

Ten years of in-depth analysis on tax systems in 189 economies. A look at recent developments and historical trends.

Paying Taxes 2016



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Chapter 2: PwC commentary

While there is increasing recognition of the contribution that businesses make to the societies in which they operate, and an appetite by businesses to show how they make this contribution through the various taxes that they pay and collect, there is still a need for tax systems to be as straightforward and efficient as possible.

In PwC's 18th Annual Global CEO Survey,²⁷ tax remains in the top five of the perceived issues for business, with seven in ten CEOs (70%) somewhat or extremely concerned about the increasing tax levied on their businesses. For many business leaders, the primary tax focus is still often corporate income taxes, but for the operation of a business, other taxes such as VAT, sales taxes, labour taxes and social contributions and sundry other taxes including property taxes and environmental levies can increase compliance time and have a significant impact on the bottom line.

Paying Taxes takes into account all of the different business taxes that affect our case study company, and in this section we comment on how the cost and compliance burden of these taxes have changed around the world both in the last year and over the period covered by the ten editions of *Paying Taxes*. We also include in-depth case studies for Azerbaijan, Mexico, Poland, Uruguay and Zambia.

²⁷ <http://www.pwc.com/gx/en/ceo-agenda/ceo-survey.html>



The global results

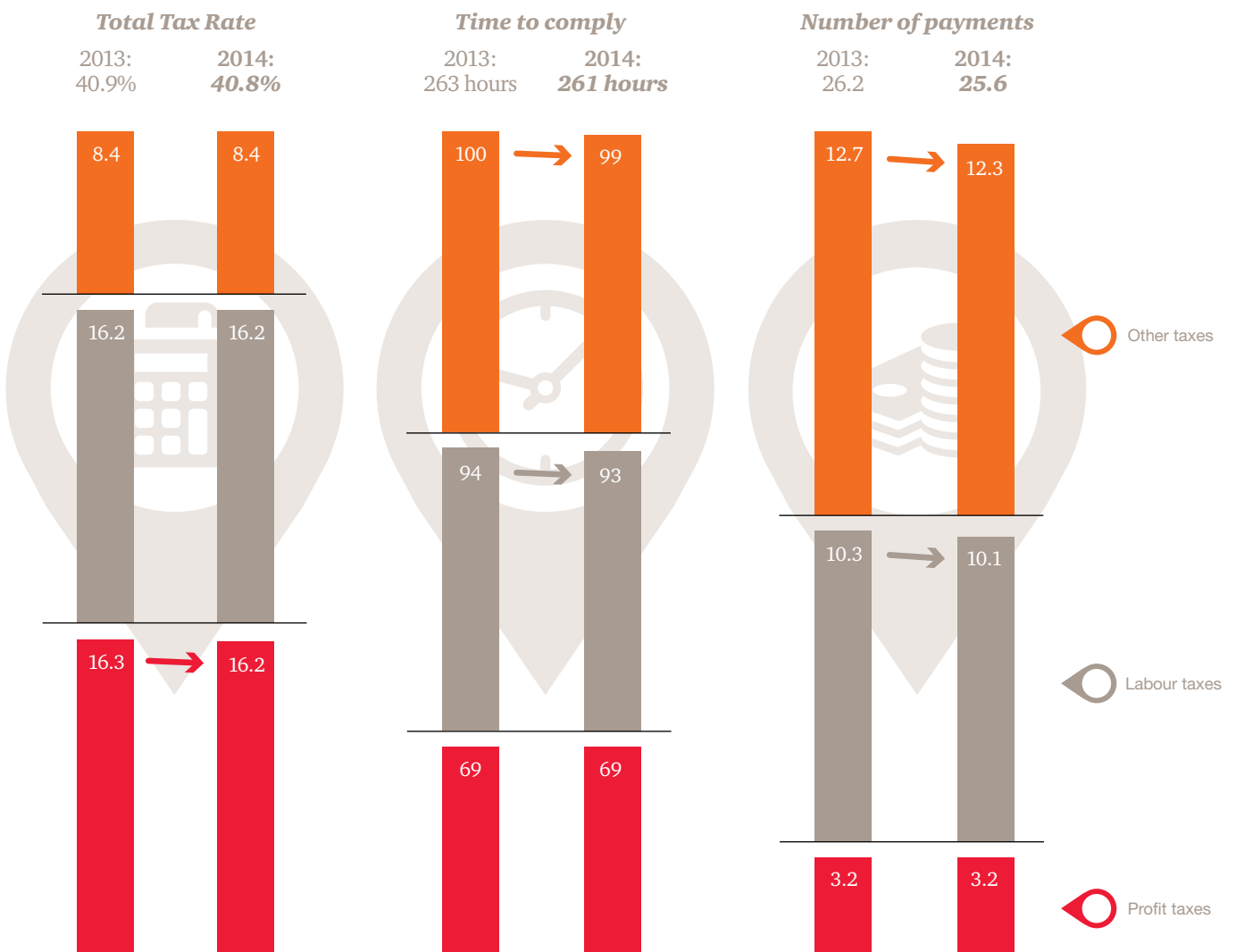


As shown in Figure 2.1, in the last year, the averages for the three *Paying Taxes* sub-indicators have continued to fall. On average across the world in 2014 our case study company paid taxes amounting to 40.8% of its commercial profit, took 261 hours to prepare, file and pay the three main taxes and made 25.6 tax payments.

Since last year the falls have been modest. The average global Total Tax Rate has fallen by 0.1 percentage points; the time to comply has reduced by 2 hours; and the number of payments has dropped by 0.6 payments on average. The relatively small falls at a global level however mask a much more varied picture at a regional and economy level, particularly for the Total Tax Rate.

Figure 2.1

Averages for the three *Paying Taxes* sub-indicators have fallen since last year



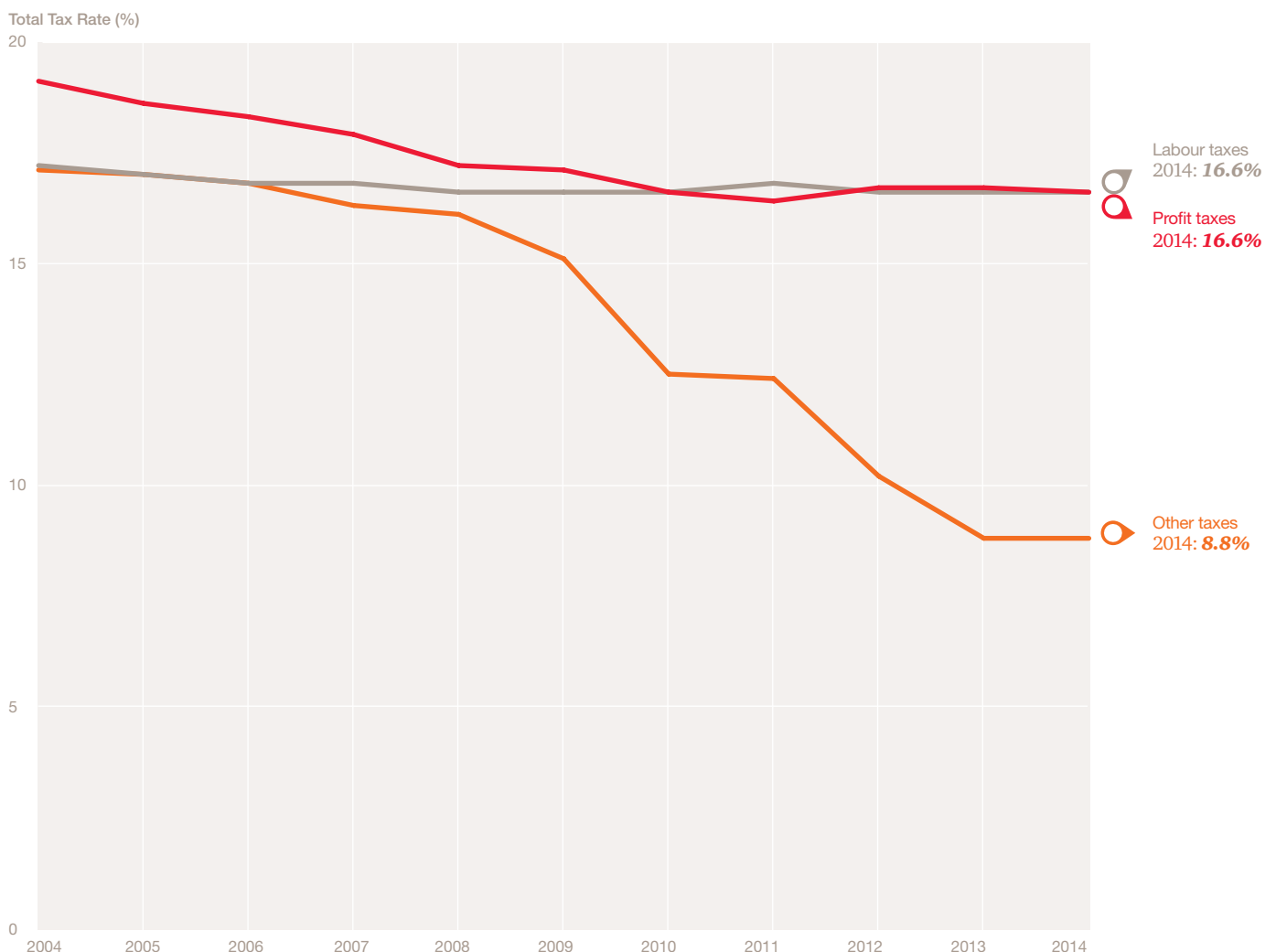
Source: PwC *Paying Taxes* 2016 analysis.

While the average global Total Tax Rate fell between 2013 and 2014, in Africa, Central Asia & Eastern Europe and the Middle East, the Total Tax Rate rose due to various increases in labour taxes, social security contributions, corporate income taxes and property taxes. Indeed, 46 economies increased their Total Tax Rate in the period while only 41 showed a decrease.²⁸ The greatest increase in any one economy was in Liberia where the introduction of a minimum tax increased the Total Tax Rate by 14.6 percentage points to 47.8%. At the other end of the spectrum, the greatest fall in the Total Tax Rate was by 8.1 percentage points in Spain to 50.0% where a lower rate of corporate income tax was introduced for new companies.

As shown in Figure 2.2, labour and profit taxes continue to account on average for a very similar proportion of the global Total Tax Rate. As explained in the next section, there are some regions, notably the EU & EFTA, where there appears to be a decrease in profit taxes, compensated in part by increases in labour and 'other' taxes.

Figure 2.2

Movement in Total Tax Rate



Source: PwC *Paying Taxes 2016* analysis.

²⁸ The movements in Total Tax Rate refer to a movement exhibited by the Total Tax Rates when rounded to one decimal place. Where the economy's Total Tax Rate is the weighted average of the Total Tax Rate of two cities, the movements in the Total Tax Rates of the separate cities may differ. For example in Mexico, Mexico City's Total Tax Rate increased by 0.019 percentage points while Monterrey's decreased by 0.376 percentage points.

The story for the time to comply sub-indicator is more consistent than for the Total Tax Rate as in the last year 34 economies showed a decrease in time while eight economies increased their time to comply.

Many of the reductions in time to comply occurred following the introduction and enhancement of electronic systems. In some cases, the electronic systems had been introduced in previous years, but it took some time for the systems to start generating reductions in time, perhaps because teething problems needed to be rectified, access had to be made easier or simply because time was needed before the systems were adopted by the majority of taxpayers.

Notwithstanding the improvement in time to comply with taxes globally, some economies saw increases in the amount of time to comply owing to increased information or filing requirements (in Myanmar), or the introduction of new taxes for example the Fairness Tax in Belgium and the new VAT system in Kiribati.

Between 2013 and 2014 although the global average for the payments sub-indicator fell by 0.6 payments on average, the number of payments decreased in 12 economies, but increased in another 12. The reductions were largely due to the introduction and increased use of electronic payment and filing systems, most significantly for VAT, though reductions in the number of payments for labour taxes and corporate income taxes were also observed. Some of these decreases are due to reforms that had taken place in earlier years but where some time was needed before the systems were being used by the majority of taxpayers. There were some economies where, although electronic filing had been available for some time, it had taken taxpayers a while to become comfortable with making payments electronically. Other reasons for the fall in the number of payments sub-indicator relate to the reduced frequency of payments (e.g. from monthly to quarterly) and merging or abolishing taxes such as in Serbia and Brunei Darussalam.

The increases in payments were a result of the introduction of new taxes, or the separation of paying and filing requirements for certain types of tax such as separating local and national corporate income tax or splitting capital gains tax from corporate income tax.



Comparing the regions



Figure 2.3 shows the Total Tax Rate for all the geographic regions split between the three main types of tax; profit taxes, labour taxes and mandatory contributions and 'other' taxes. This chart allows us to compare not only the overall tax levied in each region, but also the extent to which this falls on these three types of tax. Figure 2.4 and Figure 2.5 show the regional splits of the time to comply and payments sub-indicators respectively.

In spite of some improvements in its Total Tax Rate and its time to comply, as explained in the next section, the South American region is still by far the region with the highest Total Tax Rate, 55.0%, and the greatest time to comply, 615 hours. To put this in perspective, the region which stands second, Africa, has a Total Tax Rate of 46.9% and a time to comply of 313 hours. On the other hand, South America fares well as far as the number of payments is concerned as the availability and use of electronic systems for filing and paying taxes is more prevalent than in some other regions.

From the charts in Appendix 2 it can be seen that the high average Total Tax Rate and time to comply in South America is due to it being a region of extremes. Brazil has the greatest time to comply in the world of 2,600 hours, while Suriname has the lowest time to comply for the region of just 199 hours. Similarly, Argentina's Total Tax Rate of 137.4% is the highest in the region and the second highest in the world while the lowest in the region is Suriname's at 27.9%.

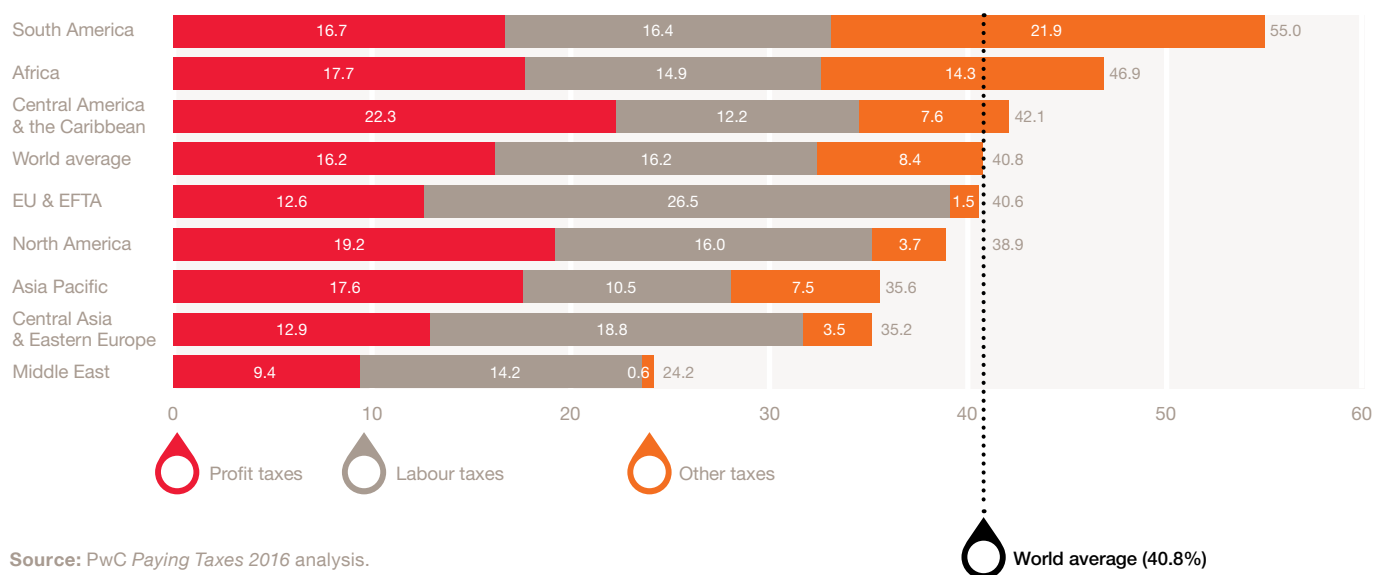
Total Tax Rate

South America is also the region where 'Other' taxes account for the greatest proportion, almost 40%, of the Total Tax Rate. 'Other' taxes account for 30% of the Total Tax Rate in Africa, now that all but one economy has replaced its cascading sales tax, and less than 21% in all other regions. The high reliance on 'other' taxes in South America is largely driven by the presence of municipal business taxes, which are calculated as a percentage of turnover, in Argentina, Colombia and the República Bolivariana de Venezuela. Bolivia has a similar national turnover-based business tax. These turnover-based taxes give rise to the high Total Tax Rates seen in South America.

While South America relies heavily on turnover taxes, labour taxes continue to make up the highest proportion of the Total Tax Rate in the EU & EFTA at 65% of the region's average Total Tax Rate and correspondingly the time to comply with labour taxes accounts for a larger share of the time to comply in the EU & EFTA than in many other regions.

Figure 2.3

Total Tax Rate by region (%) for 2014



Source: PwC Paying Taxes 2016 analysis.

The two regions where labour taxes and mandatory contributions account for the largest share of the Total Tax Rate – EU & EFTA and Central Asia & Eastern Europe – have shown marginal (0.1 percentage point) increases in the past year in their labour tax Total Tax Rates. EU & EFTA has however reduced its profit tax Total Tax Rate over the same period, while in Central Asia & Eastern Europe the profit tax Total Tax Rate has increased. It is hard to draw clear conclusions from these changes other than to say that individual economies in each region appear to be tailoring their tax policy based on their own particular circumstances and needs. While some reductions in profit taxes appear to be targeted at encouraging growth, as in Spain, or increasing headline rates that are at the low end of the global range, as in Albania, we are also seeing relatively low corporate income tax rates being reduced further as in Uzbekistan for example where the rate fell from 9% to 8%.

In Africa we have seen an example where a tax reform for a particular type of tax has been applied in opposite directions. Zambia doubled its property transfer tax from 5% to 10% while Mauritius did the reverse halving its land transfer tax from 10% to 5%. Similarly, Honduras, Jamaica and Liberia introduced a minimum corporate income tax while The Bahamas abolished the \$500,000 minimum flat fee for the business license tax. This again suggests that individual governments are reacting differently in the face of what might be expected to be similar economic pressures.

The Middle East remains the region with the lowest Total Tax Rate, as many governments in the region continue to rely on sources of revenue other than taxation. Nevertheless there are ongoing projects in the region aimed at increasing the tax base in a number of economies, particularly around VAT which does not affect the Total Tax Rate for our case study company.

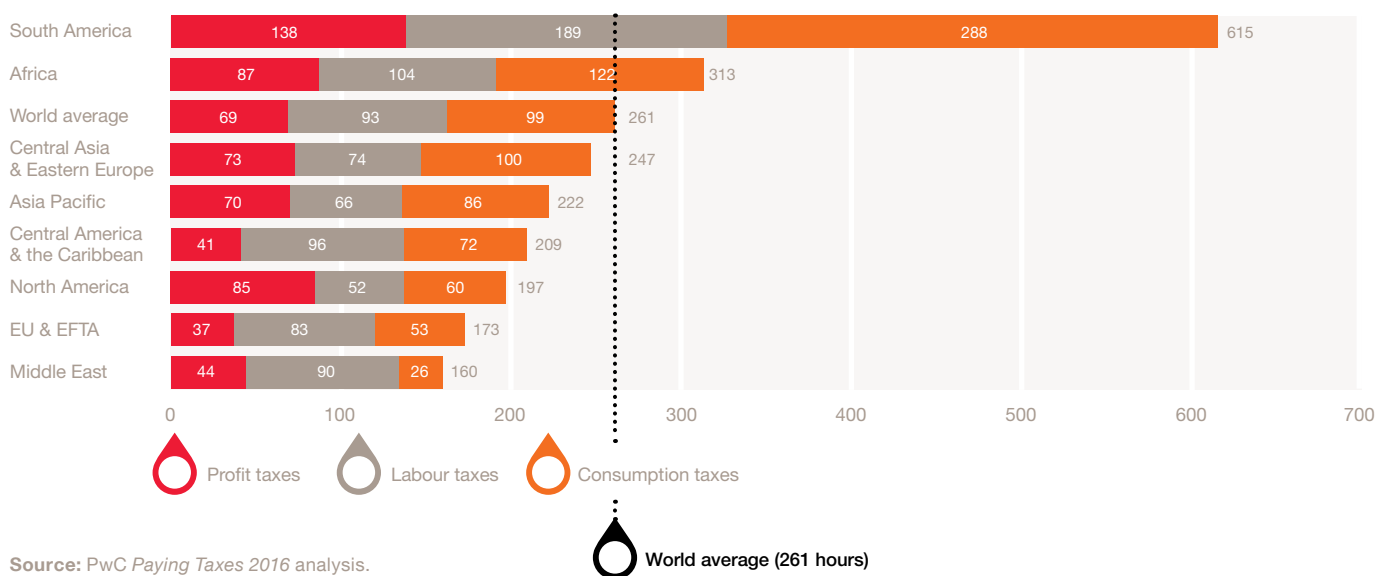
The compliance sub-indicators

The compliance sub-indicators for time to comply and the number of payments continue to display marked regional variation, with the variable availability of electronic systems for filing and paying tax being largely responsible.

