

Figure 2.54: Comparison of time to comply in the East African Community (EAC)



Note: The chart shows the time to comply for the economies in EAC.
Source: PwC analysis

Figure 2.55: Comparison of the number of payments in the Southern African Development Community (SADC)



Note: The chart shows the number of payments for the economies in SADC.
Source: PwC analysis

What would contributors to the Paying Taxes study most like to change?

Contributors to the Paying Taxes study are tax experts from a number of different professional firms in each economy who assist business in complying with their taxes. They each respond to a questionnaire every year, identifying tax changes and reforms, and calculating the results for the three Paying Taxes indicators.

Contributors were also asked to indicate what they considered to be the best aspects of their country's tax system, as well as what elements most need to be improved. Their responses identify the aspects of tax systems around the world that business would most like to change.

Figure 2.56 shows contributors' responses for the different aspects on which they were asked to comment. Dealing with tax audits and disputes was the area that most contributors wanted to improve, followed by the approach of the tax authorities.

Contributors in 79% of economies wanted to see improvements in how a tax audit is dealt with in their country. Contributors in only 21% of economies rated this as a good or best aspect of their tax system. Figure 2.57 shows the regional picture, which highlights that the wish to improve this area is even higher in Latin America and the Caribbean (92%) and Asia Pacific (88%). Around the world, contributors in 66% of economies wanted to see improvements in the approach of their tax authority, with higher percentages in Latin America and the Caribbean (78%), the EU (72%) and Asia Pacific (67%) – see Figure 2.58.

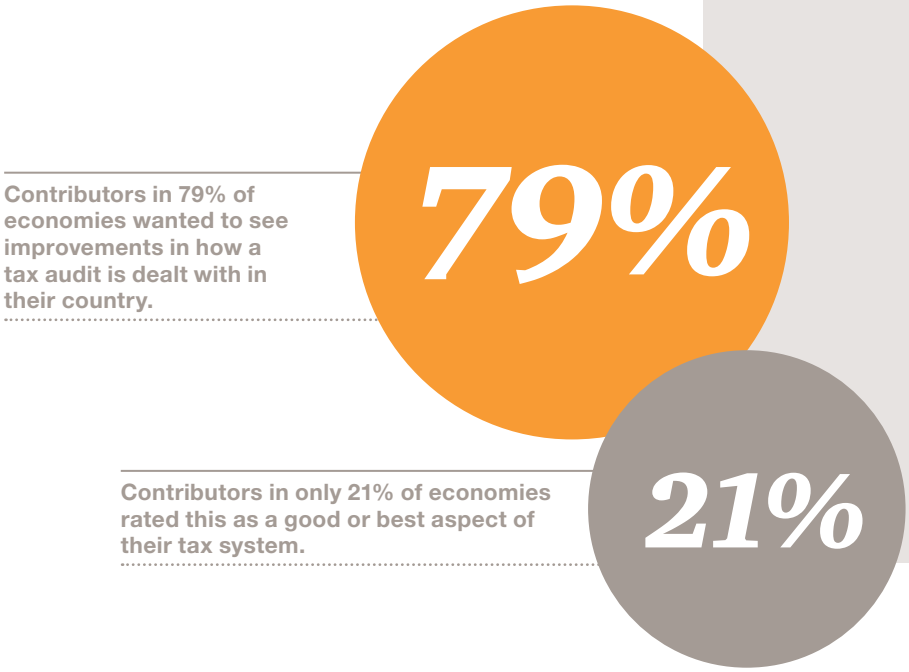
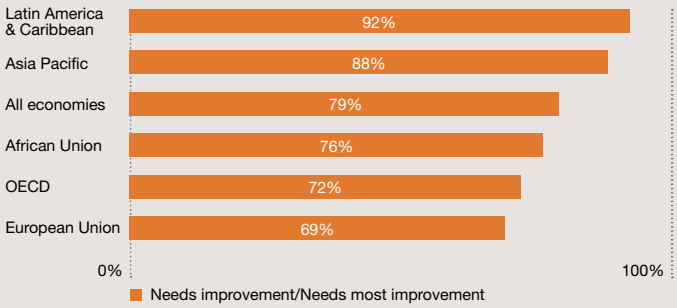


Figure 2.56: Best and worst aspects of the tax system

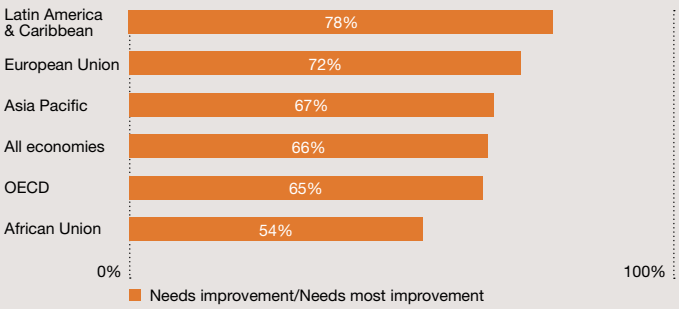
Note: The chart shows results for 154 economies responding to this question.
Source: PwC analysis, *Paying Taxes – The compliance burden*, September 2011

Figure 2.57: Contributors would like to see improvements in dealing with tax audits and disputes...



Note: The chart shows results for all economies responding to the question and for selected regions.
Source: PwC analysis, *Paying Taxes – The compliance burden*, September 2011

Figure 2.58: ...and also the approach of the tax authorities



Note: The chart shows results for all economies responding to the question and for selected regions.
Source: PwC analysis, *Paying Taxes – The compliance burden*, September 2011

What makes paying taxes easier?

This chapter contains our analysis and commentary on the results of the Paying Taxes 2012 study. We explain how each of the three Paying Taxes indicators are calculated, and we show how the results for any economy can be compared to others, such as neighbouring economies or those in the same economic grouping, as well as to the world average results. We also show how the different taxes paid by the Paying Taxes case study company contribute to the results.

The Paying Taxes study clearly shows that corporate income tax is just one of many different taxes paid by business (9.3 on average around the world). Eliminating the numerous small taxes, which do not raise significant revenues for government, but which do add to the complexity and the number of tax payments for business, can make paying taxes easier.

The results also show that many economies levy multiple taxes on the same tax base (average 1.3 taxes on profit and two labour taxes around the world). Merging or aligning these taxes into a single tax per base need not reduce the revenues raised, but would significantly ease the compliance burden for business and the time needed to comply.

The Total Tax Rate measures the cost of the taxes actually paid by the case study company. Our analysis shows that adjustments required under the tax rules in many economies mean that there is a difference between the headline statutory rate for corporate income tax and the rate of tax actually paid on company profits. Reducing these adjustments to broaden the base can reduce the complexity for business and enable governments to raise the same revenues with a lower statutory rate.

There is a wide range of results for the Total Tax Rate in the Paying Taxes study. We stress that lower rates are not necessarily a good model, and that what is important is that higher taxes should flow through to infrastructure, high value government services and a better quality of life for citizens. However, the results show that Total Tax Rates tend to be higher in low income economies, with higher proportions of commercial profits paid in corporate income tax and other taxes. Ensuring reasonable tax levels and broadening the tax base, as well as making it easier to pay tax, could help increase tax revenues by encouraging local businesses to register and pay tax.

Three economies in Africa still have cascading sales tax systems, which add extra tax costs to each consumer in the sales chain and considerably increase the Total Tax Rate. Changing to a value-added type sales tax system (VAT) would eliminate inefficiencies from the cascading effect (with sales tax being charged on sales tax).

Reducing the compliance burden brings benefits for both government and business. Making it easier to pay tax means companies spend less time and resource dealing with their tax affairs and should also increase the level of compliance. Our analysis shows that the different administration practices used by governments around the world have a considerable impact on increasing or reducing the time needed for tax compliance. Best practices include simple and clear tax rules, streamlined tax paperwork and easy-to-complete tax returns and having the same tax authority deal with all the main taxes.

An effective electronic system for filing and paying taxes also eases the compliance burden for business and lowers the cost of tax administration.

The private sector plays an essential role in contributing to economic growth and prosperity in any society. A fair, efficient and sustainable tax system for business is an important part of the regulatory environment that governments can create to foster business investment and economic growth. There is no single model for a good tax system; however, the Paying Taxes study enables governments to benchmark on a like-for-like basis, and can help identify best practice and areas for reform. Figure 2.59 summarises some best practice which – from these results – makes paying taxes easier. Figure 2.60 suggests – for discussion – some possible hallmarks of a good tax system.

Figure 2.59: From our results – what makes paying taxes easier?

One tax per tax base	*Eliminating very small taxes which do not raise revenues*	*Replacing cascading sales taxes with VAT*
Simple and clear tax rules	*Broadening the tax base*	*Fewer levels of government which can levy taxes*
Single Tax Authority for all the main taxes	*Streamlined tax paperwork and easy to complete return*	*Efficient online systems*

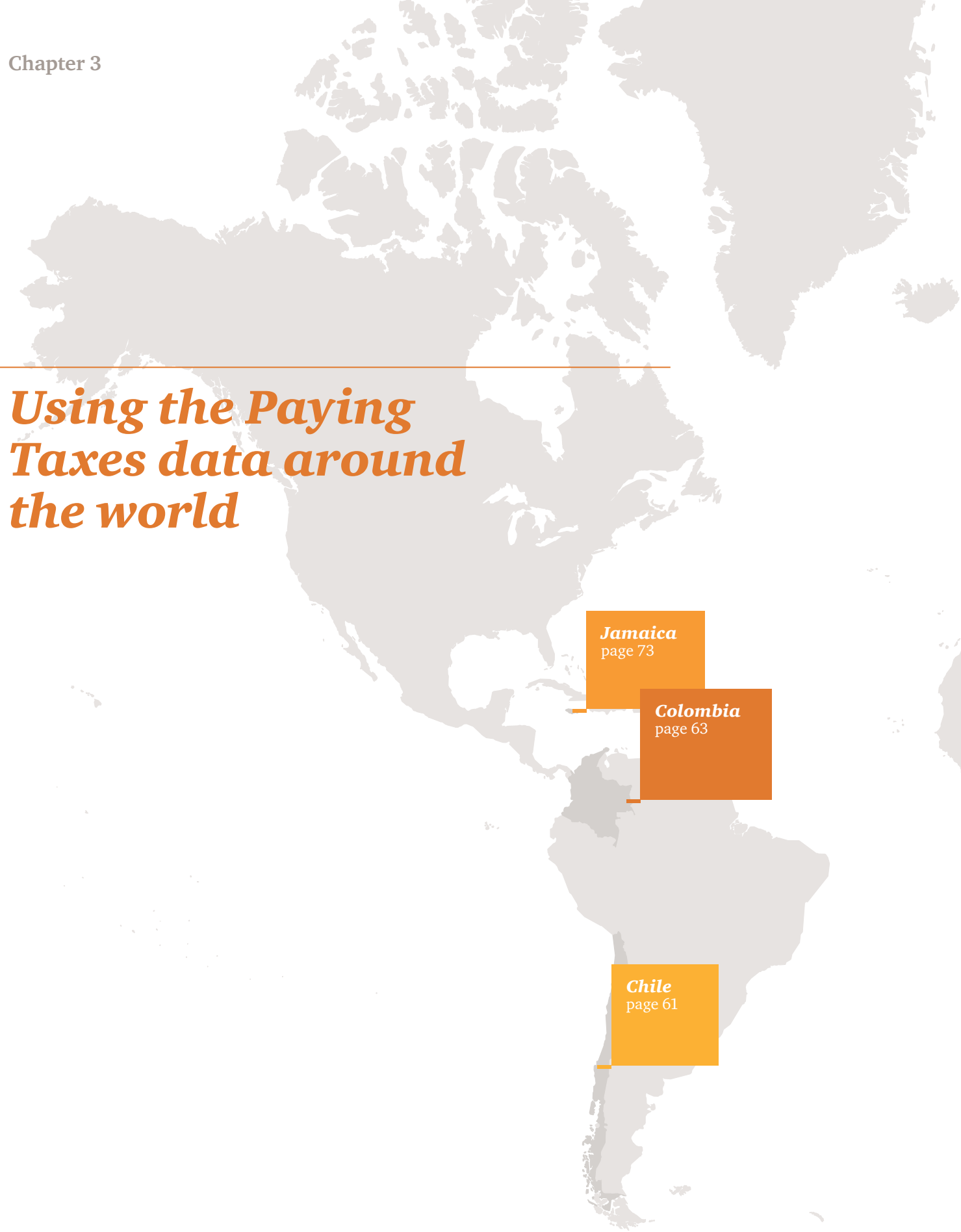
Note: The table shows what makes paying taxes easier
Source: PwC analysis

Figure 2.60: Some hallmarks of a good tax system

Clear purpose	*Strategic*	*Coherent and efficient*	*Fair and transparent*
• Raises revenue to fund public expenditure	• Stable and consistent, enabling long-term business investment	• Minimises the administrative burden	• Based on law rather than the practice of tax authorities
• Balances the budget (over a period of time)	• A fair value for natural resources	• Clear and understandable rules	• Consistently enforced
• Meets social objectives	• Encourages international trade	• Consistent with wider (non tax) law and international principles	• Independent and effective route for resolving disputes with the tax authority
• Improves human development	• Encourages change in behaviour which society is agreed upon	• Consultation on policy and administration	• Mutual trust and respect between taxpayers and the tax authority

Note: The table shows some possible hallmarks of a good tax system
Source: Paying Taxes 2010, PwC discussion of the possible hallmarks of a good tax system, page 23

Using the Paying Taxes data around the world



Sweden
page 87
Germany
page 65
Romania
page 83
Switzerland
page 89
Turkey
page 91
Kazakhstan
page 77
Japan
page 75
Middle East
page 81
Hong Kong
page 69
Ghana
page 67
Vietnam
page 93
Rwanda
page 85
Indonesia
page 71
Mauritius
page 79

Chile

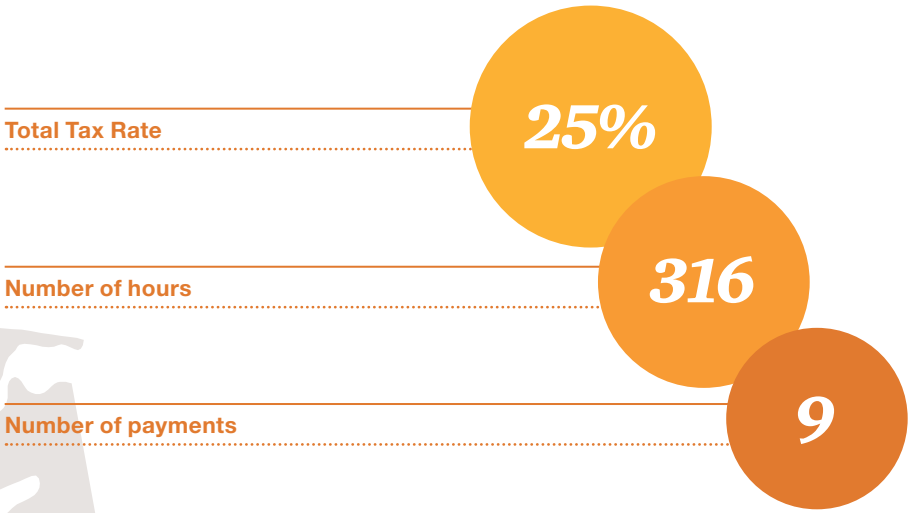
Increasing tax revenues to finance reconstruction

Sandra Benedetto
PwC Chile

The Paying Taxes publication has become an important way in which the ease of paying taxes in Chile can be measured and compared, particularly with other Latin American countries. Chile's indicators in the study for this year have not changed from previous years, and this confirms that Chile has a stable tax system which compares well in the region.

While there has been little change in the year covered by the study, there are some changes to be aware of for the future. In 2010, Law N° 20,455 was enacted (in force from 31 July 2010) with the intention of increasing fiscal revenues to help finance the country´s reconstruction after the earthquake that hit Chile on 27 February 2010. This law increases the rate of First Category Tax from 17% to 20% for the calendar year 2011, but it will be reduced to 18.5% in 2012 and will return to 17% in 2013.

There are also ongoing discussions which have been initiated by government to consider further measures to increase tax revenues for the future, but no firm proposals have yet been tabled.



While the tax authorities and government have made efforts to implement more efficient tax compliance systems, so that for example, most of the businesses in Chile now file tax returns and pay their taxes online, the time to comply required by our case study company in Chile is still relatively high. TaxpayerCo requires 316 hours per year to prepare and file tax returns and to pay corporate income taxes, labour taxes and VAT. This is above the world average of 277 hours. These compliance hours cover not only corporate income tax, but also the social security contributions and add significantly to the time required (137 hours). The social security system in Chile is private, and employees can freely select from a wide number of institutions. Businesses are then obliged to declare and pay contributions for the employees to the multiple institutions that they choose. The system is considered to work well from the perspective that the tax compliance is performed by businesses, so helping to reduce tax avoidance and ensuring proper compliance.

It is also worth focusing on VAT which accounts for 137 of the hours to comply. The separate publication "The impact of VAT compliance on business", published by PwC in September 2010, (which is based on the results from Paying Taxes 2010), shows the importance that this tax has around the world. It identifies the significant impact that the VAT compliance burden can have on businesses, identifying several aspects that can either increase or reduce the burden. For Chile there are a number of positive aspects to the VAT system, such as the existence of a single consumption tax, a single tax authority dealing with direct and indirect taxes, and the availability of online filing and payment for VAT. It is also the case that Chilean taxpayers are not required to enclose additional documents to support VAT returns submitted and taxpayers receive tax credits due related to VAT on exports, very promptly. The aspects of the VAT system where there is the potential for improvement include the frequency of the VAT filings and payment, and the length of the VAT return.

The Paying Taxes study always receives significant attention in the Chilean press and in connection with Paying Taxes 2011, Francisco Selamé, the lead partner of Tax and Legal Services at PwC Chile, highlighted Chile's leading position in the region.

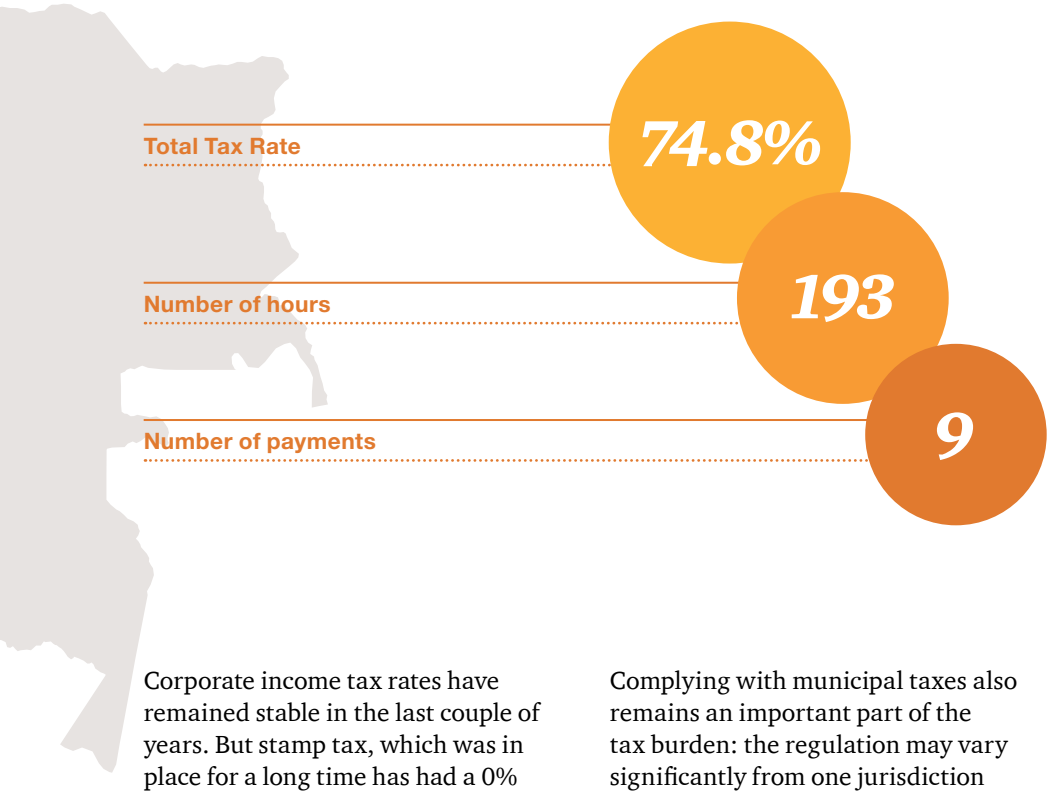
Colombia

Commitment to further tax reform to improve the tax system

Carlos Chaparro
PwC Colombia

Despite global economic turbulence, the Colombian economy has been resilient in recent years. The country is now attracting more foreign investment than ever and the government has been actively committed in the last decade to achieving a more predictable, easy-to-comply with tax framework for foreign and domestic investors alike.

