

Paying Taxes 2009

The global picture



Contacts

For further information, or to discuss any of the findings in this report, please contact:

World Bank Group

Penelope Brook
+1 202 473 3748
pbrook@ifc.org

Sylvia Solf
+1 202 458 5452
ssolf@worldbank.org

Caroline Otonglo
+1 202 473 9559
cotonglo@worldbank.org

PricewaterhouseCoopers*

Bob Morris
PricewaterhouseCoopers LLP, US
+1 202 414 1714
robert.c.morris@us.pwc.com

Susan Symons
PricewaterhouseCoopers LLP, UK
+44 20 7804 6744
susan.symons@uk.pwc.com

Neville Howlett
PricewaterhouseCoopers LLP, UK
+44 20 7212 7964
neville.p.howlett@uk.pwc.com

*In this publication, the terms 'PricewaterhouseCoopers' and 'PwC' refer to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Foreword

This is the third Paying Taxes publication based on the 'paying taxes' indicator from the World Bank – IFC *Doing Business* project. The project assesses the ease of paying taxes as part of a broader analysis of regulations relevant to domestic, small to medium sized companies in 181 economies around the world. It does so by assessing the time required for firms to prepare and file returns and pay taxes; the number of tax payments per year; and the company's total tax liability as a percentage of commercial profits.

With the current global economic turmoil, economies around the world will be finding that tax revenues are coming under pressure. This will cause them to examine the effectiveness of their tax systems – not just the rates that they charge but the way the systems work. The aim of the World Bank – IFC *Doing Business* project is to provide an objective basis for improving the regulatory environment for business, informing the analysis of regulatory burden and providing insight for reformers. In this spirit, the Paying Taxes study explores the findings embodied in the 'paying taxes' indicator and illustrates both successful reforms and reform challenges. Whilst there are almost as many ways of levying taxes as there are economies in this study, there is a common message of efficiency, which pays benefits to all sides.



Penelope Brook
Director of the Global Indicators and Analysis Group
World Bank Group

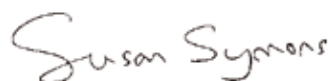
This publication brings together the latest findings and analysis on the 'paying taxes' indicator from this year's *Doing Business* report in Chapter 1, with perspectives from PricewaterhouseCoopers on the data in Chapter 2.

For the first time this year, we include some analysis and discussion of data which, whilst collected as part of the study, does not form part of the rankings (in Sections 2 and 3 of Chapter 2). This additional non-indicator data has allowed us to look at other aspects of tax systems across the world, and has added insights and understanding to our analysis.

In last year's publication, we included a significant amount of detail on the methodology used to produce the data, and more transparency on the case study company and the underlying assumptions. This is included again this year in Appendix 2.

This year we have also included, throughout the report, examples of how many different economies have made use of the data. These provide insight into the discussions which the Paying Taxes study has generated with government and other interested parties.

We hope that the results of the study are interesting and, as in previous years, we welcome feedback and comments.



Susan Symons
Tax partner
PricewaterhouseCoopers LLP, UK

Contents

Foreword	3
Executive summary and key findings of the study	6
Chapter one	
Paying Taxes – Findings of the World Bank – IFC <i>Doing Business</i> 2009 report	8
Chapter two	
A PricewaterhouseCoopers commentary on the results	
Section 1 The key indicators	16
Section 2 Further insights on tax administration	48
Section 3 Influencing behaviour: tax incentives and environmental taxes	58
Section 4 What makes a good tax system? A PricewaterhouseCoopers perspective	64
Appendix 1 – the data tables	72
Appendix 2 – methodology	
Introduction	87
The case study company	87
The framework of the <i>Doing Business</i> study	88
The PricewaterhouseCoopers Total Tax Contribution ('TTC') framework	92
What is a tax?	93
Payments in respect of labour	94
Taxes borne and collected	95
Effective tax rates for current corporate income tax	95
Appendix 3	
PricewaterhouseCoopers Total Tax Contribution surveys	96



Executive summary and key findings

Executive summary

The World Bank – IFC *Doing Business* project includes a measure of the ease of paying taxes for small to medium sized domestic companies in 181 economies around the world.

The *Doing Business* ‘paying taxes’ indicator is based on a case study company and assesses taxes from this company’s perspective using three indicators:

- The Total Tax Rate (the cost of all taxes borne by the company)
- The time taken to comply with the major taxes
- The number of tax payments for the major taxes

The data on all three sub-indicators, the rankings by economy for these sub indicators and the overall rankings are included in Appendix 1. Further details on all the underlying data are available at www.doingbusiness.org/exploretopics/payingtaxes

The case study company is a flower pot manufacturer and retailer. This company has been selected as it is a business that can be identified with worldwide; a standard fact pattern is given so that the tax indicators generated can be compared across many diverse economies without being significantly distorted by industry specific incentives and reliefs. The business is a simple domestic one so that the focus of the results is purely on the local tax system.

The year the study covers 181 economies around the world (up from 178 last year).

In last year’s publication we focused on explaining the methodology and understanding the results. These are given this year in Appendix 2.

This year’s report combines a summary of the findings on the ‘paying taxes’ indicator (from the recent *Doing Business* 2009 report prepared by the World Bank – IFC), and commentary based on the experience of PricewaterhouseCoopers’ firms around the world. These commentaries focus on some of the issues highlighted by the results and on how the findings are being used by governments in all parts of the world.

We also show some additional data, collected as part of the study, which is not used in calculating the indicators, but which nevertheless provides useful insights into tax systems. We would welcome views and input on the use of this data from users of this report.

Paying Taxes provides a comparison of the world's tax systems from the point of view of the case study company. The aim is to provide insights and data, which will assist the process of tax reform and to gain a more in-depth understanding of the results. It is important to look beyond the rankings to the underlying data.

An understandable challenge from users of previous *Doing Business* 'paying taxes' indicator reports is 'What makes a good tax system?' PricewaterhouseCoopers offers some suggestions in Chapter 2, Section 4, and would welcome comments and feedback.

Key findings of the study

From the indicator data:

- Economies that rank highly on the ease of paying taxes tend to have lower and less complex taxes with simple administrative processes for paying taxes and filing tax returns.
- The most frequent reforms implemented are the reduction of corporate income tax rates and electronic filing. Tax reform is not just about the introduction of tax rates; administrative aspects are almost equally important.
- As in previous years, the *Doing Business* analysis confirms that corporate income tax is only one of many taxes that business has to bear. It accounts for only 13 percent of payments, 26 percent of compliance time and 37 percent of the Total Tax Rate (TTR) as such, any reform agenda needs to look beyond corporate income tax.
- Companies make an important tax contribution as employers. For the purpose of the Paying Taxes data, social security contributions and labour taxes are included, as these can add significantly to the cost and compliance burden for business. Governments need to make it easy to comply with these taxes and contributions.
- It is often assumed that consumption taxes, and in particular sales taxes, are simply taxes collected on behalf of government and therefore have a minimal impact on business. However, some sales taxes can be a tax borne, and all sales and consumption taxes have a significant impact on the number of hours it takes to comply and the number of tax payments made. Therefore these taxes also need to be efficient.
- Beyond the aspects captured directly in the *Doing Business* 'paying taxes' indicator, the non-indicator data identifies additional aspects of tax systems to consider. The number of levels of tax authority, the number of separate authorities, ambiguity in tax legislation and the way in which companies are selected for tax audit are examples. They may warrant further research.
- Transparency around the taxes collected by government and the government's broader fiscal strategy can assist with securing the trust of business. It is interesting to note that 14 percent of contributors reported that such information is not publicly available.
- In addition to being a way of raising revenues for necessary public expenditures, tax systems continue to be used by governments to influence the behaviour of individuals and businesses. Around 40 percent of contributors to the Paying Taxes data indicated that their economies have Small and Medium sized Enterprise (SME) and Research and Development (R&D) incentives included within their tax systems. PricewaterhouseCoopers sees environmental taxes as having the potential to be used to change behaviours. Further research is required to assess the extent of these taxes and their effectiveness.

Paying Taxes: Findings of the World Bank – IFC *Doing Business* 2009 report

For Kah, the owner of a Cameroon-based management consulting business, having a simple tax system, with standardised rates and payment channels, is fundamental to the ease of doing business. Yet in Cameroon, which ranks among the most difficult economies in which to pay taxes, complying with tax regulations takes more than 1,000 hours and 41 tax payments a year.¹

To file a tax return for her company, Kah often spends hours waiting in the tax office for information from tax inspectors. Because she refuses to pay extra, she regularly endures long, costly court procedures. And because the tax system lacks transparency, results are often arbitrary. Kah feels that tax officers see her as an easy target. She is not the only one. A recent study in Uganda shows that enterprises headed by women perceive a greater regulatory burden – and more harassment from public officials – than those headed by men.²

Taxes are essential. Without them there would be no funds for the basic public services vital to a well-functioning economy and an inclusive society. Yet firms in 90 percent of the economies covered by the World Bank Enterprise Surveys rank tax rates and tax administration among the top five obstacles to doing business.³ Businesses prefer lower tax rates that are applied in a straightforward way. Or, if rates are high, businesses want good services in return.

Where taxes are high and commensurate gains seem low, many businesses simply choose to stay informal. A recent study found that higher tax rates are associated with less private investment, fewer formal businesses per capita and lower rates of business entry. The analysis suggests, for example, that a 10 percent increase in the effective corporate tax rate reduces the investment-to-GDP ratio by 2 percentage points.⁴

Economies that rank high on the ease of paying taxes tend to have lower and less complex business taxes (**Figure 1.1** opposite). They also have simple administrative processes for paying the taxes and filing tax returns. For businesses, it's not just the tax rates that matter. The administrative processes do too.

1 This example is from the World Bank's *Doing Business: Women in Africa* (2008a), a collection of case studies of African entrepreneurs.

2 Ellis, Amanda, Claire Manuel and Mark Blackden. 2006. *Gender and Economic Growth in Uganda: Unleashing the Power of Women*. Directions in Development series. Washington, DC: World Bank.

3 World Bank Enterprise Surveys (<http://www.enterprisesurveys.org>).

4 Djankov, Simeon, Tim Ganser, Caralee McLiesh, Rita Ramalho and Andrei Shleifer. 2008. *The Effect of Corporate Taxes on Investment and Entrepreneurship*. NBER Working Paper 13756. Cambridge, MA: National Bureau of Economic Research.

Fast and efficient administration means less hassle for businesses – and often higher revenue for governments. In Mauritius in 2007/08, the government collected 4 billion Mauritian rupees (\$150 million) more in revenue than had been projected. Reforming the tax system was a key part of the government’s agenda over the past three years. The focus: creating an enabling environment for businesses through low and simple taxes coupled with fast and efficient administration. The strategy paid off.

Who reformed in 2007/2008?

Thirty-six economies made it easier to pay taxes in 2007/08. As in previous years, the most popular reform feature was reducing the profit tax rate, which happened in no fewer than 21 economies. The second most popular was introducing and improving electronic filing and payment systems. This reform, carried out

Figure 1.1
Where is it easy to pay taxes – and where is it not?

Easiest	Rank	Most difficult	Rank
Maldives	1	Panama	172
Qatar	2	Jamaica	173
Hong Kong, China	3	Mauritania	174
United Arab Emirates	4	Gambia, The	175
Singapore	5	Bolivia	176
Ireland	6	Venezuela	177
Saudi Arabia	7	Central African Republic	178
Oman	8	Congo, Rep.	179
Kuwait	9	Ukraine	180
Kiribati	10	Belarus	181

Note: Rankings are the average of the economy rankings on the number of payments, time and total tax rate. See Data notes for details.

Source: *Doing Business* database

in 12 economies, reduced the frequency of payments and the time spent paying taxes and filing returns. Eight economies reduced the number of taxes paid by businesses by eliminating smaller taxes such as stamp duties. The top 10 reformers for paying taxes this year reduced the number of payments by almost half. Bosnia and Herzegovina, Bulgaria, Morocco, Mozambique and Zambia revised their tax codes (**Figure 1.2**).

Two economies introduced new taxes: Botswana and Venezuela. That increases not only the costs but also the administrative burden for businesses.

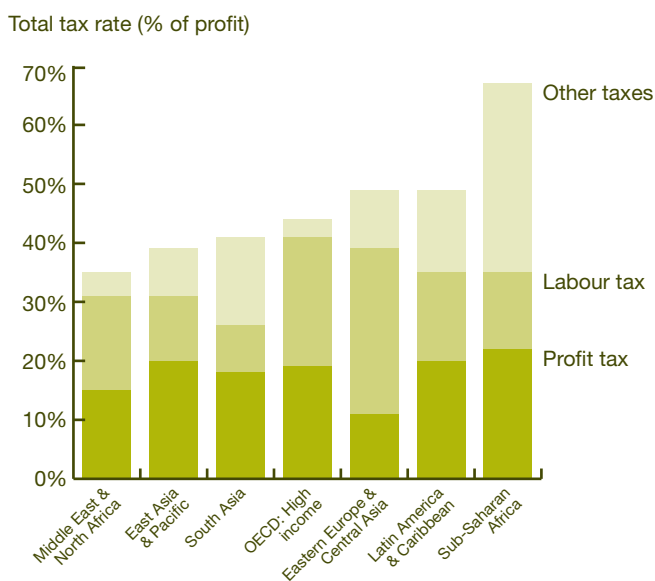
The Dominican Republic including the stamp duty, was the top reformer in 2007/08. It lowered the corporate income tax from 30 percent to 25 percent, abolished several taxes (including the stamp duty) and reduced the property transfer tax. In addition, in 2007, it fully implemented online filing and payment, piloted in 2006.

Figure 1.2
Reducing tax rates – the most common reform feature in 2007/08

Reduced profit tax rates	Albania, Antigua and Barbuda, Bosnia and Herzegovina, Burkina Faso, Canada, China, Côte D’Ivoire, Czech Republic, Denmark, Dominican Republic, Georgia, Germany, Italy, former Yugoslav Republic of Macedonia, Madagascar, Malaysia, Morocco, New Zealand, Samoa, St. Vincent and the Grenadines, Thailand
Simplified process of paying taxes	Azerbaijan, Belarus, China, Colombia, Dominican Republic, France, Greece, Honduras, Malaysia, Mozambique, Tunisia, Ukraine
Eliminated taxes	Belarus, Dominican Republic, Georgia, Madagascar, Malaysia, Mexico, South Africa, Uruguay
Revised tax code	Bosnia and Herzegovina, Bulgaria, Morocco, Mozambique, Zambia
Reduced labour tax or contribution rates	France, Mongolia, Ukraine

Source: *Doing Business* database

Figure 1.3
Profit taxes lowest, but overall tax burden still high in Eastern Europe & Central Asia



Source: *Doing Business* database

Malaysia was the runner-up reformer. It reduced the corporate income tax for 2009 to 25 percent – part of a gradual reduction that has seen the rate decline to 27 percent in 2007 and 26 percent in 2008. The reform also introduced a single-tier tax system, in which profits are taxed only after dividend payments are exempted. The capital gains tax was abolished in 2007 to spur investment in the real property and financial market sectors. And electronic payment systems were improved, increasing online filing and payments.

Among regions, Eastern Europe and Central Asia had the most reforms in 2007/08. Nine economies reformed, mainly continuing the trend of reducing the profit tax rate, already among the lowest in the world (**Figure 1.3**). Albania, Bosnia and Herzegovina and the Former Yugoslav Republic of Macedonia all reduced their profit tax to 10 percent. Georgia reduced the corporate income tax from 20 percent to 15 percent and abolished the social tax. The Czech Republic reduced its corporate income tax rate to 21 percent.

Azerbaijan and Ukraine made it simpler to file and pay taxes by introducing electronic systems and online payment capabilities. That significantly reduced the time spent preparing, filing and paying taxes in the region. Belarus reduced the tax and administrative burden on businesses by abolishing some taxes and reducing the frequency of payments. Bulgaria reduced labour taxes and contributions.

Following closely, with seven reforms each, are the OECD high-income economies and Latin America and the Caribbean.

Five OECD high-income economies reduced corporate income tax rates. Canada is gradually reducing the corporate income tax to 15 percent by 2012, as part of ambitious reforms in its tax system. The reforms also include abolishing the 1.12 percent surtax and introducing accelerated depreciation for buildings (10

percent) and computers (50 percent). Also reducing the corporate tax rate were Denmark (from 28 percent to 25 percent), Germany (from 25 percent to 15 percent), Italy (from 33 percent to 27.5 percent) and New Zealand (from 33 percent to 30 percent). France and Greece made filing and paying taxes faster by implementing mandatory electronic filing for labour taxes and contributions.

In Latin America and the Caribbean, besides the reforms in the Dominican Republic, Antigua and Barbuda reduced the corporate income tax rate from 30 percent to 25 percent. St. Vincent and the Grenadines introduced a new value added tax that replaced several existing taxes, including the hotel tax, entertainment tax, consumption duty, stamp duty on receipts and domestic and international telecommunications surcharge. Uruguay abolished a tax on consumption. Mexico abolished its asset tax. Colombia and Honduras made paying taxes easier by implementing and improving online filing and payment systems. That cut the time spent filing and paying taxes, especially in Honduras.

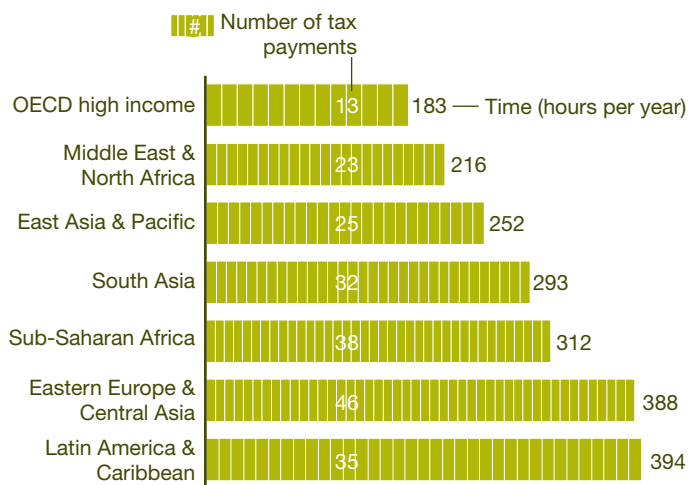
In Africa six economies reformed. Three reduced their corporate income tax rate (**Figure 1.4**). Burkina Faso reduced its corporate income tax rate from 35 percent to 30 percent, its dividend tax rate from 15 percent to 12.5 percent and its property transfer tax rate from 10 percent to 8 percent. Côte d'Ivoire reduced the corporate income tax rate from 27 percent to 25 percent. Madagascar reduced that rate from 30 percent to 25 percent and abolished nine taxes, including the stamp duty and dividend tax. In Africa, taxes other than the profit tax – such as stamp duties, property taxes and labour taxes – account for the largest share of the total tax rate. This is reflected in the large number of tax payments African businesses must make each year (**Figure 1.5** overleaf).

Figure 1.4
Major cuts in corporate income tax rates in 2007/08

Region	Reduction in corporate income tax rate (%)
OECD high income	Canada from 22.1 to 19.5 Czech Republic from 24 to 21 Denmark from 28 to 25 Germany from 25 to 15 Italy from 33 to 27.5 New Zealand from 33 to 30
East Asia & Pacific	China from 33.3 to 25 Malaysia from 27 to 25 Samoa from 29 to 27 Thailand from 30 to 25
Eastern Europe & Central Asia	Albania from 20 to 10 Bosnia and Herzegovina from 30 to 10 Georgia from 20 to 15 Macedonia, former Yugoslav Republic of, from 12 to 10
Latin America & Caribbean	Antigua and Barbuda from 30 to 25 Dominican Republic from 30 to 25 St. Vincent and the Grenadines from 40 to 37.5
Sub-Saharan Africa	Burkina Faso from 35 to 30 Côte d'Ivoire from 27 to 25 Madagascar from 30 to 25
Middle East & North Africa	Morocco from 35 to 30

Source: *Doing Business* database

Figure 1.5
Most time in Latin America & Caribbean



Source: *Doing Business* database

Mozambique eased the filing and paying of taxes by introducing electronic systems. It also revised its tax code to make necessary updates, remove ambiguities and strengthen tax compliance and collection. Zambia did the same. These changes should increase the effectiveness of tax administration.

In East Asia and Pacific, five economies reformed. Aside from Malaysia, China made notable reforms, reducing the corporate income tax from 33.3 percent to 25 percent, and unifying accounting methods and criteria for tax deductions and exemptions. Meanwhile, online filing became more prevalent. Thailand introduced corporate income tax exemptions for small companies, reduced the corporate income tax rate to 25 percent for newly-listed companies, and reduced several property taxes by sizeable rates. It also made online filing and payments easier. Samoa lowered its corporate income tax from 29 percent to 27 percent. Mongolia reduced social security contributions paid by employers from 19 percent to 11 percent of gross salaries.

In the Middle East and North Africa, only two economies reformed. Morocco lowered the standard corporate tax rate from 35 percent to 30 percent. Tunisia made filing and paying taxes easier by expanding electronic options. Although companies have been able to file and pay taxes online since 2005, many have been reluctant to pay their taxes this way. To address their concerns, while easing the administrative burden, Tunisian authorities introduced an option for filing tax returns online while paying the taxes in person at a tax office. This is a practical intermediate step toward a full online system. South Asia recorded no significant reforms.

What are the reform trends?

Revenue authorities around the world are making great efforts to streamline administrative processes and modernise payment systems. In the past four years *Doing Business* has recorded 126 reforms aimed at reducing tax rates or the time or cost to comply with tax laws.

The trend across all regions has been to lower the total tax rate paid by businesses. In 2004 the average total tax rate was 50.6 percent of commercial profits. By 2007 it had fallen to 49.3 percent. Meanwhile, the time to comply with tax laws dropped by 16 hours a year on average.

About 50 percent of economies have implemented reforms making it easier to pay taxes in the past four years. Among regions, Eastern Europe and Central Asia has had the most reforms, followed by Africa (Figure 1.6). South Asia has had the fewest.

Cutting Rates

Reducing corporate income tax rates has been the most popular reform feature (Figure 1.7). More than 60 economies have done this. Countries can increase tax revenue by lowering rates and persuading more businesses to comply with the more favourable rules.

Look at the Russian Federation’s large tax cuts in 2001. Corporate tax rates fell from 25 percent to 24 percent, and a simplified tax scheme lowered rates for small business. Yet tax revenue increased – by an annual average of 14 percent over the next three years. One study shows that the new revenue was due to greater compliance.⁵

5 Ivanova, Anna, Michael Keen and Alexander Klemm. 2005. “The Russian Flat Tax Reform.” IMF Working Paper 5/16, International Monetary Fund, Washington, DC.

Figure 1.6
A third of reforms in Eastern Europe & Central Asia

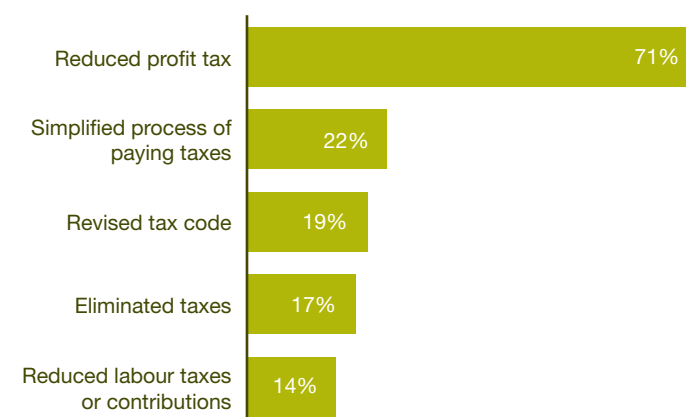
Number of reforms easing payment of taxes by *Doing Business* report year



Note: A reform is counted as one reform per reforming economy per year
Source: *Doing Business* database

Figure 1.7
Top 5 reform features in paying taxes

Reforms including feature since DB2006 (%)



Note: A reform may include several reform features
Source: *Doing Business* database

Figure 1.8
Who makes paying taxes easy – and who does not?

Payments (number per year)			
Fewest		Most	
Maldives	1	Côte d'Ivoire	66
Qatar	1	Serbia	66
Sweden	2	Venezuela	70
Hong Kong, China	4	Jamaica	72
Norway	4	Kyrgyz Republic	75
Singapore	5	Montenegro	89
Kiribati	7	Ukraine	99
Latvia	7	Uzbekistan	106
Mauritius	7	Belarus	112
Afghanistan	8	Romania	113

Time (hours per year)			
Fastest		Slowest	
Maldives	0	Ukraine	848
United Arab Emirate	12	Venezuela	864
Bahrain	36	Czech Republic	930
Qatar	36	Nigeria	938
Bahamas, The	58	Armenia	958
Luxembourg	59	Vietnam	1,050
St. Lucia	61	Bolivia	1,080
Oman	62	Belarus	1,188
Switzerland	63	Cameroon	1,400
New Zealand	70	Brazil	2,600

Total tax rate (% of profit)			
Lowest		Highest	
Vanuatu	8.4	Tajikistan	85.5
Maldives	9.1	Uzbekistan	90.6
Qatar	11.3	Mauritania	98.7
United Arab Emirates	14.4	Argentina	108.1
Kuwait	14.4	Belarus	117.5
Saudi Arabia	14.5	Central African Republic	203.8
Bahrain	15.0	Congo, Dem. Rep.	229.8
Zambia	16.1	Sierra Leone	233.5
West Bank and Gaza	16.8	Burundi	278.7
Botswana	17.1	Gambia, The	292.4

Source: *Doing Business* database

Going Electronic

Introducing electronic filing has been a popular and effective way to make it easier to pay taxes. Businesses can enter financial information online and file it with one click – with no calculations and no interaction with tax officials. Errors can be identified instantly, and returns processed quickly. In Hong Kong (China) businesses file an electronic corporate tax return and pay corporate income tax annually. Complying with tax requirements takes just 80 hours a year. Sixty economies – from Azerbaijan to Colombia and Lesotho – have made e-filing possible, and the list is growing.

These reforms can ease the administrative burden of paying taxes. But it can take time for them to make a real difference. In Argentina and Tunisia it took almost three years before smaller firms felt the impact. The reason is that small firms often lack the software needed for electronic filing and payments. Moreover, taxpayers often distrust online systems when it comes to dealing with sensitive financial information.

Businesses in Azerbaijan are benefiting from an ambitious tax modernisation reform started by the government three years ago. Electronic payment and filing systems have been in place since March 2007. The goal is to have 100 percent online filing. Tax authorities have been actively promoting online filing among businesses paying value added tax. The efforts have had results: 95 percent of these businesses are using the service, completing more than 200,000 online transactions in the first three months of 2008 alone, and saving, on average, 577 hours a year. Online filing is also available for corporate income tax.

Reforms introducing electronic payment and filing systems often need to provide public education and training. Azerbaijan provided free software to taxpayers six months before implementing its new system, giving them time to become familiar with it. Distributing the tax software early paid off in more than one way: users also suggested improvements simplifying the design of the software's interface.

To make the new online system more effective, Azerbaijan's government also introduced advanced accounting software to help in computing tax payments. This has especially benefited medium-sized companies, which make up a sizeable share of the users. For smaller enterprises, more likely to lack access to the internet, the Ministry of Taxes is installing computer stations around the country that are linked to the central database.

Kenyan and Mozambican taxpayers too are enjoying the benefits of electronic tax systems. Companies in Kenya can complete and submit social security forms online. Complying with labour tax obligations used to take them 72 hours a year; now it takes about 20 percent less time. Their Mozambican counterparts can complete social security forms electronically and are looking forward to being able to submit them online, which will further simplify the task.

The key indicators

Introduction

Business knows that it has to pay taxes – that it needs to make a fair contribution to the public finances and therefore to the prosperity of the country in which it operates. What that fair contribution is, and how it is to be collected, is clearly a big issue and one on which the business community is invariably keen to have a constructive dialogue with the tax authorities and government policy-makers. It is also important that governments make decisions about taxes on business as part of a broader tax and fiscal strategy. The *Doing Business* ‘paying taxes’ indicators focus on part of the puzzle.

