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Fact sheet

Paying Taxes 2019
Global and Regional Findings: MIDDLE EAST

The *Paying Taxes* report is a joint annual publication by PwC and the World Bank Group. This year marks the 13th year of the publication. The report is based on the World Bank Group's *Paying Taxes* indicator within their *Doing Business* project and includes analysis and commentary by the World Bank and 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 190 economies around the world. The case study company is a small to medium-size manufacturer and retailer with specific assumptions, deliberately chosen to ensure that its business can be compared worldwide on a like for like basis.

The *Doing Business* project, a World Bank Group annual publication which measures business regulations in 190 economies, has been collecting data on paying taxes for 14 years. Besides paying taxes, the *Doing Business* project provides measures of regulations in nine other areas: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, trading across borders, enforcing contracts, and resolving insolvency. It also looks at labour market regulation.

Paying Taxes compares tax systems using four measures: the Total Tax and Contribution Rate ("TTCR": the cost of all taxes borne, as a % of commercial profit), the time needed to comply with the major taxes (profit taxes, labour taxes and mandatory contributions, and consumption taxes), the number of tax payments and the post-filing index. The four measures are each converted to a score of 0 – 100 and the simple average of these scores determines the overall *Paying Taxes* ranking.

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 TTCR sub-indicator measures the cost of taxes and contributions that are borne by the company. The taxes included can be divided into 5 categories: profit or corporate income tax, social contributions and labour taxes paid by the employer (for which all mandatory contributions are included, even if paid to a private entity such as a requited pension fund), property taxes, turnover taxes and other taxes (such as municipal fees and vehicle taxes). The two original compliance 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 post-filing index measures two processes based on four components—time to comply with a VAT refund (hours), time to obtain a VAT refund (weeks), time to comply with a correction of a CIT return (hours) and the time to complete a CIT correction (weeks).

Some important points to note are that:

1. The sub-indicators are calculated by reference to a particular calendar year. The effect of any change that takes place part way through the year is pro-rated. The most recent data in this study, *Paying Taxes* 2019, relates to the calendar year ended 31 December 2017.

2. The ranking order is based on the World Bank's ease of doing business score (formerly called the distance to frontier score) which is used by the World Bank Group to evaluate each economy's performance relative to the lowest and highest value of each sub-indicator rather than relative to the other economies. This means that economies can see how far they have progressed towards the best

regulatory performance, rather than simply looking at how they compare to other economies. A score is calculated for each of the four sub-indicators. The simple average of these four scores then gives the overall score on *Paying Taxes*. The distribution used to determine the score of the TTCR is non-linear. This means that movements in a TTCR that is already close to the lowest TTCR will have less of an impact on the score of the TTCR. As in previous years, the lowest TTCR for the purposes of the ranking calculation is set at the 15th percentile of the overall distribution for all years included in the analysis up to and including *Doing Business 2016*, which is 26.1%. Economies with a TTCR below this value will therefore not be closer to the best regulatory performance than an economy with a TTCR equal to this value.

3. If in the course of collecting and analysing the data for 2017 it became apparent that data for previous years was incorrect, the necessary adjustments have been made and the sub- indicators recalculated for prior years. Rankings are only revised for the immediate prior year. Any data that refers to 2016 and earlier years is therefore stated after such revisions have been made and so may differ from the data published in previous editions of this study including the global and regional averages.

The key themes and findings are:

- On average, it takes our case study company 237 hours to comply with its taxes, it makes 23.8 payments and has an average Total Tax and Contribution Rate (TTCR) of 40.4%.

- In 2017, the global average results are almost unchanged compared to last year, and yet 113 economies recorded tax reforms.

- Since 2004, the global average time to comply has fallen by 84 hours and the global average number of payments has fallen by 10.3 - both driven by technology.

- High performing economies are introducing even more advanced technology (e.g. machine learning), but some economies are finding it difficult to implement online filing and payment due to the lack of IT infrastructure, cultural barriers and complex legislation.

- On average, labour and profit taxes have each accounted for 40% of the TTCR since 2008.

- In 2017, the profit tax component of the TTCR fell in 58 economies and increased in 37, conversely the labour tax component of the TTCR rose in 39 economies and decreased in 17.

- The average TTCR is around 13% points higher in low-income economies than in high- and middle-income economies.

- The global post-filing score is 59.6 out of 100. The higher score the more efficient it is to receive VAT refunds and correct corporate income tax returns.

- On average around the world, our case study needs 19.6 hours to comply with a VAT refund and it takes 29 weeks to obtain the refund.