The compliance burden has been reduced steadily over the years and is reflected in the fall in the number of payments and the time to comply in the Paying Taxes results. The expansion of an online filing and payment system has helped this along with various other measures, for example the tax reforms introduced in late 2010 which ruled that tax payers will not need to submit VAT and withholding tax returns where the amount payable equals zero.



Corporate income tax rates have remained stable in the last couple of years. But stamp tax, which was in place for a long time has had a 0% tax rate since early 2010, and new legislation provides for a phased withdrawal of this increasingly unpopular debit tax. However, taxes in Colombia still represent a high cost when compared to some other economies in Latin American region and also the world average. Broad reforms (including labour, and corporate taxes) have been passed with a view to reducing the size of the informal sector, though the effectiveness has yet to be assessed.

Despite the significant reform agenda that has already been implemented, there is still potential for further tax reform. Taxpayers continue to spend a large amount of time trying to keep up-to-date with the daily flow of new decrees, official rulings and judiciary decisions. Some procedural matters still require intense interaction between businesses and the tax agencies. A good example is where businesses are due reimbursements of VAT – long queues at the tax office to secure these is a common occurrence.

Complying with municipal taxes also remains an important part of the tax burden: the regulation may vary significantly from one jurisdiction to another and the "fiscal war" between municipalities can often leave taxpayers with double taxation. While modernising the municipal tax regulation has been on the agenda for many years, there has been no improvement achieved in the system so far.

The Colombian government is aware that the progress already achieved is not enough, and that reform is still needed in order to achieve a more competitive tax system. The government has announced recently its willingness to address the issues and to adopt in-depth reforms in the short term, and has set up a task force to assist with the aim of putting a package of measures together in one go rather than adopting a piecemeal approach.

The Paying Taxes 2012 regional launch in Bogota will provide a forum for business and government to collaborate on business tax reforms using the Paying Taxes results as a bench mark.

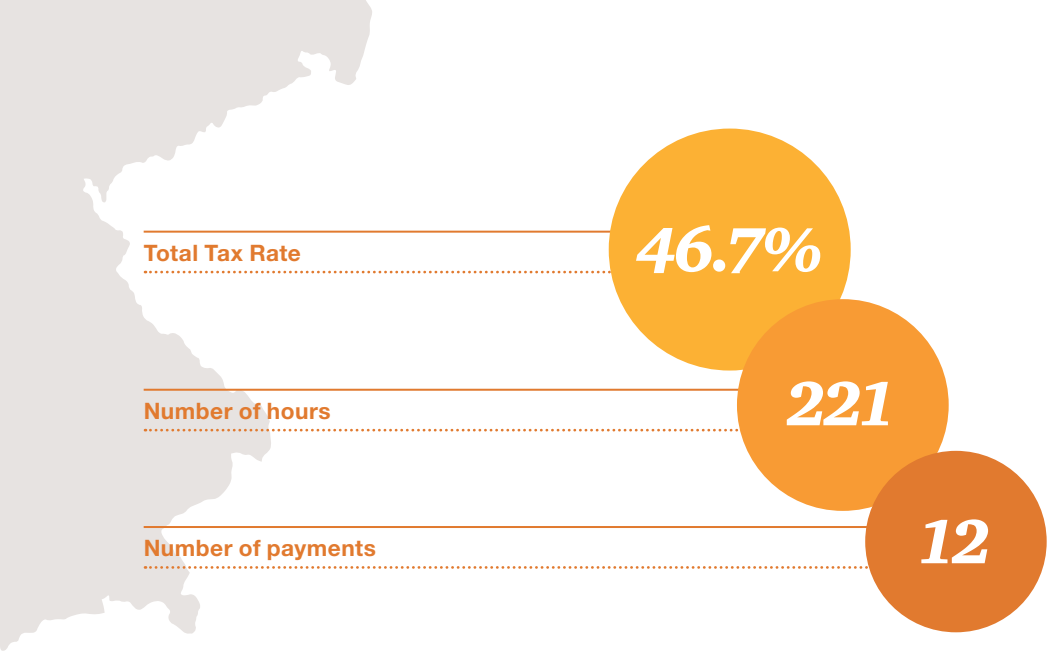
Germany

Developments in e-filing, and a focus on trade tax and the solidarity surcharge

Dr. Tobias Taetzner
PwC Germany

The German Total Tax Rate of 46.7% for the 2012 study fell from the 48.2% of the previous year. This fall is mainly the result of changes to tax depreciation. Although these have reduced the tax cost the Total Tax Rate for Germany is still high when compared with the world average of 44.8% and the average in the EU of 43.4%. Germany ranks 130 out of 183 for this indicator. The level of social security contributions is a major part of the German Total Tax Rate and currently, there is much discussion in the country on a possible reduction of social security contributions.

Two other taxes that attract media attention are the solidarity surcharge and the trade tax. The solidarity surcharge initially introduced in 1991 to cover the costs of the German reunification has been retained as a regular element to cover general governmental expenses. From time to time there are discussions on whether this “temporary” tax is still constitutional, although recently the German Supreme Tax Court has confirmed that it is. The trade tax is also currently under attack as some trade associations and political parties would like to see it abolished or at least to be fundamentally reformed. However the trade tax is the primary source of income of the local authorities, so discussions in this regard are quite difficult.



The payments indicator may reduce in the future following the mandatory e-filing of corporation tax, trade tax and annual VAT returns for 2011 onwards. At present, this is optional for trade tax and VAT, but not possible for corporation tax.

A further e-filing development for the future will be the requirement to electronically submit accounts supporting the tax returns from 2012 onwards using an official 'taxonomy'. At the time of writing, no final taxonomy has been published as the results of a field test are still being evaluated, but according to the tax authorities, taxpayers will not need to install a new accounting system or to remodel their chart of accounts. There has been some criticism that the new e-filing benefits the tax authorities more so than the taxpayer, especially for small and medium-sized entities like TaxPayerCo, and that the implementation of the new regulations will almost certainly give rise initially to an increased administrative burden.

As regards the indicator for compliance time, it can be expected that with the introduction of the new e-filing obligations mentioned above there will be a temporary increase in the number of hours required in the upcoming years in view of the need for companies to adapt their IT-systems, but a fall in time thereafter.

The European launch event for Paying Taxes 2012 will take place in Germany this year and representatives from business, politics, financial administration and press will be present to discuss the results. The launch is an excellent opportunity for business to engage in a constructive dialogue with the government and the tax authorities on the future shape of the tax system

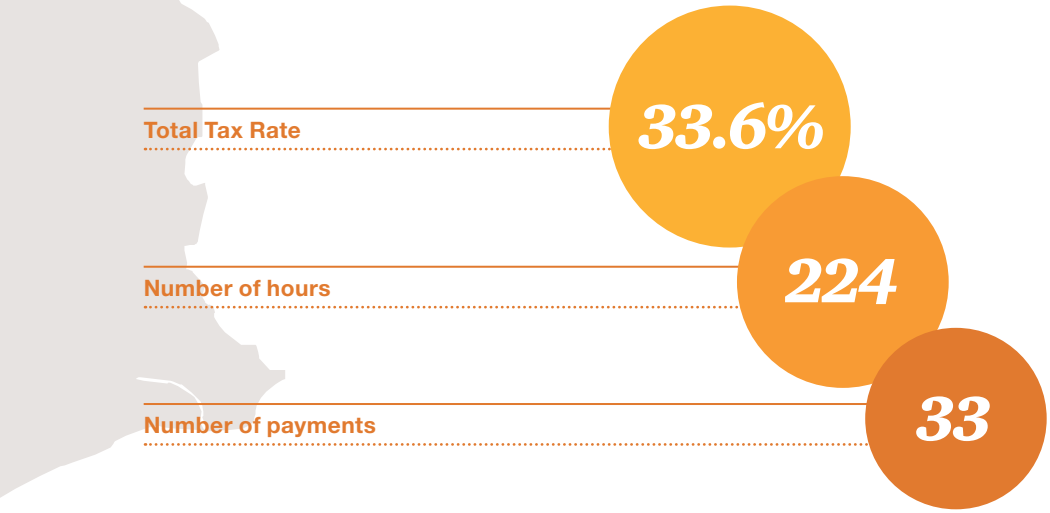
Ghana

Reforms to make the tax system more business friendly

Darcy White
PwC Ghana

The Africa launch of the Paying Taxes 2011 publication took place in Accra, Ghana with the Deputy Minister of Finance and Economic Planning as guest speaker. There were also contributions from Commissioners of the Ghana Revenue Authority (GRA). The launch presented an opportunity for the department and District Heads of the GRA, the business community, representatives from the World Bank Group as well as tax consultants to interact on the state of the Ghana's tax system and how to improve it.

In his speech, the Deputy Minister mentioned that the government is committed to continuing with reforms to make the administration of the tax system business friendly. He also stated that the GRA is currently in the process of installing a fully automated tax administration infrastructure, to help reduce tax compliance cost and time.



The 2011 Government of Ghana Budget Statement increased the withholding tax threshold. Withholding tax obligations, though not a direct tax cost to the business, impose a compliance cost burden as resource and time has to be allocated to the collection and subsequent payment of the withheld amounts to the Tax Authorities. Increasing the withholding tax threshold could therefore potentially reduce the tax compliance burden especially for small and medium sized entities such as the case study company.

In addition, the GRA expects to streamline its activities and to segment taxpayers into large, medium and small taxpayers groups so helping with the services that it provides and reduce the cost of compliance. With segmentation, the GRA hopes to be able to provide services which are tailored to meet the needs of the medium and smaller entities.

The case study company made 33 payments in Paying Taxes 2012 to comply with all its tax and social security obligations. This ranks Ghana 111 out of 183 countries for this sub indicator. However with the New Pensions Act being implemented, the number of payments could increase, as the new law provides for a further mandatory occupational pension scheme and a voluntary personal pensions contribution known as the second and third tiers respectively, of which the payment may be made to different bodies. This new rule could therefore cause Ghana's ranking in terms of the number of payments to fall. Perhaps as part of the government's reform process, an alternative would be to consider centralising payments and filing returns for both direct and indirect tax as well as other payments to the regulatory bodies. This would help decrease the compliance burden for the taxpayer.

Ghana also saw some tax increments during the 2010 financial year, as part of governments drive to increase the revenues for the public finances. This change also affected the case study company, as the capital gains tax rate increased from 5% to 15% which was a contributing factor of the increment in the Total Tax Rate from 32.7% to 33.6%.

Overall, the Paying Taxes publication and its findings should help government shape the Ghana tax system and assist the business community to compare tax costs against other investment locations.

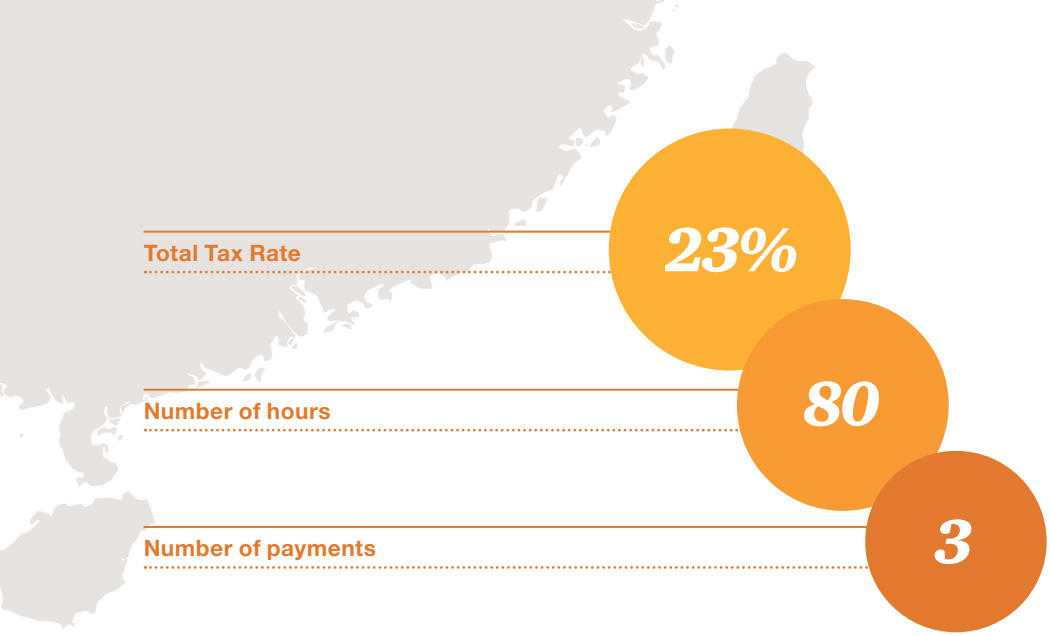
Hong Kong SAR, China

A simple, transparent and efficient tax system

Peter Yu
PwC Hong Kong SAR, China

Hong Kong SAR, China is well-known for its simple tax system. As is evident from the Paying Taxes study over the years, Hong Kong SAR, China has a strong track record of being efficient in administering the tax system. It also has a Total Tax Rate which is amongst the lowest in the world.

The decrease in the Total Tax Rate from 24.1% to 23% over the last year is mainly due to a one-off waiver of property rates for the tax year 2010/11 (subject to a specified ceiling). And there are other tax incentives which are available to reduce the overall tax burden even further for corporations. In particular, tax deductions for environmental protection machinery and installation costs were introduced in 2009 and an immediate 100% tax deduction for capital expenditure on environment-friendly vehicles has been available since June 2010. In the 2010/11 Budget announced in February 2010, the Hong Kong SAR, China government also proposed to introduce a tax deduction over a period of five years for capital expenditure on the purchase of registered trademarks, copyrights and registered designs. The assumptions made for the case study company in the Paying Taxes study however mean that these new tax incentives are not reflected in the Total Tax Rate.



The Hong Kong SAR, China Inland Revenue Department is generally well regarded for its initiatives in employing the latest information technology, streamlining work procedures and maintaining communication with the tax-paying public. This has always been evident in the Paying Taxes study, with the 2012 report again revealing Hong Kong SAR, China as being among the easiest places in the world for businesses to comply with their tax compliance obligations. Hong Kong SAR, China's tax administration is highly transparent, with information on such matters as tax revenues, objection procedures and tax rules and guidance being published online and readily accessible to the public.

To further reduce taxpayers' administrative burden and time required in complying with tax filing requirements, the Hong Kong SAR, China Inland Revenue Department brought in electronic filing of corporate tax returns from 1 April 2010. Because of the assumptions regarding the size of the company used in the Paying Taxes study, the benefits of electronic filing are not reflected in the 2012 study. Nonetheless, going forward it is expected that such benefits will be enjoyed by a greater range of taxpayers as the system becomes further developed and more widely adopted and the limit on the size of businesses eligible to participate is raised.

The tax system in Hong Kong SAR, China has remained relatively stable. Much of the government's focus with regard to tax policy has been on maintaining the simple and easy-to-administer features of the existing system. As such, the ease of compliance is expected to be a continuing feature of the system. Moreover, the government's financial position is strong and therefore there is little reason to expect significant upward changes in the Total Tax Rate. Historically, developments in the tax systems of other jurisdictions have had little influence on the shaping of Hong Kong SAR, China tax policy. It remains to be seen, however, whether this will continue to be the case, particularly as the Hong Kong SAR, China tax system is becoming increasingly linked to the rest of the world through the conclusion of Double Taxation Agreements, the increasing focus of the Hong Kong SAR, China Inland Revenue Department on transfer pricing and a general trend globally towards cross-border cooperation between tax authorities.

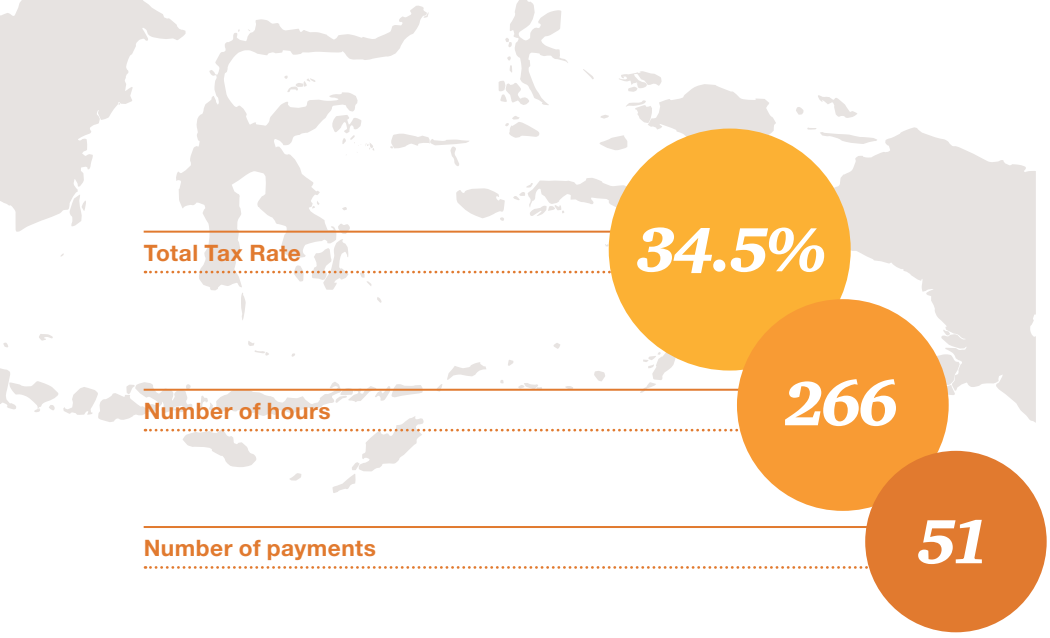
Indonesia

Strengthening transparency and accountability to improve the tax administration and increase taxpayer compliance

Ray Headifen
PwC Indonesia

Tax reforms which started with the enactment of the amended tax administration law in 2008 demonstrate the government's efforts to reshape the tax environment and improve the investment climate. Internally the Indonesian Tax Office (ITO) became more professional in its approach in dealing with taxpayers and the tax administration was also modernised. As a result, the Paying Taxes study in 2009 showed a significant reduction of time spent on tax compliance. However, as shown by the stability of the figures in the number of hours and number of payments in more recent Paying Taxes study results, there have been few changes in the tax administration rules and regulations for the past couple of years.

Although e-filing has been introduced, further improvements need to be made. The majority of Indonesian taxpayers are still not familiar with e-filing and mostly opt to do direct hardcopy filing of their returns. However, the government is committed to continuing the reform of tax administration, with the aim of increasing taxpayer compliance by increasing the efficiency and effectiveness of the ITO, and improving good governance in the tax administration by strengthening transparency and accountability.



Amended VAT Laws were enacted in April 2010, and this marked the completion of some further major tax reforms, and since that enactment the ITO continues to issue implementing regulations for VAT which aim to reduce the administrative burden for most taxpayers.

The downward trend in the Total Tax Rate in the Paying Taxes study has resulted from the enactment of the amended income tax law in 2009, which has gradually reduced the income tax rates for corporates (and for individuals). In addition, the government has also provided a package of measures for companies that invest in certain qualifying business sectors and/or regions. The measures are:

- A reduction in net income of up to 30% of the amount invested, prorated at 5% for six years of the commercial production, provided that the assets invested are not transferred out within six years;
- Acceleration of fiscal depreciation and or amortisation deductions;
- Extension of tax loss carry-forwards for up to ten years;
- A reduction of the withholding tax rate on dividends paid to non-residents to 10%.

