

Paying Taxes 2015



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A high-angle photograph of two men in business attire walking on a light-colored tiled floor. The man on the left is wearing a light blue shirt, a red tie, and dark trousers, carrying a dark jacket. The man on the right is wearing a light pink shirt, a dark tie, and grey trousers, also carrying a dark jacket. The floor is composed of large, light-colored square tiles, and a section of the floor in the foreground is covered with a pattern of small, circular, light blue tiles.

Additional insights around the tax compliance burden and how tax systems are perceived

Reducing the compliance burden to make tax collection more efficient brings benefits for both government and business. How tax policy is administered is critical to ensure that tax laws are properly implemented and to allow taxpayers to meet their obligations easily. Enabling businesses to spend less time on tax compliance and more time on building the business and contributing to economic growth is clearly a valuable objective that is worthy of additional study and analysis.



The analysis carried out in 2012 by PwC UK's senior economic adviser Andrew Sentance⁴⁴ suggested that the business tax system can slow economic growth both through the overall burden of tax payments and the complexity of the tax system. His analysis also suggested that reforms made to the administrative aspects of the tax system had a greater impact on economic growth than changes made to the amount of tax paid. This perhaps reflects that while tax revenues taken by government are recycled within economies to support government spending, the administration and complexity of the tax system merely adds to the overall burden of business without providing any compensating benefit. Focussing reform on administrative burdens and complexity in the tax system therefore gives a lot of scope to tax authorities seeking to improve their economies.

Using a case study company, the *Paying Taxes* study measures both the cost of taxes and the compliance burden for business allowing an effective comparison of tax regimes around the world on a like for like basis. Over the ten years of the study, tax reform has been high on governments' agendas with 78% of the 189 economies making significant changes to their regimes. While reforms initially focussed on reducing tax rates, more recently the majority of reforms has been focussed on easing the compliance burden. In this respect the *Paying Taxes* study has been good at tracking the implementation of systems to facilitate electronic filing of tax returns and electronic payment of tax which is owed.

However, the *Paying Taxes* sub-indicators do not claim to cover all aspects of tax administration and other relevant aspects of the tax rules, and so over the years the PwC contributors to the study have also been asked a number of supplementary questions developed by the World Bank Group and PwC.⁴⁵ These questions ask the contributors for their views and perspectives concerning a range of aspects of tax administration including the overall structure of the tax system, the simplicity or otherwise of the tax rules and how easy it is to deal with tax authorities, tax audits and post-filing processes. This set of views is not used in the calculation of the *Paying Taxes* sub-indicators, but it does provide some useful additional insights into a number of aspects of tax administration and some wider perspectives on tax around the world.

In this section we highlight just a few of the areas covered by these supplementary questions:

- Clarity, accessibility of information and transparency of government data;
- Perceptions of the broader tax environment and how tax systems are used;
- What is it about the tax system that works best and what is most in need of improvement?
- How easy are post-filing processes to deal with?
- The impact of having additional levels of government that levy taxes;
- The impact of having tax regimes for small to medium sized companies;
- The use of technology.

⁴⁴ *Paying Taxes 2013*

⁴⁵ The data in this section relates only to the 162 economies for which PwC is one of the data contributors. The economies that are omitted are: Burundi, Belize, Bhutan, Djibouti, Eritrea, Ethiopia, Micronesia, Fed. Sts., Guinea-Bissau, Grenada, Haiti, Iran, Islamic Rep., Kiribati, St. Kitts and Nevis, Marshall Islands, Mauritania, Palau, Sudan, San Marino, South Sudan, São Tomé and Príncipe, Suriname, Seychelles, Tonga, Trinidad and Tobago, Vanuatu, Samoa, Yemen, Rep.

1) Clarity, accessibility of information and transparency of government data

An important part of open government and helping to ensure that governments are accountable to their citizens is how transparent governments are about the revenues that they receive and how they spend them. Recent research that PwC has undertaken in the UK as part of its 'Paying for Tomorrow: The future of tax'⁴⁶ project has indicated that citizens see a need and have an appetite for clearer and more transparent communications from government on tax. The same research also showed that business would like governments to be clearer, bolder, and more specific about the objectives of tax changes and policies.

Contributors in 81% of the economies surveyed said that their government published information on tax revenues received, but only 75% said data was available by tax type and the view of just 57% was that this information was up-to-date and provided forecasts for the current year. This suggests that for many governments there is scope to extend the amount, nature and accessibility of data on tax revenues.

The regional breakdown shows that while the view is that at least 60% of governments in all regions publish some information on tax data, governments in the Middle East, Africa and Central America & the Caribbean are less likely to publish such data than governments in other regions.

