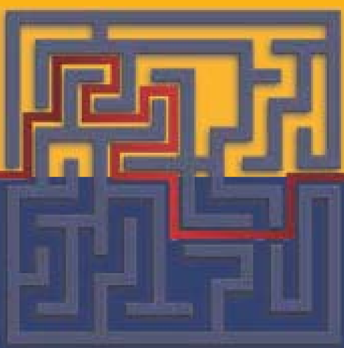


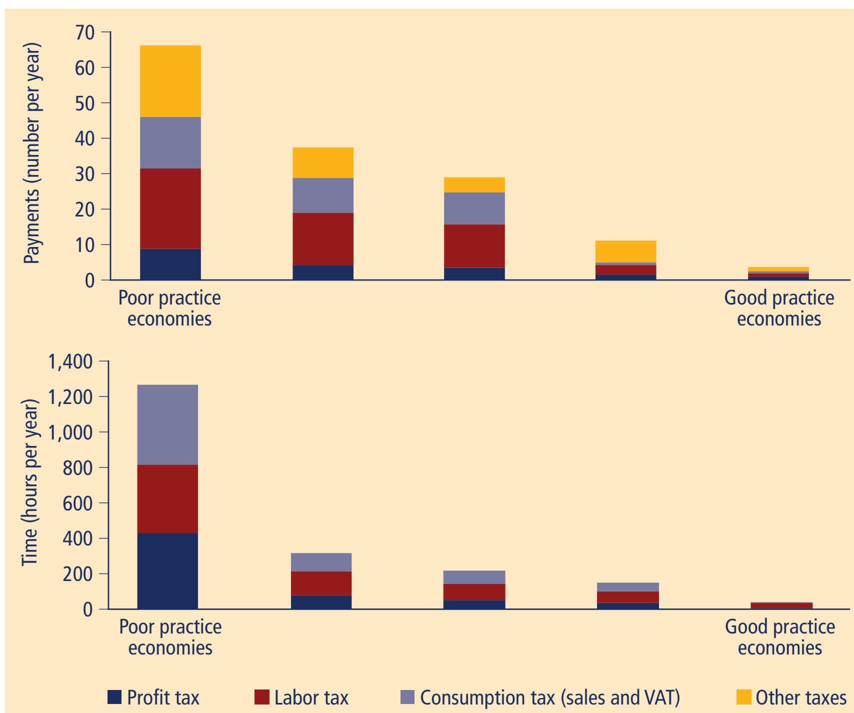
Paying taxes

- Between June 2012 and June 2013 *Doing Business* recorded 32 reforms making it easier or less costly for companies to pay taxes—and since 2009 has recorded 189.
- Guatemala made the biggest improvement in the ease of paying taxes in the past year.
- Belarus has advanced the most toward the frontier in regulatory practice in paying taxes since 2008.
- The most common feature of tax reforms in the past 5 years was to reduce profit tax rates, often in the context of parallel efforts to improve tax compliance. But in the past 3 years more economies focused on introducing or improving electronic systems.
- Among regions, Europe and Central Asia made the biggest improvement in the ease of paying taxes over the past 5 years.

For more information on good practices and research related to paying taxes, visit http://www.doingbusiness.org/data/exploretopics/paying-taxes. For more on the methodology, see the section on paying taxes in the data notes.

Russian cosmonaut Pavel Vinogradov, an International Space Station crew member, has become the first person ever to pay taxes from space. Pavel paid his land tax using the Russian Federation's Sberbank online banking system.[1] Revenue authorities around the world are continuously making great efforts to streamline administrative processes and modernize payment systems. Today firms can file tax returns electronically in 76 of the 189 economies covered by *Doing Business*—from the taxpayer's home, library, workplace or, as Russia shows, even from space.

FIGURE 16.1 Labor taxes and mandatory contributions account for a large share of the tax payments in many economies



Note: Poor practice economies are the 5 lowest-ranked economies on the ease of paying taxes. The second column represents the 5 economies ranked from 140 to 144 on the ease of paying taxes. The third column represents the 5 economies ranked from 93 to 97. The fourth column represents the 5 economies ranked from 45 to 49. Good practice economies are the 5 top-ranked economies. *Profit tax* refers to taxes levied on taxable income or capital gains. *Labor tax* refers to all labor taxes and mandatory contributions levied on gross salaries, net salaries or number of employees. *Consumption tax* refers to value added tax (VAT) and sales tax for which the statutory incidence does not fall on the firm. *Other taxes* refers to all other taxes except labor, profit and consumption taxes, such as property taxes, vehicle taxes, interest taxes and municipal fees. *Doing Business* measures only the time to comply with 3 major taxes: profit tax, labor tax and consumption tax.
Source: Doing Business database.

