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International Finance Corporation
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Press Release

Date: **23 January 2009**

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Paying Taxes 2009: New Report Finds that 21st Century Economies Can Benefit from Simpler Business Tax Systems

A new report, launched on 10 November 2008 by the World Bank, IFC and PricewaterhouseCoopers, shows that tax authorities worldwide are overhauling tax systems by reducing taxes, streamlining administrative processes and modernising payment systems. *Paying Taxes 2009*, the third report in an annual series, is expected to prompt further dialogue between governments and businesses on improving tax systems.

The report draws on the *Doing Business 2009* report that measures the ease of paying taxes for mid-size domestic companies in 181 economies, analyses tax systems and tracks related reform efforts. These include the corporate income tax, social contributions and labor taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes and vehicle and road taxes. The report includes examples of how 18 economies have made use of data from the previous global *Doing Business* reports and provides insight into discussions with governments and other stakeholders generated by earlier *Paying Taxes* reports.

The *Doing Business* project uses a case study company and ranks tax systems using three indicators. The first indicator is the total tax rate - the methodology to calculate this figure uses the broad principles from the PricewaterhouseCoopers Total Tax Contribution framework and looks across all taxes that businesses pay. The total tax rate indicator measures the amount of all taxes borne by the business, expressed as a percentage of commercial profits. The other indicators are the time it takes to comply with the major types of taxes and the number of tax payments. The case study company is a domestic mid-size manufacturer and retailer, which is chosen deliberately to ensure that its business can be identified with worldwide. A standard fact pattern is given so that the tax indicators generated can be compared across many diverse economies without being significantly distorted by industry-specific incentives and relief. It is a simple domestic business to ensure that the focus of the results is purely on the local tax system.

Paying Taxes 2009 finds that in 2007/08:

- Thirty-six economies made it easier to pay taxes. This year's top reformer is the Dominican Republic. In 2007/08, it lowered the corporate income tax from 30 percent to 25 percent, eliminated several taxes (including stamp duty), reduced the property transfer tax, and implemented an online filing and payment system. Malaysia is the runner-up. Table below shows total rankings of where it is easy to pay taxes and where it is not.

Where is it easy to pay taxes – and where is it not?

Easiest	Rank	Most difficult	Rank
Maldives	1	Panama	172
Qatar	2	Jamaica	173
Hong Kong, China	3	Mauritania	174
United Arab Emirates	4	Gambia, The	175
Singapore	5	Bolivia	176
Ireland	6	Venezuela	177
Saudi Arabia	7	Central African Republic	178
Oman	8	Congo, Rep.	179
Kuwait	9	Ukraine	180
Kiribati	10	Belarus	181

Note: Rankings are the average of the economy rankings on the number of payments, time and total tax rate. See Data notes for details.

Source: *Doing Business* database

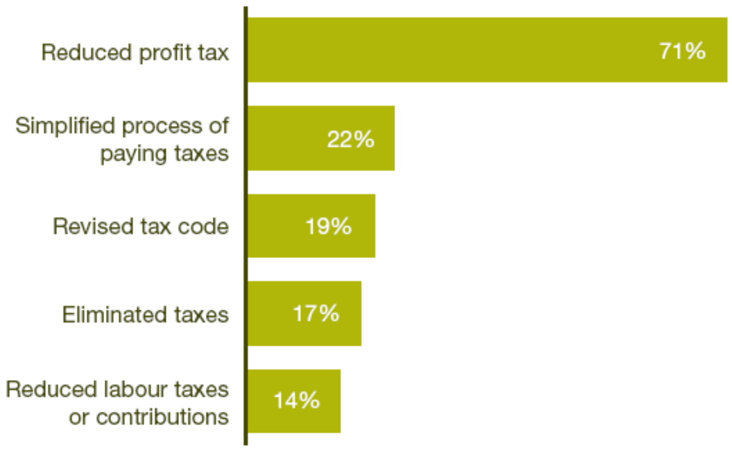
Susan Symons, PricewaterhouseCoopers LLP partner, said, "Corporate income tax reform has had a positive impact for government and business in a number of economies, yet these benefits could be multiplied if tax reform is looked at in its entirety. Tax reform should include all business taxes - not just corporate income tax. It should include all administrative aspects and the relationships between government and business generally. These are all fundamental to effective tax systems."

Rita Ramalho, World Bank-IFC economist, said, "Countries are easing the complexity of their tax system and reducing the cost burden for businesses. Since 2004, average total tax rates have been reduced by 3 percent and time to comply with taxes decreased by 5 percent. This reform effort can broaden the tax base and increase tax revenues."

