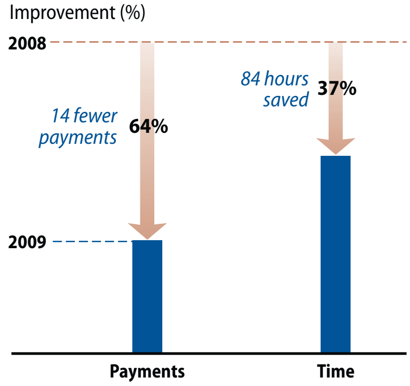
Starting a business
Dealing with construction permits
Registering property
Getting credit
Protecting investors

Paying taxes

Trading across borders
Enforcing contracts
Closing a business

FIGURE 8.1
Entrepreneurs in Tunisia benefit from e-system for paying taxes



Who improved the most in paying taxes?

1. *Tunisia*
2. *Cape Verde*
3. *São Tomé and Principe*
4. *Canada*
5. *Macedonia, FYR*
6. *Bulgaria*
7. *China*
8. *Hungary*
9. *Taiwan, China*
10. *Netherlands*

Source: Doing Business database.

For Carolina, who owns and manages a Colombian-based retail business, paying taxes has become easier in the past few years. In 2004 she had to make 69 payments of 13 different types of taxes and spend 57 days (456 hours), almost 3 months, to comply with tax regulations.[1] Today, thanks to new electronic systems to pay social security contributions, she needs to make only 20 payments and spend 26 days (208 hours) a year on the same task. But high tax rates mean that her firm still has to pay about 78.7% of profit in taxes. Juliana, the owner of a juice processing factory in Uganda, faces a different environment. She makes 32 payments cutting across 16 tax regimes and spends about 20 days (161 hours) a year on compliance. She has to pay only 35.7% of her profit in taxes. But that's not all. Recent evidence suggests that in dealing with government authorities, female-owned businesses in Uganda are forced to pay significantly more bribes and are at greater risk of harassment than male-owned businesses.[2]

Some economies treat women differently by law. Côte d'Ivoire is an example. There, married women can pay 5 times as much personal income tax as their husbands do on the same amount of income. Three other economies also impose higher taxes on women—Burkina Faso, Indonesia and Lebanon. But Israel, Korea and Singapore impose lower taxes on women, to encourage them to enter the workforce. Explicit gender bias in the tax law can affect women's decision to work in the formal sector and report their income for tax purposes.[3] Reforms that simplify tax administration and make it easier for everyone—individuals and firms—to pay taxes can also remove gender biases.

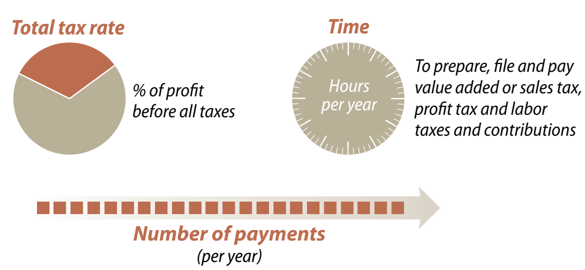
Taxes are essential. In most economies the tax system is the primary source of funding for a wide range of social and economic programs. How much revenue these economies need to raise through taxes will depend on several factors, including the government's capacity to raise revenue in other ways, such as rents on natural resources. Besides paying for public goods and services, taxes also provide a means of redistributing income, including to children, the aged and the unemployed. But the level of tax rates needs to be carefully chosen. Recent firm surveys in 123 economies show that companies consider tax rates to be among the top 4 constraints to their business.[4] The economic and financial crisis has caused fiscal constraints for many economies, yet many are still choosing to lower tax rates on businesses. Seventeen reduced profit tax rates in 2009/10. Canada, Germany and Singapore implemented tax cuts in 2009 to help businesses cope with economic slowdown.[5]

TABLE 8.1
Where is paying taxes easy—and where not?

Easiest	RANK	Most difficult	RANK
Maldives	1	Jamaica	174
Qatar	2	Panama	175
Hong Kong SAR, China	3	Gambia, The	176
		Bolivia	177
Singapore	4	Venezuela, RB	178
United Arab Emirates	5	Chad	179
		Congo, Rep.	180
Saudi Arabia	6	Ukraine	181
Ireland	7	Central African Republic	182
Oman	8		
Kuwait	9	Belarus	183
Canada	10		

