

# *Paying Taxes 2013*

The global picture



[www.pwc.com/payingtaxes](http://www.pwc.com/payingtaxes)

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

# Contents

<b>Foreword</b>	<b>1</b>
<b>Key themes and findings</b>	<b>3</b>
<b>About Paying Taxes</b>	<b>9</b>
<b>Chapter 1: Findings of the World Bank and IFC's <i>Doing Business</i> 2013 report</b>	<b>13</b>
<b>Chapter 2: PwC commentary</b>	<b>21</b>
<b>An economic analysis</b>	<b>23</b>
<b>The global results</b>	<b>29</b>
<b>The regional analyses:</b>	
Africa	<b>41</b>
Asia Pacific	<b>57</b>
Central America & Caribbean	<b>73</b>
Central Asia & Eastern Europe	<b>85</b>
EU & EFTA	<b>95</b>
Middle East	<b>109</b>
North America	<b>115</b>
South America	<b>123</b>
<b>Appendix 1: Methodology</b>	<b>137</b>
<b>Appendix 2: The data tables</b>	<b>145</b>

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# *Foreword*



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The Paying Taxes indicators (the Total Tax Rate, the time to comply and the number of payments) have now been part of the World Bank Group *Doing Business* project for eight years, monitoring the changes and reforms made to tax regimes around the world. The simple aim of the study is to supply business leaders and policy makers with robust data to enable tax systems to be compared on a like for like basis, and to help inform the dialogue which underlies the development of tax policy.

The study is unique in that it now not only covers 185 economies, but it also provides an insight into how tax systems have developed over a significant period of time, using a consistent methodology.

The period covered (2004 to 2011) has been a particularly turbulent one. Initially there was a period of significant growth, followed by an abrupt and severe economic downturn. We are now in a period of slow, gradual, but inconsistent recovery. It is not surprising therefore that with this volatile economic backdrop, the interest in the payments made by business and received by governments has become more intense and widespread.

In this year's publication therefore we have focussed on the trends that the Paying Taxes data show, both at the global level, and also by geographical region. Globally it is now easier for firms to pay taxes than eight years ago. Both the administrative burden and the average tax rates have decreased over this period. The studies for some time have shown a trend toward a lowering of corporate tax rates and a broadening of the tax base. In last year's publication the pace of reform continued but with an increasing focus on improving the administrative aspects of the tax system. This year's results are more complex; administrative reforms have continued, but the fall in average global tax rates seems to have stalled; this may indicate that tax rates are stabilising as the pressure on public finances continues to grow.

Taxes have historically been used as a policy instrument in a variety of ways, but with the continuing difficult economic environment, the tension between the need to raise tax revenues and at the same time to provide a system which encourages economic activity is increasing. Governments need to raise revenues to enable them to discharge their obligations to provide funding for infrastructure, education and public health, and in some cases there is still much to do to reduce the significant public deficits which persist. However, in a world which has now truly embraced globalisation, some governments also see a need to put in place tax systems which are seen to be efficient, can help to attract investment, and in turn can help foster economic growth. A sensible business tax system is not just about attractive tax rates but also tax rules which are simple and easy to comply with.

As in previous editions of the Paying Taxes publication we include a number of articles from around the world which give further insights on how governments are addressing the challenging issues that they face and some of the specific policies that they are implementing.

We have also included the results of some additional analysis undertaken this year. As we now have eight years of Paying Taxes data, we consider it sufficiently robust for a comparison to be made with some broader macroeconomic indices around growth and investment. In some respects the results are perhaps not surprising, confirming that higher tax burdens are associated with lower investment; the more striking result is that reducing the administrative burden on business appears to be linked with economic growth more strongly than cutting tax rates. Paying Taxes suggests that administrative reform is the priority for governments.

We hope that the Paying Taxes study continues to generate data that you find useful, but if you have any comments or feedback on how we can develop this study further then we would be delighted to hear from you.



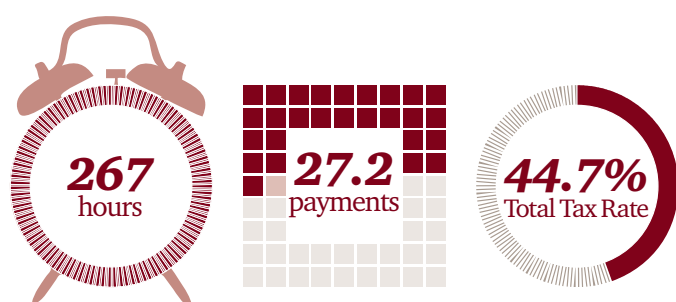
**Augusto Lopez Claros**



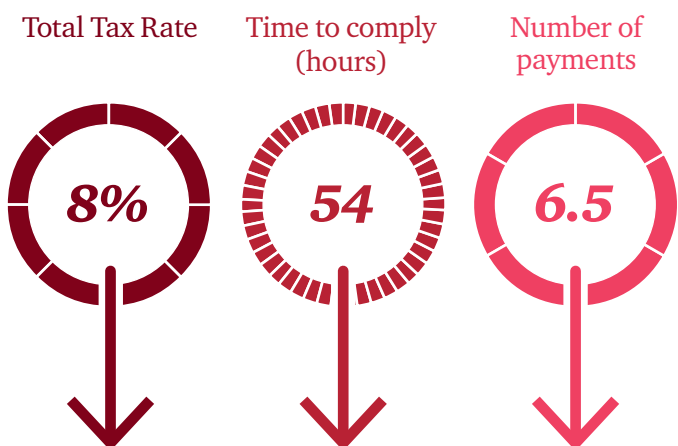
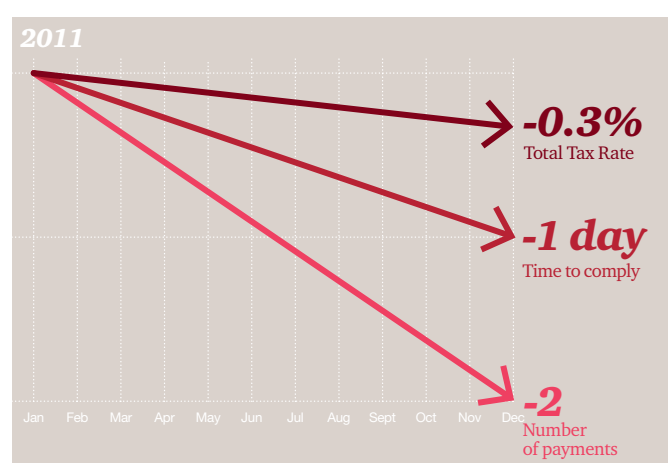
**Andrew Packman**

# Key themes and findings

## Indicators at the global level

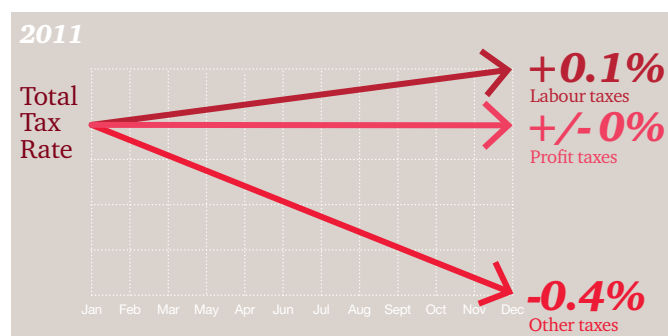


On average it now takes our case study company **267 hours** to comply with its taxes, it makes **27.2 payments** and pays an average Total Tax Rate of **44.7%**.



On average across the eight years of the study the cost of tax, the Total Tax Rate, has fallen by almost **1%** for each year; the time to comply has fallen by **54 hours** (seven days); and the number of payments has fallen by **6.5**.

While the time to comply and number of payments have continued to fall significantly in 2011, the rate of decline for the Total Tax Rate slowed. The Total Tax Rate fell by **0.3%**, the number of hours fell by **a day** and the number of payments by almost **2**.



In 2011 the average rate of profit tax has remained flat while the rate for labour taxes and social contributions increased by **0.1%** and for 'other' taxes fell by **0.4%**.

All three paying taxes indicators have fallen consistently over the period of the study reflecting the reforms that governments have implemented with a view to making paying taxes easier and so easing the burden for business and government.

Not surprisingly in a world in which globalisation is being embraced and comparisons are more easily made with geographic neighbours and economic peers, the range of the indicators is narrowing suggesting a gradual move to what may be perceived as being sustainable.

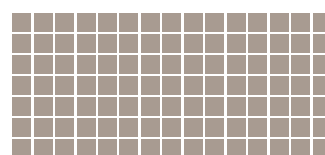
The fact that the compliance indicators (the number of hours and payments) continue to fall significantly, suggests that there is still scope for improvement in many economies around the world, and that the value of making such improvements is understood. However, the reduction in the Total Tax Rate has slowed reflecting the need for governments to deal with different economic scenarios and circumstances which have arisen in the wake of the economic downturn, and to use a variety of policy options which they have at their disposal.

The study continues to show that corporate income tax is only part of the picture when looking at the contribution made by business to public finances. This is important for governments when considering the reforms which it feels are necessary for the tax system. And for companies the challenge is to have a better understanding of the full extent of their contribution to the economy in which they operate and an ability to improve the way in which they communicate on tax.

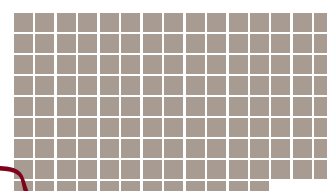
### Corporate income tax only part of the burden



2004  
**105 economies**

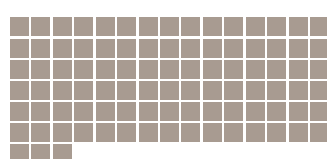


2011  
**132 economies**

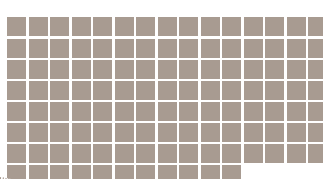


The distribution for the time to comply has also narrowed. In 2011 **132 economies** spent between **101 and 350 hours** on their tax compliance for the case study company compared with **105 of the economies** in 2004.

2004  
**93 economies**

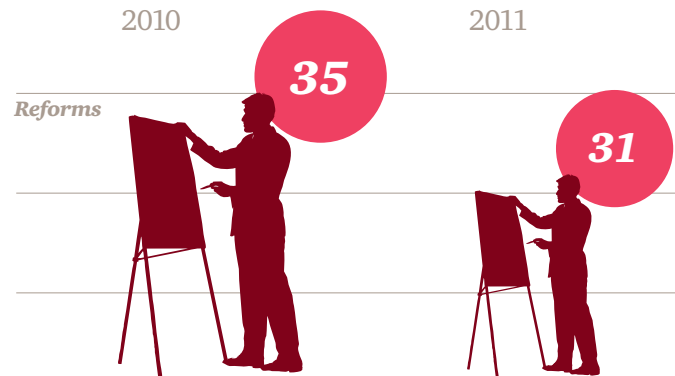


2011  
**116 economies**



The range of Total Tax Rates applied around the world has narrowed. **116 economies** in the study now have a rate between **26 and 50%** compared to **93 economies** in 2004.

2010



Reforms continue around the world. However the number of economies reforming has fallen from **thirty five** last year to **thirty one** in the most recent study. The focus continues to be on reducing the administrative burden of the tax system.

# The regional picture\*

Central Asia & Eastern Europe has been the biggest reformer over the eight years of the study. Economies in this region have shown the largest fall in both the time to comply (200 hours) and number of payments (22.2) and apart from the Middle East have the largest fall in the Total Tax Rate (12.6%).

**Efficient**  
tax systems

**Lowest**  
payments

**High**  
number of  
payments

The highest number of payments is now made in Africa (37.0) and the lowest in North America (8.3) followed by the EU & EFTA<sup>1</sup> (12.8).

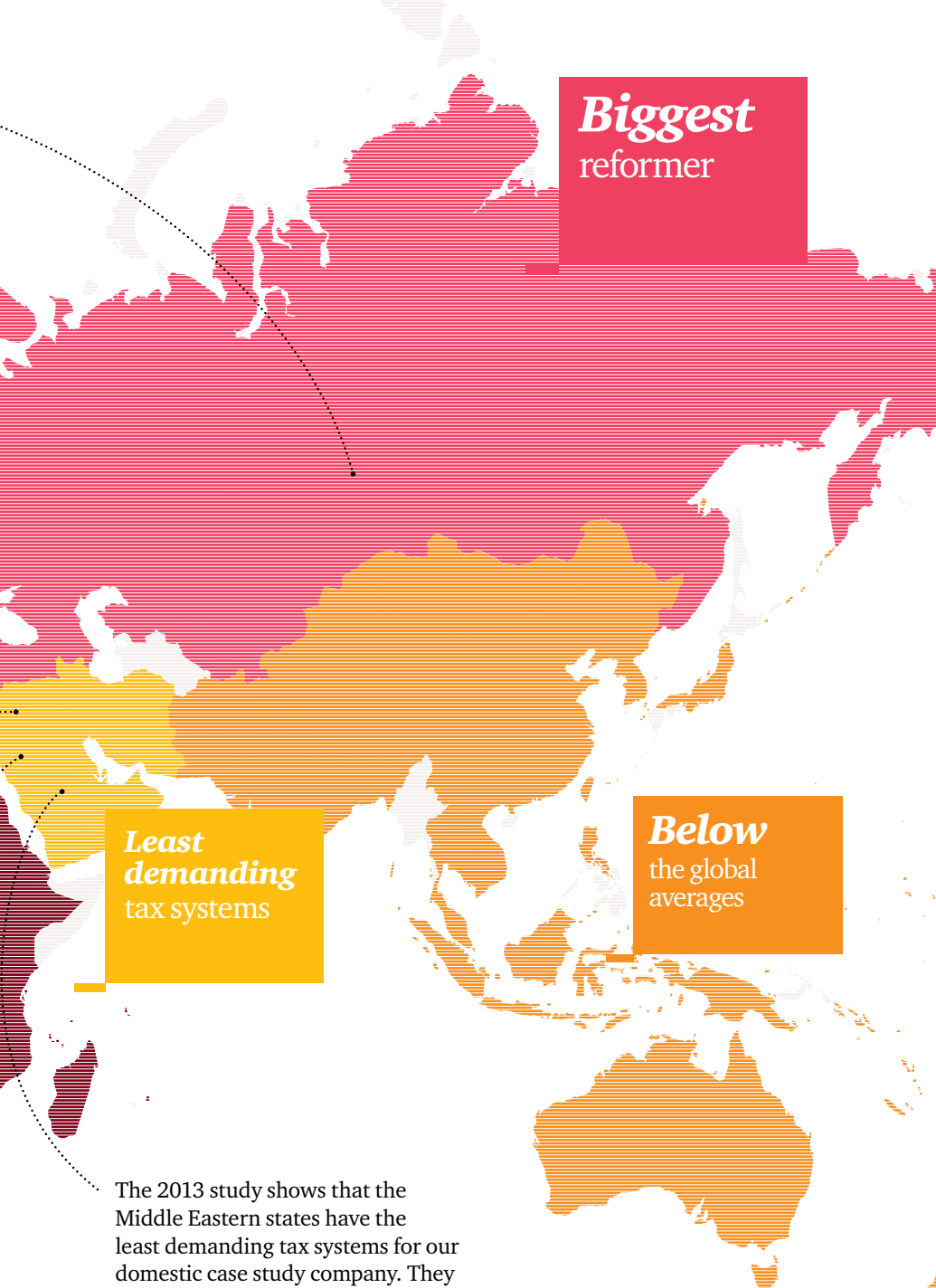
**Highest**  
total tax rate

**Highest**  
hours

Compliance continues to take longest in South America (619 hours) and the least amount of time is spent in the Middle East (158 hours). This has been the position consistently through the eight years of the study.

\* The regional classifications are different from those used in the World Bank/IFC Doing Business report. For a list of economies in each region please refer to the regional analyses which begin on page 41

<sup>1</sup> European Union & European Free Trade Association (EU & EFTA)



**Biggest  
reformer**

**Least  
demanding  
tax systems**

**Below  
the global  
averages**

The 2013 study shows that the Middle Eastern states have the least demanding tax systems for our domestic case study company. They have the lowest average Total Tax Rates (23.6%), the lowest time to comply (158 hours), but the payments indicator (17.6) suggests that improvements are still possible for electronic filing and payment.

The Middle East has had the lowest Total Tax Rates and Africa has the highest throughout the eight years of the study. The elimination of the cascading sales tax regimes is improving Africa's position. This has also helped reduce the global average along with large falls in the rates applied in Central Asia & Eastern Europe, and the Middle East.

It is not surprising that the economies in the Middle East feature so prominently in the top jurisdictions of the Paying Taxes indicators. This can largely be attributed to the relatively few taxes levied on the case study company and a reliance on other sources of government revenues. The expectation is that this will change as new revenue raising measures are introduced.

The economies in Central Asia & Eastern Europe have led the charge over the period of the study to improve their tax compliance procedures and also to reduce their tax rates.

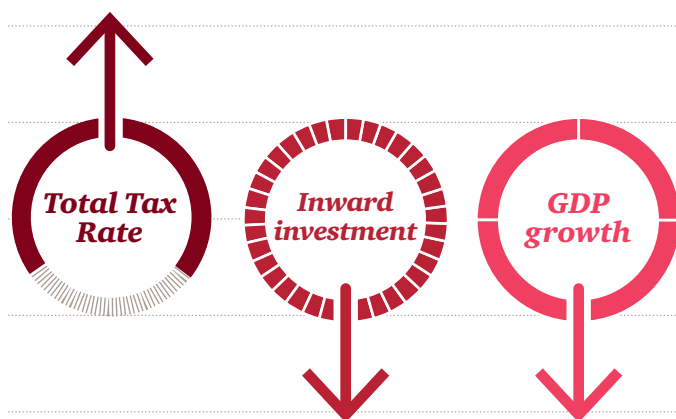
While the Total Tax Rates for Africa still appear to be high, if the three countries with cascading sales taxes are excluded then the average falls to a level which is just above the world average, leaving South America as the region with the highest Total Tax Rates.

South America is also the region which demonstrates the heaviest compliance burden in terms of the hours to comply. This is driven by a mix of complicated tax systems, regimes which have multiple levels of government and tax authorities, and where regular changes to the tax system are common.

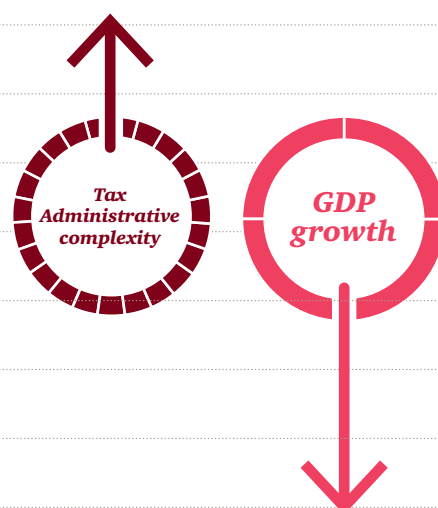
The developed economies of Europe and North America not surprisingly have the most efficient tax systems but Total Tax Rates can be high, driven in many cases by numerous labour taxes and social contributions.

The Asia Pacific economies tend to have Total Tax Rates that are below the world average and they have continued to fall as they look to compete in the world economy.

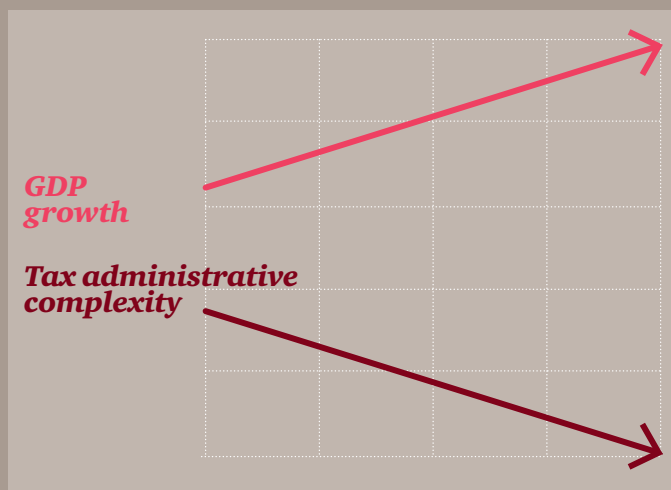
## Some economic insights



A comparison of the Total Tax Rate indicator with GDP and FDI suggests that higher Total Tax Rates for business are associated with reduced ability for an economy to grow and attract inward investment.



Comparing the compliance indicators for the time to comply and the number of payments with GDP suggests that a high level of administrative complexity in the tax system is associated with less economic growth, and to a greater degree than the tax cost – this is particularly the case in relation to the number of payments indicator, implying that a high number of taxes, and a lack of electronic filing and payment facilities are key reasons here.



In economies where action was taken to reduce complexity in tax administration – both in terms of the number of payments and the time taken to deal with tax matters – there has been a positive change on economic growth.

The economic analysis to compare the Paying Taxes indicators with Gross Domestic Product (GDP) and Foreign Direct Investment (FDI) suggests that while higher business taxation can be linked to slower economic growth and international investment, reducing the administrative burden and complexity of the tax system can potentially be linked to a greater change in overall growth. The implication is that minimising the time and effort which businesses need to spend on complying with the tax system is equally important for governments when considering how best to stimulate and sustain economic growth.





## *About Paying Taxes and this report*

Paying tax is important. Taxes provide government with revenues, and those who pay them have a stake in the system and in how government spends its money. In view of the current global economic climate, many governments spending and tax policies are now constrained by the need for deficit reduction to maintain the confidence of financial markets, but there is also a need to strike a balance when setting fiscal policy. Tax systems can also contribute to an economic environment that is attractive for inward investment and which can help domestic businesses to grow. For developing economies, the global economic downturn has created an additional issue to address as the aid budgets of developed economies have been cut. Governments in these countries need to consider how they can replace this funding. Looking at how they can improve their tax systems so that they are capable of generating a more sustainable source of financing than debt or aid is high on the agenda. The pressure from governments for tax authorities to generate higher tax revenues is likely to continue to increase.





The Paying Taxes study looks at tax systems from the business perspective. Business plays an essential role in contributing to economic growth and prosperity by employing workers, improving the skills and knowledge base, buying from local suppliers and providing affordable products that improve people's lives. Business also pays and generates many taxes. As well as corporate income tax on profits, business pays employment taxes, social contributions, indirect taxes, property taxes and a whole variety of smaller taxes including environmental taxes. The Paying Taxes study shows that corporate income tax is levied on business in 179 economies, value added tax (VAT) is collected by business in 154 economies, and a range of labour taxes and social contributions is borne and collected by business in 184 economies. Taxes borne and collected by business are therefore important and the impact that these taxes and the tax systems used to generate them have on business is also important both in terms of their direct cost, and in terms of the compliance costs that they impose on business as an unpaid tax collector for government.

Paying Taxes is a unique study. It provides data on tax systems around the world with an ability to monitor tax reform, and now over an eight year period. It is unique because it generates a set of indicators that measure the world's tax systems from the point of view of business and also because it covers the full range of taxes paid in 185 economies, measuring how business complies with the different tax laws and regulations in each economy.

This is the eighth year that the Paying Taxes indicators have been included in the *Doing Business* project run by the World Bank Group. The indicators measure the ease of Paying Taxes for a small to medium sized domestic company, in all of the 185 economies that it covers.

The objectives of the study are:

- to provide data which can be compared between economies on a like for like basis;
- to facilitate the benchmarking of tax systems within relevant economic and geographical groupings, which can provide an opportunity to learn from peer group economies;
- to enable an in-depth analysis of the results which can be used to help identify good practices and possible reforms, and
- to generate robust data on tax systems around the world, including how they have changed, which can be used to inform the development of good tax policy.

Paying Taxes uses a case study scenario to measure the taxes and contributions paid by a standardised business and the complexity of an economy's tax compliance system. This case study scenario uses a set of financial statements and assumptions about transactions made over the year. Tax experts from a number of different firms in each economy (including PwC), compute the taxes and mandatory contributions due in their jurisdiction, based on the standardised case study facts. Information is also compiled on the frequency of filing and payments, as well as the time taken to comply with tax laws in an economy. The case study company is not intended to be a representative company, but has been constructed to facilitate a comparison of the world's tax systems on a like for like basis.

Paying Taxes covers both the cost of the taxes which are borne by the case study company, and also the administrative burden of the taxes that the company bears and the taxes that it collects on behalf of government (but which do not have an impact on the company's results). Both the tax cost and the tax compliance burden are important from the business point of view and these are measured using three sub-indicators:

- Total Tax Rate, (the cost of all taxes borne);
- time needed to comply with the major taxes (profit taxes, labour taxes and mandatory contributions, and consumption taxes); and
- the number of tax payments.

The World Bank /IFC *Doing Business* project calculates an overall ranking for the ease of paying taxes which is a simple average of the percentile rankings on each of the sub indicators with a lower threshold applied to the Total Tax Rate. The threshold is defined as the highest Total Tax Rate among the 15% of economies with the lowest rates. The results for each sub-indicator, split by type of tax, are included in Appendix 2 of this publication along with the overall ease of Paying Taxes ranking. Further details are also available on the *Doing Business* and the PwC websites.<sup>2</sup> The full methodology for the case study company and the indicators are also set out on these websites and some examples of how the indicators are calculated are included in Appendix 1 of this publication.

Chapter 1 of this publication sets out this year's perspective from the World Bank.

It looks at where paying taxes is easy and where not, the reforms that were made in 2011/2012, and some insights learned from the eight years of data

Chapter 2 provides a further analysis by PwC.

This year the analysis begins by comparing the Paying Taxes indicators with some key macroeconomic measures. It then takes a look at the global results for this year's study and a comparison of the results around the world by geographical region. The chapter goes on to take a detailed look at the global trends over the eight years of the Paying Taxes study for each of the sub-indicators, and again compares the movements in each of the geographical regions.

<sup>2</sup> [www.doingbusiness.org](http://www.doingbusiness.org) and [www.pwc.com/payingtaxes](http://www.pwc.com/payingtaxes)

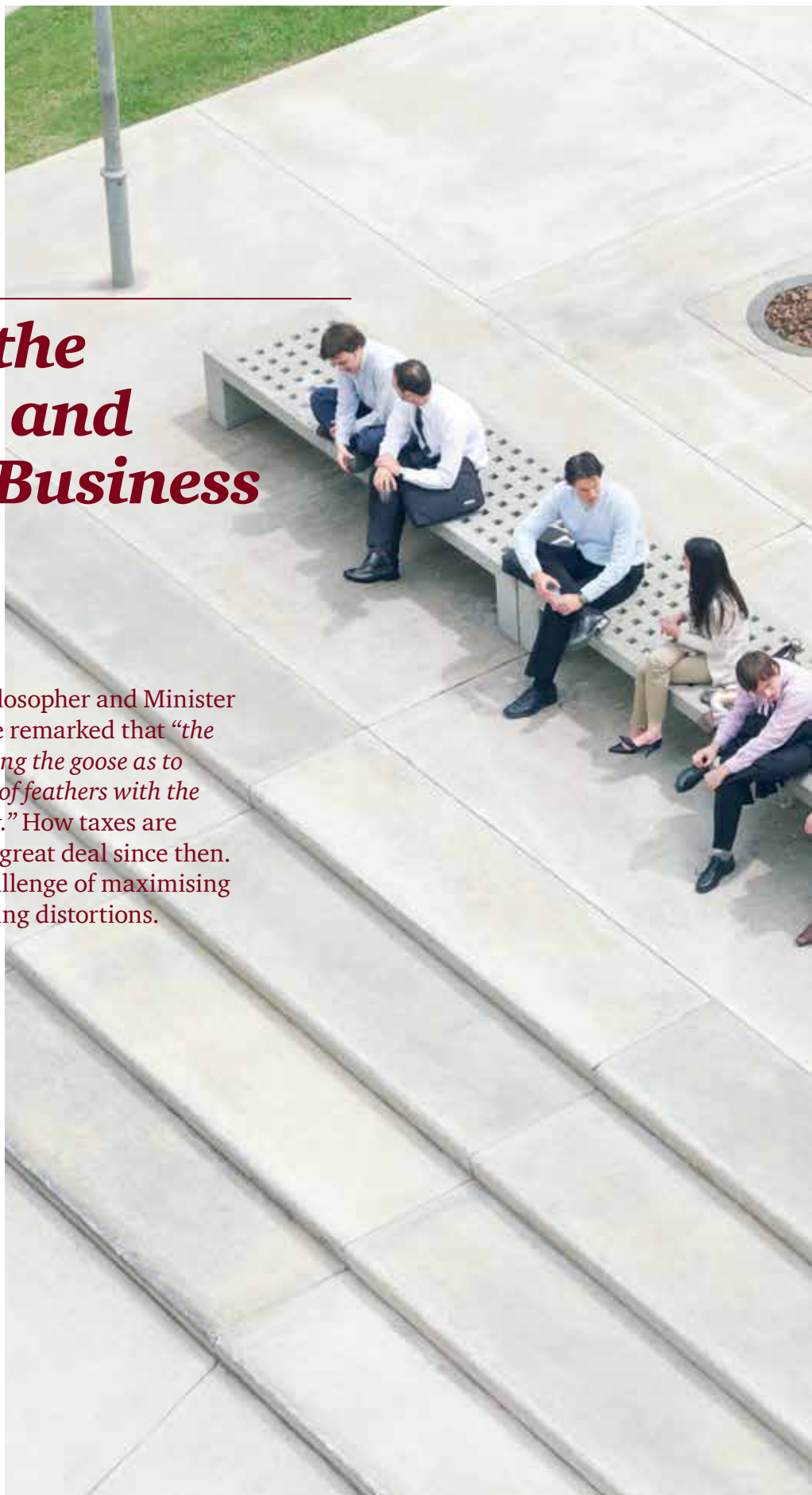


Each region is then looked at in detail. This covers the tax profile for the region and the economies within each region, a comparison for each of the sub-indicators and also how each of these has changed for that region with a focus on the some of the economies which have driven those movements. A selection of commentaries from a number of PwC offices around the world is included in each of the regional sections. These look at the results of Paying Taxes for their particular economy in more detail illustrating how the data is being used in practice to inform and stimulate discussion with governments and, they also refer to some of the reforms that have been and are being implemented to address the issues arising in such dialogues.



# ***Findings of the World Bank and IFC's Doing Business 2013 report***

Jean-Baptiste Colbert, French philosopher and Minister of Finance to King Louis XIV, once remarked that *“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.”* How taxes are collected and paid has changed a great deal since then. But governments still face the challenge of maximising revenue collection while minimising distortions.







Firms in the United Arab Emirates face the lightest administrative burden in Paying Taxes. They must make only four payments a year and spend 12 hours doing so.

From June 2011 to June 2012 *Doing Business* recorded 31 reforms making it easier and less costly for companies to comply with taxes.

Liberia made the biggest improvement in the ease of paying taxes in the past year.

Belarus has advanced the most toward the frontier in regulatory practice in Paying Taxes since 2004.

The most common feature of tax reforms in the past eight years was to reduce profit tax rates, often in the context of parallel efforts to improve tax compliance. But in the past two years more economies focused on introducing electronic systems.

Among regions, Eastern Europe & Central Asia had the biggest improvement in the ease of Paying Taxes in the past eight years.

For more information on good practices and research related to Paying Taxes, visit <http://www.doingbusiness.org/data/exploretopics/paying-taxes>.

*Doing Business* records the taxes and mandatory contributions that a medium-size company must pay in a given year and also measures the administrative burden of Paying Taxes and contributions. It does this with three indicators: number of payments, time and Total Tax Rate for the *Doing Business* case study firm. The number of payments indicates the frequency with which the company has to file and pay different types of taxes and contributions, adjusted for the way in which those filings and payments are made.<sup>3</sup> The time indicator captures the number of hours it takes to prepare, file and pay three major types of taxes: profit taxes, consumption taxes, and labour taxes and mandatory contributions. The Total Tax Rate measures the tax cost (as a percentage of profit) borne by the standard firm. The indicators do not measure the fiscal health of economies, the macroeconomic conditions under which governments collect revenue or the provision of public services supported by taxation. The ranking on the ease of Paying Taxes is the simple average of the percentile rankings on its component indicators, with a threshold applied to the Total Tax Rate (Figure 1.1).<sup>3</sup>

### Who reformed in Paying Taxes in 2011/12?

From June 2011 to June 2012 *Doing Business* recorded 31 reforms making it easier or less costly for firms to pay taxes (Figure 1.2). Sixteen economies mandated or enhanced electronic filing, eliminating the need for 196 separate tax payments and reducing compliance time by 134 days (1,070 hours) in total. In Uruguay small and medium-size companies can now file and pay corporate income tax, value added tax and capital tax online.

**Figure 1.1: Where is Paying Taxes easy – and where not?**

Economy	Overall rank	Most difficult	Rank
United Arab Emirates	1	Cameroon	176
Qatar	2	Mauritania	177
Saudi Arabia	3	Senegal	178
Hong Kong SAR, China	4	Gambia, The	179
Singapore	5	Bolivia	180
Ireland	6	Central African Republic	181
Bahrain	7	Congo, Rep.	182
Canada	8	Guinea	183
Kiribati	9	Chad	184
Oman	10	Venezuela, RB	185

**Note:** Rankings are the average of the economy's rankings on the number of payments, time and Total Tax Rate, with a threshold imposed on the Total Tax Rate.

**Source:** *Doing Business* database.

**Figure 1.2: Who made Paying Taxes easier and lowered the tax burden in 2011/12 – and what did they do?**

Feature	Economies	Some highlights
Introduced or enhanced electronic systems	Albania; Belarus; Bosnia and Herzegovina; Costa Rica; Czech Republic; Georgia; Germany; Kenya; Panama; Russian Federation; Saudi Arabia; Slovak Republic; Slovenia; Ukraine; United Arab Emirates; Uruguay	Ukraine introduced an online filing and payment system and made its use mandatory for medium-size and large enterprises.
Reduced profit tax rate by 2 percentage points or more	Belarus; Brunei Darussalam; Fiji; Japan; Republic of Korea; Lao PDR; Liberia; Mali; Puerto Rico (U.S.); Slovenia; Thailand; United Kingdom	The United Kingdom reduced 2 corporate income tax rates: the main rate from 28% to 26% and the small-company rate from 21% to 20%.
Merged or eliminated taxes other than profit tax	Albania; Hungary; Liberia	Liberia abolished the turnover tax.
Simplified tax compliance process	Jamaica; Mali; Panama; Poland	Jamaica introduced joint filing and payment of all five types of social security contributions that firms must make.
Reduced labour taxes and mandatory contributions	Croatia	Croatia made Paying Taxes less costly by reducing health insurance contributions.
Introduced change in cascading sales tax	Swaziland	Swaziland introduced value added tax to replace its cascading sales tax.

**Source:** *Doing Business* database.

<sup>3</sup> Companies sometimes prefer more frequent payments, to smooth cash flow, and less frequent filing.

<sup>4</sup> The threshold is set at the 15th percentile of the Total Tax Rate distribution, and this year is 25.7%. All economies with a Total Tax Rate below this level receive the same percentile ranking on this component. The threshold is not based on any economic theory of an "optimal tax rate" that minimises distortions or maximises efficiency in the tax system of an economy overall. Instead, it is mainly empirical in nature, set at the lower end of the distribution of tax rates levied on medium-size enterprises in the manufacturing sector as observed through the Paying Taxes indicators. This reduces the bias in the indicators toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardised case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology).

**Figure 1.3: Who makes Paying Taxes easy and who does not – and where is the Total Tax Rate highest?**

**Payments (number per year)**

<b>Fewest</b>		<b>Most</b>	
Hong Kong SAR, China	3	Antigua and Barbuda	57
Saudi Arabia	3	Guinea	58
Norway	4	Senegal	59
Qatar	4	Panama	60
Sweden	4	Congo, Rep.	61
United Arab Emirates	4	Sri Lanka	61
Georgia	5	Côte d'Ivoire	62
Singapore	5	Serbia	66
Chile	6	Tajikistan	69
Malta	6	Venezuela, RB	71

**Time (hours per year)**

<b>Fastest</b>		<b>Slowest</b>	
United Arab Emirates	12	Cameroon	654
Bahrain	36	Ecuador	654
Qatar	48	Senegal	666
Bahamas, The	58	Mauritania	696
Luxembourg	59	Chad	732
Oman	62	Venezuela, RB	792
Switzerland	63	Vietnam	872
Saudi Arabia	72	Nigeria	956
Seychelles	76	Bolivia	1,025
Hong Kong SAR, China	78	Brazil	2,600

**Total Tax Rate (% of profit)**

<b>Highest</b>	
Colombia	74.4
Palau	75.7
Bolivia	83.4
Tajikistan	84.5
Eritrea	84.5
Uzbekistan	98.5
Argentina	108.3 <sup>a</sup>
Comoros	217.9 <sup>a</sup>
Gambia, The	283.5 <sup>a</sup>
Congo, Dem. Rep.	339.7 <sup>a</sup>

**Note:** The indicator on payments is adjusted for the possibility of electronic or joint filing and payment when used by the majority of firms in an economy.

<sup>a</sup> As a result of assumptions about the profit margin used to standardize the financial statements of the case study company, in four economies the amount of taxes due would exceed the profit of the company. To be able to comply with its tax obligations in these economies, the company would therefore have to charge more for its products and generate a higher profit. The methodology does not allow for price adjustments and assumes a standard cost markup of 120%.

**Source:** *Doing Business* database.

This option was available only for large taxpayers until 2011. Seven other economies implemented electronic filing for the first time, raising the number offering this option from 67 in 2010 to 74 in 2011.<sup>5</sup> Thanks to improvements in electronic systems for filing and paying social security contributions, Saudi Arabia this year ranks among the 10 economies with the fewest payments and lowest tax compliance time (Figure 1.3).

Electronic systems for filing and Paying Taxes eliminate excessive paperwork and interaction with tax officers. They can reduce the time businesses spend on complying with tax laws, increase tax compliance and reduce the cost of revenue administration.<sup>6</sup> But achieving these results requires effective implementation and high-quality security systems.

Twelve economies reduced profit tax rates in 2011/12: six high-income economies (Brunei Darussalam, Japan, Korea, Puerto Rico [territory of the United States], Slovenia and the United Kingdom), four middle-income ones (Belarus, Fiji, Lao PDR and Thailand) and two low-income ones (Liberia and Mali). Reductions in profit tax rates are often combined with efforts to widen the tax base by removing exemptions and with increases in the rates of other taxes, such as value added tax (VAT). Liberia improved the most in the ease of Paying Taxes. It reduced the corporate income tax rate from 35% to 25% and abolished the turnover tax. The Total Tax Rate fell from 43.7% of profit to 27.4%.

Eleven economies introduced new taxes (Cambodia, Costa Rica, Cyprus, El Salvador, Ethiopia, Japan, Malawi, Maldives, Mali, Nigeria, and República Bolivariana de Venezuela). Others increased profit or income tax rates (Botswana, the Dominican Republic and Moldova)<sup>7</sup> or social security contributions (Hungary and Poland).

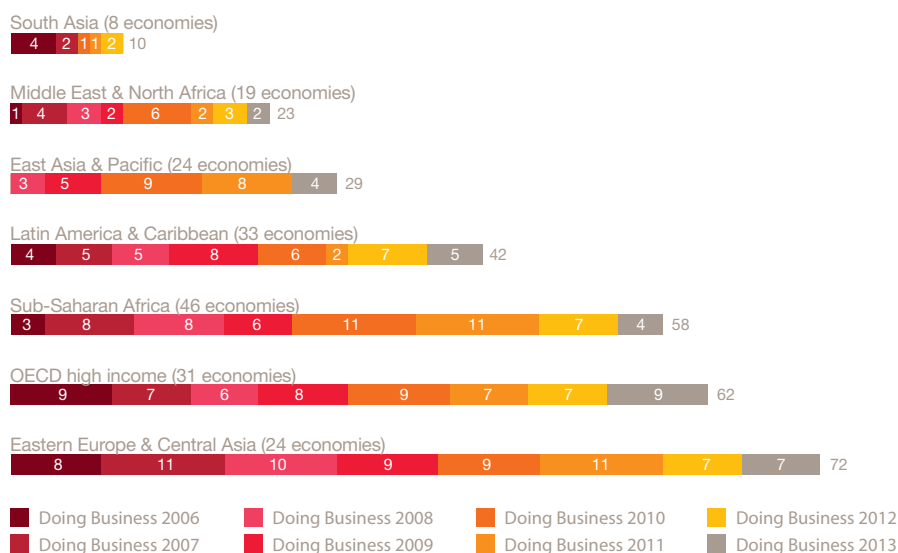
<sup>5</sup> One of the economies added to the sample in this year's report, Malta, has offered electronic filing for several years and so is included in the count for 2010.

<sup>6</sup> Mexico, for example, has relied heavily on technology and the use of electronic systems to lessen the administrative burden for taxpayers. These efforts simplified requirements for firms, reducing the number of annual tax payments recorded by *Doing Business* from 27 in 2007 to 6 in 2011 and the time to comply with major taxes from 549 hours to 337.

<sup>7</sup> At the same time Moldova reduced the withholding tax for dividends from 15% to 6% and lowered the withholding tax for payments other than dividends from 15% to 12%. In addition, it introduced a new tax regime for small and medium-size enterprises under which small companies pay a single tax of 3% of revenues from operational activities.

**Figure 1.4: Tax reforms implemented by more than 75% of economies in the past eight years**

Number of *Doing Business* reforms making it easier to pay taxes by *Doing Business* report year



**Note:** An economy can be considered to have only one *Doing Business* reform per topic and year. The data sample for *DB2006* (2004) includes 174 economies. The sample for *DB2013* (2011) also includes The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar, for a total of 185 economies.

**Source:** *Doing Business* database.

## What have we learned from eight years of data?

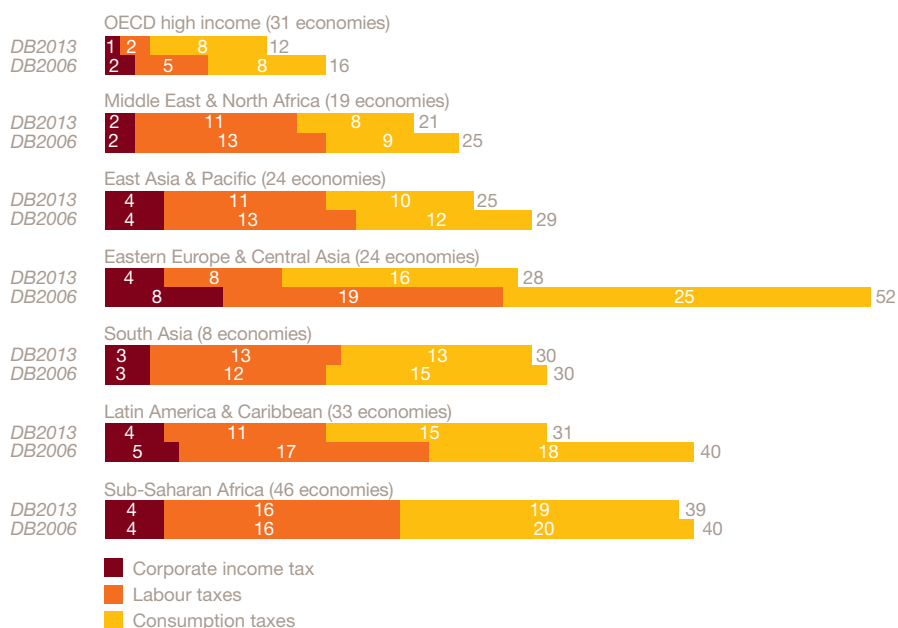
Since 2005 *Doing Business* has recorded 296 tax reforms in 142 economies (Figure 1.4). Some of these reforms introduced online filing, added in 29 economies in the past eight years. These and other improvements to simplify tax compliance reduced the time required to comply with the three major taxes measured (profit, labour and consumption taxes) by 54 hours on average, and the number of payments by 7 (rounded).

Eastern Europe and Central Asia had the biggest improvement, with the time reduced by 181 hours and the number of payments by 24 (Figure 1.5). Upper-middle-income economies have advanced the most toward the frontier in regulatory practice in Paying Taxes, followed by lower-middle-income economies (Figure 1.6).

Besides lessening the administrative burden of taxes, many economies also reduced tax rates, often from relatively high levels and with complementary efforts to improve tax compliance. Sub-Saharan Africa had the largest reduction in the Total Tax Rate, 13.3 percentage points on average since 2005. Some of this reduction came from the introduction of VAT, which replaced the cascading sales tax.<sup>8</sup> Burundi, Djibouti, Mozambique, Sierra Leone and Swaziland all introduced VAT systems. In Sierra Leone tax revenue remained relatively stable as a percentage of GDP, rising only from 10.8% in 2005 to 11% in 2009. But the share of revenue coming from taxes on goods and services increased from 11.9% to 24.6%.<sup>9</sup>

**Figure 1.5: Tax compliance simplified the most in Eastern Europe and Central Asia**

Average payments (number per year)



**Note:** To ensure an accurate comparison, the figure shows data for the same sample of 174 economies for both *DB2006* (2004) and *DB2013* (2011) and uses regional classifications that apply in 2012. The economies added to the *Doing Business* sample after 2004 and therefore excluded here are the Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar. *DB2006* data are adjusted for any data revisions and changes in methodology.

**Source:** *Doing Business* database.

<sup>8</sup> VAT is collected by the firm and its cost is fully passed on to the consumer. Because the firm has to make the payments and spend time filling out the returns, VAT is included in the indicators on payments and time. But the amount of VAT paid is not included in the Total Tax Rate. Cascading sales tax, which is paid at every point of the supply chain, is included in the Total Tax Rate, because the firm cannot deduct the sales tax it pays on its supplies from the amount it owes on its sales. Economies introducing VAT regimes to replace the sales tax regime have therefore seen a reduction in their Total Tax Rate.

<sup>9</sup> World Bank, World Development Indicators database, <http://data.worldbank.org/>.



Many African economies also reduced profit tax rates in the past eight years, reducing the share of profit taxes in the Total Tax Rate by 0.9 percentage point on average in the region. But the biggest reduction in this share occurred in OECD high-income economies, where it fell by 4.1 percentage points on average. Over the same period tax revenue increased slightly as a percentage of GDP in Sub-Saharan Africa and remained relatively stable in OECD high-income economies.<sup>10</sup>

Such reforms have had positive effects. Matching the data available since 2005 on Total Tax Rates with investment data indicates that a reduction of 1 percentage point in the Total Tax Rate is linked to an increase in investment equivalent to 1% of GDP.<sup>11</sup>

**Figure 1.6: Middle-income economies have advanced the most toward the frontier in Paying Taxes**



**Note:** The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on the Paying Taxes indicators since 2004. The measure is normalised to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business* 2006 (2004). Eleven economies were added in subsequent years. The figure shows data for the financial years 2004 (measured by the Paying Taxes indicators in *Doing Business* 2006) and 2011 (measured in *Doing Business* 2013).

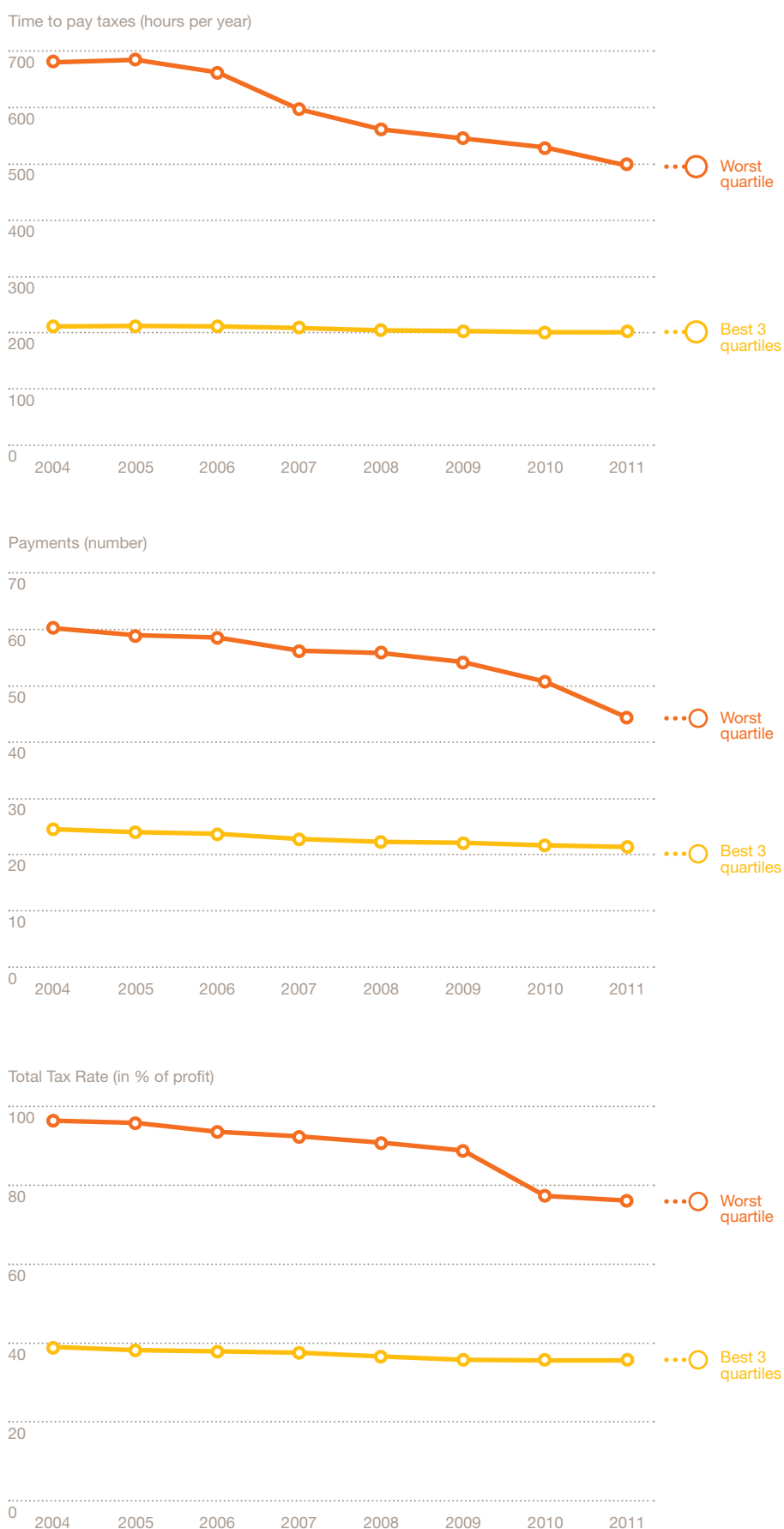
**Source:** *Doing Business* database.

