

# A taxing situation



**PricewaterhouseCoopers and the World Bank have launched the ‘Paying Taxes 2009 – The Global Picture’ report, which compares tax systems worldwide. The report covers three major tax indicators in 181 economies (including Slovakia), namely the total tax rate, the time it takes companies to comply with tax compliance obligations, and the number of tax payments a year.**

The study is based on a business case which considers a domestic, mid-sized, flower pot manufacturer and retailer. This type of business can be easily identified worldwide, and ensures that the tax indicators generated can be compared across many diverse economies without significant distortions by industry-specific incentives. For each economy included in the study, the business is set in a purely domestic environment to allow the indicators to only capture the effects of the local tax system.

For Slovakia, the results can be taken as a clear picture of the impact of its tax system on the average business, as mid-size companies contribute most of the country’s GDP. Among 181 economies, Slovakia is ranked number 126 in the overall assessment of how easy it is to pay taxes worldwide, based on the tax indicators in the case study. Slovakia’s performance in each of the three tax indicators is shown in the table below.

In 2004, Slovakia implemented significant tax reforms. Since then, many other countries worldwide have also introduced tax reforms, overhauling their tax systems by reducing total tax rates, streamlining administrative processes, and modernizing payment systems. This has left Slovakia lagging behind in relation to the administrative burden imposed

on taxpayers. Also its labor taxes (social security) are relatively high compared to many other countries. Among the 25 EU member countries, Slovakia’s tax system is ranked as the fourth most complex, just a little behind those of Italy, Poland, and Romania, whereas four European Union members are in the top 20 for ease of paying taxes: Ireland (6), Denmark (13), Luxembourg (14) and the United Kingdom (16).

To identify a good tax system the report suggests some specific components; it should serve a clear state policy purpose, it should be strategic, coherent, and efficient, it should guarantee a fair and transparent application of legislation, and it should promote a positive tone and stance of tax authorities. The report thus draws the attention of the Slovak government to the actions it can undertake to improve the country’s position in the international rankings. It focuses on three major areas of

the tax system: companies’ total tax liabilities, time to comply with tax obligations, and the number of tax payments per year.

To prompt dialogue between government and businesses, the Slovak Ministry of Finance (MoF SR) published in 2008 the concept of a new tax and customs reform. The main objective is to reduce the administrative burden imposed on taxpayers by adopting a simplified and unified process. This new reform should thus lead to a more effective, taxpayer-oriented tax and customs system, unifying the collection of taxes, customs duty, and social security contributions. It should also lead to cost savings for both taxpayers and the state budget, a better and more comprehensive overview of the development of public finances, a reduction in tax and customs duty evasion, a reduction in the administrative burden, and a decrease in the number of separate payments a taxpayer must make. Further, it

may also introduce an electronic filing system to make tax payment easier and more effective, as businesses should be able to enter financial information online and file it with one mouse click.

According to the joint report of PricewaterhouseCoopers and the World Bank, the most common features of tax reforms in 2007 and 2008 worldwide were a reduction in profit tax rates, a simplification of tax payment procedures, and a reduction in labor tax (or contribution) rates. Therefore, the new reform focusing on the simplification of tax payment procedures should help Slovakia to catch up with the tax reforms recently implemented in countries ranking above Slovakia in the survey.

At this early stage, it is difficult to estimate whether these reforms proposed by MoF SR will lead to Slovakia being placed among the most favorable of countries for taxpayers in the future. We hope it will. Should it prove successful, it is likely to have a significant impact on Slovakia, improving its ranking in Paying Taxes and helping to keep the inflow of investments coming into the country.



*Renato Pellegrini*  
Manager, Tax  
PricewaterhouseCoopers

Total tax rate (a percentage of commercial profits)	Total tax rate	Corporate income tax rate	Labor tax rate	Other taxes rate	Rank
<b>Slovakia</b>	<b>47.40%</b>	<b>6.80%</b>	<b>39.50%</b>	<b>1.00%</b>	<b>115</b>
Time to comply with tax obligations	Total tax time per year	Corporate income tax time	Labor tax time	Consumption tax time	Rank
<b>Slovakia</b>	<b>325 h.</b>	<b>61 h.</b>	<b>120 h.</b>	<b>144 h.</b>	<b>129</b>
Number of tax payments per year	Total tax payments	Corporate income tax payments	Labor tax payments	Other taxes payments	Rank
<b>Slovakia</b>	<b>31</b>	<b>1</b>	<b>12</b>	<b>18</b>	<b>94</b>

