Release of Paying Taxes 2015 comes at pivotal time for tax policy

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In brief

The release of *Paying Taxes 2015*, a joint study by PwC and the World Bank Group, comes at a pivotal time for tax policy. *Paying Taxes* focuses mainly on the cost of taxes and the compliance burden for business allowing an effective comparison of tax regimes around the world. It also covers additional aspects of tax systems including legislation, technology, post-filing processes, and perceptions around tax policy. Views from PwC contributors provide some useful additional insights into various aspects of tax administration and some wider perspectives on tax systems around the world.

In detail

Paying Taxes measures the ease of paying taxes across 189 economies worldwide by assessing the time required to prepare, file, and pay taxes, the number of taxes paid, the method of those payments, and total tax liability as a percentage of commercial profits. The report covers all taxes paid by companies, including corporate income taxes, employment taxes, indirect taxes, and a variety of smaller payments, such as municipal taxes. US companies studied averaged a total tax rate of 43.8% of commercial profits, compared with an Organisation for Economic Co-operation and Development (OECD) average of 41.8% and a world average of 40.9%.

Trends impacting tax policy

Globalization, technological change, and shifting demographic patterns are just some of the trends that have a significant impact on tax policy and systems around the world. In the international arena, the OECD recently put forth proposals to modernize international tax rules for today's globalized businesses and to address concerns over base erosion and profit shifting. These proposals are already changing the way some tax authorities apply existing rules, leading to new and increased uncertainty for global businesses.

Alongside these considerations, governments are working to ensure that there are sufficient revenues to fund social programs, sustain improvements in productivity, and incentivize investment and economic growth. With respect to government policy, PwC contributors in 82% of the economies surveyed believe that one of the key aims for their governments is increasing revenue while 60% think that another goal is implementing a system with the specific aim of actively promoting inbound investment.

Using tax policy to reduce compliance burden

Reducing the compliance burden to make tax collection more efficient benefits both government and business. How tax policy is administered is critical to ensuring that tax laws are properly implemented and to allow taxpayers to meet their obligations more easily. Enabling businesses to spend less time on tax compliance and more time on building business and contributing to economic growth is clearly an objective for governments.

Over the 10 years of the study, 78% of the economies studied have made significant changes to their tax systems. While reforms initially focused on reducing tax rates, more recently the majority of changes have been focused on easing the compliance burden. Continuing a trend seen every year of the study, the average time it takes to meet tax obligations dropped last year, as did the total amount of taxes paid and the number of tax payments made. However, there is still much room for new or further actions to streamline and simplify tax systems, to reduce economic distortions, and reduce the burden imposed on business.

Using tax policy to encourage investment

Governments increasingly recognize that tax is an important dimension of an economy's competitiveness with an ability to help encourage domestic as well as inward investment. In addition to the tax rate, the way in which the tax system collects and administers its taxes has an impact on businesses in terms of the time and costs required to comply.

Those economies where contributors agreed or strongly agreed that tax policy was being used to attract investment had an average compliance burden lower than for those economies where encouraging investment was not thought to be an important factor in tax policy. Similarly, the average total tax rate was 37% for economies seeking to attract investment compared to 43% in those where encouraging investment is not thought to be a key aim of tax policy.

Growing gap between United States and other countries

With respect to the corporate income tax, *Paying Taxes* shows a growing gap between the United States and the G8, G20, and OECD member countries. According to the report, the average tax rate on profits in the US is 28.2%, approximately 50% higher than the G20 average of 17.2%, the OECD average of 16.5%, and the world average of 16.3%. This places the United States in the 91st percentile in the world and 94th percentile in the OECD (i.e., a tax rate in the highest 10% in each group).

In addition, unlike the vast majority of companies based in other countries, US companies operating globally are subject to US tax on their worldwide income. Since the last US tax reform, the number of OECD countries with dividend exemption systems has grown, leaving only six of the 34 OECD countries with worldwide tax systems. Further, all G7 countries except the United States follow territorial tax systems.

The takeaway

Paying Taxes demonstrates how successful efforts by taxing authorities around the world are making it easier and less costly for companies to pay taxes. Yet, there is still significant opportunity for many countries to further streamline and simplify their tax systems. Policymakers need to find the right balance between raising revenue and ensuring that tax rates and the compliance burden do not deter participation or discourage business activity.

Let's talk

For more information, please go to http://www.pwc.com/payingtaxes or contact:

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