

World Bank Group:

Mark Felsenthal,
Phone: +1 (202) 458-0051
E-mail: mfelsenthal@worldbank.org

PwC:

Dalia Adawieh
Tel: +966590443771
E-mail: dalia.adawieh@pwc.com

Fact sheet

Paying Taxes 2020
Global and Regional Findings: NORTH AMERICA

The *Paying Taxes* report is a joint annual publication by PwC and the World Bank Group. This year marks the 14th year of the publication. The report is based on the World Bank Group's *Paying Taxes* indicator within their *Doing Business* project and includes analysis and commentary by the World Bank and PwC.

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

The *Doing Business* project, a World Bank Group annual publication which measures business regulations in 190 economies, has been collecting data on paying taxes for 15 years. Besides paying taxes, the *Doing Business* project provides measures of regulations in nine other areas: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, trading across borders, enforcing contracts, and resolving insolvency. It also looks at labour market regulation.

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

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

Some important points to note are that:

1. The sub-indicators are calculated by reference to a particular calendar year. The effect of any change that takes place part way through the year is pro-rated. The most recent data in this study, *Paying Taxes 2020*, relates to the calendar year ended 31 December 2018.
2. The ranking order is based on the World Bank's ease of doing business score which is used by the World Bank Group to evaluate each economy's performance relative to the lowest and highest value of each sub-indicator rather than relative to the other economies. This means that economies can see how far they have progressed towards the best regulatory performance, rather than simply looking at how they compare to other economies. A score is calculated for each of the four sub-indicators. The

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

3. If in the course of collecting and analysing the data for 2018 it became apparent that data for previous years was incorrect, the necessary adjustments have been made and the sub-indicators recalculated for prior years. Rankings are only revised for the immediate prior year. Any data that refers to 2017 and earlier years is therefore stated after such revisions have been made and so may differ from the data published in previous editions of this study including the global and regional averages.

The key themes and findings are:

- On average, it takes our case study company 234 hours to comply with its taxes, it makes 23.1 payments and has an average Total Tax and Contribution Rate (TTCR) of 40.5%.
- In 2018, the global average results are almost unchanged compared to last year, but there have been some significant changes in the results in certain economies.
- Since 2012, the global average number of payments has fallen by 10% and the global average time to comply has fallen by 16% - both driven by technology.
- Some of the most significant drops in the time to comply in 2018 were in Brazil and Vietnam where the time to comply fell by 23%.
- In 2018, the number of payments indicator dropped substantially in Côte d'Ivoire (by 60%), Kyrgyz Republic (by 59%) and Israel (by 79%).
- The number of economies using electronic tax filing and payment systems as measured by *Paying Taxes* has risen sharply from 43 of 174 economies in 2004 to 106 out of 190 economies in 2018.
- Although the TTCR increased only marginally to 40.5% in 2018 from 40.4% in 2017, there have been some major changes in the taxes levied on the case study company in some economies.
- Value-added tax (VAT) was introduced in Saudi Arabia and the United Arab Emirates.
- In Ghana, the standard rate of VAT was reduced, but cascading sales taxes were introduced and increased in the TTCR from 32.4% to 55.4%.
- Lower taxes on profits drove significant rate reductions in The Gambia (from 56.6% in 2017 to 48.4% in 2018), the United States (from 43.8% in 2017 to 36.6% in 2018), China (64.0% in 2017 to 59.2% in 2018) and Morocco (49.8% in 2017 to 45.8% in 2018)
- The global post-filing score is 60.9 out of 100. The higher score the more efficient it is to receive VAT refunds and correct corporate income tax returns.
- On average around the world, our case study needs 18.2 hours to comply with a VAT refund and it takes 27.3 weeks to obtain the refund.
- The time to correct a corporate income tax is 14.6 hours on average. If the correction results in further interaction with the tax authority, it takes 25.5 weeks from the submission of the correction until the completion of any interactions with the tax authority, including audits.

