Corporate income tax – a global analysis

Understanding regional comparisons, how rates have moved over time and how statutory rates differ from the amounts actually paid.

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Corporate income taxes are levied on the profits of corporate entities around the world. Calculating these taxes is often complex, varies from country to country, changes regularly over time, with wide range of statutory rates applied.

Corporate income tax paid by companies is an important element of the total tax contribution made by companies. The results of the *Paying Taxes 2012* study undertaken by PwC and the World Bank, which is based on a case study company, show that on average it accounts for 36% of the Total Tax Rate for that company.
Understanding what drives the amount of corporate income tax paid by companies has become increasingly important in recent years as governments adapt their policies to encourage growth, while recognising the need to raise revenues to fund social investment programmes and to repair public finances in the wake of the global economic downturn. It is important to recognise and understand the impact of tax policies on the revenues received by governments, revenues that governments rely on to enable them to discharge their obligations to provide funding for infrastructure, education and public health. This includes the need to ensure that the tax system provides an economic environment which fosters economic growth, helping to increase the size of the economy from which revenues can be drawn.

For companies, this has become important as they come under increased scrutiny over how much tax they pay and whether they are paying the ‘right amount of tax’. For companies the amount of tax that they pay represents a key element of the contribution that they make to the economies in which they operate. Taxes are a cost that has to be managed like any other cost, and the level of taxes paid is one of a number of factors that are taken into account when making decisions on where, when and how much to invest.

Over the last seven years PwC has worked with the World Bank on the Paying Taxes study which measures and compares how easy it is to pay taxes in 183 economies around the world using a case study company with a standard fact pattern. The study looks at all of the taxes that a company might pay including corporate income tax. It shows a consistent downward trend in the statutory rates of corporate income tax which have been applied over the last seven years, as governments have looked to ensure their tax systems remain competitive in a globalising economy. Another consistent feature of the results of the study is that the amount of corporate income tax actually paid can often be different and on occasions very different from the amount derived by simply multiplying the accounting profit by the headline rate of corporate income tax.

The analysis in this new study provides some additional insights around corporate income tax regimes around the world. Using the World Bank case study company, it makes a more detailed comparison of the corporate income tax rates paid on company profits and how they have changed, and it takes a look at the actual rate of corporate income tax paid and why this differs from statutory rate.

The results are quite striking. They show how the downward trend in statutory rates has resulted in those now applied falling within a fairly narrow range. More than half of the economies around the world have a statutory corporate income tax rate between 15% and 30%. And as regards the rate of tax actually paid by the company, the study identifies 40% of economies which make adjustments which increase the amount of tax paid while 60% reduce it. Our analysis identifies the key reasons for these differences and provides some interesting insights on a regional basis and for a selection of individual economies.

It will be interesting to see how corporate income tax regimes around the world continue to develop, and whether the need for governments to demonstrate that their systems are competitive takes priority over the need to generate much needed funds.

We hope that you find this piece of work an interesting reflection on how corporate income tax regimes around the world are changing and we welcome your feedback on whether further research in this area would be useful.
Corporate Income Tax – a global analysis

Results in summary

Most economies around the world have a corporate income tax

95%

Over half of the economies in the study have reduced the statutory rate of corporate income tax over a seven year period

51%

The Central Asia and Eastern European region and the European Union, have the largest percentage of economies that have reduced their corporate income tax rates.

Ninety five percent of economies in the 2012 Paying Taxes study charged corporate income tax on company profits.

24.2%

In the 2012 Paying Taxes study the average global statutory rate of corporate income tax for our case study company is 24.2%.

The range of statutory rates has narrowed.

The range of statutory rates has narrowed. There are now more economies within the 15 – 30% range.

111 economies

83 economies

30%

15%

2012

2006
The actual rate of corporate income tax paid differs from the statutory rate.

40% Increase the rate

60% Reduce the rate

60% of economies around the world have adjustments which reduce the rate paid and 40% increase the amount.

There are six main factors that drive the difference between the statutory rate and actual rate of tax paid related to:
- capital expenditure
- business expenses
- capital gains
- trading losses
- alternative calculations
- additional taxes levied

The range of actual tax rates paid is wider than the range of statutory rates.

The average rate of tax actually paid around the world by our case study company on its profits is 23.4%.

There are less companies in the range 15% to 30% looking at the actual rate of tax paid.

