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# *Paying taxes 2011*

## *The global picture*



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***A fair, stable and  
sustainable tax system – a  
challenge for governments  
in the wake of the downturn***

***A PwC commentary on the  
results***

***Susan Symons***

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## ***Paying taxes is important***

- Taxes are a lifeblood of a stable and prosperous society
  - taxes provide essential government revenues and those who pay tax have a stake in the system
- In the wake of the downturn, levying tax is an even more difficult task for government
  - tension between raising taxes and supporting economic recovery;
  - the role of tax in international development
- The Paying Taxes study is important
  - provides data to inform discussions on tax policy and tax administration and inspire tax reform
  - generates great interest and is used around the world

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## ***Tax reforms around the world have driven a downward trend in the results***

- Over the five years since the first Paying Taxes study
  - the average Total Tax Rate around the world has fallen by 1% per year
  - and the time needed to comply by a day every year
- Tax reform has been high on government agendas
  - 115 economies have implemented significant tax reforms in this period, including 40 in the last year
  - reducing rates of corporate income tax has been the most popular reform, 90 economies
  - we suggest there should also be more focus going forward on easing the compliance burden

# ***Corporate income tax is only part of the burden of taxes***

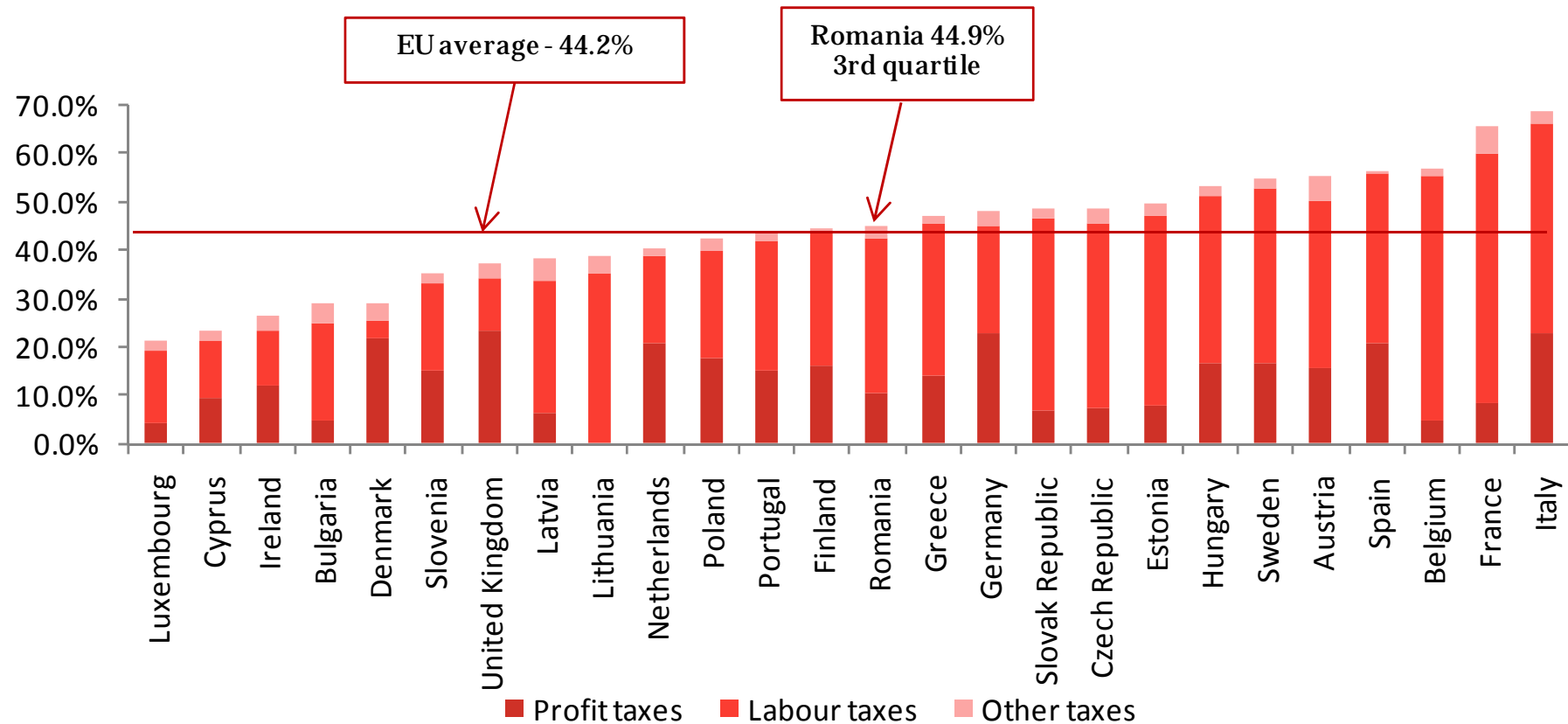
Tax on profits accounts for 38% of the Total Tax Rate, 25% of the compliance time and 12% of the number of payments.



