



THE WORLD BANK

World Bank Group

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

PwC

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

Fact sheet

Paying Taxes 2014: The Global Picture - North America

The Paying Taxes report is an annual joint publication by PwC, and the World Bank and IFC. This year marks the eighth year of publication. The report is built on the World Bank and IFC' *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 standardized 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 labor 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 – North America¹

- The case study company has an average Total Tax Rate of 41.4% in the North America region. It takes 213 hours to comply with its tax affairs and makes 8.3 payments.
- The North American economies have registered an improvement across all the three indicators over the nine years of the study.
- At 41.4%, the average Total Tax Rate for the region is slightly below the world average 43.1%. This however disguises differences between the three economies in the region. Mexico and the United States have Total Tax Rates of 53.7 % and 46.3 % respectively while Canada has a significantly lower Total Tax Rate of 24.3%.
- Profit taxes have fallen the most but are still on average the largest element of the Total Tax Rate for North America.
- High levels of corporate income tax drive the Total Tax Rate in the United States, labor taxes and mandatory contributions are significant in Mexico while generally lower tax rates apply in Canada.
- The average Total Tax Rate has fallen steadily over the nine years of the study with a drop of 8.3% and has always been below the world average. The rate of this reduction has slowed over the last four years and in the most recent period the rate has increased.
- Of the three economies in this region, Canada has improved the most over the nine year period with a reduction in the Total Tax Rate of 23.2 percentage points and has been driving the improvement in this region.
- The average time to comply for the region at 213 hours is below the global average 268. Corporate income tax takes the longest time in the region.
- The average time to comply has reduced by 122 hours. All three economies have electronic filing, which is the main reason for the consistent decline in the time to comply.
- The change in the time to comply with labor taxes accounts for around 48% of the total fall in time to comply with all taxes across the region.

¹ The following economies are included in our analysis of North America: Canada; Mexico; United States.

- The average number of payments for the region is 8.3, the lowest of any of our regions. All three economies in this region have full electronic filing and payment which helps to achieve this low average.
- The number of payments has declined significantly since 2004; labor tax payments have fallen most due to the introduction of the electronic systems for making social security payments.

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.

About PwC

PwC firms help organisations and individuals create the value they're looking for. We're a network of firms in 158 countries with more than 180,000 people who are committed to delivering quality in assurance, tax and advisory services. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. Tell us what matters to you and find out more by visiting us at www.pwc.com.

About the World Bank Group

The World Bank Group is one of the world's largest sources of funding and knowledge for developing countries. It comprises five closely associated institutions: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for Settlement of Investment Disputes (ICSID). Each institution plays a distinct role in the mission to fight poverty and improve living standards for people in the developing world. For more information, please visit www.worldbank.org, www.miga.org, and www.ifc.org.