These measures have been implemented since 2007 through the issue of several regulations that covers a significant range of types of investment and the plan is to increase this range before the end of 2011 along with tax holidays for entrepreneurial and innovative companies. Currently five business sectors that may enjoy the tax holiday are industries of base metal, oil finery and/or base organic chemical sourced from oil and gas, machinery, renewable energy and telecommunication equipment.

Jamaica

Inadequate tax collections despite relatively high tax rates – resolving the dilemma

Eric Crawford
PwC Jamaica

Jamaica has relatively high tax rates when compared with those of its peers in the region. Corporate tax is levied at 33.33% and individuals pay income tax at 25% on incomes exceeding approximately US$5,100, plus a 2% "education tax", a 2% refundable contribution to a national housing fund and there is another 2.5% levy on the first US$11,600 (approx.) for social security scheme. Additionally, there is VAT at a standard rate of 17.5%, with significantly higher rates being applied to motor vehicles, fuels, liquor, tobacco and telephone services and handsets. Further, employers pay payroll related taxes of over 7%, in addition to their corporate taxes. At these levels, the burden on taxpayers cannot be said to be light. Yet, at 23% tax as a percentage of GDP is lower than what prevails in most other jurisdictions in the region.

Despite prevailing tax rates being at the higher end of the regional spectrum, tax collections have not been adequate to cover expenditure. This is in large part due to the country having one of the highest debt burdens in the world, with the national debt hovering at 128% of GDP, which explains why debt servicing costs are expected to consume as much as 48% of the 2011/2012 Budget. The fiscal deficit, though down from the 10.9% of GDP that it was in fiscal 2010 was still 6.1% for the fiscal year 2011. And the tax collections have consistently been below budget. For fiscal year 2011 for example, tax collections fell short of what was budgeted by approximately 10%.

So what is being done and what can be done to resolve the apparent dilemma represented by inadequate funding in an environment where tax rates can hardly be increased?

Firstly, important initiatives have been instituted to strengthen controls over government expenditure in an attempt to cauterise waste and corruption. These include:

- the strengthening of the role of the Contractor General and the National Contracts Commission, which oversee and monitors the procedures involved in the awarding and performance of government contracts;

- the development of a fiscal Accountability Framework, which involves the passage of legislation aimed at tightening the authority of statutory bodies to borrow without approval of the Finance Minister and general improvement in the management of the fiscal operations of the government; and

- the enhancement of the role of the Public Appropriation and Accounts Committee which reviews budget proposals in greater detail than was hitherto the case.

The second objective must be to broaden the tax base. This has been pursued almost entirely from the perspective of bringing what is believed to be a large body of recalcitrant taxpayers into the tax net. But there is another dimension to this problem to which attention needs to be paid, namely the extent to which there are transactions that generate significant wealth, yet fall legitimately outside of the scope of taxation, either by policy or for lack of adequate tools to enforce the legislation. Furthermore, there is an inordinately high incidence of "discretionary waivers", meaning that the government waives tax that is legally due. It will not be easy to address this latter issue, given that individual taxpayers who benefit from various exemptions will fight to retain their positions of privilege.

In terms of expanding the tax net, much has been done over the past few years to simplify the administration of the tax system, which should make it easier for taxpayers to comply. Amongst these initiatives:

- The lowering of some rates to make it easier for taxpayers to comply. The gradual reduction in the transfer tax and Stamp Duty rates that are applicable to the transfer of shares and land, either inter vivos or on death is one such initiative. The transfer tax has been reduced from 7% to 4% and stamp duty from 5.5% to 3% for the sale of land (stamp duty remains at 1% on the sale of shares). These reductions are intended to encourage the development of the market in these assets and the proper administration of estates which frequently languish for many years due to the unavailability of cash to complete the probating of willis.

- A programme to introduce Electronic Filing and Payment Systems was introduced in October 2008. This enables taxpayers to file most tax returns and settle liabilities electronically. The settlement of tax liabilities by way of direct debit has also been introduced recently.

- A mechanism has been introduced to facilitate a single payment to settle all payroll taxes and shortly, a single system will replace five separate mechanisms for accounting for those taxes.

- A forensic investigation unit has been established in the revenue to enhance its capacity to deal with corruption.

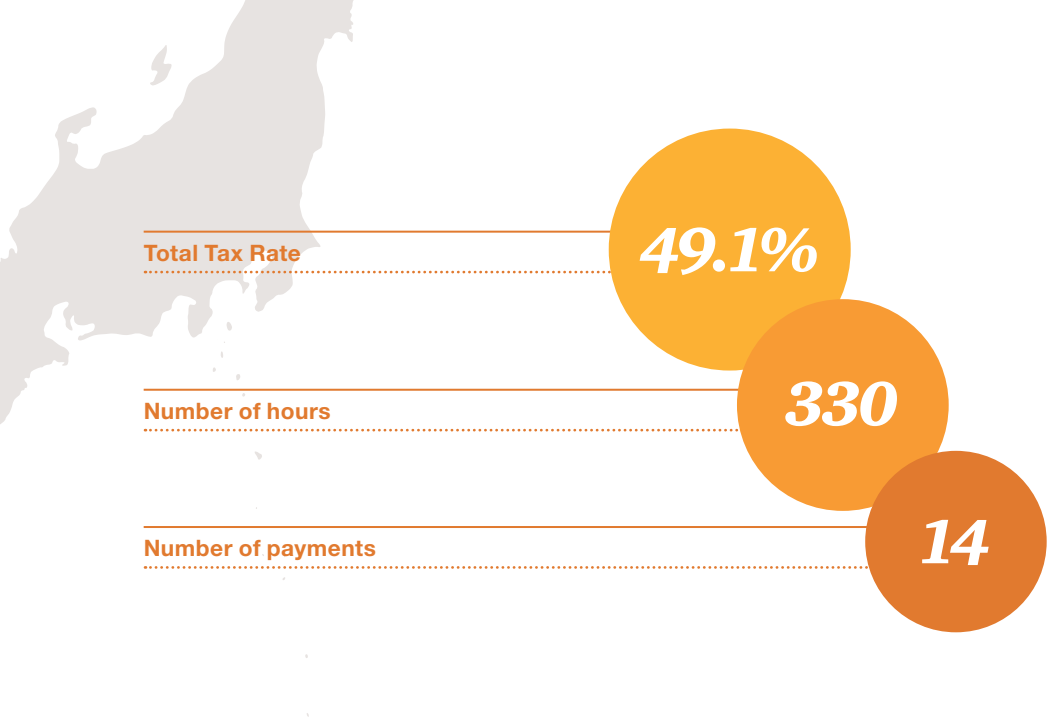
The Paying Taxes 2012 regional launch in Kingston will provide a forum for business and government to discuss some of these important issues using the Paying Taxes results to inform that dialogue.

Japan

Reduction in the rate of corporate income tax deferred in the aftermath of the earthquake and the tsunami

Hiroyuki Suzuki
PwC Japan

A launch event was held jointly with The World Bank/IFC in Tokyo in December 2010 to introduce the *Doing Business 2011*-Paying Taxes study. A report on the Total Tax Contribution made by major corporations in Japan undertaken by PwC Japan for the first time during 2010 was also presented. A panel discussion by tax leaders of PwC firms in the Asian region, the UK as well as a representative of The World Bank Group followed the launch of these reports. The event was successful with a wide variety of people in the audience from government and business.



Since the first Paying Taxes study in 2006 the Total Tax Rate has fallen by approximately 4%. This has primarily been due to the introduction of an accelerated method for tax depreciation. Its aim was to stimulate a recovery of Japanese economy in the last couple of years, but in terms of the normal effective tax rate of companies, the effect is limited because it is a temporary difference and the statutory corporate tax rate has remained unchanged at just over 40% (which includes the Inhabitants Tax and Enterprise Tax, both of which are taxes based on profits). The tax rate is the highest among OECD member countries and also among our Asian neighbours such as Korea, Singapore and Thailand. Japan's tax on profits (comprising corporate tax, inhabitants tax and enterprise tax) accounts for more than 50% of the Total Tax Rate, a much higher proportion than the world average and the Asian Pacific average. The heavy burden of corporate tax is therefore a crucial issue for Japanese businesses when considering their cost competitiveness in the global market.

There are growing concerns about the trend for leading Japanese companies to move their manufacturing operations out of Japan to Asia not only because of commercial factors such as the growth of its market, and the appreciation of the Yen and lower production costs in other Asian countries, but also the high level of Total Tax Rate, and in particular the high corporate tax rate, which is becoming one of the key drivers for Japanese enterprises to consider when deciding whether or not to "exit" out of Japan.

Given these circumstances, draft tax reforms were proposed in 2011, after a long dialogue between policy makers and business. This included a proposal for a 5% reduction of the corporate tax rate while the taxation base was to be expanded by the elimination of certain tax benefits with the intention that the impact on overall revenue would be neutral. However, this proposal has been suspended and not implemented in the aftermath of the earthquake and tsunami on 11 March 2011 that damaged the Japanese economy significantly. Japanese business society was obliged to accept a deferral of the reduction of the statutory tax rate given the crisis. Currently, there are extensive debates taking place among policy makers and business about how to fund the recovery of the area which suffered huge damage, both business and social.

There is some possibility that a temporary surcharge of corporate tax and individual income tax will be implemented although there is still resistance to such an increase in taxes in view of the very strong downturn in the economy. An alternative being considered is an increase in the VAT rate in future years. In spite of the high level of Total Tax Rate in Japan, national tax revenues have been falling. With government debt now nearly double the Japanese GDP, there will be ongoing debate on how tax policies should be developed to deal with this debt, alongside the need to maintain Japanese companies' competitiveness.

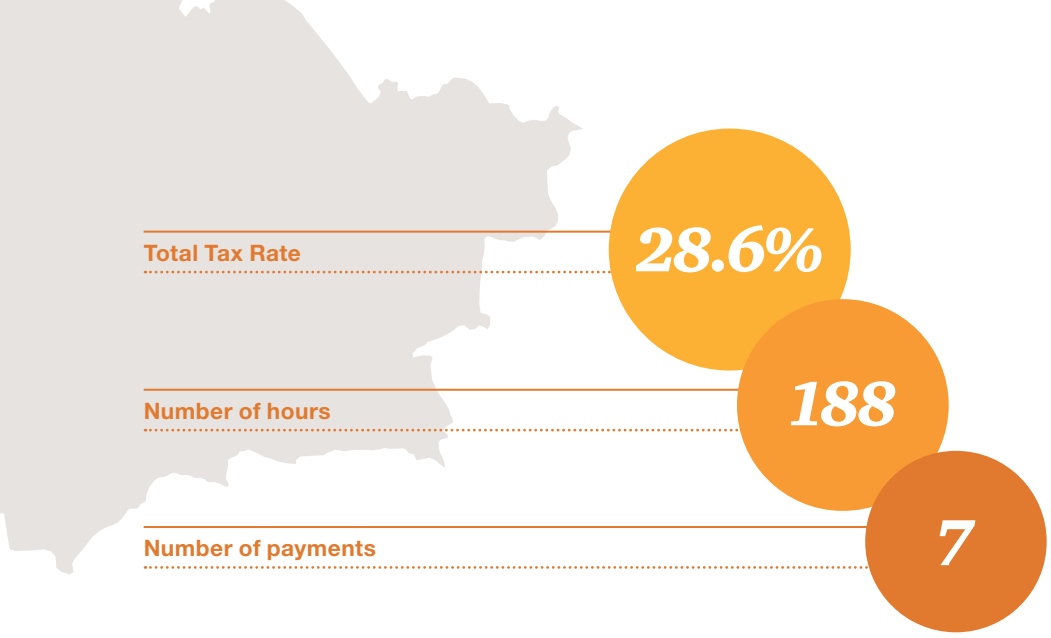
Kazakhstan

Changing the fiscal environment as part of a move towards a modern developed economy

Peter Burnie
PwC Kazakhstan

The Paying Taxes survey has become a powerful tool for promoting change and development in the fiscal environment around the world. As documented in this report over the years, it has been used as a catalyst for change – and this is especially so in Kazakhstan. For Kazakhstan, change has been a vital part of the entire economic environment since independence 20 years ago. The vision of Kazakhstan as a modern developed economy has been a clear goal for the Kazakh authorities. This goal is regularly acknowledged by the Ministry of Finance and Main Tax Committee.

Therefore, as part of this story of change, the fiscal environment has not been left out but has rapidly developed in the past 20 years. Initially the focus for the tax authorities was with the development of the regimes dealing with extractive industries. The country has seen the development of a range of fiscal arrangements such as Production Sharing Agreements to cope with the unique challenges faced by resource based economies. More recently, the government has looked at continued diversification of the economy and a program of supporting broader industrial development.



Against this background of change, the findings of the Paying Taxes series have become an objective benchmark for the authorities. Given the stated goal of development for the country, there is a strong desire for this type of external independent benchmarking process to be conducted and for the results to document the results of the reform agenda.

Recently PwC Kazakhstan met with senior representatives who were energised to engage with us in a discussion around the latest series of results. We started with revisiting the methodology from where the results are derived. We agreed that understanding and revisiting the basic aims of the survey were key to understanding how aspects of the country's fiscal regime compares with other countries and also whether proposed reforms are addressing any of the areas in which the tax regime may compare less favourably with others. The applicability of the methodology and its appropriateness for a resource based country such as Kazakhstan continues to be hotly debated, both within the Ministry and Tax Service and also by the country's media.

In our launch event for the country's media last year, there has been a view expressed by some that a more appropriate sample company would be one that more follows the core economic sectors of Kazakhstan rather than a manufacturer of flower pots. The fact that this level of debate arose in a briefing for the country's mass media in itself shows the level of interest in the study.

The particular area of focus for reform in most recent times has been in the area of tax administration – and the impact on compliance time of new tax lodgement software and the overall impact on the taxpayer experience. Again, our meetings with the representatives of the tax service zoomed in to focus on why the newly introduced electronic filing system was not reflecting a significant reduction in time to comply. The view of the authorities was that the system should be making a significant difference. However, interestingly the views of contributors and even the media was that the level of education and new skills required by users of the new system had perhaps not been sufficiently reflected in the level of compliance time. Again the survey itself brought a focus to an area in which the expectations of taxpayers and the tax service are not yet aligned.

Finally, the state tax service representatives also shared that the Paying Taxes survey results are eagerly awaited within the halls of the Ministry of Finance; briefings are required and questions are asked about the relative ratings of Kazakhstan against the region, trade partners as well as the front runners in the Paying Taxes study ratings as soon as the results are available. So – at least for Kazakhstan and its taxpayers, the survey is a real tool being actively used by the authorities. Hopefully a goal of continuous improvement in Kazakhstan's relative ranking will also continue to enhance the taxpayer's experience.

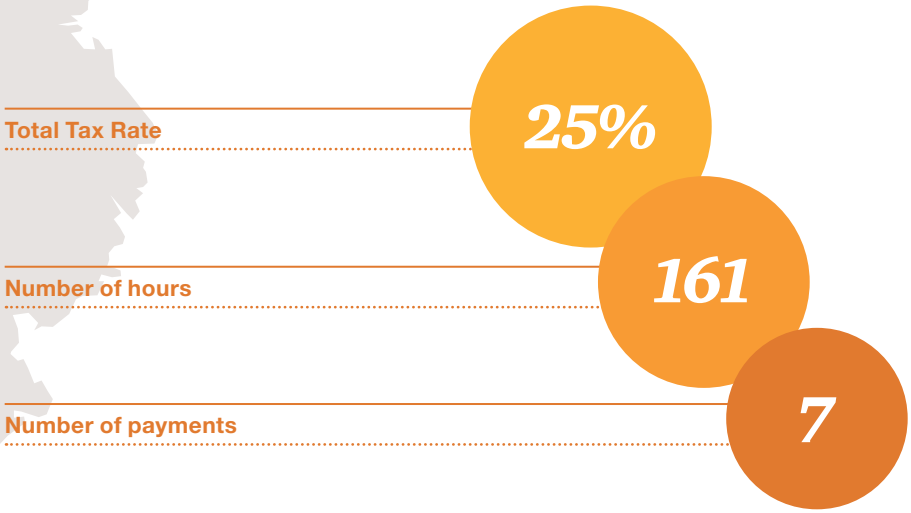
Mauritius

An increasing tax cost in the number one ranked economy in Africa

Anthony Leung Shing
PwC Mauritius

Mauritius ranks 9th globally in Paying Taxes 2012 and number one in Africa. The country compares well with its African counterparts.

Mauritius introduced electronic filing of tax returns as far back as 2003 and, over the past five years, it has implemented a number of reforms, including its most significant one in 2006, when the corporate income tax rate was reduced from 25% to 15% and various exemptions/reliefs were removed to create a simplified system. Further improvements have been made since, with the facilitation of tax payments in 2009 for global business companies to pay their corporation tax liabilities in Euros, British Pounds or US Dollars. Mauritius has also streamlined its tax system and made effective use of technology to help ease the burden of tax compliance on companies.



Overall, the reforms implemented have been positive. The number of payments and the number of hours to comply have been stable in most recent years, but the Total Tax Rate has been increasing which is attributable to the introduction of new taxes. The Total Tax Rate in 2010 increased from 22.9% to 24.1% with a corporate social responsibility tax being introduced. Given that the company in the Paying Taxes survey operates in general industrial/commercial activities, other new taxes such as the special levy on banking institutions and the solidarity levy on telecommunication companies (introduced in 2007 and 2009 respectively) did not impact on the Paying Taxes result. Had the study company been operating in other sectors, then the Total Tax Rate for Mauritius may have increased further.

In 2011, further reforms followed a similar pattern and a new capital gains tax on the disposal of immovable properties was introduced. The Total Tax Rate increased by nearly 1% from 24.1% in 2010 to 25%. It is worth noting that the Paying Taxes study does not reflect the new personal solidarity income tax and other exemptions/reliefs being introduced. The full effect of those measures has yet to filter through as the burden of compliance increases with companies being required to file returns with the Mauritius Revenue Authority in respect of dividend payments.

The trend over the past two years reflects a move away from a simplified and single rate tax system. Mauritius has the vision of becoming the Singapore of Africa and a closer review of the comparative results shows a significant difference in respect of the time required to comply with local regulations. Given the current budget deficit and lack of buoyancy in tax collections, there is little scope to remove taxes or even reduce the rates. Therefore, to improve its position, Mauritius needs to re-instate its policy of a streamlined tax system.

The Middle East

Growing focus on fiscal policy and an ongoing debate about introducing corporate income tax and VAT

Dean Rolfe
PwC Middle East

The subject of taxation in the Middle East region (MER) continues to generate a great deal of interest especially as tax laws continue to evolve and expand. As we look into the results of Paying Taxes 2012 there are a number of interesting trends emerging in the MER.

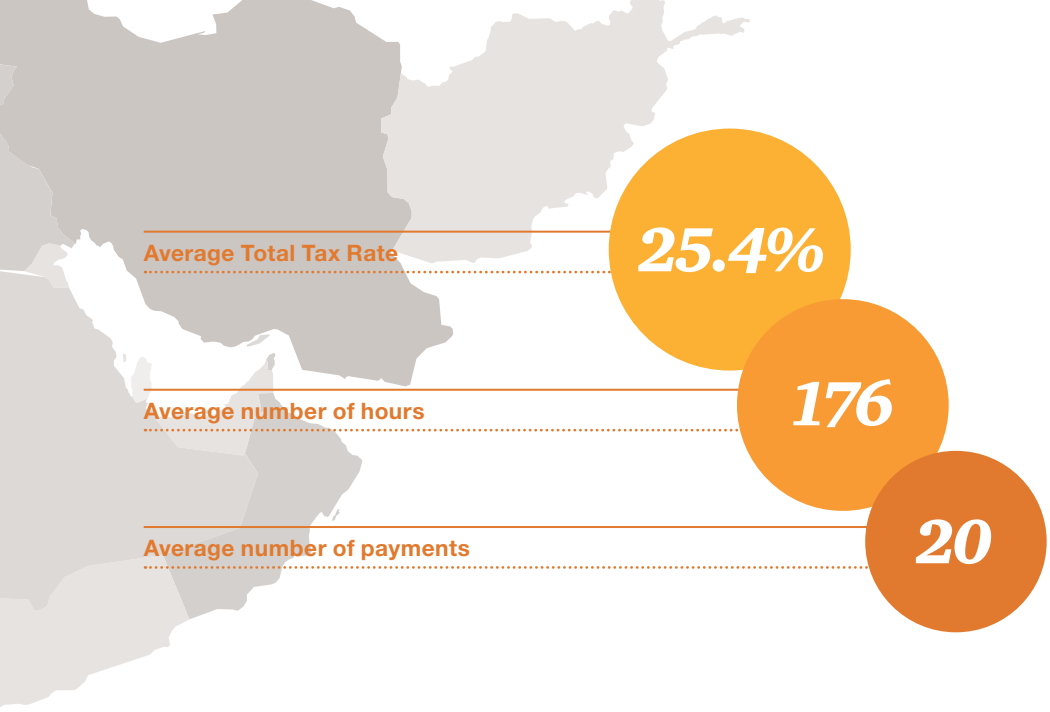
The current year (2012) results of Paying Taxes highlights that the majority of the jurisdictions in the MER have fallen in this year's rankings, including some of the jurisdictions in the Gulf Cooperation Council. Most notably Kuwait has dropped out of the top 10. In addition, Saudi and the West Bank have also fallen slightly, while the Yemen has improved.

