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Fact sheet

Paying Taxes 2014: The Global Picture - Central Asia & Eastern Europe

The Paying Taxes report is an annual joint publication by PwC, the World Bank and IFC. This year marks the eighth year of publication. The report is built on the World Bank and IFC's global *Doing Business* project and the paying taxes indicator with an analysis by PwC.

The Paying Taxes indicator measures tax systems from the point of view of a domestic company complying with the different tax laws and regulations in 189 economies around the world. The case study company is a small to medium-size manufacturer and retailer, deliberately chosen to ensure that its business can be compared on a like for like basis worldwide.

The *Doing Business* project, a joint World Bank and IFC annual publication which measures business regulations in 189 economies, has collected data on paying taxes for nine years. Besides paying taxes, the *Doing Business* project provides quantitative measures of regulations in nine other areas: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, trading across borders, enforcing contracts, and resolving insolvency. It also looks at regulations on employing workers.

The paying taxes indicator covers the cost of taxes borne by the case study company and the administrative burden of tax compliance for the company. Both are important for business. They are measured using three sub-indicators: the Total Tax Rate (the cost of all taxes borne), the time needed to comply with the major taxes (corporate income taxes, labor taxes and mandatory contributions, and consumption taxes), and the number of tax payments.

The paying taxes indicator measures all taxes and contributions mandated by government at any level (federal, state, or local) as they apply to the standardised business. The Total Tax Rate sub-indicator measures the impact of taxes and contributions that are borne by the company which impact the company's financial statements. It includes the corporate income tax, labor taxes, social contributions and other mandatory contributions paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, and vehicle and road taxes. The other two sub-indicators, on the time to comply and number of payments measure taxes borne and taxes collected, and so include taxes and contributions withheld or collected, such as sales tax or value added tax (VAT).

The results include:

On average in 2012, it took the case study company 268 hours to comply with its taxes. It made 26.7 payments and paid an average Total Tax Rate of 43.1%.

Reforms in business tax systems continue around the world. The number of economies reforming increased from 31 last year to 32 in the most recent study. The focus continues to be on reducing the administrative burden of the tax system.

In 2012, the Total Tax Rate has continued to fall by 1.1%, while the average time to comply has fallen by only 1 hour between 2011 and 2012. The number of payments has fallen by 0.6 in the most recent period.

In 2012 the average rate for labor taxes has remained flat while the rate for profit taxes increased by 0.1 percentage points and for 'other' taxes fell by 1.2 percentage points.

While the global average Total Tax Rate has continued to fall in 2012, 14 economies have significantly increased their Total Tax Rate while 14 have reduced it.

If the exceptional rate reductions which arise from replacing cascading sales tax with VAT are excluded, the global average Total Tax Rate has started to rise in 2012 (0.2 percentage points).

The study continues to show that corporate income tax is only part of the picture when looking at the contribution made by business to public finances. Corporate income tax accounts for only 13% of payments, 26% of time and 37% of the Total Tax Rate.

The time to comply and the number of payments have continued to fall in 2012, but the rate of decline has slowed.

The range for each sub-indicator in 2012 is very wide:

- a. The number of payments ranges from 3 in Hong Kong SAR, China and Saudi Arabia to 71 in República Bolivariana de Venezuela. .
 - b. Time to comply is lowest in the United Arab Emirates where it takes 12 hours to deal with the taxes that apply which are all labor taxes. The highest number of hours is still taken by Brazil. It takes 2,600 hours, or more than a year for a full time person, with more than half of this time being spent on consumption taxes.
 - c. The lowest Total Tax Rate is found in the former Yugoslav Republic of Macedonia with most of its 8.2% generated by profit taxes, the highest is in The Gambia closely followed by Comoros, these being the last two remaining economies where a cascading sales tax still existed in 2012.
- All three paying taxes indicators have fallen consistently over the period of the study reflecting the reforms that governments have implemented with a view to making paying taxes easier and so easing the burden for business and government.
 - On average across the nine years of the study the cost of tax, the Total Tax Rate, has fallen by 9 percentage points, or 1 percentage point for each year; the time to comply has fallen by 55 hours (almost 7 days); and the number of payments has fallen by 7.
 - The global average Total Tax Rate for each type of tax (all of which are taxes borne by our case study company) has fallen over the nine years of the study. 'Other' taxes have recorded the largest fall (5.9 percentage points), followed by corporate income taxes (2.7 percentage points) and labor taxes with the smallest fall (0.5 percentage points).
 - Over the nine years of the study the Total Tax Rate attributable to profit taxes has fallen faster than that for labor taxes so that since 2010 labour taxes are now the largest element of the Total Tax Rate. They account for almost 38% of the total in 2012 compared with 32% in 2004 and profit taxes are now 37% of the total.
 - Over the nine years of the study the compliance sub-indicators have improved most for labor taxes.
 - Consumption taxes have consistently been the most time consuming tax with time spent on labor taxes and social contributions not far behind. Profit taxes have always taken the least amount of time. Labor taxes improved the most by 23 hours. The number of hours has fallen by 19 for consumption taxes and by 13 for profit taxes.
 - 'Other' taxes have consistently had the greatest number of payments with profit taxes always having had by far the smallest number of payments. The great improvement has been seen for labor taxes (reduced by

3.5) followed by other taxes (reduced by 2.7) while profit taxes have seen the smallest improvement (reduced only by 0.8).