Figure 3.1

Views of PwC contributors on the availability of governments data in their economies

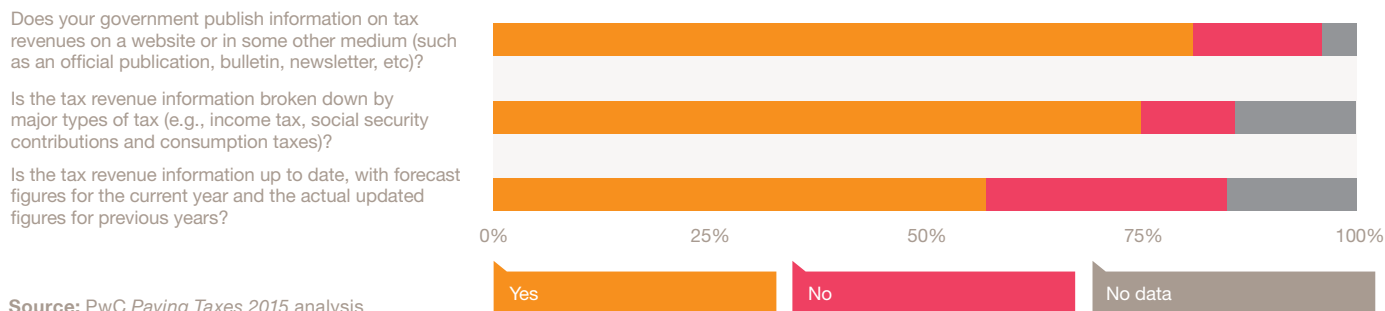
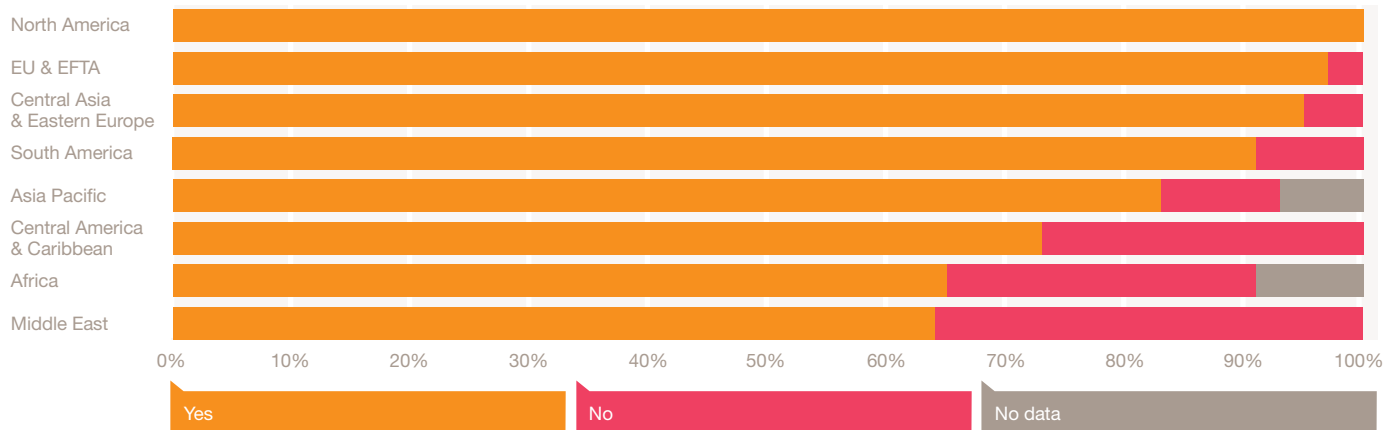


Figure 3.2

Publication of information on tax revenues, by region, according to contributors' views



⁴⁶ <http://www.pwc.co.uk/issues/futuretax/index.jhtml>

2) Perceptions around the broader tax environment and how tax systems are used

In formulating government policy there is a need to balance the need to raise revenue with the need to encourage growth. The attitudes of the media and civil society organisations and other pressure groups may also have an influence on government policy, as may the extent to which additional revenue can be raised through stronger enforcement of existing tax rules.

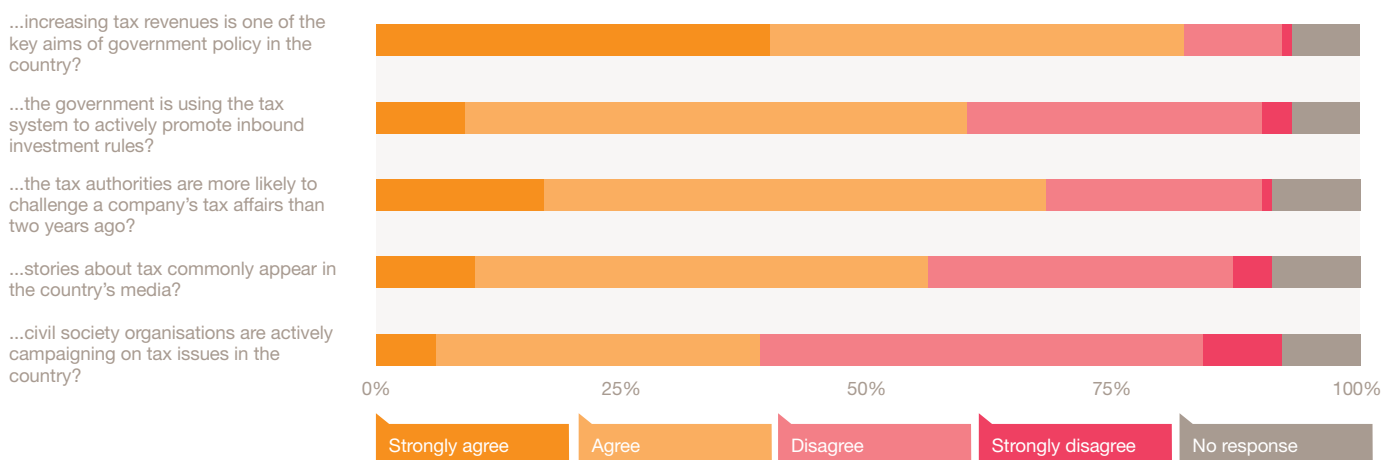
With this in mind the study this year included a number of questions to explore what the perception is around the objectives of government when designing their policies, and how tax authorities are implementing those policies. Some broader questions were also asked around whether contributors believe other external stakeholders aside of government and business are interested in the tax agenda. The questions and the responses are shown in Figure 3.3.

