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**In Washington, D.C.:**

Nadine Ghannam, World Bank Group  
Phone: +1 202 473 3011  
E-mail: nsghannam@ifc.org

**In New York:**

Mike Ascolese, PwC  
Tel: +1 646 471 8106  
E-mail: mike.ascolese@us.pwc.com

**Fact sheet**

***Paying Taxes 2012: The Global Picture***

This is the sixth year that the Global Indicators and Analysis group within the World Bank and IFC and PwC have produced the *Paying Taxes* report. *Paying Taxes 2012: The Global Picture* measures the ease of paying taxes in 183 economies around the world.

The report covers the cost of taxes borne by the case study company as well as the administrative burden of tax compliance for the firm. 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 (profit taxes, labour taxes and mandatory contributions, and consumption taxes), and the number of tax payments.

*Paying Taxes* 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 corporate income tax, social contributions and labour taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and other taxes and mandatory fees. The other two sub-indicators, 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 global findings in this year's report include:**

- Tax reforms continue around the world, making paying taxes easier.
  - In the past seven years more than 60% of the economies covered by *Doing Business* made paying taxes easier with 244 reforms.
  - Between June 2010 and May 2011, 33 economies made it easier to pay taxes as measured by *Doing Business*.
- Since the 2006 *Paying Taxes* study, the tax cost has fallen on average by 8.5%, the time needed to comply dropped by over a week (54 hours), and the number of payments declined by almost five.
- Practices which have helped improve the results include:
  - Effective electronic filing and payment systems (used in 66 economies)
  - Having one tax per base rather than multiple taxes (49 economies have one tax per base)
  - Using a filing system based on self-assessment (79% of economies do this)
  - Reductions in the rate of corporate income tax (133 significant reductions)
- Around the world, the case study company faces a Total Tax Rate (percentage of profit paid out in taxes) of 44.8% on average. The company spends 277 hours a year, and makes 28.5 tax payments, to comply with tax laws.
- On average around the world, the case study company pays more than 9 different taxes. On average, corporate income tax accounts for only 36% of the Total Tax Rate, 25% of the time to comply and 12% of tax payments.
- 173 economies levy a corporate income tax, 171 collect some form of social security contribution and 151 have a VAT
- The time to comply with tax requirements for the model company varies between regions. It takes the least time to comply in the OECD (195 hours) and the European Union (209 hours). The longest time needed is in the G20 (358 hours), and Latin America and the Caribbean (382 hours).

- The number of payments also varies widely by region. The company makes the most payments in Central Europe and Eastern Europe, 37.9 a year on average. It makes the fewest in OECD economies, just 13.1 on average.
  - In high income economies the case study company makes 15.2 payments, takes 168.7 hours to comply with its main taxes and has an average Total Tax Rate of 37.4%. This compares to 38.3 payments, 271 hours and 67.8% for low income economies
  - It takes the case study company longest to comply with consumption taxes, especially VAT. VAT is the predominant form of consumption tax used around the world. For these economies, it takes 66% as much time again to comply with VAT as it does to comply with corporate income tax.
  - 79% of survey respondents identified the way tax audits and disputes are dealt with and the 66% identified the approach of the tax authorities as the aspects of the tax system most in need of improvement.
  - The overall paying taxes ranking included in the Paying Taxes report continues to use a simple average of the percentile rankings for each of the sub indicators. This year the rankings differ from those included in the World Bank Group Doing Business 2012 report where a change in the methodology is being piloted to address issues raised through discussion with various stakeholders. The Doing Business report has applied a threshold to the ranking for the Total Tax Rate to seek to mitigate the effect of low Total Tax Rates on the rankings.
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## Regional Findings:

### Asia Pacific

- Four economies in the Asia Pacific region implemented reforms to make paying taxes easier in 2010/11. (India, Republic of Korea, New Zealand, Sri Lanka).
- The Paying Taxes results for the Asia Pacific region are lower than the world average across all three sub-indicators. The average Total Tax Rate is 37.3% (compared to the world average of 44.8%), the average time to comply is 229 hours (world average: 277), and average the number of payments 24.1 (world average: 28.5).
- Corporate income taxes are a significant part of the burden. They account for 49.0% of the Total Tax Rate in the Asia Pacific region, compared to a world average of 36% - this is a higher proportion than in any other region. They also account for 32% of compliance time which again is the highest proportion of any region.
- The number of taxes levied on the company averages 9.3 globally. The average in the Asia Pacific region is 8.4, ranging from 2 in Kiribati to 20 in Japan.
- Consumption taxes do not generally add to the tax cost for the case study company but they do add considerably to the compliance burden. It takes longer to comply with consumption taxes in the Asia-Pacific region than with any other taxes. On average it takes 83 hours, compared with 73 hours for labour taxes and social contributions, and 74 hours for profit taxes

**Note:** Asia Pacific economies includes 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, Nepal, New Zealand, Pakistan, Palau, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Sri Lanka, Taiwan, China, Thailand, Timor-Leste, Tonga, Vanuatu, Vietnam.