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

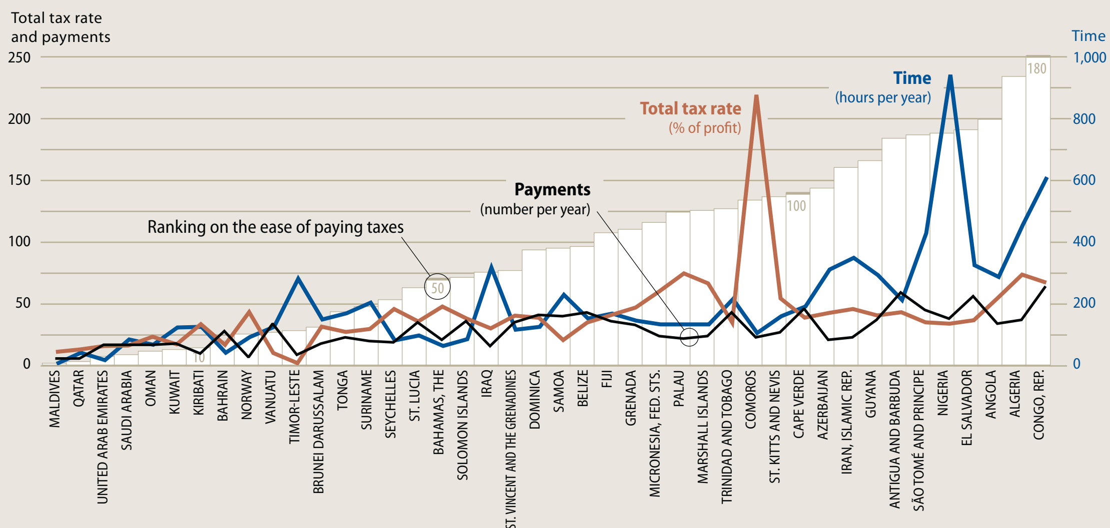
FIGURE 8.2
What are the time, total tax rate and number of payments necessary for a local medium-sized company to pay all taxes?



BOX 8.1
Does an economy's size or resource wealth matter for the ease of paying taxes?

Some economies, especially small ones, rely on 1 or 2 sectors to generate most government revenue. This enables them to function with a narrower tax base than would be possible in larger, more diverse economies. Maldives and Kiribati, for example, choose to tax mainly hotels and tourism, sectors not captured by the *Doing Business* indicators, which focus on manufacturing. Other economies, such as Qatar, the United Arab Emirates, Saudi Arabia and Oman, are resource-rich economies that raise most public revenue through means other than taxation.

Among both resource-rich economies and small island developing states there is great variation in rankings on the ease of paying taxes (see figure).[1] Differences in applicable tax rates account for some of the variation. But so do differences in the administrative burden. Among resource-rich economies the total tax rate ranges from as low as 11% of profit in Qatar to as high as 72% in Algeria. Among small economies the total tax rate averages around 38%. The administrative burden of paying taxes varies just as dramatically—being small or obtaining revenue from resources does not always make taxation administratively easy. To comply with profit, consumption and labor taxes can take as little as 12 hours a year in the United Arab Emirates and 58 in The Bahamas—and as much as 424 hours in São Tomé and Principe and 938 in Nigeria.



1. Resource-rich economies analyzed are those where fiscal revenues from hydrocarbons and minerals account for more than 50% of the total (based on International Monetary Fund estimates).

Keeping tax rates at a reasonable level can be important for encouraging the development of the private sector and the formalization of businesses. This is particularly relevant for small and medium-size enterprises, which contribute to job creation and growth but do not add significantly to tax revenue.[6] Taxation largely bypasses the informal sector, and overtaxing a shrinking formal sector leads to resentment and greater tax avoidance. Decisions on whom to tax and at what part of the business cycle can be influenced by many different factors that go beyond the scope of this study.

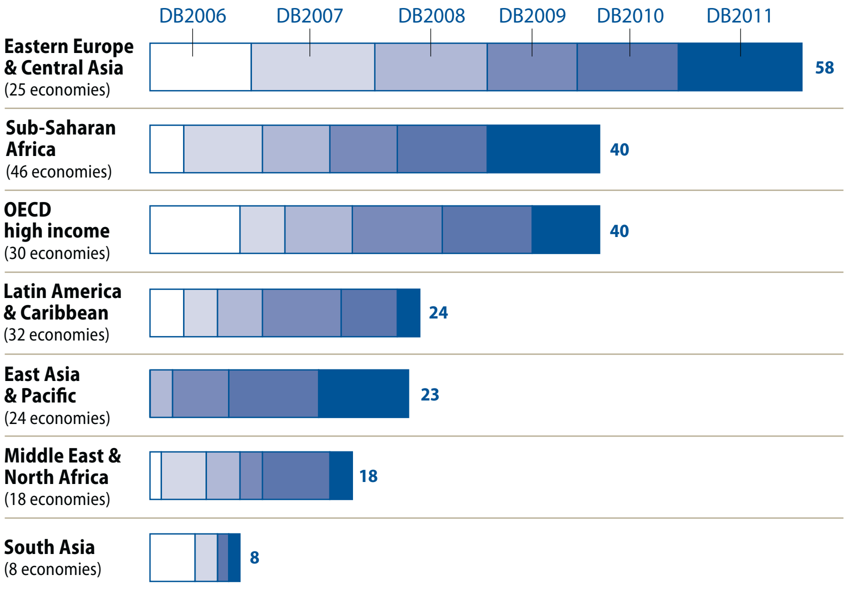
Tax revenue also depends on governments' administrative capacity to collect taxes and firms' willingness to comply. Compliance with tax laws is important to keep the system working for all and to support the programs and services that improve lives. Keeping rules as simple and clear as possible is undoubtedly helpful to taxpayers. Overly complicated tax systems risk high evasion. High tax compliance costs are associated with larger informal sectors, more corruption and less investment. Economies with well-designed tax systems are able to help the growth of businesses and, ultimately, the growth of overall investment and employment.[7]