Regional details – North America¹

- The case study company has an average Total Tax & Contribution Rate (TTCR) of 38.7% in the North America region. It takes the company an average of 182 hours to comply with its tax affairs and it makes 8.2 payments.
- The TTCR decreased by 1.3 percentage points between 2017 and 2018 largely due to changes in profit taxes in United States. All three original sub-indicators remain below the world average.
- The biggest reduction in TTCR was in United States, by 7.2 percentage points to 36.6% as a new programme of tax reforms was adopted as of 1 January 2018. The top progressive rate of corporate income tax applicable to the case study company decreased from 34% to a flat rate of 21%, and the corporate alternative minimum tax was repealed.
- Canada's TTCR increased by 4.0 percentage points to 24.5% due to a number of changes to federal and provincial corporate income tax provisions, including rules on the deductibility of machinery depreciation, business development expenses and start-up expenses which resulted in higher federal and provincial income tax costs. This occurred despite some reductions in the statutory rates of these taxes.
- North America's post-filing index score is 69.3 (on a scale of 0 – 100), making it the second most efficient region after EU & EFTA. It is, however, the region with the longest average time to complete a corporate income tax correction.
- At 38.7%, the average TTCR for the region is only marginally below the world average TTCR of 40.5%. This, however, masks differences between the three economies in the region. Mexico, the United States and Canada have TTCRs of 55.1%, 36.6% and 24.5% respectively for 2018.
- The average time to comply indicator for the region remained unchanged in 2018 at 182 hours.
- The average number of payments for the region at 8.2 remains the lowest of any region. All three economies in this region have fully implemented electronic filing and payment which helps to achieve the low average.
- Of the three economies in the region, the United States continues to have the highest post-filing index score of 94.0. As the country does not have a VAT system, the post-filing index score is based only on corporate income tax processes which are quick and do not give rise to additional reviews.
- The regional average for the time to correct the corporate income tax return and comply with any resulting reviews is 12.2 hours.
- Mexico still has the lowest score 40.5 owing to time-consuming post-filing processes. Although it takes the case study company less time in Mexico (13.5 hours) to comply with a corporate income tax correction (compared to Canada, 15 hours), the completion of the correction in Mexico (87.1 weeks) is much longer than in Canada (14.9 weeks).
- In the North America region, the average time to comply with a VAT refund is 14.0 hours, the second shortest after EU & EFTA (7.0 hours). It takes 28.0 weeks on average to obtain the VAT refund, which is just above the global average of 27.3 weeks. The United States does not have a VAT system and so the regional averages for VAT processes include only Canada and Mexico. Canada performs considerably better in both VAT components than Mexico.

For more information about *Paying Taxes*, visit www.pwc.com/payingtaxes.

For more information about the *Doing Business* report series, including more details of the methodology, visit www.doingbusiness.org.

¹ The following 3 economies are included in our analysis of North America: Canada; Mexico; United States.

About the *Doing Business* study

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

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

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

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

The first *Doing Business* study, published in 2003, covered 5 indicator sets and 133 economies. This year's study covers 12 indicator sets and 190 economies. Ten of these areas—starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency—are included in the ease of doing business score and ease of doing business ranking. *Doing Business* also measures regulation on employing workers and contracting with the government, which are not included in the ease of doing business score and ranking. Most indicator sets refer to a case scenario in the largest business city of each economy, except for 11 economies that have a population of more than 100 million as of 2013 (Bangladesh, Brazil, China, India, Indonesia, Japan, Mexico, Nigeria, Pakistan, the Russian Federation and the United States) where *Doing Business*, also collected data for the second largest business city. The data for these 11 economies are a population-weighted average for the 2 largest business cities. The project has benefited from feedback from governments, academics, practitioners and reviewers. The initial goal remains: to provide an objective basis for understanding and improving the regulatory environment for business around the world.

About the World Bank Group

The World Bank Group is one of the world's largest sources of funding and knowledge for developing countries. Its five institutions share a commitment to reducing poverty and increasing shared prosperity: [The International Bank for Reconstruction and Development](#) (IBRD), [The International Development Association](#) (IDA), [The International Finance Corporation](#) (IFC), [The Multilateral Investment Guarantee Agency](#) (MIGA), and [The International Centre for Settlement of Investment Disputes](#) (ICSID). With 189 member countries and offices in over 130 locations, these institutions work together to provide financing, policy advice, technical assistance, political risk insurance, and settlement of disputes to private enterprises, enabling countries to achieve sustainable development.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with over 276,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

© 2019 PwC. All rights reserved