- The most popular reforms were reducing corporate income tax rates (in 21 economies) and improving electronic filing and payments systems efficiency (in 12 economies).

Top 5 reform features in paying taxes

Reforms including feature since DB2006 (%)



Note: A reform may include several reform features
Source: *Doing Business* database

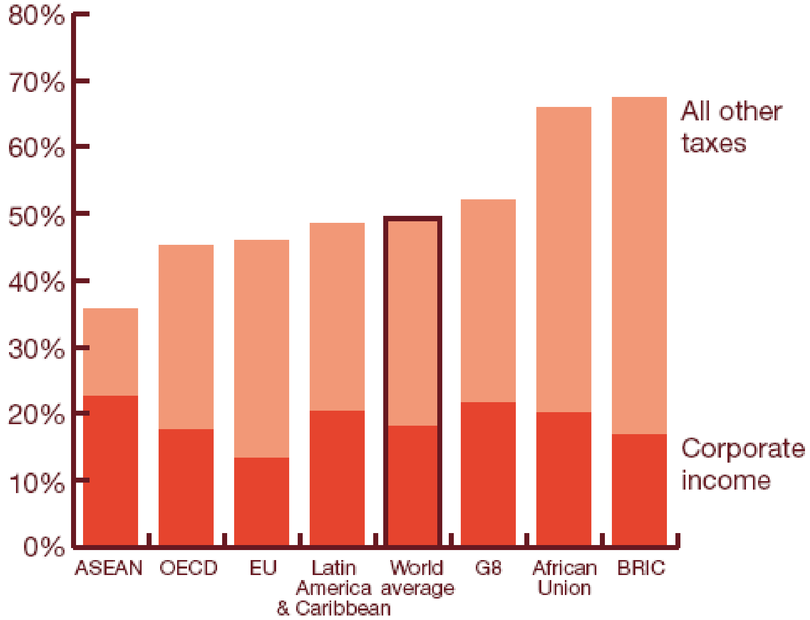
Reducing tax rates – the most common reform feature in 2007/08

Reduced profit tax rates	Albania, Antigua and Barbuda, Bosnia and Herzegovina, Burkina Faso, Canada, China, Côte D'Ivoire, Czech Republic, Denmark, Dominican Republic, Georgia, Germany, Italy, former Yugoslav Republic of Macedonia, Madagascar, Malyasia, Morocco, New Zealand, Samoa, St. Vincent and the Grenadines, Thailand
Simplified process of paying taxes	Azerbaijan, Belarus, China, Colombia, Dominican Republic, France, Greece, Honduras, Malaysia, Mozambique, Tunisia, Ukraine
Eliminated taxes	Belarus, Dominican Republic, Georgia, Madagascar, Malaysia, Mexico, South Africa, Uruguay
Revised tax code	Bosnia and Herzegovina, Bulgaria, Morocco, Mozambique, Zambia
Reduced labour tax or contribution rates	France, Mongolia, Ukraine

Source: *Doing Business* database

- The overall ranking for the G8 countries is: the United Kingdom (16), Canada (28), the United States (46), France (66), Germany (80), Japan (112), Italy (128) and Russia (134).
- Within regions there are also wide variations. The average number of all business taxes for the case study company varies by region – ranging from just over eight, on average, in the Association of South East Asian Nations (ASEAN) economies to 12 in the fast growing developing economies (Brazil, Russia, India and China - BRIC).