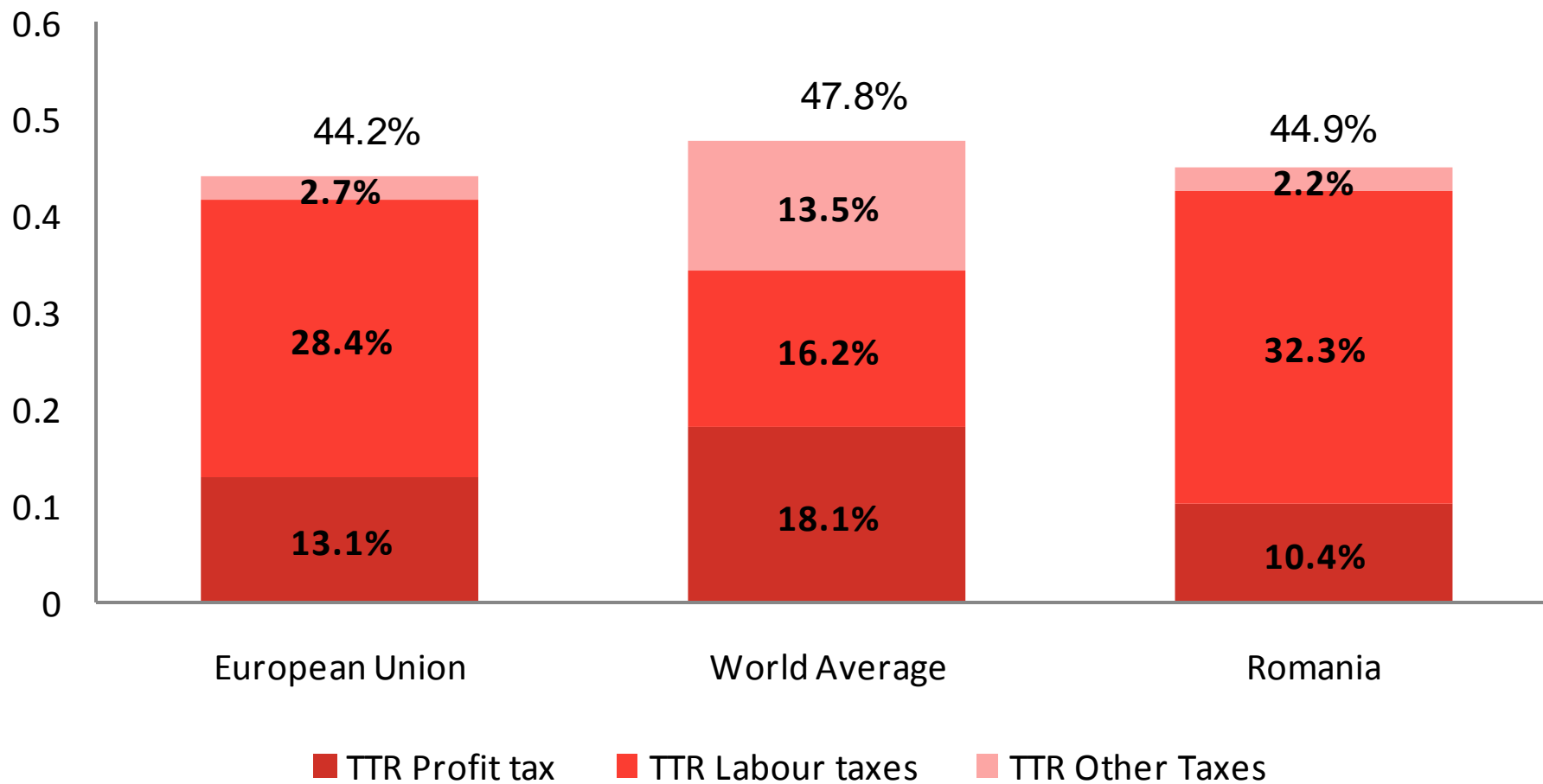
## ***Total Tax Rate – Romania as an example – 44.9%***

		<b>RON</b>
<b>Profit before tax (PBT)</b>		<b>5,011,148</b>
<i>Add back above the line taxes borne:</i>		
Social security contributions	1,778,114	
Health insurance contributions	383,415	
Unemployment contribution	127,805	
Accident risk fund	63,903	
Labor inspectorate commission	47,927	
Guarantee fund	15,976	
Medical leave	54,317	
Fuel tax	82,737	
Building tax	74,691	
Land tax	2,508	
Vehicle tax	6,300	
Firm tax	200	
Urbanism tax	85	
Environmental taxes	-	
Stamp duty on contracts	-	
		<b><u>2,637,978</u></b>
<b>Profit before all taxes borne / commercial profit</b>		<b>7,649,126</b>
Corporate income tax on PBT after necessary adjustments	(793,065)	
Above the line taxes borne	(2,637,978)	
<b>Total taxes borne</b>		<b>(3,431,043)</b>
Profit after tax		4,218,083
<b>TTR = Total taxes borne / commercial profit</b>		<b>44.9%</b>

# Total Tax Rate – European Union



## ***Romania compared to EU and World average***

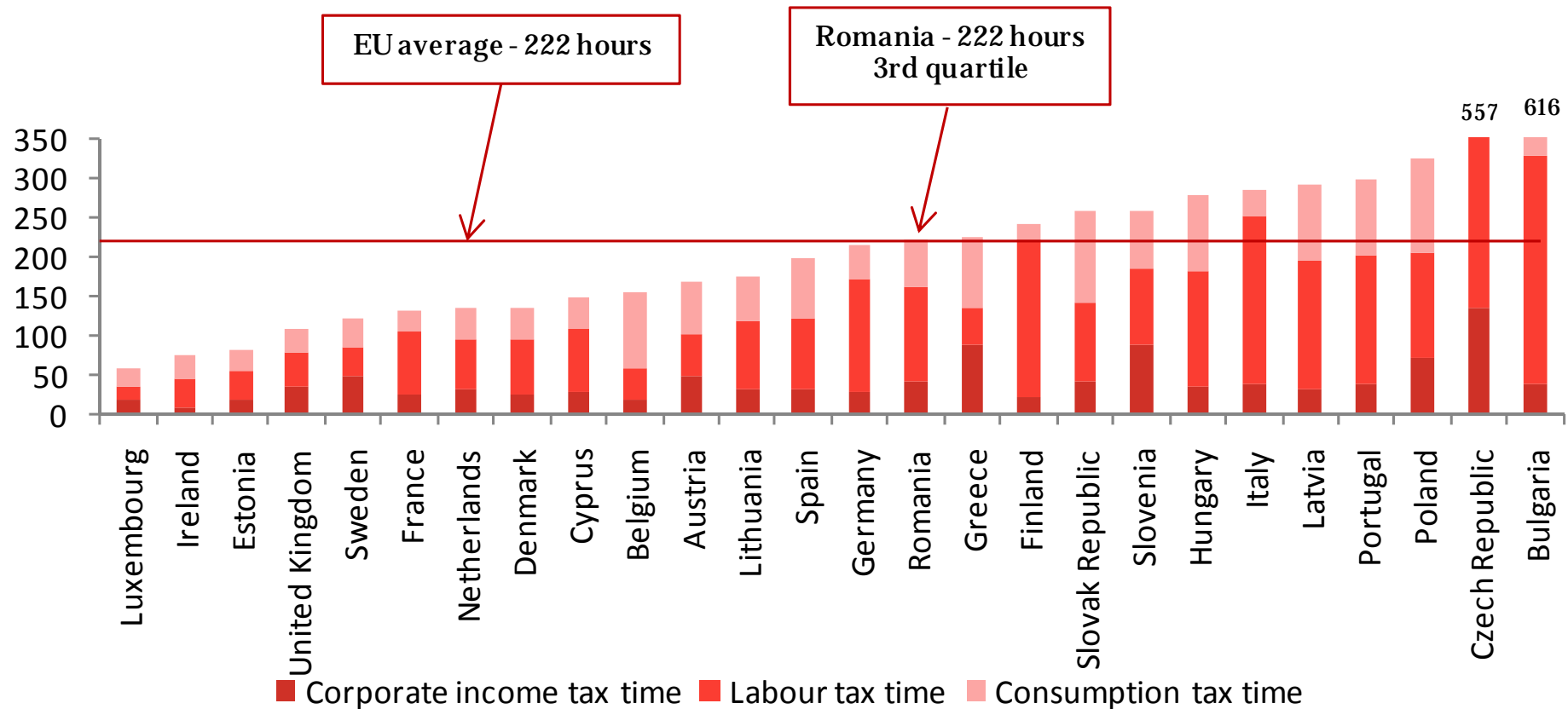




## ***Time to comply – Romania as an example - 222 hours***

	Corporate Income Tax	Labour Taxes	VAT	Total
Prepare	24	66	30	120
File	10	42	24	76
Pay	8	12	6	26
<b>Total</b>	<b>42</b>	<b>120</b>	<b>60</b>	<b>222</b>

