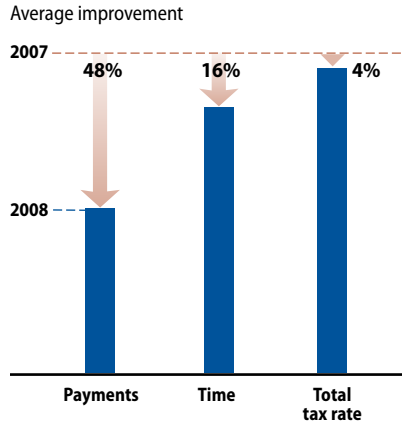


- Overview
- Starting a business
- Dealing with construction permits
- Employing workers
- Registering property
- Getting credit
- Protecting investors

# Paying taxes

- Trading across borders
- Enforcing contracts
- Closing a business

FIGURE 8.1  
Top 10 reformers in paying taxes



1. Dominican Republic
2. Malaysia
3. Azerbaijan
4. South Africa
5. China
6. Greece
7. Colombia
8. France
9. Honduras
10. Thailand

Source: Doing Business database.

For Kah, the owner of a Cameroon-based management consulting business, having a simple tax system with standardized rates and payment channels is fundamental to the ease of doing business. Yet in Cameroon, which ranks among the most difficult economies in which to pay taxes, complying with tax regulations takes more than 1,000 hours and 41 tax payments a year.<sup>1</sup>

To file a tax return for her company, Kah often spends hours waiting in the tax office for information from tax inspectors. Because she refuses to pay extra, she regularly endures long, costly court procedures. And because the tax system lacks transparency, results are often arbitrary.

Kah feels that tax officers see her as an easy target. She is not the only one. A recent study in Uganda shows that

enterprises headed by women perceive a greater regulatory burden—and more harassment from public officials—than those headed by men.<sup>2</sup>

Taxes are essential. Without them there would be no funds for the basic public services vital to a well-functioning economy and an inclusive society. Yet firms in 90% of the countries covered by the World Bank Enterprise Surveys rank tax rates and tax administration among the top 5 obstacles to doing business.<sup>3</sup> Businesses prefer lower tax rates that are applied in a straightforward way. Or, if rates are high, businesses want good services in return.

Where taxes are high and commensurate gains seem low, many businesses simply choose to stay informal. A recent study finds that higher tax rates are associated with less private investment, fewer formal businesses per capita and lower rates of business entry. The analysis suggests, for example, that a 10% increase in the effective corporate tax rate reduces the investment-to-GDP ratio by 2 percentage points.<sup>4</sup>

Economies that rank high on the ease of paying taxes tend to have lower and less complex business taxes (table 8.1). They also have simple administrative processes for paying the taxes and filing tax returns. For businesses, it's not just the tax rates that matter. The administrative processes do too.

Fast and efficient administration means less hassle for businesses—and

often higher revenue for governments. In Mauritius in 2007/08, the government collected 4 billion Mauritian rupees (\$150 million) more in revenue than had been projected. Reforming the tax system was a key part of the government's agenda over the past 3 years. The focus: creating an enabling environment for businesses through low and simple taxes coupled with fast and efficient administration. The strategy paid off.

## WHO REFORMED IN 2007/08?

Thirty-six economies made it easier to pay taxes in 2007/08. As in previous years, the most popular reform feature was reducing the profit tax rate, done in no fewer than 21 economies. The second most popular was introducing and improving electronic filing and pay-

TABLE 8.1

### Where is it easy to pay taxes—and where not?

Easiest	RANK	Most difficult	RANK
Maldives	1	Panama	172
Qatar	2	Jamaica	173
Hong Kong, China	3	Mauritania	174
United Arab Emirates	4	Gambia, The	175
Singapore	5	Bolivia	176
Ireland	6	Venezuela	177
Saudi Arabia	7	Central African Republic	178
Oman	8	Congo, Rep.	179
Kuwait	9	Ukraine	180
Kiribati	10	Belarus	181

Note: Rankings are the average of the economy rankings on the number of payments, time and total tax rate. See Data notes for details.

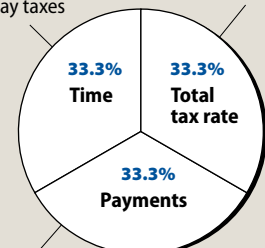
Source: Doing Business database.