Doing Business addresses these concerns with 3 indicators: payments, time and the total tax rate borne by a standard firm with 60 employees in a given year. The number of payments indicator measures the frequency with which the company has to file and pay different types of taxes and contributions, adjusted for the way in which those payments are made. The time indicator captures the number of hours it takes to prepare, file and pay 3 major types of taxes: profit taxes, consumption taxes and labor taxes and mandatory contributions. The total tax rate measures the tax cost borne by the standard firm (figure 8.2).[8]

With these indicators, *Doing Business* compares tax systems and tracks tax reforms around the world from the perspective of local businesses, covering both the direct cost of taxes and the administrative burden of complying with them. It does not measure the fiscal health of economies, the macroeconomic conditions under which governments collect revenue or the provision of public services supported by taxation.

The top 10 economies on the ease of paying taxes represent a range of revenue models, each with different implications for the tax burden of a domestic medium-size business (table 8.1). The top 10 include several economies that are small or

FIGURE 8.3
Tax reforms implemented by more than 60% of economies in the past 6 years
Number of *Doing Business* reforms making it easier to pay taxes by *Doing Business* report year



Note: A *Doing Business* reform is counted as 1 reform per reforming economy per year. The data sample for DB2006 (2004) includes 174 economies. The sample for DB2011 (2009) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies.
Source: Doing Business database.

resource rich. But these characteristics do not necessarily matter for the administrative burden or total tax rate faced by businesses (box 8.1).

Also among the top 10, Hong Kong SAR (China), Singapore, Ireland and Canada apply a low tax cost, with total tax rates averaging less than 30% of profit. They also stand out for their low administrative burdens. They levy up to 9 different taxes on businesses, yet for a local business to comply with taxes takes only about 1 day a month and 6 payments. Electronic filing and payment and joint forms for multiple taxes are common practice among these 4 economies.

Tunisia, the economy that improved the ease of paying taxes the most in 2009/10, followed their example. It fully implemented electronic payment systems for corporate income tax and value added tax and broadened their use to most firms. The changes reduced the number of payments a year by 14 and compliance time by 84 hours.

Thirty-nine other economies also made it easier for businesses to pay taxes in 2009/10.[9] Governments continued to lower tax rates, broaden the tax base and make compliance easier so as to reduce costs for firms and encourage job creation. As in previous years, the most popular measure was to reduce profit tax rates.

WHAT ARE THE TRENDS?

In the past 6 years more than 60% of the economies covered by *Doing Business* made paying taxes easier or lowered the tax burden for local enterprises (figure 8.3). Globally on average, firms spend 35 days (282 hours) a year complying with 30 tax payments. A comparison with global averages in 2004 shows that payments have been reduced by 4 and compliance time by 5 days (39 hours).[10] Companies in high-income economies have it easiest. On average, they spend 22 days (172 hours) on 15 tax payments a year. Businesses in low-income economies continue to face the highest administrative burden (table 8.2). Globally on average, businesses pay 47.8% of commercial profit in taxes and mandatory contributions, 5.0 percentage points less than in 2004.

TAX COMPLIANCE BECOMING EASIER

Eleven economies in Eastern Europe and Central Asia simplified tax payment in the 6 years since 2004. Average compliance time for businesses fell by about 2 working weeks as a result. The momentum for change started building in Bulgaria and Latvia in 2005 and swept across the region to Azerbaijan, Turkey and Uzbekistan in 2006, Belarus and Ukraine in 2007, the Kyrgyz Republic and FYR Macedonia in 2008 and Albania and Montenegro in 2009. But the administrative burden generally remains high. Five of the region's economies rank among those with the highest number of payments globally (table 8.3).

Some Sub-Saharan African economies also focused on easing tax compliance. In 2010 Sierra Leone introduced administrative reforms at the tax authority and replaced 4 different sales taxes with a value added tax. In the past 5 years 7 other economies—Burkina Faso, Cameroon, Cape Verde, Ghana, Madagascar, South Africa and Sudan—reduced the number of payments by eliminating, merging or reducing the frequency of filings and payments. Mozambique, São Tomé and Principe, Sierra Leone, Sudan and Zambia revamped existing tax codes or enacted new ones in the past 6 years.

TABLE 8.2
Administrative burden lowest in high-income economies

Income group	Payments (number per year)	Time (hours per year)	Total tax rate (% of profit)
Low	38	295	71.0
Lower middle	35	359	40.3
Upper middle	31	272	43.4
High	15	172	38.8
Average	30	282	47.8

Source: Doing Business database.

TABLE 8.3

Who makes paying taxes easy and who does not—and where is the total tax rate highest and lowest?