111 economies

97 economies

30% Rate

15% Rate

Statutory rate

Actual rate
Paying Taxes – the global picture
This study uses data collected by the World Bank Group from contributors around the world for the Paying Taxes 2012 project.

Paying Taxes is an annual project which measures the ease of paying taxes across 183 economies using three key indicators, the Total Tax Rate for a case study company, the number of hours it takes the company to comply with its tax affairs, and the number of tax payments that have to be made. The Paying Taxes project uses a case study company with a standard fact pattern so that the results can be compared across the economies on a like for like basis.

Our study of corporate income taxes is based on the Paying Taxes case study company and the results for Paying Taxes 2012, which is based on the rules, regulations and legislation which applied for the calendar year ended 31 December 2010.

The actual rate of corporate income tax paid
In the Paying Taxes project, contributors are asked to measure all the different taxes that would be borne by the model company in their country (corporate income tax, property taxes, employer social contribution etc). A Total Tax Rate is calculated which measures all of these taxes as a percentage of profits before all of those taxes, (or in other words as a share for commercial profit). For the purpose of this study the effect of taxes other than corporate income tax has been excluded. This ensures that the actual rates of corporate income tax which are compared only reflect adjustments made for corporate income tax purposes. This ensures a comparison on a like for like basis across all of the economies in the study.
The case study company
The Paying Taxes case study company has an income statement, balance sheet, and a given set of assumptions as shown below.

The case study company
• A limited liability company
• Produces ceramic flower pots and sells them as a retailer
• Operates in the country's largest business city
• Is 100% domestically-owned and has five individual owners
• Has purchased capital equipment for use in the business
• Has 60 employees
• Sells a property and realises a capital gain during the year
• Pays a dividend at the end of the year
• Is in its second year of operation
• Has a trading loss brought forward from previous year

Set out opposite is an example of the adjustments which are often made to accounting profit (profit before tax) to generate the profit which is subject to corporate income tax. The calculation is for our case study company in Zambia. This example shows how the deductions for tax purposes in this case exceed the disallowable expenditures, which reduces the actual rate of tax paid to 5.1%, well below the statutory rate of 35%.

Figure 1
The actual rate of tax paid on profits – example calculation for Zambia

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<th>ZMK</th>
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<tbody>
<tr>
<td>Profit before tax (from the model company income statement) – A</td>
<td>152,432,726</td>
</tr>
<tr>
<td>Add</td>
<td></td>
</tr>
<tr>
<td>Non deductible expenses</td>
<td></td>
</tr>
<tr>
<td>Owner's expenses</td>
<td>102,652</td>
</tr>
<tr>
<td>Maintenance and repairs</td>
<td>1,539,783</td>
</tr>
<tr>
<td>Provision for pension contribution</td>
<td>1,719,938</td>
</tr>
<tr>
<td>General provision for bad debt</td>
<td>12,831,525</td>
</tr>
<tr>
<td>Commercial/book amortisation</td>
<td>41,194,986</td>
</tr>
<tr>
<td>Deduct</td>
<td></td>
</tr>
<tr>
<td>Gain on sale of land</td>
<td>-7,698,915</td>
</tr>
<tr>
<td>Capital allowances/tax amortisation</td>
<td>-(174,522,247)</td>
</tr>
<tr>
<td>Losses bought forward</td>
<td>-(5,235,262)</td>
</tr>
<tr>
<td>Taxable profits</td>
<td>22,365,186</td>
</tr>
<tr>
<td>Corporation income tax at 35% – B</td>
<td>7,827,815</td>
</tr>
<tr>
<td>The actual rate of tax paid on profit – B/A%</td>
<td>5.1%</td>
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Statutory rates of corporate income tax around the world
Corporate income tax is charged on company profits in 95% of the economies included in the Paying Taxes study. The study shows that only 10 of the 183 economies covered did not charge corporate income tax or a similar profits tax, based on the fact pattern of the case study company. On average, the statutory rate of corporate income tax around the world for our case study company was 24.2% (see Figure 2). The lowest average statutory rate of 14.2% is found in the Middle East, closely followed by the Central Asia and Eastern Europe region with 14.9%. The African Union has the highest average rate of 28.4% followed by 28.0% in Latin America and the Caribbean.

The statutory rates applied around the world range from 0% to 40.0% in the 2012 study. Figure 3 shows how these statutory rates of corporate income tax have reduced over a seven year period. In 2012, 64.2% of economies apply a rate between 15% and 30%. This compares with only 47.7% of economies having a rate in that range in the 2006 study, which demonstrates that the range of corporate income taxes applied has narrowed.

