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Paying Taxes 2018

Technology has reduced the tax compliance burden on business, but where will the demands for increased data lead?
Dubai, 21 November 2017.

The use of technology, by business and government, in tax compliance is driving continued simplification and reduction in the burden of tax compliance on businesses, says the latest edition of Paying Taxes 2018, a report by The World Bank Group and PwC.

Released today, the report finds that the time to comply declined by 5 hours to 240 hours; and the number of payments by one to 24 payments. On the post-filing index, in 81 economies a corporate income tax audit is triggered by taxpayers voluntarily amending a return for a simple error while in 51 of the economies with a VAT system, no VAT refund is available for our case study company, suggesting that there is significant room for improvement in post-filing processes in many economies.

The movement in the Total Tax and Contribution Rate (TTCR) is virtually flat, increasing by just 0.1 percentage points, to 40.5%; with some increases in corporate income taxes and turnover taxes.

The Paying Taxes 2018 report examines the ease of paying taxes in 190 economies. The report models business taxation in each economy using a medium-sized domestic case study company.

Both the time and number of payments needed to comply have continued to fall significantly, reflecting the increasing use of technology. Time needed to comply with labour and profit taxes fell by 2 hours (to 61 hours for profit taxes and 87 hours for labour taxes), compared to last year, with labour taxes showing the greatest reduction over the life of the study (since *Doing Business 2006*). Electronic filing and payment, improved tax and accounting software and pre-populated returns are amongst the key drivers.

The number of tax payments made has fallen by around one payment for the second year in a row, driven largely by increased on-line filing and payments capabilities, new web portals and the greater use by taxpayers of online systems.

The global average TTCR increased slightly since last the last study (Paying Taxes 2018: 40.5%, Paying Taxes 2017: 40.4%). More economies showed an increase in TTCR than a reduction - 52 compared to 36. For the first time since 2004, the TTCR for taxes other than labour and profit taxes increased. Other taxes would include property taxes, road taxes, environmental fees, municipality charges, property transfer taxes and any other small charge.

Despite sizeable changes in the global average results, many economies, particularly in the lower income range, have been slower to take full advantage of the benefits of technology. The study also notes an increase in the use of real, or near real time information systems by tax authorities to track transactions, for example in Russia, the Republic of Korea and China.

Real time data is giving tax authorities the opportunity to scrutinize transactions on a near real-time basis rather than relying on reviews of annual tax returns. New real-time systems may add to compliance times as they are first implemented, but they have the potential to lead to fewer audits or to faster VAT refunds in the future.

The post-filing processes for value-added tax (VAT) and corporate income tax (CIT) returns, which are considered in the study for the second year, can be amongst the most challenging and lengthy processes for businesses to comply with. In some cases, the length of the processes can create cash flow and administrative delays for companies of more than a year.

The report finds that 162 economies have a VAT system, with a VAT refund available to the case study company in 107 economies. There is no VAT refund available in 51 economies, particularly in South America and Africa. In four economies, the purchase of an industrial machine is exempted from VAT. The EU performs the best for speed of VAT refunds (and corporate income tax processes), whereas it is a mixed picture for Central America and Middle East, and Asia Pacific, with Africa and South America lagging behind.

Rita Ramalho, Acting Director, Global Indicators Group, Development Economics, World Bank Group said:
"The continued reduction in the burden of paying taxes, in time and number of payments, is welcome news indeed. The use of technology can provide significant benefits for both tax payers and tax collectors, and we look forward to its increased use in efforts to improve the ease of doing business for medium sized enterprises in countries around the world,"

Andrew Packman, leader for Tax Transparency and Total Tax Contribution at PwC said:

"Technology's impact on reducing the administrative and cost burden of tax is almost universal this year in our findings. In particular it is now embedded in driving simplification and time-saving for business. The increasing use of real, or near real time data is changing how tax authorities can use data, and analyse returns. This does however raise questions about data integrity and security and about how businesses can meet the increasing data obligations placed upon them."

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Notes

1. Paying Taxes 2018 measures all mandatory taxes and contributions that a medium-size company must pay in a given year as well as measuring the administrative burden of filing and paying taxes and complying with post-filing processes. Taxes and contributions measured include profit or corporate income tax, social contributions and labour taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and other small taxes or fees. For more information about the Paying Taxes study, visit: www.pwc.com/payingtaxes.

2. Paying Taxes builds on the World Bank Group's Doing Business reports' chapter on Paying Taxes. For more information on the Doing Business report series, visit: www.doingbusiness.org

About the World Bank Group

The World Bank Group plays a key role in the global effort to end extreme poverty and boost shared prosperity. It consists of five institutions: the World Bank, including the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA); the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for Settlement of Investment Disputes (ICSID). Working together in more than 100 countries, these institutions provide financing, advice, and other solutions that enable countries to address the most urgent challenges of development. For more information, please visit www.worldbank.org, www.miga.org, and ifc.org.

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