<sup>10</sup> World Bank, World Development Indicators database, <http://data.worldbank.org/>.

<sup>11</sup> The analysis controls for government consumption, institutional quality and corruption perception. It also controls for total trade openness and rents from natural resources. Eifert, Benjamin. 2009. "Do Regulatory Reforms Stimulate Investment and Growth? Evidence from the *Doing Business* Data, 2003–07." Working Paper 159, Center for Global Development, Washington, DC. Djankov, Simeon, Caralee McLiesh and Rita Ramalho. 2006. "Regulation and Growth." *Economics Letters* 92 (3): 395–401.

Since 2004 there has been a convergence in business regulatory practices in Paying Taxes. This means that laws, regulations and compliance procedures are more similar across economies today than they were eight years ago. The greatest convergence in regulatory practice has occurred in time. Among the 174 economies covered by *Doing Business* since 2004, the time to comply with taxes in that year averages 681 hours in the worst quartile of the economies as ranked by performance on this indicator, while it averaged 211 hours for the rest (Figure 1.7). Since then the average time for the worst quartile has fallen to 497 hours, getting closer to the average of 201 hours for the rest.

**Figure 1.7: Strong convergence across economies since 2004 – averages by quartile**



**Note:** Economies are ranked in quartiles by performance in 2004 on the ease of Paying Taxes. The data refer to the 174 economies included in *Doing Business* 2006 (2004). Eleven economies were added in subsequent years.

**Source:** *Doing Business* database.

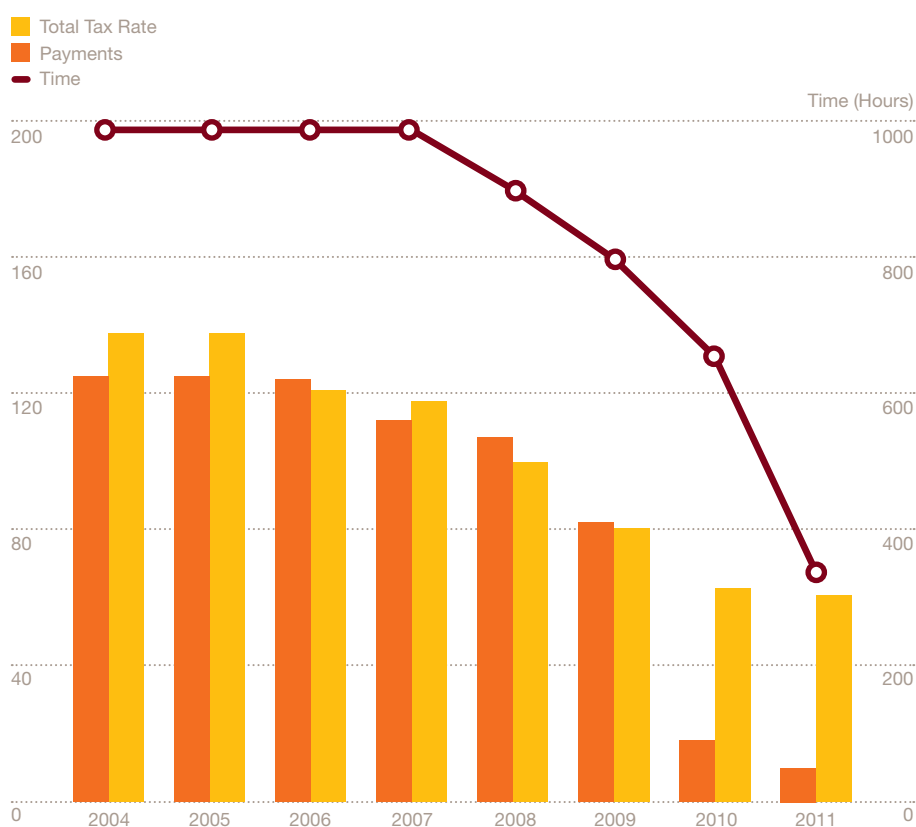
Belarus has advanced the furthest toward the frontier in regulatory practice in Paying Taxes since 2004 (Figure 1.8). Embarking on an ambitious tax reform in 2005, Belarus abolished several taxes, reduced tax rates, broadened the tax base, simplified filing forms and the tax law and invested in electronic systems that make it easier to file and pay taxes. These changes reduced the number of annual payments from 125 to 10, the time from 987 hours a year to 338 and the Total Tax Rate from 137.5% of profit to 60.7% (Figure 1.9). The efforts to make tax compliance easier and less costly are paying off. While 1,681 new limited liability corporations registered for the first time in 2005 in Belarus, 6,142 did so in 2011. Indeed, the total number registered in this period increased by 68.9% (from 27,619 to 46,653).<sup>12</sup>

**Figure 1.8: Who has narrowed the distance to frontier in Paying Taxes between 2004 and 2011?**

Most improved	Change in distance to frontier (percentage points)
Belarus	61 (0 -> 61)
Georgia	47 (39 -> 86)
Colombia	47 (13 -> 60)
China	42 (19 -> 61)
Azerbaijan	37 (38 -> 75)
Ukraine	31 (16 -> 47)
Sierra Leone	30 (34 -> 64)
Argentina	30 (14 -> 44)
Yemen, Rep.	30 (33 -> 63)
Uruguay	30 (31 -> 61)

**Note:** The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on the Paying Taxes indicators since 2004. The measure is normalised to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business* 2006 (2004). Eleven economies were added in subsequent years. The first column lists the top 10 most improved economies in order; the second shows the absolute improvement in the distance to frontier between financial years 2004 and 2011.  
**Source:** *Doing Business* database.

**Figure 1.9: Broad tax reform in Belarus reduces payments, time and Total Tax Rate**



**Source:** *Doing Business* database.

<sup>12</sup> World Bank Group Entrepreneurship Snapshots. The full data set is available on the *Doing Business* website (<http://www.doingbusiness.org>).

## *The PwC commentary*

The continuing turbulent economic environment is making decisions around tax policy more difficult. In the wake of the global economic downturn, economies are under increasing pressure to be competitive, to implement tax systems that can help encourage economic growth, while at the same time addressing public sector deficits, and putting economies on a more sound footing. Government spending cuts and a loss of public trust in business and concerns over whether companies are paying the 'right amount of tax' have intensified the calls for tax reform and transparency around how tax systems operate, with a view to holding both governments and businesses to account.





*Governments also see a need to put in place tax systems which are seen to be efficient, can help to attract investment, and in turn can help foster economic growth.*

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# ***An economic analysis***

## **Taxation, economic growth and investment**

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**Andrew Sentance**

Senior Economic Adviser

PwC (UK)

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The disappointing performance of many economies – particularly the higher income countries in the West – has focussed attention on how governments can boost economic growth. As the world economy has emerged from the global financial crisis, much emphasis has been on providing a stimulus to demand and improving the performance of the financial system. In addition, governments are starting to shift their attention to the potential of supply-side measures, which aim to improve the ease of doing business in a country. The easier it is to do business, the more likely it is that new businesses will be formed and existing businesses will grow – creating value-added and jobs. And economies where it is easier to do business will tend to attract investment from overseas, providing an added potential boost to economic growth and jobs.<sup>13</sup>

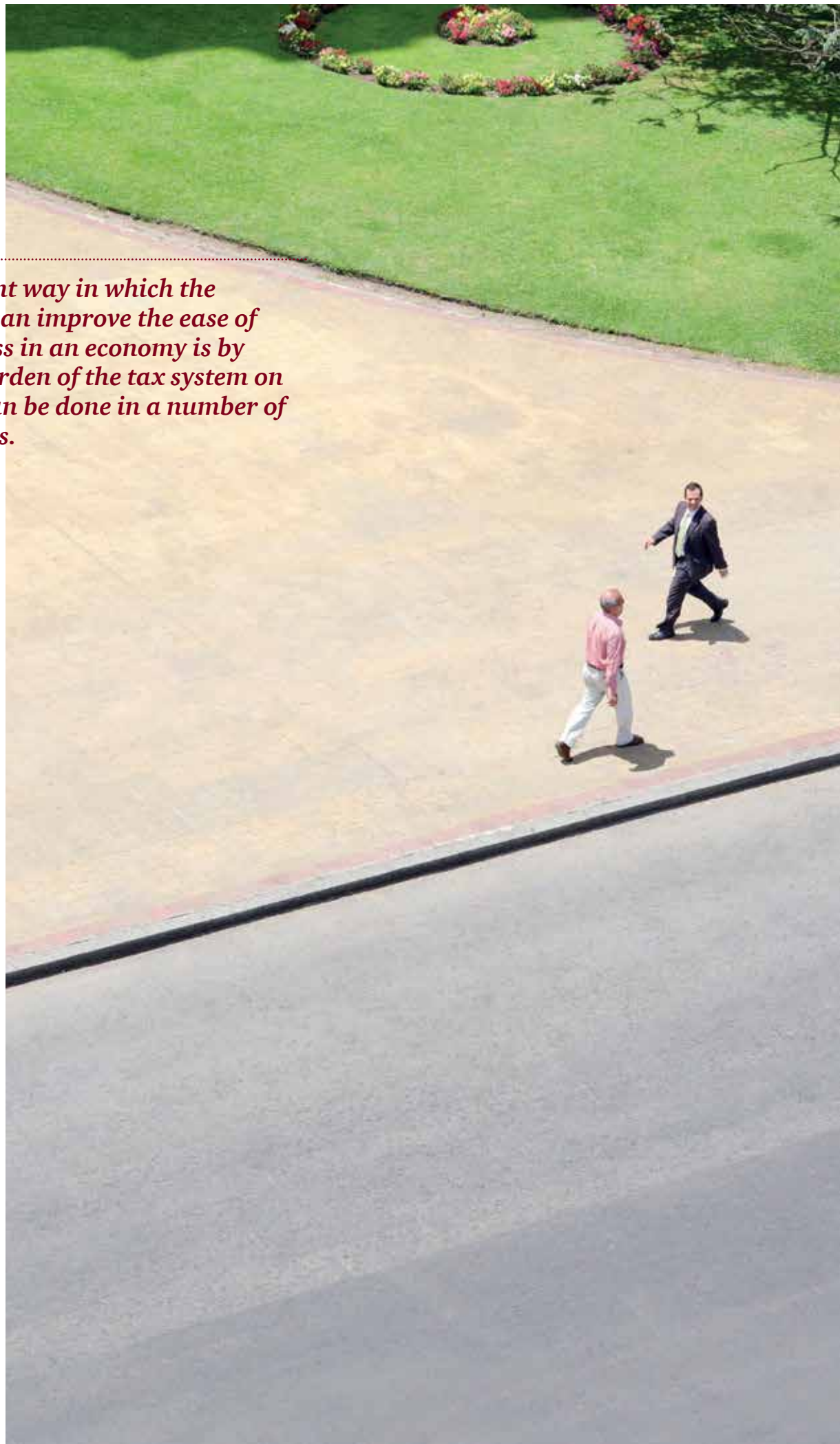
One important way in which the government can improve the ease of doing business in an economy is by reducing the burden of the tax system on firms. This can be done in a number of different ways. First of all, it can be achieved by lowering tax rates and easing the overall burden of taxation. That is challenging because a reduction in the overall tax burden in an economy can only be achieved on a sustainable basis if government spending as a share of economic activity is also reined in to the same extent.

A second way of creating a more business-friendly tax system is through tax reform. Tax rates which directly bear on business activity can be brought down by shifting the burden of tax away from wealth-generating activities and towards personal expenditure – such as VAT. Another way in which tax reform can help create a better climate for business, is by broadening the tax base which enables the same amount of taxation to be raised with a lower overall tax rate. The UK's current approach to corporate tax reform is an example of this kind of approach.

<sup>13</sup> Djankov, Simeon, Caralee McLiesh and Rita Ramalho. 2006. "Regulation and Growth." *Economics Letters* 92 (3):395–401.  
Eifert, Benjamin. 2009. "Do Regulatory Reforms Stimulate Investment and Growth? Evidence from the Doing Business Data, 2003–07." Working Paper 159, Centre for Global Development, Washington, DC.



*One important way in which the government can improve the ease of doing business in an economy is by easing the burden of the tax system on firms. This can be done in a number of different ways.*



A third way in which changes to the tax system can help economic growth is by easing the administrative burden on businesses – reducing the time which businesses need to spend dealing with tax matters and the complexity of the payment systems.

For the last eight years, PwC has been working with the World Bank and IFC to measure how burdensome the tax system is in different economies using three simple indicators: the Total Tax Rate of a case study company as a percentage of profits; the number of different payments which businesses need to deal with; and the time spent by businesses dealing with tax compliance. Now that these measures have been calculated for a large number of economies over the eight year period, we feel we have a strong enough data set to conduct some statistical analysis into the relationship between the tax system in different economies and their economic growth and ability to attract overseas investment.

For this purpose we have analysed the experience of 166 economies in our database<sup>14</sup> – to see how the level of taxation on businesses in these economies and its complexity relates to their rate of growth and ability to attract inward investment.

### ***What did our analysis show?***

We used regression analysis to look at the relationship between the Paying Taxes indicators which we have been measuring over the period 2004-11 and: (1) the economy's average economic growth rate over that period; and (2) the growth of the stock of inward investment over the same period. The hypothesis was that economies which had higher tax burdens or more complex tax systems would experience lower growth or inward investment over a period of years. We also looked at the impact of changes in the Paying Taxes indicators, as it is also likely that economies which are actively seeking to reduce the burden and complexity of the tax system will also experience stronger growth.

Our analysis sought to take into account and control for the fact that emerging and developing economies have stronger growth potential because their economies are growing from a lower base. So as well as including our Paying Taxes indicators in the analysis we included the level of GDP per head in each economy at the start of the period we were considering (2004). This would be expected to have a negative correlation with growth performance – with richer more mature economies experiencing lower growth rates and poorer countries having more scope to catch-up with the leading economies. This did indeed turn out to be the case.

We need to be cautious about inferring too much from the results given the complex nature of the relationship between the tax system and economic growth. For example, changes in the tax system may well be correlated with other policy developments which improve the business climate in an economy and hence raise growth. However, the results are in the direction which we would expect – economies with lower tax rates on business and less complex tax systems experience stronger growth and attract more foreign direct investment.

<sup>14</sup> Some countries covered by the *Paying Taxes* study had to be excluded due to a lack of consistent GDP and FDI data for the full period of our analysis. Data for economic growth was drawn from the IMF World Economic Outlook database and FDI data was from UNCTAD.



Figure 2.1 below summarises the average results of our regression analysis for economic growth across the 166 countries.<sup>15</sup> In terms of economic growth and inward investment, the Total Tax Rate facing our case study company has the expected negative correlation with economic growth and with inward investment. But there are also significant negative growth impacts from the administrative complexity of the tax system – in particular the number of different tax payments a business has to make. We also found that in economies where there was a reduction in tax administration complexity – both in terms of the number of payments and the time that businesses take to deal with tax matters– this could have a positive impact on economic growth.

### **Does the tax system slow economic growth?**

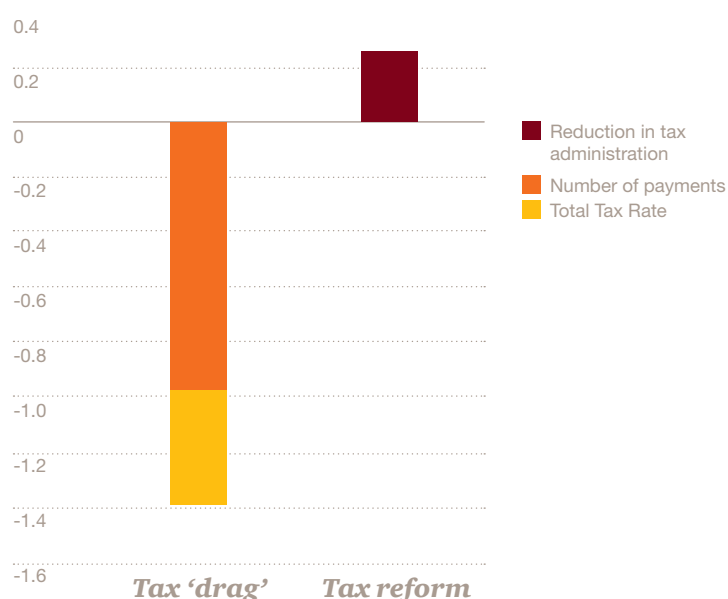
Our analysis supports the view that the business tax system slows (or creates a ‘drag’ on) economic growth, both through the overall burden of tax payments and the complexity of the tax system. We need to exert caution however in interpreting our results, but if we take the results at face value, across all the economies we studied, the total “tax drag” over the period of our analysis (2004-2011) was estimated at 1.15% per annum on average. This is the average amount by which the level of taxes, the administrative burden of dealing with the tax system, and changes in tax complexity have impacted growth in the economies in our sample.

As Figure 2.1 shows, there are three components to the influence which the business tax system appears to exert on economic growth, according to our analysis. The most significant is the administrative burden of the tax system, reflected in the number of tax payments businesses need to make. This is associated with a drag on economic growth of around one percentage point per annum across our sample of countries. But this is moderated to some extent by the second component, which is a reduction in the complexity of the tax system which has been taking place over time. This reduction in complexity is associated with an increase in growth by an average of around a quarter of a percentage point per annum across the economies in our sample.

The third component is the Total Tax Rate as a percentage of profit – which averaged around 50% for the economies in our study over the period 2004-2011. According to our estimates, each ten percentage point cut in the Total Tax Rate (relative to business profits) is associated with an increase in the annual economic growth rate by just under 0.1%. The total “drag” on economic growth created by the Total Tax Rate on business for all economies in our study is around 0.4% per annum.

**Figure 2.1: Economic growth and business taxation**

Average % pa change in GDP growth linked to impact of business taxes



Source: PwC analysis of the impact of business tax payments in 166 countries, 2004 to 2011

<sup>15</sup> More detail of the regression analysis is on our PwC website at [www.pwc.com/payingtaxes](http://www.pwc.com/payingtaxes)

One of the conclusions we might draw from these results is that changes in the administrative aspects of the tax system seem to have a much bigger potential impact on economic growth than differences in the amount of tax paid. This may reflect the fact that tax revenues are recycled within economies to support government expenditure which can be positive for economic growth (if efficiently spent) – through the impact on education, health, infrastructure, etc. So there is a credit side to the equation when tax is raised to support these economically and socially useful activities. But the administration and complexity of the tax system adds to the overall burden on society with no compensating benefit.

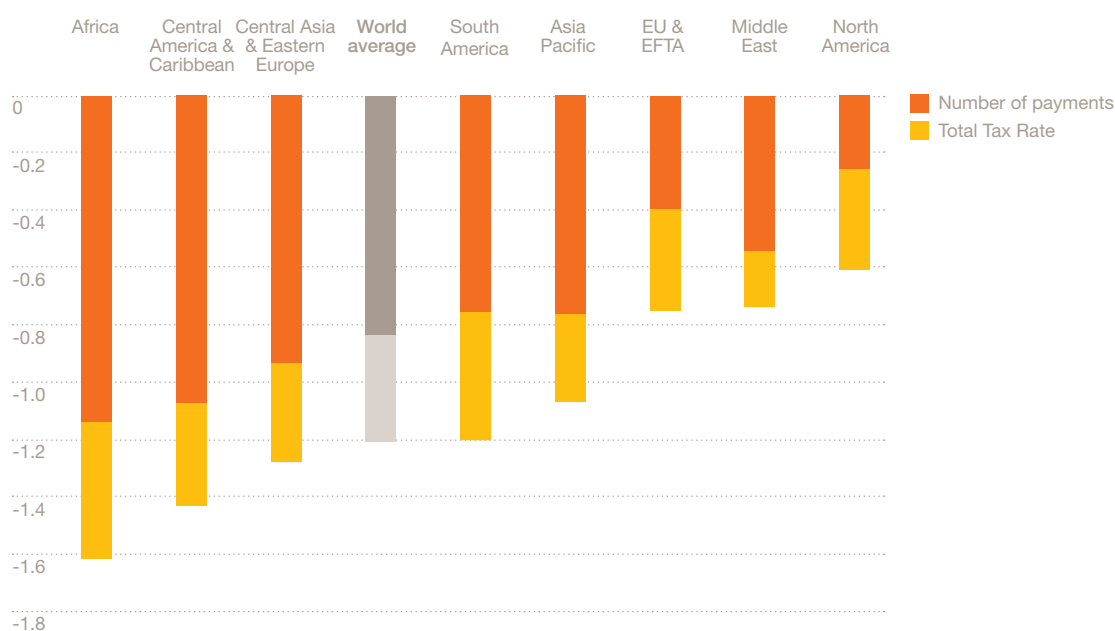
We can use these results to look at the implications of the findings of the Paying Taxes 2013 Study. Figure 2.2 shows the estimated “tax drag” on economic growth based on the latest results, using the regional averages discussed later in this chapter. It shows that the associated drag on growth in the region with the highest tax rates and number of payments, Africa, is about 1% per annum greater than the best, North America. The main factor creating differences between regions is the number of tax payments, rather than the Total Tax Rate. This highlights the significant potential benefits to economic growth of reductions in the administrative complexity of the tax system facing business.

### ***The tax system and inward investment***

Our analysis suggested that the administrative aspects of the tax system did not have a noticeable effect on the level of inward investment, but the link with the Total Tax Rate appeared stronger. The average “tax drag” on the growth of inward investment across all the countries in our sample was 3.7%. And a 10% cut in the Total Tax Rate is associated with an increase in the stock of inward investment by 0.7% per annum according to our analysis.

**Figure 2.2: Growth and business taxes by region**

% pa “tax drag” on GDP growth – based on 2013 survey results



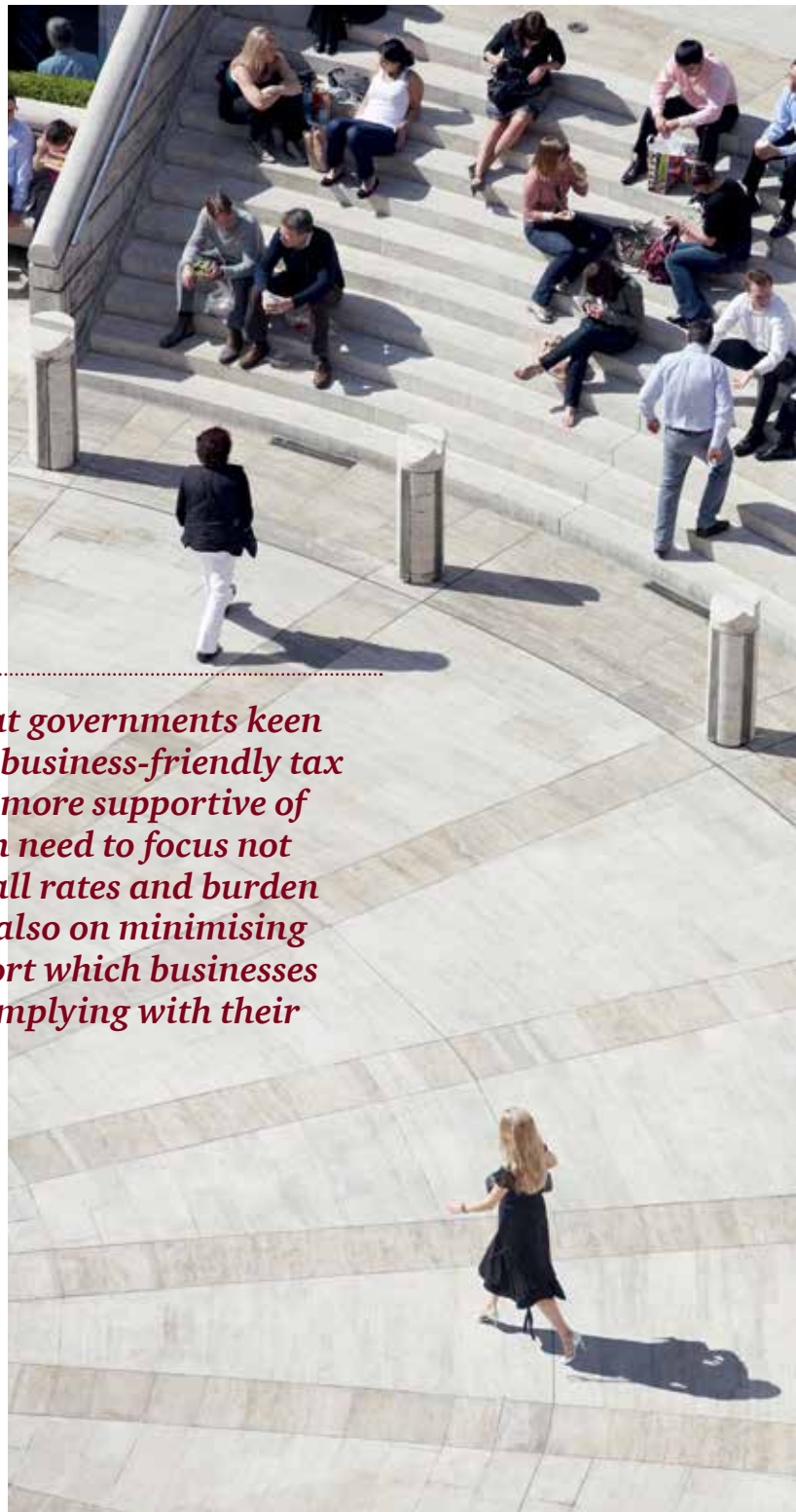
Source: PwC analysis of the impact of business tax payments in 166 countries, 2004 to 2011

The fact that inward investment appears to be more sensitive to the overall Total Tax Rate and less sensitive to the administrative tax burden may reflect the fact that a complex and time-consuming tax system has a bigger negative impact on small and medium-sized enterprises who are less involved with flows of international investment. Larger companies have the management systems to cope with complex tax systems, but will still tend to shift their investment flows to locations where the overall tax burden – as measured by the PwC Total Tax Rate measure – is lower.

### ***Policy implications***

This analysis has interesting implications for policy-makers. It suggests that while the total amount raised in business taxation is associated with lower economic growth and international investment, the administrative burden and complexity of the tax system has the potential to have a greater correlation with overall growth. There is clearly a lot of scope for fiscal authorities to act in this area, and over the period we studied there appeared to be a noticeable benefit to growth performance in economies which experienced reductions in the complexity of their tax systems.

This suggests that governments keen to create a more business-friendly tax climate which is more supportive of economic growth need to focus not only on the overall rates and burden of taxation, but also on minimising the time and effort which businesses need to spend complying with their tax systems.



***This suggests that governments keen to create a more business-friendly tax climate which is more supportive of economic growth need to focus not only on the overall rates and burden of taxation, but also on minimising the time and effort which businesses need to spend complying with their tax systems.***

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# ***The Paying Taxes 2013*** ***global results***

### The 2013 global tax profile

Figure 2.3 shows the global average results for each of the Paying Taxes indicators. It also shows the range across the 185 economies in the study.

On average around the world our case study company makes 27.2 payments, takes 267 hours (nearly seven weeks based on a 40 hour week) and has a tax cost of 44.7% of its commercial profit. The range for each indicator is very wide. The number of payments ranges from 3 in Hong Kong SAR, China and Saudi Arabia, to 71 in República Bolivariana de Venezuela. The time to comply is lowest in the United Arab Emirates and is highest in Brazil. The lowest Total Tax Rate is found in Vanuatu and the highest in the Democratic Republic of the Congo (where a cascading sales tax still exists). As will be seen in a later section of this report, the compliance indicators have continued to fall while the Total Tax Rate has stabilised in the most recent period.

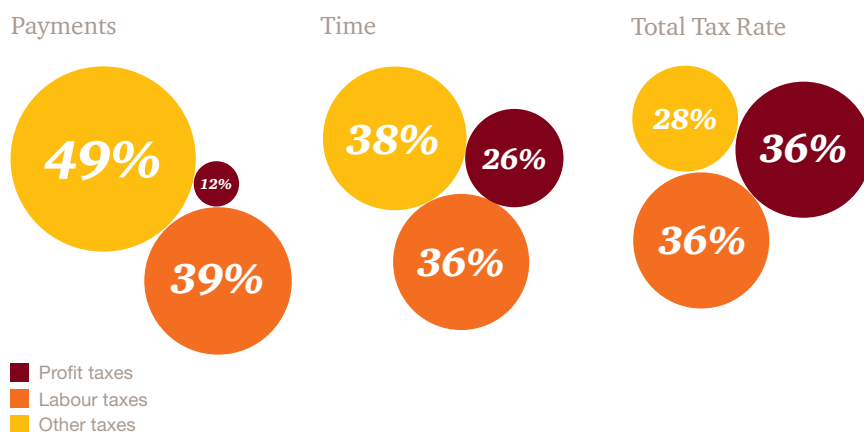
While corporate income tax is charged in 179 (97%) of the economies in the study, the results have consistently shown that across our three indicators it remains only part of the tax burden on business. It accounts for 12% of payments, 26% of the time and 36% of the Total Tax Rate and these percentages have hardly changed from previous studies (see Figure 2.4). Labour taxes and social contributions are levied in 184 economies around the world, while VAT (within 'other' taxes) is now a feature of the tax system in 154 economies.

**Figure 2.3:** The global average result for each indicator

Tax type	Total Tax Rate%	Time to comply	Number of payments
Profit taxes	16.2	68	3.4
Labour taxes and contributions	16.2	97	10.6
Other / consumption taxes	12.3	102	13.2
<b>Total</b>	<b>44.7</b>	<b>267</b>	<b>27.2</b>
Minimum	8.4	12	3.0
Maximum	339.7	2600	71.0

Source: PwC analysis.

**Figure 2.4:** The global allocation of the Paying Taxes indicators across profit taxes, labour taxes and 'other' taxes



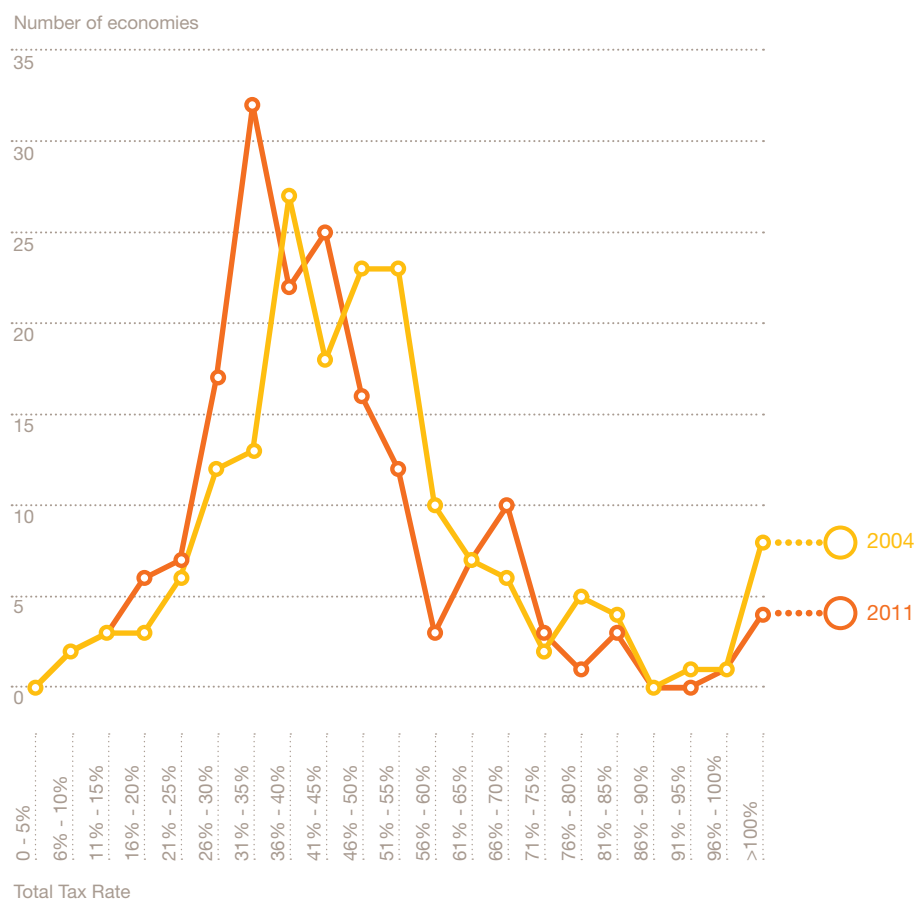
Source: PwC analysis.

## Total Tax Rate

While the range of the Total Tax Rate is wide (see Figure 2.5), 116 economies out of the 185 economies (63%) have a rate between 26% and 50% in the current study (2011). This is a slightly higher concentration than in the previous year (114 out of 183 economies), and when compared with the results for 2004 (Paying Taxes 2006), it is clear that Total Tax Rates have generally fallen and have become more concentrated. In 2006 there were only 93 out of 174 economies (53%) in the 26% to 50% range. Not surprisingly in a world in which globalisation is being embraced and comparisons are more easily made with geographic neighbours and economic peers, the range of the indicators is narrowing suggesting a gradual move to what may be perceived as good practice.

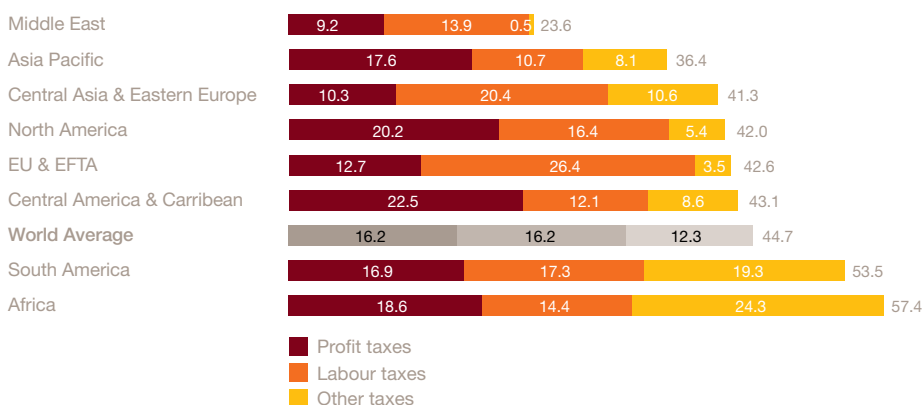
The regional comparison in Figure 2.6 shows that four regions, (Central Asia & Eastern Europe, North America, Central America & Caribbean and the EU & EFTA) all have average rates that are close to the world average. This again is a strong indication of how the range of tax rates applied is narrowing. The Asia Pacific region has an average which is almost one fifth below the world average while the Middle East has the lowest average which is almost half the world average. Rates are highest in Africa with an average of 57.4%, almost one third above the world average, however it is of note that if the economies which still have a cascading sales tax were excluded, then this average would fall to 43.4% which would then be only slightly above a revised world average of 40.9%. The average Total Tax Rate is also high in South America at 53.5% which is almost one fifth above the world average.

**Figure 2.5:** Distribution of the Total Tax Rate across 174 economies in 2011 and 2004



Source: PwC analysis.

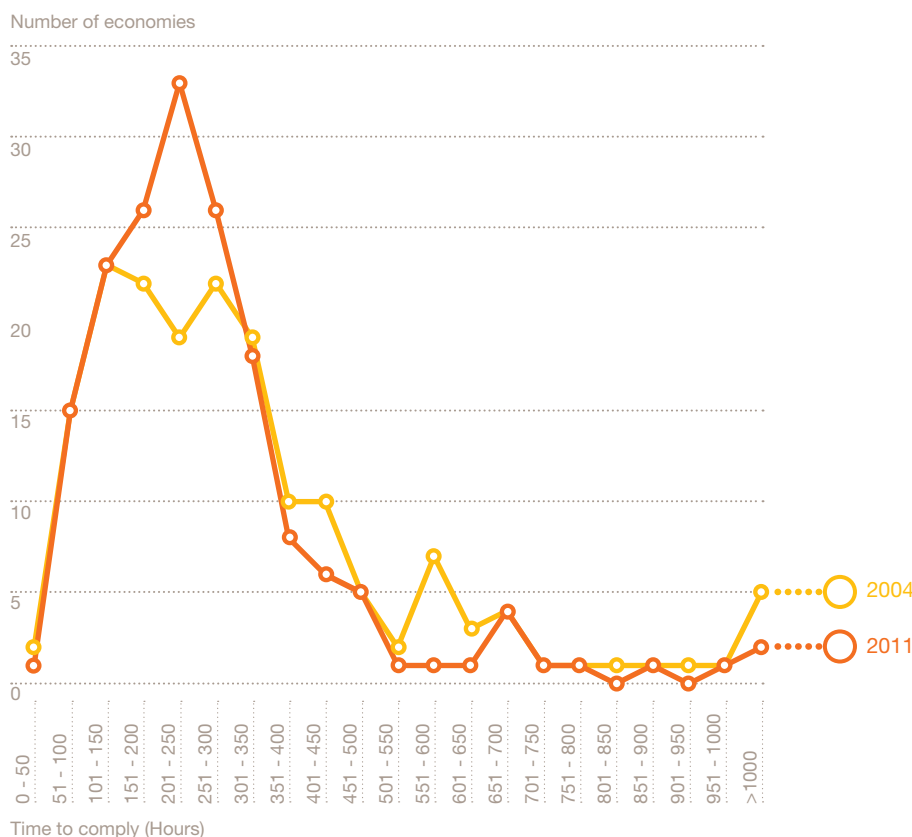
**Figure 2.6:** Regional comparison of the Total Tax Rate



Source: PwC analysis.



**Figure 2.7:** Distribution of the time to comply across 174 economies in 2011 and 2004



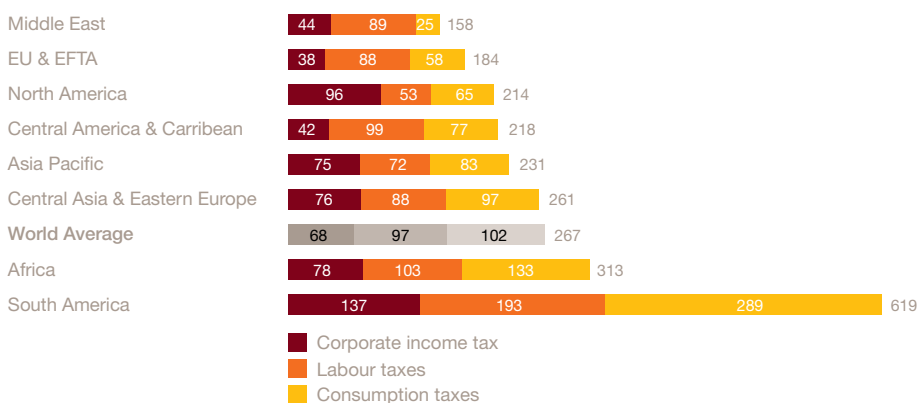
Source: PwC analysis.

### Time to comply

Figure 2.7 shows that the indicator for the hours to comply also has an extremely wide range with outliers at 12 hours in the United Arab Emirates and 2,600 hours in Brazil. The distribution for this indicator is however also becoming more concentrated in the 101 – 350 range. 132 out of the 185 economies in the current study (2011) are in this range compared to 105 out of the 174 economies in 2004.

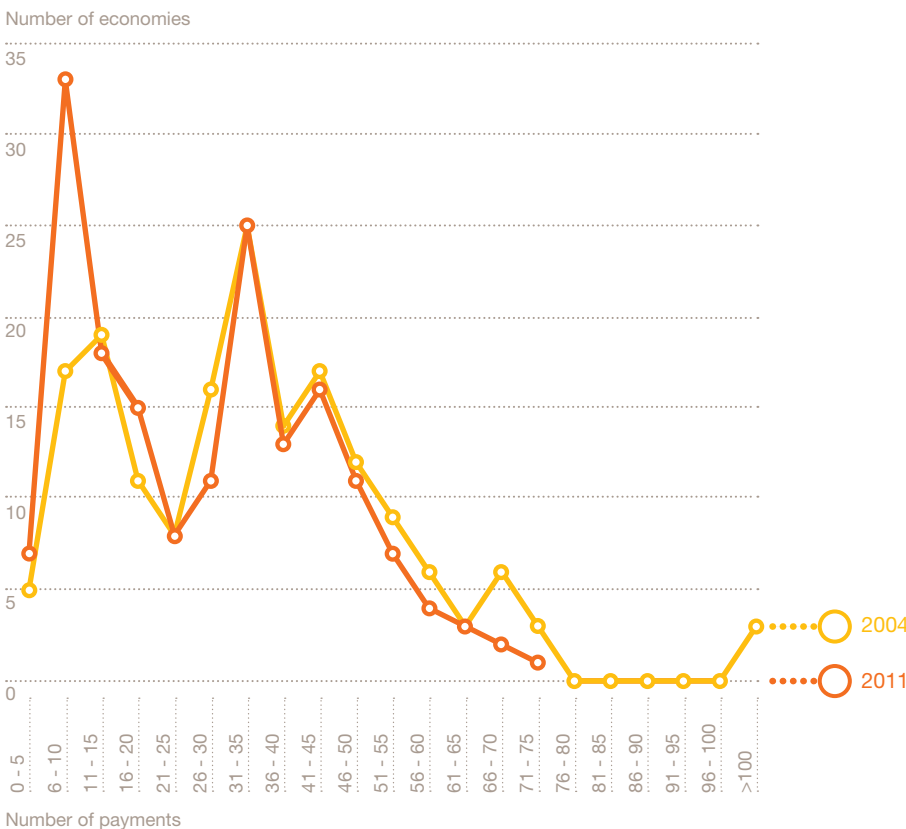
The regional comparison in Figure 2.8 shows one region has an average which is close to the world average, Central Asia & Eastern Europe. Five of our regions have relatively low averages, the Middle East having the lowest with 158 hours, some 40% below the world average. Africa has an average 46 hours or 17.2% above the world average, while South America has the highest average at 619 (15 weeks based on a 40 hour week) which is almost 2.5 times the world average. The time taken in Ecuador, Bolivia and Brazil is the major reason for the high number of hours taken here and we explore this further in our commentary on page 126.

**Figure 2.8:** Regional comparison of the time to comply



Source: PwC analysis.

Figure 2.9: Distribution of the number of payments across 174 economies in 2011 and 2004



Source: PwC analysis.

### Number of payments

The indicator for the number of payments also has a very wide range with outliers at 3 payments (Hong Kong SAR, China and Saudi Arabia) and 71 payments (República Bolivariana de Venezuela) in the latest study. 121 economies have between 6 and 35 payments (compared to 199 last year). Eight economies have fewer than 6 payments and 56 have more than 35 payments. There are two clusters in this distribution with 34 economies having 6 – 10 payments largely as a result of having the ability to file and pay all of their major taxes on line, while 27 economies have between 31 and 35 payments. Most of these economies have some electronic filing and payment and an ability to pay some taxes jointly. As shown in Figure 2.9, when compared with the distribution in 2004 it is clear that number of economies in these clusters has increased. In 2004 there were only 17 economies in the 6 – 10 payment range while there were 25 economies in the range 31 – 35. This illustrates well the advance made over the period of the study with regard to electronic filing and payment.



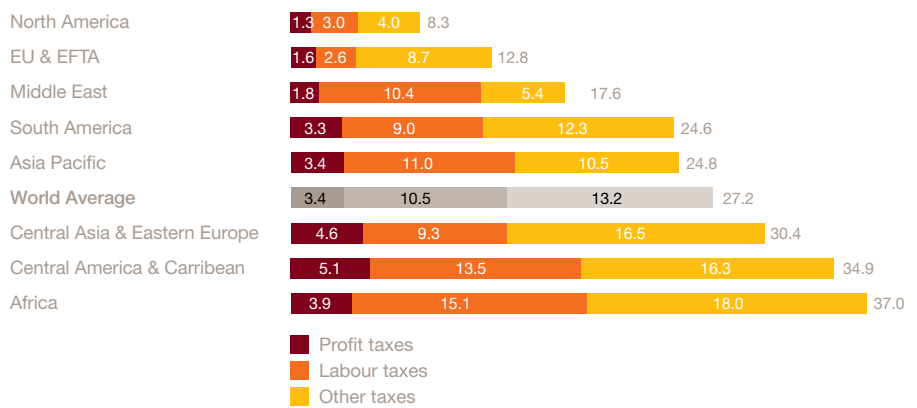
The regional comparison in Figure 2.10 shows five of our eight regions below the world average and three above. In North America and the EU & EFTA, the common availability of electronic filing and payment keeps the average number of payments low even though the number of taxes is similar to that found in other regions as can be seen in Figure 2.11. At the other end of the scale in Africa and the Central America & Caribbean region the use of electronic filing and payment is more limited, and this, coupled with the existence of numerous labour taxes and social contributions, and 'other' taxes, keeps their averages 9.8 (36%) and 7.7 (28%) payments above the world average respectively. The Middle East region is below the world average but as Figure 2.11 shows this is driven by having fewer taxes, although the introduction of electronic filing and payment in Saudi Arabia and The United Arab Emirates has helped bring this average down more recently.

### Global trends for Paying Taxes 2012/2013 and over the past eight years

The trends for the Paying Taxes indicators over an eight year period have shown a consistent reduction in the average tax burden on business across the three Paying Taxes indicators. In this section the averages are calculated only for those economies that have been included in all eight years of the study (174 economies) to ensure that we represent a true trend. The values shown here for Paying Taxes 2013 averages (calendar year 2011) are therefore different to the averages shown earlier, as there are now 185 economies in the most recent study.

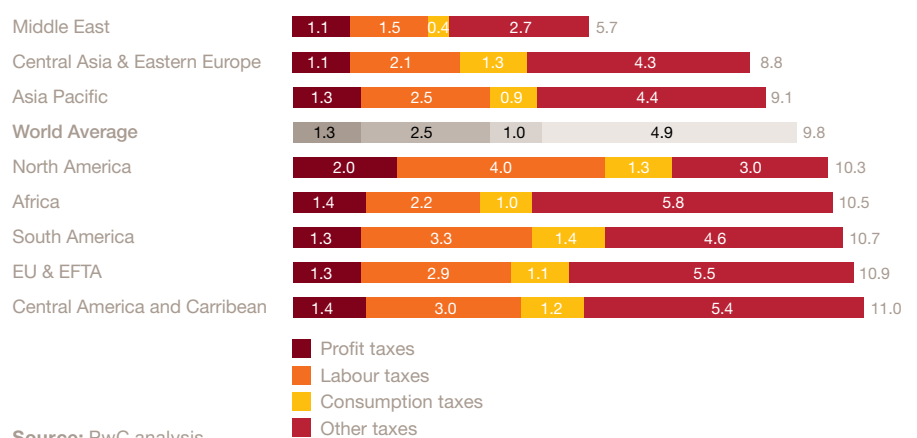
The trends over the eight year period are shown in Figure 2.12. They show a 7.7% fall in the Total Tax Rate, a fall in the number of hours of 54 and a fall in the number of payments by 6.5. The fall in the indicators has been driven by 296 reforms.

**Figure 2.10: Regional comparison of the number of payments**



Source: PwC analysis.

**Figure 2.11: Regional comparison of the number of taxes**



Source: PwC analysis.