Perhaps not surprisingly in the wake of the global economic downturn, contributors in 82% of the economies surveyed believe that increasing tax revenues is one of the key aims for their government, but 60% also think that implementing a system with the specific aim of actively promoting inbound investment is also an objective.

Increasing revenues was not generally seen as important in the Middle East and North America and the governments in these regions are seen as less likely to use tax policy to promote investment.

Figure 3.3

How strongly do contributors agree or disagree that...



Source: PwC Paying Taxes 2015 analysis

As shown in Figure 3.4, Central Asia & Eastern Europe is the region where governments were seen as most likely to try to increase investment and this is the region that has shown the greatest reductions in the *Paying Taxes* sub-indicators over the course of the study.

Those economies where contributors agreed or strongly agreed that tax policy was being used to attract investment had an average time to comply of 243 hours which is lower than the average of 345 hours for those economies where attracting investment was not thought to be an important factor in tax policy. Similarly, the Total Tax Rate was 37% on average for economies seeking to encourage investment compared to 43% in those where attracting investment is not thought to be a key aim of tax policy.

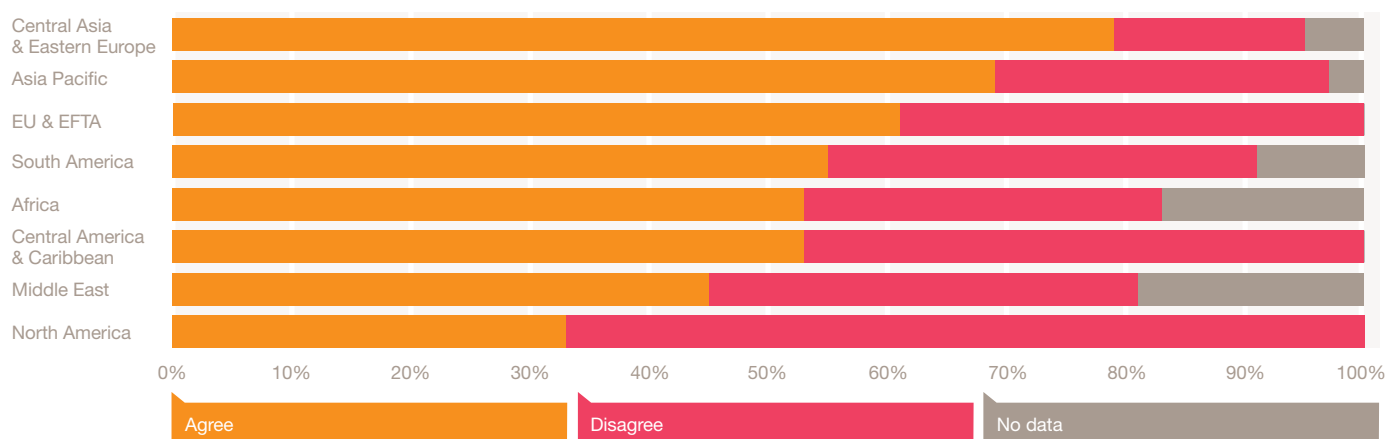
As might be expected given the need to raise revenues following the financial crisis, contributors in 68% of economies surveyed felt that authorities are more likely to challenge a company's tax affairs than they were two years ago. The increased challenge could arise from an increased chance of a tax audit, reduced appetite of tax inspectors to negotiate, or interpretations of tax laws that are less favourable to taxpayers. These increased challenges were identified in at least 70% of economies in all regions, except Central Asia & Eastern Europe and Africa where it was only noticed in 47% of economies.

The view that there is media interest in tax was expressed by contributors in 56% of economies, but in only 39% of economies were civil society organisations thought to be campaigning on tax issues (see Figure 3.3).

Looking at the regional analysis, as shown in Figure 3.5, in North America, EU & EFTA, Central America & the Caribbean and Central Asia & Eastern Europe the media were thought to be interested in tax in the majority of economies (although we note that with only three economies in the North America region, this majority may be more easily reached than in other regions). A similar regional pattern was noted for interest in tax from civil society organisations, though with fewer economies in each region noting interest from such organisations than from the media.

