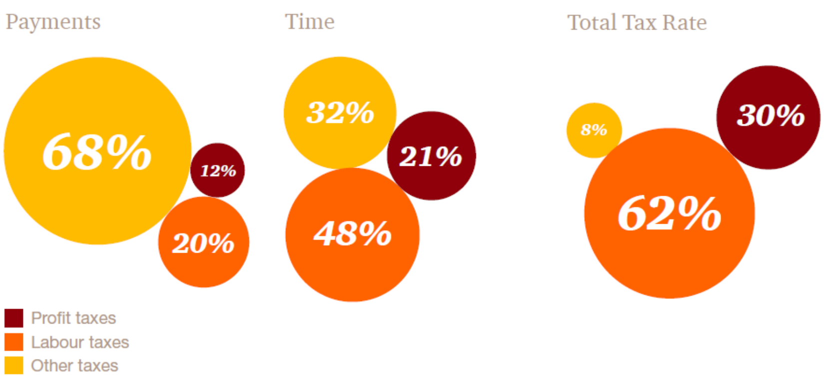
The 2013 profile

Labour taxes and social contributions continue to account for the largest part of the Total Tax Rate in this region and take the largest amount of time to comply. The profile for the number of payments on the other hand is heavily weighted towards 'other taxes' which includes taxes such as VAT, environmental taxes, and local taxes.

The Total Tax Rate

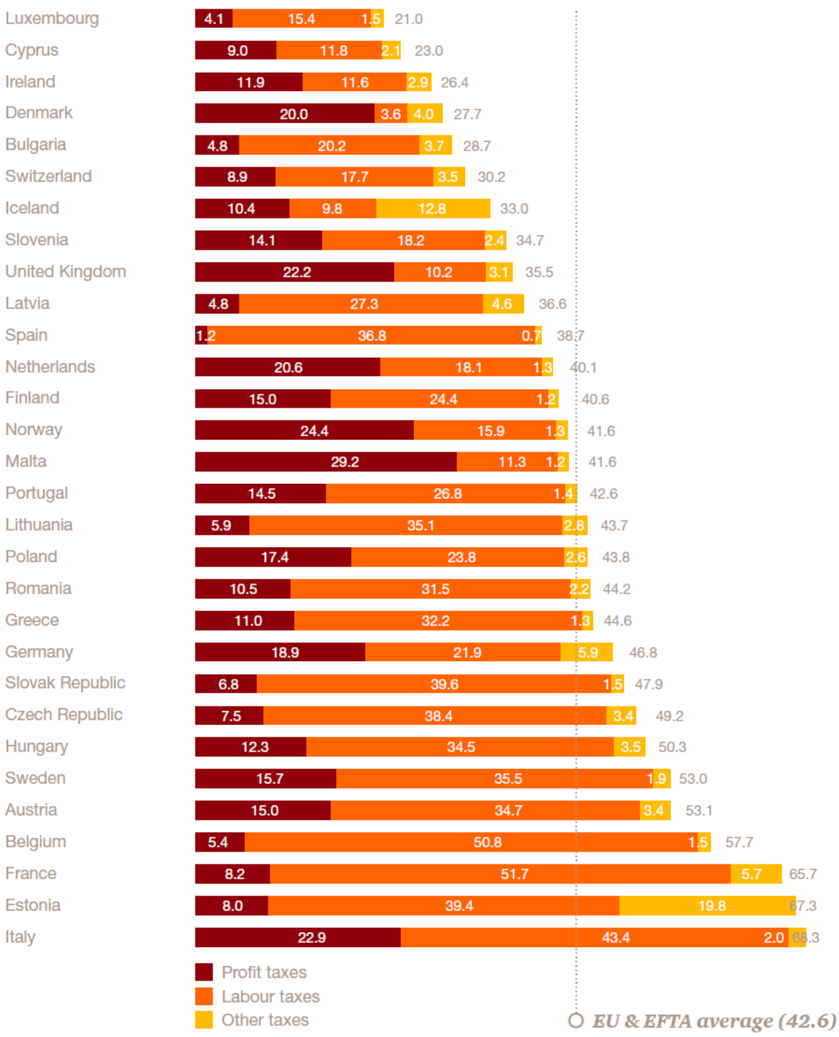
The average TTR for the region is 42.6% which is just below the world average. The labour taxes and social contributions element of the Total Tax Rate is the largest in 23 of the 30 economies in this region. Denmark, the UK, Malta (new in the study this year), Ireland, Iceland, The Netherlands and Norway are the exceptions where corporate income taxes are the largest element.