It's not surprising that many of the jurisdictions in the MER feature so prominently in the top 10 jurisdictions for the overall paying taxes ranking. This is largely attributed to the relatively few taxes levied on the case study scenario. Indeed in locations like the UAE these taxes are limited to social security contributions on national employees. That said, many of the jurisdictions in the MER are increasingly adopting other revenue raising measures to meet budgetary needs, and this is having an adverse impact on the cost of compliance burden faced by many businesses.

These revenue raising measures include increased fees and levies paid for licenses, permits and other government approvals necessary to operate a business. In addition to rising tariff rates for such items, many businesses also need to employ increasing numbers of back office staff to comply with these changes. This is obviously resulting in increasing overhead costs precisely at a time when many businesses are struggling to survive.

Another notable issue is that because these charges may not qualify as a "tax", they are being overlooked as a cost of doing business.

On a positive note, there is a growing recognition at a government level that increasing tariff rates for fees, charges and levies as well as the increasing frequency of such payments is inefficient from a revenue collection perspective also. Governments are therefore considering ways to consolidate and rationalise their revenue collection methods.



The Gulf Cooperation Council (GCC) for example is believed to have elevated fiscal policy from fringe issue to a core agenda item. One driver being a perceived desire to coordinate taxation policy, and ultimately to achieve a consensus on the fundamentals of taxation. These fundamentals comprise tax rates, tax methodologies and the exchange of information.

Of particular note is the debate on the introduction of a VAT in the GCC region. Much has been written on this topic, but after years of discussion it seems the business community is no closer to learning whether a VAT (or GST) will be introduced in the GCC, and if so, over what time frame. More recently, it has been suggested that corporate income tax may become a common feature of the region, but there are a number of philosophical (and religious) challenges to overcome first.

In the mean time, governments are continuing to tinker with their existing tax systems and this is helping to reform, and modernise these laws. Other recently adopted measures include the introduction of anti-avoidance provisions including transfer pricing rules.

While not new, Egypt introduced transfer pricing law with effect from 1 January 2005. However, it was only in late 2010 that the Egyptian transfer pricing guidelines were issued, and such guidelines provide guidance in terms of how the tax authority intends to apply the 2005 law (retroactively as well as prospectively) and how taxpayers are to prepare their transfer pricing documentation. Not surprisingly, these transfer pricing documentation requirements will add a great deal of time to the compliance burden already faced by taxpayers in Egypt, not only in terms of being expected to prepare transfer pricing documentation, but also in terms of disclosing related party transactions on the Egyptian tax return, in the context of the newly issued guidelines.

Importantly, Egyptian transfer pricing compliance is not simply in relation to cross-border transactions. Most Egyptian companies operate through multiple legal entities, whereby each legal entity is treated as a separate and distinct taxpayer for Egyptian corporate tax purposes. As a result, many Egyptian companies have substantial intra-Egypt related party transactions whereby such transactions are also subject to Egyptian transfer pricing law and are within the scope of the Egyptian transfer pricing guidelines.

In the rest of the Middle East, many jurisdictions have some level of transfer pricing law (Oman, Saudi Arabia, Lebanon, Jordan, Kuwait, and Qatar). While no other jurisdiction outside of Egypt currently has formal transfer pricing guidelines that provide specific guidance in terms of the practical application of transfer pricing law, many of these jurisdictions are expected to adopt transfer pricing guidelines in the future, thus, the compliance obligation in this regard is expected to increase. Currently, in the absence of transfer pricing guidelines in these jurisdictions, transfer pricing audits have occurred adding to the general compliance resources needing to be dedicated by taxpayers to the subject.

Romania

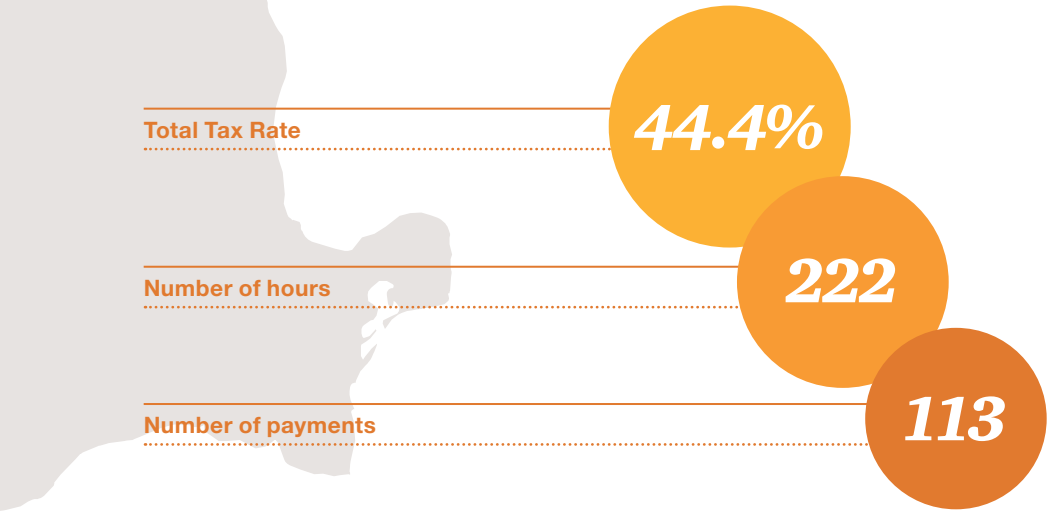
Significant reforms will make paying taxes easier in future

Peter deRuiter
PwC Romania

The Paying Taxes 2012 report ranks Romania 154 out of the 183 economies included in the study. This ranking continues to be heavily influenced by the high number of tax payments in Romania. 113 payments are required during the course of a year, most of which relate to labour taxes and the fact that currently Romania has no functional electronic payment system available for companies.

Compared to the previous year's results, the three indicators have remained virtually unchanged for the reference period covered by the Paying Taxes 2012 report, as no major fiscal measures were adopted by the government in this respect to impact these results.

There were a number of important changes to the tax system for business in 2010, but these have not had an overall impact on the results. Although there was an increase in the VAT rate from 19% to 24% as of 1 July 2010 and this had a significant impact on the business climate, this does not affect the Total Tax Rate indicator, as it does not affect the taxes borne by the case study company. And while the number of hours to comply increased in respect of this VAT change, this was offset by a reduction in the number of hours required following the introduction of mandatory electronic filing for large and medium sized taxpayers which started in November 2010 along with the abolition of the minimum tax.



In 2011 Romania was one of the countries which hosted a regional launch of Paying Taxes. The launch event attracted substantial attention both with the media and with the tax authorities. It was also very well received by the public. The event stimulated a good debate with the tax authorities and the Ministry of Finance, and these debates have encouraged the authorities to take an important step in the implementation of fiscal reforms aimed at improving the fiscal climate and easing the taxpayer's fiscal burden.

New reforms implemented by government have not yet had an impact on the indicators reported in the present edition of Paying Taxes, but they are expected to significantly improve the position for Romania in future periods.

These measures include the following significant reforms which were introduced in 2011:

- Bringing all labour taxes (payroll and social security contributions) under one system of computation, control and collection which has been achieved by introducing a single tax return for labour taxes

- Capping to some extent the level of social security contributions that are applied to taxpayers while recognising that some further alignment of the computation procedure for employer and employee caps is necessary

Apart from these two measures, the existence of an efficient electronic filing and payment systems is an important feature of any tax system, which significantly influences the number of hours and the number of payments. Compared to the situation of large or more developed economies, which are advanced in terms of both online filing and payment, in Romania the electronic payment system was only introduced at the end of 2010 and is not yet functional for companies (only for individuals at present).

It is expected that with the introduction of a single tax return for social security contributions along with the potential for electronic filing and payment for companies for all taxes, that the ranking for Romania will improve, as the number of payments and the number of hours reduce.

The Paying Taxes report and its indicators have proven to be a very useful catalyst for the discussions with officials within the Romanian government and its tax authority and represent a significant milestone for the initiation of comprehensive tax reforms.

Rwanda

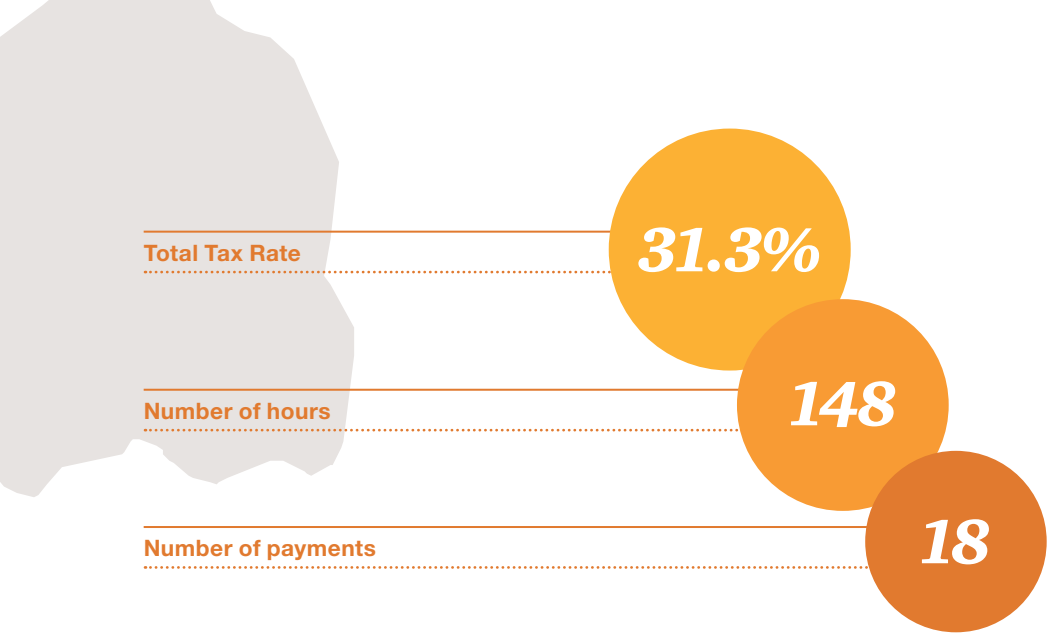
Radical reform to enhance revenue collection and plans to introduce e-filing

Nelson Ogara
PwC Rwanda

The World Bank and IFC's publication *Doing Business 2010* report presented Rwanda as the world's most improved economy. This was in recognition of radical reforms that the government has implemented in recent years to ease the business environment in the country. The report was well received by government, the business community and other stakeholders.

The Paying Taxes study, has helped to generate public debate on improving tax administration and continues to be a source of information for policy makers, including the Rwanda Revenue Authority (RRA). However, more engagement with policy makers is required in future to explore how the findings can be used to improve the tax system and influence policy changes.

While the country is regarded as an attractive destination for business, some investors cite tax administration among the top challenges faced by their businesses. The government has in response, introduced a number of administrative and legislative reforms which has made paying taxes much easier.



This has seen Rwanda's rankings in the Paying Taxes study improve favourably since year 2006 when the survey was first conducted. For example, the number of tax payments has reduced from 26 in 2006 to 18 in year 2012. The Total Tax Rate has fallen from 47.1% to 31.3% over the same period, while the time taken to comply has decreased by 20 hours.

Notable administrative and legislative reforms that have had impact include the establishment of block management system for small taxpayers (which groups taxpayers together under a tax district for ease of administration), introduction of online services though on a limited scale, the ease of tax registration at time of registering a business and an amendment allowing for quarterly (instead of monthly) filing of VAT returns for small businesses.

The mandate to collect national social security contributions and Rwanda Medical Insurance (RAMA) has been transferred to RRA, thus reducing the number of institutions that taxpayers deal with.

Other initiatives that are making a difference include National Annual Taxpayer's day, expansion of RRA offices throughout the country to service new taxpayers and introducing Call Centres to address taxpayer's queries in a timely and professional manner.

On the tax compliance front, Rwanda has introduced a new law which requires that financial statements and tax returns are certified by competent professionals to enhance compliance and improve quality of financial reporting.

The government is committed to improving tax administration and during the latest budget announced new administrative measures which are intended to ease tax collection, improve efficiency, minimise tax leakage and widen the tax base. Electronic Tax Registers have been introduced with effect from 1 July 2011 through a phased approach. The government is also planning to introduce e-filing of tax returns and payments in the fiscal year 2011/2012. These major changes are expected to significantly ease payment of taxes.

Taxpayers still complain that filing tax returns takes a long time and is bureaucratic. In response, RRA has introduced a Queue Management System (QMS) at their offices, which is expected to ease the tax declaration process by allocating taxpayers according to services required.

There is still more to be done by the government to ease compliance costs. Tax laws need to be reviewed to provide clarity on areas that are uncertain such as the taxation of insurance business, the recovery of reverse VAT and VAT treatment of financial services. There is no specific legislation on taxation of insurance despite the complexity of this sector while recovery of reverse VAT is only allowed where there are no similar services in Rwanda. The unclear tax laws lead to disputes with the revenue authority, taking much time to resolve.

In addition, widening the tax base, bringing the informal sector into the tax net and attracting foreign investors remain key priorities for government. This will enhance revenue collection which remains RRA's primary goal.

Overall, the administration measures announced in this year's budget are expected to have a positive impact on the overall paying taxes ranking. The country's revenue collection has continued to grow, rising from Rwf 186 billion in 2005 to Rwf 491 billion for fiscal year 2010/2011.

Sweden

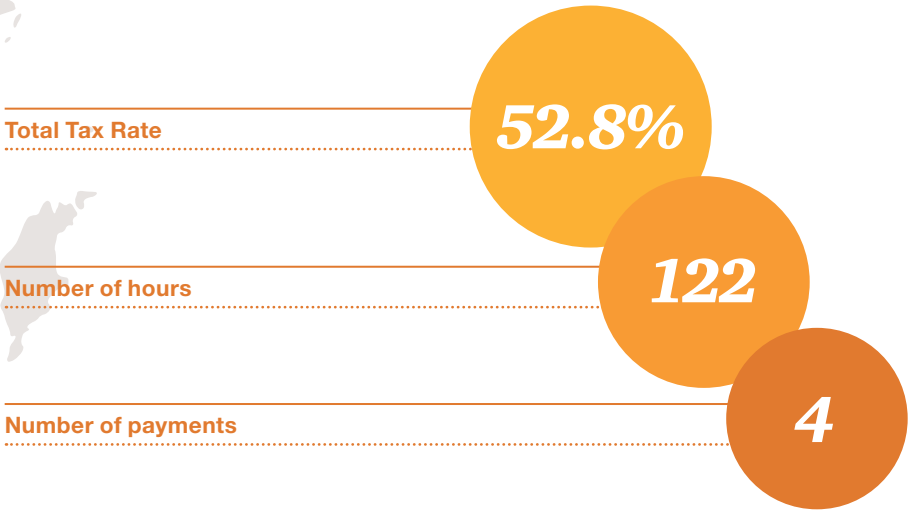
Online IT systems a focus for the tax authority

Lennart Svantesson
PwC Sweden

The Paying Taxes report plays a vital role in reminding the global business community that the overall tax position of a company is not merely determined by a particular country's corporate tax rate – but by a whole range of essential factors, which in this publication are brought to light and presented in a summarised and accessible format.

Sweden's rankings in Paying Taxes for all three sub-indicators have since the launch of the first report in 2006 remained fairly constant.

Sweden's Total Tax Rate of 52.8% is still ranked as one of the highest, in spite of a reduction of the Swedish corporate tax rate from 28% to 26.3% (applicable for financial years starting 1 January 2009 or later).



With its 122 hours, Sweden is ranked above average for the "number of hours" indicator and with only four payments per year, it is at the top of the rankings for the 'number of payments' indicator. These two measures of compliance are clearly important since they can ultimately increase the cost for companies, and this is why in recent years the Swedish Tax Agency has looked to help ease the administrative burden on the companies by developing an online IT system for tax payments.

In recent years environmental taxes and environmentally motivated subsidies have increased substantially in Sweden. It has been the conscious aim of the government to implement an overall tax shift where income taxes and social contribution fees are gradually replaced with green taxes.

It should be noted however that currently the green taxes and subsidies are not caught by the fact pattern of the case study company presented in the Paying Taxes study.

There is also an ongoing public debate in Sweden concerning tax planning and this has resulted in a number of changes to the Swedish tax system. For example, in 2009 the government enacted anti-debt push down provisions so that a deduction is now not allowed for interest payments in certain circumstances.

Apart from the debate on tax planning, a number of government committees have also been appointed to review a major overhaul of the entire Swedish corporate tax system.

The aim of the reform is to establish an improved and more neutral tax treatment for equity and loan financing, with proposals to replace the current interest deduction provisions which should lead to a broader tax base for corporate taxation which in turn could help to finance a further reduction in the corporate tax rate.

The committees are also looking at tax incentives for research and development costs in order to promote new investments.

Finally there are additional governmental proposals to make changes to Swedish taxation procedures, including a split of the current single tax filing date in May into four different dates as from 2012. However, this change is not expected to in itself lead to an increase in the hours required for the compliance process.

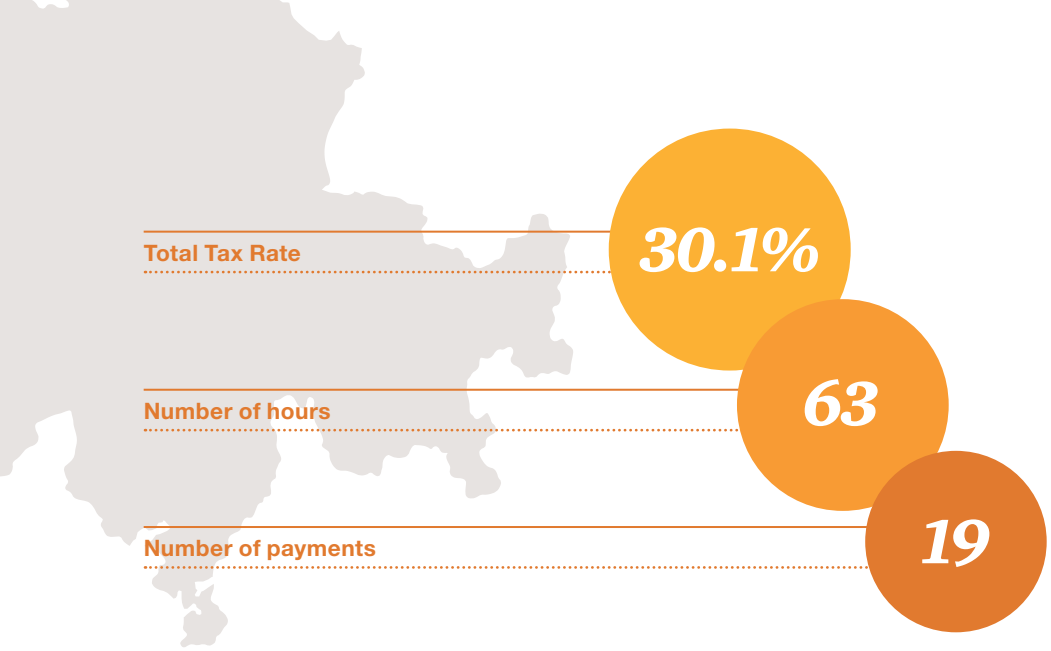
Switzerland

Implementing effective information exchange with overseas tax administrations to develop Switzerland's tax system

Armin Marti
PwC Switzerland

The Swiss tax system continues to stand out with its long-term stability, evidenced by the stable Total Tax Rate. Alongside this it is noteworthy that the Swiss authorities continue in their efforts to reduce the administrative compliance burden for companies. The tax authorities of the largest canton in Switzerland, the canton of Zurich, are planning in the near future to introduce an electronic tax filing system. Recently the cantonal parliament has accepted the legal basis for this change. It can be assumed that more and more cantons will follow this example. The goals here are clearly to reduce the tax compliance burden for the tax payers, minimise the administrative costs for the tax authorities and reduce the incidence of data transfer errors.