Payments *(number per year)*			
Fewest		**Most**	
Sweden	2	Sri Lanka	62
Hong Kong SAR, China	3	Côte d'Ivoire	64
Maldives	3	Nicaragua	64
Qatar	3	Serbia	66
Norway	4	Venezuela, RB	70
Singapore	5	Jamaica	72
Mexico	6	Montenegro	77
Timor-Leste	6	Belarus	82
Kiribati	7	Romania	113
Mauritius	7	Ukraine	135
Time *(hours per year)*			
Fastest		**Slowest**	
Maldives	0	Ukraine	657
United Arab Emirates	12	Senegal	666
Bahrain	36	Mauritania	696
Qatar	36	Chad	732
Bahamas, The	58	Belarus	798
Luxembourg	59	Venezuela, RB	864
Oman	62	Nigeria	938
Switzerland	63	Vietnam	941
Ireland	76	Bolivia	1,080
Seychelles	76	Brazil	2,600
Total tax rate *(% of profit)*			
Lowest		**Highest**	
Timor-Leste	0.2	Eritrea	84.5
Vanuatu	8.4	Tajikistan	86.0
Maldives	9.3	Uzbekistan	95.6
Namibia	9.6	Argentina	108.2
Macedonia, FYR	10.6	Burundi	153.4
Qatar	11.3	Central African Republic	203.8
United Arab Emirates	14.1	Comoros	217.9
Saudi Arabia	14.5	Sierra Leone	235.6
Bahrain	15.0	Gambia, The	292.3
Georgia	15.3	Congo, Dem. Rep.	339.7

Note: The indicator on payments is adjusted for the possibility of electronic or joint filing and payment when used by the majority of firms in an economy. See Data notes for more details.
Source: Doing Business database.

Firms in OECD high-income economies have the lowest administrative burden. Businesses in these economies spend on average 25 days a year complying with 14 tax payments. All but 2, the Slovak Republic and Switzerland, have fully implemented electronic filing and payment for firms. Between 2006 and 2009 the Czech Republic, Finland, Greece, the Netherlands, Poland and Spain mandated or enhanced electronic filing or simplified the process of paying taxes, reducing compliance time by 13 days (101 hours) on average.

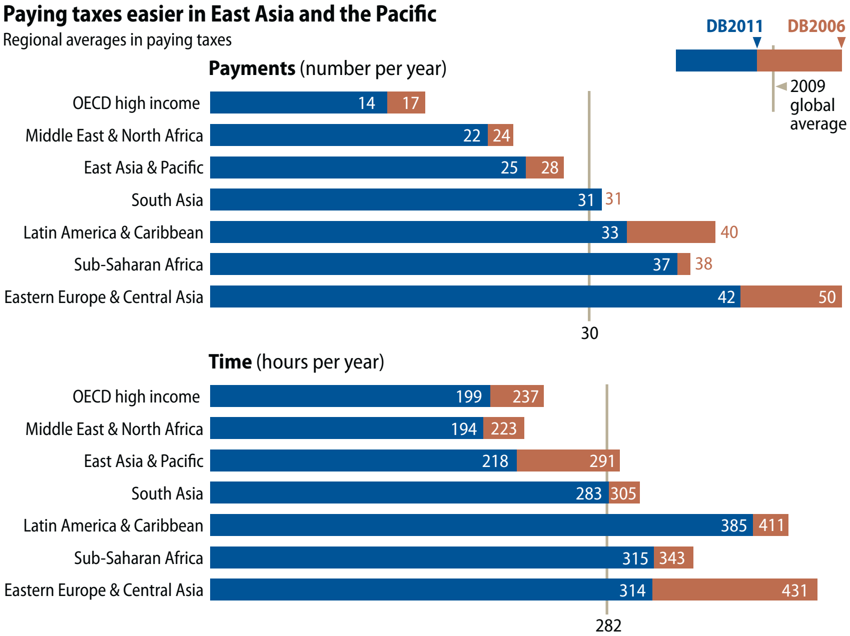
In the Middle East and North Africa businesses must comply with only 22 payments a year on average, the second lowest among regions. Yet there is great variation, with up to 44 payments in the Republic of Yemen and as few as 3 payments in Qatar. In 2009/10 only 2 tax reforms were recorded, in Jordan and Tunisia.

In Latin America and the Caribbean firms continue to spend substantial time paying taxes—385 hours a year on average. They have to make an average of 33 payments a year (figure 8.4). Thankfully, many economies in the region have simplified the process of paying taxes since 2004, saving businesses an average of 3 days a year. Still, only 12 of the region's 32 economies offer electronic filing and payment for firms. Colombia, the Dominican Republic, Guatemala, Honduras, Mexico and Peru have introduced online filing and payment systems since 2004, eliminating the need for 25 separate tax payments a year and reducing compliance time by 11 days (83 hours) on average. The boldest measures: since 2004 Colombia has reduced the number of payments by 49 and compliance time by 248 hours, the Dominican Republic has cut payments by 65 and time by 156 hours, and Mexico has reduced the number of payments by 21 and the time to comply with them by 148 hours. And these economies continue work to further reduce the administrative burden for firms.

Economies in East Asia and the Pacific have reduced compliance time since 2004 by about 8 business days, the most after Eastern Europe and Central Asia. Most recently, Lao PDR consolidated the filings for business turnover tax and excise tax as well as personal income tax withholding in a single tax return. Businesses now spend 25 fewer days a year complying with tax laws. China unified accounting methods and expanded the use of electronic tax filing and payment systems in 2007, saving firms 368 hours and 26 payments a year. In 2008 and 2009 China unified criteria for corporate income tax deduction and shifted from a production-oriented value added system to a consumption-oriented one, saving firms another 106 hours a year. Brunei Darussalam, Malaysia, Taiwan (China) and Thailand introduced or enhanced electronic systems in the past 6 years.

