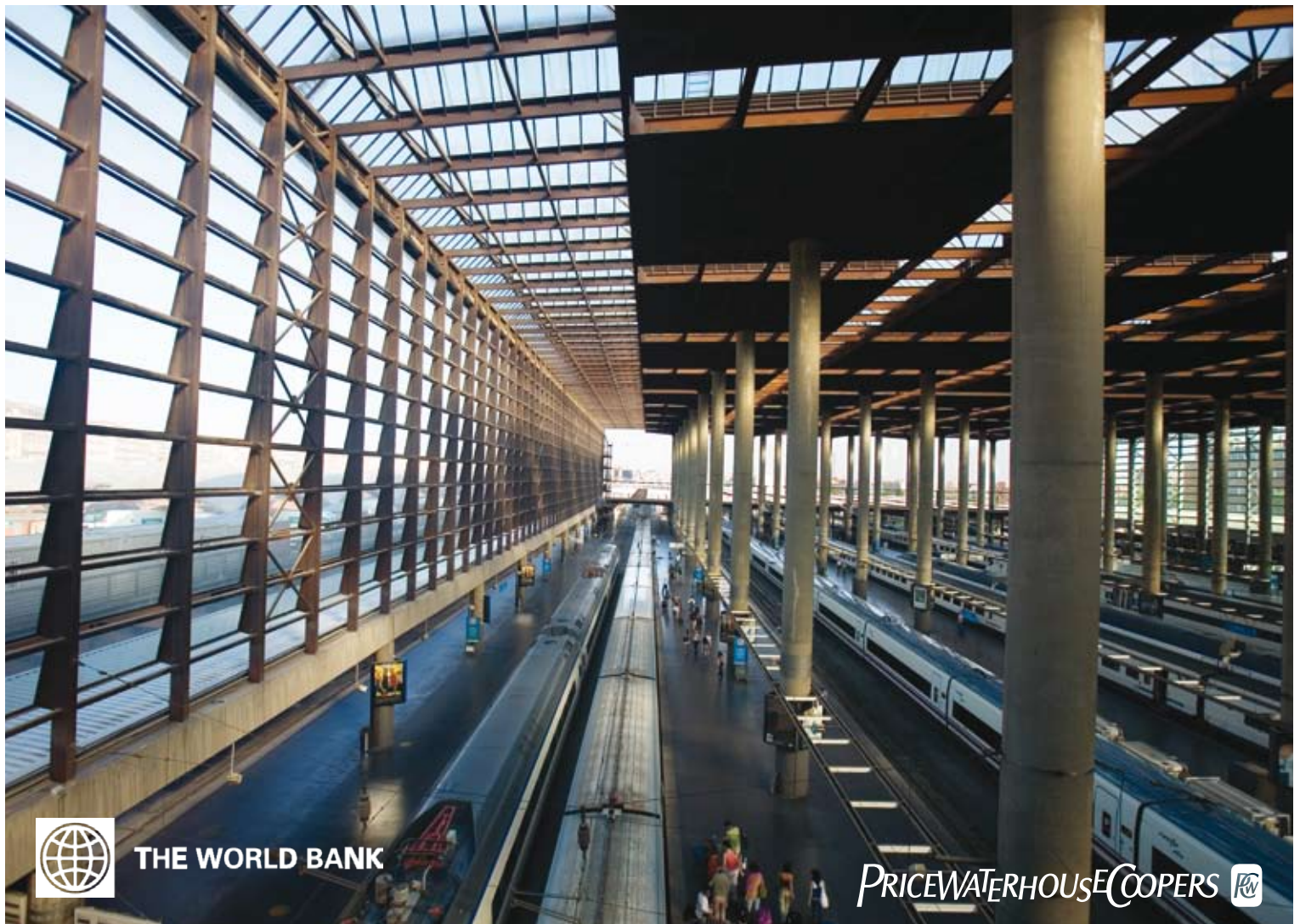


Paying Taxes 2008

The global picture



THE WORLD BANK

PRICEWATERHOUSECOOPERS 

Contacts

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

World Bank Group

Simeon Djankov
+1 202 473 4748
sdjankov@worldbank.org

Rita Ramalho
+1 202 458 4139
rramalho@worldbank.org

PricewaterhouseCoopers*

Bob Morris
+1 202 414 1714
robert.c.morris@us.pwc.com

Susan Symons
+44 20 7804 6744
susan.symons@uk.pwc.com

John Whiting
+44 20 7804 4422
john.whiting@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 second Paying Taxes publication and focuses on the results of the taxes study in the World Bank Doing Business project. The study seeks to compare the ease of paying taxes in 178 countries around the world. It provides data which helps governments and industry to focus on the need to ensure that the tax systems implemented are effective tools for tax collection and that they are also efficient for business.


Last year's publication generated many good discussions with government and other interested parties. Media headlines around the world pointed to:

- the numerous taxes that companies pay beyond corporate income tax;
- the heavy compliance burden in some countries; and
- the high tax cost in others.

Issues discussed with governments included understanding the methodology used in the study, assessing the usefulness of the results, and questioning whether the comparisons made were valid; but also recognising in some cases that change was needed.

In response to this interest, the World Bank and PricewaterhouseCoopers have devoted significant effort to ensuring that the results of this study continue to be robust and consistent. In addition, in response to feedback in the discussions, we have in this year's publication provided more detail on the methodology and the results. The information provided is also more extensive so that readers can make their own analysis and draw their own conclusions.

We hope that you again find the results of the survey interesting and useful and we welcome feedback and comments.



Simeon Djankov
Manager, Monitoring and Analysis
World Bank Group



Susan Symons
Tax partner
PricewaterhouseCoopers LLP, UK

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Executive summary

Last year's Paying Taxes publication generated many good discussions on the impact of the tax system, with businesses, governments and other interested parties. This year, in response to feedback, we are providing even more detail on the methodology used and the results generated by the study.

- The World Bank study now extends to 178 countries and offers a valuable opportunity to be able to look at and compare tax regimes around the world.
- We now include rankings of the three indicators which make up the overall ease of paying taxes ranking. Full information on the results is on the website (www.doingbusiness.org).
- The results of the survey are very rich, and these are fully disclosed in the appendices to this publication. Only a selection, however, can be covered in the commentary.

The results of this year's study show again that corporate income tax is only part of the story. Governments therefore need to look across all of the taxes that companies pay when considering their reform agenda.

- The World Bank study is unique in that it looks beyond corporate income tax to all of the taxes paid by a case study company.
- There continues to be many more business taxes to consider in addition to corporate income taxes. The study this year shows that corporate income taxes only account for 37% of the Total Tax Rate (TTR), 26% of the number of hours spent on tax compliance and 12% of the number of tax payments made.
- Some types of sales tax add considerably to the Total Tax Rate (cascade and turnover taxes).
- Labour taxes and contributions add significantly to the tax cost in some countries and also to the compliance obligations.

Our results include indicators on the tax compliance burden in addition to the tax cost. These help to show that a win:win for government is achievable by simplifying the tax system and easing the compliance burden on business, as well as by reducing tax rates.

- To consider the full impact of the various business taxes, both their tax cost and their compliance burden need to be considered.
- Indirect taxes and consumption taxes can add substantially to compliance costs.
- Government revenues can be enhanced by simplifying tax systems and compliance obligations. This may involve reducing the number of taxes. Companies benefit at the same time with reduced tax compliance obligations to fulfil.
- The ability to file and pay taxes electronically can help reduce the compliance burden.

The results show that tax reform is widespread. This year 31 countries improved their tax system and 65 have done so over the past three years.

- Reducing corporate income tax was the most popular reform.
- However, many countries have made changes to reduce the compliance burden by simplifying or eliminating other business taxes.
- Total tax rates have been in a downward trend during the period in which Paying Taxes data has been collected.

For their part, businesses need to be more transparent in communicating their total tax contribution (see page 10). A better understanding of the impact of all taxes in any country will aid business decisions.

- More transparency around the taxes paid and the compliance systems is key to understanding how tax systems impact businesses.
- Businesses need to be more transparent in communicating their total tax contribution to facilitate how tax fits with corporate responsibility strategies, and to help assess the economic footprint of business.
- Empirical work by PricewaterhouseCoopers is showing the importance of companies in generating tax revenues.

Section one

Survey methodology

Introduction

The Paying Taxes study is carried out as part of the World Bank's overall Doing Business report which, this year, was published on 26 September 2007. This is the third 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 178 countries, 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 tax cost. These are equally weighted to produce an overall ranking for each country 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 country are available at www.doingbusiness.org

This year, the World Bank study has also collected supplementary data which, whilst not used to determine a country's ranking, assists with the understanding of the tax system in each country. Some of this supplementary data is referred to in this publication.

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. This company has a set of financial statements, and various assumptions have been made about its activities and its transactions throughout a typical year. These facts and assumptions allow the World Bank to generate tax indicators for each country based on the application of their tax rules to the case study company. These facts and assumptions are vital to ensure that the data collected is comparable across countries and that the tax indicators for each jurisdiction are calculated using the same criteria.

Tax advisers, mostly from PricewaterhouseCoopers, provided the tax technical data. 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 2006. 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 case study company used for the study is a flowerpot manufacturer and retailer. Its turnover is the same multiple of the income per capita for each country. 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 2006 (the end of the fiscal year of the survey) equates to £2.3m. In both countries, 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 country in which the company operates.

The case study company does not attempt to be the most typical business in every country, but the assumptions have been set in order to facilitate comparability between countries of the tax burden for a company with a particular set of characteristics. This comparability is assisted by the 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 following detailed assumptions are made about the case study company:

The company and its operations

- The company 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. Incorporation lawyers or the statistical office report the most popular form.

- The company is in the second year of operation. It commenced activities, purchased all the assets in the balance sheet, and hired all its workers on a set date (1 January 2005). It operates in the country's most populous city.
- The company is 100% domestically-owned and has five owners, all of whom are resident for tax purposes in the country.
- The company performs general industrial and commercial activities. Specifically, it produces ceramic flowerpots and sells them at retail. The company does not handle products subject to a special tax regime, for example, alcohol or tobacco.
- The company owns two plots of land, one building, machinery, office equipment, computers and one truck. Another truck is leased. One plot of land was sold in the year for a profit.

Employees

- The company has 60 employees comprising four managers, eight assistants and 48 workers. All of these workers are nationals of the country and one of the managers is also an owner. The assumptions for employees in terms of their salaries are standardised in order to collect information on labour taxes and contributions.
- No employees have left or joined the company since it was established.

Financial data

- The company has a turnover of 1,050 times income per capita and makes a loss in the first year of operation. The same gross margin (pre-tax) is applied to all countries.
- The company distributes 50% of its profits as dividends to the owners at the end of the second year.

Tax-specific assumptions

- Several tax-specific assumptions have been made including the level of bad debts, pension contributions and details of operational expenses including entertaining, advertising, legal fees and leasing costs.
- Patent royalties are paid by the company for a patented industrial process the company uses in its operations.

As explained before, the turnover and profits of the company are calculated based on the income per capita of each country and the gross margin is fixed at the same percentage. These assumptions allow the calculation of what is called the 'commercial profit' of the company. Commercial profit is the profit before all taxes, i.e. not just before all corporate income or profit taxes. This figure is important in the survey as it is used to calculate one of the key ranking components, the Total Tax Rate. This rate is explained later in this section.

Total Tax Contribution

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 transparency.

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'. This distinction is explained further below. 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 those where the company is collecting the tax on behalf of the authority, including taxes deducted from employees' salaries, sales taxes and excise duties¹.

The Total Tax Rate indicator (explained later in this section) 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.

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/75D58AF8B3774A3C80256F8800586AC6>

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 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.

Ease of paying taxes ranking

The World Bank Paying Taxes database for the Doing Business report records not only the taxes that a standard modest-sized company must pay or withhold in a given year, but also the mandatory contributions that are made. Issues around the definition of tax, and the reasons for including other mandatory contributions in the World Bank study are explored further in Appendix 2. The database also records measures of the administrative burden for paying taxes and other mandatory contributions.

The taxes and contributions measured include profit or corporate income tax, social contributions and labour taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions taxes, waste collection taxes and vehicle and road taxes.

The data collected by the study is subject to a system of ranking based on 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)

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 report, 'Doing Business 2008', aggregates these three indicators to generate an overall ranking. The aggregation of the indicators gives each indicator an equal weighting.

The data tables at the back of this report in Appendix 1 show this overall ranking, and additionally the ranking for each individual indicator i.e. the TTR, the time to comply and the tax payments. The appendix also gives a breakdown of the results for each indicator across the main types of taxes.

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 operation. It includes payments made by the company on consumption taxes, such as sales tax or value added tax. These taxes are traditionally withheld on behalf of the consumer. Although they 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 medium-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, these joint payments are only 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.

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 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. 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 taken to complete all necessary tax forms and to make all necessary calculations and submissions.

Payment time is the hours needed to make the payment online, or at the tax office. Where taxes and contributions are paid in person, the time includes delays while waiting. This 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.

Table 1.1

What does Paying Taxes measure?
<p>Tax payments for a manufacturing company in 2006</p> <ul style="list-style-type: none"> • Total number of taxes and contributions paid, including consumption taxes (value added tax) • Method and frequency of payment
<p>Time required to comply with the three major taxes</p> <ul style="list-style-type: none"> • Collecting information to compute tax payable • Completing tax forms, filing with proper agencies • Arranging payment or withholding • Preparing separate tax accounting books
<p>Total Tax Rate</p> <ul style="list-style-type: none"> • Profit or corporate income tax • Social contributions and labour taxes paid by the employer • Property and property transfer taxes • Dividend, capital gains and financial transactions taxes • Waste collection, vehicle, road and other taxes

Source: Doing Business database.

Tax cost

Total Tax Rate (TTR)

The TTR indicator 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. This is a more comprehensive measure, which looks at the cost of all such contributions borne by business rather than focussing only on corporate income or profit taxes. As such, it is more informative and more useful.

The Paying Taxes section of Doing Business 2008 reports the TTR for the year 1 January to 31 December 2006. The total amount of taxes is the sum of all the different taxes and contributions payable after accounting for deductions and exemptions. The taxes withheld (such as sales or value added tax or personal income 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),
- property taxes,
- turnover taxes and cascading sales taxes including irrecoverable VAT, and
- other small taxes (such as municipal fees and vehicle and fuel taxes).

It is important to note that the profit figure used in the TTR calculation (the commercial profit) is not the traditional figure found in the financial statements of a company, the profit before tax figure (PBT). As many of the taxes borne are deductible in calculating PBT, they must be added back to generate a profit before all business taxes. 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% for the land, 5% for the building, 10% for the machinery, 33% for the computers, 20% for the office equipment, 20% for the truck and 10% 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.

It is of note that the assumption on the interest expense was changed this year, reducing the value of

this expense. Commercial profits therefore changed from 57.8 times income per capita to 59.4 times.

The principles used for the tax cost indicator are broadly consistent with the PricewaterhouseCoopers Total Tax Contribution framework methodology. However the figures used by PwC in its empirical work to calculate TTR only include taxes. Other mandatory contributions are usually disclosed in other elements of the Total Tax Contribution framework.

Below are the figures for the UK which illustrate how the various tax ratios compare with TTR.

Total Tax Rate: UK as an example		
	£000	£000
Profit before total taxes borne (PBTTB) or commercial profit		1,215
Other taxes borne:		
Social security	137	
Business rates	15	
Vehicle tax	1	
Insurance premium tax	1	
Fuel duty	<u>21</u>	
		<u>(175)</u>
Profit before tax (PBT)		1,040
Corporation tax (CT) (after necessary tax adjustments)		<u>(259)</u>
Profit after tax		<u>781</u>
CT/PBT (259/1040)		25%
CT/PBTTB (259/1215)		21%
TTR (434/1215)		36%

Source: Doing Business database.

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 study. The split is important for the purpose of

understanding the impact of taxes on the company and for the analysis of the results. For the Paying Taxes study, 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 cost of the tax system and to the effort and resource required. A common definition of the terms is as follows:

- Taxes borne – are those which are paid by the company and are a cost to the company.
- Taxes collected – are those for which the company acts as tax collector/administrator for the authority.

To expand on these definitions a little further:

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 as a tax borne.

Taxes collected are those where the company acts, in effect, as (unpaid) tax collector on behalf of the 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.

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 study, 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 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.
3. Cascade-style sales taxes, seen for example in some African countries, 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 affecting the profitability of a company, while VAT and sales tax on final products do not. For the purposes of the study, 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.

Total Tax Contribution surveys

The Total Tax Rate is a core component to facilitate the measurement of tax cost in the Paying Taxes study. It is interesting to compare the results generated by the study with the empirical work carried out by PricewaterhouseCoopers. A survey of large UK listed companies carried out in 2006 found an average TTR for the UK for these companies of 40.6% compared to 35.7% in the Paying Taxes study. Tax rates by reference to turnover have been used as an interesting alternative and have often shown some useful correlations across industry sectors and additional insights by reference to the value added by a company and who benefits. It is often the case that the rates of tax shown to turnover are quite high, particularly for businesses that are involved in charging and collecting excise duties. For example, the companies participating in the 2006 survey in the UK paid an amount equivalent on average to 18.3% of their turnover in taxes borne and collected.

Section two

Learning from reform – a World Bank perspective

Who makes paying taxes easy and who does not?

Tax systems are known to have existed since Ancient Egypt (around 3000 BC). Tax systems have evolved since then in different ways across the globe. Nowadays, tax rules faced by companies can be very diverse. In Hong Kong there are only four business taxes, all at low rates (for instance, corporate income tax is only 17.5% of taxable profits). Meanwhile, Belarus has 11 business taxes, 10 of which are paid monthly and one paid quarterly, leading to a TTR of almost one and a half times commercial profits.

Differences are visible not only in tax rates but also in the administrative burden.

“In Sweden we pay taxes online. The corporate income tax, value added tax, labour contributions and property tax are filed on a single form. Doesn’t everyone do it that way?” asks Astrid, a Swedish business owner.

Not yet. In Papua New Guinea, Syria and Zimbabwe tax forms are brought in person to the tax office and ‘discussed’ with a tax officer to make sure calculations are correct¹. To comply with regulations on taxes and contributions² in the Republic of Congo, a company must make 89 payments a year, spend 106 days and pay 65.4% of its profits. Meanwhile, the company has to fill out 50 pages of forms for corporate income taxes, 50 for labour taxes and contributions and 36 for consumption taxes. Only Belarus and Ukraine have a more burdensome tax system (Table 2.1).