Figure 3.4

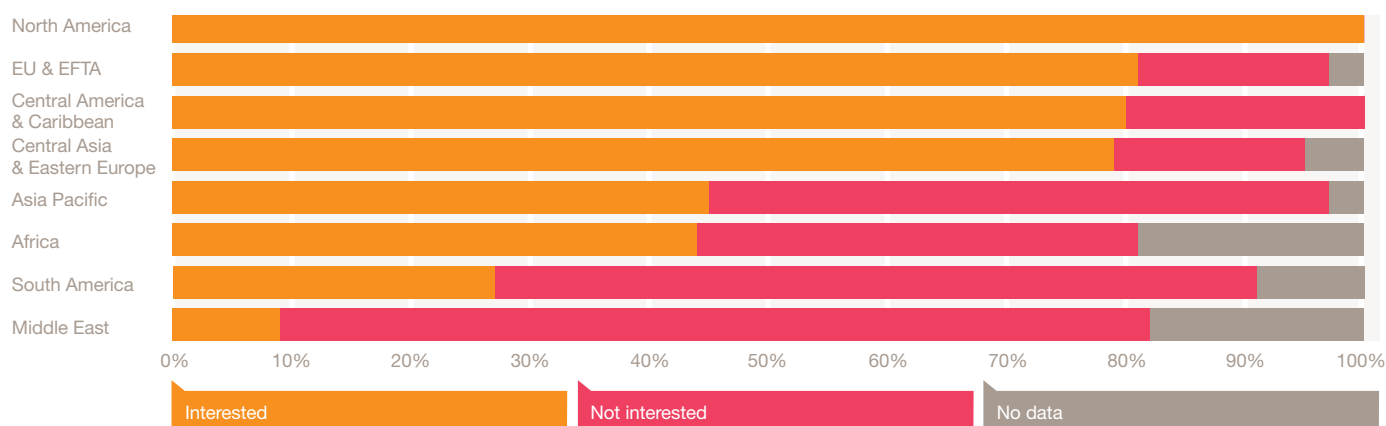
In the view of contributors, government is promoting inbound investment by region



Source: PwC *Paying Taxes 2015* analysis

Figure 3.5

In the view of contributors, is the media interested in tax?



Source: PwC *Paying Taxes 2015* analysis

3) What is it about the tax system that works best and what is most in need of improvement?

As shown in Figure 3.6, contributors were asked to rate different aspects of the tax system indicating which in their view, were the best and which were most in need of improvement. While most aspects were felt to be at least adequate by contributors in the majority of economies, there were significant numbers of economies where improvements were felt to be necessary.

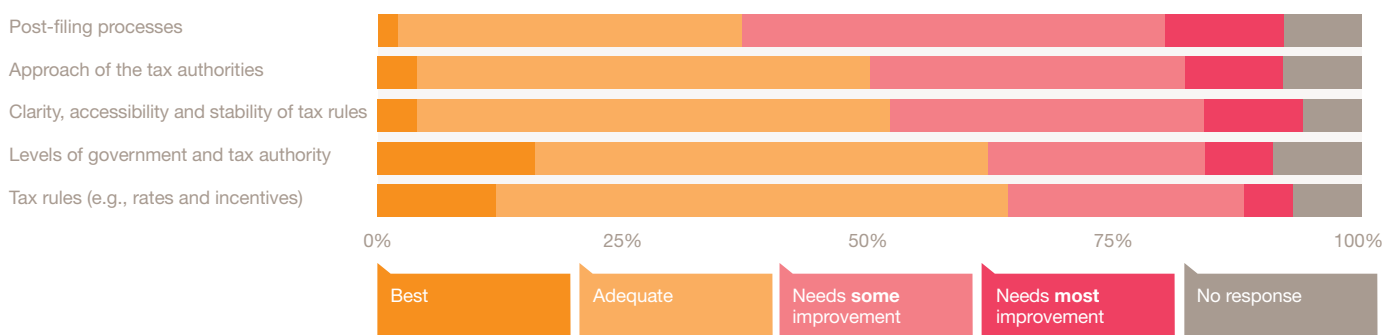
Globally, post-filing processes were identified as being the most in need of improvement and this perhaps reflects the changes that we have seen from some tax authorities as described later in this chapter. Many of the changes described in the country articles also relate to the approach of tax authorities, which was another area felt to be in need of considerable improvement.

This might include how open and transparent tax authorities are, how easy it is for taxpayers to contact the tax authorities, the willingness of tax authorities to provide information and the manner in which tax authorities approach audit procedures.

In the view of our contributors, tax rules were felt to be the least in need of improvement, though in only 12% of economies were these felt to be the best aspect of the system. This shows that there is clearly scope for tax authorities and governments to improve their systems across a number of aspects.

Figure 3.6

Which aspects of the tax system do contributors believe to be the best and which need most improvement?



Source: PwC Paying Taxes 2015 analysis

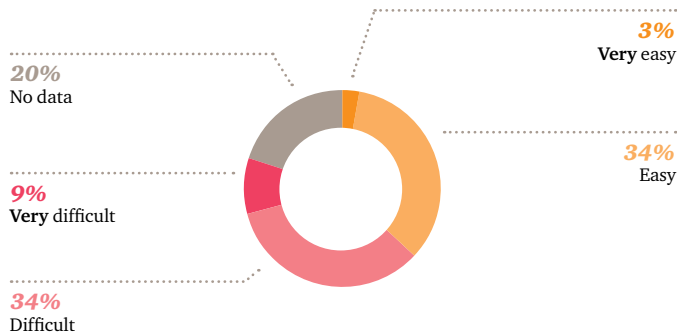
4) How easy are post-filing processes to deal with?