It might be expected that the tax systems in North America and the EU & EFTA, being some of the most established, would also be the most complex and so the most time consuming. This is however counteracted by the extensive use of electronic systems in these regions which allow much of the tax process to be automated. This also allows for frequent changes to be made to tax systems without increasing the compliance burden. For example, there were a number of changes made to the rates and thresholds of labour taxes and social security contributions in France and in the UK in the year. These did not however affect the countries' relatively low compliance times as the changes were largely automatically applied.

Figure 2.4

Time to comply by region for 2014



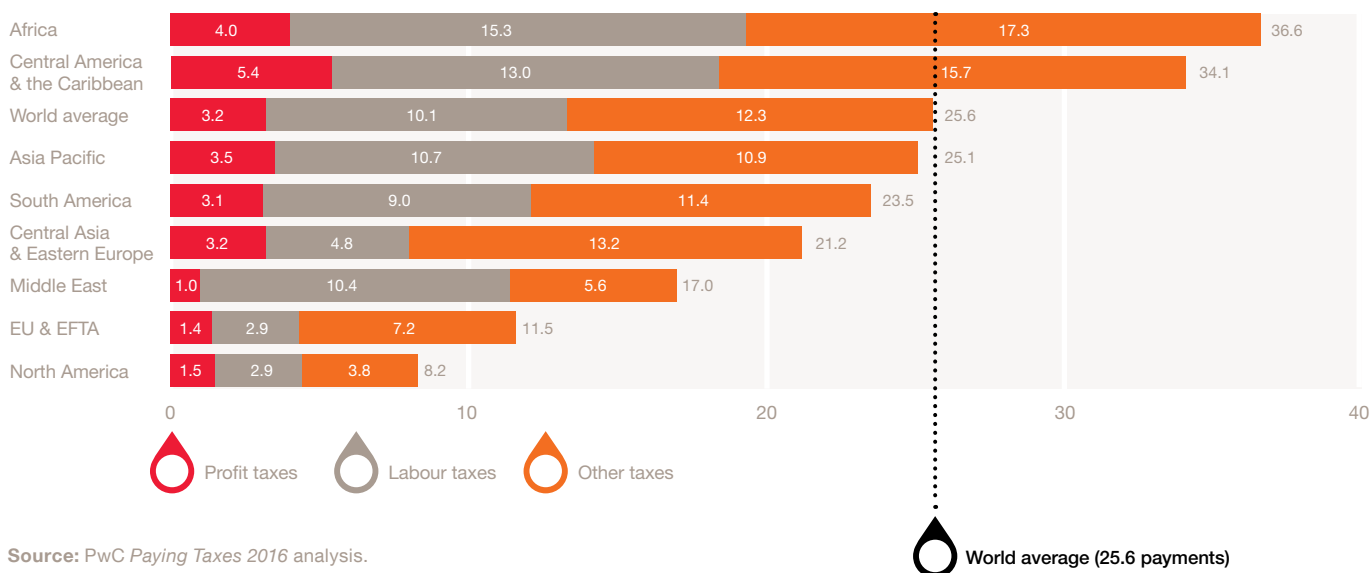
Source: PwC Paying Taxes 2016 analysis.

The payments sub-indicator is a function not only of electronic filing and payment, but also of the number of taxes in an economy and whether they can be filed and paid jointly. A number of economies introduced new taxes in the year that are filed and paid separately from any other tax. This also increased the number of payments in those economies and therefore added to the complexity of the tax system. There were also some economies that introduced new taxes that are filed and paid jointly with other taxes. In these cases there is no increase in the number of payments sub-indicator.

It could be argued that in some situations, introducing a new tax may be a politically more acceptable way of raising new revenue than increasing the rate of an existing tax, particularly where the revenue raised is to be spent on a specific measure. New taxes however are more likely to increase the compliance burden on taxpayers and on tax authorities and this should be considered by governments when deciding new tax policy. One reason for instigating a new tax, might be to link it clearly in the public mind with a new public benefit or to show clearly how funds will be raised for a new item of government spending. An alternative approach to this, which would avoid levying a new tax, might be for governments to be more transparent about the revenues that they raise from existing taxes and how that money is then spent to provide benefits to their citizens.

Figure 2.5

Number of payments by region for 2014



Source: PwC *Paying Taxes 2016* analysis.



***How has the
Paying Taxes
picture changed
over the ten
editions?***



Trends in the global sub-indicators since the first edition

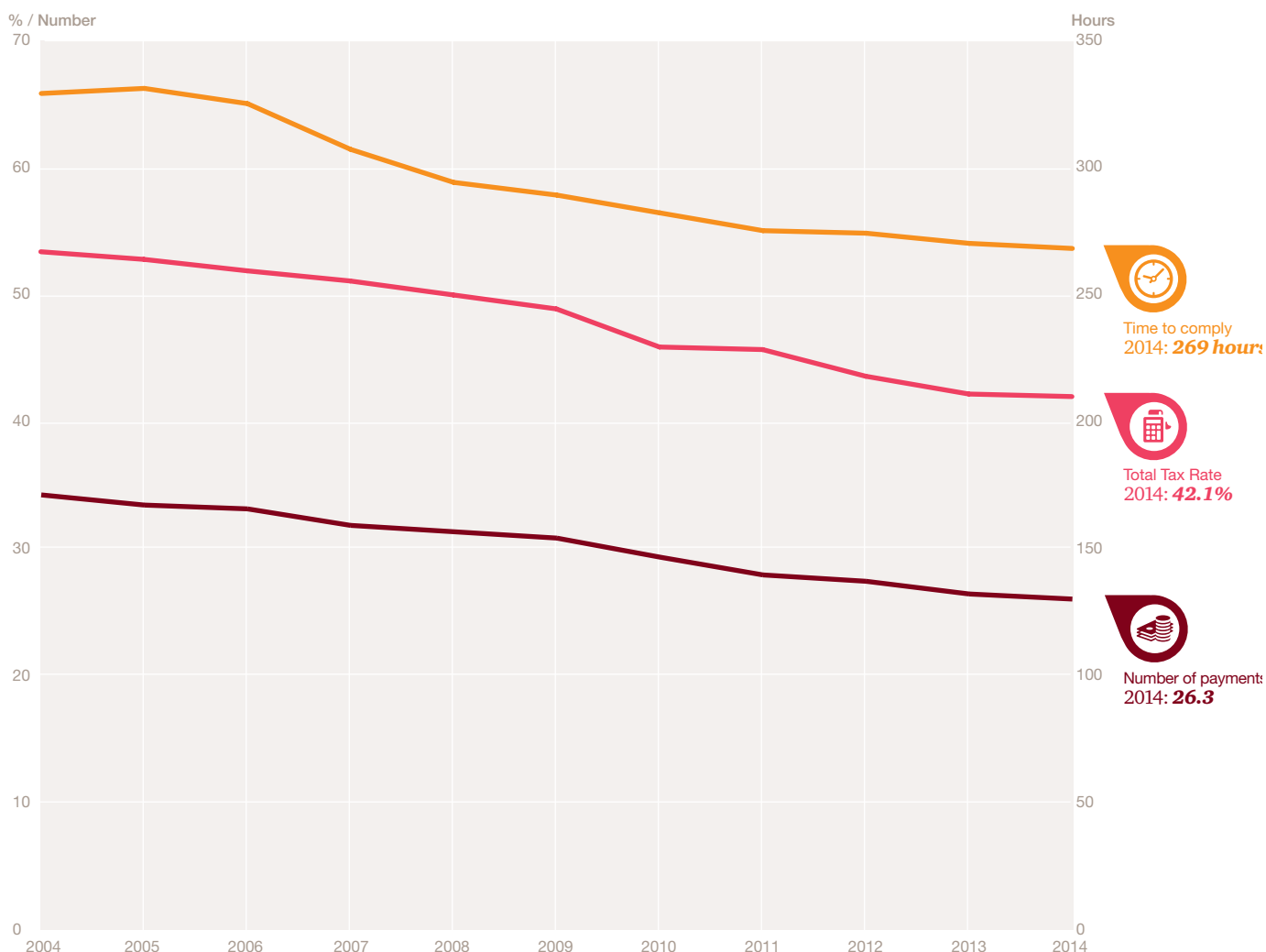
Figure 2.6 shows the trends in the global average for each of the *Paying Taxes* sub-indicators for the 174 economies and cities for which we have data for every year of the study. 15 economies and 11 cities have joined the study since its inception and so are not included in the 10 year trends. From 2004, the global averages for all three sub-indicators for the original 174 economies have decreased steadily in almost every year. We can see that the pace of change has slowed, but not stopped, and one of the reasons for this is the variation that we are now seeing in how tax reform is being applied in different economies and regions as discussed earlier, and in the detailed regional sections that follow.

Using the Figures 2.7, 2.9 and 2.12 we will take a look at the regional variation in the changes in each of the three sub-indicators over the course of the period of the study.

In addition, we will look at the trend in each of the three sub-indicators by income level of the economies as shown in Figures 2.8, 2.11 and 2.14.

Figure 2.6

Trends in the global sub-indicators since 2004



Source: PwC Paying Taxes 2016 analysis.

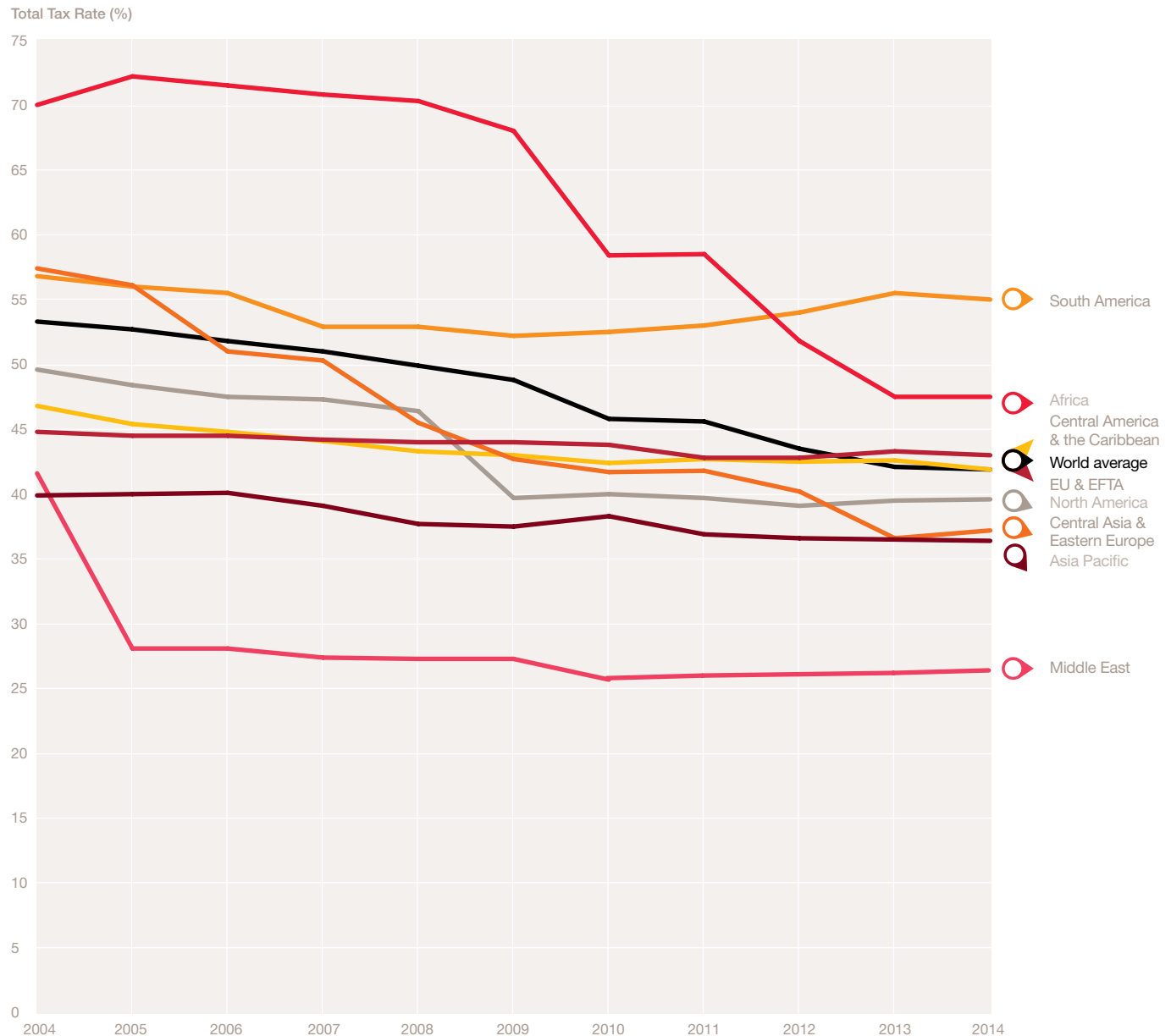
Total Tax Rate

Over the study period, Africa is clearly the region with the greatest reduction in its Total Tax Rate, which is largely the result of the abolition of cascading sales taxes in a number of economies. Over the ten editions of *Paying Taxes*, the Africa Total Tax Rate fell by 22.5 percentage points, falling below that of South America in 2012. In Africa, only Comoros still retains its cascading sales tax. Excluding the countries with this exceptional movement on the abolition of the cascading sales taxes, the average Total Tax Rate for Africa would have been much closer to the global average and the reduction would have been more in the order of 5 percentage points.

The next most significant fall in Total Tax Rate was by 19 percentage points in Central Asia & Eastern Europe largely owing to reforms in Belarus which reduced its Total Tax Rate from 137.3% in 2004 to 51.8% in 2014, Uzbekistan, which reduced its Total Tax Rate from 96.7% in 2004 to 41.4% in 2014, and Georgia, which reduced its Total Tax Rate from 57.0% in 2004 to 16.4% in 2014. This year however, the Total Tax Rate for Central Asia & Eastern Europe increased as a result of corporate income tax increases in several economies. The Middle East's Total Tax Rate fell dramatically by 13.4 percentage points between 2004 and 2005 when Yemen abolished its cascading sales taxes, but has remain largely unchanged since then.

Figure 2.7

Trends in the Total Tax Rate since 2004



Source: PwC *Paying Taxes 2016* analysis.

South America's Total Tax Rate has been high, but relatively stable, throughout the study, though it fell slightly in 2007, before increasing in 2010 and falling again in 2014.

Over time, the Total Tax Rates of the regions had appeared to be converging, but from about 2011, the convergence has stalled. The range of the Total Tax Rates between the economy with the highest Total Tax Rate and the economy with the lowest Total Tax Rate has however decreased from 280 percentage points in 2004 to 208 percentage points today.

Looking across the regions, not only does a wide range of Total Tax Rates still remain, but it is also apparent that some regions are more prone to change than others and in different directions. Table 2.1 below shows the proportion of economies within each region that exhibited increases and decreases in their Total Tax Rate between 2013 and 2014.

Table 2.1

Increases and decreases in Total Tax Rate by region between 2013 and 2014

| | Total number of economies | Percentage of economies with decreased Total Tax Rate | Percentage of economies with no changes | Percentage of economies with increased Total Tax Rate |
|--|---------------------------|---|---|---|
| <i>Africa</i> | 53 | 17% | 60% | 23% |
| <i>Asia Pacific</i> | 37 | 22% | 54% | 24% |
| <i>Central America & the Caribbean</i> | 20 | 25% | 55% | 20% |
| <i>Central Asia & Eastern Europe</i> | 19 | 26% | 37% | 37% |
| <i>EU & EFTA</i> | 32 | 38% | 38% | 24% |
| <i>Middle East</i> | 13 | 0% | 69% | 31% |
| <i>North America</i> | 3 | 33% | 67% | 0% |
| <i>South America</i> | 12 | 17% | 75% | 8% |
| <i>World</i> | 189 | 22% | 54% | 24% |

Note: The table includes only changes exhibited by the Total Tax Rates when rounded to one decimal place.

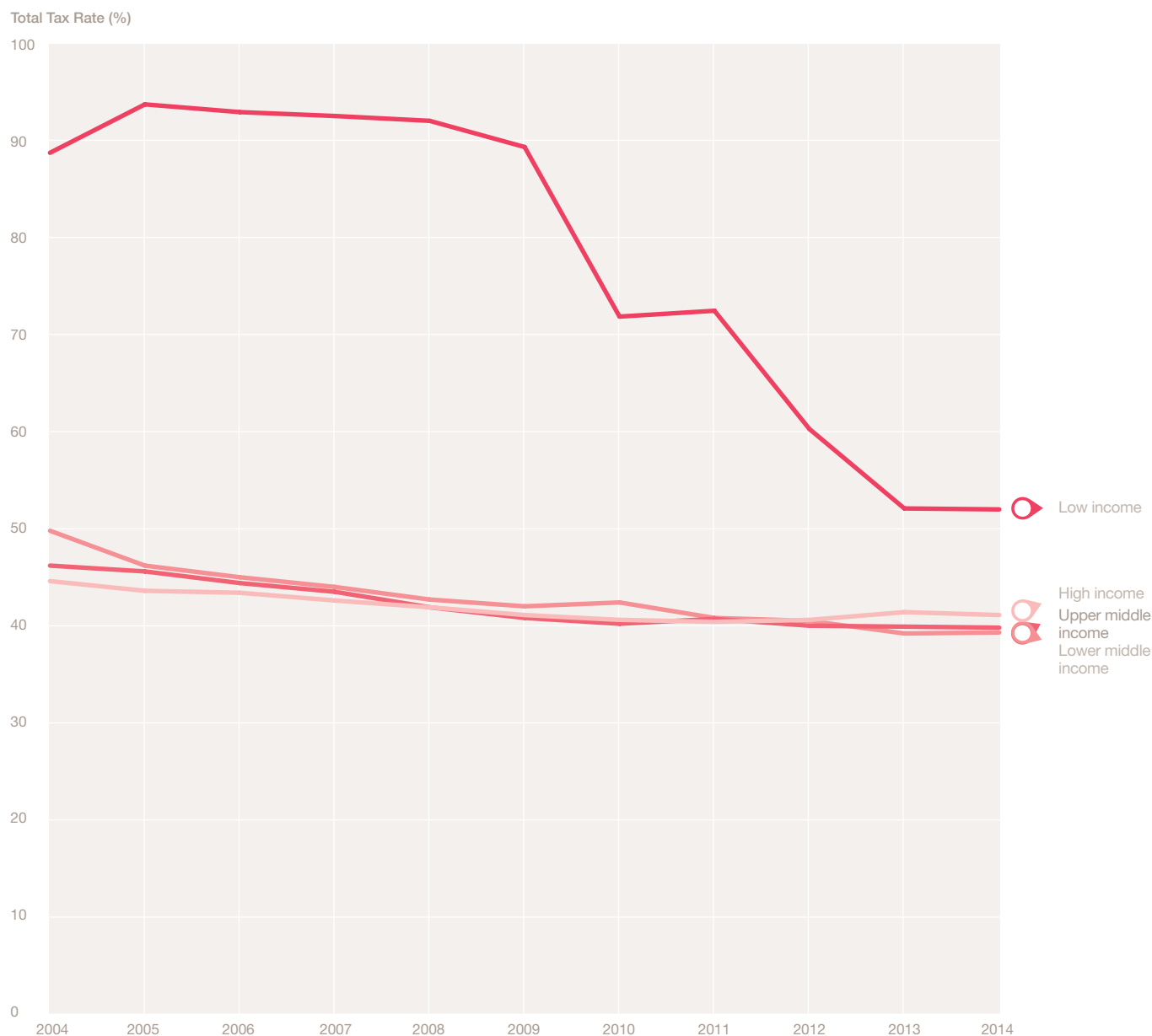
Source: PwC Paying Taxes 2016 analysis.

Generally speaking, in the regions with more established and more sophisticated tax systems there were more economies that showed changes in their Total Tax Rate. In Asia Pacific for example, 46% of economies in the region exhibited changes to their Total Tax Rates, while in EU & EFTA 62% of economies showed some changes in their Total Tax Rate, albeit that most of them were small. This difference could also reflect the fact that it is often easier for more developed systems to introduce changes as many changes will be made automatically through electronic systems. For less developed systems, changes are more likely to require greater manual intervention which could lead to more errors and longer implementation times.