1 The World Bank survey has this year also collected supplementary data which whilst not used to determine a country’s ranking, does assist with the understanding of the tax system in each country. Some of this supplementary data is referred to in this publication.

2 Doing Business measures taxes and contributions paid by a standardised business. The indicator includes taxes as defined by the system of national accounts (compulsory unrequited payments to general government) as well as government-mandated contributions such as compulsory payments to the employee social security where the statutory incidence is on the employer. See Section one for details.

Table 2.1

Where is it easy to pay taxes – and where not?			
Rank	Easiest	Rank	Most difficult
1	Maldives	169	Panama
2	Singapore	170	Jamaica
3	Hong Kong, China	171	Mauritania
4	United Arab Emirates	172	Bolivia
5	Oman	173	Gambia
6	Ireland	174	Venezuela
7	Saudi Arabia	175	Central African Republic
8	Kuwait	176	Congo, Rep.
9	New Zealand	177	Ukraine
10	Kiribati	178	Belarus

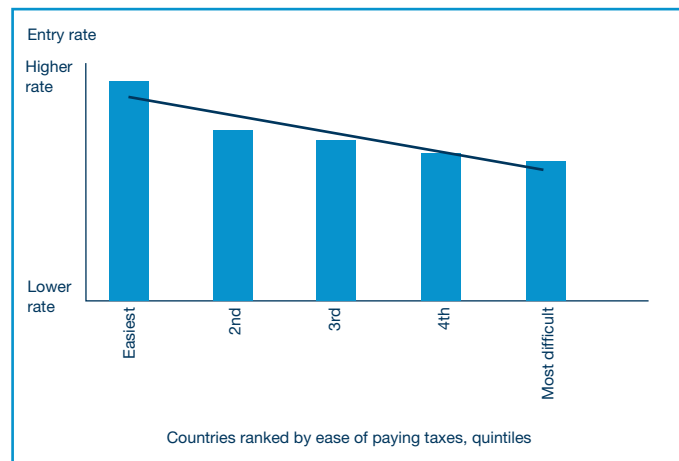
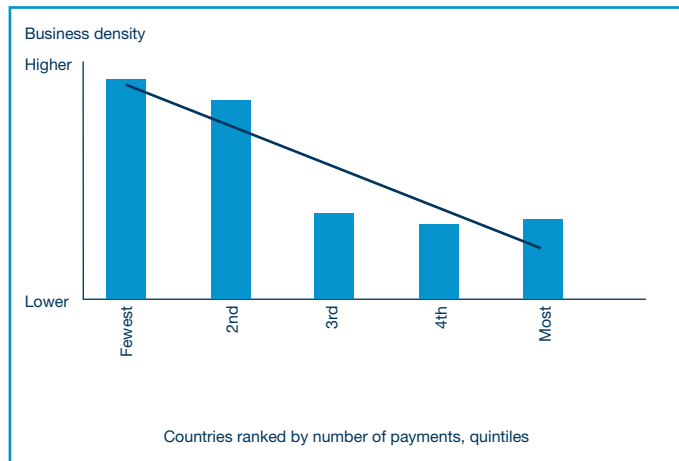
Note: Rankings are the average of the country rankings on the number of payments, time and Total Tax Rate.

Source: Doing Business database.

The Maldives levies only one small tax on domestic business in the manufacturing sector (the property transfer tax) and only hotels and banks are taxed on their profits. Oil producing countries tend to impose low tax burdens for domestic firms in the manufacturing sector because governments generate revenue elsewhere. Outside of oil rich countries and the Maldives, the top performers whose business tax systems may be successfully emulated by other countries are Singapore, Hong Kong, Ireland and New Zealand.

Four of the bottom 10 countries have a TTR above 100% of commercial profits. That means that a company with sales of 120% of cost of goods sold cannot make enough profit to pay all the business taxes. Seven of the bottom 10 countries have to pay taxes at least once a week and spend at least 65 days per year in the process.

Figure 2.1
More burdensome taxes and contributions, fewer formal businesses.



Source: Doing Business database

Note: Relationships are significant at the 1% level and remain significant when controlling for income per capita. Business density is the number of formally registered firms per capita. Business entry is the number of firms created in a year as a percentage of all registered firms.

Ease of paying taxes

The ease of paying taxes can range from filing a single online form in Sweden to making 124 payments a year in Belarus. Investors make their choices accordingly. Countries with more payments have fewer formal businesses per capita and lower rates of business entry (Figure 2.1).³ In Brazil, for example, the Simples programme, which aims to ease tax requirements for small businesses, increased business registrations in the retail sector by 13% compared with the year before the programme started.⁴

Countries that make it easier to pay taxes and contributions also have higher rates of workforce participation, and lower rates of unemployment, among women.⁵ The reason appears simple: a burdensome tax system disproportionately hurts smaller businesses, especially in the services sector, and this is where most women work. In Colombia, where women outnumber men almost two to one among the unemployed⁶, small businesses have to pay 82.4% of their commercial profits, make 69 tax payments a year and spend 47 days to comply with all tax requirements. This is changing, thanks to a new tax law enacted by the Colombian Congress in late 2006.

There is good news: paying taxes is now easier, especially in Eastern Europe and Central Asia, which had the most reforms in 2006/07. Revenues are growing as well. For example, the Czech Republic saw its tax revenue rise by 2% after reducing the corporate income tax between 2004 and 2005.⁷ This is part of a longer global trend – the tax burden on businesses

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Section two
Learning from reform – a World Bank perspective

Table 2.2
Who makes paying which taxes easy – and who does not?

Corporate income taxes
Payments (number per year)

Labour taxes
Payments (number per year)

Other taxes
Payments (number per year)

Fewest			Most			Fewest			Most			Fewest			Most																																																																																																								
Afghanistan	1	Cameron	13	Argentina	1	Mali	36	Maldives	1	Sri Lanka	33	Argentina	1	Finland	13	Bulgaria	1	Philippines	36	Oman	1	Ukraine	33	Australia	1	Indonesia	13	Chile	1	Senegal	36	Saudi Arabia	1	Panama	34	Austria	1	Nicaragua	13	Denmark	1	Congo Rep.	37	Sweden	1	Côte d'Ivoire	39	Belgium	1	Venezuela	13	Ecuador	1	Korea	37	Brunei	2	Tunisia	39	Bolivia	1	El Salvador	14	Hong Kong, China	1	Colombia	48	Hong Kong, China	2	Serbia	42	Brunei	1	West Bank and Gaza	14	Ireland	1	Jamaica	48	Norway	2	Congo, Rep.	47	Bulgaria	1	Romania	16	Italy	1	Motenegro	48	United Arab Emirates	2	Kyrgyz Republic	51	Burkina Faso	1	Uzbekistan	16	Kazakhstan	1	Romania	48	Seychelles	3	Belarus	64	Burundi	1	Belarus	24	Latvia	1	Ukraine	60	Singapore	3	Uzbekistan	90

Notes: not including 6 countries that do not have profit taxes

Including 15 countries that do not have labour payments

Not including 3 countries that have no other taxes

Time (hours per year)

Time (hours per year)

Time (hours per year)

Least			Most			Least			Most			Least			Most																																																																																																								
Comoros	4	Mexico	264	Papua New Guinea	8.5	Jamaica	336	Switzerland	8	China	384	Jordan	5	Congo, Rep.	275	Singapore	10	Venezuela	360	Singapore	9	Venezuela	384	Grenada	8	Syria	300	Oman	12	Vietnam	400	Burundi	12	Armenia	480	Solomon Islands	8	Vietnam	350	Tonga	12	Czech Republic	420	New Zealand	15	Bolivia	480	Swaziland	8	Ukraine	421	United Arab Emirates	12	Armenia	480	Italy	16	Mauritania	480	Tonga	8	Nigeria	480	Luxembourg	14	Bolivia	480	Luxembourg	23	Pakistan	480	Ireland	10	Timore-Leste	480	Norway	15	Nigeria	480	Albania	24	Senegal	480	West Bank and Gaza	10	Cameroon	500	Australia	18	Brazil	491	Ethiopia	24	Azerbaijan	602	St Lucia	11	Brazil	736	Bhutan	24	Cameroon	700	Guinea-Bissau	24	Ukraine	932	Mauritius	13	Belarus	960	Ethiopia	24	Ukraine	732	Trinidad and Tobago	24	Brazil	1374

Notes: not including 6 countries that do not have profit taxes

Not including 2 countries that do not have labour tax by employee or employer

Only time to pay consumption taxes included, not including 19 countries that do not have consumption taxes

Total Tax Rate (% of profit)

Total Tax Rate (% of profit)

Total Tax Rate (% of profit)

Lowest			Highest			Lowest			Highest			Lowest			Highest																																																																																																								
Uzbekistan	1.2%	Brunei	31.8%	Namibia	0.0%	Hungary	39.4%	Brunei	0.0%	Uzbekistan	66.9%	Zambia	1.7%	New Zealand	32.1%	Malawi	1.1%	Czech Republic	39.5%	Samoa	0.0%	Eritrea	75.8%	Saudi Arabia	2.1%	Kenya	35.5%	Bhutan	1.1%	Slovakia	39.7%	Oman	0.1%	Liberia	76.3%	Latvia	2.2%	St. Kitts and Nevis	32.7%	New Zealand	2.4%	Brazil	40.6%	Indonesia	0.1%	Argentina	77.5%	Guatemala	2.6%	Japan	33.2%	Denmark	2.5%	Italy	43.2%	Fiji	0.2%	Belarus	87.5%	Kyrgyz Republic	3.0%	Bhutan	34.2%	Mauritius	3.6%	Ukraine	43.4%	Botswana	0.2%	Mauritania	89.9%	Kuwait	3.7%	Sao Tome and Principe	36.9%	Chile	3.8%	Belarus	44.1%	United Arab Emirates	0.3%	Congo, Dem. Rep.	221.9%	Belgium	5.4%	St. Vincent and the Grenadines	37.6%	St. Vincent and the Grenadines	3.9%	China	46.0%	Vietnam	0.3%	Sierra Leone	222.2%	Czech Republic	5.9%	Gambia	41.4%	Swaziland	4.0%	France	52.1%	Ghana	0.4%	Gambia	232.4%	Argentina	6.0%	Central African Republic	176.8%	South Africa	4.3%	Belgium	57.1%	Seychelles	0.5%	Burundi	253.3%

Notes: not including 13 countries that do not pay profit tax

Not including 13 countries that do not pay labour taxes

Not including 6 countries that do not pay other taxes

Source: Doing Business database.

has decreased every year since 1985.⁸ However, a few places – much of Africa, some countries of the former Soviet Union and several Latin American countries – have yet to catch on (see Section three).

Types of taxes

There are six countries that do not tax profits, 13 do not have labour taxes or contributions paid by the employer, and three do not have other business taxes additional to profit tax (corporate income tax) or labour taxes and contributions. On average, a company spends 56 days time complying with tax regulation, 15 days for profit taxes, 21 for labour taxes and contributions and 21 for consumption taxes. The dispersion in compliance time is high. It takes 105 days to comply with consumption taxes in Azerbaijan, while it takes only one day in Switzerland (Table 2.2).

Where do the big differences in profit taxes come from? Statutory tax rates do have a role in those differences, but maybe not the leading role. The tax rules defining the computation of the corporate tax base can be crucial. A good example can be seen in the Czech Republic and Russia which both have the same statutory corporate tax rate of 24%. However, the effective profit tax is over twice as high in Russia. One reason for this is due to differences in depreciation rates. In the Czech Republic, machinery can be depreciated for tax purposes in five years, using the accelerated method, while in Russia it takes at least seven years to depreciate the same assets.

What are the other taxes and why are they so different? Other taxes include all the taxes a manufacturing company is liable for, excluding those related to profit or labour (which are already included in other categories). The differences in these taxes across economies can be striking. Sweden has only one other tax (property tax). Kyrgyz Republic has six other taxes (two taxes on property, two turnover taxes, one tax on interest and one fuel tax). Property tax is the most common among other taxes with 145 economies levying it. However, differences across this tax can be significant. A property tax can be based on

the size, value or usage of the property. In the Czech Republic, property tax is less than 0.1% of profits while in Belarus it is over 32%. Although other taxes are often considered less relevant than profit or labour taxes, countries with higher other taxes have lower investment rates⁹.

Who is reforming?

Thirty-one economies made it easier to pay taxes in 2006/07 (Table 2.3). Reducing corporate income tax rates was the most popular reform implemented in 27 economies. Moldova, Mongolia, Sierra Leone, Syria, Turkey and Uruguay made major revisions in their tax codes. Colombia, Israel, the Kyrgyz Republic, South Africa, Uruguay and Uzbekistan reduced the number of taxes paid by businesses by consolidating or eliminating taxes. Azerbaijan, Bulgaria, Colombia, Lesotho, Malaysia, the Netherlands, Turkey and Uzbekistan simplified the process of paying taxes by introducing or expanding electronic filing and reducing the frequency of payments.

Bangladesh, the Dominican Republic, Hungary, Venezuela and Zimbabwe increased the tax burden on businesses. Bangladesh raised its corporate income tax from 37.5% of profits to 40%. Only Comoros and São Tomé and Príncipe have higher corporate income tax. The Dominican Republic passed a law requiring companies to submit paper receipts every month. Hungary introduced a temporary 4% tax on profits (the solidarity tax) and increased employers' labour contributions by 3.5 percentage points – both with the aim of reducing the budget deficit. Venezuela introduced three new taxes: science, technology and innovation tax; anti-drug tax; and workplace preventions, conditions and environment tax. But only the first is in practice as of now. Zimbabwe increased the road tax and the tax on cheque transactions. It also introduced a new corporate tax form to accompany each quarterly payment. This increased the time for tax compliance by 40 hours a year.

8 Slemrod, Joel. 2004. "Are Corporate Tax Rates, or Countries, Converging?" *Journal of Public Economics* 88 (6): 1169-86.

9 Djankov, Simeon, Caralee McLiesh, Rita Ramalho and Andrei Shleifer. 2007. "Taxation, Investment and Entrepreneurship." Harvard University, Department of Economics, Cambridge, Mass.

Bulgaria was the top reformer in 2006/07: it reduced the corporate tax rate from 15% to 10% and employers' labour taxes by 7%. In addition, online filing is now widely used for corporate income tax and social security contributions.

Turkey was the runner-up in reforms. It reduced the top rate for corporate income tax from 30% in 2005 to 20% in 2006 and introduced a new corporate tax code. Turkey also reduced the tax on interest from 18% to 15% in 2006 and simplified other taxes, such as the property tax and the tax on cheque transactions. It also improved e-filing, reducing the time businesses need to comply with tax regulations by 31 hours.

Eastern Europe and Central Asia accounted for about a third of the reforms in 2006/07. Besides Bulgaria, eight countries reduced their corporate income rate tax and six reduced social contributions paid by employers. Uzbekistan reduced the corporate tax rate from 15% in 2005 to 12% in 2006 and 10% in 2007. It also gradually reduced labour contributions from 33% in 2004 to 24% in 2007, expanded the single tax payment regime for small businesses, and abolished ecology tax. Moldova is taking the most ambitious step: reducing the corporate income tax rate from 15% to 0% in 2008 after already lowering it from 18% in 2006. FYR Macedonia is committed to reducing the corporate income tax rate from 15% in 2006

to 12% in 2007 and 10% in 2008. Albania reduced social security contributions paid by the employer from 30.7% to 21.7% in 2006. Azerbaijan reduced corporate income tax rates by two percentage points and simplified the administrative process of paying this tax. Kazakhstan increased depreciation rates reducing the base for profit tax. Kyrgyz Republic cut the corporate tax rate in half and decreased labour taxes and contributions by three percentage points. Romania and Slovenia reduced labour taxes. Slovenia is going a step further and plans on eliminating payroll tax by 2009.

In Eastern Europe, a main motivation for simplifying taxes is joining and being competitive in the European Union. This has created pressure on Western European countries to simplify taxes too. The Netherlands has reduced the top rate for corporate income tax from 31.5% in 2005 to 29.6% in 2006 and 25.5% in 2007. It also reduced three of the labour contributions. And it introduced e-filing for social security contributions, greatly simplifying the process of paying taxes. Greece, Portugal, and Spain all reduced their corporate income tax rates. Both Greece and Spain followed a gradual tax reduction strategy: from 35% in 2004 to 25% in 2007 for Greece and from 35% in 2006 to 30% in 2008 for Spain (Table 2.4).

Six countries reformed in Africa. Sierra Leone reduced a cascading sales tax – a sales tax that must be paid

Table 2.3

Reducing tax rates – the most common reform in 2006/07	
Reduced profit tax	Azerbaijan, Bulgaria, Colombia, Cote d'Ivoire, Greece, Israel, Kazakhstan, Kyrgyz Republic, Lesotho, FYR Macedonia, Malaysia, Mauritius, Mexico, Moldova, Mongolia, Netherlands, Portugal, Slovenia, South Africa, Spain, Syria, Trinidad, and Tobago, Tunisia, Turkey, Uruguay, Uzbekistan, West Bank and Gaza
Reduced labour taxes or contributions	Albania, Bulgaria, Israel, Kyrgyz Republic, Mexico, Moldova, Netherlands, Romania, Seychelles, Slovenia, South Africa, Uzbekistan
Simplified process of paying taxes	Azerbaijan, Bulgaria, Colombia, Lesotho, Malaysia, Netherlands, Turkey, Uzbekistan
Revised tax code	Moldova, Mongolia, Sierra Leone, Syria, Turkey, Uruguay
Eliminated taxes	Colombia, Israel, Kyrgyz Republic, South Africa, Uruguay, Uzbekistan

Source: Doing Business database.

on raw materials and cannot be deducted upon sale of the final product – from 15% to 10%. Next year, it is likely to complete the process of replacing this tax with a value added tax. Four other African countries lowered their corporate income tax rate, and two reduced labour contributions. Mauritius is gradually replacing the standard profit tax rate of 25% with the new rate of 15%. This rate will apply to all sectors with no exceptions from July 2009. But Africa is still the region with the highest tax rates – with the Central African Republic, the Democratic Republic of Congo, Sierra Leone, Burundi and Gambia each requiring businesses to pay more than 200% of their profits.