The *Paying Taxes* study compliance sub-indicators are specifically focussed on the pre-filing requirements of the case study company. Clearly once the tax returns are filed with the tax authority that is not the end of the story in terms of agreeing the final tax liability. The post-filing processes, including tax audits, disputes and potentially litigation, can be the most difficult interaction that a business might have with the tax authority. Indeed, as noted above, in the majority of economies it is the aspect of the tax system that our contributors felt was most in need of improvement. Where there are disputes between the taxpayer and the tax authority that cannot be resolved, it is important that there is an independent, efficient appeals process in place. This may well become even more important in the future as the current changes in international taxation such as the OECD's BEPS project may result in increased disputes between taxpayers and tax authorities and between different tax authorities. Tax authorities may need increased resources to deal with these issues.

When asked how easy it is for a company to deal with the post-filing process in their economy, 37% of our contributors said that they found it easy or very easy while 43% found the process difficult or very difficult. Similarly, 34% of them said the process was efficient or very efficient while 43% said it was inefficient. This suggests that there is a lot of variation in post-filing practices and so there may be considerable opportunity for economies to learn from each other. One development in this area is the use of cooperative compliance to improve post-filing processes for both tax authorities and taxpayers and this is discussed in more detail on page 81.

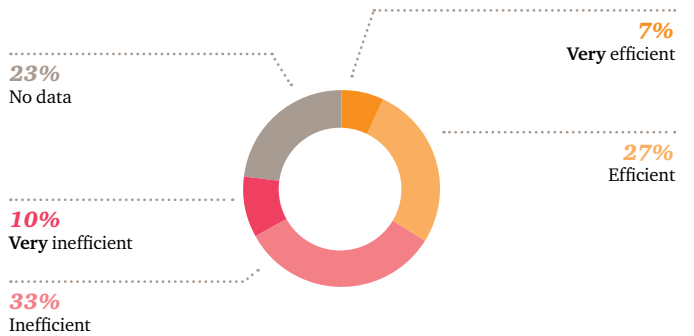
And for those economies where the view was expressed that the post-filing process is difficult or very difficult, the average pre-filing time to comply was also significantly higher suggesting that spending time up front on complying with the obligations of the tax system does not necessarily translate into an easier time post-filing as shown in Figure 3.9. Overall, the suggestion is, it seems, that economies whose tax systems are hard to comply with when filing taxes are more likely to be challenging throughout the process.

Figure 3.7
Ease of dealing with post-filing process, in the view of contributors



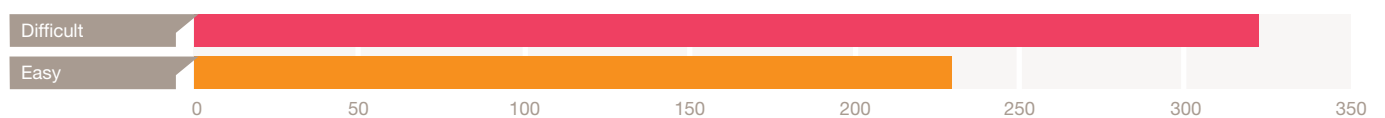
Source: PwC *Paying Taxes 2015* analysis

Figure 3.8
Efficiency of the independent appeal process, in the view of contributors



Source: PwC *Paying Taxes 2015* analysis

Figure 3.9
Average time to comply based on the ease of dealing with post-filing process



Source: PwC *Paying Taxes 2015* analysis

The regional breakdown of the responses shown in Figure 3.10 suggests that post-filing processes are felt to be easier in the more developed economies of North America and Europe (noting that with only three economies in the North America region, a majority is more easily achieved than in other regions). South America is where processes are perceived to be most difficult. It is interesting to see that post-filing processes in the Middle East are considered to be the third most difficult, although the region has the lowest average pre-filing time.

As can be seen from Figure 3.11, geographical pattern is broadly the same for the efficiency of the appeals process as it is for the ease of the post-filing processes. The one notable exception is Central America & the Caribbean where the perception is that while the post-filing process is easy to deal with in the majority of economies, the independent appeals process is considered to be efficient in only 20% of the economies in the region.

Figure 3.10
How easy is the post-filing process to deal with?