Comparison of Total Tax Rates by region

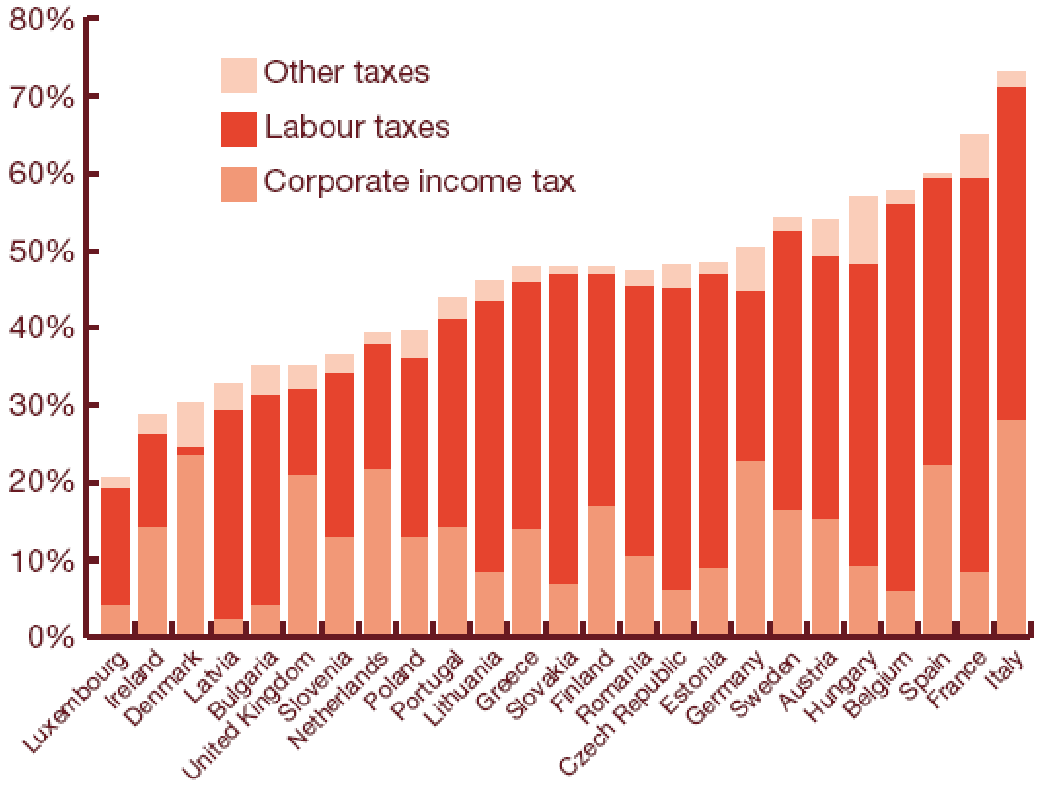


Note: The chart shows the average result for the economies in each region
Source: *Doing Business* database

In the EU for instance, the number of taxes range from five in Sweden to 16 in Austria. Four European Union countries are in the top 20 for ease of paying taxes: Ireland (6), Denmark (13), Luxembourg (14) and the United Kingdom (16). Meanwhile, Italy (128), Poland (142) and Romania (146) have the more complex systems in the EU. The overall rankings for the EU on ease of paying taxes are, in order, Ireland, Denmark, Luxembourg, UK, The Netherlands, Estonia, Latvia, Sweden, Lithuania, Greece, Belgium, France, Portugal, Slovenia, Germany, Spain, Austria, Bulgaria, Finland, Hungary, Czech Republic, Slovakia, Italy, Poland and Romania.

- Eight economies reduced the number of taxes paid by business.
- On average, corporate income tax accounts for only 13 percent of tax payments, 26 percent of compliance time, and 37 percent of the total tax rate (tax cost to the case study company).
- On average, 36 percent of the overall time to comply with tax systems and 48 percent of the number of tax payments are spent on consumption taxes.
- Employment taxes account for 34 percent of the total tax rate, taking into account only amounts borne by the employer. Employment taxes are particularly prevalent in the European Union and account for 65 percent of the total tax rate for the case study company in the region.

EU comparison of Total Tax Rates



Source: *Doing Business* database

- **Going Electronic**

Introducing electronic filing has been a popular and effective way to make it easier to pay taxes. Businesses can enter financial information online and file it with one click – with no calculations and no interaction with tax officials. Errors can be identified instantly, and returns processed quickly. These reforms can ease the administrative burden of paying taxes. But it can take time for them to make a real difference. In Argentina and Tunisia it took almost three years before smaller firms felt the impact. The reason is that small firms often lack the software needed for electronic filing and payments. Moreover, taxpayers often distrust online systems when it comes to dealing with sensitive financial information.

What makes a good tax system? PricewaterhouseCoopers' suggested hallmarks of a good tax system.

To have a clear purpose

1. The tax system is designed to raise specified amounts of revenue to fund public expenditure.
2. It aims to balance a country's budget, probably over a period.
3. It considers social objectives such as issues of redistribution.
4. It has regard to the ability to pay tax – is progressive.