**Figure 2.12 The fall in the global average results between 2004 and 2011**

	Total Tax Rate (%)			Time to comply (Hours)			Number of payments		
	2011	2004	Change	2011	2004	Change	2011	2004	Change
Profit taxes	16.6	19.5	(2.9)	71	84	(13)	3.4	4.2	(0.7)
Labour taxes & contributions	16.6	17.6	(1.0)	98	122	(24)	10.5	13.8	(3.3)
Other / Consumption taxes	12.7	16.5	(3.8)	107	125	(17)	13.5	16.0	(2.5)
<b>Total</b>	<b>45.9</b>	<b>53.6</b>	<b>(7.7)</b>	<b>276</b>	<b>330</b>	<b>(54)</b>	<b>27.5</b>	<b>34.0</b>	<b>(6.5)</b>

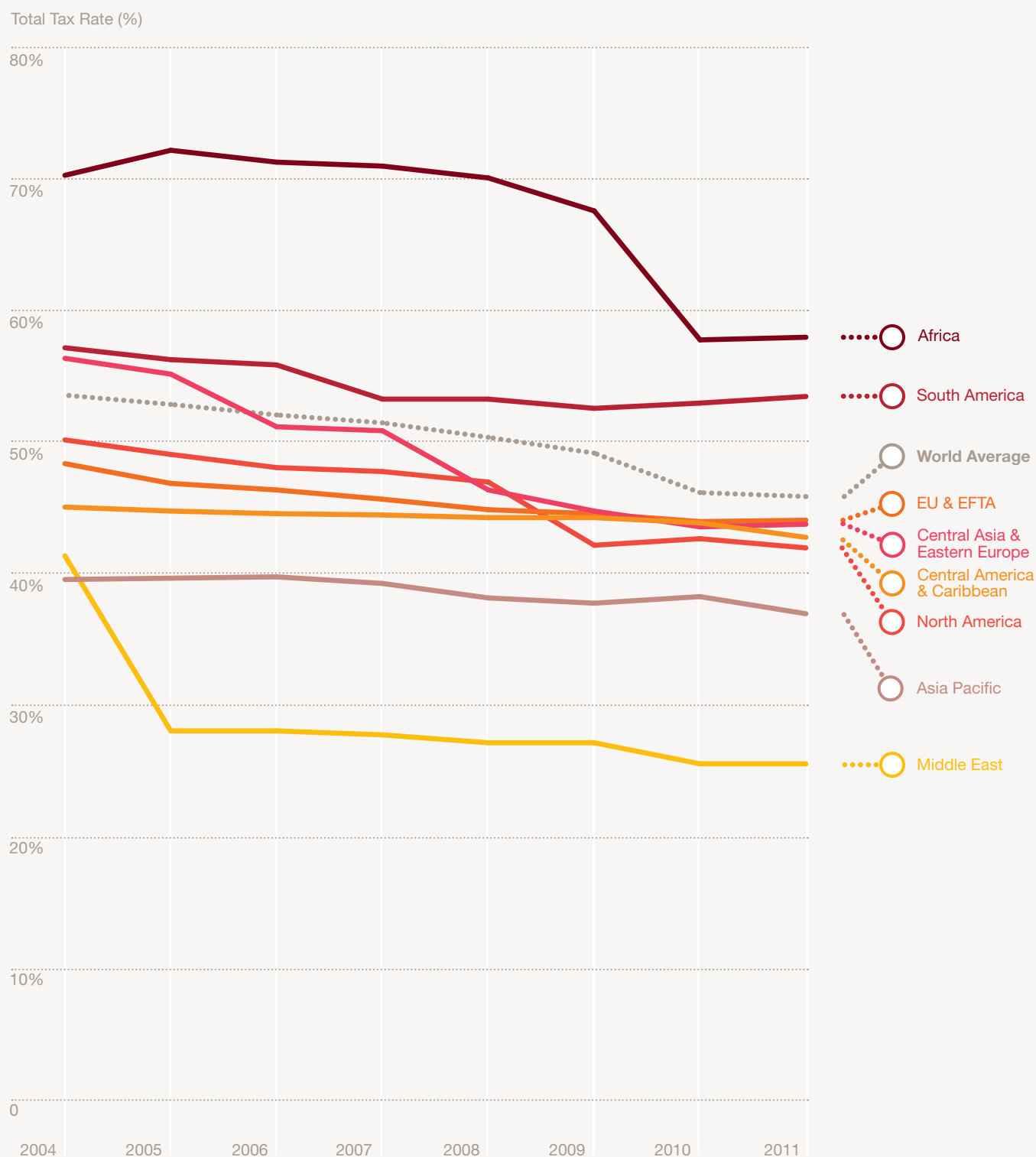
Source: PwC analysis.

### Total Tax Rate

Figure 2.13 shows how the average global Total Tax Rate has fallen by 7.7% from 53.6% in Paying Taxes 2006 (calendar year 2011), but that the rate of reduction has slowed in the most recent period. There are also some regional differences that lie behind this overall global trend.

From 2010 to 2011, the average Total Tax Rate fell by only 0.3% compared to a fall of 3.3% the year before. The average rate of profit tax remained flat, while the rate for labour taxes and social contributions increased by 0.1% and 'other' taxes fell by 0.4%. When comparing the regions, the average Total Tax Rate increased between 2010 and 2011 in Africa, Central Asia & Eastern Europe, the EU & EFTA region, and South America.

**Figure 2.13:** The global and regional trends in the Total Tax Rate from 2004 to 2011



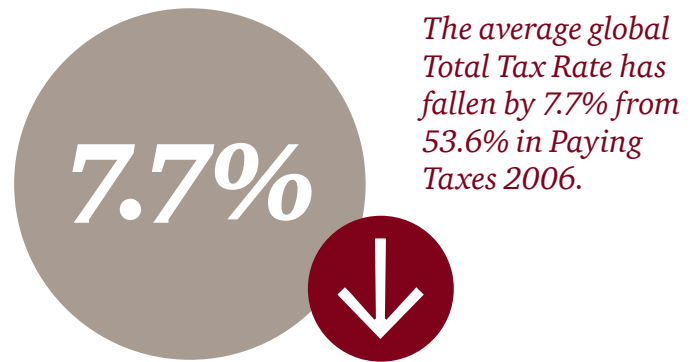
Over the eight year period of the study there have been large reductions in the average African Total Tax Rate and this has had a significant impact on the overall global rate. This has included the impact of several economies replacing cascading sales taxes with VAT systems. The African Total Tax Rate has been the highest of any region throughout the period of the study.

Reductions in the rates applied in Central Asia & Eastern Europe have also contributed significantly to the global trend, and have now fallen below the world average. The rates in the Asia Pacific region, Central America & Caribbean, and North America have fallen consistently and continue to fall, and have always been below the world average. The average rate for South America has altered little in the last five years of the study, and has always been well above the world average.

The rates applied in the Middle East have fallen during the eight years of the study and have always been well below the world average and for seven of the last eight years have been the lowest. The initial significant fall in the 2005 Paying Taxes study was the result of the cascading sales tax in the Yemen being replaced by a VAT system.

Figure 2.13 is also another good illustration of how the range of global Total Tax Rates is narrowing. More details around these movements appear in the regional sections which follow.

#### Total Tax Rate falls

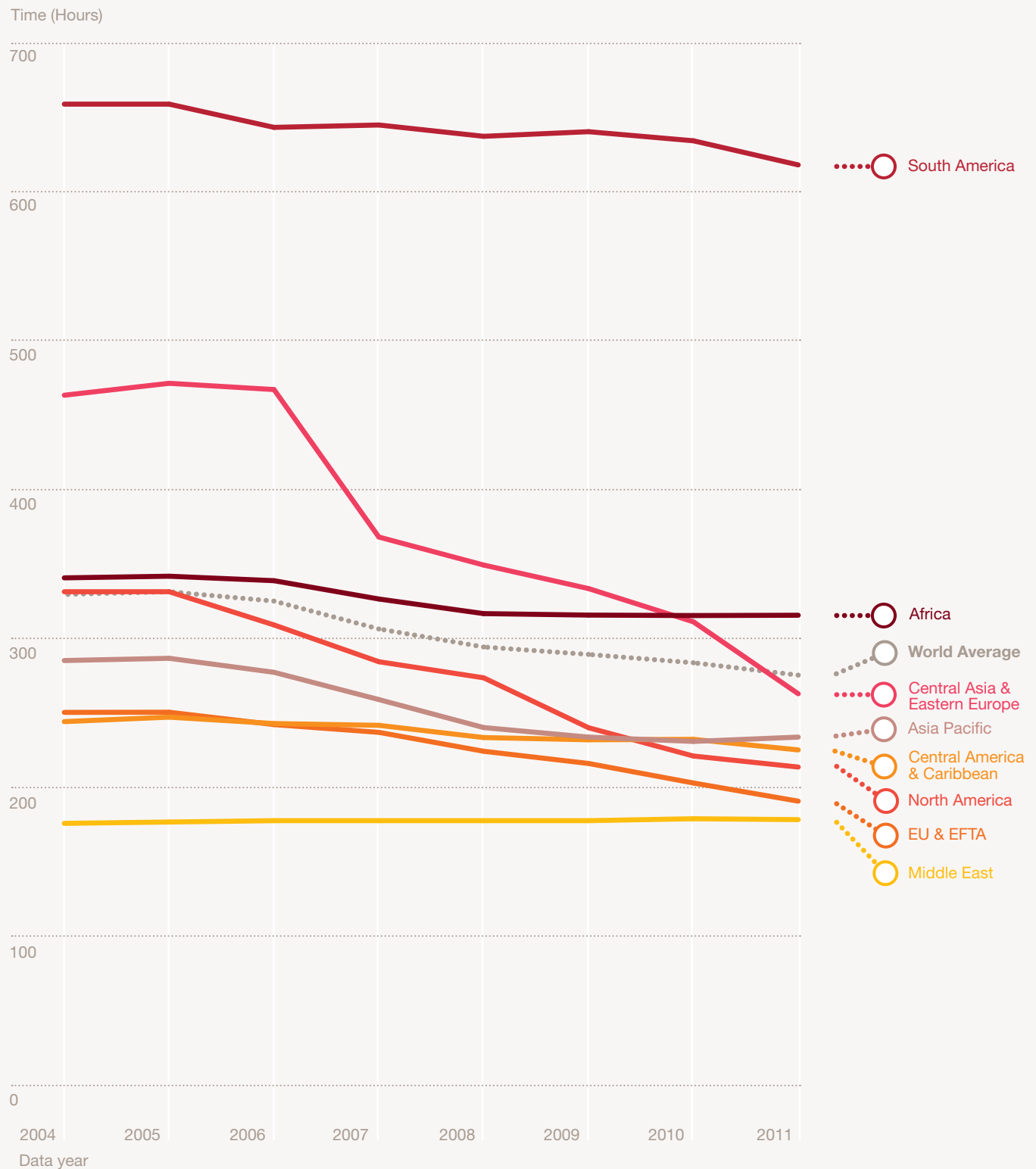


### Time to comply

Figure 2.14 shows how the global average for the time to comply has fallen by 54 hours from 330 in 2004. There has been a reduction in each year of the study which has continued in the most recent period (8 hours). There are again some regional differences to note.

In South America, while the hours have fallen consistently over the period of the study, the reduction has been small and this region has always had, and continues to have, the highest number of hours required for compliance by far.

**Figure 2.14:** The global and regional trends in the time to comply from 2004 to 2011



For Central Asia & Eastern Europe, the time to comply has fallen every year since Paying Taxes 2007 and this has continued in the most recent period with a fall of 48 hours. Over the eight year period this region has registered the largest fall of 200 hours, a fall of 43%.

In Africa the average number of hours fell until 2010 but has increased a little in the most recent period. The region now has the second highest average number of hours.

In the Asia Pacific region the number of hours fell until Paying Taxes 2012 but has also increased in the most recent study.

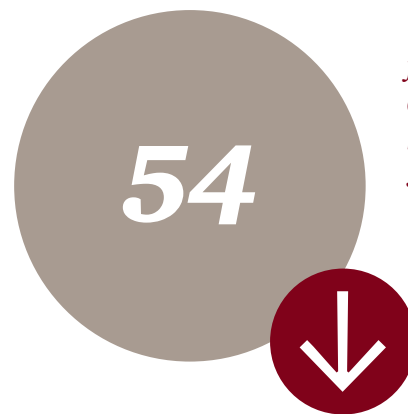
In the Central America & Caribbean region there has been a reasonably consistent fall in the hours to comply which has continued, while in North America and the EU & EFTA the time to comply has fallen every year.

In the Middle East, the time to comply has been stable throughout the period of the study. This region has always had the lowest average time to comply.

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#### Time to comply falls

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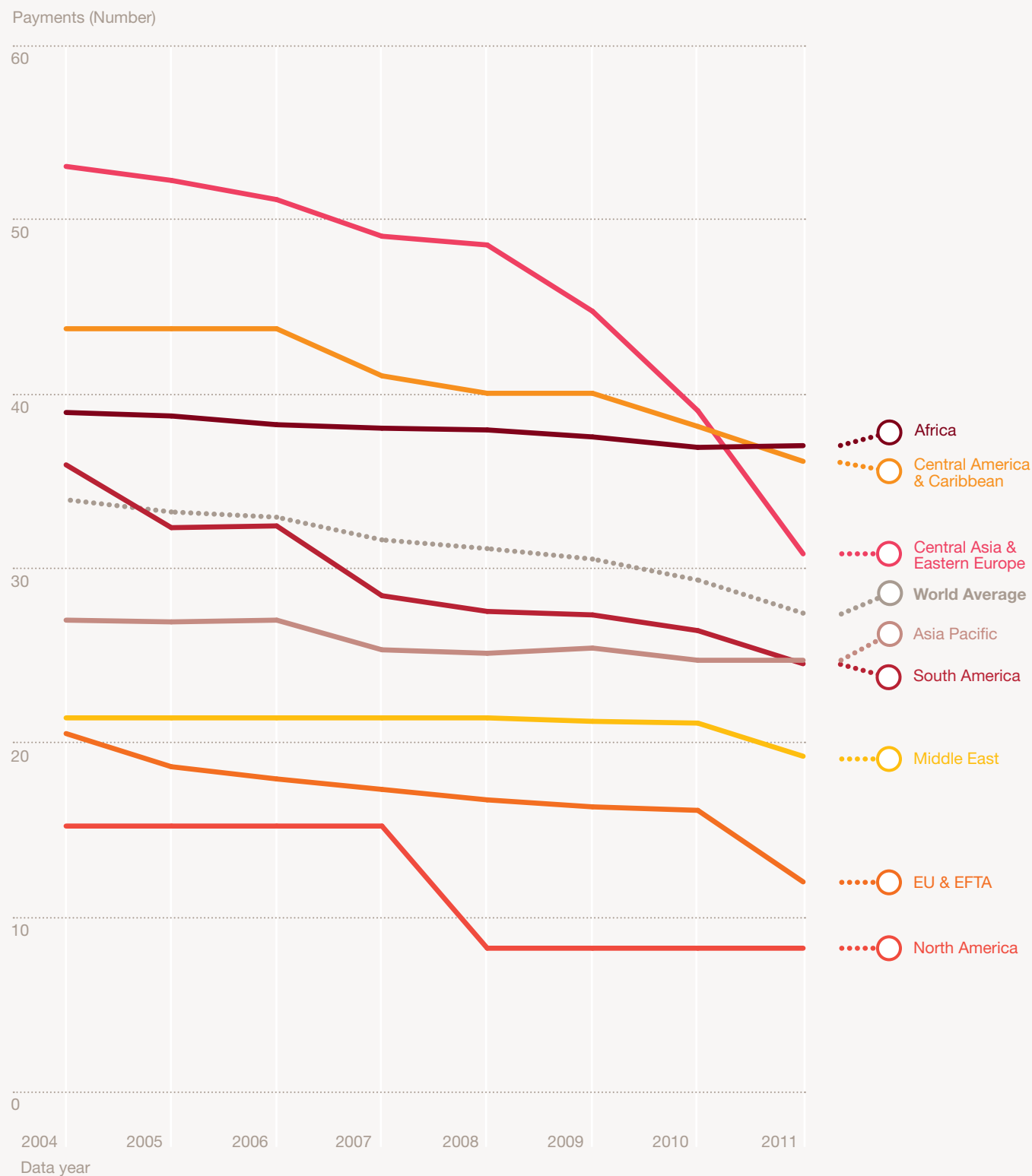
*The global average for the time to comply has fallen by 54 hours since 2004.*

### Number of payments

The global average for the number of payments has fallen in every year of the study. The indicator has fallen by 6.5 payments. All regions have contributed to this fall (see Figure 2.15).

The largest falls have been recorded for the Central Asia & Eastern Europe region (largely due to the introduction of online filing and payment) and these falls have been accelerating with a 36% fall over the last four years, so that it is now no longer the region with the highest average number.

**Figure 2.15:** The global and regional trends in the number of payments from 2004 to 2011





The Central America & Caribbean region has had a steady fall in the indicator over the study period but remain above the global average. In Africa the reduction in the number of payments has been small, so that the region now has the highest average of any region.

After Central Asia & Eastern Europe, South America has seen the next largest fall in the average number of payments taking it below the world average, while the trend for Asia Pacific has been more stable.

This is one indicator where the Middle East does not have the lowest average. The indicator has been virtually flat until the most recent period when it has fallen by 1.9, which is 86% of the total eight year fall.

The number of payments for the EU & EFTA has always been well below the global average and the falls have continued to be significant in recent years as the economies who have most recently entered the EU have introduced electronic filing and payment systems. The economies in North America have always had the lowest average number of payments, and the introduction of electronic filing and payment in Mexico in Paying Taxes 2008 confirmed this position.

#### Number of payments falls



*The global average for the number of payments has fallen in every year of the study. The indicator has fallen by 6.5 payments.*

# *The regional analyses*

## Africa<sup>16</sup>

Africa has the highest average Total Tax Rate of any region.

‘Other’ taxes are a larger element of the Total Tax Rate for Africa than is seen globally, but the elimination of cascading sales taxes is reducing this feature.

Africa has the second highest average for the time to comply.

Consumption taxes (VAT) take the most time in Africa – 133 hours on average.

Africa has the highest average number of payments of any region.

While Africa has an average number of taxes above the world average, it is the lack of electronic filing which is the main reason for the high number of payments. Only three economies have electronic filing for all major taxes.

While the Total Tax Rate for the region has fallen significantly (by 12.3% largely as a result of the replacement of cascading sales taxes), falls in the time to comply have been more moderate (25 hours) and falls in the number of payments have been small (1.9 payments).

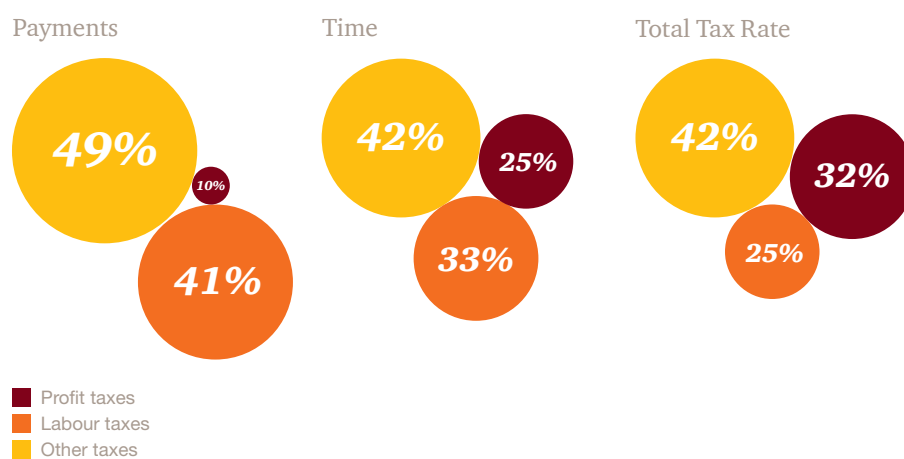
<sup>16</sup> The following economies are included in our analysis of Africa: Algeria; Angola; Benin; Botswana; Burkina Faso; Burundi; Cameroon; Cape Verde; Central African Republic; Chad; Comoros; Congo, Dem. Rep.; Congo, Rep.; Côte d'Ivoire; Djibouti; Egypt; Arab Rep.; Equatorial Guinea; Eritrea; Ethiopia; Gabon; Gambia; The, Ghana; Guinea; Guinea-Bissau; Kenya; Lesotho; Liberia; Madagascar; Malawi; Mali; Mauritania; Mauritius; Morocco; Mozambique; Namibia; Niger; Nigeria; Rwanda; São Tomé and Príncipe; Senegal; Seychelles; Sierra Leone; South Africa; Sudan; Swaziland; Tanzania; Togo; Tunisia; Uganda; Zambia; Zimbabwe



### The 2013 tax profile

Figure 2.16 shows that for the number of payments and the time to comply the profile of the taxes levied on our case study company is not dissimilar to the overall global pattern. However it shows that on average across the region the proportion of Total Tax Rate accounted for by labour taxes and social contributions is smaller with a greater proportion represented by 'other' taxes.

Figure 2.16: The profile of taxes borne in Africa



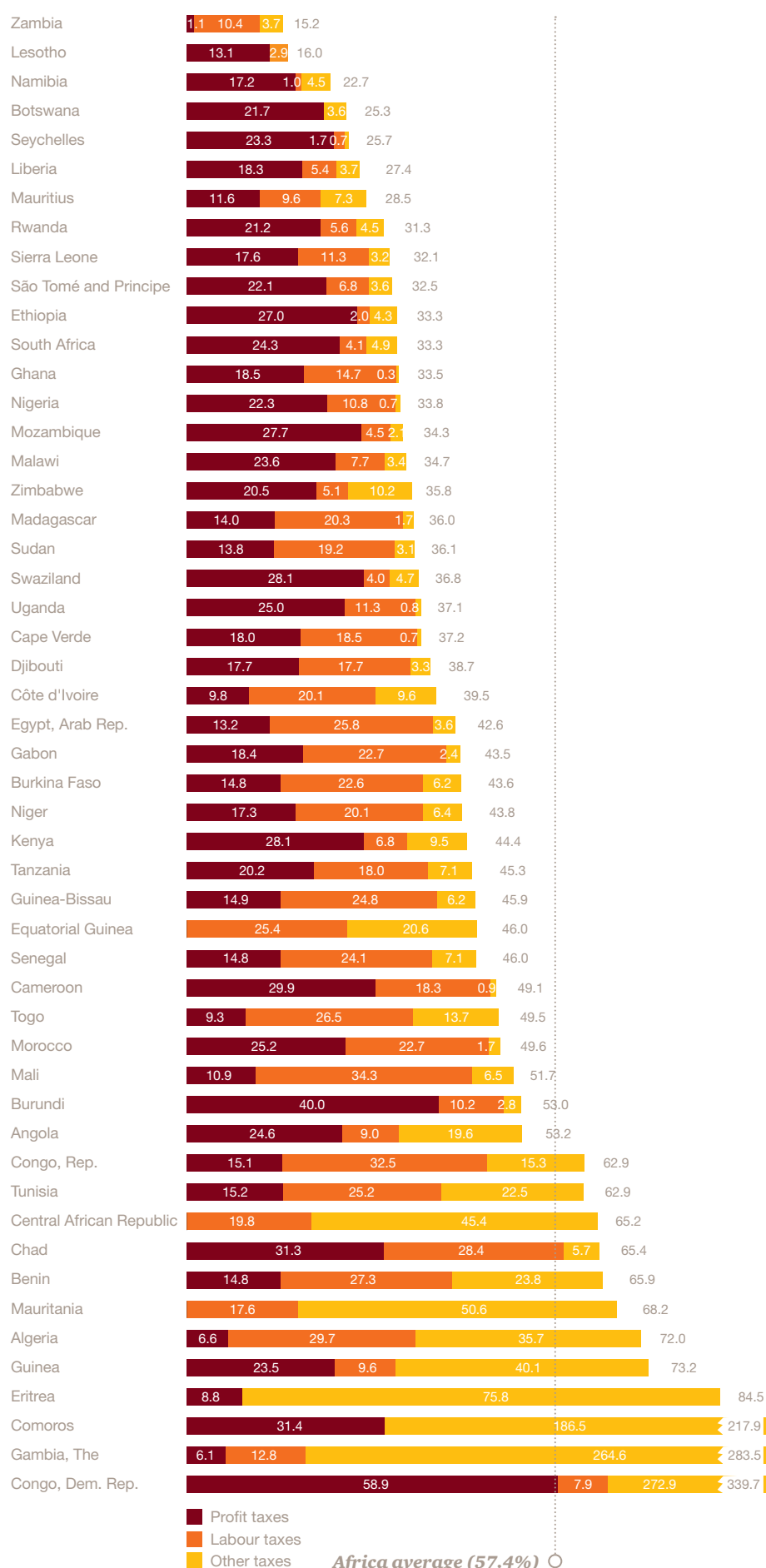
Source: PwC analysis.

## Total Tax Rate

Figure 2.17 shows that the average Total Tax Rate for the region at 57.4% is well above the world average. It also shows however that the cascading sales taxes which are still present in three economies, Comoros, The Gambia and Democratic Republic of the Congo contribute heavily to this high rate and also to the high proportion of other taxes shown in Figure 2.16. In past years, the study has seen reforms in Burundi and Sierra Leone which abolished cascading tax systems and adopted a VAT system, and this had a major impact, bringing the average down and helping to improve the ease of Paying Taxes in these economies. If the three economies with cascading sales taxes were excluded from the average it would fall to 43.4%, which would still be above the global average.

Looking across the other economies in this region, corporate income tax is prominent in the majority of economies while labour taxes and social contributions are relatively low. There are some exceptions. One example is Mali where five separate taxes - social security contributions, payroll tax, apprenticeship tax, tax for youth employment and accommodation tax are levied on wages.

**Figure 2.17: The Total Tax Rates in Africa**



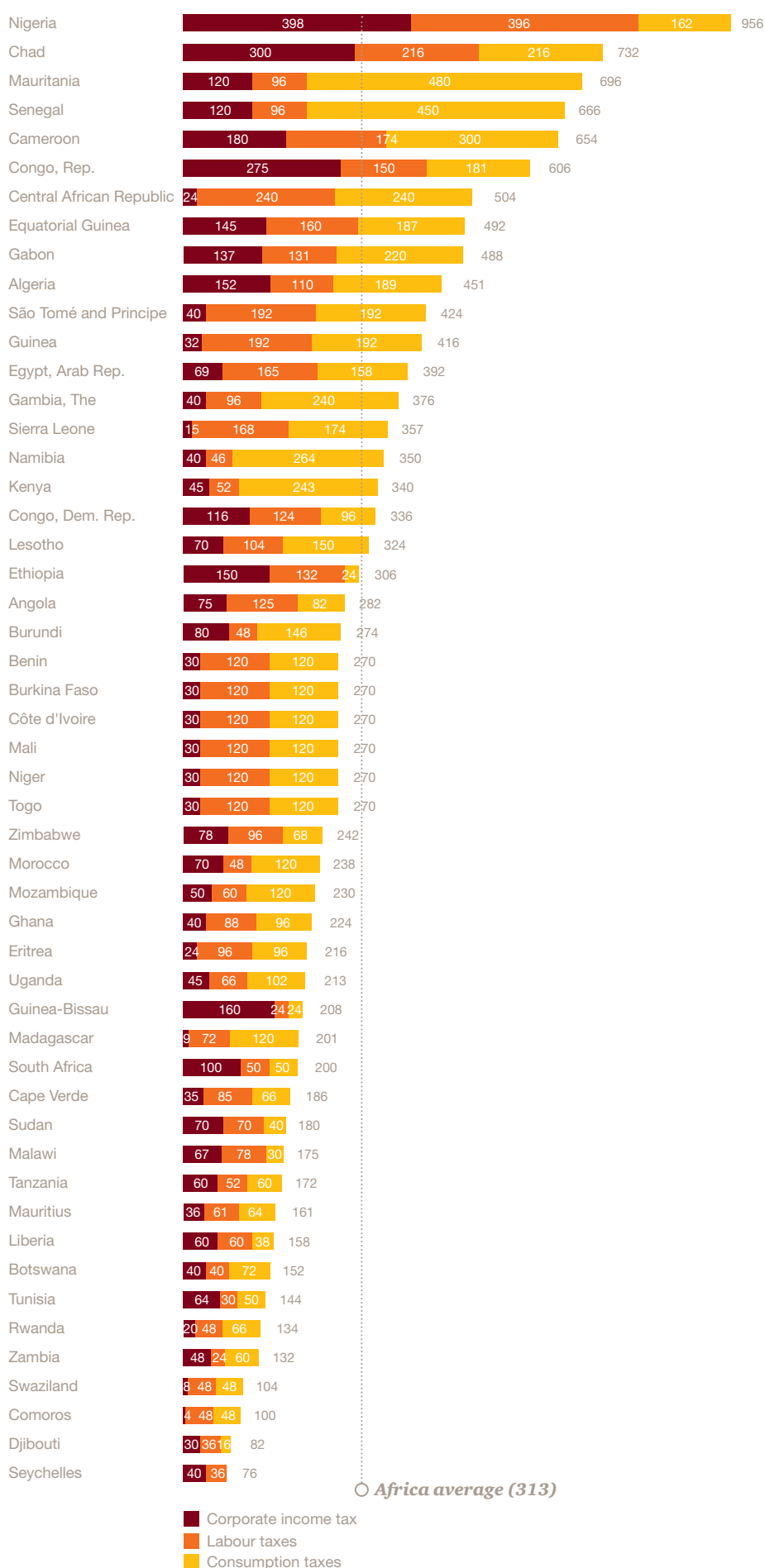
Source: PwC analysis.

## Time to comply

The average time to comply in the African region is 313 hours, which again is well above the world average. This is shown in Figure 2.18. The time to comply in 28 economies around the region is above the world average with six economies having hours in excess of 600 (over 15 weeks), Republic of Congo, Cameroon, Senegal, Mauritania, Chad and Nigeria. In these economies the consumption taxes (all of which are VAT) account for the largest element of the compliance time, and this is a common theme in a number of other economies in the region. 42 of the 51 economies in Africa now have a VAT system, but only three have implemented the tax with an electronic filing and payment capability which is commonly used. Administration of VAT is an important issue and in Kenya for example the case study company spends 243 hours on complying with this tax. Here it has to file monthly returns which require detailed analysis of the accounting information. Online filing for VAT, introduced in 2009 is helping to reduce the burden and the hours to comply are falling.

The various levels of government that companies are required to comply with can also contribute to a high compliance burden. 60% of African economies have more than one level of government levying taxes. In Nigeria, the economy which requires the highest number of hours for our case study company to comply with its tax affairs also has the highest number of taxes in the region. In Nigeria the case study company has to comply with taxes levied by three levels of government, and spends a total of 956 hours every year doing so, with the compliance time split between profit taxes (398 hours), labour taxes (396 hours) and VAT (162 hours). The absence of an online filing system also contributes to the huge compliance time burden in the economy. Similarly in Chad, the African economy with the second highest number of hours, the high compliance hours can also be attributed in part to the multiple levels of government along with the absence of online filing.

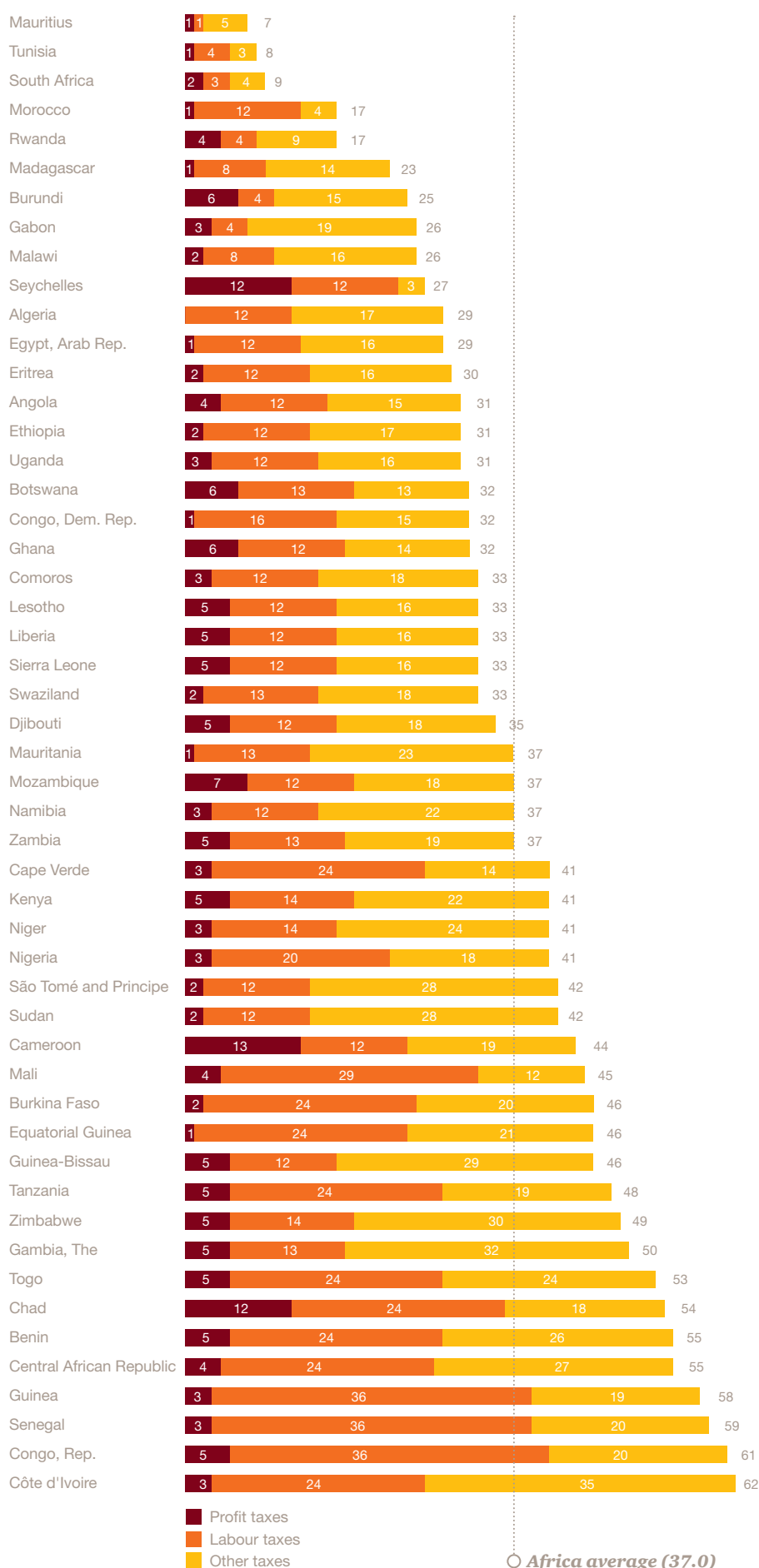
**Figure 2.18: The time to comply in Africa**



Source: PwC analysis.



**Figure 2.19: The number of payments in Africa**



## Number of payments

The average number of payments for the region at 37.0 is also well above the world average. The majority of the payments relate to labour taxes and social contributions, and 'other' taxes (see Figure 2.19).

Only three economies (Mauritius, Tunisia and South Africa) have electronic filing and payment commonly used for their major taxes. A lack of electronic filing for labour taxes and for VAT largely accounts for 41 of the economies in the region having a number of payments which exceed the world average of 27.2. Cote d'Ivoire is a good example of this. It has the highest number of payments in Africa (62) and 59 of these relate to labour taxes and VAT.

## The trends

Over the eight years of the study there has been improvement across all three Paying Taxes indicators. The Total Tax Rate has seen a significant reduction. The fall in the number of hours has been more moderate and has stalled in more recent years while the fall in the number of payments has been small (see Figure 2.20).

### Time to comply

Over the last eight years, the average time to comply in Africa has fallen by 25 hours. Economies such as Lesotho and Madagascar have reduced the number of hours by large margins having implemented major reforms.

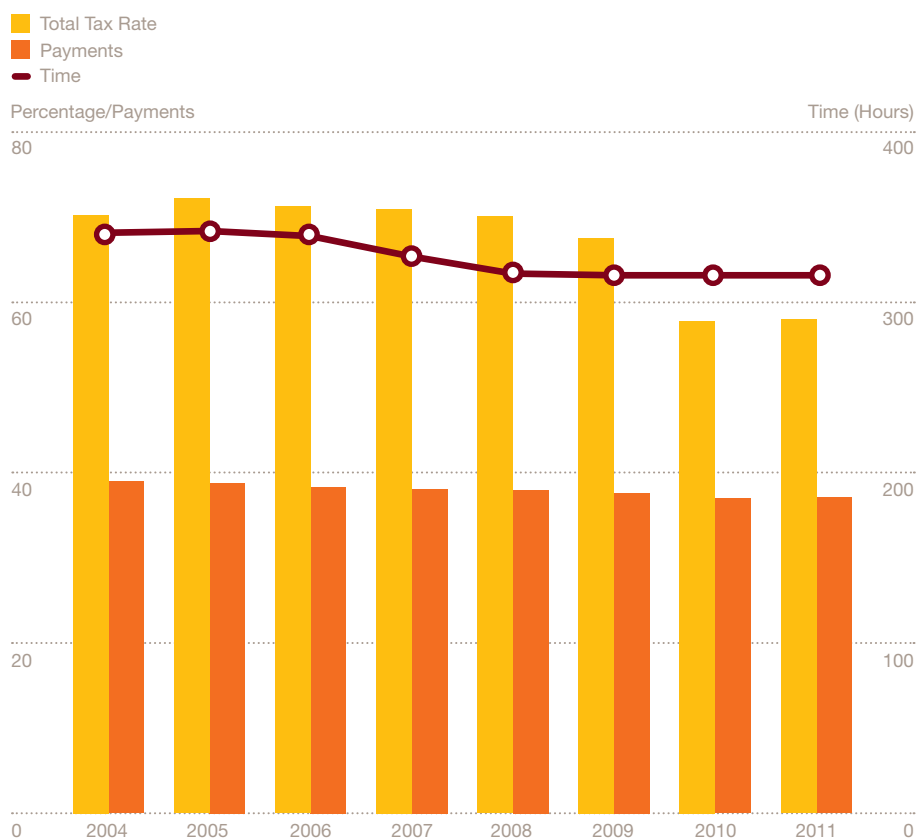
In Lesotho the time to comply has reduced from 564 in 2004 to 324 in 2011. This can be attributed to the increased use of accounting software for the preparation of tax filing information. In Madagascar, the hours needed to comply have fallen as various taxes have been abolished, including capital gains tax, professional tax, stamp duty and tax on dividends. These reforms in 2007 were a key driver behind the reduction in the time to comply from 400 hours in 2004 to 201 in 2011.

### Total Tax Rate

The Total Tax Rate has seen the largest falls, these arising particularly in the last four years, largely as a result of several economies replacing their cascading sales taxes with VAT systems. Overall the average still remains at a high level.

The economies which have replaced their cascading sales taxes are Burundi, Djibouti, Mozambique, Sierra Leone and Swaziland. Economies such as Sierra Leone and Burundi have taken centre stage with reforms that have impacted the Total Tax Rate. Over the past eight years, Sierra Leone has reduced its Total Tax Rate by 240.3% while Burundi's has reduced its by 226.7%.

**Figure 2.20: The indicator trends for Africa**



Source: PwC analysis.

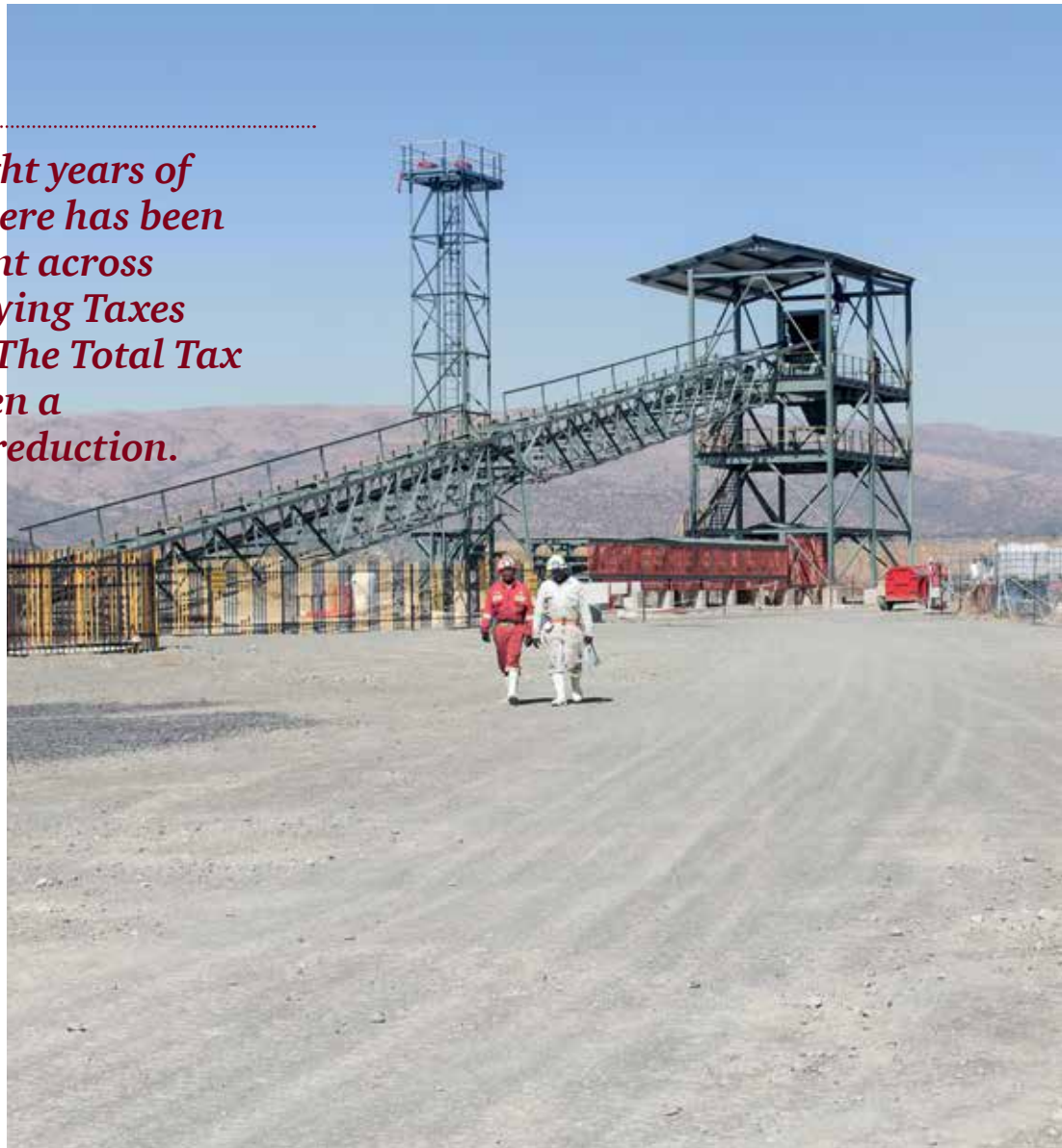
Sierra Leone reduced its corporate income tax from 35% to 30% as well as the highest personal income tax rate from 35% to 30%. In July 2009, Burundi replaced the turnover tax with a VAT and this has contributed to the huge improvement in the Total Tax Rate for the economy.

### ***Number of payments***

The reduction in the number of payments over the eight years of the study has been small, and in the most recent period there has been a small increase in the average. Reforms in various economies such as Tunisia, Cape Verde, the Arab Republic of Egypt, and Algeria, have helped with the small reduction. Here taxes have been either merged or abolished, along with some introduction of online filing and payment.

Tunisia provides a good example. Effective January 2009, companies with a turnover of TND 2 million and above were required to use the online filing system. The reform not only reduced compliance time, but also the number of payments from 22 to only 8. In Egypt, a reform in the tax law in the year 2005 saw the elimination of the state development duty and introduction of electronic filing. The reforms led to a reduction of payments from 42 in 2004 to 29 in 2011.

***Over the eight years of the study there has been improvement across all three Paying Taxes indicators. The Total Tax Rate has seen a significant reduction.***





# Angola

New tax reforms provide a step in the right direction

Pedro Calixto

PwC Angola

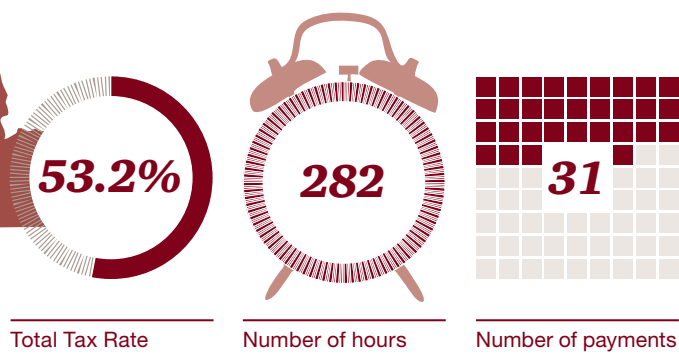
The Paying Taxes indicators demonstrate that the tax regime in Angola continues to be difficult for the case study company. Angola ranks 154 in the latest Paying Taxes study and 172 in the World Bank and IFC's *Ease of Doing Business* ranking. The number of hours has not fallen since the study began eight years ago and remains at 282 hours, while the number of payments has remained unchanged at 31 reflecting a lack of electronic filing and payment across each of the major taxes. The Total Tax Rate has also consistently been just over 53% during the study period.

The oil sector plays an important role in the Angolan economy, currently accounting for over 95% of export revenue and over 75% of National Budget revenue, according to the International Monetary Fund. With a view to reducing dependency on the oil sector, the government is implementing a number of measures aimed at diversifying the economy and increasing tax revenues. This includes various tax reforms aimed at making the Angolan tax framework more simple and fair.

New laws were published at the end of March 2012 which changed the investment income tax code, the stamp tax code and the consumption tax code.

**Investment income tax** – The changes introduced aim to widen the tax base for other income that was not subject to tax in prior legislation (e.g. interest from treasury bonds and bank accounts). This new regime also abolishes some exemptions granted previously and includes territory rules for the application of investment income tax. The penalties applicable have also been updated.

**Stamp tax** – Under the new stamp tax code, several pieces of legislation have been repealed as they are no longer applicable. The law is now clearer on the rules relating to the assessment, settlement, exemptions and compliance obligations.



**Consumption tax** – Major changes were made to introduce new services that will be subject to this tax along with associated new procedures for assessment and payment. Other changes relate to ensuring that exemptions available on the importation of goods are also granted for the same locally produced goods. Finally, changes have been made to clarify the responsibility for the payment of consumption tax to ensure that it lies with the producer or supplier of goods or service provider, rather than the final consumer.

Further change to the tax code is expected in the future including, updates to the general tax code, the tax procedure code, the corporate income tax code, the individual income tax code, and the big taxpayers regime.

Some of the most relevant changes expected include:

#### **Corporate income tax**

- A reduction in the rate (35% to 30%) and an increase in the withholding rate to 6.5%;
- Additional disallowance of certain costs (e.g., interest on shareholders loans);
- Changes to the depreciation rules and rates;
- A neutral regime for mergers; and
- New transfer pricing regulations and group taxation rules.

#### **Personal income tax**

- Clarification of non taxable limits for several types of income;
- Additional categories of income to become taxable; and
- Various amendments to the tax rates.

The government is also investing in updating its tax administration as part of the tax reform process, but there is still much to be done and some of the priorities for this include better preparation and training of tax authorities staff, more guidance for taxpayers published by the tax authorities, the introduction of tax courts to resolve disputes between taxpayers and authorities, procedures to allow for tax refunds, and the introduction of electronic filing and payment.



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# Mauritius

Committed to sharing ideas for a better tax system

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**Tony Leung Shing**

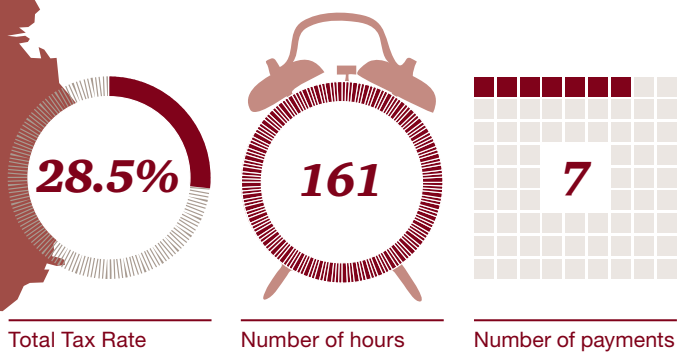
PwC Mauritius

The Africa launch of the *Paying Taxes 2012* publication took place in Mauritius. The Finance Secretary of the Ministry of Finance was the main guest speaker, with further contributions from representatives of the Mauritius Revenue Authority (MRA) and the World Bank and IFC.

In his speech, the Finance Secretary reiterated the government's commitment to improve the financial environment in Mauritius through greater public – private sector inter-actions and also invited the various stakeholders to share their ideas for a better tax system.

