World Bank Group:
Indira Chand
Phone: +1 202 458 0434
E-mail: ichand@worldbank.org

PwC:
Sharon O'Connor
Tel:+1 646 471 2326
E-mail: sharon.m.oconnor@pwc.com

Fact sheet

Paying Taxes 2019
Global and Regional Findings: CENTRAL AMERICA & THE CARIBBEAN

The *Paying Taxes* report is a joint annual publication by PwC and the World Bank Group. This year marks the 13th year of the publication. The report is based on the World Bank Group's *Paying Taxes* indicator within their *Doing Business* project and includes analysis and commentary by the World Bank and PwC.

The *Paying Taxes* indicator measures tax systems from the point of view of a domestic company complying with the different tax laws and regulations in 190 economies around the world. The case study company is a small to medium-size manufacturer and retailer with specific assumptions, deliberately chosen to ensure that its business can be compared worldwide on a like for like basis.

The *Doing Business* project, a World Bank Group annual publication which measures business regulations in 190 economies, has been collecting data on paying taxes for 14 years. Besides paying taxes, the *Doing Business* project provides measures of regulations in nine other areas: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, trading across borders, enforcing contracts, and resolving insolvency. It also looks at labour market regulation.

Paying Taxes compares tax systems using four measures: the Total Tax and Contribution Rate ("TTCR": the cost of all taxes borne, as a % of commercial profit), the time needed to comply with the major taxes (profit taxes, labour taxes and mandatory contributions, and consumption taxes), the number of tax payments and the post-filing index. The four measures are each converted to a score of 0 – 100 and the simple average of these scores determines the overall *Paying Taxes* ranking.

The *Paying Taxes* indicator measures all taxes and contributions mandated by government at any level (federal, state, or local) as they apply to the standardised business. The TTCR sub-indicator measures the cost of taxes and contributions that are borne by the company. The taxes included can be divided into 5 categories: profit or corporate income tax, social contributions and labour taxes paid by the employer (for which all mandatory contributions are included, even if paid to a private entity such as a requited pension fund), property taxes, turnover taxes and other taxes (such as municipal fees and vehicle taxes). The two original compliance sub-indicators, on the time to comply and number of payments, measure taxes borne and taxes collected, and so include taxes and contributions withheld or collected, such as sales tax or value added tax (VAT). The post-filing index measures two processes based on four components—time to comply with a VAT refund (hours), time to obtain a VAT refund (weeks), time to comply with a correction of a CIT return (hours) and the time to complete a CIT correction (weeks).

Some important points to note are that:

1. The sub-indicators are calculated by reference to a particular calendar year. The effect of any change that takes place part way through the year is pro-rated. The most recent data in this study, *Paying Taxes* 2019, relates to the calendar year ended 31 December 2017.

2. The ranking order is based on the World Bank's ease of doing business score (formerly called the distance to frontier score) which is used by the World Bank Group to evaluate each economy's performance relative to the lowest and highest value of each sub-indicator rather than relative to the other economies. This means that economies can see how far they have progressed towards the best regulatory performance, rather than simply looking at how they compare to other economies. A score is

calculated for each of the four sub-indicators. The simple average of these four scores then gives the overall score on *Paying Taxes*. The distribution used to determine the score of the TTCR is non-linear. This means that movements in a TTCR that is already close to the lowest TTCR will have less of an impact on the score of the TTCR. As in previous years, the lowest TTCR for the purposes of the ranking calculation is set at the 15th percentile of the overall distribution for all years included in the analysis up to and including *Doing Business 2016*, which is 26.1%. Economies with a TTCR below this value will therefore not be closer to the best regulatory performance than an economy with a TTCR equal to this value.

3. If in the course of collecting and analysing the data for 2017 it became apparent that data for previous years was incorrect, the necessary adjustments have been made and the sub- indicators recalculated for prior years. Rankings are only revised for the immediate prior year. Any data that refers to 2016 and earlier years is therefore stated after such revisions have been made and so may differ from the data published in previous editions of this study including the global and regional averages.

The key themes and findings are:

- On average, it takes our case study company 237 hours to comply with its taxes, it makes 23.8 payments and has an average Total Tax and Contribution Rate (TTCR) of 40.4%.
- In 2017, the global average results are almost unchanged compared to last year, and yet 113 economies recorded tax reforms.
- Since 2004, the global average time to comply has fallen by 84 hours and the global average number of payments has fallen by 10.3 - both driven by technology.
- High performing economies are introducing even more advanced technology (e.g. machine learning), but some economies are finding it difficult to implement online filing and payment due to the lack of IT infrastructure, cultural barriers and complex legislation.
- On average, labour and profit taxes have each accounted for 40% of the TTCR since 2008.
- In 2017, the profit tax component of the TTCR fell in 58 economies and increased in 37, conversely the labour tax component of the TTCR rose in 39 economies and decreased in 17.
- The average TTCR is around 13% points higher in low-income economies than in high- and middle-income economies.
- The global post-filing score is 59.6 out of 100. The higher score the more efficient it is to receive VAT refunds and correct corporate income tax returns.
- On average around the world, our case study needs 19.6 hours to comply with a VAT refund and it takes 29 weeks to obtain the refund.
- The time to correct a corporate income tax takes 15.1 hours on average. If the correction results in further interaction with the tax authority, it takes 26.1 weeks from the submission of the correction until the completion of any interactions with the tax authority, including audits.
- Improving tax officers' skills is vital for a well-functioning tax system: 97% of economies provide training to tax officers, but only 35% of economies offer regular, periodic training.