FIGURE 8.2

### Rankings on paying taxes are based on 3 subindicators

Number of hours per year to prepare, file returns and pay taxes

Firm tax liability as % of profits before all taxes borne



Number of tax payments per year

Note: See Data notes for details.

ment systems. This reform, done in 12 economies, reduced the frequency of payments and the time spent paying taxes and filing returns. Eight economies reduced the number of taxes paid by businesses by eliminating smaller taxes such as stamp duties. The top 10 reformers for paying taxes this year reduced the number of payments by almost half. Bosnia and Herzegovina, Bulgaria, Morocco, Mozambique and Zambia revised their tax codes (table 8.2).

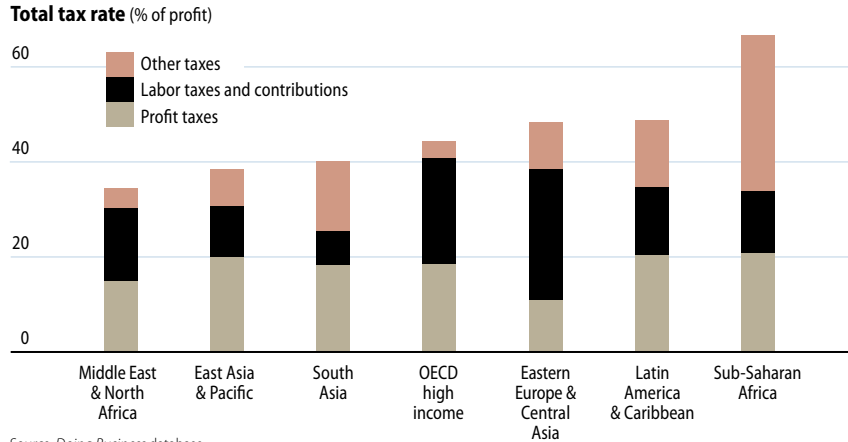
Two economies introduced new taxes: Botswana and Venezuela. That increases not only the costs but also the administrative burden for businesses.

The Dominican Republic was the top reformer in 2007/08. It lowered the corporate income tax from 30% to 25%, abolished several taxes (including the stamp duty) and reduced the property transfer tax. In addition, in 2007 it fully implemented online filing and payment, piloted in 2006.

Malaysia was the runner-up reformer. It reduced the corporate income tax for 2009 to 25%—part of a gradual reduction that has seen the rate decline to 27% in 2007 and 26% in 2008. The reform also introduced a single-tier tax system, in which profits are taxed only after dividend payments are exempted. The capital gains tax was abolished in 2007 to spur investment in the real

FIGURE 8.3

**Profit taxes lowest, but overall tax burden still high in Eastern Europe & Central Asia**



Source: Doing Business database.

property and financial market sectors. And electronic payment systems were improved, increasing online filing and payments.

Among regions, Eastern Europe and Central Asia had the most reforms in 2007/08. Nine economies reformed, mainly continuing the trend of reducing the profit tax rate, already among the lowest in the world (figure 8.3). Albania, Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia all reduced their profit tax to 10%. Georgia reduced the corporate income tax from 20% to 15% and abolished the social tax. The Czech Republic reduced its corporate income tax rate to 21%.

Azerbaijan and Ukraine made it

simpler to file and pay taxes by introducing electronic systems and online payment capabilities. That significantly reduced the time spent preparing, filing and paying taxes in the region. Belarus reduced the tax and administrative burden on businesses by abolishing some taxes and reducing the frequency of payments. Bulgaria reduced labor taxes and contributions.

Following closely with 7 reforms each are the OECD high-income economies and Latin America and the Caribbean. Five OECD high-income economies reduced corporate income tax rates. Canada is gradually reducing the corporate income tax to 15% by 2012 as part of ambitious reforms in its tax system. The reforms also include abolishing the 1.12% surtax and introducing accelerated depreciation for buildings (10%) and computers (50%). Also reducing the corporate tax rate were Denmark (from 28% to 25%), Germany (from 25% to 15%), Italy (from 33% to 27.5%) and New Zealand (from 33% to 30%).

France and Greece made filing and paying taxes faster by implementing mandatory electronic filing for labor taxes and contributions.