In the National Budget 2012 (which was held a week before the Africa launch event), the Minister of Finance and Economic Development (MoFED) announced a series of measures to help boost economic growth. The abolition of the solidarity income tax (SIT) as well as capital gains Tax on the sale of immovable properties (introduced a year earlier) were two measures, amongst others, which were aimed to stimulate investment. From a tax perspective, the abolition of the SIT on dividend eliminated the economic double taxation of income and helped to restore Mauritius' competitiveness as a jurisdiction. The MoFED also announced that the tax exemption for companies in the Freeport Zone would be extended to an indefinite period as an incentive to reinforce and enhance the freeport and logistics platform as a pillar for the economic growth.





Mauritius is an international financial centre where the treaty network plays an important role in attracting investments and, with the emergence of Africa as the next investment destination, the MoFED announced plans to appoint ambassadors to assist with the negotiation of new tax treaties with African countries.

Whilst policies were being introduced to boost growth, other measures were also being taken to simplify tax administration in Mauritius. Amongst others, companies with an annual turnover exceeding MUR 2 million are now required to submit their tax returns and pay tax electronically. Electronic filing of PAYE returns has also been made mandatory for companies with 25 employees (50 in prior years). The benefits of electronic filing have, of course, been recognised for our case study company throughout the eight years of the Paying Taxes study. These measures extend the benefits to even smaller companies. As regards to the processing of tax refunds by the MRA, the law was amended to impose interest charges in respect of all refunds processed beyond six months.

The Total Tax Rate in Mauritius is 28.5%. Measures have been introduced during 2012 which should reduce the Total Tax Rate going forward. However, it may take some time for these measures to filter through the system and for benefits to be realised. As Andre Bonieux, Senior Partner of PwC Mauritius, mentioned during his opening speech at the 2012 Africa launch, the abolition of several taxes in Mauritius should lead to a better ranking in the future.



# Sierra Leone

The introduction of GST is a start, but scope for further reform remains

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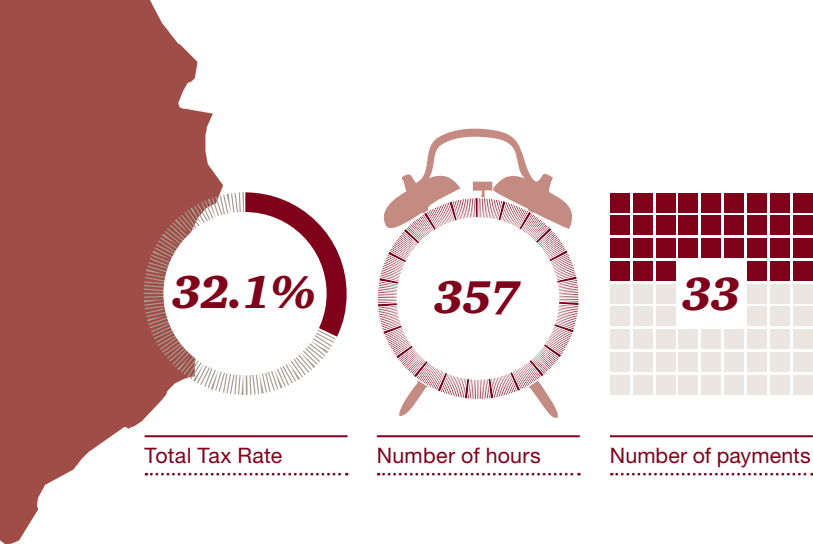
**George Kwatia**

PwC Ghana

Sierra Leone has seen some improvement in tax administration over the period of the study (a fall in the number of hours by 42) but over the last four years the compliance indicators have remained relatively stable.

The major reform for Sierra Leone has been the introduction of a goods and services tax (GST) in 2010 to replace the sales tax regime, and this significantly reduced the Total Tax Rate for the case study company.

The introduction of the GST saw the Total Tax Rate drop from 235.6% to 32.1%, the rate which still applies in the 2013 study. This is mainly because under the new GST regime, the case study manufacturer is able to claim a deduction for input tax incurred on purchases against output tax payable on sales, instead of adding to the costs incurred as existed under the repealed sales tax regime. The old regime did not have a provision for making this claim and the case study manufacturer had to recover the sales tax component by increasing its selling price to customers, although under the case study company assumptions with the fixed profit margin it was unable to do this.



The new GST Act has also eased tax administration and compliance for both the National Revenue Authority and the taxpayer, in terms of the number of taxes as GST (a single tax) now replaces a number of taxes such as entertainment tax, import sales tax and professional services tax. While this did not directly affect the case study company, this did have an impact on other taxpayers.

Other changes in the tax law during the most recent year included a widening of the individual tax bands and the introduction of legislation to support a specific GST Refund Account to refund the overpayment of GST to taxpayers.

Despite these changes, there is still scope for further improvements to be made to the tax administration process. The number of hours the case study company spends in complying with all the applicable taxes in Sierra Leone at 357, exceeds the sub-Saharan Africa average of 319 hours and is well above the global average of 267. Also, although the number of tax payments per year in Sierra Leone, at 33 in the latest study, is below the sub-Saharan Africa average of 39, there is scope to reduce the number of mandatory or statutory payments. Currently a taxpayer has to make 12 separate monthly payments through the year at different offices in respect of GST to the NRA, and another set of payments to the National Social Security and Insurance Trust. Streamlining this could also reduce the total hours spent to comply with the statutory payments and further reduce the tax administration burden on taxpayers.

Going forward, the Paying Taxes study will continue to bring discussions on topical tax issues in Sierra Leone to the fore, not only addressing the need to ease the administration of taxes but to help inform the debate with government and its aim of broadening the tax base and increasing the government's revenue.



# Uganda

## Electronic filing eases the compliance burden

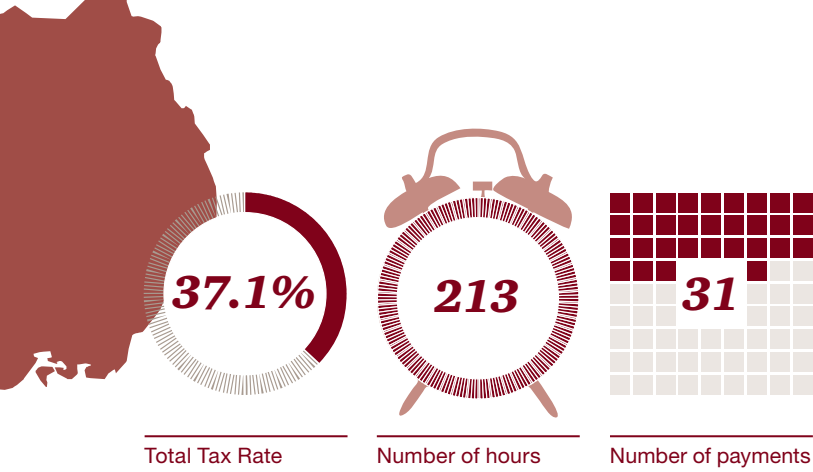
**Francis Kamulegeya**

PwC Uganda

Uganda ranks 93 out of 185 countries in this year's Paying Taxes study. The country is second only to Rwanda in the East African region.\*

The time to comply that our case study company takes to comply with its tax affairs in Uganda has fallen by only 24 hours over the eight years of the study. The government in its budget speech for the 2012/2013 financial year committed to improving its tax administration.

Overall, the reforms implemented by the government have been positive and as a consequence it is hoped that next year's results will reflect this trend by showing some improvement in the number of hours and the payments indicator. The reforms undertaken include the introduction of electronic filing of tax returns. This was originally introduced towards the end of 2009 as a pilot project, starting with a select number of taxpayers. In 2010, all large taxpayers were added onto the electronic register. Thereafter, all other taxpayer categories were incorporated, onto the electronic register so that today all taxpayers are required to use electronic filing.



While the Total Tax Rate has been relatively stable over the eight years of the study the rate increased in the most recent period. The government is adopting various policies which are designed to widen the tax base and also to improve tax collection. A good example is the proposal to revise the tax threshold and tax bands for individual income tax from US\$ 130,000 (USD 52) to US\$ 235,000 (USD 94) per month, as well as increasing the number of tax agents mandated to collect withholding tax on payments to persons in Uganda for supplies of goods and services from 139 to 254 agents. These reforms have been initiated in the current year and so have yet to make an impact on tax revenues and tax administration. We expect to see the fruits of these reforms impacting the Ugandan economy positively over the next few years.

Uganda introduced new transfer pricing regulations in July 2011 which have an impact on related party transactions. Prices of related parties are expected to be comparable to those established at arm's length between unrelated buyer and seller on normal commercial terms.

In conclusion given the revenue targets set for the Uganda Revenue Authority which are increasing on a yearly basis, it is unlikely that the government will remove any taxes or even reduce rates for those taxes which currently exist. The government is looking to collect 68% of its funding requirements for Financial Year 2013 from domestic sources with tax revenue contributing 97% of this.





## ***The regional analyses***

### **Asia Pacific<sup>17</sup>**

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The averages for all three indicators are below the global average.

.....

Only the Middle East has an average Total Tax Rate which is lower than Asia Pacific.

.....

On average corporate income tax is the largest element of the Total Tax Rate for the region.

.....

.....

The average time to comply in the region is low. Only ten economies take more time than the global average.

.....

The trend data over the last eight years shows a steady but moderate improvement across all the three indicators.

.....

<sup>17</sup> The following economies are included in our analysis of Asia Pacific: Afghanistan; Australia; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; China; Fiji; Hong Kong SAR; China; India; Indonesia; Japan; Kiribati; Korea, Rep.; Lao PDR; Malaysia; Maldives; Marshall Islands; Micronesia, Fed. Sts.; Mongolia; Nepal; New Zealand; Pakistan; Palau; Papua New Guinea; Philippines; Samoa; Singapore; Solomon Islands; Sri Lanka; Taiwan; China; Thailand; Timor-Leste; Tonga; Vanuatu; Vietnam



**Thailand**

Country article,  
page 71

**Hong Kong  
SAR, China**

Country article,  
page 65

**Singapore**

Country article,  
page 69

**New Zealand**

Country article,  
page 67

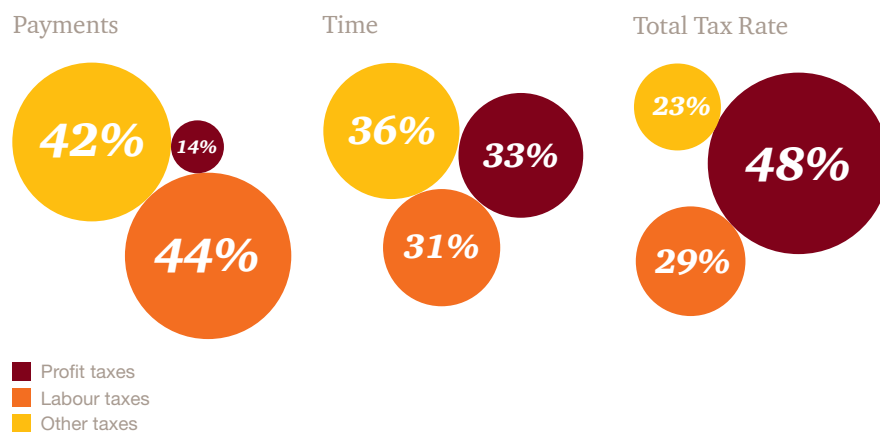
## The 2013 tax profile

Figure 2.21 clearly shows that corporate income tax accounts for a larger proportion of the Total Tax Rate and the time to comply than is the case in most other regions.

### Total Tax Rate

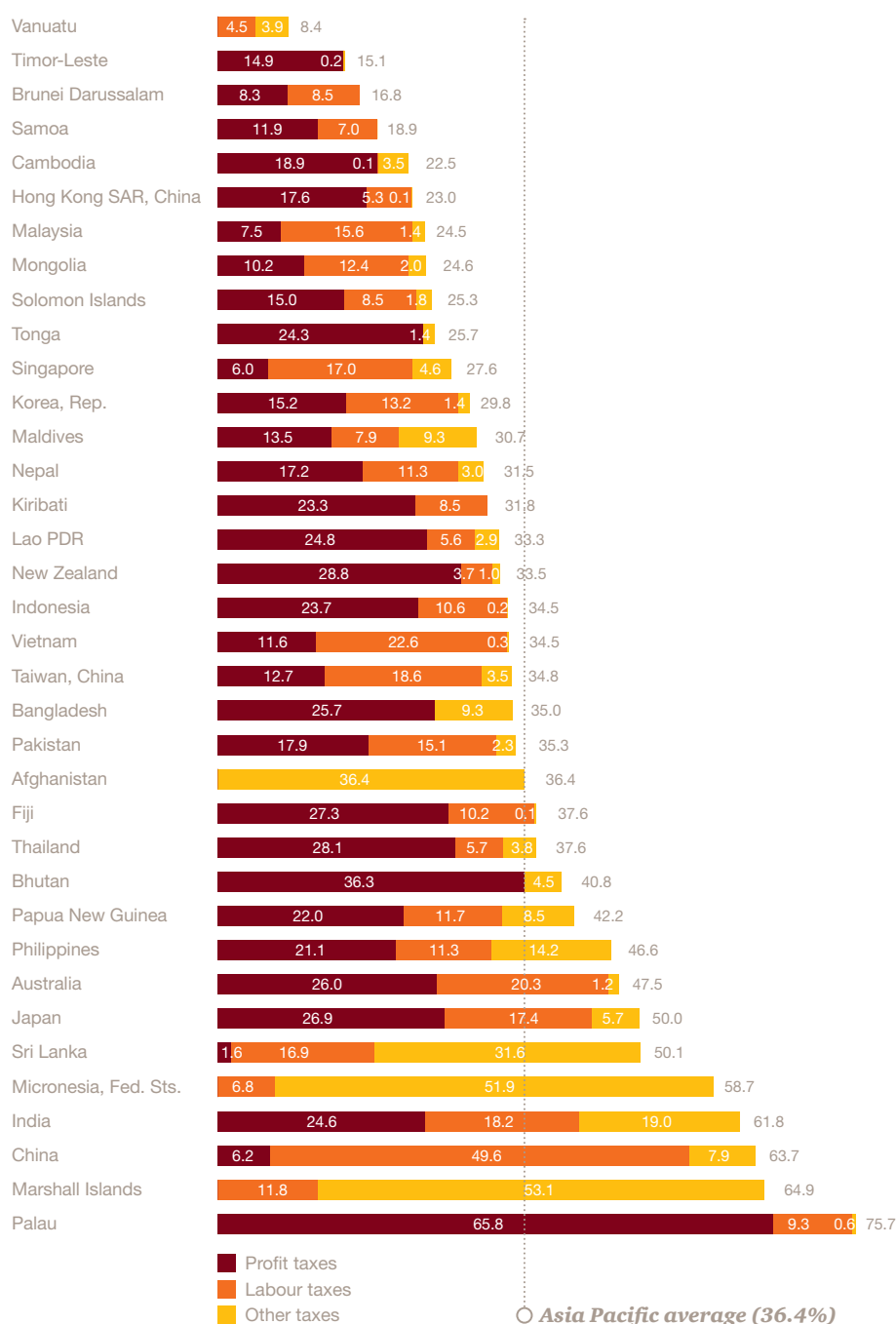
The average Total Tax Rate for the Asia Pacific region at 36.4% is well below the world average of 44.7%, and the Middle East is the only region with a lower average rate. Only nine of the 36 countries in the region have a Total Tax Rate which is above the world average (see Figure 2.22). Profit taxes comprise the largest element of the Total Tax Rate in the region with 24 out of the 36 economies ( $\frac{2}{3}$ ) having a corporate income tax which is the largest component of their rate.

**Figure 2.21: The profile of taxes in Asia Pacific**



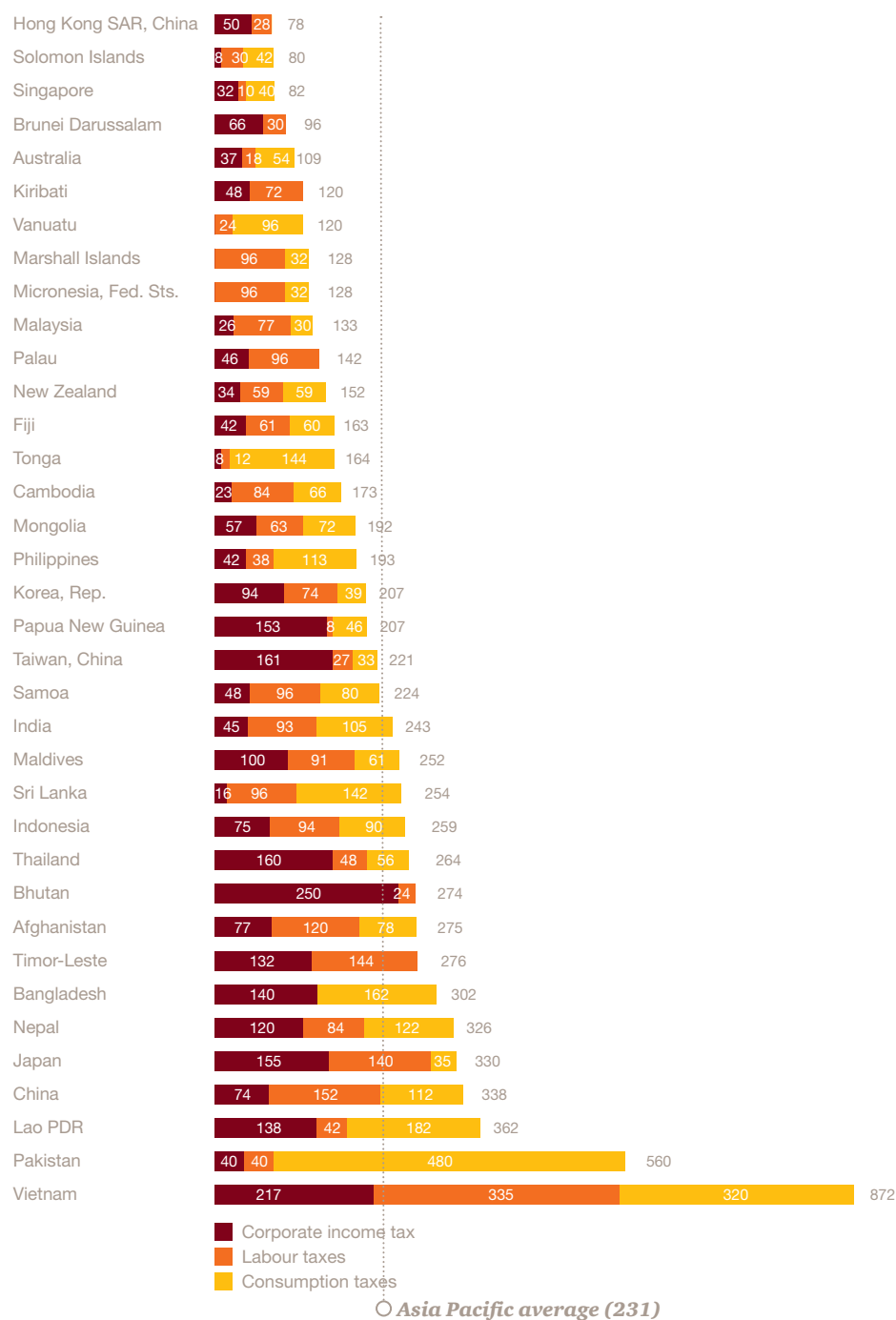
Source: PwC analysis.

**Figure 2.22: The Total Tax Rates in Asia Pacific**



Source: PwC analysis.

**Figure 2.23: The time to comply in Asia Pacific**



Source: PwC analysis.

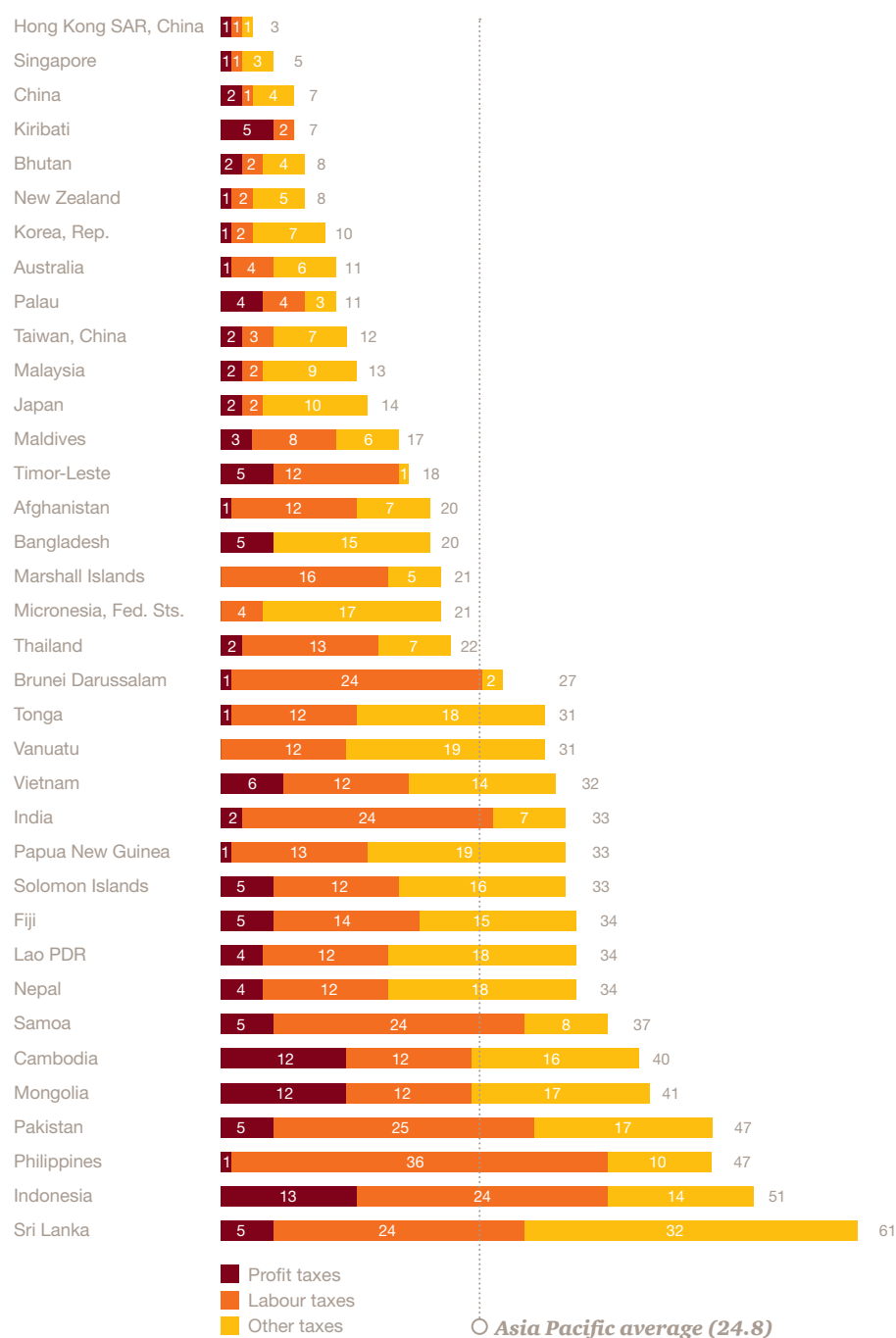
### Time to comply

The average time to comply for the region at 231 hours is much lower than the world average of 267 hours (see Figure 2.23). Only 10 economies (28%) spend more time than the world average, and this includes two economies, Pakistan and Vietnam where the number of hours is particularly high, 560 and 872 respectively which have a significant impact on the regional average. The significant amount of time required to deal with their VAT systems is a significant driver in these two economies. Our case study company in Pakistan for example, spends 480 hours complying with VAT where it has to comply with three levels of government (federal, state and local) and make multiple payments for these taxes. In Vietnam 320 hours are spent on VAT which is a consequence of the high level of detailed disclosure required in the monthly and annual returns. In Vietnam the company also spends 335 hours on its labour taxes and social contributions, the highest in the region, this arising from the need to comply with five taxes levied on gross salaries and an obligation on employers to file annual personal income tax returns, which is unusual.

## Number of payments

The Asia Pacific region has an average of 24.8 payments per year, which like the other two indicators is below the world average of 27.2 payments, but the range is wide and the economies are spread evenly through this range (see Figure 2.24). A lack of electronic filing and payment in the majority of economies in the region for labour taxes and social contributions along with multiple 'other' taxes in many keeps the average number of payments close to the world average.

**Figure 2.24: The number of payments in Asia Pacific**



Source: PwC analysis.



## The Trends

The trend data over the last eight years shows a steady but moderate improvement across all the three indicators. The average number of payments has reduced by 2.3, the Total Tax Rate by 2.6%, while the time to comply has fallen by 52 hours (see Figure 2.25).

### Time to comply

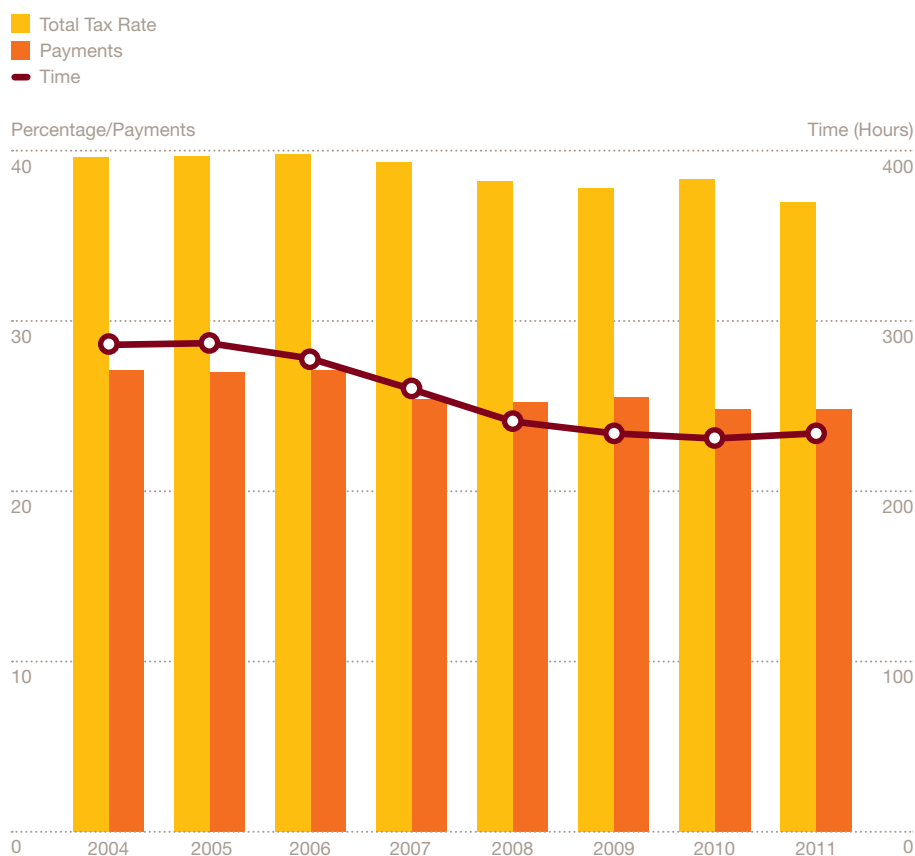
Below are some examples of the reforms introduced in this region.

In China, measures have been introduced to encourage the use of online filing, and changes have also been made to the tax laws to improve clarity in the tax legislation. The use of online filing and payment for various taxes increased the efficiency of the tax filing significantly and saved the taxpayers time for compliance. Coupled with various reforms on corporate income tax, China has reduced its compliance hours from 832 in Paying Taxes 2004 to 338 in Paying Taxes 2011.

Vietnam has implemented various reforms in recent years, which have reduced the time required to comply for VAT and corporate income tax. In 2010, two decrees on VAT and corporate income tax were passed which provided guidance on various grey areas of the law and this coupled with advancement in accounting software allowed compliance time to fall by 69 hours.

As a general theme for the region, the introduction of effective electronic systems in almost one third of the economies has helped to reduce the number of hours required for compliance.

**Figure 2.25:** The indicator trends for Asia Pacific



Source: PwC analysis.

### ***Number of payments***

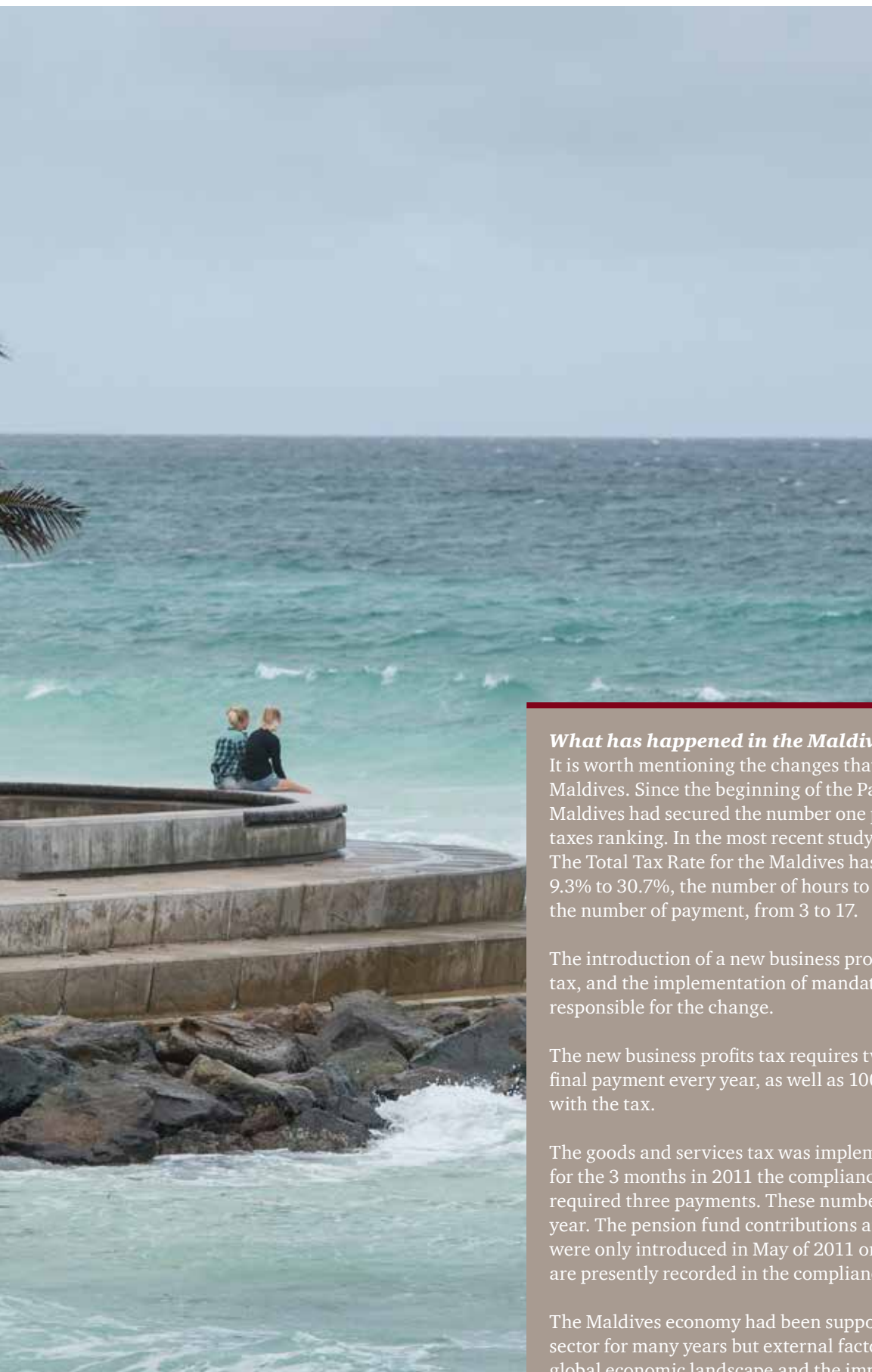
China again provides a good example where measures have been introduced to reduce the number of payments. The payments have reduced from 35 in Paying Taxes 2006 to just 7 in the most recent study, and this is mostly the result of adopting joint payment mechanisms for various labour taxes and social contributions and also the introduction of electronic filing for all taxes. India and Malaysia have also reduced their number of tax payments, both have reduced the number by 22. The abolition of real property gains tax in Malaysia in April 2007 and the abolition of the fringe benefit tax in India helped these reductions along with the implementation of online filing systems and the ability to make joint payments.

### ***Total Tax Rate***

China has had the largest reduction of the Total Tax Rate in the region. The Total Tax Rate reduced from 80% in Paying Taxes 2006 to 63.7% in the most recent study. There have been a number of reforms which reduced the Total Tax Rate including changes made for all companies (domestic and foreign) to introduce a unified rate of 25% (falling from 33.3%) from January 2008.

In Mongolia various reforms including the reduction in the employer's social security contributions and the introduction of progressive corporate income tax rates have driven a fall in recent years so that the Total Tax Rate has fallen from 39.8% in Paying Taxes 2006 to 24.6% in Paying Taxes 2013.





### ***What has happened in the Maldives?***

It is worth mentioning the changes that have taken place in the Maldives. Since the beginning of the Paying Taxes study in 2006, the Maldives had secured the number one position in the ease of paying taxes ranking. In the most recent study this position has changed. The Total Tax Rate for the Maldives has increased by 21.4% from 9.3% to 30.7%, the number of hours to comply from 0 to 252, and the number of payment, from 3 to 17.

The introduction of a new business profits tax, a goods and services tax, and the implementation of mandatory pension contributions are responsible for the change.

The new business profits tax requires two interim payments and one final payment every year, as well as 100 hours per annum to comply with the tax.

The goods and services tax was implemented in October 2011 and for the 3 months in 2011 the compliance time was 61 hours and required three payments. These numbers are likely to increase next year. The pension fund contributions are due monthly but since they were only introduced in May of 2011 only 8 payments and 91 hours are presently recorded in the compliance indicators.

The Maldives economy had been supported by a dynamic tourism sector for many years but external factors including the changing global economic landscape and the impact of the 2004 tsunami prompted a need for change. The reforms introduced are a good example of measures that some governments may need to take in order to adapt and diversify their economic base to secure sustainable tax revenues and to help encourage and support economic growth.



# Hong Kong SAR, China

A changing tax landscape to maintain a business friendly environment

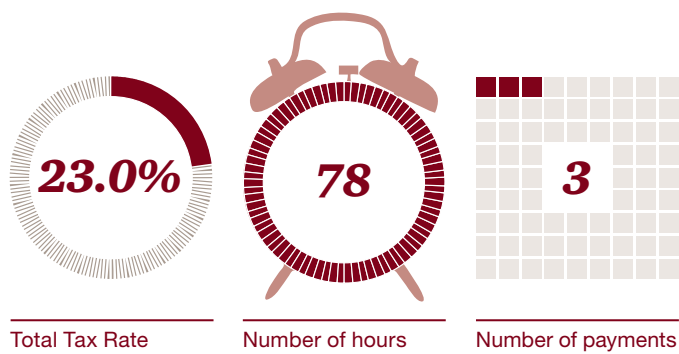
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**Peter Yu**

PwC Hong Kong SAR, China

Last year the Paying Taxes study was officially launched in Hong Kong SAR, China. Following the launch, Hong Kong SAR, China has kept its momentum in maintaining its global competitiveness. For years, the Paying Taxes study has consistently demonstrated that it has maintained a simple tax system which makes it is easy for business to comply. The tax cost for businesses is amongst the lowest in the world and the burden of tax compliance is also insubstantial when compared to most other jurisdictions surveyed.

The Total Tax Rate for the current year of 23% is the same as that for last year, mainly due to the absence of any significant changes in the tax laws which would impact the circumstances of the case study company. A few tax measures have, however, been implemented or proposed in 2012. To promote the use of intellectual property rights and stimulate the development of creative industries in Hong Kong SAR, China, legislation introducing a tax deduction over a period of five years for capital expenditure on the purchase of registered trademarks, copyrights and registered designs was enacted in June 2012. The new tax deduction is available from the year of assessment 2011/12. On the other hand, businesses with employees earning more than HK\$20,000 a month will find that their cost of hiring has increased slightly since 1 June 2012, as the cap on the employer's mandatory provident fund contributions for employees has been increased from HK\$1,000 to HK\$1,250 per month. To strengthen Hong Kong SAR, China's position as an international financial centre, the government launched a consultation paper on Islamic finance in March 2012. A number of amendments to the tax laws were proposed in this paper with the aim of providing a level playing field between Islamic and conventional bonds in terms of income tax and stamp duty implications. A bill on these amendments was introduced to the legislative body in September 2012 for its consideration and approval.



In recent years, much of the government's focus with regard to tax policy has been on expanding Hong Kong SAR China's tax treaty network and strengthening its co-operation with international taxation bodies. With the number of tax treaties increasing from five in 2008 to twenty five in 2012, more resources have been devoted to the tax treaty division of the Hong Kong SAR, China Inland Revenue Department in anticipation of an increased amount of work arising from implementation of the treaties. In April 2012, an advance pricing arrangement programme was officially launched. Moreover, the Hong Kong SAR, China government launched a consultation process on exchange of tax information in May 2012. This process is aimed at soliciting views from various stakeholders on whether amendment should be made to the tax laws to put in place a legal framework which would enable it to enter into Tax Information Exchange Agreements.

While the Hong Kong SAR, China domestic tax environment is expected to maintain its competitiveness, expanding their tax treaty network will further attract multinational enterprises to do business here. As a consequence, treaty application, and in particular issues around the interaction between domestic tax laws and treaty provisions, will become increasingly important for multinational enterprises doing business in Hong Kong SAR, China. Unfortunately, due to the unique tax system, there are considerable uncertainties in these areas but it is hoped that the Inland Revenue Department can help maintain or enhance Hong Kong SAR, China's competitiveness by providing more guidance and greater clarity with regard to such issues.





# New Zealand

## Public consultation to promote good tax policy

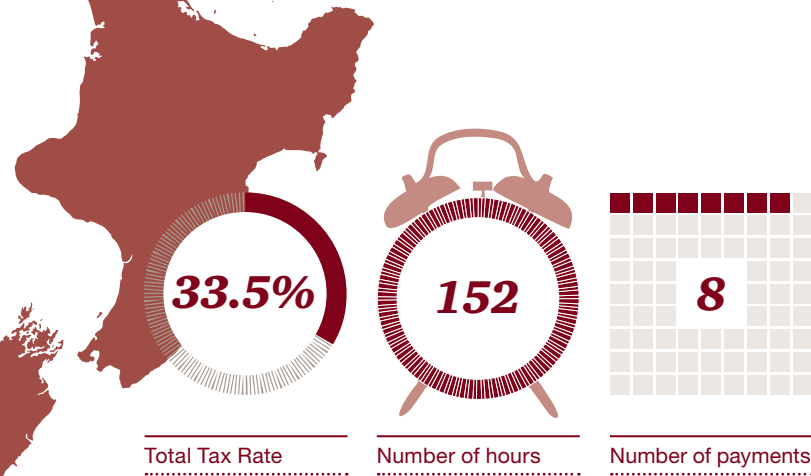
**John Cuthbertson**  
PwC New Zealand

The New Zealand government follows a principled approach to tax policy formulation through the 'generic tax policy process'. The process involves issuing public discussion documents and seeking submissions before introducing tax legislation. New Zealand generally follows a 'broad based, low rate' approach to tax policy. This approach, along with a high standard of tax administration through the Inland Revenue, has led to the present system being well recognised as comprehensive and coherent. New Zealand's last major round of tax reforms were announced in the government's 2010 Budget, where personal and corporate income tax rates were reduced and consumption tax (GST) increased. The 'tax switch' had several objectives. Sustainability of the tax base was improved by decreasing reliance on personal income taxes from internationally mobile salary and wage earners, and increasing reliance on consumption tax which is less mobile. Lowering personal income tax rates also reduced distortion by aligning the highest personal income tax rates and the trust income tax rate. Finally, the New Zealand government aimed to increase international competitiveness and productivity by decreasing the corporate tax rate.

These tax reforms have contributed to the fall of the Total Tax Rate and the time indicator. The downward trend of the Total Tax Rate reflects the recent decreases in the corporate tax rate from 33% to 30% and to 28% for the 2009 and 2012 income years respectively. The time indicator also fell this year, as additional hours allocated to the time spent by tax payers to process the GST rate change increase in the prior year, were excluded from the current year calculation of time spent.

The New Zealand tax system has proved resilient in light of domestic and global economic conditions. However, the New Zealand tax system is not without issues and limitations.





*Doing Business* ranks New Zealand eighth in the OECD for ease of Paying Taxes but this analysis is based on a company which is relatively large by New Zealand standards. Small and medium sized enterprises (SME's, defined as having 19 or fewer employees) make up 97% of New Zealand businesses, yet the New Zealand income tax system does not distinguish between the largest multinational and the SME; a 'one size fits all' approach is adopted. This means that SME's are required to complete the same income tax compliance requirements as larger more complicated businesses. The New Zealand Institute of Chartered Accountants released discussion papers in 2009 and 2012 suggesting a less complex tax regime for SME's.

The New Zealand government's stated objective to return to surplus by 2014/2015 has put pressure on the Inland Revenue to increase tax revenue through stricter enforcement of the current tax legislation, more active pursuit of tax debt, and closing legislative 'loopholes'. The Inland Revenue has increased audit activity particularly in the property sector, the 'hidden economy', and cross-border transactions, including financing.

The Inland Revenue have won a number of recent high profile court cases on the general anti avoidance rule (GAAR). Businesses now face a degree of uncertainty as to when legitimate tax planning becomes tax avoidance. Some tax professionals believe that the tax avoidance pendulum has swung too far in the Inland Revenue's favour and that this may ultimately require legislative intervention. Legislative intervention is not currently a priority for the New Zealand government given its current revenue requirements.

Interestingly the New Zealand media have focussed on the recent tax avoidance cases, supporting the Inland Revenue's view that taxpayers should 'pay their fair share' of tax in order to support government social spending in areas such as health and education. This has influenced public opinion against tax planning, particularly by large companies and the wealthy.



# Singapore

Broad-based or targeted reform? Looking beyond Paying Taxes

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**David Sandison**

PwC Singapore

As in prior years, Singapore continues to be a front-runner in the Paying Taxes 2013 study, ranking 5 out of 185 of the economies surveyed. The Singapore government prides itself on the establishment and maintenance of a business friendly environment, and the local tax system is an integral part of that mindset.

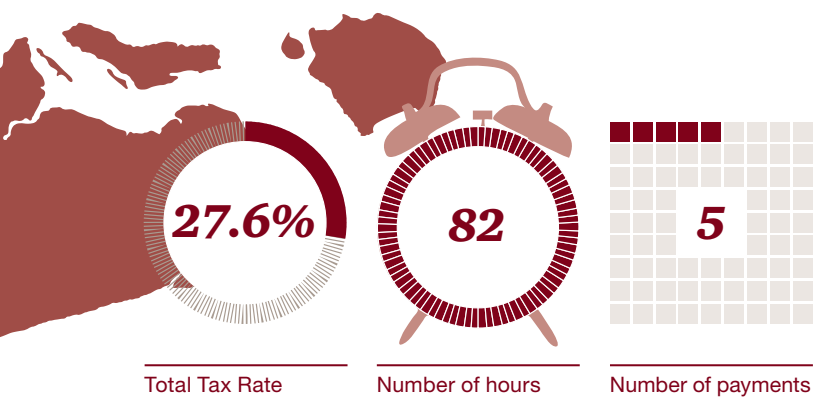
One core tax per tax base, a low number of hours needed to comply and a highly competitive Total Tax Rate continues to be the hallmark of Singapore's stable and simple tax system. This is key to Singapore's positioning as an attractive location for investment and entrepreneurship.

Ever conscious of competitiveness in a fast-changing world, Singapore has not rested on its laurels despite its stellar track record. Building on a strong foundation, Singapore continues to seek areas of refinement for the tax system.

Various authorities engage in discussion with PwC Singapore annually on potential areas of tax reform and international tax trends in response to the Paying Taxes publication. E-Circulars clarifying the application of tax rules are regularly introduced and updated. Refinements to tax return forms are made in response to public feedback and internal assessments.

This evolving simple and stable tax system has served the city-state well for many years. However as the Singapore economy matures, policy-makers have progressively moved away from broad-based initiatives to seek reform in targeted areas for maximum impact.

These targeted reforms have been introduced in a variety of ways. For example, an array of tax incentives for growth industries such as enhanced or further deductions for expenditure relating to "desirable" activities is available. These incentives have an impact on businesses' Total Tax Rates. The Productivity and Innovation Credit (PIC) scheme is a case in point.



Nonetheless, limitations in the Paying Taxes methodology may not allow the benefits of such targeted reforms to be reflected in Singapore's results. For instance, a simplified tax return (Form C-S) was introduced by the Singapore tax authorities as part of an effort to simplify the filing procedures for small companies and reduce the time to comply. However, the revenue amount for the case study company exceeds the threshold for Form C-S users. Similarly, Paying Taxes fixed assumptions do not allow further tax deductions for many specific expenses to apply.

As such, Singapore's position in the survey could, in fact, drop in future rankings in relation to other economies which are making broader-based tax policy changes. Detailed rules and calculations associated with these Singapore's targeted policies may also increase businesses' time to comply, adding to their compliance burden. Furthermore, the real test of an economy's tax compliance burden does not stop with tax filing. Though some qualitative data are gathered through the study, the methodology does not benchmark the procedures and time required to finalise a company's tax assessment. There is hence limited information available to compare Singapore's approach with its peers. This requires further study.

Tax must and will continue to play a key role in the nation's growth strategy. Reforms must and will continue. At times, reform may come at the cost of increasing the compliance burden of businesses. Such choices, while at times inevitable, should be weighed carefully. Policy makers should thus look beyond absolute results of the Paying Taxes rankings to comprehensively determine the most appropriate tax system in order to facilitate Singapore's continuing growth story.



# Thailand

Working with government to improve business environment

**Thavorn Rujivanarom**

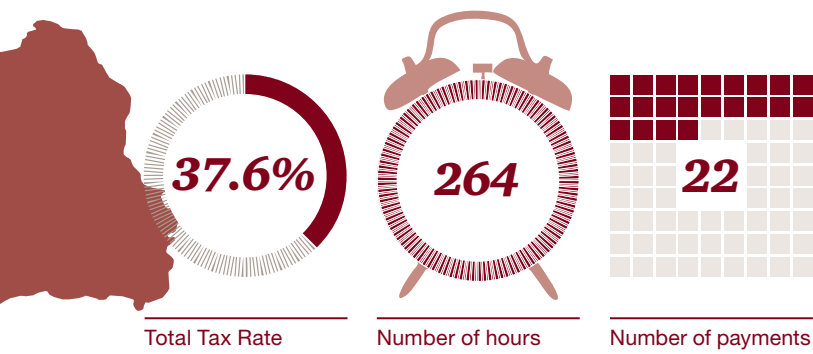
PwC Thailand

The long-awaited reduction in corporate income tax rates was finally legislated in 2012. Thailand's corporate income tax rate has been reduced from 30% to 23% for 2012 and down to 20% for both 2013 and 2014. No compensatory increase in VAT or reduction in investment incentives was introduced to minimise the impact on the government's revenue. The Total Tax Rate indicator in Paying Taxes can therefore be expected to fall in future having been relatively stable throughout the years covered by the study.

In addition, the efficacy of filing for the corporate income tax returns and their review is also expected to ease with the Revenue Department's move to encourage electronic filing of tax returns and the issue of new tax identification numbers compatible with electronic filing.

A study on how best to reform the Revenue Code has been completed and it is now in the hands of the government. Included in the recommendations are regulations addressing thin capitalisation, controlled foreign corporations, treaty shopping and general anti-avoidance rules.

Thus, while attempts are being made to reduce the time spent in preparing, filing and assessing tax returns, the tax laws are expected to become more sophisticated and complex in terms of plugging loopholes related to tax avoidance.



During the past few years, the government has appointed the Office of the Public Sector Commission (OPDC), whose mission is to work with the Thai Public Sector, with their government agencies, and with the private sector to improve Thailand's overall *Doing Business* ranking as well as specifically in Paying Taxes. The OPDC has worked closely with various government agencies to identify problem areas and has requested all related government agencies to help solve the problems. One example is the number of times that tax returns have to be filed and tax paid. While we acknowledge that the Revenue Department and the Social Security Office have consistently promoted electronic tax filing and tax payment to reduce the time required for filing tax returns, there is still more to do here particularly for employer paid social contributions with a view to bringing the time to comply (264 hours) and number of payments (22) down further (for the case study company).

The OPDC organises various seminars and workshops with government agencies, educational institutions and the private sector to discuss and brainstorm the problem areas in order to improve Thailand's competitiveness. A number of organisations, including PwC, have been invited to provide input to these workshops. One consequence is that the Revenue Department has developed the e-tax invoice and e-receipt system so that entrepreneurs have been allowed to apply for approval from the Revenue Department to issue e-tax invoices since January 2012. As the concept of the e-tax invoice is still quite new in Thailand, and it cannot be implemented without approval, the majority of companies in Thailand still do not use this facility and further work is needed in this area.

