

Paying Taxes

The compliance burden

Understanding the impact of different government tax administration practices on the tax compliance burden for business.



Governments recognise that efficient and cost-effective tax administration is important and helps to create an environment which can foster economic growth.

Foreword

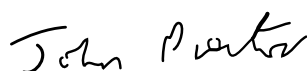
Governments' current focus is on repairing public finances and encouraging growth in their economies. A vibrant private sector is essential to help governments foster economic activity that generates growth. Businesses that invest, create jobs, and which improve productivity will in turn generate the taxes that are needed to help fund economic and social development. This is particularly relevant for developing countries, where a decline in the flow of aid following the global economic crisis has highlighted the need to secure other sources of revenue. Business has a key role to play in both paying its taxes, and collecting taxes from others on behalf of government.

It's clear that tax systems and the processes for tax compliance need to be easy, efficient and well understood. International organisations such as the OECD's Forum on Tax Administration (FTA) and the African Tax Administration Forum (ATAF) have been created with the specific aim of promoting dialogue between tax administrations and identifying good administrative practice. Governments recognise that efficient and cost-effective tax administration is important and helps to create an environment which can foster economic growth.

Over recent years, separate pieces of research carried out by PwC, the World Economic Forum, and the World Bank have consistently shown that one of the areas where business would most like to see improvement is taxation – not only the rate of taxation, but also the administration of the tax system. And it's not just large businesses that are looking for improvement in these areas. Entrepreneurial companies and family businesses also want simpler tax regimes which are stable enough to help encourage long-term business decisions to be made with confidence.

So there's a common agenda here for business and government – and a potential win for both. A win for business if the cost of administering the tax system can be reduced and kept to a minimum, and a win for government if the efficiency of its tax authority can be improved and compliance made easier to help business to grow and pay its taxes.

The challenge, therefore, is to identify and implement good tax reform. This report presents the results of some unique research which shows that different approaches used by governments can play a key role in lowering or raising the tax compliance burden. The report is part of an ongoing research programme and we welcome your feedback on the results presented here. Suggestions for other priority areas for research are also welcomed as we develop our focus for future studies.



John Preston (PwC UK)
Global Leader, External Relations,
Regulation and Policy for Tax

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Purpose of the study

This study looks at how different tax administration practice around the world can impact the tax compliance burden for business. The results show that different approaches used by governments can play a key role in lowering or raising the tax compliance burden.

Our report uses data from ‘Paying Taxes’, an annual study carried out by the World Bank, the International Finance Corporation (IFC) and PwC¹. Paying Taxes looks at the impact of tax systems in each of 183 economies around the world using a case study company. In doing so, it allows an effective comparison of these tax regimes. Tax experts from a number of different firms in each economy (including PwC) complete a questionnaire which includes a series of questions around the tax administration system and how it’s implemented in that economy.

During the six years in which the study has been carried out, tax reform has been high on government’s agenda with 60% of the 183 economies making significant changes to their tax regimes. The most popular reform has been reducing the rates of tax paid in order to foster business investment and entrepreneurship, and to encourage business in the informal economy to register and pay tax. Reforms to ease the compliance burden and make it easier to pay taxes have also been made. But there’s room here for greater focus and attention in the future.

Lightening the compliance burden to make tax collection more efficient brings benefits for both government and business. Levying taxes is not an easy task for governments, who must ensure that tax policy helps to fulfil both economic and social objectives. For example, increasing economic prosperity and stability, providing high value government services, and ensuring adequate support for the poorer parts of society. Developing good tax policy is very important. But how the policy is administered is also critical to ensure that tax laws are properly implemented, and to allow taxpayers to easily meet their obligations. By enabling businesses to spend less time on tax compliance, more time can be devoted to building the business and contributing to economic growth.

There is no single model for the best tax system. Figure 1 sets out, for the purposes of discussion, some of the elements which we see as hallmarks of a good tax system. They include aspects of tax administration which are explored in these findings, such as the clarity and simplicity of tax rules, the approach of the tax authorities, and transparency of tax administration. In addition to our findings, we also include expert commentary from tax leaders around the world, from both the public and private sector, to share their experience of best practices in tax administration. Their views highlight the importance of other aspects, including stability of tax rules and consistent interpretation by tax authorities.

We hope these study results provide useful insights for governments as well as helping to identify best practices and possible areas for reform to make paying taxes easier and minimise the regulatory burden on business.

Figure 1
What makes a good tax system? Some possible hallmarks

Clear purpose	Strategic	Coherent and efficient	Fair and transparent
<ul style="list-style-type: none"> • Raises revenue to fund public expenditure • Balances the budget (over a period of time) • Meets social objectives • Improves human development 	<ul style="list-style-type: none"> • Stable and consistent, enabling long-term business investment • A fair value for natural resources • Encourages international trade • Encourages change in behaviour which society is agreed upon 	<ul style="list-style-type: none"> • Minimises the administrative burden • Clear and understandable rules • Consistent with wider (non tax) law and international principles • Consultation on policy and administration 	<ul style="list-style-type: none"> • Based on law rather than the practice of tax authorities • Consistently enforced • Independent and effective route for resolving disputes with the tax authority • Mutual trust and respect between taxpayers and the tax authority

Source: *Paying Taxes 2010*, PwC discussion of the possible hallmarks of a good tax system, page 23

¹PwC’ refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network.

*“There are many things that matter for
successful economic development”*





Transparent and ‘easy-to-pay’ tax systems increase voluntary compliance

“There are many things that matter for successful economic development, and I think that the quality of the rules that underpin the environment in which the private sector operates is key. Governments have a degree of freedom over these rules and regulations in a way that they often don’t over many other things that affect the environment in which they formulate their policies.

The World Bank, for a number of years, has been doing enterprise surveys in more than a hundred countries. One of the insights that comes out of this work is that the business community – entrepreneurs everywhere in the world – cares deeply about the tax system. Both, issues of compliance – the rules that have to be obeyed to comply with regulations and the tax law – on the one hand, and the level of tax rates as well, because these matter for resource allocation.

There is little question that transparent and ‘easy-to-pay’ tax systems increase voluntary compliance. Governments that are transparent about how they use their resources generally don’t have difficulties collecting taxes.

If the resources collected are going to investment and infrastructure, education, and public health, you will find, in general, that the business community and civil society are quite willing to pay their taxes. At the other end, of course, if the resources are misused, if they are stolen as happens in many countries, then much of the economy will go underground and you will have problems of tax evasion. Governments will have problems with revenue collection. Governments obviously need to get the balance right between the benefits of tax collection for spending in a number of areas, on the one hand, and the disincentive effects associated with high taxation on the other.

Our own sense is that governments are increasingly understanding this, and this is the reason why, for instance, last year more than 40 governments among the 183 economies covered by the Doing Business report, have actually implemented reforms in the area of paying taxes.”

Augusto Lopez-Claros

Director, Global Indicators and Analysis, Financial & Private Sector Development, The World Bank & International Finance Corporation

Key findings

Complicated or ambiguous tax rules increase the compliance burden for business

The compliance time for business increases by an average of 39% in economies where the tax rules are considered to be complicated, or very complicated.

Complexity increases where different levels of government can levy taxes

Decentralised tax systems, where taxes can also be levied at the regional or local level, increase the complexity and the compliance burden for business. The average time to comply increases by 27% with two levels of government, and by 48% with three levels.

Stable tax rules can help reduce the complexity

Tax is a complicated area and tax rules will always involve some degree of complexity. Our experts' view is that tax rules which are stable over time, with the minimum of change, can help reduce the complexity particularly for small business.

Where tax rules are complicated, the approach of the tax authorities in issuing helpful guidance notes is important

The results show a relatively high degree of satisfaction with tax authority guidance notes around the world. Guidance notes were said to be helpful in 85% of OECD economies and 56% of all economies worldwide.

Binding rulings can be obtained from their tax authorities in a majority of economies

Contributors indicated that binding rulings for corporate income tax are provided in 67% of economies studied and that only three economies within the European Union (EU) or OECD do not offer this assistance.

The compliance burden increases where taxpayers have to deal with different tax authorities for different taxes

Where VAT is dealt with by a different tax authority to corporate income tax, the average compliance time rises by 31%. VAT and corporate income tax are governed by the same tax authority in 70% of economies. However, in most economies (67%), there is a separate authority for social security contributions and the compliance time increases by 30% in these economies.

The number of tax returns which have to be made and the level of information required affects the time needed to comply

VAT is the main sales tax system used around the world. But the time needed to comply with VAT varies considerably. The results show that compliance time rises by 54% in economies which require monthly (rather than less frequent) VAT returns. The time rises by 70% where invoices have to be submitted with the VAT returns.

Effective electronic systems for filing and paying taxes lighten the compliance burden, bringing efficiency benefits for both business and government.

Where business is able to use effective online systems, the compliance burden is lighter. For a sample group of economies with electronic filing systems, VAT compliance time reduced by 30%.

Consistent application of the rules can help build taxpayer trust in the tax system

Mutual trust and respect between taxpayers and the tax authority is a hallmark of a good tax system. Our experts' experience is that proper application of the rules, consistent across the administration and over time, is helpful in building taxpayer trust.

In the larger developed economies, tax authorities are quicker and more efficient in refunding overpaid taxes

Receiving a tax refund, when one is due, is a service that business should expect from tax authorities. However, contributors in 24% of economies in Latin America and the Caribbean, and in 32% of those in the African Union, said a refund would typically take more than a year. This compares to the OECD, where contributors in 83% of these economies said it typically takes three months or less.

Compliance time for business increases by an average of 39% where tax rules are complicated

39%

30%

A sample group of economies with electronic filing systems reduced VAT compliance time by 30%

Tax audits can be the most difficult interaction that business has with the tax authorities

When asked how easy it is for a company to deal with a tax audit, of those economies who answered the question, contributors in 73% of them said it was 'difficult' or 'very difficult'.

Risk assessment is the best practice selection method for a tax audit, but it's not the method most frequently used by tax authorities around the world

Tax audits should be targeted to areas of high risk, and risk assessment is usually seen as the best practice selection method for a tax audit. However, the study finds that this was only the third most frequently used method for selection. The method used in the largest number of economies (39%) was when companies request a tax refund, followed by the size of the company (32%).

Risk assessment is considered to be the preferred method for tax authorities selecting companies for a tax audit in the larger developed economies

Contributors in 50% of the EU economies and 47% of the OECD economies indicated risk assessment as the most widely-used selection method by tax authorities. This compares to only 22% in Latin America and the Caribbean, and 10% in the African Union.

Tax audits take the longest in the Latin American and Caribbean economies

In a typical situation for a large company, contributors in 31% of the Latin American and Caribbean economies said that a tax audit would take more than a year. This compares to contributors in only 8% of the EU economies and 17% worldwide. Latin America and the Caribbean is also the region where it takes the longest time to comply.