Doing Business records the taxes and mandatory contributions that a standard medium-size firm must pay in a given year and measures the administrative burden of paying taxes and contributions.[2] It does so using 3 indicators: number of payments, time and total tax rate. The number of payments indicates the frequency with which the company has to file and pay different types of taxes and contributions, adjusted for the manner in which those filings and payments are made.[3] 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 amount of taxes and mandatory contributions borne by the standard firm (as a percentage of commercial profit).[4] These indicators do not take into account the fiscal health of economies, the macroeconomic conditions under which governments collect revenue or the public services supported by taxation. Rankings on the ease of paying taxes are simple averages of the percentile rankings of its component indicators, with a threshold applied to the total tax rate.[5]

According to World Bank Enterprise Surveys covering 121 economies, in the majority of these economies businesses consider tax rates to be among the top 5 constraints to their business, and tax administration to be among the top 11.[6] Research has shown that high corporate tax rates are negatively associated with levels of corporate investment and entrepreneurship. Moreover, economies with high tax rates have larger informal sectors.[7] And corporate tax rates might be negatively correlated with economic growth.[8] Another study showed that a 1 percentage point increase in the total tax rate can be associated with a 3 percentage point increase in evasion.[9] Yet taxes are essential to raise revenues so that governments can fund social programs and public investments that promote economic growth and development.

Striking the right balance is therefore a great challenge for governments when designing tax policies. Whom to tax, by how much and how? One way to encourage compliance and have an effective tax system is to keep rules as clear and simple as possible. Thus it is important to measure both the level of tax rates and the administrative burden of compliance (figure 16.1). Overly complicated tax systems encourage evasion and are associated with larger informal sectors, more corruption and less investment.[10]

WHO REFORMED IN PAYING TAXES IN 2012/13?

Between June 2012 and June 2013 *Doing Business* recorded 32 reforms making it easier or less costly for firms to pay taxes (table 16.1). Europe and Central Asia recorded the most reforms easing compliance with tax obligations (by 9 economies of 26), followed by Sub-Saharan Africa (8 of 47) and Latin America and the Caribbean (5 of 32). Eleven economies introduced or enhanced electronic filing, eliminating the need for 74 separate tax payments and reducing compliance time by almost 200 hours in total.

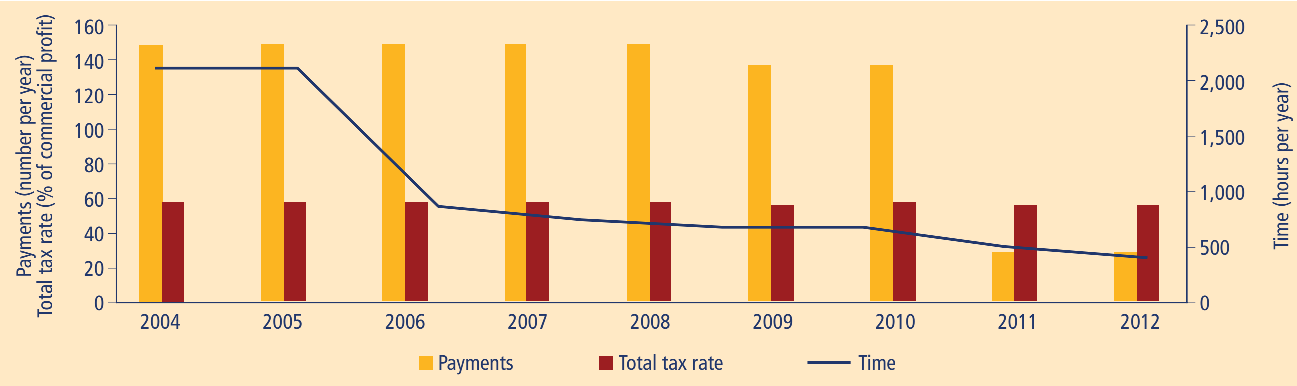
Guatemala improved the most on the ease of paying taxes in 2012/13. The Guatemalan tax authority in January 2012 launched its new online system, Declaraguate, for filing and paying all taxes (except labor taxes and mandatory contributions). The new system allows taxpayers to pay their taxes online without a need to sign a contract and open an account with a specific bank. In addition, Declaraguate has expanded the

TABLE 16.1 Who made paying taxes easier and lowered the tax burden in 2012/13—and what did they do?