In Latin America and the Caribbean, besides the reforms in the Dominican Republic, Antigua and Barbuda reduced the corporate income tax rate from 30% to 25%. St. Vincent and the Grenadines introduced a new value added tax that replaced several existing taxes, includ-

TABLE 8.2

**Reducing tax rates—the most common reform feature in 2007/08**

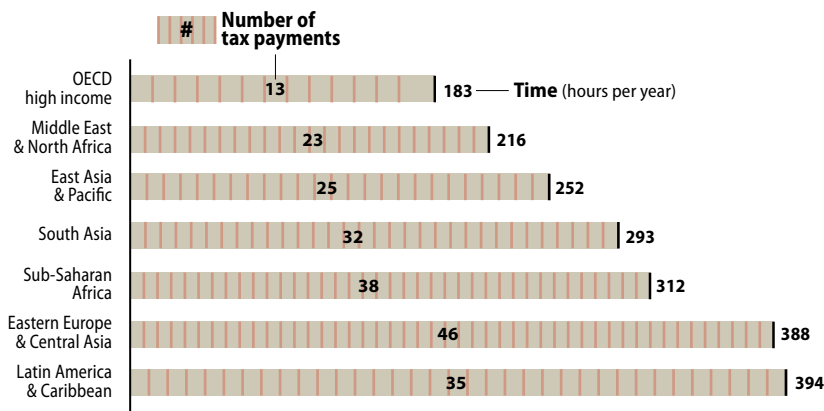
Reduced profit tax rates	Albania, Antigua and Barbuda, Bosnia and Herzegovina, Burkina Faso, Canada, China, Côte d'Ivoire, Czech Republic, Denmark, Dominican Republic, Georgia, Germany, Italy, former Yugoslav Republic of Macedonia, Madagascar, Malaysia, Morocco, New Zealand, Samoa, St. Vincent and the Grenadines, Thailand
Simplified process of paying taxes	Azerbaijan, Belarus, China, Colombia, Dominican Republic, France, Greece, Honduras, Malaysia, Mozambique, Tunisia, Ukraine
Eliminated taxes	Belarus, Dominican Republic, Georgia, Madagascar, Malaysia, Mexico, South Africa, Uruguay
Revised tax code	Bosnia and Herzegovina, Bulgaria, Morocco, Mozambique, Zambia
Reduced labor tax or contribution rates	France, Mongolia, Ukraine

Source: Doing Business database.

ing the hotel tax, entertainment tax, consumption duty, stamp duty on receipts and domestic and international telecommunications surcharge. Uruguay abolished a tax on consumption. Mexico abolished its asset tax. Colombia and Honduras made paying taxes easier by implementing and improving online filing and payment systems. That cut the time spent filing and paying taxes, especially in Honduras.

In Africa 6 economies reformed. Three reduced their corporate income tax rate (table 8.3). Burkina Faso reduced its corporate income tax rate from 35% to 30%, its dividend tax rate from 15% to 12.5% and its property transfer tax rate from 10% to 8%. Côte d'Ivoire reduced the corporate income tax rate from 27% to 25%. Madagascar reduced that rate from 30% to 25% and abolished 9 taxes, including the stamp duty and dividend tax. In Africa taxes other than the profit tax—such as stamp duties, property taxes and labor taxes—account for the largest share of the total tax rate. This is reflected in the large number of

FIGURE 8.4  
Most time in Latin America & Caribbean



Source: Doing Business database.

tax payments African businesses must make each year (figure 8.4).

Mozambique eased the filing and paying of taxes by introducing electronic systems. It also revised its tax code to make necessary updates, remove ambiguities and strengthen tax compliance and collection. Zambia did the same. These changes should increase the effectiveness of tax administration.

In East Asia and Pacific 5 economies

reformed. Aside from Malaysia, China made notable reforms, reducing the corporate income tax from 33.3% to 25% and unifying accounting methods and criteria for tax deductions and exemptions. Meanwhile, online filing became more prevalent. Thailand introduced corporate income tax exemptions for small companies, reduced the corporate income tax rate to 25% for newly listed companies and reduced several property taxes by sizable rates. It also made online filing and payments easier. Samoa lowered its corporate income tax from 29% to 27%. Mongolia reduced social security contributions paid by employers from 19% to 11% of gross salaries.

In the Middle East and North Africa only 2 economies reformed. Morocco lowered the standard corporate tax rate from 35% to 30%. Tunisia made filing and paying taxes easier by expanding electronic options. Although companies have been able to file and pay taxes online since 2005, many have been reluctant to pay their taxes this way. To address their concerns while easing the administrative burden, Tunisian authorities introduced an option for filing tax returns online while paying the taxes in person at a tax office. This is a practical intermediate step toward a full online system.

South Asia recorded no significant reforms.