# Time to comply – European Union

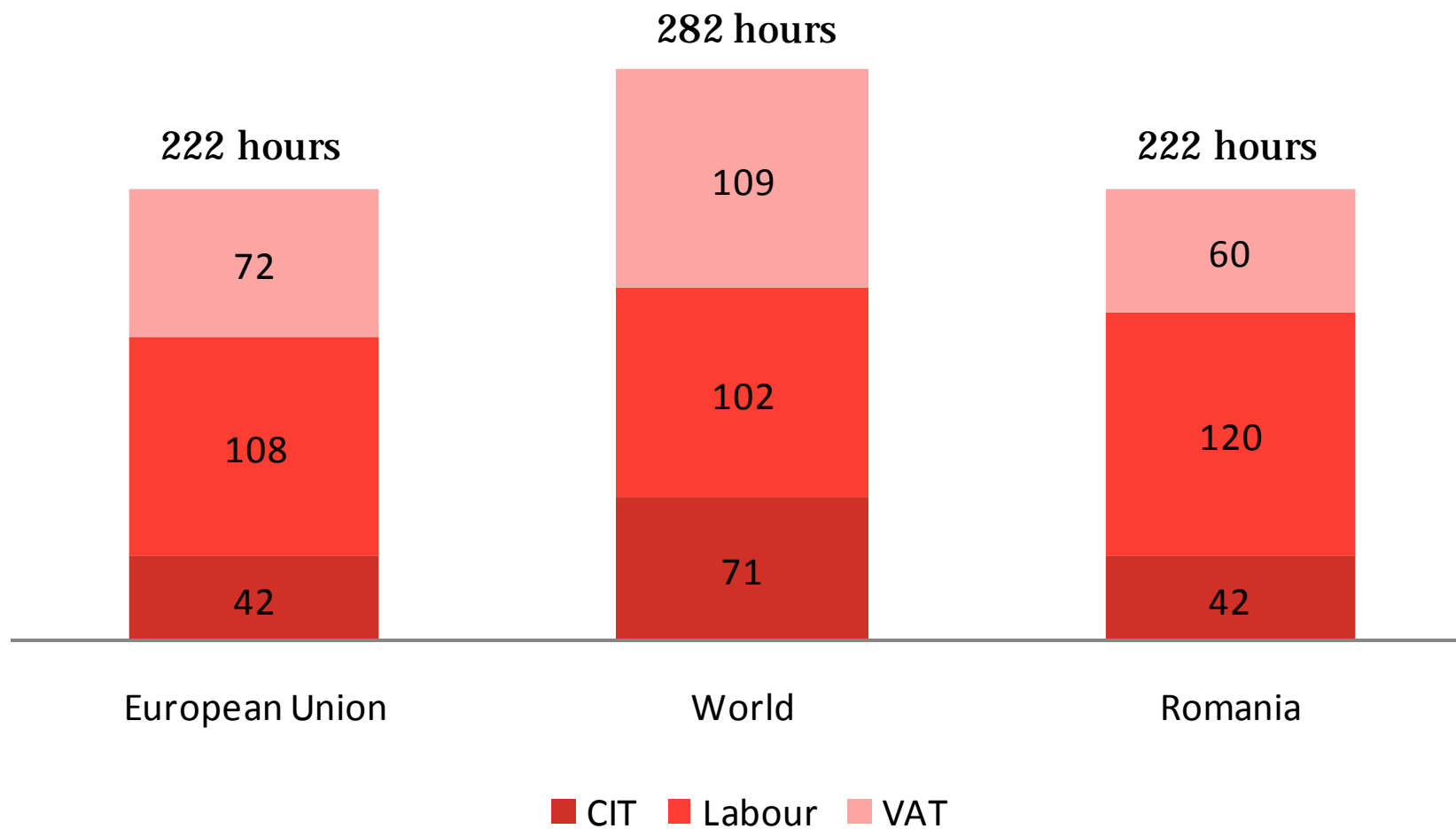


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## ***The impact of VAT compliance on business***

- The time needed to comply varies considerably in the EU from 22 hours in Finland to 288 in Bulgaria
- Administrative procedures vary and significantly impact the time to comply
  - it takes 30% more time on average when indirect taxes are administered by a separate tax authority
  - nearly 70% more time when invoices have to be submitted with VAT returns
  - 30% less time where business uses online filing and payment
- The frequency and length of tax returns also have an impact
  - it takes 35% less time on average where returns are not required monthly
  - and over twice as long where the return has more than 20 boxes to complete

