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**Fact sheet**

***Paying Taxes 2019***
***Global and Regional Findings: ASIA PACIFIC***

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 – Asia Pacific**[1]

[1] The following 37 economies are included in our analysis of Asia Pacific: Afghanistan; Australia; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; China; Fiji; Hong Kong SAR, China; India; Indonesia; Japan; Kiribati;

- On average in 2017, the Asia Pacific region had an average Total Tax & Contribution Rate (TTCR) of 36.4%, it took the case study company 197 hours to comply with its taxes and it made 21.9 tax payments.

- The Asia Pacific economies showed some improvements with reductions in the time to comply (by 3.8 hours) and the number of payments indicator (by 0.6). The TTCR was unchanged in 2017.

- While the three pre-filing measures are below the global average, Asia Pacific performs just below the world average on the post-filing index with a score for the region of 56.9 (on a scale of 0–100) compared to the world average of 59.6.

- At 197 hours, the average time to comply for the region is lower than the world average of 237 hours. For only 11 economies (of the 37 economies in the region), is the time to comply greater than the world average.

- The average number of payments for the region is 21.9, below the world average of 24 payments. There is however a wide range across the region from 3 payments in Hong Kong SAR, China to 47 payments in Pakistan.

- The average TTCR for the Asia Pacific region was unchanged in 2017, however, the TTCR increased in 12 economies and decreased in 7.

- The largest decrease in TTCR was in India from 56.2% to 52.1% as paying taxes was made less costly by merging multiple sales tax into a goods and services tax. The reduction in the headline rate of corporate income tax from 30% to 25% and the reductions in the rate of certain social security contributions also contributed to the drop in the TTCR.

- The largest increase in TTCR was in Nepal where the introduction of a new labour contribution (gratuity contribution) and medical and accident insurance paid by the employer increased the TTCR from 29.6% to 36.7%.

- In 2017, the average time to comply for the region fell by 3.8 hours. China experienced the biggest reduction in time to comply in this region by 65 hours to 142 hours due to a range of reforms including ongoing changes to VAT and business tax, education programmes for taxpayers and the transition of the tax authorities to a more customer-focussed model.

- The number of payments for the region decreased overall by 0.6 to 21.9 tax payments in the year. Sri Lanka decreased its payments from 47 to 36 by an introducing online system (RAMIS) for filing returns on all types of taxes including withholding tax and tax deductions under a pay-as-you-earn scheme. While in Papua New Guinea, requirements to make compulsory superannuation contributions increased payments by 7 to 39 as these cannot be made online.

- The Solomon Islands has the highest post-filing index score of 100.0 - the only economy in the study that achieves the maximum score. While Brunei Darussalam has the lowest score of 0.0. In the Solomon Islands it is easy to correct a CIT return whereas in Brunei Darussalam a CIT correction is likely to result in further interactions with the tax authority. Neither of these economies levies VAT.

- Out of 37 economies in the Asia Pacific region, 28 have a VAT system. Of the 28 economies with VAT, a VAT refund is available to our case study company in 19.

- In the economies in the Asia Pacific region where a VAT refund is available to the case study company, the average time to comply with the VAT refund is 28.5 hours ranging from zero hours in the Republic of Korea to 145 hours in Nepal.

- The average time to obtain the VAT refund in the region is 28.1 weeks, just below the global average of 29.0 weeks, ranging from 5.2 weeks in New Zealand to 79 weeks in Pakistan.

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Korea, Rep.; Lao PDR; Malaysia; Maldives; Marshall Islands; Micronesia, Fed. Sts.; Mongolia; Myanmar; Nepal; New Zealand; Pakistan; Palau; Papua New Guinea; Philippines; Samoa; Singapore; Solomon Islands; Sri Lanka; Taiwan, China; Thailand; Timor-Leste; Tonga; Vanuatu; Vietnam.

- 33 of the 37 economies in the Asia Pacific region have a CIT system. On average it would take the case study company 22.1 hours to correct the error in the corporate income tax return including dealing with any additional reviews; this is the second longest across all geographic regions. If there are further interactions with tax authorities following the CIT correction these would take 24.1 weeks on average to complete.

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

## 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.

## About PwC

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