In South Asia payments and compliance time changed little overall. In 2009/10 *Doing Business* recorded only 1 tax reform—in India, which abolished fringe benefit tax and enhanced electronic filing.

FIGURE 8.4
Paying taxes easier in East Asia and the Pacific
Regional averages in paying taxes



Note: The data sample for DB2006 (2004) includes 174 economies. The sample for DB2011 (2009) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies.
Source: Doing Business database.

TOTAL TAX RATES BECOMING LOWER

When considering the burden of taxes on business, it is important to look at all the taxes that companies pay. These may include labor taxes and mandatory contributions paid by employers, sales tax, property tax and other smaller taxes such as property transfer tax, dividend tax, capital gains tax, financial transactions tax, waste collection tax and vehicle and road tax. In 7 economies around the world, taxes and mandatory contributions add up to more than 100% of assumed profit, ranging from 108.2% to 339.7%. *Doing Business* assumes that the standard firm in its tax case study has a fixed gross profit margin of 20%. Where the indicator shows that taxes exceed profit, the company has to earn a gross profit margin in excess of 20% to pay its taxes. Corporate income tax is only one of many taxes with which the company has to comply. The total tax rate for most economies is between 30% and 50% of profit.

Economies in Eastern Europe and Central Asia have implemented the most reforms affecting the paying taxes indicators since 2004, with 23 of the region's 25 economies implementing 58 such reforms. The most popular feature in the past 6 years was lowering profit tax rates (done by 19 economies). The changes reduced the average total tax rate in the region by 13.1 percentage points (figure 8.5).

In the past year economies in Sub-Saharan Africa implemented almost a quarter of all reforms affecting the paying taxes indicators, a record for the region compared with previous years. In the past 6 years the most popular feature in the region was reducing profit tax rates (28 reforms). The reductions lowered the average total tax rate for the region by 2.7 percentage points. But profit tax, just one of many taxes for businesses in Africa, accounts for only a third of the total tax paid. Firms in the region still face the highest average total tax rate in the world, 68% of profit.

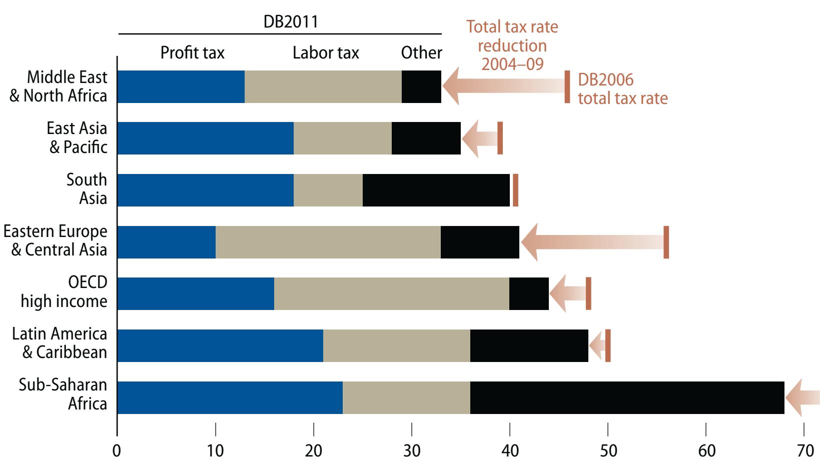
Firms in OECD high-income economies pay 43.0% of profit in taxes on average. Nineteen of these economies lowered profit tax rates in the past 6 years. And more changes are on the horizon. Australia, Finland and the United Kingdom have announced major reforms of their tax systems in the next few years.[11]

The average total tax rate in the Middle East and North Africa, at 32.8% of profit, is the lowest in the world—thanks in part to tax reforms reducing it by 10.8 percentage points since 2004. Algeria, Djibouti, Egypt, Morocco, Syria, Tunisia, West Bank and Gaza and the Republic of Yemen have all lowered profit tax rates, abolished taxes or replaced cascading taxes.

The average total tax rate for Latin America and the Caribbean is the second highest, amounting to 48% of profit. Seven economies, including Mexico, Paraguay and Uruguay, reduced tax rates in the past 6 years, lowering the region's total tax rate by 2.3 percentage points.

The total tax rate in East Asia and

FIGURE 8.5
Eastern Europe and Central Asia has biggest reduction in total tax rate
Total tax rate (% of profit)



Note: The data sample for DB2006 (2004) includes 174 economies. The sample for DB2011 (2009) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies.
Source: Doing Business database.

the Pacific is relatively low. At 35.4% of profit, it is the second lowest after that in the Middle East and North Africa. Still, 13 economies in the region reduced profit tax rates in the past 6 years, including China, Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Few economies in South Asia have made changes affecting the paying taxes indicators since 2004. Afghanistan, Bangladesh, India and Pakistan reduced profit tax rates, but the reductions had little effect on the region's average total tax rate.