Figure 2.36: The tax profile for taxes borne in the EU & EFTA



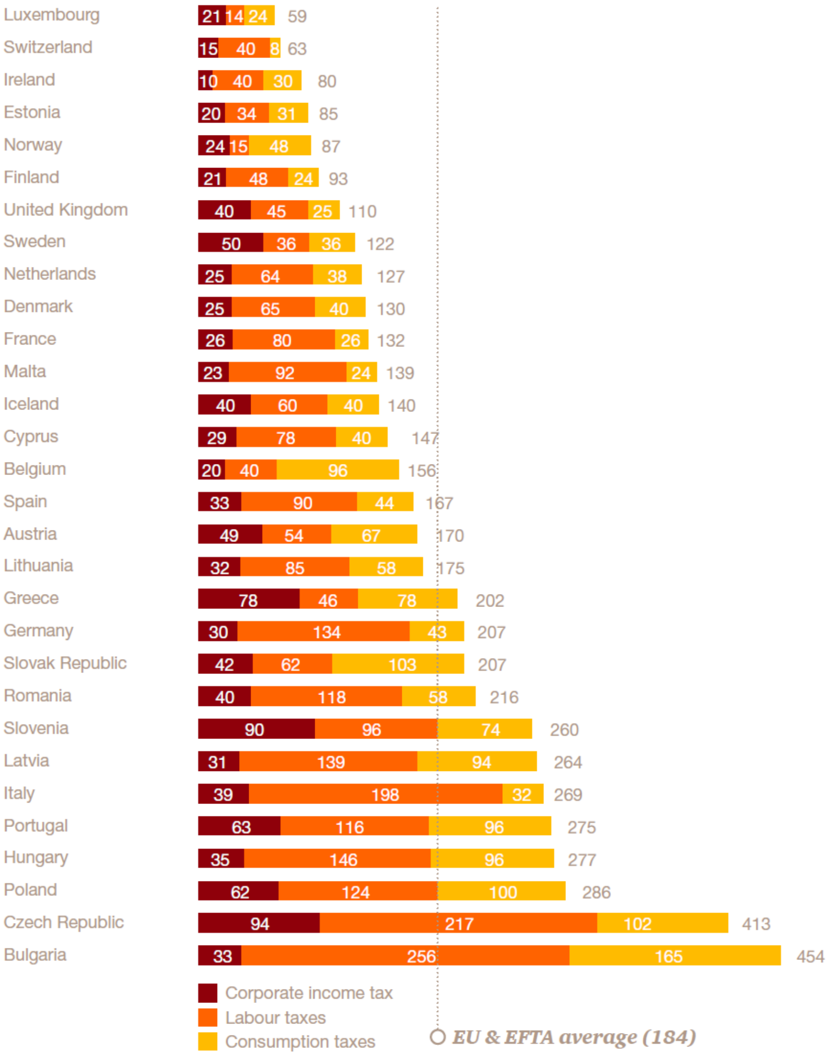
Source: PwC Analysis.

Figure 2.37: The Total Tax Rates in the EU & EFTA



Source: PwC Analysis.

Figure 2.38: The time to comply in the EU & EFTA



Source: PwC Analysis.

The time to comply

The average time to comply across the this region is 184 hours, 83 hours below the world average, and the lowest of any region apart from the Middle East. Two economies in the region, the Czech Republic and Bulgaria have a significantly higher number of hours with 413 and 454 hours respectively. The main reasons for their high levels of compliance time relates to the labour taxes and social contributions, as well as VAT.