In Latin America and the Caribbean, Trinidad and Tobago made the biggest reduction in the TTR by cutting the corporate income tax rate by five percentage points. Uruguay passed a new tax law that eliminates 15 taxes, simplifies the social contributions and reduces the profit, personal income and value added taxes. Colombia eliminated the system of adjustment for inflation, simplifying tax computation. Mexico continues to reduce the corporate income tax rate gradually.

Four economies in the Middle East and North Africa made their tax law more business friendly. While the main focus of reforms was reducing the profit tax rate, some countries went beyond that. Israel eliminated stamp duty. Syria developed a large-taxpayer unit to make it easier for large businesses to pay taxes. Both Tunisia and West Bank and Gaza reduced consumption taxes.

Only two countries reformed in East Asia and Pacific, the region with the second lowest tax rate (Figure 2.2). Mongolia put in place new laws for corporate income, value added and personal income taxes, including a new flat tax for individual income. Malaysia reduced the profit tax rate by one percentage point (with another one percentage point reduction planned by 2008) and simplified online tax filing.

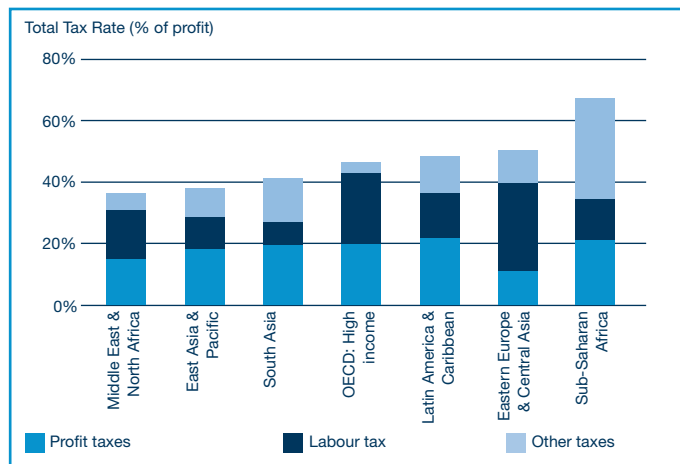
Table 2.4

Major cuts in corporate income taxes in 2006/07		
Region	Changes in corporate income tax rate	
Eastern Europe & Central Asia	Azerbaijan	24 to 22
	Bulgaria	15 to 10
	Kyrgyz Republic	20 to 10
	Macedonia	15 to 12
	Moldova	18 to 15
	Slovenia	25 to 23
	Turkey	30 to 20
	Uzbekistan	15 to 12
Sub-Saharan Africa	Côte d'Ivoire	35 to 27
	Lesotho	35 to 25
	Mauritius	25 to 22.5
	South Africa	12.5 to 10 [†]
Latin America & Caribbean	Colombia	35 to 34
	Mexico	29 to 28
	Trinidad and Tobago	30 to 25
	Uruguay	30 to 25
OECD high income	Greece	29 to 25
	Netherlands	29.6 to 25.5
	Portugal	27.5 to 26.5
	Spain	35 to 32.5
Middle East & North Africa	Israel	31 to 29
	Syria	35 to 28
	Tunisia	35 to 30
	West Bank and Gaza	16 to 15
East Asia & Pacific	Malaysia	28 to 27
	Mongolia	30 to 25

[†]Data are for the secondary company tax, paid on top of the corporate income.

Source: Doing Business database.

Figure 2.2
Business taxes lowest in the Middle East and North Africa



Source: Doing Business database.

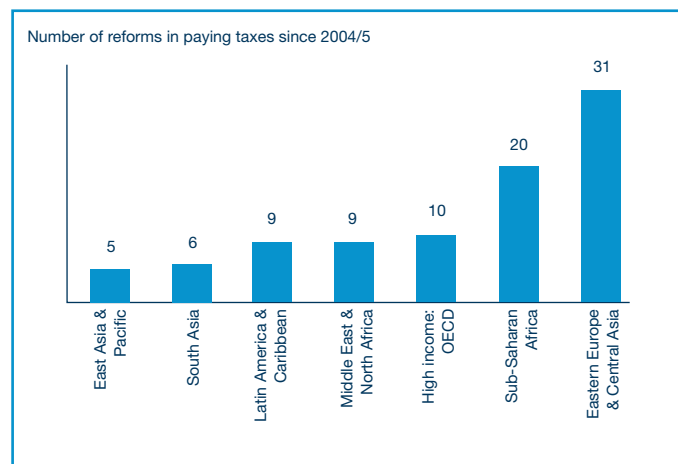
What to reform?

Tax reforms are usually controversial, attracting intense political debate. The choice is often perceived as being between lower taxes with more votes, but potentially less government revenue – and higher rates with discontented voters, but potentially smaller fiscal deficits. In reality there is often no trade-off between revenues and votes as reform can involve more than adjusting tax rates. Since 2005, 90 reforms in 65 economies have pointed to the four most successful reforms:

- Introduce online filing.
- Combine taxes.
- Simplify tax administration.
- Reduce tax rates and broaden the base.

Of those 65 economies, four improved their tax system every year: Albania, Bulgaria, Mexico and Moldova. Eighteen others reformed twice: the Czech Republic, Estonia, Ghana, Greece, Hungary, India, Israel, Latvia, Lesotho, Lithuania, Morocco, the Netherlands, Pakistan, Senegal, Sierra Leone, Spain, Turkey and Uzbekistan (Figure 2.3).

Figure 2.3
Most reforms since 2004/5 occurred in Eastern Europe and Central Asia



Source: Doing Business database.

Introduce online filing

A quarter of the world's countries have electronic filing and payment of business taxes. That means no need for paper documents – and no need for personal interaction with tax officers. A third of the world's countries now use electronic payment such as bank transfer – and half use payment by cheque. In Mozambique the tax authority favours cheque payments by clearing them faster than bank transfers. But this choice has not been incident free: some cheques were deposited in accounts belonging to tax officers. Some of the countries that have introduced online filing within the past three years are Bulgaria, Latvia and Madagascar.

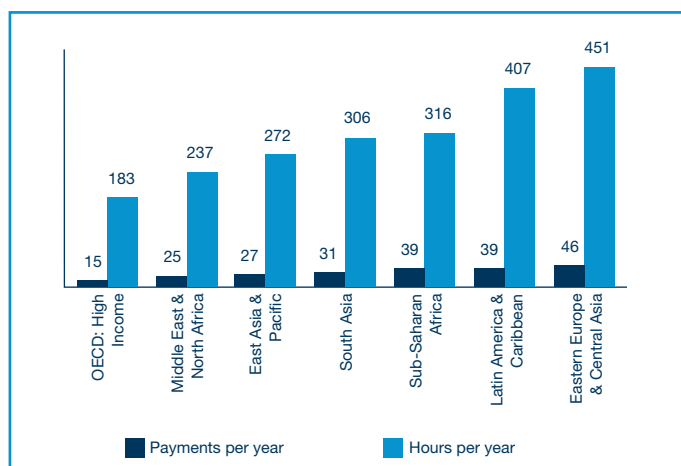
Combine taxes

Almost 50% of countries have more than one labour tax or contribution, 27% more than one tax on profits and 41% more than one tax on property. If the base is the same (salaries, profits or property value), why not just combine them? Having multiple taxes increases the bureaucratic burden for both the taxpayer and the tax administration. Poland has the highest administrative costs of tax collection among

OECD countries, at 2.62% of revenue.¹⁰ The reason? A business has to make 41 tax payments a year, including four different labour taxes. Many countries in Eastern Europe and Central Asia have a similar burden (Figure 2.4). In contrast, tax administration in Sweden costs only 0.59% of revenue, since all business taxes can be paid online.

Several countries have joint tax payments. Bosnia and Herzegovina combines three labour contributions, and Uruguay four, in one monthly payment. In Portugal companies can pay two taxes on profits together.

Figure 2.4
Administrative burden biggest in Eastern Europe and Central Asia



Source: Doing Business database.

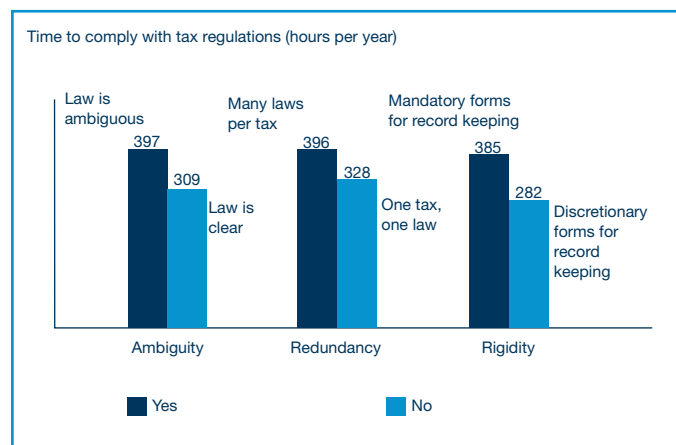
Slovakia has also consolidated several social security and related contributions into a single social contribution tax which funds health insurance, sickness insurance, old age pensions, disability insurance, unemployment benefits, injury insurance, guarantee insurance and reserve fund contributions.

Simplify tax administration

More than half of the countries in our study require special accounting books for tax purposes. Two-fifths have more than one law per type of tax. This means businesses spend a lot of time complying with tax

regulations (Figure 2.5). Making the tax rules for businesses complex is unlikely to generate more revenue – quite the opposite. Countries that do not require special books of account for tax purposes have 10% more revenue (as a percentage of GDP) on average than countries that do. Countries with clear tax laws increase tax revenues by 6% on average.¹¹

Figure 2.5
More complexity, more time paying taxes



Source: Doing Business database.

Clarity on tax authority audit rules can make a big difference. While the vast majority of countries have a system of self-assessment for calculating taxes, only about 16% use risk analysis as the basis for their tax audits. Yet tax audits are potentially a big opportunity for bribes. Using clear rules (and even statistical analysis) to determine who is subject to and how to conduct an audit, as well as provisions for robust statistical analysis can reduce this opportunity and increase tax revenue. Indeed, countries with audits based on risk analysis have higher tax revenue as a percentage of GDP – 18% higher on average – despite having lower tax rates.

The reason is that businesses have fewer incentives to hide revenues. One example: a 2007 study of transition economies finds that businesses that report frequent tax audits are also 17% less likely to borrow from banks. Instead, they resort to informal lenders.

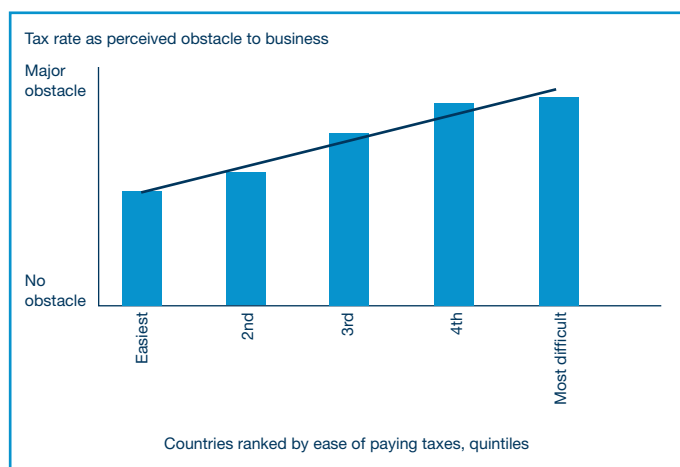
¹⁰ OECD (2007). Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series(2006).Paris.

¹¹ World Bank. 2007. World Development Indicators 2007. Washington, D.C

That way, the borrowed money stays out of the tax records.¹²

Tanzania simplified its income tax regime significantly in 2004/5 with the introduction of a new, more comprehensive statute. In addition to reducing the tax rates on income, the new law broadened the tax base, closing loopholes and introducing taxpayer self-assessments. In the same year, Georgia cut the number of taxes from 21 to nine as part of the features of a new, simpler system which was widely praised by the business sector.

Figure 2.6
Higher tax rates, greater obstacle to business. Reduce tax rates and broaden the base



Note: Relationships are significant at the 1% level and remain significant when controlling for income per capita.

Source: Doing Business database, World Bank Enterprise Surveys.

Croatia followed suit in 2005/6 simplifying its tax forms by cutting eight pages of tax returns and shortening the time required to comply with tax regulations by five days. Azerbaijan, Bulgaria, Colombia, Lesotho, Malaysia, the Netherlands, Turkey and Uzbekistan all undertook broad tax system simplification measures in 2006/7.

Reduce tax rates and broaden the base

High tax rates can force companies into the informal sector (Figure 2.6). In the Democratic Republic of Congo, with taxes twice as high as the commercial profit for a company with a profit margin of 20%, businesses have a strong incentive to evade taxes. Indeed, half the country's manufacturing activity is in the informal sector.¹³ Such countries can potentially increase tax revenue by lowering rates and persuading more businesses to comply with the new tax system. Even countries with a smaller informal sector can gain from this strategy. Greece saw its corporate tax revenue grow from 4% of GDP to 5% after reducing the corporate tax rate in 2005. Egypt saw the number of complying taxpayers increase by a million after reducing both corporate and personal income tax rates in 2005.¹⁴

12 Safavian, Mehnaz, and Joshua Wimpey. 2007. "When Do Enterprises Prefer Informal Credit?" World Bank, Enterprise Analysis Unit, Washington, D.C.

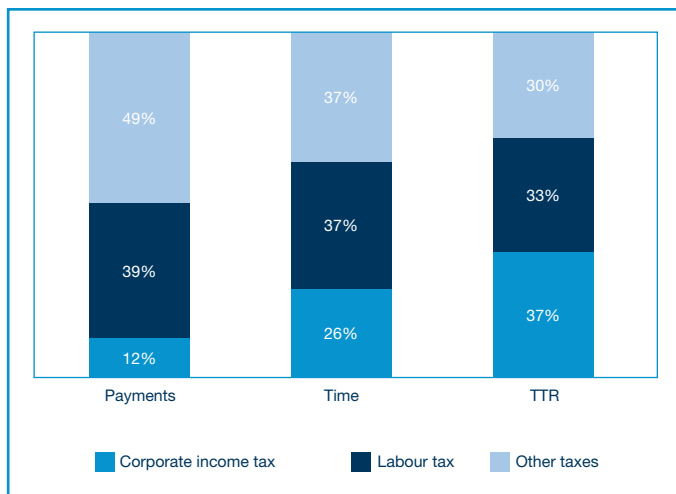
13 Schneider, Friedrich. 2005. "Shadow economies of 145 countries all over the world: what do we really know?" CREMA Working Paper 2005-13. Center of Research in Economics, Management and the Arts, Zurich.
14 Ramalho, Rita. 2007. "Adding a million taxpayers." In World Bank, Celebrating Reform. Washington, D.C.: World Bank Group and U.S. Agency for International Development.

Section three

Understanding Total Tax
Contribution and the
Paying Taxes data – a
PricewaterhouseCoopers
perspective

Corporate income tax is only part of the burden of taxes on business. The Paying Taxes study shows that overall, corporate income tax accounts for only 37% of the Total Tax Rate, 12% of the tax payments made and 26% of the compliance time (see Figure 3.1). These figures are very similar to the findings for last year (36% of the TTR, 11% of payments and 25% of compliance time).

Figure 3.1
 Corporate income tax is only part of the burden of taxes



Source: Doing Business database.

In the Doing Business project, the ranking that is published is the overall ranking for ease of paying taxes which is an equal weighting of the three components as described earlier in this publication. In Paying Taxes 2008, in response to feedback, we are also publishing the individual ranking for each of the components to add transparency and clarity to the understanding of the data generated.

This greater transparency around the data will help inform governments and other stakeholders on how tax systems impact businesses across the cost and compliance indicators in connection with the circumstances of this standard modest-sized company. It can help give some indication as to the factors that encourage, or discourage such businesses to invest. It is clear that governments need to look across all the taxes when considering reform, and greater transparency around the components of the

overall ranking may help focus on where efforts in reform are most effective.

What follows is an initial commentary and observations on some of the findings of the study. Only a small selection can be covered in this commentary. A full list of the rankings for each of the indicators and their components is included in Appendix 1. Further detail of the results generated for each country can be found at: www.doingbusiness.org/exploretopics/payingtaxes

Feedback from the countries:

The commentary includes comments from PricewaterhouseCoopers in a selection of countries. These give a good insight into the increasing recognition of the Total Tax Contribution concept and the Paying Taxes data as a way to assist with the benchmarking and comparisons of countries' tax systems. They also show how there is a growing interest from businesses in each country to understand their total tax contribution and how they rank with their peers.

1 Total Tax Rate (TTR)

Table 3.1 shows the countries that are in the top 10 and the bottom 10 for the TTR indicator. It is important to understand that the overall ranking for ease of paying taxes is also influenced by the two indicators related to the compliance burden as well as by the tax cost. This is well illustrated by some countries listed in Table 3.1.

Six of the countries shown here with the lowest TTR are not in the overall top 10 rankings for ease of paying taxes with, for example, Lesotho having a low overall ranking at 49. Six of the countries with the highest TTR are not in the overall bottom 10 rankings with Eritrea being best placed overall at 103. This illustrates that compliance issues can significantly affect the overall ranking, either counteracting the benefit of a low TTR rate as in the case of Lesotho or mitigating the impact of high tax rates as in the case of Eritrea. Table 3.2 shows the full rankings for Lesotho .