TABLE 8.4
Good practices around the world in making it easy to pay taxes

Practice	*Economies*[a]	*Examples*
Allowing self-assessment	136	Botswana, Georgia, India, Malaysia, Oman, Peru, United Kingdom
Allowing electronic filing and payment	61	Australia, Dominican Republic, India, Lithuania, Singapore, South Africa, Tunisia
Having one tax per tax base	50	Afghanistan, Hong Kong SAR (China), FYR Macedonia, Morocco, Namibia, Paraguay, Sweden

a. Among 183 economies surveyed.
Source: Doing Business database.

WHAT HAS WORKED?

Worldwide, economies that make paying taxes easy for domestic firms typically offer electronic systems for tax filing and payment, have one tax per tax base and use a filing system based on self-assessment (table 8.4). They also focus on lower tax rates accompanied by wider tax bases.

OFFERING AN ELECTRONIC OPTION

Electronic filing and payment of taxes eliminates excessive paperwork and interaction with tax officers. Offered by 61 economies, this option can reduce the time businesses spend in complying with tax laws, increase tax compliance and reduce the cost of revenue administration. But this is possible only with effective implementation. Simple processes and high-quality security systems are needed.

In Tunisia, thanks to a now fully implemented electronic filing and payment system, businesses spend 37% less time complying with corporate income tax and value added tax. Azerbaijan introduced electronic systems and online payment for value added tax in 2007 and expanded them to property and land taxes in 2009. Belarus enhanced electronic filing and payment systems, reducing the compliance time for value added tax, corporate income tax and labor taxes by 14 days. The reverse happened in Uganda. There, compliance time has increased despite the introduction of an electronic system. Online forms were simply too complex.

KEEPING IT SIMPLE: ONE TAX BASE, ONE TAX

Multiple taxation—where the same tax base is subject to more than one tax treatment—makes efficient tax management challenging. It increases firms' cost of doing business as well as the government's cost of revenue administration and risks damaging investor confidence.

Fifty economies have one tax per tax base. Having more types of taxes requires more interaction between businesses and tax agencies. In Nigeria corporate income tax, education tax and information technology tax are all levied on a company's taxable income. In New York City taxes are levied at the municipal, state and federal levels. Each is calculated on a different tax base, so businesses must do 3 different calculations.

This is no longer the case in Ontario. The Canadian province harmonized its corporate income tax base with the federal one. And the Canada Revenue Agency now administers Ontario's corporate capital tax and corporate minimum tax. Starting with the 2009 tax year, Ontario businesses have been able to make combined payments and file a single corporate tax return.

Brazil also aims to simplify a system that requires businesses to interact with 3 levels of government. In 2010 it introduced a new system of digital bookkeeping (Sistema Público de Escrituração Digitalor, or SPED) to integrate federal, state and municipal tax agencies. The successful implementation of SPED will ease the administrative burden of complying with taxes in Brazil by reducing the number of tax payments and possibly the time for compliance.

TABLE 8.5
Major cuts in corporate income tax rates in 2009/10

Region	Reduction in corporate income tax rate (%)	Year effective
Sub-Saharan Africa	Burkina Faso from 30 to 27.5	2010
	Republic of Congo from 38 to 36	2010
	Madagascar from 25 to 23	2010
	Niger from 35 to 30	2010
	São Tomé and Principe from 30 to 25	2009
	Seychelles from progressive 0–40 to 25–33	2010
	Zimbabwe from 30 to 25	2010
Eastern Europe & Central Asia	Azerbaijan from 22 to 20	2010
	Lithuania from 20 to 15	2010
	FYR Macedonia from 10 to 0 (for undistributed profits)	2009
	Tajikistan from 25 to 15	2009
East Asia & Pacific	Brunei Darussalam from 23.5 to 22	2010
	Indonesia from 28 to 25	2009
	Taiwan (China) from 25 to 17	2010
	Tonga from progressive 15–30 to 25	2009
Latin America & Caribbean	Panama from 30 to 25	2010

Source: Doing Business database.

TABLE 8.6
Who made paying taxes easier and lowered the tax burden in 2009/10—and what did they do?