Feature	Economies	Some highlights
Introduced or enhanced electronic systems	Croatia; Guatemala; FYR Macedonia; Madagascar; Maldives; Moldova; Morocco; Paraguay; Philippines; Rwanda; Sri Lanka	Rwanda introduced e-filing for corporate income tax, value added tax and labor contributions. The system was fully rolled out in 2012.
Reduced profit tax rate by 2 percentage points or more	Burundi; Gabon; Guyana; Jamaica; Lao PDR; Myanmar; Sweden; Tajikistan	The government of Sweden, in its 2013 budget statement, reduced the corporate income tax rate from 26.3% to 22% for 2013.
Merged or eliminated taxes other than profit tax	Armenia; Burkina Faso; Republic of Congo; Iceland; South Africa; Tajikistan; Uzbekistan	Tajikistan merged the minimal income tax with the corporate income tax and abolished the retail sales tax.
Decreased number of tax filings or payments	Albania; Panama; Romania	Panama changed the payment frequency for corporate income taxes from monthly to quarterly.
Reduced labor taxes and mandatory contributions	Republic of Congo; Thailand	Thailand decreased employers' social security contribution rate from 5% in 2011 to 3% for January–June 2012 and 4% for July–December 2012.
Simplified tax compliance process	Qatar; Ukraine	Qatar relaxed the disclosure requirements accompanying the corporate income tax return for entities 100% owned by Qatari or Gulf Cooperation Council nationals.
Introduced change in cascading sales tax	The Gambia	The Gambia replaced the sales tax with the value added tax, now set at 15%.

Source: Doing Business database.

FIGURE 16.2 Ukraine has systematically reduced the time to comply with tax obligations



Source: Doing Business database.

electronic filing and payment option to such taxes as the solidarity tax. An electronic system for generation, transmission, validation and payment of social security contributions has been available since 2009, through the online platform administered by the Guatemalan Social Security Institute, and by 2012 this payment method had been picked up by the majority of medium-size businesses. This reduced the number of payments from 21 to 7 and the time to comply with tax obligations by 6 hours as measured by *Doing Business*.

Twelve economies implemented other measures to ease compliance with tax obligations. Three economies (Albania, Panama and Romania) lowered the number of tax filings or payments. In Albania and Panama corporate income taxes are now paid quarterly rather than monthly. Seven economies merged or eliminated some types of taxes (Armenia, Burkina Faso, the Republic of Congo, Iceland, South Africa, Tajikistan and Uzbekistan). Two other economies, Qatar and Ukraine, simplified tax returns. Ukraine simplified the corporate income tax, VAT and social security contribution reports filed by companies. In 2012 these efforts reduced the time to comply with Ukrainian tax regulations by 101 hours, from 491 to 390 hours (figure 16.2).

Eight economies reduced profit tax rates in 2012/13: 1 high-income economy (Sweden), 2 upper-middle-income ones (Gabon and Jamaica), 2 lower-middle-income ones (Guyana and the Lao People's Democratic Republic) and 3 low-income ones (Burundi, Myanmar and Tajikistan). Reductions in profit tax rates are often combined with efforts to widen the tax base by eliminating exemptions and with increases in the rates of other taxes, such as the VAT.

In 2012/13 some economies increased the tax burden for small and medium-size firms. Eight increased profit or income taxes (the Arab Republic of Egypt, El Salvador, Greece, Senegal, Serbia, the Slovak Republic, South Sudan and Togo). Four increased labor taxes and mandatory contributions (the Democratic Republic of Congo, Côte d'Ivoire, Tonga and Vietnam). And Bosnia and Herzegovina, Fiji, Mauritania, the Seychelles and Tonga introduced new taxes in the past year.