Only a minority of contributors indicated that their economies have an independent and efficient appeal process

There is an independent body to which a taxpayer can appeal against a tax authority's decision in 84% of the economies studied. But respondents in nearly two-thirds of these economies (63%) thought the process was inefficient. Contributors in 16% of the economies studied said there's no independent body, or did not answer the question.

Tax audits are easier where there is an efficient independent process

Contributors in nearly half of the economies with an efficient independent appeal process (48%) said dealing with a tax audit is easy, compared to contributors in only 15% of economies where the process is said to be inefficient.

Governments should be transparent about the administration of the tax system

Our findings show that not all taxpayers can easily access published statements of their country's tax revenues. Our experts' view is that governments should be transparent about their revenues and expenditure, and also about their cost of tax administration.

Dealing with tax audits and disputes, and the approach of the tax authorities are the features of the tax system that business would most like to change

The way in which tax audits are dealt with was cited as an area for improvement by contributors in 79% of economies. Contributors in only 21% of economies rated this as a good or the best aspect of their tax system. For the approach of the tax authorities, the figures were 66% and 33% respectively.

In the EU, businesses would most like to improve the clarity and stability of the tax rules

Contributors in 73% of the EU economies identified the clarity and stability of the tax rules as an area for improvement, compared to 58% around the world.

An open and cooperative relationship with the tax authorities makes paying taxes easier

Our experts view, based on their own long experience, is that it's important for both taxpayers and tax authorities to have an open and collaborative relationship.

Methodology

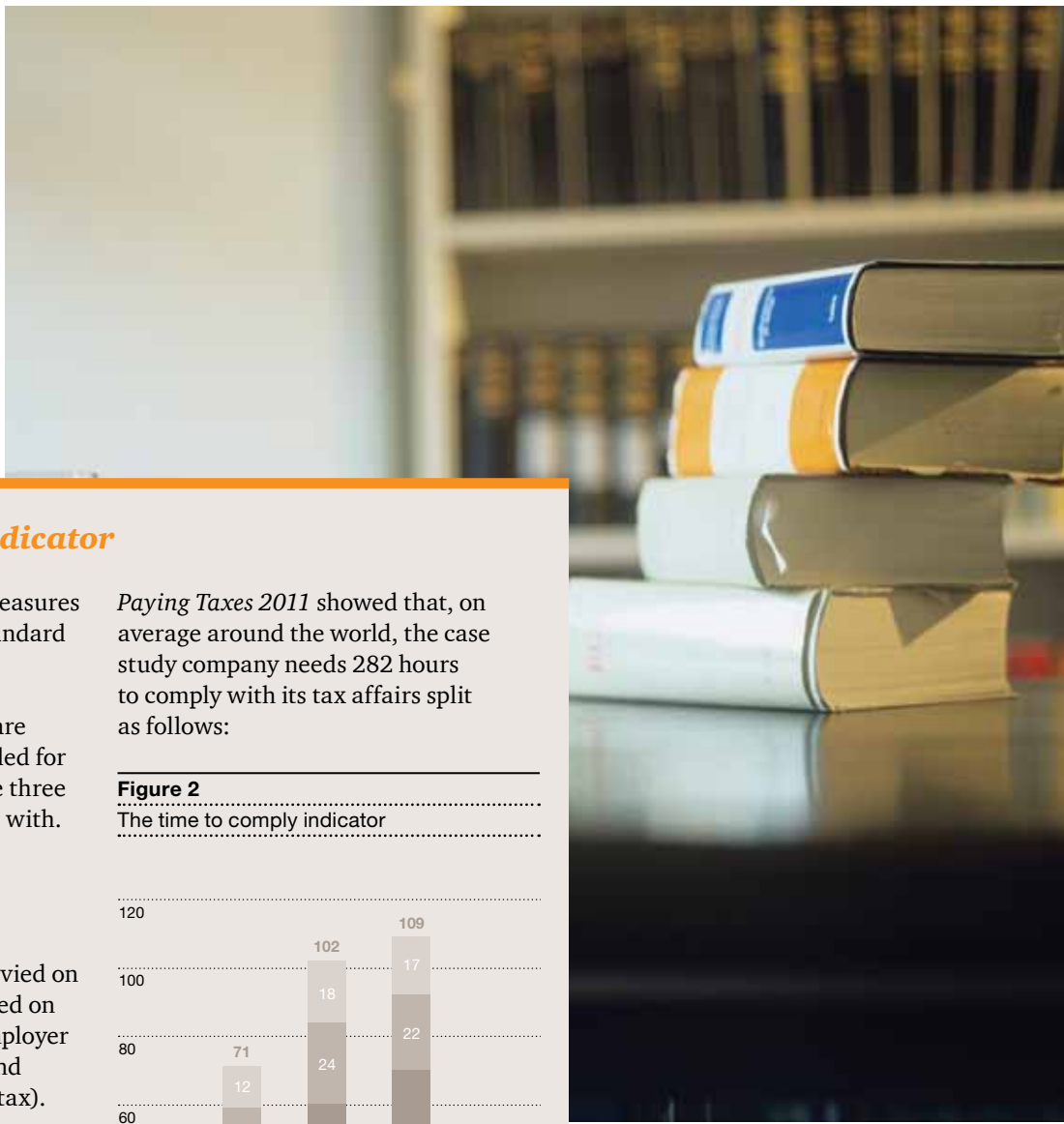
This report uses data collected by the World Bank and IFC, from contributors around the world, as part of the *Paying Taxes 2011* study. Contributors are tax experts from a number of different professional firms in each economy covered by the study, who assist businesses in complying with their taxes.

Paying Taxes 2011 measures the ease of paying taxes during the calendar year 2009 in 183 countries and territories around the world (referred to as 'economies' in this study). It uses three indicators to measure and compare tax systems from the business perspective, covering both the cost of taxes (the Total Tax Rate) and the compliance burden (the time needed to comply and the number of tax payments). The *Paying Taxes 2011* results and rankings for the three indicators are available at www.pwc.com/payingtaxes

The *Paying Taxes 2011* indicators don't measure all aspects of tax administration and so contributors are also asked to answer a number of supplementary questions. These have been developed by the World Bank, IFC and PwC, with input from governments, international organisations, business and other interested parties. They cover a range of aspects of tax administration – from the simplicity or complexity of tax rules, to how easy or difficult it is to deal with a tax audit. This data isn't used to calculate the results for the *Paying Taxes* indicators, but it does provide additional insights into tax administration.

This study analyses the supplementary data provided by contributors to *Paying Taxes 2011* and correlates it with the results for the 'time to comply' indicator. This shows how different government administration practices can increase or reduce the time needed to comply, and therefore how they impact the compliance burden on business.

In addition to the *Paying Taxes* data, we also interviewed a small number of experts from around the world, from both the public and private sector, to get their insights on tax administration. Excerpts from these interviews are included throughout this report. You can also view the full interviews online at www.pwc.com/payingtaxes



The time to comply indicator

The time to comply indicator measures the compliance burden for a standard 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. These are:

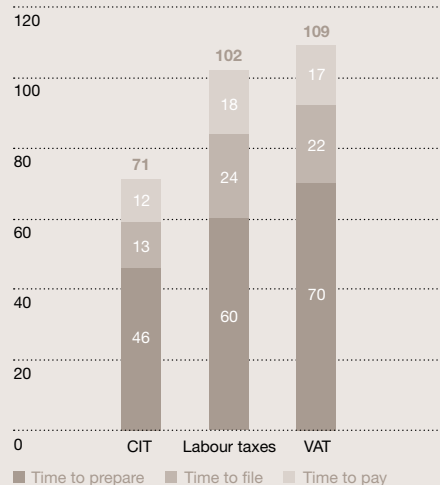
- corporate income tax,
- labour taxes and social contributions (both those levied on the employer and those levied on the employee, which the employer deducts through payroll), and
- VAT (or other consumption tax).

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.

Paying Taxes 2011 showed that, on average around the world, the case study company needs 282 hours to comply with its tax affairs split as follows:

Figure 2
The time to comply indicator



183

Paying Taxes is based on a study of tax systems in 183 economies worldwide

The tax rules

How complicated or ambiguous are the tax rules; and how does this affect the compliance burden for business?

Do the tax authorities issue helpful guidance notes and provide binding rulings to reduce the uncertainties of tax treatment?

By its nature, tax is often a very technical area which can be difficult for the non-tax expert to understand. Tax rules can be lengthy and complicated, particularly when dealing with complex business structures and transactions. It's clearly helpful for taxpayers if the rules are as simple and clear as possible. Where the tax rules are complex by necessity, it's essential that tax authority guidance is helpful and easily available. The ability to obtain binding rulings from tax authorities is also very helpful to taxpayers in removing uncertainties of tax treatment.

Figure 3 shows responses to the question, "In your opinion, how simple or complicated are the tax rules in your country?" Contributors in 41% of economies considered their rules to be 'very simple' or 'simple', compared to 44% who considered them to be 'complicated' or 'very complicated'. (15% did not answer the question). Correlating these responses to the time to comply results shows that it tends to take the Paying Taxes case study company longer to comply with its tax affairs in economies where the rules are considered complex (see figure 4). The time rises by 97 hours on average (or by 39%) where the rules are considered 'complicated' or 'very complicated'.

Tax rules are often thought to be complex in the larger developed economies. Figure 5 compares responses from the OECD economies with those from the African Union. Contributors in nearly half the African Union economies (47%) considered their rules to be 'simple' or 'very simple'. In contrast, contributors in 79% of the OECD economies said their rules were 'complicated' or 'very complicated'.

A predictable tax environment for business

"Stable tax systems and strong tax administration are very important for the business. It is important that we can operate in an environment where the tax treatment of our transactions is predictable, where governments operate with transparency, and also where there is a clear rule of law. It is very difficult and inefficient from a business and a tax perspective when it is not clear how governments will apply the rules they have, or whether there will be any consistency of application from year to year, or almost month to month, of those rules. And that level of inconsistency really builds up to economic loss for us as a company, and ultimately for the countries themselves.

What you can find, in some developing and emerging markets, is a very bureaucratic tax system and very different interpretation of the tax law from tax inspectors in different regions within a country. To the extent that there isn't a strong central tax administration, those issues can be very difficult to resolve."

Philip Long
Tax Director for Central and Eastern Europe, Middle East and Africa, Procter & Gamble

Figure 3

In your opinion, how simple or complicated are the tax rules in your country?