	Feature	*Economies*	*Some highlights*
Easing compliance	Merged or eliminated taxes other than profit tax	Belarus, Bosnia and Herzegovina, Burkina Faso, Cape Verde, Hong Kong SAR (China), Hungary, India, Jordan, Montenegro, Slovenia, República Bolivariana de Venezuela	Cape Verde eliminated all stamp duties.
	Simplified tax compliance process	Azerbaijan, Belarus, Canada, China, Czech Republic, FYR Macedonia, Montenegro, Netherlands, Sierra Leone, Taiwan (China), Ukraine, Zimbabwe	The Netherlands made value added tax filings and payments quarterly and eased profit tax calculations. Belarus changed from monthly to quarterly payments for several taxes.
	Introduced or enhanced electronic systems	Albania, Azerbaijan, Belarus, Brunei Darussalam, India, Jordan, Tunisia, Ukraine	A big increase in online filing in Azerbaijan reduced the time for filing and the number of payments.
Reducing tax rates	Reduced profit tax rate by 2 percentage points or more	Azerbaijan, Brunei Darussalam, Burkina Faso, Republic of Congo, Indonesia, Lithuania, FYR Macedonia, Madagascar, Niger, Panama, São Tomé and Principe, Seychelles, Taiwan (China), Tajikistan, Thailand, Tonga, Zimbabwe	Burkina Faso reduced the profit tax rate from 30% to 27.5% and merged 3 taxes. Niger lowered the rate from 35% to 30%. Lithuania reversed an increase (from 15% to 20%) made the previous year.
	Reduced labor taxes and mandatory contributions	Albania, Bosnia and Herzegovina, Bulgaria, Canada, Hungary, Moldova, Portugal	Hungary reduced employers' social security contribution rate from 29% of gross salaries to 26%.
Introducing new systems	Introduced new or substantially revised tax law	Azerbaijan, Belarus, Hungary, Jordan, Panama, Portugal, São Tomé and Principe	Jordan's new tax law abolished certain taxes and reduced rates.
	Introduced change in cascading sales tax	Burundi, Lao PDR, Sierra Leone	Burundi introduced a value added tax in place of its transactions tax.

Source: Doing Business database.

TRUSTING THE TAXPAYER

Voluntary compliance and self-assessment have become a popular way to efficiently administer a country's tax system. Taxpayers are expected and trusted to determine their own liability under the law and pay the correct amount. With high rates of voluntary compliance, administrative costs are much lower and so is the burden of compliance actions.[12] Self-assessment systems also reduce the discretionary powers of tax officials and opportunities for corruption.[13] To be effective, however, self-assessment needs to be properly introduced and implemented, with transparent rules, penalties for noncompliance and established audit processes.

Of the 183 economies covered by *Doing Business*, 74% allow firms to calculate their own tax bills and file the returns. These include all economies in Eastern Europe and Central Asia and almost two-thirds in East Asia and the Pacific, the Middle East and North Africa and South Asia. Both taxpayers and revenue authorities can benefit. Malaysia shifted to a self-assessment system for businesses in stages starting in 2001. Taxpayer compliance increased, and so did revenue collection.[14]

WHAT ARE SOME RESULTS?

Franklin D. Roosevelt once said, "Taxes, after all, are the dues that we pay for the privileges of membership in an organized society."[15] There is no doubt about the need for and benefits of taxation. But how economies approach taxation for small and medium-size businesses varies substantially. More than 119 economies made their business tax systems more efficient and effective in the past 6 years—and have seen concrete results.

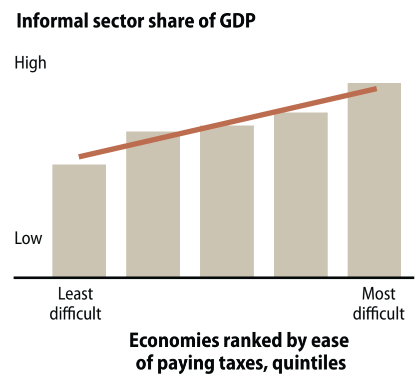
EASIER PROCESS, MORE REVENUE

Colombia introduced a new electronic system, PILA, that unified in one online payment all contributions to social security, the welfare security system and labor risk insurance. Its use became mandatory for all companies in 2007. By 2008 the number of companies registered to pay contributions through PILA had increased by 55%. The social security contributions collected that year from small and medium-size companies rose by 42%, to 550 billion pesos.

Mauritius implemented a major tax reform in 2006. It reduced the corporate income tax rate from 25% to 15% and removed exemptions and industry-specific allowances, such as its investment allowance and tax holidays for manufacturing. Authorities aimed to increase revenue by combining a low tax rate, a transparent system, a reinforced tax administration and efficient collection—and they did. In the 2007/08 fiscal year corporate income tax revenue grew by 27%, and in 2008/09 it increased by 65%.

FYR Macedonia has implemented major tax reforms for the past several years in a row. In 2007 it introduced a

FIGURE 8.6
Size of informal sector is associated with ease of paying taxes



Note: Relationships are significant at the 1% level and remain significant when controlling for income per capita.
Source: Doing Business database; Schneider and Buehn (2009).

new electronic tax service. In 2008 it amended the tax law to cut the profit tax rate from 15% to 10%. In 2009 it implemented a new, clearer Law on Contributions for Mandatory Social Security—and imposed the corporate income tax only on distributed profits. Despite the global downturn, the number of companies registered as taxpayers in FYR Macedonia increased by 16% between 2008 and 2009.

In an effort to stimulate economic growth and create a more business-friendly environment, Korea reduced the corporate income tax rate from 25% to 22% in 2009 and plans to reduce it even further in future years. The revenue collected by the government in 2009 did not fall. Instead, the number of companies registered for corporate income tax increased by 7%—and the corporate income tax revenue by 11%.