We can also look at the average Total Tax Rate by income level, using the World Bank's classification of economies into high income, upper middle income, lower middle income and low income groups (Figure 2.8). The average Total Tax Rate for the low income economies has shown considerable reform since 2004, due mostly to the removal of cascading tax systems in Africa. Despite these reforms, the Total Tax Rate for the low income economies is still some way above the average Total Tax Rate of the other three income groups. These other groups have had very similar average Total Tax Rates throughout the study and for all three groups the Total Tax Rate has fallen slightly since 2004.

Figure 2.8

Trend in Total Tax Rate by income level of economies



Source: PwC Paying Taxes 2016 analysis.

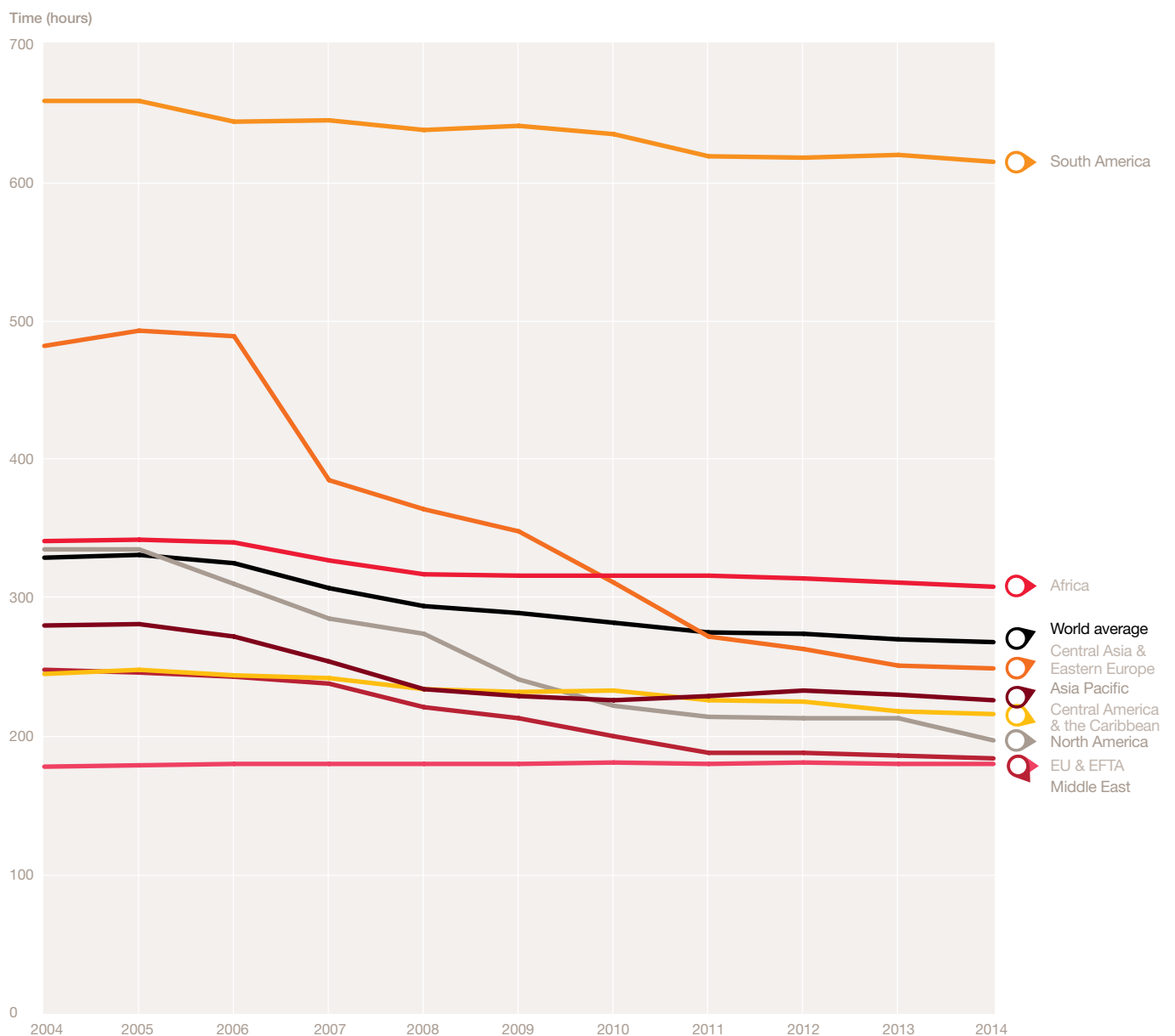
Time

As shown in Figure 2.9 over the period of the study from 2004 until 2014, Central Asia & Eastern Europe has shown the biggest improvement of all the regions in average time to comply, with a drop of 234 hours across the region. South America continues to be the outlier of the regions, largely due to Brazil's time to comply sitting at 2,600 hours, along with Bolivia's time to comply at 1025 hours which is the second highest in the world. Even taking these two countries out of the South America average, the region would still have the highest time to comply and it would have shown very little reduction over the period of the study.

All regions, except for the Middle East, have reduced their time to comply since 2004, but the Middle East has had the lowest time to comply throughout the study.

Figure 2.9

Trends in the time to comply since 2004

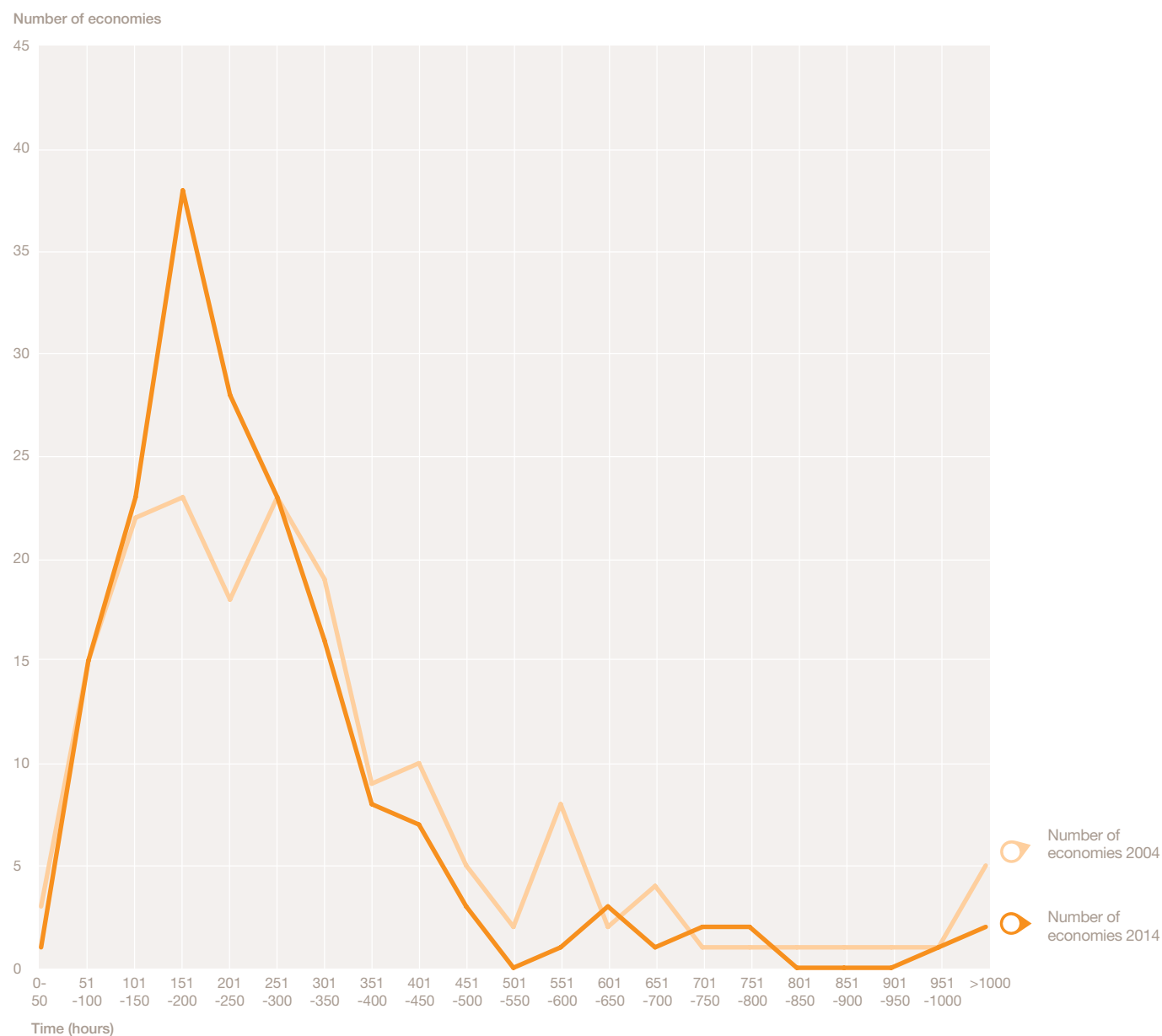


Source: PwC Paying Taxes 2016 analysis.

Looking at the distribution of the time to comply for the economies in both 2004 and 2014 (see Figure 2.10) 74% of economies now take less than 300 hours to comply with their tax obligations in 2014 compared to 60% in 2004. The number of economies with a very high time to comply has reduced, with the most common time to comply being in the range of 151 – 200 hours which is below the global mean average of 261 hours.

Figure 2.10

Distribution of the time to comply 2004 and 2014



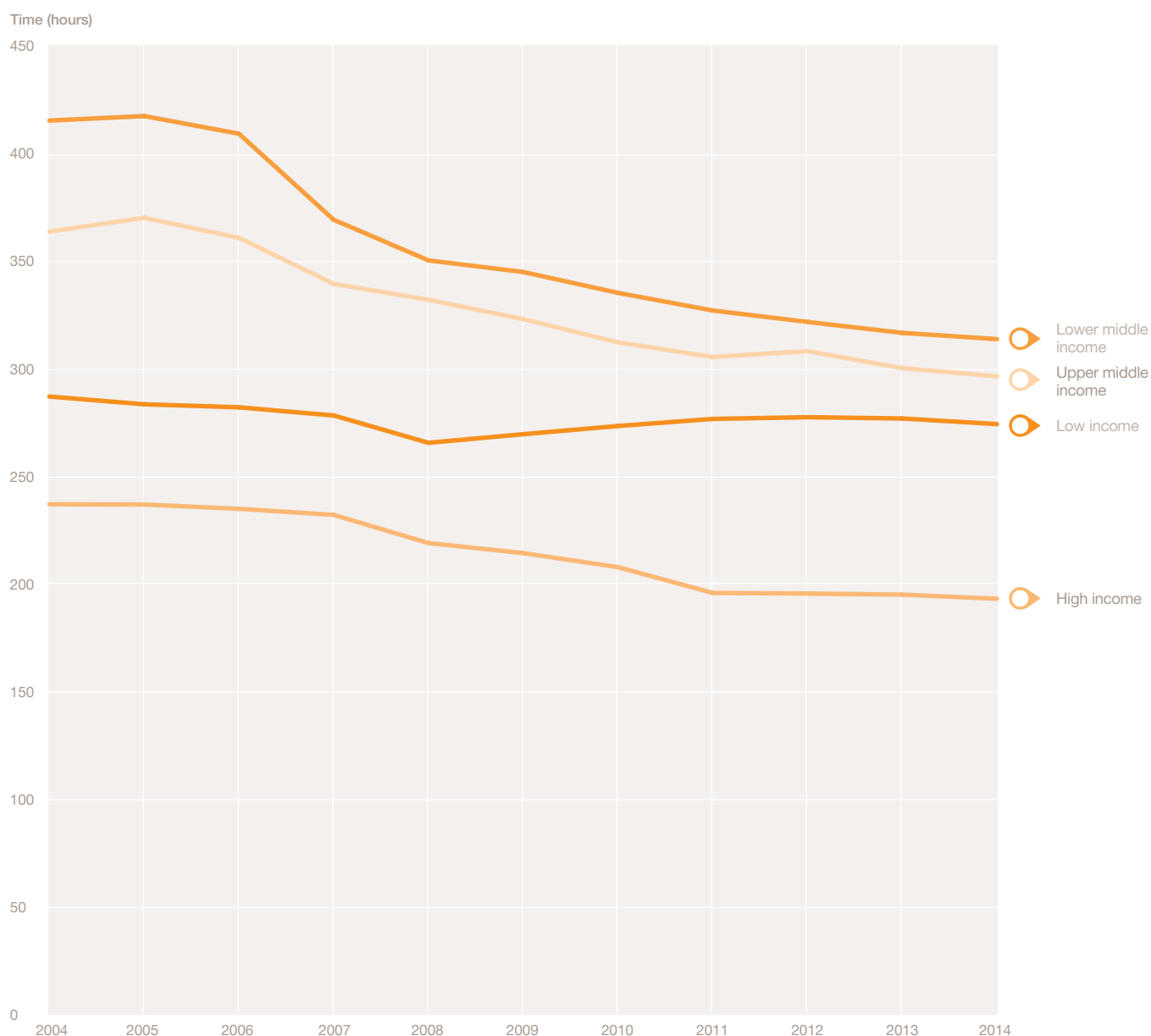
Source: PwC Paying Taxes 2016 analysis.

Looking at the trend in the time to comply by income level (see Figure 2.11) we can see that the low income economies have reformed the least since 2004. On average, economies in the high income group have significantly lower times to comply than in the other groups, but the high income group's average time to comply has still fallen over the course of the study. The relative lack of improvement in the low income group might suggest that while reform is clearly still necessary, there are some challenges that are yet to be overcome and these may include issues, such as the availability of IT and communications infrastructure and the level of technical skills in the workforce.

The introduction and enhancement of electronic filing and payment systems is by far the biggest factor in the downward trend for the average time to comply with tax obligations. We would expect this trend to continue as technology improves in the future and if tax authorities continue to invest in this area.

Figure 2.11

Trend in the time to comply by income level of economies



Source: PwC Paying Taxes 2016 analysis.

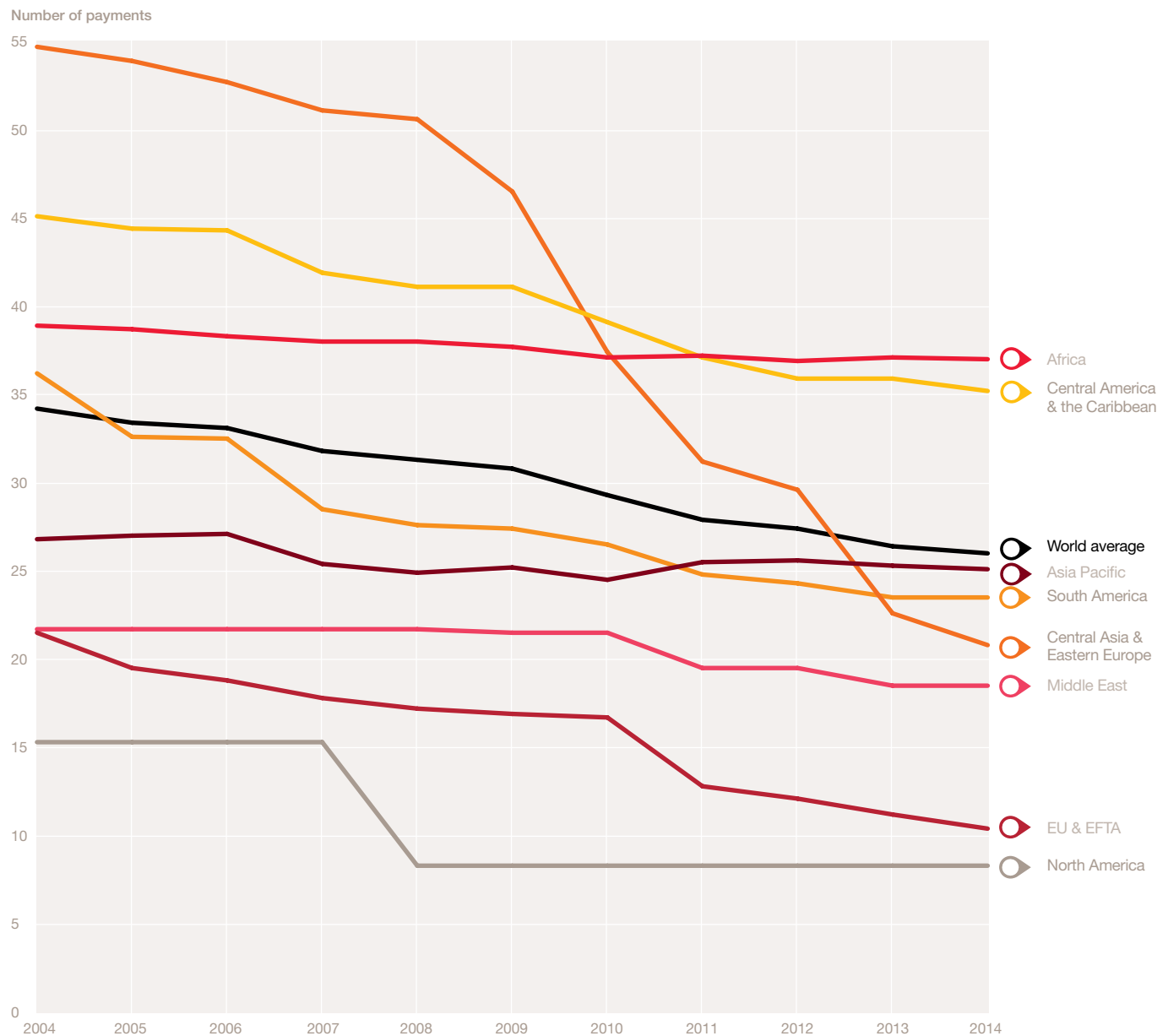
Payments

As shown in Figure 2.12, when it comes to the number of payments sub-indicator, Central Asia & Eastern Europe is the most reformed region since 2004, with Ukraine and Belarus being the most improved economies globally. In Ukraine, the number of payments sub-indicator fell from 147 to 5 payments and in Belarus it fell from 125 to 7 payments over the course of the study. South America and the EU & EFTA were next with a drop of 12.7 payments and 11 payments respectively.

The range for the payments sub-indicator has decreased from 144 in 2004 to 67 in 2014, but there are still very marked regional variations with Africa and Asia Pacific having shown very little change since 2004. Electronic filing and payment is by far the most significant contributor to the reduction in payments and, as discussed earlier, some economies will find this more difficult to achieve than others due to a lack of technology, skills and infrastructure.

Figure 2.12

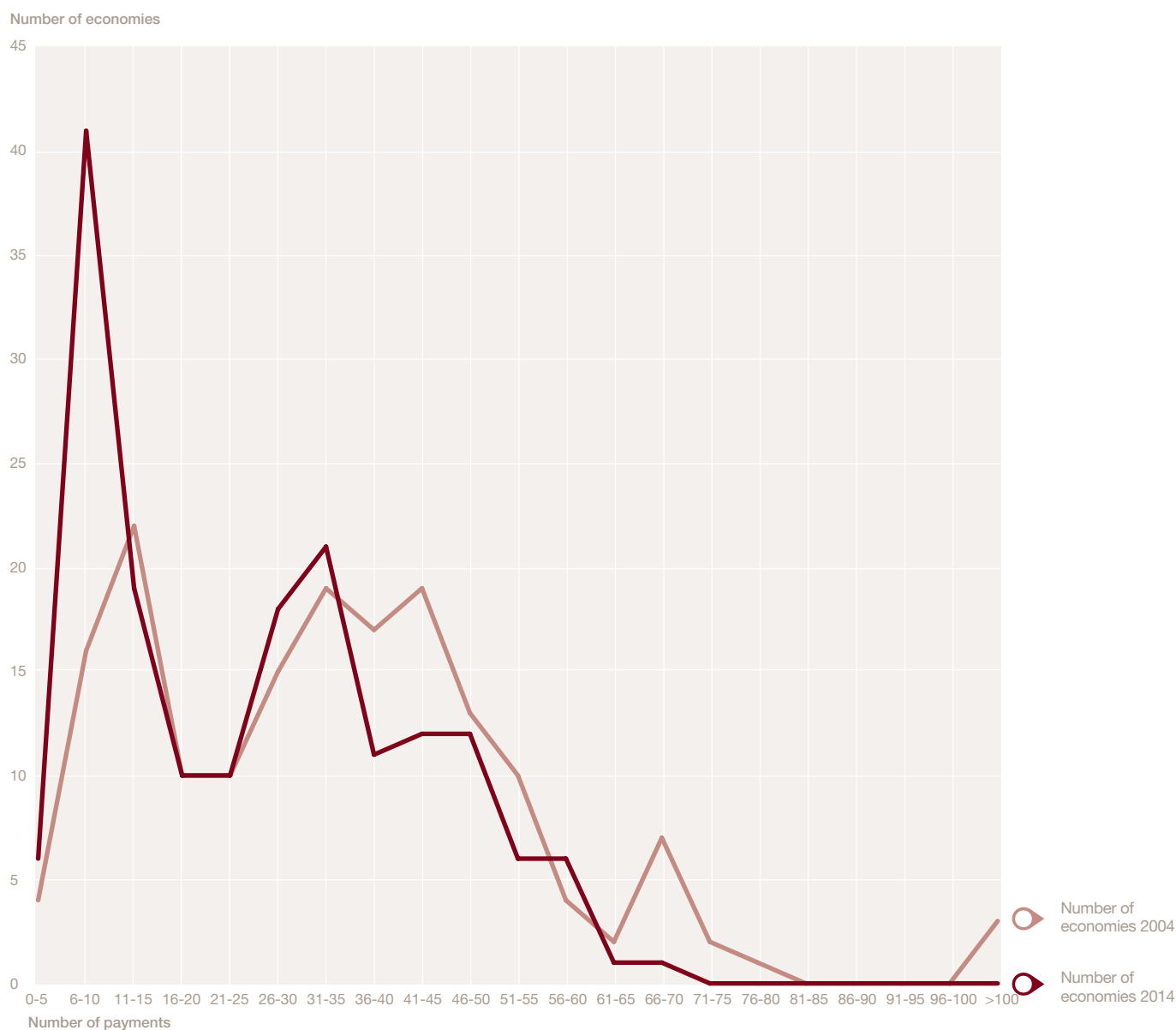
Trends in the number of payments since 2004



Source: PwC Paying Taxes 2016 analysis.