In 23 economies it takes the longest time to deal with labour taxes and social contributions. Eleven economies in the region have four or more of these taxes which explains the compliance hours. Hungary and Romania have six different types of these taxes. The time to comply is also driven by the complexity of these taxes

The VAT systems which are applied in every economy in this region, account for 32% of the time to comply on average, but as we have reported in previous years, although the VAT is this region largely government by a common legal framework there is considerable variation in the time to comply which range from eight hours in Switzerland to 165 hours in Bulgaria. The reason for this is that the administrative procedures used to implement the tax vary considerably including the frequency at which VAT returns are required, the supporting documentation and invoices that are required by some countries and not in others, and how extensive the VAT returns are that have to be completed.

The number of payments

The average number of payments at 12.8 for this region is the lowest apart from North America. This low number is essentially a function of the fact that apart from two economies (Romania and Switzerland), all economies in the region have implemented electronic filing and payment [for at least two of the three major taxes]. Only Iceland, Cyprus and Romania have a number which is above the global average.

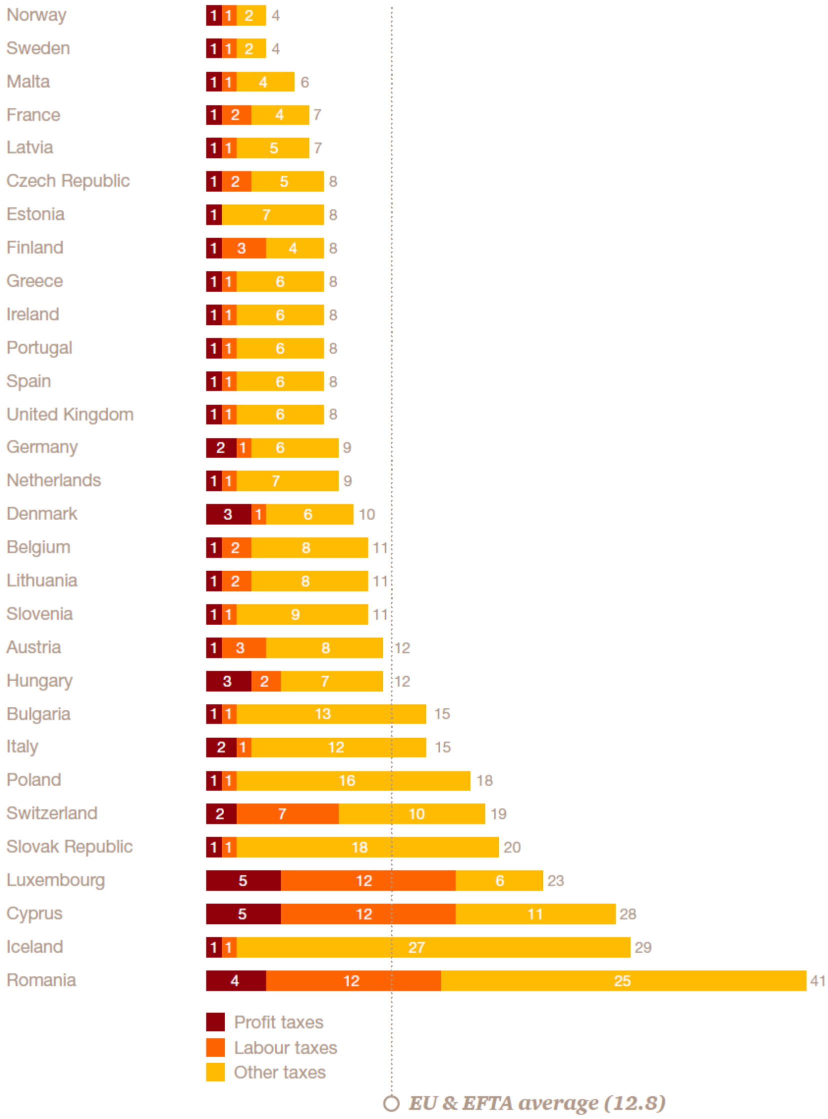
The trends

Total Tax Rate

The Total Tax Rate has fallen in the region each year since the study began apart from in the most recent year. Between *Paying Taxes* 2012 and *Paying Taxes* 2013 the average rate increased by 0.1%.

