I. Why does Paying Taxes matter?
II. What does it measure – and what does it not?
III. Main findings and good practices in DB2019
IV. Paying Taxes across the world
Why do tax rates and tax administration matter?

Taxes are the price we pay for a stable, more equitable society
- Funding for social programs and public investments
- Key to building effective government

But tax rates and burdensome tax administration remain top obstacle to business

Challenges:
- To choose level of tax rates and tax base
- To design tax compliance system that encourages taxpayer participation
Tax administration and tax rates perceived as less of an obstacle in economies that rank better on Paying Taxes

Firms in economies that score better on the ease of paying taxes tend to perceive both tax rates and tax administration as less of an obstacle to business

Note: Relationships are significant at the 1% level and remain significant when controlling for income per capita.

Source: Doing Business database, World Bank Enterprise Surveys
Why is it important to cover postfiling processes?

➢ Until *Doing Business 2017*, the paying taxes indicator set measured only the cost of complying with tax obligations up until the filing of tax returns and the payment of taxes due.

➢ However, filing the tax return with the tax authority does not imply agreement with the final tax liability. Postfiling processes—such as claiming a value added tax (VAT) refund or undergoing a tax audit—can be the most challenging interactions that a business has with a tax authority.

---

**VAT REFUNDS**

• According to tax policy guidelines set out by the Organization for Economic Co-operation and Development (OECD) a value added tax system should be neutral and efficient.

• When businesses incur VAT which is not refunded at all—or reclaimed with delays and large compliance costs—then the principles of neutrality and efficiency are undermined.

• In principle when input VAT exceeds output VAT the amount should be paid as a refund to a registered business within a reasonable time period.

**TAX AUDITS**

• A tax audit is one of the most sensitive interactions between a taxpayer and a tax authority.

• It is essential that the right legal framework is in place to ensure integrity in the way tax authorities carry out audits. An audit must have defined start and end points.

• The definition of a tax audit in *Doing Business* includes any interactions between the taxpayer and the tax authority post filing of the tax return and payment of the tax liability due, including informal inquiries, formal inquiries and formal tax audits.
I. Why does Paying Taxes matter?
II. *What does it measure – and what does it not?*
III. Main findings and good practices in DB2019
IV. Paying Taxes across the world
What does the Paying Taxes indicator measure?

As applicable on a local medium-size company

- Total tax and contribution rate
- Number of payments
- Time (hours)
- Efficiency of postfiling processes
Case Study Assumptions

- Standardized limited liability taxable company
- In its 2nd year of operation (January 1, 2017 – December 31, 2017)
- Operates in the country’s largest business city
- 100% domestically owned
- Has 60 employees: 4 managers, 8 assistants and 48 workers
- Performs general industrial or commercial activities
- Does not participate in foreign trade
- Has a turnover of 1,050 times income per capita
# Total tax and contribution rate (% of commercial profits)

| What does it measure | • Amount of taxes and mandatory contributions borne in the second year of operation. Categories of included taxes: 
(i) profit or corporate income tax 
(ii) social contributions and labor taxes paid by the employer 
(iii) property taxes 
(iv) turnover taxes 
(v) other taxes (such as municipal fees and vehicle taxes) |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>How is it measured</td>
<td>• The total tax rate differs from the statutory tax rate, which merely provides the factor to be applied to the tax base</td>
</tr>
<tr>
<td>Statutory rate vs. total tax and contribution rate</td>
<td>• In computing the total tax rate, the actual tax payable (in local currency) is divided by commercial profit.</td>
</tr>
</tbody>
</table>

Only taxes that imply a direct cost to the company. Sum of all taxes and contributions payable after accounting for deductions and exemptions.
How the **nonlinear transformation** affects the distance to frontier score for the total tax and contribution rate?