Looking at the distribution of the payments sub-indicator across the economies (see Figure 2.13), 59% of economies had a payments sub-indicator of 30 or less in 2014, compared to 43% of economies in 2004. In addition, we can see that in 2014 the distribution of the payments sub-indicator has moved towards the lower end of the range compared to 2004 and that the most common value for the sub-indicator is in the range of 6 – 10 payments, compared to 31 – 35 payments in 2004.

Figure 2.13
Distribution of the number of payments sub-indicator 2004 and 2014

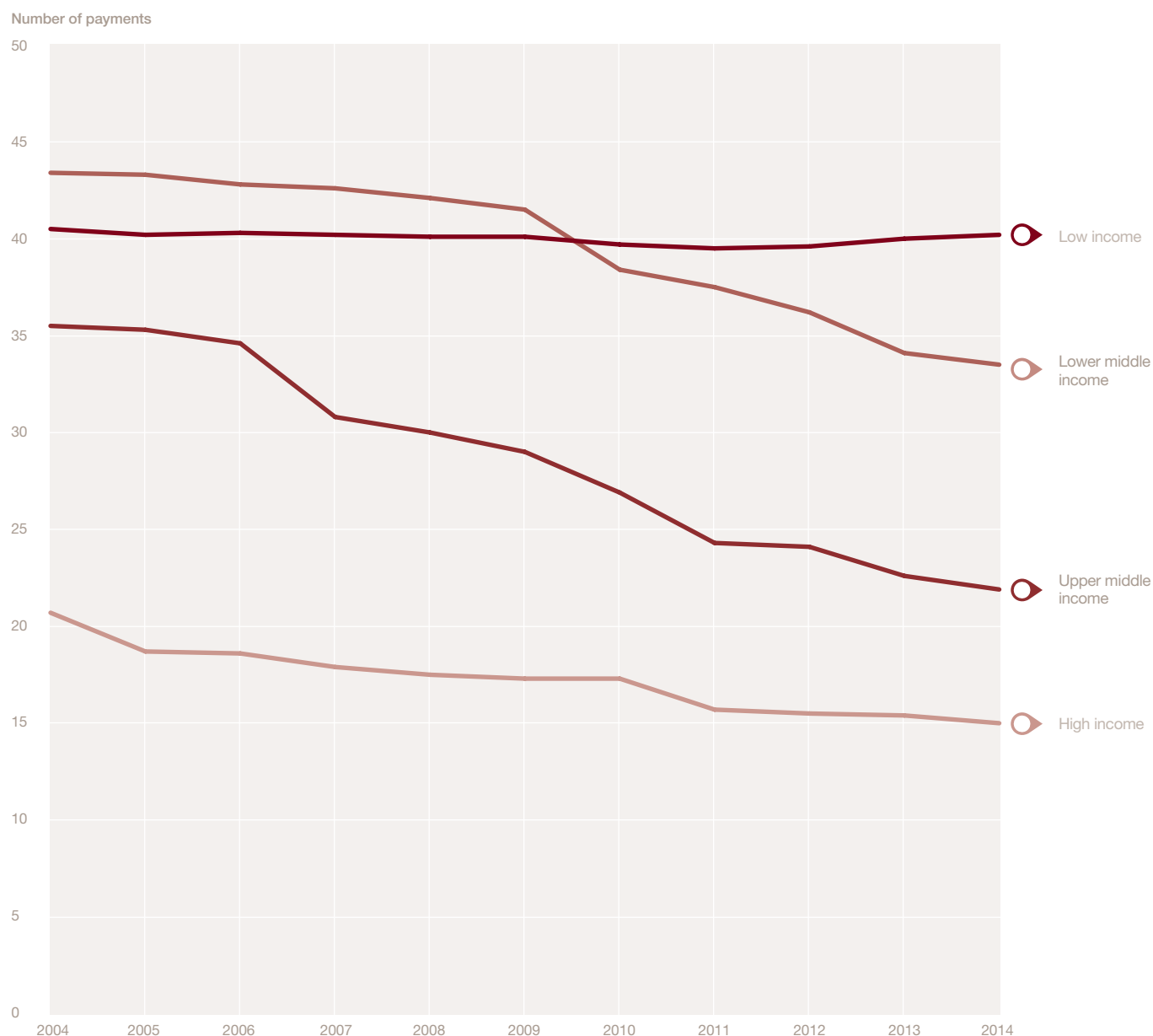


Source: PwC *Paying Taxes 2016* analysis.

Figure 2.14 shows the change in the average payments sub-indicator by income group since 2004. From 2010, the low income economies have had the highest average payments sub-indicator and the region has also shown the least reform over the period of the study. As with the time to comply trends, this suggests that while there is a need for further reforms in the low income economies, challenges such as the need for improvements in the availability and reliability of internet connections and other communications infrastructure may need to be addressed before there can be significant improvements in the operation of the tax system.

Figure 2.14

Trend in number of payments sub-indicator by income level of economies



Source: PwC Paying Taxes 2016 analysis.

For those economies that do introduce electronic systems there is often a time lag between the introduction of a system and it reaching its full operational capability. It may also take time for taxpayers to embrace the system and the methodology of *Doing Business* requires the systems to be used by the majority of taxpayers before there is an impact on the sub-indicators. There are therefore a number of economies where electronic filing and payment systems exist, but where this is not yet reflected in the number of payments and time sub-indicators.

Where a country fully embraces electronic filing and payment systems, so that a tax is filed and paid online by the majority of taxpayers, then the number of payments effectively represents the number of taxes to which the case study company is subject.

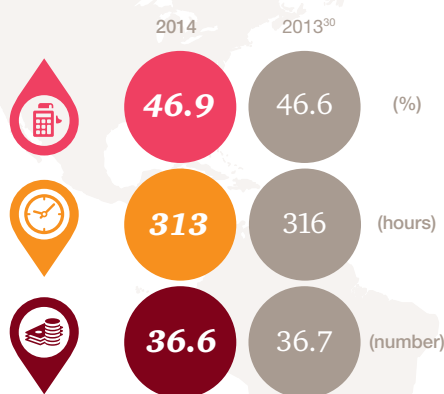




***Regional
analysis of the
sub-indicators***

Figure 2.15

Africa²⁹



Africa

As shown in Figure 2.15, there was a mixed story with regards to Africa, with the average Total Tax Rate increasing by 0.3 percentage points (only Central Asia & Eastern Europe had a larger increase at 0.5 percentage points) and the compliance sub-indicators falling; time to comply fell by 3 hours and the number of payments decreased by 0.1 percentage points.

As regards the Total Tax Rate, across the region changes in profit taxes were the most significant, though there was a very mixed picture, with some economies raising their corporate income tax liabilities while others reduced theirs. Another good example of the varied picture is in other taxes where Zambia has doubled its property transfer tax from 5% to 10% while Mauritius did the reverse, halving its land transfer tax from 10% to 5%.

The single largest change was Liberia's profit tax Total Tax Rate increasing by 14.6 percentage points to 47.8% due to the introduction of a minimum corporate income tax. Companies in Liberia must now pay 2% of turnover as a monthly advance tax and the final income tax liability cannot be lower than the amount already paid in advance.

The next biggest increases in Total Tax Rates were:

- An increase of 5.1 percentage points to 45.7% in Gabon as a result of a reduction in depreciation rates.

- An increase of 3.0 percentage points to 18.6% in Zambia as the rate of property transfer tax was doubled from 5% to 10% (as mentioned earlier).
- An increase of 2.2 percentage points to 47.3% in Senegal as there was a fourfold increase in the alternative maximum corporate income tax payable by companies; the case study company therefore now pays corporate income tax at the full 30% rate rather than being limited by the cap.

In total, 12 of the 53 economies in the region increased their Total Tax Rates, though other than those mentioned earlier, the impact in any one economy was 1.1 percentage point or less. On the other hand, 9 economies reduced their Total Tax Rates. The most significant reductions were:

- Angola's Total Tax Rate fell by 3.6 percentage points to 48.4% as the corporate income tax rate fell from 35% to 30%.
- Tunisia's Total Tax Rate fell by 2.6 percentage points to 59.9% as the corporate income tax rate fell from 30% to 25%.
- Swaziland's Total Tax Rate fell by 2.1 percentage points to 34.7% as the corporate income tax rate fell from 30% to 27.5%, though the provident fund contributions paid by employer slightly increased.
- Mauritius's Total Tax Rate fell by 2.1 percentage points to 22.4% as the land transfer tax rate halved from 10% to 5% though the social security contributions paid by employer increased slightly.

A mixed picture in Africa – the Total Tax Rate increases while compliance sub-indicators fall.

²⁹ The following economies are included in our analysis of Africa: Algeria; Angola; Benin; Botswana; Burkina Faso; Burundi; Cabo Verde; Cameroon; Central African Republic; Chad; Comoros; Congo, Dem. Rep.; Congo, Rep.; Côte d'Ivoire; Djibouti; Egypt, Arab Rep.; Equatorial Guinea; Eritrea; Ethiopia; Gabon; Gambia, The; Ghana; Guinea; Guinea-Bissau; Kenya; Lesotho; Liberia; Libya; Madagascar; Malawi; Mali; Mauritania; Mauritius; Morocco; Mozambique; Namibia; Niger; Nigeria; Rwanda; São Tomé and Príncipe; Senegal; Seychelles; Sierra Leone; South Africa; South Sudan; Sudan; Swaziland; Tanzania; Togo; Tunisia; Uganda; Zambia; Zimbabwe.

³⁰ The information for 2013 has been updated to include any corrections made to the underlying data since the publication of the previous edition of *Paying Taxes*.

The average time to comply for the region decreased by 3 hours overall, with a drop of 50 hours in The Gambia accounting for more than a third of the overall change in the region. In 2013, The Gambia replaced its sales tax with a VAT system and while this was reflected in the country's Total Tax Rate last year, the improvement in the time to comply took a little longer to materialise as companies have needed to adapt to the new systems and improve their bookkeeping for VAT.

Other reductions in the time to comply sub-indicator for Africa are listed below in Figure 2.16 and show a range of causes for the change in the sub-indicator.

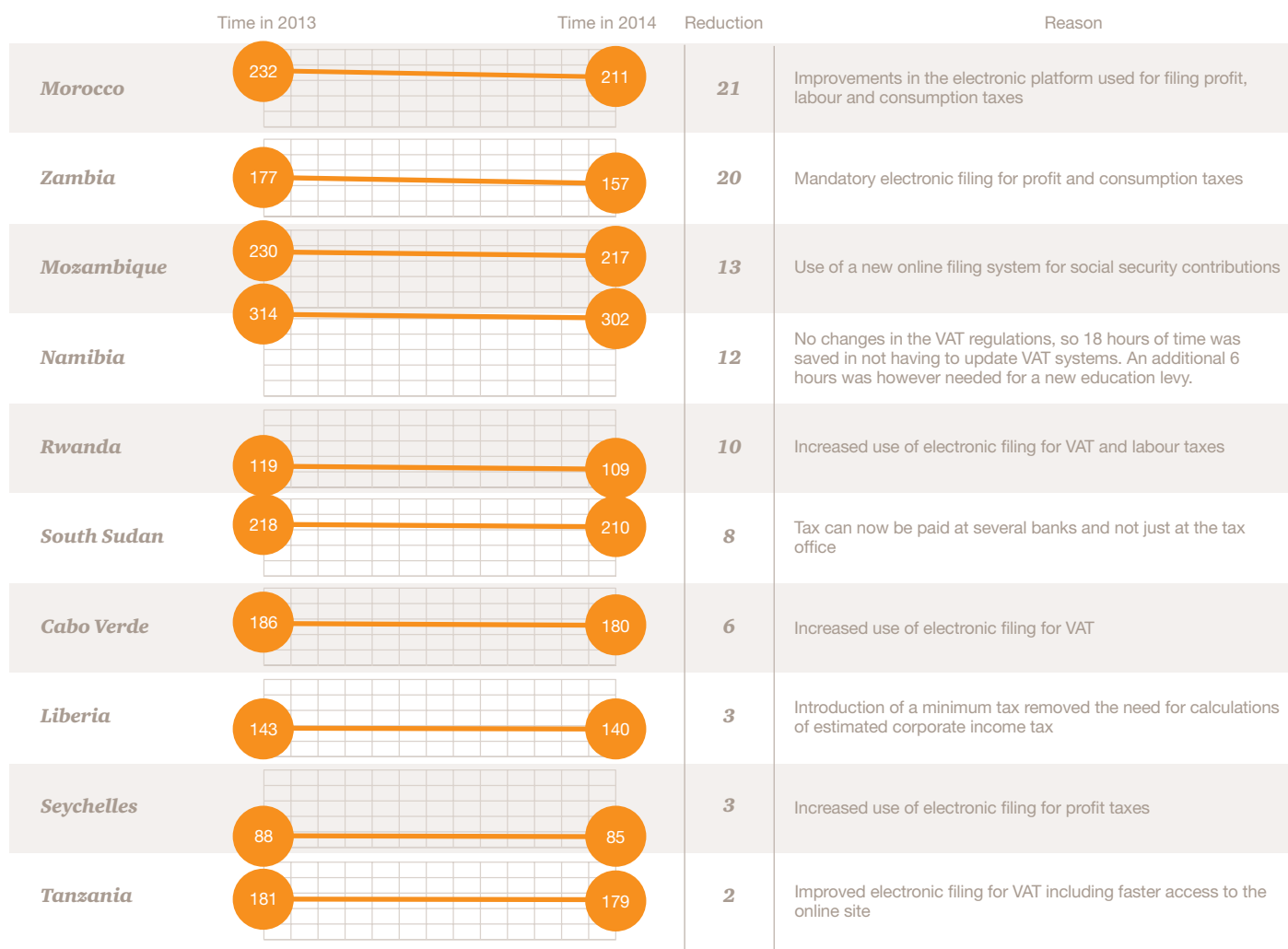
Other than the reductions in time to comply mentioned earlier, a new social contribution was introduced in Democratic Republic of Congo that added 6 hours to the time required to comply with tax obligations as it is filed and paid separately from other taxes.

The largest decrease in the payments sub-indicator among the African economies was in Zambia, where full implementation of an electronic system for filing and paying VAT reduced the payments sub-indicator by 11. This was partially offset by increases in the number of payments arising from new taxes in five other economies:

- Benin – 2 payments, one for a radio tax and one for a TV tax both of which are levied on all persons subject to income tax.
- Democratic Republic of Congo – 2 payments due to a new social security contribution that is not filed and paid online.
- Republic of Congo – 1 payment due to a new tax on the occupancy of buildings which is paid separately from other taxes and replaces a tax on rental value (which was paid jointly with business tax).
- Namibia – 1 payment for the new Vocational Education and Training Levy described earlier.
- Sierra Leone – 1 payment as capital gains tax is now separate from corporate income tax.

Figure 2.16

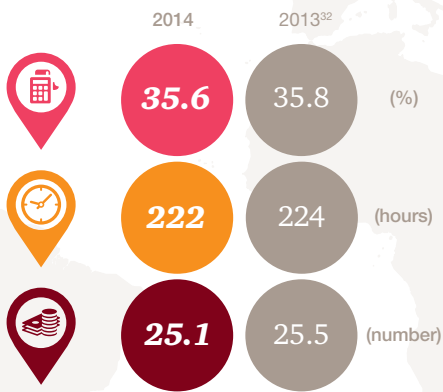
Reductions in the time to comply sub-indicator for Africa



Source: PwC Paying Taxes 2016 analysis.

Figure 2.17

Asia Pacific³¹



Asia Pacific

The Asia Pacific economies showed improvements across the board with reductions in all three sub-indicators. Brunei Darussalam, Indonesia and Vietnam improved the most overall in this region.

The Total Tax Rate for the Asia Pacific region decreased by 0.2 percentage points on average with the greatest reduction being in Brunei Darussalam where the Total Tax Rate decreased by 7.1 percentage points, mainly as a result of changes to the capital allowance provisions. The reduction in the Total Tax Rate generated by the changes in capital allowances was partially offset by the taxable profits of our case study company becoming fully subject to corporate income tax; previously some of the taxable profit had been exempt from tax. Furthermore, the rate of corporate income tax reduced from 20% to 18.5% in the year.

Indonesia reduced social security contributions paid by the employer from 6% to 4% of salaries, but imposed an additional health insurance contribution on employees of 0.5% rising to 1% of salary in 2015. This change in the employer's contributions reduced the Total Tax Rate by 1.7 percentage points to 29.7%, while the change in employees' contributions does not affect the Total Tax Rate.

Vietnam's Total Tax Rate fell by 1.4 percentage points to 39.4% as a result of the corporate income rate dropping from 25% to 22% and increased deductions available in respect of insurance premiums. The impact of these reductions in the Total Tax Rate was partially offset by the rate of employer's social security contributions increasing by 1 percentage point. A further reduction in the corporate income tax rate to 20% is planned for next year.

There were also reductions in the Total Tax Rate in Bangladesh and Myanmar, though they were smaller than those in Brunei Darussalam, Indonesia and Vietnam. Bangladesh reduced its corporate income tax rate from 37.5% to 35%, thereby reducing its Total Tax Rate by 0.9 percentage points to 31.6%. Myanmar's Total Tax Rate fell by 0.9 percentage points to 31.4% due to increases in tax depreciation rates for fixed assets. The reduction was partially offset by increases in employers' social security contributions.

The average time to comply for the region fell by 2 hours, though some of the economies in the region were responsible for both the biggest reduction and the biggest increase in time to comply across the world.

³¹ The following economies are included in our analysis of the Asia Pacific: Afghanistan; Australia; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; China; Fiji; Hong Kong SAR, China; India; Indonesia; Japan; Kiribati; Korea, Rep.; Lao PDR; Malaysia; Maldives; Marshall Islands; Micronesia, Fed. Sts.; Mongolia; Myanmar; Nepal; New Zealand; Pakistan; Palau; Papua New Guinea; Philippines; Samoa; Singapore; Solomon Islands; Sri Lanka; Taiwan, China; Thailand; Timor-Leste; Tonga; Vanuatu; Vietnam.

³² The information for 2013 has been updated to include any corrections made to the underlying data since the publication of the previous edition of *Paying Taxes*.

Vietnam showed the greatest reduction in time of any economy reducing its time to comply by 102 hours to 770 hours. The reduction occurred across all three types of tax as follows:

- Labour tax time fell by 62 hours as fewer supporting documents are required, new software was introduced, rules for calculating the tax liability were simplified and communications with tax authorities are now being carried out by email.
- VAT time fell by 27 hours as the company can now file on a quarterly rather than a monthly basis and fewer supporting documents are required.
- Corporate income tax time fell by 13 hours as, instead of a requirement to file quarterly, the tax return is now filed annually, with quarterly advance payments being made throughout the year.

Other significant reductions in time to comply in the region were in Indonesia (20 hours), Maldives (19 hours) and Malaysia (15 hours). In Indonesia and Malaysia the reduction was due to improved electronic systems for social security contributions while Maldives decreased its time by increasing the number of counters at the tax office, especially at peak times, which means shorter waiting times for taxpayers seeking to file their returns and make payments.

While Vietnam was the economy that decreased its time to comply the most, Myanmar and Kiribati increased theirs the most by 34 and 36 hours respectively. Despite the increase however, they both have a lower time to comply than the global average. Myanmar now requires corporate income tax to be estimated and paid quarterly and also increased the administration required around the documentation of VAT on purchases.