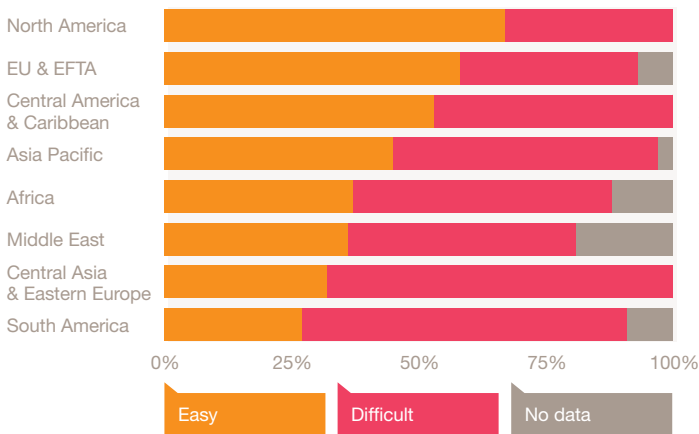
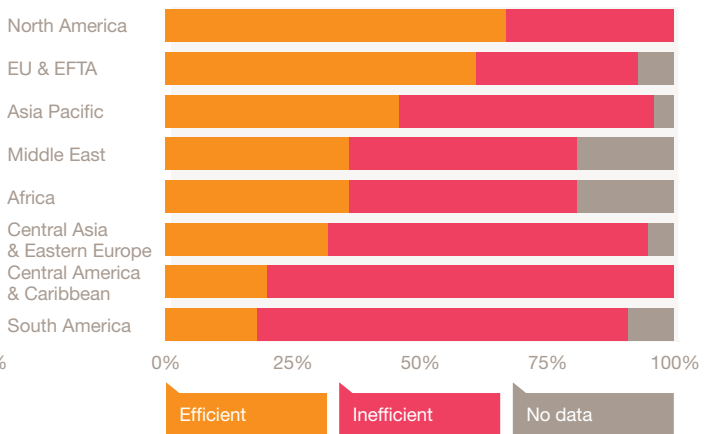


Figure 3.11
How efficient is the independent appeals process?



Note: The North America region contains only three economies: USA, Canada and Mexico. Results for the region are therefore reliant on data from a much smaller number of contributors than other regions.
Source: PwC *Paying Taxes 2015* analysis

5) The impact of having additional levels of government that levy taxes

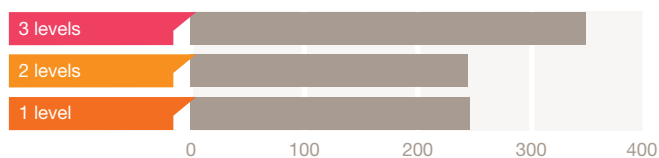
Tax systems around the world vary in their degree of centralisation. Some are centralised with most taxes levied at the national level, others are more decentralised with additional layers of taxation at the provincial, regional or local level. There is a balance to be struck here between making government more independent and accountable to citizens and introducing additional levels of complexity that business has to deal with, involving additional taxes and also additional bodies to correspond with. As shown above, the levels of government and of tax authorities were not felt to be in need of improvement by 62% of our contributors, but by comparing time to comply with the number of levels of government it appears that additional levels of government can add considerably to the tax burden, as can be seen from Figures 3.12 and 3.13.

As shown in Figure 3.14, 41% of economies in the study, contributors have indicated that two levels of government can levy taxes while 25% said they have one level of government and a further 25% has three levels of government with tax raising powers. No data was provided for the remaining 9% of economies. Lining this up against the data collected on the Total Tax Rate suggests that higher rates exist where there are more levels of government. It also suggests that more time is required to deal with pre-filing compliance where there are three levels of government, but that there is little distinction between having one or two levels of government that can raise taxes.

The levels of government that can levy taxes is likely in many cases to be a reflection of geography and the resultant impact on government structures; governing and taxing a city state is of course a very different job to governing an economy that covers half a continent. For some economies therefore the realities of political geography may mean that it is not practical to reduce the levels of government that can levy taxes.

Figure 3.12

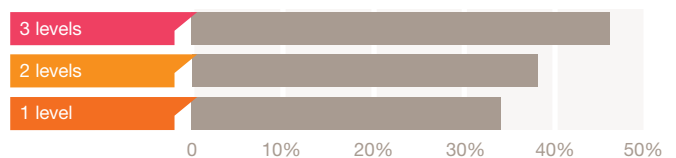
Average time to comply of the economies based on the number of levels of governments that can levy taxes



Source: PwC Paying Taxes 2015 analysis

Figure 3.13

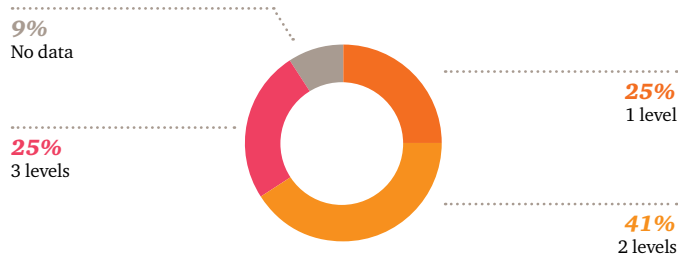
Average Total Tax Rate of the economies based on the number of levels of governments that can levy taxes



Source: PwC Paying Taxes 2015 analysis

Figure 3.14

Number of levels of government that can levy taxes on business



Source: PwC Paying Taxes 2015 analysis

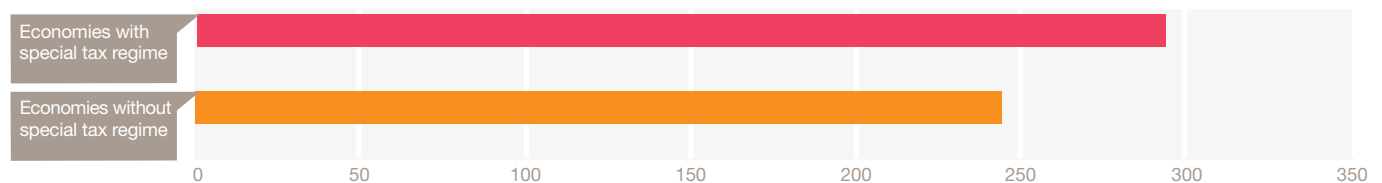
6) The impact of having different or special tax regimes for small to medium sized companies