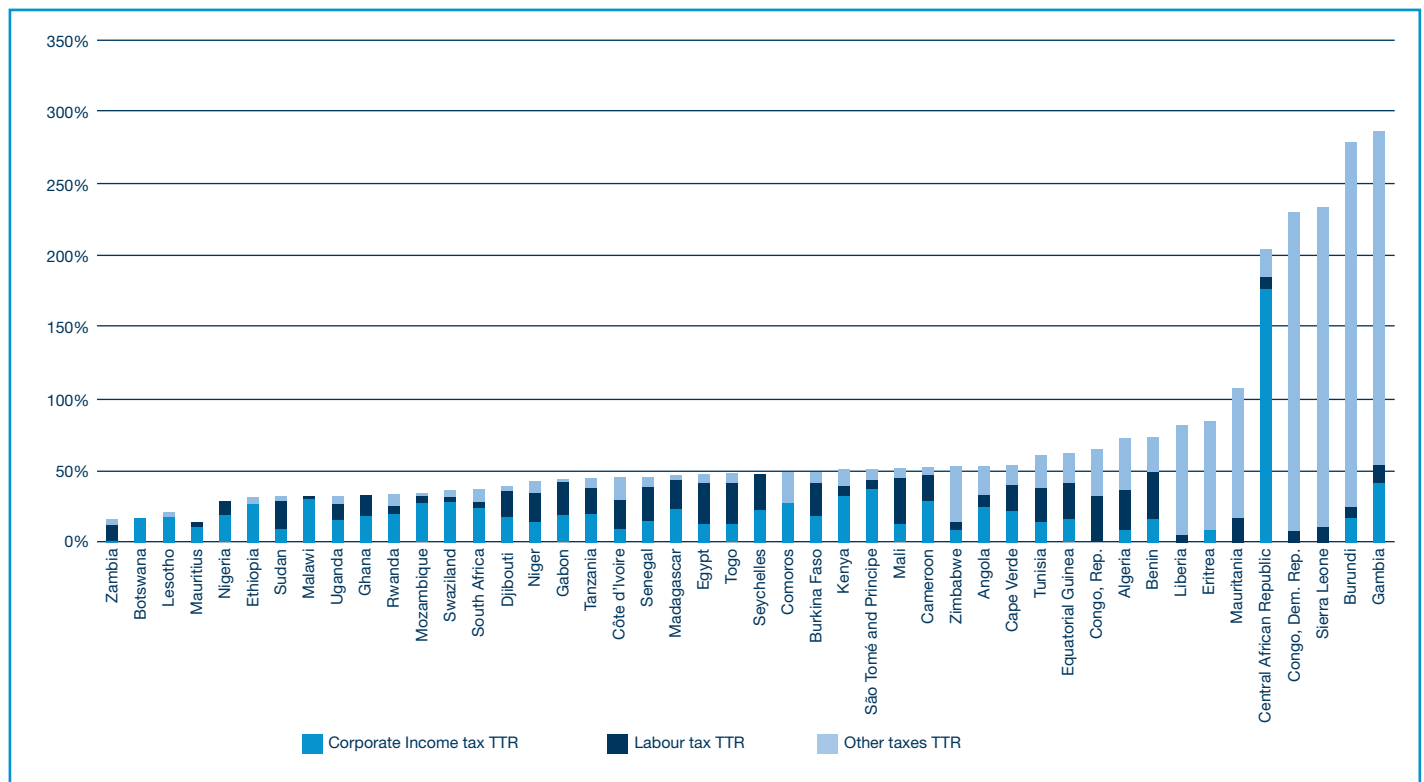
Section three
 Understanding Total Tax Contribution and the Paying
 Taxes data – a PricewaterhouseCoopers perspective

Table 3.1

TTR rankings					
Lowest			Highest		
1	Vanuatu	8.4%	169	Eritrea	84.5%
2	Maldives	9.1%	170	Uzbekistan	96.3%
3	United Arab Emirates	14.4%	171	Mauritania	107.5%
4	Kuwait	14.4%	172	Argentina	112.9%
5	Saudi Arabia	14.5%	173	Belarus	144.4%
6	Zambia	16.1%	174	Central African Republic	203.8%
7	West Bank and Gaza	17.1%	175	Congo, Dem. Rep.	229.8%
8	Botswana	17.2%	176	Sierra Leone	233.5%
9	Samoa	19.8%	177	Burundi	278.7%
10	Lesotho	20.8%	178	Gambia	286.7%

Source: Doing Business database.

Figure 3.2
 African Union comparison of Total Tax Rates



Source: Doing Business database.

Table 3.2

Analysis of overall ranking for Lesotho		
	Result	Rank
Payments (number)	22	58
Compliance (hours)	342	128
Total Tax Rate	20.8%	10
Overall ranking		49

Source: Doing Business database.

Some other regional and economic groupings are interesting to consider and these illustrate some of the broad themes generated by the survey results around the TTR.

Sales taxes and their impact on TTR

Section one of this publication pointed to the different types of sales tax systems in use around the world. The results of the study show that, of these, cascade type sales taxes and turnover taxes can significantly impact the TTR.

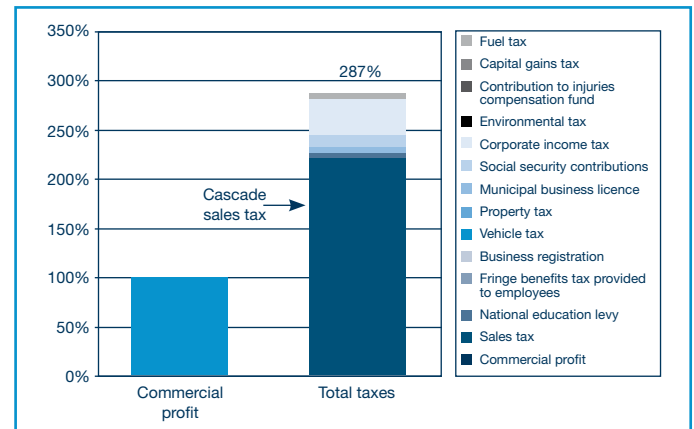
This can be illustrated in Africa where the variation in TTRs is wide (Figure 3.2).

Zambia has a TTR of 16% (ranked six in the world on this measure alone), whereas Gambia collects 287% of a company's commercial profit through taxes, ranking bottom in the world on this measure. Figure 3.3 shows components of this 287% tax charge compared with the commercial profit in the bar chart. Below this, the pie chart shows the proportions that each tax in Gambia has in relation to the TTR for that country.

There are a number of African countries along with Gambia that have TTRs in excess of 100%. These are the Central African Republic, Sierra Leone, Burundi and Mauritania. The extremely high tax rates in Sierra Leone and Burundi are, as with the Gambia, due to the impact of 'cascade' sales taxes. This sort of tax has a significant impact on a company's TTR due to the nature of its operation and calculation. Cascade sales tax on purchases becomes a tax borne and cannot be offset against sales tax on sales (as is the case

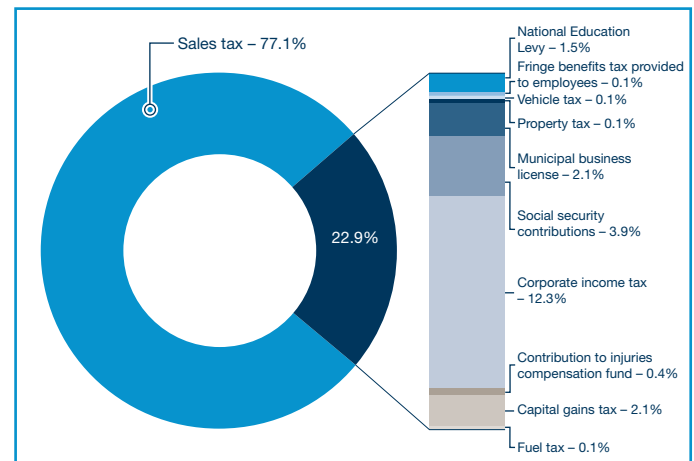
for VAT). The high TTRs in Mauritania and the Central African Republic are largely caused by corporate income taxes with a minimum tax based on turnover which is binding in the circumstances of the case study company.

Figure 3.3
 Gambia – total taxes borne



Source: Doing Business database.

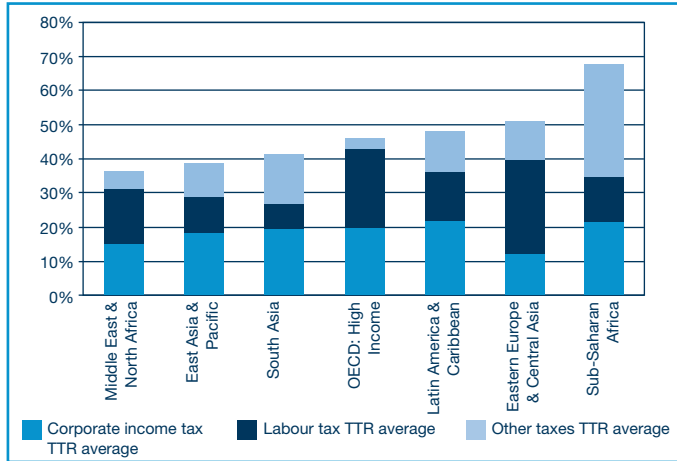
Gambia – analysis of TTR



Source: Doing Business database.

Seven of the 10 countries in the world with the highest TTRs are African countries, and it is largely the impact of these seven countries, and the sales and turnover taxes, that drive the average TTR for the sub Saharan African countries to nearly 70% – the highest of any geographical grouping (see Figure 3.4).

Figure 3.4
 Geographical groupings comparison of Total Tax Rates



Source: Doing Business database.

In contrast, three African countries are in the countries with the lowest TTRs; this highlights the differentials in tax systems across the African continent. The variation across the continent in the time to comply indicator is discussed further on in this section.

Turnover taxes also have a major impact on the TTR in Argentina. The turnover tax in Argentina is paid monthly and is calculated as 3% of gross sales. This sort of turnover tax is a cost to the company and therefore significantly impacts the TTR as illustrated in Table 3.3.

Table 3.3

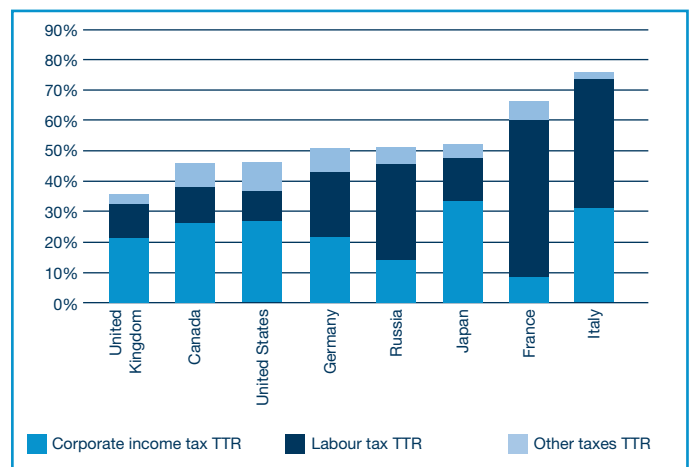
Argentina – breakdown of TTR	
Type of tax	Impact on TTR
Turnover tax by city of Buenos Aires	53%
Social security contributions	25.9%
Tax on financial (cheque) transactions	17.6%
Corporate income tax	6.0%
Labour risk insurance	3.4%
Property tax	3.4%
Fuel tax	2.4%
Stamp tax on sale of real estate	0.8%
Vehicle tax	0.2%
Total Tax Rate	112.9%

Source: Doing Business database.

Impact of labour taxes on TTR

Labour taxes and contributions borne by the employer can also have a significant impact on the TTR. Figure 3.4 shows that labour taxes are more prevalent in OECD countries, the Middle East and Northern Africa, and also Eastern Europe and Central Asia. Figure 3.5 gives the breakdown of the TTR for the G8 countries.

Figure 3.5
 G8 comparison of Total Tax Rates



Source: Doing Business database.

For the modest-sized company used by the case study, labour taxes borne are the largest element of the TTR in France, Italy and Russia. In Italy, labour taxes make up more than half of the TTR of 76.2%. The taxes borne by companies in Italy in relation to their employees include taxes connected to retirement, maternity, family, unemployment, sickness, redundancy and pensions.

Frank Dierckx from PricewaterhouseCoopers in Belgium comments on the Belgian system.

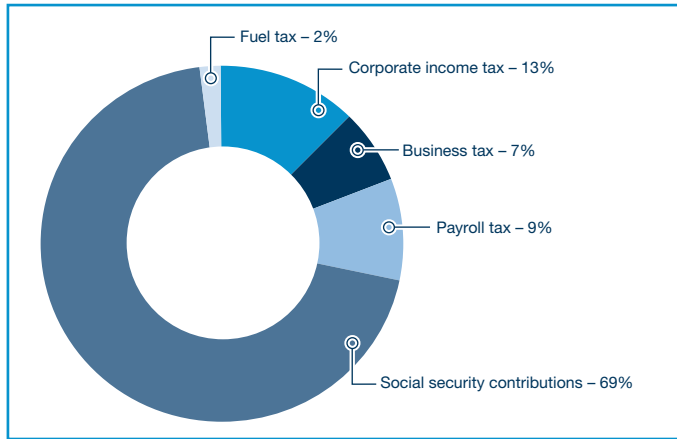
“Once again Belgium remains towards the bottom of the league in an international Total Tax Rate comparison. With a ranking of 154 out of 178, we are behind almost all European countries, with the exception of France and Italy. This is hardly surprising, as Belgium effectively has a very high tax burden with a marginal personal income tax rate of around 54% (with community taxes), personal social security contributions of above 13% and company contributions of 35% of wages, a VAT rate amounting to 21% and a corporation tax rate of 34%.

Despite this heavy burden, Belgian fiscal policy has clearly improved over recent years. We would cite the notional interest deduction, the drop in personal income tax and, more recently, the introduction of VAT grouping. But the road is still a long one and competition with other countries is brisk in attracting investment. We therefore have to continue to adapt our system as fiscal policy remains one of the main decisive factors in the hunt for investment.

The government took measures aimed at reducing tax, but the tax and social security revenue percentage of the GDP remained at 44.2% for 2007, showing that this objective has not been attained. In absolute terms, Belgium still has a very high tax burden, even though comparatively we get a lot back in return – social security, healthcare refunds, infrastructure in numerous forms, etc.

PwC Belgium is currently running a Total Tax Contribution survey together with the Federation of Enterprises in Belgium to determine and assess more precisely the total amount of business taxes paid in Belgium by companies. Results of this survey are expected in early 2008.”

Figure 3.6
 France – proportions of the total taxes borne



Source: Doing Business database.

In France labour taxes account for 78% of the TTR (Figure 3.6).

Whilst payroll taxes contribute 9% of the TTR, social security contributions make up 69%. The latter consists of a variety of contributions such as health coverage, old-age state pension, family benefits, work related accidents contributions, transportation of employees, apprenticeship and training.

It is interesting to note, however, that the number and size of labour taxes borne by the employer may not necessarily correlate to the size of the compliance burden. In France, it takes our case study company 80 hours to comply with its compliance obligations for labour taxes, in Italy 320. The compliance obligations will of course include taxes collected as well as taxes borne.

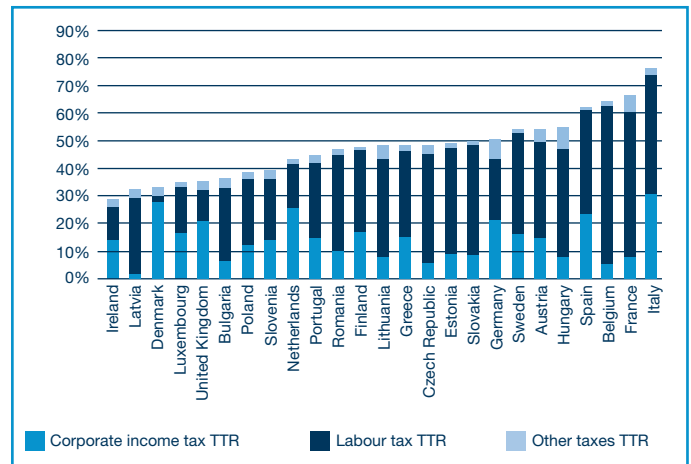
Figure 3.7 shows that labour taxes borne are often a significant element of the TTR across the EU.

Impact of corporate income tax on TTR

It is interesting to consider the impact of corporate income tax on the TTR. For example, there has undoubtedly been a trend across the EU countries in recent years to reduce the statutory rate of corporate income tax to attract business investment. Estonia and the Czech Republic provide examples of this with Estonia reducing its rates from 24% to 23% between

2005 and 2006 and an intention to reduce them to 20% by 2009, and the Czech Republic reducing its rate by 2% between 2005 and 2006.

Figure 3.7
 EU comparison of Total Tax Rates

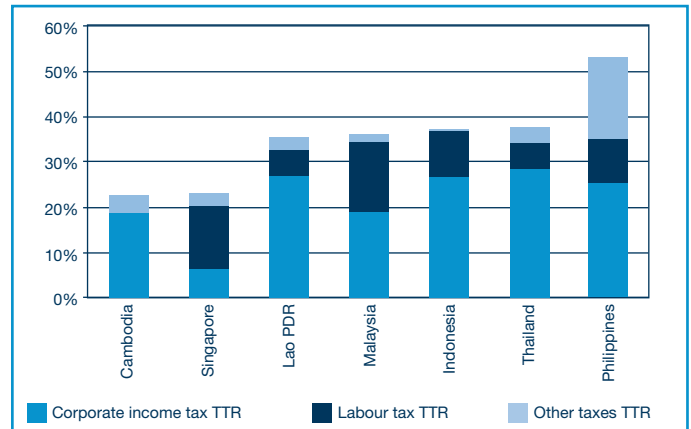


Source: Doing Business database.

Figure 3.7 shows however that whilst both countries now have low statutory rates for corporate income tax, they both rank in the third highest quartile across the EU for TTR.

It also shows that labour taxes are an important element of the taxes borne by business in both countries.

Figure 3.8
 ASEAN comparison of Total Tax Rates



Source: Doing Business database.

Denmark appears to be an exception in the EU, with labour taxes borne by the company accounting for only a small part of the TTR. It is the employee in Denmark that bears the significant element of labour taxes.

A contrast to the EU is shown in the ASEAN countries, the Association of South East Asia Nations (Figure 3.8). Here corporate income tax is the most significant element of the TTR and labour taxes borne by the employer are less significant.

2 Time to comply in hours per year

Table 3.4 shows the countries that are in the top 10 and bottom 10 for the time to comply indicator.

Honours for the lowest number of compliance hours are spread around the world. The United Arab Emirates provides an example of a country where our case study company requires the least time to comply with its taxation obligations (Table 3.5). Only three

taxes are imposed by the United Arab Emirates – the vehicle registration fee and trade licence which do not feature in the time to comply measure, and the country’s social security contributions system, where the tax payable is based on gross salaries and takes only 12 hours to comply with.

Table 3.5

Analysis of overall ranking for UAE		
	Result	Rank
Payments (number)	14	31
Compliance (hours)	12	2
Total Tax Rate	14.4%	3
Overall ranking		4

Source: Doing Business database.

Brazil is the country where it takes the case study company longest to comply with its tax obligations. It is only the low number of tax payments that lifts Brazil to 137 in the overall ranking.