- The time to correct a corporate income tax takes 15.1 hours on average. If the correction results in further interaction with the tax authority, it takes 26.1 weeks from the submission of the correction until the completion of any interactions with the tax authority, including audits.

- Improving tax officers' skills is vital for a well-functioning tax system: 97% of economies provide training to tax officers, but only 35% of economies offer regular, periodic training.

Regional details – *The Middle East*[1]

- The case study company has an average Total Tax & Contribution Rate (TTCR) of 24.4% in the Middle East region; it takes the company an average of 144 hours to comply with its tax affairs and it makes an average of 17.1 payments. The time to comply decreased by 9 hours while TTCR increased by 0.4 percentage points and the number of payments decreased by 0.1 from last year.

- The Middle East region has the least demanding tax system for our case study company for the pre-filing indicators. At 24.4%, the average TTCR for the region is well below the world average (40.4%) and the lowest of any region.

- The region also has the lowest average time to comply of all the regions of 144 hours compared to the global average of 237 hours.

- Labour taxes and mandatory contributions paid by employers account for 59.7% of the average TTCR for the region and are the most significant contributor to the TTCR for most economies. Profit taxes account for 37.4%, while other taxes account for just 3.0% of the region's average TTCR. Similarly, labour taxes and social contributions paid by employers account for 53.4% of the time to comply and 60.8% of the number of payment.

- The average number of payments for the region is 17.1 payments, which is below the world average of 23.8 payments. This is largely because of the low average number of taxes in the region for the case study company.

- The Middle East region performs comparatively less well on the post-filing index than on the other three indicators. The post-filing index score for the region is 44.6 (on a scale of 0 – 100), ranks seventh amongst the eight regions, and is less efficient than the world average of 59.6.The region underperformed the global average in all four components of post-filing index.

- Only 5 of the 13 economies in the Middle East have VAT systems. Where an economy has no VAT system, the VAT components are omitted from the post-filing index score.

- Across the 5 economies in the Middle East region in which a VAT refund is available to the case study company, the average time to comply with a VAT refund is 28.6 hours and to obtain the VAT refund takes 44.1 weeks on average.

- Corporate income tax is levied in 9 of the 13 economies in the Middle East region and in six of these there is a greater than 25% likelihood that the case study company would be selected for additional review after correcting the corporate income tax return. Where an economy has no corporate income tax system, the corporate income tax components are omitted from the post-filing index score.

- In the Middle East region it takes the case study company on average 33.6 hours to correct the error in the corporate income tax return and comply with any additional review – more than twice as long as the global average of 15.1 hours.

For more information about *Paying Taxes*, visit www.pwc.com/payingtaxes.
For more information about the *Doing Business* report series, visit www.doingbusiness.org

[1] The following economies are included in our analysis of the Middle East: Bahrain; Iran, Islamic Rep.; Iraq; Jordan; Kuwait; Lebanon; Oman; Qatar; Saudi Arabia; Syrian Arab Republic; United Arab Emirates; West Bank and Gaza; Yemen, Rep.

About the *Doing Business* report series

The Doing Business project provides objective measures of business regulations and their enforcement across 190 economies and selected cities at the subnational and regional level.

The Doing Business project, launched in 2002, looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle.

By gathering and analyzing comprehensive quantitative data to compare business regulation environments across economies and over time, Doing Business encourages economies to compete towards more efficient regulation; offers measurable benchmarks for reform; and serves as a resource for academics, journalists, private sector researchers and others interested in the business climate of each economy.

In addition, Doing Business offers detailed subnational reports, which exhaustively cover business regulation and reform in different cities and regions within a nation. These reports provide data on the ease of doing business, rank each location, and recommend reforms to improve performance in each of the indicator areas. Selected cities can compare their business regulations with other cities in the economy or region and with the 190 economies that Doing Business has ranked.

The first Doing Business report, published in 2003, covered 5 indicator sets and 133 economies. This year's report covers 11 indicator sets and 190 economies. Most indicator sets refer to a case scenario in the largest business city of each economy, except for 11 economies that have a population of more than 100 million as of 2013 (Bangladesh, Brazil, China, India, Indonesia, Japan, Mexico, Nigeria, Pakistan, the Russian Federation and the United States) where Doing Business, also collected data for the second largest business city. The data for these 11 economies are a population-weighted average for the 2 largest business cities. The project has benefited from feedback from governments, academics, practitioners and reviewers. The initial goal remains: to provide an objective basis for understanding and improving the regulatory environment for business around the world.

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), which together form the World Bank; 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.

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