Regional details – *Central America & the Caribbean* [1]

- The case study company has an average Total Tax & Contribution Rate (TTCR) of 42.3% in the Central America & the Caribbean region. It takes 203 hours to comply with its tax affairs and makes 29.8 tax payments.

- From 2016 to 2017, time to comply has decreased by 3 hours and the number of payments by 1.4 while TTCR in the region increased by 0.3 percentage points. Central America & the Caribbean remains the region where profit taxes account for the greatest share of the TTCR.

- The post-filing index score for the region is 51.2 (on a scale of 0-100) which is below the world average of 59.6. The region has the second longest time to obtain a VAT refund with 40.6 weeks.

- Central America & the Caribbean has a TTCR (42.3%) above the world average of 40.4%. Its number of payments is also above the world average of 23.8 payments and is the second highest among the regions. The region’s time to comply is below the global average of 237 hours.

- The TTCRs of 9 of the 20 economies in the region are above the world average.

- In 2017, of the 20 economies in the Central America & Caribbean region, seven increased their TTCR and only two decreased them. The largest increases occurred in Trinidad and Tobago due to the increase in the rate of corporate income tax.

- Five of the 20 economies in the region take more time to comply than the world average of 237 hours. Of these, Panama has the highest time to comply at 408 hours.

- For 2017, at 29.8 payments, the average number of payments is second highest of the regions, with only Africa having a higher average number of payments of 35.5. This is driven by a lack of electronic filing and payment systems. In 65% of the 20 economies in the region the number of payments is higher than the world average of 23.8 payments.

- The largest decrease in the number of payments was in Panama. In 2017, corporate income tax, real estate tax and VAT could all be paid electronically, and increased adoption has reduced the number of payments by 16.

- Costa Rica has the highest post-filing score of 87.2 while Trinidad and Tobago has the lowest of 8.0. In Trinidad and Tobago, time to comply with a VAT refund is the longest (77 hours) and the time taken to correct a corporate income tax return and comply with the resulting further interactions with the tax authority takes 54 hours.

- 19 of the 20 economies in the Central America & the Caribbean region have a VAT system, though the case study company would not be able to obtain a refund in 6 of those.

- In the Central America & the Caribbean region, the average time to comply with a VAT refund for the 13 economies where a refund is available, is 21.3 hours and to obtain the VAT refund takes 40.6 weeks on average. The time to obtain VAT refund ranges from 18.5 weeks in Belize to 89.5 weeks in Jamaica.

- Corporate income tax is levied in 19 of the 20 economies in the region. In 53% of these economies, there is greater than 25% likelihood that correcting the corporate income tax return will lead to further interactions with the tax authorities.

- It takes the case study company on average 15.8 hours to correct the error in the corporate income tax return and comply with any resulting review. The shortest time for the correction is 1.5 hours in Dominica where the likelihood of review is less than 25%. The longest time is in the Dominican Republic at 59.5 hours which includes time to respond to auditors’ requests.

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[1] The following 20 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.

- On average, across the 10 economies in the region where the likelihood of a review following a correction of a CIT return is more than 25%, the further interactions with the tax authority would take 42.6 weeks ranging from 5 weeks in Belize to 113.3 weeks in Jamaica.

For more information about *Paying Taxes*, visit www.pwc.com/payingtaxes.
For more information about the *Doing Business* report series, visit www.doingbusiness.org

About the *Doing Business* report series

The Doing Business project provides objective measures of business regulations and their enforcement across 190 economies and selected cities at the subnational and regional level.

The Doing Business project, launched in 2002, looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle.

By gathering and analyzing comprehensive quantitative data to compare business regulation environments across economies and over time, Doing Business encourages economies to compete towards more efficient regulation; offers measurable benchmarks for reform; and serves as a resource for academics, journalists, private sector researchers and others interested in the business climate of each economy.

In addition, Doing Business offers detailed subnational reports, which exhaustively cover business regulation and reform in different cities and regions within a nation. These reports provide data on the ease of doing business, rank each location, and recommend reforms to improve performance in each of the indicator areas. Selected cities can compare their business regulations with other cities in the economy or region and with the 190 economies that Doing Business has ranked.

The first Doing Business report, published in 2003, covered 5 indicator sets and 133 economies. This year's report covers 11 indicator sets and 190 economies. Most indicator sets refer to a case scenario in the largest business city of each economy, except for 11 economies that have a population of more than 100 million as of 2013 (Bangladesh, Brazil, China, India, Indonesia, Japan, Mexico, Nigeria, Pakistan, the Russian Federation and the United States) where Doing Business, also collected data for the second largest business city. The data for these 11 economies are a population-weighted average for the 2 largest business cities. The project has benefited from feedback from governments, academics, practitioners and reviewers. The initial goal remains: to provide an objective basis for understanding and improving the regulatory environment for business around the world.

About the World Bank Group

The World Bank Group is one of the world's largest sources of funding and knowledge for developing countries. It comprises five closely associated institutions: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), which together form the World Bank; the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for Settlement of Investment Disputes (ICSID). Each institution plays a distinct role in the mission to fight poverty and improve living standards for people in the developing world. For more information, please visit www.worldbank.org, www.miga.org, and www.ifc.org.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 158 countries with over 250,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.