Tax policy issues are becoming ever more challenging. There are pressures on tax authorities to raise revenues, to fund social expenditure, but also to ensure their tax system fosters business investment. Business – and life generally – is becoming more complicated, with the potential for tax legislation to become more complex and the administrative obligations more onerous. It is perhaps not surprising therefore that in a recent PricewaterhouseCoopers survey, Chief Executive Officers (CEOs) from large companies around the world rank taxation, along with labour laws, as the areas they would most like to see their governments improve.¹

The *Doing Business* ‘paying taxes’ data is proving to be a useful tool for stimulating debate and discussion between business and governments on the tax systems – how they operate and their impact. Throughout this chapter are some examples of the discussions that have taken place and the reforms that are actively being considered by governments.

This year’s *Doing Business* report again involved gathering data from contributors in each of the economies on the tax affairs of a case study company. This year the study covered 181 economies (three more than last year). Contributors review the financial statements and a list of transactions of a standard modest sized case study company and generate information to calculate three indicators related to the ease of paying taxes. These are:

- the number of tax payments;
- the time taken to comply with the company’s tax affairs; and
- the Total Tax Rate.

¹ 11th Annual Global CEO Survey – Compete & Collaborate: What is success in a connected world? published by PwC in 2008.

These are equally weighted to produce an overall ranking for each economy for the ease of paying taxes. These rankings are included in Appendix 1. The rankings of each of the individual indicators are also disclosed.

The detailed methodology and assumptions used are set out in Appendix 2. It is worth remembering here that for the total tax cost indicator, the *Doing Business* project calculates a Total Tax Rate (TTR) using the principles of the PricewaterhouseCoopers' Total Tax Contribution methodology, which is a measure of the cost of all taxes borne by the company, including labour taxes or contributions borne by the employer, as well as corporate income tax. Taxes collected for government, but not borne by the company, do not impact the TTR. This is the case for most consumption taxes (including sales taxes and VAT²) and taxes and contributions deducted from employees' salaries, although some consumption taxes, such as cascading sales taxes, can be a tax borne, as mentioned on page 37. Even though taxes collected do not impact the TTR, they are an important part of the company's administrative obligations. They do therefore impact the number of payments indicator and the number of hours to comply.

What follows in this section is some commentary on some of the key issues highlighted by the Paying Taxes data. We look at corporate income tax and the fact that it is only one of many taxes paid by the case study company. We also consider the impact of both labour taxes and contributions, and sales and consumption taxes on the cost and compliance burden for the case study company.

In Section 2, we take a look at some additional data that has been collected by the Paying Taxes team of the *Doing Business* project. This is not used in

² In general in this report VAT is used as a shorthand to refer to the similar consumption taxes such as value added tax and goods and services tax (GST).

the calculation of the indicators but does provide some useful further insights to the impact of tax systems. This additional non-indicator data was not mandatory and therefore has not been supplied by all contributors. This data tends to be more subjective as it deals with perceptions of the tax system by those contributing to the *Doing Business* report. Assuming readers of this report find this information useful, it is something we will return to in future years.

1. The role of corporate income tax

Corporate income tax is a common tax. Only eight economies out of the 181 in the study do not have a corporate income tax regime. However as in previous years, it is also vital to recognise that corporate income tax is only part of the tax burden placed on business.

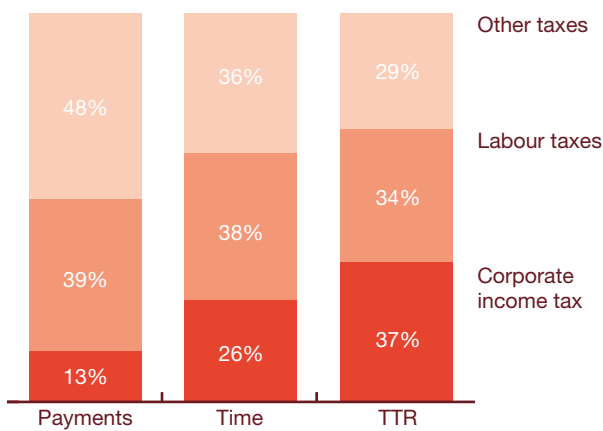
Figure 2.1 overleaf shows that taking an average of all the economies in the study, corporate income tax accounts for only 13 percent of the tax payments made by the case study company, 26 percent of the compliance time and 37 percent of the TTR. This result has hardly moved from last year (12 percent, 26 percent and 37 percent respectively).

In addition to the findings on the three indicators there is some further non-indicator data we can look at to illustrate this point.

Corporate income tax – only one of a number of taxes

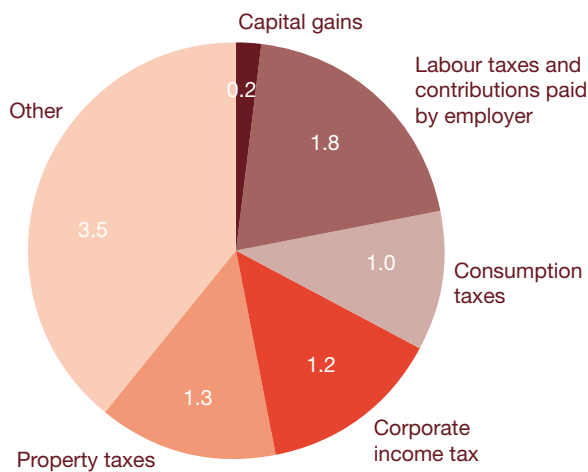
The message that corporate income tax is only one of many taxes can also be simply illustrated by looking at the number of taxes that the case study company is required to comply with (both those it collects on

Figure 2.1
Corporate income tax is only part of the burden of taxes



Note: The chart shows the average result for all economies in the study
Source: *Doing Business* database

Figure 2.2
Corporate income tax – is only one of a number of taxes borne and collected



Note: The chart shows the average number of taxes for each category of tax for all economies in the study
Source: *Doing Business* non-indicator data

behalf of government and those which are borne by the company). **Figure 2.2** shows that on average across all 181 economies the case study company has to comply with nine different taxes. In addition to corporate income tax, there are other taxes on profits, taxes on capital gains, labour taxes and contributions, taxes on property, sales and consumption taxes and other taxes which the company either bears or collects. Examples of taxes classed as ‘other’ in the survey are fuel tax, advertising tax and insurance tax.

Figure 2.3 shows the average number of taxes for the case study company by region ranging from just over eight on average in the ASEAN economies³ to 12 on average in the BRIC economies⁴. **Figure 2.3** shows clearly that taxes on profit are only part of the picture.

Within regions there can be a wide range in the number of taxes that governments levy on the case study company. In the European Union for example the number of taxes ranges from five in Sweden to 16 in Austria.

The case study company in Sweden needs to comply with only five taxes, being: corporate income tax on profits and capital gains; one labour tax; one property tax; VAT and fuel tax. The policy of having one main tax per base (profits, capital, labour and transactions) is considered to be good practice by the World Bank⁵ as it reduces the administrative burden for the taxpayer and the tax authority.

In contrast the case, study company faces 16 different taxes in Austria. Austria has a profits tax and five

3 The Association of South East Asian Nations comprises Indonesia, Malaysia, The Philippines, Singapore, Thailand, Brunei, Vietnam, Lao PDR, Burma and Cambodia. Burma (Myanmar) does not take part in the Paying Taxes study.
4 BRIC is used to refer to the economies of Brazil, Russia, India and China.
5 World Bank *Doing Business* 2008.

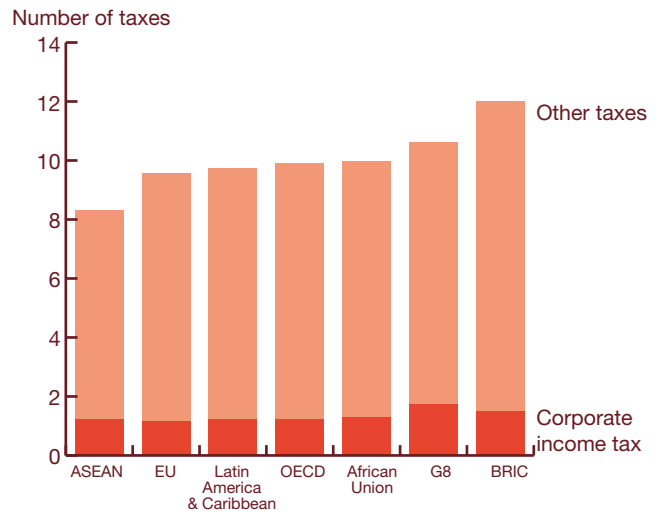
Total Tax Contribution studies

In addition to the work undertaken on the Paying Taxes chapter of the *Doing Business* report, PricewaterhouseCoopers also undertakes empirical studies. It is interesting to look at some of the comparisons. Our work in the UK with the Hundred Group of finance directors¹ shows that on average large companies bear nine UK taxes and collect four more. The figure is seven UK taxes borne for the case study company but only two taxes collected. In Canada however, in our work with the Canadian Council of Chief Executives² the average was 14 different taxes borne and six collected. The case study company bears 10 taxes and collects two taxes in Canada. This differential may arise from a business landscape, which for larger companies is more complex. The case study company operates in a sole location whilst larger companies will often operate in more than one province. Their results reflect a lack of uniformity of the rules of many provincial and municipal taxes. We look further at the issue of different levels of taxation in Section 2.

- 1 Total Tax Contribution PricewaterhouseCoopers LLP 2007 survey for The Hundred Group.
- 2 Total Tax Contribution Canada's tax regime: complexity and competitiveness.

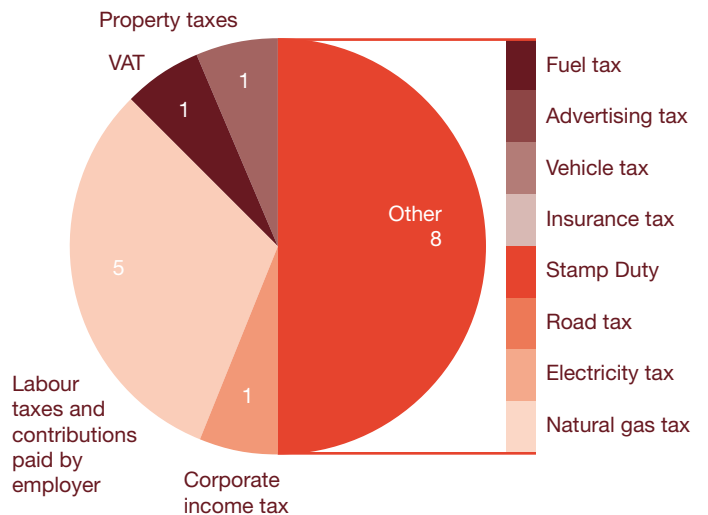
labour taxes, being a Family Allowance Contribution (4.5 percent of wages), pension contributions from the employer (1.53 percent of wages), social security contributions (c.21 percent of gross salaries), municipal employees tax (3 percent of gross wages) and a contribution to the chamber of commerce of 0.4 percent of wages. The case study company also bears a property tax and nine other taxes including VAT and a number of other consumption and environmental taxes. This is illustrated in **Figure 2.4**.

Figure 2.3
Average number of taxes to comply with, by region



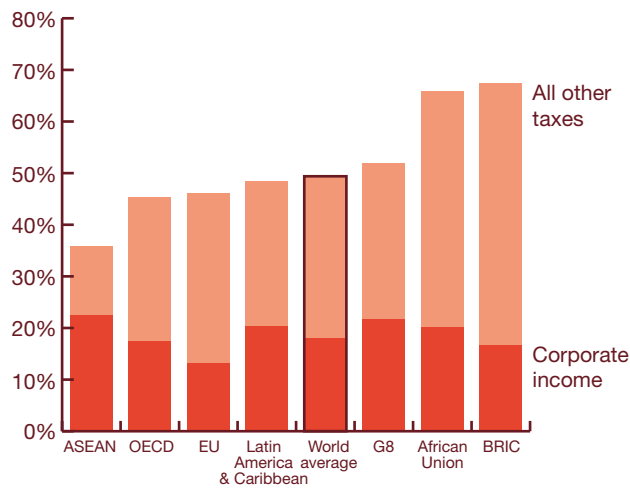
Note: The chart shows the average result for the economies in each region
Source: *Doing Business* database

Figure 2.4
Austria – number of taxes to comply with



Source: *Doing Business* non-indicator data

Figure 2.5
Comparison of Total Tax Rates by region



Note: The chart shows the average result for the economies in each region
Source: *Doing Business* database

The number of taxes in Austria also determines the number of payments made. In addition to one payment each for corporate income tax and VAT, there are four for labour taxes (the family allowance contribution is paid with another labour tax) and 16 for other taxes, making 22 tax payments in total.

The large number of taxes in Austria does not however lead to a large number of hours to comply with the tax system. The five different labour taxes only take the case study company 55 hours to comply with. The fact that the labour taxes are all calculated using the same base (gross wages) probably helps here.

Corporate income tax only part of the tax cost

The total tax cost is one of the three indicators which the Paying Taxes study measures in order to assess the ease of paying taxes in an economy.

To measure tax cost, the methodology calculates the Total Tax Rate for the case study company, in line with the PwC Total Tax Contribution methodology. This adds up all taxes and mandatory contributions borne by the case study company and expresses the total as a percentage of commercial profits⁶. It is important to have a measure of the tax cost included in this analysis, as both tax rates and tax administration are issues for business. The data gathered by the World Bank in its Enterprise Surveys⁷ cover business perceptions and many indicators on the quality of the business environment. The Enterprise Surveys collect information about the business environment, how it is perceived by individual firms, how it changes over time, and about the various constraints to firms' performance and growth. Some of these indicators look at the tax environment and conclude that for those surveyed, tax rates or tax administration are among the top five constraints to doing business.

The Paying Taxes data measures the impact of tax systems from the point of view of companies. The results clearly show that in looking at the cost of taxes for the case study company, it is important to include all the taxes that it bears and not just corporate income tax. **Figure 2.1** on page 18 shows that on average for all economies corporate income tax represents only 37 percent of TTR. Therefore, in considering tax reform, government and business should be looking at and discussing much more than just corporate income tax.

Figure 2.5 compares the average TTR by region and shows how corporate income tax and other taxes borne contribute to this result.

⁶ 'Taxes borne' in the PwC methodology means those taxes that affect the results of the company, as opposed to the taxes collected where the company acts as tax collector for the government. A more detailed explanation of the methodology including commercial profits is included in Appendix 2.

⁷ World Bank Enterprise Surveys (<http://www.enterprisesurveys.org>).

Mexico – using Paying Taxes to benchmark against other countries

Carlos Montemayor – PricewaterhouseCoopers, S.C.

In last years publication, Paying Taxes 2008, Mexico was ranked 155 out of 178 economies in the category of “Time to comply (hours per year)”. This was of great concern to the Mexican tax authorities.

In Mexico, income tax and value added tax are collected and administered by the Tax Administration Service (“SAT”), while social contributions are collected and administered by two other separate administrations (i.e., the Mexican Institutes of Social Security and Housing Fund) and state taxes are collected and administered by the State Treasury where the taxpayer resides.

Since 2002, Mexico has been trying to improve its tax system, looking at the revenues collected and the number of taxpayers enrolled. In 2002, the monthly cash flow basis was first introduced for value added tax in Mexico, with the objective of keeping VAT simple. However, these changes resulted in additional administrative and infrastructure burden, as the new VAT cash flow basis coexists with the accrual basis system for income tax.

In 2005, the deductibility of acquisitions of inventory was substituted by the deduction of the cost of goods sold for income tax purposes, and thin capitalisation rules were introduced. This gave rise to a considerable amount of additional time required in the year of change.

As from 2007, the annual information return on transactions carried out with clients and suppliers was substituted with a monthly VAT information return. This was helpful in avoiding tax evasion, but increased the time to comply.

In 2008, there has been a repeal of the asset tax and the introduction of a new flat tax (“IETU”). These measures were aimed at augmenting revenue collection by increasing taxpayer enrolment, rather than being focused on compliance efficiency. So although these are important corporate tax reforms they are not expected to affect the Paying Taxes ranking for Mexico as they do not affect the specific situation of the case study company.

With the availability of the information generated by Paying Taxes, the SAT has been able to focus on the heavy amount of time required for a standard sized taxpayer to comply with income tax and value added tax. The SAT has been very active in seeking to understand and address the issues with a view to improving Mexico’s position. The SAT has begun a process of analysing and evaluating opportunity areas to achieve the goal of improving the time taken to comply. Initial research has been undertaken with certain types of taxpayers to identify opportunities for improvement. PricewaterhouseCoopers is in the process of providing some specific ideas that may help achieve the higher efficiency goal.

Additionally, the SAT and PricewaterhouseCoopers Mexico are gathering specific feedback from countries which are perceived to have more efficient compliance systems, using the PricewaterhouseCoopers global network. The UK (ranked 22 in the 2008 study), Australia (ranked 23), Ireland (ranked 9), New Zealand (ranked 7) and Singapore (ranked 3) , are the countries which have been asked to help by analysing in more detail the time taken in their respective countries and to then compare their results with Mexico, so that possible changes to improve Mexico’s time to comply can be identified.

India – an authoritative and independent statistical measure of taxes

Rahul Garg – PricewaterhouseCoopers Private Limited

Since its initial launch in India, Paying Taxes has come to be widely recognised by experts as an authoritative and independent statistical measure which helps document under an objective standard the aggregate tax burden on corporate India. The Paying Taxes data is keenly followed by the media and the tax administrators alike. The Government interest in the indicator can be evidenced from the fact that the revenue authorities have established an active dialogue with the Paying Taxes team to understand the methodology and also gain suggestions which may help improve India's compliance indicators on the survey. In this context the Government of India has set up an expert group under the Central Board of Direct Taxes, which, with the help of external consultants, has the mandate to devise a long term road map for administrative and compliance improvements in the tax collection machinery.

Some of the recent initiatives of the revenue authorities in the direction of tax reform parameters measured by the study include measures to reduce the processing time and improve service levels through mandatory electronic filing of corporate tax returns, and electronic payment of taxes. Further, services like the issuing of tax identification numbers, checking tax credit online, and the collation of withholding tax returns, have been outsourced to external agencies.

An important milestone for the Paying Taxes study has been its ability to capture the impact of the cascading effect of state levies in the form of indirect taxes on total taxes expressed in relation to corporate profits.

On the indirect tax front the Government is targeting 2010 as the year to introduce a uniform 'Goods and Services tax' in India. Last year the Government successfully implemented a common system of State VAT by arriving at a consensus among individual states through a consultative process. The new VAT system is aimed at removing the cascading effect of local taxes and also ensuring a uniform price of commodities across states. The central excise and customs duties have also been reduced to levels which lead to better compliance and an increased tax base.

Stamp Duties are another area that needs to be addressed. Currently, different states have different schedules of stamp duty. This can, in some cases, range upwards of 5 percent of transaction value. It is hoped that the Paying Taxes data will help focus regulatory attention on achieving better uniformity of rates and easier transaction processes across states for stamp duty levy.

It is therefore hoped that the compliance and fiscal policy improvements, stimulated by Paying Taxes will lead to steady improvement in the Indian TTR and will subsequently improve the Paying Taxes ranking.

PricewaterhouseCoopers in India is also running a Total Tax Contribution (TTC) survey of larger business. The results of this survey will be available in November/December 2008. This will provide real data on the taxes borne and collected by business. It will be interesting to compare the results of this survey with those of Paying Taxes and also with the results of similar TTC surveys undertaken by PricewaterhouseCoopers in other countries.

As can be seen in **Figure 2.5**, on page 20, the proportion of TTR made up by corporate income tax varies from region to region, but it is clear that in the EU it is on average a low proportion of a country's TTR. **Figure 2.6** shows the position in France.

Effective rates of current corporate income tax

As noted in Chapter 1, reducing the statutory rate of corporate income tax has been the most popular government tax reform in the period. However in most of the economies, the case study company does not pay corporate income tax at the statutory rate on its profit before tax, since the tax rules require adjustments to be made to this in order to calculate taxable profits. A common example is to substitute tax depreciation for commercial amortisation of assets.

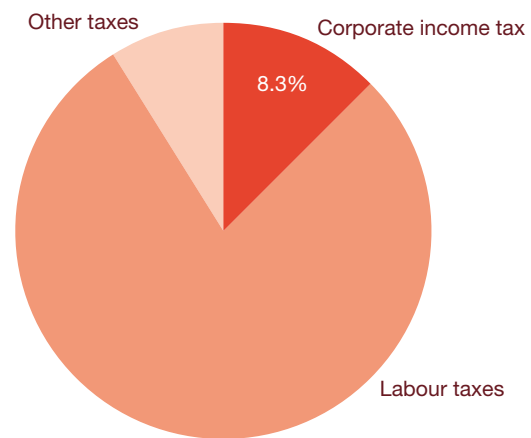
The effective rate of current corporate income tax can be defined as the actual rate of corporate income tax paid as a percentage of profit before tax (see Appendix 2 for an explanation of the calculation). **Figure 2.7** compares this effective rate with the statutory rate of corporate income tax for the G8 and BRIC (Brazil, Russia, India and China) economies, and shows that the two are often not the same.

The key point to recognise is that it is not simply the statutory rate of corporate income tax that is important here, but also the effective tax rate for current corporate income tax, taking into account all the additions and deductions to profit before tax that tax rules may require.

The time spent on corporate income tax

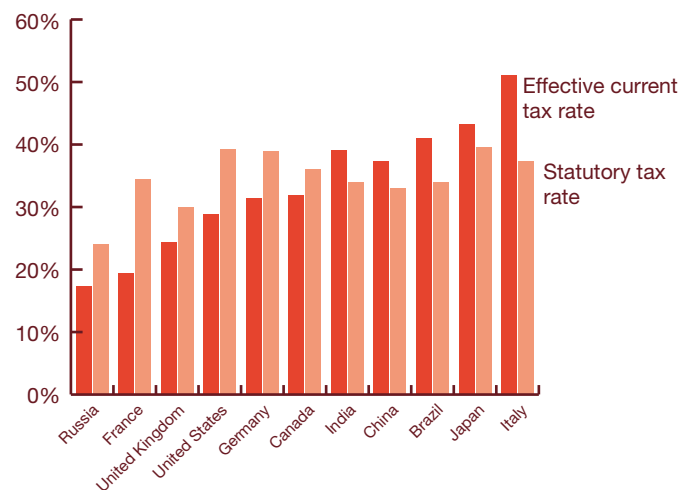
Figure 2.1, on page 18, shows that on average across all 181 economies the case study company spends 26 percent of total tax compliance time on corporate

Figure 2.6
 France – Corporate income tax as a percentage of Total Tax Rate



Source: *Doing Business* database

Figure 2.7
 Effective rate of current corporation tax vs statutory rate for G8 and BRIC countries



Source: *Doing Business* database

income tax, the smallest percentage when compared to labour taxes (38 percent) and consumption taxes (36 percent).

There is however, a wide range of results to consider as regards the time spent. In ten economies around the world, it takes the case study company over 200 hours to comply with the corporate income tax system. In Belarus it takes 960 hours – the highest for any economy in the study. Brazil follows with 736.

The *Doing Business* team asks contributors to estimate the hours to comply between ‘Preparation’, ‘File’ and ‘Pay’. There is inevitably some subjectivity in the compilation of the data as what is being measured relates to a case study company, not a real situation. Considerable effort has gone into checking and confirming that the methods used

are broadly consistent and as robust as possible so valid conclusions can be drawn – though total reliance should not be placed on the precise figures quoted.

Figure 2.8 shows this split for those economies where compliance takes over 200 hours. Preparation time is the dominant feature. A more detailed analysis of the data supplied for Belarus is shown in **Figure 2.9**, on page 25.

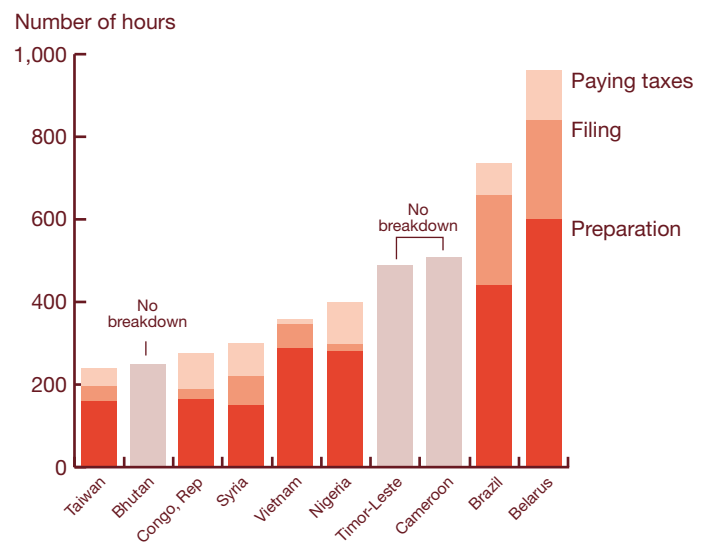
This shows that it takes 600 hours to prepare the corporate income tax computation in Belarus: 150 hours are spent on gathering data and analysis; 300 hours are spent on the actual calculations and data input; and another 150 to prepare and maintain the mandatory tax records that are required for tax purposes.

Use of the Paying Taxes data

In their research on “The effect of corporate taxes on investment and entrepreneurship”¹ Andrei Shleifer of Harvard University and co-authors have used the data generated by the Paying Taxes indicators in conjunction with data collected from national statistical offices, to present some results which show the relationships between corporate income taxes, investment, and entrepreneurship. The paper broadly concludes that effective corporate income tax rates have a large and significant effect on corporate investment and entrepreneurship. Higher effective corporate income tax rates are associated with a larger informal sector, greater reliance on debt as opposed to equity finance and slower economic growth.

¹ “The effect of corporate taxes on investment and entrepreneurship” Simeon Djankov, Tim Ganser, Caralee McLiesh, Rita Ramalho, Andrei Shleifer (2008).

Figure 2.8
Hours to comply with corporate income tax



Note: No breakdown of hours to comply is available for Cameroon, Timor-Leste or Bhutan

Source: *Doing Business* database

Figure 2.9
Belarus and Australia – Analysis of hours to comply with corporate income tax

Preparation	Hours per year	
	Belarus	Australia
Data gathering from internal sources (for example accounting records)	100	5
Additional analysis of accounting information to highlight tax sensitive items	50	10
Actual calculation of tax liability including data inputting into software/spreadsheets or hard copy records	300	10
Preparation and maintenance of mandatory tax records if required	150	1
Total	600	26
Filing		
Completion of tax return forms	200	5
Time spent submitting forms to tax authority, which may include time for electronic filing, waiting time at tax authority office etc	40	1
Total	240	6
Paying taxes		
Calculations of tax payments required including, if necessary, extraction of data from accounting records, and time spent maintaining and updating accounting systems for changes in tax rates and rules.	100	1
Analysis of forecast data and associated calculations if advance payments are required	–	3
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)	20	1
Total	120	5
Grand Total	960	37

Source: *Doing Business* database

The need to understand why corporate income tax compliance is much more time consuming in some economies than in others has prompted a number of constructive discussions with tax authorities. A good example is Mexico. Here, the number of hours (143) vastly exceeds those in the countries that the Mexican authorities see as a helpful ‘peer group’, including: Australia (35), Singapore (34), and the UK (35). PricewaterhouseCoopers Mexico has embarked on an exercise with the Mexican tax authorities to identify the reasons for the differences and to consider the implementation of best practices.

In some economies such as Nigeria, even paying the corporate income tax is onerous. Out of a total of 398 hours for corporate income tax compliance 100 is required for paying taxes; 40 for calculating the tax payments; 30 for calculating instalment payments; and 30 to actually make the payment itself. This has prompted a review of the payment mechanisms for all taxes in Nigeria. Changes have been made to enable companies to pay all of their taxes in one location rather than to different tax offices for different taxes. PricewaterhouseCoopers Nigeria comments on the issues addressed in Nigeria on page 52 of this publication.

Mandatory tax books

The breakdown of the preparation time for Belarus identifies the preparation and maintenance of mandatory tax records required for corporate income tax as contributing an additional 150 hours to the total required. This sort of requirement naturally means that the compliance hours will be more onerous than in economies where tax calculations are drawn from the general accounting records and separate tax books are not required such as Australia.

This year contributors were asked to identify whether there is a requirement to keep mandatory tax accounting records in their country. Of the 157 economies for which data was provided 34 percent require separate records.

