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News Release

Paying Taxes: Governments Can Increase Revenues with Simpler, Tax Regimes and More Transparency, Says Report by World Bank Group and PricewaterhouseCoopers

London, 7 November 2006 – Complex tax systems cut tax revenues for government and make it very hard to assess the true tax burden on firms, says a new report launched here today by the World Bank Group and PricewaterhouseCoopers. The report, “Paying Taxes – The Global Picture,” concludes that high corporate income tax rates do not always lead to higher overall revenues, and that, when considering rates, the focus should be on the total business taxes raised, not just the corporate income tax rate.

The report suggests that governments and industry can achieve a win-win situation by working together to help simplify tax systems and improve revenue collection. This is especially true in developing countries where much of the economy operates informally and tax evasion is a major problem. There is real scope for countries to learn from each other’s practices.

“Straightforward tax administration and a simpler tax collection process are fundamental to an effective tax system. There are benefits both for governments, by increasing tax revenues, and for business, by making it easier to comply,” said Caralee McLiesh, program manager and co-founder of the World Bank Group’s Doing Business Project.

Tax rates are lowest in the Middle East and North Africa and highest in Sub-Saharan Africa, where a company on average pays over 60 percent of its profits as tax. Complying with administrative tax requirements is a real burden for companies in most countries. On average in the 175 economies studied, businesses submit 35 pages of tax returns a year in order to comply with regulations. But there is significant variation between countries - in Cameroon, the average annual tax return for businesses is 172 pages, while in Austria it is 17. Worldwide, it takes on average 332 hours per year for businesses to comply with all tax requirements. But this time ranges from 2,600 hours in Brazil to just 68 in Switzerland.

Paying Taxes – The Global Picture expands findings from the chapter on paying taxes in the recently published World Bank Group report, [Doing Business 2007: How to Reform](#). The data in this publication includes total tax rates which were analyzed according to the principles of the PricewaterhouseCoopers Total Tax Contribution Framework. The data take into account all the various business taxes borne by companies to calculate a ‘total tax rate’ for each of the 175 economies studied by the Doing Business Project – from Afghanistan to Zimbabwe.

The findings suggest that, on average, corporate income taxes accounted for only 36 percent of the total tax rate, 11 percent of the number of payments made, and 25 percent of the compliance time represented by a company’s total tax rate. There are many other business taxes (such as employment and property taxes) that governments and a company’s stakeholders should consider, along with the associated costs for compliance and administration, to appreciate the extent of a company’s total contribution to public finances.

“Companies need to raise awareness of the wider contribution they make to society and the costs they bear. Greater transparency about the total tax contribution and tax policy decisions made by companies, both locally and on a global scale, will help create a better picture of the economic contribution that the private sector makes to public finances,” said Richard Collier-Keywood, United Kingdom head of tax at

PricewaterhouseCoopers LLP. "This will create a better platform for dialogue between governments and companies on the contributions made and will help inform tax policy," he added.

The report shows the wide range of taxes used around the world, with varying emphases between direct taxes, indirect taxes, and employment taxes. The latter are less visible taxes, but they point to the need for greater transparency and better reporting on the total tax contribution. Otherwise, it is difficult to see how governments and industry can work together to find optimal levels of tax revenue with the least impact on businesses.

Increasing transparency is a fundamental component of tax reform. Discussions about tax reform have often focused on corporate income tax rates. But as the report shows, corporate income taxes are only a small share of the total taxes that businesses pay. The data it presents will help policymakers identify the more complex and burdensome taxes, as well as priorities for reform beyond corporate income tax. Governments and tax authorities should review the relative complexity of existing tax systems and debate the benefits of reducing rates and simplifying administrative processes to encourage compliance. Businesses, for their part, need to be more open in their tax reporting. Better visibility about a company's total tax contribution will promote better tax risk management while helping governments and a company's stakeholders recognize the full contribution that business makes to public finances.

For more information or a copy of the report please visit: www.doingbusiness.org/taxes

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PricewaterhouseCoopers Total Tax Contribution Framework

The Paying Taxes survey was carried out by the World Bank Group and supported by PricewaterhouseCoopers as part of the World Bank Group's *Doing Business 2007* report. The methodology applied to calculate the total tax rate for each country is in line with the broad principles from the PricewaterhouseCoopers Total Tax Contribution Framework. This methodology looks at all the taxes paid by companies and constitutes a standardized framework for measuring an organization's contribution in taxes. It incorporates a distinction between the taxes borne by business (e.g., corporate income tax and property taxes) and those collected on behalf of government (e.g., employees' taxes and most VAT). It can also address tax compliance costs, other payments to and from government, and indirect economic impacts. The total tax rate addresses only the taxes borne by a company. In addition, the World Bank collected data on administrative and compliance costs.

About the Doing Business Project:

The *Doing Business* report series is a joint production published annually by the World Bank and the International Finance Corporation, the private sector arm of the World Bank Group. The *Doing Business* database provides objective measures of business regulations and their enforcement. These indicators are comparable across 175 economies. They indicate the regulatory costs of doing business and can be used to analyze specific regulations that enhance or constrain investment, productivity, and growth.

About PricewaterhouseCoopers

PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 140,000 people in 149 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

"PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

The *Doing Business* Project is based on the efforts of more than 5,000 local experts – business consultants, lawyers, accountants, government officials, and leading academics around the world, who provide methodological support and review. The data, methodology, and names of contributors are publicly available online at <http://www.doingbusiness.org>.

For more information on the IFC or the World Bank, please visit: www.ifc.org, www.worldbank.org