In summary, there have been many improvements in the Thai tax system in recent years as a result of a significant effort by the authorities. Whether this will make paying taxes fairer, easier or mutually beneficial will depend on the effectiveness of the Revenue Department's efforts to improve tax collection without creating an additional burden to the business entity so that business can focus its attention on improving its sales and profits.



# ***The regional analyses***

## **Central America & the Caribbean<sup>18</sup>**

Corporate income tax is particularly significant for the region in the Total Tax Rate but most time is spent complying with labour taxes and social contributions.

The average number of payments is higher than the world average and second only to Africa. A lack of e-filing coupled with numerous taxes are key reasons.

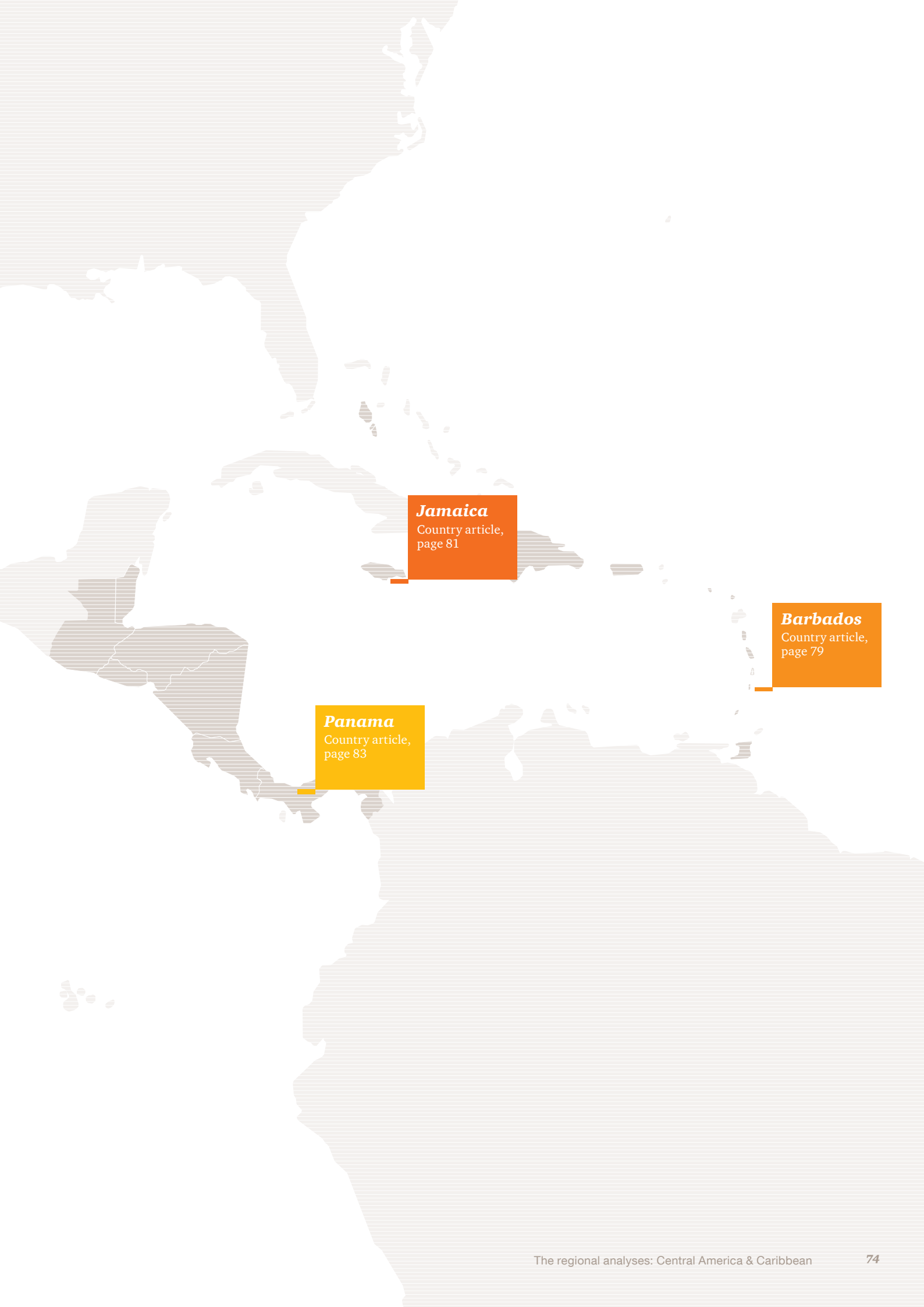
The fall in the average Total Tax Rate is the smallest for any of our regions.

Since Paying Taxes 2006, the average hours to comply has declined by 19 hours, the smallest fall apart from the Middle East.

The number of payments has dropped by 7.6 in the eight year period. This is slightly larger than the fall in the world average, but still leaves the region with an average significantly above the world average.

<sup>18</sup> The following economies are included in our analysis of Central America & the Caribbean: Antigua and Barbuda; Bahamas, The; Barbados; Belize; Costa Rica; Dominica; Dominican Republic; El Salvador; Grenada; Guatemala; Haiti; Honduras; Jamaica; Nicaragua; Panama; Puerto Rico; St. Kitts and Nevis; St. Lucia; St. Vincent and the Grenadines; Trinidad and Tobago





***Jamaica***

Country article,  
page 81

***Barbados***

Country article,  
page 79

***Panama***

Country article,  
page 83

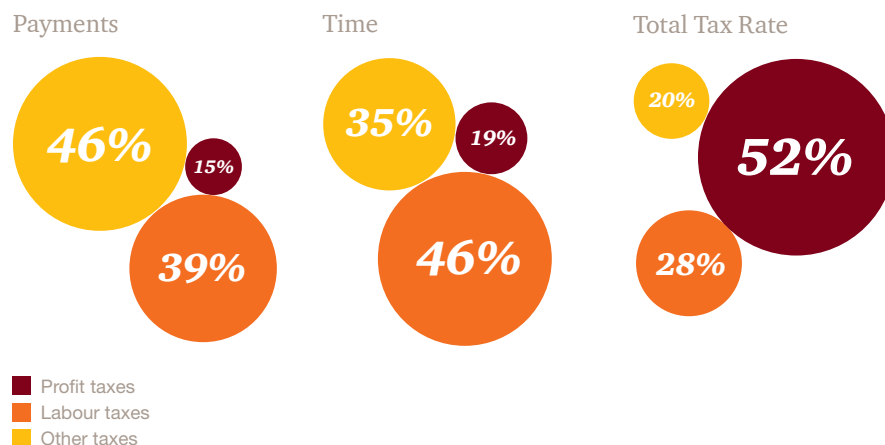
## The 2013 tax profile

Corporate income tax accounts for over half of the Total Tax Rate in this region, a significantly higher proportion than the global profile. However this is not reflected in either the number of payments or the time to comply indicators (see Figure 2.26). For the number of payments the profile is similar to the global position with other taxes accounting for the largest part followed by labour taxes and social contributions. The picture for time to comply is the reverse, with labour taxes having the largest part of the profile (just under half) which is a significantly higher proportion than is seen globally.

## Total Tax Rate

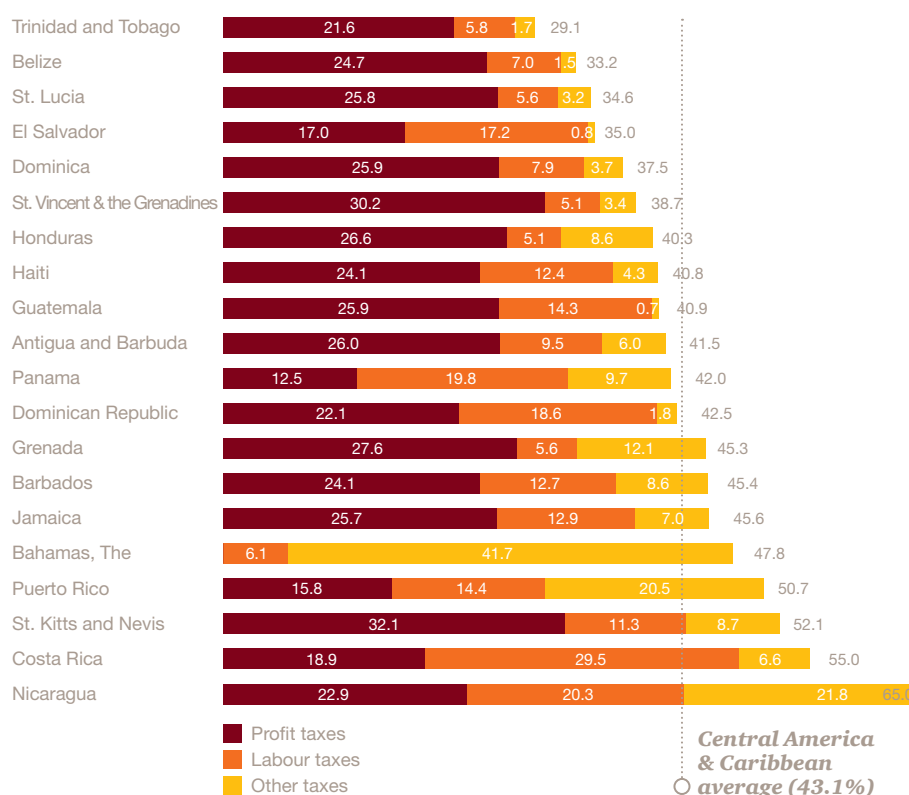
The average Total Tax Rate for the region is 43.1%. This is just slightly below the world average of 44.7%. The high corporate income tax element of the Total Tax Rate is a very common feature across the region (see Figure 2.27). It is the largest tax in all but four economies, Panama, El Salvador, Puerto Rico and Costa Rica. The Bahamas is exceptional in not having any corporate income tax at all. In this economy, other taxes like the business licence fee and stamp duties, are the most important taxes and account for most of the Total Tax Rate.

**Figure 2.26:** The tax profile for Central America & Caribbean



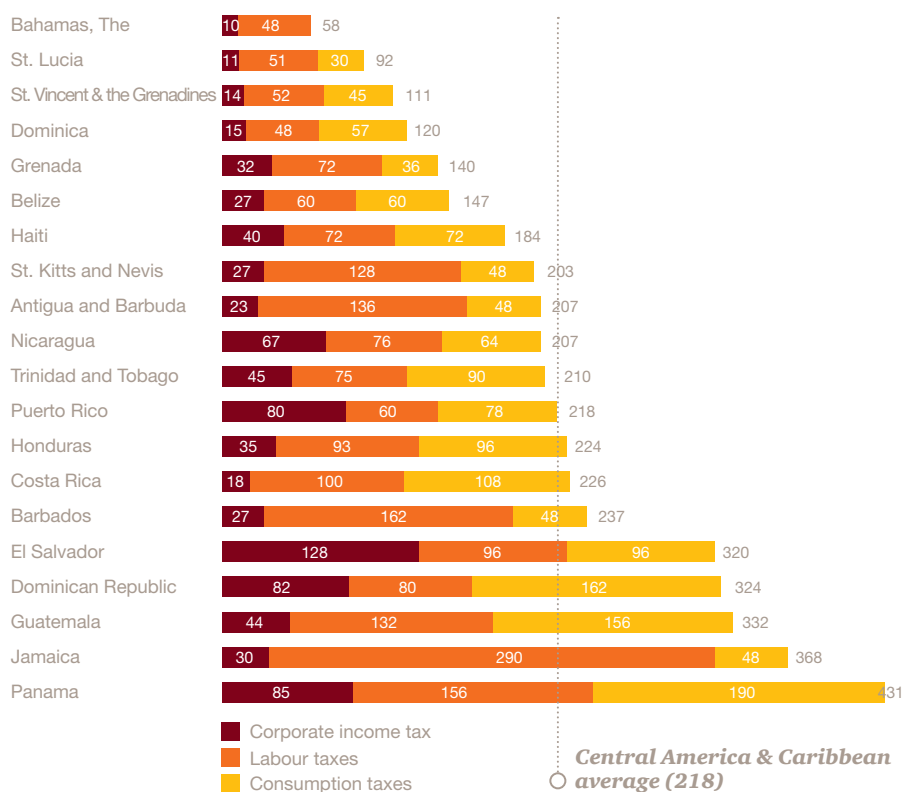
Source: PwC analysis.

**Figure 2.27:** The Total Tax Rates in Central America & Caribbean



Source: PwC analysis.

**Figure 2.28: Time to comply in Central America & Caribbean**



Source: PwC analysis.

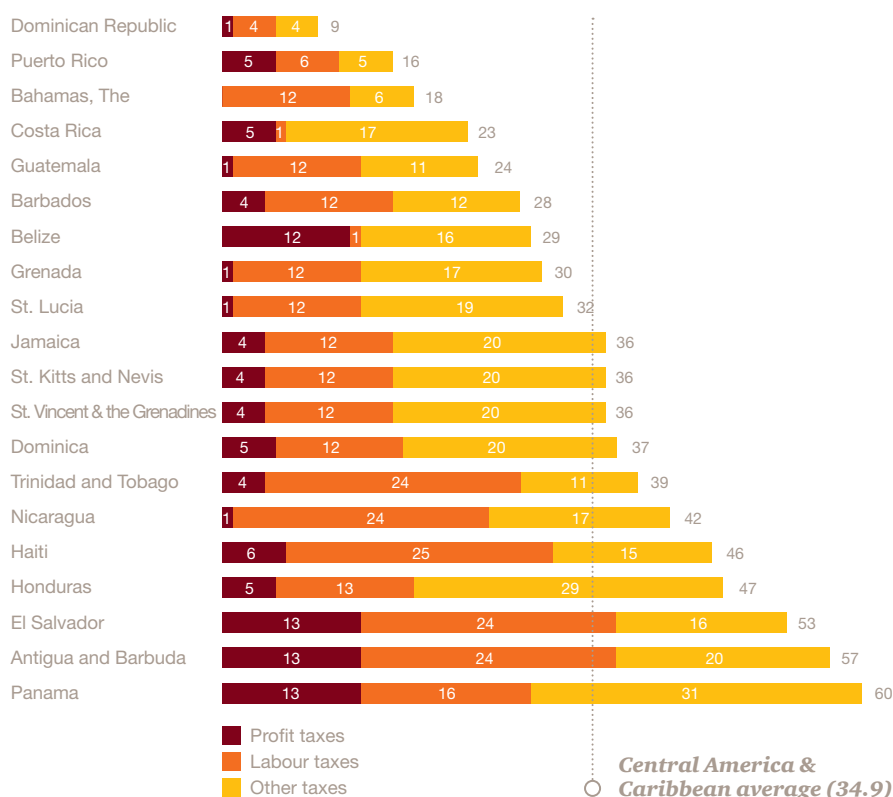
### Time to comply

The average time to comply across the region is 218 hours which is well below the global average (see Figure 2.28). This figure has remained relatively stable in the most recent study. On average most time is spent in dealing with the labour taxes and social contributions this being the case in all but six of the economies in the region. This is particularly so in Jamaica where measures have been taken recently to reduce the compliance time on these taxes.

### Number of payments

The average number of payments is 34.9, which is higher than the world average and second only to Africa amongst the regions (see Figure 2.29). These are concentrated in the labour taxes and social contributions where there is a general lack of electronic filing and payment (16 of the 20 economies in this region do not use e-filing to any appreciable degree). The monthly payments required for some of the major taxes such as corporate income tax, and VAT also increases the number of payments, examples of which can be found in Panama, and Antigua and Barbuda.

**Figure 2.29: Number of payments in Central America & Caribbean**



Source: PwC analysis.



### ***The trends***

In Figure 2.30 the trend data shows small reductions for each of the indicators over the eight years. The average payments have reduced by 7.6, the time to comply by 19.1 hours and the Total Tax Rate by 2.3%.

### ***Total Tax Rate***

The Total Tax Rate for the region has declined by a modest 2.3% over the eight year period from a high of 45.1% in Paying Taxes 2006 comparing those economies that have been in all years covered by the study. While the average remains just below the global average, this is the smallest fall in average Total Tax Rate for any of our regions. Only Antigua and Barbuda and Puerto Rico have experienced considerable reductions in the Total Tax Rate. In Antigua and Barbuda, the corporate income tax rate was reduced twice. In 2005 it was reduced from 35% to 30% and in 2008 it was reduced to 25%. In the most recent year Puerto Rico saw a decrease in its Total Tax Rate from 63.1% to 50.7%. This is the largest movement for any economy in the period and is mainly due to the reduction in surtax rates from January 2011.

Other economies in the region have had Total Tax Rates that have remained largely stable while some have even increased them over the eight year period, for example in the Dominican Republic there have been increases in the corporate income tax and excise tax rates causing the Total Tax Rate to rise from 36.2% to 42.5%.

### Time to comply

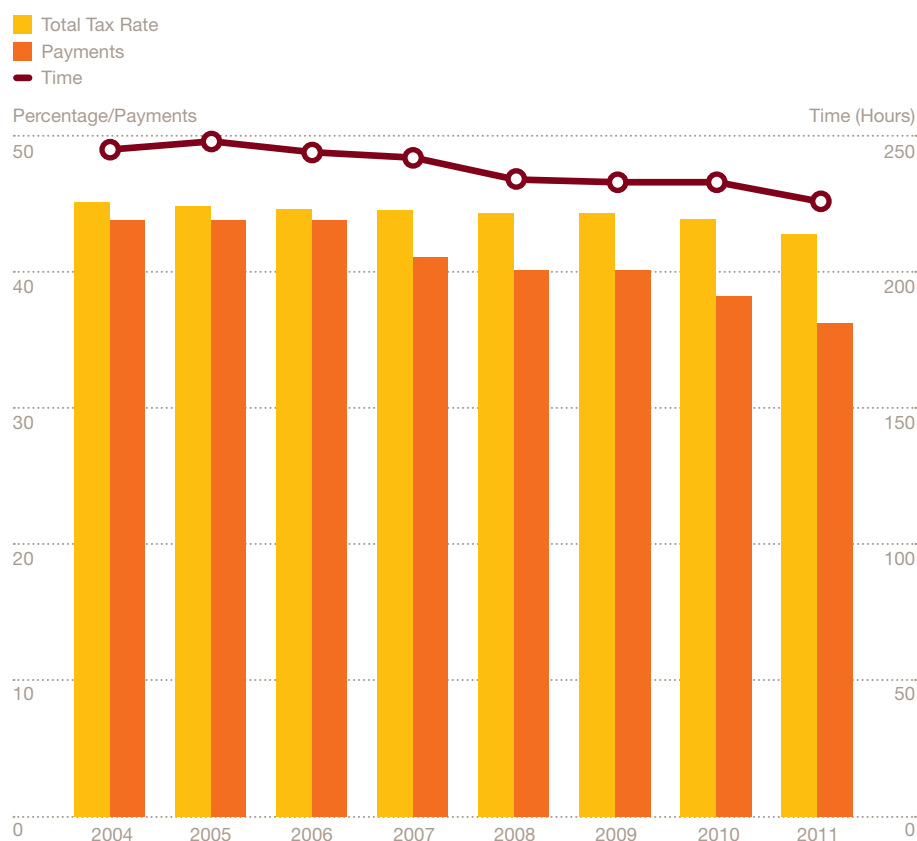
Since Paying Taxes 2004, the average hours to comply have declined by 19 hours, the smallest fall apart from the Middle East. This reflects the general stability of the time to comply for the economies in this region.

Over the eight year period Honduras, Costa Rica and Panama have seen the largest improvements (reductions of 200, 176 and 129 hours respectively) this largely resulting from increased electronic filing and payment. In the most recent year Panama has continued to reduce its hours (by 51) with the implementation of online filing and companies being obliged to file their VAT online, while in Jamaica the hours have fallen by 46 hours as action has been taken to merge the filing and payment of five major payroll contributions.

### Number of payments

The number of payments has dropped by 7.6 in the eight year period. This is slightly larger than the fall in the world average, but still leaves the region with an average significantly above the world average. The introduction of online filing has largely driven this reduction, and it is now available for labour taxes in Costa Rica and Belize and for corporate income tax in Nicaragua. There have been some exceptions, for example in St. Kitts and Nevis where VAT was introduced in November 2010 which increased the number of payments by 12 in last year's study (Paying Taxes 2012). Also of note is that in the most recent study Jamaica has reduced its number of payments by 50% by allowing employers to pay several payroll contributions jointly. This has had the effect of reducing payments from 72 to 36, and has also improved the number of hours to comply as referred to above.

Figure 2.30: The trends in Central America & Caribbean



Source: PwC analysis.



# Barbados

Strengthening the tax collection process to increase tax revenues and reduce the fiscal deficit

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**Gloria Eduardo**

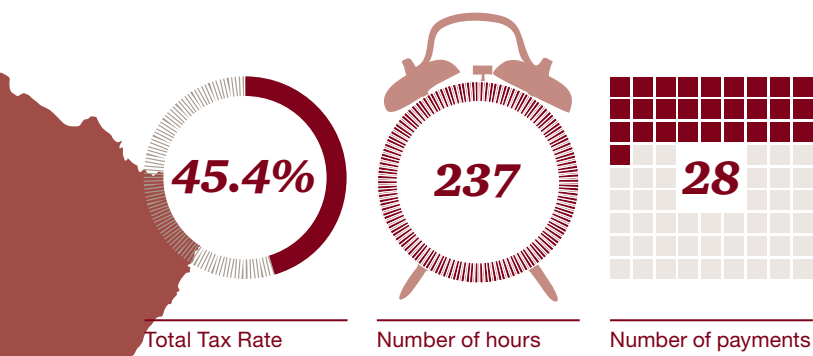
PwC Barbados

Barbados continues to feel the impact of the global recession, which has resulted in low economic growth for the past five years. As a consequence no significant adjustments have been made to the corporate tax rates during this time. Mechanisms have, however, been put in place to increase efficiency in the administration of the tax system and these are expected to reduce tax compliance cost, improve taxpayer satisfaction and increase tax revenues.

Barbados has varying corporate tax rates. Regular companies are taxed at a rate of 25% whilst companies approved as small businesses, manufacturing companies or approved developers in special development areas, are taxed at a rate of 15%. International business companies, international banks and international societies with restricted liability are taxed on a declining sliding scale at rates ranging from 2.5% - 1%. The minimum rate for these entities will be reduced to 0.05% for income year 2012 and 0.025% from income year 2013.

To reduce the time spent and cost of tax compliance, an electronic tax system was introduced in 2009 for income year 2008 by the Department of Inland Revenue. This enables corporate and individual taxpayers to file their tax returns online. This electronic filing system, although still with some challenges, has improved significantly over the years and allows taxpayers to file their returns anywhere at any time. Initially there was some hesitation amongst taxpayers and tax practitioners to file returns online, however, as confidence in the system has grown since it was introduced four years ago, so too has the level of usage. At present, individual taxpayers can elect to have their income tax refunds paid directly into their bank accounts and this has simplified the refund process for the revenue authorities. Unfortunately, it is not yet a fully electronic system, as taxpayers cannot pay their taxes electronically. The system has, however, allowed the Department of Inland Revenue to focus more of their resources on enforcement and investigations, as officers are now available to be deployed in these areas.





Value Added Tax (VAT) is a major component of government revenues, now generating more revenue than direct taxes paid by corporations and individuals combined. The VAT registration threshold was increased from Bds\$60,000 to Bds\$80,000 in December 2010 and the VAT standard rate was increased on 1 December 2010 from 15% to 17.5%. This was initially introduced as a temporary measure to be reviewed in 18 months but has now been extended “until further notice”. The VAT department has also recently automated the system for filing of its VAT returns and registrants can now file their VAT returns online. The VAT rate applicable to hotel accommodation was also increased on 1 May 2011 from 7.5% to 8.75% (effectively 50% of the standard rate).

Despite the prevailing direct and indirect tax rates, revenue collected from taxes in recent years has been insufficient to cover the expenditure of the government. This is mainly due to the country having a high debt burden with the national debt as stated by the Minister of Finance in his July 2012 budgetary proposals, being 113.5% of GDP for fiscal year 2010-2011.

In its National Strategic Plan, the Barbados government has established the fiscal objective of developing a transparent and sustainable public management system to promote efficiency and effectiveness in the current tax collection systems, as well as the system of expenditure management. This is expected to enhance financial stability and sustainability, improve compliance, reduce tax leakages and increase the level of tax revenue collected. With this objective in mind, the government has decided to establish a Central Revenue Authority (CRA) that is anticipated to commence operations in 2013 and become fully operational in 2014. The major revenue collecting agencies that are expected to be part of the CRA are: Department of Inland Revenue, Customs and Excise Department, Licensing Authority and Land Tax Department.



# Jamaica

## Advancing tax reform – the Jamaican journey

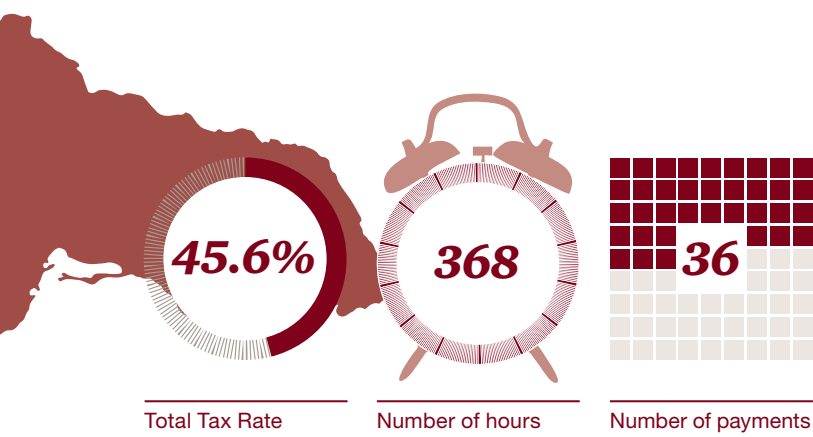
**Eric Crawford**  
PwC Jamaica

The Jamaica results in the 2012 Paying Taxes report were disappointing. The country's low overall ranking caused much consternation at the launch of the Report in Kingston on 16 November 2011. The credibility of the Paying Taxes report is exemplified by the extent to which it is quoted in all fora (including the Parliament) where Jamaica's tax system is discussed, as well as the hosting of several visits from members of the team by senior policy makers, administrators and the private sector who were interested in learning more of the methodology and significance of the study. Hence, the improvements reported this year, which include reductions in payroll tax payments from 48 to 12 annually and time to comply by 11% will be noted keenly by the tax administrators, parliamentarians and the business community. Furthermore, electronic filing and remittance of tax as well as direct banking options are now well established and there are initiatives to expand these facilities even further. These measures appear to be bearing fruit, as atypically, tax revenues exceeded the targeted levels marginally for the first four months of this fiscal year, despite a 10% increase in budgeted revenues over fiscal year 2012 outturn.

The foregoing initiatives form part of ongoing tax reform programmes in Jamaica, which has undertaken three major rounds since the 1980's. Yet there still is broad consensus that critical elements of the tax system are in need of further reform, both at the policy and the administration levels. In fact, this is one of the three non-negotiable demands of the International Monetary Fund (IMF) in its ongoing negotiations with the Jamaican government to conclude a new arrangement to replace an extended fund facility that was terminated prematurely in 2011.

In 1986 and 1987 respectively, the individual and corporate tax systems were simplified considerably. A progressive rate structure for individuals (with 57.5% at the margin) was replaced by a single rate of 33 $\frac{1}{3}$ % (later reduced to 25%) on incomes over a fixed threshold. Simultaneously, a range of untaxed allowances were eliminated.

A two tiered corporate tax rate (of 45%), was eliminated and replaced with a single rate of 33 $\frac{1}{3}$ %. In 1991, general consumption tax (a VAT) was introduced as a replacement for a number of other taxes and levies, including sales & consumption taxes, excise/ consumption duties and most additional stamp duties.



In 2004, a government appointed committee recommended a wide range of reforms designed to broaden the tax base, whilst shifting the burden from direct to indirect taxes. One key recommendation was the elimination of zero rating of supplies other than exports and diplomatic purchases as well as a reduction in the number of exempt items. Since 2005, successive governments have committed themselves to implementing several of the recommendations mentioned above, but despite a significant reduction in the number of zero-rated and exempt items under the VAT system, they have frequently relented. For example, 2012 was another year of expected significant reform based on the guidance published in a green paper presented to parliament in 2011 (which expressed disappointment in the achievements over the years). Government announced the imposition of the VAT on 13 major categories of goods, mainly basic foods, animal feeds, agricultural inputs, certain medical supplies and printed materials; as well as an increase in the rate of tax on household electricity bills (above 300 kwh of consumption per months). Within two weeks of the announcement however, a number of these decisions were reversed. In fact, not only was an increased VAT rate for household electricity bills reversed, but a lower rate of tax that was imposed on this service in 2010 was also removed.

Despite the disappointment reflected in the Green Paper in addition to the administrative reforms discussed above, there has been progress in other important areas, albeit over a protracted period. For example, the corporate tax rate will be reduced from 33 $\frac{1}{3}$ % to 25% next year. Transfer taxes and stamp duties on the sale of land has been reduced from approximately 13% to 7% and there is no longer tax on the transfer of debt securities. Tax on dividends is now moderate at 5% for resident shareholders.

So what are the major areas of reform that are yet to be implemented? The big issue driving the demand for further reform by the IMF in the negotiations with the government for much of this year appears to be the need for it to reduce significantly, the grant of waivers and incentives (some of which are acknowledged to be of developmental value). The IMF is also insisting on further administrative reforms to reduce the extent of the tax leakage resulting from significant numbers of persons evading taxes. These final yards in what has turned out to be a gruelling marathon are critical. Jamaica's economic survival depends on accomplishing them. An awesome responsibility lies with the administration.



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# *Panama*

Developing a tax system to keep pace with the international community

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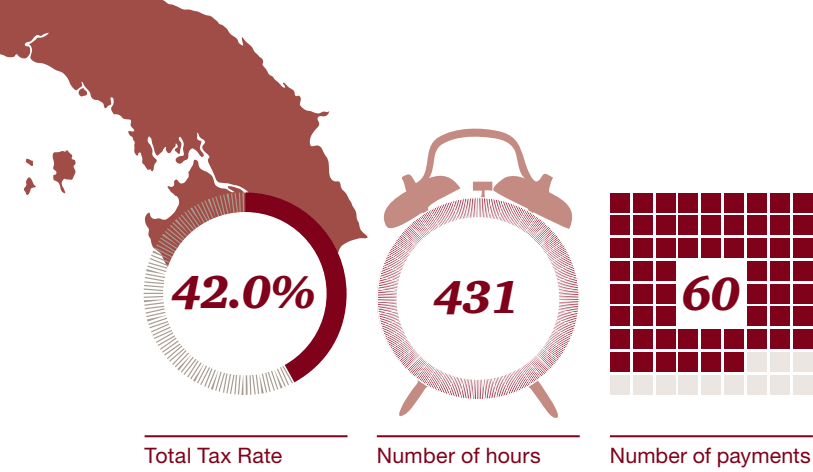
**Francisco Barrios**

PwC Panama

Panama is currently at an extremely interesting moment in its economic growth cycle. There is currently much improvement in the infrastructure of the country taking place including technology, communications, and regional connections. The economic growth is the result of significant efforts made by government to position the country competitively in a global context and there is a drive for these improvements to continue to ensure Panama keeps pace with the international community.

To have an economy which has sustainable growth, which can help government meet its objectives requires significant resources. Therefore having a tax system which can deliver these resources is key for development. Evolving tax systems often generate increased complexity and Panama is no exception. For this reason, it is of great importance for time and effort to be dedicated to review the tax system in Panama and to compare the country's systems with others around the world with a view to identifying shortcomings, and possible reform measures that may be required.

The Paying Taxes indicators are a useful index in this context to help assess the standing of Panama from the perspective of the tax obligations which are placed on business and which have to be complied with when doing business.



Over the eight years of the Paying Taxes study reforms to the tax system have been implemented which have reduced the Paying Taxes indicators in Panama. The Total Tax Rate has reduced from 49.3% to 42.0% and kept below the world average (44.7%), while the time to comply has fallen from 560 hours to 431 hours but this is still well above the world average.

A reduction in the corporate income tax rate to 25% in 2011 has contributed to the fall in the Total Tax Rate. For the time to comply while recent reforms have been made to VAT which enable companies to file their VAT online, and improvements have been made to the social security contribution systems to reduce the number of hours required in 2011, the introduction of new forms for corporate income tax have increased the requirements for that tax and also introduced the need for additional payments. It is expected however that the number of payments will fall again in next year's study as further changes have now been implemented to do this.

The Paying Taxes study invites us to reflect on these movements and to encourage a dialogue between business and government, so that together some consensus on the objectives and how they can be reached can be achieved. The hope is that in this way an improvement in the results of the Paying Taxes within the World Bank and IFC *Doing Business* project can be achieved with tangible results for all members of the community.



## ***The regional analyses***

### **Central Asia & Eastern Europe<sup>19</sup>**

.....

The average Total Tax Rate for the region is 41.3% which is a little below the world average of 44.7%.

.....

Almost all of the economies in the region have a significant element of the Total Tax Rate accounted for by labour taxes and social contributions, but in addition in three economies 'other' taxes are important.

.....

The average time to comply across this region is 261 hours, only six hours below the world average of 267. It is evenly split between the major taxes.

.....

.....

The region has shown the biggest improvement of any region for each of the indicators apart from the Total Tax Rate where the Middle East shows a reduction of 15.8% compared to a fall of 12.6% in Central Asia & Eastern Europe.

.....

The reforms made have moved this region close to the global average for each indicator.

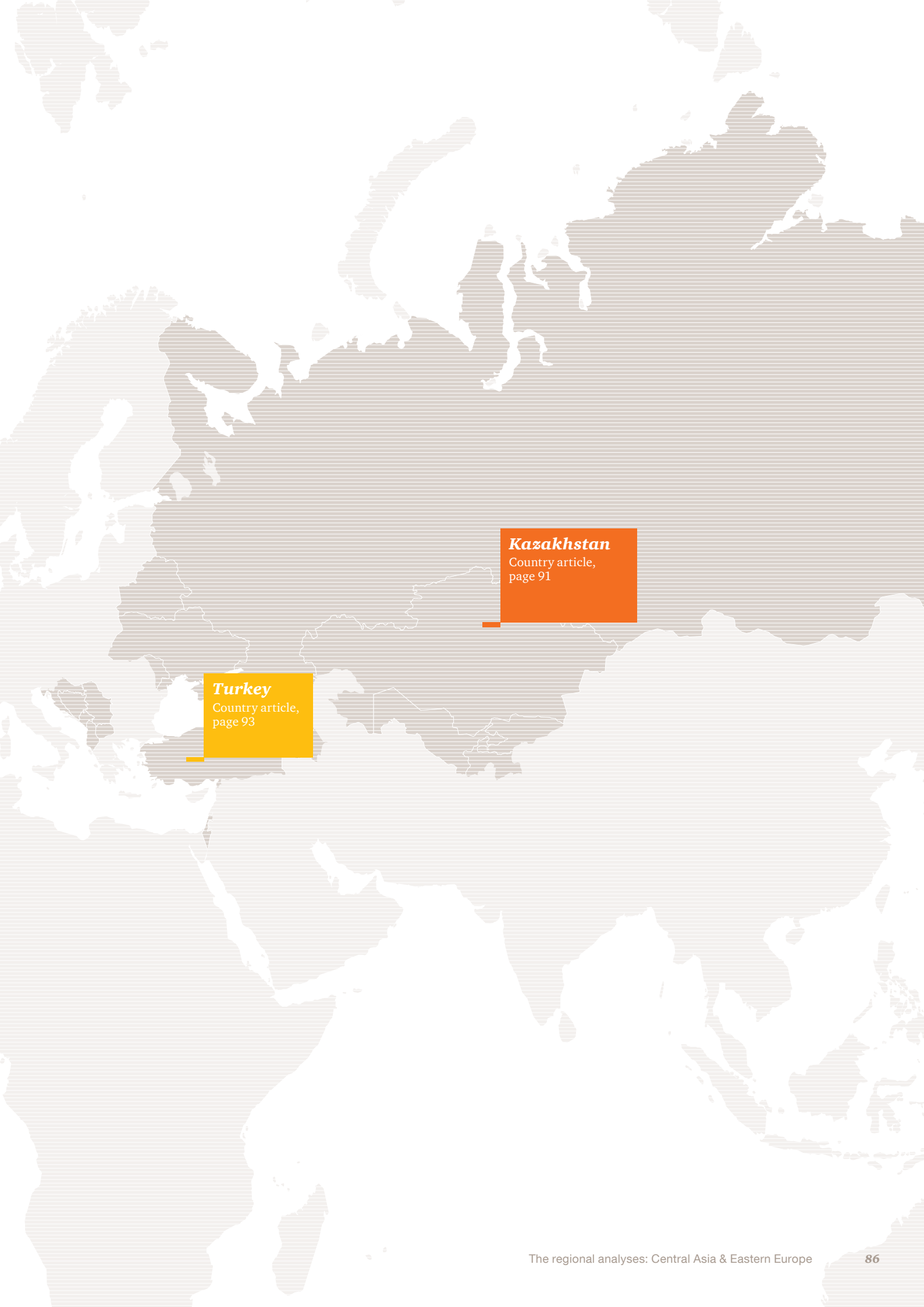
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The introduction of electronic filing, and reducing tax rates have been key to the reform process in this region.

.....

<sup>19</sup> The following economies are included in our analysis of Central Asia & Eastern Europe: Albania; Armenia; Azerbaijan; Belarus; Bosnia and Herzegovina; Croatia; Georgia; Israel; Kazakhstan; Kosovo; Kyrgyz Republic; Macedonia, FYR; Moldova; Montenegro; Russian Federation; Serbia; Tajikistan; Turkey; Ukraine; Uzbekistan





***Kazakhstan***

Country article,  
page 91

***Turkey***

Country article,  
page 93

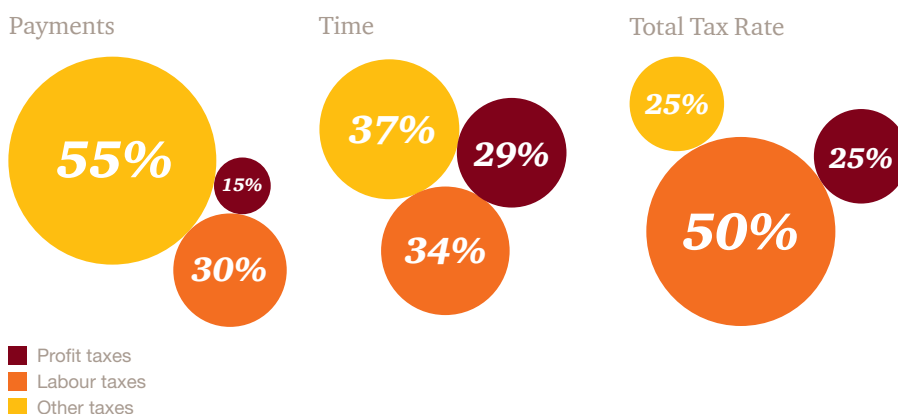
## The 2013 tax profile

The global finding that corporate income tax is only part of the burden applies equally in this region. The tax profile across the indicators is similar to the global average position but the element of the Total Tax Rate accounted for by labour taxes and social contributions is a larger percentage (see Figure 2.31).

## Total Tax Rate

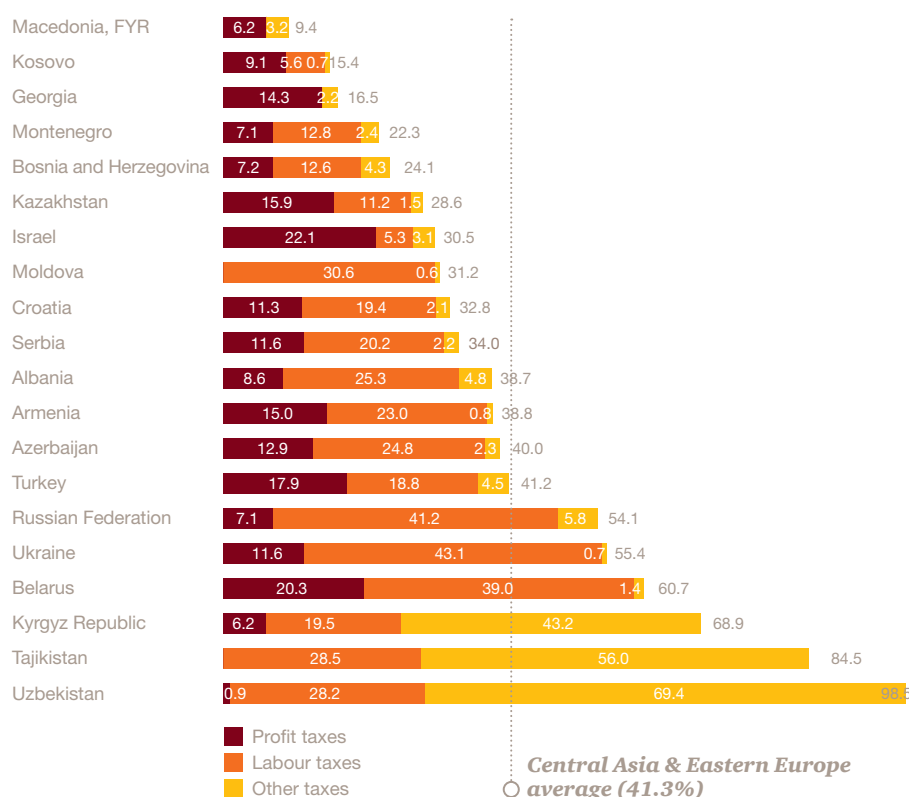
The average Total Tax Rate for the region is 41.3% which is a little below the world average of 44.7%. There is a wide range in Total Tax Rates across the region from 9.4% in the former Yugoslav Republic of Macedonia to 98.5% in Uzbekistan (see Figure 2.32). Almost all of the economies in the region have a significant element of the Total Tax Rate accounted for by labour taxes and social contributions, but in addition in three economies the Kyrgyz Republic, Tajikistan and Uzbekistan 'other' taxes are important. Examples of these other taxes are the turnover tax in Kyrgyz Republic which accounts for over half of the Total Tax Rate in that economy, a road tax levied on turnover in Tajikistan accounting for over a third of the rate, and contributions to pension funds and to road funds (based on turnover) which again account for more than half of the rate levied in Uzbekistan.

**Figure 2.31: The profile of taxes borne in Central Asia & Eastern Europe**



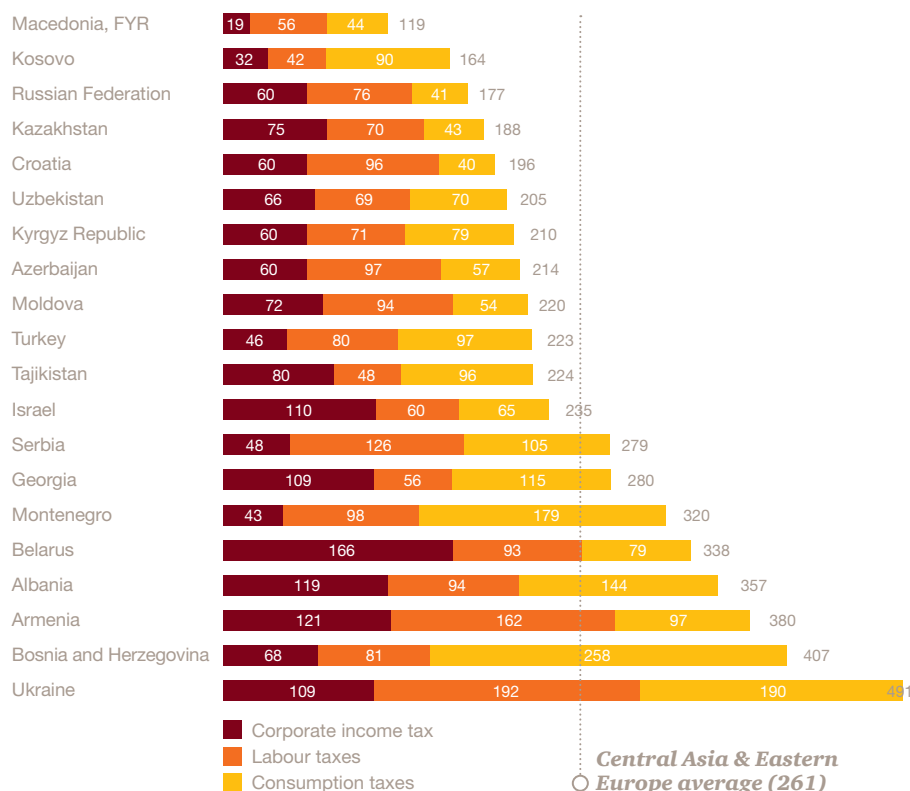
Source: PwC analysis.

**Figure 2.32: The Total Tax Rates in Central Asia & Eastern Europe**



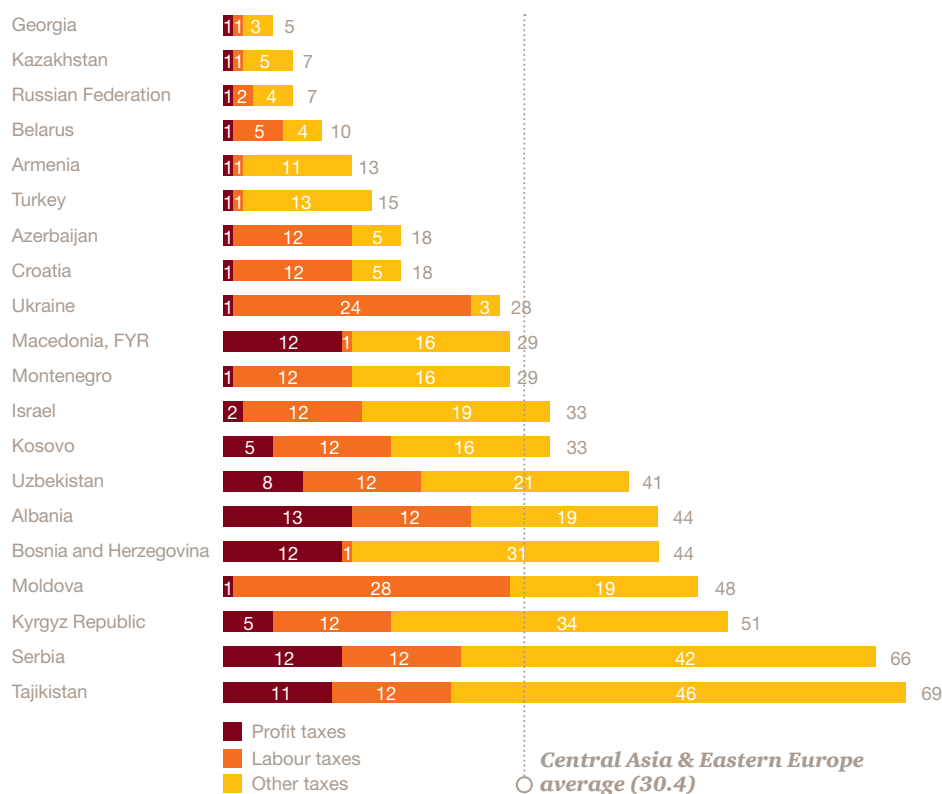
Source: PwC analysis.

**Figure 2.33: The time to comply in Central Asia & Eastern Europe**



Source: PwC analysis.

**Figure 2.34: Number of payments in Central Asia & Eastern Europe**



Source: PwC analysis.

## Time to comply

The average time to comply across this region is 261 hours, only 6 hours below the world average of 267 hours. Figure 2.33 shows that across the region the time to comply is fairly evenly split between the three major taxes. On average it takes 97 hours to comply with other taxes, 76 hours to comply with profit taxes, and 88 hours to comply with labour taxes and social contributions.

## Number of payments

The average number of payments at 30.4 for this region is just above the world average of 27.2. There is a wide range from five in Georgia to 69 in Tajikistan. This demonstrates that there are a number of economies which have yet to implement comprehensive online filing and payment systems. Figure 2.34 shows that electronic filing is available for corporate income tax and labour taxes and social contributions in Georgia, Russia, Kazakhstan, Armenia and Turkey, which has helped to keep the number of payments below 20; for Russia and Turkey this is despite the case study company being subject to the highest number of taxes in the region (13 and 14 respectively). The lack of e-filing for all taxes in Serbia, Tajikistan and Kyrgyz Republic gives rise to the high numbers of payments, (66, 69 and 51 payments respectively) as payments are made manually for each tax.