2. The impact of employment taxes

The question is often asked whether tax payments relating to wages and salaries should really rank as taxes. Should they be included within the Paying Taxes measurements? The fact that they are often handled by government authorities other than the main tax authority, and that they are typically governed by separate legislation, contribute to the challenge, together with the objection in principle that such levies affect the amounts of wages and salaries, rather than impacting the business as such.

Essentially, a tax can be defined as a payment made to government, which is:

- compulsory,
- used as part of public finances, and
- provides no direct return of value to the payer.

There is more discussion of these criteria in Appendix 2.

Employment taxes (labour taxes and contributions) are therefore included in the *Doing Business* project methodology on the basis of these criteria. It should also not be forgotten that, for the Paying Taxes study, other government mandated payments, such as the contributions required to fund an individual's superannuation fund in Australia, are also included. These are included whilst recognising that they are not strictly taxes. Further details of the methodology are included in Appendix 2.

The policy choice – a burden on the employer or the employee?

It is worth revisiting the distinction between a tax borne and a tax collected, in the context of employment taxes, the policy choice that is available to governments and how this is reflected in the data.

Employment taxes can be borne by either the employer or employee or both. How this division falls is a decision of government and the fiscal policy which it decides to adopt.

To the extent that the tax is borne by the employer (e.g. employer social security contributions), then it will be reflected in the TTR. It will also impact on the numbers of hours to comply and the number of tax payments to be made.

Where the employment tax is borne by the employee (e.g. personal income tax), it is not a tax borne by the company. It may still be collected by the company as the employer, via a deduction at source mechanism. In this circumstance it will be a tax collected, not a tax borne, and so will not impact the TTR. Taxes collected do still have an impact on the number of hours to comply and the number of tax payments required.

It is interesting to compare how different policy objectives may be reflected in the Paying Taxes results.

Denmark is a country that is perceived to have high employment taxes. However, only 1 percent of the TTR of 29.9 percent in Denmark is contributed by labour taxes. The reason is that there are minimal social security taxes borne by the employer. The great majority of employment taxes in Denmark are borne by the employee. Individuals can face a tax rate of up to 59 percent on their net income as well as social

Slovakia – Paying Taxes – a catalyst for change by comparing with others

Clare Moger and Radmila Benkova – PricewaterhouseCoopers Tax k.s.

In Slovakia, Paying Taxes is a source of information for many articles and benchmarks, and is often quoted in the Slovak media. Business professionals examine the results every year and compare countries, as well as Slovakia's year-on-year position.

The study brings to the attention of the Slovak government areas in which Slovakia's tax system is either more, or less, favourable and efficient than other countries. Paying Taxes is one of the factors that is helping to influence changes to the tax system in Slovakia.

Slovakia has undergone a significant tax reform, which came into effect in 2004. Among other things, this introduced the flat rate of 19 percent for corporate income tax, personal income tax and VAT, reducing the tax burden on businesses and individuals, and helping to simplify the calculation of taxes. A 10 percent reduced VAT rate was subsequently introduced for certain items. However, after the tax reform, despite a generally favourable tax regime, Slovakia lagged behind many other countries in relation to the administrative burden imposed on taxpayers as a result of the tax administration system.

Thus in March 2008, the Slovak Ministry of Finance published a concept for tax and customs reform, which aims to unify the collection of taxes, customs duty and social security contributions ("the Concept"). One reason for the Concept is that it takes taxpayers a great deal of time to deal with taxes, social security

and health insurance payments. There are a large number of payments that business entities operating in Slovakia need to make to different institutions, and many of these payments have different deadlines. In addition, the Concept seeks to simplify the method of filing tax returns, and reduce the need for representatives of businesses to visit the tax office to deal with administrative issues. These changes should reduce the administrative burden on taxpayers, and provide increased efficiency for the state.

The Ministry of Finance hopes the Concept will lead to the establishment of an effective, taxpayer-oriented tax and customs system, which will be competitive within the European Union. It should lead to cost savings for the state budget, a reduction in tax and customs duty evasion, a reduction in the administrative burden, and an increase in productivity.

At this early stage, it is difficult to estimate whether the actual results will meet the Ministry of Finance's expectations. We hope they do, and, should the reform be successful, it is likely that this will have a significant impact on Slovakia, improving its place in the rankings within Paying Taxes.

Many taxes and a high TTR – a problem for competitiveness in Belgium?

Frank Dierckx – PricewaterhouseCoopers Tax Consultants SCCRL

This latest comparison of the Total Tax Rate in Paying Taxes still shows Belgium in a low position in the rankings at 146 out of 181. Belgian taxes remain as high as ever (a TTR of 58.1 percent), in spite of the efforts made to reduce the tax burden. The tax and social security percentage of the GDP has remained stable for the last 3 years at 44.2 percent suggesting that the objective of reducing the tax burden has not been attained.

The fact that the overall tax burden has not been impacted by the reforms carried out (such as the notional interest deduction) also shows that they have not cost the State anything. So the contributors to government finances continue to invest in a thriving State apparatus. But are we getting value for money? And what is happening in other countries? How is the tax system elsewhere being used competitively?

Countries around the world are competing to attract foreign investments, and the tax system can often be a decisive element in the decision making process. Investors keep the economy moving, and assist with the generation of prosperity. It can start with the decision as to where to locate a European or

international headquarters, but this can easily lead to more extensive plans for the best location for a business. Countries like the Netherlands, Ireland and Cyprus have been very successful at attracting investors. Belgium has taken steps in the right direction, but still has a long way to go. The major disadvantages remain the high tax rates and the complexity of the country's tax rules. Belgium levies no fewer than 63 different taxes on companies which no doubt contributes to high compliance time. This can be seen for the Paying Taxes case study company where for Belgium it takes 156 hours, ranking it 52 out of 181. In addition to these factors uncertainty over whether newly introduced tax breaks will remain in place is also an inhibiting factor for foreign investors. A certain stable tax environment is key for business.

For a second year, PricewaterhouseCoopers Belgium is running a Total Tax Contribution survey of larger businesses with the Federation of Enterprises in Belgium to further analyse and monitor trends and changes in the tax burden. The current survey also includes questions aimed at quantifying the cost of tax compliance in Belgium which is perceived to be very high. Results of this survey are expected in early 2009.

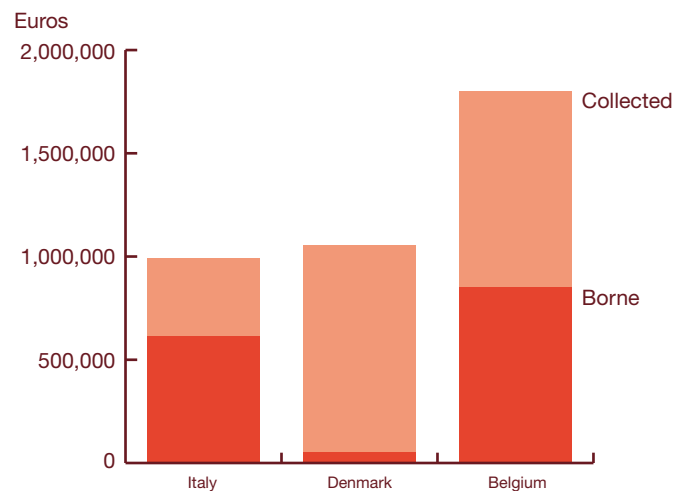
security contributions comprising a labour market and pension contribution of 8 percent of gross salary and a supplementary old-age pension contribution of DKK 976 per annum (US\$193)⁸. This compares with the position for the employer which (apart from financial institutions which bear a much higher salary based charge) only bear:

- a social security contribution of DKK1,951 (US\$390) per employee per annum;
- an old-age pension contribution (ATP) of DKK976 (US\$193) per employee per annum; and
- a work injury insurance charge of DKK4,000 (US\$790) per employee per annum.

Belgium and Italy are others countries in the EU which have high employment taxes. However in these cases employment taxes borne by the employer are a contributing factor to the high TTR. In Belgium, 50.4 percent of the TTR (i.e. of 58.1 percent) represents labour taxes and in Italy the percentage is 43.2 percent of the TTR (of 73.3 percent). The high TTR in Italy is explained in **Figure 2.14**, on page 32. In Belgium, companies have to pay regular social security contributions calculated on workers' salaries as well as holiday contributions – both are a cost to the company. These two contributions are calculated on 108 percent of employees' gross salaries and carry tax rates of 40.6 percent and 10.27 percent respectively.

Figure 2.10 shows the amounts of employment taxes both borne by the employer and collected from the employee for the case study company in Denmark, Italy and Belgium. It illustrates the impact of government policy choices on employment taxes.

Figure 2.10
 Employment taxes – borne and collected



Source: *Doing Business* database

⁸ Exchange rate valid as at 31.12.2007.

The data collected for the Paying Taxes indicator enables us to show the results for employment taxes in this way. It also enables us to show the total amounts paid by the case study company into the public finances, including taxes collected. **Figure 2.11** shows the total amount paid to government by the case study company in Denmark, Belgium and Italy, in the context of amounts paid or available to other stakeholders. They are wages and salaries (net of employee taxes) paid to employees, net interest (paid on debt to finance the company) and profit after tax (split between dividends paid to shareholders and the amount available to reinvest).

The analysis of taxes borne and collected shows the different fiscal policies adopted by Belgium, Italy and Denmark. The charts for Italy and Belgium show higher levels of taxes borne (27 percent and 21 percent respectively) by companies in these countries, compared to Denmark (10 percent).

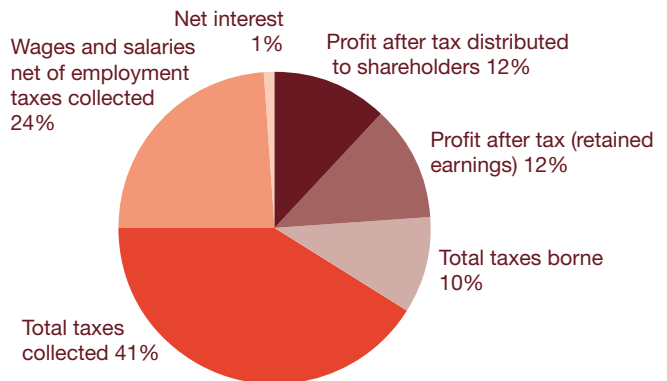
Employment taxes – more than one tax?

Employment taxes come in all shapes and sizes and there tends to be more than one applied in each of the economies in this study. There are numerous examples of this but we will highlight one here.

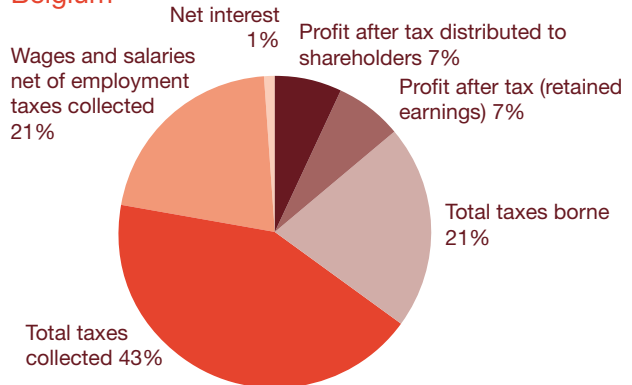
Romania applies 17 taxes to the case study company, seven of which are labour taxes. The number of labour tax payments in the year is 84 out of a total of 113 tax payments (as illustrated in **Figure 2.12** opposite). Labour taxes make up 74 percent of the TTR, account for 74 percent of the tax payments and 54 percent of the hours to comply in Romania. The 17 taxes that give rise to the total number of tax payments of 113, comprise corporate income and capital gains tax, two property taxes, seven labour taxes, and six other taxes ranging from environmental taxes to vehicle tax.

Figure 2.11
 Taxes borne and taxes collected as a percentage of value created

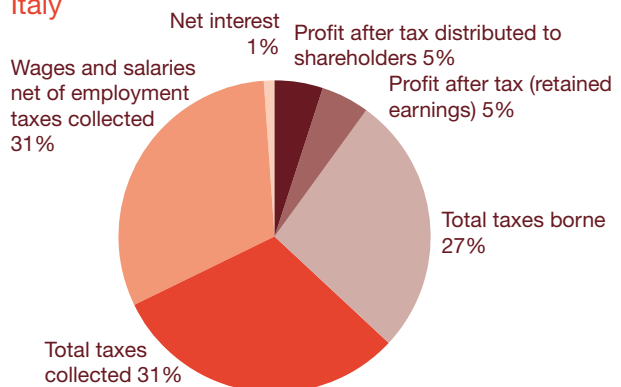
Denmark



Belgium



Italy



Source: *Doing Business* database

Employment taxes – a significant contribution to TTR

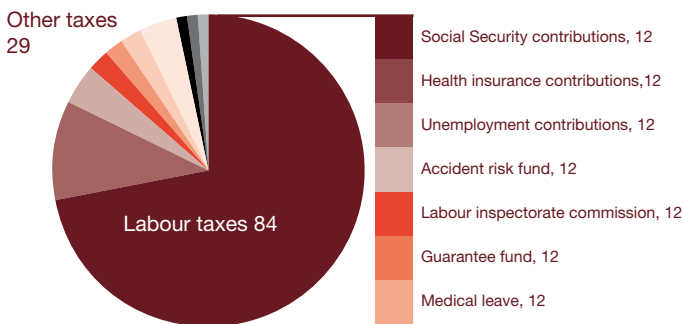
Figure 2.1, on page 18, shows that employment taxes overall account for 34 percent of the TTR. They are a significant element of the tax cost for business. Europe continues to be a region where labour taxes are a particular feature. Figure 2.13 shows Total Tax Rates for the EU split by type of tax.

The largest element for the four economies with the highest TTRs in the EU (Belgium, Spain, France and Italy), is labour taxes. This is also reflected in our Total Tax Contribution survey with the large companies in Belgium, sponsored by the Verbond van Belgische Ondernemingen (VBO) / Federation des Entreprises de Belgique (FEB). The average TTR for companies in the survey was 52.07 percent of which 20.8 percent was employment taxes see commentary on page 28.

For the case study company used in the Paying Taxes methodology, labour taxes borne are also the largest element of the TTR in Italy (see Figure 2.14, on page 32). Labour taxes account for 59 percent of the TTR. The social security contributions borne by companies in relation to their employees in Italy include a mandatory contribution for work termination (11 percent of TTR) and a range of social security contributions which together make up 48 percent of TTR.

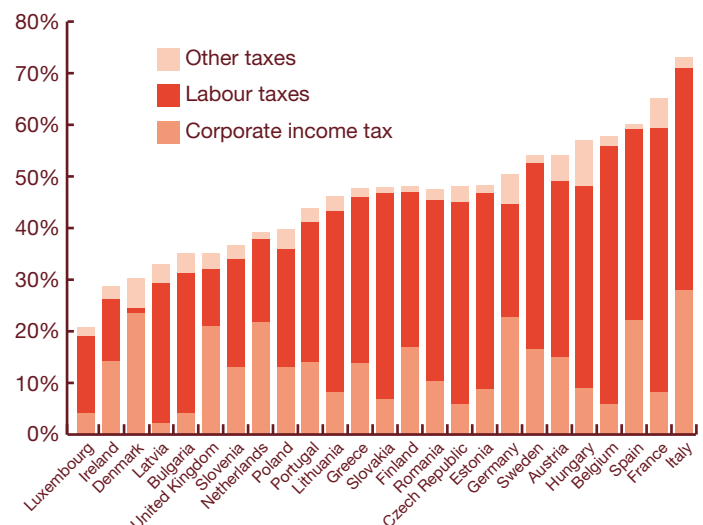
Figure 2.15 overleaf compares the EU with other geographic and economic groupings. On average, employment taxes in the EU account for more than half of the TTR of the case study company. Labour taxes are also an important part of fiscal policy in the BRIC economies, the OECD and the G8.

Figure 2.12
Romania – labour tax payments



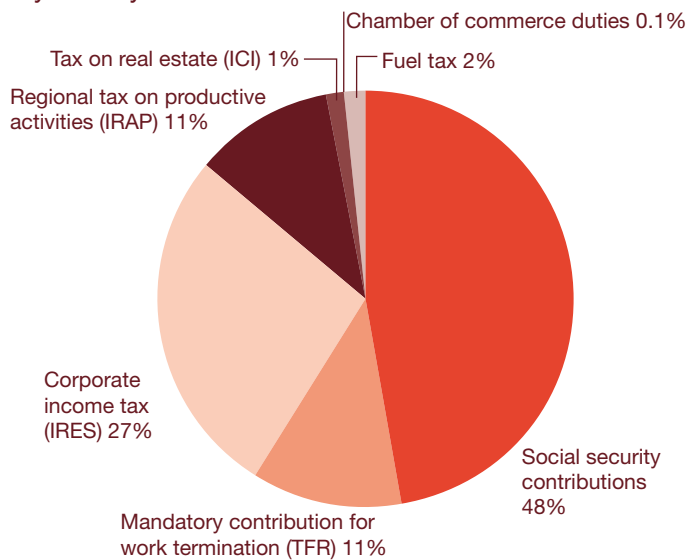
Source: Doing Business database

Figure 2.13
EU comparison of Total Tax Rates



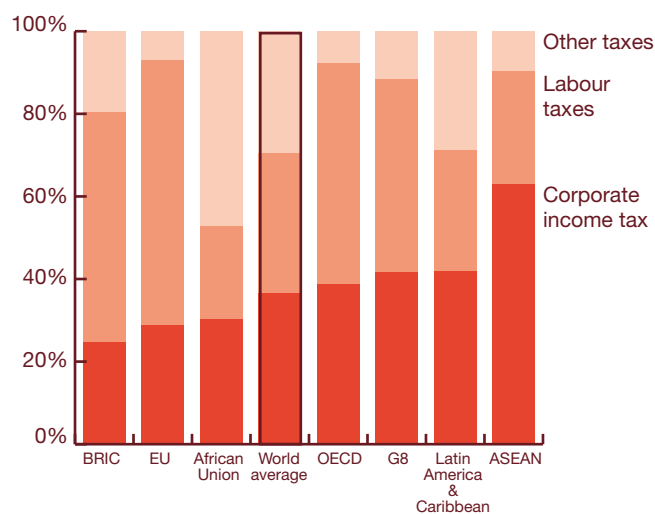
Source: Doing Business database

Figure 2.14
Italy – analysis of TTR



Source: *Doing Business* database

Figure 2.15
Analysis of the TTR by region



Source: *Doing Business* database

Figure 2.15 suggests that employment taxes are less significant in Africa than in some other regions. Taking South Africa as an example, the message from the data is very different from that seen in the EU. In South Africa, whilst there are four different labour taxes, these contribute only 2 percent of TTR of 34.2 percent. This is because the larger element of employment taxes is collected from the employee. In South Africa employment taxes take the case study company 50 hours to comply with, 25 percent of the total hours. Each of these taxes has a separate tax law governing its operation. Recent reform means that one of these labour taxes has now been abolished but three remain.

Time spent on employment taxes can be significant

Nigeria is an example of an African country where the hours needed to comply with employment taxes are high. There are three labour taxes applied to the case study company, which needs 378 hours to comply with these. **Figure 2.16** opposite shows that 280 of these are spent on the preparation of the tax calculations. The time to comply with labour taxes in Nigeria has reduced this year from 480 hours previously, largely in view of the reforms to the payment process (consolidating the location for payment) and electronic filing (see page 52).

Reforms around employment taxes: France and Ukraine

Chapter 1 highlighted that some economies have focused their tax reform on employment taxes – in some cases reducing the rate of contributions and in others, simplifying the tax administration system. The Paying Taxes data shows that employment taxes are part of the tax burden on the case study company. Therefore making such taxes easier to comply with will have a positive impact on the overall ease of paying taxes. It is worth highlighting France and the Ukraine in this regard.

Figure 2.16
Nigeria – hours to comply with labour taxes

Preparation	Hours per year
Data gathering from internal sources (for example accounting records)	120
Additional analysis of accounting information to highlight tax sensitive items	120
Actual calculation of tax liability including data inputting into software/spreadsheets or hard copy records	40
Preparation and maintenance of mandatory tax records if required	0
Total	280
Filing	
Completion of tax return forms	8
Time spent submitting forms to tax authority, which may include time for electronic filing, waiting time at tax authority office etc	10
Total	18
Paying Taxes	
Calculations of tax payments required including if necessary extraction of data from accounting records, and time spend maintaining and updating accounting systems for changes in tax rates and rules.	40
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)	40
Total	80
Grand Total	378

Source: *Doing Business* database

In France, the process of paying labour taxes and contributions has been simplified as part of the preparation for mandatory electronic filing. This has substantially reduced the number of labour tax payments from 14 to two, significantly improving France's ranking on tax payments from 65 to 30.

In Ukraine the number of hours required to comply with labour taxes has been reduced substantially from 732 hours to 416, by making it simpler to file and pay taxes through the introduction of electronic systems and online payment capabilities. But the improvement in terms of ranking on the hours to comply here was only four places (from 176 to 172). These examples demonstrate that looking at the movement in the rankings alone is not enough to get an understanding of the extent of the reform, and its impact. There is further discussion on the impact of improvements on the rankings on page 44.

3. The impact of consumption taxes

Consumption taxes around the world are levied on production and/or sales of goods and services. In many economies, revenues from consumption taxes are the largest element of tax revenues. There is an assumption that the impact of consumption taxes on business is relatively limited as these are taxes companies collect rather than bear. However, the Paying Taxes analysis shows that there are issues to consider from the perspective of companies: the type and variety of consumption taxes that are levied, and the number of hours that are required to comply with these taxes. It will also normally be the case that a company will bear some sales taxes – on its own consumption in some cases and through irrecoverable VAT on certain supplies.

The variety of consumption taxes

There are a variety of different consumption taxes used by governments and in some economies they can be a significant element of the taxes borne by business. Four main types of sales tax are identified which have very different impacts on the case study company. The different sorts of sales tax are explained in more detail on page 37. Consumption taxes are classed as 'other taxes' in the data tables. This category also includes taxes such as fuel taxes, insurance taxes and various forms of environmental taxes. The analysis in this section is focused primarily on VAT and sales taxes and their impact on the Paying Taxes rankings. Section 3 goes on to discuss environmental taxes in more detail.

VAT⁹ – the dominant form of consumption tax

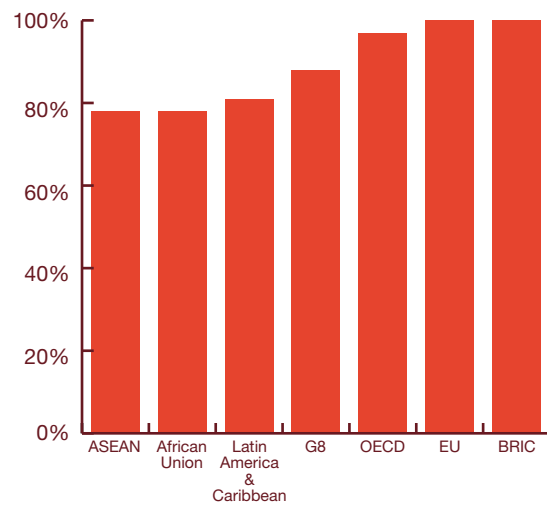
The continuing reduction in rates of corporate income tax suggests a shift from taxes on profit to taxes on consumption around the world and Value Added Tax (VAT) is the most common form of consumption tax that economies are implementing.

VAT is now the most dominant form of consumption tax around the world – in some form or other it is used in 79 percent of economies (see **Figure 2.17** for a regional analysis). The United States is the only OECD and G8 member country that does not have a VAT system.

With a VAT system, final consumers bear the tax whilst business acts as the unpaid tax collectors for the tax on the "value added" by their part in the chain of supply. An efficient compliance process is therefore important for business, and governments

Figure 2.17

Geographical analysis of proportion of economies with a VAT system



Source: *Doing Business* non-indicator data

have a responsibility to devise simple VAT systems with as few boundary issues and other complexities as possible.

Brazil is a good example of a country which has embraced the concept of a VAT system and now has it at several levels – a federal excise tax (IPI), a state VAT on sales and services (ICMS) and VAT for social contributions (PIS/COFINS¹⁰).

⁹ As noted earlier, VAT is used as a shorthand to encompass all forms of VAT, GST etc.

¹⁰ COFINS which is levied at 7.6 percent is a monthly federal social assistance contribution calculated as a percentage of revenue. A new enacted COFINS credit system is meant to ensure the tax is applied only once on the final value of each transaction but some companies are still subject to the previous COFINS system, that is, COFINS is applied at 3 percent and no credit system is allowed.

Spain uses reforms in its corporate income tax rate and electronic filing to improve its overall ranking

Jaume Cornudella Marques – Landwell

The Spanish tax system is based on a self-assessment process for most taxes. This is the case for the most significant taxes: corporate income tax, VAT, personal income tax (both tax payable by workers and withholdings on emoluments made by the paying company) and Social Security contributions. This entails a considerable burden for taxpayers.

The Spanish administration, on its various different levels (central, regional and local), is aware of the effort that taxpayers are required to make and for years it has been introducing measures to facilitate compliance with tax obligations. These measures mainly relate to the use of electronic filing methods. A great number of companies – enterprises with a business volume over €6 million p.a. – are required to file most of their tax returns electronically. Smaller companies may choose to use this option. Although electronic filing may seem complex at first, in fact the system is simple and considerably reduces the time spent on preparing and filing tax returns, and paying taxes. The Tax Administration also provides computer programs to prepare returns for both electronic and paper filings.

The electronic filing of tax data by taxpayers enables the Administration to obtain the data instantaneously, increasing control over the detection of errors or omissions.

The Tax Administration State Agency (“Agencia Estatal de Administración Tributaria”) is the body responsible for administering and collecting most central government taxes and has been particularly interested in how these improvements are reflected in the Paying Taxes statistics for the latest fiscal year. The progress in the computer resources placed at taxpayers’ disposal by the Tax Administration and an improvement in the consistency of the concepts and functions that taxpayers must take into account to meet their tax obligations, have led to a significant reduction in the number of hours to comply.

In addition, Spanish corporate income tax has undergone a reform, the main aim of which was to reduce the statutory tax rate. The rate was cut from 35 percent to 32.5 percent in 2007, and to 30 percent for 2008 onwards, which should be reflected in a reduction in the tax burden, although it is partially offset by a progressive reduction in tax incentives for investment. This decrease in the nominal tax rate reflects the path already taken in other countries. Despite this, Spain will continue to have a relatively high nominal rate compared to neighbouring countries. From a strictly business viewpoint, a further decrease in the tax rate may be desirable, but in the current climate of economic slowdown and uncertainty not only in Spain but in the global economy, considerable prudence is required. Therefore, a substantial structural reform of the Spanish tax system should not be expected in the near future.

Paying Taxes helps initiate an investigation into the effectiveness of the Czech tax system

Lenka Mrazova – PricewaterhouseCoopers Ceska republika, s.r.o.

The Paying Taxes report published in 2007 garnered significant attention from the Czech media. The report was cited by all relevant Czech dailies and economics magazines (a total of 34 citations). As such, it was highly conducive to ongoing discussions about the effectiveness and competitiveness of the Czech tax system.

Due to the huge media interest in the Paying Taxes report, the information from the report caught the interest of the Czech ministries. PricewaterhouseCoopers was contacted first by the Czech Ministry of Industry and Trade, whose representatives asked questions about the methodology used to prepare the report. The Czech Ministry of Finance was also interested in the conclusions of the report. The Head of Tax and Customs Policy Department requested a meeting to discuss the methodology and information used to prepare the report. The Czech Confederation of Unions also expressed an interest in the conclusions of the report, the methodology used, and the Czech tax system in general.

Following the conclusions in last year's Paying Taxes report (Czech republic ranked 168th in the ranking of administrative tax requirements and 113th in the total ranking), the Czech Ministry of Finance has this year initiated a process to undertake a regulatory impact analysis to assess the effectiveness and administrative burden of the Czech tax system. The Ministry has requested an analysis of the effects on large companies, small and medium-sized companies, and private individuals. The project should be completed at the beginning of 2009 and it is expected that the recommendations from the assessment will translate into specific legislative changes on the various taxes.

Last year's publication highlighted the complexity which surrounds the calculation and payment of these VAT taxes and the difficulties in implementing reform due to the fragmented nature of the various state taxation authorities. On page 42, Carlos Iacia of PricewaterhouseCoopers Brazil comments that the Federal Government is looking to present a new tax reform model, with the objective of simplifying the tax system. This is to be discussed with the National Congress.