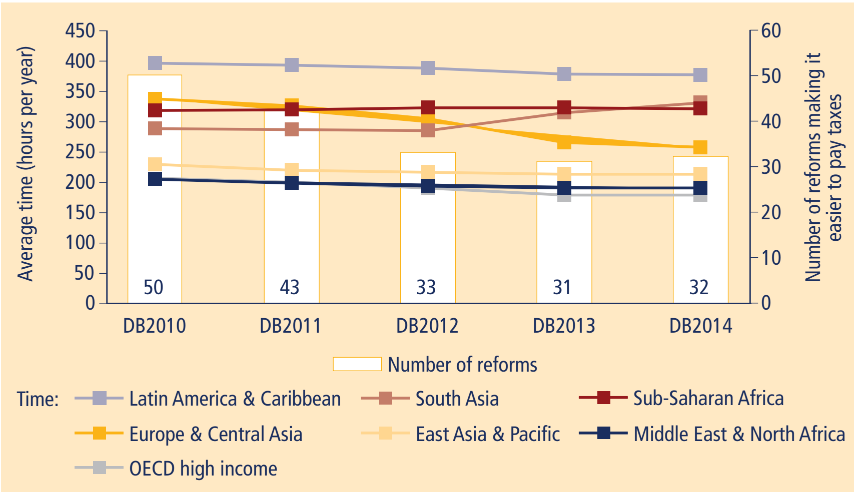
WHAT HAVE WE LEARNED FROM 5 YEARS OF DATA?

Since 2009 *Doing Business* has recorded 189 tax reforms in 114 economies. Of these reforms, 57 introduced or enhanced online filing systems. These and other improvements to simplify tax compliance reduced the time to comply with the 3 main taxes measured (profit, labor and consumption) by 20 hours on average, and the number of payments by 4. Europe and Central Asia had the biggest improvement, reducing the number of payments by 20 on average and the time by 80 hours (figure 16.3). Belarus has advanced the furthest toward the frontier in regulatory practice in paying taxes in Europe and Central Asia and globally since 2008 (figure 16.4).

Besides easing the administrative burden of taxes, many economies also reduced tax rates, often from relatively high levels and with complementary efforts to improve tax compliance. Among regions, Sub-Saharan Africa had the largest reduction in the total tax rate: 17.5 percentage points on average since 2008. Some of this reduction came from the introduction of the VAT, which replaced the cascading sales tax.[11] Burundi, the Democratic Republic of Congo, Djibouti, The Gambia, Mozambique, Sierra Leone and Swaziland all introduced VAT systems. Some Sub-Saharan economies also lowered profit tax rates over the past 5 years, including Benin, Cape Verde, the Republic of Congo, The Gambia, Madagascar, Mali, Niger and Sudan. Over the same period, the biggest reduction in the share of profit taxes in the total tax rate occurred in East Asia and the Pacific, where it fell by 5.3 percentage points on average.

Electronic systems for filing and paying taxes, if implemented well and used by most taxpayers, benefit both tax authorities and firms. For tax authorities, e-filing lightens workloads and reduces operational costs such as for processing, handling and storing tax returns. At the same time, e-filing increases compliance with tax obligations and saves time.[12] By 2012, 76 economies had fully implemented electronic filing and payment of taxes.

FIGURE 16.3 Economies in Europe and Central Asia have decreased the time to comply with tax obligations the most since 2008



Note: To ensure accurate comparisons, the figure shows data for the same 183 economies for all years, from DB2010 (2008) to DB2014 (2012). The economies added to the *Doing Business* sample after DB2010 and so excluded here are Barbados, Libya, Malta, Myanmar, San Marino and South Sudan. This figure uses regional classifications for DB2014.
Source: Doing Business database.

Sub-Saharan economies face particularly difficult challenges with implementing electronic systems for filing and paying taxes. Rolling out new information and communication technologies, and then educating taxpayers and tax officials in their use, are not easy tasks for any government. But where citizens face limited broadband access, power shortages, slow network speeds and system failures, implementation is slow and the challenges are even greater.[13]

In 2012/13, however, electronic systems became more popular among taxpayers in Kenya, Madagascar, Rwanda and Uganda. The Kenya Revenue Authority began introducing an online filing system for VAT in 2009, and over the past 3 years use of the system picked up among taxpayers. Companies have reported improvements in the processing speed on the filing website, a major source of delay in previous years. The time required to comply with VAT has fallen from 340 hours to 308.