## The trends

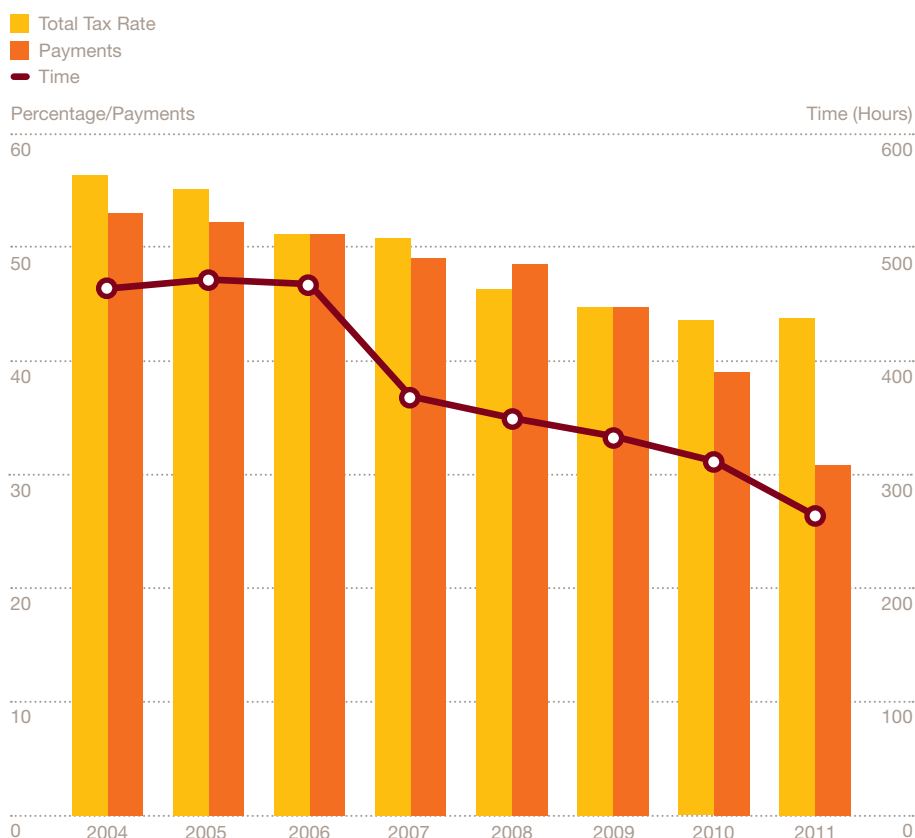
Figure 2.35 shows how the three indicators have changed for this region over the eight years of the study. The region has shown the biggest improvement of any region for each of the indicators apart from the Total Tax Rate.

### Total Tax Rate

The average Total Tax Rate for the region has fallen by 12.6% from Paying Taxes 2004 to the most recent study. It is now slightly below the world average. The breadth and pace of tax reform has varied across the region but it has gradually accelerated, and the fall in the Total Tax Rate over the eight years of the study is only second to that recorded for the Middle East.

A number of economies have contributed to this decline with the largest fall being registered in Belarus where the rate fell from 137.5% to 60.7% demonstrating a commitment to creating an environment which is more likely to encourage growth and economic activity. The reforms have included the abolition of the turnover tax and reductions in various social security contributions.

**Figure 2.35: The indicator trends for Central Asia & Eastern Europe**



Source: PwC analysis.

### **Time to comply**

This region has recorded the largest fall in the average time to comply for any of our regions. The hours to comply started to fall in Paying Taxes 2008 and the reduction accelerated thereafter. The average time to comply has fallen by 200 hours. The economies showing the largest fall over the eight years have been the Ukraine, Belarus, and Azerbaijan.

In the Ukraine the hours to comply fell to 491 in Paying Taxes 2011 from 2,085 in Paying Taxes 2004. The main drivers for this fall were the increased use of electronic filing and maintaining electronic registers for corporate profits taxes, VAT, personal income tax and for all social contributions including pension fund contributions, along with the unification of social security taxes in 2011. The compliance time is expected to reduce further in the future as companies become more comfortable and familiar with using the online systems.

Belarus has been a key driver of reform looking to make it easier for taxpayers to comply with tax obligations reducing its time to comply by 649 hours over the eight years of the study. In 2008 electronic systems were implemented, while an online tax portal became fully operational in 2009, and by 2011, the majority of companies in Belarus were seen to be taking advantage of the various electronic facilities available for tax compliance.

In Azerbaijan the total number of hours has fallen from 756 in Paying Taxes 2004 to 214 in 2011, the key drivers for this being in the introduction and use of online filing and payment, and the introduction of accounting software to assist with the calculation of payments.

### **Number of payments**

The number of payments has also fallen consistently over the eight year period by 22.2 from 53.1 to 30.9. This fall is twice as large as recorded by any other region. This number however still puts the average result for this region just a little higher than the world average of 27.5.

Ukraine and Belarus are the economies which again have been the driving force behind the reduction in this indicator and for the Ukraine the reforms giving rise to this reduction have largely taken place in the most recent period. The main reform driving the reduction has been the introduction of online filing and a subsequent increase in the use of online facilities by businesses.

***The region has shown the biggest improvement of any region for each of the indicators apart from the Total Tax Rate.***



# Kazakhstan

Pursuing a culture of tax reform

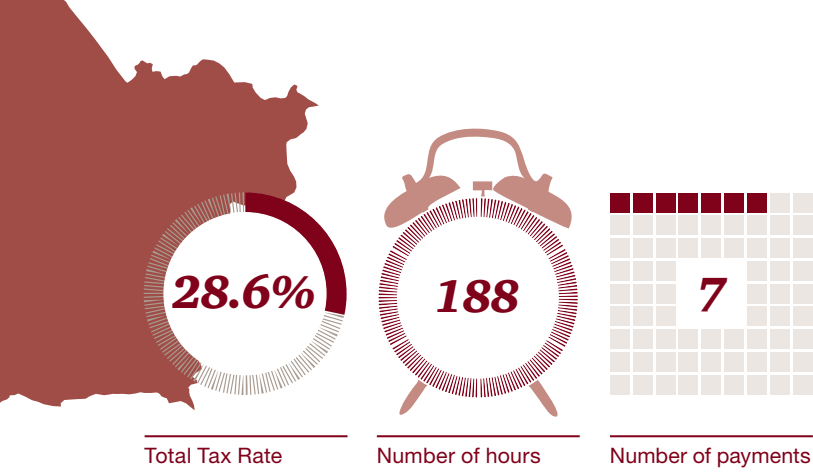
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**Peter Burnie**  
PwC Kazakhstan

Globally, the past year has been a time during which questions around tax policy and tax administration have continued to make the headlines. With the general increase in public debt burdens across the globe and a reduced outlook for global economic growth the challenge of fairness from a tax system remains one that faces many economies. For Kazakhstan, the macroeconomic picture is perhaps more positive than for many other countries; but the echoes of the global trends are present here as well.

Beyond the global pressures, Kazakhstan is also adapting and reacting to some more regional realities. The implications of the Customs Union with Russia and Belarus and the introduction of a single economic space are being better understood by the players in the market. Within this framework, there is a role for the fiscal environment in determining the relative competitiveness of an economy. Part of the challenge for Kazakhstan is in continuing to align administrative processes to ease the operation of the Customs Union, but ensuring that best practice is taken as the common denominator, rather than adopting or selecting by default the practice which can be expediently implemented but which may not bring the same level of efficiency. In addition to the ongoing implementation of the Customs Union, the goal of the government of Kazakhstan for diversification of the economy past the extractive industries and the over arching goal of being a competitive economy also continues to add to the debate about the fiscal system.





So where does this leave Paying Taxes as a driver of change? The significant efforts at reform that have been made by the authorities in the past years are already reflected in the relatively strong improvement in ranking that Kazakhstan has achieved. As the competition at the top of the table is fierce, there will be fewer reform initiatives that can make a significantly measurable difference. Maintaining the high ranking level that Kazakhstan currently enjoys means that a routine of continuous improvement is already being adopted: the debate about administration reform continues and the taxpayer experience is examined and reviewed from multiple angles. Participation in Paying Taxes therefore continues to play its role in the fiscal debate in the country.

The Kazakh fiscal authorities also increasingly engage with their regional and global counterparts to seek out initiatives or share insights from their experience. Discussions about topics such as tackling VAT non-compliance are ongoing. Another initiative that is in process is the role of electronic invoicing and how this will integrate with the tax administration system. For the future, there is nothing to indicate that we will not be continuing down the same path of identifying and pursuing reform initiatives. Kazakhstan is ranked higher in the Paying Taxes survey than its neighbours, meaning that it may be a place for others to draw inspiration. However, the traffic will not be all one way. Regional reform agendas will create the need for Kazakhstan to also refresh its approach.

Change in Kazakhstan is constant and generally rapid. A culture of change has also been adopted for tax administration in the past years, with visible measurable results in the Paying Taxes survey ranking. The next part of the challenge is to allow this culture of reform to continue to address other aspects of the fiscal environment such as audit and drive positive results not only in terms of the three aspects measured by the survey, but also in additional elements of the taxpayer experience.



# Turkey

Tackling the current account deficit and important developments in the Turkish landscape

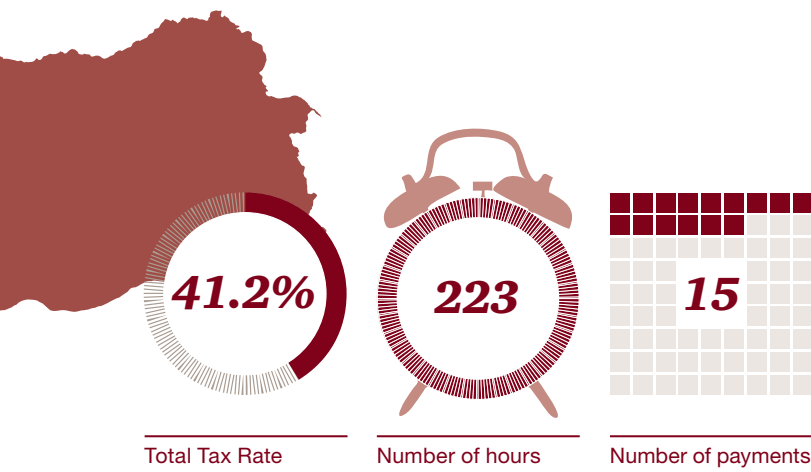
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**Zeki Gunduz**

PwC Turkey

Over the eight years of the Paying Taxes study reforms to the tax system have been implemented which have had a positive effect on the indicators, bringing the Total Tax Rate for Turkey below the world and European averages and keeping the compliance indicators similarly below these averages. Since the 2004 study the Total Tax Rate has fallen from 53% to 41.2%. The main contributors to this fall have been a reduction in the corporate income tax rate from 30% to 20% in 2006, and a fall in the social security contribution from 19.5% to 14.5% as a 5% rebate became available for the efficient filing of returns in 2009. The time to comply has also fallen (from 254 hours to 223 hours) reflecting the transition to electronic invoice infrastructure and the availability of an e-invoice portal.

As is often the case in many jurisdictions, economic indicators play an important role in shaping tax policy. This has been an issue in Turkey recently because the country's current account deficit is high, reaching US\$77.1 billion (10% of GDP) in 2011. The growth of the deficit is due to Turkey's heavy dependence on importing value-added products and energy to run its economy which has raised many concerns in the last few years. The government has embarked on an ambitious programme to tackle the current account deficit and has taken measures to help reduce it in the short-term. With the rebalancing in the Turkish economy, trade conditions are starting to improve at the same time as consumption's contribution to GDP is declining sharply. Therefore, we see a gradual improvement in the current account deficit starting from the beginning of the year. As of the end of the first half of 2012, the current account deficit fell to USD63 billion, dropping to 8.2% of GDP.



And yet there are still measures that need to be taken to ensure continued improvement in the long run. As part of this effort, a huge tax incentive package was launched in 2012. The package contains a wide variety of tax relief and exemptions and features a complex matrix system that determines the level of incentive granted depending on the location and type of investment. In simple terms, the incentives fall into four categories: general, regional, large-scale investment, and strategic investment. Under each category, various relief options and exemptions are provided, mainly including VAT exemptions, reductions or exemptions on income taxes, withholding taxes, customs and social security exemptions, allocation of investment areas, subsidies on interest on borrowing, and VAT refunds. Strategic investments are the only ones eligible for all exemptions and incentives because the whole purpose of this tax incentive package is to encourage entrepreneurs to produce key products that Turkey is heavily dependent on and to incentivise investments in rural, less developed and, more importantly, troubled areas in Turkey. These investments are ultimately expected to help further reduce the current account deficit.

Another major development associated with this package is reform in the private pension scheme to help bolster savings by increasing the attraction of the scheme. This move is also expected to reduce the current account deficit in the long run. One of the key changes is that the government will start to invest with pensioners at the rate of 25% of their contribution amount. Hence, for every TRY100 a pensioner invests, the government will invest TRY25 on their behalf. Previously, pensioners were allowed to deduct the contribution from their payroll tax base, but the use of this credit was limited. However, challenges still lie ahead as receipts from some of the taxes on import transactions that would otherwise have helped reduce the current account deficit in the fiscal budget have fallen. The share of transactional tax revenue in overall tax income is around 70%. The Finance Minister has already suggested that new tax increases are on the way in a draft law that has been sent to the Prime Minister. Although these proposals are not certain at this stage, the current debate is revolving around an increase in transactional taxes on disposals of real estate, removing existing VAT exemptions for real estate investment trusts, and increasing transactions taxes on imports. The tax authorities are focusing on the real estate industry as the industry has been booming for the last ten years with the 2008 credit crunch having little effect on the market.

For the future, we hope to see the Turkish tax system evolve further with increased efficiency, transparency and a competitive Turkish tax system which will help to boost Turkey's economic development.

This year there is a regional launch of the Paying Taxes publication in Istanbul. This will provide a useful opportunity to reflect on the results of the Paying Taxes for Turkey that we have seen so far, the current proposals for further reform and how it might be expected these will further evolve and impact on the results in the future.



# *The regional analyses*

## EU & EFTA<sup>20</sup>

62% of the Total Tax Rate in the EU & EFTA is accounted for by labour taxes and social contributions.

The average time to comply across this region is 184 hours, 83 hours below the world average, and the lowest of any region apart from the Middle East.

The average number of payments at 12.8 for this region is the lowest apart from North America. This low number is largely a function of the common usage of electronic filing and payment for the major taxes.

The Total Tax Rate has fallen in the region each year since the study began apart from in the most recent year. The average rate has increased by 0.1% between Paying Taxes 2010 and Paying Taxes 2011.

The average hours to comply have fallen in each of the last seven years of the study, falling by 60 hours overall. The region has the second lowest time to comply.

<sup>20</sup> European Union & European Free Trade Association (EU & EFTA). The following economies are included in our analysis of EU & EFTA: Austria; Belgium; Bulgaria; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Iceland; Ireland; Italy; Latvia; Lithuania; Luxembourg; Malta; Netherlands; Norway; Poland; Portugal; Romania; Slovak Republic; Slovenia; Spain; Sweden; Switzerland; United Kingdom



**Germany**

Country article,  
page 101

**Hungary**

Country article,  
page 103

**Portugal**

Country article,  
page 105

**Spain**

Country article,  
page 107

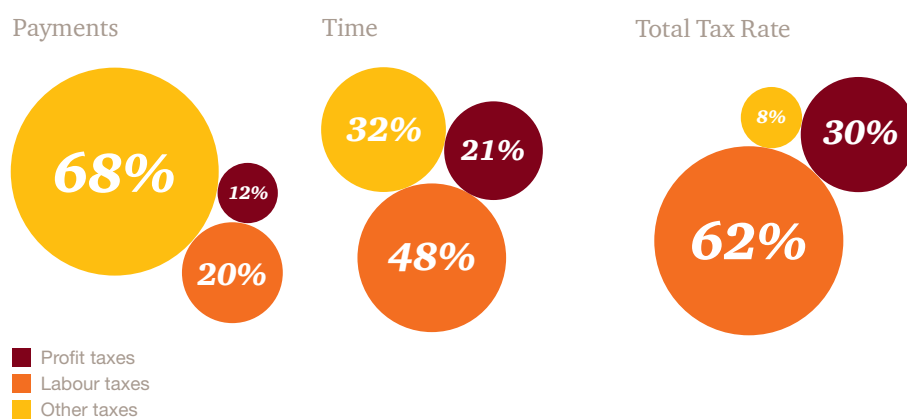
## The 2013 tax profile

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 (see Figure 2.36). The profile for the number of payments is heavily weighted towards 'other taxes' which includes VAT, environmental taxes, and local taxes.

## Total Tax Rate

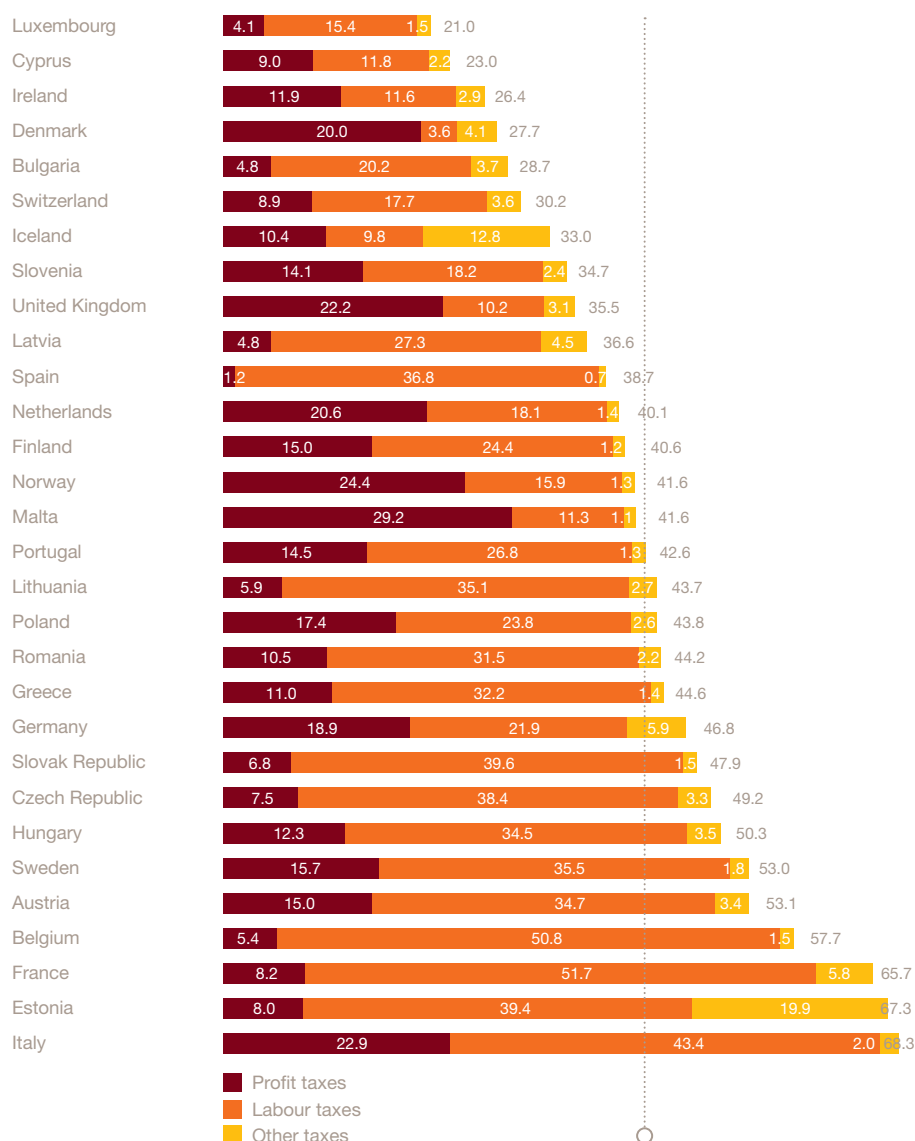
The average Total Tax Rate for the region is 42.6% which is just below the world average (see Figure 2.37). The labour taxes and social contributions element of the Total Tax Rate is the largest in 23 of the 30 economies in this region. Denmark, the UK, Malta (new in the study this year), Ireland, Iceland, 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.

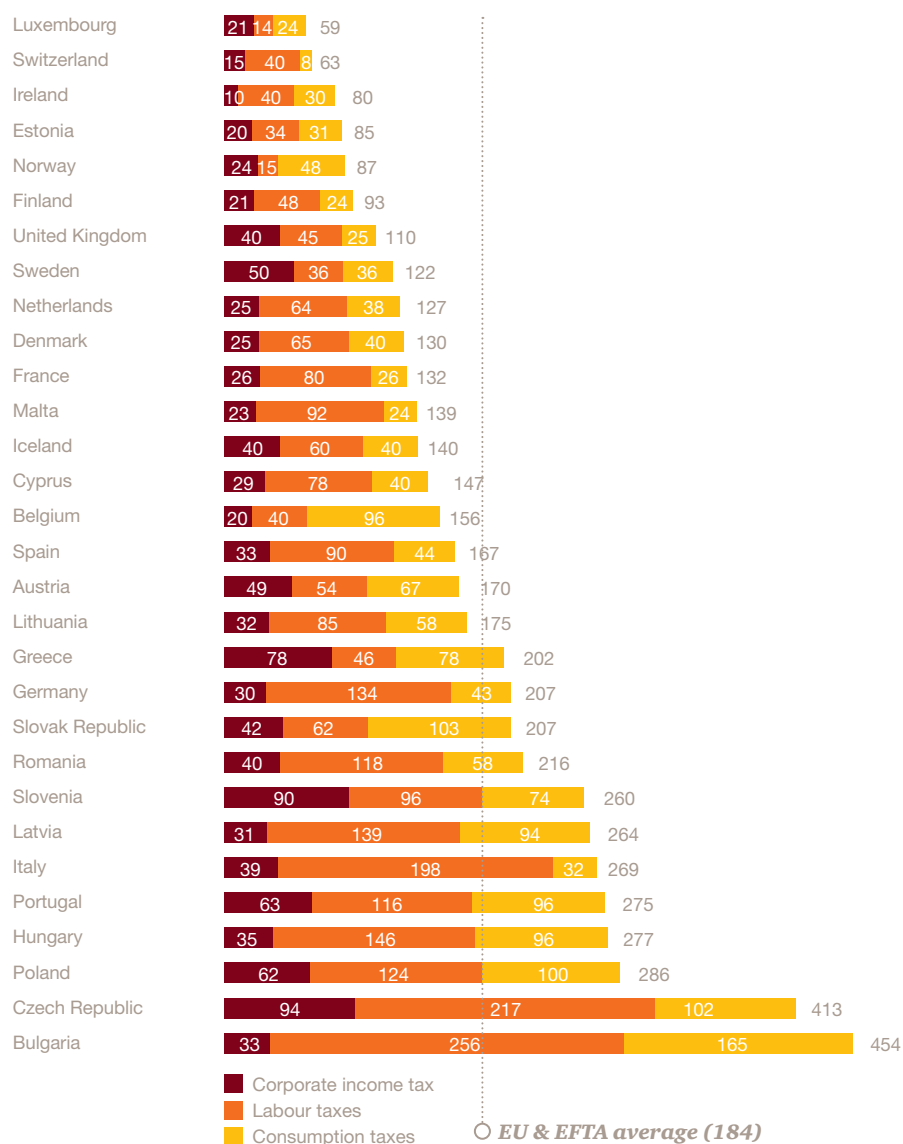
**Figure 2.37: The Total Tax Rates in the EU & EFTA**



Source: PwC analysis.



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



Source: PwC analysis.

### Time to comply

The average time to comply across this region is 184 hours, 83 hours below the world average, and the lowest of any region apart from the Middle East (see Figure 2.38). 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 high 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 in this region is largely governed 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.

## Number of payments

The average number of payments at 12.8 for this region is the lowest apart from North America (see Figure 2.39). 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

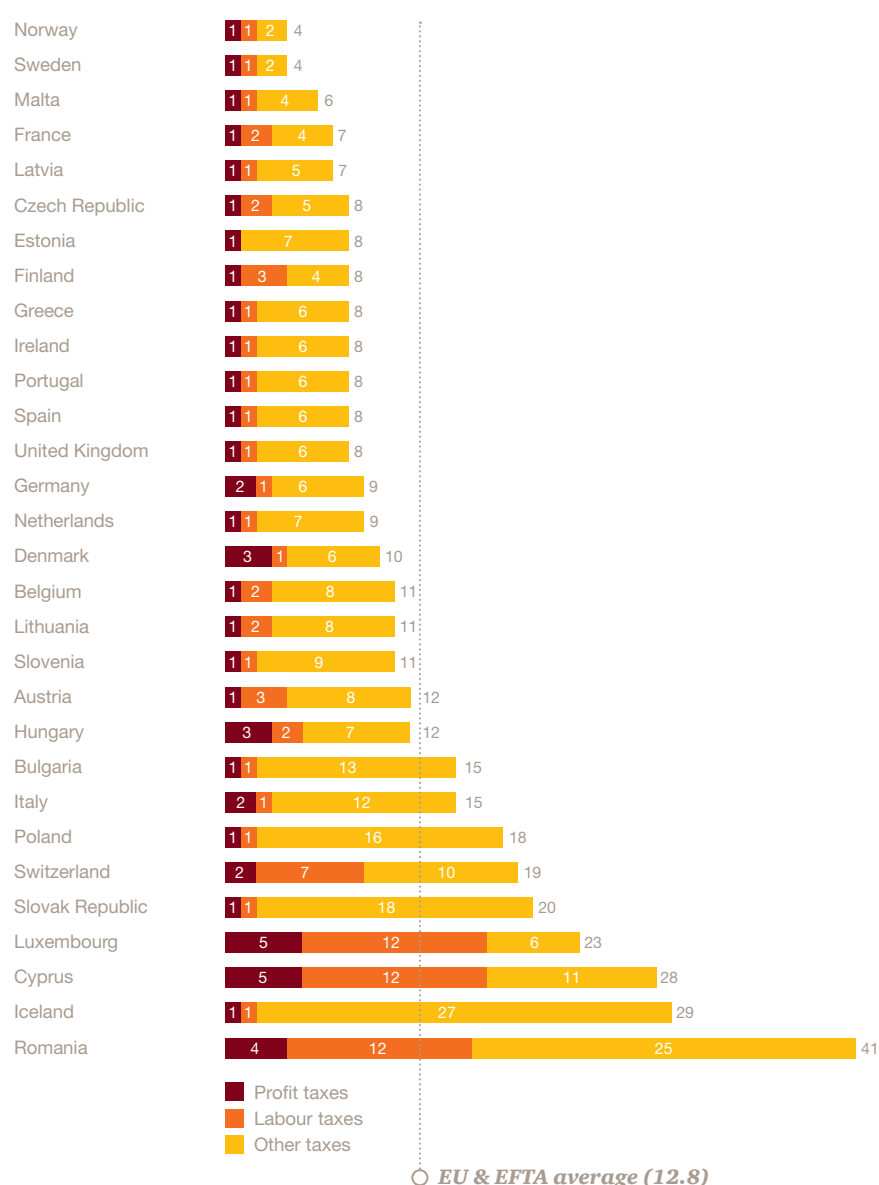
Figure 2.40 shows how the three Paying Taxes indicators have fallen over the eight years of the study but also how this fall has stalled for the Total Tax Rate.

## 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 but 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.

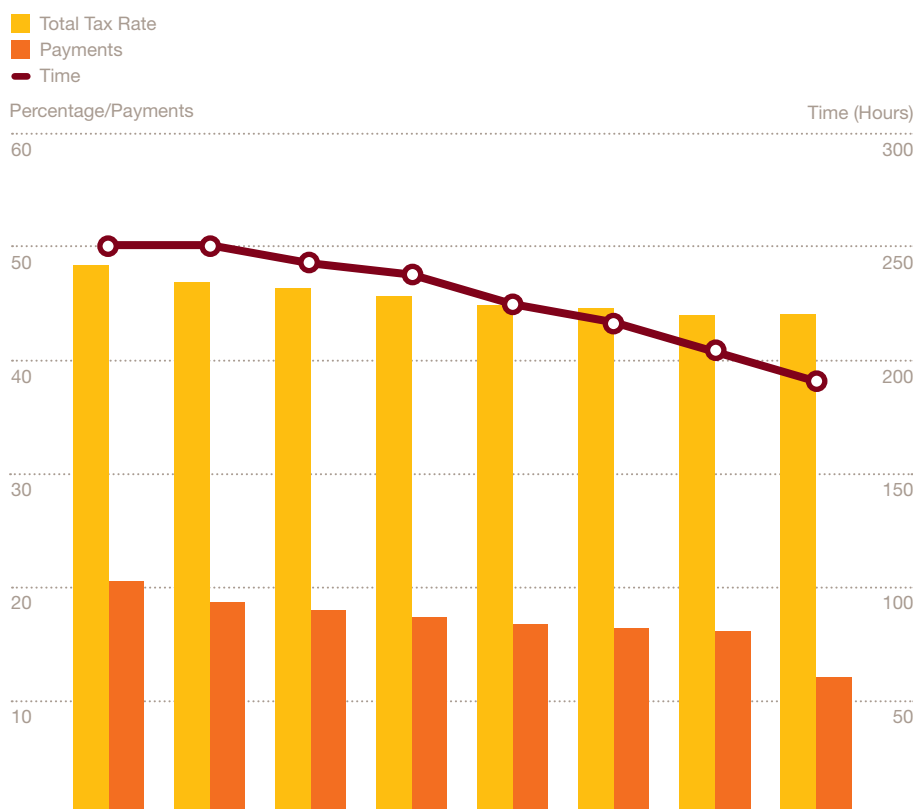
The economies showing the largest fall over the eight years have been the Czech Republic, Finland and Bulgaria. This has been largely due to increased use of and improved electronic filing and payment capabilities and greater efficiencies in tax administration over the period. For example the Czech Republic 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 payment for VAT and for labour taxes. In other economies, Hungary has simplified its taxes and tax bases while The Netherlands reduced the frequency of filing and payments for VAT.

### Number of 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 1 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.



# Germany

A growing momentum to introduce e-filing

**Dr. Tobias Taetzner**

PwC Germany

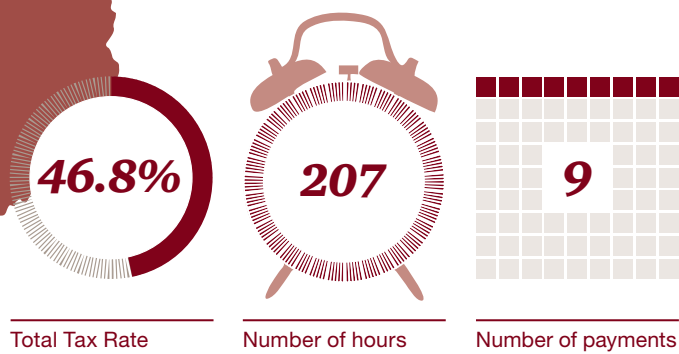
At 46.8% the German Total Tax Rate is still high compared with the world average of 44.7% and the average in the EU of 42.6%.

The Total Tax Rate for the 2013 study has increased slightly compared to the 46.7% in the previous year, due mainly to changes made to the social security contributions. The contributions for unemployment insurance increased from 2.8% to 3.0% and the health insurance contributions rose from 14.9% to 15.5%. This increase was partly offset by minor reductions in the assessment ceilings for health and long term care insurance.

The social security contributions add up to 21.8% which is almost half of the Total Tax Rate. This high level of social security contribution is the subject of ongoing debate and a concern that there needs to be a reduction with the aim of reducing the cost of labour, and increasing the income available for employees to spend. Recent discussions between government and the opposition parties around avoiding poverty in old age and how this will be funded suggests the potential for such reductions may be limited.

Two taxes that continue to attract media attention are the solidarity surcharge and the trade tax. The solidarity surcharge was originally introduced in 1991 to cover the costs of the German reunification, but has been retained as a regular element to cover general government expenditure. From time to time there is debate around whether this “temporary” tax is still necessary, as the conditions in the “new” states have significantly improved in the last two decades, or if indeed it is still constitutional; according to a recent decision of Germany’s federal constitutional court this is the case. As regards the trade tax, certain trade associations and political parties would like to see it abolished or at least fundamentally reformed, whereas local authorities continue to insist on retaining the tax as it is an important source of revenue and also, as it is one instrument of tax policy which is available to them.

Against the background of public discussion on reducing public debt and dealing with the steadily growing disparity of incomes and wealth, a debate has started on the re-introduction of wealth tax. The results of the general election to the German Bundestag in autumn 2013 are expected to have a significant impact on future developments in German tax policy making.



Within the 2013 Paying Taxes study the payments indicator has fallen by three payments compared to the previous year which results from the introduction of mandatory e-filing for corporation tax and trade tax returns for fiscal years 2011 onwards. Corporation tax now only accounts for one payment per year, as opposed to four. In the previous year e-filing was optional for trade tax and VAT, but not possible for corporation tax.

Compared to the 2012 study the time to comply fell from 221 to 207 hours reflecting the cancellation of the testing-phase of the so called “ELENA”-procedure. ELENA was to require companies to electronically file salary-related data of all its employees to a central database on a monthly basis to help eliminate the need for employers to manually create income-certifications which have to be issued by employers at the request of their employees for the purpose of presenting them to government agencies. However due to data-protection concerns and the administrative burden for employers identified during the testing-phase ELENA has been withdrawn.

A further e-filing development for the future will be the obligation to submit tax accounts electronically from 2013 onwards using an official ‘taxonomy’. Although taxpayers will not be required to install a new accounting system or to remodel their chart of accounts, the implementation of the e-filing of the tax accounts is likely to cause a small increase in the administrative burden and the time to comply indicator in Paying Taxes. In preparation for e-filing for the first year, taxpayers will need to map their accounts to the official taxonomy and to implement a process which enables a transfer of the GAAP (Generally Accepted Accounting Principles) accounts to the taxonomy in the form of an XBRL-file (eXtensible Business Reporting Language) which is then electronically submitted to the tax authorities. In future years changes in the company’s chart of accounts or the official taxonomy will have to be kept under review to ensure appropriate adjustment to the mapping.

The European launch event for Paying Taxes 2012 which took place in Germany last year was joined by representatives from business associations, politics, the tax administration and the press and presented an excellent opportunity to engage in a constructive dialogue with the government and the tax authorities on the future shape of the German tax system. One of the key issues discussed was the need of businesses for a reliable and stable policy in regard to taxation issues to enable them to plan business decisions accordingly.



# Hungary

Hungary at a turning point – making significant changes to fiscal policy

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**Norbert Izer**

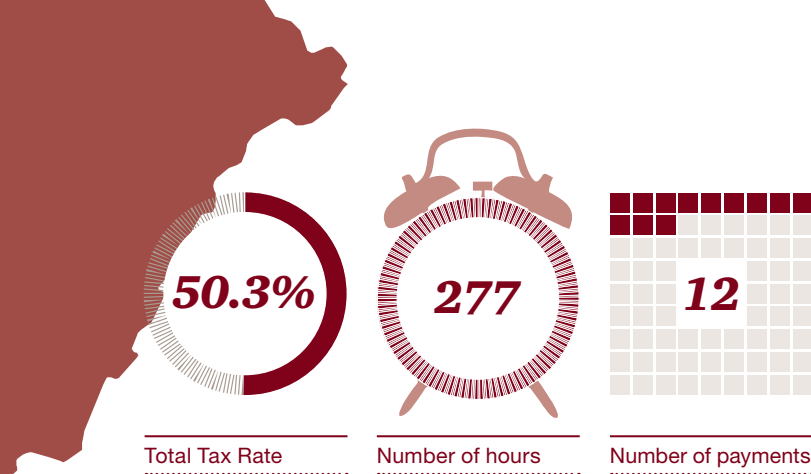
PwC Hungary

Over the eight years of the Paying Taxes study Hungary has shown some improvement in its indicators, the most significant being a fall in the number of hours for tax compliance by 63 hours. But the hours to comply and the Total Tax Rate still lie above the European and world averages which suggests that creating a favourable fiscal environment is still a challenge.

Being a member of the European Union in 2012 does not guarantee economic stability. As is the case for many other European economies, Hungary continues to suffer from the volatile economic position that troubles the Union. In such times governments have a highly demanding role to ensure measures are implemented that will result in a predictable business environment as well as a secure everyday life for their citizens.

Besides looking to consolidate the recovery as regards the Hungarian budget, the government is aiming to create a more stable fiscal environment to help deal with the ongoing European crisis. Recent economic statistics give some hopeful signs. As a result of strict economic policy and the commencement of EU/IMF negotiations for Hungary specifically, they show a clear improvement for Hungary in the second quarter of 2012. As a result the Excessive Deficit Procedure applied by the European Union to countries that exceed a deficit ceiling was lifted for Hungary. It is quite striking how government debt reduced from 82 % of GDP in 2010 to 74% by the end of 2011. And for 2012 the forecast is even more favourable with an expectation that Hungary will probably be able to keep the budget deficit target below 3%. The statistics indicate that a budget surplus of 4.3% was recorded as of April 2012 for 2011.





As part of the overall economic policy there is a significant change in progress as regards the fiscal policy of government. There is a clear objective to reduce taxes on income and increase taxes on consumption. The rate of corporate income tax has been substantially reduced. Now for a tax base up to HUF 500 million (around EUR 1.7 million) the corporate income tax rate is 10% and above this threshold the rate is 19%. Before 2012 the threshold was HUF 50 million (around EUR 0.17 million).

Another significant reform took place for personal income taxation. A progressive personal income tax regime was replaced by a flat personal income tax rate of 16% effective from January 2012 while tax credits and 'super grossing' were abolished. A number of transitional measures were introduced along with tax incentives for families raising children to acknowledge the importance of family and to help stem the trend to an aging population over the long term.

The obvious question is how will these tax cuts be financed? The government response is to introduce measures to raise taxes on those industries which are considered to have extraordinary profits. 'Austerity taxes' therefore now apply to banks (including a financial transactions tax), insurance companies, energy companies, retailers and telecommunications companies.

Since the Paying Taxes case study company is based on a manufacturing company, the austerity taxes raised on the service providers mentioned above will have no impact on tax liabilities of the model company, so that the recent changes in the tax environment are not fully reflected in the results.

As is clear from the above paragraphs, the Hungarian government aims to create a well structured, sustainable and predictable tax regime in order to help stabilise the economy and ensure that the budget deficit targets are met.



# Portugal

Helping to create an attractive destination for doing business

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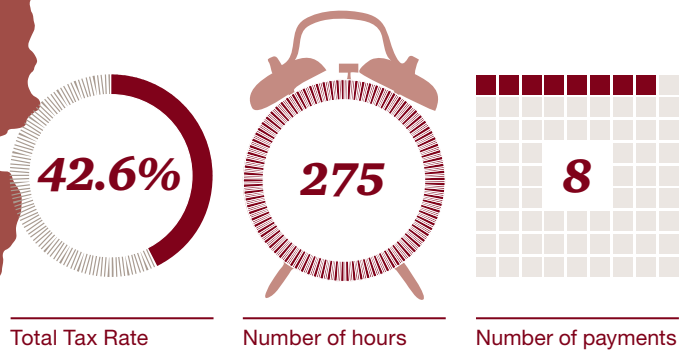
**Jaime Esteves**

PwC Portugal

The launch of the Paying Taxes study is one of the most anticipated events of the year, attracting widespread attention in political and economic circles and in the media.

The data provided by the study is recognised as a global reference point for tax reform, helping governments around the world to identify good practices and possible reforms.

Over the past years fiscal sustainability and economic growth have and continue to be key concerns which are firmly on the Portuguese agenda. The focus for Portuguese business policy has been shifting away from a pure domestic perspective towards the ambitious goal of providing an environment which helps Portugal to become an attractive destination for doing business. However, the current economic and financial difficulties faced by the country may slow down expectations in this regard and what can be achieved in the short term.



Portugal now stands at 77 in the ranking for of Paying Taxes 2013. While the number of payments indicator has been stable throughout the eight years of the study and the Total Tax Rate has fallen only slightly, the time to comply has fallen by 53 hours.

In the past, a distinctive characteristic of the Portuguese tax system was that tax compliance was not an easy or agile process. However, with the introduction of E-government measures (electronic filing and payment), in 2006 with the “Simplex” programme, the entire process of filing tax returns was streamlined, and the interaction with taxpayers has substantially improved.

Although these measures have taken Portugal in the right direction, sustained improvement is still required in a number of areas, as suggested by the results of the Paying Taxes study where the time to comply (275 hours) remains above the world average (267 hours). An example is, the frequency of change to the tax rules which often leads to significant effort to update procedures, and which contributes to significant uncertainty around the tax system.

Recognising these problems, the Portuguese Tax Authorities’ are recruiting further support personnel to help make the process for complying with tax obligations simpler, faster, and less expensive, putting significant effort into providing quick and effective answers to taxpayers’ queries, and helping to establish the development of a relationship of mutual trust.

Another aspect which requires significant improvement is to help with resolving the long term tax disputes which exist between taxpayers and the tax authorities, which can often prove discouraging for investors. In order to overcome these issues a tax arbitration regime was introduced in 2011, aimed at increasing the speed of the resolution of disputes and helping to reduce the time taken.

Despite the fact that these measures are welcomed by the public in general, it is commonly believed that there is a need for action to implement more structural tax reforms which may help lead to an improvement in the Paying Taxes ranking, hopefully fostering an easier environment for doing business in Portugal.



# Spain

Further steps taken to improve the collection of tax revenues

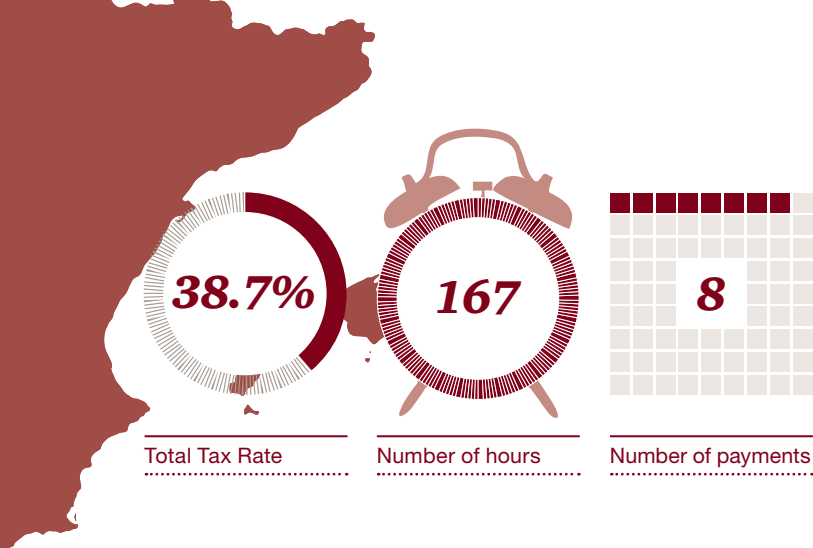
**Santiago Barrenechea**

PwC Spain

Over the eight years of the Paying Taxes study, the indicators for Spain have shown consistent improvement. The time to comply has fallen from 298 hours in Paying Taxes 2006 to 167 hours in the most recent study, reflecting improvements made to the electronic filing processes. The Total Tax Rate has fallen from 61.8% to 38.7% over the same period which reflects changes made to the corporation tax and social contribution regimes.

In recent years, the feeble state of the Spanish economy has had a negative impact on tax revenue, forcing the government to take further steps to ensure reasonable tax revenues are collected in 2012 which will be reflected in future editions of the Paying Taxes study. Although most of the measures will have a limited duration, only affecting revenues in 2012 and 2013, the way the underlying economy moves could alter the scenario significantly.

The most significant changes affect corporation tax, although these are not expected to generate the most significant increase in tax revenue. The first measure is to reduce the tax deductions allowed for financial expenses. Thus, as from 1 January 2012, net financial expenses can only be set off against earnings up to a maximum of 30% of EBITDA (earnings before interest, tax, depreciation and amortisation), with a minimum of one million euro. The amount not deducted may be carried over to the following year, though with some limitations. This rule mainly affects financial expenses arising from corporate borrowing, regardless of whether the amounts borrowed derive from related parties. Non-deductibility of financial expenses is also regulated when expenses derive from amounts borrowed to buy shares within a group, unless the company can show adequate economic grounds to justify such financing.



Companies' present prerogative to set their own rate of depreciation on new fixed assets, a measure that was originally to continue through 2014, has now been withdrawn. A maximum limit has also been imposed on tax deductions for goodwill, whether arising from corporate takeovers or mergers – 1% in both 2012 and 2013. With respect to corporate tax on advance payments, the government has increased the percentages for large- and medium-sized companies to up to 29% of the full amount payable. At the same time, the advance payments cannot be less than 12% of reported profit.

VAT has also increased from 1 September 2012. The general rate rose from 18% to 21%, while the reduced rate increased from 8% to 10%.

As far as individual income tax is concerned, the government has increased the marginal income tax rates, meaning that, depending on their residence, individuals earning more than EUR 300,000 per annum will be taxed at more than 50%. At the same time, capital gains, including interest and dividend income, previously taxed at a maximum rate of 21%, will now be taxed at a new maximum of 27%.

Furthermore, the government has introduced, on an exceptional basis, the potential to declare a "special tax return" for personal income tax, personal income-tax for non-residents and corporation tax. The purpose of this new special return is to collect tax on goods and earnings not previously declared, which will now be taxed at a rate of 10% of their acquisition value. The filing of this return and the relevant tax payment must be made prior to 30 November 2012. Fulfilment of this obligation will avoid the possibility of future administrative or criminal penalties.

This year a regional launch of the Paying Taxes report is being held in Madrid which will provide a good opportunity for these issues to be discussed and to consider how these most recent changes may impact on the Paying Taxes indicators.



## ***The regional analyses***

### **Middle East<sup>21</sup>**

.....

The Middle Eastern states have the least demanding tax systems for our domestic case study company.

.....

The average Total Tax Rate for the region is 23.6%, well below the world average (44.7%) and the lowest of any region. The high element for labour taxes and social contributions is a common feature for almost all the economies in the region (but still below the world average of 16.2%).

.....

.....

The average time to comply across the Middle East is 158 hours again a Figure which is well below the global average and the lowest for any region.

.....

The number of payments in this region is kept low in view of the low average number of taxes which is the lowest of all the regions, but to some extent this is compensated by the general low use of electronic filing and payment.

.....

Recent reductions in the number of payments indicator reflect the introduction of electronic filing and payment.

.....

<sup>21</sup> The following economies are included in our analysis of the Middle East: Bahrain; Iran, Islamic Rep.; Iraq; Jordan; Kuwait; Lebanon; Oman; Qatar; Saudi Arabia; Syrian Arab Republic; United Arab Emirates; West Bank and Gaza; Yemen, Rep.



***Middle East***

Regional article,  
page 113



## The 2013 tax profile

In the Middle East region labour taxes and social contributions account for the largest part of the Total Tax Rate, the number of payments, and the time to comply, a profile which is quite different to the average global profile (see Figure 2.41).

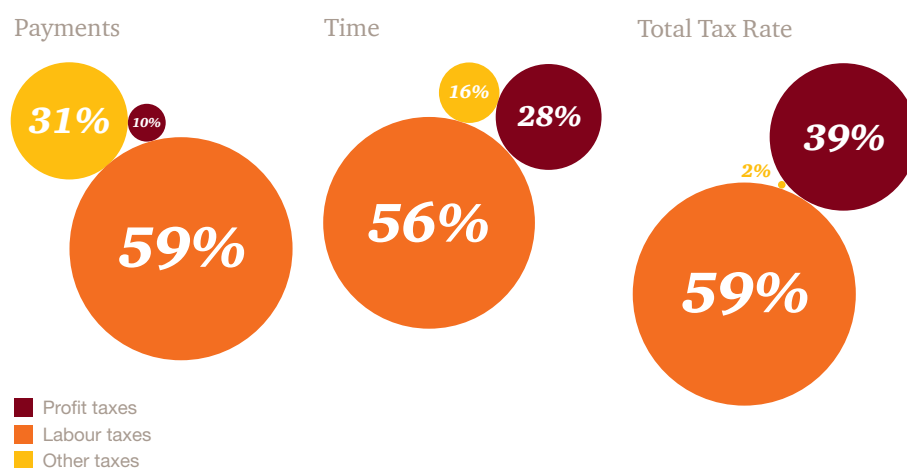
### Total Tax Rate

The average Total Tax Rate for the region is 23.6%, well below the world average (44.7%) and the lowest of any region (see Figure 2.42). The element for labour taxes and social contributions is a common feature for all of the economies in the region apart from West Bank and Gaza where no labour taxes are levied on the employer. It is also worth noting that a number of the oil-rich economies (Kuwait, Qatar, Bahrain, Saudi Arabia, and the United Arab Emirates) continue to have little or no corporate income tax applied to our case study company which explains why the overall average Total Tax Rate is so low. The absence of consumption and 'other' taxes also helps to explain this average rate.