- Central Asia & Eastern Europe is the region that has seen most reform over the nine years of the study, with the largest fall in the average for both the time to comply (by 220 hours) and the number of payments (by 25).
- The highest average tax cost is in Africa, amounting to 52.9%, the lowest is in the Middle East where the average is 23.7%. Over the last nine years the largest falls in the Total Tax Rate have been in Africa (by 16.0 percentage points), Central Asia & Eastern Europe (by 15.7 percentage points) and the Middle East (by 15.6 percentage points).
- The highest number of hours to comply is found in South America with 618 hours, the lowest is in the Middle East with 159 hours.
- The most payments made are in Africa amounting to 36.1 followed by Central America & the Caribbean with 33.7. The fewest payments are made in the North America where the company has to comply with only 8.3 payments. This is largely due to the ability of companies to file and pay taxes online.
- The Middle East has the least demanding tax system but in Asia Pacific, EU & EFTA, and North America all three indicators are also below the world average.

Regional details – Central Asia & Eastern Europe¹

- On average in 2012 for the Central Asia & Eastern Europe region, it took the case study company 256 hours to comply with its taxes. It made 29.5 payments and paid an average Total Tax Rate of 39.5%.
- Central Asia & Eastern Europe has been the biggest reformer over the nine years of the study. Economies in this region have shown the largest fall in both the time to comply (220 hours) and number of payments (25 payments) and apart from Africa has the largest fall in the Total Tax Rate (15.7 percentage points).
- The average Total Tax Rate for the region at 39.5% is a little below the world average of 43.1%.
- Since 2004, labor taxes have consistently accounted for the largest element, around 50% of the Total Tax Rate in the region.
- Almost all of the economies in the region have a significant element of the Total Tax Rate accounted for by labor taxes and mandatory contributions. However, in two economies, Tajikistan and Uzbekistan, 'other' taxes are the most significant accounting for more than 60% of the Total Tax Rate.
- The elements of the Total Tax Rate for profit tax, labor taxes and 'other' taxes have all shown a decline within the Total Tax Rate over the last nine years, but the rate of decline slowed from 2009 for all types of tax, and there has been a slight increase across all three in 2012.
- The average time to comply across this region of 256 hours is 12 hours below the world average of 268. It is evenly split between the three major taxes.
- The time needed to comply with tax obligations has dropped by 46% in nine years. The time to comply with consumption taxes has more than halved since 2004, the time to comply with corporate income and labor taxes has also dropped significantly, by 46% and 36% respectively.
- The fall in the average time to comply is the largest for any of our regions. The average time to comply has fallen by 220 hours since 2004.

¹ 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; FYR Macedonia; Moldova; Montenegro; Russia; Serbia; Tajikistan; Turkey; Ukraine; Uzbekistan.

- 12 out of 19 economies in the region have adopted online filing and payment systems. The use of electronic filing systems covering corporate income tax, VAT, personal income tax and all social contributions has been the key driver for the fall in time to comply in all type of taxes.
- At 29.5 the region's number of payments is a little above the world average of 26.7.
- The number of payments has fallen consistently over the nine year period by 25 from 54.4 to 29.3. This fall is twice as large as recorded by any other region.

For more information about the *Doing Business* report series, visit www.doingbusiness.org.

For more information about *Paying Taxes*, visit www.pwc.com/payingtaxes

About the *Doing Business* report series

The joint World Bank and IFC flagship *Doing Business* report analyzes regulations that apply to an economy's businesses during their life cycle, including start-up and operations, trading across borders, paying taxes, and resolving insolvency. The aggregate ease of doing business rankings are based on 10 indicators and cover 189 economies. *Doing Business* does not measure all aspects of the business environment that matter to firms and investors. For example, it does not measure the quality of fiscal management, other aspects of macroeconomic stability, the level of skills in the labor force, or the resilience of financial systems. Its findings have stimulated policy debates worldwide and enabled a growing body of research on how firm-level regulation relates to economic outcomes across economies. This year's report marks the 11th edition of the global *Doing Business* report series and covers 189 economies. For more information about the *Doing Business* reports, please visit doingbusiness.org and join us on doingbusiness.org/Facebook.

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