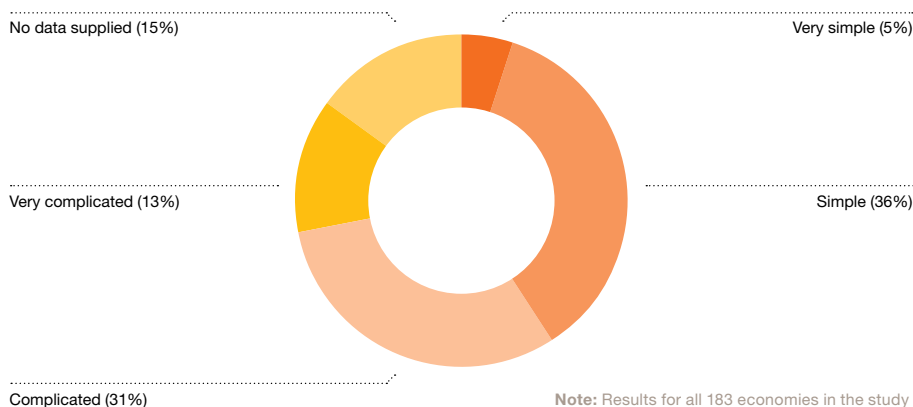


Figure 4

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

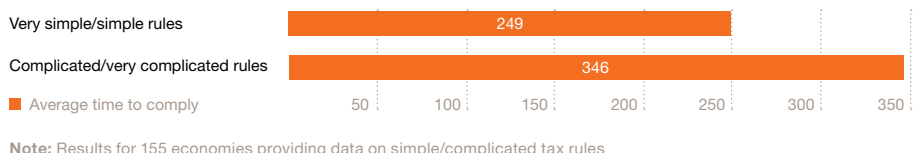
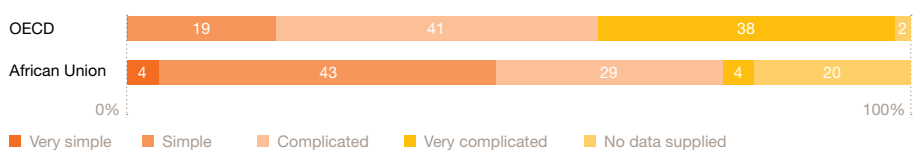


Figure 5

Tax rules are often more complicated in larger developed economies



Where rules are complicated, they may also be more ambiguous. Figure 6 shows responses to the question, “In your opinion, how clear or ambiguous are the tax rules in your country?” The picture is very similar to that for complexity in figure 3, with contributors in 40% of economies regarding their rules as ‘clear’ or ‘very clear’, and in 45% as ‘ambiguous’ or ‘very ambiguous’. And again, the rules are more often considered ambiguous in the larger developed economies. Figure 7 compares responses from the OECD economies with those from the African Union. Contributors in 63% of OECD economies thought that their rules were ‘ambiguous’ or ‘very ambiguous’ compared to only 28% in the African Union.

Helpful guidance notes published by the tax authorities can be of great assistance in helping taxpayers comply with the rules and reducing the burden. Figure 8 shows a relatively high degree of satisfaction with the tax authority guidance notes around the world. Contributors were asked, “In your opinion, how helpful are any guidance notes which the tax authority publishes?” Contributors in twice as many economies thought they were ‘very helpful’ or ‘helpful’ (56%) than those who said ‘not helpful’ or ‘not at all helpful’ (28%). Where tax rules are complicated, good guidance notes are particularly appreciated. Figure 9 shows that contributors in 85% of OECD economies thought their guidance notes were ‘helpful’ or ‘very helpful’.

Given the complexities and ambiguities of tax rules, being able to obtain binding tax rulings from the tax authorities can be very important for taxpayers to remove the uncertainty of tax treatment. Contributors to the Paying Taxes study were asked, “Are binding rulings provided by the tax authorities in your country for corporate income tax?”

Figure 10 shows the responses for selected economic and regional groupings of countries. Binding rulings were said to be available in 67% of economies around the world – mostly in the larger developed economies. Contributors from only three economies in total within the EU or OECD said their tax authority did not provide binding rulings. In contrast, contributors in seven economies in Latin America and the Caribbean and eleven in the African Union said binding rulings for corporate income tax were not provided.

Figure 6
In your opinion, how clear or ambiguous are the tax rules in your country?

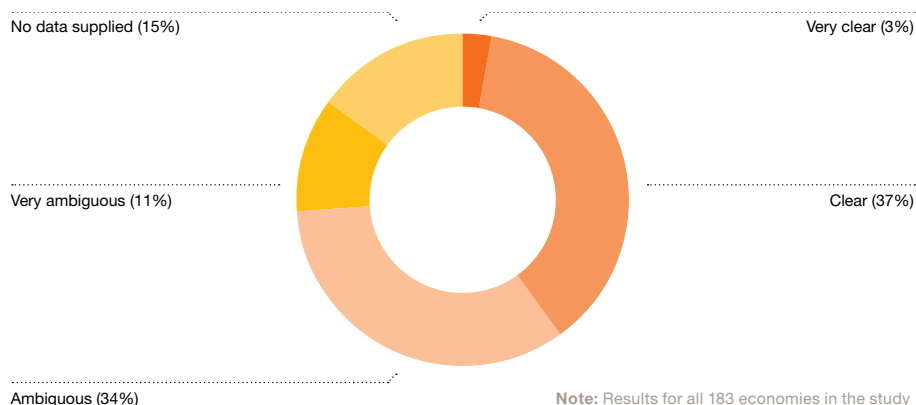


Figure 7
Where tax rules are complicated they may also be more ambiguous

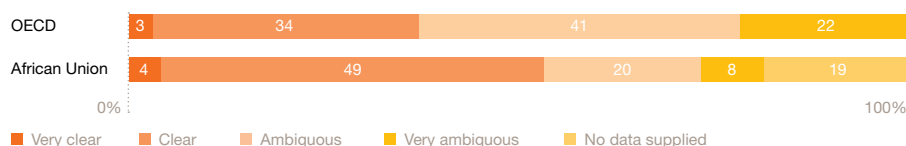
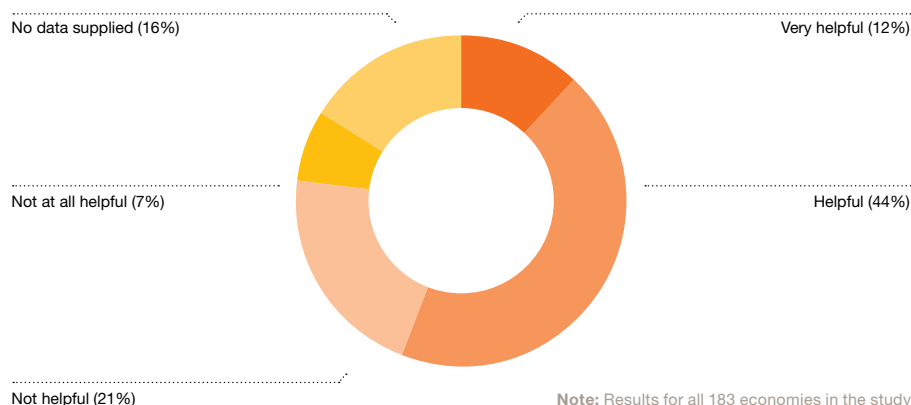


Figure 8
In your opinion how helpful are any guidance notes which the tax authority publishes?



Where can the tax system be simplified?

“I don’t think that we’ll ever, in almost any country, have a truly simple tax system. We live in a complex world and many factors play a part, including reliefs to make the system fairer and anti-avoidance. But governments have to take some responsibility for controlling complexity, because it adds to the burdens of business in trying to comply with their tax responsibilities.

The brief for the new UK Office of Tax Simplification is to look at areas of the tax code that can be simplified. We started out with two particular areas - tax reliefs and small business taxation. With reliefs, we started out very simply by codifying all the reliefs in the system and trying to draw some lessons. We found 1,042 - twice as many as were expected. We’ve made plenty of detailed recommendations but, clearly a crucial one, is that reliefs proliferate. Are they still needed? Are the policy reasons all still valid? So governments ought to review the stock they’ve got.

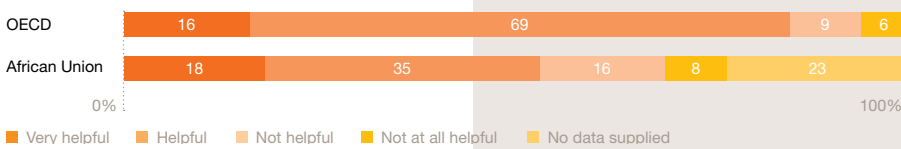
As for small business, we looked at what really causes problems, and change was the biggest issue. The volume of change adds to complexity, particularly if that gives a lack of certainty over the position.

So those are things that governments could address and, in the UK, are trying to with a better tax policy making process.”

John Whiting
Tax Policy Director, Chartered Institute of Taxation and Tax Director of the UK Office of Tax Simplification

Figure 9

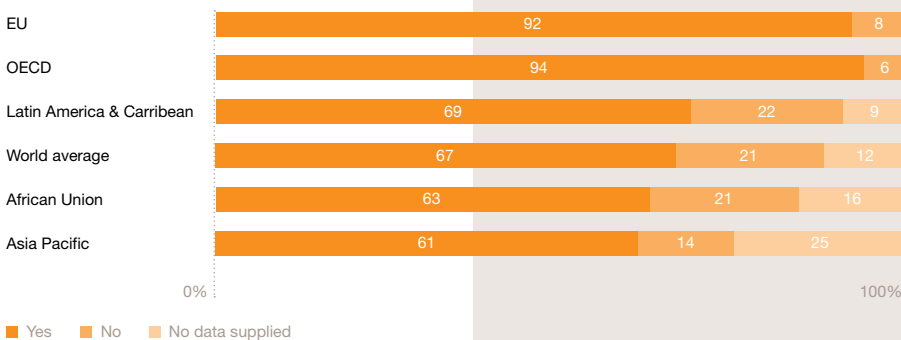
Where tax rules are complicated, the guidance notes are helpful



Note: Results for all OECD and African Union economies in the study

Figure 10

Are binding rulings provided by the tax authorities in your country for corporate income tax?



Note: Results for selected regional economies

Levels of taxation

How many levels of government can levy taxes, and does this increase complexity for business?

Are the main taxes administered by the same tax authority, or does business need to deal with multiple tax authorities?

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. Having to deal with different tax authorities for different taxes can also increase the burden. The Paying Taxes results show that having all the main taxes administered by the same tax authority is a best practice.

Paying Taxes contributors were asked to indicate the levels of government in their country that can levy taxes, split between (1) federal/national level; (2) regional/state/provincial level; and (3) local/municipal level. Figure 11 shows their responses. Contributors in 27% of economies indicated that their tax system was centralised with only one level of taxes; 23% said that their tax system was decentralised with three levels of government able to levy taxes; 36% reported two levels of taxation; and 14% did not respond to the question.

Where more levels of government can levy taxes, the tax rules are seen as being more complex. Figure 12 compares the answers to the question, “In your opinion, how simple or complex are the tax rules in your country?” for contributors in economies reporting one, two and three layers of taxation. It’s clear that the perceived degree of complexity rises with the layers of taxation. So, too, does the compliance burden. Figure 13 shows how the time needed to comply increases with more levels of taxes.