There is an inevitable degree of tension between making a regime attractive and introducing reliefs and incentives to achieve this, versus the additional administrative burden that this might place upon businesses. Some incentives may be hard to access, too complex or the degree of complexity may be out of proportion to the value to the taxpayer. Other incentives may not go far enough to be of real benefit. Furthermore, as the number of reliefs and incentives increases, a tax regime will become increasingly complex. In the context of the *Paying Taxes* study, contributors were asked if a special tax regime exists for a small to medium sized company in their economy. Contributors in 48% of economies around the world indicated that such a special regime exists. Interestingly for those who answered 'yes' (and where the case study company qualified under the special regime) the average time to comply was 20% higher than for those who said that no such regime existed as shown in Figure 3.15.

This additional time raises some further questions which can only be answered with additional research. First, to what extent does a small company regime add to the compliance burden and second, are small company regimes more likely in economies that already have complex tax systems with a large number of reliefs? In this latter case, could it be that small company regimes are introduced in an attempt to make compliance easier for smaller companies, perhaps by simplifying some of the rules?

Figure 3.15

Average time to comply for economies with a special tax regime for small companies



Note: The chart includes data only for those economies where there is a special regime for small or medium sized companies which applies to the case study company.

Source: PwC *Paying Taxes 2015* analysis

7) The use of technology

It would seem obvious that the use of software to gather and analyse data, and then to perform tax calculations, should be beneficial. The question then is to what extent is software being used in this way around the world and could it be used more widely or in different ways?

Contributors in 87% of economies in the study indicated that they would expect a company of a similar size to the case study company to use software for at least one element of the corporate income tax preparation and filing process. This drops to 79% for labour taxes and social contributions and to 69% for consumption taxes. Perhaps not surprisingly these percentages are all higher for high and upper middle income economies, but the use of such systems does not show any savings in time to comply, see Figures 3.16 to 3.20.

Overall this suggests a high level of access around the world to information technology systems coupled with considerable computer literacy. This in turn suggests that there is a strong base for tax authorities to build on for the introduction of online filing and payment systems. Indeed when asked how computer software could be improved to help with the tax compliance process a number of contributors argued for the introduction of online payment and filing systems.

Figure 3.16
Use of software for tax compliance: Corporate income tax

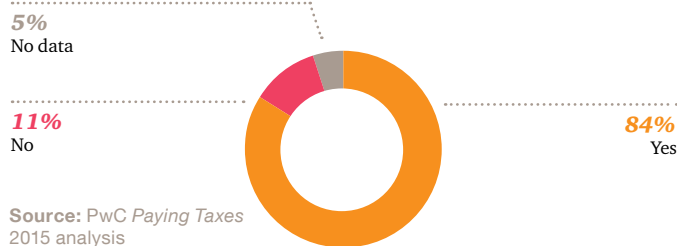


Figure 3.17
Use of software for tax compliance: Labour taxes

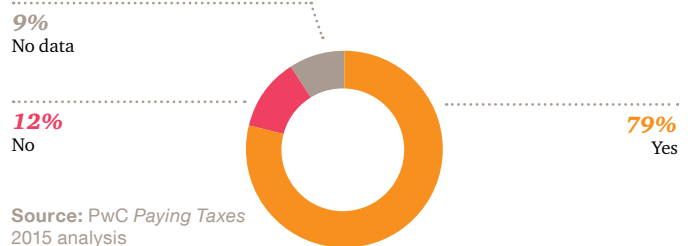


Figure 3.18
Use of software for tax compliance: Consumption taxes

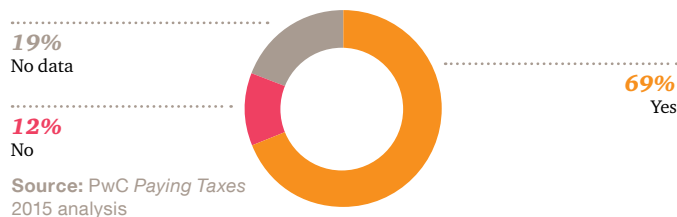


Figure 3.19
Use of software for tax compliance: All taxes broken down by procedure