India also has two different value added taxes. It has a federal VAT tax (CENVAT) and also VAT levied at the state level. In addition to these value added taxes there is also a central sales tax. The state VAT has been implemented using a common system arrived at through a consultative process. This common system has removed the cascading effect of local taxes and ensured a uniform price of commodities across states. The Government is also targeting 2010 as the year to introduce a uniform 'goods and services tax'. It is hoped that once the common system gets well entrenched, there may be opportunities for the authorities to further streamline reporting requests, to move to a quarterly reporting system instead of monthly reporting and to look at removing other taxes.

The time to comply with consumption taxes

The collection of consumption taxes by business can add significantly to the compliance hours required and the tax payments that have to be made. The compliance process for consumption taxes therefore needs to be efficient. **Figure 2.1**, on page 18, shows that overall, 36 percent of the time to comply, on average, is spent on consumption taxes. Efficient systems and processes are therefore important for these types of tax, and care is required when new consumption taxes are introduced to ensure that the

Sales taxes

Sales taxes probably present the best examples of the issues that have to be considered in making the taxes borne/collected distinction. Below are four types of 'sales' taxes that have different treatments for the data, and therefore impact the rankings in different ways:

1. Sales taxes that are charged only at the final point of sale to the consumer are not normally taxes borne by a company as they are suffered only by the final consumer. This type of sales tax is treated as a tax collected.
2. Value added tax is also normally a tax collected. It is a tax which is separately identified in the price charged to the purchaser; the input tax paid by the seller can be set off by the business against the output tax charged on the sale; it is the net that is accounted for to the tax authorities. Each of these attributes point to VAT being a tax collected. The exception to this is where VAT incurred is irrecoverable, in which case that component will constitute a tax borne. The case study company does not generally have irrecoverable VAT although there are some exceptions.
3. Cascade-style sales taxes, seen for example in some African economies, add additional costs to each consumer so that an element of them is borne by each company in a chain of supply. These taxes are a charge to the profit and loss statement which affect the profitability of a company, while VAT and sales tax on final products do not. For the purposes of the data, these taxes are taxes borne to the extent that they are taxes incurred on purchases by the company.
4. Turnover taxes are a tax borne as they are generally calculated as a percentage of a company's turnover and paid to the tax authorities. They become part of a company's costs and affect a company's profitability.

impact on compliance hours is minimised. In Bosnia, VAT was introduced as a new tax on 1 January 2006. This has increased the number of hours to comply from 192 to 264. That may be a valid burden to place on business to raise extra revenues, or it may be that other burdens have been reduced. But do governments always consider such issues when changing tax systems?

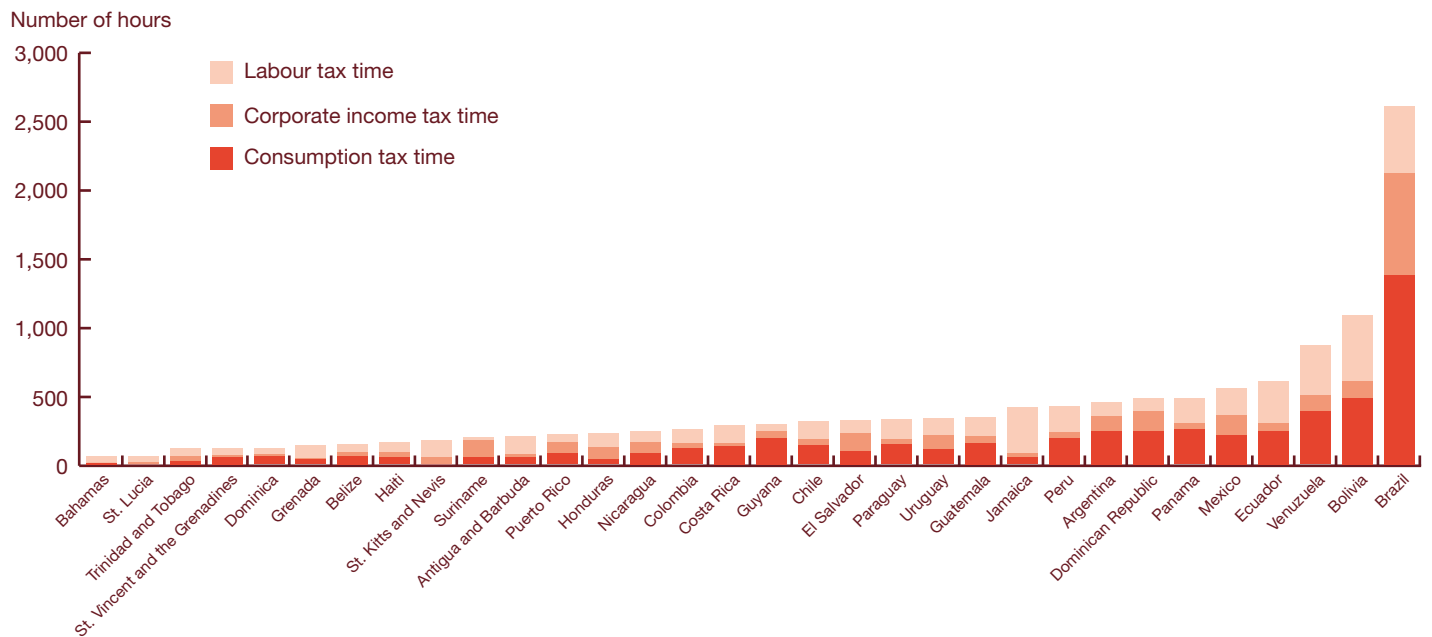
Figure 2.18 shows that in the Latin America and Caribbean region, there are many economies where consumption taxes are a significant element of the hours spent on tax compliance. Brazil is the country where it takes the case study company the most time to comply with all its taxes – 2,600 hours in total.

Of this total, it takes 1,374 hours to comply with consumption taxes (see **Figure 2.19** opposite), of which 577 of the hours are spent gathering data and analysing accounting systems. The complexity of the VAT system here is clear.

The particular issues faced by Brazil are also apparent in data gathered by the World Bank in its enterprise surveys.¹¹ 84 percent of respondents from Brazil felt that tax rates were a major constraint and 66 percent of respondents identified tax administration as a major constraint.

11 World Bank Enterprise Surveys (<http://www.enterprisesurveys.org>).

Figure 2.18
 Hours to comply in the Latin America and Caribbean region



Source: *Doing Business* database

Figure 2.19
Brazil – Analysis of hours to comply with consumption taxes

Preparation	Hours per year
Data gathering from internal sources (for example accounting records)	247
Additional analysis of accounting information to highlight tax sensitive items	330
Actual calculation of tax liability including data inputting into software/spreadsheets or hard copy records	165
Preparation and maintenance of mandatory tax records if required	82
Total	824
Filing	
Completion of tax return forms	330
Time spent submitting forms to tax authority, which may include time for electronic filing, waiting time at tax authority office etc	82
Total	412
Paying Taxes	
Calculations of tax payments required including if necessary extraction of data from accounting records, and time spent maintaining and updating accounting systems for changes in tax rates and rules.	14
Analysis of forecast data and associated calculations if advance payments are required	14
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)	110
Total	138
Grand Total	1374

Source: *Doing Business* database

Cascading sales taxes, turnover taxes and their impact on TTR

Cascading sales taxes are a feature in some African economies including Burundi, the Democratic Republic of Congo, Gambia and Sierra Leone. Turnover taxes are levied in Argentina and Belarus. Both of these types of consumption tax can have a significant impact on TTR as they are a tax borne by the case study company, as shown in the box on page 89.

Figure 2.20 overleaf shows those economies which have a TTR of over 100 percent, and which are at the bottom of the rankings on this indicator. A large proportion of the TTR in these economies is represented by either cascading sales taxes or a turnover tax.¹²

There are obvious implications of having a TTR in excess of 100 percent as it means that the case study company would not earn enough pre-tax profit in that country to pay all its taxes.

The assumptions which are built into the Paying Taxes case study are such that the company, wherever it is located, has a fixed rate of gross profit margin (20 percent). Therefore in the situation where it bears substantial consumption taxes on its transactions, it is not able (under these assumptions) to amend its pricing as it may be able to do under normal circumstances. The profit margin of 20 percent is insufficient in these economies to enable the company to pay its taxes. In those economies with a cascading sales tax, the company would need to earn a gross profit margin well in excess of 20 percent to enable it to do so – see **Figure 2.21** overleaf.

¹² The Central African Republic has a turnover tax based on the corporate income tax base.

Figure 2.20
Impact of sales tax systems on the TTR

	TTR (%)	Sales tax TTR (%)	Proportion of TTR (%)
Cascading sales tax			
Burundi	278.7	250.4	89.8
Congo, Democratic Republic	229.8	216.4	94.2
Gambia	292.4	221	75.6
Sierra Leone	233.5	221	94.6
Turnover tax			
Argentina	108.1	53	49.0
Belarus	117.5	53	45.1

Source: *Doing Business* database

Figure 2.21
Cascading sales taxes – examples of the gross margin required to enable the payment of all taxes

Country	Gross margin required to pay all taxes
The Gambia	33.1%
Burundi	32.1%
Sierra Leone	29.1%
Congo, Democratic Republic	28.8%

Source: *Doing Business* database

Consumption tax payments and electronic filing

Consumption taxes account for the largest proportion of tax payments (48 percent as shown in **Figure 2.1**) that the case study company has to make, and this is particularly evident in some regions.

One way in which countries are reducing the burden for companies in making payments for consumption taxes, is the introduction of electronic filing. Electronic filing is identified in Chapter 1 as one of the most common reforms.

Azerbaijan is a good example of reform in this area, where a new online system has been introduced and advanced accounting software has been generated by government, to help in computing tax payments.

The availability of internet banking facilities has also been a major step forward. The number of payments overall has fallen from 38 to 23. Of the reduced payments, 11 of the 15 were in relation to consumption taxes.

There has also been significant reform in China which is explored further on pages 68 and 69.

Figure 2.22, on page 43, shows the position in the African Union, specifically for sales taxes. Half of the economies have sales taxes which account for more than 30 percent of the tax payments required.

Electronic filing has had a marked influence on the average number of sales tax payments, partly due to the methodology used by the *Doing Business* Paying Taxes study, which reflects the reduction in administrative burden from electronic filing. Where full electronic filing is allowed, and it is used by the majority of medium sized businesses, the tax is counted as paid once a year, even if the payment is actually more frequent. The UK, as an example of the methodology, is set out in Appendix 2 on page 90.

South Africa – Improvements in tax administration is on the Government's agenda

Paul de Chalain, PricewaterhouseCoopers Inc

The Paying Taxes 2008 publication showed that the time required for tax compliance remained unchanged in South Africa compared to the previous year, while the other two indicators – the number of tax payments and the tax rate – showed improvements.

The results of the Paying Taxes study and also the separate empirical work conducted by PricewaterhouseCoopers in its 2007 Total Tax Contribution survey of large business have been widely publicised in South Africa. While the Government has not directly referred to the results of this research in proposing further reforms, the need to simplify the tax system with the particular emphasis on compliance is definitely on the agenda.

In 2007, the South African Revenue Service embarked on a wide-scale drive towards electronic filing facilities, coupled with the simplified corporate tax return. PricewaterhouseCoopers has estimated that this has reduced the time required for corporate tax filings by 50 hours, and for labour taxes, by 100 hours which has significantly improved the country's ranking in Paying Taxes 2009.

Further reforms that will enhance the country's tax competitiveness include the reduction of the corporate tax rate from 29 to 28 percent and the imminent replacement of the Secondary Tax on Companies (STC) with a dividend withholding tax. The latter will render the corporate tax system more easily understandable and remove the confusion often experienced by foreign investors.

The Government has also recognised the particularly heavy burden of tax compliance on small businesses. To this end, it has proposed a tax on very small businesses that will be introduced in 2009. The new elective tax will be turnover-based, replacing income tax, capital gains tax, STC and VAT. A concern shared by many is the very limited application of the new tax. Any company with a turnover exceeding R1 million will be excluded. For all other companies, the high compliance cost – primarily due to the complexity of legislation – will remain an issue.

Brazil presents a new tax model capturing important reforms

Carlos Iacia – PricewaterhouseCoopers Contadores Públicos Ltda

The launch last year of “Paying Taxes – The Global Picture 2008” had wide repercussions in Brazil. Major local newspapers published articles stressing the results of the research, especially those regarding the time spent by the Brazilian taxpayer on compliance with ancillary obligations. A high level of coverage was also evident on the national television networks. Several open and cable channels commented on the research specifically discussing the high volume of hours required for compliance when compared with other countries, especially the BRIC countries.

The study reveals, in numbers, the structural problems that affect the Brazilian tax system, such as: (i) the existence of many taxes levied on the same basis; (ii) the amount of indirect taxes, charged on consumption, which are imposed by different levels of tax authorities, at rates set by several laws, and which are subject to constant modifications; (iii) the cumulative regime, which does not permit the offsetting of taxes, paid in each step of the supply chain of goods and services, against the taxes levied on the subsequent stage; (iv) difficulties for recovering tax credits accumulated by exporters, thus, resulting in a hidden taxation on export operations; (v) fiscal competition among States, through the creation of unilateral benefits in order to attract investment to the respective jurisdiction; (vi) high taxation on payroll.

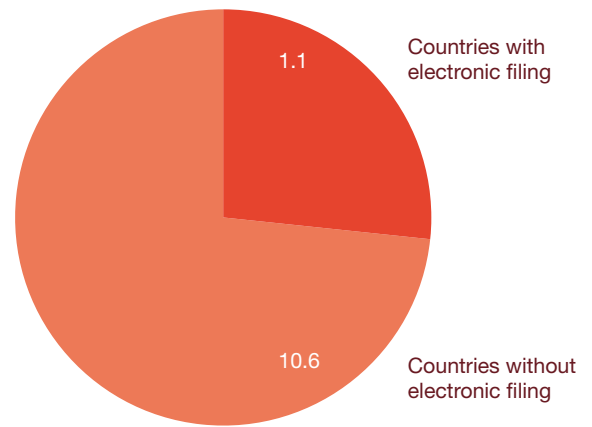
All of the above topics have come to the attention of the Ministry of Finance, which has formally acknowledged that such aspects are responsible for the high cost of Brazilian investments and exportations, as well as contributing to the bureaucracy faced by companies for the computation and payment of taxes.

As a consequence, the Federal Government has presented a new tax reform model, to be discussed at the National Congress, with the objective of simplifying the tax system and reducing the tax burden. In general terms, the government’s proposal suggests: (i) the unification of three contributions levied on revenue through the creation of a single federal non cumulative tax on operations with goods and services (Federal-VAT); (ii) the consolidation of the two taxes levied on profits into a single tax; (iii) the creation of a new VAT, levied by the States (State-VAT), subject to a single taxation regime, under unified legislation, and (iv) alterations to the tax burden on payroll.

Such governmental initiatives are most welcome, opening the debate with society as a whole to address the need for tax reform, using a simplified model of the tax system as a starting point for discussion. The current expectation is that politicians, business executives, and society as a whole, will engage and work towards this objective. This is an important path for Brazil towards accelerating the country’s economic growth and improving productivity in the international scenario.

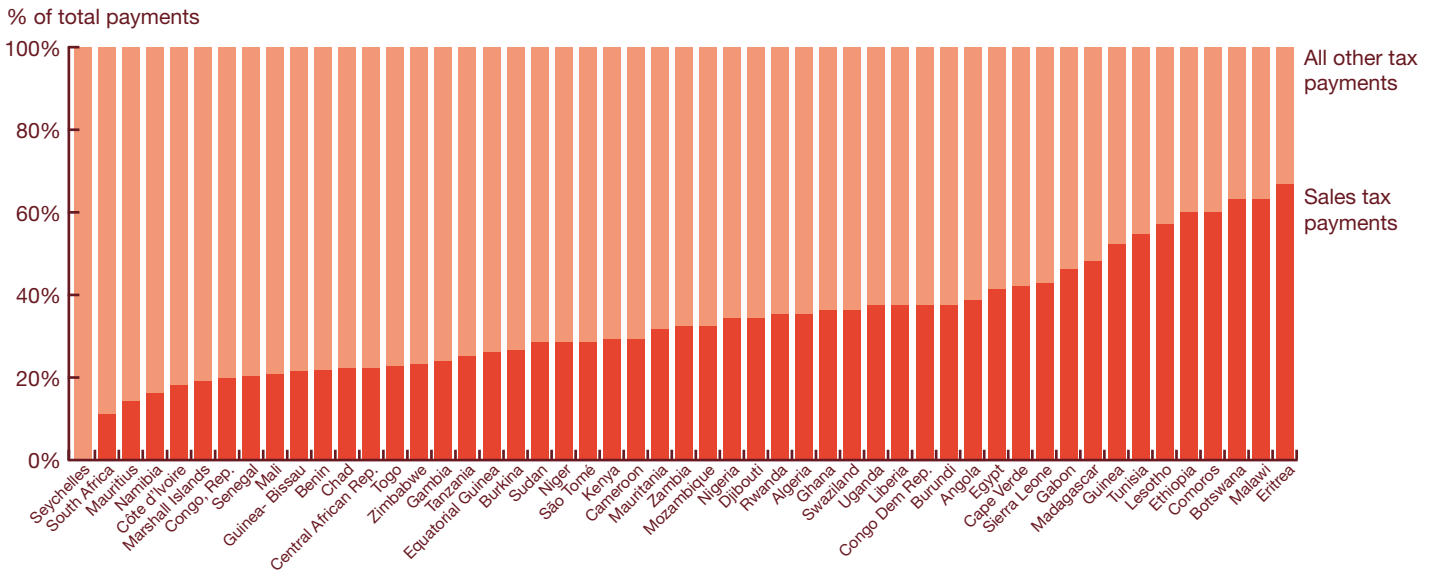
Figure 2.23 shows that just over 25 percent of economies in the study use electronic filing for all of their sales taxes and that with the Paying Taxes methodology the number approximates to one. A little under 75 percent do not have electronic filing and on average they require 10.6 payments.

Figure 2.23
 Countries with and without electronic filing – how the average number of tax payments for sales taxes varies



Note: Does not include India as not all sales taxes have electronic filing
 Source: *Doing Business* database

Figure 2.22
 African Union – sales tax payments as a proportion of the total number of payments



Source: *Doing Business* database

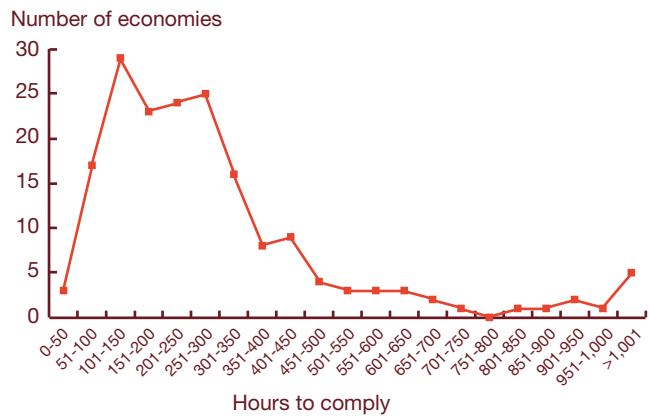
Full recognition for the effort being put into reform

The Paying Taxes results rank each economy on each indicator and these are combined to produce an overall ranking. Where reforms are made to a tax system, there is the potential for an improved ranking. However, in understanding the extent of the movement in the ranking, it is important to understand where the economy is situated in the distribution of the rankings.

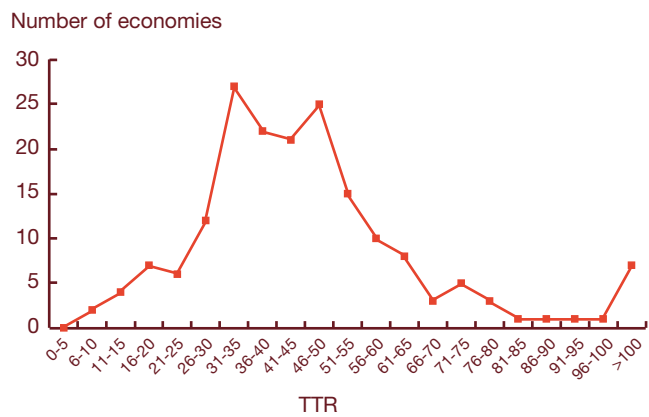
Figure 2.24 shows that for each of the indicators, there is a ‘clustering’ of results with a large number of economies falling within a certain banding. For these economies, a small improvement in their results can result in a large movement up the rankings. For economies in a more sparsely populated part of the distribution, large improvements may result in moving only one or two places up the rankings. This was highlighted in the context of France and Ukraine earlier in this Chapter. The distribution curves for each of the indicators are shown in **Figure 2.24**.

Some good examples of the phenomenon are as follows. The chart for the distribution of total hours to comply shows that the number of hours needed to comply with all taxes in the tax system are clustered around the 50 to 350 hours mark. There are 134 economies recording the number of hours to comply in this cluster. For China this year the time to comply ranking has only moved 7 places from 167th to 160th despite a 368 hour reduction in the number of hours to comply from 872 to 504. However Ghana, which has also implemented significant reforms and reduced its hours by 80, has achieved an improved ranking of 83, 34 places higher than in the previous year.

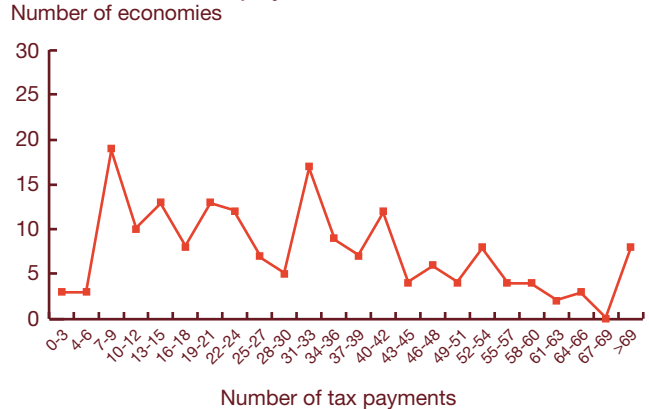
Figure 2.24
 Distribution of total hours to comply



Distribution of TTR



Distribution of tax payments



Source: *Doing Business* database

Pakistan – the Paying Taxes Study reflects the structural problems in the tax system

Rashid Ibrahim – A.F. Ferguson & Co.

Like other resource-constrained economies, Pakistan experiences difficulty in implementing tax legislation which is effective. Pakistan has a large agricultural base, comprising small businesses which are hard to tax and which operate outside of the tax regime. It also faces an administrative and political environment that is unfavourable for the collection of taxes.

Almost 70 percent of total taxes are in fact gathered by government from the Oil and Gas, Banking and Telecommunication sectors.

Many initiatives from Government have not achieved their objectives as they do not address some of the basic issues that arise in the segments of the economy which have the major defaulters. As a consequence the direct tax to GDP ratio has remained at around the 3 percent level for many years.

With the economic downturn and an estimated GDP growth of only 4.5 percent, it will be difficult for government to meet the revenue targets for the current year, which are again fixed at twenty percent higher than the previous year. These revenue targets have been set without correcting the existing structural problems in the tax regime, which continues to be inefficient and lacks buoyancy. There is a massive drain of resources due to the existence of a large underground and informal economy and stakeholders perceive government as a revenue-hungry leviathan having little respect for their rights.

The difficulties and structural problems in the tax system are reflected in the Paying Taxes hours to comply indicator, where Pakistan takes 560 hours and is ranked 163, and also the number of payments indicator where 47 tax payments are recorded and the ranking is 145.

As part of an ongoing reform process, the Federal Board of Revenue (FBR) carries out an analysis of available data on a regular basis. Under the Tax Policy Program (TAP) seven studies were recently initiated in collaboration with the World Bank and the Andrew Young School of GSU to strengthen the taxation policy framework for the short to medium and long term. The focus of these studies is on the incidence of taxation on various segments of the society, a tax gap analysis, and enterprise taxation in Pakistan.

In recent years, the Government has introduced a number of positive initiatives to encourage tax compliance. This has included a self assessment scheme with selective audits, the reduction of corporate and individual tax rates, and structural reforms in the departments. These changes have improved tax revenues by around twenty per cent in the last few years, but this is not considered satisfactory in view of the volume of untaxed businesses and the levels of non compliance still in the economy. Some important areas of concern, as discussed above, continue to remain unresolved.

Summary

- The data generated by the *Doing Business* project shows that corporate income tax is only one of many taxes that the case study company is subjected to.
- It accounts for the smallest number of compliance hours and the smallest number of payments.
- Reducing the rate of corporate income tax is the reform most commonly adopted by government, but it is important to recognise not simply the statutory rate of corporate income tax but also the effective current tax rate.
- There is a wide range in the hours spent on corporate income tax compliance. Making comparisons with other economies can be a constructive way to identify where systems can be changed to benefit both government and business.
- It is appropriate to include employment taxes as they are taxes on business and are therefore part of the TTR.
- Government has a choice as to whether to levy employment taxes on the employer or on the employee.
- There are many examples of where governments choose to levy a number of employment taxes.
- Employment taxes often make up a significant part of the TTR, can be responsible for many tax payments, and increase substantially the number of hours it takes the case study company to comply.
- It is often assumed that consumption taxes are only taxes collected on behalf of government and therefore have a limited impact on business. However, certain types of consumption taxes can be a tax borne by the company, and all consumption taxes will have an impact on the number of hours to comply and the number of tax payments to be made.
- The Paying Taxes data reveals that there is a great variety of consumption taxes which include a number of different sales taxes. VAT is becoming the dominant form of consumption tax around the world.
- When assessing the extent and impact of reform, it is important to look at the underlying data for each of the indicators in addition to the rankings.

Paying Taxes shows a different tax pattern in the United States

Peter Merrill – PricewaterhouseCoopers LLP

For small companies that are the focus of Paying Taxes, the United States compares favourably with other countries in terms of ease of compliance, ranking in the 14th percentile for annual number of tax payments (10) and 36th percentile for number of hours required to comply with taxes (187). Overall, the combined tax burden on U.S. companies measured by the total tax rate falls exactly in the middle of the 181 countries included in the analysis (42.3 percent). Thus, for small businesses that operate within a single locality, the U.S. tax system imposes relatively low compliance costs per dollar of tax borne.

The composition of U.S. taxes, however, varies markedly from global patterns. Labour taxes as a share of profits before total taxes rank in the 29th percentile (9.6 percent), and thus are relatively low by global standards. By contrast, taxes on profit as a share of profits before total taxes rank in the 72nd percentile (23.5 percent) and thus are quite high by global standards. Other taxes as a share of profits before tax also are quite high in the United States primarily due to property taxes, which typically, are imposed at the local level.

The relatively heavy burden of profit taxes in the United States is, in part, attributable to the fact that in 2008, the combined U.S. federal and average state/local corporate income tax rate is 39.3 percent, 50 percent higher than the 26.2 percent average for the other 29 OECD member countries. The high corporate income tax rate is only slightly offset by the Domestic Production Activities Deduction (DPAD), which effectively reduces the federal corporate income tax rate on qualified income from certain property manufactured, produced, grown or extracted in the United States. In 2005 and 2006, the DPAD was equal to 3 percent of qualified income, reducing the effective federal corporate income tax rate on this income to 33.95 percent (97 percent of 35 percent). Beginning in 2007, the DPAD phased up to 6 percent, reducing the effective federal corporate income tax rate on qualified income to 32.9 percent (94 percent of 35 percent).

The U.S. Internal Revenue Service (“IRS”) is undertaking research on measurement of corporate tax compliance costs. As part of this project, the IRS is reviewing the methodology for measuring tax compliance costs used in Paying Taxes as well as the results of Total Tax Contribution studies conducted by PricewaterhouseCoopers in Australia, South Africa, and the United Kingdom.