TABLE 8.3  
Major cuts in corporate income tax rates in 2007/08

Region	Reduction in corporate income tax rate (%)
OECD high income	Canada from 22.1 to 19.5 Czech Republic from 24 to 21 Denmark from 28 to 25 Germany from 25 to 15 Italy from 33 to 27.5 New Zealand from 33 to 30
East Asia & Pacific	China from 33.3 to 25 Malaysia from 27 to 25 Samoa from 29 to 27 Thailand from 30 to 25
Eastern Europe & Central Asia	Albania from 20 to 10 Bosnia and Herzegovina from 30 to 10 Georgia from 20 to 15 Macedonia, former Yugoslav Republic of, from 12 to 10
Latin America & Caribbean	Antigua and Barbuda from 30 to 25 Dominican Republic from 30 to 25 St. Vincent and the Grenadines from 40 to 37.5
Sub-Saharan Africa	Burkina Faso from 35 to 30 Côte d'Ivoire from 27 to 25 Madagascar from 30 to 25
Middle East & North Africa	Morocco from 35 to 30

Source: Doing Business database.

**WHAT ARE THE REFORM TRENDS?**

Revenue authorities around the world are making great efforts to streamline administrative processes and modernize payment systems. In the past 4 years *Doing Business* has recorded 126 reforms aimed at reducing tax rates or the time or cost to comply with tax laws.

The trend across all regions has been to lower the total tax rate paid by businesses. In 2004 the average total tax rate was 50.6% of commercial profits. By 2007 it had fallen to 49.3%. Meanwhile, the time to comply with tax laws dropped by 16 hours a year on average.

About 50% of economies have implemented reforms making it easier to pay taxes in the past 4 years. Among regions, Eastern Europe and Central Asia has had the most reforms, followed by Africa (figure 8.5). South Asia has had the fewest.

**CUTTING RATES**

Reducing corporate income tax rates has been the most popular reform feature (figure 8.6). More than 60 economies have done this. Countries can increase

tax revenue by lowering rates and persuading more businesses to comply with the more favorable rules.

Look at the Russian Federation's large tax cuts in 2001. Corporate tax rates fell from 25% to 24%, and a simplified tax scheme lowered rates for small business. Yet tax revenue increased—by an annual average of 14% over the next 3 years. One study shows that the new revenue was due to greater compliance.<sup>5</sup>

**GOING ELECTRONIC**

Introducing electronic filing has been a popular and effective way to make it easier to pay taxes. Businesses can enter financial information online and file it with one click—with no calculations and no interaction with tax officials. Errors can be identified instantly, and returns processed quickly. In Hong Kong (China) businesses file an electronic corporate tax return and pay corporate income tax annually. Complying with tax requirements takes just 80 hours a year. Sixty economies—from Azerbaijan to Colombia and Lesotho—have made e-filing possible, and the list is growing.

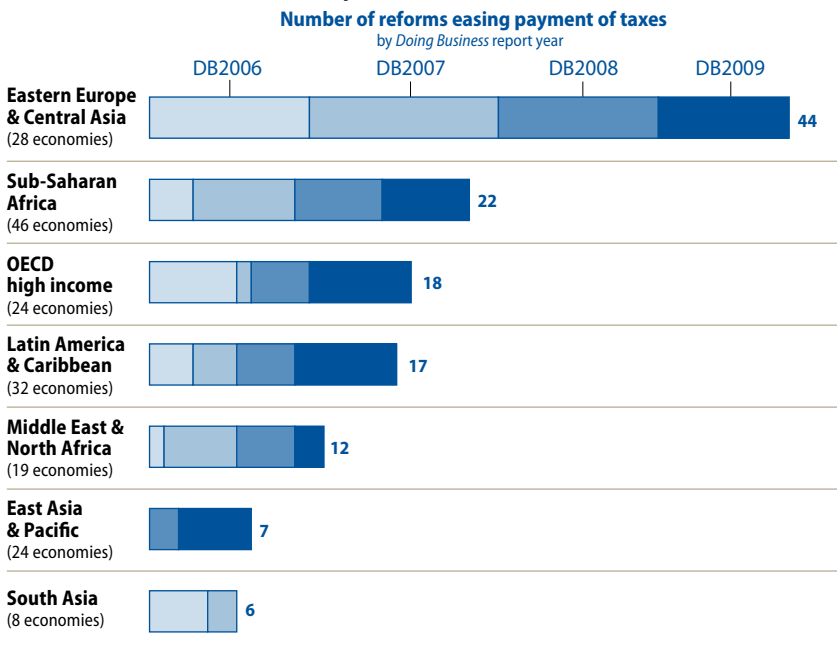
These reforms can ease the adminis-

trative burden of paying taxes. But it can take time for them to make a real difference. In Argentina and Tunisia it took almost 3 years before smaller firms felt the impact. The reason is that small firms often lack the software needed for electronic filing and payments. Moreover, taxpayers often distrust online systems when it comes to dealing with sensitive financial information.