In 2011 the Swiss government has introduced several reforms in respect of the corporate tax system. Most importantly, the capital contribution principle has been introduced from 1 January 2011, bringing fundamental change to the Swiss corporate tax system as it eliminates a long standing disadvantage for the business location Switzerland and especially for its foreign investors. Under the new principle the Swiss 35% withholding tax is no longer levied upon the repayment to its shareholders of equity capital that was originally contributed by shareholders. However political discussion has been initiated as to whether the new system should be maintained and as a consequence may be limited in time.



Rules have also now been introduced by almost half of the Swiss cantons to enable the annual capital tax based on the equity of a company to be set off against its annual income tax. More cantons will follow. This leads de facto to an abolition of the annual capital tax for all corporate income tax payers in a significant profit situation.

Also in 2011 while the standard value-added tax rate has increased from 7.6% up to 8% (respectively for the reduced rate for goods for basic needs from 2.4% to 2.5% and for the special rate for services with the provision with lodging from 3.6% to 3.8%), parliament is discussing ways to simplify the VAT legislation by reducing the three rates that currently exist down to two which would decrease the compliance burden for many Swiss tax payers.

Since autumn 2010 Switzerland has been in negotiations with several countries - mainly with Germany, the USA and the UK – to find a solution for the untaxed assets invested by their residents with Swiss banks. The ambition is to fulfil the tax duty of the taxable persons towards their foreign authorities either through reporting to the foreign fiscs or a final withholding tax which is collected by the Swiss bank and remitted to the foreign country. During August 2011 the Swiss authorities initiated respective bilateral agreements with the governments of Germany and the UK. Other European countries have expressed an interest in concluding similar agreements with Switzerland, e.g. Greece, France and Italy.

In 2011 the Global Forum on Transparency and Exchange of Information for Tax Purposes published a country report on Switzerland recognising the significant effort made regarding the implementation of an effective information exchange with foreign tax administrations. New tax treaties with Switzerland are now fully in accordance with the international standards.

Switzerland has concluded a vast number of double tax treaties. Currently, Switzerland is in negotiation with 18 of its treaty partners concerning the incorporation of an arbitration clause in accordance with the OECD model convention. With this new arbitration clause any double taxation should be prevented even in cases where the competent tax authorities do not find a mutual solution.

The goal is for Switzerland's fiscal law to be compliant with the OECD guidelines - in particular in the field of tax information exchange - to avoid any sanctions by other countries. Therefore, it is the declared objective that Switzerland shall remain a first-rate place for foreign direct investments by maintaining and further developing its tax system to stay internationally competitive and transparent.

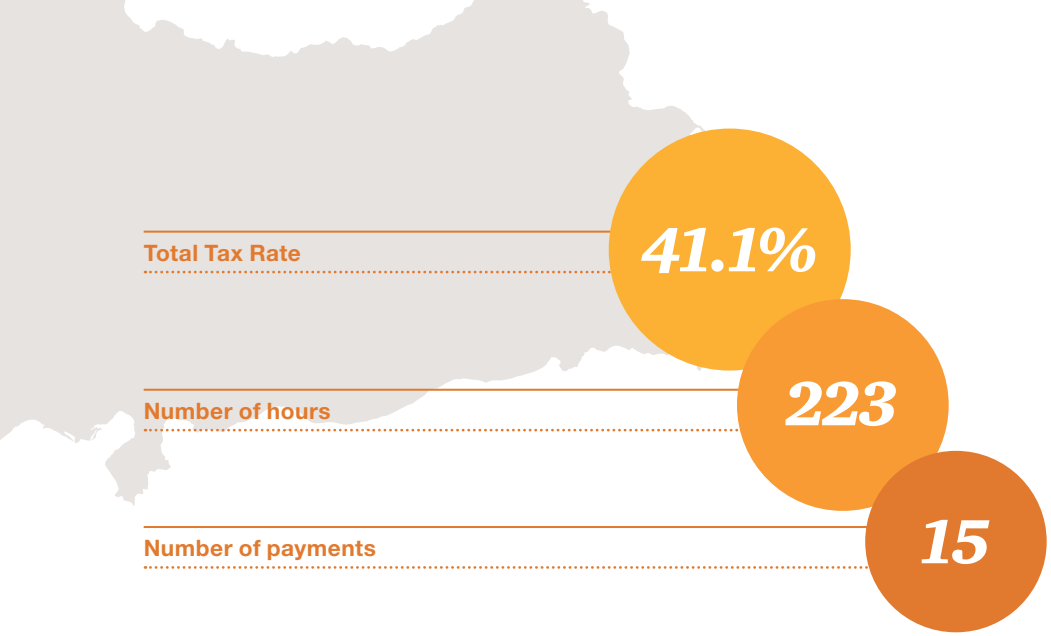
Turkey

A programme to increase the effectiveness of the Revenue Administration

Zeki Gunduz
PwC Turkey

A country's tax laws constitute a major component of its tax system, and the way in which they are drafted has a significant impact on how easy it is to comply with them. Unlike some jurisdictions, Turkey's tax laws are designed on a basis of principles rather than in detail and are supplemented by regulations set out in communiqués and circulars. The downside of this approach is that the implementation of the tax laws becomes more subjective and can be highly prone to different interpretation with the added problem that there can be many instances where the general principles and communiqués fail to shed light on how the law should be applied.

Turkish tax laws also evolve and change both materially and frequently. Certain sections of the Income Tax Law and supplementary guidance have been amended 11 times over the last three years. This has included the redrafting of Corporate Tax Law from scratch in 2006. And further major changes are in the pipeline to include the rewriting of Income Tax Law, Tax Procedural Law, and Special Consumption and Value Added Tax law – key tax laws that will have a significant effect on businesses.



Corporate tax rates in Turkey are competitive and comparatively low when compared with rates in some European countries. However, indirect taxes represent a significant element of the Turkish tax system and the high rates of these taxes make them more important than the direct ones. Indirect taxes accounted for 67% of all tax collection by Government in 2010. And most of the direct taxes are collected through withholding rather than declared income, a method of collection that has been implemented to deal with issues around unrecorded taxes and tax avoidance which have arisen in view of a lack of regular tax audits and understaffing in the tax authority.

Understandably, indirect taxes (which are easy to impose) have therefore become an important tool for Government to help fund the public finances. The issues around the collection of direct taxes has long been a recognised problem area and in recent years the Revenue Administration has embarked on a program to address the issues by increasing the effectiveness of tax collection through a number of measures including a dramatic increase in staffing levels and the consolidation of the existing tax inspectors and their powers and duties under one organisational roof, to boost efficiency.

On the compliance side, the Revenue Administration has undertaken some successful steps to offer tax-related compliance materials in an electronic form. This process began with tax returns and was followed with certain forms and invoices. The intention is also to convert legal books to an electronic form. The ultimate aim of this process is to allow taxpayers to file and keep track of all their tax matters electronically. In addition, tax officers are developing their systems, making them faster and more efficient. However, these new developments have not yet completely achieved their purpose as with each new implementation new requirements have also been introduced, which has in turn generated new bureaucratic procedures.

In summary, there have been many improvements to the tax system involving significant effort by the authorities. While there remains considerable room for improvement, the signs are hopeful that this will be achieved in future.

Vietnam

Cumbersome procedures place a heavy compliance burden on business

Richard Irwin
PwC Vietnam

Over the years of the study Vietnam has made a number of changes to its tax regime to help ease the burden on business. Significant efforts have been made to reduce the overall tax cost of Tax payers and to support companies through the financial crisis. Improvements have also been made to the tax compliance systems with a series of reforms, but there is clearly more to do.

From 2009, the standard corporate income tax rate reduced from 28% to 25% and this was applied to both foreign invested and domestic enterprises. This was the second step of a unification process which started in 2006 to unify the two separate tax regimes that have existed for foreign invested and domestic enterprises. And then, to support companies through the financial crisis, there was a further 30% reduction in corporate income tax, and a tax payment deferral, granted to all qualifying small and medium enterprises (SMEs) for the last quarter of 2008 and 2009. As a result, the effective corporate income tax rate in 2009 was lower than 25% which was reflected in a lower Total Tax Rate in 2009. In 2010 the additional corporate income tax reduction was not available (although this has been reintroduced for 2011) but the ability to defer payment of 2010 tax liabilities continued.

From 2009, the standard corporate income tax rate reduced from 28% to 25% and this was applied to both foreign invested and domestic enterprises. This was the second step of a unification process which started in 2006 to unify the two separate tax regimes that have existed for foreign invested and domestic enterprises. And then, to support companies through the financial crisis, an exemption from corporate income tax was granted to all qualifying small and medium enterprises (SMEs) (and also some non-SMEs in certain sectors in 2009). Qualifying SMEs have also been allowed to defer the payment of its 2010 tax liabilities for 12 months and to reduce their 2011 corporate income tax liabilities by 30%.

The Paying Taxes methodology

Paying Taxes records the taxes and mandatory contributions that a medium-size company must pay in a given year as well as measuring the administrative burden of paying taxes and contributions. The project was developed and implemented as part of the *Doing Business* project by the World Bank and IFC in cooperation with PwC. Taxes and contributions measured include profit or corporate income tax, social contributions and labour taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other small taxes or fees.

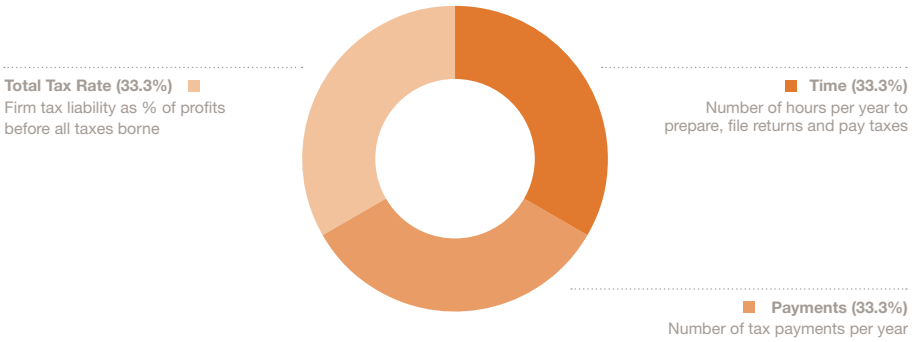
As for previous years, the overall paying taxes ranking included in this report continues to use a simple average of the percentile rankings for each of the sub-indicators. These rankings are set out in Appendix 4.

This year the rankings in this report differ from those used by the World Bank Group in the *Doing Business 2012* report where a change in the ranking methodology is being piloted to address various issues that have been raised through discussions with stakeholders. The *Doing Business* project has applied a threshold to the ranking for the Total Tax Rate to seek to mitigate the effects of low Total Tax Rates.

Paying Taxes measures all taxes and contributions that are government mandated (at any level—federal, state or local) and which apply to the standardised business and have an impact in its financial statements. In doing so, Paying Taxes goes beyond the traditional definition of a tax. As defined for the purposes of government national accounts, taxes include only compulsory, unrequited payments to general government. Paying Taxes departs from this definition because it measures imposed charges that affect business accounts, not government accounts. The main difference relates to labour contributions. The Paying Taxes measure in *Doing Business* includes government-mandated contributions paid by the employer to a requited private pension fund or workers' insurance fund. The indicator includes, for example, Australia's compulsory superannuation guarantee and workers' compensation insurance. It should be noted that for the purpose of calculating the Total Tax Rate (defined below), only taxes borne are included. For example, value added taxes are generally excluded (provided they are not irrecoverable) because they do not affect the accounting profits of the business—that is, they are not reflected in the income statement. They are, however, included for the purpose of the compliance measures (time and payments), as they add to the burden of complying with the tax system.

Figure A1.1: Paying taxes: tax compliance for a local manufacturing company

Rankings are based on three-sub indicators



The Paying Taxes study uses the *Doing Business* case scenario to measure the taxes and contributions paid by a standardised business and the complexity of an economy's tax compliance system. This case scenario uses a set of financial statements and assumptions about transactions made over the course of the year. Tax experts from a number of different firms in each economy (including PwC) compute the taxes and mandatory contributions due in their jurisdiction based on the standardised case study facts. Information is also compiled on the frequency of filing and payments as well as time taken to comply with tax laws in an economy.

The timeline summarises the annual process for collecting the Paying Taxes data.

The methodology for the Paying Taxes indicators has benefited from discussion with members of the International Tax Dialogue and other stakeholders, which has led to a refinement of the survey questions on the number of hours required to pay taxes and the collection of additional data on the labour tax wedge for further research.

To make the data comparable across the economies included in the study, a number of assumptions about the business and the taxes and contributions made by the business are used.

Assumptions about the business

The business:

- is a limited liability, taxable company. If there is more than one type of limited liability company in the economy, the limited liability form most common among domestic firms is chosen. The most common form is reported by incorporation lawyers or the statistical office.
- started operations on 1 January 2009. At that time the company purchased all the assets shown in its balance sheet and hired all its workers.
- operates in the economy's largest business city.
- is 100% domestically owned and has five owners, all of whom are natural persons.
- at the end of 2009, has a start-up capital of 102 times income per capita.
- performs general industrial or commercial activities. Specifically, it produces ceramic flowerpots and sells them at retail. It does not participate in foreign trade (no import or export) and does not handle products subject to a special tax regime, for example, liquor or tobacco.
- at the beginning of 2010, owns two plots of land, one building, machinery, office equipment, computers and one truck. It also leases one truck.
- does not qualify for investment incentives or any benefits apart from those related to the age or size of the company.
- has 60 employees—four managers, eight assistants and 48 workers. All are nationals, and one manager is also an owner. The company pays for additional medical insurance for employees (not mandated by any law) as an additional benefit.

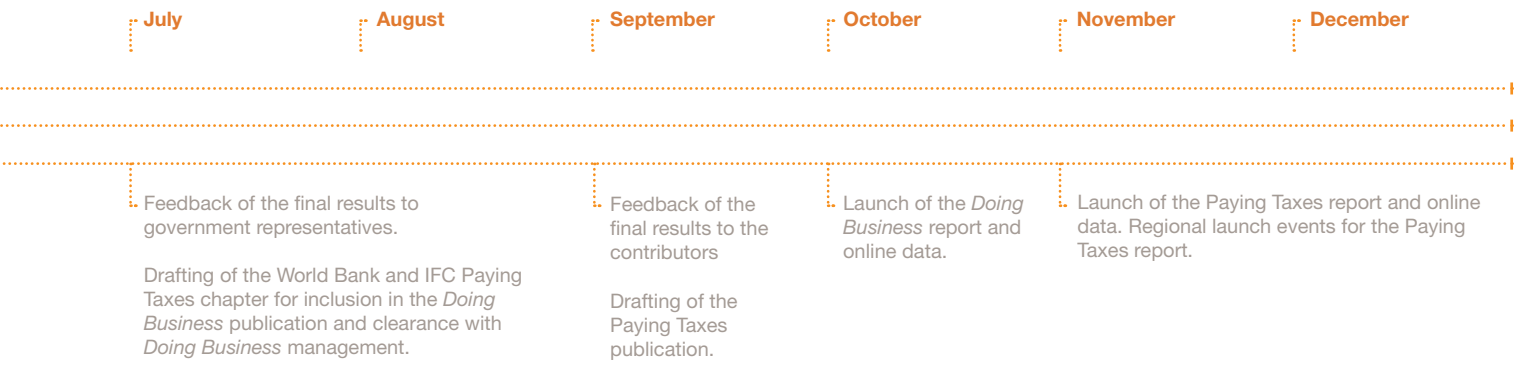
Figure A1.2: Timeline summarising the annual process for collecting the Paying Taxes data

In addition, in some economies reimbursable business travel and client entertainment expenses are considered fringe benefits. When applicable, it is assumed that the company pays the fringe benefit tax on this expense or that the benefit becomes taxable income for the employee. The case study assumes no additional salary additions for meals, transportation, education or others. Therefore, even when such benefits are frequent, they are not added to or removed from the taxable gross salaries to arrive at the labour tax or contribution calculation.

- has a turnover of 1,050 times income per capita.
- makes a loss in the first year of operation.
- has a gross margin (pre-tax) of 20% (i.e. sales are 120% of the cost of goods sold).
- distributes 50% of its net profits as dividends to the owners at the end of the second year.
- sells one of its plots of land at a profit at the beginning of the second year.
- has annual fuel costs for its trucks equal to twice income per capita.
- is subject to a series of detailed assumptions on expenses and transactions to further standardise the case. All financial statement variables are proportional to 2005 income per capita. For example, the owner who is also a manager spends 10% of income per capita on travelling for the company (20% of this owner's expenses are purely private, 20% are for entertaining customers and 60% for business travel).

Assumptions about the taxes and contributions

- All the taxes and contributions recorded are those paid in the second year of operation (calendar year 2010). A tax or contribution is considered distinct if it has a different name or is collected by a different agency. Taxes and contributions with the same name and agency, but charged at different rates depending on the business, are counted as the same tax or contribution.
- The number of times the company pays taxes and contributions in a year is the number of different taxes or contributions multiplied by the frequency of payment (or withholding) for each tax. The frequency of payment includes advance payments (or withholding) as well as regular payments (or withholding).



Independent PwC analysis of indicator and non-indicator data to determine a PwC perspective. Focus on geographical and economic groupings.

What does Paying Taxes measure?

Tax payments

The tax payments indicator reflects the total number of taxes and contributions paid, the method of payment, the frequency of payment, the frequency of filing and the number of agencies involved for this standardised case study company during the second year of operation (table A.1.1). It includes consumption taxes paid by the company, such as sales tax or value added tax. These taxes are traditionally collected from the consumer on behalf of the tax agencies. Although they do not affect the income statements of the company, they add to the administrative burden of complying with the tax system and so are included in the tax payments indicator.

The number of payments takes into account electronic filing. Where full electronic filing and payment is allowed and it is used by the majority of medium-size businesses, the tax is counted as paid once a year even if filings and payments are more frequent. For payments made through third parties, such as tax on interest paid by a financial institution or fuel tax paid by a fuel distributor, only one payment is included even if payments are more frequent.

Where two or more taxes or contributions are filed for and paid jointly using the same form, each of these joint payments is counted once. For example, if mandatory health insurance contributions and mandatory pension contributions are filed for and paid together, only one of these contributions would be included in the number of payments.

Time

Time is recorded in hours per year. The indicator measures the time taken to prepare, file and pay three major types of taxes and contributions: the corporate income tax, value added or sales tax, and labour taxes, including payroll taxes and social contributions. Preparation time includes the time to collect all information necessary to compute the tax payable and to calculate the amount payable. If separate accounting books must be kept for tax purposes – or separate calculations made – the time associated with these processes is included. This extra time is included only if the regular accounting work is not enough to fulfil the tax accounting requirements. Filing time includes the time to complete all necessary tax return forms and file the relevant returns at the tax authority. Payment time considers the hours needed to make the payment online or at the tax authorities. Where taxes and contributions are paid in person, the time includes delays while waiting.

Table A1.1: What do the paying taxes indicators measure?