In Latin America and the Caribbean, economies including Colombia, Guatemala, Mexico, Paraguay and Uruguay have implemented electronic systems for filing and paying taxes over the past 5 years. In 2010 Colombia began requiring all companies with turnover equal to or above Col$500 million (about $262,885) to file and pay the corporate income tax and VAT through the Electronic Informatic Services provided by the National Tax Authority. In the same year, Colombia upgraded its electronic system, the MUISCA (Single Automated Model of Income, Services and Control) system, to ease e-filing and payment for the corporate income tax and VAT. As a result the time to comply with these tax obligations dropped by 15 hours, and the number of payments by 11.

In East Asia and the Pacific 7 of 25 economies have established electronic systems for filing and paying taxes: China;

FIGURE 16.4 Belarus has advanced the most toward the frontier in paying taxes since 2008

Note: The distance to frontier scores shown in the figure indicate how far each economy is from the best performance achieved by any economy on the paying taxes indicators since DB2006 (2004). The scores are normalized to range between 0 and 100, with 100 representing the frontier. The data refer to the 183 economies included in DB2010 (though for practical reasons the figure does not show all 183). Barbados, Libya, Malta, Myanmar, San Marino and South Sudan were added in subsequent years. The vertical bars show the improvement in the 20 economies advancing the most toward the frontier in paying taxes between 2008 and 2012.
Source: Doing Business database.

Hong Kong SAR, China; Malaysia; the Philippines; Singapore; Taiwan, China; and Thailand. In the past 5 years only Malaysia and the Philippines have further rolled out their electronic systems.

Similarly, economies in the Middle East and North Africa have been slow in picking up the pace on new technology for filing and paying taxes. Only 5 of 20 economies have implemented electronic systems for submitting tax declarations and paying taxes. These include Morocco, Saudi Arabia and the United Arab Emirates, which reformed in this area in the past 5 years.

In South Asia, India is the only economy (of 8) with a complete online system for filing and paying taxes. But in the past year Maldives and Sri Lanka have introduced online platforms for filing and paying labor contributions, easing the administrative burden for businesses of complying with labor regulations. Still, as of 2012 most companies were not taking advantage of the electronic payment options. Pakistan also has an established electronic system for filing and paying the corporate income tax and VAT, but uptake has been limited.

NOTES

This topic note was written by Valter Deperon, Michelle Hanf, Joanna Nasr, Nadia Novik and Nina Paustian.

1. Svetlana Kalmykova, "Taxmen Reach Agreement on Cooperation," *The Voice of Russia*, May 16, 2013. http://voiceofrussia.com/2013_05_16/Taxmen-reach-agreement-on-cooperation.
2. The case study company started operations on January 1, 2011. *Doing Business* measures all taxes and mandatory contributions that apply to the standardized business in its second year of operation, January 1–December 31, 2012.
3. Companies sometimes prefer more frequent payments to smooth cash flows.
4. Commercial profit is essentially net profit before all taxes borne. It differs from the conventional profit before tax, reported in financial statements. In computing profit before tax, many of the taxes borne by a firm are deductible. In computing commercial profit, these taxes are not deductible. Commercial profit is computed 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. Commercial profit amounts to 59.4 times income per capita.
5. The threshold is set at the 15th percentile of the total tax rate distribution, which in this year's report (for 2012) is 25.5%. All economies with a total tax rate below this level receive the same percentile ranking on this component. The threshold is not based on any economic theory of an "optimal tax rate" that minimizes distortions or maximizes efficiency in the tax system of an economy overall. Instead it is mainly empirical, set at the lower end of the distribution of tax rates levied on medium-size enterprises in the manufacturing sector as observed through the paying taxes indicators. This approach reduces the bias in the indicators toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized company because they raise revenue in other ways—for example, through taxes on foreign companies, taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology).
6. http://www.enterprisesurveys.org/.
7. Djankov and others 2010.
8. Lee and Gordon 2005.
9. Fisman and Wei 2004.
10. Djankov and others 2010.
11. The VAT is collected by firms and its cost is fully passed on to consumers. Because firms have to make the payments and spend time filling out returns, the VAT is included in the indicators on payments and time. But the amount of VAT paid is not included in the total tax rate. A cascading sales tax, which is paid at every point of the supply chain, is included in the total tax rate because firms cannot deduct the sales tax they pay on supplies from the amount they owe on sales. Economies introducing the VAT to replace the sales tax have therefore seen a reduction in their total tax rate.
12. Edwards-Dowe 2008.
13. For more information, see the case study on Malaysia.