Further insights on tax administration

Introduction

The Paying Taxes data measures the ease of Paying Taxes for companies around the world. The aim is to provide a data source and methodology to enable tax systems around the world to be compared on a consistent basis, from the point of view of companies paying taxes. Tax systems are ranked using three indicators (explained in more detail in Appendix 2), which have been chosen by the World Bank – IFC to link to its broader *Doing Business* project. They address steps (the number of payments), time (the number of hours taken to comply) and cost (the Total Tax Rate). In collecting data for this year's study, contributors were asked to provide additional data, not used in calculating the indicators but which could provide useful insights into tax systems. This request followed discussions held with a variety of stakeholders, both within business and in governments, around last year's results. These identified a number of questions which, it was suggested, should be asked of contributors in addition to the key indicator data. The objective was to gather additional data on aspects of tax system complexity, not currently captured by the case study assumptions. The intention was for this data to provide further insights on the findings of the study.

Accordingly, additional questions have been included in the data request this year. These are listed in the box on page 49. The nature of a number of these questions requires some subjective judgements in responding.

It should be emphasised that answering these additional questions was not compulsory for contributors (unlike the main questions leading to the key indicators). Nor have the answers supplied been subject to the rigorous checking that is applied by the World Bank to the indicator data. Our purpose in highlighting this additional data is to seek views on its usefulness and whether the process for requesting and checking this data should be extended next year.

This data will be available on request from the *Doing Business* website: <http://www.doingbusiness.org/features/taxes2009.aspx> and www.pwc.com/payingtaxes

How many tax authorities are there in your country?

Where there is more than one tax authority and particularly where there is more than one level of tax authority, (i.e. federal, state and local) the rules and regulations governing the various taxes across a number of different taxing levels will inevitably mean that companies have to deal with increased complexity. This will be in terms of the volume of returns that have to be submitted, and the number of payments that have to be made. The simple case study company operates in a single location and does not normally need to consider these additional complexities, but for many companies they will be a reality.

There are some interesting responses and comparisons to be made. Brazil has a Federal taxing authority and 27 states with tax-raising powers, as well as over 5000 tax-raising municipalities. This is considered to be a major issue in Brazil, where this complexity applies not just to profit taxes but to indirect taxes charged on consumption. There are numerous laws at the different levels, levying various rates of tax, and subject to constant modification.

By contrast, in the UK there is one national tax authority (following the merger of the Inland Revenue and HM Customs and Excise) responsible for most taxes. Only the vehicle excise duty (administered by the DVLA), and business property rates (collected by around 430 local councils), are administered separately.

Australia has two national tax authorities, the Australian Tax Office and the Australian Customs Office. There are also six States and two territories levying taxes, and 645 local councils across the country. Research undertaken by

Additional questions asked:

- How many tax authorities are there in your country? Please include the number of tax authorities at each level: federal, state, municipal/county and the number of states and municipalities. (99 percent of economies responded to this question).
- Do you find the tax laws (in your country) ambiguous? (hard to interpret, need to consult with tax authority often, might get different answers from different authorities.) Please explain. (82 percent of economies responded to this question).
- Is social security separate from the tax authority? (83 percent of economies responded to this question).
- How are companies selected for a tax audit (by the fiscal authorities)?
 - When they ask for a refund
 - On a random basis
 - Based on risk analysis
 - By company size
 - Other (please explain)

(83 percent of economies responded to this question).

- Please provide a statement which shows the total tax revenues in your country for the latest fiscal year available as published by your government and/or provide a link to the source for this information and the year of the data. Alternatively please confirm if this data is not publicly available. (62 percent of economies responded to this question).

PricewaterhouseCoopers Australia,¹ the Business Council of Australia and The Corporate Tax Association, established that the tax system in Australia imposes 55 different taxes on companies and that this can result in up to 169 taxing points (the number of tax obligations a company would be required to fulfil if it were subject to all taxes in all federal and state jurisdictions). This is significantly more complex than the UK, which has 22 taxes that companies pay (and essentially through a centralised tax system as mentioned above). So, while Australia ranks highly in terms of the time taken to comply in the Paying Taxes data, the nature of the case study company does not necessarily give a full picture of the complexity of the local tax system as it affects all companies.

PricewaterhouseCoopers work in Canada has found similar results. In a 2007 Total Tax Contribution survey for the Canadian Council of CEOs, it was established that companies in Canada are subject to 49 different taxes and 18 other payments to governments at the federal, provincial and municipal level. Companies were found to be potentially subject to more than 200 taxing points.² Most of the companies involved in the survey were large listed corporations and so again the results are not directly comparable with the circumstances of the case study company (Canada comes 30th on the time to comply with 119 hours), however it serves to illustrate that the different levels of taxation can add significantly to complexity.

Is social security separate from the tax authority?

In discussions with interested stakeholders, a question has been consistently raised as to whether

social security payments are properly included in the assessment of the ease of paying taxes. As already discussed earlier in this Chapter, it is the view of the World Bank and PricewaterhouseCoopers that all taxes should be included in the study, even if they are paid to a different agency other than the main tax authority.

From **Figure 2.25** opposite it can be seen that it is very common for social security to be administered by a separate authority – particularly in the African Union, Latin America and the Caribbean and in ASEAN. Within the G8 and EU it is a little more common to have the same authority, but still the majority of countries have to interact with a separate authority.

Do you find the tax laws (in your country) ambiguous?

It might be expected that ambiguity in the tax system translates into a higher ranking on the Paying Taxes hours indicator, as more time is required to prepare computations where the legislation is unclear. That is true to a degree. However it should be stressed that the case study company has relatively simple tax affairs. In addition, the time to comply indicator does not include time spent in dealing with tax authority queries or disputes. There is the potential for lengthy subsequent dialogue with tax authorities in order to agree the tax position where there is a difference of opinion. This all adds up to uncertainty for the business taxpayer.

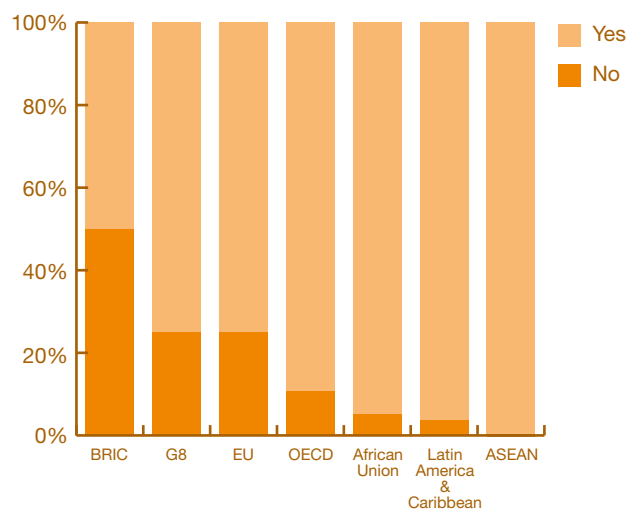
How long it takes to agree the tax position with the tax authority after completing and submitting a tax return, could be a useful further indicator. However, this is very difficult to measure accurately in a case study.

We have previously compared the number of pages in primary tax legislation in a number of jurisdictions as

¹ What is your company's Total Tax Contribution, 2007 survey results.

² Total Tax Contribution, Canada's tax regime: complexity and competitiveness, PricewaterhouseCoopers May 2008.

Figure 2.25
Is social security separate from the tax authority?

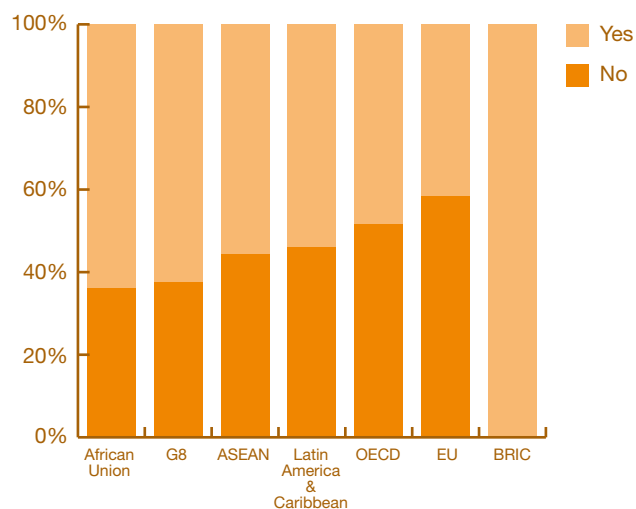


Note: Please see below for the percentage of responses in each group
Source: *Doing Business* non-indicator data

	BRIC	G8	EU	OECD	AU	Latin America	ASEAN
No	2	2	6	3	2	1	
Yes	2	6	18	25	36	26	8
No answer	0	0	1	2	13	5	1

an indicator of complexity of the legislation, however we recognise that as a definitive gauge of complexity, this analysis is far too simplistic. It was only ever intended as a starting point and as a stimulus for further discussion. A more rigorous analysis of complexity needs to consider issues such as the extent to which secondary legislation or non-statutory guidance is used are relevant, as well as the size of the print used, the size of the page and the frequency of change. To date we have not established a robust method of assessing all of these factors in a consistent manner but what may be helpful is a summary of how

Figure 2.26
Do you find the tax laws in your country ambiguous?



Note: Please see below for the percentage of responses in each group
Source: *Doing Business* non-indicator data

	BRIC	G8	EU	OECD	AU	Latin America	ASEAN
No	0	3	14	15	13	12	4
Yes	3	5	10	14	23	15	5
No answer	1	0	1	1	15	5	0

tax systems are perceived by the practitioners that use them.

A little over half of the contributors from around the world believe their tax regime is ambiguous, with some interesting regional differences.

Figure 2.26 gives the regional analysis of the responses. There were a large number of non respondents in Latin America and the Caribbean, and the African Union, perhaps suggesting that the less developed countries find it more difficult to comment

Reform on the Nigerian agenda- but still much to do

Ken Aitken – PricewaterhouseCoopers Nigeria

With 35 tax payments, 938 hours per year to comply and a total tax rate of 32.2 percent Nigeria ranks 120 out of 181 economies on the ease of paying taxes. This is far behind a number of other African countries such as South Africa (23), Zambia (38), and Ghana (65).

Since June 2007, Nigeria has made some improvements to the tax system and currently there is also a proposed National Tax Policy undergoing stakeholders' discussion. The number of hours have reduced by 182 as a result and so significant improvement has been made.

Implemented Tax Reforms

A new law has been passed to establish the tax authority as a body corporate, the Federal Inland Revenue Service Establishment Act was enacted in 2007. The law empowers the tax authority to make certain decisions and take necessary steps for effective and efficient tax administration. The law established tax tribunals in the six geo-political zones (rather than one centralised tax appeal court prior to 2007). This is expected to result in quicker dispensation of tax disputes. Tax offices across the country have been reconstituted as integrated tax offices, in addition to the existing large taxpayers' offices, to ease the tax compliance burden. With this development, taxpayers are able to pay all their taxes in one location rather than having different tax offices for different taxes as in the past. This has somewhat reduced the number of hours for paying taxes. Lagos State has been creating awareness to persuade individuals and businesses to pay their taxes correctly and promptly. The State recently made awards to

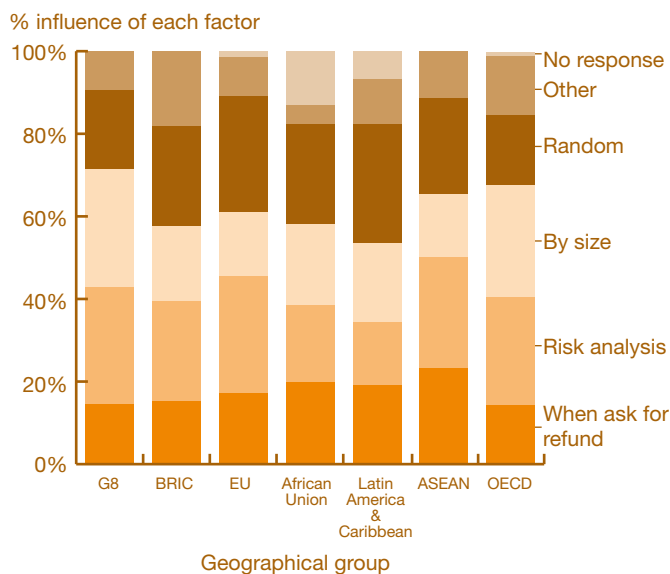
good tax compliant individuals and businesses to encourage more voluntary tax compliance. In addition, the need for physical contact with tax officials has been reduced through encouraging online processing of tax applications and tax payment receipts. The Federal tax authority has just introduced electronic filing of withholding and personal income tax returns.

Proposed Tax Reforms

There are proposals for tax reforms which are geared towards achieving a business-friendly tax framework and simplified tax administration. The reforms include a reduction in direct tax rates – the corporate income tax rate is to reduce from 30 percent to 20 percent, the top rate of personal income tax is to reduce from 25 percent to 17.5 percent, and there is to be more focus on indirect taxation – the VAT rate is to increase from 5 percent to 15 percent and other indirect taxes will be affected such as excise duties. The shift in focus is to widen the tax base and reduce the cost of tax collection. Further proposals include the expansion of the double taxation treaty network, moderation of tax incentives, the elimination of multiple taxes, simplified tax laws, unified tax registration and generally improved tax administration.

There is still much to do with regard to the consolidation of the number of taxes on profits. Furthermore despite the fact that many countries now have electronic filing and payment of business taxes, there is no concrete plan as yet in Nigeria to start filing tax returns online in order to reduce time spent on paying taxes and contact with tax officers.

Figure 2.27
How are companies selected for a tax audit?



Source: *Doing Business* non-indicator data

on whether or not their system is ambiguous. In its response, Brazil mentions the varying treatments for similar operations across numerous tax authorities and a vast array of legislative and administrative acts which are the subject of frequent amendment. Most of the G8 countries also suggest there is ambiguity in their laws. In Italy, our respondent mentions that some complexity is due to the fact that there is not a unique tax or social security contribution code, and reference is made to different laws where rules are potentially applicable. In addition, changes in the laws are frequent.

This is also the case for the majority of the ASEAN countries. In Vietnam, for example, the experience is that guidance is required in addition to 'official letters' and that interpretation of the legislation can vary by location.

How are companies selected for a tax audit (by the fiscal authorities)?

The way in which companies are selected for a tax audit, and the subsequent way in which the audit is conducted, can be a source of concern for companies and can add to the perception of complexity. Therefore the responses to this question provide a useful starting point in assessing how the tone and stance of the tax authority will impact. **Figure 2.27** shows the wide range of responses to the question.

It is perhaps surprising that a significant number of tax authorities in all regions of the world still select companies for tax audit on a random basis. This is not only an issue for business. Increasingly, governments are coming under pressure to use their resources efficiently and the tax authorities are not exempt from this pressure. The OECD, in guidance notes issued from its Centre for Tax Policy and Administration, recognises the need to assess and manage revenue risk, noting that not to do so puts resource allocation decisions open to question and criticism, with the potential to lose tax revenue. Efficient methods of auditing tax returns are therefore important and some sort of selection criteria which focuses the work of the tax authority will help to improve the efficiency of the tax collection process. This is a potential win-win for business and government.

The contributors noted a range of responses – in some cases companies can be selected for audit in many different ways and **Figure 2.27** records the incidence of each selection criteria occurring. In Namibia a company can be selected randomly via a risk analysis when they apply for a tax repayment, or else depending on their industry group. In Korea, an audit can be triggered when the company asks for a refund, otherwise the tax authority tries to audit a company once every five years, as the Statute of Limitations is five years.

Availability of tax revenue data from government

Governments are important stakeholders in the success of businesses. To fund the necessary expenditure it is heavily dependent on business, and this, in turn, depends on the business being profitable; the employment it generates; the goods and services consumed and supplied; and the company making its contribution to public finances by paying taxes. It is important for government that the tax system provides a platform to promote sustainable prosperity.

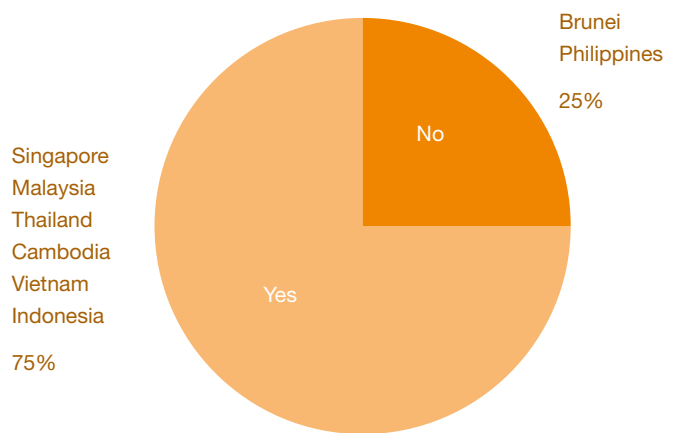
How easy it is to pay its taxes is an important issue for business. The World Bank Enterprise surveys indicate that tax rates and tax administration are among the top obstacles for business. The PricewaterhouseCoopers CEO survey conducted in 2007³ also shows that in the largest countries, taxation, along with labour laws, is the area which they would most like to see improved. The existence of a constructive dialogue on tax between business and government is therefore key in helping to build trust, confidence and a willingness to invest.

Understanding all of the taxes contributed by business is an essential part of this process and studies like the World Bank – IFC *Doing Business* project and the empirical work undertaken by PricewaterhouseCoopers with groups of large companies in an increasing number of countries help inform government and business.

There is also a growing recognition by business that what a company pays in taxes is not just a cost but also an investment in the country in which it operates. Business recognises the need to contribute through taxes (or sometimes more directly) to the infrastructure and the well-being of the population at large. Understanding government policy on tax and

³ In the 11th annual CEO survey published by PwC in 2007.

Figure 2.28
Do governments publish information on tax revenues? (ASEAN region)



Note: Lao PDR did not answer this question
Source: *Doing Business* non-indicator data

how tax revenues are spent is also therefore important for business, so that companies can see where their contributions are going. Part of the effective contract between business and government should be that government provides clear and transparent information about tax revenues and public spending to enhance trust and confidence in the system.

The additional questions, included in the questionnaire (set out on page 49), aim to obtain an initial impression of how available government information is on the taxes it collects.

Globally 38 percent of economies did not respond to the question and this was particularly so for countries within the African Union. Contributors from 26 countries actually said that tax revenue data is not available. This included two ASEAN countries. See **Figure 2.28**.

Reform in the Netherlands

Professor Roland Brandsma – PricewaterhouseCoopers Tax Advisors

The Paying Taxes 2008 report gave rise to some lively political discussion in the Netherlands. In a formal reaction to the report, the Dutch State Secretary of Finance expressed his satisfaction with the improved position of the Netherlands on the Paying Taxes ranking, compared to the preceding year. He stated, nevertheless, that the Government will not stand still in these matters and that it is intending to propose more measures to reduce the administrative burden and to simplify the tax legislation and regulations, in order to reduce the 'time to comply' indicator.

The Paying Taxes 2009 report shows a further reduction of the TTR in the Netherlands and an improved ranking for this indicator. One reason for this is the effect of the 'grand corporate income tax reform', effective as of 2007. However there is no reduction shown in the 'time to comply' indicator, implying that further action is necessary in this respect. The Dutch government should perhaps take a closer look at the administrative burden regarding wage taxes, as this burden is still very heavy.

For some time there has been an ability to request advance tax rulings (or advanced pricing agreements) from the Dutch tax authorities, to secure certainty in advance on the tax consequences of a certain structuring. To improve the tax regime further in recent years, several new administrative tax measures have been introduced for business, but these have not improved the number of hours or the number of payment indicators for the case study company. These measures are outside the scope of the core indicators and include the ability to enter into a so-called 'enhanced relationship' with the Dutch tax authorities – a process also known as horizontal monitoring. This was initiated in 2005 when the Dutch tax authorities started to conclude compliance covenants with a pilot group of 40 large companies. Since then, it has been further adopted in tax practice.

There are signs that the Dutch government is considering seeking room for further improvements to the current tax regime in the Netherlands, including measures such as further streamlining of the various interest deduction restriction regulations, or a general replacement of these restrictions by tax, exempting all group interest, either received or paid. Also, the well known participation exemption could be further simplified which would reduce the administrative tax burden.

The political discussion has led to parliamentary debate, which is ongoing. The discussion focuses on the corporate income tax paid by Dutch multinationals. More specifically, it concentrates on the tax burden of multinationals in comparison to the tax burden of small and medium sized companies in the Netherlands. At the request of members of the Lower House of Parliament, the State Secretary of Finance has started an investigation regarding the allocation of the corporate income tax burden in the Netherlands. The current political debate shows, at the very least, that the Dutch government is taking the research results of the Paying Taxes study very seriously. The outcome of the Government investigation is expected by the end of autumn 2008.

The political debate prompted PricewaterhouseCoopers in the Netherlands to initiate a small-scale study among a number of listed companies, to gain insight into their tax costs. This research looks purposefully beyond corporate income tax at the four biggest taxes (cash expenditures) of the companies. Furthermore, this survey has the objective of understanding how the current tax climate is perceived by these companies.

Paying Taxes issues relevant in Poland

Katarzyna Czarnecka-Zochowska – PricewaterhouseCoopers Sp. z o.o.

Several of the issues raised by the annual Paying Taxes publication have been addressed in Poland.

Measures have been implemented to decrease the rates of taxation as they related to labour. This included the social security contributions and personal income tax (PIT).

The social security rates were cut in two steps with some changes being effective from 1 July 2007, while others came into force on 1 January 2008. Overall, the employee's share of the social security contributions was cut by 5 percentage points and the employer's share dropped by 2 percentage points. As a result the employee's share is now 13.71 percent, while the employer's share is in the range of 17.48 percent – 20.41 percent. It is still considered to be high but significant improvement has been made.

To date reform has only really manifested itself in cutting tax rates, which is in line with the Paying Taxes findings that cutting rates is currently the most popular reform. However, other issues raised by Paying Taxes are becoming increasingly influential, and further positive change is expected in the future. Poland's Paying Taxes ranking is often quoted in debates on taxes in Poland and proves to be a useful catalyst to discussions around the fact that the country's mediocre performance in the rankings is largely due to the administrative indicators measuring the hours spent on tax compliance and the number of tax payments made per year.

The high compliance burden levied on Polish businesses is an issue which takes the debate beyond the area of tax. To address the issues the Polish Parliament has established a special

parliamentary commission with the specific task of drafting appropriate legislative measures, PricewaterhouseCoopers has been asked to attend and to comment on the tax issues. The Paying Taxes publication has been actively used during the initial hearings of the commission and has been influential in helping to determine the agenda. At the request of the commission, PricewaterhouseCoopers has drafted a number of amendments to the law with a view to improving the general tax procedures as well simplifying the process specifically for tax settlements within the areas of VAT and income taxes. There has been a particular focus on draft regulations on e-invoicing and on delaying the effect of initial tax decisions until they are verified by the administrative court. In light of these steps, decisions have been taken that further legislative change should be addressed and further reforms are expected in the near future.

Help has also been given to the Civic Platform with advice on the flat tax plan which looks to broaden the tax base, radically simplify the tax settlements procedures and introduce a single 15 percent income tax rate applicable to all businesses and individuals.

PricewaterhouseCoopers Poland has also recently co-authored a report with the FOR Foundation established by Professor Leszek Balcerowicz, former minister of finance. The report includes an assessment of the inefficiencies in the Polish tax system as well as suggestions for improvement.

Summary

- The number of levels of tax authority and the number of separate authorities can add to the complexity of a tax system.
- There are some interesting examples of economies that have multiple levels of tax administration. This suggests increased complexity.
- Labour taxes and social security contributions are often dealt with by separate government authorities.
- Ambiguity in a tax system can increase the perception of complexity and uncertainty. Over 50 percent of contributors to the Paying Taxes study report who responded on this issue see their tax laws as ambiguous.
- The way in which companies are selected for tax audit can impact the perception of complexity and uncertainty. A surprising number of contributors report that they still experience companies being selected on a random basis.
- Transparency around the taxes collected by government and broader government fiscal strategy can assist with securing the trust of business. 26 contributors reported that such information is not available.

Influencing behaviour: tax incentives and environmental taxes

There is no doubt that in addition to being a way of raising revenues for necessary public expenditures, tax systems have been and continue to be used by governments to influence the behaviour of individuals and businesses.

Accordingly, additional questions have been included in the data request this year to look at this in the context of the case study company. However the discussion here should not be seen as analysing the advantages or drawbacks of using taxes in this way.

As with the questions in Section 2 of this Chapter, these questions result in subjective judgements. Also, answering these questions was not compulsory for contributors, nor have the answers supplied been subject to the rigorous checking that is applied by the World Bank to the indicator data. Again, our purpose in highlighting this data is to seek views on its usefulness and to gauge whether the process for requesting and checking should therefore be extended.

Tax incentives

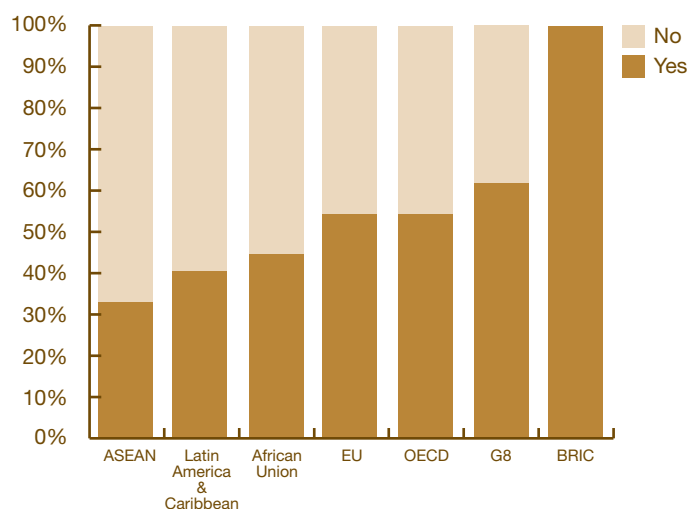
Around the world there are many examples of tax being used as an incentive but, for the Paying Taxes case study company, the focus is on general incentives for small business and in particular for research & development.

Also, whilst no specific questions were asked, we make some observations around environmental taxes in the context of taxes being used to change behaviours.

Contributors were asked questions concerning the existence of two sorts of tax incentives – Research & Development Tax Credits ('R&D') and incentives for Small and Medium Sized Enterprises ('SMEs'). **Figures 3.1** and **3.2** opposite summarise the results.

Globally, of those who responded, over 40 percent of contributors said that their economy has a special regime for small and medium sized enterprise. The average was generally higher in the EU, G8 and OECD groupings. All of the BRIC countries have an SME initiative regime.

Figure 3.1
 Is there a special regime for small and medium sized enterprise?

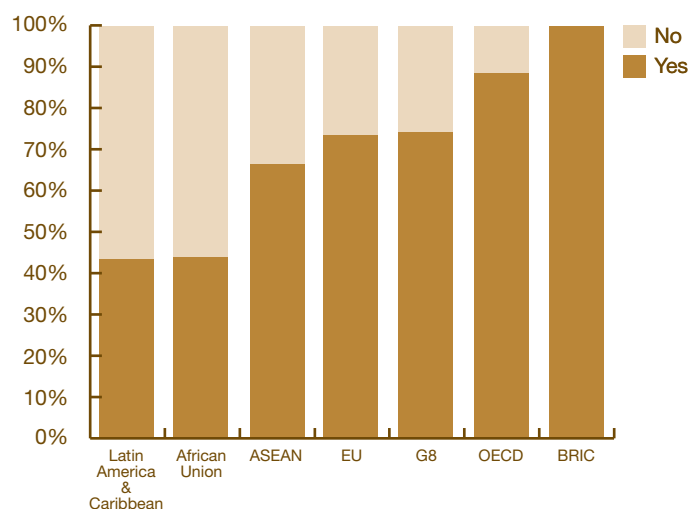


Note: Please see below for the percentage of responses in each group
 Source: *Doing Business* non-indicator data

	ASEAN	Latin America & Caribbean	African Union	EU	OECD	G8	BRIC
No	6	16	23	11	13	3	3
Yes	3	11	19	13	16	5	4
No answer		5	9	1	1		

SME regimes do not necessarily apply a lower rate of tax. They may offer enhanced reliefs to SMEs and lower compliance burdens in the form of size-based tax audits. Other countries do not require the sort of advance tax instalment payments from SMEs that large companies are required to make. In New Zealand, the tax authority released a discussion document relating to small and medium sized enterprises which proposed a wide variety of concessions for such companies, including simplifying the rules relating to non-deductible expenditure.