Table 3.4

Time to comply in hours per year					
Least hours			Most hours		
Rank		Hours	Rank		Hours
1	Maldives	0	165	Czech Republic	930
2	United Arab Emirates	12	169	Azerbaijan	952
3	Singapore	49	170	Vietnam	1050
4	Luxembourg	58	171	Bolivia	1080
5	Oman	62	172	Nigeria	1120
6	Switzerland	63	172	Armenia	1120
7	New Zealand	70	174	Belarus	1188
8	St. Lucia	71	175	Cameroon	1400
9	Ireland	76	176	Ukraine	2085
9	Seychelles	76	177	Brazil	2600
9	St Vincent & The Grenadines	76			
12	Saudi Arabia	79			

Source: Doing Business database.

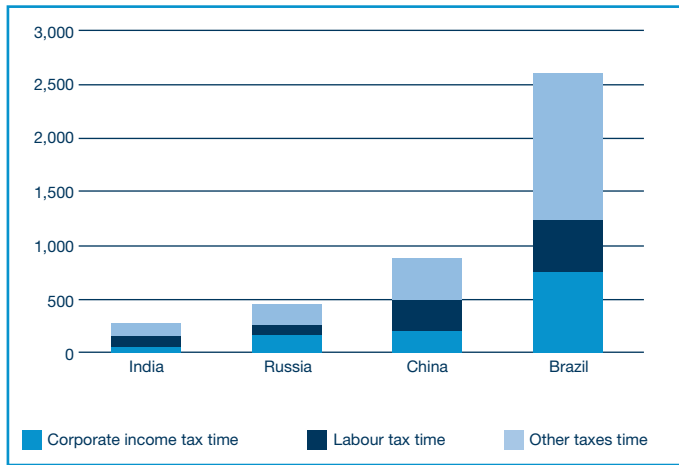
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Understanding Total Tax Contribution and the Paying Taxes data – a PricewaterhouseCoopers perspective

Impact of consumption taxes on compliance hours

As an emerging economy and one of the so-called BRIC countries (Brazil, Russia, India and China), Brazil is out of line with the others in the grouping.

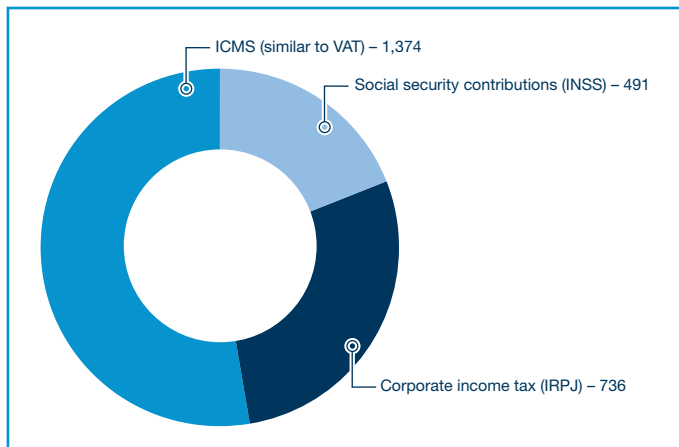
Figure 3.9
BRIC comparison of hours to comply



Source: Doing Business database.

The time to comply with the tax system in Brazil is some 2,600 hours; the equivalent measure in India is 271 hours. This puts India on a par with the average hours to comply in both the G8 (254 hours) and EU (257 hours) but leaves Brazil at the bottom of the world ranking on this measure alone.

Figure 3.10
Brazil hours to comply

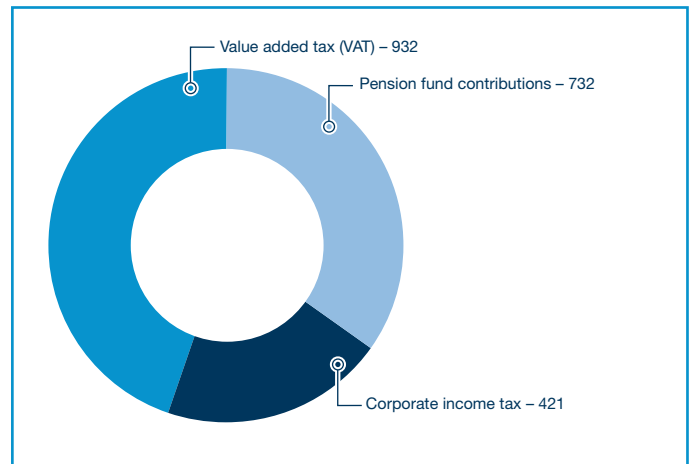


Source: Doing Business database.

Over half the hours in Brazil are needed on compliance with the ICMS system, a consumption tax which is collected on behalf of the tax authorities but not borne by the company. So while this tax does not form part of the TTR of the company in Brazil, it contributes significantly to the administrative burden (Figure 3.10).

The Ukraine is the country where the case study company needs the second largest number of compliance hours and, as for Brazil, a significant number of the hours spent relate to the administration of consumption taxes collected (here VAT), which does not form part of the TTR (Figure 3.11).

Figure 3.11
Ukraine hours to comply



Source: Doing Business database.

The impact of consumption taxes on compliance time can also be seen across the EU (see Figure 3.12).

Companies in the Czech Republic and Bulgaria, where time spent complying with the tax system is the highest in the EU, spend a significant number of hours complying with the administration and payment of consumption taxes. In the Czech Republic some 360 hours are spent dealing with the collection of VAT – this tax does not contribute towards the TTR (assuming full recovery is possible).

Carlos Iacia from PricewaterhouseCoopers in Brazil comments on the Brazilian tax system and in particular on compliance issues.

“As last year, the Paying Taxes study revealed one of the most concerning issues of the Brazilian tax system. In Brazil, taxpayers spend more time than anywhere else (2,600 hours a year) complying with their tax obligations.

The issues range from the number of taxes charged, to the competence granted to each government authority (Federal, State and Municipal) to charge such taxes. The Brazilian VAT, ICMS (tax on the movement of goods, transport services and communication services), can be charged by the 27 states of the Brazilian Federation. The municipal tax on services (ISS) is charged by more than 5,000 Brazilian municipalities. Each one of these governmental bodies has the power to legislate on the tax computation and collection, guided by one major law that provides general rules - the National Tax Code (CTN).

When we think of ‘compliance’, it may seem an easy task: it is only a matter of calculating and paying taxes. However, this process of computation is extremely complicated in Brazil since the taxpayer has to consider the legislation and compliance obligations of each taxing body. These, in most cases, require taxpayers to file several different monthly returns including the total tax accrued, paid or offset.

In addition, companies require tax clearance certificates, which are essential documents for the purposes of obtaining loans, participating in bidding and applying for tax incentives. This gives rise to further bureaucracy and obstacles for the development of corporate business.

In view of the above, companies are required to maintain professionals among their tax personnel who are fully dedicated to the correct compliance with such tax matters, in order to avoid potential errors or distortions which may end up increasing the Brazilian tax burden even more.

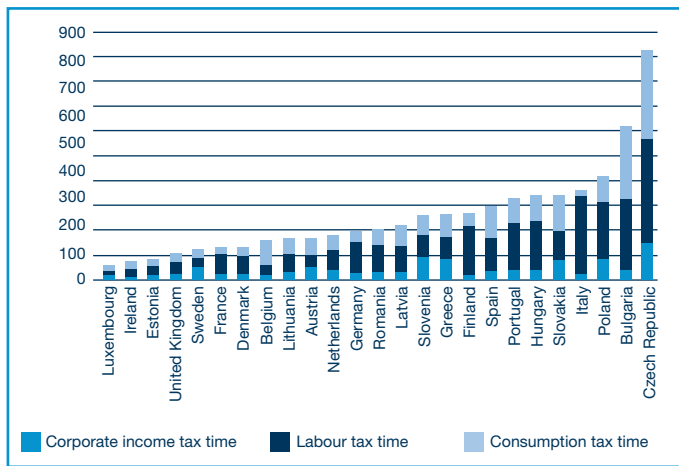
Therefore, the World Bank survey is very important since it evidences the urgent need for huge reform in the Brazilian tax system. Several different bills of law have been discussed at the Brazilian National Congress, proposing, among other tax changes, the unification of ICMS. The approval of these changes, which are so important for the development of the country, requires discussions among the Federal, State and the Municipal bodies as they all have their numerous and different interests and needs, considering the conditions of each region of the country, and the level of tax collections. The issue, therefore, is to put together all these interests and make a fair distribution of the tax income, which represented 34.23% of the GDP (gross domestic product) in 2006.”

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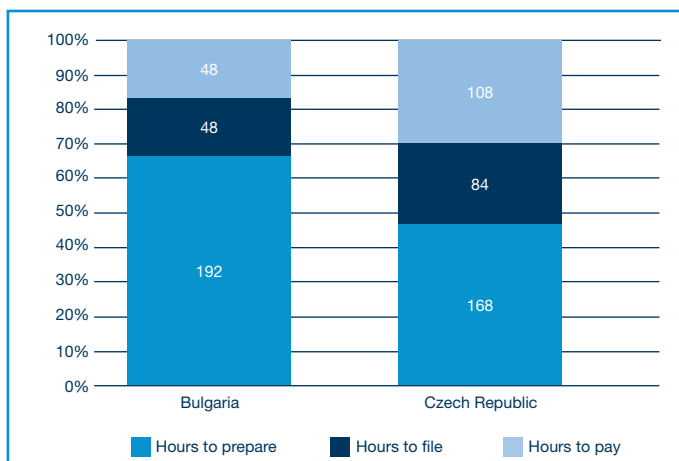
It is a similar story in Bulgaria where consumption tax accounts for nearly half of the time spent complying with the tax system. In both cases most time is spent in preparation which can include gathering data from internal records or the actual calculation of the tax liability including inputting data into software or spreadsheets (Figure 3.13).

Figure 3.12
EU comparisons of hours to comply



Source: Doing Business database.

Figure 3.13
Bulgaria and the Czech Republic – hours spent on consumption taxes



Source: Doing Business database.

Compliance hours – variation across the G8

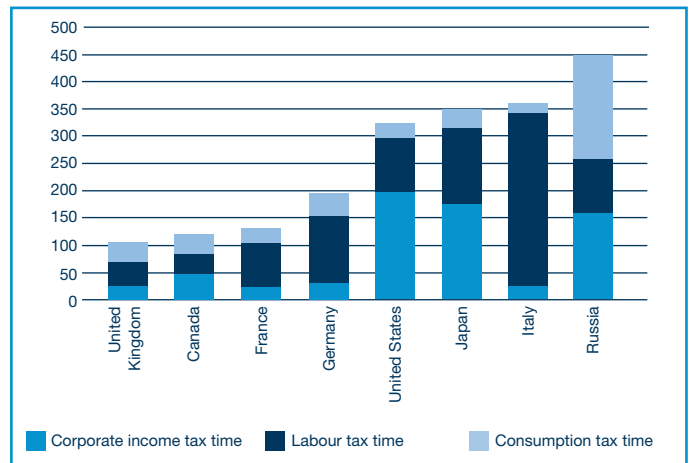
Member countries of the G8 are worth highlighting here given the variation in compliance hours (Figure 3.14).

Russia fares the worst, with 448 hours in total and consumption taxes again the biggest tax burden. 192 hours are needed to collect VAT on behalf of the tax authorities. Russia also illustrates that a lower tax cost (TTR) does not always correlate to lower hours to comply. Russia ranks five in the G8 on TTR and eight on time to comply. France on the other hand, shows the reverse, ranking seven in the G8 on TTR and three on time to comply (Figures 3.5 and 3.14).

In Italy, nearly all the hours spent by the company complying with the tax system are to deal with labour taxes; 320 hours are spent doing this whilst only 24 hours are needed to administer corporate income taxes.

In the US and Japan, corporate income taxes make up a large part of the number of hours spent on tax compliance.

Figure 3.14
G8 comparisons of hours to comply



Source: Doing Business database.

Tom O'Brien of PricewaterhouseCoopers in Canada comments on the Canadian results.

“The period between the 2007 and 2008 Paying Taxes studies contained few changes to the Canadian tax system that affect the case study on which the analysis is based.

At first glance, Canada's ranking of 99 for the Total Tax Rate may seem disappointing. However, it should be noted that the benefit to corporations arising from the elimination of the Canadian Federal Large Corporation Tax, or LCT, is not taken into account in the Paying Taxes results due to the size of the case study company. The elimination of this tax, effective 1 January 2006, represents a real saving available to many corporations operating in Canada.

With decreases in corporate income tax rates announced for 2007 to 2010, the Canadian TTR is expected to improve in future studies.

Canada's rankings for compliance time and number of tax payments remain high at 27 and 15 respectively. These results are a reflection of the overall efficiency of the Canadian tax system, which features a globally competitive Revenue Agency and incorporates technology such as the internet and electronic banking to increase the ease of remitting tax payments and complying with Federal and Provincial tax legislation.”

Steve Okello from PricewaterhouseCoopers in Kenya highlights some of the reforms which have benefited companies in Kenya in reducing their administrative burden.

“The Government of Kenya has taken on board the comments made within the Doing Business report over the last two years and embarked on improving the business environment within the country. This has been done in consultation with various stakeholders including the private sector and the International Finance Corporation (IFC). The significant measures taken have led to remarkable improvements being achieved in the last year, and these should be reflected in next year's run of the study.

Out of the ten Doing Business indicators, the Government of Kenya has been paying special attention to three key indicators:

1. Starting a business;
2. Dealing with licenses; and
3. Paying taxes.

The Kenyan Revenue Authority, in consultation with the Minister for Finance, has implemented a number of reforms to enhance tax compliance by taxpayers and simplify requirements. Some of the key improvements include the implementation of electronic tax registers, which provide monthly sales reports for inclusion on the VAT returns. This cuts out reconciliation requirements and the need to extract data from manual records. It is hoped that the total numbers of hours to deal with VAT matters will reduce substantially from the current total of 300 hours per annum.”

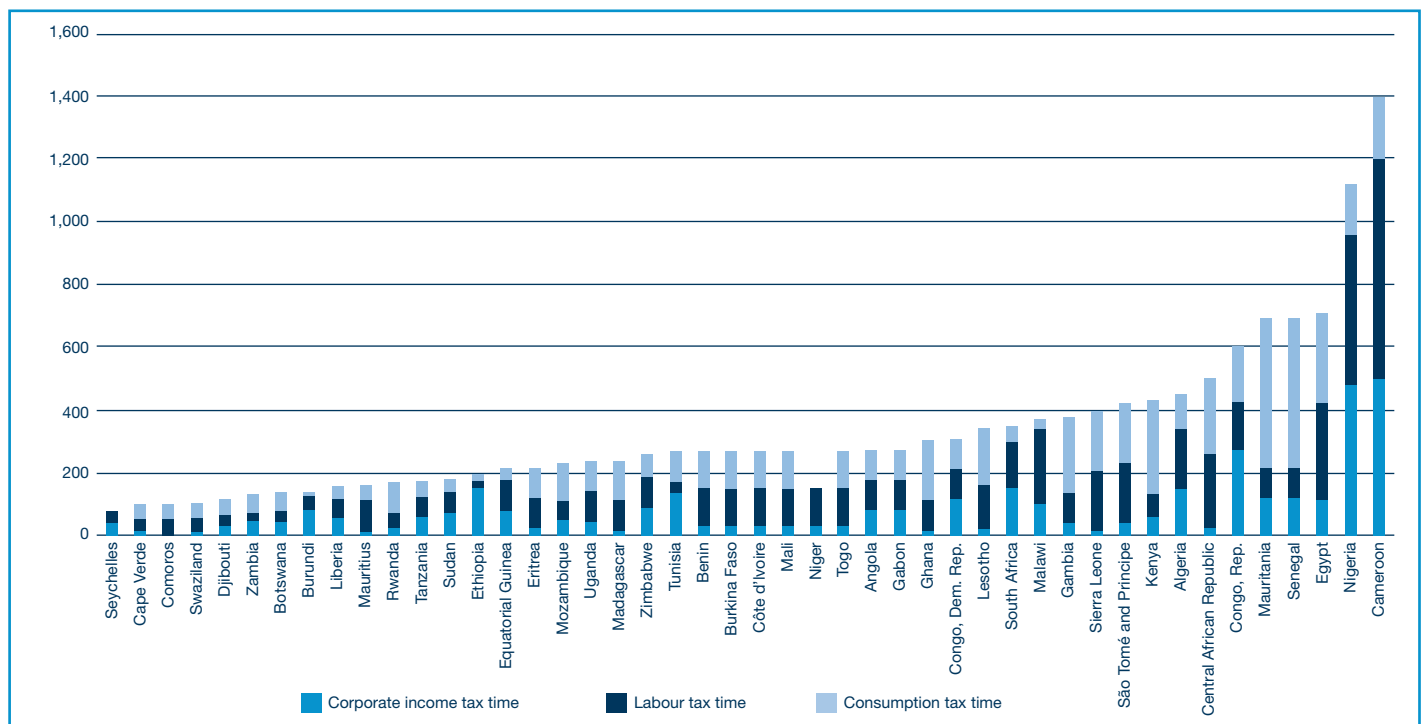
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Table 3.6

Number of tax payments					
Fewest payments			Most payments		
Rank		No. of payments	Rank		No. of payments
1	Maldives	1	169	Venezuela	70
2	Sweden	2	170	Jamaica	72
3	Hong Kong, China	4	171	Dominican Republic	74
3	Norway	4	172	Kyrgyz Republic	75
5	Singapore	5	173	Montenegro	88
6	Afghanistan	6	174	Congo, Republic	89
7	Kiribati	7	175	Romania	96
7	Latvia	7	176	Ukraine	99
7	Mauritius	7	177	Uzbekistan	118
10	New Zealand	8	178	Belarus	124
10	Ecuador	8			
10	Portugal	8			
10	United Kingdom	8			
10	Spain	8			

Source: Doing Business database.

Figure 3.15
 African Union comparisons of hours to comply



Source: Doing Business database.

Variation across the African Union

Countries within the African Union display some of the greatest variations in the time to comply with the tax system as they do in the TTR (see Figures 3.15 and 3.2). At one end of the scale, the study shows that for the case study company in the Seychelles, it would take 76 hours to comply with the tax system across all taxes. In contrast the company in Cameroon faces a burden of 1,400 hours.

