



# Paying Taxes

Taxes are essential. Without them there would be no money to provide public amenities, infrastructure and services which are crucial for a properly functioning economy. But particularly for small and medium size companies, they may opt out and choose to operate in the informal sector. One way to enhance tax compliance is to ease and simplify the process of paying taxes for such businesses.

The Doing Business tax survey records the effective tax that a small and medium company must pay and the administrative costs of doing so. Imagine a medium-size business, TaxpayerCo, that started operations last year. Doing Business asks tax practitioners in 181 economies to review TaxpayerCo's financial statements and a standard list of transactions that the company completed during the year. Respondents are asked how much in taxes and mandatory contributions the business must pay and what the process is for doing so.

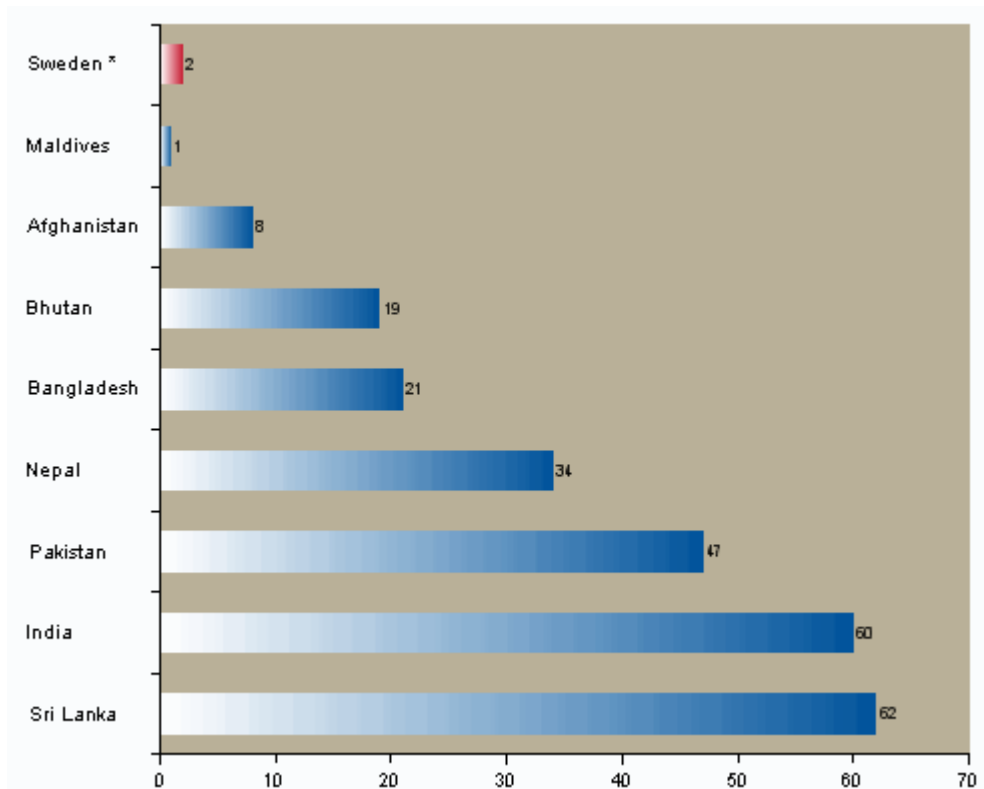
The business starts from the same financial position in each economy. All the taxes and mandatory contributions paid during the second year of operation are recorded. Taxes and mandatory contributions are measured at all levels of government and include corporate income tax, turnover tax, all labor taxes and contributions paid by the company (including mandatory contributions paid to private pension or insurance funds), property tax, property transfer tax, dividend tax, capital gains tax, financial transactions tax, vehicle tax, sales tax and other small taxes (such as fuel tax, stamp duty and local taxes). A range of standard deductions and exemptions are also recorded.

Three indicators are constructed:

- Number of tax payments, which takes into account the method of payment, the frequency of payments and the number of agencies involved in our standardized case study.
- Time, which measures the number of hours per year necessary to prepare and file tax returns and to pay the corporate income tax, value added tax, sales tax or goods and service tax and labor taxes and mandatory contributions.
- Total tax rate, which measures the amount of taxes and mandatory contributions payable by the company during the second year of operation. This amount, expressed as a percentage of commercial profit, is the sum of all the different taxes payable after accounting for various deductions and exemptions.