To be strategic

5. The tax system is stable and consistent, to ensure that long term investment decisions can be taken, confident in the knowledge that the tax rules will not change significantly the commercial validity of those decisions.
6. It aims to take a fair proportion of the value of the country's natural resources in tax revenues, whilst allowing those operating in such areas the opportunity to achieve a fair reward for their efforts.
7. It helps, rather than hinders, business and trade. If the country wishes to trade internationally, the tax system must be competitive and have regard to how systems in other economies operate.
8. It is flexible and responsive to economic and social change within a country. To have the potential not just to raise revenues, but also to encourage changes in behaviour which society is agreed upon.

To be coherent and efficient

9. The tax system has mechanisms in place to allow for proper prior consultation with relevant stakeholders, helping to assist and inform policy makers and those responsible for drafting legislation. Consultation may help implement legislation which achieves stated objectives.
10. It is understandable, clear, and easily accessible.
11. It ensures the interaction between taxes is fully considered and operates sensibly. This consideration should extend to multinational interactions if the country has international links of importance.
12. It minimises the administrative burden on both taxpayers (particularly business) and government for the preparation, filing, and payment of taxes. Online filing and the consolidation of the number of taxes may assist.

Fair and transparent application of legislation

13. The tax rules should be in legislation that is accessible to users, rather than being dependent on the practice of the tax authorities.
14. The tax system should be enforced in a consistent manner by the tax authorities.
15. There should be a clear and accessible route for taking and resolving a dispute between taxpayers and the tax authorities, and one that operates to a sensible timescale.
16. Domestic tax legislation should be consistent with wider law both international and non tax.

A positive tone and stance by tax authorities which promotes cooperation

17. There needs to be recognition that tax authorities should support and help taxpayers as well as police them.
18. Tax authorities and business should promote a constructive dialogue and move away from adversarial relationships.
19. There needs to be recognition of the role of tax advisers as an important part of the smooth running of the tax system.
20. The system operates on a basis of mutual trust and respect: taxpayers are assumed to be honest unless or until proved otherwise and respond by being open and transparent in their dealings with the tax authorities.

Slovakia Local Commentary
Clare Moger and Radmila Benkova – PricewaterhouseCoopers Tax k.s.

The study brings to the attention of the Slovak government areas in which Slovakia's tax system is either more, or less, favourable and efficient than other countries.
Slovakia has undergone a significant tax reform, which came into effect in 2004. Among other things, this introduced the flat rate of 19 percent for corporate income tax, personal income tax and VAT, reducing the tax burden on businesses and individuals, and helping to simplify the calculation of taxes. However, many other countries have introduced tax reforms since 2004, which has left Slovakia lagging behind in relation to the administrative burden imposed on taxpayers. The study also shows that labor taxes (social security) are relatively high in Slovakia compared to other countries.
In March 2008, the Slovak Ministry of Finance published a concept for tax and customs reform, which aims to unify the collection of taxes, customs duty and social security contributions ("the Concept by 2014"). One reason for the Concept is that it takes taxpayers a great deal of time to deal with taxes, social security and health insurance payments. There are a large number of payments that business entities operating in Slovakia need to make to different institutions, and many of these payments have different deadlines. In addition, the Concept seeks to simplify the method of filing tax returns, and reduce the need for representatives of businesses to visit the tax office to deal with administrative issues. These changes should reduce the administrative burden on taxpayers, and provide increased efficiency for the state.
The Ministry of Finance hopes the Concept will lead to the establishment of an effective, taxpayer oriented tax and customs system, which will be competitive within the European Union. It should lead to cost savings for the state budget, a reduction in tax and customs duty evasion, a reduction in the administrative burden, and an increase in productivity.
At this early stage, it is difficult to estimate whether the actual results will meet the Ministry of Finance's expectations. We hope they do, and, should the reform be successful, it is likely that this will have a significant impact on Slovakia, improving its place in the rankings within Paying Taxes.

Slovakia Paying Taxes 2009 rankings out of 181 countries in the survey

	Paying Taxes							
Economy	Payments (number)	Payments rank	Time (hours)	time rank	Total tax rate (% profit)	TTR rank	Ease of paying taxes (percentile)	Ease of Taxes RANK
Slovakia	31	94	325	129	47,4%	115	0,620000	126

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For information about *Paying Taxes*, visit www.doingbusiness.org/taxes. For information about IFC, the World Bank or PricewaterhouseCoopers, visit www.ifc.org, www.worldbank.org, or www.pwc.com.

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About the *Doing Business* Project
Doing Business 2009 rankings are based on 10 indicators of business regulation that track the time and cost to meet government requirements in business start-up, operation, trade, taxation, and closure. The rankings do not reflect such areas as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates. For more information, visit www.doingbusiness.org.