Lesotho is amongst the top three countries in the African Union on the TTR measure and has undertaken significant tax reforms over recent years. In Lesotho sales tax was replaced with a VAT system in 2003 and the revenue authority has taken steps to make tax collections fairer and easier. These reforms have impacted the compliance burden of companies. As a result, the tax system in Lesotho now takes 342 hours to comply with, of which only 22 hours relate to corporate income taxes, 140 to labour taxes and 180 to VAT.

3 Number of tax payments

Table 3.6 shows the countries that are in the top 10 and bottom 10 for the number of tax payments indicator.

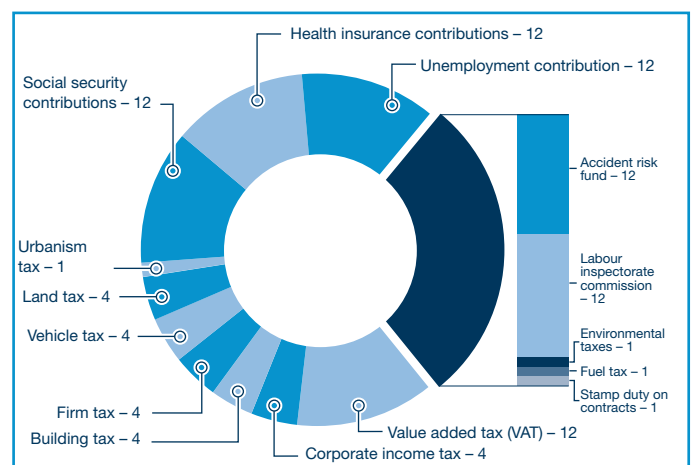
Countries in the former Soviet and Eastern bloc account for six of the bottom 10 countries in terms of the number of tax payments a company has to make. Romania, Ukraine, Uzbekistan and Belarus are ranked the bottom four in the world on this measure which is reflected by the sheer number and variety of taxes a company is required to pay in these countries. In two of these countries, Romania and Ukraine, flat rate corporate profits taxes have been introduced, but the number of payments required and the contribution of other taxes are significant and so mitigate the perceived benefits of the flat tax system.

Complexity of tax systems in Eastern Europe

In Romania, 60 of the 96 tax payments the company has to make in a year are different forms of labour tax. 12 payments each year are required for each of social

security contributions, health insurance contributions, unemployment contributions, accident risk fund and the labour inspectorate commission (see Figure 3.16). Interestingly though, it only takes a company in Romania 110 hours to comply with the tax system in respect of all these labour taxes. Compare this with Brazil: electronic filing means effectively only two payments are required for labour taxes but calculating and paying labour taxes takes a company 491 hours.

Figure 3.16
 Romanian tax payments



Source: Doing Business database.

In Belarus, the sheer number and variety of taxes for which monthly payments are required is surprising. There are 10 different taxes each requiring 12 payments a year and one requiring four, making a grand total of 124 payments. The 11 different taxes are: corporate income tax, transport duty, value added tax (VAT), turnover tax, property tax, ecological tax, obligatory insurance for work accidents, social security contributions, payroll taxes, land tax and sales tax. Unlike in Romania where the time taken to comply with the tax system is relatively low, in Belarus, a company spends 1,188 hours dealing with the administration and payment of all these taxes.

The range of taxes in Uzbekistan and Ukraine is equally diverse (Uzbekistan 118 payments, Ukraine 99) although the time taken to comply with the system varies enormously – from 2,085 hours in Ukraine (ranked 176 in the study) to 196 hours in Uzbekistan (ranked 65 in the study).

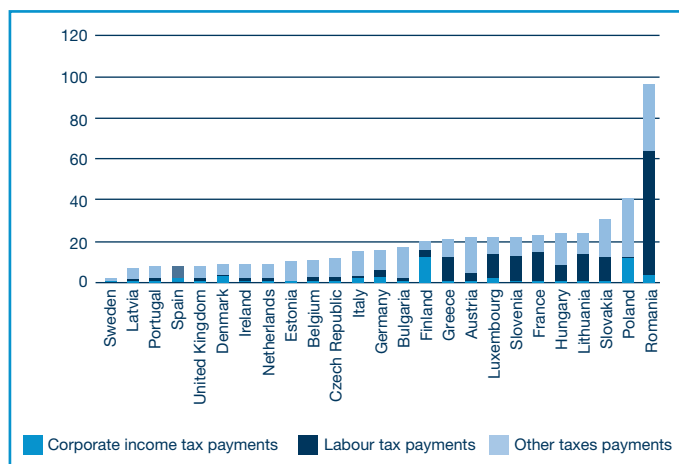
Table 3.7

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)

Source: Doing Business database.

The number of tax payments required in Romania is higher than any other country in the EU by some distance (Figure 3.17). Contrast this with the TTR and the time to comply which are both mid tier (Figures 3.7 and 3.12).

Figure 3.17
 EU comparisons of tax payments



Source: Doing Business database.

Impact of electronic filing on number of tax payments

Electronic filing is a method by which some countries are simplifying their tax systems most effectively. Companies in Norway, Sweden, Singapore, Latvia, Mauritius, New Zealand, Ecuador, Portugal and the UK can pay and file their tax returns on-line for most of the major taxes. This ensures these countries are in the top 10 on the tax payments indicator. Other countries in the top 10 like the Maldives and Kiribati are there due to the small number of taxes the case study company pays in those countries.

As explained in Section one, the World Bank methodology for counting the number of tax payments counts as one payment any tax with electronic filing options, even if more than one electronic payment is required. Also, where indirect taxes are paid to a third party supplier rather than direct to government, for example, where fuel duties are embedded in the purchase price, then again only one payment is recorded. This is to reflect the reduced administrative burden of paying taxes.

In Table 3.7 the figures relating to the UK are a good illustration of how the number of payments are reduced by reference to the methodology applied.

Robert van der Laan from PricewaterhouseCoopers in the Netherlands comments on changes that the Dutch have implemented to “improve working relationships through covenants”.

“The Netherlands is reducing the rate of corporate income tax and simplifying the process of paying taxes and this is reflected in the rankings. A shift is also gradually taking place in the relationship between tax inspector and taxpayer from retrospective and repressive control to mutual respect, trust and transparency. In 2005 the Dutch Revenue started a pilot named ‘horizontal supervision’, the goal of which is to improve the relationship between the Revenue and the corporate taxpayers and also to increase efficiency.

By concluding a ‘compliance covenant’ (in Dutch: ‘handhavingsconvenant’) the Revenue and the Executive Board of the company commit themselves to a mutually beneficial and transparent working relationship in which the Revenue can offer advance certainty. Since both company and Revenue are discussing current instead of past events there will be less need for often time-consuming retrospective audits by the Revenue. As part of this covenant, participating companies proactively present tax planning and other significant tax events to the tax inspector.

All companies that have been approached have concluded or are about to conclude a covenant with the Revenue. Recently the horizontal supervision pilot has been evaluated: the outcome was very positive. Most tax directors agreed that the new working method is more effective and efficient and improves the Netherlands’ tax climate. A substantial number of tax directors indicated that the working relationship with their tax inspector has improved as a consequence of the covenant. The biggest benefits that have been mentioned are: working together on topical matters, improved responsiveness by the Revenue, and increased transparency.

This transparency is important in view of the trend towards increased responsibility in the area of tax planning and towards companies being expected to pay their ‘fair share’. In my view, in this ‘fair share’ discussion, it is appropriate to take account of, not only corporate income tax, but all taxes paid when assessing a company’s contribution to society. PricewaterhouseCoopers is leading this ‘fair share’ debate with the development of the Total Tax Contribution framework which will increase transparency around the contribution of major companies to Dutch tax revenues.”

Section four

The way forward

Transparency, communication, understanding and dialogue

The Paying Taxes study in the World Bank Doing Business project offers a unique opportunity to look at, and compare, tax regimes around the world.

It is accepted that the Paying Taxes study has its limitations in terms of the case study used; nevertheless it generates useful data which allows comparisons to be made. The indicators used are also simple and relatively easy to understand, and the data is therefore easy to collect. This has been important in the early years of the study which covers so many countries.

In last year's publication, and again this year, we have focussed on the need for governments to ensure the effectiveness of the tax systems they implement, and for companies to appreciate and be more transparent in communicating their tax contribution. The emphasis is for the total tax contribution to be understood, in terms of the taxes borne, taxes collected, and the compliance and administration for business which is necessary to enable tax systems to operate.

More transparency and better information to assist with dialogue between government and business is key in helping to build trust between the stakeholders and, ultimately to build confidence and willingness to invest.

Understanding that taxes contributed are much more than just corporate income or profit taxes is an essential part of appreciating that reform of the tax system needs to look across all the taxes. It needs to recognise that there is a potential win:win for government and business in ensuring that complexity is kept to a minimum, and that tax rates are not set at unreasonably high levels.

Inspiring reform and a focus on compliance cost

Tax reform is a priority for governments. Section two of this publication has illustrated this well with over 65

countries implementing some sort of reform to their tax system over the last three years. While reducing tax rates is the most common reform, there is an increasing focus on administration and the number of taxes that have to be complied with. There is growing concern that the regulatory burden can inhibit businesses' ability and willingness to invest and grow as they struggle to remain competitive. Tax is a large component of this regulatory burden which is why it is useful to find a measure that enables us to compare the tax compliance and regulatory regimes around the world. The Paying Taxes study addresses these issues with the measures of compliance hours and the number of tax payments.

Future trends

With the increasing focus on the administrative requirements and compliance burden, there will be a need to complement the study indicators with other relevant information to help with the understanding and analysis of the systems in individual countries. The World Bank is currently developing additional data requests which should produce further useful results in future years. These include the number of pages of tax forms our case study company needs to complete and the approach of the tax authority to querying the tax returns.

It was always expected that the study methodology would take some time to bed down to ensure consistency in how it is applied across so many countries. Some improvements have been made to the data requests this year and also to the definitions given, and this has resulted in some restatement of the data in a few countries. Looking forward, it is expected that trend data will be a growing feature of the results as the number of years of data available increases.

New themes to consider

Trends suggest that consumption taxes and indirect taxes are becoming an important way in which

governments are choosing to collect their taxes¹. Transparency around the tax contribution has therefore never been more important, to ensure that the impact on business and society in general is fully understood. It is evident from the foregoing analyses that while efficient consumption taxes might not be borne by business, they are taxes that business collects and an important part of the regulatory burden.

Consumption taxes are also often the chosen vehicle for taxes designed not only to collect revenues, but also to change behaviours. New taxes to influence behaviours in relation to the environment are a good example of this. Some governments are now committed to finding ways to encourage behavioural change in order to meet internationally agreed targets for carbon emission reductions. There is some recent evidence in the UK² to suggest that both government and business may consider that taxation is an effective economic instrument to influence behaviour. There is some limited insight into this from the World Bank survey, but some additional questions and analysis may be useful as a supplementary exercise in future studies.

As we have seen from the results of this year's survey, tax compliance costs are a significant cost to companies. Simplifying the tax system can offer the potential of a win:win scenario for both government and business. Complexity is not easy to measure. The indicators on compliance included in the Paying Taxes study have given a good start in this respect and have helped to identify countries where there are issues to be addressed. Other measures may offer further insights and PwC and the World Bank are considering additional measures for the future.

Finally, we mentioned last year that the wider implications for taxes paid by business in the context of corporate responsibility are becoming increasingly important. In many countries, companies

are major contributors to tax revenues. The way in which government tax policy is formulated; the way in which companies respond to changes in tax policy; and how they then communicate their total tax contribution in annual accounts and corporate responsibility statements, is something that will require increasing attention.

- 1 Shifting the balance. The evolution of indirect taxes. A PricewaterhouseCoopers publication published June 2007. <http://www.pwc.com/Extweb/pwcpublishations.nsf/docid/D82553F8D605B413852572F00027CB10>
- 2 Saving the Planet – can tax and regulation help? A PricewaterhouseCoopers discussion paper. Published July 2007. <http://www.pwc.com/extweb/insights.nsf/docid/EE10562E63A13CC78025730E00334F51>

Contacts

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

World Bank Group

Simeon Djankov
+1 202 473 4748
sdjankov@worldbank.org

Rita Ramalho
+1 202 458 4139
rramalho@worldbank.org

PricewaterhouseCoopers

Bob Morris
+1 202 414 1714
robert.c.morris@us.pwc.com

Susan Symons
+44 20 7804 6744
susan.symons@uk.pwc.com

John Whiting
+44 20 7804 4422
john.whiting@uk.pwc.com

Appendix 1

The data tables

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 - 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 Section one of this report for an explanation of the methodology.)

Economy	Rankings			
	Ease of paying taxes	Tax payments	Time to comply	Total Tax Rate
Afghanistan	38	6	110	51
Albania	118	132	87	105
Algeria	157	93	152	160
Angola	120	83	107	138
Antigua and Barbuda	108	133	63	106
Argentina	147	46	159	172
Armenia	143	144	172	56
Australia	41	27	23	122
Austria	80	58	57	142
Azerbaijan	141	117	169	81
Bangladesh	81	42	141	74
Belarus	178	178	174	173
Belgium	65	24	49	154
Belize	47	122	46	26
Benin	161	156	99	162
Bhutan	68	46	109	75
Bolivia	172	122	171	165
Bosnia and Herzegovina	142	146	135	90
Botswana	14	46	39	8
Brazil	137	24	177	158
Brunei	28	35	45	64
Bulgaria	88	42	160	59
Burkina Faso	133	133	99	117
Burundi	109	87	39	177
Cambodia	21	74	38	13
Cameroon	166	122	175	132
Canada	25	15	27	99
Cape Verde	117	158	18	140
Central African Republic	175	153	154	174
Chad	124	153	30	152

Economy	Rankings			
	Ease of paying taxes	Tax payments	Time to comply	Total Tax Rate
Chile	34	21	121	18
China	168	104	167	163
Colombia	167	168	96	168
Comoros	46	51	18	116
Congo, Dem. Rep.	149	87	119	175
Congo, Rep.	176	174	158	156
Costa Rica	162	131	142	144
Côte d'Ivoire	140	165	99	98
Croatia	43	77	65	34
Czech Republic	113	27	168	115
Denmark	13	15	37	40
Djibouti	51	104	24	71
Dominica	64	117	46	61
Dominican Republic	139	171	112	77
Ecuador	57	10	157	46
Egypt	150	110	165	110
El Salvador	101	165	80	42
Equatorial Guinea	136	133	75	150
Eritrea	103	45	76	169
Estonia	31	21	15	118
Ethiopia	29	51	68	28
Fiji	52	93	39	69
Finland	83	51	98	109
France	82	65	36	157
Gabon	93	77	107	91
Gambia	173	144	138	178
Georgia	102	80	139	70
Germany	67	39	65	124
Ghana	75	87	117	38
Greece	86	54	93	114

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The data tables

Economy	Rankings			
	Ease of paying taxes	Tax payments	Time to comply	Total Tax Rate
Grenada	59	81	39	97
Guatemala	116	120	129	65
Guinea	163	157	145	120
Guinea-Bissau	112	136	74	100
Guyana	100	101	113	72
Haiti	96	150	51	76
Honduras	160	138	147	129
Hong Kong, China	3	3	13	15
Hungary	127	68	126	143
Iceland	27	83	39	20
India	165	162	105	159
Indonesia	110	146	95	63
Iran	97	58	115	108
Iraq	37	29	120	16
Ireland	6	15	9	23
Israel	69	93	83	55
Italy	122	35	134	164
Jamaica	170	170	144	128
Japan	105	29	131	133
Jordan	19	72	20	27
Kazakhstan	44	15	105	58
Kenya	154	122	150	125
Kiribati	10	7	28	31
Korea	106	141	114	44
Kuwait	8	31	26	4
Kyrgyz Republic	152	172	70	148
Lao PDR	114	101	162	50
Latvia	20	7	78	37
Lebanon	33	46	60	49
Lesotho	49	58	128	10
Liberia	119	112	50	166
Lithuania	71	68	54	112
Luxembourg	17	58	4	47
Macedonia, FYR	99	148	17	119
Madagascar	86	72	86	103
Malawi	78	81	136	32
Malaysia	56	104	54	54

Economy	Rankings			
	Ease of paying taxes	Tax payments	Time to comply	Total Tax Rate
Maldives	1	1	1	2
Mali	151	159	99	130
Marshall Islands	74	54	32	155
Mauritania	171	117	163	171
Mauritius	11	7	52	12
Mexico	135	74	155	127
Micronesia	70	54	32	146
Moldova	111	143	77	89
Mongolia	90	128	72	68
Montenegro	129	173	137	30
Morocco	132	77	133	137
Mozambique	72	112	83	43
Namibia	48	112	..	19
Nepal	92	93	143	35
Netherlands	36	15	60	88
New Zealand	9	10	7	45
Nicaragua	156	164	87	151
Niger	115	128	99	87
Nigeria	107	104	172	25
Norway	16	3	16	86
Oman	5	31	5	11
Pakistan	146	138	156	80
Palau	73	46	32	161
Panama	169	160	153	123
Papua New Guinea	79	93	73	85
Paraguay	93	104	123	48
Peru	77	15	147	84
Philippines	126	138	64	135
Poland	125	122	146	67
Portugal	66	10	123	94
Puerto Rico	39	39	39	92
Romania	134	175	70	107
Russia	130	58	151	131
Rwanda	50	101	56	41
Samoa	53	112	80	9
São Tomé and Príncipe	153	122	147	126
Saudi Arabia	7	31	12	5

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The data tables

Economy	Rankings			
	Ease of paying taxes	Tax payments	Time to comply	Total Tax Rate
Senegal	164	160	163	101
Serbia	121	165	111	53
Seychelles	35	39	9	113
Sierra Leone	145	58	140	176
Singapore	2	5	3	14
Slovakia	122	83	129	121
Slovenia	63	58	92	73
Solomon Islands	26	93	13	36
South Africa	61	24	131	62
Spain	93	10	116	149
Sri Lanka	158	163	90	153
St. Kitts and Nevis	85	68	58	134
St. Lucia	32	87	8	60
St. Vincent and the Grenadines	58	110	9	95
Sudan	60	128	60	29
Suriname	23	42	69	21
Swaziland	40	93	21	57
Sweden	42	2	30	141
Switzerland	15	68	6	24
Syria	98	54	125	104
Taiwan, China	91	65	126	78
Tajikistan	155	153	80	167
Tanzania	104	141	58	93
Thailand	89	104	93	66
Timor-Leste	62	35	161	22
Togo	138	150	99	111
Tonga	24	65	53	17
Trinidad and Tobago	45	121	24	39
Tunisia	148	136	96	147
Turkey	54	35	79	96
Uganda	55	93	85	33
Ukraine	177	176	176	145
United Arab Emirates	4	31	2	3
United Kingdom	12	10	22	52
United States	76	21	122	102
Uruguay	131	150	117	79