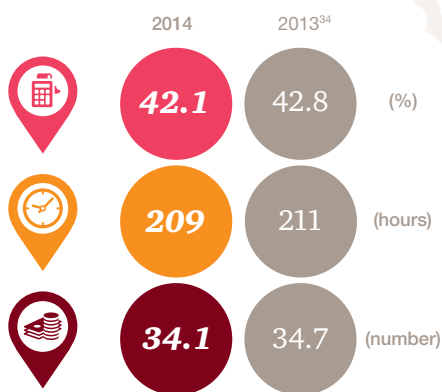
Kiribati introduced a VAT system in the year which accounts for the increase in its time to comply and also added 3 payments to its payments sub-indicator.

The number of payments decreased overall, with Indonesia reducing its payments by 11 due to social security contributions being paid and filed electronically; Brunei Darussalam reduced its payments by 9 by merging two of its labour taxes; and Vietnam decreased its payments by 2 as VAT payments are now made quarterly.

In addition to the new VAT payments in Kiribati, Tonga now has an additional payment following the reintroduction of business licences and the Republic of Korea also has an extra payment as local and national corporate income taxes are now paid and filed separately.

Figure 2.18

Central America & the Caribbean³³



Central America & the Caribbean

The Central America & the Caribbean region has continued to improve in all three sub-indicators. The average Total Tax Rate for the region has decreased by more than other regions with a fall of 0.7 percentage points. Of the twenty economies in the region, four increased their Total Tax Rates and five decreased them.

The decrease in the average Total Tax Rate was mainly driven by reforms in The Bahamas, Jamaica, and Guatemala. The Bahamas reduced the business licence tax from 1.5% to 1.25% of turnover and abolished the \$500,000 minimum liability; as the case study company had been paying the \$500,000 minimum in previous years this change resulted in a significant 7.4 percentage point decrease in the economy’s Total Tax Rate. On the other hand, the wage ceiling used for calculating employers’ social security contributions was raised slightly resulting in a marginal increase in the labour tax Total Tax Rate for The Bahamas.

There were several changes to taxes in Jamaica in the last year including increases in stamp duty, property transfer tax, property tax and labour taxes paid by the employer, but these were outweighed by a decrease in corporate income tax following the introduction of an Employment Tax Credit. The credit is equal to the amount of social security costs paid up to 30% of taxable trading profits. It could effectively reduce the headline rate of corporate income tax from 25% to 17.5%. For the case study company it decreased the Total Tax Rate by 6.4 percentage points. Furthermore, Jamaica increased the tax depreciation rate for buildings, which also contributed slightly to the reduction in the Total Tax Rate.

³³ The following economies are included in our analysis of Central America & the Caribbean: Antigua and Barbuda; Bahamas, The; Barbados; Belize; Cost Rica; Dominica; Dominican Republic; El Salvador; Grenada; Guatemala; Haiti; Honduras; Jamaica; Nicaragua; Panama; Puerto Rico (U.S); St. Kitts and Nevis; St. Lucia; St. Vincent and the Grenadines; Trinidad and Tobago.

³⁴ The information for 2013 has been updated to include any corrections made to the underlying data since the publication of the previous edition of *Paying Taxes*.

Guatemala's Total Tax Rate fell by 2.4 percentage points following the reduction of the corporate income tax rate from 31% to 28%.

While The Bahamas abolished its minimum tax, Honduras and Jamaica both introduced a minimum tax. For Honduras its Total Tax Rate increased by 2.6 percentage points. Companies must now pay tax based on the higher of 1.5% of gross income, or 25% of net income. For the case study company, the tax on gross income is the higher. As a further example of how a minimum tax can operate, in Jamaica, the minimum tax of J\$60,000 is creditable against the corporate income tax. For the case study company, the actual corporate income tax payable by the case study company exceeds the minimum tax, so the minimum tax had no effect on Total Tax Rate, but increased the time to comply by 2 hours and the payments by 1.

Across the region, there was a small drop of 2 hours in the time to comply sub-indicator; the introduction of widely used electronic filing and/or payment systems led to reductions in administrative compliance burdens in Costa Rica, Jamaica and El Salvador.

For Costa Rica, the reduction in time of 12 hours and 14 payments was due to taxpayers, who already filed their corporate income tax and sales tax returns online, now also being able to use electronic payments rather than paying in person at a bank.

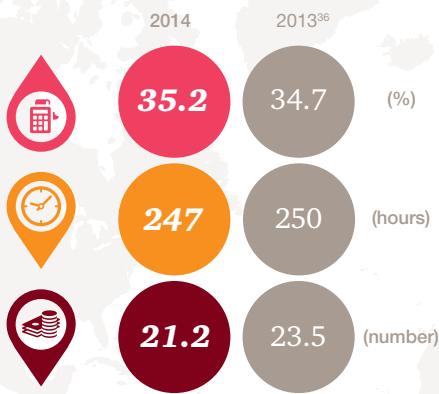
In Jamaica, the overall change to time to comply was a reduction by 10 hours. As electronic payment is now being more widely used, due in part to the charges now levied by banks on cheque transactions, this reduced the time to comply by 12 hours. However, this has not affected the payments sub-indicator as issues with the electronic filing system have meant that it is not yet used by the majority of taxpayers. The reduction in time was partially offset by the introduction of the minimum business tax mentioned earlier which increased time to comply by 2 hours, leaving a net reduction for Jamaica of 10 hours to comply.

El Salvador now requires that corporate income taxes are filed electronically, which reduced the time to comply by 8 hours, but there has as yet been no impact on the payments sub-indicator as payments are not made electronically by the majority of companies.

Finally, Barbados introduced a municipal solid waste tax, increasing its payments by 1.

Figure 2.19

Central Asia & Eastern Europe³⁵



Central Asia & Eastern Europe

Since the first edition of *Paying Taxes*, the Central Asia & Eastern Europe region has done the most to reduce its compliance sub-indicators and this has continued this year as shown in Figure 2.19. The Total Tax Rate sub-indicator for the region has also been falling steadily since the first edition, but this year that trend reversed with a 0.5 percentage point increase due to reforms in a number of the economies in the region. Of the 19 countries in the region, seven increased their Total Tax Rate, five decreased it and seven showed no change.

The greatest increase in the Total Tax Rate was by 5.2 percentage points in Albania where the rate of corporate income tax increased from 10% to 15% and the property tax doubled.

Although Macedonia's Total Tax Rate increased by 4.5 percentage points, it remains relatively low at 12.9%. The increase results from a fundamental reform to the country's corporate income tax system. As a consequence of the reform, corporate income tax is now due on realised profits calculated in accordance with relevant accounting and tax rules; previously corporate income tax was only due on distributed profits and certain expenses that could not be deducted for tax purposes.

Israel increased its corporate income tax rate from 25% to 26.5%, as well as increasing municipal taxes and the rate of employer's social security contributions for the upper income bracket. Altogether, these changes increased the country's Total Tax Rate by 1.4% points. Serbia changed its method of valuing properties for the property tax and slightly increased its environmental taxes, which jointly increased the economy's Total Tax Rate by 1.0 percentage point.

The greatest reduction in Total Tax Rate in the region was by 1.9 percentage points in Russia due largely to movable assets being excluded from property tax. Uzbekistan also reduced its land tax and reduced its headline rate of corporate income tax from 9% to 8%; the overall reduction in the country's Total Tax Rate was 1.0 percentage points. Another reduction in corporate income tax rates was seen in Ukraine where the rate fell from 19% to 18% resulting in a 0.5 percentage point drop in Total Tax Rate.

³⁵ The following economies are included in our analysis of Central Asia & Eastern Europe: Albania; Armenia; Azerbaijan; Belarus; Bosnia and Herzegovina; Georgia; Israel; Kazakhstan; Kosovo; Kyrgyz Republic; Macedonia, FYR; Moldova; Montenegro; Russian Federation; Serbia; Tajikistan; Turkey; Ukraine; Uzbekistan.

³⁶ The information for 2013 has been updated to include any corrections made to the underlying data since the publication of the previous edition of *Paying Taxes*.

As with the Middle East and EU & EFTA regions, in Central Asia & Eastern Europe labour taxes paid by employer account for the highest proportion of the Total Tax Rate. This year within the region we have seen several small increases in labour taxes paid by employers, though the impact is less than that attributable to changes in profit taxes. Most significantly, Turkey increased its social security contribution rate paid by employers from 14.5% to 15.5% and the rate of Moldova's health insurance contribution paid by employers rose from 3.5% to 4%.

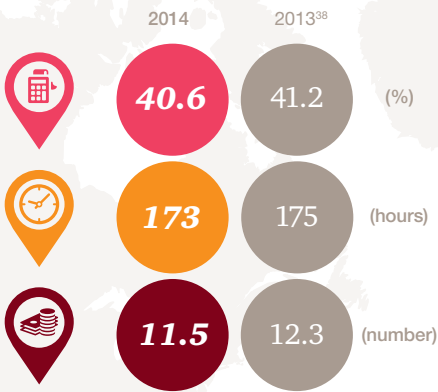
Central Asia & Eastern Europe has an average time to comply of 247 hours which is below the global average of 261 hours. The time to comply has reduced every year since 2005 and is the most improved of any region since the first edition of *Paying Taxes*. This year, the region saw a further reduction in compliance time and in the payments sub-indicator driven by reforms in 5 of the 19 economies in the region. Serbia recorded the highest reduction of 35 hours mainly as a result of full implementation of electronic filing systems for VAT and social security contributions, and it increased the use of existing electronic payment systems. Serbia's payments sub-indicator also fell by 13 as a consequence. The abolition of the urban land usage fee reduced Serbia's payment sub-indicator by a further 12 payments. As the fee was small, its abolition had a negligible impact on the country's Total Tax Rate.

Belarus reduced its compliance time by 7 hours by changing its quarterly corporate income tax compliance structure from a calculation based on forecast tax liability to one based on actual results, as well as by eliminating some differences in expense recognition for VAT and corporate income tax purposes, and further streamlining tax accounting rules. Montenegro's time reduced by 6 hours and its payments by 11 as taxpayers' use of electronic payment systems caught up with their use of electronic filing systems, and now the majority of companies fully uses electronic systems for social security contributions. In Tajikistan, the problems associated with the electronic systems introduced last year were remedied and as a consequence the time to comply reduced by 5 hours and the payments by 8. In contrast, Bosnia and Herzegovina's compliance time increased by 13 hours as taxpayers must now provide additional information as part of their VAT filings. Much of the increase in time is expected to be temporary as additional time was needed to make changes in companies' systems to be able to meet the new requirements.

Kosovo abolished the payment of business licence taxes reducing its payments by 1, while Kazakhstan increased its payments by 1 following the introduction of a contribution to the National Chamber of Entrepreneurs.

Figure 2.20

EU & EFTA³⁷



EU & EFTA

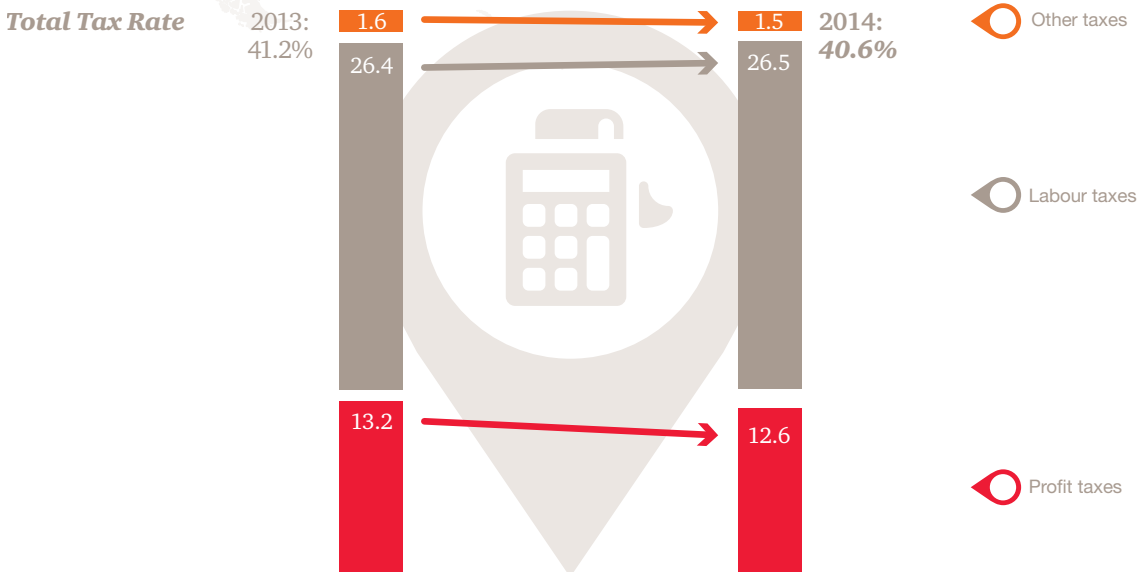
Since last year all three sub-indicators for the EU & EFTA region have decreased slightly.

Twenty economies in the region made reforms which affected their Total Tax Rates resulting in an overall reduction in the regional average from 41.2% to 40.6%. The picture however is mixed with 12 economies showing a decrease in their Total Tax Rates and 8 economies showing an increase. As shown in Figure 2.21 the reduction in the Total Tax Rate is attributable to profit taxes, though there is a slight increase in the labour tax Total Tax Rate.

Last year France had the highest Total Tax Rate in the region, but this has reduced by 6.2 percentage points to 62.7% and is now the second highest in the region after Italy. The greatest change was to corporate income taxes owing to the introduction of a tax credit amounting, in 2014, to 6% of salaries paid up to a certain limit. This reduced the Total Tax Rate by almost 6 percentage points. Between 2013 and 2014 there were also changes to several of the different types of social security contribution and payroll taxes paid by employers, resulting in a small overall decrease in the labour tax Total Tax Rate.

Figure 2.21

Movement in the Total Tax Rate in the EU & EFTA



Source: PwC *Paying Taxes 2016* analysis.

³⁷ The following economies are included in our analysis of the EU & EFTA: Austria; Belgium; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Iceland; Ireland; Italy; Latvia; Lithuania; Luxembourg; Malta; Netherlands; Norway; Poland; Portugal; Romania; San Marino; Slovak Republic; Slovenia; Spain; Sweden; Switzerland; United Kingdom.

³⁸ The information for 2013 has been updated to include any corrections made to the underlying data since the publication of the previous edition of *Paying Taxes*.

Other significant decreases in profit taxes occurred in Spain and Finland following the reduction in corporate income tax rates from a flat rate of 30% to progressive rates of 15% to 20% in Spain, and 24.5% to 20% in Finland. These, together with other smaller changes implemented in each of the two economies resulted in decreases of 8.1 percentage points and 2.1 percentage points to their Total Tax Rates respectively. In the case of Spain, the change in the headline tax rate is a targeted reduction that applies to companies in their first two years of operation. For Finland, the change was to the general headline rate of corporate income tax.

Other notable reductions in the profit tax Total Tax Rate include:

- In order to promote growth and investment, Denmark increased to 115% the tax depreciation that can be claimed in respect of assets bought between 30 May 2012 and December 2013. Furthermore, the Danish corporate income tax rate is gradually decreasing from 25% in 2013 to 24.5% in 2014, and further to 23.5% in 2015 and 22% in 2016. These changes resulted in a decrease of 1.6 percentage points in the country's Total Tax Rate for 2014.
- The United Kingdom's Total Tax Rate fell by 1.5 percentage points largely as a result of the corporation tax rate falling from 23% to 21%, with further reductions planned for the future. There were several other changes to the rates and thresholds for business tax and social security contributions paid by employers.
- Portugal moved from a flat corporate income tax rate of 25%, to taxing small and medium-sized companies at 17% on the first €15,000 of profit and 23% on the remaining profit. Largely as a result of this, the Total Tax Rate fell by 1.4 percentage points.

The most significant increases in the Total Tax Rate in the region were in the Netherlands, Croatia and Cyprus, and were mostly changes to employers' labour taxes that increased the rates at which social security contributions are levied or affected the bands for these charges. These changes were partially offset by decreases in employers' social security contributions in Greece and Romania, leaving a small overall increase in the labour tax Total Tax Rate for the region.

Last year, EU & EFTA was already the second most efficient region in terms of the time needed to comply with tax obligations, but this fell by a further 2 hours this year. The 2 hour drop in the average time to comply across the region resulted mainly from the introduction or enhancement of electronic filing and payment of VAT in the Slovak Republic (19 hours decrease), Poland (17 hours decrease), Spain (9 hours decrease), and the Czech Republic (8 hours decrease). Croatia also reformed the process of calculating the advance payment on corporate income tax which reduced the time to comply by 2 hours.

In the Slovak Republic, it has been possible for some time for companies to file and pay their VAT online and many companies have been using the system. Online payment and filing is now used by the majority of taxpayers and as a result the time to comply has been reduced by 19 hours. One notable feature of the system is that online payments are automatically linked to the relevant tax return using a coding system.

The 17 hour reduction in Poland is also due to the use of an online system for filing and paying VAT. Although the system has been available since 2012, it was only in 2014 that it began to be used by the majority of companies, resulting in the reduction in time being recorded.

In 2014 the time to comply with tax obligations in the EU & EFTA fell by 2 hours on average.

Spain's 9 hour reduction results from improvements to data submission and retrieval within its already widely used VAT system, while in the Czech Republic the system used to submit and store VAT reports was linked to the Ministry of Finance's web portal. This improved connection between different government systems reduced the time to comply by 8 hours.

Ireland's time to comply increased by 2 hours as the case study company now has to file financial statements in machine readable format as part of its tax return.

In Belgium the time increased by 1 hour following the introduction of a 'Fairness Tax' that applies to companies paying dividends and making use of tax losses brought forward and certain interest reliefs. While the case study company doesn't actually make a payment in respect of this tax, and the additional compliance time is low, the addition of a new tax increases the complexity inherent in the Belgian tax system as a whole.

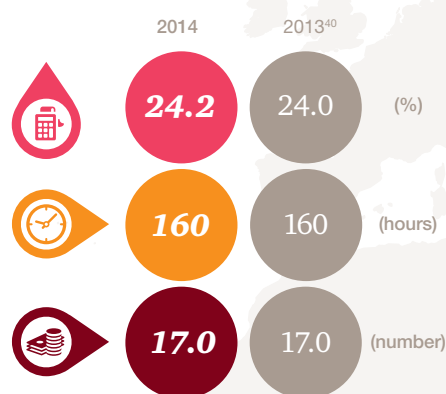
The changes in both Belgium and Ireland could be seen as being connected with the current tax debates where additional scrutiny is being demanded to ensure that companies are paying the 'right' amount of tax.

The reduction in payments for the region is closely linked to the changes in time to comply and the developments in electronic systems for VAT. Poland and the Slovak Republic both reduced their number of payments sub-indicator by 11 due to the implementation of online VAT systems. In Poland, the electronic system for transport tax shaved a further payment off the country's total payment sub-indicator. In Cyprus, online filing of corporate income tax has been mandatory for some time, but it was only in the last year that the majority of companies started making their payments online resulting in a drop of 2 payments and a reduction in time by 1 hour.

A new municipal tax was introduced in Italy increasing its payments by 1.

Figure 2.22

Middle East³⁹



Middle East

The Middle East still remains the region in which it is the easiest to pay taxes, with both the lowest average Total Tax Rate and the lowest average time to comply of all the regions. Most of the economies in the Middle East region have a Total Tax Rate below the threshold of 26.1% that is used for the distance to frontier calculation. Economies with a Total Tax Rate that is on or below this threshold are treated for the distance to frontier and ranking calculations as having reached the frontier. Any reductions in Total Tax Rate below 26.1% therefore have no further impact on the distance to frontier score or the overall ranking.

The Middle East region's time to comply is just 160 hours, some 455 hours lower than South America which is the region where it takes the longest on average for companies to comply with their tax obligations.

Perhaps unsurprisingly given its relatively low Total Tax Rate, the average Total Tax Rate has increased slightly by 0.2 percentage points due to reforms in some of the economies. In part, the low average Total Tax Rate in the region can be explained by a number of the economies deriving much of their revenues from the extraction of oil and gas and therefore needing to raise less revenue through taxation than many other economies in other regions. The Total Tax Rate of the United Arab Emirates increased by 1.1 percentage points due to an increase in the rate of the land transfer and registration tax from 2% to 4% (split equally between the buyer and the seller) and increases in business licence renewal fees. Both of these are counted as 'other' taxes. Jordan and Saudi Arabia increased employers' labour and social security contributions resulting in increases in their Total Tax Rates of 0.5 percentage points and 0.4 percentage points respectively.

There were no reforms that had an effect on the time to comply or the payments sub-indicators between 2013 and 2014.