An administration that taxpayers can trust

“I think that what businesses seek is certainty and reliability. They want all the members of a tax administration to apply the rules in a consistent way. They want that to be consistent over a period of time so that they’re not constantly adjusting, and they also want consistency between the original tax policy and the actual operation of tax administration in implementing that tax policy.”

So I think the objective that government should have, in terms of tax administration, is that it’s an administration that taxpayers can trust.”

Chris Lenon
Group Strategic Adviser,
Tax Policy, Rio Tinto

Figure 11
How many levels of government can levy taxes?

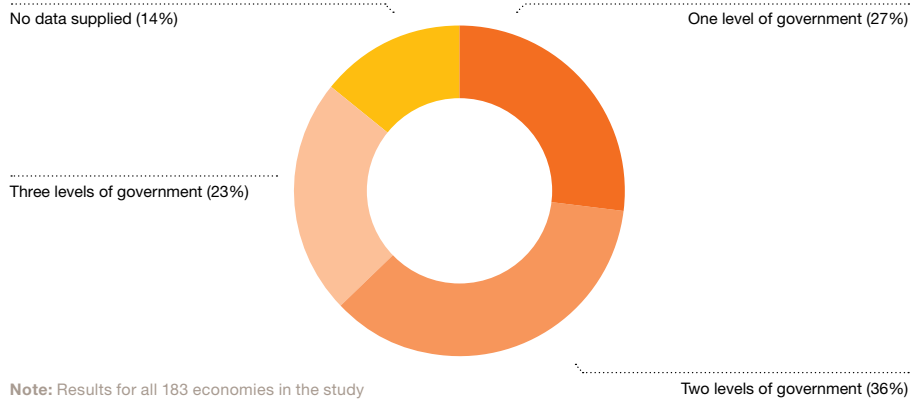


Figure 12
Where more levels of government can levy taxes, the tax rules are seen as more complicated

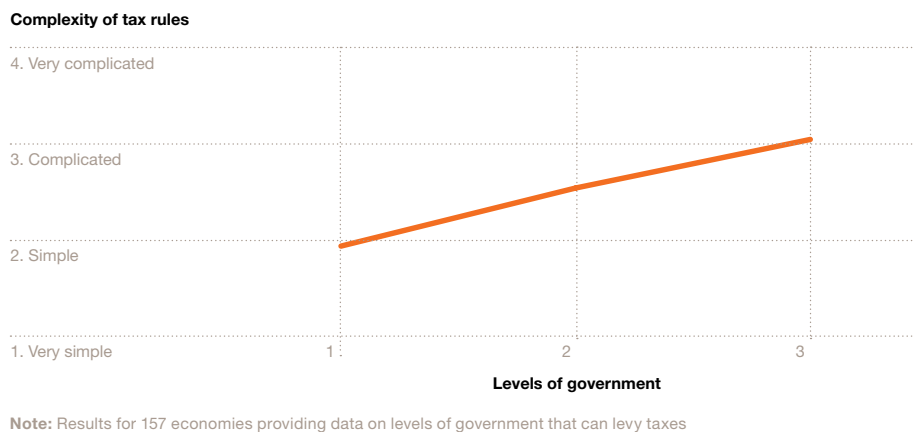
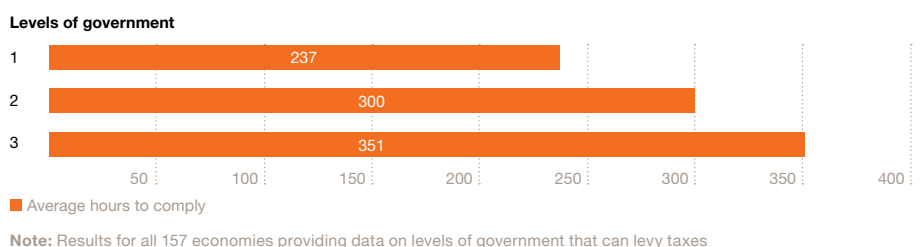


Figure 13
The time to comply increases where there are more levels of taxes

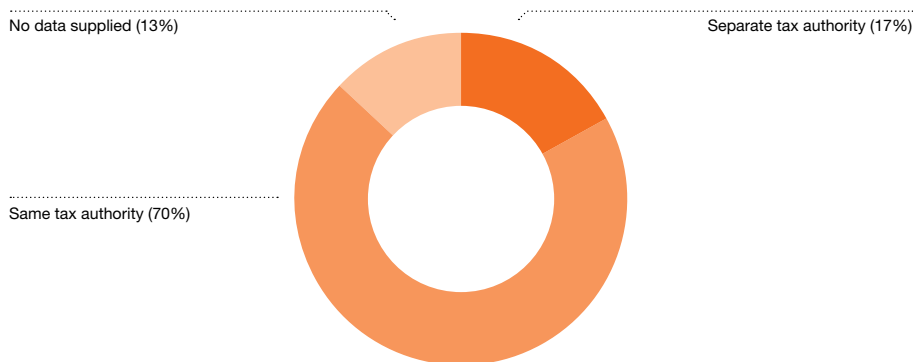


In the majority of economies, corporate income tax and VAT are administered by the same tax authority. Figure 14 shows that contributors in 70% of economies indicated that indirect taxes (VAT, GST or sales tax) are administered by the same tax authority; 17% said that they're administered by a separate tax authority, and 13% didn't respond to the question. As shown in figure 15, the average time needed to comply with indirect taxes rises by 31% in economies where it's administered by a separate tax authority.

Conversely, in two-thirds of the economies (67%), social security contributions are administered by a separate tax authority to corporate income tax (see figure 16). Again, this increases the compliance burden on business. Figure 17 shows that the average compliance time for labour taxes and social contributions increases by 30% where there's a separate tax authority for this.

Figure 14

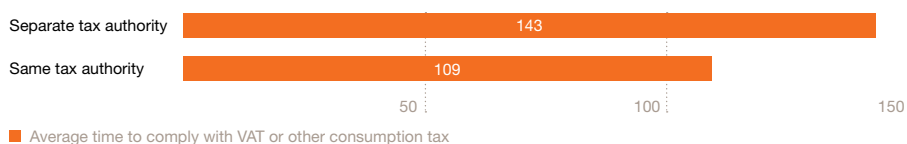
In the majority of economies, indirect taxes are administered by the same tax authority as corporate income tax



Note: Results for all 183 economies in the study

Figure 15

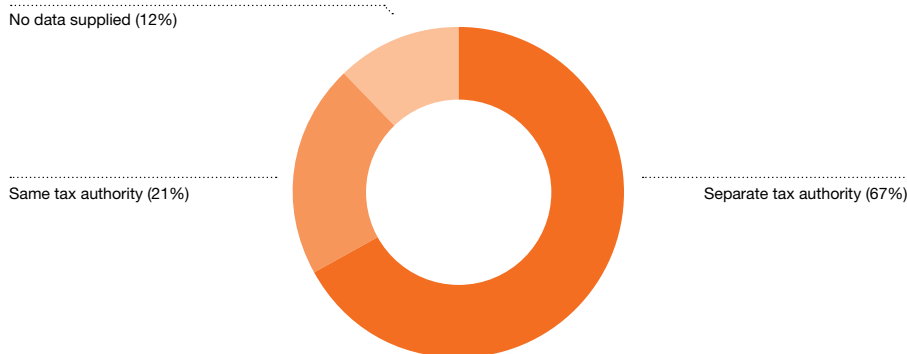
Where there is a separate tax authority for indirect tax, the time needed to comply rises by 31%



Note: Results for 160 economies providing data on their indirect tax authority

Figure 16

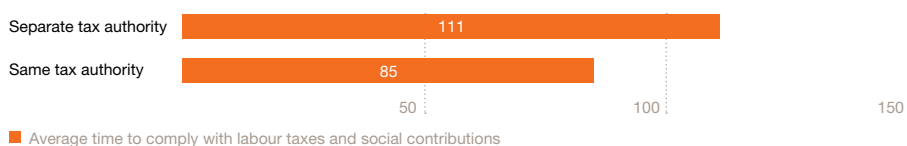
In the majority of economies, social security contributions are administered by a different authority to corporate income tax



Note: Results for all 183 economies in the study

Figure 17

Where social contributions are administered by a separate authority, the time to comply increases by 30%



Note: Results for 161 economies providing data on their social contributions authority

Many taxes, even more payments, and complicated returns

Stefan Manea, a chemical engineer from Romania, manages his own business. Founded in 1990, his company was the first privately-owned industrial production unit in Romania, manufacturing homeopathic and natural products. Twenty years later, and following spectacular growth, the company competes on an international scale, with a portfolio of more than 400 products sold all over the world.

Commenting on the Romanian tax system, Stefan stated:

“The Romanian tax system has a very, very serious condition, namely lack of continuity. Continuity is to a tax system what a battery is to a car. For any plan that you make, you take into account the tax system, which is a key factor in any business.

The number of taxes currently levied in Romania is incredibly high, taxes are excessively varied, large tax types have not been properly classified and, in my opinion, they should be re-grouped.

There are many forms, there are many returns. I think a beginner would have a hard time trying to handle them. In addition, there is the problem of filing them with tax offices. We're fortunate if there are no queues, otherwise we waste a lot of time.

Our time resources are very important and if we spend more time operating, on marketing or knowledge-gathering, all this time we spend on taxes and all these things should be as limited as possible. But, on the contrary, at present it's the very opposite.

I would like to raise a problem which for taxation purposes is absurd. It is not ok for me, a company, to have the state as a partner, and have the state penalise me whenever I don't comply with my duties on time – while, at the same time, having the state owe me money for months on end, for years on end – yet not be held accountable in any way.

If I were to characterise the Romanian tax system, I would put it this way: many taxes, even more payments, complicated returns.”

Stefan Manea, General Manager, Hofigal Bucuresti

Interviewed by PwC Romania on the launch of *Paying Taxes 2011*, November 2010



Approach of the tax authorities

How do different administrative practices reduce or increase the compliance burden?

How extensive is the extra paper work needed for tax?

Does the tax authority provide an efficient service for good taxpayers?

Are the benefits of electronic interface between taxpayers and government achieved?

The requirement to keep extra books or records solely for tax purposes, to submit multiple tax returns, or to file additional documentation in support of returns, all adds to the compliance burden for business. Tax authorities need to be able to monitor and enforce compliance with their tax rules – but they should also seek, so far as possible, to lighten the regulatory burden for good taxpayers. This can be a difficult balance to achieve. Our results clearly highlight the increased burden that arises where there is a need to prepare or file additional documents.