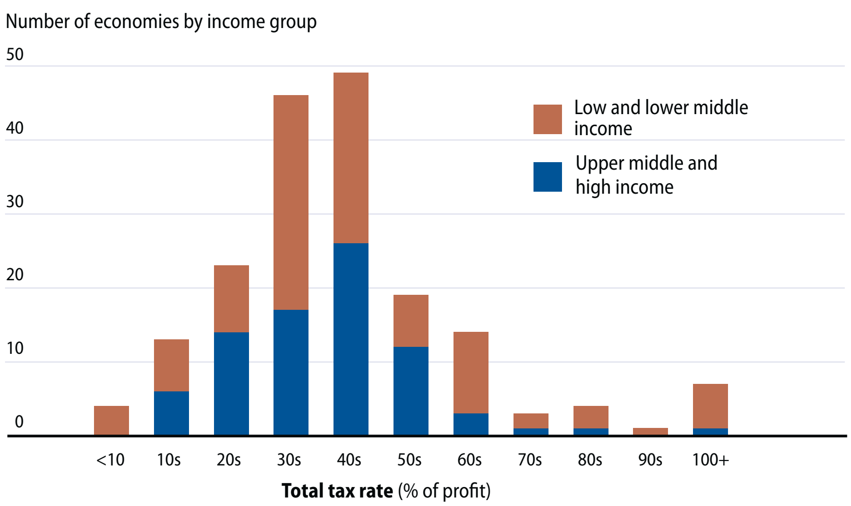
WHAT FIRMS VALUE

These results illustrate some of the benefits of more effective tax systems and appropriate tax rates. Recent research has found that in developing economies, where many firms are likely to be small and heavily involved in informal activity, reducing profit tax rates helps reduce informality and raise tax compliance, increasing growth and revenue.[16]

The size of the informal sector, which in many developing economies accounts for as much as half of GDP, can significantly affect the tax revenue collected as a percentage of GDP.[17] But the reverse is also true: the structure of the tax system and the perception of the quality of government services can affect the size of the informal sector in a country. Larger informal sectors as well as greater corruption are found where the majority of firms perceive taxes as not "worth paying" because of low-quality public goods and poor infrastructure. This view is supported by a recent survey of business and law students in Guatemala. Most participants believed that tax evasion was ethical where tax systems are unfair or corrupt and where government commits human rights abuses.[18] *Doing Business* data show that economies where it is more difficult and costly to pay taxes have larger shares of informal sector activity (figure 8.6).

Sensitivity to tax reforms is affected by firm size. Large firms are usually more directly affected by changes. But small firms have a higher tendency to be unregistered if tax rates are high, and tend to underreport income and size if higher incomes and bigger firms are taxed at a higher rate.[19] In Côte d'Ivoire, where firms must pay 44% of profit and make more than 64 payments a year to comply with 14 different taxes, a recent study finds that firms avoid growing in order to pay less tax.[20]

FIGURE 8.7
Total tax rates between 30% and 50% are most common



Source: Doing Business database.

1. Days refer to working days, calculated by assuming 8 working hours a day. Months are calculated by assuming 20 working days a month.
2. Ellis, Manuel and Blackden (2006).
3. World Bank (2010b).
4. Globally, companies ranked tax rates 4th among 16 obstacles to business in World Bank Enterprise Surveys in 2006–09 (http://www.enterprisesurveys.org).
5. Canada, as part of a plan to stimulate growth and restore confidence, reduced the general corporate tax rate to 19% as of January 1, 2009. In Germany a stimulus package adopted in November 2008 introduced declining balance depreciation at 25% for movable assets for 2 years and temporarily expanded special depreciation allowances for small and medium-size enterprises. A second stimulus package, approved in February 2009, provided further tax cuts. In January 2009 Singapore's Ministry of Finance announced a $15 billion "resilience package" to help businesses and workers and reduced the corporate income tax rate from 18% to 17%.
6. International Tax Dialogue (2007).
7. Djankov and others (2010).
8. The company has 60 employees and start-up capital of 102 times income per capita.
9. This year's report records all reforms with an impact on the paying taxes indicators between June 2009 and May 2010. Because the case study underlying the paying taxes indicators refers to the financial year ending December 31, 2009, reforms on the paying taxes indicators implemented between January 2010 and May 2010 are recorded in this year's report, but the impact will be reflected in the data in next year's report.
10. The comparison of global averages refers to the 174 economies included in *Doing Business 2006*. Additional economies were added in subsequent years.
11. Australia intends to reduce the corporate income tax rate from 30% to 29% from July 1, 2013, and then to 28% from July 1, 2014. In Finland an initial proposal includes reducing the corporate income tax rate from 26% to 22% and increasing the standard value added tax rate of 22% by 2 percentage points. In the United Kingdom the emergency budget for 2010–11 calls for reducing the corporation tax rate to 27% for the 2011 financial year and then, through cuts over the next 4 years, to 24%. It also calls for

reducing the small company tax rate to 20% and increasing the standard value added tax rate from 17.5% to 20%.

12. Ricard (2008).
13. Imam and Davina (2007).
14. bin Haji Ridzuan (2006).
15. Address delivered at Worcester, Mass., October 21, 1936. John T. Woolley and Gerhard Peters, *The American Presidency Project*, http://www.presidency.ucsb.edu/.
16. Hibbs and Piculescu (2010).
17. Gordon and Li (2009).
18. McGee and Lingle (2008).
19. OECD (2008).
20. Klapper and Richmond (2010).