Tax payments for a manufacturing company in 2010 (number per year adjusted for electronic and joint filing and payment)
Total number of taxes and contributions paid, including consumption taxes (value added tax, sales tax or goods and service tax)
Method and frequency of filing and payment
Time required to comply with 3 major taxes (hours per year)
Collecting information and computing the tax payable
Completing tax return forms, filing with proper agencies
Arranging payment or withholding
Preparing separate mandatory tax accounting books, if required
Total Tax Rate (% of profit before all taxes)
Profit or corporate income tax
Social contributions and labour taxes paid by the employer
Property and property transfer taxes
Dividend, capital gains and financial transactions taxes
Waste collection, vehicle, road and other taxes

Total Tax Rate

The Total Tax Rate measures the amount of taxes and mandatory contributions borne by the business in the second year of operation, expressed as a share of commercial profit. Paying Taxes 2012 reports the Total Tax Rate for calendar year 2010. The total amount of taxes borne is the sum of all the different taxes and contributions payable after accounting for allowable deductions and exemptions. The taxes withheld (such as personal income tax) or collected by the company and remitted to the tax authorities (such as Value Added Tax, sales tax or goods and service tax) but not borne by the company are excluded. The taxes included can be divided into five categories: profit or corporate income tax, social contributions and labour taxes paid by the employer (in respect of which all mandatory contributions are included, even if paid to a private entity such as a requited pension fund), property taxes, turnover taxes and other taxes (such as municipal fees and vehicle and fuel taxes).

The Total Tax Rate is designed to provide a comprehensive measure of the cost of all the taxes a business bears. It differs from the statutory tax rate, which merely provides the factor to be applied to the tax base. In computing the Total Tax Rate, the actual tax payable is divided by commercial profit. Data for Norway is shown in figure A1.2 to illustrate the calculation.

Commercial profit is essentially net profit before all taxes borne. It differs from the conventional profit before tax, reported in financial statements. In computing profit before tax, many of the taxes borne by a firm are deductible. In computing commercial profit, these taxes are not deductible. Commercial profit therefore presents a clear picture of the actual profit of a business before any of the taxes it bears in the course of the fiscal year.

Commercial profit is computed as sales minus cost of goods sold, minus gross salaries, minus administrative expenses, minus other expenses, minus provisions, plus capital gains (from the property sale) minus interest expense, plus interest income and minus commercial depreciation. To compute the commercial depreciation, a straight-line depreciation method is applied, with the following rates: 0% for the land, 5% for the building, 10% for the machinery, 33% for the computers, 20% for the office equipment, 20% for the truck and 10% for business development expenses. Commercial profit amounts to 59.4 times income per capita.

The methodology for calculating the Total Tax Rate is broadly consistent with the Total Tax Contribution framework developed by PwC and the calculation within this framework for taxes borne. But while the work undertaken by PwC is usually based on data received from the largest companies in the economy, *Doing Business* focuses on a case study for a standardised medium-size company.

Table A1.2: Computing the Total Tax Rate for Norway

Type of tax (tax base)	Statutory rate *r*	Statutory tax base *b* NKr	Actual tax payable *a = r x b* NKr	Commercial profit* *c* NKr	Total Tax Rate *t = a/c*
Corporate income tax (taxable income)	28.0%	20,612,719	5,771,561	23,651,183	24.4%
Social security contributions (taxable wages)	14.1%	26,684,645	3,762,535	23,651,183	15.9%
Fuel tax (fuel price)	NKr 4 per litre	74,247 litres	297,707	23,651,183	1.3%
Total			9,831,803		41.6%

Appendix 2

About Doing Business: measuring for impact

Commentary by the World Bank and IFC

A vibrant private sector – with firms making investments, creating jobs and improving productivity – promotes growth and expands opportunities for poor people. To foster a vibrant private sector, governments around the world have implemented wide-ranging reforms, including price liberalisation and macroeconomic stabilisation programmes. But governments committed to the economic health of their country and opportunities for its citizens focus on more than macroeconomic conditions. They also pay attention to the quality of laws, regulations and institutional arrangements that shape daily economic activity.

Until ten years ago, however, there were no globally available indicator sets for monitoring such microeconomic factors and analysing their relevance. The first efforts to address this gap, in the 1980s, drew on perceptions data from expert or business surveys that capture often one-time experiences of businesses. Such surveys can be useful gauges of economic and policy conditions. But few perception surveys provide indicators with a global coverage that are updated annually.

The *Doing Business* project takes a different approach from perception surveys. It looks at domestic, primarily small and medium-size companies and measures the regulations applying to them through their life cycle. Based on standardised case studies, it presents quantitative indicators on business regulation that can be compared across 183 economies and over time. This approach complements the perception surveys in exploring the major constraints for businesses, as experienced by the businesses themselves and as set out in the regulations that apply to them.

Rules and regulations are under the direct control of policy makers – and policy makers intending to change the experience and behaviour of businesses will often start by changing rules and regulations that affect them. *Doing Business* goes beyond identifying that a problem exists and points to specific regulations or regulatory procedures that may lend themselves to reform. And its quantitative measures of business regulation enable research on how specific regulations affect firm behaviour and economic outcomes.

The first *Doing Business* report, published in 2003, covered five indicator sets and 133 economies. This year's report covers 11 indicator sets and 183 economies. Ten topics are included in the aggregate ranking on the ease of doing business and other summary measures.[37] The project has benefited from feedback from governments, academics, practitioners and reviewers.[38] The initial goal remains: to provide an objective basis for understanding and improving the regulatory environment for business.

[37] For more details on how the aggregate rankings are created, please see www.doingbusiness.org.
[38] This has included a review by the World Bank Group Independent Evaluation Group (2008) as well as ongoing input from the International Tax Dialogue.

What Doing Business covers

An entrepreneur's willingness to try a new idea may be influenced by many factors, including perceptions of how easy (or difficult) it will be to deal with the array of rules that define and underpin the business environment. Whether the entrepreneur decides to move forward with the idea, to abandon it or to take it elsewhere might depend in large part on how simple it is to comply with the requirements for opening a new business or getting a construction permit and how efficient the mechanisms are for resolving commercial disputes or dealing with insolvency. *Doing Business* provides quantitative measures of regulations for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency – as they apply to domestic small and medium-size enterprises. It also looks at regulations on employing workers.

A fundamental premise of *Doing Business* is that economic activity requires good rules. These include rules that establish and clarify property rights and reduce the cost of resolving disputes, rules that increase the predictability of economic interactions and rules that provide contractual partners with core protections against abuse. The objective: regulations designed to be simple and efficient in implementation and accessible to all who need to use them. Accordingly, some *Doing Business* indicators give a higher score for more regulation, such as stricter disclosure requirements in related-party transactions. Some give a higher score for a simplified way of implementing existing regulation, such as completing business start-up formalities in a one-stop shop.

The *Doing Business* project encompasses two types of data. The first come from readings of laws and regulations by both the local expert respondents and *Doing Business*. The second are time-and-motion indicators that measure the efficiency in achieving a regulatory goal (such as granting the legal identity of a business). Within the time-and-motion indicators, cost estimates are recorded from official fee schedules where applicable. A regulatory process such as starting a business or registering property is broken down into clearly defined steps and procedures. The time estimates for each procedure are based on the informed judgment of expert respondents who routinely administer or advise on the relevant regulations.[39] Here, *Doing Business* builds on Hernando de Soto's pioneering work in applying the time-and-motion approach first used by Frederick Taylor to revolutionise the production of the Model T Ford. De Soto used the approach in the 1980s to show the obstacles to setting up a garment factory on the outskirts of Lima.[40]

[39] Local experts in 183 economies are surveyed annually to collect and update the data. The local experts for each economy are listed on the *Doing Business* website (http://www.doingbusiness.org).
[40] De Soto 2000.

What *Doing Business* does not cover

Just as important as knowing what *Doing Business* does is to know what it does not do – to understand what limitations must be kept in mind in interpreting the data.

Limited in scope

Doing Business focuses on 11 topics, with the specific aim of measuring the regulation relevant to the life cycle of a domestic firm. Accordingly:

- *Doing Business* does not measure all aspects of the business environment that matter to firms or investors – or all factors that affect competitiveness. It does not, for example, measure security, corruption, market size, macroeconomic stability, the state of the financial system, the labour skills of the population or all aspects of the quality of infrastructure. Nor does it focus on regulations specific to foreign investment.

- While *Doing Business* focuses on the quality of the regulatory framework, it is not all-inclusive; it does not cover all regulations in any economy. As economies and technology advance, more areas of economic activity are being regulated. For example, the European Union's body of laws *(acquis)* has now grown to no fewer than 14,500 rule sets. *Doing Business* covers 11 areas of a company's life cycle, through 11 specific sets of indicators. These indicator sets do not cover all aspects of regulation in the area of focus. For example, the indicators on starting a business or protecting investors do not cover all aspects of commercial legislation. The employing workers indicators do not cover all areas of labour regulation. The current set of indicators does not, for example, include measures of regulations addressing safety at work or the right of collective bargaining.

- *Doing Business* also does not attempt to measure all costs and benefits of a particular law or regulation to society as a whole. The paying taxes indicators, for example, measure the Total Tax Rate, which is a cost to business. The indicators do not measure, nor are they intended to measure, the social and economic programs funded through tax revenues. Measuring business laws and regulations provides one input into the debate on the regulatory burden associated with achieving regulatory objectives. Those objectives can differ across economies.

Based on standardised case scenarios

Doing Business indicators are built on the basis of standardised case scenarios with specific assumptions, such as the business being located in the largest business city of the economy. Economic indicators commonly make limiting assumptions of this kind. Inflation statistics, for example, are often based on prices of a set of consumer goods in a few urban areas.

Such assumptions allow global coverage and enhance comparability. But they come at the expense of generality. *Doing Business* recognises the limitations of including data on only the largest business city. Business regulation and its enforcement, particularly in federal states and large economies, may differ across the country. Recognising governments' interest in such variation, *Doing Business* has complemented its global indicators with subnational studies in a range of economies. This year *Doing Business* also conducted a pilot study on the second largest city in three large economies to assess within-country variations.

In areas where regulation is complex and highly differentiated, the standardised case used to construct the *Doing Business* indicator needs to be carefully defined. Where relevant, the standardised case assumes a limited liability company or its legal equivalent. This choice is in part empirical: private, limited liability companies are the most prevalent business form in many economies around the world. The choice also reflects one focus of *Doing Business*: expanding opportunities for entrepreneurship. Investors are encouraged to venture into business when potential losses are limited to their capital participation.

Focused on the formal sector

In constructing the indicators, *Doing Business* assumes that entrepreneurs are knowledgeable about all regulations in place and comply with them. In practice, entrepreneurs may spend considerable time finding out where to go and what documents to submit. Or they may avoid legally required procedures altogether – by not registering for social security, for example.

Where regulation is particularly onerous, levels of informality are higher. Informality comes at a cost: firms in the informal sector typically grow more slowly, have poorer access to credit and employ fewer workers – and their workers remain outside the protections of labour law.[41] All this may be even more so for female-owned businesses, according to country-specific research.[42] Firms in the informal sector are also less likely to pay taxes. *Doing Business* measures one set of factors that help explain the occurrence of informality and give policy makers insights into potential areas of regulatory reform. Gaining a fuller understanding of the broader business environment, and a broader perspective on policy challenges, requires combining insights from *Doing Business* with data from other sources, such as the World Bank Group Enterprise Surveys.[43]

[41] Schneider 2005; La Porta and Shleifer 2008.
[42] Amin 2011.
[43] http://www.enterprisesurveys.org.

Methodology and data

Doing Business covers 183 economies – including small economies and some of the poorest economies, for which little or no data are available in other data sets. The *Doing Business* data are based on domestic laws and regulations as well as administrative requirements. (For a detailed explanation of the *Doing Business* methodology, see the *Doing Business* website.)

Information sources for the data

Most of the *Doing Business* indicators are based on laws and regulations. In addition, most of the cost indicators are backed by official fee schedules. *Doing Business* respondents both fill out written questionnaires and provide references to the relevant laws, regulations and fee schedules, aiding data checking and quality assurance. Having representative samples of respondents is not an issue, as the texts of the relevant laws and regulations are collected and answers checked for accuracy.

For some indicators – for example, those on dealing with construction permits, enforcing contracts and resolving insolvency – the time component and part of the cost component (where fee schedules are lacking) are based on actual practice rather than the law on the books. This introduces a degree of judgment. The *Doing Business* approach has therefore been to work with legal practitioners or professionals who regularly undertake the transactions involved. Following the standard methodological approach for time-and-motion studies, *Doing Business* breaks down each process or transaction, such as starting and legally operating a business, into separate steps to ensure a better estimate of time. The time estimate for each step is given by practitioners with significant and routine experience in the transaction.

The *Doing Business* approach to data collection contrasts with that of firm surveys, which capture often one-time perceptions and experiences of businesses. A corporate lawyer registering 100–150 businesses a year will be more familiar with the process than an entrepreneur, who will register a business only once or maybe twice. A bankruptcy attorney or judge dealing with dozens of cases a year will have more insight into bankruptcy than a manager of a company who may have never undergone the process.

Doing Business respondents

Over the past nine years more than 12,000 professionals in 183 economies have assisted in providing the data that inform the *Doing Business* indicators. This year's report draws on the inputs of more than 9,000 professionals. The *Doing Business* website indicates the number of respondents for each economy and each indicator. Respondents are professionals or government officials who routinely administer or advise on the legal and regulatory requirements covered in each *Doing Business* topic. They are selected on the basis of their expertise in the specific areas covered by *Doing Business*. Because of the focus on legal and regulatory arrangements, most of the respondents are legal professionals such as lawyers, judges or notaries. The credit information survey is answered by officials of the credit registry or bureau. Freight forwarders, accountants, architects and other professionals answer the surveys related to trading across borders, taxes and construction permits.

Development of the methodology

The methodology for calculating each indicator is transparent, objective and easily replicable. Leading academics collaborated in the development of the indicators, ensuring academic rigour. Eight of the background papers underlying the indicators have been published in leading economic journals.[44]

Doing Business uses a simple averaging approach for weighting component indicators and calculating rankings. Other approaches were explored, including using principal components and unobserved components.[45] They turn out to yield results nearly identical to those of simple averaging. Thus *Doing Business* uses the simplest method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components.[46]

Improvements to the methodology

The methodology has undergone continual improvement over the years.[47] Changes have been made mainly in response to suggestions providing new insights. For enforcing contracts, for example, the amount of the disputed claim in the case study was increased from 50% to 200% of income per capita after the first year of data collection, as it became clear that smaller claims were unlikely to go to court.

Another change relates to starting a business. The minimum capital requirement can be an obstacle for potential entrepreneurs. Initially *Doing Business* measured the required minimum capital regardless of whether it had to be paid up front or not. In many economies only part of the minimum capital has to be paid up front. To reflect the actual potential barrier to entry, the paid-in minimum capital has been used rather than the required minimum capital.

The *Doing Business 2012* report, the latest in the series, includes several changes. Firstly, the ease of doing business ranking includes getting electricity as a new topic. The getting electricity indicators were introduced as a pilot in *Doing Business 2010* and *Doing Business 2011*, which presented the results in an annex. During the pilot phase the methodology was reviewed by experts, and data on the time, cost and procedures to obtain an electricity connection were collected for the full set of 183 economies. To avoid double counting, procedures related to getting an electricity connection have been removed from the dealing with construction permits indicators.[48]

Other improvements in the methodology were made to the employing workers indicators and the getting credit (legal rights) indicators, in addition to the removal of the procedures related to getting an electricity connection from the dealing with construction permits indicators. It also includes changes in the ranking methodology for paying taxes. For further explanations on the specific changes in the ranking methodology for paying taxes applied in the global *Doing Business* project, please refer to www.doingbusiness.org/methodology

Data adjustments

All changes in methodology are explained on the *Doing Business* website. In addition, data time series for each indicator and economy are available on the website, beginning with the first year the indicator or economy was included in the report. To provide a comparable time series for research, the data set is back-calculated to adjust for changes in methodology and any revisions in data due to corrections. The data set is not back-calculated for year-to-year changes in income per capita. The website also makes available all original data sets used for background papers.

Information on data corrections is provided on the website. A transparent complaint procedure allows anyone to challenge the data. If errors are confirmed after a data verification process, they are expeditiously corrected.

[44] All background papers are available on the *Doing Business* website (http://www.doingbusiness.org).
[45] For more details, see the chapter on the ease of doing business and distance to frontier in *Doing Business 2012*.
[46] A technical note on the different aggregation and weighting methods is available on the *Doing Business* website (http://www.doingbusiness.org).
[47] All changes in methodology are explained in this year's report and in previous years' reports back to *Doing Business 2007* (data notes and previous years' reports are available at http://www.doingbusiness.org).
[48] Previous years' data on dealing with construction permits are adjusted to reflect this change. They are made available on the *Doing Business* website under "historical data" (http://www.doingbusiness.org).

The Paying Taxes reforms

Summarised by the World Bank and IFC

These reforms were implemented between June 2010 and May 2011.

Key

↑ *Doing Business* reform making it easier to pay taxes (as measured by the indicators)

↓ *Doing Business* reform making it more difficult to pay taxes (as measured by the indicators)

Armenia

Armenia eased tax compliance by reducing the number of payments for corporate income tax, social security contributions, property and land taxes. It also introduced mandatory electronic filing and payment for major taxes.

Belarus

Belarus abolished several taxes, including turnover and sales taxes, and simplified compliance with corporate income, value added and other taxes by reducing the frequency of filings and payments and facilitating electronic filing and payment.

Belize

Belize made paying taxes easier for firms by improving electronic filing and payment for social security contributions, an option now used by the majority of taxpayers.

Bolivia

Bolivia raised social security contribution rates for employers.

Burundi

Burundi made paying taxes easier for companies by reducing the payment frequency for social security contributions from monthly to quarterly.

Canada

Canada made paying taxes easier and less costly for companies by reducing profit tax rates, eliminating the Ontario capital tax and harmonising sales taxes.

Colombia

Colombia eased the administrative burden of paying taxes for firms by establishing mandatory electronic filing and payment for some of the major taxes.

Congo, Democratic Republic of

The Democratic Republic of Congo made paying taxes easier for firms by replacing the sales tax with a value added tax.

Costa Rica

In Costa Rica online payment of social security contributions is now widespread and used by the majority of taxpayers.

Côte d'Ivoire

Côte d'Ivoire eliminated a tax on firms, the contribution for national reconstruction (contribution pour la reconstruction nationale).

Czech Republic

The Czech Republic revised its tax legislation to simplify provisions relating to administrative procedures and relationships between tax authorities and taxpayers.

Estonia

In Estonia a municipal sales tax introduced in Tallinn made paying taxes costlier for firms, though a later parliamentary measure abolished local sales taxes effective 1 January 2012.

Finland

Finland simplified reporting and payment for the value added tax and labour tax.

Gambia

The Gambia reduced the minimum turnover tax and corporate income tax rates.

Georgia
Georgia made paying taxes easier for firms by simplifying the reporting for value added tax and introducing electronic filing and payment of taxes.

Greece
Greece reduced its corporate income tax rate.

Honduras
Honduras made paying taxes costlier for firms by raising the solidarity tax rate.

Hungary
Hungary made paying taxes costlier for firms by introducing a sector-specific surtax.

Iceland
Iceland made paying taxes easier and less costly for firms by abolishing a tax.

India
India eased the administrative burden of paying taxes for firms by introducing mandatory electronic filing and payment for value added tax.

Korea, Republic of.
Korea eased the administrative burden of paying taxes for firms by merging several taxes, allowing four labour taxes and contributions to be paid jointly and continuing to increase the use of the online tax payment system.

Kyrgyz Republic
The Kyrgyz Republic made paying taxes costlier for firms by introducing a real estate tax, though it also reduced the sales tax rate.

Malaysia
Malaysia made paying taxes costlier for firms by reintroducing the real estate capital gains tax—but also made tax compliance easier by improving electronic systems and the availability of software.

Mexico
Mexico continued to ease the administrative burden of paying taxes for firms by ending the requirement to file a yearly value added tax return and reducing filing requirements for other taxes.

Montenegro
Montenegro made paying taxes easier and less costly for firms by abolishing a tax, reducing the social security contribution rate and merging several returns into a single unified one.