Businesses in Azerbaijan are benefiting from an ambitious tax modernization reform started by the government 3 years ago. Electronic payment and filing systems have been in place since March 2007. The goal is to have 100% online filing. Tax authorities have been actively promoting online filing among businesses paying value added tax. The efforts have had results: 95% of these businesses are using the service, completing more than 200,000 online transactions in the first 3 months of 2008 alone—and saving an average 577 hours a year. Online filing is also available for corporate income tax.

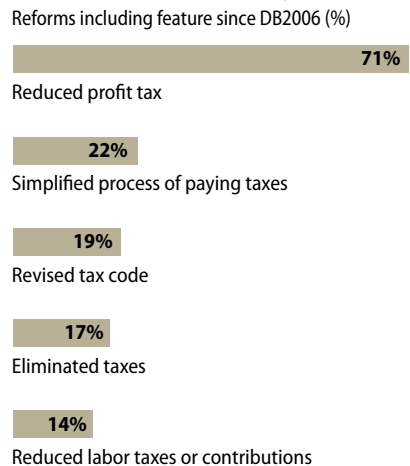
Reforms introducing electronic payment and filing systems often need to provide public education and training.

FIGURE 8.5  
**A third of reforms in Eastern Europe & Central Asia**



Note: A reform is counted as 1 reform per reforming economy per year. Source: *Doing Business* database.

FIGURE 8.6  
**Top 5 reform features in paying taxes**



Note: A reform may include several reform features. Source: *Doing Business* database.

Azerbaijan provided free software to taxpayers 6 months before implementing its new system, giving them time to become familiar with it. Distributing the tax software early paid off in more than one way: users also suggested improvements simplifying the design of the software's interface.

To make the new online system more effective, Azerbaijan's government also introduced advanced accounting software to help in computing tax payments. This has especially benefited medium-size companies, which make up a sizable share of the users. For smaller enterprises, more likely to lack access to the internet, the Ministry of Taxes is installing computer stations around the country that are linked to the central database.

Kenyan and Mozambican taxpayers too are enjoying the benefits of electronic tax systems. Companies in Kenya can complete and submit social security forms online. Complying with labor tax obligations used to take them 72 hours a year; now it takes about 20% less time. Their Mozambican counterparts can complete social security forms electronically and are looking forward to being able to submit them online, which will further simplify the task.

## NOTES

1. This example is from the World Bank's *Doing Business: Women in Africa* (2008a), a collection of case studies of African entrepreneurs.
2. Ellis, Manuel and Blackden (2006).
3. World Bank Enterprise Surveys (<http://www.enterprisesurveys.org>).
4. Djankov, Ganser, McLiesh, Ramalho and Shleifer (2008).
5. Ivanova, Keen and Klemm (2005).

TABLE 8.4

### Who makes paying taxes easy—and who does not?

<b>Payments (number per year)</b>			
<b>Fewest</b>		<b>Most</b>	
Maldives	1	Côte d'Ivoire	66
Qatar	1	Serbia	66
Sweden	2	Venezuela	70
Hong Kong, China	4	Jamaica	72
Norway	4	Kyrgyz Republic	75
Singapore	5	Montenegro	89
Kiribati	7	Ukraine	99
Latvia	7	Uzbekistan	106
Mauritius	7	Belarus	112
Afghanistan	8	Romania	113
<b>Time (hours per year)</b>			
<b>Fastest</b>		<b>Slowest</b>	
Maldives	0	Ukraine	848
United Arab Emirates	12	Venezuela	864
Bahrain	36	Czech Republic	930
Qatar	36	Nigeria	938
Bahamas, The	58	Armenia	958
Luxembourg	59	Vietnam	1,050
St. Lucia	61	Bolivia	1,080
Oman	62	Belarus	1,188
Switzerland	63	Cameroon	1,400
New Zealand	70	Brazil	2,600
<b>Total tax rate (% of profit)</b>			
<b>Lowest</b>		<b>Highest</b>	
Vanuatu	8.4	Tajikistan	85.5
Maldives	9.1	Uzbekistan	90.6
Qatar	11.3	Mauritania	98.7
United Arab Emirates	14.4	Argentina	108.1
Kuwait	14.4	Belarus	117.5
Saudi Arabia	14.5	Central African Republic	203.8
Bahrain	15.0	Congo, Dem. Rep.	229.8
Zambia	16.1	Sierra Leone	233.5
West Bank and Gaza	16.8	Burundi	278.7
Botswana	17.1	Gambia, The	292.4

Source: *Doing Business* database.