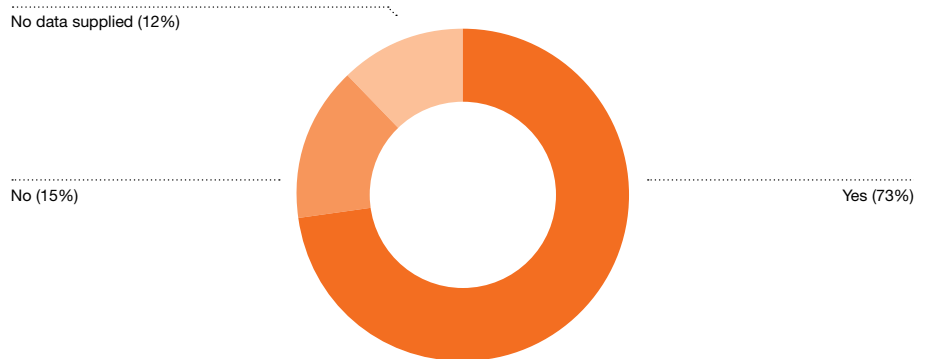
Tax authorities may also seek to offer a timely and efficient service for compliant taxpayers. As one measure of the efficiency of tax authorities, we looked at how long it takes, in practice, to receive a tax refund. This is important for business in view of the impact on corporate liquidity and the time value of money on delayed refund processing.

An effective electronic interface between taxpayers and government, and workable systems for electronic filing and payment of taxes, can also bring efficiency benefits for both business and government. Our results show a reduction in compliance time where business files and pays taxes online.

As shown in figure 18, contributors in 73% of economies said that companies are required to keep extra books and records solely for tax purposes; 15% said no extra books and records are required; and 12% didn't respond to the question. Figure 19 shows that the time increases on average by 41% (89 hours) where extra books or records are required.

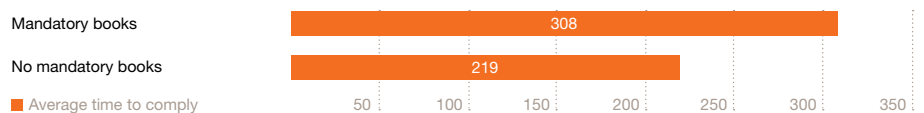
The number and frequency of tax returns also impacts the time to comply. VAT is the predominant form of sales tax system used around the world, with 148 of the 183 economies in *Paying Taxes 2011* having a VAT-type sales tax. However, while the principles of VAT are similar everywhere, administrative practices vary, affecting the compliance burden for business. For example, VAT returns are required at different frequencies; monthly, bi-monthly, or quarterly. Figure 20 looks at a sample group of 30 economies and shows how the time to comply is higher (by 54%) in economies where monthly returns are required, compared to economies where returns are made less frequently.

Figure 18
Are companies required to keep mandatory books and records for tax purposes?



Note: Results for all 183 economies in the study

Figure 19
The time to comply increases by 41% where extra books and records are required



Note: Results for 161 economies providing data on the requirement to keep mandatory books

Figure 20
The frequency at which VAT returns are required impacts the time to comply

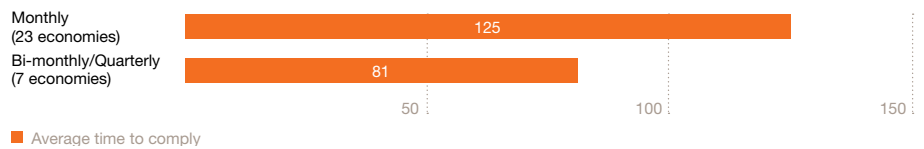


Chart shows the average time needed to comply in economies in a sample group of 30 depending on whether VAT returns are required to be made monthly or less frequently

Source: PwC, *The impact of VAT compliance on business*, September 2010



Efficient online systems for filing and paying taxes

“Electronic tax systems for filing and paying taxes lighten the compliance burden. We have looked at a sample of countries that have implemented e-filing and e-taxing systems and we discovered that, for this group of countries, VAT compliance time was cut down by 30%.

The advantages of e-filing and e-taxing are basically that it reduces remarkably the amount of paperwork that is associated with doing taxes. It improves transparency. It reduces the interactions with tax officials which very often can be a source of corruption in many countries. If done correctly, it can actually lead to improvements in tax revenue. In Colombia, for instance, a few years ago the authorities implemented a single online tax payment for all social security contributions, to simplify what was otherwise an extremely complex tax system.

The results were actually quite encouraging. Not only was there an increase in the number of registered firms, but there was also an increase in the revenue collected.

Of course, for the system to be effective, it has to be user-friendly – and it has to be secure so that people feel encouraged to participate. In 2010, a total of 61 countries out of a sample of 183 countries, that are part of the Doing Business project, implemented e-filing and e-taxing systems. And we expect this number to go up in 2011.”

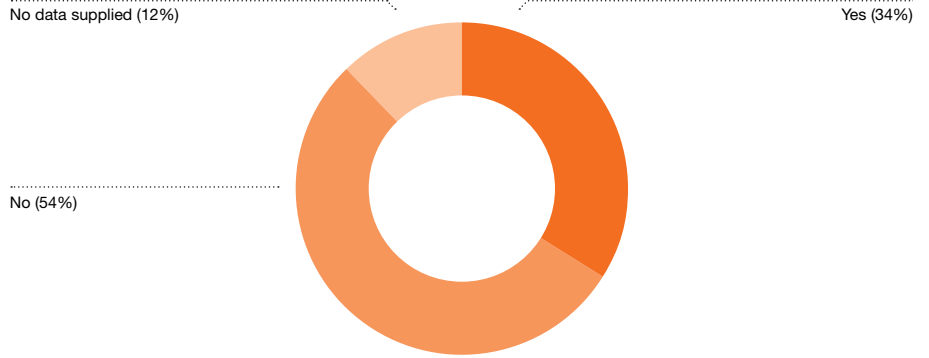
Augusto Lopez-Claros
Director, Global Indicators and Analysis, Financial & Private Sector Development, The World Bank & International Finance Corporation

The compliance burden also increases where invoices have to be submitted with VAT returns. Figure 21 shows responses to the question, “Does your tax authority require invoices (purchase invoices or sales invoices) to be submitted to support the figures reported in the VAT/GST sales tax returns?” Contributors in a third (34%) of economies said invoices must be submitted to support returns; in around a half (54%) they said not; and in the rest of economies (12%) they did not answer the question. Where invoices have to be submitted, compliance time increases. Figure 22 shows an average increase of 70% in the time needed to comply.

Effective electronic systems for filing and paying taxes lighten the compliance burden, bringing efficiency benefits for both business and government. Figure 23 looks at the average time to comply with VAT for the same sample group of 30 economies. Where businesses like the Paying Taxes case study company file and pay their VAT online, the average time to comply reduces by 30%.

Figure 21

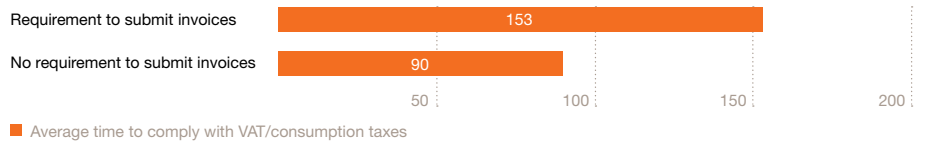
Does your tax authority require invoices to be submitted to support the VAT/consumption tax returns?



Note: Results for all 183 economies in the study

Figure 22

Compliance time rises where invoices have to be submitted to support returns



Note: Results for 161 economies providing data on the requirement to submit invoices with the VAT returns

Figure 23

It takes less time on average in economies where business uses online filing and payment

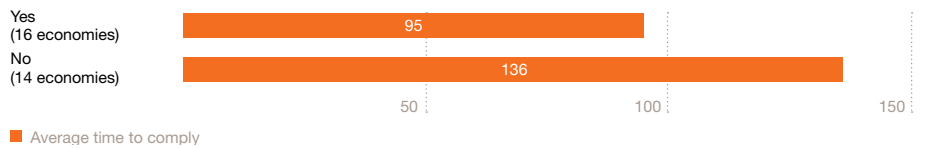


Chart compares the average time to comply with VAT for economies in the sample group where business of the size and nature of the case study company file and pay VAT online

Source: PwC, The impact of VAT compliance on business, September 2010

The ability to receive a prompt refund of taxes, when one is due, is a service that business should expect from tax authorities. It's also a good test of their efficiency. Figure 24 shows responses to the question, "In a typical situation, how long is it likely to take in practice for a company to receive a VAT or withholding tax refund in your country?" Contributors were given options ranging from less than a month to more than a year. Refunds were thought to be received reasonably quickly – in less than a month, or within one to three months – in 41% of economies. However, at the other end of the scale, contributors in 15% of economies said it was likely to take more than a year, which cannot be considered reasonable (see figure 24).

The results in figure 25 show that it tends to take the least time to get a refund in the large developed economies. Contributors in 83% of OECD economies, who responded to the question, said that it would typically take three months or less to receive a refund. Only contributors in two of these economies (7%) indicated that it would take more than a year. Receiving a refund takes longest in the less developed economies of Latin America and the Caribbean and in the African Union. Here, contributors in 24% and 32% of the economies answering the question said it would typically take more than a year. In economies where it takes longer to receive a refund, the compliance burden also tends to be heavier. Figure 26 shows that it takes the least time to comply on average in the OECD economies, and the most time in Latin America and the Caribbean.

Figure 24

How long is it likely to take in practice for a company to receive a tax refund?