Figure 3.2
 Does the country tax system offer a tax incentive for carrying out Research and Development activities?



Note: Please see below for the percentage of responses in each group
 Source: *Doing Business* non-indicator data

	Latin America & Caribbean	African Union	ASEAN	EU	G8	OECD	BRIC
No	14	20	3	6	2	3	3
Yes	11	16	6	17	6	25	4
No answer	7	15		2		2	

A similar number of countries globally offer incentives for research and development (R&D) activity. In the OECD this percentage is much higher, at over 80 percent. It is also high for the G8 (over 70 percent) and for the EU (over 70 percent). All of the BRIC countries offer these incentives.

It is interesting to note not only the comparison between regions but also the different emphasis placed on the different incentives within regions. 67 percent of the ASEAN respondents indicated they

have R&D incentives, compared to 33 percent for SME incentives. The high level of R&D incentives is perhaps not surprising given the emphasis on high technology industry in this region.

In Thailand, an additional deduction equal to 100 percent of the expenses incurred for research and development may be allowed if certain requirements are met. In Brunei a double deduction is available for companies on R&D expenditure and in Malaysia a double deduction can also be available for “approved” R&D companies.

Respondents in the African Union and Latin America and the Caribbean show the lowest levels of R&D incentives.

however, it is worth noting that there are good examples of R&D incentives being applied in Africa. The case study company in South Africa qualifies for a deduction amounting to 150 percent of qualifying R&D expenditure. Capital allowances are also available for any building (or part thereof), machinery, plant, implement, utensil or article used in the activity.

Environmental taxes

An environmental tax has been defined as “A tax whose tax base is a physical unit (or a proxy of it) that has a proven specific negative impact on the environment. Four subsets of environmental taxes are distinguished: energy taxes, transport taxes, pollution taxes and resources taxes...”¹ Many economies have introduced what they would say are new environmental taxes. Many of these are levied

on companies. The aim of these taxes is both to encourage companies to change behaviours so that they operate in a way which benefits the environment, and to achieve specific environmental objectives and targets set by government and international bodies. Some economies have also adopted and adjusted existing taxes (often known as “quasi-environmental taxes”, such as fuel consumption tax).

For example, in the UK, the Office of National Statistics categorises fuel duty (levied on the purchase of petrol), vehicle excise duty (levied on the ownership of vehicles), air passenger duty (levied on each person taking a flight), climate change levy (levied on the purchase of energy), landfill tax (levied on the disposal of waste) and aggregates levy (levied on the production and use of certain aggregates) as environmental taxes. The Netherlands has a waste tax levied on companies, Ireland has the Plastic Bag tax levied on individuals and the use of plastic bags, and Canada also has Air Passenger Duty.

Environmental taxes exist within the Paying Taxes data but only to the extent that they would apply to the case study company. To the extent they exist they will be included within the ‘other taxes category’. Generally, due to the assumptions made for the case study company, waste taxes are the only environmental taxes captured by the data.

In Romania, for example, packaging taxes are included. In the UK the company is liable to landfill tax for the waste it produces.

The “quasi-environmental taxes” referred to above are also captured by the Paying Taxes data and are classified as “other taxes”. It is arguable however whether these are properly described as environmental taxes, but if it is accepted that they are, then the incidence of environmental taxes in Paying Taxes data is high in all regions.

¹ United Nations, European Commission, International Monetary Fund, Organisation for Economic Co-operation and Development, World Bank, 2005, Handbook of National Accounting: Integrated Environmental and Economic Accounting 2003, Studies in Methods, Series F, No.61, Rev.1, Glossary, United Nations, New York, paras. 2.102 & 6.26.

At present it is not possible to answer the question: ‘do environmental taxes really influence behaviour?’ in a global context. However, some empirical work performed in the UK by PricewaterhouseCoopers on the impact of environmental taxes sought to understand the impact of environmental taxes on behaviour.² Data was collected in 2007 from 151 companies representing a mix of types of commercial activities and size of companies. The report concluded that of the seven taxes classed as environmental taxes by the Office of National Statistics, the impact on behaviour was varied. See **Figure 3.3**.

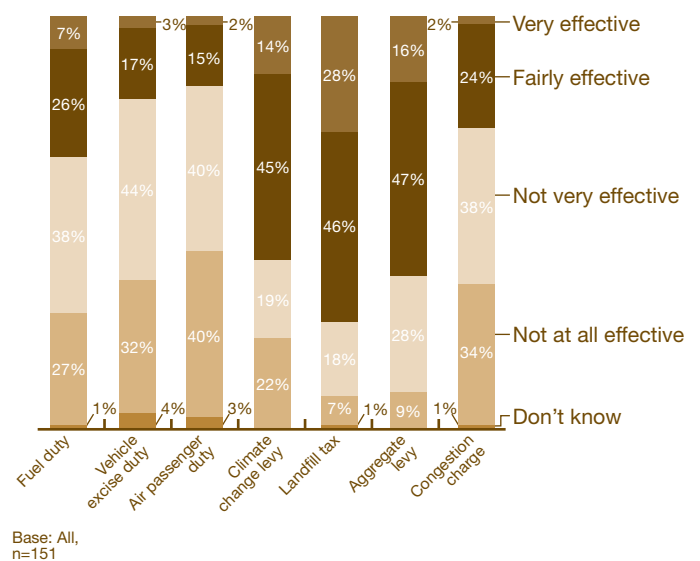
Companies only see three taxes³ as very or fairly effective in terms of influencing behaviour. These are the landfill tax (74 percent), aggregates levy (63 percent) and the climate change levy (59 percent). None of the other taxes (also considered to be quasi-environmental taxes) score above 50 percent and on average they gain support from just 24 percent of respondents, with Air Passenger Duty (APD) seen as effective by just 17 percent of companies⁴.

The findings show a clear distinction in terms of effectiveness in changing corporate behaviour between taxes that have a very clear environmental goal and were designed specifically for the task (such as the landfill tax), and other taxes that were not originally designed to tackle the environment and climate change but have environmental consequences (such as fuel duty), or taxes which are less explicitly linked to polluting behaviour, such as APD.

The debate about the success of environmental taxes is ongoing. It is an area in which there

2 Saving the planet – can tax and regulation help? A PricewaterhouseCoopers LLP discussion paper, July 2007.
 3 It should be noted that the definition of a tax for the purposes of this survey was taken from the Office of National Statistics.
 4 The UK government has announced its intention to change the way this tax operates from November 2009.

Figure 3.3
 Effectiveness of environmental taxes in changing behaviour in the UK



Source: Saving the Planet – can tax and regulation help?
 A PricewaterhouseCoopers LLP discussion paper, July 2007

is likely to be increasing focus, as issues around climate change gather momentum in the international community and with individual governments.

The incidence of environmental taxes is expected to grow, and their impact on the ease of paying taxes will need to be carefully monitored and judged against the ability of these taxes to achieve their ‘green goals’. In view of the assumptions made for studies like Paying Taxes and the limited impact that these taxes may have on the case study, it will be important to ask additional questions to capture the progress of this important area.

Summary

- On average between 40 percent and 50 percent of economies responding to these questions indicated that their economy has SME and R&D incentives included within their tax systems.
- The proportion saying that they have these incentives is highest in the OECD, G8 and BRIC groupings.
- Environmental taxes have the potential to be used to change behaviours. A wider set of questions will need to be asked to assess if there is a trend to introduce such taxes, and to find out whether they are perceived as being effective in achieving environmental objectives.

Canada – attracting the interest of government

Tom O'Brien – PricewaterhouseCoopers LLP

The North American launch of *Paying Taxes 2008* in Toronto, Ontario and the release of the Canadian Total Tax Contribution survey results in early 2008 attracted the attention of Canadian federal and provincial government officials.

During the past year, the Canadian Total Tax Contribution team met with several provincial Ministries of the largest provinces to discuss the survey results and the implications for their tax policy reforms. In a few cases, the meetings were with the Ministers of Finance directly. As Canada has a multi-jurisdictional tax regime (the federal government and each province has the power to levy their own taxes), provincial taxing authorities continue to be concerned about the domestic competitiveness of their tax regime and the ability to attract international investment and raise revenues. In response to requests from the provincial Ministries, the 2008 Canadian Total

Contribution survey will be expanded to collect data by province. Results will provide the Ministries with more detailed information that will allow them to assess their competitiveness within Canada beyond a comparison of corporate income tax rates.

However, the desire for domestic competitiveness must be balanced with the need to create a tax system that is easy for businesses operating in more than one Canadian jurisdiction to administer. As the number of provincial-specific taxes and credits increase, so does the time spent to comply. Recognising this, the provincial Ministries were particularly interested in the compliance costs data and the number of taxing points in their jurisdiction. All Ministries expressed an interest in ensuring that their tax systems are competitive not just in the amount of taxes borne and collected, but also in the amount of time and dollars to comply.

Kenya responds to *Paying Taxes*

Steve Okello – PricewaterhouseCoopers Limited

Kenya is very proud of the reforms it has undertaken over the last two years with regards to improving the various measures of the ease of doing business. Initially Government was defensive and sceptical of the *Paying Taxes* report and its findings which rated Kenya very poorly compared to its neighbours and peers in the region.

Time was taken to discuss the process of how the *Doing Business* data collection works and what is measured. Examples were given of what was causing the low ranking; the fact that there were five different tax payment dates in every month; a different date for PAYE, withholding tax, VAT, social security etc.

Examples were also given of the various forms that are required to be filled in and filed with every tax payment, forms that in fact the tax authorities never use.

Several easy quick wins were agreed which did not require legislative change. Also the Ministry of Finance set up a reform program called the Business Regulatory Reform Unit. As a result of this initiative and the reforms implemented, Kenya has been noted as one of the top reformers by the World Bank IFC *Doing Business* report for 2008. The unit is currently taking a leading role in identifying and fast tracking measures aimed at improving Kenya's ranking on the *Doing Business* indicators.

2

What makes a good tax system? A PwC perspective

All countries have a requirement to raise taxes and the task of governments in meeting this requirement is not an easy one. The ways of raising taxes are legion; as are the pressures that governments have to respond to. Is there, then, such a thing as a 'good' tax system?

The *Doing Business* project highlights aspects of the participating economies' tax systems as they apply to and affect small to medium sized domestic businesses, facilitating the comparison of the world's tax systems by reference to a standard case study company and a consistent set of assumptions. The objective is to provide quantitative data to inform and to stimulate discussion. In this spirit, we offer below some suggestions for what might be seen as the hallmarks of a 'good' tax system. These have been distilled from discussions with business, governments and others, leavened with some thoughts of PricewaterhouseCoopers colleagues in many locations around the world.

As a starting point, we have listed 20 hallmarks, but these will need further development over time. We offer these as starters in a debate and would welcome observations from readers of this report. We intend to develop this list over the coming year and consider including direct questions around this as part of next year's Paying Taxes study.

Suggested hallmarks of a good tax system.

To have a clear purpose

1. The tax system is designed to raise specified amounts of revenue to fund public expenditure.
2. It aims to balance a country's budget, probably over a period.
3. It considers social objectives such as issues of redistribution.
4. It has regard to the ability to pay tax – is progressive.

To be strategic

5. The tax system is stable and consistent, to ensure that long term investment decisions can be taken, confident in the knowledge that the tax rules will not change significantly the commercial validity of those decisions.
6. It aims to take a fair proportion of the value of the country's natural resources in tax revenues, whilst allowing those operating in such areas the opportunity to achieve a fair reward for their efforts.
7. It helps, rather than hinders, business and trade. If the country wishes to trade internationally, the tax system must be competitive and have regard to how systems in other economies operate.
8. It is flexible and responsive to economic and social change within a country. To have the potential not just to raise revenues, but also to encourage changes in behaviour which society is agreed upon.

To be coherent and efficient

9. The tax system has mechanisms in place to allow for proper prior consultation with relevant stakeholders, helping to assist and inform policy makers and those responsible for drafting legislation. Consultation may help implement legislation which achieves stated objectives.
10. It is understandable, clear, and easily accessible.
11. It ensures the interaction between taxes is fully considered and operates sensibly. This consideration should extend to multinational interactions if the country has international links of importance.
12. It minimises the administrative burden on both taxpayers (particularly business) and government for the preparation, filing, and payment of taxes. Online filing and the consolidation of the number of taxes may assist.

Fair and transparent application of legislation

13. The tax rules should be in legislation that is accessible to users, rather than being dependent on the practice of the tax authorities.
14. The tax system should be enforced in a consistent manner by the tax authorities.
15. There should be a clear and accessible route for taking and resolving a dispute between taxpayers and the tax authorities, and one that operates to a sensible timescale.
16. Domestic tax legislation should be consistent with wider law both international and non tax.

A positive tone and stance by tax authorities which promotes cooperation

17. There needs to be a recognition that tax authorities should support and help taxpayers as well as police them.
18. Tax authorities and business should promote a constructive dialogue and move away from adversarial relationships.
19. There needs to be recognition of the role of tax advisers as an important part of the smooth running of the tax system.
20. The system operates on a basis of mutual trust and respect: taxpayers are assumed to be honest unless or until proved otherwise and respond by being open and transparent in their dealings with the tax authorities.

Increased recognition of tax complexity in Australia

Tim Cox - PricewaterhouseCoopers Australia

There has been a significant change in the tax reform debate in Australia over the last few years. There is general acceptance today that Australia's tax system is in need of reform as the rate of tax in Australia is increasingly high by global comparisons and Australia's taxation system is unduly complex, providing an inhibitor to business and, in turn, economic growth.

Only a few years ago, this was not a common diagnosis. At that time, whilst tax reform was an agenda item for business, the debate was much more narrowly focused, and concentrated on the rate of corporate income tax and micro reform of corporate income tax law. Importantly, businesses' push to reduce the corporate income tax rate was not resonating with the former Federal Government.

Now more than ever, stakeholders are focused and engaged on the need for structural reform of the taxation system. This was reflected in the PricewaterhouseCoopers 2008 Annual CEO Survey, where Australian CEOs indicated that taxation was the most important regulatory issue on their agenda. This is indicative of how far the tax reform debate has moved. It is structural, rather than micro, reform that is needed. It is a business issue, not a tax technical issue.

Today the issue is not whether or not there is a problem, but instead, how best to reform our overly complex system and high tax rate. The new Australian government has established a review of Australia's Future Tax System. This review will consider all aspects of Australia's tax system, other than goods and services tax. The review has been given 18 months to deliver its report, which will make recommendations aimed at creating a tax structure that will position Australia to deal with the challenges of the 21st century.

PricewaterhouseCoopers' Total Tax Contribution framework has played a significant role in the rapid transformation of the debate and in gaining acknowledgement that our tax system needs overhaul. The extent of the problems with Australia's tax system was first outlined in the landmark 2007 Tax Nation report, a project jointly undertaken by PwC, the Business Council of Australia and the Corporate Tax

Association, which measured the total tax contribution of our top 100 companies.

The 2007 Tax Nation report highlighted that, whilst government revenue from company tax received continued to grow both in amount and importance, the structural inefficiency of the tax system is a significant obstacle to business activity. The study identified 54 business taxes that are potentially levied from business by Federal and State governments. This survey was followed up by a second survey in 2008, and the 2009 survey will be released early in 2010.

On top of the empirical evidence of the problem identified in Tax Nation, the Paying Taxes studies have reinforced concerns about the structure and complexity of Australia's tax system. Our ranking of 48 in the world this year for ease of paying taxes is rightly a cause for some concern.

Part of the reason for this ranking relates to the treatment of compulsory superannuation contributions and workers compensation payments as taxes by the World Bank – IFC *Doing Business* project. These payments, whilst compulsory, are clearly not taxes, as they are not paid to government. However, they are certainly a significant impost on Australian business. Therefore, any focus on the impact of the treatment of superannuation guarantee and workers' compensation on Australia's global ranking should be treated with caution. Nevertheless, all the global benchmarking points to Australia having some real challenges with its taxation system and its competitiveness.

With the reform process still in its early days, there is cause for optimism. Nevertheless, the challenge will be to achieve outcomes which satisfy the many stakeholders, not least of which are the State governments and the varying interests of different industry sectors. Whether a world-class business taxation system is achieved remains to be seen. In the meantime, the transparency that the Total Tax Contribution framework has created, in relation to the system and its impact on individual companies, will continue to ensure the debate is properly focused.

The Total Tax Rate for China

Rex Chan – PricewaterhouseCoopers Consultants (Shenzhen) Limited

The TTR takes into account not only the taxes that affect the income statement but also certain compulsory payments to government, e.g. social benefit contributions. This year, China's TTR is 79.9 percent:

Social Benefit	58.9%
Taxes	21.0%
Total Tax Rate	79.9%

China's social security system in short

In China, both employers and employees are required to participate in a social security system. As a result, they are obliged to contribute various social benefits to the social insurance programmes based on the schemes for different locations. The major social insurance and funds covered by social insurance programmes include Pension, Medical insurance, Unemployment insurance, Work-related injury insurance, Maternity insurance, and Housing fund.

Government departments, namely the Social Insurance Fund Management Centre and the Housing Fund Management Centre, are responsible for collecting and operating the social insurance fund. Companies need to withhold the employee social insurance premiums from

the salaries of the employees and pay them together with the employer premiums to the relevant authorities on a monthly basis.

In general, the social benefits are calculated based on the employer's and employee's respective contribution rate and the contribution base at the employee's prior year average monthly salary, which is subject to a floor and a ceiling calculated based on the respective percentages of an average city salary. The relevant social insurance and funds contribution rates in Shanghai in 2007 are shown below.

In the Taxpayer Co.'s case, social benefits of 56 employees (among the 60 employees in total) are calculated based on the floor of the contribution base since their salaries are below the average city salary.

China's tax system

China taxes include income tax (e.g. corporate income tax and Individual Income Tax), turnover tax (e.g. Value-added Tax, Consumption Tax and Business Tax), property tax (Urban Real Estate Tax or Real Property Tax) as well as other taxes (e.g., Stamp Duty, Deed Tax, Land Appreciation Tax, etc) and local levies. Taxes are collected and administrated by state and/or local tax authorities.

Item	Employer's contribution	Employee's contribution	Floor	Ceiling
Pension	22% of employer's prior year monthly average salary ("EAS")	8% of individual employee's prior year average monthly salary ("IEAS")	60% of prior year City Average Salary ("CAS")	300% of CAS
Unemployed insurance	2% of EAS	1% of IEAS	60% of CAS	300% of CAS
Basic medical insurance	12% of EAS	2% of IEAS	60% of CAS	300% of CAS
Work-related injury insurance	0.5% of EAS	N/A	60% of CAS	300% of CAS
Maternity Insurance	0.5% of EAS	N/A	60% of CAS	300% of CAS
Housing	7% of EAS	7% of IEAS	60% of CAS	300% of CAS

The main taxes in China includes the following:

Taxes	Tax base	Tax rate
Corporate income tax	Taxable profit	33% in general
Individual Income Tax on salary* withheld by the employer	Salary	5%-45%
Value-added Tax	Net sales	17% in general
Consumption Tax	Value of the consumer products domestically produced or imported	5%-45% or fixed amount per unit
Business Tax	Gross taxable income in general	3%-20%
Customs Duties	Dutiable value of goods imported / exported	Subject to tariff
Stamp Duties	Contractual amount	0.005%-0.1%, or RMB5 per piece
Vehicle and Vessel Tax	Vehicle and vessel	Fixed amount per unit
Deed Tax	Value of the property obtained	3%-5%
Land Appreciation Tax	Gain on transfer of land and the building affixed	30%-60%
Urban Real Estate Tax / Real Property Tax	Value of the real estate or the rental income	1.2% or 12%
Land Usage Tax	Area of the land plot	Fixed amount per square meter
Education Surcharge	Value-added Tax or Business Tax paid	3%
Urban Maintenance Construction Tax	Value-added Tax or Business Tax paid	7%

* The Individual Income Tax on other income is subject to different tax rates

The tax rate of the Taxpayer Co. comprises:

Taxes	% of Commercial Profit
Corporate income tax	11.5%
Urban Maintenance Tax	3.6%
Education Surcharge	1.5%
Land Use Tax	1.5%
Stamp Duty	1%
Real Estate Tax	0.9%
Business Tax	0.5%
Levies for construction and maintenance of river projects in Shanghai	0.5%
Total	21.0%

Individual Income Tax, which is imposed on the employees' income but is withheld by the companies, and Value-added Tax, which is recoverable and should be borne by the end-user, are not accounted for when calculating the TTR.

China's corporate income tax (CIT) reform 2008

China has undertaken an income tax reform in 2008, aiming to optimise the tax collection and administration as well as to reduce the burden on taxpayers. The new

CIT Law came into effect on 1 January 2008. It represents the consolidation of two separate enterprise income tax regimes for domestic enterprises and foreign investment enterprises into a single regime. The new CIT has reduced the standard tax rate from 33 percent to 25 percent. A lower tax rate is available for qualified small and thin-profit companies (20 percent) and for qualified high/new technological enterprises (15 percent). The new CIT Law removed certain deduction limitations on expenses, e.g. removing the deduction limit on the salary to allow all salary costs to be fully deducted. The new CIT Law also provides for a fundamental change in China's tax incentive policy in terms of shaping and directing the future development of the country. The new regime adopts the "Predominantly Industry-oriented, Limited Geography-based" tax incentive policy to encourage technological development, environment protection, energy conservation, production safety, venture capital and continuing investment in agriculture, forestry, animal husbandry, fisheries and infrastructure development.

What may happen next year in China's TTR?

Since CIT only represents a small fraction of the TTR, the change in 2010 TTR for China is unlikely to be significant.

Paying Taxes helps maintain the focus on the need for administrative reforms in Ghana

Darcy White – PricewaterhouseCoopers Ghana Limited

In the past decade, Ghana has undertaken a number of tax reforms, with the objective of increasing the tax revenue base and ensuring efficiency in the tax system. A significant reform, which directly affected Customs Administration in Ghana, was the introduction of the Ghana Community Network (GCNET), and the Ghana Customs Management Systems (GCMS), which have drastically improved the turnaround time for clearing imported goods, reduced bureaucracy and paperwork and improved international trade. Another important reform, over the decade, has been the creation of the Large Tax Payers Unit (LTU) as a “one stop shop” for tax administration for large taxpayers.

The Paying Taxes study, as part of the the World Bank *Doing Business* project, has helped generate a lot of public debate and discussion regarding improving public administration, with regular reference to Ghana’s rankings in the study. This has helped to keep the tax administrative issues in the public eye.

In 2007, reforms to the tax system have included both administrative measures and a reduction in tax rates. Capital gains tax and other withholding tax rates have been reduced. In addition personal tax relief was also increased. This was to encourage Ghanaian taxpayers to file their annual tax returns. The tax filing culture in Ghana is still low, compared to other developed countries, so evidence of the success of these changes is still awaited.

As part of the eGhana project, it is the intention of the government to link the various agencies: the Internal Revenue Service, the Value Added Tax Service, the Registrar Generals Department and the Customs Excise and Preventive Service. With this linkage, it is expected that all loopholes in revenue collection would be blocked, and communication between the various agencies enhanced.

Some of the reforms taking place relate to the computerisation and linking of the revenue collection systems. The Internal Revenue Service (IRS) is linking up with the GCNET and GCMS of the Customs Excise and Preventive Service to enhance revenue collection. The GCNET which became operational in 2003 is a computerised system for the processing and management of customs declarations and related activities. On integration with the IRS, income tax receipts would be issued electronically at points where GCNET operates for the importers. The issue of electronic tax receipts is expected to eliminate fraud through the use of fake tax receipts, and streamline the payment of taxes for the importers.

As part of efforts to broaden the tax base in 2007, Vehicle Income Tax stickers were introduced. By all indications, the initiative has been successful because it has brought within the system a number of commercial drivers which were hitherto not paying taxes.

The National Reconstruction Levy which was introduced in 2001 was finally abolished for all entities, with effect from January 2007.

It is a generally accepted notion that a good and efficient tax system produces better and more responsible tax citizens as well as serving as an incentive for foreign investors.

Contacts

For further information, or to discuss any of the findings in this report, please contact:

World Bank Group

Penelope Brook
+1 202 473 3748
pbrook@ifc.org

Sylvia Solf
+1 202 458 5452
ssolf@worldbank.org

Caroline Otonglo
+1 202 473 9559
cotonglo@worldbank.org

PricewaterhouseCoopers*

Bob Morris
PricewaterhouseCoopers LLP, US
+1 202 414 1714
robert.c.morris@us.pwc.com

Susan Symons
PricewaterhouseCoopers LLP, UK
+44 20 7804 6744
susan.symons@uk.pwc.com

Neville Howlett
PricewaterhouseCoopers LLP, UK
+44 20 7212 7964
neville.p.howlett@uk.pwc.com

*In this publication, the terms 'PricewaterhouseCoopers' and 'PwC' refer to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Index to the Appendix

- 1.1 Summary of the rankings including:
 - Ease of paying taxes rankings
 - Individual indicator rankings for tax payments
 - Individual indicator rankings for time to comply
 - Individual indicator rankings for Total Tax Rate
- 1.2 Tax payments – the details
- 1.3 Time to comply – the details
- 1.4 Total Tax Rate – the details

Appendix 1.1 Ease of paying taxes rankings

(Please see Appendix 2 of this report for an explanation of the methodology.)