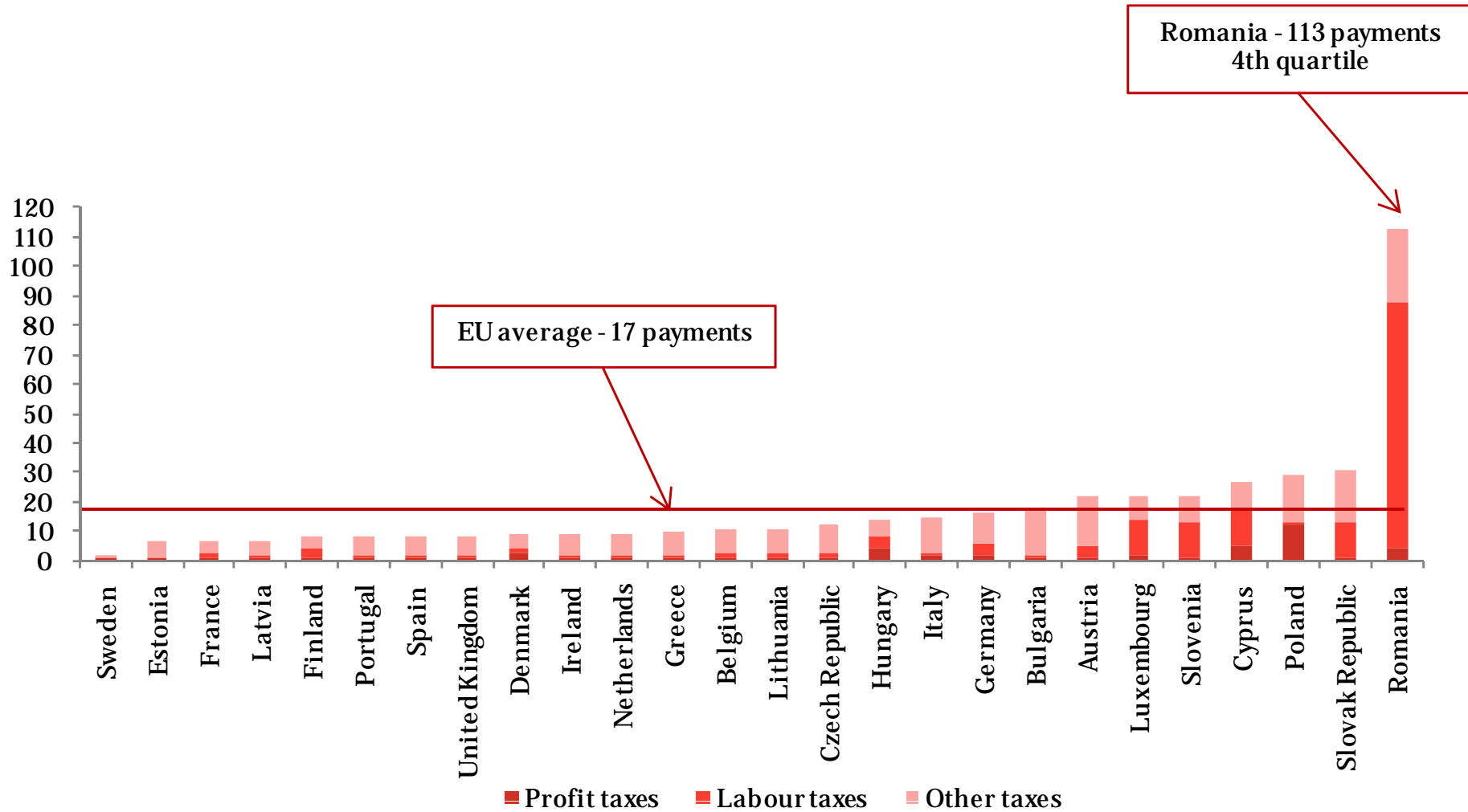
## ***Time to comply – Romania compared to EU and World Average***



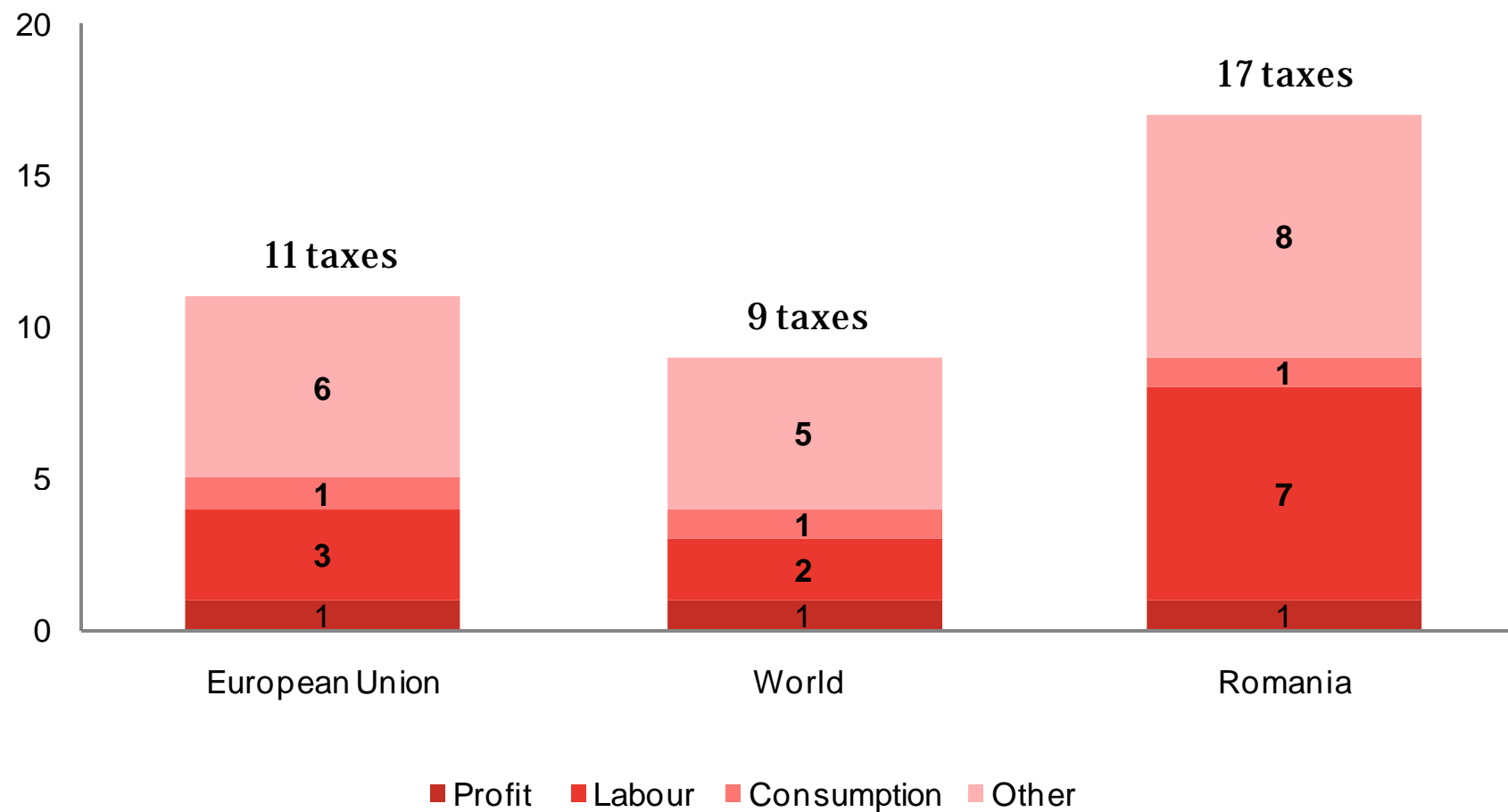
## ***Tax payments - Romania as an example – 113 payments***

	World Bank indicator	Actual payments
Corporate income tax	4	4
VAT	12	12
Social security contributions	12	12
Health insurance contributions	12	12
Unemployment contribution	12	12
Accident risk fund	12	12
Labor inspectorate commission	12	12
Guarantee fund	12	12
Medical leave	12	12
Building tax	2	2
Land tax	2	2
Vehicle tax	2	2
Firm tax	4	4
Urbanism tax	1	1
Environmental taxes	1	1
Fuel tax	1	1
Stamp duty on contracts	0	1
<b>Total</b>	<b>113</b>	<b>113</b>