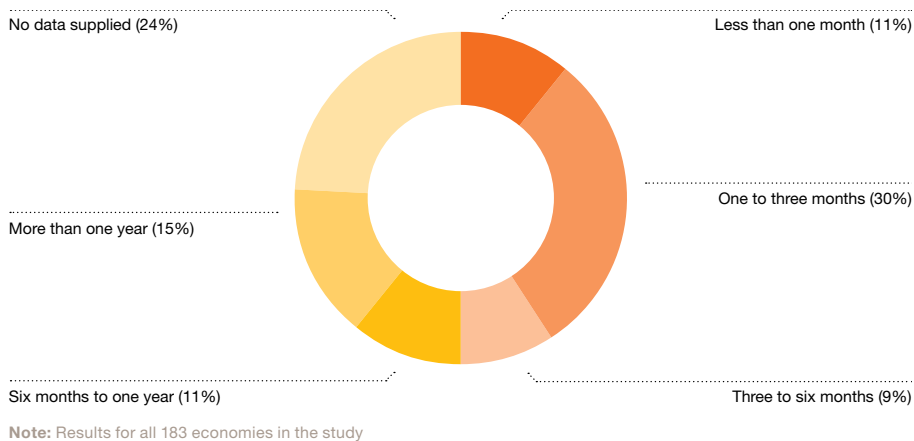


Figure 25

It tends to take the least time to get a refund in the large developed economies

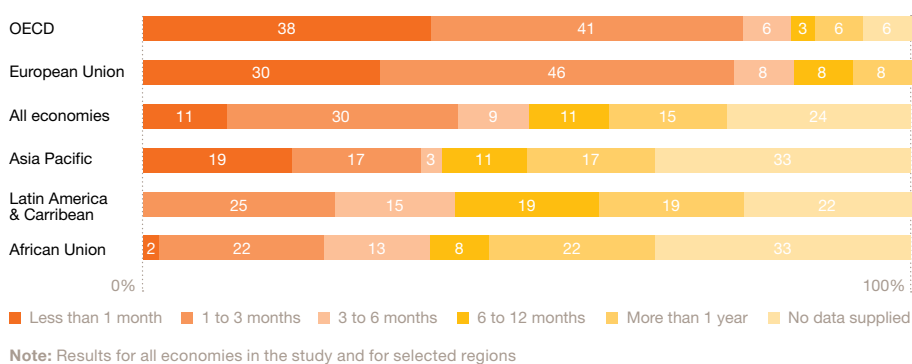
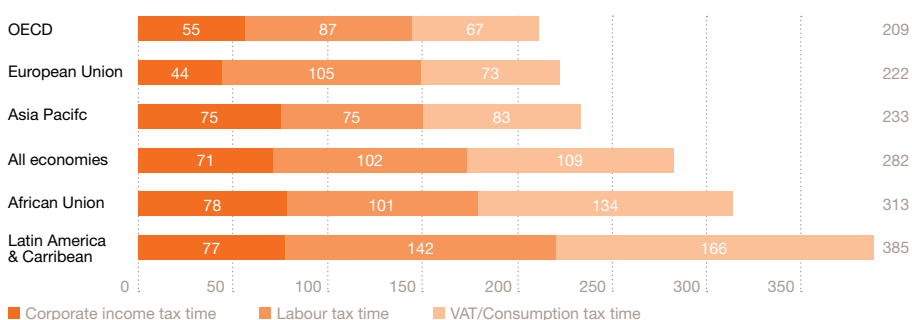


Figure 26

Where it takes longer to receive a refund, it also takes longer to comply





Vision for a modern and efficient EU VAT system

“The European Union has embarked upon a ‘once in a lifetime’ consultation on reform of the VAT system. The aim is to develop recommendations for a simpler and easier to administer system within the 27 Member States.

The efficiency of VAT collection varies widely among the EU Member States. Different interpretations of the directives within each state can result in the rules being implemented in different ways. This can lead to costly and lengthy legal challenges, and taxpayers are subject to an increasing compliance burden in order to properly administer the tax.

In developing a vision for a modern and efficient VAT system, the need for Europe to operate with a single legal system relating to VAT must be acknowledged. This would need to be framed in a Regulation rather than a Directive, so that it didn’t have to be implemented in the laws of 27 separate Member States.

To drive efficiency, a European VAT Registration would be required along with one set of compliance rules and a single EU VAT return. This is in marked contrast with today, where we see significant variations in the compliance processes used within Europe.

There would also need to be a single EU VAT Administration, with a single audit methodology, using e-auditing techniques, to assess business controls and systems in place. This would enable tax authorities to focus more effectively on businesses that may not be willing to comply voluntarily.

This vision would meet the requirements of business, by making the VAT system simpler and easing the compliance burden. With increased automation, the cost of administration could be reduced. A greater focus on systems, controls and processes would also allow a more targeted and risk-based approach to audit and compliance.”

Ine Lejeune (PwC Belgium),
Global Leader, Indirect Taxes

Source: *Shifting the Balance – from direct to indirect taxes*, PwC, April 2011

Tax audits and disputes

How difficult is a tax audit and how long is it likely to take?

How do the tax authorities select companies for a tax audit?

Is there an independent and efficient appeal process against the decision of a tax authority?

A tax audit can be the most difficult interaction that a business has with the tax authorities. Clearly, tax authorities need to audit taxpayers' returns, but audits can be lengthy, difficult to deal with, and require additional resources. It's important, therefore, that audits are targeted to areas of high risk and are carried out as quickly and efficiently as possible. The way in which tax authorities deal with an audit can be a test of the strength of their tax administration. And where there's a dispute between the taxpayer and the tax authority that can't be resolved, it's important that there's an independent and efficient appeal process in place.

Contributors around the world were asked, "In your opinion, how easy is it for a company to deal with a tax audit in your country?" Figure 27 shows that contributors in 23% of economies regarded dealing with a tax audit as 'easy' or 'very easy', compared to those in 61% of economies who said it was 'difficult' or 'very difficult'. (Contributors in 16% of economies did not respond to the question). A regional breakdown of responses shows that tax audits can be seen as most difficult in the larger developed economies. Figure 28 compares responses from the EU with those from the African Union. A tax audit was considered to be 'difficult' or 'very difficult' by contributors in 73% of EU economies compared to 47% in African Union economies.

The difficulty of having no effective appeals process

"It's so important that there is an effective way to appeal against certain tax authority decisions. Once a tax assessment is issued, it can be very difficult in a country to appeal against that or get the decision reversed without going to expensive litigation. Our feeling is that it's much better to work with the tax authorities very early within an audit.

We try and build a good relationship and get them to come and talk to us about issues, and we try to resolve them before they get to the assessment phase. Because once you get to that level of the appeals process, it can be very difficult. You ultimately end up in court, which is very time consuming, costly, and with an uncertain outcome."

Philip Long
Tax Director for Central and Eastern Europe, Middle East and Africa, Procter & Gamble

Figure 27
In your experience how easy is it to deal with a tax audit in your country?

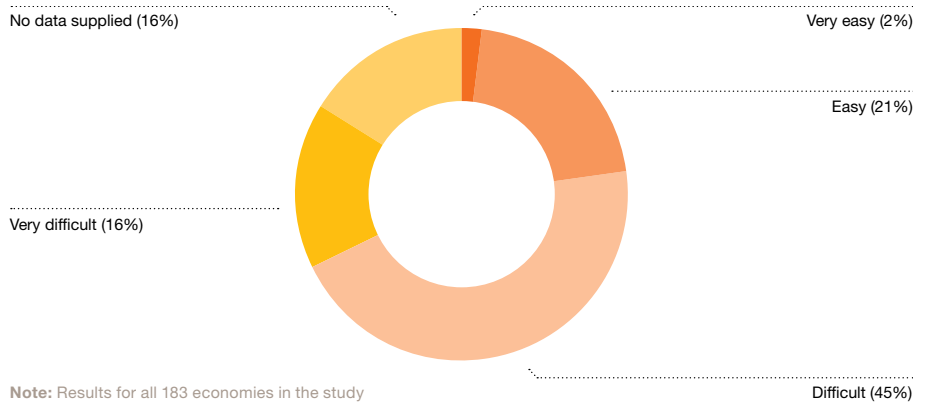
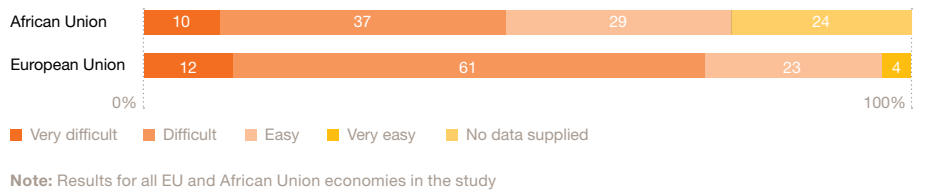


Figure 28
Tax audits are seen as more difficult in the developed economies



However, despite this perceived complexity, tax audits tend to take less time in the developed economies. Contributors were asked, “In a typical situation for a large company, how long is a tax audit likely to take in your country (from first information request to substantive resolution)?” They were given a range of responses from less than three months to more than two years. Figure 29 shows that, around the world, contributors in 23% of economies said an audit was likely to take less than three months. Contributors in a further 40% of economies said it would take less than a year. Contributors in 17% of economies said it would take more than a year. (Contributors in 20% of economies didn’t respond to the question.)

Figure 30 shows some of the regional differences, comparing the EU, the African Union, and Latin America and the Caribbean. Contributors in 88% of the EU economies thought a tax audit was likely to take less than a year, compared to 57% in the African Union. Tax audits are seen as taking longest in the Latin American and Caribbean economies. Contributors in ten economies said a tax audit was likely to take longer than a year. This is also the region where it takes the Paying Taxes case study company longest to comply with its tax affairs.

One reason why tax audits take less time in developed economies may be the methods used by the tax authorities to select companies for an audit. Selection based on risk assessment is often considered to be a best practice. Using this method, tax authorities target their resources to audit companies or issues that are considered to present the biggest risk of non-compliance or loss of tax revenues. Contributors were asked to indicate how, in their experience, companies like the Paying Taxes case study company might be selected by the tax authority for audit. They were given a list of possible methods and asked to select the three most widely-used in order of priority. Figure 31 shows responses for the most common method.

Figure 29

In a typical situation for a large company, how long is a tax audit likely to take?

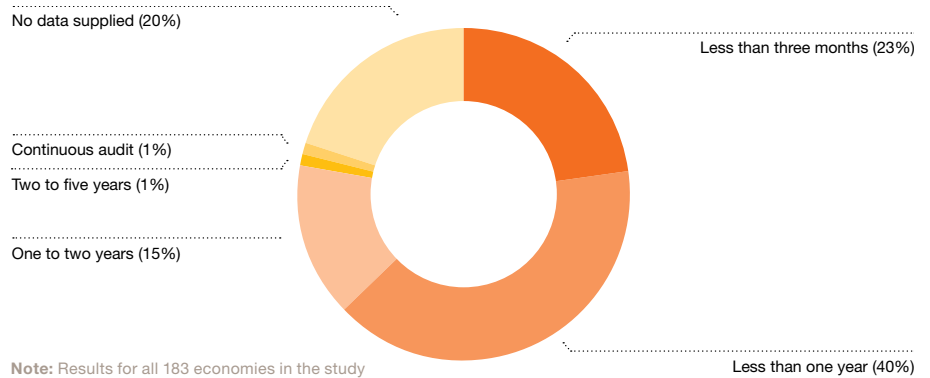


Figure 30

Tax audits tend to take less time in the developed economies

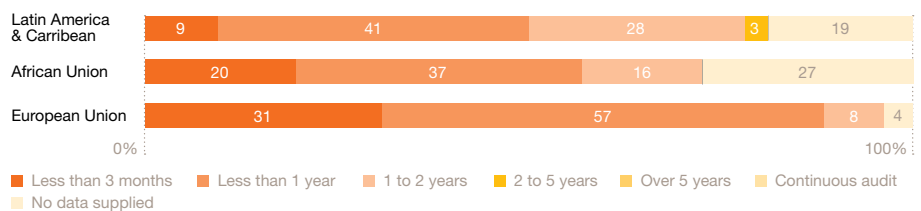
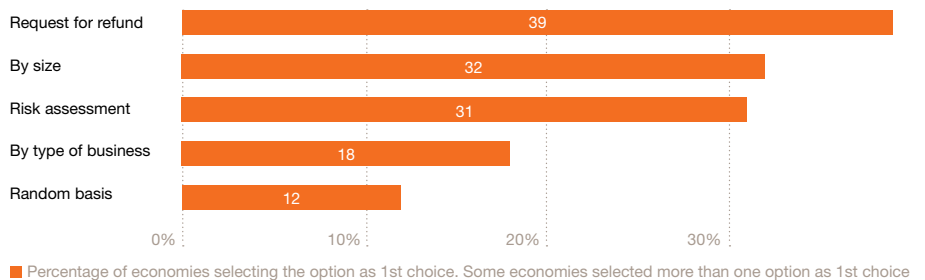


Figure 31

In your experience, how are companies selected for a tax audit?