This increase in the most recent period is largely driven by Estonia. This economy made the most significant increase in its Total Tax Rate (by 8.7%), reflecting the full year impact of an additional 'sales tax' which is calculated by reference to turnover, and was originally introduced in June 2010. A number of economies reduced their Total Tax Rates, with Hungary, Greece and the UK making the largest cuts. In Hungary, the economy with the largest reduction over the twelve months since the last study, the community tax was abolished. In the UK the main rate of corporation tax was reduced from 28% to 26% while in Greece the corporate income tax rate continued to be reduced from 24% to 20%.

Figure 2.39: The number of payments in the EU & EFTA



Source: PwC Analysis.

Over the eight years of the study the economies that have made the largest reductions in their rates have been Spain, Romania, Bulgaria and Greece. This has largely been driven by significant decreases in corporate income tax coupled with reductions in social security contributions in Romania and Bulgaria.

Time to comply

The average hours to comply have fallen in each of the last seven years of the study, falling by 60 hours overall, including a fall of 13 hours in the most recent year.

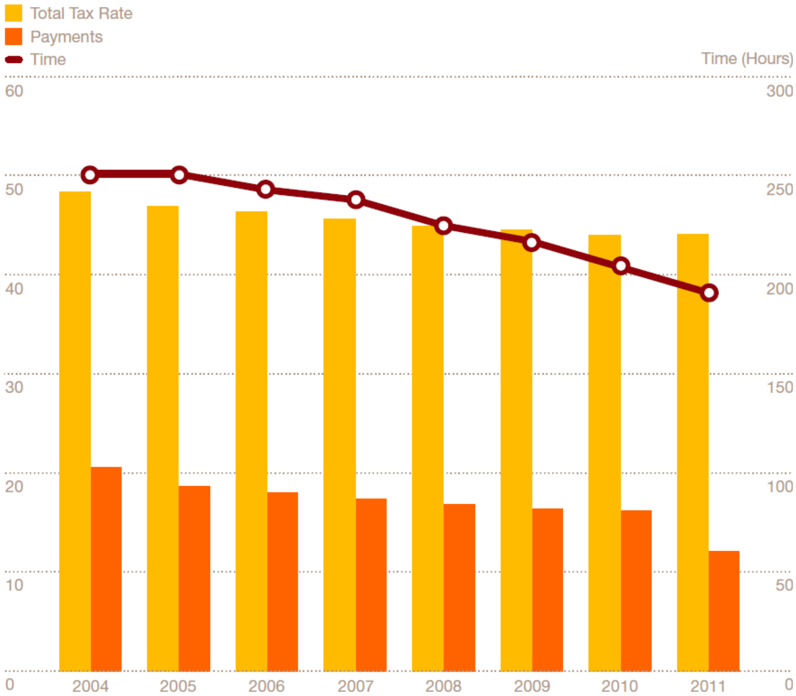
The economies showing the largest fall over the eight years have been the Czech Republic, Finland and Bulgaria. This has been largely due to increased use of and improved electronic filing and payment capabilities and greater efficiencies in tax administration over the period. For example the Czech Republic made it mandatory for all taxes to be filed electronically and for there to be unified filing, replacing the need for separate filing of each tax to different authorities. A similar set of reforms were followed in Bulgaria. In Finland they have simplified reporting and payments for VAT and for labour taxes. In other countries, Hungary has simplified its taxes and tax bases while The Netherlands reduced the frequency of filing and paying VAT.

Payments

The number of payments has also fallen steadily over the period of the study in this region, by 8.5 payments or just over one payment in each year. In the most recent year Romania reduced the number of payments from 113 to 41. This dramatic reduction is largely due to the implementation of new legislation requiring employers to submit just one joint payroll return for all the social contributions and the employment income tax.

Over the eight year period, it is electronic filing that has been the major driver of the overall reduction in the region.

Figure 2.40: The indicator trends for the EU & EFTA



Source: PwC Analysis.

Source: PwC Analysis.