Economy	Rankings			
	Ease of paying taxes	Tax payments	Time to comply	Total Tax Rate
Afghanistan	49	10	116	66
Albania	143	140	95	129
Algeria	166	111	156	167
Angola	130	94	113	138
Antigua and Barbuda	136	162	77	112
Argentina	134	16	157	175
Armenia	150	149	176	68
Australia	48	33	25	127
Austria	93	70	59	141
Azerbaijan	102	76	143	85
Bahamas	39	52	5	113
Bahrain	15	82	3	7
Bangladesh	90	66	123	79
Belarus	181	180	179	176
Belgium	64	30	52	146
Belize	53	127	50	26
Benin	165	161	105	165
Bhutan	82	57	115	80
Bolivia	176	131	178	168
Bosnia and Herzegovina	154	151	154	97
Botswana	17	57	43	10
Brazil	145	30	181	162
Brunei	35	44	48	73
Bulgaria	94	52	167	55
Burkina Faso	132	142	105	99
Burundi	114	99	43	180
Cambodia	24	86	42	17
Cameroon	171	131	180	134
Canada	28	16	30	105
Cape Verde	115	164	20	139
Central African Republic	178	158	160	177

Economy	Rankings			
	Ease of paying taxes	Tax payments	Time to comply	Total Tax Rate
Chad	130	158	34	153
Chile	41	26	126	21
China	132	16	160	170
Colombia	141	94	98	169
Comoros	55	62	20	124
Congo, Dem. Rep.	153	99	124	178
Congo, Rep.	179	169	166	161
Costa Rica	152	139	119	143
Côte d'Ivoire	148	172	105	104
Croatia	33	52	68	40
Czech Republic	118	33	174	121
Denmark	13	16	41	31
Djibouti	61	116	26	76
Dominica	63	124	31	71
Dominican Republic	72	16	158	61
Ecuador	69	10	165	57
Egypt	144	91	171	109
El Salvador	124	154	127	56
Equatorial Guinea	161	143	122	151
Eritrea	105	56	79	171
Estonia	34	26	17	122
Ethiopia	37	62	71	34
Fiji	71	105	43	87
Finland	97	62	104	117
France	66	30	40	160
Gabon	101	84	113	101
Gambia	175	149	144	181
Georgia	110	92	145	75
Germany	80	49	68	128
Ghana	65	105	83	41
Greece	62	26	83	116

Appendix 1
The data tables

Economy	Rankings			Total Tax Rate
	Ease of paying taxes	Tax payments	Time to comply	
Grenada	74	92	43	103
Guatemala	120	126	137	67
Guinea	168	162	149	126
Guinea-Bissau	117	143	78	107
Guyana	108	111	120	78
Haiti	91	134	54	81
Honduras	137	145	83	125
Hong Kong, China	3	4	15	18
Hungary	111	38	132	145
Iceland	32	94	43	22
India	169	168	111	163
Indonesia	116	151	103	72
Iran	104	70	137	98
Iraq	43	36	125	19
Ireland	6	16	12	28
Israel	77	105	89	47
Italy	128	44	133	166
Jamaica	173	175	148	133
Japan	112	36	139	142
Jordan	22	84	22	33
Kazakhstan	49	16	111	65
Kenya	158	131	150	132
Kiribati	10	7	31	38
Korea	43	38	97	45
Kuwait	9	38	29	5
Kyrgyz Republic	155	176	74	154
Lao PDR	113	111	163	46
Latvia	36	7	117	42
Lebanon	45	57	62	63
Lesotho	54	66	128	11
Liberia	59	99	53	62

Economy	Rankings			Total Tax Rate
	Ease of paying taxes	Tax payments	Time to comply	
Lithuania	57	44	58	110
Luxembourg	14	70	6	14
Macedonia, FYR	27	127	11	12
Madagascar	92	82	93	94
Malawi	58	57	121	35
Malaysia	21	33	49	53
Maldives	1	1	1	2
Mali	156	165	105	135
Marshall Islands	88	66	36	159
Mauritania	174	124	170	174
Mauritius	11	7	56	16
Mexico	149	86	162	136
Micronesia	81	66	36	149
Moldova	123	154	91	90
Mongolia	79	134	76	32
Montenegro	139	177	141	37
Morocco	119	89	140	100
Mozambique	88	120	89	52
Namibia	96	120	142	20
Nepal	107	111	147	50
Netherlands	30	16	62	77
New Zealand	12	10	10	60
Nicaragua	162	171	94	155
Niger	120	134	105	91
Nigeria	120	116	175	39
Norway	18	4	19	88
Oman	8	38	8	15
Pakistan	124	145	163	29
Palau	86	57	36	164
Panama	172	166	159	130
Papua New Guinea	87	105	66	89

Appendix 1
The data tables

Economy	Rankings			
	Ease of paying taxes	Tax payments	Time to comply	Total Tax Rate
Paraguay	102	116	130	58
Peru	85	16	152	86
Philippines	129	145	67	131
Poland	142	127	151	83
Portugal	73	10	130	96
Puerto Rico	98	49	80	158
Qatar	2	1	3	3
Romania	146	181	74	119
Russia	134	70	155	123
Rwanda	56	111	54	44
Samoa	60	120	83	13
São Tomé and Príncipe	151	134	152	114
Saudi Arabia	7	38	14	6
Senegal	170	166	169	108
Serbia	126	172	117	49
Seychelles	40	49	12	111
Sierra Leone	160	89	146	179
Singapore	5	6	18	25
Slovakia	126	94	129	115
Slovenia	78	70	101	70
Solomon Islands	47	105	15	64
South Africa	23	16	73	51
Spain	84	10	91	152
Sri Lanka	164	170	98	157
St. Kitts and Nevis	95	80	60	137
St. Lucia	29	99	7	48
St. Vincent and the Grenadines	76	119	28	93
Sudan	67	134	62	36
Suriname	26	52	72	24
Swaziland	52	105	23	69

Economy	Rankings			
	Ease of paying taxes	Tax payments	Time to comply	Total Tax Rate
Sweden	42	3	34	140
Switzerland	19	80	9	30
Syria	99	62	134	95
Taiwan, China	100	76	136	84
Tajikistan	159	158	83	172
Tanzania	109	148	60	102
Thailand	82	76	102	74
Timor-Leste	75	44	168	27
Togo	147	154	105	120
Tonga	31	76	57	23
Trinidad and Tobago	51	127	26	43
Tunisia	106	70	88	150
Turkey	68	44	82	106
Uganda	70	99	81	54
Ukraine	180	178	172	147
United Arab Emirates	4	38	2	4
United Kingdom	16	10	24	59
United States	46	26	65	92
Uruguay	167	154	134	148
Uzbekistan	162	179	68	173
Vanuatu	20	94	31	1
Venezuela	177	174	173	144
Vietnam	140	99	177	82
West Bank and Gaza	25	86	51	9
Yemen	138	140	96	118
Zambia	38	120	39	8
Zimbabwe	157	153	98	156

Appendix 1.2 Tax payments (number per year)

(Please see Appendix 2 of this report for an explanation of the methodology.)

Economy	Number of payments				Rank
	Total tax payments	Corporate income tax payments	Labour tax payments	Other taxes payments	Tax payments rank
Afghanistan	8	1	0	7	10
Albania	44	13	12	19	140
Algeria	34	4	12	18	111
Angola	31	4	12	15	94
Antigua and Barbuda	56	13	24	19	162
Argentina	9	1	1	7	16
Armenia	50	13	12	25	149
Australia	12	1	4	7	33
Austria	22	1	4	17	70
Azerbaijan	23	1	12	10	76
Bahamas	17	0	12	5	52
Bahrain	25	0	24	1	82
Bangladesh	21	5	0	16	66
Belarus	112	24	24	64	180
Belgium	11	1	2	8	30
Belize	40	12	12	16	127
Benin	55	5	24	26	161
Bhutan	19	2	12	5	57
Bolivia	41	1	12	28	131
Bosnia and Herzegovina	51	12	12	27	151
Botswana	19	6	0	13	57
Brazil	11	2	2	7	30
Brunei	15	1	12	2	44
Bulgaria	17	2	1	14	52
Burkina Faso	45	1	24	20	142
Burundi	32	1	16	15	99
Cambodia	27	12	0	15	86
Cameroon	41	13	12	16	131
Canada	9	2	3	4	16
Cape Verde	57	4	24	29	164
Central African Republic	54	4	24	26	158

Economy	Number of payments				Rank
	Total tax payments	Corporate income tax payments	Labour tax payments	Other taxes payments	Tax payments rank
Chad	54	12	24	18	158
Chile	10	1	1	8	26
China	9	2	1	6	16
Colombia	31	2	12	17	94
Comoros	20	2	0	18	62
Congo, Dem. Rep.	32	1	16	15	99
Congo, Rep.	61	5	37	19	169
Costa Rica	43	5	12	26	139
Côte d'Ivoire	66	3	24	39	172
Croatia	17	1	12	4	52
Czech Republic	12	1	2	9	33
Denmark	9	3	1	5	16
Djibouti	35	5	12	18	116
Dominica	38	5	12	21	124
Dominican Republic	9	1	4	4	16
Ecuador	8	2	1	5	10
Egypt	29	1	12	16	91
El Salvador	53	13	24	16	154
Equatorial Guinea	46	1	24	21	143
Eritrea	18	2	0	16	56
Estonia	10	1	0	9	26
Ethiopia	20	2	0	18	62
Fiji	33	4	14	15	105
Finland	20	13	3	4	62
France	11	1	2	8	30
Gabon	26	3	4	19	84
Gambia	50	6	13	31	149
Georgia	30	4	12	14	92
Germany	16	2	4	10	49
Ghana	33	6	12	15	105
Greece	10	1	1	8	26
Grenada	30	1	12	17	92

Appendix 1
The data tables

Economy	Number of payments				Rank
	Total tax payments	Corporate income tax payments	Labour tax payments	Other taxes payments	Tax payments rank
Guatemala	39	5	12	22	126
Guinea	56	2	36	18	162
Guinea-Bissau	46	5	12	29	143
Guyana	34	6	12	16	111
Haiti	42	2	25	15	134
Honduras	47	5	13	29	145
Hong Kong, China	4	1	1	2	4
Hungary	14	2	4	8	38
Iceland	31	1	14	16	94
India	60	2	24	34	168
Indonesia	51	13	24	14	151
Iran	22	1	12	9	70
Iraq	13	1	12	0	36
Ireland	9	1	1	7	16
Israel	33	2	12	19	105
Italy	15	2	1	12	44
Jamaica	72	4	48	20	175
Japan	13	2	2	9	36
Jordan	26	2	12	12	84
Kazakhstan	9	1	1	7	16
Kenya	41	5	14	22	131
Kiribati	7	5	2	0	7
Korea	14	1	4	9	38
Kuwait	14	2	12	0	38
Kyrgyz Republic	75	12	12	51	176
Lao PDR	34	4	12	18	111
Latvia	7	1	1	5	7
Lebanon	19	1	12	6	57
Lesotho	21	5	0	16	66
Liberia	32	4	12	16	99
Lithuania	15	2	2	11	44
Luxembourg	22	2	12	8	70
Macedonia, FYR	40	12	12	16	127

Economy	Number of payments				Rank
	Total tax payments	Corporate income tax payments	Labour tax payments	Other taxes payments	Tax payments rank
Madagascar	25	1	8	16	82
Malawi	19	2	1	16	57
Malaysia	12	1	2	9	33
Maldives	1	0	0	1	1
Mali	58	3	36	19	165
Marshall Islands	21	0	16	5	66
Mauritania	38	1	13	24	124
Mauritius	7	1	1	5	7
Mexico	27	1	18	8	86
Micronesia	21	4	4	13	66
Moldova	53	5	28	20	154
Mongolia	42	13	12	17	134
Montenegro	89	12	48	29	177
Morocco	28	1	12	15	89
Mozambique	37	7	12	18	120
Namibia	37	3	12	22	120
Nepal	34	3	12	19	111
Netherlands	9	1	1	7	16
New Zealand	8	1	2	5	10
Nicaragua	64	13	24	27	171
Niger	42	3	13	26	134
Nigeria	35	3	14	18	116
Norway	4	1	1	2	4
Oman	14	1	12	1	38
Pakistan	47	5	25	17	145
Palau	19	0	12	7	57
Panama	59	2	24	33	166
Papua New Guinea	33	1	13	19	105
Paraguay	35	5	12	18	116
Peru	9	1	2	6	16
Philippines	47	1	36	10	145
Poland	40	12	1	27	127
Portugal	8	1	1	6	10

Appendix 1
The data tables

Economy	Number of payments				Rank
	Total tax payments	Corporate income tax payments	Labour tax payments	Other taxes payments	Tax payments rank
Puerto Rico	16	5	6	5	49
Qatar	1	0	1	0	1
Romania	113	4	84	25	181
Russia	22	1	14	7	70
Rwanda	34	5	12	17	111
Samoa	37	5	24	8	120
São Tomé and Príncipe	42	1	12	29	134
Saudi Arabia	14	1	12	1	38
Senegal	59	3	36	20	166
Serbia	66	12	12	42	172
Seychelles	16	1	12	3	49
Sierra Leone	28	0	12	16	89
Singapore	5	1	1	3	6
Slovakia	31	1	12	18	94
Slovenia	22	1	12	9	70
Solomon Islands	33	5	12	16	105
South Africa	9	2	3	4	16
Spain	8	1	1	6	10
Sri Lanka	62	5	24	33	170
St. Kitts and Nevis	24	4	12	8	80
St. Lucia	32	1	12	19	99
St. Vincent and the Grenadines	36	4	12	20	119
Sudan	42	2	12	28	134
Suriname	17	4	0	13	52
Swaziland	33	2	13	18	105
Sweden	2	1	0	1	3
Switzerland	24	2	15	7	80
Syria	20	2	13	5	62

Economy	Number of payments				Rank
	Total tax payments	Corporate income tax payments	Labour tax payments	Other taxes payments	Tax payments rank
Taiwan, China	23	3	3	17	76
Tajikistan	54	12	12	30	158
Tanzania	48	5	24	19	148
Thailand	23	2	13	8	76
Timor-Leste	15	1	0	14	44
Togo	53	5	25	23	154
Tonga	23	1	0	22	76
Trinidad and Tobago	40	4	24	12	127
Tunisia	22	4	4	14	70
Turkey	15	1	1	13	44
Uganda	32	3	12	17	99
Ukraine	99	6	60	33	178
United Arab Emirates	14	0	12	2	38
United Kingdom	8	1	1	6	10
United States	10	2	3	5	26
Uruguay	53	1	24	28	154
Uzbekistan	106	16	12	78	179
Vanuatu	31	0	12	19	94
Venezuela	70	13	29	28	174
Vietnam	32	6	12	14	99
West Bank and Gaza	27	14	0	13	86
Yemen	44	1	24	19	140
Zambia	37	5	13	19	120
Zimbabwe	52	7	14	31	153

Appendix 1.3 Time to comply (hours per year)

(Please see Appendix 2 of this report for an explanation of the methodology.)

Economy	Hours				Rank
	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	
Afghanistan	275	77	120	78	116
Albania	244	120	96	28	95
Algeria	451	152	189	110	156
Angola	272	80	96	96	113
Antigua and Barbuda	207	23	136	48	77
Argentina	453	105	108	240	157
Armenia	958	152	352	454	176
Australia	107	35	18	54	25
Austria	170	49	55	67	59
Azerbaijan	376	80	134	162	143
Bahamas	58	0	48	10	5
Bahrain	36	0	36	0	3
Bangladesh	302	140	0	162	123
Belarus	1188	960	180	48	179
Belgium	156	20	40	96	52
Belize	147	27	60	60	50
Benin	270	30	120	120	105
Bhutan	274	250	24	0	115
Bolivia	1080	120	480	480	178
Bosnia and Herzegovina	428	68	96	264	154
Botswana	140	40	40	60	43
Brazil	2600	736	491	1374	181
Brunei	144	66	78	0	48
Bulgaria	616	40	288	288	167
Burkina Faso	270	30	120	120	105
Burundi	140	80	48	12	43
Cambodia	137	23	48	66	42
Cameroon	1400	500	700	200	180
Canada	119	47	36	36	30

Economy	Hours				Rank
	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	
Cape Verde	100	16	36	48	20
Central African Republic	504	24	240	240	160
Chad	122	50	36	36	34
Chile	316	42	137	137	126
China	504	96	192	216	160
Colombia	256	40	102	114	98
Comoros	100	4	48	48	20
Congo, Dem. Rep.	308	116	96	96	124
Congo, Rep.	606	275	150	181	166
Costa Rica	282	18	132	132	119
Côte d'Ivoire	270	30	120	120	105
Croatia	196	60	96	40	68
Czech Republic	930	150	420	360	174
Denmark	135	25	70	40	41
Djibouti	114	30	36	48	26
Dominica	120	15	48	57	31
Dominican Republic	480	142	98	240	158
Ecuador	600	60	300	240	165
Egypt	711	112	311	288	171
El Salvador	320	128	96	96	127
Equatorial Guinea	296	80	120	96	122
Eritrea	216	24	96	96	79
Estonia	81	20	34	27	17
Ethiopia	198	150	24	24	71
Fiji	140	20	60	60	43
Finland	269	21	200	48	104
France	132	26	80	26	40
Gabon	272	80	96	96	113

Appendix 1
The data tables

Economy	Hours				Rank
	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	Time rank
Gambia	376	40	96	240	144
Georgia	387	140	67	180	145
Germany	196	30	123	43	68
Ghana	224	40	88	96	83
Greece	224	88	48	88	83
Grenada	140	8	96	36	43
Guatemala	344	44	144	156	137
Guinea	416	32	192	192	149
Guinea-Bissau	208	160	24	24	78
Guyana	288	48	48	192	120
Haiti	160	40	72	48	54
Honduras	224	93	96	35	83
Hong Kong, China	80	50	30	0	15
Hungary	330	35	203	92	132
Iceland	140	40	60	40	43
India	271	47	96	128	111
Indonesia	266	88	97	81	103
Iran	344	32	240	72	137
Iraq	312	24	288	0	125
Ireland	76	10	36	30	12
Israel	230	110	60	60	89
Italy	334	37	264	33	133
Jamaica	414	30	336	48	148
Japan	355	180	140	35	139
Jordan	101	5	60	36	22
Kazakhstan	271	105	74	92	111
Kenya	417	60	57	300	150
Kiribati	120	24	96	0	31
Korea	250	120	80	50	97
Kuwait	118	70	48	0	29
Kyrgyz Republic	202	60	71	71	74
Lao PDR	560	80	252	228	163

Economy	Hours				Rank
	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	Time rank
Latvia	279	31	165	83	117
Lebanon	180	40	100	40	62
Lesotho	324	22	140	162	128
Liberia	158	57	59	42	53
Lithuania	166	32	76	58	58
Luxembourg	58.5	21	14	24	6
Macedonia, FYR	75	25	28	22	11
Madagascar	238	16	96	126	93
Malawi	292	100	162	30	121
Malaysia	145	28	87	30	49
Maldives	0	0	0	0	1
Mali	270	30	120	120	105
Marshall Islands	128	0	96	32	36
Mauritania	696	120	96	480	170
Mauritius	161	13	100	48	56
Mexico	549	143	192	214	162
Micronesia	128	32	96	0	36
Moldova	234	86	88	60	91
Mongolia	204	60	72	72	76
Montenegro	372	43	136	193	141
Morocco	358	70	48	240	140
Mozambique	230	50	60	120	89
Namibia	375	41	288	46	142
Nepal	408	120	96	192	147
Netherlands	180	40	80	60	62
New Zealand	70	25	30	15	10
Nicaragua	240	80	80	80	94
Niger	270	30	120	120	105
Nigeria	938	398	378	162	175
Norway	87	24	15	48	19
Oman	62	50	12	0	8
Pakistan	560	40	40	480	163
Palau	128	0	96	32	36

Appendix 1
The data tables

Economy	Hours				Rank
	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	Time rank
Panama	482	50	180	252	159
Papua New Guinea	194	153	9	33	66
Paraguay	328	40	144	144	130
Peru	424	40	192	192	152
Philippines	194.5	37	38	120	67
Poland	418	89	228	101	151
Portugal	328	40	192	96	130
Puerto Rico	218	80	60	78	80
Qatar	36	0	36	0	3
Romania	202	32	110	60	74
Russia	448	160	96	192	155
Rwanda	160	22	48	90	54
Samoa	224	80	96	48	83
São Tomé and Príncipe	424	40	192	192	152
Saudi Arabia	79	20	59	0	14
Senegal	666	120	96	450	169
Serbia	279	48	106	125	117
Seychelles	76	40	36	0	12
Sierra Leone	399	15	192	192	146
Singapore	84	34	10	40	18
Slovakia	325	61	120	144	129
Slovenia	260	90	96	74	101
Solomon Islands	80	8	30	42	15
South Africa	200	100	50	50	73
Spain	234	33	90	111	91
Sri Lanka	256	16	96	144	98
St. Kitts and Nevis	172	48	124	0	60
St. Lucia	61	11	50	0	7
St. Vincent and the Grenadines	117	14	52	51	28

Economy	Hours				Rank
	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	Time rank
Sudan	180	70	70	40	62
Suriname	199	127	24	48	72
Swaziland	104	8	48	48	23
Sweden	122	50	36	36	34
Switzerland	63	15	40	8	9
Syria	336	300	36	0	134
Taiwan, China	340	240	52	48	136
Tajikistan	224	80	48	96	83
Tanzania	172	60	60	52	60
Thailand	264	160	48	56	102
Timor-Leste	640	480	160	0	168
Togo	270	30	120	120	105
Tonga	164	8	12	144	57
Trinidad and Tobago	114	30	60	24	26
Tunisia	228	96	36	96	88
Turkey	223	46	80	97	82
Uganda	222	42	90	90	81
Ukraine	848	186	416	246	172
United Arab Emirates	12	0	12	0	2
United Kingdom	105	35	45	25	24
United States	187	99	55	33	65
Uruguay	336	100	128	108	134
Uzbekistan	196	32	56	108	68
Vanuatu	120	0	24	96	31
Venezuela	864	120	360	384	173
Vietnam	1050	350	400	300	177
West Bank and Gaza	154	10	96	48	51
Yemen	248	56	72	120	96
Zambia	132	48	24	60	39
Zimbabwe	256	90	96	70	98

Appendix 1.4 Total Tax Rate (% of commercial profits)

(Please see Appendix 2 of this report for an explanation of the methodology.)

Economy	Total Tax Rate				Rank
	TTR	Corporate income tax TTR	Labour tax TTR	Other taxes TTR	TTR Rank
Afghanistan	36.4%	0.0%	0.0%	36.4%	66
Albania	50.5%	16.7%	28.6%	5.2%	129
Algeria	74.2%	8.3%	30.2%	35.7%	167
Angola	53.2%	24.6%	9.0%	19.5%	138
Antigua and Barbuda	46.8%	31.2%	9.5%	6.2%	112
Argentina	108.1%	2.8%	29.4%	75.9%	175
Armenia	36.6%	12.1%	23.4%	1.1%	68
Australia	50.3%	27.2%	21.8%	1.2%	127
Austria	54.5%	15.1%	34.5%	4.9%	141
Azerbaijan	41.1%	13.8%	24.8%	2.5%	85
Bahamas	47.0%	0.0%	6.1%	40.9%	113
Bahrain	15.0%	0.0%	14.7%	0.4%	7
Bangladesh	39.5%	27.3%	0.0%	12.2%	79
Belarus	117.5%	22.0%	39.6%	55.8%	176
Belgium	58.1%	5.9%	50.4%	1.8%	146
Belize	28.2%	19.8%	7.0%	1.4%	26
Benin	73.2%	16.7%	32.7%	23.9%	165
Bhutan	39.8%	34.2%	1.1%	4.4%	80
Bolivia	78.1%	0.0%	15.5%	62.6%	168
Bosnia and Herzegovina	44.1%	21.5%	17.2%	5.4%	97
Botswana	17.1%	17.0%	0.0%	0.1%	10
Brazil	69.4%	21.3%	40.6%	7.5%	162
Brunei	37.4%	31.8%	5.6%	0.0%	73
Bulgaria	34.9%	4.2%	26.8%	3.9%	55
Burkina Faso	44.6%	15.2%	22.6%	6.9%	99
Burundi	278.7%	17.7%	7.8%	253.3%	180
Cambodia	22.6%	19.1%	0.0%	3.5%	17
Cameroon	51.4%	28.4%	18.3%	4.7%	134
Canada	45.4%	25.5%	12.6%	7.3%	105
Cape Verde	54.0%	22.0%	18.5%	13.5%	139
Central African Republic	203.8%	176.8%	8.1%	18.9%	177

Economy	Total Tax Rate				Rank
	TTR	Corporate income tax TTR	Labour tax TTR	Other taxes TTR	TTR Rank
Chad	60.5%	31.3%	23.9%	5.8%	153
Chile	25.9%	18.3%	3.8%	3.8%	21
China	79.9%	12.0%	58.9%	9.0%	170
Colombia	78.4%	17.9%	33.4%	27.1%	169
Comoros	48.8%	27.2%	0.0%	21.6%	124
Congo, Dem. Rep.	229.8%	0.0%	7.9%	221.9%	178
Congo, Rep.	65.5%	0.0%	32.9%	32.6%	161
Costa Rica	55.7%	19.8%	29.3%	6.6%	143
Côte d'Ivoire	45.4%	9.7%	20.1%	15.7%	104
Croatia	32.5%	11.4%	19.4%	1.7%	40
Czech Republic	48.6%	6.0%	39.5%	3.1%	121
Denmark	29.9%	23.5%	0.7%	5.7%	31
Djibouti	38.7%	17.7%	17.7%	3.3%	76
Dominica	37.0%	25.9%	7.9%	3.2%	71
Dominican Republic	35.7%	20.5%	13.4%	1.8%	61
Ecuador	34.9%	18.5%	13.7%	2.8%	57
Egypt	46.1%	13.6%	28.9%	3.6%	109
El Salvador	34.9%	17.0%	17.2%	0.7%	56
Equatorial Guinea	59.5%	13.5%	25.4%	20.6%	151
Eritrea	84.5%	8.8%	0.0%	75.8%	171
Estonia	48.6%	8.8%	38.3%	1.5%	122
Ethiopia	31.1%	26.8%	0.0%	4.3%	34
Fiji	41.5%	31.2%	10.2%	0.2%	87
Finland	47.8%	17.0%	29.7%	1.0%	117
France	65.4%	8.3%	51.3%	5.8%	160
Gabon	44.7%	19.7%	22.7%	2.3%	101
Gambia	292.4%	41.4%	12.8%	238.2%	181
Georgia	38.6%	14.1%	22.6%	2.0%	75
Germany	50.5%	22.7%	22.1%	5.7%	128
Ghana	32.7%	18.1%	14.1%	0.6%	41
Greece	47.4%	13.9%	31.7%	1.9%	116
Grenada	45.3%	27.6%	5.6%	12.1%	103

Appendix 1
The data tables

Economy	Total Tax Rate				Rank
	TTR	Corporate income tax TTR	Labour tax TTR	Other taxes TTR	TTR Rank
Guatemala	36.5%	1.6%	14.3%	20.6%	67
Guinea	49.9%	21.8%	17.3%	10.8%	126
Guinea-Bissau	45.9%	14.9%	24.8%	6.1%	107
Guyana	39.4%	26.6%	8.8%	4.0%	78
Haiti	40.1%	23.3%	12.4%	4.3%	81
Honduras	49.3%	27.4%	10.7%	11.1%	125
Hong Kong, China	24.2%	18.6%	5.3%	0.3%	18
Hungary	57.5%	9.1%	39.4%	8.9%	145
Iceland	26.8%	8.5%	12.8%	5.4%	22
India	71.5%	22.9%	18.2%	30.4%	163
Indonesia	37.3%	26.6%	10.6%	0.1%	72
Iran	44.2%	17.9%	25.9%	0.4%	98
Iraq	24.7%	11.1%	13.5%	0.0%	19
Ireland	28.8%	14.2%	12.1%	2.5%	28
Israel	33.9%	26.2%	5.3%	2.4%	47
Italy	73.3%	28.0%	43.2%	2.1%	166
Jamaica	51.3%	28.6%	13.0%	9.7%	133
Japan	55.4%	34.0%	16.2%	5.3%	142
Jordan	31.1%	15.1%	12.4%	3.6%	33
Kazakhstan	36.4%	15.6%	17.9%	2.8%	65
Kenya	50.9%	32.5%	6.8%	11.6%	132
Kiribati	31.8%	23.4%	8.5%	0.0%	38
Korea	33.7%	18.6%	13.4%	1.7%	45
Kuwait	14.4%	3.7%	10.7%	0.0%	5
Kyrgyz Republic	61.4%	3.0%	23.7%	34.7%	154
Lao PDR	33.7%	25.2%	5.6%	2.9%	46
Latvia	33.0%	2.2%	27.2%	3.7%	42
Lebanon	36.0%	12.0%	24.1%	0.0%	63
Lesotho	18.0%	14.5%	0.0%	3.4%	11
Liberia	35.8%	25.1%	5.4%	5.3%	62
Lithuania	46.4%	8.3%	35.2%	2.9%	110
Luxembourg	21.0%	4.1%	15.3%	1.6%	14
Macedonia, FYR	18.4%	14.0%	0.8%	3.5%	12

Economy	Total Tax Rate				Rank
	TTR	Corporate income tax TTR	Labour tax TTR	Other taxes TTR	TTR Rank
Madagascar	42.8%	19.6%	20.3%	2.9%	94
Malawi	31.4%	29.6%	1.1%	0.7%	35
Malaysia	34.5%	16.8%	15.6%	2.1%	53
Maldives	9.1%	0.0%	0.0%	9.1%	2
Mali	51.4%	13.3%	31.5%	6.7%	135
Marshall Islands	64.9%	0.0%	11.8%	53.0%	159
Mauritania	98.7%	0.0%	17.6%	81.1%	174
Mauritius	22.2%	11.3%	3.6%	7.3%	16
Mexico	51.5%	23.2%	27.0%	1.4%	136
Micronesia	58.7%	52.0%	6.8%	0.0%	149
Moldova	42.1%	10.4%	31.4%	0.3%	90
Mongolia	30.3%	6.8%	22.6%	1.0%	32
Montenegro	31.8%	9.6%	20.0%	2.2%	37
Morocco	44.6%	21.3%	21.5%	1.8%	100
Mozambique	34.3%	27.7%	4.5%	2.1%	52
Namibia	25.3%	16.7%	1.0%	7.6%	20
Nepal	34.1%	20.3%	11.3%	2.5%	50
Netherlands	39.1%	21.8%	15.9%	1.4%	77
New Zealand	35.6%	32.4%	2.4%	0.7%	60
Nicaragua	63.2%	24.9%	19.2%	19.2%	155
Niger	42.3%	14.9%	19.6%	7.8%	91
Nigeria	32.2%	21.8%	9.7%	0.7%	39
Norway	41.6%	24.4%	15.9%	1.3%	88
Oman	21.6%	9.7%	11.8%	0.1%	15
Pakistan	28.9%	13.9%	12.6%	2.3%	29
Palau	73.0%	0.0%	6.5%	66.5%	164
Panama	50.6%	16.9%	22.5%	11.2%	130
Papua New Guinea	41.7%	22.2%	10.9%	8.6%	89
Paraguay	35.0%	9.6%	18.6%	6.7%	58
Peru	41.2%	27.1%	11.8%	2.2%	86
Philippines	50.8%	26.3%	10.3%	14.2%	131
Poland	40.2%	13.0%	23.5%	3.7%	83
Portugal	43.6%	14.1%	26.8%	2.7%	96