Economy	Rankings			
	Ease of paying taxes	Tax payments	Time to comply	Total Tax Rate
Uzbekistan	159	177	65	170
Vanuatu	18	83	28	1
Venezuela	174	169	166	139
Vietnam	128	87	170	82
West Bank and Gaza	22	74	48	7
Yemen	84	87	89	83
Zambia	30	112	35	6
Zimbabwe	144	148	90	136

Appendix 1.2
Tax payments (number per year)

(Please see Section one 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	
Afghanistan	6	1	0	5	6
Albania	44	13	12	19	132
Algeria	33	4	13	16	93
Angola	31	4	12	15	83
Antigua and Barbuda	45	13	24	8	133
Argentina	19	1	1	17	46
Armenia	50	13	12	25	144
Australia	12	1	4	7	27
Austria	22	1	4	17	58
Azerbaijan	38	5	12	21	117
Bangladesh	17	2	0	15	42
Belarus	124	24	36	64	178
Belgium	11	1	2	8	24
Belize	41	12	12	17	122
Benin	55	5	24	26	156
Bhutan	19	2	12	5	46
Bolivia	41	1	12	28	122
Bosnia and Herzegovina	51	12	12	27	146
Botswana	19	6	0	13	46
Brazil	11	2	2	7	24
Brunei	15	1	12	2	35
Bulgaria	17	1	1	15	42
Burkina Faso	45	1	24	20	133
Burundi	32	1	16	15	87
Cambodia	27	12	0	15	74
Cameroon	41	13	12	16	122
Canada	9	2	3	4	15
Cape Verde	57	4	24	29	158

Economy	Number of payments				Rank
	Total tax payments	Corporate income tax payments	Labour tax payments	Other taxes payments	
Central African Republic	54	4	24	26	153
Chad	54	12	24	18	153
Chile	10	1	1	8	21
China	35	6	12	17	104
Colombia	69	2	48	19	168
Comoros	20	2	0	18	51
Congo, Dem. Rep.	32	1	16	15	87
Congo, Rep.	89	5	37	47	174
Costa Rica	43	5	12	26	131
Côte d'Ivoire	66	3	24	39	165
Croatia	28	1	12	15	77
Czech Republic	12	1	2	9	27
Denmark	9	3	1	5	15
Djibouti	35	5	12	18	104
Dominica	38	5	12	21	117
Dominican Republic	74	12	36	26	171
Ecuador	8	2	1	5	10
Egypt	36	1	12	23	110
El Salvador	66	14	36	16	165
Equatorial Guinea	45	1	24	20	133
Eritrea	18	2	0	16	45
Estonia	10	1	0	9	21
Ethiopia	20	2	0	18	51
Fiji	33	4	14	15	93
Finland	20	13	3	4	51
France	23	1	14	8	65
Gabon	28	1	12	15	77

Appendix 1
The data tables

Economy	Number of payments				Rank
	Total tax payments	Corporate income tax payments	Labour tax payments	Other taxes payments	
Gambia	50	6	25	19	144
Georgia	29	4	12	13	80
Germany	16	3	3	10	39
Ghana	32	5	12	15	87
Greece	21	1	12	8	54
Grenada	30	1	12	17	81
Guatemala	39	5	12	22	120
Guinea	56	2	36	18	157
Guinea-Bissau	46	5	12	29	136
Guyana	34	6	12	16	101
Haiti	53	2	36	15	150
Honduras	47	5	13	29	138
Hong Kong, China	4	1	1	2	3
Hungary	24	1	8	15	68
Iceland	31	1	14	16	83
India	60	2	28	30	162
Indonesia	51	13	24	14	146
Iran	22	1	12	9	58
Iraq	13	1	12	0	29
Ireland	9	1	1	7	15
Israel	33	2	12	19	93
Italy	15	2	1	12	35
Jamaica	72	4	48	20	170
Japan	13	2	2	9	29
Jordan	26	2	12	12	72
Kazakhstan	9	1	1	7	15
Kenya	41	5	14	22	122
Kiribati	7	5	2	0	7
Korea	48	1	37	10	141
Kuwait	14	2	12	0	31
Kyrgyz Republic	75	12	12	51	172
Lao PDR	34	4	12	18	101
Latvia	7	1	1	5	7
Lebanon	19	1	12	6	46
Lesotho	22	6	0	16	58
Liberia	37	4	12	21	112

Economy	Number of payments				Rank
	Total tax payments	Corporate income tax payments	Labour tax payments	Other taxes payments	
Lithuania	24	1	13	10	68
Luxembourg	22	2	12	8	58
Macedonia, FYR	52	12	24	16	148
Madagascar	26	2	8	16	72
Malawi	30	2	12	16	81
Malaysia	35	2	24	9	104
Maldives	1	0	0	1	1
Mali	58	3	36	19	159
Marshall Islands	21	0	16	5	54
Mauritania	38	1	13	24	117
Mauritius	7	1	1	5	7
Mexico	27	1	18	8	74
Micronesia	21	0	4	17	54
Moldova	49	5	16	28	143
Mongolia	42	12	12	18	128
Montenegro	88	12	48	28	173
Morocco	28	1	12	15	77
Mozambique	37	7	12	18	112
Namibia	37	3	12	22	112
Nepal	33	3	12	18	93
Netherlands	9	1	1	7	15
New Zealand	8	1	2	5	10
Nicaragua	64	13	24	27	164
Niger	42	3	13	26	128
Nigeria	35	3	14	18	104
Norway	4	1	1	2	3
Oman	14	1	12	1	31
Pakistan	47	5	25	17	138
Palau	19	0	12	7	46
Panama	59	1	24	34	160
Papua New Guinea	33	1	13	19	93
Paraguay	35	5	12	18	104
Peru	9	1	2	6	15
Philippines	47	1	36	10	138
Poland	41	12	1	28	122
Portugal	8	1	1	6	10

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Economy	Number of payments				Rank
	Total tax payments	Corporate income tax payments	Labour tax payments	Other taxes payments	
Puerto Rico	16	5	6	5	39
Romania	96	4	60	32	175
Russia	22	1	14	7	58
Rwanda	34	5	12	17	101
Samoa	37	5	24	8	112
São Tomé and Príncipe	41	2	12	27	122
Saudi Arabia	14	1	12	1	31
Senegal	59	3	36	20	160
Serbia	66	12	12	42	165
Seychelles	16	1	12	3	39
Sierra Leone	22	5	12	5	58
Singapore	5	1	1	3	5
Slovakia	31	1	12	18	83
Slovenia	22	1	12	9	58
Solomon Islands	33	5	12	16	93
South Africa	11	2	4	5	24
Spain	8	1	1	6	10
Sri Lanka	62	5	24	33	163
St. Kitts and Nevis	24	4	12	8	68
St. Lucia	32	1	12	19	87
St. Vincent and the Grenadines	36	4	12	20	110
Sudan	42	2	12	28	128
Suriname	17	4	0	13	42
Swaziland	33	2	13	18	93
Sweden	2	1	0	1	2
Switzerland	24	2	15	7	68
Syria	21	1	13	7	54
Taiwan, China	23	3	3	17	65
Tajikistan	54	12	12	30	153
Tanzania	48	5	24	19	141
Thailand	35	3	13	19	104
Timor-Leste	15	1	0	14	35
Togo	53	5	25	23	150
Tonga	23	1	0	22	65

Economy	Number of payments				Rank
	Total tax payments	Corporate income tax payments	Labour tax payments	Other taxes payments	
Trinidad and Tobago	40	4	24	12	121
Tunisia	46	1	6	39	136
Turkey	15	1	1	13	35
Uganda	33	3	12	18	93
Ukraine	99	6	60	33	176
United Arab Emirates	14	0	12	2	31
United Kingdom	8	1	1	6	10
United States	10	3	3	4	21
Uruguay	53	1	24	28	150
Uzbekistan	118	16	12	90	177
Vanuatu	31	0	12	19	83
Venezuela	70	13	29	28	169
Vietnam	32	6	12	14	87
West Bank and Gaza	27	14	0	13	74
Yemen	32	1	12	19	87
Zambia	37	5	13	19	112
Zimbabwe	52	7	14	31	148

Appendix 1.3
Time to comply (hours per year)

(Please see Section one 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	155	120	0	110
Albania	240	120	96	24	87
Algeria	451	152	189	110	152
Angola	272	80	96	96	107
Antigua and Barbuda	184	48	136	0	63
Argentina	615	135	240	240	159
Armenia	1120	160	480	480	172
Australia	107	35	18	54	23
Austria	170	49	55	67	57
Azerbaijan	952	148	202	602	169
Bangladesh	400	160	0	240	141
Belarus	1188	960	180	48	174
Belgium	156	20	40	96	49
Belize	147	27	60	60	46
Benin	270	30	120	120	99
Bhutan	274	250	24	0	109
Bolivia	1080	120	480	480	171
Bosnia and Herzegovina	368	80	96	192	135
Botswana	140	40	40	60	39
Brazil	2600	736	491	1374	177
Brunei	144	66	78	0	45
Bulgaria	616	40	288	288	160
Burkina Faso	270	30	120	120	99
Burundi	140	80	48	12	39
Cambodia	137	23	48	66	38
Cameroon	1400	500	700	200	175
Canada	119	47	36	36	27
Cape Verde	100	16	36	48	18

Economy	Hours				Rank
	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	
Central African Republic	504	24	240	240	154
Chad	122	50	36	36	30
Chile	316	42	137	137	121
China	872	200	288	384	167
Colombia	268	40	102	126	96
Comoros	100	4	48	48	18
Congo, Dem. Rep.	308	116	96	96	119
Congo, Rep.	606	275	150	181	158
Costa Rica	402	18	192	192	142
Côte d'Ivoire	270	30	120	120	99
Croatia	196	60	96	40	65
Czech Republic	930	150	420	360	168
Denmark	135	25	70	40	37
Djibouti	114	30	36	48	24
Dominica	147	15	48	84	46
Dominican Republic	286	22	120	144	112
Ecuador	600	60	300	240	157
Egypt	711	112	311	288	165
El Salvador	224	32	96	96	80
Equatorial Guinea	212	80	96	36	75
Eritrea	216	24	96	96	76
Estonia	81	20	34	27	15
Ethiopia	198	150	24	24	68
Fiji	140	20	60	60	39
Finland	269	21	200	48	98
France	132	26	80	26	36
Gabon	272	80	96	96	107

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Economy	Hours				Rank
	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	
Gambia	376	40	96	240	138
Georgia	387	140	67	180	139
Germany	196	30	123	43	65
Ghana	304	16	96	192	117
Greece	264	88	88	88	93
Grenada	140	8	96	36	39
Guatemala	344	44	144	156	129
Guinea	416	32	192	192	145
Guinea-Bissau	208	160	24	24	74
Guyana	288	48	48	192	113
Haiti	160	40	72	48	51
Honduras	424	40	192	192	147
Hong Kong, China	80	50	30	0	13
Hungary	340	39	203	98	126
Iceland	140	40	60	40	39
India	271	47	96	128	105
Indonesia	266	88	97	81	95
Iran	292	16	240	36	115
Iraq	312	24	288	0	120
Ireland	76	10	36	30	9
Israel	230	110	60	60	83
Italy	360	24	320	16	134
Jamaica	414	30	336	48	144
Japan	350	175	140	35	131
Jordan	101	5	60	36	20
Kazakhstan	271	105	74	92	105
Kenya	432	60	72	300	150
Kiribati	120	24	96	0	28
Korea	290	120	120	50	114
Kuwait	118	70	48	0	26
Kyrgyz Republic	202	60	71	71	70
Lao PDR	672	96	288	288	162
Latvia	219	31	105	83	78
Lebanon	180	40	100	40	60
Lesotho	342	22	140	180	128
Liberia	158	57	59	42	50

Economy	Hours				Rank
	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	
Lithuania	166	32	76	58	54
Luxembourg	58	21	14	23	4
Macedonia, FYR	96	30	36	30	17
Madagascar	238	16	96	126	86
Malawi	370	100	240	30	136
Malaysia	166	30	106	30	54
Maldives	0	0	0	0	1
Mali	270	30	120	120	99
Marshall Islands	128	0	96	32	32
Mauritania	696	120	96	480	163
Mauritius	161	13	100	48	52
Mexico	552	264	96	192	155
Micronesia	128	0	96	32	32
Moldova	218	86	72	60	77
Mongolia	204	60	72	72	72
Montenegro	372	43	136	193	137
Morocco	358	70	48	240	133
Mozambique	230	50	60	120	83
Namibia ¹					
Nepal	408	120	96	192	143
Netherlands	180	40	80	60	60
New Zealand	70	25	30	15	7
Nicaragua	240	80	80	80	87
Niger	270	30	120	120	99
Nigeria	1120	480	480	160	172
Norway	87	24	15	48	16
Oman	62	50	12	0	5
Pakistan	560	40	40	480	156
Palau	128	0	96	32	32
Panama	482	50	180	252	153
Papua New Guinea	206	153	9	45	73
Paraguay	328	40	144	144	123
Peru	424	40	192	192	147
Philippines	195	37	38	120	64
Poland	418	89	228	101	146
Portugal	328	40	192	96	123

¹Data missing

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The data tables

Economy	Hours				Rank
	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	
Puerto Rico	140	80	60	0	39
Romania	202	32	110	60	70
Russia	448	160	96	192	151
Rwanda	168	24	48	96	56
Samoa	224	80	96	48	80
São Tomé and Príncipe	424	40	192	192	147
Saudi Arabia	79	20	59	0	12
Senegal	696	120	96	480	163
Serbia	279	48	106	125	111
Seychelles	76	40	36	0	9
Sierra Leone	399	15	192	192	140
Singapore	49	30	10	9	3
Slovakia	344	80	120	144	129
Slovenia	260	90	96	74	92
Solomon Islands	80	8	30	42	13
South Africa	350	150	150	50	131
Spain	298	36	134	129	116
Sri Lanka	256	16	96	144	90
St. Kitts and Nevis	172	48	124	0	58
St. Lucia	71	11	60	0	8
St. Vincent and the Grenadines	76	16	60	0	9
Sudan	180	70	70	40	60
Suriname	199	127	24	48	69
Swaziland	104	8	48	48	21
Sweden	122	50	36	36	30
Switzerland	63	15	40	8	6
Syria	336	300	36	0	125
Taiwan, China	340	240	52	48	126
Tajikistan	224	80	48	96	80
Tanzania	172	60	60	52	58
Thailand	264	160	48	56	93
Timor-Leste	640	480	160	0	161
Togo	270	30	120	120	99
Tonga	164	8	12	144	53

Economy	Hours				Rank
	Total tax time	Corporate income tax time	Labour tax time	Consumption tax time	
Trinidad and Tobago	114	30	60	24	24
Tunisia	268	136	36	96	96
Turkey	223	46	80	97	79
Uganda	237	45	96	96	85
Ukraine	2085	421	732	932	176
United Arab Emirates	12	0	12	0	2
United Kingdom	105	25	45	35	22
United States	325	200	100	25	122
Uruguay	304	100	96	108	117
Uzbekistan	196	32	56	108	65
Vanuatu	120	0	24	96	28
Venezuela	864	120	360	384	166
Vietnam	1050	350	400	300	170
West Bank and Gaza	154	10	96	48	48
Yemen	248	56	72	120	89
Zambia	132	48	24	60	35
Zimbabwe	256	90	96	70	90

Appendix 1.4
Total Tax Rate (% of commercial profits)

(Please see Section one 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	
Afghanistan	35.5%	0.0%	0.0%	35.5%	51
Albania	46.8%	17.7%	24.5%	4.6%	105
Algeria	72.6%	8.8%	28.0%	35.7%	160
Angola	53.2%	24.6%	9.0%	19.5%	138
Antigua and Barbuda	46.8%	31.2%	9.5%	6.2%	106
Argentina	112.9%	6.0%	29.4%	77.5%	172
Armenia	36.6%	12.1%	23.4%	1.1%	56
Australia	50.6%	26.9%	22.2%	1.5%	122
Austria	54.6%	15.1%	34.5%	5.0%	142
Azerbaijan	40.9%	13.8%	24.8%	2.3%	81
Bangladesh	39.5%	30.3%	0.0%	9.2%	74
Belarus	144.4%	12.4%	44.1%	87.9%	173
Belgium	64.3%	5.4%	57.1%	1.8%	154
Belize	30.8%	21.6%	7.0%	2.2%	26
Benin	73.3%	16.7%	32.7%	23.9%	162
Bhutan	39.8%	34.2%	1.1%	4.4%	75
Bolivia	78.1%	0.0%	15.5%	62.7%	165
Bosnia and Herzegovina	44.1%	21.5%	17.2%	5.4%	90
Botswana	17.2%	17.0%	0.0%	0.2%	8
Brazil	69.2%	21.1%	40.6%	7.5%	158
Brunei	37.4%	31.8%	5.6%	0.0%	64
Bulgaria	36.7%	6.6%	26.6%	3.5%	59
Burkina Faso	48.9%	19.0%	22.6%	7.4%	117
Burundi	278.7%	17.7%	7.8%	253.3%	177
Cambodia	22.6%	19.1%	0.0%	3.5%	13
Cameroon	51.9%	28.7%	18.3%	4.9%	132
Canada	45.9%	26.0%	12.3%	7.6%	99
Cape Verde	54.0%	22.0%	18.5%	13.5%	140

