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Fact sheet

Paying Taxes 2020
Global and Regional Findings: CENTRAL ASIA & EASTERN EUROPE

The *Paying Taxes* report is a joint annual publication by PwC and the World Bank Group. This year marks the 14th 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 15 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 required 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 2020*, relates to the calendar year ended 31 December 2018.
2. The ranking order is based on the World Bank's ease of doing business 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 2018 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 2017 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 234 hours to comply with its taxes, it makes 23.1 payments and has an average Total Tax and Contribution Rate (TTCR) of 40.5%.
- In 2018, the global average results are almost unchanged compared to last year, but there have been some significant changes in the results in certain economies.
- Since 2012, the global average number of payments has fallen by 10% and the global average time to comply has fallen by 16% - both driven by technology.
- Some of the most significant drops in the time to comply in 2018 were in Brazil and Vietnam where the time to comply fell by 23%.
- In 2018, the number of payments indicator dropped substantially in Côte d'Ivoire (by 60%), Kyrgyz Republic (by 59%) and Israel (by 79%).
- The number of economies using electronic tax filing and payment systems as measured by *Paying Taxes* has risen sharply from 43 of 174 economies in 2004 to 106 out of 190 economies in 2018.
- Although the TTCR increased only marginally to 40.5% in 2018 from 40.4% in 2017, there have been some major changes in the taxes levied on the case study company in some economies.
- Value-added tax (VAT) was introduced in Saudi Arabia and the United Arab Emirates.
- In Ghana, the standard rate of VAT was reduced, but cascading sales taxes were introduced and increased in the TTCR from 32.4% to 55.4%.
- Lower taxes on profits drove significant rate reductions in The Gambia (from 56.6% in 2017 to 48.4% in 2018), the United States (from 43.8% in 2017 to 36.6% in 2018), China (64.0% in 2017 to 59.2% in 2018) and Morocco (49.8% in 2017 to 45.8% in 2018)
- The global post-filing score is 60.9 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 18.2 hours to comply with a VAT refund and it takes 27.3 weeks to obtain the refund.
- The time to correct a corporate income tax is 14.6 hours on average. If the correction results in further interaction with the tax authority, it takes 25.5 weeks from the submission of the correction until the completion of any interactions with the tax authority, including audits.

Regional details – *Central Asia & Eastern Europe*¹

- In 2018, in the Central Asia & Eastern Europe region, the average Total Tax & Contribution Rate was 33.0%. It took the case study company 219 hours to comply with its taxes and it made 13.9 tax payments. The region has a post-filing index score of 68.6
- The Central Asia & Eastern Europe region performs better than the world average on all four indicators and continues to be the most reformed region since the start of the study².
- The post-filing index score for the region is 68.6 (on a scale of 0 – 100) which is above the world average of 60.9. Central Asia & Eastern Europe performs better than most regions on average, coming third after the EU & EFTA and North America regions. All four components of the post-filing index take less time than the global average.
- Between 2017 and 2018, for the Central Asia & Eastern Europe region the average TTCR increased by 0.2 percentage points, while the time to comply fell by 1.6 hours and the number of payments fell by 3.
- At 33.0%, the average TTCR for the region is below the world average of 40.5% and is the second lowest across the regions in 2018 after the Middle East which has an average TTCR of 24.5%.
- In 2018, out of the 19 economies in the region, the TTCR increased for four economies while nine economies experienced a decrease in their TTCRs.
- The overall increase in TTCR was driven by Armenia, with an increase of 4.1 percentage points to 22.6% as taxable profits increased as the amount of tax depreciation that could be deducted for corporate income tax purposes fell following a change to the rules on calculating tax depreciation. The second biggest increase in TTCR was in Ukraine, an increase of 3.5 percentage points to 45.2% as increase in the minimum wage increased the amount of unified social contribution paid by employers.
- The greatest reduction in the TTCR was in Moldova, by 1.6 percentage points to 38.7% following a reduction in the rate of social security contributions paid by the employer.
- In the majority of the economies in the region, labour taxes and mandatory contributions paid by employers account for the most significant portion of the TTCR, making up 54% of the average TTCR.
- In 2018, the Central Asia & Eastern Europe region's average time to comply of 219 hours is 15 hours below the world average of 234 hours.
- Belarus had the largest decrease in time to comply in the region of 14 hours to 170 hours as filing taxes became easier, following widespread upgrades to taxpayers' internal accounting systems.
- The biggest increase in time to comply in the region was in Kazakhstan, an increase of 4 hours to 186 hours as the introduction of the compulsory health insurance contribution in July 2017 increased the time to comply with labour taxes.
- The number of payments decreased in three economies and increased in one. Kyrgyz Republic had the biggest decrease of 37 payments to 26 payments, followed by Israel with a drop of 22 payments to 6 payments. In Kyrgyz Republic, the stand-alone tax on interest was incorporated into corporate income tax. Online filing and payment were introduced for VAT, corporate income tax, and employee and employer pension contributions. While in Israel, online filing and payment of VAT and social security contributions have been available for six or seven years but use of these electronic payment systems by taxpayers did not become widespread until 2018.