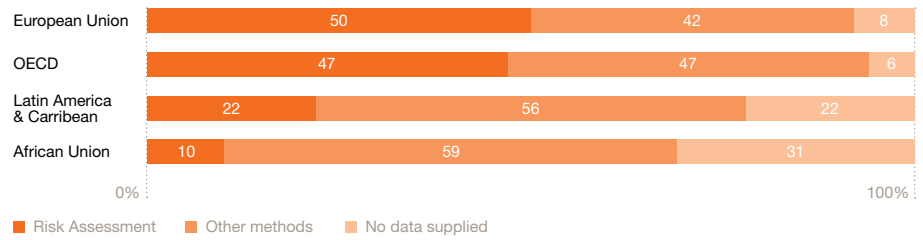


Contributors in the most number of economies (39% of those responding to this question) thought that companies were likely to be selected for audit when they requested a tax refund. The next most widely-used method was considered to be the size of the company (32%). Around the world, risk assessment ranked only third as the most common method of selection (31% of economies).

However, in the larger developed economies of the EU and OECD, risk assessment appears to be the most commonly used method of selection. Contributors in around half of these economies identified this as the most widely-used method by the tax authorities in selecting companies for an audit. In contrast, in the African Union, it was said to be the preferred method in only 10% of economies. In this region, the size of the business was said to be the most frequently used selection method. In Latin America and the Caribbean, contributors in less than a quarter of economies (22%) indicated risk assessment as the preferred method of selection (see figure 32).

Figure 32

Tax authorities are more likely to use risk assessment in developed economies



Note: Results for selected regional economies

Best practices in a tax audit

“Tax audits are on the rise worldwide, and certain types of tax disputes are reaching an all time high level of activity. So, I think the controversy, if you will, that exists between taxpayers and governments, is really at an unprecedented level – and empirical evidence supports this trend.

Now, in terms of best practices for tax administrations, I think three come to top of mind. First, tax administrations cannot possibly audit all taxpayers on all issues. So a coherent risk assessment procedure is appropriate and necessary as a best practice. It is in the interest of taxpayers and governments alike to audit the taxpayers that have the highest risk on the most difficult and complex issues.

Secondly, once a taxpayer has been selected for audit, the examination should be conducted in a transparent and open way, so that the taxpayer and the tax administration have a clear understanding of how to proceed through the audit process.

And finally, if the audit results in a tax assessment, then a third best practice is to provide a set of alternative dispute resolution options to taxpayers so they can challenge, if necessary, the findings of the government. Those tax resolution options should be conducted with a view to early resolution of the dispute in an open and cooperative way.”

David Swenson (PwC US)
Global Leader, Tax Controversy and Dispute Resolution

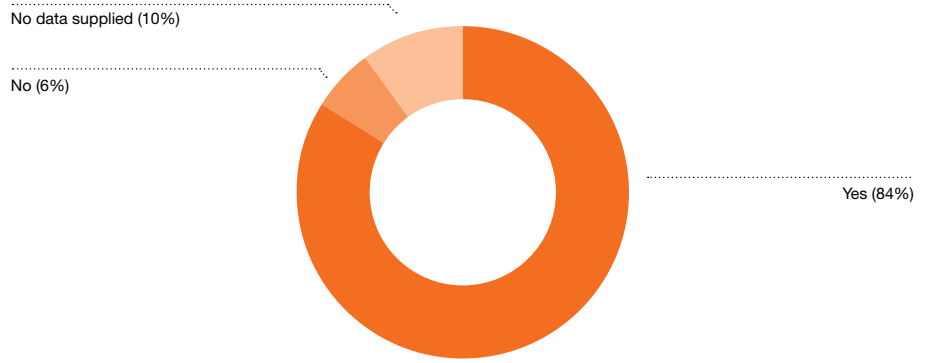
An independent and effective appeal process is clearly an important aspect of good tax administration from the taxpayer's perspective. However, contributors in 6% of the economies said there was no independent body to which a taxpayer could appeal against a tax authority's decision. Contributors in a further 10% of economies didn't answer the question (see figure 33).

In the economies where there's an independent body, the process is often thought to be inefficient. Figure 34 shows responses to the question, "In your opinion, how efficient is the independent appeal process in your country?" Contributors in 63% of economies said the appeal process was 'inefficient' or 'very inefficient'.

In economies where the process is considered to be efficient, tax audits are easier. Figure 35 compares the responses relating to efficiency with those relating to how easy or difficult it is to deal with a tax audit. Contributors in 48% of the economies, where the independent appeal process is considered efficient, said that dealing with a tax audit was 'easy' or 'very easy'. This compares to contributors in only 15% of economies where the independent appeal process is considered to be inefficient.

Figure 33

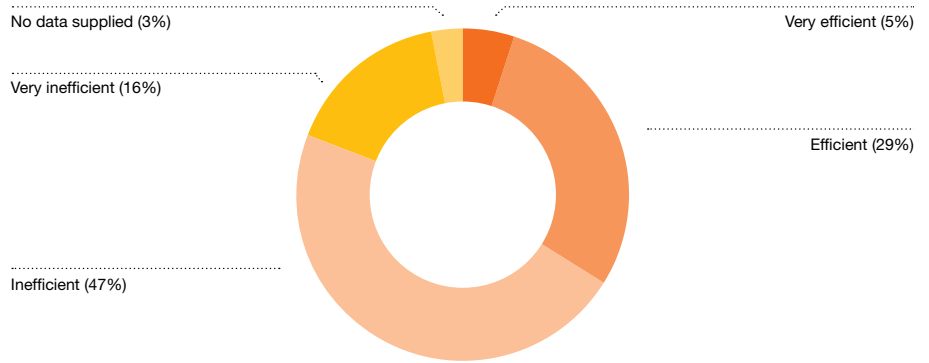
Is there an independent body to which a taxpayer can appeal against a decision of the tax authority?



Note: Results for all 183 economies in the study

Figure 34

In your opinion, how efficient is the independent appeal process in your country?

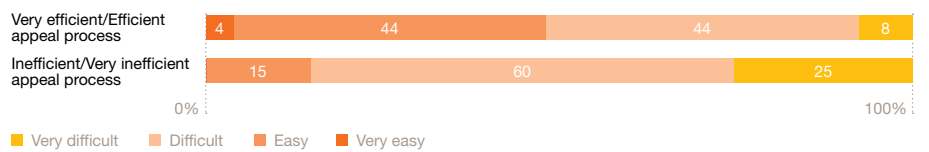


Note: Results for all economies in the study which have an independent appeal process

Figure 35

Tax audits are easier in economies where there is an efficient independent appeal process

How easy is it to deal with a tax audit?



Note: Results for 147 economies providing data on independent appeal body



Flowerpot-maker wilts under tax red tape

One of Australia's last large scale terracotta flowerpot manufacturers knows only too well the complexity of the nation's taxation system.

For more than 30 years, Alan Barker has been working at his family's flowerpot business, Barker T & Son, at Granville in Sydney's west.

Mr Barker said the equivalent of one day a week was now being spent on ensuring the struggling business complied with all state and federal regulations and laws.

"Two days a week, every second week, is just spent on compliance," he said. "I reckon at least 15 per cent of our revenue goes to government taxes and other costs. We haven't made a profit in five years."

He said he was considering leaving the industry.

A global survey of how easily business can comply with tax systems has ranked Australia 48th out of 181 countries. The survey, compiled by the World Bank and PricewaterhouseCoopers, was based on estimates of how much time and money a flowerpot-making business would spend on taxation.

Mr Barker said each year he had to make separate payments for income, land and business taxes. He also paid GST and had decreased his Fringe Benefits Tax after cutting the number of vehicles he used for business. His staff had fallen from six to two in the past couple of years.

He said that, within two years, Asian imports would force the few remaining Australian flowerpot makers to close.

Source: The Australian, 2009. Flowerpot-maker wilts under tax, red tape. Press release, 20 November 2008

Government transparency

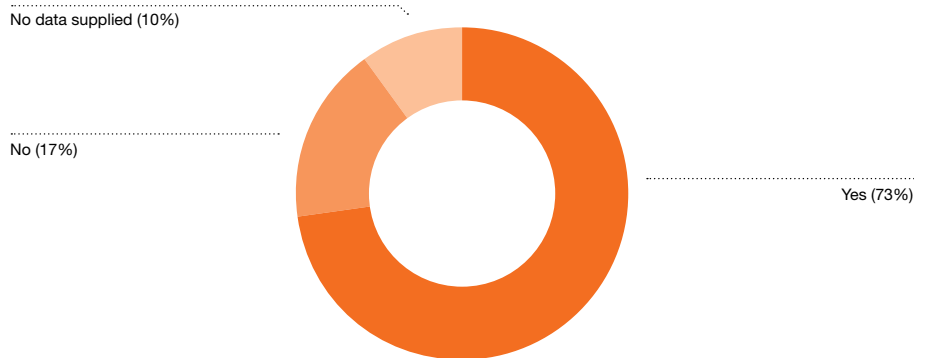
Can taxpayers easily access a published statement of their country's tax revenues?

Government transparency, over both revenues received and how the revenues are spent, is a very important part of open government and ensuring governments are accountable to their citizens.

Contributors were asked, "Can you easily access a published statement by government of the actual tax revenues in your country?" Figure 36 shows that contributors in 30 economies (17%) answered 'no' to this question. Contributors in a further 19 (10%) did not respond. Those that replied 'no' are located in the African Union, Asia Pacific, Central Asia and Eastern Europe, the Middle East, and Latin America and the Caribbean.

Figure 36

Can you easily access a published statement by government of the actual tax revenues in your country?



Note: Results for all 183 economies in the study



Transparency in the tax administration

“Transparency is a very important area. Governments need to understand the total amount of all the taxes they raise and they need to be transparent about that. If governments don’t understand the total tax take, and the way the different segments of that interact, they’re not really going to understand their competitive position, and may struggle to have a tax policy that supports the economic policies they want to develop. They also need to be transparent about the amount they spend raising taxes and the size of the administration. Unless they have that sort of information, they can’t do proper cost benefit analysis or risk assessment about whether they’re raising the right amount of tax.