Economy	Total Tax Rate				Rank
	TTR	Corporate income tax TTR	Labour tax TTR	Other taxes TTR	
Central African Republic	203.8%	176.8%	8.1%	18.9%	174
Chad	63.7%	31.3%	23.9%	8.5%	152
Chile	25.9%	18.3%	3.8%	3.8%	18
China	73.9%	19.9%	46.0%	8.0%	163
Colombia	82.4%	24.7%	32.7%	25.0%	168
Comoros	48.8%	27.2%	0.0%	21.6%	116
Congo, Dem. Rep.	229.8%	0.0%	7.9%	221.9%	175
Congo, Rep.	65.4%	0.0%	32.9%	32.6%	156
Costa Rica	55.7%	19.8%	29.3%	6.6%	144
Côte d'Ivoire	45.4%	9.7%	20.1%	15.7%	98
Croatia	32.5%	11.4%	19.4%	1.7%	34
Czech Republic	48.6%	5.9%	39.5%	3.2%	115
Denmark	33.3%	28.0%	2.5%	2.7%	40
Djibouti	38.7%	17.7%	17.7%	3.3%	71
Dominica	37.1%	26.1%	7.9%	3.1%	61
Dominican Republic	40.2%	28.6%	9.5%	2.0%	77
Ecuador	35.3%	18.8%	13.7%	2.8%	46
Egypt	47.9%	13.2%	28.8%	5.8%	110
El Salvador	33.8%	16.0%	17.2%	0.6%	42
Equatorial Guinea	62.2%	16.6%	25.4%	20.2%	150
Eritrea	84.5%	8.8%	0.0%	75.8%	169
Estonia	49.2%	9.3%	38.3%	1.6%	118
Ethiopia	31.1%	26.8%	0.0%	4.3%	28
Fiji	38.5%	28.2%	10.2%	0.2%	69
Finland	47.8%	17.0%	29.7%	1.0%	109
France	66.3%	8.3%	52.1%	5.8%	157
Gabon	44.2%	19.7%	22.7%	1.8%	91

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Economy	Total Tax Rate				Rank
	TTR	Corporate income tax TTR	Labour tax TTR	Other taxes TTR	TTR Rank
Gambia	286.7%	41.4%	12.9%	232.4%	178
Georgia	38.6%	14.1%	22.6%	2.0%	70
Germany	50.8%	21.6%	21.7%	7.5%	124
Ghana	32.9%	18.4%	14.1%	0.4%	38
Greece	48.6%	15.1%	31.7%	1.9%	114
Grenada	45.3%	27.6%	5.6%	12.1%	97
Guatemala	37.5%	2.6%	14.3%	20.6%	65
Guinea	49.9%	21.8%	17.3%	10.7%	120
Guinea-Bissau	45.9%	14.9%	24.8%	6.1%	100
Guyana	39.0%	26.9%	8.8%	3.3%	72
Haiti	40.0%	23.3%	12.4%	4.3%	76
Honduras	51.4%	29.6%	10.7%	11.1%	129
Hong Kong, China	24.4%	18.6%	5.3%	0.6%	15
Hungary	55.1%	7.9%	39.4%	7.9%	143
Iceland	27.2%	8.4%	13.4%	5.4%	20
India	70.6%	19.6%	18.4%	32.5%	159
Indonesia	37.3%	26.6%	10.6%	0.1%	63
Iran	47.4%	18.4%	25.9%	3.0%	108
Iraq	24.7%	11.1%	13.5%	0.0%	16
Ireland	28.9%	14.2%	12.1%	2.6%	23
Israel	36.0%	27.7%	5.9%	2.4%	55
Italy	76.2%	30.8%	43.2%	2.2%	164
Jamaica	51.3%	28.6%	13.0%	9.7%	128
Japan	52.0%	33.2%	14.5%	4.4%	133
Jordan	31.1%	15.1%	12.4%	3.6%	27
Kazakhstan	36.7%	16.1%	17.8%	2.9%	58
Kenya	50.9%	32.5%	6.8%	11.6%	125
Kiribati	31.8%	23.4%	8.5%	0.0%	31
Korea	34.9%	18.3%	11.4%	5.2%	44
Kuwait	14.4%	3.7%	10.7%	0.0%	4
Kyrgyz Republic	61.4%	3.0%	23.7%	34.7%	148
Lao PDR	35.5%	27.0%	5.6%	2.9%	50
Latvia	32.6%	2.2%	27.2%	3.3%	37
Lebanon	35.4%	11.4%	24.1%	0.0%	49
Lesotho	20.8%	17.6%	0.0%	3.3%	10
Liberia	81.6%	0.0%	5.4%	76.3%	166

Economy	Total Tax Rate				Rank
	TTR	Corporate income tax TTR	Labour tax TTR	Other taxes TTR	TTR Rank
Lithuania	48.3%	8.3%	35.2%	4.9%	112
Luxembourg	35.3%	16.7%	16.7%	1.9%	47
Macedonia, FYR	49.8%	13.1%	33.2%	3.5%	119
Madagascar	46.5%	23.4%	20.3%	2.8%	103
Malawi	32.2%	30.4%	1.1%	0.7%	32
Malaysia	36.0%	19.1%	15.6%	1.4%	54
Maldives	9.1%	0.0%	0.0%	9.1%	2
Mali	51.4%	13.3%	31.5%	6.7%	130
Marshall Islands	64.9%	0.0%	11.8%	53.0%	155
Mauritania	107.5%	0.0%	17.6%	89.9%	171
Mauritius	21.7%	10.8%	3.6%	7.3%	12
Mexico	51.2%	22.4%	26.9%	1.9%	127
Micronesia	58.7%	0.0%	6.8%	52.0%	146
Moldova	44.0%	10.5%	31.6%	1.9%	89
Mongolia	38.4%	14.8%	22.6%	1.1%	68
Montenegro	31.6%	9.3%	20.0%	2.3%	30
Morocco	53.1%	29.7%	21.5%	1.8%	137
Mozambique	34.3%	27.7%	4.5%	2.1%	43
Namibia	26.5%	18.5%	0.0%	8.0%	19
Nepal	32.5%	20.0%	11.3%	1.3%	35
Netherlands	43.4%	26.0%	15.8%	1.6%	88
New Zealand	35.1%	32.1%	2.4%	0.6%	45
Nicaragua	63.2%	24.8%	19.2%	19.2%	151
Niger	42.4%	14.8%	19.6%	8.0%	87
Nigeria	29.9%	19.4%	9.7%	0.7%	25
Norway	42.0%	24.9%	15.9%	1.3%	86
Oman	21.6%	9.7%	11.8%	0.1%	11
Pakistan	40.7%	25.8%	12.6%	2.3%	80
Palau	73.0%	0.0%	6.5%	66.5%	161
Panama	50.8%	18.4%	20.9%	11.5%	123
Papua New Guinea	41.7%	22.2%	10.9%	8.6%	85
Paraguay	35.3%	9.7%	18.6%	7.0%	48
Peru	41.5%	27.4%	11.8%	2.3%	84
Philippines	52.8%	25.3%	10.0%	17.6%	135
Poland	38.4%	12.7%	23.6%	2.1%	67
Portugal	44.8%	15.2%	26.8%	2.8%	94

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Economy	Total Tax Rate				Rank
	TTR	Corporate income tax TTR	Labour tax TTR	Other taxes TTR	TTR Rank
Puerto Rico	44.3%	12.4%	12.6%	19.3%	92
Romania	46.9%	10.4%	34.4%	2.1%	107
Russia	51.4%	14.0%	31.8%	5.7%	131
Rwanda	33.8%	20.2%	5.7%	7.9%	41
Samoa	19.8%	12.8%	7.0%	0.0%	9
São Tomé and Príncipe	51.0%	36.9%	6.8%	7.4%	126
Saudi Arabia	14.5%	2.1%	12.4%	0.0%	5
Senegal	46.0%	14.8%	24.1%	7.0%	101
Serbia	35.8%	11.7%	20.2%	3.9%	53
Seychelles	48.4%	22.4%	25.4%	0.5%	113
Sierra Leone	233.5%	0.0%	11.3%	222.2%	176
Singapore	23.2%	6.3%	14.1%	2.8%	14
Slovakia	50.5%	9.0%	39.7%	1.8%	121
Slovenia	39.2%	14.3%	22.0%	2.9%	73
Solomon Islands	32.6%	21.2%	8.5%	3.0%	36
South Africa	37.1%	24.2%	4.3%	8.6%	62
Spain	62.0%	23.7%	37.6%	0.8%	149
Sri Lanka	63.7%	26.5%	16.9%	20.4%	153
St. Kitts and Nevis	52.6%	32.7%	11.3%	8.6%	134
St. Lucia	36.9%	27.8%	5.6%	3.5%	60
St. Vincent and the Grenadines	45.0%	37.6%	3.9%	3.4%	95
Sudan	31.6%	9.3%	19.2%	3.1%	29
Suriname	27.9%	27.9%	0.0%	0.0%	21
Swaziland	36.6%	28.1%	4.0%	4.5%	57
Sweden	54.5%	16.5%	36.4%	1.7%	141
Switzerland	29.1%	8.4%	17.2%	3.6%	24
Syria	46.7%	26.2%	19.3%	1.3%	104
Taiwan, China	40.6%	19.4%	17.0%	4.2%	78
Tajikistan	82.2%	17.7%	28.2%	36.3%	167
Tanzania	44.3%	20.2%	18.0%	6.1%	93
Thailand	37.7%	28.6%	5.7%	3.5%	66
Timor-Leste	28.3%	27.8%	0.0%	0.6%	22
Togo	48.2%	13.2%	28.3%	6.6%	111
Tonga	25.0%	23.8%	0.0%	1.2%	17

Economy	Total Tax Rate				Rank
	TTR	Corporate income tax TTR	Labour tax TTR	Other taxes TTR	TTR Rank
Trinidad and Tobago	33.1%	21.6%	5.8%	5.8%	39
Tunisia	61.0%	13.9%	24.6%	22.5%	147
Turkey	45.1%	15.9%	24.5%	4.7%	96
Uganda	32.3%	15.7%	11.3%	5.3%	33
Ukraine	57.3%	12.2%	43.4%	1.8%	145
United Arab Emirates	14.4%	0.0%	14.1%	0.3%	3
United Kingdom	35.7%	21.3%	11.3%	3.2%	52
United States	46.2%	27.1%	9.6%	9.5%	102
Uruguay	40.7%	30.8%	6.9%	2.9%	79
Uzbekistan	96.3%	1.2%	28.2%	66.9%	170
Vanuatu	8.4%	0.0%	4.5%	3.9%	1
Venezuela	53.3%	12.2%	25.1%	16.0%	139
Vietnam	41.1%	21.5%	19.2%	0.3%	82
West Bank and Gaza	17.1%	16.4%	0.0%	0.6%	7
Yemen	41.4%	23.9%	10.2%	7.3%	83
Zambia	16.1%	1.7%	10.4%	4.0%	6
Zimbabwe	53.0%	9.3%	4.7%	39.0%	136

Appendix 2

Fundamental definitions and related issues

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 question to answer to ensure a solid base for comparison and analysis for those surveys. It is important to note here that the Paying Taxes data generated by the Doing Business report, and included in this publication, includes government-mandated contributions in addition, 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, and
- 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 must include a central, state or local authority. In many countries our 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.

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.

This then requires the return of value point 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 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 are not directly related to the receipt of any local government services. 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 countries 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 in Australia. This is a payment made by companies which is mandatory. It is called the superannuation guarantee obligation and is a payment equivalent to 9% 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 is explained further below, 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.

Mandatory contributions

The World Bank Paying Taxes indicator for tax cost aims to measure all taxes and contributions that are government mandated (at any level - federal, state or local), and which apply to and have an impact on the financial statements of a standardised business. In doing so, Doing Business includes more than just that which falls under the traditional definition of a tax: as defined for the purposes of government national accounts, (taxes which are compulsory, unrequited payments to general government) and which goes beyond taxes as defined by the PwC Total Tax Contribution methodology.

Doing Business differs from this definition because it aims to measure imposts that affect business accounts and the profitability of the company, not government accounts. The main differences are found in labour contributions where the Doing Business Paying Taxes measure includes government-mandated contributions, with the Australian example referred to above being a good example. Other countries, such as Bulgaria, also have such government mandated contributions that are included in its TTR.

Tim Cox from PricewaterhouseCoopers in Australia comments on the Australian tax system and in particular on the impact on their TTR of certain mandatory labour contributions.

“Australia has a mature and sophisticated tax system. Business taxes are levied by the Federal Government, eight states and territories, and numerous local governments. The total number of business taxes in Australia is over 50, although it is unlikely any company would be subject to all of these. The complexity of the system is impacted by the lack of harmonisation of state and territory taxes which makes compliance more difficult for companies operating across a range of states.

The most significant and complex tax is federal income tax, imposed at a rate of 30%. Companies can pass income tax paid as a franking credit to their shareholders.

In addition to the income and other business taxes borne by business, Australian business is responsible for the collection of a significant number, and amount, of taxes on behalf of government.

Australia’s tax ranking in the Paying Taxes study is significantly influenced by the calculation of its TTR. The TTR of 50.6% includes two items which, while not taxes, are included by the World Bank as they are mandatory contributions. It is interesting to note that if Superannuation Guarantee contributions (compulsory superannuation paid to independent funds of 9% of remuneration) and Workers Compensation (compulsory insurance premiums of approximately 5% of salary) were not included, Australia’s TTR would be 34.9%.”

PricewaterhouseCoopers Australia carried out a survey in 2006 to establish the taxes borne and collected by large companies doing business in Australia. The results showed an average TTR for these companies of 32%¹.

1 Tax Nation – Business taxes and the Federal – State divide. Published jointly by the Business Council of Australia, the Corporate Tax Association and PricewaterhouseCoopers in April 2007
<http://www.bca.com.au/Content.aspx?ContentID=101014>

Appendix 3

The PricewaterhouseCoopers Total Tax Contribution framework and developments in 2007

The PricewaterhouseCoopers Total Tax Contribution framework was developed to provide a methodology which enables companies to measure and communicate their tax contribution in a consistent and easily understandable manner – with a view to meeting the needs of various stakeholders and improving transparency. Governments are a key stakeholder in what taxes companies pay; generating total tax information is proving to be of great interest to them in terms of having access to data that is not otherwise available, so helping inform the process of policy formation and facilitating a more constructive conversation with business as part of this process.

Over the last two years, PricewaterhouseCoopers has actively engaged with business and a wide variety of these stakeholders, including governments in several countries, international organisations, professional associations, academics and non-governmental organisations. This has been undertaken with a view to securing a general understanding and consensus of the Total Tax Contribution concept and to take on board views and comments to ensure that we evolve the methodology to optimise how it can best be used.

The use of the methodology by the World Bank to generate the tax cost component (the TTR) and so provide a consistent way in which tax systems can be compared by reference to a case study company, is one way in which the Total Tax Contribution concept has been helpful. It has ensured that the full range of business taxes paid by businesses are considered rather than having a restricted focus on corporate income taxes which, as the survey shows, represent on average only 36% of the tax bill of our case study company overall.

The Total Tax Contribution framework is also being used extensively to generate empirical data on the tax contribution of companies. For example, in the UK a survey is undertaken each year with 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 one hundred companies on the London Stock Exchange FTSE index. The survey is now in its third year having focussed on taxes borne to start with, adding taxes collected in the second year and this year there will be significant additional information around

compliance time and cost, as our discussions with stakeholders have shown a strong interest in this data. Governments and business have a common interest in reducing complexity and the regulatory burden.

The survey achieves high participation with 78 companies providing data in 2006. Some key themes that have been reported from the Hundred Group surveys include¹:

- there are 21 taxes in the UK that companies pay in addition to corporate income tax;
- for every £1 of corporate income tax there is another £1 of tax borne by these companies;
- for every £1 of corporate income tax borne there is also a further £3.70 in taxes collected;
- taxes borne and collected are equivalent in size to around 18% of these companies' turnover; and
- taxes contributed by these companies to the UK Treasury increased by 16% between 2005 and 2006.

A similar survey was also undertaken in 2006 for the Business Council of Australia² and this attracted a high level of participation from large companies operating in Australia. Key messages were:

- Australia has a total of 56 taxes that companies pay. Some of these have different rules and separate filing obligations in the different state territories, multiplying up to 182 'taxing points'.
- 35 territory and local taxes accounted for only 17% of the taxes paid by this group of companies. This represents a great deal of complexity for very little tax take.
- On average, each company surveyed had the equivalent of nine full time employees dealing with compliance with Australian taxes.

1 Total Tax Contribution. PricewaterhouseCoopers 2006 survey for The Hundred Group. Published: January 2007. <http://www.pwc.com/extweb/insights.nsf/docid/B390366E619FF2D4802572ED0054F5B5>

2 Tax Nation – Business taxes and the Federal – State divide. Published jointly by the Business Council of Australia, the Corporate Tax Association and PricewaterhouseCoopers in April 2007 <http://www.bca.com.au/Content.aspx?ContentID=101014>

The survey results stimulated a discussion between government and business in Australia on the shape of the tax system.

Empirical work is underway elsewhere and we hope results from a number of countries will be published next year. These studies generate useful empirical data and it is interesting to see how the results compare with the Paying Taxes study. The empirical data from real companies supplements the results of the Paying Taxes study, as it reflects realities and complexities that cannot be encompassed within the case study company.

The Total Tax Contribution framework also provides certain indicators to put the amount of tax payments into context and encourages companies to be more transparent in their tax reporting.

Increased interest in tax from different types of stakeholders gives rise to a need for a methodology to increase transparency around the total amount of tax that companies contribute.

With this in mind, in May 2007, PricewaterhouseCoopers UK published a discussion paper suggesting a further framework to help companies improve their communications on tax³. 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.

PricewaterhouseCoopers does not advocate a change to financial accounting standards. Rather, it is hoped to stimulate a discussion on a subject which is rapidly climbing the investor and boardroom agendas. This debate will show the benefits of transparency on tax

and encourage more companies to say more about their total tax contribution. We welcome comments and suggestions on the framework.

The process of developing the Total Tax Contribution framework is a dynamic one and requires continued efforts to ensure that the momentum is maintained around transparency and that best practice is continually updated. PricewaterhouseCoopers is committed to this process and will update readers on progress in future editions of this report⁴.

3 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>

4 Tax Transparency framework. A review of the tax communications of the UK's largest listed companies. Published November 2007. <http://www.pwc.com/extweb/insights.nsf/docid/B390366E619FF2D4802572ED0054F5B5>

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The Total Tax Rate included in the survey by the World Bank has been calculated using the broad principles of the PricewaterhouseCoopers methodology. The application of these principles by the World Bank has not been verified, validated or audited by PricewaterhouseCoopers. Therefore, PricewaterhouseCoopers cannot make any representations or warranties with regard to the accuracy of the information generated by the World Bank's models.

The World Bank's 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 framework.

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