*Source: Doing Business database.*

*Note: The nonlinear distance to frontier score for the total tax and contribution rate is equal to the distance to frontier score for the total tax and contribution rate to the power of 0.8.*
## Payments (number)

<table>
<thead>
<tr>
<th>What does it measure</th>
<th></th>
</tr>
</thead>
</table>
| **Total number of taxes and contributions paid:** | - method of filing and payment  
- frequency of filing and payment  
- number of agencies involved |
| **Tax Types** |  |
| Taxes paid directly by the company (corporate income tax, property tax, etc.) |  |
| Taxes withheld by the company (employee-borne labor taxes, VAT, etc.) |  |
| **Electronic filing** |  |
| Electronic system for filing and payment when (i) used by the majority; and (ii) no follow up with hard copies |  |
| Counted as 1 even if actual interactions are more frequent |  |
| **Joint payment** |  |
| Where 2 or more taxes or contributions are filed for and paid jointly using the same form, each of these joint payments is counted once. |  |
Time (hours)

- **Corporate income tax**
- **Value Added Tax**
- **Labor Taxes (including payroll taxes and social contributions)**

**Preparation Time**
Time to gather all information necessary to complete the tax return and compute the tax payable.

**Filing Time**
Time to complete all necessary tax return forms and file the relevant returns with the tax authorities, including travel and waiting time when returns are filed in person.

**Payment Time**
Time needed to make the payment online, at a bank or at the tax authorities, including delays while waiting.
Postfiling index: what is included?

- Time to comply with VAT refund
- Time to obtain VAT refund
- Time to complete a CIT correction
- Time to comply with a CIT correction

Measure the process of obtaining a Value Added Tax refund related to a large capital purchase.

Measure the process of amending a CIT error and going through an additional review.
Postfiling index: the case scenario

- In *Doing Business 2017* the case study scenario was expanded to:
  1. Have a situation where input-VAT exceed output-VAT (as a result of a large capital purchase). This triggers the case study company to request a VAT cash refund.
  2. Have a situation where taxpayer has committed an error in the calculation of the corporate income tax, and voluntary requests to amend the tax return.
VAT Refund – 2 components

Time to comply with a VAT refund

• Time required to gather information and calculate VAT refund amount;

• Time required to prepare VAT refund claim and any additional documents needed to substantiate the claim;

• Time spent making representation at the tax office or completing any other activities, if required;

• Time to comply with an audit is included if companies with a request for a VAT cash refund due to a capital purchase are pooled into additional review in 50% or more of cases – based on the experience of expert contributors:

  ➢ Time to comply with an audit includes: time spent gathering information and preparing any documentation required by the tax auditor; and time spent submitting the documents requested;

  ➢ The type of audit interaction is taken into account (single item audit or comprehensive audit).

Time to obtain a VAT refund

• Time in weeks to receive a cash VAT refund from the moment the request has been submitted.

• Includes delays due to waiting for an audit to be finalized by the authorities.
VAT Refund – Scoring

• If an economy does not have a VAT or the purchase of a machine is not subject to VAT …
  … the economy will not be scored on the two components under the VAT refund process.

• If an economy has a VAT…
  … but the ability to claim a refund is restricted to specific categories of taxpayers that do not include the case study company, the economy is assigned a score of 0 on the distance to frontier score for time to comply with VAT refund and time to obtain VAT refund.

  … and the case study company is eligible to claim a refund but cash refunds do not occur in practice, the economy is assigned a score of 0 on the score for time to comply with VAT refund and time to obtain VAT refund.

  … but there is no refund mechanism in place, the economy is assigned a score of 0 on the score for time to comply with VAT refund and time to obtain VAT refund.

  … but input tax on a capital purchase is a cost on the business, the economy is scored 0 on the score for time to comply with VAT refund and time to obtain VAT refund.

  … and legislation mandates that taxpayers carry forward the excess input tax for four months or more before a cash refund can be requested, the economy is scored 0 on the score for time to comply with and obtain a VAT refund.
Corporate Income Tax Correction – 2 components

Time to comply with a corporate income tax correction

- Time required to gather information and prepare documents to notify the authorities of the error, submit the amended tax return and any additional documents and time to make the additional payment;

*In which cases is the tax audit is included?*

......In economies where the majority of respondents confirmed that 25% or more of companies with amended corporate income tax returns are pooled into additional review.

......The additional review could refer to an informal inquiry, a formal inquiry or a formal tax audit (including a correspondence audit, a field audit or an audit at the tax office; and could be limited or comprehensive in nature).