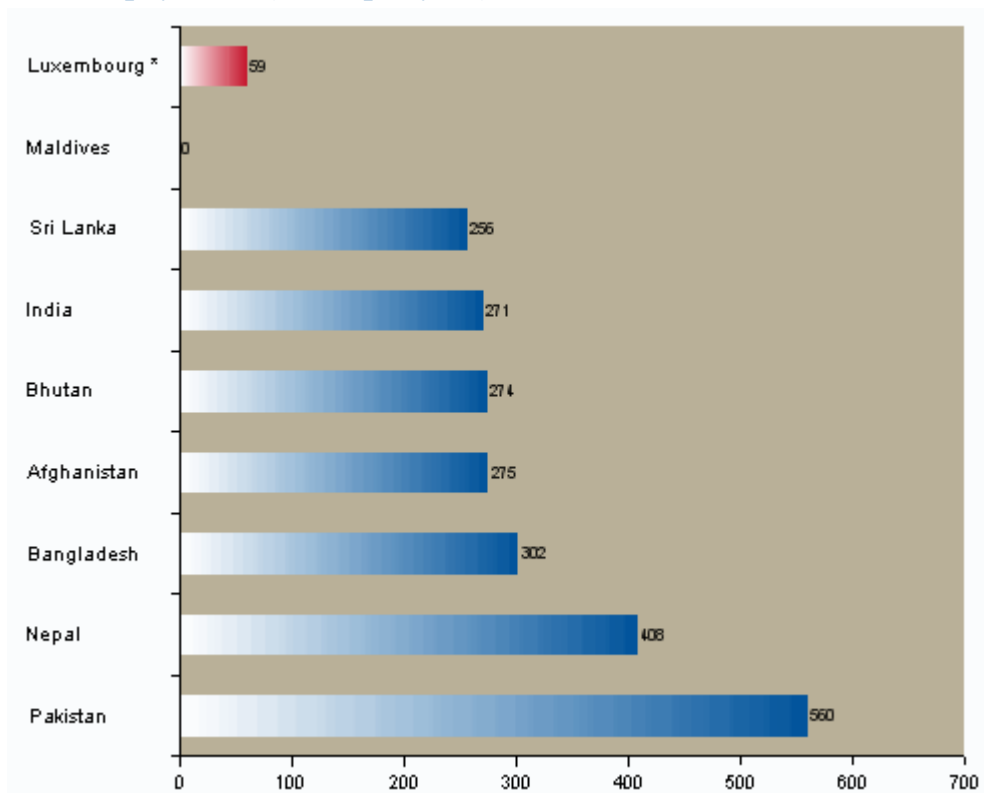
Businesses care about what they get for their taxes and contributions, such as the quality of infrastructure and social services. Efficient tax systems tend to have less complex tax arrangements, comprising of straightforward compliance procedures and clear laws. Taxpayers in such economies often get more from their taxes. Simple, moderate taxes and fast, cheap administration mean less hassle for businesses, and also more revenue collected and better public services. More burdensome tax regimes create an incentive to evade taxes.

## Payments (number per year)



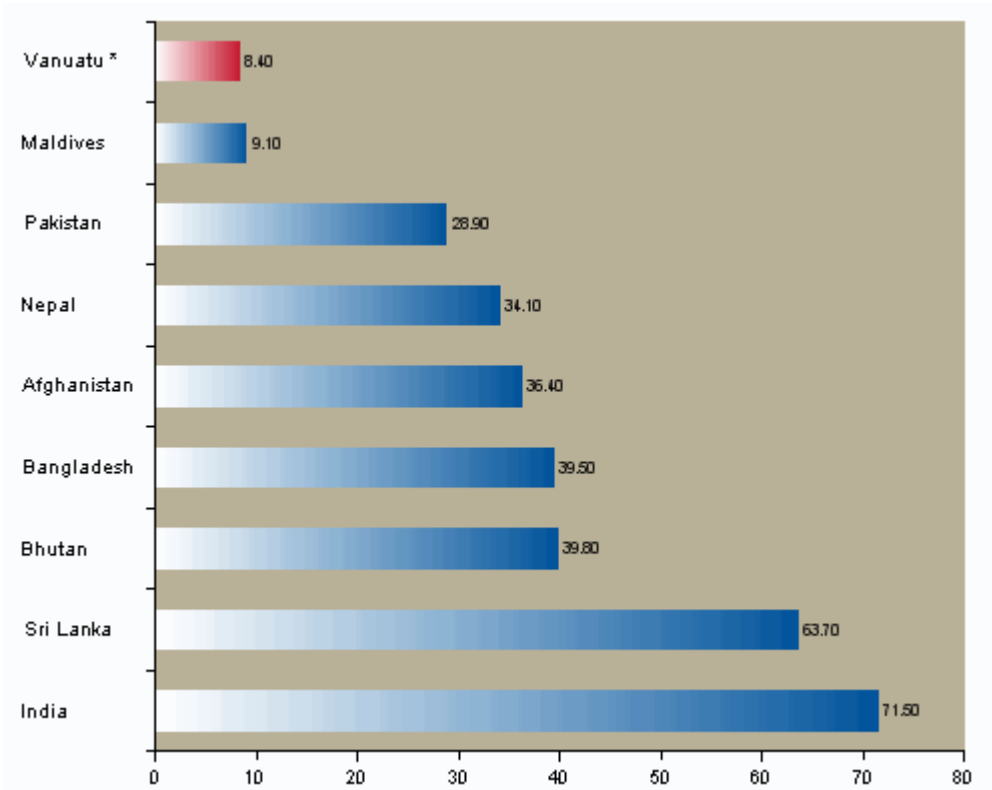
This graph compares the number of payments required for an entrepreneur to pay taxes. \* An economy requiring the least number of payments is included as a benchmark. Qatar and Maldives also require the fewest number of payments to pay taxes.

## Time to pay taxes (hours per year)



This graph compares the time in hours required for an entrepreneur to pay taxes. \* An economy with low time is included as a benchmark. Bahamas, Bahrain, Qatar, Maldives, United Arab Emirates also have one of the lowest time to pay taxes.

### Total tax rate (% of profit)



This graph compares the total tax rate that an entrepreneur is required to pay as a percentage of profit. \* The economy with the lowest tax rate is included as a benchmark.