Appendix 1
The data tables

Economy	Total Tax Rate				Rank
	TTR	Corporate income tax TTR	Labour tax TTR	Other taxes TTR	TTR Rank
Puerto Rico	64.7%	25.3%	12.6%	26.9%	158
Qatar	11.3%	0.0%	11.3%	0.0%	3
Romania	48.0%	10.4%	35.5%	2.1%	119
Russia	48.7%	10.7%	31.8%	6.2%	123
Rwanda	33.7%	20.1%	5.7%	7.9%	44
Samoa	18.9%	11.9%	7.0%	0.0%	13
São Tomé and Príncipe	47.2%	35.5%	6.8%	4.9%	114
Saudi Arabia	14.5%	2.1%	12.4%	0.0%	6
Senegal	46.0%	14.8%	24.1%	7.0%	108
Serbia	34.0%	11.6%	20.2%	2.2%	49
Seychelles	46.6%	23.6%	22.6%	0.5%	111
Sierra Leone	233.5%	0.0%	11.3%	222.2%	179
Singapore	27.9%	7.9%	14.9%	5.1%	25
Slovakia	47.4%	6.8%	39.5%	1.0%	115
Slovenia	36.7%	13.0%	21.1%	2.6%	70
Solomon Islands	36.3%	24.9%	8.5%	3.0%	64
South Africa	34.2%	24.5%	2.3%	7.4%	51
Spain	60.2%	22.2%	37.2%	0.8%	152
Sri Lanka	63.7%	26.5%	16.9%	20.3%	157
St. Kitts and Nevis	52.7%	32.7%	11.3%	8.8%	137
St. Lucia	34.0%	25.5%	5.6%	2.9%	48
St. Vincent and the Grenadines	42.6%	35.2%	3.9%	3.4%	93
Sudan	31.6%	9.3%	19.2%	3.1%	36
Suriname	27.9%	27.9%	0.0%	0.0%	24
Swaziland	36.6%	28.1%	4.0%	4.5%	69
Sweden	54.5%	16.5%	36.4%	1.7%	140
Switzerland	28.9%	8.9%	16.7%	3.3%	30
Syria	43.5%	23.2%	19.3%	1.0%	95

Economy	Total Tax Rate				Rank
	TTR	Corporate income tax TTR	Labour tax TTR	Other taxes TTR	TTR Rank
Taiwan, China	40.4%	19.5%	16.7%	4.2%	84
Tajikistan	85.5%	17.7%	28.2%	39.7%	172
Tanzania	45.1%	19.8%	18.0%	7.3%	102
Thailand	37.8%	28.5%	5.7%	3.7%	74
Timor-Leste	28.3%	27.8%	0.0%	0.6%	27
Togo	48.2%	13.2%	28.3%	6.6%	120
Tonga	27.5%	26.3%	0.0%	1.2%	23
Trinidad and Tobago	33.1%	21.6%	5.8%	5.8%	43
Tunisia	59.1%	11.9%	24.6%	22.5%	150
Turkey	45.5%	16.8%	24.5%	4.3%	106
Uganda	34.5%	22.0%	11.3%	1.3%	54
Ukraine	58.4%	11.5%	43.3%	3.7%	147
United Arab Emirates	14.4%	0.0%	14.1%	0.3%	4
United Kingdom	35.3%	21.0%	11.2%	3.1%	59
United States	42.3%	23.5%	9.6%	9.2%	92
Uruguay	58.5%	23.2%	10.5%	24.9%	148
Uzbekistan	90.6%	1.9%	27.1%	61.6%	173
Vanuatu	8.4%	0.0%	4.5%	3.9%	1
Venezuela	56.6%	10.3%	26.9%	19.4%	144
Vietnam	40.1%	20.6%	19.2%	0.3%	82
West Bank and Gaza	16.8%	16.2%	0.0%	0.6%	9
Yemen	47.8%	35.1%	11.3%	1.4%	118
Zambia	16.1%	1.7%	10.4%	4.0%	8
Zimbabwe	63.7%	0.0%	4.7%	59.0%	156



Appendix

2

Methodology

Index to the Appendix

Introduction

The case study company

The framework of the *Doing Business* study

The PricewaterhouseCoopers Total Tax Contribution ('TTC') framework

What is a tax?

Payments in respect of labour

Taxes borne and collected

Effective tax rates for current corporate income tax

Introduction

The Paying Taxes indicator is one of ten indicators assessed as part of the World Bank – IFC’s annual *Doing Business* report which, this year, was published on 10 September 2008. This is the fourth year in which tax data has been collected as part of the *Doing Business* project.

The Paying Taxes study involves gathering information on the tax affairs of a standard case study company in 181 economies, by reviewing the financial statements and a list of transactions of a standard modest-sized firm. This information is used to generate three indicators related to the number of tax payments, the time taken to comply with its tax affairs, and the total tax cost. These are equally weighted to produce an overall ranking for each economy for the ease of paying taxes. Rankings of each of the individual components are also available. All the rankings are included in Appendix 1, and further details for each economy are available at www.doingbusiness.org

The World Bank-IFC report has this year also collected additional data which, whilst not used to determine a country’s ranking, assists with understanding the tax system in each country. Some of this additional data is referred to in this publication.

This appendix includes detailed information on the methodology behind the collection of data for the main indicators and the fundamental distinction between taxes borne and taxes collected. It also explains more about the PricewaterhouseCoopers Total Tax Contribution methodology (basic principles of which are incorporated in the design of the *Doing Business* paying taxes indicator) and some of the matters that must be considered when deciding what payments should be included when considering the tax burden of a company.

The case study company

In order to gather the necessary information to generate the tax indicators mentioned for the standardised business in each country, a case study company has been developed. The case study company is a domestic flower pot manufacturer and retailer. Nothing hangs specifically on the nature of the business; it has been chosen as something that can be readily understood worldwide and as an activity that involves both manufacture and retail of a low-technology product. The overriding objective is to generate a standard fact pattern so that the tax indicators generated using the same criteria can be compared across so many countries without being significantly distorted by industry specific incentives and reliefs. It is also specified to be a domestic operation in the economy, so the assessment is purely of the local tax system.

The company has a set of financial statements and comparability is assisted by detailed assumptions made with regard to the company’s operations, staff, transactions, size, etc, as well as the process by which the information is gathered and reviewed.

The facts and assumptions allow the World Bank to generate tax indicators for each economy, based on the application of their tax rules to the case study company.

Tax advisers from PricewaterhouseCoopers provided tax technical data for their economies; other advisers provided data where PricewaterhouseCoopers does not have a presence. The data provided is based on the standardised case study facts and assumptions and on the tax rules applying for the year from 1 January to 31 December 2007. While the basic elements of the case study do not change year on year, the period for which the rules are deemed to apply is updated.

The framework of the Doing Business study

The *Doing Business* 'paying taxes' data records the taxes and mandatory contributions that a modest-size company must pay in a given year, as well as measures of the administrative burden of paying taxes and contributions. 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 and vehicle and road taxes.

Doing Business measures all taxes and contributions that are government mandated (at any level – federal, state or local), apply to the standardised business and have an impact in its income statements. In doing so, *Doing Business* 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. *Doing Business* departs from this definition because it measures imposed charges that affect business accounts, not just government accounts. The main differences relate to certain labour contributions.

The *Doing Business* paying taxes data 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.

Assumptions about the business

The business

- Is a limited liability, taxable company. If there is more than one type of limited liability company in a country, the limited liability form most popular

among domestic firms is chosen. The most popular form is reported by incorporation lawyers or the statistical office.

- Started operations on 1 January 2006. At that time it purchased all the assets shown in its balance sheet, and hired all its workers.
- Operates in the economy's largest business city.
- Is 100 percent domestically owned and has five owners, all of whom are natural persons (resident for tax purposes in the economy).
- Has a start-up capital of 102 times income per capita at the end of 2006.
- Performs general industrial and 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, alcohol or tobacco.
- At the beginning of 2007, the company owns two plots of land, one building, machinery, office equipment, computers and one truck. Another truck is leased.
- Does not qualify for investment incentives or any benefits apart from those related to the age or size of the company.
- Has 60 employees comprising four managers, eight assistants and 48 workers. All of these workers are nationals of the economy and one of the managers is also an owner.
- Has a turnover of 1,050 times income per capita.
- Made a loss in the first year of operation.

- Has a gross margin (pre-tax) of 20 percent (that is, sales are 120 percent of the cost of goods sold).
- Distributes 50 percent 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 during the second year.
- Has annual fuel costs for its trucks equal to twice income per capita.
- Is subject to a series of other detailed assumptions on expenses and transactions to further standardise the case. All finance statement variables are proportional to 2005 income per capita. For example, the owner who is also a manager spends 10 percent of income per capita on travelling for the company (20 percent of this owner's expenses are purely private, 20 percent are for entertaining customers and 60 percent for business travel).

Assumptions about the taxes and contributions

- The taxes and contributions are those paid in the second year of operation (fiscal year 2007). 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 one. The frequency of payment includes advance payments (or withholding) as well as regular payments (or withholding).

The case study company has a turnover which is the same multiple of the income per capita for each economy. In absolute terms, therefore, the numbers involved can be different. For example, in the UK, the turnover of the business is assumed to be £21.5m whereas in Argentina turnover is 13,941,603 pesos which at 31 December 2007 (the end of the fiscal year of the survey) equates to £0.4m. In both economies however, the calculation is the same and based on income per capita. This allows the case study financials to be flexed to reflect the relative wealth of the economy in which it operates. While the turnover is flexed, the gross margin of the company is fixed to the same percentage regardless of the economy in which the company operates.

The indicators:

Number of tax payments

- The tax payments indicator reflects the total number of taxes and contributions paid, the method of payment, the frequency of payment and the number of agencies involved for this standardised case during the second year of its operation. It includes payments made by the company on consumption taxes, such as sales tax or value added tax. Although these taxes 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 is allowed and it is used by the majority of modest-sized businesses, the tax is counted as paid once a year even if the payment is more frequent.

For taxes paid through third parties, such as tax on interest paid by a financial institution or fuel tax paid by the fuel distributor, only one payment is included even if payments are more frequent. These are taxes withheld at source where no filing is made by the company.

- Where two or more taxes or contributions are paid jointly using the same form, each of these joint payments is counted once. For example, if mandatory health insurance contributions and mandatory pension contributions are filed and paid together, only one of these contributions would be included in the number of payments.
- The UK position is shown below as an example of this methodology.

Time to comply

- Time is recorded in hours per year. The indicator measures the time to prepare, file and pay (or withhold) three major types of taxes and contributions:

- corporate income tax,
- value added or sales tax, and
- labour taxes, including payroll taxes and social security contributions.
- Preparation time includes the time to collect all information necessary to compute the tax 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 in which case the incremental time required is included. (The time estimated also does not include the time spent developing the entries on tax for inclusion in the statutory accounts).
- Filing time includes the time to complete all necessary tax return forms and make all necessary calculations.

UK example of number of tax payments

	World Bank Indicator	Actual payments
Corporate income tax	1	2 payments (estimate and top up)
Pay As You Earn	1	14 payments (12 monthly plus 1 top up, plus 1 social security payment)
Value added tax	1	4 payments quarterly
Business rates	1	10 payments (by direct debit)
Insurance premium tax	1	Tax embedded, paid to third party not government
Fuel duty	1	Tax embedded, paid to third party not government
Landfill tax	1	Tax embedded, paid to third party not government
Vehicle duty	1	1 payment (one vehicle paying once a year)

- 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. (Payment time can also include analysis of forecast data and associated calculations if advance payments are required).
 - It is important to note that the hours to comply measure does not include any time spent on tax audits or inspections, or dealing with tax authority queries. The case study does not include any facts or assumptions which would enable such time to be estimated.
- property taxes,
 - turnover taxes (and cascading sales taxes as well as other consumption taxes such as irrecoverable VAT); and
 - other taxes (such as municipal fees and vehicle and fuel taxes).
- This is a comprehensive measure, of all the taxes and contributions borne by business. As such, it differs from the statutory tax rate which merely provides the factor to be applied to the tax base and is more informative and more useful than other measures which, for example, focus only on corporate income tax.

Tax Cost – Total Tax Rate (TTR)

- The TTR measures the amount of all taxes and mandatory contributions borne by the business in the second year of operation, expressed as a percentage of commercial profits. *Doing Business 2009* reports the TTR for the fiscal year 2007 (1 January to 31 December 2007). The total amount of taxes borne is the sum of all the different taxes and contributions payable after accounting for deductions and exemptions. The taxes withheld (such as personal income tax) or collected by the company and remitted to the tax authorities (such as sales or value added tax) but not borne by the company are excluded from the TTR (while noting that these still contribute to the compliance indicators; hours and payments).
- The taxes and contributions included can be divided into five 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 required pension fund),
 - It is important to note that the profit figure used in the TTR calculation (the commercial profit) is not the conventional figure found in the financial statements of a company, the profit before tax figure (PBT). In computing profit before tax, many of the taxes borne by a company are deductible. In computing commercial profit, these taxes are not deductible and are added back to present a clear picture of the actual profit of a business before any of the taxes it bears in the course of the fiscal year.
 - Commercial profits are defined 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 percent for the land, 5 percent for the building, 10 percent for the machinery, 33 percent for the computers, 20 percent for the office equipment, 20 percent for the truck and 10 percent for business development expenses. If

any of the taxes and contributions are included in 'other expenses', then these are added back to the commercial profits figure. Commercial profit amounts to 59.4 times income per capita.

- The TTR excludes value added taxes (where not irrecoverable) because they do not affect the accounting profits of the business – that is, they are not reflected in the income statement.
- The principles used for the tax cost indicator are broadly consistent with the PricewaterhouseCoopers Total Tax Contribution framework methodology. However, PricewaterhouseCoopers in its empirical work calculates TTR including only taxes as defined later in this appendix. Other mandatory contributions such as the Australian superannuation guarantee obligation are excluded. Such payments are usually disclosed by the company in other elements of the Total Tax Contribution framework, together with additional payments made by the company such as contributions to infrastructure costs. These are often required of companies in the extractive industries by economies in which they invest but do not strictly count as taxes.
- This three step approach is linked to a broader methodology used by the World Bank in the *Doing Business* project which requires these three components of Steps, Time and Cost.
- The World Bank-IFC report '*Doing Business 2009*' aggregates these three indicators to generate an overall ranking. The aggregation of the indicators gives each indicator an equal weighting.
- Here is one example of how the ranking on the ease of paying taxes is constructed. In Iceland it takes 31 payments, 140 hours and 27 percent of commercial profits to comply with business taxes during one year. In these 3 indicators Iceland ranks in the 52nd, 23rd and 12th percentiles. So Iceland ranks in the 29th percentile – the average of the 3 percentiles – on the ease of paying taxes. By sorting the ease of paying taxes percentile for each economy, the ranking is obtained, which is 32 out of 181 economies in the case of Iceland.
- The data tables in Appendix 1 show this overall ranking, and additionally the ranking for each individual indicator i.e. for the total tax rate, for the time to comply and for tax payments. The appendix also gives a breakdown of the results for each indicator across the main types of taxes.

Ease of Paying Taxes ranking

- The data collected by the *Doing Business* team is used to generate a system of ranking based on the three indicators:

Steps: the number of tax payments

Time: the number of hours to comply with the company's tax obligations

Cost: the total tax rate (TTR)

- The data details on paying taxes can be found for each economy at <http://www.doingbusiness.org>

The PricewaterhouseCoopers Total Tax Contribution ('TTC') framework

The PricewaterhouseCoopers Total Tax Contribution framework was developed with a view to establishing a methodology which enables companies to collect and communicate total tax information in a consistent manner, meeting the needs of their various stakeholders and helping to improve transparency¹.

The framework encompasses all the taxes that are paid by companies and includes, for example, property taxes, labour taxes and contributions, sales taxes and other taxes, as well as corporate income tax. It makes a fundamental distinction between two types of taxes paid by companies: these are known as 'taxes borne' and 'taxes collected'. In essence, taxes borne are those which are a cost to the company, such as property taxes, employer social security and corporate income tax. Taxes collected are where the company is collecting the tax on behalf of the authority, including taxes deducted from employees' salaries, sales taxes and excise duties.

The Total Tax Rate indicator which is included in the World Bank Paying Taxes study has been calculated using the principles of the Total Tax Contribution framework. It is important to note that for the purpose of calculating the TTR, it is only taxes borne which are included (tax borne is discussed in more detail below).

Details of taxes collected are also gathered by the study and these have an impact, along with taxes borne, on the indicators dealing with hours to comply

¹ Total Tax Contribution Framework – What is your company's overall tax contribution? – A PricewaterhouseCoopers discussion paper, published April 2005.
<http://www.pwc.com/extweb/insights.nsf/docid/88E7FD4015197F0B802572F0003C96D0?utr=1>

and the number of tax payments. The Total Tax Contribution framework also includes the cost of tax compliance.

It must be understood that the Total Tax Contribution framework is a data gathering and reporting mechanism, designed to increase transparency around a company's tax impacts. It is acknowledged that there are economic arguments over whether companies, consumers, or employees ultimately bear the economic incidence of taxes. This is not addressed in this study.

What is a tax?

In the context of the PricewaterhouseCoopers Total Tax Contribution framework and the surveys undertaken around the world (see Appendix 3), the question of defining what is a tax has been an important one to answer to ensure a solid base for comparison and analysis for those surveys. The Paying Taxes data generated by the *Doing Business* report, and included in this publication, includes government-mandated contributions, even though they may not fit the traditional definition of tax.

As a starting point, a tax can be defined as something which is:

- paid to government
- compulsory
- used by the authority as part of the public finances
- with no direct return of value to the payer

Each of the terms needs a little expansion.

Payment should go to some independent authority: so government includes a central, state or local authority. In many economies the case study company will pay taxes at all three levels. It is still a tax if it is collected on behalf of the government by an agency, provided that the agency hands over the taxes collected. In some economies (for example in China), certain social security contributions made by employers are governed and collected by a separate taxing authority. As this authority operates on behalf of central government, albeit separate from the main tax authority, these payments are therefore a tax and are included within the Paying Taxes indicators.

It must be a compulsory levy: the only way out of paying must be not to undertake the action that triggers the tax payment. To give a simple example, if property transfer tax is payable by the seller in a jurisdiction, the only way to avoid paying this tax would be not to sell the property.

Most taxes disappear into a central pot and are used as the authority wishes. A hypothecated tax remains a tax but a levy that is a direct payment for a service may well not be a tax.

The last point requires the return of value to be considered. This is most easily illustrated by considering a company that leases space in a building owned by the government. The rent paid is not a tax: there is a full return of value to the company. Whilst that example may be clear, others may not be so clear cut, for example, payments to a local authority will often be a tax as they do not result in the receipt of local government services of comparable value. On this basis, charges for rubbish/garbage collection will be a tax if the charge is manifestly in excess of the cost of providing that service. However, road tolls will usually not be a tax as they are directly tied to the use of the road.

Payments in respect of labour

As will be seen from the results, payments in respect of labour, such as payroll taxes and social security contributions, can constitute a significant part of the TTR (where they are borne by the employer) and the compliance burden (where they are collected from the employee). Such payments are included in the study where they meet the definition of a tax, notwithstanding that they may be governed by separate legislation or called a contribution rather than a tax.

Companies in many economies are required to pay to government forms of social security or other taxes connected with employing their workers. In most cases, these payments are compulsory and used by the government as part of public finances – they are not, for example, used for the direct benefit of the employees of the company and therefore do not provide any direct return of value to the company or the employee. These payments can be properly included as a tax. However, unless all of the necessary requirements listed above are met then treatment as a tax may not be appropriate.

A specific illustration of this point, where there has been some debate, is a payment made by employers in Australia. This payment, known as the superannuation guarantee obligation, is mandatory and is equivalent to 9 percent of an employee's salary. While it is compulsory, it is paid into a separate superannuation fund which is specifically allocated for the benefit of each employee. As such, under the PricewaterhouseCoopers methodology it is accepted that this payment is not a tax as it is an employee benefit, not a general payment into public finances. For the World Bank *Doing Business* project, however, as it is a mandatory contribution it has been included within the TTR calculation to ensure that international comparisons in the context of this survey are valid.

Taxes borne and taxes collected

As mentioned above, the PricewaterhouseCoopers Total Tax Contribution framework makes a fundamental distinction between taxes borne and taxes collected, and this principle is followed by the Paying Taxes methodology. The split is important for the purpose of understanding the impact of taxes on the company and for analysis of the results.

For the Paying Taxes data, taxes borne contribute to the TTR, but taxes collected do not. Taxes collected are important, however, as they do contribute to the number of hours that the company takes to comply with the tax system and they also impact on the number of tax payments. They therefore contribute significantly to the administrative cost of the tax system and to the effort and resource required. A common definition of the terms is as follows:

Taxes borne – those which are paid by the company and are a cost to the company.

Taxes collected – those for which the company acts as tax collector/administrator for the tax authority.

Taxes borne could also be termed ‘taxes suffered’, in that these are the levies that really do impact the company concerned. It does not matter whether the charge to the profit and loss account is direct (for example the corporate profits tax charge) or indirect (such as the transfer tax paid on the purchase of a building, which is capitalised as part of the building’s cost and then amortised over a period). Both the corporate income tax and the transfer tax would count as taxes borne. For the transfer tax, the amount borne would be the full amount paid in the period rather than the amount amortised.

Taxes borne are a cost to the company and, as for other costs, will ultimately be passed on, for example in higher prices to customers, lower wages to employees or lower dividends to shareholders. This ultimate incidence does not affect the treatment under TTC or the Paying Taxes study as a tax borne.

Taxes collected are those where the company acts, in effect, as (unpaid) tax collector on behalf of the tax authority. The classic examples are sales and excise taxes, together with taxes and contributions deducted from employees’ pay. The only impact taxes collected have on the company’s profits will be via administrative costs.

Effective tax rates for current corporate income tax

As mentioned above, the TTR measures the sum of all taxes borne as a percentage of commercial profits (defined above).

Effective tax rates for current corporate income tax are calculated by taking the corporate income taxes borne element of the TTR as a percentage of the profit before tax.

The profit before tax is calculated by taking the commercial profits, (i.e. profits before all business taxes borne) and subtracting all business taxes borne apart from corporate income taxes.

PricewaterhouseCoopers Total Tax Contribution surveys

The methodology developed by PricewaterhouseCoopers for its Total Tax Contribution (TTC) framework is used in the Paying Taxes study to calculate the Total Tax Rate. The TTC framework is used by PricewaterhouseCoopers with groups of companies around the world to generate empirical data on the TTC of those companies. This data has so far included not only the TTR but also the absolute figures for taxes borne and collected, the TTC as a percentage of turnover, employment taxes raised per employee, the distribution of value created, and various measures to assess the cost of tax compliance for companies.

A good example of this empirical work is the survey undertaken each year in the UK with companies in the Hundred Group to collect data on the taxes they pay. The Hundred Group is a cross industry grouping representing more or less the top hundred companies on the London Stock Exchange FTSE index. The survey is now in its fourth year. In addition to gathering data on taxes borne and taxes collected the survey also gathers data on the time and cost involved in complying with the tax system.

Over the last twelve to eighteen months this empirical work has been greatly extended with similar surveys now conducted in Australia (two sets of results have been published, in 2007 and 2008), Belgium (results were published in 2008 and a second survey is underway), Canada (results have been published in 2008 and a second survey is underway), and South Africa (results have been published in 2008 and a second survey is underway). A private survey was undertaken in the Netherlands. Surveys are also now underway in France, India, Ireland, Germany and Luxembourg, with results due for release in early 2009 and the results for a survey in the United States are due in November 2008. Further countries are planning similar surveys.

We will be publishing further material in this respect in due course, but it is perhaps interesting to reflect on some initial comparisons of TTC as a percentage of turnover in the table below.¹

TTC as a % of turnover

	%
United Kingdom	17.9
Belgium	18.9
Canada	22.3
Australia	17.5
South Africa	16.8
Netherlands	23.4

In addition to running Total Tax Contribution surveys with cross industry groups of companies PricewaterhouseCoopers is increasingly focussing on the results of individual industry sectors as it is quite clear that the tax profiles can vary significantly from industry sector to industry sector. In the UK surveys have been conducted with the insurance industry and the oil and gas sector, and the firm hopes soon to release some results of a global survey of the mining industry. The total amount of a companies tax contribution around the world is a number which is generally just not available and having the ability to compare the total taxes paid in different countries and to be able to report that data is of benefit to the whole cross section of stakeholders in a company ranging from management to shareholders, investors and government.

¹ TTC to turnover is an average per company for the companies in the study in each country and will be influenced by the industry mix of companies participating.

In last year's publication we referred to the need for companies to be more transparent in their tax reporting and a need for a methodology to increase transparency around the total amount of tax that companies contribute. In May 2007 PricewaterhouseCoopers UK published a discussion paper in the UK suggesting a further framework to help companies improve their communications on tax.²

The framework was developed after discussions with companies and with stakeholders, and from a review of the tax communications of the 350 largest listed companies in the UK.

The Framework suggests that communications should cover three key areas:

- tax strategy and risk management,
- tax numbers and performance, and
- Total Tax Contribution and the wider impact of taxes.

By issuing this paper it was hoped to stimulate a discussion around the benefits of transparency on tax and this paper is being further developed and a further edition expanding on the European perspective is to be issued in November 2008.

² Tax Transparency Framework. A PricewaterhouseCoopers discussion paper. A suggested framework for communicating your total tax contribution. Published May 2007.
<http://www.pwc.com/extweb/insights.nsf/docid/B390366E619FF2D4802572ED0054F5B5>

Disclaimer and Copyright

The Total Tax Rate included in the survey by the World Bank Group has been calculated using the broad principles of the PricewaterhouseCoopers methodology. The application of these principles by the World Bank Group has not been verified, validated or audited by PricewaterhouseCoopers, and therefore, PricewaterhouseCoopers cannot make any representations or warranties with regard to the accuracy of the information generated by the World Bank Group's models. In addition, the World Bank Group has not verified, validated or audited any information collected by PricewaterhouseCoopers beyond the scope of *Doing Business Paying Taxes* data, and therefore, the World Bank Group cannot make any representations or warranties with regard to the accuracy of the information generated by the PricewaterhouseCoopers' research.

The World Bank Group's *Doing Business* tax ranking indicator includes two components in addition to the Total Tax Rate. These estimate compliance costs by looking at hours spent on tax work and the number of tax payments made in a tax year. These calculations do not follow any PricewaterhouseCoopers methodology but do attempt to provide data which is consistent with the tax compliance cost aspect of the PricewaterhouseCoopers Total Tax Contribution framework.

PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 154,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

This publication has been prepared as general information on matters of interest only, and does not constitute professional advice. You should not act

upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, neither PricewaterhouseCoopers nor the World Bank Group (nor the Executive Directors of the World Bank Group) accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. The findings, interpretations, and conclusions expressed herein are those of the author(s) and do not necessarily reflect the views of the Executive Directors of The World Bank Group or the governments they represent.

This publication may be copied and disseminated in its entirety, retaining all featured logos, names, copyright notice and disclaimers. Extracts from this publication may be copied and disseminated, including publication in other documentation, provided always that the extract is clearly identified as such and that a source notice is used as follows: for extracts from any section of this publication except Chapter One, use the source notice: "© 2008 PricewaterhouseCoopers. All rights reserved. Extract from "Paying Taxes 2009" publication, available on www.pwc.com". For extracts from Chapter One only, use the source notice: "© 2008 The World Bank Group. All rights reserved. Extract from "Paying Taxes 2009" publication, available on www.pwc.com". All other queries on rights and licenses, including subsidiary rights, should be addressed to the Office of the Publisher, The World Bank, 1818 H Street NW, Washington, DC 20433, USA; fax: +1 202-522-2422; e-mail: pubrights@worldbank.org

© 2008 PricewaterhouseCoopers and the World Bank Group. All rights reserved. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

pwc.com/payingtaxes
doingbusiness.org