➢ Time required to gather and prepare any documentation requested by the auditor and time to submit the documents.

Time to complete a corporate income tax correction

- Time for the tax audit to start and time spent interacting with the auditor from the moment an audit begins until there are no further interactions between auditor and taxpayer;

- Time spent waiting for the tax auditor to issue the final tax assessment.

Scoring

- For countries which do not levy corporate income tax, the two components are not scored as part of the postfiling index.
# The frontier in Paying Taxes

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Frontier</th>
<th>Who sets the frontier?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments (number)</td>
<td>3</td>
<td>Hong Kong (China), Saudi Arabia</td>
</tr>
<tr>
<td>Time (hours)</td>
<td>49</td>
<td>Singapore</td>
</tr>
<tr>
<td>Total tax and contribution rate (% of commercial profit)</td>
<td>26.1</td>
<td>Ireland, Cyprus*</td>
</tr>
<tr>
<td>Postfiling index (0-100)</td>
<td>100</td>
<td>None</td>
</tr>
</tbody>
</table>

*32 countries have a total tax and contribution rate below 26.1%
<table>
<thead>
<tr>
<th>What is not measured</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation in special economic zones</td>
</tr>
<tr>
<td>Tax incentives based on criteria other than age or size of the company</td>
</tr>
<tr>
<td>Products subject to a special tax regime, for example, liquor or tobacco</td>
</tr>
<tr>
<td>Tariffs and other custom duties</td>
</tr>
<tr>
<td>Taxes and duties on international transactions</td>
</tr>
</tbody>
</table>
I. Why does Paying Taxes matter?
II. What does it measure – and what does it not?
III. Main findings and good practices in DB2019
IV. Paying Taxes across the world
Where is it **easiest** to pay taxes in 2017?

<table>
<thead>
<tr>
<th>Top ten performers</th>
<th>Score</th>
<th>Payments (number/year)</th>
<th>Time (hours/year)</th>
<th>Total tax and contribution rate (% profit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Hong Kong SAR, China</td>
<td>99.71</td>
<td>3</td>
<td>34.5</td>
<td>22.9</td>
</tr>
<tr>
<td>2. Qatar</td>
<td>99.44</td>
<td>4</td>
<td>41</td>
<td>11.3</td>
</tr>
<tr>
<td>2. United Arab Emirates</td>
<td>99.44</td>
<td>4</td>
<td>12</td>
<td>15.9</td>
</tr>
<tr>
<td>4. Ireland</td>
<td>94.46</td>
<td>9</td>
<td>82</td>
<td>26.0</td>
</tr>
<tr>
<td>5. Bahrain</td>
<td>93.89</td>
<td>14</td>
<td>28.5</td>
<td>13.8</td>
</tr>
<tr>
<td>6. Mauritius</td>
<td>93.50</td>
<td>8</td>
<td>152</td>
<td>22.1</td>
</tr>
<tr>
<td>7. Kuwait</td>
<td>92.48</td>
<td>12</td>
<td>98</td>
<td>13.0</td>
</tr>
<tr>
<td>8. Singapore</td>
<td>91.58</td>
<td>5</td>
<td>64</td>
<td>20.6</td>
</tr>
<tr>
<td>9. Denmark</td>
<td>91.14</td>
<td>10</td>
<td>132</td>
<td>23.8</td>
</tr>
<tr>
<td>10. New Zealand</td>
<td>91.08</td>
<td>7</td>
<td>140</td>
<td>34.6</td>
</tr>
</tbody>
</table>
## Reforms making it easier for Paying Taxes in 2017