³⁹ The following economies are included in our analysis of the Middle East: Bahrain; Iran, Islamic Republic; Iraq; Jordan; Kuwait; Lebanon; Oman; Qatar; Saudi Arabia; Syrian Arab Republic; United Arab Emirates; West Bank and Gaza; Yemen, Rep.

⁴⁰ The information for 2013 has been updated to include any corrections made to the underlying data since the publication of the previous edition of *Paying Taxes*.

Paying Taxes across the Middle East: a tale of divergent experiences.

Jeanine Daou, PwC Middle East Indirect Tax and Fiscal Reform Leader

Often any headline concerning taxes and the Middle East region is focussed around the relatively low taxation levels. And for some economies in the Middle East, this is reflected in their *Paying Taxes* results. However this headline does not tell the whole story. While paying tax is shown to be easy in the UAE, Qatar, Saudi Arabia, Bahrain, Oman and Kuwait, in the rest of the economies in the region including Lebanon, Jordan, Iraq and Iran, the results show a very different picture with a variety of tax rates as well as quite a range in the time required to fulfil the various compliance obligations.

Some economies across the region have been slow to adopt electronic filing technologies and self-assessment mechanisms, and it is also the case that post-filing obligations can be cumbersome, drawn out and time consuming.

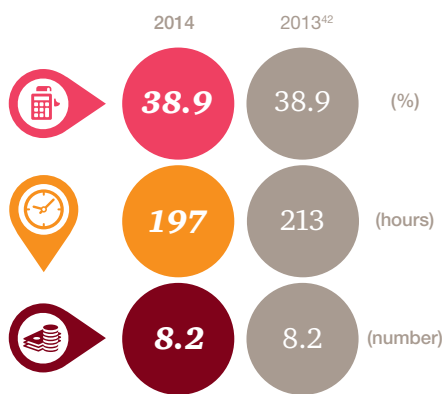
The pace of change in those Middle East economies where paying taxes is currently more burdensome, (including Iraq, Jordan and Lebanon) is slower and the *Paying Taxes* sub-indicators have remained largely the same as in previous years, so that now where reforms have been undertaken to improve tax systems by economies in other regions of the world they are now outperforming these Middle East economies.

A final issue to watch for the future for this region is that the oil exporting economies, given continued lower oil prices, appear increasingly likely to introduce new taxes, such as VAT, and this as a consequence will increase the necessary documentation and other compliance requirements.

As governments across the Middle East consider tax reform there remains significant opportunity to enhance collection mechanisms, providing greater certainty and reduced complexity for taxpayers through reform of administration practices.

Figure 2.23

North America⁴¹



North America

At 38.9%, North America's average Total Tax Rate is slightly below the global average of 40.8%. Although the regional average did not change, small movements in the Total Tax Rates were recorded in the USA and Mexico. For Mexico, the biggest change was to the minimum wage index which is used to calculate the social security contributions paid by employer. Combined with other minor changes, the overall impact of the changes in Mexico was, however, small, resulting in a decrease in the Total Tax Rate of less than 0.1 percentage points. In the USA, changes were observed only in New York City, where there was an increase in the base for calculating payroll taxes paid by employers and also in the rate of New York City and State property taxes. Again, the overall impact on the Total Tax Rate was 0.1 percentage points.

Since last year, the North American region's time to comply sub-indicator has reduced significantly by 16 hours due entirely to reforms in Mexico, where the business flat tax was abolished.

While the case study company did not pay the flat tax prior to its abolition, it would still have had to have performed lengthy calculations to determine the amount, compare this to the corporate income tax and then pay the larger of the two. For the case study company, the business flat tax therefore created a substantial administrative burden without affecting the company's tax liability.

Compared to the rest of the world, the proportion of time spent complying with profit taxes in North America is still the largest, with 43% of the time devoted to profit taxes. Across all the taxes, however, at 197 hours, the total time to comply with all taxes is still lower than the global average of 261 hours.

The average number of payments for the region remained unchanged at 8.2 payments and is still the lowest of all the regions.

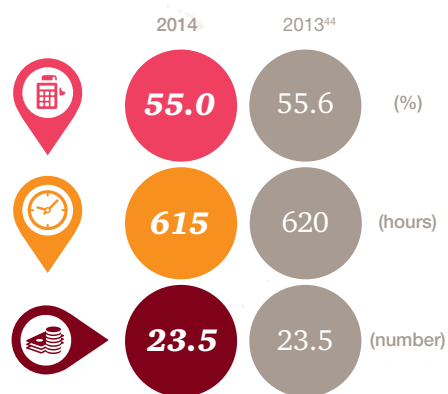
Compared to the rest of the world, the proportion of time spent complying with profit taxes in North America is still the largest.

⁴¹ The following economies are included in our analysis of North America: Canada; Mexico; United States.

⁴² The information for 2013 has been updated to include any corrections made to the underlying data since the publication of the previous edition of *Paying Taxes*.

Figure 2.24

South America⁴³



South America

Compared to last year, the average Total Tax Rate for the South American region has fallen by 0.6 percentage points and the average time to comply sub-indicator has dropped by 5 hours. The average number of payments sub-indicator remains unchanged at 23.5 payments.

The reduction in the Total Tax Rate is largely driven by changes to labour taxes paid by companies in Colombia which resulted in a decrease of 7.6 percentage points in the country's Total Tax Rate. From 2013, employers of workers who earn less than 10 times the statutory minimum wage are exempt from the Welfare Security Tax, and from employers' contributions to the Colombian Family Welfare Institute and to the National Apprenticeship Service. As these changes came into effect part way through 2013, the full impact of the changes was only felt in 2014. Even after these reductions, Colombia has a labour tax Total Tax Rate of 18.6% which is higher than both the regional average of 16.4% and the global average of 16.2%.

The regional impact of the reduction in the Total Tax Rate in Colombia was slightly offset by an increase in the headline corporate income tax rate in Chile from 20% to 21%. The Chilean corporate income tax rate is due to increase steadily over the next three years to 27% in 2017.

Of the 12 economies in the region, only Uruguay and Peru experienced a reduction in time to comply of 35 and 33 hours respectively. In Peru, there are mandatory electronic systems which allow a single record of employees to be kept and used for all labour taxes and the data can be rolled forward on the system from month to month. These systems have been in place for a number of years, but they have been continuously improved which has led to the reduction in the time to comply seen this year. This shows that it can take several years for electronic systems to generate real benefits for taxpayers.

There is a similar story in Uruguay where electronic systems for corporate income tax, social security contributions and for VAT have been in place for a couple of years. Continued improvements to these systems, including standardisation and simplification of forms and the increased use of electronic invoicing, have resulted in a reduction in the time to comply for 2014.

Reduction in Total Tax Rate driven by change to employers' labour taxes in Colombia.

⁴³ The following economies are included in our analysis of South America: Argentina; Bolivia; Brazil; Chile; Colombia; Ecuador; Guyana; Paraguay; Peru; Suriname; Uruguay; Venezuela, RB.

⁴⁴ The information for 2013 has been updated to include any corrections made to the underlying data since the publication of the previous edition of *Paying Taxes*.

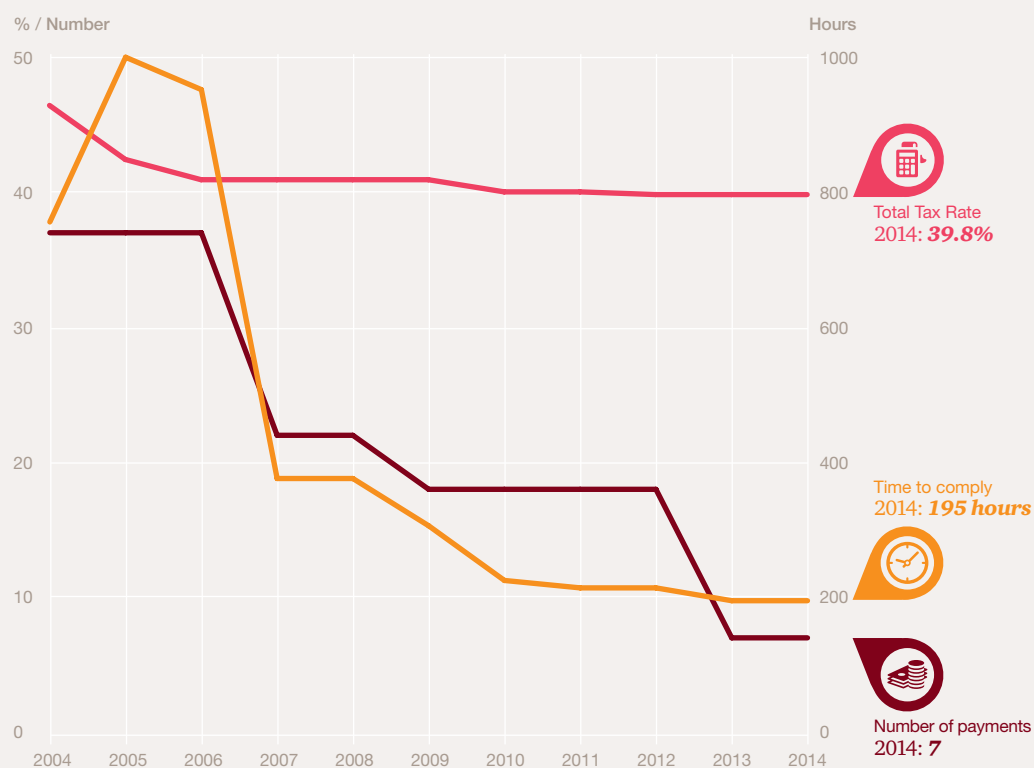
Azerbaijan

An improved tax system, but a more diverse tax base may be needed

Movlan Pashayev, PwC Azerbaijan

Figure 2.25

Trend in the *Paying Taxes* sub-indicators for Azerbaijan since 2004



Source: PwC *Paying Taxes 2016* analysis

Since Azerbaijan gained its independence in 1991, the country's tax system has made steady progress to a more modern tax system.

The transition period after independence lasted about ten years with the creation of a new tax administration and a focus on creating an environment to help promote foreign direct investment. The entry of many foreign oil and gas companies, who expected a certain level of service and transparency from the tax authorities, meant that the tax system in Azerbaijan required further reforms and structural changes.

As a result the country adopted a new tax code in 2001, which not only introduced new concepts, but also provided a catalyst for a change in the policy and approach of the entire tax administration.

The journey was however not without its challenges as Azerbaijan became increasingly dependent on oil and gas for its revenues. The decline in the share of indirect taxes from non-oil revenues reflected two main issues; first, VAT fraud and evasion reportedly intensified during 2004 – 2006, but this later declined. Second, consumption, which gives rise to VAT, grew more slowly than the population's nominal incomes and corporate profits, which are the bases for personal and corporate income taxes, respectively.

At this point around ten years ago, in the context of the country's economic and political development, the outstanding tax policy and administration issues that needed to be addressed were related to the projected decline in oil revenues in the next decade which, if not addressed, would lead to a slump in tax revenues. Therefore, in the last ten years, the focus of reforms has been on increasing tax revenues from the non-oil sector and modernising the tax administration system.

Overall, other than changes to the headline tax rates, Azerbaijan's tax legislation has remained largely unchanged over the past ten years. During this period, excise taxes were increased regularly while the corporate income tax rate was lowered from 24% to 20% to increase the competitiveness of the country for foreign direct investment as other countries in the region had reduced their rates. Furthermore, the combined social security contributions for employers and employees were reduced from 28% to 25%, while interest rates on unpaid tax fell from 0.5 % to 0.1%.

Since 1991, Azerbaijan has made steady progress towards a more modern tax system.

Over the same ten year period, tax collections in Azerbaijan have increased dramatically as shown in Figure 2.26.

For 2014 Azerbaijan's Total Tax Rate is 39.8% which is above the average for the Central Asia & Eastern Europe region of 35.2% though below the global average of 40.8%. Labour taxes and social contributions constitute the most significant part of the tax cost being 62% of the Total Tax Rate compared to 53% and 40% for the region and the world respectively.⁴⁵

On the compliance indicators, Azerbaijan fares considerably better than the world and the regional averages with just 7 payments and 195 hours, compared to 21.2 payments and 247 hours for the region and 25.6 payments and 261 hours globally.

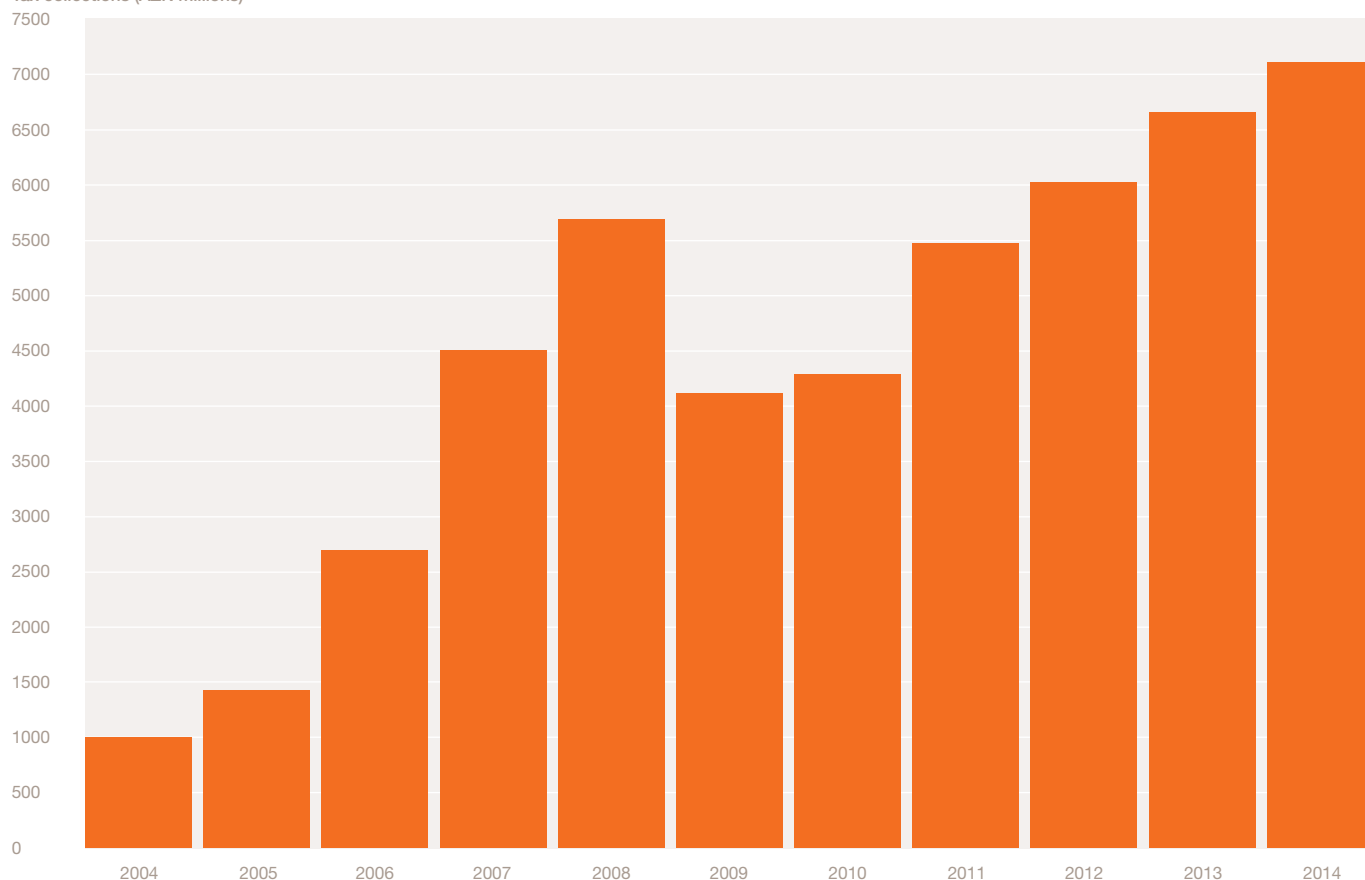
Since 2006, the country's Total Tax Rate has not fallen significantly, while the two compliance sub-indicators have improved substantially following the reforms the government began implementing in 2005. The reforms were aimed at establishing a strong foundation for a modern tax administration. The reforms included: the adoption of automated systems in several functions, and the creation of a taxpayers' services program.

The modernisation process continued in 2007 and 2008 with: (i) the tightening of the VAT registration controls; (ii) the implementation of an integrated computer system for all taxes; (iii) the introduction of electronic filing with a special webpage created for the taxpayers to have the possibility to write and send or receive all documents to/from the tax authorities in electronic form; (iv) the establishment of a one-stop shop business registration in 2008; and (v) the strengthening of human resources management and performance measurement.

Figure 2.26

Tax collections in Azerbaijan

Tax collections (AZN millions)



Source: Azerbaijan Ministry of Taxes, <http://www.azstat.org/MESearch/details?lang=az&type=2&id=238&departament=15>

⁴⁵Please refer to the regional breakdown in Appendix 2 to see Azerbaijan's rates amongst the Central Asia and Eastern Europe region.

Many of these changes have had a direct impact on the compliance sub-indicators, with the payments sub-indicator having reduced from 37 in 2004 to 7 in 2014 and the time to comply from 756 to 195 over the same period.

There have also been reforms to post-filing compliance. The tax dispute resolution process has been enhanced by the establishment of a Tax Appeals Board, the creation of new audit procedures that are more focussed on risk-management and the implementation of e-audit software.

The country does however face a number of challenges including the existence of a large cash-based informal economy which increases the difficulties associated with collecting taxes from industries outside the oil sector. The absence of records for cash transactions can cause a significant erosion of the tax base, especially for VAT.

The main tax administration problems related to VAT collection have however been largely corrected in recent years. Action has been taken to reduce a widely used fraudulent practice consisting of the establishment of fictitious businesses with the sole purpose of requesting VAT refunds and non-compliance with registration procedures.. These problems have been tackled by cleaning up the VAT register, which halved the number of registered VAT taxpayers and at the same time, registration controls were strengthened, including a system of special VAT bank accounts which became effective on 1 January 2008.⁴⁶ In addition, the Customs Committee has implemented a 'single window' facility for customs clearance and card payments, with a view to increasing transparency in the implementation of customs regulations and reducing face to face interactions between importers and customs officials. Such face to face interactions can provide an opportunity for instances of corruption and so replacing such transactions with electronic systems can help to reduce the number of irregular payments and bribes.

What is next ?

Currently one of most significant fiscal challenges for Azerbaijan is to increase the performance of the non-oil sectors and thereby increase the share of tax revenues coming from industries other than oil and gas. The drastic fall in global oil prices, as well as a decrease in the country's oil production, contributed to a significant economic slowdown in 2014. Azerbaijan's GDP grew by only 2.8 % in 2014 compared to 5.8% in 2013. A similar rate of GDP growth is expected in 2015 and, possibly, in 2016.⁴⁷

To some extent the impact of falling oil prices is being mitigated by a stronger performance in Azerbaijan's non-energy related industries. Non-oil GDP, including construction, agriculture, transport and communications sectors, grew by 7% in 2014, while oil-related GDP contracted by 2.9%.⁴⁸ Azerbaijan was also able to rely on its sovereign wealth fund, SOFAZ.⁴⁹

While on-going diversification and the resources of its oil fund may mean Azerbaijan will weather the drop in oil prices, non-oil tax revenues are currently regarded by many as being below their potential and so expanding the tax base and providing better tax and customs administration are important tasks for the Government and Ministry of Taxes.

For 2015, Azerbaijan is projected to grow by 1.5 percent based on conservative oil prices of \$55 per barrel, though government funding in investment projects has been cut by more than 50 percent in the 2016 fiscal budget.⁵⁰ The growth rate is a slowdown compared to 2014, which had a budgeted price of \$90 per barrel. This forecast indicates that Azerbaijan's economy is facing considerable challenges and underlines the need to continue to maximise tax revenues from non-oil and gas sectors. To support this, substantial institutional reforms may be necessary.

Future reforms should look at how to widen the tax base and promote transparency and trust in the revenue administration system thereby increasing public revenue collection. Such changes would support the government in developing a sustainable source of revenues with which to finance its development plans, including public service delivery, in the long term. This should form a core part of the governance strategy to improve state institutions, promote accountability and target corruption.

Future reforms should look at how to widen the tax base and promote transparency.

⁴⁶ For more information relating to VAT accounts, please see here: <http://www.iota-tax.org/content/view/379/39/>.

