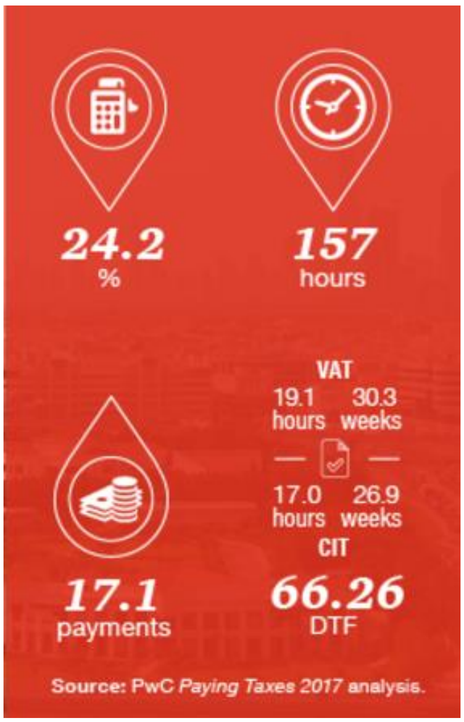
The Middle East has the least demanding tax system, but new data highlights post–filing challenges, says PwC

For the first time this year, report also looks at post-filing processes for value-added tax (VAT) and corporate income tax (CIT) returns

Dubai, United Arab Emirates – 23rd November 2016: The Middle East region has the least demanding tax system, ranking consistently below the world average according to the latest edition of Paying Taxes 2017, a report by PwC and The World Bank Group. This year the Middle East region has both the lowest average Total Tax Rate and the lowest average time to comply of all the regions.

Middle East figures



The case study company has an average Total Tax Rate of 24.2% in the Middle East region; it takes the company an average of 157 hours to comply with its tax affairs and it makes an average of 17.1 payments.

On a Global level the Total Tax Rate decreased by 0.1 percentage points to 40.6 %; time to comply declined by 8 hours to 251 hours; and the number of payments by 0.8 to 25 payments.

The report finds that Economies around the world continue to make progress in simplifying and reducing the burden of tax compliance on businesses. Globally, the most common feature of tax reforms in the past year was the introduction or enhancement of electronic systems for filing and paying taxes.

Dean Kern, PwC Middle East Tax and Legal Services Leader said:
"We recognise the pressures on governments across the region to raise tax revenues to fund public spending. Paying Taxes has shown that in many economies, governments and tax authorities can make it easier for companies to pay their taxes and this includes the ability to claim a refund or deal with a corporate income tax audit. More efficient tax systems are good for businesses which in turn helps to promote economic growth and investment."

Paying Taxes 2017, now in its 11th edition, continues to be a unique report from PwC and the World Bank Group. It is the only piece of research which, by using a medium-sized domestic case study company, measures and assesses the ease of paying taxes across 190 economies. The report models business taxation in each economy using a medium-sized domestic case study company. Paying Taxes has historically measured the Total Tax Rate, the time needed to comply with the major taxes, and the number of tax payments.

This year, for the first time, the Paying Taxes study includes a new sub-indicator – the post-filing index. In the expanded analysis this year, the report finds that for some economies, post-filing processes for value-added tax (VAT) and corporate income tax (CIT) returns could be amongst the most challenging and lengthy processes for businesses to comply with. In some cases, the length of the processes can create cash flow and administrative delays for companies of more than a year.

Jeanine Daou, Partner and Middle East Leader for Indirect Taxes and Fiscal Policy said: "Stable tax systems and strong tax administrations are important for businesses, helping them to operate in an environment where the tax treatment of transactions is predictable and where governments operate transparently. In addition, the way in which the tax system collects and administers its taxes has an impact on businesses in terms of the time required and the costs associated with that time.

As governments across the GCC implement the anticipated VAT regime, Paying Taxes shows the benefit of designing the VAT law, including the compliance obligations and administrative processes for obtaining tax refunds, in a manner that is clear, efficient and consistent. An ideal tax system should help governments raise essential revenue, and should do so without discouraging economic activity."

Middle East findings:

- The case study company has an average Total Tax Rate of 24.2% in the Middle East region; it takes the company an average of 157 hours to comply with its tax affairs and it makes an average of 17.1 payments. The three original sub-indicators remain unchanged from last year and have been fairly stable since 2004.

- The Middle East region has the least demanding tax system for our case study company and is consistently below the world average, this year having both the lowest average Total Tax Rate and the lowest average time to comply of all the regions.

- At 24.2%, the average Total Tax Rate for the region is well below the world average (40.6%) and the lowest of any region.

- The UAE and Qatar currently share equal first place globally as the easiest countries to pay taxes under the methodology.