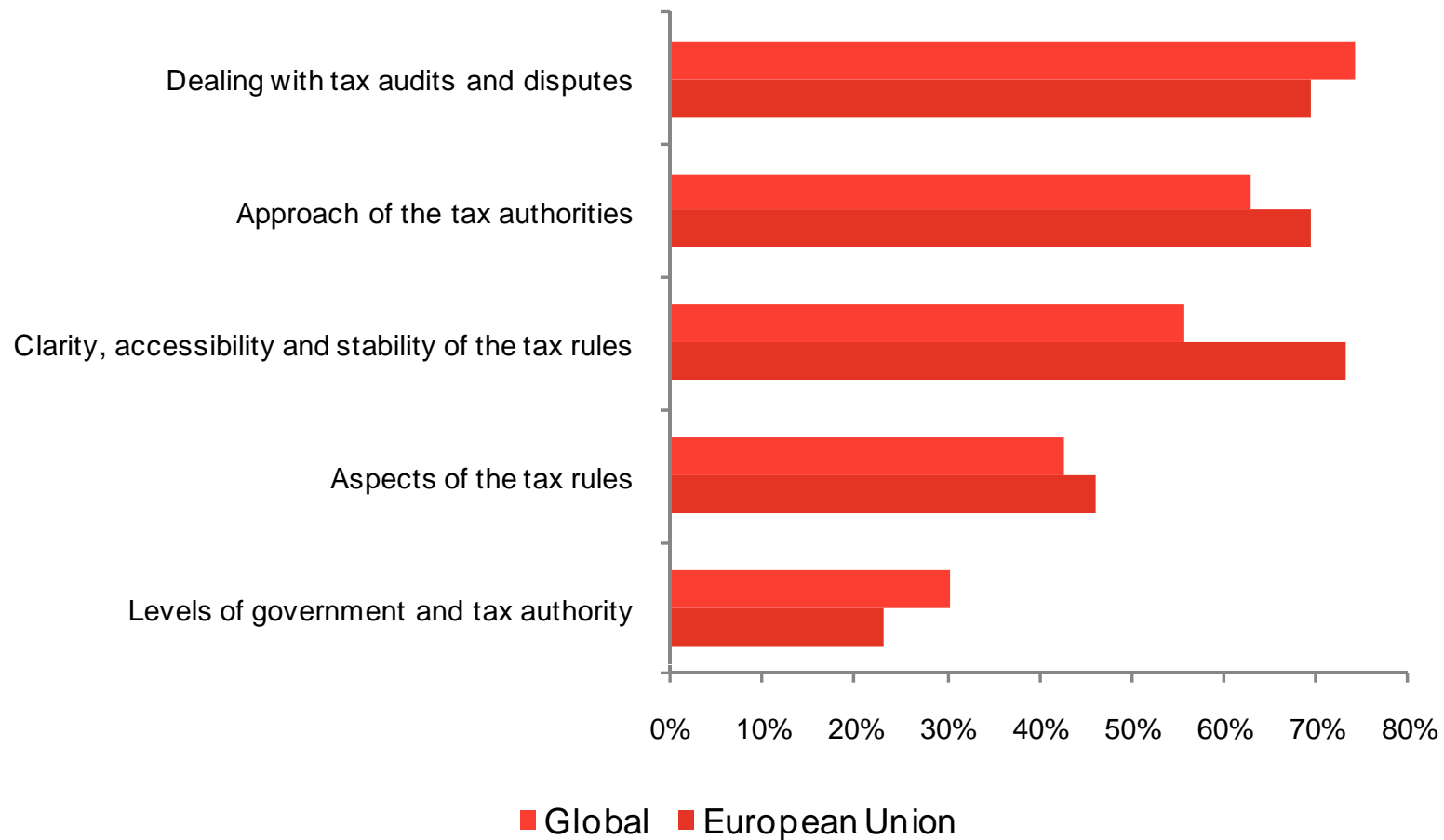
# Tax payments – European Union



## ***Number of taxes – Romania compared to EU and World Average***



# ***What aspects of the tax system most need improvement?***





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## ***What the Paying Taxes results show***

- Corporate income tax is only part of the burden of taxes on business
  - in the EU TaxpayerCo pays 11 taxes
  - corporate income tax is just 11% of the tax payments, 19% of compliance time and 30% of TTR
- Reducing statutory rates of corporate income tax has been the most popular reform over the years of the Paying Taxes study
  - but the statutory rate is not always a good indicator of the rate of tax actually paid
  - we suggest more focus also going forward on easing the compliance burden
- Labour taxes and social contributions are the biggest part of the burden in the EU

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## ***What the Paying Taxes results show – cont.***

- at 28.3% of commercial profits (64% of the TTR) the highest of any region
- multiple labour taxes (3 on average and up to 7) increase the time to comply and number of payments
- VAT is the predominant form of sales taxes system and used throughout the EU
  - VAT is not a cost to TaxpayerCo but is a compliance burden (32% of time to comply in the EU)
  - administrative practices significantly impact the time needed
- Paying Taxes contributors also want to improve other aspects of the tax system (not measured in the indicator)
  - in the EU, complexity and stability of the tax rules and approach of the tax authorities