Morocco
Morocco eased the administrative burden of paying taxes for firms by enhancing electronic filing and payment of the corporate income tax and value added tax.

New Zealand
New Zealand reduced its corporate income tax rate and fringe benefit tax rate.

Nicaragua
Nicaragua made paying taxes easier for companies by promoting electronic filing and payment of the major taxes, an option now used by the majority of taxpayers.

Oman
Oman enacted a new income tax law that redefined the scope of taxation.

Russian Federation
Russia increased the social security contribution rate for employers.

Togo
Togo reduced its corporate income tax rate.

Pakistan
Pakistan increased the profit tax rate for small firms.

Rwanda
Rwanda reduced the frequency of value added tax filings by companies from monthly to quarterly.

Turkey
Turkey lowered the social security contribution rate for companies by offering them a 5% rebate.

Paraguay
Paraguay made paying taxes more burdensome for companies by introducing new tax declarations that must be filed monthly.

Seychelles
The Seychelles made paying taxes less costly for firms by eliminating the social security tax.

Ukraine
Ukraine made paying taxes easier and less costly for firms by revising and unifying tax legislation, reducing corporate income tax rates and unifying social security contributions.

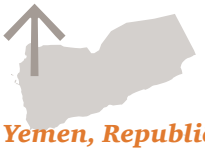
Peru
Peru made paying taxes easier for companies by improving electronic filing and payment of the major taxes and promoting the use of the electronic option among the majority of taxpayers.

Sri Lanka
Sri Lanka made paying taxes less costly for businesses by abolishing the turnover tax and social security contribution and by reducing corporate income tax, value added tax and national building tax rates.

Venezuela, República Bolivariana de
Venezuela made paying taxes costlier for firms by doubling the municipal economic activities tax (sales tax).

Romania
Romania made paying taxes easier for companies by introducing an electronic payment system and a unified return for social security contributions. It also abolished the annual minimum tax.

St. Kitts and Nevis
St. Kitts and Nevis made paying taxes easier by introducing a value added tax.



Yemen, Republic of.
Yemen enacted a new tax law that reduced the general corporate tax rate from 35% to 20% and abolished all tax exemptions except those granted under the investment law for investment projects.

The data tables

Table 1: Rankings 112
Table 2: Tax payments 116
Table 3: Time to comply 120
Table 4: Total Tax Rate 124

Table 1: Rankings[49]

Economy	Overall	Tax payments	Time to comply	Total Tax Rate
Afghanistan	58	17	121	79
Albania	152	148	148	88
Algeria	164	96	162	172
Angola	149	103	126	148
Antigua and Barbuda	134	172	80	103
Argentina	144	29	157	180
Armenia	153	120	166	100
Australia	52	40	23	133
Austria	78	49	57	147
Azerbaijan	77	63	96	94
Bahamas, The	54	63	5	134
Bahrain	13	89	3	10
Bangladesh	97	78	131	70
Belarus	156	63	172	157
Belgium	73	40	50	153
Belize	53	96	45	59
Benin	170	170	113	166
Bhutan	62	8	119	98
Bolivia	179	143	182	175
Bosnia and Herzegovina	118	137	159	28
Botswana	25	68	48	18
Brazil	150	29	183	168
Brunei Darussalam	22	92	20	16
Bulgaria	84	59	166	36
Burkina Faso	147	151	113	110
Burundi	124	87	119	127
Cambodia	59	135	60	22
Cameroon	171	148	172	136
Canada	11	17	37	39
Cape Verde	101	138	65	85
Central African Republic	177	168	168	150
Chad	180	168	178	163
Chile	50	29	134	27
China	121	11	155	161
Colombia	92	29	70	174
Comoros	96	75	21	181
Congo, Democratic Republic of	165	107	140	183
Congo, Republic of	182	175	171	165
Costa Rica	138	103	105	151
Côte d'Ivoire	159	176	113	118
Croatia	46	59	73	54
Cyprus	37	92	47	24
Czech Republic	117	17	169	137
Denmark	15	38	41	33
Djibouti	65	123	14	91
Dominica	70	129	29	83
Dominican Republic	91	29	136	105

[49] The overall ranking is a simple average of the percentile rankings of each of the sub-indicators. This year the rankings differ from those used by the World Bank Group in the *Doing Business 2012* report which applies a threshold to the ranking for the Total Tax Rate.

Table 1: Rankings[49]

Economy	Overall	Tax payments	Time to comply	Total Tax Rate
Ecuador	85	17	172	73
Egypt, Arab Rep.	145	96	161	111
El Salvador	146	164	135	71
Equatorial Guinea	167	151	165	125
Eritrea	120	63	86	177
Estonia	47	17	16	154
Ethiopia	48	68	74	45
Fiji	76	111	54	87
Finland	21	17	19	92
France	55	11	38	164
Gabon	141	91	164	109
Gambia, The	178	161	151	182
Georgia	39	4	152	14
Germany	86	44	88	130
Ghana	87	111	91	61
Greece	79	38	91	128
Grenada	88	102	42	121
Guatemala	123	87	143	101
Guinea	176	171	158	149
Guinea-Bissau	136	151	82	124
Guyana	112	123	110	77
Haiti	116	151	64	99
Honduras	140	155	91	116
Hong Kong SAR, China	3	1	12	23
Hungary	114	46	124	143
Iceland	49	96	42	51
India	147	111	107	156
Indonesia	130	162	112	67
Iran, Islamic Rep.	125	75	143	117
Iraq	59	46	133	38
Ireland	5	17	9	31
Israel	81	111	101	46
Italy	133	54	127	170
Jamaica	172	181	156	123
Japan	119	49	139	138
Jordan	29	89	26	34
Kazakhstan	17	11	68	41
Kenya	166	138	154	140
Kiribati	9	11	29	50
Korea, Rep.	44	44	96	42
Kosovo	43	111	55	11
Kuwait	12	54	27	12
Kyrgyz Republic	162	163	83	171
Lao PDR	122	120	147	60
Latvia	62	11	128	86
Lebanon	41	68	62	44
Lesotho	64	78	136	13

[49] The overall ranking is a simple average of the percentile rankings of each of the sub-indicators. This year the rankings differ from those used by the World Bank Group in the *Doing Business 2012* report which applies a threshold to the ranking for the Total Tax Rate.

Table 1: Rankings[49]

Economy	Overall	Tax payments	Time to comply	Total Tax Rate
Liberia	95	111	52	113
Lithuania	57	40	61	115
Luxembourg	14	84	6	19
Macedonia, FYR	20	95	28	4
Madagascar	72	84	77	80
Malawi	31	68	51	37
Malaysia	28	46	40	62
Maldives	1	1	1	3
Mali	163	173	113	142
Marshall Islands	93	78	34	162
Mauritania	175	129	177	169
Mauritius	9	11	53	26
Mexico	106	8	145	144
Micronesia, Fed. Sts.	89	78	34	155
Moldova	109	158	98	47
Mongolia	66	138	69	25
Montenegro	114	143	149	21
Morocco	108	59	102	141
Mozambique	104	129	99	64
Namibia	100	129	150	5
Nepal	111	120	138	49
Netherlands	34	29	33	96
New Zealand	27	17	58	65
Nicaragua	155	143	80	167
Niger	142	138	113	114
Nigeria	138	123	180	56
Norway	19	4	17	104
Oman	8	49	7	20
Pakistan	158	155	170	72
Palau	94	68	34	173
Panama	169	164	163	120
Papua New Guinea	103	111	71	107
Paraguay	131	123	152	69
Peru	80	29	132	97
Philippines	135	155	72	129
Poland	127	96	130	112
Portugal	74	17	121	108
Puerto Rico	110	58	87	159
Qatar	2	1	3	6
Romania	154	182	89	119
Russian Federation	102	29	128	132
Rwanda	33	63	46	48
Samoa	68	129	91	17
São Tomé and Principe	137	143	160	55
Saudi Arabia	7	49	11	9
Senegal	174	173	176	126
Serbia	143	177	125	63

[49] The overall ranking is a simple average of the percentile rankings of each of the sub-indicators. This year the rankings differ from those used by the World Bank Group in the *Doing Business 2012* report which applies a threshold to the ranking for the Total Tax Rate.

Table 1: Rankings[49]

Economy	Overall	Tax payments	Time to comply	Total Tax Rate
Seychelles	26	78	9	53
Sierra Leone	105	96	146	52
Singapore	4	7	15	32
Slovak Republic	129	103	100	135
Slovenia	83	83	109	68
Solomon Islands	30	111	12	30
South Africa	36	29	76	58
Spain	40	17	66	90
Sri Lanka	173	180	108	179
St. Kitts and Nevis	132	127	78	145
St. Lucia	51	107	18	66
St. Vincent and the Grenadines	70	127	25	89
Sudan	99	143	62	78
Suriname	38	59	75	35
Swaziland	56	111	22	81
Sweden	44	4	32	146
Switzerland	16	68	8	43
Syrian Arab Republic	107	68	140	93
Taiwan, China	67	54	104	75
Tajikistan	168	178	91	176
Tanzania	128	158	58	122
Thailand	97	84	111	84
Timor-Leste	23	8	123	1
Togo	161	164	113	139
Tonga	35	75	55	29
Trinidad and Tobago	81	135	83	40
Tunisia	61	17	44	158
Turkey	75	54	90	102
Uganda	90	107	85	76
Ukraine	181	183	175	152
United Arab Emirates	6	49	2	7
United Kingdom	18	17	24	82
United States	69	40	66	131
Uruguay	160	164	140	106
Uzbekistan	157	138	79	178
Vanuatu	24	103	29	2
Venezuela, R.B.	183	179	179	160
Vietnam	151	107	181	95
West Bank and Gaza	31	92	49	15
Yemen, Rep.	113	148	106	57
Zambia	42	129	38	8
Zimbabwe	126	160	103	74

[49] The overall ranking is a simple average of the percentile rankings of each of the sub-indicators. This year the rankings differ from those used by the World Bank Group in the *Doing Business 2012* report which applies a threshold to the ranking for the Total Tax Rate.

Table 2: Tax payments	Number of payments				Rank
Economy	Total tax payments	Profit tax payments	Labour tax payments	Other taxes payments	Tax payments rank
Afghanistan	8	1	0	7	17
Albania	44	13	12	19	148
Algeria	29	0	12	17	96
Angola	31	4	12	15	103
Antigua and Barbuda	57	13	24	20	172
Argentina	9	1	1	7	29
Armenia	34	7	7	20	120
Australia	11	1	4	6	40
Austria	14	1	3	10	49
Azerbaijan	18	1	12	5	63
Bahamas, The	18	0	12	6	63
Bahrain	25	0	24	1	89
Bangladesh	21	6	0	15	78
Belarus	18	1	13	4	63
Belgium	11	1	2	8	40
Belize	29	0	1	28	96
Benin	55	5	24	26	170
Bhutan	6	2	0	4	8
Bolivia	42	1	12	29	143
Bosnia and Herzegovina	40	12	12	16	137
Botswana	19	6	0	13	68
Brazil	9	2	2	5	29
Brunei Darussalam	27	1	24	2	92
Bulgaria	17	1	1	15	59
Burkina Faso	46	2	24	20	151
Burundi	24	1	8	15	87
Cambodia	39	12	12	15	135
Cameroon	44	13	12	19	148
Canada	8	1	3	4	17
Cape Verde	41	3	24	14	138
Central African Republic	54	4	24	26	168
Chad	54	12	24	18	168
Chile	9	1	1	7	29
China	7	2	1	4	11
Colombia	9	1	1	7	29
Comoros	20	2	0	18	75
Congo, Democratic Republic of	32	1	16	15	107
Congo, Republic of	61	5	36	20	175
Costa Rica	31	5	1	25	103
Côte d'Ivoire	62	3	24	35	176
Croatia	17	1	12	4	59
Cyprus	27	5	12	10	92
Czech Republic	8	1	2	5	17
Denmark	10	3	1	6	38
Djibouti	35	5	12	18	123
Dominica	37	5	12	20	129

Table 2: Tax payments	Number of payments				Rank
Economy	Total tax payments	Profit tax payments	Labour tax payments	Other taxes payments	Tax payments rank
Dominican Republic	9	1	4	4	29
Ecuador	8	2	2	4	17
Egypt, Arab Rep.	29	1	12	16	96
El Salvador	53	13	24	16	164
Equatorial Guinea	46	1	24	21	151
Eritrea	18	2	0	16	63
Estonia	8	1	0	7	17
Ethiopia	19	2	0	17	68
Fiji	33	4	14	15	111
Finland	8	1	3	4	17
France	7	1	2	4	11
Gabon	26	3	4	19	91
Gambia, The	50	5	13	32	161
Georgia	4	1	0	3	4
Germany	12	5	1	6	44
Ghana	33	6	12	15	111
Greece	10	1	1	8	38
Grenada	30	1	12	17	102
Guatemala	24	1	12	11	87
Guinea	56	2	36	18	171
Guinea-Bissau	46	5	12	29	151
Guyana	35	6	12	17	123
Haiti	46	6	25	15	151
Honduras	47	5	13	29	155
Hong Kong SAR, China	3	1	1	1	1
Hungary	13	3	3	7	46
Iceland	29	1	13	15	96
India	33	2	24	7	111
Indonesia	51	13	24	14	162
Iran, Islamic Rep.	20	1	12	7	75
Iraq	13	1	12	0	46
Ireland	8	1	1	6	17
Israel	33	2	12	19	111
Italy	15	2	1	12	54
Jamaica	72	4	48	20	181
Japan	14	2	2	10	49
Jordan	25	1	12	12	89
Kazakhstan	7	1	1	5	11
Kenya	41	5	14	22	138
Kiribati	7	5	2	0	11
Korea, Rep.	12	1	4	7	44
Kosovo	33	5	12	16	111
Kuwait	15	3	12	0	54
Kyrgyz Republic	52	5	12	35	163
Lao PDR	34	4	12	18	120
Latvia	7	1	1	5	11

Table 2: Tax payments	Number of payments				Rank
Economy	Total tax payments	Profit tax payments	Labour tax payments	Other taxes payments	Tax payments rank
Lebanon	19	1	12	6	68
Lesotho	21	5	0	16	78
Liberia	33	5	12	16	111
Lithuania	11	1	2	8	40
Luxembourg	23	5	12	6	84
Macedonia, FYR	28	12	0	16	95
Madagascar	23	1	8	14	84
Malawi	19	2	1	16	68
Malaysia	13	2	2	9	46
Maldives	3	0	0	3	1
Mali	59	4	36	19	173
Marshall Islands	21	0	16	5	78
Mauritania	37	1	13	23	129
Mauritius	7	1	1	5	11
Mexico	6	1	2	3	8
Micronesia, Fed. Sts.	21	0	4	17	78
Moldova	48	1	28	19	158
Mongolia	41	12	12	17	138
Montenegro	42	1	24	17	143
Morocco	17	1	12	4	59
Mozambique	37	7	12	18	129
Namibia	37	3	12	22	129
Nepal	34	4	12	18	120
Netherlands	9	1	1	7	29
New Zealand	8	1	2	5	17
Nicaragua	42	1	24	17	143
Niger	41	3	14	24	138
Nigeria	35	3	14	18	123
Norway	4	1	1	2	4
Oman	14	1	12	1	49
Pakistan	47	5	25	17	155
Palau	19	4	12	3	68
Panama	53	5	16	32	164
Papua New Guinea	33	1	13	19	111
Paraguay	35	5	12	18	123
Peru	9	1	2	6	29
Philippines	47	1	36	10	155
Poland	29	12	1	16	96
Portugal	8	1	1	6	17
Puerto Rico	16	5	6	5	58
Qatar	3	0	1	2	1
Romania	113	4	84	25	182
Russian Federation	9	1	2	6	29
Rwanda	18	5	4	9	63
Samoa	37	5	24	8	129
São Tomé and Principe	42	2	12	28	143

Table 2: Tax payments	Number of payments				Rank
Economy	Total tax payments	Profit tax payments	Labour tax payments	Other taxes payments	Tax payments rank
Saudi Arabia	14	1	12	1	49
Senegal	59	3	36	20	173
Serbia	66	12	12	42	177
Seychelles	21	12	6	3	78
Sierra Leone	29	1	12	16	96
Singapore	5	1	1	3	7
Slovak Republic	31	1	12	18	103
Slovenia	22	1	12	9	83
Solomon Islands	33	5	12	16	111
South Africa	9	2	3	4	29
Spain	8	1	1	6	17
Sri Lanka	71	5	24	42	180
St. Kitts and Nevis	36	4	12	20	127
St. Lucia	32	1	12	19	107
St. Vincent and the Grenadines	36	4	12	20	127
Sudan	42	2	12	28	143
Suriname	17	4	0	13	59
Swaziland	33	2	13	18	111
Sweden	4	1	1	2	4
Switzerland	19	2	7	10	68
Syrian Arab Republic	19	2	12	5	68
Taiwan, China	15	2	3	10	54
Tajikistan	69	11	12	46	178
Tanzania	48	5	24	19	158
Thailand	23	2	13	8	84
Timor-Leste	6	5	0	1	8
Togo	53	5	24	24	164
Tonga	20	1	0	19	75
Trinidad and Tobago	39	4	24	11	135
Tunisia	8	1	4	3	17
Turkey	15	1	1	13	54
Uganda	32	3	12	17	107
Ukraine	135	5	108	22	183
United Arab Emirates	14	0	12	2	49
United Kingdom	8	1	1	6	17
United States	11	2	4	5	40
Uruguay	53	1	24	28	164
Uzbekistan	41	8	12	21	138
Vanuatu	31	0	12	19	103
Venezuela, R.B.	70	14	28	28	179
Vietnam	32	6	12	14	107
West Bank and Gaza	27	14	0	13	92
Yemen, Rep.	44	1	24	19	148
Zambia	37	5	13	19	129
Zimbabwe	49	5	14	30	160

Table 3: Time to comply	Number of hours				Rank
Economy	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	Time rank
Afghanistan	275	77	120	78	121
Albania	371	125	96	150	148
Algeria	451	152	110	189	162
Angola	282	75	125	82	126
Antigua and Barbuda	207	23	136	48	80
Argentina	415	105	70	240	157
Armenia	500	132	205	163	166
Australia	109	37	18	54	23
Austria	170	49	54	67	57
Azerbaijan	225	64	101	60	96
Bahamas, The	58	10	48	0	5
Bahrain	36	0	36	0	3
Bangladesh	302	140	0	162	131
Belarus	654	398	100	156	172
Belgium	156	20	40	96	50
Belize	147	27	60	60	45
Benin	270	30	120	120	113
Bhutan	274	250	24	0	119
Bolivia	1080	120	480	480	182
Bosnia and Herzegovina	422	68	96	258	159
Botswana	152	40	40	72	48
Brazil	2600	736	490	1374	183
Brunei Darussalam	96	66	30	0	20
Bulgaria	500	36	269	195	166
Burkina Faso	270	30	120	120	113
Burundi	274	80	48	146	119
Cambodia	173	23	84	66	60
Cameroon	654	180	174	300	172
Canada	131	45	36	50	37
Cape Verde	186	35	85	66	65
Central African Republic	504	24	240	240	168
Chad	732	300	216	216	178
Chile	316	42	137	137	134
China	398	74	192	132	155
Colombia	193	40	87	66	70
Comoros	100	4	48	48	21
Congo, Democratic Republic of	336	116	124	96	140
Congo, Republic of	606	275	150	181	171
Costa Rica	246	18	100	128	105
Côte d'Ivoire	270	30	120	120	113
Croatia	196	60	96	40	73
Cyprus	149	29	80	40	47
Czech Republic	557	135	262	160	169
Denmark	135	25	70	40	41
Djibouti	82	30	36	16	14
Dominica	120	15	48	57	29