- Labour taxes and mandatory contributions paid by employers account for 60% of the average Total Tax Rate for the region and is the most significant contributor to the Total Tax Rate in most economies. Profit taxes account for 38%, while other taxes account for just 2% of the region's average Total Tax Rate. Similarly, labour taxes and social contributions paid by employers account for 56% of the time to comply and 61% of the number of payments sub-indicator.

- The average number of payments sub-indicator for the region is 17.1 payments, which is below the world average of 25 payments. This is largely because of the low average number of taxes in the region for the case study company.

- The Middle East region performs comparatively less well on the post-filing index than on the original three sub-indicators. The post-filing index score for the region is 66.26, the third most efficient of all the regions, and more efficient than the world average of 61.24. However, the region underperformed the global average in all four components of post-filing index.

- Only 5 of the 13 economies in the Middle East have VAT systems and in 4 of those a VAT refund is available to the case study company. Where an economy has no VAT system, the VAT components are omitted from the post-filing index score.

- Across the 4 economies in the Middle East region in which a VAT refund is available to the case study company, the average time to comply with a VAT refund is 19.1 hours and to obtain the VAT refund takes 30.3 weeks on average.

- Yemen has shortest time for both VAT components taking 4 hours to comply with a VAT refund and 6.2 weeks to obtain the refund. The longest time to comply with a VAT refund is 45 hours in Lebanon and West Bank and Gaza has the longest time to obtain VAT refund at 54.2 weeks.

- Corporate income tax is levied in 9 of the 13 economies in the Middle East region and in two of these correcting the corporate income tax return is likely to trigger an audit for the case study company. Where an economy has no corporate income tax system, the corporate income tax components are omitted from the post-filing index score.

- It takes the case study company on average 17 hours to correct the error in the corporate income tax return and comply with any audit. This is slightly above the global average of 16.7 hours.

- For those economies in the region where a corporate income tax audit is unlikely to be triggered, the shortest time to correct the corporate income tax return is in Jordan at 3 hours, and the longest time is in Iraq at 18 hours. The longest time to comply with a corporate income tax audit is 71.3 hours in Saudi Arabia.

- West Bank and Gaza, and Saudi Arabia, are the only economies in the region where the corporate income tax return correction will trigger an audit. In Saudi Arabia the audit will last 25 weeks and in West Bank and Gaza it will take 28.7 weeks giving a regional average of 26.9 weeks.

Global findings:

- Globally, the most common feature of tax reforms in the past year was the introduction or enhancement of electronic systems for filing and paying taxes. Twenty-six economies implemented such changes. Jamaica was the top reformer, reducing the number of payments by 26 to 11.

- The new additional research finds the interactions which a company has with tax authorities after a tax return has been filed can be some of the most challenging. The processes vary significantly from one jurisdiction to another.

- The report finds that 162 economies have a VAT system, with a VAT refund available to the case study company in 93 economies. A fast and efficient process can be critical to ensure that a company does not face cash flow difficulties. For economies with a VAT refund system, on average it takes just over 14 hours to make the VAT refund claim, but it then has to wait over 5 months (almost 22 weeks) to receive the refund.

- The analysis shows it typically takes less time to comply with a VAT refund in high income economies (almost 8 hours) than in low income economies (almost 27 hours). A VAT refund triggers an audit in 70% of economies, of which over half (58%) will go through a comprehensive audit.

- The study also shows that 180 economies in the study levied corporate income tax in 2015. A voluntary correction to a corporate income tax return is likely to lead to a tax audit in 74 of these. On average, it takes the case study company almost 17 hours to correct the error in the CIT return. If the tax authority requires an audit, it will take just over 17 weeks to finalise.

- Examining the difference between low and high income countries, the study finds that in low income economies it can take more than twice as long to comply with procedures to correct CIT errors, and that low income countries are twice as likely to conduct an audit.

Notes

1. *Paying Taxes 2017* measures all mandatory taxes and contributions that a medium-size company must pay in a given year as well as measuring the administrative burden of filing and paying taxes and complying with post-filing processes. Taxes and contributions measured include profit or corporate income tax, social contributions and labour taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and other small taxes or fees. For more information about the Paying Taxes study, visit: www.pwc.com/payingtaxes.

2. For the first time, this year's *Paying Taxes* study has been extended to look at the processes that take place after a tax return has been filed. The new post-filing index measures two processes that might take place after filing; claiming a value added tax (VAT) or goods services tax (GST) refund, and correcting an error on a corporate income tax (CIT) return including going through an audit when applicable. For more information on *Paying Taxes* visit www.pwc.com/payingtaxes.

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

ENDS

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Established in the Middle East for 40 years, PwC has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with around 4,000 people. (www.pwc.com/me).

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[1]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.

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