### Time to comply

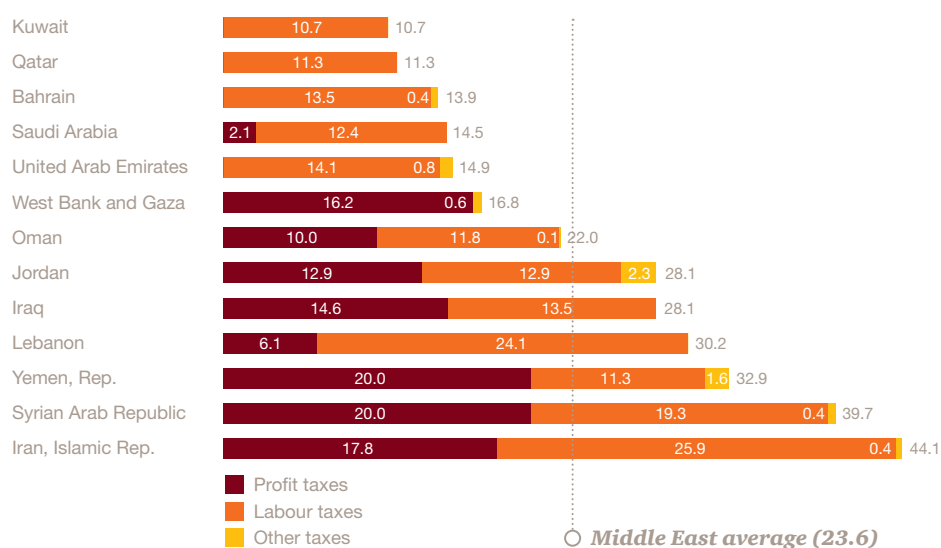
The average time to comply across the Middle East is 158 hours, a figure which is well below the world average and the lowest for any region. Figure 2.43 shows that for many of the economies, labour taxes and social contributions are the primary drivers of the time to comply, but in Yemen the goods and services tax takes the longest time to comply whilst in the Syrian Arab Republic it is corporate income tax.

**Figure 2.41: The tax profile for taxes borne in the Middle East**



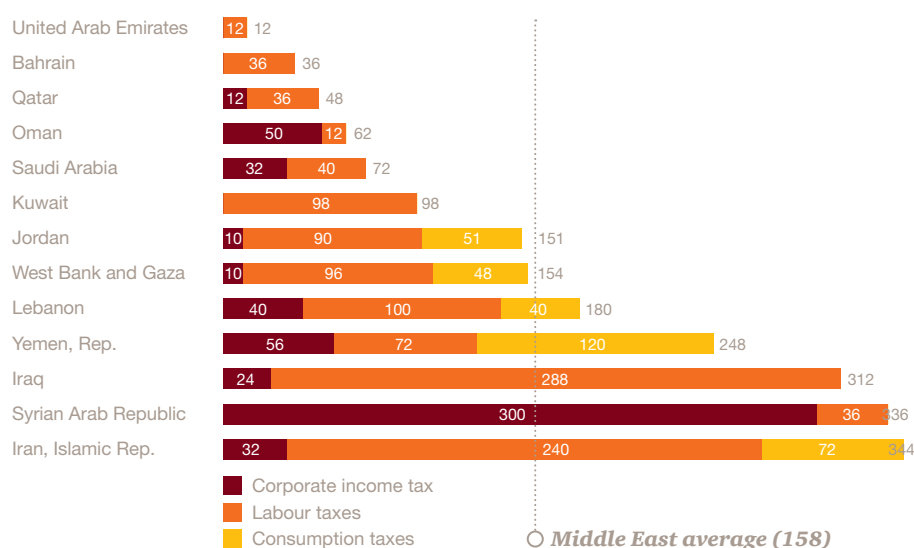
Source: PwC analysis.

**Figure 2.42: Total Tax Rates in the Middle East**



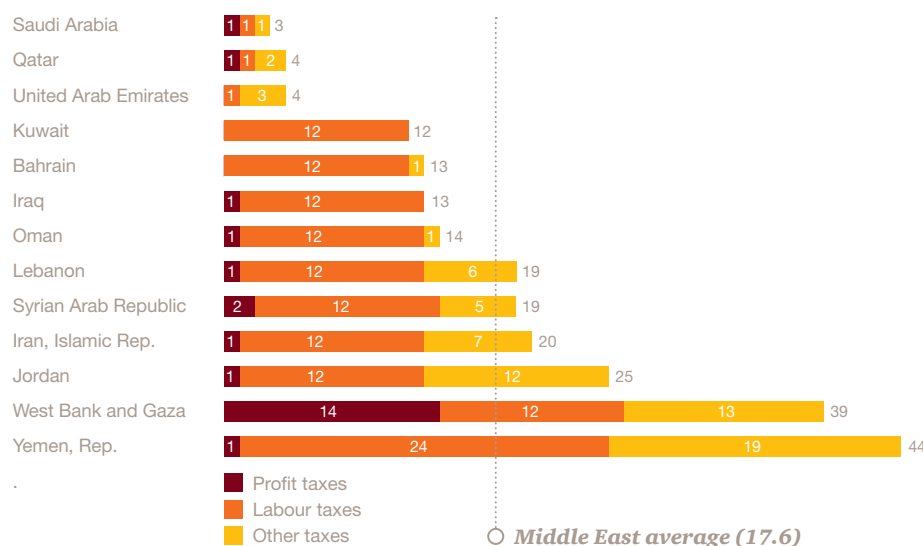
Source: PwC analysis.

**Figure 2.43: Time to comply in the Middle East**



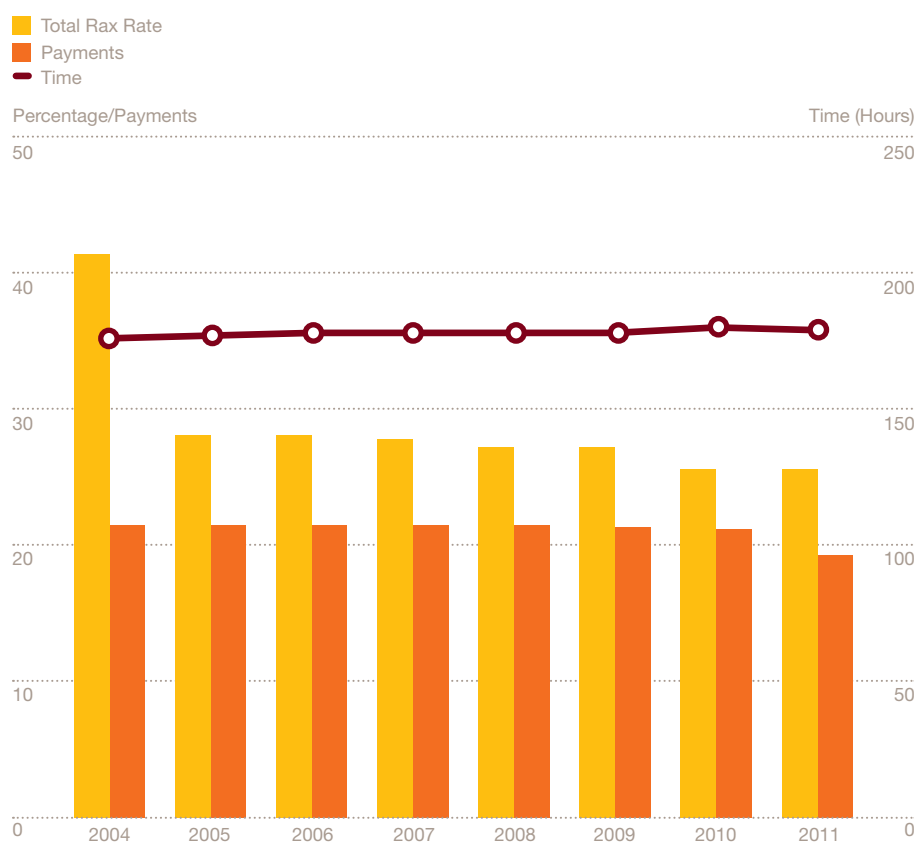
Source: PwC analysis.

**Figure 2.44: The number of payments in the Middle East**



Source: PwC analysis.

**Figure 2.45: The indicator trends for the Middle East**



Source: PwC analysis.

## Number of payments

The average number of payments for the region is 17.6 (see Figure 2.44), which is well below the world average, but North America and the EU & EFTA have lower averages. The number of payments in this region is kept low by the small average number of taxes which is the lowest of all the regions, but to some extent this is compensated by the general low use of electronic filing and payment facilities particularly for labour taxes and social contributions, and VAT systems. It is also of note that it is the high income economies that have the less demanding tax systems, as they place a greater reliance on other sources of revenue that the less well off economies do not have.

## The trends

Figure 2.45 shows that the Paying Taxes indicators have remained very stable throughout the eight years of this study.

## Total Tax Rate

The Total Tax Rate has fallen by only 2.5% for the region since Paying Taxes 2007 and has remained flat in the most recent year. Between Paying Taxes 2006 and 2007 the Total Tax Rate fell from an average of 41.4% to 28.1%. This largely reflected the replacement of the production tax (which was a cascading tax) with a sales tax by Republic of Yemen. More recently this economy also reduced the rate of its corporate income tax from 35% to 20% in 2010.

There has been no significant movement in the Total Tax Rate for any of the Middle East economies in the most recent year.

## Time to comply

The average time to comply for the region has remained virtually flat since 2004. The region has throughout the study period required the fewest number of hours for reasons as referred to above.

## Number of payments

The number of payments has also remained stable throughout most of the study period. There has been some reduction over the last year driven by the implementation of online filing and payment systems by Saudi Arabia and the United Arab Emirates. These improvements relate to social security contributions.



# *Middle East*

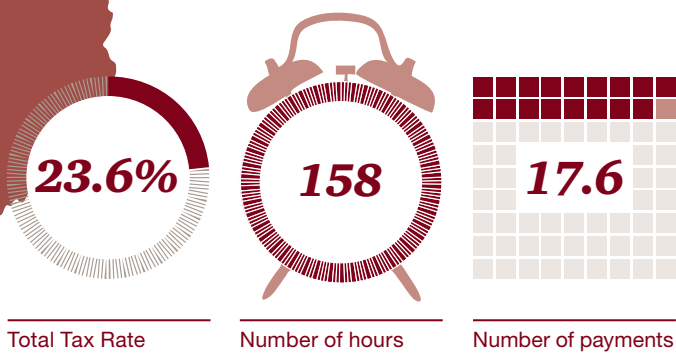
The need to increase tax revenues and the changing tax environment in the Middle East

Wadih AbouNasr

PwC Lebanon

In the past year, and since the publication of *Paying Taxes 2012*, the Middle East has experienced more turmoil than ever before. Totalitarian regimes have tumbled and others may follow. The so-called Arab Spring has led to a change in the regimes in Arab Republic of Egypt, Libya, Tunisia and the Republic of Yemen, where economic injustice and poverty continue. In the oil rich countries, there have also been some unsettled periods. However, such countries have taken swift measures to defuse difficult situations by providing economic stimulus packages and also direct cash payments to citizens, while still relying on continued income from oil revenues. In less fortunate economies, governments have turned to an increase in borrowing and taxes in order to finance necessary assistance for citizens.

Despite these major disturbing events, Middle Eastern governments have not so far carried out major changes to their tax regimes and this is reflected in the results of the *Paying Taxes* study. The indicators have been very stable, and the Total Tax Rate and the time to comply indicators suggest that the region is the least demanding with regard to *Paying Taxes*. There are a number of reasons why the region has retained a leading position in the study. On one hand, the introduction of new taxes and the study of their potential impact has been a long slow process in the region. New taxes have not yet been introduced and the region is still characterised by low tax regimes with few taxes for domestic investors. On the other hand, as discussed in previous issues of *Paying Taxes*, what has helped keep some of the Gulf Cooperation Council (GCC) countries at the top of the *Paying Taxes* rankings is that while the case study company is a wholly domestic company, most GCC countries corporate tax laws look to tax foreign investors more heavily, and locally owned entities are almost exempt from tax (with the exception of Oman). Finally, the lack of sales taxes and other indirect taxes has also helped keep the compliance burden at a level below the world average.



Even though the immediate impact of recent events in the Middle East and the worldwide economic crisis has not directly translated into major changes generally in tax policies, some new tax laws have been implemented by a few Middle Eastern countries and it is most likely that other major changes will follow in the coming years. The most recent major changes worth mentioning here are new income tax laws in Qatar and Jordan, as well as new transfer pricing regulations in Egypt. We have also witnessed the introduction in Egypt of an additional tax bracket for corporations and individuals for higher profits and income, and Lebanon has laid down a draft budget Law for 2013 which will contain increases in corporate and individual tax rates, as well as an array of increases in indirect taxes (except VAT which remains at 10%).

With increased spending requirements and populations demanding greater economic rights, the governments in the Middle East will face a challenge to raise additional tax revenues in the future, either by introducing new taxes (for example VAT), expanding the tax base (by taxing corporations owned by citizens), or increasing the tax rates (as some countries have already started to do). The GCC countries continue with their endeavours to introduce a VAT system with a target for doing so in the next two to four years. This includes an intention to harmonise the VAT laws that will be introduced by adopting a VAT framework law that will be adopted by all GCC countries, much like the GCC Customs Union law which existed prior to the introduction of a national VAT law. The question and the challenge will be whether the Middle East countries will be able to remain easy places to pay tax. With a slowing world economy and the potential for stagnating oil prices, governments in both oil and non oil rich countries will have a need to increase tax revenues in order to balance their budgets, and at the same time still provide an attractive business environment for investors.

One thing is for sure; change in the Middle East is on its way.

# *The regional analyses*

## North America<sup>22</sup>

At 42%, the average Total Tax Rate for the region is slightly below the world average. But this disguises some significant differences between the three economies.

High levels of corporate income tax drive the rate in the United States, labour taxes and social contributions are significant in Mexico while generally lower rates apply in Canada.

It is of note that the three economies in this region have all implemented online filing systems that help to reduce the compliance time required which helps to keep the hours lower than might be expected when recognising that all three economies have tax systems which involve multiple levels of government.

The full implementation of electronic filing systems that allows for online payment and filing of all tax obligations has helped reduce compliance hours.

Canada has been the main economy driving the fall in the Total Tax Rate.

<sup>22</sup> The following economies are included in our analysis of North America: Canada; Mexico; United States





**Canada**

Country article,  
page 121

## The 2013 tax profile

While the results for the North America region cover a vast geographic area, and some large economies, it should be noted that they relate to only three countries. Corporate income tax accounts for the largest portion of the Total Tax Rate, and the hours to comply. The profile for the number of payments is however closer to the global average with corporate income tax only accounting for 16% of the total number of payments (see Figure 2.46).

### Total Tax Rate

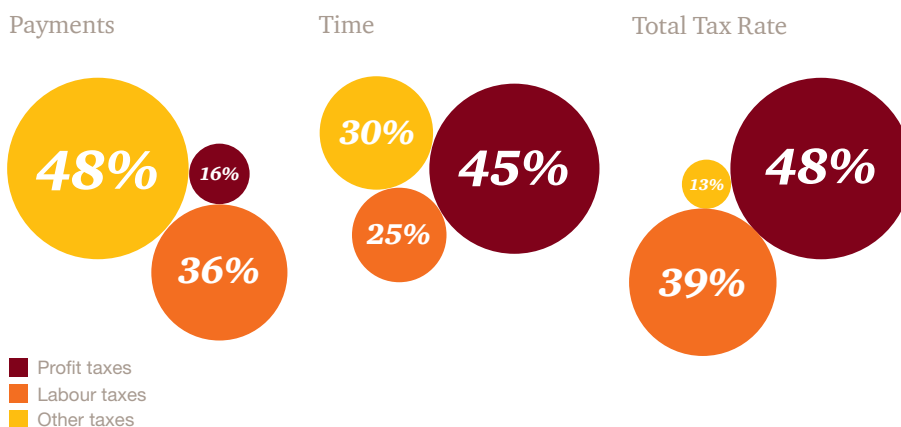
At 42%, the average Total Tax Rate for the region is slightly below the world average. But this disguises some significant differences between the three economies (see Figure 2.47). Mexico and the United States have relatively high Total Tax Rates at 52.5% and 46.7%, while Canada's is low at 26.9%. While all three economies are federal states, Canada has embarked on an active policy to harmonise rates across the different levels of government.

High levels of corporate income tax drive the rate in the United States for our case study company which is located in New York and is subject to local as well as federal corporate income taxes. There are four labour taxes borne by the company in the United States and five other taxes also add a small amount to the total tax cost.

In Mexico while corporate income tax is significant with a rate at the higher end of the more usual range, there are two labour taxes and social contributions that are levied on gross salaries – social security contributions and employer paid payroll tax.

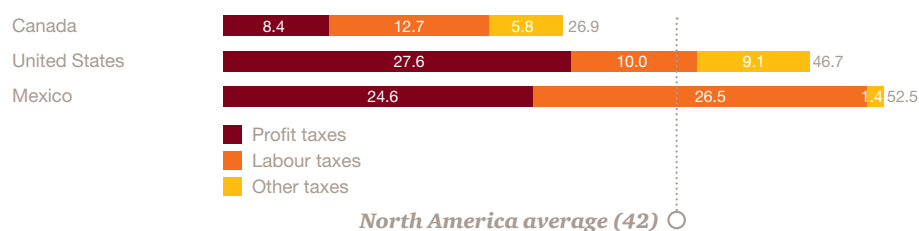
The case study company in Canada has a much a lower Total Tax Rate at 26.9%, profit taxes account for only 8.4 % of the rate while labour taxes account for 12.7% and other taxes for 5.8%. There are four labour taxes that are levied on gross salaries in Canada, but the rates are relatively low.

**Figure 2.46: The tax profile for taxes borne in North America**



Source: PwC analysis.

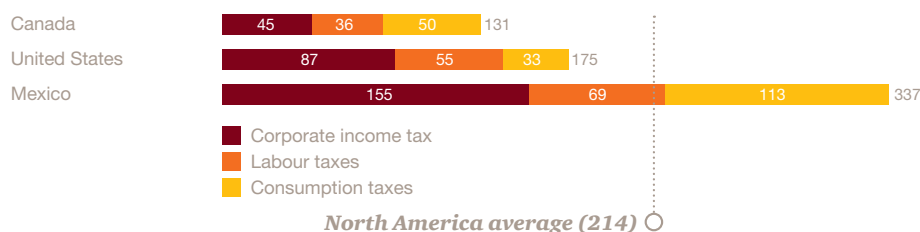
**Figure 2.47: The Total Tax Rates in North America**



Source: PwC analysis.



**Figure 2.48: The time to comply in North America**



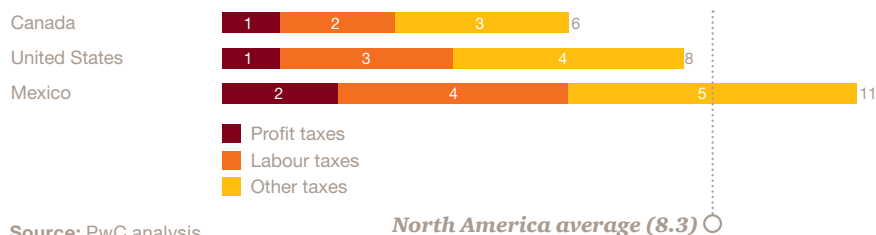
Source: PwC analysis.

### **Time to comply**

The average time to comply for the region at 214 hours is below the global average (see Figure 2.48). Corporate income tax takes the longest time in the region. This is driven by the systems in the United States and Mexico, while in Canada the allocation of time is more even.

It is of note that the three economies in this region have all implemented online filing systems that help to reduce the compliance time required. Consequently to keep the hours lower than might be expected when recognising that all three economies have tax systems which involve multiple levels of government.

**Figure 2.49: The number of payments in North America**



Source: PwC analysis.

### **Number of payments**

The average number of payments for the region is 8.3, the lowest of any of our regions (see Figure 2.49). All three economies in this region have full electronic filing and payment which helps to achieve this low average. The relatively high number of taxes in the United States arises as the case study company is subject to four labour taxes and social contributions and five other taxes.

## The trends

The North American economies have registered an improvement across all the three indicators over the eight years of the study (see Figure 2.50).

### Time to comply

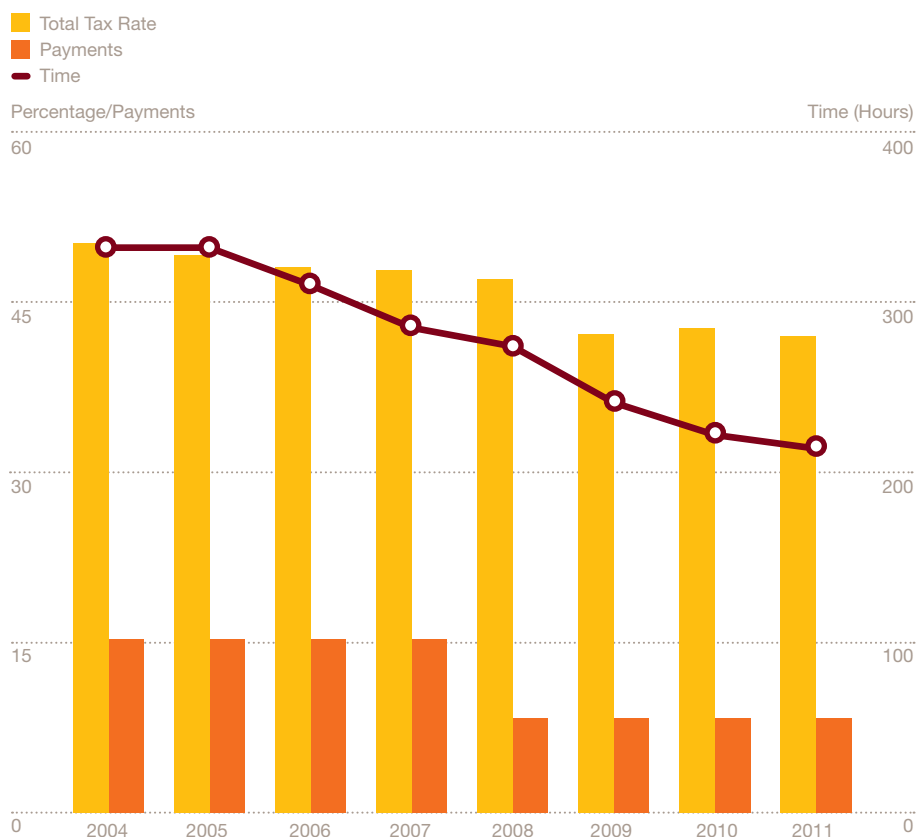
The average time to comply has reduced by 118 hours and is now well below the global average. Mexico is the key economy that has implemented reforms that have led to this reduction. Examples of the measures taken include the full implementation of an electronic filing system that allows for online payment and filing of all tax obligations. This has helped reduce compliance hours from 552 in Paying Taxes 2004 to 337 in the most recent study. Also a new law introduced in June 2010 abolished the need to file an annual VAT return, as well as reducing the supporting information that was needed to be submitted to the tax authority. The reform helped to reduce the compliance time for VAT in the economy by 71 hours.

### Total Tax Rate

The Total Tax Rate has fallen steadily over the eight years of the study and has always been below the world average. The last three years has however seen the rate of this reduction slow. Canada has been the main economy driving the fall with its rate reducing from 49.1% in Paying Taxes 2004 to 26.9% in Paying Taxes 2011. Various reforms initiated by the governments of Ontario and Canada in 2009 have been key, especially the reduction of the rate for corporate income tax to 12% over a three year period.

Mexico had also been progressively reducing its corporate income tax rate from 33% in Paying Taxes 2008 to 28% in Paying Taxes 2011. It has increased again to 30% in the most recent period, but is due to fall again over the next two years.

**Figure 2.50: The trends in North America**



Source: PwC analysis.

### ***Number of payments***

Both Mexico and Canada have implemented various reforms which have had a positive effect on the number of payments.

In Canada, the harmonisation of corporate income tax rates between Ontario and the federal government and the introduction of combined payments and the filing of a single corporate income tax return with effect from 2009 helped reduce the payments indicator. In July 2010, the 8% Ontario retail sales tax (RST) and 5% federal sales tax were combined into a single 13% harmonised sales tax (HST) which again reduced the number of payments required to comply with consumption taxes.

In Mexico there has been full implementation of online filing and payment facilities which in turn has enabled joint filing and payments of a number of taxes. In October 2010 consolidated filing and payment of monthly VAT, corporate income tax and IETU (Impuesto Empresarial a Tasa Unica) returns became possible using the Mexican tax authorities' website. The new system led to a reduced number of payments, and a lighter burden for taxpayers.





# Canada

Proud to be in the top ten but improving tax policy is a never ending process

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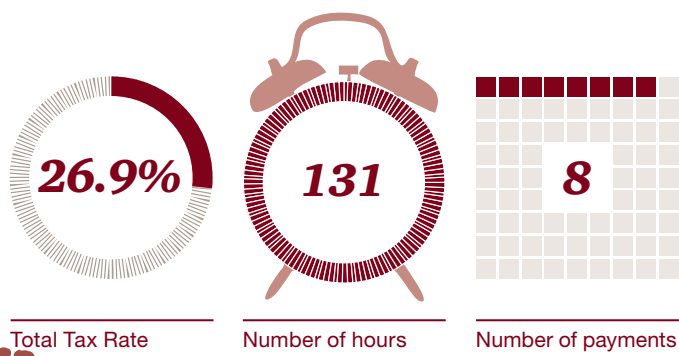
**Lincoln K. Schreiner**

PwC Canada

Canada has three levels of government that can levy taxes: federal, regional (province or territory) and community (city or municipality). For most tax filings, tax is self-assessed (the honour system). Once made, tax filings are subject to review (audit), as the relevant tax administrators see fit.

The federal and regional administrations have been working together to achieve an internationally competitive 25% combined federal and regional corporate income tax rate by the 2012 calendar year, in addition to reducing the tax compliance costs of Canadian corporations. This work continues, and over the past few years significant progress has been made, notably:

- The province of Ontario adopted the federal corporate income tax regime, so that now each legal corporation must file only a single (combined federal and provincial) corporate income tax return.
- Many regions have adopted the federal value added (goods and services) tax regime, so that now each legal corporation must file only a single (combined) value added tax return (although the province of British Columbia has recently declared its intention to withdraw from the federal regime).
- The federal government announced that it will work with the regions to permit a corporate group to file a single combined (consolidated) Canadian corporate income tax return on behalf of all Canadian corporate members.



Tax policy includes a special reduced corporate income tax rate for active business profit earned within Canada by a private company that is owned by Canadian tax resident individuals. In simple terms, the first \$500,000 of this profit is taxed at a combined federal and regional tax rate that is 11% lower than the mainstream combined corporate income tax rate. Slightly more than half of the profit earned by the Paying Taxes case study company is subject to this lower private company combined tax rate – a key reason for the low Total Tax Rate result. The table summarises the Total Tax Rate over the past two years:

	Current year	Prior year
Profit taxes	8.4%	9.4%
Payroll taxes	12.7%	12.6%
Property tax	5.1%	6.1%
Other taxes	0.7%	0.7%
<b>Total tax rate</b>	<b>26.9%</b>	<b>28.8%</b>

The fall in profit taxes is caused by the ongoing annual reduction in corporate income tax rates which are designed to enhance Canada's competitiveness. In the year 2013, the mainstream combined corporate income tax rate is scheduled to fall again.

Tax administrators in Canada embrace technology, and hence corporations can make their tax filings online and pay their taxes by direct bank transfer.

The Paying Taxes study validates the efforts of federal and regional tax policy representatives and administrators across Canada. Canada is proud to be in the top percentile of the economy comparison in the study. Nevertheless, tax policy representatives and administrators across the country understand that improving tax policy and compliance results is a never-ending task.



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## ***The regional analyses***

### **South America<sup>23</sup>**

.....

The average Total Tax Rate for the South America region is 53.5% which is higher than the world average of 44.7% and is the highest of any region apart from Africa. Five economies in the region have Total Tax Rates which exceed 60%.

.....

The average time to comply across the South American Region is 619 hours, which is significantly higher than the world average and the highest of any region.

.....

The average number of payments at 24.6 is the only indicator for this region which is below the world average, but half of the economies have a number above the world average and half a number below it.

.....

.....

The average Total Tax Rate for the region has fallen by only 3.7% over the eight years of the study and in the most recent year the rate has increased slightly.

.....

The hours to comply have remained high for the region. While the average has fallen by 40 hours, it has always been the highest and is still 352 hours above the world average.

.....

The number of payments is the one indicator that has fallen significantly for this region. It has reduced by 11.4 which is only second to the fall recorded for Central Asia & Eastern Europe.

.....

<sup>23</sup> The following economies are included in our analysis of South America: Argentina; Bolivia; Brazil; Chile; Colombia; Ecuador; Guyana; Paraguay; Peru; Suriname; Uruguay; Venezuela, R.B.



**Colombia**  
Country article,  
page 133

**Ecuador**  
Country article,  
page 135

**Brazil**  
Country article,  
page 129

**Chile**  
Country article,  
page 131



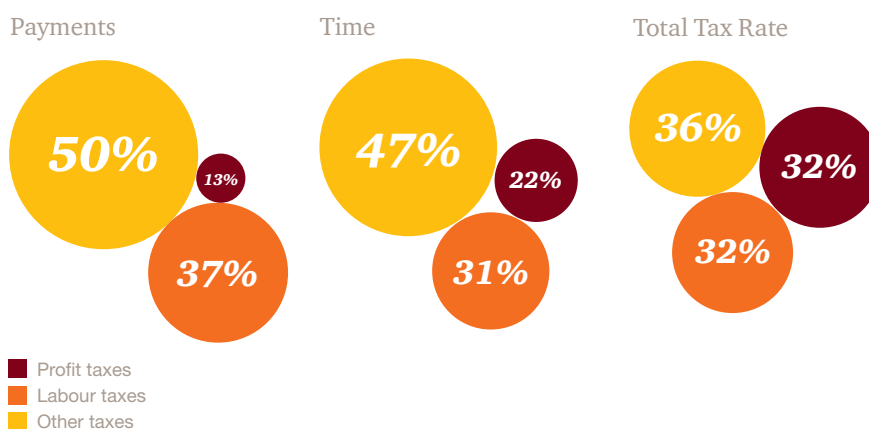
## The 2013 global tax profile

The tax profile (see Figure 2.51) for South America is not dissimilar to the global average profile. The percentages accounted for by corporate income tax are slightly less for the Total Tax Rate, and for the time to comply. Overall it is the 'other' taxes that actually account for the majority of the tax burden placed on business in this region.

### Total Tax Rate

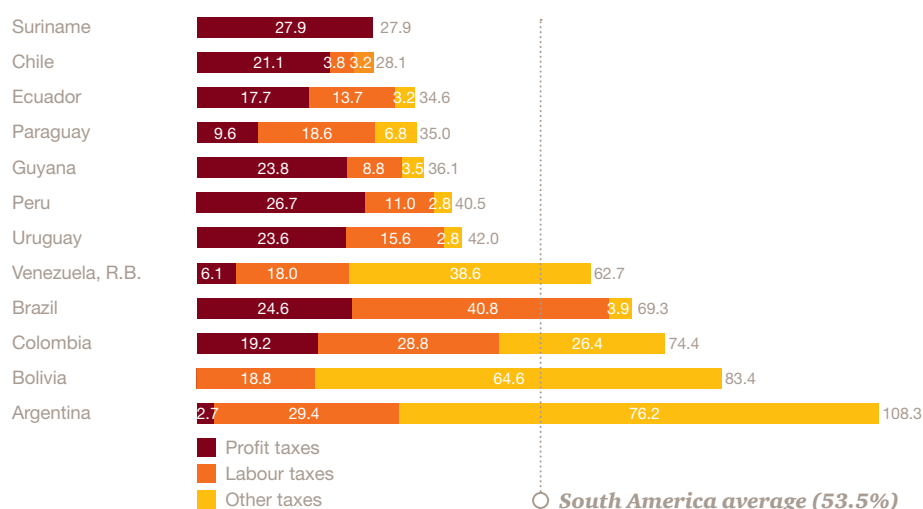
The average Total Tax Rate for the South America region is 53.5% which is higher than the world average of 44.7% and is the highest of any region apart from Africa (see Figure 2.52). Five economies in the region have Total Tax Rates which exceed 60%. These rates are high for a variety of reasons including, a turnover tax in Argentina coupled with high labour taxes, high levels of labour taxes and social contributions in Brazil and Colombia, a transaction tax based on turnover in Bolivia, while in República Bolivariana de Venezuela there are high levels of municipal business tax and employers social contributions.

Figure 2.51: The tax profile for South America



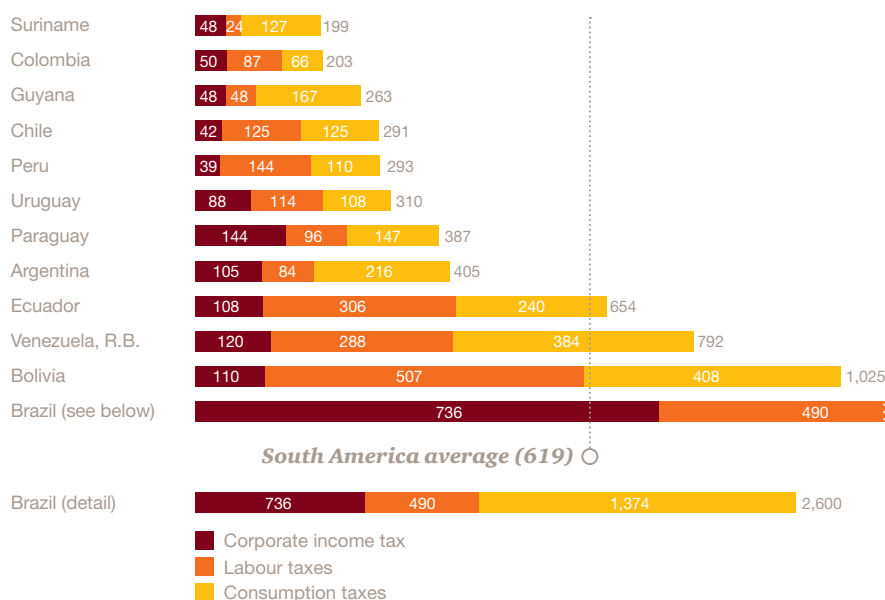
Source: PwC analysis.

Figure 2.52: The Total Tax Rates in South America



Source: PwC analysis.

**Figure 2.53: The time to comply in South America**

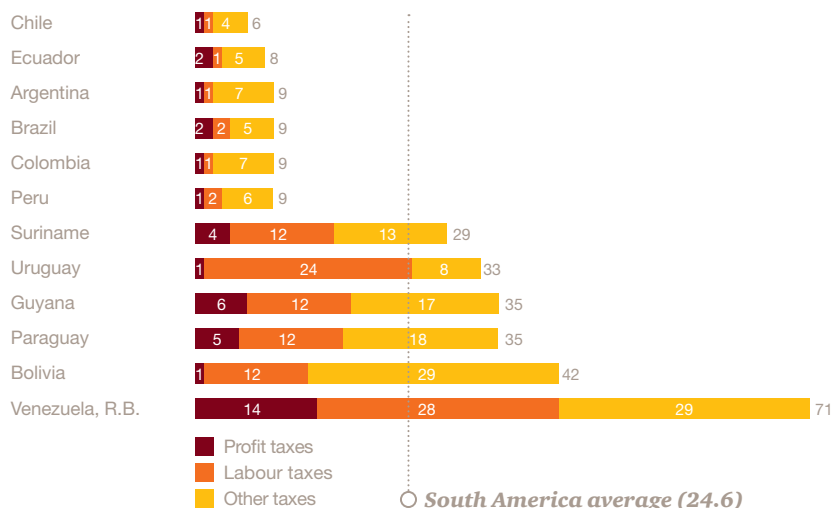


Source: PwC analysis.

### Time to comply

The average time to comply across the South American region is 619 hours, which is significantly higher than the world average and the highest of any region. This is largely driven by four economies where it takes our case study company more than 600 hours to comply with its tax compliance (see Figure 2.53). It takes 2,600 hours in Brazil, 1,025 hours in Bolivia, 792 hours in República Bolivariana de Venezuela, and 654 hours in Ecuador. In Ecuador, República Bolivariana de Venezuela and Bolivia these hours are required mainly for compliance with social contributions and consumption taxes such as VAT. In Brazil the time to comply is high for all three major categories of tax, for corporate income tax (IRPJ), social security contributions and VAT (ICMS).

**Figure 2.54: The number of payments in South America**

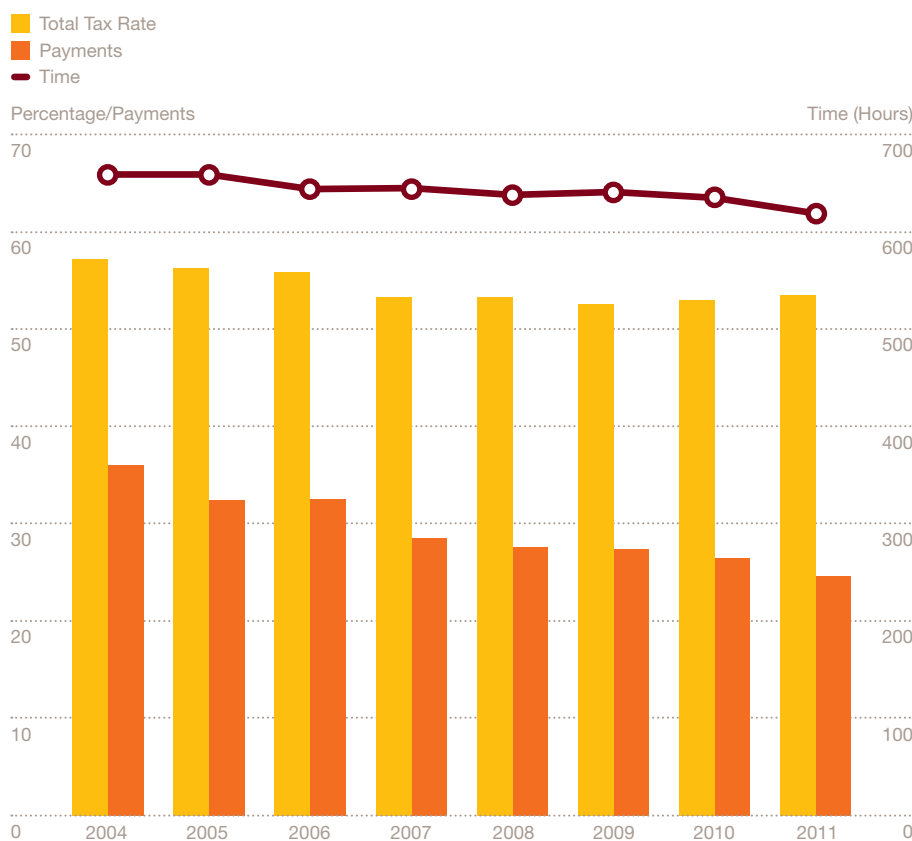


Source: PwC analysis.

### Number of payments

The average number of payments at 24.6 is the one indicator which is below the world average. This average however disguises a significant difference between six economies that all have electronic filing and payment fully implemented for all of their major taxes and which therefore have fewer than 10 payments, and six economies that have 29 or more payments. While Bolivia and Uruguay, for example, have electronic filing and payment for their corporate income tax regimes, they do not have it for their other taxes and there is no electronic filing and payment in the four other economies which can clearly be seen in Figure 2.54.

**Figure 2.55: The trends in South America**



Source: PwC analysis.

## The trends

Figure 2.55 shows that the time to comply and the Total Tax Rate have been slow to fall, while the number of payments have reduced significantly.

### Total Tax Rate

The average Total Tax Rate for the region has fallen by only 3.7% over the eight years of the study and in the most recent year the rate has increased slightly.

The small fall in the Total Tax Rate for the region over the eight year period 2004 to 2011 is the result of some economies such as Uruguay and Paraguay reducing their Total Tax Rate while others have either changed their rates little, or in some cases such as in República Bolivariana de Venezuela the rates have been increased.

For Uruguay the Total Tax Rate has fallen from 71.4% in Paying Taxes 2006 to 42.0% in the most recent study by eliminating 15 taxes (though, the impact of these taxes varied) and by reducing the corporate income tax statutory rate from 30% to 25%. In Paraguay the Total Tax Rate has reduced from 54.3% to 35.0%, this having been driven by the rate of corporate income tax progressively falling to 10% in 2006 from 20% in 2005 and 30% in 2004.

In República Bolivariana de Venezuela the introduction of three new taxes: Science, Technology and Innovation tax, Antidrug tax, workplace preventions, conditions and environment tax, increased its Total Tax Rate from 51.1% Paying Taxes 2006 to 62.7% in Paying Taxes 2013.

### ***Time to comply***

The hours to comply have remained high for the region. While the average has fallen by 40 hours, it has always been the highest of any of our regions and in this year's study is still 352 hours above the world average. Reforms undertaken in Colombia reducing the hours to comply from 456 in Paying Taxes 2004 to 203 Paying Taxes 2011 and in Peru where the hours have reduced by 131, largely account for the reduction in the region. In Colombia an integrated form for online social contributions has been introduced and there is also now a facility to file and pay corporate income tax and VAT through the Electronic Information Services. Peru has also improved its electronic payment facilities for the three major taxes and the use of a tax authority website and has introduced VAT software which is widely used by business.

### ***Number of payments***

The number of payments indicator is the one indicator that has fallen significantly for this region. It has reduced by 11.4 payments which is only second to the fall recorded for Central Asia & Eastern Europe. The main economies contributing to this fall over the eight year period were Colombia (by 60), Argentina (by 53), and Uruguay (by 24). These falls arise mainly in view of simplifications made to the tax system and the introduction of electronic filing and payment.





# Brazil

A new system promises to reduce the compliance burden for business

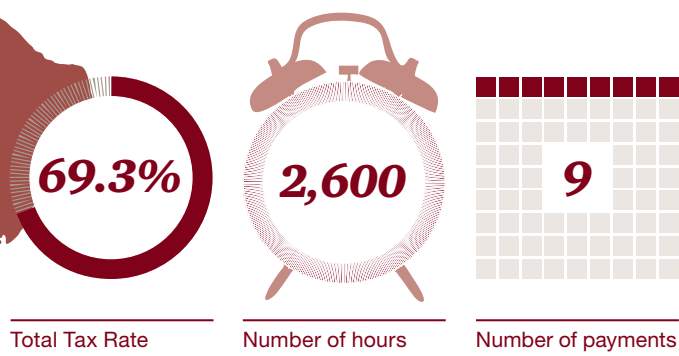
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**Carlos Iacia**

PwC Brazil

Brazil is considered to be one of a small number of economies around the world which has enormous potential to grow and attract investment. But like many other economies it is facing some economic obstacles which have been caused by the global economic crisis. In addition it is clear that the country still has a long way to go in terms of reforming the legal, regulatory and tax systems to provide an environment that can help unlock the economic potential that exists.

From a tax perspective, there is much still to be done - and this is illustrated very well by the results presented by the indicators in the Paying Taxes study. The tax compliance burden for Brazil is high and continues to far exceed the time required in any other economy by some margin. It takes the case study company some 2,600 hours or 65 weeks (based on a 40 hour week) to comply with its tax affairs and this has been a constant Figure throughout the eight years of the Paying Taxes study. The tax system comprises many confusing laws and rules which have been implemented by the federal, state and municipal tax authorities. The Brazilian state VAT (ICMS) system is particularly complex. It is a state tax that requires frequent information exchange and division of the tax revenues among the 26 states, the Federal District and its municipalities.



This scenario results in taxpayers spending a large amount of time just trying to keep up-to-date with the system in order to be able to perform the necessary calculations, collect the taxes, fill-out ancillary obligations, and to send these to the tax authorities.

The Paying Taxes results have been a regular feature which has been commented on by the Brazilian media and there is recognition from the Brazilian tax authorities of the need for the system to change.

The first steps have already been taken by the government. This has included the introduction of the SPED (*Sistema Público de Escrituração Digital* - Public System of Digital Bookkeeping).

SPED promises to bring many improvements. The belief is that it will upgrade and modernise the complex Brazilian tax system and, in addition, it aims to establish a new kind of relationship between taxpayers and the government tax administration. This relationship will be based on transparency, in order to allow cost reduction, rationalisation and simplification of ancillary obligations.

The tax authorities are strongly committed to making the new system mandatory for all companies, but only the large companies at present have implemented it.

With the implementation of SPED, the hope is that in the near future, the time spent by taxpayers to comply with their tax obligations will fall. SPED should enable much of the tax system and related procedures to be controlled automatically. This should eliminate much of the paperwork and reduce the time required to comply with legislation changes, as well as the checking and auditing of tax information. At present, however, the old systems continue to be used in parallel so that taxpayers have to invest significant amounts of time in implementing the system for SPED, but they also still need to comply with the old ancillary obligations.

Although many tax obligations and procedures are now electronic for taxpayers, others are still in transition. Accordingly, we are still waiting for, and looking forward to, the positive results that can be expected from SPED.





# Chile

Tax rate increase to finance public expenditures while compliance costs are still a challenge

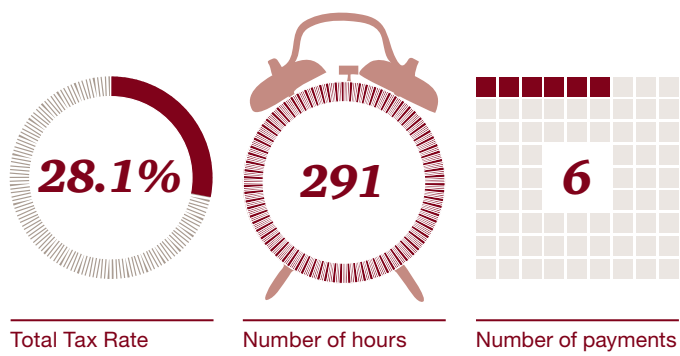
**Francisco Selame**

PwC Chile

The Paying Taxes indicators for Chile have changed little over the eight year period of the study reflecting the stability of the Chilean tax system, with no significant changes in the tax cost or the compliance burden. In the two most recent reports (Paying Taxes 2011 and 2012), the Total Tax Rate has remained at 25%, the time to comply 316 hours and the number of tax payments has been 9. However in this year's study, each of the indicators has changed.

The Total Tax Rate indicator increased from 25% to 28.1%, reflecting an increase in the First Category Tax rate for income during 2011, from 17% to 20%. This was introduced by Law No. 20,455. Under this law it had been intended that the first category tax rate would fall again to 18.5% in 2012 and then back to a rate of 17% in 2013. However on September 4, 2012 the Chilean Congress approved a tax reform (Law N° 20,630, published in the Official Gazette on September 27, 2012) that will keep the first category tax rate at 20% as a permanent rate from 2012 onwards. This reform is specifically aimed at increasing public revenues to provide additional finance for public education. Other matters that have been included in the recent tax reforms include the reduction of stamp tax rates from 1 January 2013; reductions in the tax rates applicable to lower brackets for the Global Complementary Tax (levies on resident individuals) and second category tax (levies on resident employees); new transfer pricing provisions to align the Chilean tax system with OECD standards; and a tax credit also introduced for education.





For the future, it is expected that the Total Tax Rate indicator will not change with the first category tax rate staying at present levels, and the stamp tax rate reduction not expected to have a material impact on the result based on the fact pattern of the case study company.

The time to comply for the case study company has fallen from 316 to 291 hours. This reduction recognises that Form 29 can be used for filing and paying VAT jointly with labour taxes through the electronic filing system. The compliance burden in Chile however remains relatively high (above the global average of 267) and the launch of Paying Taxes 2013 for South America in Chile will provide a good opportunity for this to be discussed.

Finally, the tax payments indicator has remained relatively stable, amounting to 6 tax payments per year. This recognises that social security contributions can be paid jointly using a private server called “Previred”, which is available for taxpayers with a similar fact pattern to the case study company.

The South American launch event in November 2012 will be an interesting opportunity to discuss these changes, the impact of the recent tax reform and the challenges that Chile has to confront with a view to improving its indicators in future.



# Colombia

The Colombian tax system continues to evolve as the economy gains momentum

**Mauricio Carvajal Córdoba**

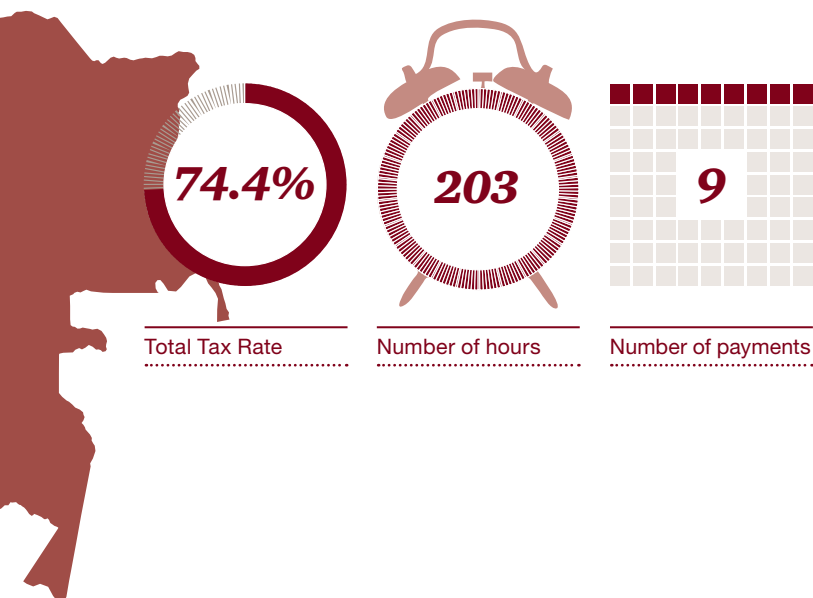
PwC Colombia

Many significant events have occurred since the Paying Taxes report was launched in Colombia last year, the most important of which is the introduction to Congress of a far-reaching tax bill.