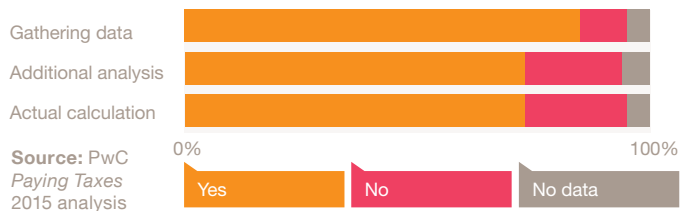
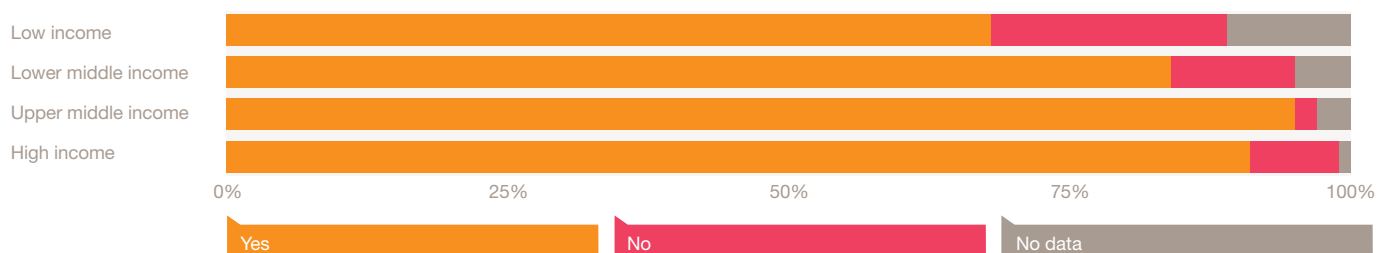
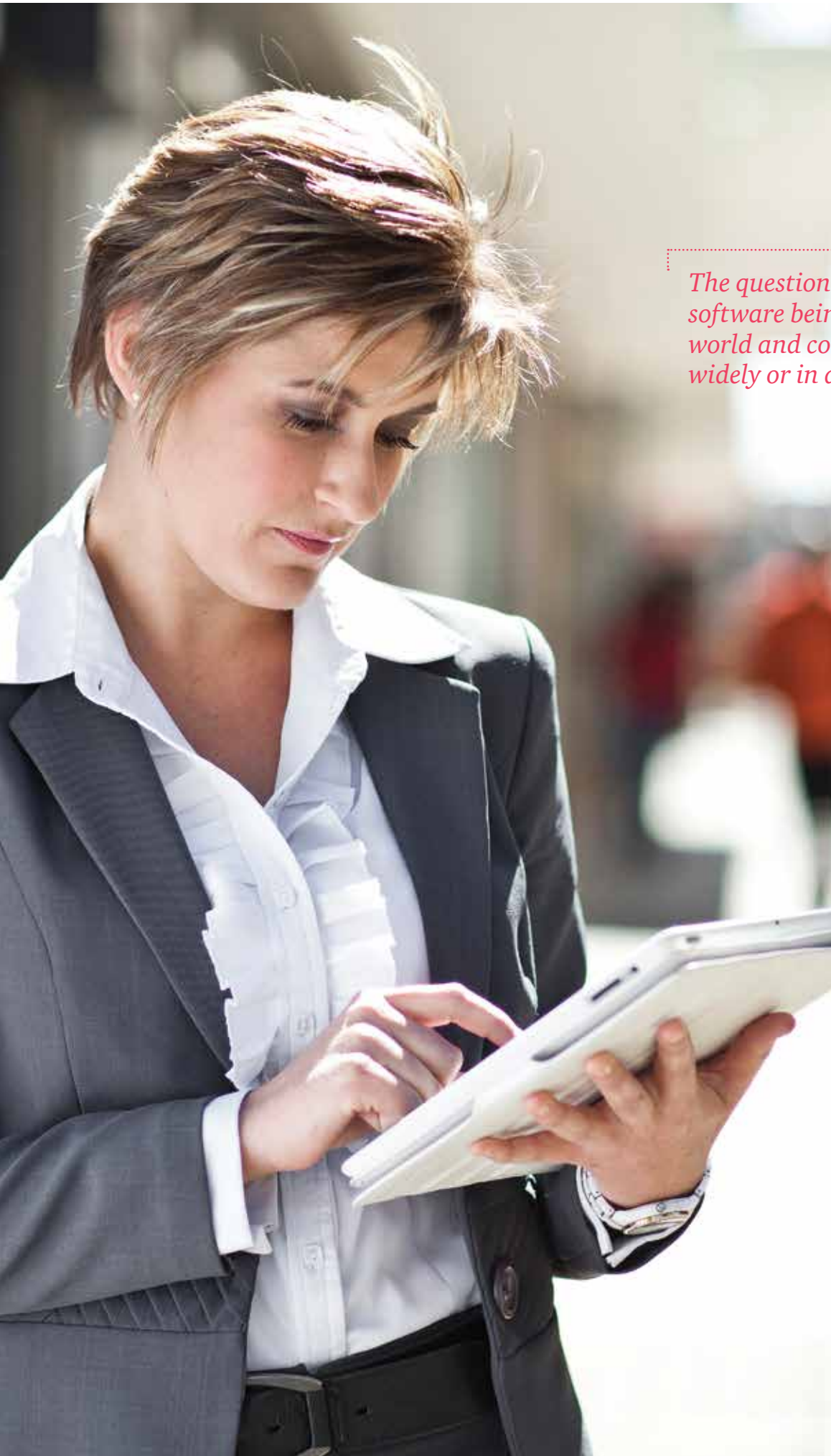


Figure 3.20
Use of software for tax compliance: Use of internal software by income



Note: Income groupings are defined in accordance with the World Bank definitions. See <http://data.worldbank.org/about/country-and-lending-groups>
Source: PwC Paying Taxes 2015 analysis



The question is to what extent is software being used around the world and could it be used more widely or in different ways?

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