With an accelerating trend towards economic globalisation, it is not surprising that the global statutory rates for corporate income tax are converging as competition to attract business and investment intensifies. It will be interesting to see how corporate income tax systems continue to develop around the world and how governments deal with prioritising the need to demonstrate that their tax systems are competitive, with the need to raise much needed revenues in the short term.
In the last seven years 51% of economies in the study have lowered their statutory rates and 14% have reduced their rate more than once. Central Asia and Eastern Europe, and the EU, have the highest incidence of economies reducing their rates, while Latin America and the Caribbean and the Middle East have the lowest incidence (see Figure 4).
In the last seven years 51% of economies in the study have lowered their statutory rates and 14% have reduced their rate more than once.
The rate of tax paid on company profits differs from the statutory rate.
The actual rate of corporate income tax paid differs from the statutory rate, as economies around the world apply adjustments through their tax systems to arrive at profits which are chargeable to corporate income tax.

Tax legislation in each country sets out the adjustments which tax payers must make to calculate the tax they are legally obliged to pay. Some adjustments are based on long established principles and other adjustments such as incentives and penalties will change more regularly. Governments use these adjustments to influence company behaviour and the profits which are chargeable to corporate income tax (the tax base), will vary from economy to economy. It is important to appreciate that, while the statutory rate is important in determining the tax due in a country, the tax base can play an important role. A country with a high statutory rate will not necessarily have a high tax liability if that country has generous adjustments resulting in a smaller tax base. It is important to consider both the tax rate and tax base.

We have identified that the Paying Taxes case study company is subject to six key adjustments which explain the differences that arise around the world between the statutory rate of corporate income tax and the actual rate of tax paid by the case study company.

These adjustments are discussed in more detail on page 17.

1. Tax relief for capital expenditure is given at a different rate to the amortisation applied in the financial accounts

2. The company pays business expenses which are not deductible for tax purposes

3. Capital gains are taxed on a different basis

4. Tax relief is available for trading losses brought forward

5. Alternative formulas to the main statutory rate are applied for calculating corporate income tax

6. Additional taxes levied on profits, as well as corporate income tax
The rate of tax actually paid on company profits around the world
On average, the actual rate of corporate income tax paid around the world for our case study company was 23.4%. The Middle East has the lowest average actual rate of tax paid at 15.0% closely followed by the Central Asia and Eastern European region with 15.3% Latin America and the Caribbean has the highest rate at 29.9% followed by the G20 group of economies with an average rate of 27.1% (see Figure 5).

While the average rate of corporate income tax paid is only 0.8% below the average corporate income tax statutory rate of 24.2%, there is a wider range of rates of actual tax paid from 0% to 61.0%. In the majority of the economies (56.1%) in the study, the rate paid is between 15% and 30%. In 15 countries the rate of tax paid is below 10% and 16 countries above 35%.
How the actual rate of tax paid differs from the statutory rate around the world
While the difference between the average actual rate of tax paid and the average statutory rate around the world is only -0.8%, there is a wide range. This varies from -29.9% in Zambia to +36.0% in Bolivia. 60% of economies around the world have adjustments which reduce the rate of tax paid with 28 economies having a negative difference which is bigger than -5%. 40% of economies have adjustments that increase the rate of tax paid with 19 economies having a positive difference which is bigger than +5% (see Figure 7).

The African Union and the European Union have the largest average difference below the statutory rate with -2.5% and -2.4% respectively. The G20 countries and the Latin America & the Caribbean have the largest average difference above the statutory rate with +2.6% and +1.9% respectively (see Figure 8).
Six key factors have been identified which explain the differences that arise around the world between the statutory rate of corporate income tax and the actual rate of tax paid by the case study company:

1. Tax relief for capital expenditure is given at a different rate to the amortisation applied in the financial accounts
   The case study company is assumed to be in its second year of operation and has incurred capital expenditure to purchase its fixed assets at the beginning of the previous year. In the income statement for the year the assets are amortised at a commercial rate. In most economies the deduction given for tax purposes is different to the commercial rate.

   Where the deduction given for tax purposes is at a higher rate than the book/commercial figure, this reduces the actual rate of tax paid and vice versa.

2. Business expenses which are not deductible for tax purposes
   The case study company has a list of specified expenses which are included in its income statement.

   Where these business expenses are not deductible for tax purposes, the actual rate of tax paid increases.