<table>
<thead>
<tr>
<th>Reforms</th>
<th>Economies</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Introduced or enhanced electronic systems</strong></td>
<td>Azerbaijan; Bahamas, The; Bhutan; China; Côte d'Ivoire; Cyprus; Finland; Iran, Islamic Rep.; Jordan; Kenya; Mauritius; Panama; Sri Lanka; Thailand; Togo; Turkey</td>
<td>The Bahamas implemented an online system for filing and payment of value added tax</td>
</tr>
<tr>
<td><strong>Reduced profit tax rate, allowed for more tax-deductible expenses and made changes to tax depreciation rules</strong></td>
<td>Ecuador; France; Georgia; Hungary; India; Russian Federation; Togo</td>
<td>Ecuador introduced a Tax Incentive Law in 2017 allowing businesses to deduct an additional 100% on amounts paid to cover private medical insurance or prepaid health care for its employees.</td>
</tr>
<tr>
<td><strong>Reduced labor taxes and mandatory contributions, or taxes other than profit and labor</strong></td>
<td>China (Beijing); Cyprus; Finland; France; Hungary; India; Uzbekistan; Vietnam</td>
<td>Vietnam reduced the employer’s contribution to the labor fund from 1% to 0.5%.</td>
</tr>
<tr>
<td><strong>Introduced new or significantly revised tax law or tax code</strong></td>
<td>Georgia; India</td>
<td>India introduced the Maharashtra Goods and Services Tax Act 2017 and the Delhi Goods and Services Tax Act 2017, which unified all sales taxes into one new tax called the Goods and Services Tax (GST).</td>
</tr>
</tbody>
</table>
Reforms making it easier for Paying Taxes in 2017

<table>
<thead>
<tr>
<th>Reforms</th>
<th>Economies</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplified tax compliance processes or decreased number of tax filings or payments</td>
<td>Afghanistan; Armenia; Azerbaijan; China; Georgia; India; Kenya; Kosovo; Lithuania; Vietnam</td>
<td>Armenia improved the quality of the local accounting software (Arm accounting) for corporate income tax and labor taxes in 2017 by incorporating a wider range of tax calculations. This allowed for the integration of the local accounting software with the tax authority's secure data transmission and storage system.</td>
</tr>
<tr>
<td>Merged or eliminated taxes</td>
<td>China; Cyprus; Ecuador; India; Kenya; Lithuania; Tunisia; Vietnam</td>
<td>Cyprus abolished the immovable property tax and did not extend the levy of the Special Contribution for Employees, Pensioners and Self-Employed individuals in 2017.</td>
</tr>
<tr>
<td>Improved VAT refund process</td>
<td>Egypt, Arab Rep., Iran Islamic Rep.; Kosovo; Mauritius; Mozambique</td>
<td>Mauritius introduced an expedited processing system for the repayment of value added tax refunds and upgraded its online platform to allow for the online submission of invoices and amended corporate tax returns.</td>
</tr>
<tr>
<td>Improved tax audit and correction of corporate income tax return processes</td>
<td>Afghanistan; Iran, Islamic Rep.; Kosovo; Mauritius</td>
<td>Afghanistan introduced a new tax administration and law manual with clear rules and guidelines on tax audit and automated the submission of tax returns.</td>
</tr>
</tbody>
</table>

Top improver in Paying Taxes in Paying Taxes 2019: Mauritius

- Introduced an expedited processing system for the repayment of VAT refunds.
- Upgraded its online platform for VAT return submissions to allow for invoices to be submitted electronically.
- Allow electronically to amend a corporate income tax return.

Mauritius improved on the Paying Taxes score from 90.85 in DB2018 to 93.5 in DB2019
Economies eased tax compliance on businesses through an online system in 2017 (by region).

16 economies introduced or enhanced electronic tax systems in 2017. Europe & Central Asia and East Asia & Pacific are the regions that reduced the most the compliance time for three major taxes.

Source: Doing Business Database
Economies eased tax compliance on businesses through online systems in 2017 (by economy)

Top 10 economies that improved the most the score on Time to comply with the three major taxes in Doing Business 2019

- Iran, Islamic Rep. (16.69)
- China (10.05)
- Côte d'Ivoire (10.05)
- Togo (8.81)
- Armenia (7.88)
- Georgia (7.57)
- Turkey (7.03)
- Azerbaijan (5.56)
- Bahamas, The (5.56)
- Thailand (5.10)

Source: Doing Business Database
Electronic systems for filing and paying taxes save compliance time globally over the years

Source: Doing Business Database
Note: sample of 174 economies
Good practices in Paying Taxes

Global good practices

✓ Use of digital technology at tax authorities for: filing of tax returns, payment of taxes, pre-filling tax returns, automatic matching VAT data between suppliers and buyers, online case management in audit

✓ Keeping it simple: one tax base, one tax including merging taxes with the same tax base

✓ Risk—based systems for selecting companies for audit

✓ Performance and supervision framework of tax audit
I. Why does Paying Taxes matter?