The bill, if enacted, will improve significantly the tax treatment for foreign investors in the securities markets, as well as adopting a new income tax tariff range for employees and other individuals. The proposed regulation is intended to reduce payroll costs significantly, with a view to boosting formal employment. The corporate income tax rate would also be reduced for some corporate tax payers (mainly small and medium enterprises). It is also intended that various other issues will be addressed including transfer pricing regulations and the VAT regime.

The tax authorities continue to be very active in negotiating new treaties to ensure the avoidance of double taxation, which will benefit taxpayers. A number of new treaties have been agreed, including treaties with Canada and Switzerland.

It is intended that the International Financial Reporting Standards (IFRS) will become mandatory in stages between 2013 and 2015. This will contribute to ensuring that better quality financial information is produced by enterprises in all sectors of the economy.



While the compliance burden has reduced steadily over the years of the Paying Taxes study with the introduction of online filing and payment, most recently the burden has increased a little (by ten hours) as a result of the introduction of new forms which have to be submitted jointly with the income tax return from 2012 onwards. This new requirement has increased the tax burden for most taxpayers in 2012 and will continue in the future.

Although paperwork has generally been reduced in Colombia, some procedural matters still require substantial interaction between businesses and the tax agencies, including in particular when reimbursement of VAT credits is required. In the future it is hoped that tax reforms will provide some solutions in this regard.

The financial transaction tax (or debit tax), although still in place, will be phased out progressively from 2013 to 2018, when the rate will reduce to 0%. The tax continues to attract strong criticism as it discourages the use of the financial system in the economy. Its elimination will help reduce the Total Tax Rate, which is high, while also improving the number of payments indicator.

So while the Colombian tax system has evolved and developed in recent years there is still room for further reform with a focus on improving the interaction between the tax authority and taxpayers, and simplifying the tax structure by eliminating certain taxes.



# Ecuador

New challenges lie ahead as government seeks additional revenues

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**Pablo Aguirre**

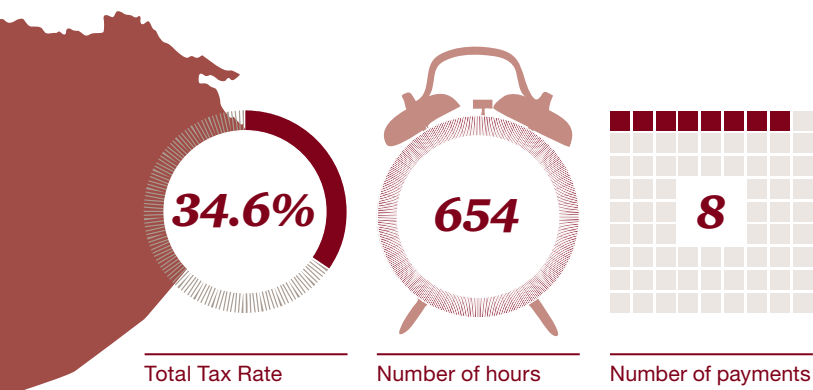
PwC Ecuador

Ecuador has introduced a number of changes to its tax legislation and regulations during the period covered by the Paying Taxes study. Major changes were first enacted in 2008, and a number of further reforms have been implemented since then. However, these changes have only slightly reduced the Total Tax Rate, and there has been no improvement yet in the time to comply.

Changes made to the tax rates have both increased and reduced the Total Tax Rate for Ecuador. Additional taxes introduced in 2008 increased the rate while reforms such as the gradual annual reduction in the income tax rate (from 25% applicable in 2010, to 22% which will be effective from 2013) have and will continue to reduce the rate.

The government has also implemented a Production Code Law which introduced other incentives, such as income tax exemptions for new investments in specific economic areas. However, despite the expectation that such an initiative would have a positive impact on investment in Ecuador this has not yet materialised.

Despite the availability of electronic filing and payment which gives a low payment indicator result the time to comply remains high in view of the requirement to provide significant supporting information.



At present there are several key tax issues that are being discussed in the country.

- As is the case in many economies, the government is looking to raise additional revenue by means of indirect taxation, recognising the potential for reduced administration and improving the ease of collection by using this type of tax.
- There is also a debate around income tax pre-payments which are based on a percentage of assets, equity, income and expenses from the previous year for the calculation. A major concern is that the tax pre-payments will effectively become a minimum tax paid for tax payers (if their income tax obligation is actually lower than payments made in advance or where losses actually materialise for the year). Some industry sectors have expressed concerns regarding the impact of these income tax prepayments on their economic activities.
- The introduction of the International Financial Reporting Standards (IFRS) as the accounting principles to be used in Ecuador, has generated uncertainty and concern regarding the impact that the application of these new standards will have for determining taxable income.
- On the tax transparency agenda in 2011 the Ecuadorian tax authority ruled that companies will have to report the names of their ultimate beneficiaries and owners, except for companies which are listed on the local stock exchange. This step is an innovative one for Latin-America, allowing tax authorities to receive data identifying who the effective owners are of companies operating in the country.

Globally, taxes are clearly an instrument of government economic policy, an important tool to help deal with the current economic issues. The position is no different in Ecuador. government is looking to assert its right to levy taxes on revenues attributable to their jurisdiction and as part of this agenda they are looking at ways to secure more information, and control, in order to help them do this. Taxpayers need to be aware of the potential for change and to be prepared to address these new challenges.

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## *Methodology and example calculations for each Paying Taxes sub-indicator*

Paying Taxes records the taxes and mandatory contributions that a medium-size company must pay in a given year as well as measuring the administrative burden of Paying Taxes and contributions. The project was developed and implemented as part of the *Doing Business* project by the World Bank and IFC in cooperation with PwC. Taxes and contributions measured include the 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 any other small taxes or fees.

Paying Taxes measures all taxes and contributions that are government mandated (at any level—federal, state or local) and that apply to the standardised business and have an impact in its financial statements. In doing so, Paying Taxes goes beyond the traditional definition of a tax. As defined for the purposes of government national accounts, taxes include only compulsory, unrequited payments to general government. Paying Taxes departs from this definition because it measures imposed charges that affect business accounts, not government accounts, the main difference relates to labour contributions. The Paying Taxes measure includes government-mandated contributions paid by the employer to a required private pension fund or workers' insurance fund. The indicator includes, for example, Australia's compulsory superannuation guarantee and workers' compensation insurance. For the purpose of calculating the Total Tax Rate (defined below), only taxes borne are included. For example, value added taxes are generally excluded (provided they are not irrecoverable) because they do not affect the accounting profits of the business—that is, they are not reflected in the income statement.

They are, however, included for the purpose of the compliance measures (time and payments), as they add to the burden of complying with the tax system.

The Paying Taxes study uses the *Doing Business* case study scenario to measure the taxes and contributions paid by a standardised business and the complexity of an economy's tax compliance system. This case study scenario uses a set of financial statements and assumptions about transactions made over the course of the year. In each economy tax experts from a number of different firms (including PwC) compute the taxes and mandatory contributions due in their jurisdiction based on the standardised case study facts. Information is also compiled on the frequency of filing and payments, as well as time taken to comply with tax laws in an economy. To make the data comparable across economies, several assumptions about the business and the taxes and contributions are used.

The World Bank and IFC overall ranking for the ease of Paying Taxes is the simple average of the percentile rankings for each of the sub indicators, but this year with a threshold being applied to the Total Tax Rate. The threshold is defined as the highest Total Tax Rate among the top 15% of economies in the ranking on the Total Tax Rate. It is calculated and adjusted on a yearly basis. This year's threshold is 25.7%. All economies with a Total Tax Rate below this threshold receive the same score as the economy at the threshold. The threshold is not based on any economic theory of an "optimal tax rate" that minimises distortions or maximises efficiency in the tax system of an economy overall. Instead, it is mainly empirical in nature, set at the lower end of the distribution of tax rates levied on medium-size enterprises in the manufacturing sector as observed through the Paying Taxes indicators. This reduces the bias in the indicators toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardised case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology).



### **Assumptions about the business**

The business:

- Is a limited liability, taxable company. If there is more than one type of limited liability company in the economy, the limited liability form most common among domestic firms is chosen. The most common form is reported by incorporation lawyers or the statistical office.
- Started operations on 1 January 2010. At that time the company purchased all the assets shown in its balance sheet and hired all its workers.
- Operates in the economy's largest business city.
- Is 100% domestically owned and has five owners, all of whom are natural persons.
- At the end of 2010, has a start-up capital of 102 times income per capita.
- Performs general industrial or commercial activities. Specifically, it produces ceramic flowerpots and sells them at retail. It does not participate in foreign trade (no import or export) and does not handle products subject to a special tax regime, for example, liquor or tobacco.
- At the beginning of 2011, owns two plots of land, one building, machinery, office equipment, computers and one truck and leases one truck.
- Does not qualify for investment incentives or any benefits apart from those related to the age or size of the company.
- Has 60 employees—four managers, eight assistants and 48 workers. All are nationals, and one manager is also an owner. The company pays for additional medical insurance for employees (not mandated by any law) as an additional benefit. In addition, in some economies reimbursable business travel and client entertainment expenses are considered fringe benefits. When applicable, it is assumed that the company pays the fringe benefit tax on this expense or that the benefit becomes taxable income for the employee. The case study assumes no additional salary additions for meals, transportation, education or others. Therefore, even when such benefits are frequent, they are not added to or removed from the taxable gross salaries to arrive at the labour tax or contribution calculation.
- Has a turnover of 1,050 times income per capita.
- Makes a loss in the first year of operation.
- Has a gross margin (pretax) of 20% (that is, sales are 120% of the cost of goods sold).
- Distributes 50% of its net profits as dividends to the owners at the end of the second year.
- Sells one of its plots of land at a profit at the beginning of the second year.
- Has annual fuel costs for its trucks equal to twice income per capita.
- Is subject to a series of detailed assumptions on expenses and transactions to further standardise the case. All financial statement variables are proportional to 2005 income per capita. For example, the owner who is also a manager spends 10% of income per capita on travelling for the company (20% of this owner's expenses are purely private, 20% are for entertaining customers and 60% for business travel).

### **Assumptions about the taxes and contributions**

- All the taxes and contributions recorded are those paid in the second year of operation (calendar year 2011). A tax or contribution is considered distinct if it has a different name or is collected by a different agency. Taxes and contributions with the same name and agency, but charged at different rates depending on the business, are counted as the same tax or contribution.
- The number of times the company pays taxes and contributions in a year is the number of different taxes or contributions multiplied by the frequency of payment (or withholding) for each tax. The frequency of payment includes advance payments (or withholding) as well as regular payments (or withholding).

### **The Paying Taxes indicators**

#### **Tax payments**

The tax payments indicator reflects the total number of taxes and contributions paid, the method of payment, the frequency of payment, the frequency of filing and the number of agencies involved for this standardised case study company during the second year of operation. It includes taxes withheld by the company, such as sales tax, value added tax and employee-borne labour taxes. These taxes are traditionally collected by the company from the consumer or employee on behalf of the tax agencies. Although they do not affect the income statements of the company, they add to the administrative burden of complying with the tax system and so are included in the tax payments measure.

The number of payments takes into account electronic filing. Where full electronic filing and payment is allowed and it is used by the majority of medium-size businesses, the tax is counted as paid once a year even if filings and payments are more frequent. For payments made through third parties, such as tax on interest paid by a financial institution or fuel tax paid by a fuel distributor, only one payment is included even if payments are more frequent.

#### **Turkey: Number of payments**

<b>Tax type</b>	<b>World Bank indicator</b>	<b>Actual payments</b>	<b>Notes</b>
Corporate income tax	1	5	Online filing
Stamp duty on property sale	1	1	
Transaction tax on cheques	1	1	
Property tax	2	2	
Environment tax	2	2	
Property transfer fee	1	1	
Value added tax (VAT)	1	12	Online filing
Advertising tax	2	2	
Vehicle tax	1	1	
Stamp duty on contracts	1	1	
Employer paid - Social security contributions	1	12	Online filing
Employer paid - Unemployment insurance contributions	0	12	Paid jointly
Fuel tax	1	1	Embedded in payments to third parties
Employee paid - Social security contributions	0	12	Paid jointly
Employee paid - Payroll tax	0	12	Paid jointly
Employee paid - Unemployment insurance contributions	0	12	Paid jointly
<b>Total</b>	<b>15</b>	<b>89</b>	

## Time

Time is recorded in hours per year.

The indicator measures the time taken to prepare, file and pay three major types of taxes and contributions: the corporate income tax, value added or sales tax, and labour taxes, including payroll taxes and social contributions.

Preparation time includes the time to collect all information necessary to compute the tax payable and to calculate the amount payable. If separate accounting books must be kept for tax purposes - or separate calculations made - the time associated with these processes is included.

This extra time is included only if the regular accounting work is not enough to fulfil the tax accounting requirements. Filing time includes the time to complete all necessary tax return forms and file the relevant returns at the tax authority. Payment time considers the hours needed to make the payment online or at the tax authorities. Where taxes and contributions are paid in person, the time includes delays while waiting.

## Panama: Time to comply

	Corporate income tax	Labour taxes	Consumption tax	Total
<b>Compliance process</b>				
<b>Preparation</b>				
Data gathering from internal sources (for example accounting records) if held	36	24	48	
Additional analysis of accounting information to highlight tax sensitive items	16	24	56	
Actual calculation of tax liability including data inputting into software/ spreadsheets or hard copy records	24	36	24	
Time spent maintaining/updating accounting systems for changes in tax rates and rules	0	12	2	
Preparation and maintenance of mandatory tax records if required	0	0	12	
<b>Total</b>	<b>76</b>	<b>96</b>	<b>142</b>	<b>314</b>
<b>Filing</b>				
Completion of tax return forms	6	24	12	
Time spent submitting forms to tax authority, which may include time for electronic filing, waiting time at tax authority office etc	1	12	12	
<b>Total</b>	<b>7</b>	<b>36</b>	<b>24</b>	<b>67</b>
<b>Payment</b>				
Calculations of tax payments required including if necessary extraction of data from accounting records	0	0	0	
Analysis of forecast data and associated calculations if advance payments are required	1	12	12	
Time to make the necessary tax payments, either online or at the tax authority office (include time for waiting in line and travel if necessary)	1	12	12	
<b>Total</b>	<b>2</b>	<b>24</b>	<b>24</b>	<b>50</b>
<b>Grand Total</b>	<b>85</b>	<b>156</b>	<b>190</b>	<b>431</b>

### Total Tax Rate

The Total Tax Rate measures the amount of taxes and mandatory contributions borne by the business in the second year of operation, expressed as a share of commercial profit. Paying Taxes 2013 reports the Total Tax Rate for calendar year 2011. The total amount of taxes borne is the sum of all the different taxes and contributions payable after accounting for allowable deductions and exemptions. The taxes withheld (such as personal income tax) or collected by the company and remitted to the tax authorities (such as value added tax, sales tax or goods and service tax) but not borne by the company are excluded.

The taxes included can be divided into five categories: profit or corporate income tax, social contributions and labour taxes paid by the employer (in respect of which all mandatory contributions are included, even if paid to a private entity such as a required pension fund), property taxes, turnover taxes and other taxes (such as municipal fees and vehicle and fuel taxes).

The Total Tax Rate is designed to provide a comprehensive measure of the cost of all the taxes a business bears. It differs from the statutory tax rate, which merely provides the factor to be applied to the tax base. In computing the Total Tax Rate, the actual tax payable is divided by commercial profit.

Commercial profit is essentially net profit before all taxes borne. It differs from the conventional profit before tax, reported in financial statements. In computing profit before tax, many of the taxes borne by a firm are deductible. In computing commercial profit, these taxes are not deductible. Commercial profit therefore presents a clear picture of the actual profit of a business before any of the taxes it bears in the course of the fiscal year.

### The Total Tax Rate calculation for Chile

	CLP '000	CLP '000
<b>Profit before tax (PBT)</b>		<b>198,749</b>
<i>Addback above the line taxes borne:</i>		
Unemployment insurance	5,844	
Work accident insurance	2,313	
Property taxes	3,800	
Municipal taxes	1,799	
Fuel tax	1,152	
Vehicle tax	95	
		15,003
<b>Profit before all taxes borne/commercial profit</b>		<b>213,752</b>
Corporate income tax on PBT after necessary adjustments	(45,131)	
Above the line taxes borne	(15,003)	
Total taxes borne		(60,134)
Profit after tax		153,618
<b>Total Tax Rate = Total taxes borne/commercial profit</b>		<b>28.1%</b>

Commercial profit is computed as sales minus cost of goods sold, minus gross salaries, minus administrative expenses, minus other expenses, minus provisions, plus capital gains (from the property sale) minus interest expense, plus interest income and minus commercial depreciation. To compute the commercial depreciation, a straight-line depreciation method is applied, with the following rates: 0% for the land, 5% for the building, 10% for the machinery, 33% for the computers, 20% for the office equipment, 20% for the truck and 10% for business development expenses. Commercial profit amounts to 59.4 times income per capita.

The methodology for calculating the Total Tax Rate is broadly consistent with the Total Tax Contribution framework developed by PwC and the calculation within this framework for taxes borne. But while the work undertaken by PwC is usually based on data received from the largest companies in the economy, *Doing Business* focuses on a case study for a standardised medium-size company.

### **World Bank and IFC's distance to frontier measure**

The ease of paying taxes ranking measures the performance of economies on the payments, time and Total Tax Rate indicators relative to the performance of others. It does not provide information on the absolute improvement over time. Nor does it provide information on how large the gaps are between economies at a single point in time.

The distance to frontier measure is designed to address these issues, complementing the ease of paying taxes ranking. This measure illustrates the distance of an economy to the “frontier,” and the change in the measure over time shows the extent to which the economy has closed this gap. The frontier is a score derived from the most efficient practice or highest score achieved on each of the component indicators (payments, time and Total Tax Rate) by any economy since 2004. For example, in this time period the lowest number of payments recorded is 3, achieved by Hong Kong SAR, China, Maldives, Qatar and Saudi Arabia. On time, historically the lowest number of hours recorded is for the Maldives which until 2011 recorded 0 hours because it did not levy any profit, consumption or labour taxes on which the time indicator is based. For the Total Tax Rate, consistent with the calculation of the rankings, the frontier is defined as the Total Tax Rate corresponding to the 15th percentile based on the overall distribution of Total Tax Rates for all years (equivalent to 27.5% of profits). If an economy has a Total Tax Rate below this level, it is considered to be at the frontier for this component.

Calculating the distance to frontier for each economy involves two main steps. First, individual indicator scores are normalised to a common unit: except for the Total Tax Rate, the other two component indicators  $y$  is rescaled to  $(\max - y) / (\max - \min)$ , with the minimum value ( $\min$ ) representing the frontier—the highest performance on that indicator across all economies since 2005. Second, for each economy the scores obtained are aggregated through simple averaging into one distance to frontier score. An economy's distance to frontier for paying taxes is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the frontier.

The difference between an economy's distance to frontier score in 2004 and its score in 2011 illustrates the extent to which the economy has closed the gap to the frontier over time. And in any given year the score measures how far an economy is from the highest performance at that time.

The maximum ( $\max$ ) and minimum ( $\min$ ) observed values are computed for the 174 economies included in the *Doing Business* sample since 2004 and for all years (from 2004 to 2011). The year 2004 was chosen as the baseline for the economy sample because it was the first year that Paying Taxes indicators were available. To mitigate the effects of extreme outliers in the distributions of the rescaled data (very few economies need 2,600 hours to comply with tax obligations, but many need 200 hours), the maximum ( $\max$ ) is defined as the 95th percentile of the pooled data for all economies and all years for each indicator. Take the Czech Republic, which has a score of 65 on the distance to frontier measure for 2011. This score indicates that the economy is 35 percentage points away from the frontier constructed from the highest performances across all economies and all years. Czech Republic was further from the frontier in 2004, with a score of 41. The difference between the scores shows an improvement over time.

The distance to frontier scores for each economy and each year is available on the *Doing Business* website (<http://www.doingbusiness.org/data/distance-to-frontier>).



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## *The data tables*

Table 1: Overall Paying Taxes ranking

Table 2: Tax payments

Table 3: Time to comply

Table 4: Total Tax Rate



**Table 1: Overall Paying Taxes ranking**

**Table 1: Rankings**

Economy	Overall Rank
Afghanistan	94
Albania	160
Algeria	170
Angola	154
Antigua and Barbuda	142
Argentina	149
Armenia	108
Australia	48
Austria	77
Azerbaijan	76
Bahamas, The	51
Bahrain	7
Bangladesh	97
Barbados	121
Belarus	129
Belgium	75
Belize	45
Benin	173
Bhutan	71
Bolivia	180
Bosnia and Herzegovina	128
Botswana	39
Brazil	156
Brunei Darussalam	22
Bulgaria	91
Burkina Faso	157
Burundi	137
Cambodia	66
Cameroon	176
Canada	8
Cape Verde	102
Central African Republic	181
Chad	184
Chile	36
China	122
Colombia	99
Comoros	114
Congo, Dem. Rep.	171
Congo, Rep.	182
Costa Rica	125
Côte d'Ivoire	159
Croatia	42
Cyprus	31
Czech Republic	120
Denmark	13
Djibouti	67
Dominica	74
Dominican Republic	98
Ecuador	84
Egypt, Arab Rep.	145
El Salvador	153
Equatorial Guinea	173
Eritrea	146

**Table 1: Rankings**

Economy	Overall Rank
Estonia	50
Ethiopia	103
Fiji	85
Finland	23
France	53
Gabon	146
Gambia, The	179
Georgia	33
Germany	72
Ghana	89
Greece	56
Grenada	85
Guatemala	124
Guinea	183
Guinea-Bissau	146
Guyana	118
Haiti	123
Honduras	139
Hong Kong SAR, China	4
Hungary	118
Iceland	41
India	152
Indonesia	131
Iran, Islamic Rep.	129
Iraq	65
Ireland	6
Israel	82
Italy	131
Jamaica	163
Japan	127
Jordan	35
Kazakhstan	17
Kenya	164
Kiribati	9
Korea, Rep.	30
Kosovo	44
Kuwait	11
Kyrgyz Republic	168
Lao PDR	126
Latvia	52
Lebanon	37
Lesotho	95
Liberia	45
Lithuania	60
Luxembourg	14
Macedonia, FYR	24
Madagascar	68
Malawi	58
Malaysia	15
Maldives	57
Mali	166
Malta	27
Marshall Islands	92

**Table 1: Rankings**

<b>Economy</b>	<b>Overall Rank</b>
Mauritania	177
Mauritius	12
Mexico	107
Micronesia, Fed. Sts	85
Moldova	109
Mongolia	70
Montenegro	81
Morocco	110
Mozambique	105
Namibia	112
Nepal	114
Netherlands	29
New Zealand	21
Nicaragua	158
Niger	151
Nigeria	155
Norway	19
Oman	10
Pakistan	162
Palau	83
Panama	172
Papua New Guinea	106
Paraguay	141
Peru	85
Philippines	143
Poland	114
Portugal	77
Puerto Rico	104
Qatar	2
Romania	136
Russian Federation	64
Rwanda	25
Samoa	79
São Tomé and Príncipe	144
Saudi Arabia	3
Senegal	178
Serbia	149
Seychelles	20
Sierra Leone	117
Singapore	5
Slovak Republic	100
Slovenia	63
Solomon Islands	26
South Africa	32
Spain	34
Sri Lanka	169
St. Kitts and Nevis	135
St. Lucia	43
St. Vincent and the Grenadines	72
Sudan	101
Suriname	49
Swaziland	58
Sweden	38

<b>Economy</b>	<b>Overall Rank</b>
Switzerland	18
Syrian Arab Republic	111
Taiwan, China	54
Tajikistan	175
Tanzania	133
Thailand	96
Timor-Leste	61
Togo	167
Tonga	40
Trinidad and Tobago	90
Tunisia	62
Turkey	80
Uganda	93
Ukraine	165
United Arab Emirates	1
United Kingdom	16
United States	69
Uruguay	140
Uzbekistan	161
Vanuatu	28
Venezuela, RB	185
Vietnam	138
West Bank and Gaza	55
Yemen, Rep.	113
Zambia	47
Zimbabwe	134

Table 2: Tax payments

Table 2: Tax payments		Number of payments		
Economy	Total tax payments	Profit tax payments	Labour tax payments	Other taxes payments
Afghanistan	20	1	12	7
Albania	44	13	12	19
Algeria	29	0	12	17
Angola	31	4	12	15
Antigua and Barbuda	57	13	24	20
Argentina	9	1	1	7
Armenia	13	1	1	11
Australia	11	1	4	6
Austria	12	1	3	8
Azerbaijan	18	1	12	5
Bahamas, The	18	1	12	5
Bahrain	13	0	12	1
Bangladesh	20	5	0	15
Barbados	28	4	12	12
Belarus	10	1	5	4
Belgium	11	1	2	8
Belize	29	12	1	16
Benin	55	5	24	26
Bhutan	8	2	2	4
Bolivia	42	1	12	29
Bosnia and Herzegovina	44	12	1	31
Botswana	32	6	13	13
Brazil	9	2	2	5
Brunei Darussalam	27	1	24	2
Bulgaria	15	1	1	13
Burkina Faso	46	2	24	20
Burundi	25	6	4	15
Cambodia	40	12	12	16
Cameroon	44	13	12	19
Canada	8	1	3	4
Cape Verde	41	3	24	14
Central African Republic	55	4	24	27
Chad	54	12	24	18
Chile	6	1	1	4
China	7	2	1	4
Colombia	9	1	1	7
Comoros	33	3	12	18
Congo, Dem. Rep.	32	1	16	15
Congo, Rep.	61	5	36	20
Costa Rica	23	5	1	17
Côte d'Ivoire	62	3	24	35
Croatia	18	1	12	5
Cyprus	28	5	12	11
Czech Republic	8	1	2	5
Denmark	10	3	1	6
Djibouti	35	5	12	18
Dominica	37	5	12	20
Dominican Republic	9	1	4	4
Ecuador	8	2	1	5
Egypt, Arab Rep.	29	1	12	16
El Salvador	53	13	24	16
Equatorial Guinea	46	1	24	21
Eritrea	30	2	12	16
Estonia	8	1	0	7
Ethiopia	31	2	12	17
Fiji	34	5	14	15
Finland	8	1	3	4
France	7	1	2	4
Gabon	26	3	4	19
Gambia, The	50	5	13	32
Georgia	5	1	1	3
Germany	9	2	1	6

Table 2: Tax payments

Table 2: Tax payments		Number of payments		
Economy	Total tax payments	Profit tax payments	Labour tax payments	Other taxes payments
Ghana	32	6	12	14
Greece	8	1	1	6
Grenada	30	1	12	17
Guatemala	24	1	12	11
Guinea	58	3	36	19
Guinea-Bissau	46	5	12	29
Guyana	35	6	12	17
Haiti	46	6	25	15
Honduras	47	5	13	29
Hong Kong SAR, China	3	1	1	1
Hungary	12	3	2	7
Iceland	29	1	1	27
India	33	2	24	7
Indonesia	51	13	24	14
Iran, Islamic Rep.	20	1	12	7
Iraq	13	1	12	0
Ireland	8	1	1	6
Israel	33	2	12	19
Italy	15	2	1	12
Jamaica	36	4	12	20
Japan	14	2	2	10
Jordan	25	1	12	12
Kazakhstan	7	1	1	5
Kenya	41	5	14	22
Kiribati	7	5	2	0
Korea, Rep.	10	1	2	7
Kosovo	33	5	12	16
Kuwait	12	0	12	0
Kyrgyz Republic	51	5	12	34
Lao PDR	34	4	12	18
Latvia	7	1	1	5
Lebanon	19	1	12	6
Lesotho	33	5	12	16
Liberia	33	5	12	16
Lithuania	11	1	2	8
Luxembourg	23	5	12	6
Macedonia, FYR	29	12	1	16
Madagascar	23	1	8	14
Malawi	26	2	8	16
Malaysia	13	2	2	9
Maldives	17	3	8	6
Mali	45	4	29	12
Malta	6	1	1	4
Marshall Islands	21	0	16	5
Mauritania	37	1	13	23
Mauritius	7	1	1	5
Mexico	6	1	2	3
Micronesia, Fed. Sts	21	0	4	17
Moldova	48	1	28	19
Mongolia	41	12	12	17
Montenegro	29	1	12	16
Morocco	17	1	12	4
Mozambique	37	7	12	18
Namibia	37	3	12	22
Nepal	34	4	12	18
Netherlands	9	1	1	7
New Zealand	8	1	2	5
Nicaragua	42	1	24	17
Niger	41	3	14	24
Nigeria	41	3	20	18
Norway	4	1	1	2
Oman	14	1	12	1

Table 2: Tax payments

Table 2: Tax payments		Number of payments		
Economy	Total tax payments	Profit tax payments	Labour tax payments	Other taxes payments
Pakistan	47	5	25	17
Palau	11	4	4	3
Panama	60	13	16	31
Papua New Guinea	33	1	13	19
Paraguay	35	5	12	18
Peru	9	1	2	6
Philippines	47	1	36	10
Poland	18	1	1	16
Portugal	8	1	1	6
Puerto Rico	16	5	6	5
Qatar	4	1	1	2
Romania	41	4	12	25
Russian Federation	7	1	2	4
Rwanda	17	4	4	9
Samoa	37	5	24	8
São Tomé and Príncipe	42	2	12	28
Saudi Arabia	3	1	1	1
Senegal	59	3	36	20
Serbia	66	12	12	42
Seychelles	27	12	12	3
Sierra Leone	33	5	12	16
Singapore	5	1	1	3
Slovak Republic	20	1	1	18
Slovenia	11	1	1	9
Solomon Islands	33	5	12	16
South Africa	9	2	3	4
Spain	8	1	1	6
Sri Lanka	61	5	24	32
St. Kitts and Nevis	36	4	12	20
St. Lucia	32	1	12	19
St. Vincent and the Grenadines	36	4	12	20
Sudan	42	2	12	28
Suriname	29	4	12	13
Swaziland	33	2	13	18
Sweden	4	1	1	2
Switzerland	19	2	7	10
Syrian Arab Republic	19	2	12	5
Taiwan, China	12	2	3	7
Tajikistan	69	11	12	46
Tanzania	48	5	24	19
Thailand	22	2	13	7
Timor-Leste	18	5	12	1
Togo	53	5	24	24
Tonga	31	1	12	18
Trinidad and Tobago	39	4	24	11
Tunisia	8	1	4	3
Turkey	15	1	1	13
Uganda	31	3	12	16
Ukraine	28	1	24	3
United Arab Emirates	4	0	1	3
United Kingdom	8	1	1	6
United States	11	2	4	5
Uruguay	33	1	24	8
Uzbekistan	41	8	12	21
Vanuatu	31	0	12	19
Venezuela, RB	71	14	28	29
Vietnam	32	6	12	14
West Bank and Gaza	39	14	12	13
Yemen, Rep.	44	1	24	19
Zambia	37	5	13	19
Zimbabwe	49	5	14	30

**Table 3: Time to comply**

Economy	Number of hours			
	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time
Afghanistan	275	77	120	78
Albania	357	119	94	144
Algeria	451	152	110	189
Angola	282	75	125	82
Antigua and Barbuda	207	23	136	48
Argentina	405	105	84	216
Armenia	380	121	162	97
Australia	109	37	18	54
Austria	170	49	54	67
Azerbaijan	214	60	97	57
Bahamas, The	58	10	48	0
Bahrain	36	0	36	0
Bangladesh	302	140	0	162
Barbados	237	27	162	48
Belarus	338	166	93	79
Belgium	156	20	40	96
Belize	147	27	60	60
Benin	270	30	120	120
Bhutan	274	250	24	0
Bolivia	1025	110	507	408
Bosnia and Herzegovina	407	68	81	258
Botswana	152	40	40	72
Brazil	2600	736	490	1374
Brunei Darussalam	96	66	30	0
Bulgaria	454	33	256	165
Burkina Faso	270	30	120	120
Burundi	274	80	48	146
Cambodia	173	23	84	66
Cameroon	654	180	174	300
Canada	131	45	36	50
Cape Verde	186	35	85	66
Central African Republic	504	24	240	240
Chad	732	300	216	216
Chile	291	42	125	124
China	338	74	152	112
Colombia	203	50	87	66
Comoros	100	4	48	48
Congo, Dem. Rep.	336	116	124	96
Congo, Rep.	606	275	150	181
Costa Rica	226	18	100	108
Côte d'Ivoire	270	30	120	120
Croatia	196	60	96	40
Cyprus	147	29	78	40
Czech Republic	413	94	217	102
Denmark	130	25	65	40
Djibouti	82	30	36	16
Dominica	120	15	48	57
Dominican Republic	324	82	80	162
Ecuador	654	108	306	240
Egypt, Arab Rep.	392	69	165	158
El Salvador	320	128	96	96
Equatorial Guinea	492	145	160	187
Eritrea	216	24	96	96
Estonia	85	20	34	31
Ethiopia	306	150	132	24
Fiji	163	42	61	60
Finland	93	21	48	24
France	132	26	80	26
Gabon	488	137	131	220
Gambia, The	376	40	96	240
Georgia	280	109	56	115
Germany	207	30	134	43



Table 3: Time to comply

Table 3: Time to comply		Number of hours		
Economy	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time
Ghana	224	40	88	96
Greece	202	78	46	78
Grenada	140	32	72	36
Guatemala	332	44	132	156
Guinea	416	32	192	192
Guinea-Bissau	208	160	24	24
Guyana	263	48	48	167
Haiti	184	40	72	72
Honduras	224	35	93	96
Hong Kong SAR, China	78	50	28	0
Hungary	277	35	146	96
Iceland	140	40	60	40
India	243	45	93	105
Indonesia	259	75	94	90
Iran, Islamic Rep.	344	32	240	72
Iraq	312	24	288	0
Ireland	80	10	40	30
Israel	235	110	60	65
Italy	269	39	198	32
Jamaica	368	30	290	48
Japan	330	155	140	35
Jordan	151	10	90	51
Kazakhstan	188	75	70	43
Kenya	340	45	52	243
Kiribati	120	48	72	0
Korea, Rep.	207	94	74	39
Kosovo	164	32	42	90
Kuwait	98	0	98	0
Kyrgyz Republic	210	60	71	79
Lao PDR	362	138	42	182
Latvia	264	31	139	94
Lebanon	180	40	100	40
Lesotho	324	70	104	150
Liberia	158	60	60	38
Lithuania	175	32	85	58
Luxembourg	59	21	14	24
Macedonia, FYR	119	19	56	44
Madagascar	201	9	72	120
Malawi	175	67	78	30
Malaysia	133	26	77	30
Maldives	252	100	91	61
Mali	270	30	120	120
Malta	139	23	92	24
Marshall Islands	128	0	96	32
Mauritania	696	120	96	480
Mauritius	161	36	61	64
Mexico	337	155	69	113
Micronesia, Fed. Sts	128	0	96	32
Moldova	220	72	94	54
Mongolia	192	57	63	72
Montenegro	320	43	98	179
Morocco	238	70	48	120
Mozambique	230	50	60	120
Namibia	350	40	46	264
Nepal	326	120	84	122
Netherlands	127	25	64	38
New Zealand	152	34	59	59
Nicaragua	207	67	76	64
Niger	270	30	120	120
Nigeria	956	398	396	162
Norway	87	24	15	48
Oman	62	50	12	0



**Table 3: Time to comply**

Economy	Number of hours			
	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time
Pakistan	560	40	40	480
Palau	142	46	96	0
Panama	431	85	156	190
Papua New Guinea	207	153	8	46
Paraguay	387	144	96	147
Peru	293	39	144	110
Philippines	193	42	38	113
Poland	286	62	124	100
Portugal	275	63	116	96
Puerto Rico	218	80	60	78
Qatar	48	12	36	0
Romania	216	40	118	58
Russian Federation	177	60	76	41
Rwanda	134	20	48	66
Samoa	224	48	96	80
São Tomé and Príncipe	424	40	192	192
Saudi Arabia	72	32	40	0
Senegal	666	120	96	450
Serbia	279	48	126	105
Seychelles	76	40	36	0
Sierra Leone	357	15	168	174
Singapore	82	32	10	40
Slovak Republic	207	42	62	103
Slovenia	260	90	96	74
Solomon Islands	80	8	30	42
South Africa	200	100	50	50
Spain	167	33	90	44
Sri Lanka	254	16	96	142
St. Kitts and Nevis	203	27	128	48
St. Lucia	92	11	51	30
St. Vincent and the Grenadines	111	14	52	45
Sudan	180	70	70	40
Suriname	199	48	24	127
Swaziland	104	8	48	48
Sweden	122	50	36	36
Switzerland	63	15	40	8
Syrian Arab Republic	336	300	36	0
Taiwan, China	221	161	27	33
Tajikistan	224	80	48	96
Tanzania	172	60	52	60
Thailand	264	160	48	56
Timor-Leste	276	132	144	0
Togo	270	30	120	120
Tonga	164	8	12	144
Trinidad and Tobago	210	45	75	90
Tunisia	144	64	30	50
Turkey	223	46	80	97
Uganda	213	45	66	102
Ukraine	491	109	192	190
United Arab Emirates	12	0	12	0
United Kingdom	110	40	45	25
United States	175	87	55	33
Uruguay	310	88	114	108
Uzbekistan	205	66	69	70
Vanuatu	120	0	24	96
Venezuela, RB	792	120	288	384
Vietnam	872	217	335	320
West Bank and Gaza	154	10	96	48
Yemen, Rep.	248	56	72	120
Zambia	132	48	24	60
Zimbabwe	242	78	96	68

Table 4: Total Tax Rate

Table 4: Total Tax Rate		Total Tax Rate			
Economy	Total Tax Rate	Profit tax Total Tax Rate	Labour tax Total Tax Rate	Other taxes Total Tax Rate	
Afghanistan	36.4	0.0	0.0		36.4
Albania	38.7	8.6	25.3		4.8
Algeria	72.0	6.6	29.7		35.7
Angola	53.2	24.6	9.0		19.6
Antigua and Barbuda	41.5	26.0	9.5		6.0
Argentina	108.3	2.7	29.4		76.2
Armenia	38.8	15.0	23.0		0.8
Australia	47.5	26.0	20.3		1.2
Austria	53.1	15.0	34.7		3.4
Azerbaijan	40.0	12.9	24.8		2.3
Bahamas, The	47.8	33.0	6.1		8.7
Bahrain	13.9	0.0	13.5		0.4
Bangladesh	35.0	25.7	0.0		9.3
Barbados	45.4	24.1	12.7		8.6
Belarus	60.7	20.3	39.0		1.4
Belgium	57.7	5.4	50.8		1.5
Belize	33.2	24.7	7.0		1.5
Benin	65.9	14.8	27.3		23.8
Bhutan	40.8	36.3	0.0		4.5
Bolivia	83.4	0.0	18.8		64.6
Bosnia and Herzegovina	24.1	7.2	12.6		4.3
Botswana	25.3	21.7	0.0		3.6
Brazil	69.3	24.6	40.8		3.9
Brunei Darussalam	16.8	8.3	8.5		0.0
Bulgaria	28.7	4.8	20.2		3.7
Burkina Faso	43.6	14.8	22.6		6.2
Burundi	53.0	40.0	10.2		2.8
Cambodia	22.5	18.9	0.1		3.5
Cameroon	49.1	29.9	18.3		0.9
Canada	26.9	8.4	12.7		5.8
Cape Verde	37.2	18.0	18.5		0.7
Central African Republic	65.2	0.0	19.8		45.4
Chad	65.4	31.3	28.4		5.7
Chile	28.1	21.1	3.8		3.2
China	63.7	6.2	49.6		7.9
Colombia	74.4	19.2	28.8		26.4
Comoros	217.9	31.4	0.0		186.5
Congo, Dem. Rep.	339.7	58.9	7.9		272.9
Congo, Rep.	62.9	15.1	32.5		15.3
Costa Rica	55.0	18.9	29.5		6.6
Côte d'Ivoire	39.5	9.8	20.1		9.6
Croatia	32.8	11.3	19.4		2.1
Cyprus	23.0	9.0	11.8		2.2
Czech Republic	49.2	7.5	38.4		3.3
Denmark	27.7	20.0	3.6		4.1
Djibouti	38.7	17.7	17.7		3.3
Dominica	37.5	25.9	7.9		3.7
Dominican Republic	42.5	22.1	18.6		1.8
Ecuador	34.6	17.7	13.7		3.2
Egypt, Arab Rep.	42.6	13.2	25.8		3.6
El Salvador	35.0	17.0	17.2		0.8
Equatorial Guinea	46.0	0.0	25.4		20.6
Eritrea	84.5	8.8	0.0		75.7
Estonia	67.3	8.0	39.4		19.9
Ethiopia	33.3	27.0	2.0		4.3
Fiji	37.6	27.3	10.2		0.1
Finland	40.6	15.0	24.4		1.2
France	65.7	8.2	51.7		5.8
Gabon	43.5	18.4	22.7		2.4
Gambia, The	283.5	6.1	12.8		264.6
Georgia	16.5	14.3	0.0		2.2
Germany	46.8	19.0	21.9		5.9

Table 4: Total Tax Rate

Table 4: Total Tax Rate		Total Tax Rate			
Economy	Total Tax Rate	Profit tax Total Tax Rate	Labour tax Total Tax Rate	Other taxes Total Tax Rate	
Ghana	33.5	18.5	14.7	0.3	
Greece	44.6	11.0	32.2	1.4	
Grenada	45.3	27.6	5.6	12.1	
Guatemala	40.9	25.9	14.3	0.7	
Guinea	73.2	23.5	9.6	40.1	
Guinea-Bissau	45.9	14.9	24.8	6.2	
Guyana	36.1	23.8	8.8	3.5	
Haiti	40.8	24.1	12.4	4.3	
Honduras	40.3	26.6	5.1	8.6	
Hong Kong SAR, China	23.0	17.6	5.3	0.1	
Hungary	50.3	12.3	34.5	3.5	
Iceland	33.0	10.4	9.8	12.8	
India	61.8	24.6	18.2	19.0	
Indonesia	34.5	23.7	10.6	0.2	
Iran, Islamic Rep.	44.1	17.8	25.9	0.4	
Iraq	28.1	14.6	13.5	0.0	
Ireland	26.4	11.9	11.6	2.9	
Israel	30.5	22.1	5.3	3.1	
Italy	68.3	22.9	43.4	2.0	
Jamaica	45.6	25.7	12.9	7.0	
Japan	50.0	26.9	17.4	5.7	
Jordan	28.1	12.9	12.9	2.3	
Kazakhstan	28.6	15.9	11.2	1.5	
Kenya	44.4	28.1	6.8	9.5	
Kiribati	31.8	23.3	8.5	0.0	
Korea, Rep.	29.8	15.2	13.2	1.4	
Kosovo	15.4	9.1	5.6	0.7	
Kuwait	10.7	0.0	10.7	0.0	
Kyrgyz Republic	68.9	6.2	19.5	43.2	
Lao PDR	33.3	24.8	5.6	2.9	
Latvia	36.6	4.8	27.3	4.5	
Lebanon	30.2	6.1	24.1	0.0	
Lesotho	16.0	13.1	0.0	2.9	
Liberia	27.4	18.3	5.4	3.7	
Lithuania	43.7	5.9	35.1	2.7	
Luxembourg	21.0	4.1	15.4	1.5	
Macedonia, FYR	9.4	6.2	0.0	3.2	
Madagascar	36.0	14.0	20.3	1.7	
Malawi	34.7	23.6	7.7	3.4	
Malaysia	24.5	7.5	15.6	1.4	
Maldives	30.7	13.5	7.9	9.3	
Mali	51.7	10.9	34.3	6.5	
Malta	41.6	29.2	11.3	1.1	
Marshall Islands	64.9	0.0	11.8	53.1	
Mauritania	68.2	0.0	17.6	50.6	
Mauritius	28.5	11.6	9.6	7.3	
Mexico	52.5	24.6	26.5	1.4	
Micronesia, Fed. Sts	58.7	0.0	6.8	51.9	
Moldova	31.2	0.0	30.6	0.6	
Mongolia	24.6	10.2	12.4	2.0	
Montenegro	22.3	7.1	12.8	2.4	
Morocco	49.6	25.2	22.7	1.7	
Mozambique	34.3	27.7	4.5	2.1	
Namibia	22.7	17.2	1.0	4.5	
Nepal	31.5	17.2	11.3	3.0	
Netherlands	40.1	20.6	18.1	1.4	
New Zealand	33.5	28.8	3.7	1.0	
Nicaragua	65.0	22.9	20.3	21.8	
Niger	43.8	17.3	20.1	6.4	
Nigeria	33.8	22.3	10.8	0.7	
Norway	41.6	24.4	15.9	1.3	
Oman	22.0	10.0	11.8	0.2	

Table 4: Total Tax Rate

Table 4: Total Tax Rate		Total Tax Rate			
Economy	Total Tax Rate	Profit tax Total Tax Rate	Labour tax Total Tax Rate	Other taxes Total Tax Rate	
Pakistan	35.3	17.9	15.1	2.3	
Palau	75.7	65.8	9.3	0.6	
Panama	42.0	12.5	19.8	9.7	
Papua New Guinea	42.2	22.0	11.7	8.5	
Paraguay	35.0	9.6	18.6	6.8	
Peru	40.5	26.7	11.0	2.8	
Philippines	46.6	21.1	11.3	14.2	
Poland	43.8	17.4	23.8	2.6	
Portugal	42.6	14.5	26.8	1.3	
Puerto Rico	50.7	15.8	14.4	20.5	
Qatar	11.3	0.0	11.3	0.0	
Romania	44.2	10.5	31.5	2.2	
Russian Federation	54.1	7.1	41.2	5.8	
Rwanda	31.3	21.2	5.6	4.5	
Samoa	18.9	11.9	7.0	0.0	
São Tomé and Príncipe	32.5	22.1	6.8	3.6	
Saudi Arabia	14.5	2.1	12.4	0.0	
Senegal	46.0	14.8	24.1	7.1	
Serbia	34.0	11.6	20.2	2.2	
Seychelles	25.7	23.3	1.7	0.7	
Sierra Leone	32.1	17.6	11.3	3.2	
Singapore	27.6	6.0	17.0	4.6	
Slovak Republic	47.9	6.8	39.6	1.5	
Slovenia	34.7	14.1	18.2	2.4	
Solomon Islands	25.3	15.0	8.5	1.8	
South Africa	33.3	24.3	4.1	4.9	
Spain	38.7	1.2	36.8	0.7	
Sri Lanka	50.1	1.6	16.9	31.6	
St. Kitts and Nevis	52.1	32.1	11.3	8.7	
St. Lucia	34.6	25.8	5.6	3.2	
St. Vincent and the Grenadines	38.7	30.2	5.1	3.4	
Sudan	36.1	13.8	19.2	3.1	
Suriname	27.9	27.9	0.0	0.0	
Swaziland	36.8	28.1	4.0	4.7	
Sweden	53.0	15.7	35.5	1.8	
Switzerland	30.2	8.9	17.7	3.6	
Syrian Arab Republic	39.7	20.0	19.3	0.4	
Taiwan, China	34.8	12.7	18.6	3.5	
Tajikistan	84.5	0.0	28.5	56.0	
Tanzania	45.3	20.2	18.0	7.1	
Thailand	37.6	28.1	5.7	3.8	
Timor-Leste	15.1	14.9	0.0	0.2	
Togo	49.5	9.3	26.5	13.7	
Tonga	25.7	24.3	0.0	1.4	
Trinidad and Tobago	29.1	21.6	5.8	1.7	
Tunisia	62.9	15.2	25.2	22.5	
Turkey	41.2	17.9	18.8	4.5	
Uganda	37.1	25.0	11.3	0.8	
Ukraine	55.4	11.6	43.1	0.7	
United Arab Emirates	14.9	0.0	14.1	0.8	
United Kingdom	35.5	22.2	10.2	3.1	
United States	46.7	27.6	10.0	9.1	
Uruguay	42.0	23.6	15.6	2.8	
Uzbekistan	98.5	0.9	28.2	69.4	
Vanuatu	8.4	0.0	4.5	3.9	
Venezuela, RB	62.7	6.1	18.0	38.6	
Vietnam	34.5	11.6	22.6	0.3	
West Bank and Gaza	16.8	16.2	0.0	0.6	
Yemen, Rep.	32.9	20.0	11.3	1.6	
Zambia	15.2	1.1	10.4	3.7	
Zimbabwe	35.8	20.5	5.1	10.2	













# *Paying Taxes 2013. The global picture*