3. The taxation of capital gains on a different basis
   The fact pattern for the case study company assumes that it sells some land and makes a gain.

   29 countries charge this gain to capital gains tax, rather than as part of the corporate income tax computation. The capital gains tax rate may be different to the corporate income tax rate. For example in Ireland the corporate income tax rate is 12.5%, and capital gains are taxed at 25%.

   In economies where the gain is included in the corporate income tax computation various additional reliefs and allowances may be given. For example in the UK the gain is reduced by indexation allowance which depends on the period of ownership of the asset. Also, in three African Union countries – Mauritius, Seychelles and Zambia, no tax is charged on the gain.

4. Availability of tax relief for trading losses brought forward
   The case study company incurred a trading loss in its first year of operation. The case study is based on the second year of operation.

   The treatment of this loss for tax purposes differs. In some economies the loss is brought forward and can reduce taxable profits in the second year of operation, while in others it cannot.

5. Alternative formulas for calculating corporate income tax to the main statutory rate
   In six economies in the study there is an alternative calculation which results in higher amounts of tax being paid.

   For example, in the Central African Republic, corporate income tax is due at 30% of taxable profits or 1.85% of turnover, whichever is greater. The case study company pays 1.85% of turnover.

6. Additional taxes levied on profits, as well as corporate income tax
   In 21 countries there are additional taxes charged on the company’s profits, as well as corporate income tax. This increases the actual rate of tax paid.

   For example in Japan (in Paying Taxes 2012), corporate income tax was charged at 30% on taxable income, but the actual rate paid was above this at 35.5%. Non-allowable items and two additional taxes on profit increase the tax cost.
Figure 9 shows some specific examples of the economies which are driving these differences in certain regions, and the main components which are responsible for the differences.

In the African Union, Zambia offers generous capital allowances which more than offset the disallowance of certain expenses for tax purposes and account for most of the overall reduction in rate. In the European Union, France shows a similar pattern but to a lesser degree.

For the G20, the results for United States and Japan show that the disallowance of expenses for tax purpose and the application of additional profits taxes increase the rate of tax paid, while Brazil is an example of a similar situation for the Latin America and Caribbean region.

The chart shows the drivers of the difference between the statutory rate of tax and the rate of tax actually paid. The 0% line represents the statutory rate. Where there are corporate income taxes levied by multiple levels of government this 0% line is by reference only to federal income tax. Adjustments which reduce the rate of tax actually paid below the statutory rate are shown as negative and those which increase the rate of tax actually paid are shown as positive.

* Other profit taxes are:
United States – NY state and local taxes
Japan – enterprise taxes and inhabitants taxes
Brazil – Social contribution (SCLL)
Concluding comments
• There has been a tentative return to growth in the global economy in the aftermath of the economic downturn. The pattern is however not consistent across geographic regions, and the evidence to date also suggests that sustained economic growth will be a challenge.

• There is significant pressure on governments to implement measures to improve the economic environment. Part of this is around ensuring the implementation of policies which assist in creating a competitive tax system which will encourage investment. At the same time there is a need to provide an environment which is capable of generating stable revenue streams to fund government expenditures.

• The study shows that corporate income tax is still a key aspect of the fiscal system in 173 economies around the world, (95% of those included in this study). This is despite the tax being classed by the OECD as ‘the most harmful type of tax for economic growth...’ and its inherent volatility that arises from its link to profitability which has created volatile revenue streams for governments during the global economic downturn.

• Over the period covered by the Paying Taxes study, (the last seven years), 93 economies – more than half – have reduced the statutory rate of tax, with 75 of these doing so during the last four years (includes the recessionary period). It will be interesting to see if this trend continues.

• In reforming the tax system it is clear that as the actual rate paid is usually different from the statutory rate in view of a number of factors which are largely driven by government tax policy, then reforms need to take these factors into account. When measuring and comparing the corporate income tax liability of business around the world there is much more to consider than just the headline statutory rate of corporate income tax.

• Transparency around the taxes that companies pay is currently very topical. This is evidenced by the recent adoption of country by country reporting rules for taxes on income (amongst other payments to government) by the SEC in the US for the extractive industry and potential adoption of similar rules by the EU in the near future which could be extended to apply to all multinational companies. The debate around the need for more transparency and clearer disclosure of the payments that companies make, including corporate income taxes, and understanding the amounts that are actually paid, will continue and this study helps inform that debate.

The study shows that corporate income tax is still a key aspect of the fiscal system in 173 economies around the world.
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