II. What does it measure – and what does it not?

III. Main findings and good practices in DB2019

IV. *Paying Taxes across the world*
Regional comparisons (1)

Payments (number per year)

<table>
<thead>
<tr>
<th>Region</th>
<th>Number per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>High income: OECD</td>
<td>11.2</td>
</tr>
<tr>
<td>Europe &amp; Central Asia</td>
<td>16.6</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>17.7</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>21.2</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>27.1</td>
</tr>
<tr>
<td>South Asia</td>
<td>27.6</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>37.4</td>
</tr>
</tbody>
</table>

Time (hours per year)

<table>
<thead>
<tr>
<th>Region</th>
<th>Hours per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>High income: OECD</td>
<td>159.4</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>180.9</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>196.7</td>
</tr>
<tr>
<td>Europe &amp; Central Asia</td>
<td>214.8</td>
</tr>
<tr>
<td>South Asia</td>
<td>274.8</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>280.6</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>330.0</td>
</tr>
</tbody>
</table>

Global Average:
- Payments: 23.7
- Time: 236.8
Regional comparisons (2)

**Total tax and contribution rate (% of profit)**

- **Europe & Central Asia**: 32.3%
- **Middle East & North Africa**: 32.7%
- **East Asia & Pacific**: 33.5%
- **High income: OECD**: 39.8%
- **South Asia**: 43.5%
- **Sub-Saharan Africa**: 46.8%
- **Latin America & Caribbean**: 46.7%

**Global Average**: 40.4%

**Post-filing Index (0-100)**

- **High income: OECD**: 84.4%
- **Europe & Central Asia**: 64.4%
- **East Asia & Pacific**: 56.4%
- **Sub-Saharan Africa**: 54.6%
- **Middle East & North Africa**: 50.1%
- **Latin America & Caribbean**: 47.0%
- **South Asia**: 41.8%

**Global Average**: 59.6%
Paying taxes in **High-income OECD region**

- The high income, OECD region, performs better than global averages in all indicators covered by Paying Taxes
- 9 economies belong to the top 20 ranked on the ease of paying taxes
- Electronic filing and payment is widespread, with 32 economies out of 34 having such system in place
Paying taxes in Sub-Saharan Africa

- Sub-Saharan Africa is home to two of this year’s top 20 economies on the ease of paying taxes (Mauritius: 6th, Zambia: 17th)
- The region has been showing a significant acceleration in reform effort
- Mauritius is the top improver in Paying Taxes in *Doing Business 2019*
- Notable reforms in Côte d’Ivoire and Togo.

![Graph showing payments, time, total tax, and post-filing index for Sub-Saharan Africa and Global Average](image)
Reforms in Kenya over the years

Vehicle tax was abolished in 2006.

The Kenya Revenue Authority introduced e-filing, leading to increased efficiency in the collection of VAT. The National Social Security Fund (NSSF) and National Hospital Insurance Fund (NHIF) are now fully automated, thereby facilitating electronic filing of returns.

Electronic signatures have been granted legal recognition and enforcement capability. This will enable electronic transactions.

The time for actual calculation of CIT has shortened, thanks to increased popularity of tax software. Taxpayers have now learned to store required information in an efficient and user-friendly format and upload it to tax software, reducing time to comply with CIT.

Online filing system for VAT has continued to significantly reduce the time taken to file VAT returns and the majority of taxpayers are using it.

In 2016, the majority of businesses used the online system for filing and payment of corporate income tax (itax) as previously taxpayers had to manually insert figures. Today, the online template allows for csv. format uploads. Payment is also done through the same platform. Additionally, the standard levy is paid via the same platform.

The government of Kenya merged all business permits into a single certificate called the 'Unified Business Permit'.

In 2017, changes to the online iTax platform used for filing VAT returns were introduced, in addition to simplifying the VAT schedule.
Kenya’s performance in Paying Taxes from DB06 to DB19
THANK YOU!

www.doingbusiness.org