¹ The following 19 economies are included in our analysis of Central Asia & Eastern Europe: Albania; Armenia; Azerbaijan; Belarus; Bosnia and Herzegovina; Georgia; Israel; Kazakhstan; Kosovo; Kyrgyz Republic; Moldova; Montenegro; North Macedonia; Russian Federation; Serbia; Tajikistan; Turkey; Ukraine; Uzbekistan.

² Note that when reviewing trend data, we only include economies and cities for which we have data for every year of the study. As such there are only 174 economies included in the global trend data. 15 economies and 11 cities have joined the study since its inception and so are not included in the 15 year trends. For Central Asia & Eastern Europe, 17 economies are included in the historical dataset.

- Turkey now has the most efficient post-filing processes in Central Asia & Eastern Europe as capital purchases are exempt from VAT. The VAT components of the post-filing index are thus not relevant, and the post-filing index score increased to 100, based solely on the CIT components.
- Armenia also saw a significant increase in its post-filing index score of 30.3 to 79.4 as VAT cash refunds were extended in cases of capital expenditure.
- The Kyrgyz Republic has the least efficient post-filing processes in the region with a post-filing index score of 37.4 as no VAT refund is available to the case study company and correcting the corporate income tax return would result in further interactions with the tax authority.
- All 19 economies in the Central Asia & Eastern Europe region have a VAT system, however in 5 of these a VAT refund is not available to the case study company and in Turkey VAT would not be charged on the purchase of machinery by the case study company.
- The average time to comply with a VAT refund for the region is 13.3 hours, which is below the world average of 18.2 hours. Serbia, Israel and Montenegro are the most efficient in time to comply with a VAT refund of 4.0 hours.
- In the Central Asia & Eastern European region, on average it takes 21.2 weeks to obtain a VAT refund. This ranges from 7.5 weeks in Israel to 37.0 weeks in Albania.
- In the Central Asia & Eastern Europe region it would take the case study company on average 9.3 hours to correct an error in the corporate income tax return and deal with any subsequent interactions with the tax authority. The most efficient economies were Georgia and Belarus, where the likelihood of a review following a correction to a CIT return is less than 25% and it takes only takes 1.0 hours to correct the tax return. In Bosnia and Herzegovina it would take 30.0 hours to comply with a corporate income tax correction including further interactions with the tax authority, which is the most time consuming in the region.
- In the region, it takes 12.6 weeks to complete a corporate income tax correction on average for those eight economies where the likelihood of a review following a correction to a CIT return is greater than 25%. This ranges from 5.3 weeks in Kyrgyz Republic to 19.0 weeks in Montenegro.

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* study

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

The *Doing Business* study, 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 studies, which exhaustively cover business regulation and reform in different cities and regions within a nation. These studies 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* study, published in 2003, covered 5 indicator sets and 133 economies. This year's study covers 12 indicator sets and 190 economies. Ten of these areas—starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency—are included in the ease of doing business score and ease of doing business ranking. *Doing Business* also measures regulation on employing workers and contracting with the government, which are not included in the ease of doing business score and ranking. 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. Its five institutions share a commitment to reducing poverty and increasing shared prosperity: [The International Bank for Reconstruction and Development](#) (IBRD), [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). With 189 member countries and offices in over 130 locations, these institutions work together to provide financing, policy advice, technical assistance, political risk insurance, and settlement of disputes to private enterprises, enabling countries to achieve sustainable development.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with over 276,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

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