⁴⁷ <http://www.worldbank.org/content/dam/Worldbank/document/Azerbaijan-Snapshot.pdf>

⁴⁸ Source: <http://data.worldbank.org/country/azerbaijan>

⁴⁹ SOFAZ has assets of over \$37 billion. For more information, see: http://www.oilfund.az/uploads/annual_2014en.pdf

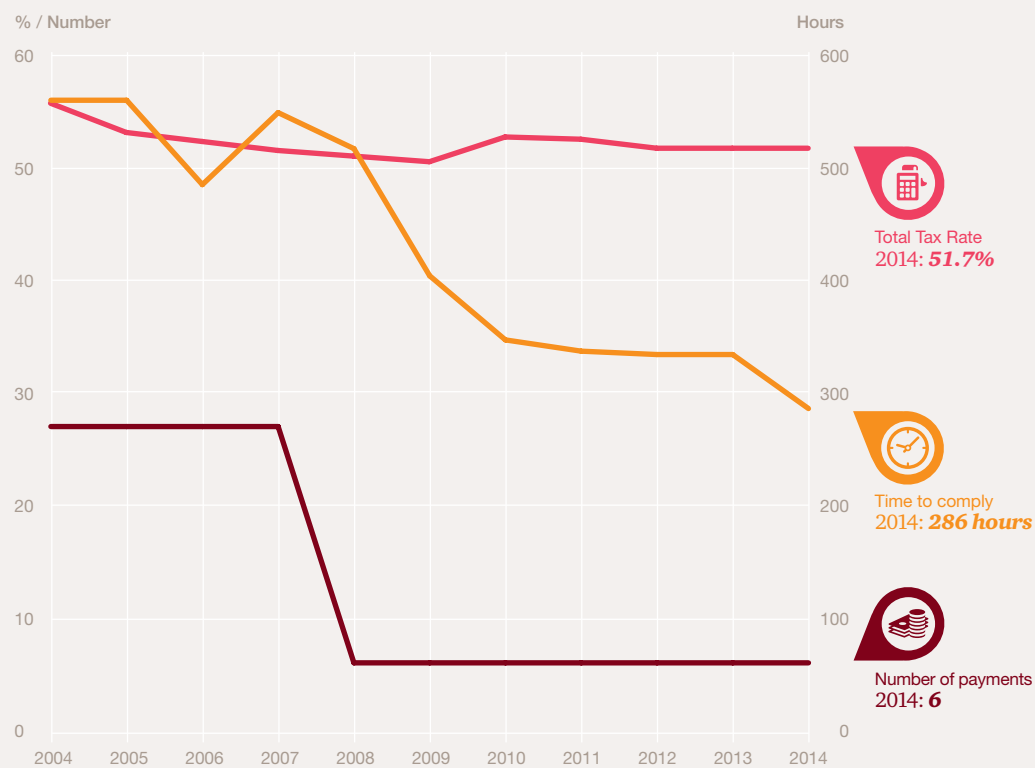
⁵⁰ http://data.worldbank.org/country/azerbaijan#cp_wdi

Mexico

Changing the tax system to address the informal economy

Mauricio Hurtado de Mendoza, PwC Mexico

Figure 2.27
Trend in the *Paying Taxes* sub-indicators for Mexico since 2004



Source: PwC *Paying Taxes 2016* analysis

Mexico has always been an important market for foreign investors with an economy which is becoming increasingly diverse. The service sector is significant, the commercial sector (including hotels and restaurants) also accounts for a large percentage of Mexico's Gross Domestic Product (GDP), while approximately one quarter of the total working population is employed in agriculture, cattle ranching, forestry, and fishing.⁵¹ In recent years, manufactured goods have surpassed oil as the principal export item.⁵²

Against this background, the tax system and how it operates has presented many challenges for the Mexican government. These include a significant informal economy and the cost of tax evasion, driving a need to find the correct balance between offering an attractive environment for investors and establishing an efficient tax system that delivers sufficient revenue for the country's needs. The government also has a need to adapt its legal framework to work alongside the new initiatives around international cooperation including the OECD BEPS programme.

The challenge of the informal economy

Parts of the Mexican economy are still characterised by informal employment with unregistered employees who operate outside usual government regulations and who lack access to stable incomes, a good education, comprehensive healthcare and affordable financial services. The main reasons for this informality is financial, including tax evasion. Measuring the actual extent of informality in the economy is very difficult, but worldwide, it is estimated that the informal sector represents between 10% and 20% of global output in developed countries, but more than a third of the output of developing countries.⁵³ According to Mexico's National Institute of Statistics and Geography, the informal economy accounted for an average of 26% of Mexico's GDP between 2000 and 2009.⁵⁴ The challenge for the government is to try and convince this large informal workforce to pay taxes in return for the benefits of social security. In 2014 Mexico introduced an 'incorporation regime' to encourage those in the informal economy into paying taxes over a period of time. Under this regime they only become fully tax paying ten years after enrolling into the program. In return, they would receive social security from the start, including public healthcare cover.

⁵¹ BOLETÍN DE PRENSA NÚM. 155/15 27 DE ABRIL DE 2015 AGUASCALIENTES, AGS. PÁGINA 1/2 INDICADORES DE OCUPACIÓN Y EMPLEO CIFRAS OPORTUNAS DURANTE MARZO DE 2015.

⁵² BOLETÍN DE PRENSA NÚM. 154/15 27 DE ABRIL DE 2015 AGUASCALIENTES, AGS. PÁGINA 1/2 INFORMACIÓN OPORTUNA SOBRE LA BALANZA COMERCIAL DE MERCANCÍAS DE MÉXICO DURANTE MARZO DE 2015.

⁵³ Informal Economy and the World Bank. Nancy Benjamin with Kathleen Beegle, Francesca Recanatini and Massimiliano Santini. The World Bank Poverty Reduction and Economic Management Network, Economic Policy and Debt Department, May 2014.

⁵⁴ <http://www.inegi.org.mx/est/contenidos/proyectos/cn/informal/>

For any jurisdiction, a tax system needs to be both fast and efficient, while at the same time being able to meet the revenue needs of that jurisdiction. A fast and efficient administration for tax collection can be beneficial for both business and government – less time consuming and less costly for businesses, and often with higher revenue for governments. An overriding principle for governments to consider (among a number of other factors) is that simple tax systems coupled with fast and efficient administrations can help promote economic growth by creating a predictable environment from which both businesses and governments can benefit in the long run. In a competitive global market, the design of a tax system can influence multinational enterprises when deciding where to invest, or the timing for a decision to make a long term commitment to a specific country.

Changes in the operation of the tax system

Although electronic filing and payment of the main taxes has been available in Mexico for several years, and accounts in large for the reductions in the compliance sub-indicators between 2004 and 2010, there have been more recent developments in the electronic systems for tax compliance.

In order for the Mexican Tax Authority (Servicio de Administración Tributaria or SAT) to carry-out real time audits, it is now a requirement for corporations and individuals operating in Mexico, not only to issue electronic invoices, but also to file accounting information through its mailbox system. Information required includes the chart of accounts, as well as monthly transaction details with identification of third parties involved. By mandating the use of electronic invoices in 2013, Mexico's audit capability continues to evolve as the tax authority now has insight into each invoice exchanged within the country. The main reason for the government to implement electronic invoicing (Comprobante Fiscal Digital por Internet or CFDI) across the business community and to request the company's entire financial statements, including the detail book entries, is to reduce tax evasion. Such an approach is common for the region: Brazil has the Notas Fiscais and Sistema Público de Escrituração Digital (SPED); Chile has the Documentos Tributarios Electrónicos (DTE) and Reporte de Libros (Libro de Boletas, Libro de Guías, Libro de Venta and Libro de Compra); Mexico has the CFDI and electronic accounting.

In an effort to facilitate complying with this obligation, particularly for small businesses, in 2014 the Mexican government introduced rules that expand the use of electronic means to facilitate tax compliance through My Accounts; this is an application on its website which taxpayers can use to issue their electronic invoices for free. The tax mailbox is also accessed through this route. These applications also include the requirement to upload electronic receipts for payroll. The introduction of this system is beneficial but it is important to keep in mind that the introduction of any new system or tax obligation brings with it a steep learning curve with a consequent impact on costs and time required.

Major reforms have been made to most types of taxes over the period covered by the *Paying Taxes* study, including profit, consumption, energy and other taxes. In terms of corporate taxation, limits on depreciation allowances were imposed and the Impuesto Empresarial a Tasa Única (IETU) flat tax, was eliminated. Consumption taxation was broadened by applying the same tax rates across the entire country. New excise taxes have been imposed on fossil fuels (except natural gas). For personal taxation, the top marginal rate was raised to 35%, and limits were imposed on the deductions available. Finally, a carbon tax and taxes on high-calorie foods and sweetened beverages were introduced. Despite these changes, and in particular those that relate to taxes covered by the *Paying Taxes* study, Mexico's Total Tax Rate has remained at broadly the same level for several years.

Certain measures which have been introduced by the tax authorities have increased the pressure on taxpayers, including:

- Auditing several fiscal years at the same time.
- In certain circumstances, the SAT has seized taxpayers' bank accounts and removed them from the Importers Registry (which means taxpayers can no longer import merchandise) to put pressure on taxpayers to pay unpaid taxes.
- In some cases, delaying the reimbursement process for tax credits and refunds or not making the refund at all in some cases

In 2013 the Mexican government had expressed that simplicity is a desirable attribute for the tax system and that the less complex the design tax of the tax system, the more affordable it would be for taxpayers, with the expectation that this should result in a higher level of compliance, increased collection and a more equitable tax burden distribution among taxpayers. Reference was also made to the fact that in addition to the burden on time, complexity in the system required companies to hire specialists whose time could otherwise be used for more productive purposes in the economy. The cost of complex regimes extends further to a high cost of control and audit by the tax authority.

With these principles around simplicity in mind, the Mexican government decided to repeal of the IETU. Since the 1980s Mexico had included as part of the domestic tax rules the requirement to determine an Alternative Minimum Tax (AMT) of which IETU is an example. This was a mechanism created to ensure that individuals and corporations pay at least some minimum amount of tax, regardless of deductions, credits or exemptions. Prior to the abolition of IETU, the *Paying Taxes* case study company did not in fact pay the minimum tax as it paid sufficient corporate income tax, but still had to calculate the amount of IETU in 2014 to which it could have been liable. Removing this obligation reduced the time to comply by 48 hours.

What's next for the Mexican tax system?

But not all the reforms announced have been increases in tax or changes to deduction/disallowance rules; in 2014, the Mexican Ministry of Finance announced an agreement stating that there will be no further tax modifications initiated by the executive power until November 2018, placing trust in the implementation of measures already approved and in the strength of the technological platform which supports the tax administration.

It seems likely, however, notwithstanding the current commitment of the Mexican government to make no further tax law changes for the rest of its six year administration, that the Mexican Congress or the States could initiate changes to the tax system to further promote economic development or benefit the business community. Such changes might include measures to promote investment and employment, as well as people development and innovation. This could be achieved by offering benefits such as simplified tax incentives for investments, the creation of jobs, actions to support innovation and enhance productivity.

A well designed tax system can bring about the additional public revenues which are needed to finance extra spending on strategic areas such as education and infrastructure. Cutting public spending to ensure budget discipline in the face of revenue deceleration is becoming more recurrent in Mexico. Proper reforms will be crucial to guarantee a sustainable recovery. This will require maintaining a strong political commitment and further strengthening of administrative capacity going hand-in-hand with an efficient tax program.

In 2013, Mexico abolished its alternative minimum tax.

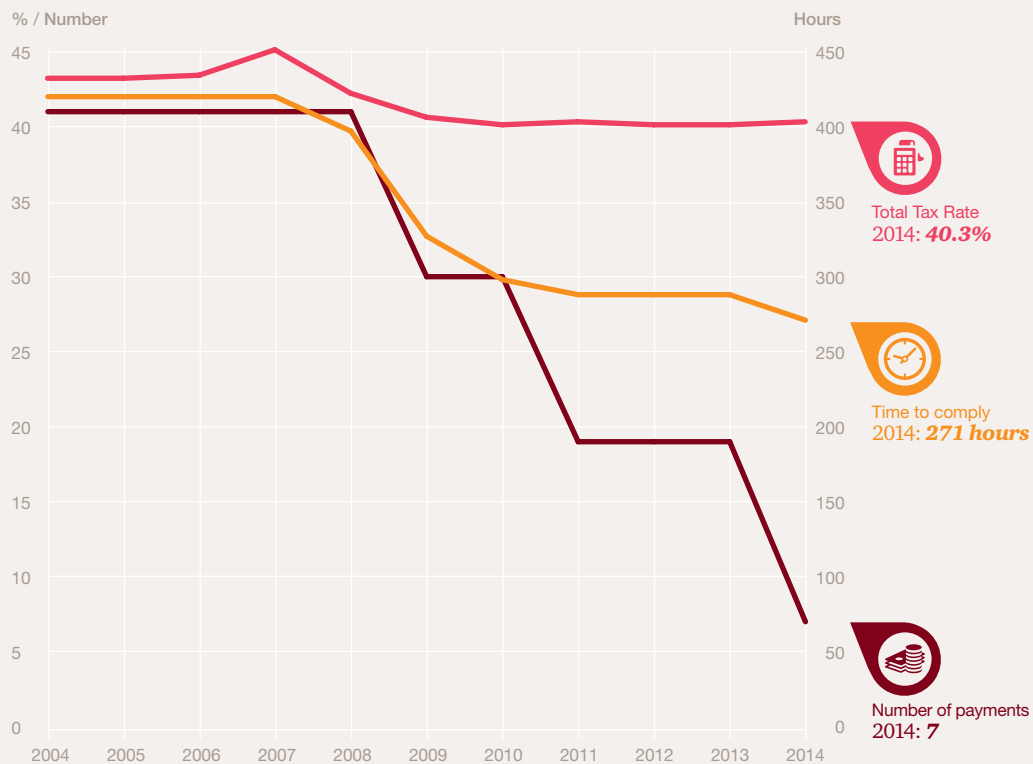
Poland

The Polish tax system: heading in the right direction

Tomasz Baranczyk, PwC Poland

Figure 2.28

Trend in the *Paying Taxes* sub-indicators for Poland since 2004



Source: PwC *Paying Taxes 2016* analysis

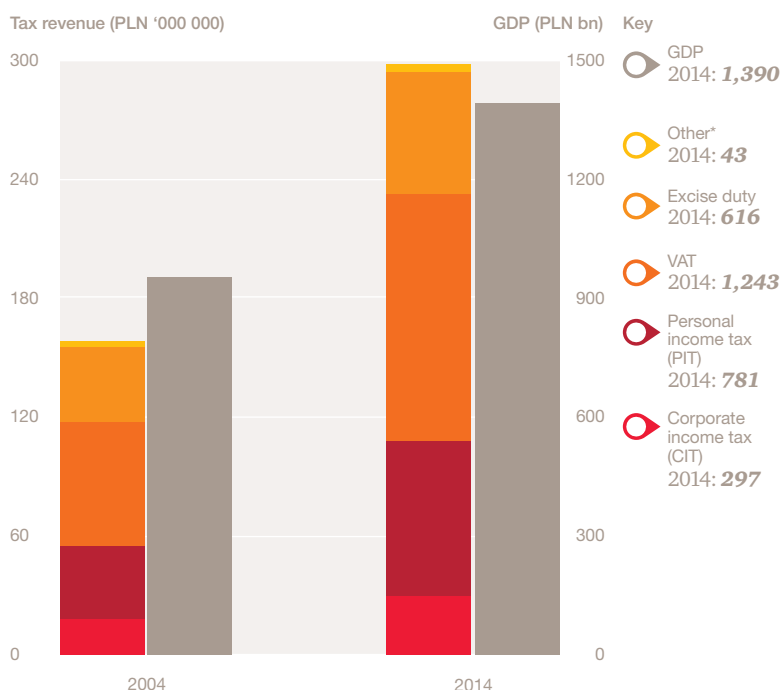
The Polish economy has evolved significantly over the time period covered by the ten editions of *Paying Taxes*. The transition to a market economy, accession to the European Union and the gradual implementation of commonly applied global tax and legal practices have all had a significant effect on the Polish tax system. Many of these changes have had an impact on the *Paying Taxes* sub-indicators for Poland while others, although they go beyond what the study measures, have nevertheless resulted in real changes for businesses.

In general, the *Paying Taxes* sub-indicators show that in Poland it is becoming easier for businesses to pay their taxes. The number of hours needed to comply with tax obligations decreased from 420 in 2004 to 271 in 2014; the number of payments sub-indicator has reduced from 41 to 7, and the Total Tax Rate has reduced from 43.2% to 40.3% over the same period. The changes with the greatest impact on the sub-indicators are largely a result of the *E-podatki* (E-taxes) programme which has been under way for several years and which is aimed at increasing contact between taxpayers and the tax administration. As part of the programme the electronic Tax Portal was recently launched and a pre-populated tax return has now been made available. From 2015, all but the smallest companies are required to file their tax returns using an electronic format.

Also in 2015, a new Tax Administration Act entered into force, the main purpose of which is to facilitate settlements and communication with the tax authorities. For example, taxpayer service centres are expected to be opened where taxpayers will be able to file certain returns irrespective of the local jurisdiction to which they relate, and tax assistants will be made available as required to assist people who are new to starting up a business. These practical changes, along with applying the principle of giving the taxpayer the benefit of the doubt, should provide further benefits for many taxpayers in the future. It is of note that alongside these improvements to the tax system there is evidence that the effectiveness of the Polish tax system has increased – according to the Ministry of Finance, proceeds from taxation almost doubled from approximately PLN 158 billion in 2004 to approximately PLN 298 billion in 2014. Over the same period the average annual inflation rate was less than 2.5%.⁵⁵

Figure 2.29

Polish tax revenue profile 2004 vs 2014: tax collection and GDP



* Other includes gambling tax, duty and other taxes

Source: Polska w Unii Europejskiej 2004-2014, page 115 available at: <http://stat.gov.pl/dla-mediow/konferencje-prasowe/konferencja-prasowa-prezesa-gus-z-24-kwietnia-2014-r-5,1.html#>

Source: Polish Tax revenues, available at: http://www.finanse.mf.gov.pl/budzet-panstwa/wplywy-budzetowe/-/document_library_display/u2GC/view/3406416

⁵⁵ See <http://www.inflation.eu/inflation-rates/poland/historic-inflation/cpi-inflation-poland.aspx>

Taking each of the three *Paying Taxes* sub-indicators in turn, what follows is a look at the changes that have occurred over the ten editions of *Paying Taxes*, highlighting some of the most important reforms.

1. Time to comply

Paying Taxes shows that the average time needed by the case study company to meet its tax compliance obligations decreased from 420 to 271 hours since 2004 – a reduction of 35%. The reduction is due to both new regulatory measures and advances in technology. The increasingly modern systems that companies have in place to prepare and file their taxes have allowed them to reduce the amount of time needed for the compliance process. In addition, online money transfers are more and more popular and have significantly reduced the payment time in the hours needed to comply. Most businesses now pay their taxes electronically, even though there is no legal requirement to do so.

The introduction in December 2008 of quarterly tax filing for VAT has also contributed to the reduction in the amount of time needed.

There have however been some factors that have had an adverse effect on the amount of time needed to prepare, file and pay taxes. These include the frequent changes made to the tax return forms, frequent changes in secondary legislation and general changes in the tax law (e.g. concerning tax exemptions). Keeping up to date with current trends in judicial decisions can also affect the amount of time needed to prepare tax returns. Even though Polish law is not based formally on judicial interpretation or precedents, in practice court and tribunals often refer to previous interpretations and judicial decisions. In particular, decisions of the Supreme Administrative Court (SAC) play an important role and time is required to keep abreast of these developments.

For many taxpayers, the introduction of payment backlog regulations in 2013 imposed an additional compliance burden. The aim of these regulations was to help businesses maintain financial liquidity, however, in practice they increased the administrative burden quite significantly. In accordance with these regulations, a business which fails to settle its liabilities within the statutory deadlines is obliged to increase its taxable profits by the amount left unpaid. The regulations have been strongly criticised by businesses and they are expected to be revoked as of 1 January 2016.

2. Payments

Since 2004, the number of payments has also reduced significantly from 41 in 2004 to 19 in 2011 and just 7 in 2014. This is mostly the result of the introduction and widespread adoption of electronic filing and payment of taxes for corporate income tax, social security contributions and, in the last year, for VAT. Under the *Paying Taxes* methodology, where a tax is filed and paid electronically by the majority of taxpayers, it is counted as one payment even though in practice a business may make more frequent payments. The growing popularity of electronic filing and payment systems has therefore led to a reduction in the sub-indicator for payments.

The decrease in the number of payments was also due to:

- The reduction of frequency of filing and payment of the property tax from monthly to annual, and
- The use of computerised settlement systems by taxpayers to accelerate the payment process.

3. Total Tax Rate

The Total Tax Rate for Poland has remained relatively stable over the ten editions of *Paying Taxes*. It is worth noting, however, that a significant decrease in the corporate income tax rate did take place in 2003, before the data collection on *Paying Taxes* started, when the 27% rate was abolished and the 19% rate was introduced.

For personal income tax there has been an important change in the tax bands; three tax bands of 19%, 30% and 40% were in force until the end of 2008, but these were changed to two bands of 18% and 30% as of 2009. While this change does not affect the Total Tax Rate for our case study company, as personal income tax is borne by employees rather than the company, it is nevertheless a significant change in the Polish tax system which illustrates the wider reforms being implemented.