Equally, I think companies need to understand the amount of tax they pay. They need this for their own risk assessment purposes, but it also meets with any discussions that they have with the government about tax policy. Both government and business need to understand the total amount of tax that’s being raised and paid, and how that fits into the maintenance of good tax policy.”

Chris Lenon
Group Strategic Adviser,
Tax Policy, Rio Tinto

What would business most like to change?

What are the features of tax systems that most need improvement from the business perspective?

Contributors to the Paying Taxes study were also asked to indicate what they considered to be the best aspects of their country's tax system, and also 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.



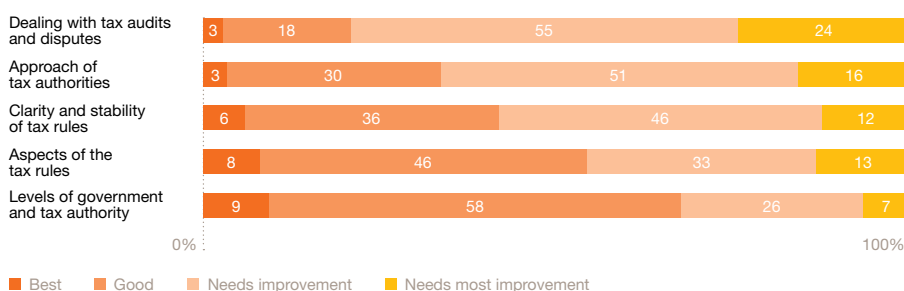


Figure 37 shows contributors' responses for the different aspects on which they were asked to comment. It shows that dealing with tax audits and disputes was the area that they most wanted to improve, followed by the approach of the tax authorities.

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 38 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 39).

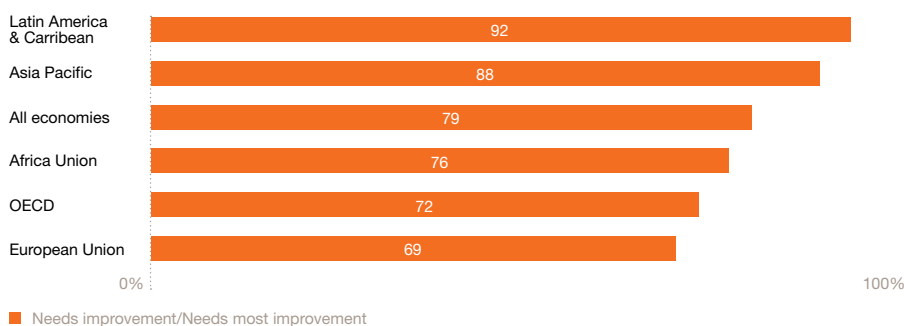
In the EU economies, the clarity and stability of the tax rules was highlighted as the area that most needs improvement (see figure 40). Contributors in 73% of EU economies selected this area, compared to 58% around the world. This emphasises that in developed, high-income economies, tax rules can be seen as complex and constantly subject to change.

Figure 37
Best and worst aspects of the tax system



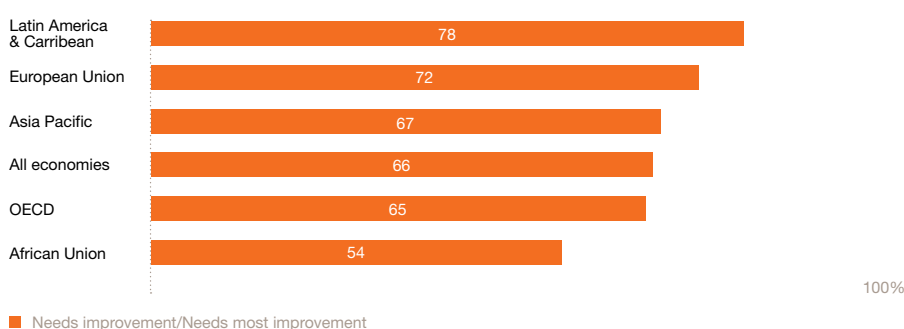
Note: Results for all 154 economies in the study responding to this question

Figure 38
Contributors would like to see improvements in dealing with tax audits and disputes



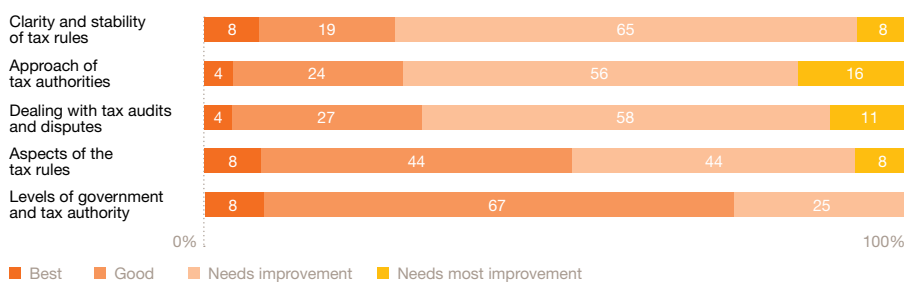
Note: Results for all economies responding to the question and for selected regions

Figure 39
...and also the approach of the tax authorities



Note: Results for all economies responding to the question and for selected regions

Figure 40
In the EU economies contributors want to improve clarity and stability of tax rules



Note: Results for EU economies

We asked our experts to pick out one best practice in tax administration, from their own experience, and here's what they said:

“It’s about governments being consistent, so that businesses have a certainty about the position, and it’s about building an atmosphere of trust between tax administrations and taxpayers.”

Chris Lenon

Group Strategic Adviser,
Tax Policy, Rio Tinto

“I would say clear and transparent tax laws which are consistently applied and interpreted, and also a good system to enable either informal or formal tax rulings, and advance pricing agreement programmes in place.”

Philip Long

Tax Director for Central and Eastern Europe, Middle East and Africa,
Procter & Gamble

“I’d go for ‘consult’. That governments should realise that the taxpayer, business and individual, should be brought into the question of how taxes are levied. It should be a joint exercise. The goose should be given a chance to decide which of the feathers are taken and how³. So consult, bring them in, make it a joint decision. It’ll get better acceptance.”

John Whiting

Tax Policy Director, Chartered Institute of Taxation and Tax Director of the UK Office of Tax Simplification

“My advice to tax administrations, in the audits and disputes area, would be most importantly, do not attempt to make tax policy or establish tax rules through the audit and dispute process. Rather, leave that to the domain of a legislative body or through a robust administrative rulings process and the issuance of guidance notes. And secondly, do not create a needlessly adversarial environment. Instead, attempt to approach tax audits and disputes in a collaborative and cooperative way, reaching compromise when necessary for the benefit of all stakeholders.”

David Swenson (PwC US)

Global Leader, Tax Controversy and Dispute Resolution

“The architecture or the machinery of tax collection matters tremendously. However, there is a second aspect that is also very important. How governments use tax resources and the perceptions that the business community and civil society have about the government as a manager of these resources are extremely important. The best tax machinery in the world is not going to be very effective if the public perceives the government not to use tax revenues in a way that is transparent and effective.”

Augusto Lopez-Claros

Director, Global Indicators and Analysis, Financial & Private Sector Development, The World Bank & International Finance Corporation

³Reference to a quote from Jean Baptiste Colbert (French Economist and Minister of Finance under King Louis XIV of France 1619-1683) – “ The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing.”

Summary

This publication is about the tax compliance burden for business. It looks at how governments around the world administer their tax rules, and how different practices can increase or lighten this burden. It's based on research using data collected by the World Bank and IFC as part of their Doing Business project. It also includes views given in interviews with a small number of leading experts, from the private and the 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. It's clear from our results that the way in which tax is administered does vary around the world and that there are best practices and learnings to share in this area.

From our research, the approach of the tax authorities, particularly in dealing with tax audits, is the area that business would most like to improve. Our experts stress the need for predictable and consistent implementation of tax rules and the importance of a good relationship and trust between tax authorities and taxpayers.

Fair, efficient and transparent administration of taxes does matter. Having a good tax policy is important, but the administration of that policy is also crucial to ensure that tax laws are properly implemented and to make it easier for taxpayers to meet their obligations.

Reducing the compliance burden to make tax collection more efficient brings benefits for both government and business. A vibrant private sector is very important to help governments foster the economic activity that will generate growth and prosperity. Where business spends less time on tax compliance, it can devote more time to building the business and contributing to the economy.





From our findings, what will ease the tax compliance burden for business?

The same tax authority to deal with all the main taxes

Binding rulings available to give certainty of tax treatment

Efficient online systems for filing and paying taxes

Risk assessment used to select taxpayers for audit

Streamlined tax paperwork and easy to complete tax returns

Efficient processes for resolving a tax dispute

Good guidance notes issued by the tax authority

Open and collaborative relationship between taxpayers and the tax authority

Consistent interpretation of tax rules by all tax officials

Prompt refund of overpaid taxes when due

The importance of tax systems in international development

“Tax is recognised now as a key element in international development. The emphasis has been on aid, but there’s now a realisation that developing countries have to raise tax revenues to fund the services they provide, and they have to show to citizens that there’s a linkage between the taxes they raise, and what those citizens get. I think that’s been a dramatic change. Different countries at different stages of development will need to approach this in slightly different ways, but the key is that they have a robust tax system that

raises the revenues they need. It’s also important that that tax system includes the domestic as well as the cross-border economy. And great thought needs to be given to how to integrate the informal economy and the domestic economy into that virtuous circle of raising tax and funding services, and citizens seeing the benefit that they get from those services.”

Chris Lenon
Group Strategic Adviser, Tax Policy,
Rio Tinto

The importance of a good tax system

“Well, why does it all matter? If you get the tax system right, it means that you are going to be able to collect revenues. If you are able to collect revenues, you are going to be able to spend money in education and infrastructure and public health. You will therefore have a fighting chance of improving competitiveness and productivity, which ultimately is the driver of economic growth. In this case, countries that get their tax system right will be able to enter into what could be called a virtuous circle of development.

On the other hand, if you don't get your tax system right, if it is unduly complicated and cumbersome, then you are not going to be able to collect tax revenues to the extent that you should. Your ability to spend in competitiveness-enhancing areas will be sharply limited. You will discover that much of your economy, or a good part of it, will be driven underground. Unable to invest in critically important areas there will be a deterioration of national competitiveness and the country will enter a potential vicious circle of development. So it matters a great deal.”

Augusto Lopez-Claros

Director, Global Indicators and Analysis, Financial & Private Sector Development, The World Bank & International Finance Corporation

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Of further interest:

Paying Taxes 2011 – the global picture

Published jointly with the World Bank and IFC, November 2010.
The 2012 report will be launched on 10 November 2011.

The impact of VAT compliance on business

Published September 2010.

Both available at www.pwc.com/payingtaxes

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