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# *Paying taxes in Romania*

*Peter deRuiter*

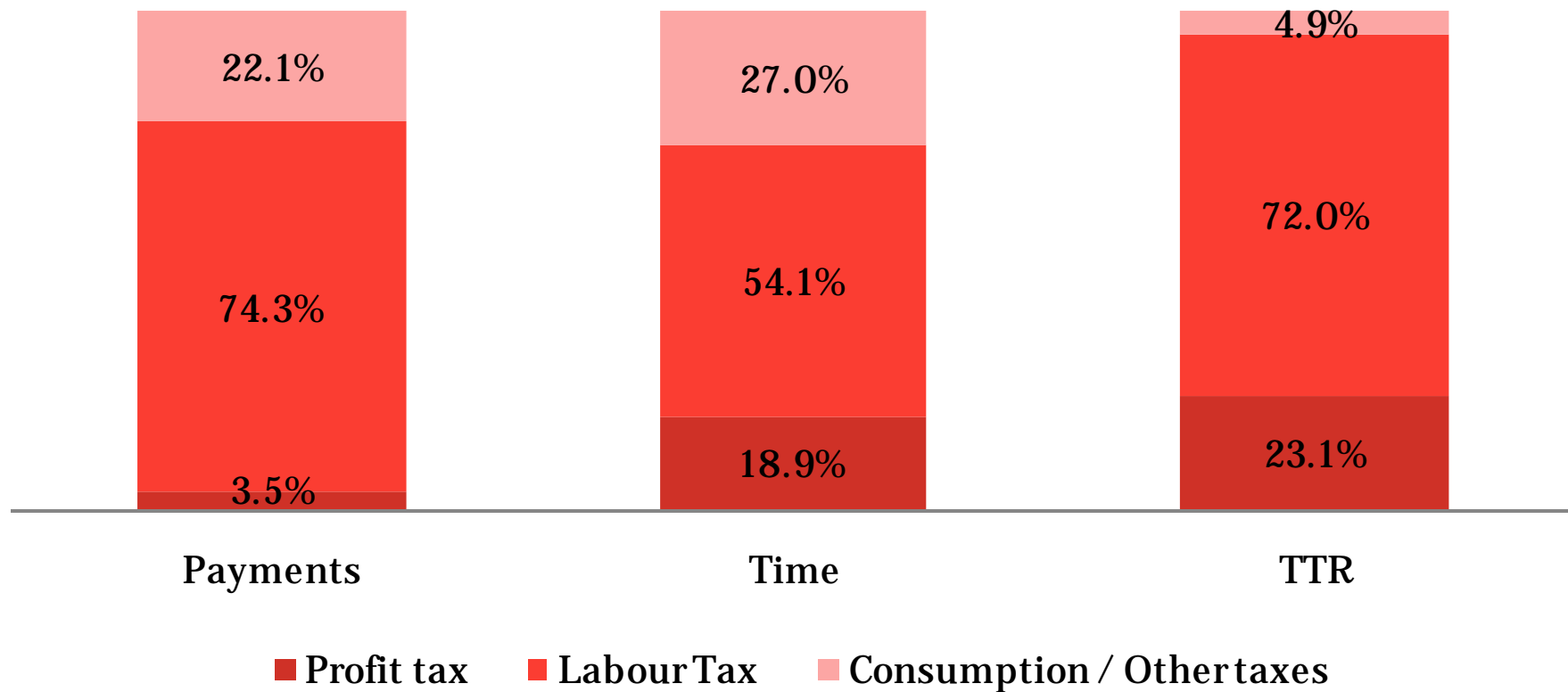
## ***Summary of 2011 Results and comparison with 2010 and 2006***

	2011	Rank	2010	Rank	2006	Rank
Total Tax Rate	44.9%	114	46.4%	119	57.2%	135
Compliance hours	222	87	202	77	190	56
Payments number	113	182	113	182	108	173
Ease of Paying Taxes		151		147		139

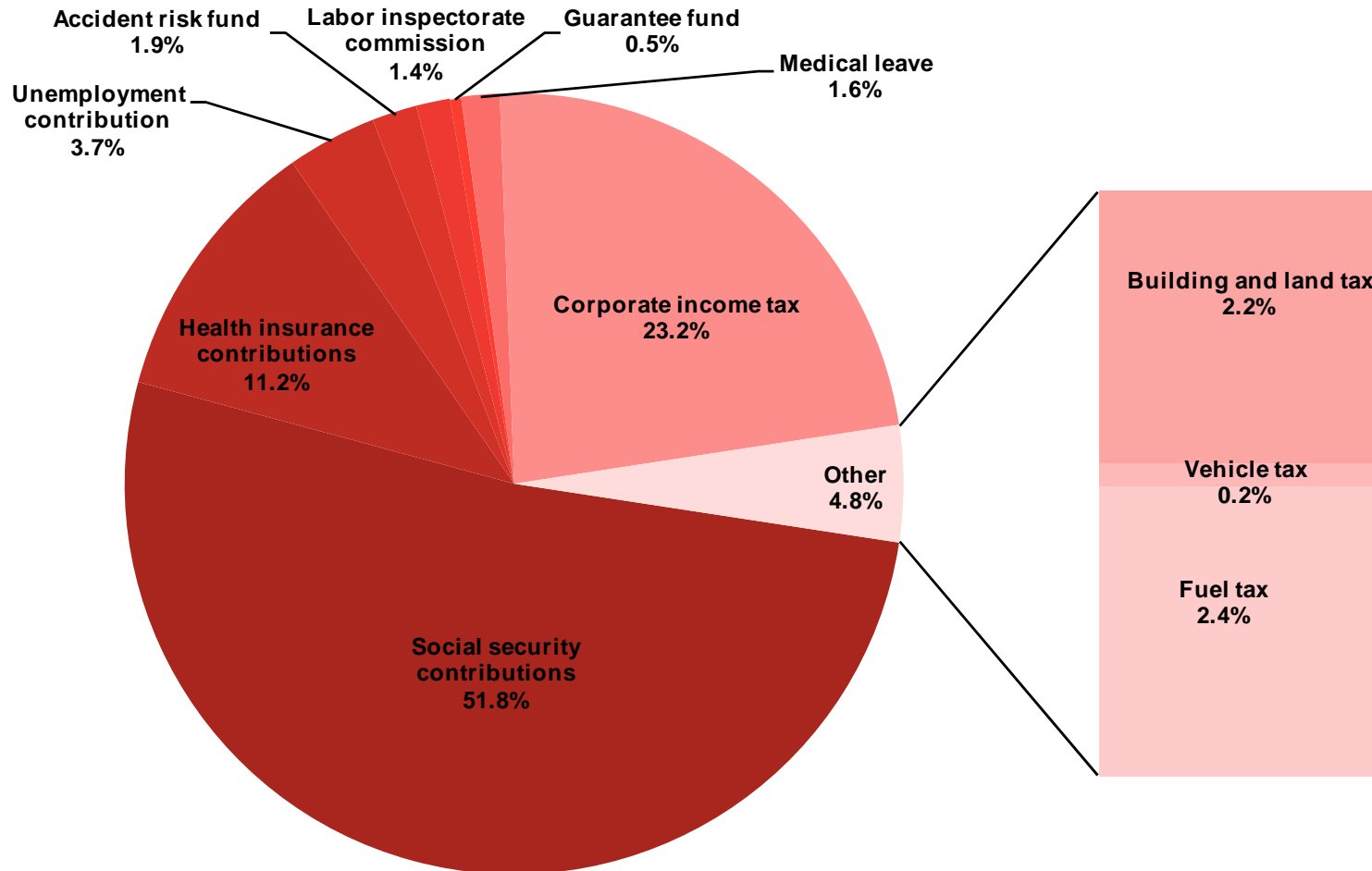
## ***How different taxes contribute to the results - Romania***