In 2011, all four VAT rates were increased by 1 percentage point to 0%, 5%, 8% and 23%, although the government has stated that this increase is temporary. Again, this has not affected the Total Tax Rate as VAT is a tax borne by customers rather than companies, but the move in rate contrasts with the reductions in the corporate and personal income tax rates.

Finally, while minor changes in local tax rates and social insurance contributions are normally introduced every year, they have not resulted in significant changes to the Total Tax Rate.

4. Changes in the law and issues still to address

Over the past ten years, a number of changes have been made to improve the application of tax regulations. The appeals process has been a key element of this. As of 2004, a new appeals process was introduced whereby taxpayers can file 'cassation' appeals to the Supreme Administrative Court in relation to earlier decisions of lower courts. From 2005, taxpayers have been able to request binding individual tax rulings and the structure of these tax rulings was changed further in 2007 with the aim of providing better protection to the taxpayer. In 2015, specialisms have been introduced within the tax authorities, again with a view to improving the speed of the appeal process.

Since Poland's accession to the EU in 2004, Polish taxpayers have also had to take into account EU law. While this means there is more legislation to consider, it also provides access to some of the best practices available elsewhere in the EU. In recent years, the Polish tax system has been in the process of adapting and adopting the solutions prevailing in most other European countries concerning, for example, the taxation of CFC income, preparing transfer pricing documentation, thin capitalisation rules, or pre-filled tax returns. The introduction of the principle of giving the taxpayer the benefit of the doubt in disputes with the tax authorities is also planned for the future. These changes will mean that the Polish tax system is more in line with those in the rest of Europe and should make life easier for many businesses, especially those that also operate in other EU countries.

There are however some aspects of the Polish tax system that could be improved further. These include a reduction in the very frequent changes in tax law (e.g. in secondary legislation, particularly concerning VAT, and in the area of tax reliefs) and in the frequent changes to tax returns. There is also a lack of a uniform approach at a local level. An example is the lack of a common real estate tax form, which in practice means that a single real estate tax return cannot be filed for multiple properties located in a single municipality.

The approach and attitude of the tax authorities is also a factor that can affect the ease of paying taxes for companies. This can include unnecessarily onerous tax inspections and different interpretations of the same regulations applied by different tax authorities.

5. Summary

The *Paying Taxes* data over the period of the study suggests that the Polish tax system is heading in the right direction. Positive changes include in particular creating a transparent appeals process in relation to individual tax rulings, the reasonably stable tax rate structure, and the popularisation of electronic communication with the tax authorities including electronic filing of returns and making electronic payments. Introducing the principle of giving the taxpayer the benefit of the doubt in disputes with the tax authorities is also likely to make life easier for many taxpayers in the future. It should however be noted that some of the changes discussed here will not come into effect until 2015 at the earliest and so any potential impact will only be reflected in future editions of *Paying Taxes*.

The approach and attitude of the tax authorities can affect the ease of paying taxes for companies.

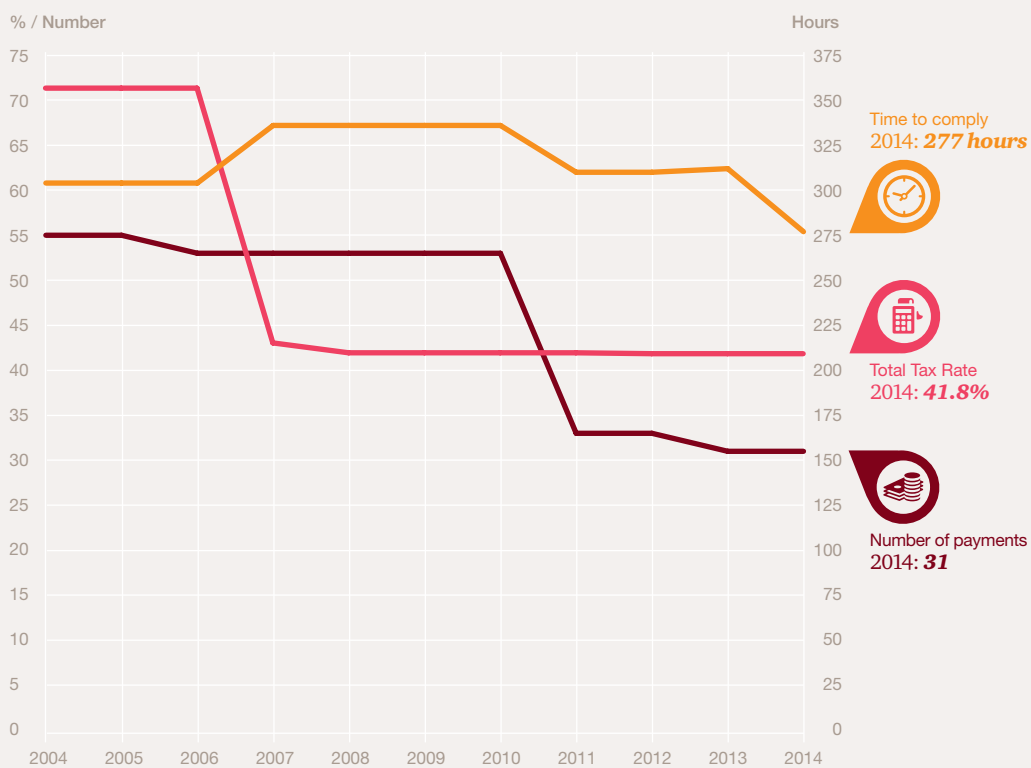
Uruguay

A reformed tax system with more registered taxpayers

Daniel Garcia, PwC Uruguay

Figure 2.30

Trend in the *Paying Taxes* sub-indicators for Uruguay since 2004



Source: PwC *Paying Taxes 2016* analysis

Since 2003, the Uruguayan economy has grown steadily and foreign direct investment has increased dramatically in different sectors of the economy. Furthermore, numerous measures have been taken to improve and develop the country, with the purpose of consolidating it as a preferred location in which to do business and make investments in South America.

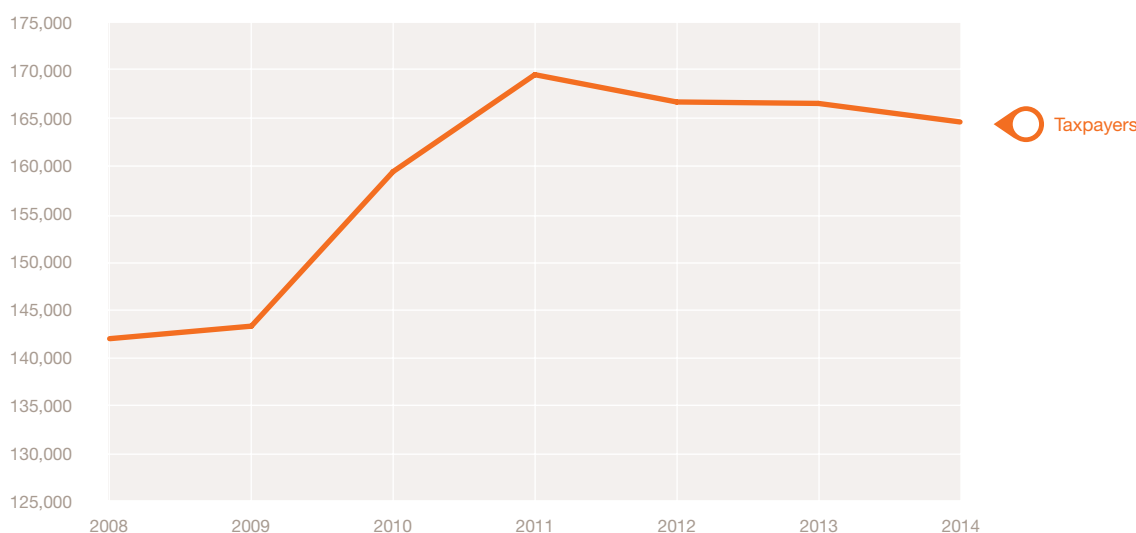
In line with this objective, the three *Paying Taxes* sub-indicators – time to comply with tax obligations, the number of tax payments and the Total Tax Rate – have fallen steadily during this period following changes to the tax system. The foundation of these changes was laid by the most significant tax reform experienced by Uruguay in the last 30 years.

The reform pursued three major objectives: better quality, greater efficiency and an increase in productive investment and employment. To achieve these goals, the new tax rules focussed on: (i) simplifying and modernising the structure of the tax system (eliminating taxes which contributed little to overall tax revenues such as commissions tax, telecommunications tax and credit cards tax); (ii) reducing the importance of consumption taxation in the total tax burden by increasing direct taxation (mainly through the introduction of personal income tax);

(iii) rationalising corporate taxation (through the inclusion of certain types of income that had previously not been subject to tax), as well as extending this tax to all activities. The business community was consulted during the drafting of the tax reforms and different stakeholders had the opportunity to give feedback to the government on the proposed changes. These changes entered into force in July 2007.

This significant tax reform was not limited to modifying the rules, but also changed and improved the systems and processes for administering them. The initial move was the modernisation of the Tax Office, initially enhancing the recruitment and retention of staff and then creating specialised divisions focussed on the different characteristics of taxpayers and industries. Within the formal economy, tax compliance is now easier and more procedures are automated (such as the registration and collection of tax payments). Assistance, both online and on site, is widely available for new taxpayers and as a result it is not surprising that the number of registered taxpayers increased by 16% since the implementation of the reforms (Figure 2.31).

Figure 2.31
Number of taxpayers in Uruguay



Source: Uruguayan Tax Office, Statistics Division

The introduction of technology and the discarding of manual processes has also had a considerable impact. The last and most iconic aspect of this process is the introduction of an electronic invoicing regime, into which taxpayers have been gradually incorporated since it was launched in 2011. It is believed that the quantity, quality and timeliness of the information received by the Tax Administration improved as a consequence of this regime, enabling more and better tax compliance control. The use of electronic invoicing occurs within the broader context of e-government, which Uruguay has progressively undertaken over the last decade.

As a result of this transition to improved tax structures and systems, further reductions in the informal economy are expected following on from the positive effects already seen to date. For example, data regarding the collection of VAT (still the main source of tax revenues) shows that the evasion rate decreased from 30% (2006) to 10% (2014).⁵⁶

The Financial Inclusion Act (effective as from 2014) has also played a key role in increasing the formal economy, by providing regulation for e-money and making it mandatory for companies and individuals to perform a wide variety of transactions through the banking system.

The government's support for and the protection of private investment has been demonstrated by the upholding of tax benefits granted to Free Zone (FZ) users. FZ companies are those exempt from all national taxes, including those for which a specific legal exemption is required, in connection with the activities performed within the FZ. Other sectors of the economy in which promotional benefits were granted are the forestry and the logistics industry. Additionally, to improve technology, increase exports and generate employment, in 2010 adjustments were introduced to enhance the investment law regulations.

The agricultural sector has also seen changes in the last decade with the gradual elimination of sector specific tax reliefs granted at the beginning of this century (such as the exemption of net wealth tax for rural assets and land). The additional revenues generated from these measures have been used to finance improvements in road infrastructure that will benefit this sector.

⁵⁶ Uruguayan Tax Office, Statistics Division, private correspondence

In the international arena, an important development has been the government's willingness to implement global standards for transparency and the exchange of information. Uruguay has begun to conclude double tax treaties and tax information exchange Agreements, following the OECD's guidelines and including some elements of the UN Model Treaty that are usually included in agreements with developing countries. Today Uruguay has more than 30 treaties. In order to make the exchange of information effective, it was necessary to amend domestic law provisions, moving from bearer titles towards nominative titles to identify individuals or legal entities holding titles in the capital of Uruguayan entities. Also in this line, banking secrecy relief is now possible (under certain particular circumstances), as a consequence of which relevant financial information can now be revealed to interested third parties.

The OECD Global Forum on Transparency and Exchange of Information for Tax Purposes issued a favourable report on Uruguay for Phase 1 of its program for monitoring compliance with international tax transparency standards. Later in 2012, Uruguay moved into Phase 2 of the program at which point the focus shifted to the verification of the application of the rules and to the existence of effective exchange of information. Phase 2 concluded successfully in 2014.

In this regard, in March 2015 the OECD Global Forum announced that Uruguay largely complies with the relevant international standard on transparency and information exchange. This recognition was the result of a process that started in 2009, and has been marked by the successful achievement of a number of milestones. The latest news on this issue was the commitment assumed by the Uruguayan government to adhere to the automatic exchange of information system in the near future (on the occasion of the seventh Forum meeting in Berlin in October 2014).

Although Uruguay has experienced all these changes over a relatively short period of time, economic stability, adherence to general economic principles, transparency and respect for contracts have always been traditional qualities of the Uruguayan political system and go beyond the specific programs of the different administrations throughout this period. In this regard, the Executive Branch has recently submitted for the consideration of Congress the bill for the national budget for 2015-2019.

It may not be a coincidence that despite the recent global economic difficulties, Uruguayan GDP has grown steadily, being one of the few countries in the Americas that did not experience a recession between 2007 and 2009.⁵⁷ In addition to the fragile economic situation in Europe, Uruguay's regional trading partners have experienced economic decline and trade barriers have significantly affected certain activities. Nevertheless, in Uruguay relevant social indicators such as unemployment reached a record low and exports markets have been diversified in order to reduce dependency on certain business partners. Likewise, the *Paying Taxes* sub-indicators have also shown an improvement over the recent period. This is undoubtedly the product of social, economic and political stability as well as the ongoing need to develop, enhance and sustain a pro-business agenda through a favourable investment climate.

Despite the measures and policies taken to this end, the Uruguayan government still has a long way to go. Further exploitation of the country's geography and natural characteristics could help to build its position as a regional hub and to establish it as a model country in relation to renewable energy.

Uruguay, as a developing country, has much work to do on these matters but has laid good foundations for its future development.

⁵⁷ <http://www.ine.gub.uy/web/guest/cuentas-nacionales>.

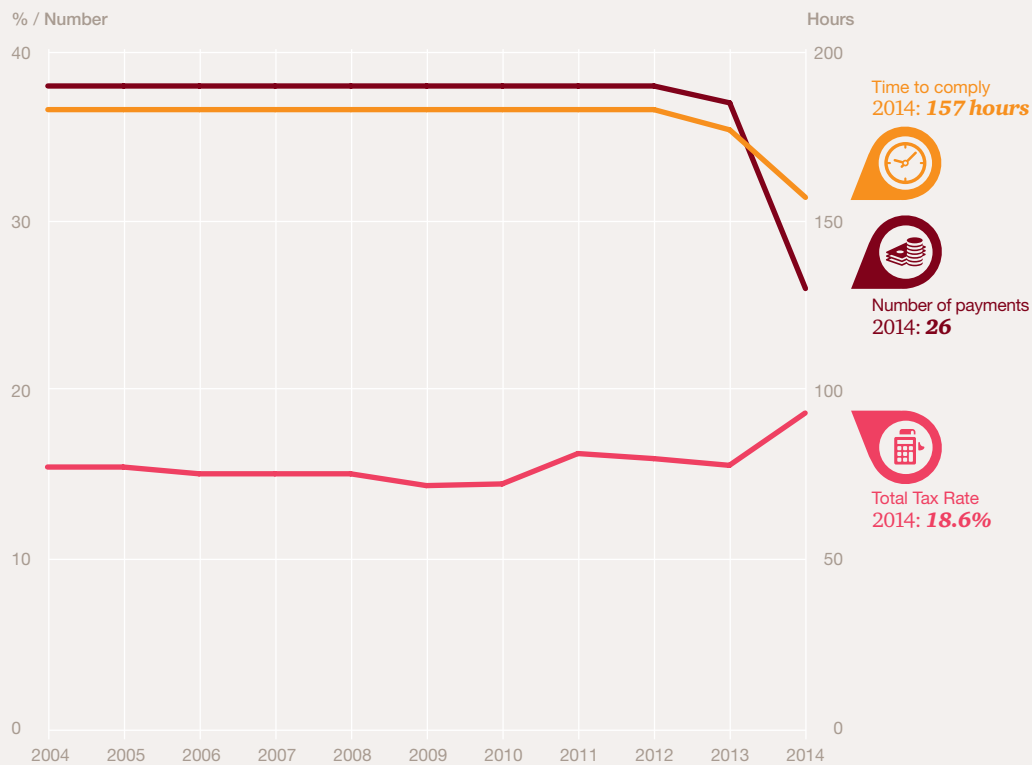
Zambia

Recent progress on compliance costs, but long-term tax policy still a challenge

Jyoti Mistry, PwC Zambia

Figure 2.32

Trend in the *Paying Taxes* sub-indicators for Zambia since 2004



Source: PwC *Paying Taxes 2016* analysis

Having remained fairly stable for the period from 2004 to 2012, Zambia's performance on the *Paying Taxes* sub-indicators has recently seen significant changes.

Total Tax Rate

The Total Tax Rate has increased from 15.5% in 2013 to 18.6% in 2014. Despite the increase, Zambia still has one of the lowest Total Tax Rate in Africa.

The low Total Tax Rate is largely attributable to a more favourable tax treatment afforded to the manufacturing and agricultural sectors. For instance, unlike other industry sectors, entities operating in the manufacturing and agricultural sectors can claim capital allowances at a rate of 50% on a straight line basis on the cost of plant or machinery purchased, as is the case for our case study company.

Zambia is largely dependent on earnings from mining of copper and other minerals and is vulnerable to movements in commodity markets. To reduce dependency on copper mining, the government is seeking to diversify the economy by developing other sectors. The government's key focus is to develop the agriculture and manufacturing sectors together with any other industries that add value. Hence, in addition to accelerated relief for capital expenditure in these sectors, investment in manufacturing, agriculture and other value adding sectors can also benefit from tax concessions (including corporate tax, withholding tax and import duty exemptions) granted by the Zambia Development Agency (ZDA), a body which promotes and facilitates trade and investment in Zambia. Taxpayers in these and other value adding sectors can further benefit from a reduced rate of corporate tax of 15% on non-traditional exports.

Given that the tax treatment in Zambia largely depends on the sector in which a company operates, the *Paying Taxes* Total Tax Rate for Zambia may not be reflective of the tax cost in other industry sectors such as telecommunications, financial services and mining. In these other sectors, the total taxes borne by companies tend to be higher.

Launch of TaxOnline

In October 2013, the Zambia Revenue Authority (ZRA) made progress on its commitment to address the high tax compliance costs for taxpayers with the introduction of 'TaxOnline', an electronic tax filing and tax payment system.

With the launch of TaxOnline, it is no longer necessary to physically go to the ZRA offices to register for taxes, file tax returns or make tax payments. Following the introduction of the web-based tax filing and payment system, the time taken to comply with tax obligations dropped by 3% in 2013, and by a further 11% in 2014. While these reductions in time are encouraging, there may be room for further improvements as not all teething problems have been fully ironed out and the ZRA may need to make a concerted effort to resolve any remaining issues before the benefit of the online system can be fully realised.

The story in the case of number of tax payments sub-indicator is more positive. The introduction of a web-based payment system reduced the payments sub-indicator by 11 payments between 2013 and 2014 as the majority of taxpayers now file and pay their VAT online. Online filing and payment is also available for corporate income tax, but many companies still prefer to pay this tax by cheque and so the payments sub-indicator does not yet reflect online filing and payment for corporate income tax.

It is also worth mentioning that in addition to rolling out an electronic tax filing and payment system for the key taxes, namely corporate income tax, VAT, withholding tax and personal income tax and social security contributions, the ZRA in 2014 also launched ASYCUDAWorld which automates the whole import and export customs declarations and payment process, thereby expediting customs clearance at the border post.

The modernisation of the tax administration and compliance system is to continue. The Minister of Finance in his 2016 budget speech announced that VAT registered suppliers will be required to use electronic fiscal registers which will be interfaced with the TaxOnline system. Whilst the primary aim of this measure may be to widen the tax base and minimise tax fraud, it should also provide the government and the ZRA with up to date information on the levels of business activity in the retail and wholesale sectors.

In order to improve efficiency and increase revenue collection, the last few years have seen various measures undertaken by both the government and the ZRA to improve capacity and reduce tax compliance and administration costs for taxpayers and the ZRA alike. In addition to introducing an electronic tax filing and payment system, there has been significant investment in building knowledge and capacity by the ZRA.

It is hoped that the recent reforms in tax administration will not be limited to the measures described earlier, but will be extended to improving the quality of tax legislation drafting and the frequency with which the various amendments to the Tax Acts are consolidated.

Additionally, following the recent downturn in investor confidence, which may be partly attributable to the uncertainty created by several significant changes in the mining tax regime within a short space of time, it is hoped that the government will adopt a longer term outlook when determining any tax policy changes.



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

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

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10/15. Design Services 29126.