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### Central Asia and Eastern Europe

- Six economies in this region implemented reforms to make paying taxes easier in 2010/11. (Armenia, Belarus, Georgia, Montenegro, Ukraine, Turkey)
- The Paying Taxes results for the Central Asian and Eastern Europe are higher than the world average across the compliance sub-indicators. The average time to comply is 312 hours (world average: 277), and average the number of payments 37.9 (world average: 28.5).
- The number of taxes levied on the company averages 9.3 globally. The average in Central Asia and Eastern Europe is 9.0, ranging from 5 in Georgia to 14 in Turkey.
- Labour taxes and social contributions account for half of the tax burden in this region compared to the world average of 36%
- Consumption taxes are the most time consuming in this region. The time varies from 40 hours in Croatia to 258 in Bosnia and Herzegovina

**Note:** Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Macedonia FYR, Moldova, Montenegro, Russian Federation, Serbia, Tajikistan, Turkey, Ukraine, Uzbekistan

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### European Union

- Four economies in the EU implemented reforms to make paying taxes easier in 2010/11. (Czech Republic, Greece, Finland, Romania)
- The Paying Taxes results for the EU are lower than the world average across all three sub-indicators. The average Total Tax Rate is 43.4% (compared to the world average of 44.8%), the average time to comply is 207 hours (world average: 277), and average the number of payments 17.0 (world average: 28.5).
- The number of taxes levied on the company averages 9.3 globally. The average in the EU is 10.7, ranging from 5 in Sweden to 17 in Italy.
- Labour taxes and social contributions make up the biggest part of the tax burden in the EU – they account for 65% of the TTR compared to the world average of 36%
- Many EU economies have multiple labour taxes and social contributions and this adds to the compliance burden
- While VAT stems from a common framework in the EU, the number of hours required to comply with VAT varies due to different administrative practices used, from 24 in Finland and Luxembourg to 195 in Bulgaria.

**Note:** European Union: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom,

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### Latin America and the Caribbean

- Seven economies in Latin America and the Caribbean implemented reforms to make paying taxes easier in 2010/11. (Belize, Colombia, Costa Rica, Nicaragua, Peru, Mexico, St Kitts and Nevis)
- The Paying Taxes results for the Latin America and the Caribbean are higher than the world average across all three sub-indicators. The average Total Tax Rate is 47.7% (compared to the world average of 44.8%), the average time to comply is 382 hours (world average: 277), and average the number of payments 31.8 (world average: 28.5). The average time to comply in the Latin America and Caribbean region is the longest out of all the regions covered in the study.
- The number of taxes levied on the company averages 9.3 globally. The average in Latin America and the Caribbean is 9.8, ranging from 4 in Suriname to 15 in Panama.
- Labour taxes and social contributions are a significant part of the tax burden in these economies being 11% of the tax payments, 45% of the compliance time and 39% of the Total Tax Rate
- Consumption taxes do not generally add to the tax cost for our case study company but they do add considerably to the compliance burden. It takes longer to comply with consumption taxes in the Asia-Pacific region than with any other taxes. On average it takes 167 hours, compared with 138 hours for labour taxes and social contributions, and 77 hours for profit taxes
- Corporate income taxes are a significant part of the tax burden in the region – they account for 42% of the tax burden in the region compared with the World Average of 36%

**Note:** Latin America and Caribbean includes: Antigua and Barbuda, Argentina, Bahamas (The), Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela (R.B).

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### African Union

- Seven economies in the African Union implemented reforms to make paying taxes easier in 2010/11. (Burundi, Rwanda, Cote D'Ivoire, Seychelles, The Gambia, Togo, Democratic Republic of the Congo)
- The Paying Taxes results for the African Union are higher than the world average across all three sub-indicators. The average Total Tax Rate is 56.8% (compared to the world average of 44.8%), the average time to comply is 315 hours (world average: 277), and average the number of payments 36.0 (world average: 28.5).

- Corporate income taxes are a significant part of the burden. They account for 17.7% of the commercial profit Total Tax Rate in the African Union compared to a world average of 16.0%.
- The TTR for the African Union has the highest proportion of 'other taxes' out of all regions in the study – this is still largely attributable to the cascading sales taxes present in three of the region's economies. Other taxes also account for the highest number of payments of any region covered by the study
- The number of taxes levied on the company averages 9.3 globally. The average in the African Union is 10.2, ranging from 6 in the Seychelles to 16 in the Congo Republic and Kenya.
- Consumption taxes do not generally add to the tax cost for our case study company but they do add considerably to the compliance burden. It takes longer to comply with consumption taxes in the African Union region than with any other taxes. On average it takes 135 hours, compared with 102 hours for labour taxes and social contributions, and 78 hours for profit taxes

**Note:** African Union includes Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, 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, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia, Zimbabwe (NB suspended countries are included).

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## Middle East

- There tend to be fewer taxes in the Middle East region than in any other region in the study – on average, taxes are levied on the case study company in the Middle East (world average is 9.3 taxes).
- The Paying Taxes results for the Middle East are lower than the world averages, with 156 hours for compliance time (world average: 277), 19 tax payments (world average: 29) and a TTR of 24.0% (world average: 44.8%)
- In the Middle East, 3 out of the 13 economies do not levy corporate income tax on the domestic case study company. Where corporate income tax is levied, it is only part of the tax burden, accounting on average for 11% of the tax payments, 31% of compliance time and 44% of the tax cost (Total Tax Rate).
- Labour taxes and social contributions are the biggest burden for the case study company in the Middle East in terms of tax cost and compliance burden. They equate to 14% of commercial profits (58% of the TTR); require 85 hours for compliance comply (55% of the time to comply); and 12 payments per annum (63% of number of payments).
- Consumption taxes, including VAT, do not generally add to the tax cost for our case study company but they do add to the compliance burden. The time needed to comply with VAT varies considerably around the world as administrative practices vary. Currently only five economies in the Middle East have a VAT system.

**Note:** Middle East includes: Bahrain, Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, UAE, West Bank & Gaza, Yemen (Rep).

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