Table 3: Time to comply	Number of hours				Rank
Economy	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	Time rank
Dominican Republic	324	82	80	162	136
Ecuador	654	108	306	240	172
Egypt, Arab Rep.	433	69	189	175	161
El Salvador	320	128	96	96	135
Equatorial Guinea	492	145	160	187	165
Eritrea	216	24	96	96	86
Estonia	85	20	34	31	16
Ethiopia	198	150	24	24	74
Fiji	163	42	61	60	54
Finland	93	21	48	24	19
France	132	26	80	26	38
Gabon	488	137	131	220	164
Gambia, The	376	40	96	240	151
Georgia	387	140	67	180	152
Germany	221	30	148	43	88
Ghana	224	40	88	96	91
Greece	224	88	48	88	91
Grenada	140	8	96	36	42
Guatemala	344	44	144	156	143
Guinea	416	32	192	192	158
Guinea-Bissau	208	160	24	24	82
Guyana	263	48	48	167	110
Haiti	184	40	72	72	64
Honduras	224	35	93	96	91
Hong Kong SAR, China	80	50	30	0	12
Hungary	277	35	146	96	124
Iceland	140	40	60	40	42
India	254	45	96	113	107
Indonesia	266	88	97	81	112
Iran, Islamic Rep.	344	32	240	72	143
Iraq	312	24	288	0	133
Ireland	76	10	36	30	9
Israel	235	110	60	65	101
Italy	285	39	214	32	127
Jamaica	414	30	336	48	156
Japan	330	155	140	35	139
Jordan	116	5	60	51	26
Kazakhstan	188	75	70	43	68
Kenya	393	60	57	276	154
Kiribati	120	48	72	0	29
Korea, Rep.	225	100	80	45	96
Kosovo	164	32	42	90	55
Kuwait	118	48	70	0	27
Kyrgyz Republic	210	60	71	79	83
Lao PDR	362	138	42	182	147
Latvia	290	31	165	94	128

Table 3: Time to comply	Number of hours				Rank
Economy	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	Time rank
Lebanon	180	40	100	40	62
Lesotho	324	70	104	150	136
Liberia	158	57	59	42	52
Lithuania	175	32	85	58	61
Luxembourg	59	21	14	24	6
Macedonia, FYR	119	19	56	44	28
Madagascar	201	9	72	120	77
Malawi	157	67	60	30	51
Malaysia	133	26	77	30	40
Maldives	0	0	0	0	1
Mali	270	30	120	120	113
Marshall Islands	128	0	96	32	34
Mauritania	696	120	96	480	177
Mauritius	161	13	82	66	53
Mexico	347	157	69	121	145
Micronesia, Fed. Sts.	128	0	96	32	34
Moldova	228	80	88	60	98
Mongolia	192	57	63	72	69
Montenegro	372	43	136	193	149
Morocco	238	70	48	120	102
Mozambique	230	50	60	120	99
Namibia	375	41	46	288	150
Nepal	326	120	84	122	138
Netherlands	127	25	64	38	33
New Zealand	172	25	67	80	58
Nicaragua	207	67	76	64	80
Niger	270	30	120	120	113
Nigeria	938	398	378	162	180
Norway	87	24	15	48	17
Oman	62	50	12	0	7
Pakistan	560	40	40	480	170
Palau	128	32	96	0	34
Panama	482	50	180	252	163
Papua New Guinea	194	153	8	33	71
Paraguay	387	35	132	220	152
Peru	309	39	160	110	132
Philippines	195	37	38	120	72
Poland	296	62	124	110	130
Portugal	275	63	116	96	121
Puerto Rico	218	80	60	78	87
Qatar	36	0	36	0	3
Romania	222	42	120	60	89
Russian Federation	290	130	96	64	128
Rwanda	148	22	48	78	46
Samoa	224	48	96	80	91
São Tomé and Principe	424	40	192	192	160

Table 3: Time to comply	Number of hours				Rank
Economy	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	Time rank
Saudi Arabia	79	32	47	0	11
Senegal	666	120	96	450	176
Serbia	279	48	126	105	125
Seychelles	76	40	36	0	9
Sierra Leone	357	15	168	174	146
Singapore	84	34	10	40	15
Slovak Republic	231	42	86	103	100
Slovenia	260	90	96	74	109
Solomon Islands	80	8	30	42	12
South Africa	200	100	50	50	76
Spain	187	33	90	64	66
Sri Lanka	256	16	96	144	108
St. Kitts and Nevis	203	27	128	48	78
St. Lucia	92	11	51	30	18
St. Vincent and the Grenadines	111	14	52	45	25
Sudan	180	70	70	40	62
Suriname	199	48	24	127	75
Swaziland	104	8	48	48	22
Sweden	122	50	36	36	32
Switzerland	63	15	40	8	8
Syrian Arab Republic	336	300	36	0	140
Taiwan, China	245	185	27	33	104
Tajikistan	224	80	48	96	91
Tanzania	172	60	52	60	58
Thailand	264	160	48	56	111
Timor-Leste	276	132	144	0	123
Togo	270	30	120	120	113
Tonga	164	8	12	144	55
Trinidad and Tobago	210	45	75	90	83
Tunisia	144	64	30	50	44
Turkey	223	46	80	97	90
Uganda	213	45	66	102	85
Ukraine	657	112	364	181	175
United Arab Emirates	12	0	12	0	2
United Kingdom	110	35	45	30	24
United States	187	99	55	33	66
Uruguay	336	100	128	108	140
Uzbekistan	205	66	69	70	79
Vanuatu	120	0	24	96	29
Venezuela, R.B.	864	120	360	384	179
Vietnam	941	233	372	336	181
West Bank and Gaza	154	10	96	48	49
Yemen, Rep.	248	56	72	120	106
Zambia	132	48	24	60	38
Zimbabwe	242	78	96	68	103

Table 4: Total Tax Rate	Total Tax Rate				Rank
Economy	Total Tax Rate	Profit tax Total Tax Rate	Labour tax Total Tax Rate	Other taxes Total Tax Rate	Total Tax Rate rank[50]
Afghanistan	36.4%	0.0%	0.0%	36.4%	79
Albania	38.5%	8.7%	25.0%	4.8%	88
Algeria	72.0%	6.6%	29.7%	35.7%	172
Angola	53.2%	24.6%	9.0%	19.6%	148
Antigua and Barbuda	41.5%	26.0%	9.5%	6.0%	103
Argentina	108.2%	2.8%	29.4%	76.0%	180
Armenia	40.9%	16.8%	23.0%	1.1%	100
Australia	47.7%	26.0%	20.4%	1.3%	133
Austria	53.1%	15.0%	34.8%	3.3%	147
Azerbaijan	40.0%	12.9%	24.8%	2.3%	94
Bahamas, The	47.7%	0.0%	6.1%	41.6%	134
Bahrain	15.0%	0.0%	14.6%	0.4%	10
Bangladesh	35.0%	25.7%	0.0%	9.3%	70
Belarus	62.8%	20.2%	39.0%	3.6%	157
Belgium	57.3%	5.2%	50.4%	1.7%	153
Belize	33.2%	0.0%	7.0%	26.0%	59
Benin	66.0%	14.8%	27.3%	23.9%	166
Bhutan	40.8%	36.3%	0.0%	4.5%	98
Bolivia	80.0%	0.0%	15.5%	64.5%	175
Bosnia and Herzegovina	25.0%	7.1%	12.6%	5.3%	28
Botswana	19.4%	15.9%	0.0%	3.5%	18
Brazil	67.1%	22.4%	40.9%	3.8%	168
Brunei Darussalam	16.8%	8.3%	8.5%	0.0%	16
Bulgaria	28.1%	4.9%	19.2%	4.0%	36
Burkina Faso	43.6%	14.8%	22.6%	6.2%	110
Burundi	46.2%	37.4%	7.8%	1.0%	127
Cambodia	22.5%	18.9%	0.1%	3.5%	22
Cameroon	49.1%	29.9%	18.3%	0.9%	136
Canada	28.8%	9.4%	12.6%	6.8%	39
Cape Verde	37.8%	18.6%	18.5%	0.7%	85
Central African Republic	54.6%	0.0%	19.8%	34.8%	150
Chad	65.4%	31.3%	28.4%	5.7%	163
Chile	25.0%	18.0%	3.8%	3.2%	27
China	63.5%	6.0%	49.6%	7.9%	161
Colombia	74.8%	18.9%	28.8%	27.1%	174
Comoros	217.9%	31.4%	0.0%	186.5%	181
Congo, Democratic Republic of	339.7%	58.9%	7.9%	272.9%	183
Congo, Republic of	65.9%	18.1%	32.5%	15.3%	165
Costa Rica	55.0%	18.9%	29.5%	6.6%	151
Côte d'Ivoire	44.3%	8.8%	20.1%	15.4%	118
Croatia	32.3%	11.4%	19.4%	1.5%	54
Cyprus	23.1%	9.1%	11.8%	2.2%	24
Czech Republic	49.1%	7.5%	38.4%	3.2%	137
Denmark	27.5%	20.2%	3.6%	3.7%	33
Djibouti	38.7%	17.7%	17.7%	3.3%	91
Dominica	37.5%	25.9%	7.9%	3.7%	83

[50] The overall ranking is a simple average of the percentile rankings of each of the sub-indicators. This year the rankings differ from those used by the World Bank Group in the *Doing Business 2012* report which applies a threshold to the ranking for the Total Tax Rate.

Table 4: Total Tax Rate	Total Tax Rate				Rank
Economy	Total Tax Rate	Profit tax Total Tax Rate	Labour tax Total Tax Rate	Other taxes Total Tax Rate	Total Tax Rate rank[50]
Dominican Republic	41.7%	21.3%	18.6%	1.8%	105
Ecuador	35.3%	18.4%	14.2%	2.7%	73
Egypt, Arab Rep.	43.6%	13.0%	27.0%	3.6%	111
El Salvador	35.0%	16.5%	17.2%	1.3%	71
Equatorial Guinea	46.0%	0.0%	25.4%	20.6%	125
Eritrea	84.5%	8.8%	0.0%	75.7%	177
Estonia	58.6%	8.0%	39.4%	11.2%	154
Ethiopia	31.1%	26.8%	0.0%	4.3%	45
Fiji	38.3%	27.9%	10.2%	0.2%	87
Finland	39.0%	13.7%	24.1%	1.2%	92
France	65.7%	8.2%	51.7%	5.8%	164
Gabon	43.5%	18.4%	22.8%	2.3%	109
Gambia, The	283.5%	6.1%	12.8%	264.6%	182
Georgia	16.5%	14.3%	0.0%	2.2%	14
Germany	46.7%	19.0%	21.8%	5.9%	130
Ghana	33.6%	18.4%	14.7%	0.5%	61
Greece	46.4%	13.4%	31.7%	1.3%	128
Grenada	45.3%	27.6%	5.6%	12.1%	121
Guatemala	40.9%	25.9%	14.3%	0.7%	101
Guinea	54.3%	20.9%	22.8%	10.6%	149
Guinea-Bissau	45.9%	14.9%	24.8%	6.2%	124
Guyana	36.1%	23.8%	8.8%	3.5%	77
Haiti	40.8%	24.1%	12.4%	4.3%	99
Honduras	44.0%	24.7%	10.7%	8.6%	116
Hong Kong SAR, China	23.0%	17.6%	5.3%	0.1%	23
Hungary	52.4%	14.8%	34.1%	3.5%	143
Iceland	31.8%	9.4%	18.8%	3.6%	51
India	61.8%	24.6%	18.2%	19.0%	156
Indonesia	34.5%	23.6%	10.6%	0.1%	67
Iran, Islamic Rep.	44.1%	17.8%	25.9%	0.4%	117
Iraq	28.4%	14.9%	13.5%	0.0%	38
Ireland	26.3%	11.9%	11.6%	2.8%	31
Israel	31.2%	22.8%	5.3%	3.1%	46
Italy	68.5%	22.8%	43.4%	2.3%	170
Jamaica	45.6%	25.6%	13.0%	7.0%	123
Japan	49.1%	27.0%	16.5%	5.6%	138
Jordan	27.7%	13.0%	12.4%	2.3%	34
Kazakhstan	28.6%	15.9%	11.2%	1.5%	41
Kenya	49.6%	33.1%	6.8%	9.7%	140
Kiribati	31.8%	23.3%	8.5%	0.0%	50
Korea, Rep.	29.7%	15.2%	13.0%	1.5%	42
Kosovo	15.4%	9.2%	5.6%	0.6%	11
Kuwait	15.5%	4.8%	10.7%	0.0%	12
Kyrgyz Republic	69.0%	6.2%	19.5%	43.3%	171
Lao PDR	33.3%	24.8%	5.6%	2.9%	60
Latvia	37.9%	6.0%	27.2%	4.7%	86

[50] The overall ranking is a simple average of the percentile rankings of each of the sub-indicators. This year the rankings differ from those used by the World Bank Group in the *Doing Business 2012* report which applies a threshold to the ranking for the Total Tax Rate.

Table 4: Total Tax Rate		Total Tax Rate			Rank
Economy	Total Tax Rate	Profit tax Total Tax Rate	Labour tax Total Tax Rate	Other taxes Total Tax Rate	Total Tax Rate rank[50]
Lebanon	30.2%	6.1%	24.1%	0.0%	44
Lesotho	16.0%	13.0%	0.0%	3.0%	13
Liberia	43.7%	0.0%	5.4%	38.3%	113
Lithuania	43.9%	5.7%	35.1%	3.1%	115
Luxembourg	20.8%	4.1%	15.1%	1.6%	19
Macedonia, FYR	9.7%	6.3%	0.0%	3.4%	4
Madagascar	36.6%	14.7%	20.3%	1.6%	80
Malawi	28.2%	23.6%	1.1%	3.5%	37
Malaysia	34.0%	17.0%	15.6%	1.4%	62
Maldives	9.3%	0.0%	0.0%	9.3%	3
Mali	51.8%	10.8%	34.3%	6.7%	142
Marshall Islands	64.9%	0.0%	11.8%	53.1%	162
Mauritania	68.3%	0.0%	17.6%	50.7%	169
Mauritius	25.0%	11.6%	6.1%	7.3%	26
Mexico	52.7%	24.5%	26.8%	1.4%	144
Micronesia, Fed. Sts.	58.7%	0.0%	6.8%	51.9%	155
Moldova	31.3%	0.0%	30.6%	0.7%	47
Mongolia	24.6%	10.2%	12.4%	2.0%	25
Montenegro	22.3%	7.1%	12.8%	2.4%	21
Morocco	49.6%	25.2%	22.7%	1.7%	141
Mozambique	34.3%	27.7%	4.5%	2.1%	64
Namibia	9.8%	4.0%	1.0%	4.8%	5
Nepal	31.5%	17.2%	11.3%	3.0%	49
Netherlands	40.5%	20.9%	18.1%	1.5%	96
New Zealand	34.4%	29.9%	2.9%	1.6%	65
Nicaragua	66.8%	24.5%	20.3%	22.0%	167
Niger	43.8%	17.3%	20.1%	6.4%	114
Nigeria	32.7%	22.3%	9.7%	0.7%	56
Norway	41.6%	24.4%	15.9%	1.3%	104
Oman	22.0%	10.1%	11.8%	0.1%	20
Pakistan	35.3%	17.9%	15.1%	2.3%	72
Palau	73.0%	66.0%	6.5%	0.5%	173
Panama	45.2%	13.7%	21.7%	9.8%	120
Papua New Guinea	42.3%	22.0%	11.7%	8.6%	107
Paraguay	35.0%	9.6%	18.6%	6.8%	69
Peru	40.7%	26.6%	11.0%	3.1%	97
Philippines	46.5%	21.0%	11.3%	14.2%	129
Poland	43.6%	17.4%	23.6%	2.6%	112
Portugal	43.3%	15.0%	26.8%	1.5%	108
Puerto Rico	63.1%	28.3%	14.4%	20.4%	159
Qatar	11.3%	0.0%	11.3%	0.0%	6
Romania	44.4%	10.4%	31.8%	2.2%	119
Russian Federation	46.9%	9.0%	32.1%	5.8%	132
Rwanda	31.3%	21.2%	5.7%	4.4%	48
Samoa	18.9%	11.9%	7.0%	0.0%	17
São Tomé and Principe	32.5%	22.1%	6.8%	3.6%	55

[50] The overall ranking is a simple average of the percentile rankings of each of the sub-indicators. This year the rankings differ from those used by the World Bank Group in the *Doing Business 2012* report which applies a threshold to the ranking for the Total Tax Rate.

Table 4: Total Tax Rate	Total Tax Rate				Rank
Economy	Total Tax Rate	Profit tax Total Tax Rate	Labour tax Total Tax Rate	Other taxes Total Tax Rate	Total Tax Rate rank[50]
Saudi Arabia	14.5%	2.1%	12.4%	0.0%	9
Senegal	46.0%	14.8%	24.1%	7.1%	126
Serbia	34.0%	11.6%	20.2%	2.2%	63
Seychelles	32.2%	19.8%	11.5%	0.7%	53
Sierra Leone	32.1%	17.6%	11.3%	3.2%	52
Singapore	27.1%	6.5%	15.9%	4.7%	32
Slovak Republic	48.8%	7.2%	39.6%	2.0%	135
Slovenia	34.7%	14.1%	18.2%	2.4%	68
Solomon Islands	26.2%	14.6%	8.5%	3.1%	30
South Africa	33.1%	24.4%	4.1%	4.6%	58
Spain	38.7%	1.2%	36.8%	0.7%	90
Sri Lanka	105.2%	26.7%	16.9%	61.6%	179
St. Kitts and Nevis	52.7%	32.7%	11.3%	8.7%	145
St. Lucia	34.4%	25.9%	5.6%	2.9%	66
St. Vincent and the Grenadines	38.7%	30.2%	5.1%	3.4%	89
Sudan	36.1%	13.8%	19.2%	3.1%	78
Suriname	27.9%	27.9%	0.0%	0.0%	35
Swaziland	36.8%	28.1%	4.0%	4.7%	81
Sweden	52.8%	15.7%	35.5%	1.6%	146
Switzerland	30.1%	8.9%	17.6%	3.6%	43
Syrian Arab Republic	39.7%	19.9%	19.3%	0.5%	93
Taiwan, China	35.6%	13.7%	18.4%	3.5%	75
Tajikistan	84.5%	0.0%	28.5%	56.0%	176
Tanzania	45.5%	20.2%	18.0%	7.3%	122
Thailand	37.5%	28.8%	5.7%	3.0%	84
Timor-Leste	0.2%	0.0%	0.0%	0.2%	1
Togo	49.5%	9.3%	26.5%	13.7%	139
Tonga	25.7%	24.3%	0.0%	1.4%	29
Trinidad and Tobago	29.1%	21.6%	5.8%	1.7%	40
Tunisia	62.9%	15.2%	25.2%	22.5%	158
Turkey	41.1%	17.9%	18.8%	4.4%	102
Uganda	35.7%	23.3%	11.3%	1.1%	76
Ukraine	57.1%	12.2%	43.3%	1.6%	152
United Arab Emirates	14.1%	0.0%	14.1%	0.0%	7
United Kingdom	37.3%	23.1%	11.0%	3.2%	82
United States	46.7%	27.6%	10.0%	9.1%	131
Uruguay	42.0%	23.5%	15.6%	2.9%	106
Uzbekistan	97.5%	1.1%	28.2%	68.2%	178
Vanuatu	8.4%	0.0%	4.5%	3.9%	2
Venezuela, R.B.	63.5%	6.9%	18.0%	38.6%	160
Vietnam	40.1%	17.2%	22.6%	0.3%	95
West Bank and Gaza	16.8%	16.2%	0.0%	0.6%	15
Yemen, Rep.	32.9%	20.1%	11.3%	1.5%	57
Zambia	14.5%	1.5%	10.4%	2.6%	8
Zimbabwe	35.6%	20.4%	5.1%	10.1%	74

[50] The overall ranking is a simple average of the percentile rankings of each of the sub-indicators. This year the rankings differ from those used by the World Bank Group in the *Doing Business 2012* report which applies a threshold to the ranking for the Total Tax Rate.

The Total Tax Rate included in the survey by the World Bank Group has been calculated using the broad principles of the PwC methodology. The application of these principles by the World Bank Group has not been verified, validated or audited by PwC, and therefore, PwC cannot make any representations or warranties with regard to the accuracy of the information generated by the World Bank Group's models. In addition, the World Bank Group has not verified, validated or audited any information collected by PwC beyond the scope of *Doing Business* Paying Taxes data, and therefore, the World Bank Group cannot make any representations or warranties with regard to the accuracy of the information generated by PwC's own research.

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