



Objectives and key themes and findings from the *Doing Business* Paying Taxes study

This is the fifth year that the Paying Taxes indicator has been included in the World Bank Group's *Doing Business* project. The indicator measures the ease of paying taxes for a small to medium sized domestic company, in 183 economies around the world – two more than in last year's publication.

The Paying Taxes indicator is unique in that it measures the world's tax systems from the point of view of a domestic business, complying with the different tax laws and regulations in each economy.

The objectives of the indicator are:

- to provide data which can be compared between economies;
- 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.

The indicator 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 are measured using three sub-indicators:

- the Total Tax Rate (TTR), (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.

The results for each sub-indicator, split by type of tax, and the full set of rankings are included in Appendix 1. Further details are also available on the World Bank Group's *Doing Business* project (*Doing Business*) and PricewaterhouseCoopers websites. The full methodology for the case study company and the indicators is explained in Appendix 2.

Chapter 1 of this study sets out the latest findings and analysis on the Paying Taxes indicator from the World Bank Group's *Doing Business* report. This includes a discussion of reforms around the world, and of options for 'moving towards smart regulation'.

Chapter 2 provides a further analysis by PricewaterhouseCoopers of the sub-indicators, which includes a focus on various geographical and economic groupings. This is followed by initial findings from additional questions on tax systems and tax administration. These questions are not incorporated in the Paying Taxes results, but have been developed in response to feedback on the study, and to provide additional insights on tax systems.

The report also includes a number of commentaries from PricewaterhouseCoopers 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.

The World Bank Group engages in consultations on the *Doing Business* indicators with a broad range of stakeholders. This year's report benefitted from their input. Consultations are presently ongoing on the design of the Paying Taxes indicator. The Paying Taxes team continually welcomes input into the study in order to ensure the relevance of the data collected, and to further enhance its usefulness for both business and government.

Some of the key themes and findings from Paying Taxes 2010 include:

- Corporate income tax is only one of many taxes with which business has to comply. When considering the burden of taxes on business, it is important to look at all the taxes that companies pay. In a recession, company profits, and therefore corporate income tax payments, may fall, but the cost of taxes for business may still increase where other taxes paid are not linked to profitability.
- With the current economic downturn, the challenge for governments is how to safeguard the public revenues needed for provision of public services and social safety nets, while at the same time, encouraging investment, growth and job creation.
- Economies with low Total Tax Rates are not necessarily a model for other economies. Business understands the need to pay taxes, and that levying taxes is not an easy task for government. Government has a responsibility to use taxes to fulfil economic and social objectives, and improve infrastructure and the quality of life for citizens which in turn, benefits business.
- In the past five years, the *Doing Business* report has recorded 171 reforms affecting the Paying Taxes indicator in 104 economies around the world. Over the past year, governments have stayed on course with reform programmes. 45 economies have reduced the tax burden on small to medium sized businesses, or made it easier to pay taxes, with reforms made in the year to 1 June 2009 – this is 25% more than in the previous year. 20 economies reduced profit tax rates, the most popular reform, closely followed by 18 economies which focused on making the filing and payment of taxes easier.
- Timor-Leste and Mexico made the most substantial reforms on the Paying Taxes indicator in this year's *Doing Business* report, while Eastern Europe and Central Asia is the region with the largest number of reforms for the third year in a row.
- In many cases, tax compliance imposes a heavy burden on business in terms of cost and time, and so has the potential to be a disincentive to investment and encourage informality. The Paying Taxes study shows that tax reform has continued to remain high on governments' agendas, generally with the aim of reducing the regulatory burden of tax compliance on business.
- Having one tax per base (for example on profits, labour, consumption, and property), can ease the tax compliance burden for companies. The time needed to comply can increase where there are multiple taxes. Filing and payment of labour taxes and consumption taxes add considerably to the time to comply. The requirement to keep separate books for tax, other than those required for accounting purposes, can also add to the time taken to comply.
- Many reforms are aimed at simplifying the tax law and making it easier for firms to comply with regulations. The ability to pay and file electronically has a significant positive impact on the 'number of payments' indicator. Electronic filing is shown to be well-established in developed economies and it is increasingly being implemented in developing economies. This requires the buy-in and trust of taxpayers with regards to the tax payment system, as well as the availability of technology.
- Respondents to the supplementary questions, included in this year's survey, identified the way in which tax audits are dealt with and the approach of the tax authorities in dealing with businesses as the elements of the tax system in most need of improvement.