<b>Tax</b>	<b>Number of payments</b>	<b>Time to comply</b>	<b>Total Tax Rate</b>
Corporate income tax	4	42	10.40%
Social security contributions	12	120	23.25%
Health insurance contributions	12	-	5.01%
Unemployment contribution	12	-	1.67%
Accident risk fund	12	-	0.84%
Labor inspectorate commission	12	-	0.63%
Guarantee fund	12	-	0.21%
Medical leave	12	-	0.71%
VAT	12	60	-
Building tax	2	-	0.98%
Land tax	2	-	0.03%
Vehicle tax	2	-	0.08%
Fuel tax	1	-	1.08%
Firm tax	4	-	-
Urbanism tax	1	-	-
Environmental taxes	1	-	-
Stamp duty on contracts	0	-	-
<b>Total</b>	<b>113</b>	<b>222</b>	<b>44.9%</b>

## ***Labour taxes have the biggest impact on the results***

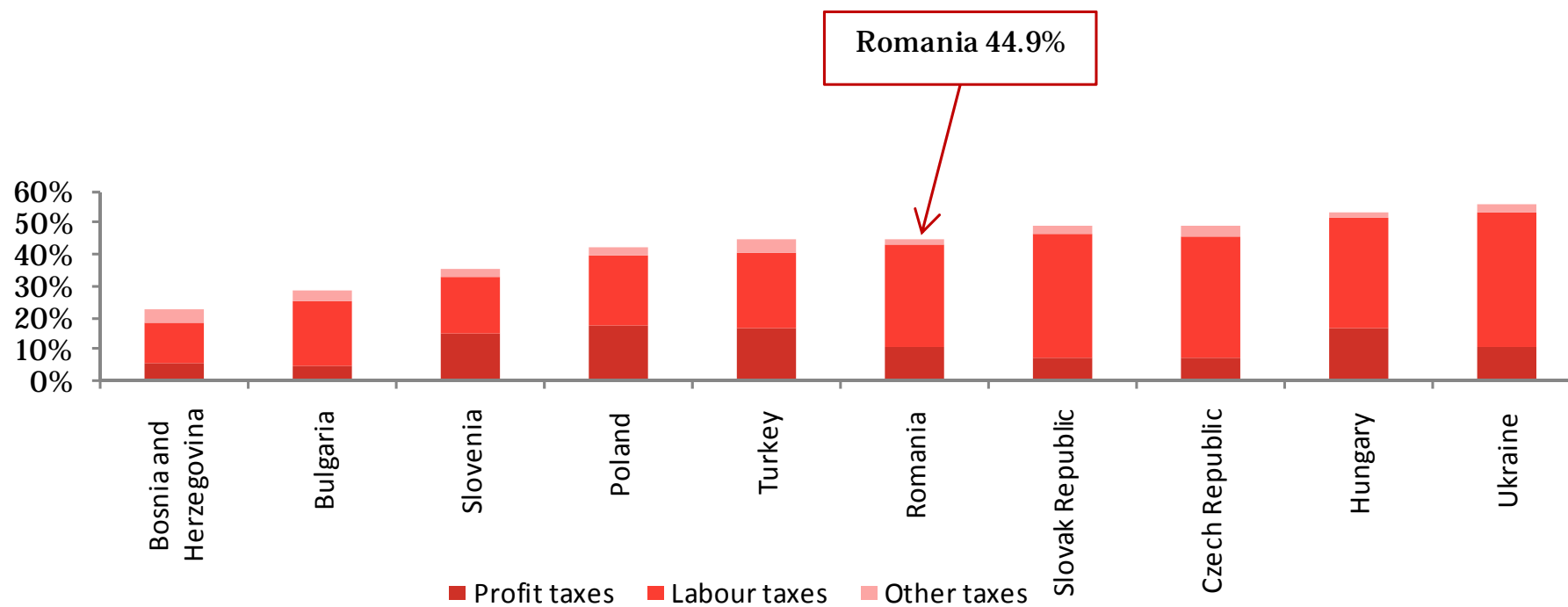


# ***Total Tax Rate by percentage***

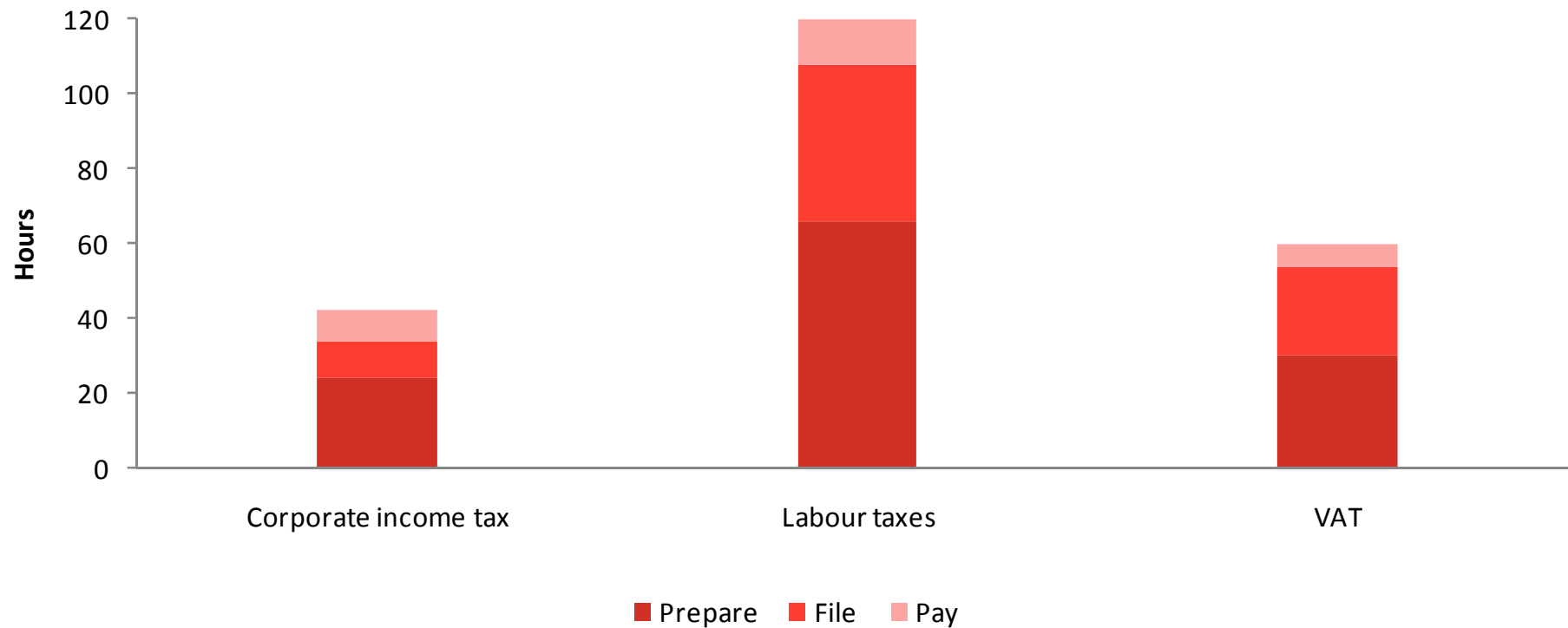




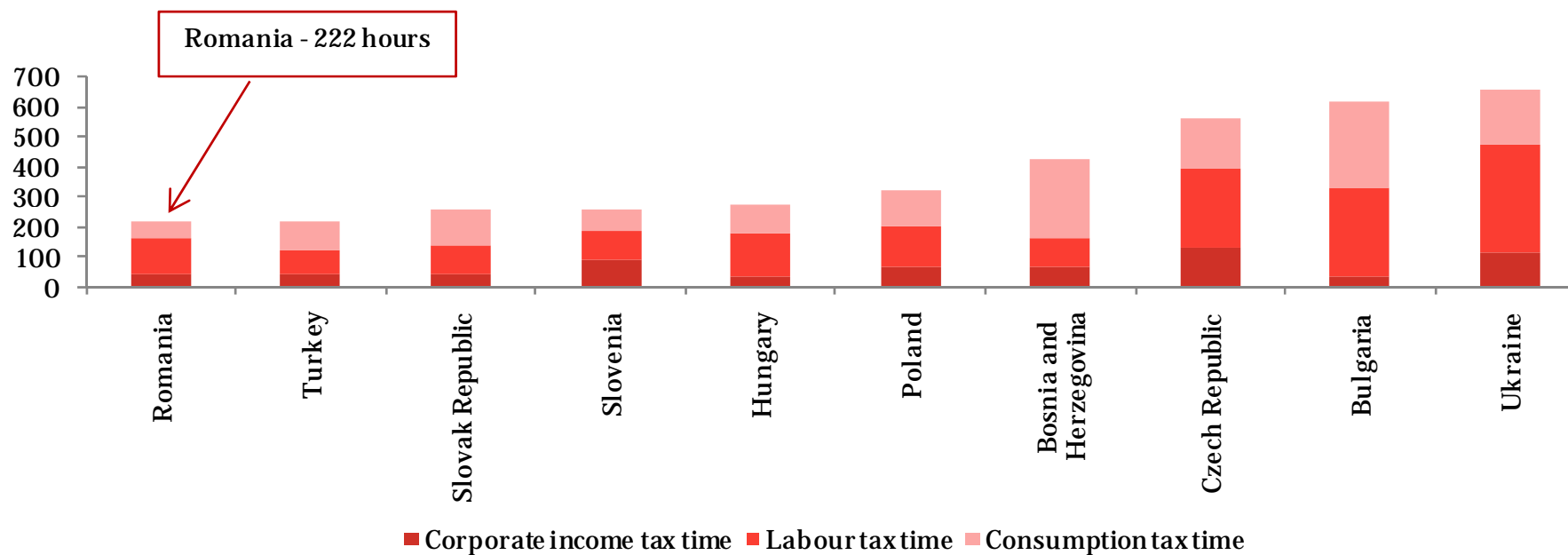
## ***Total Tax Rate – Romania and neighbouring countries***



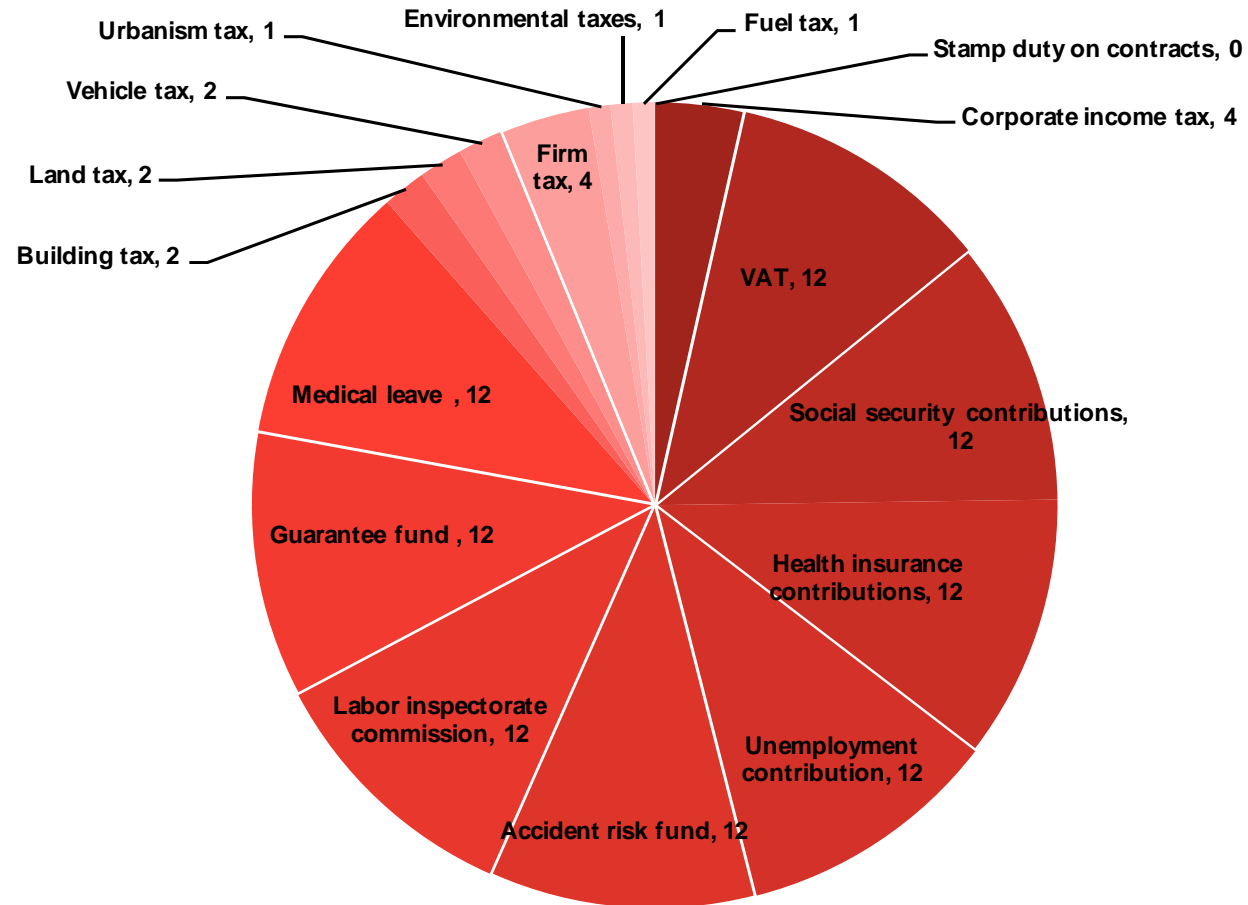
## ***Time to comply - Romania***



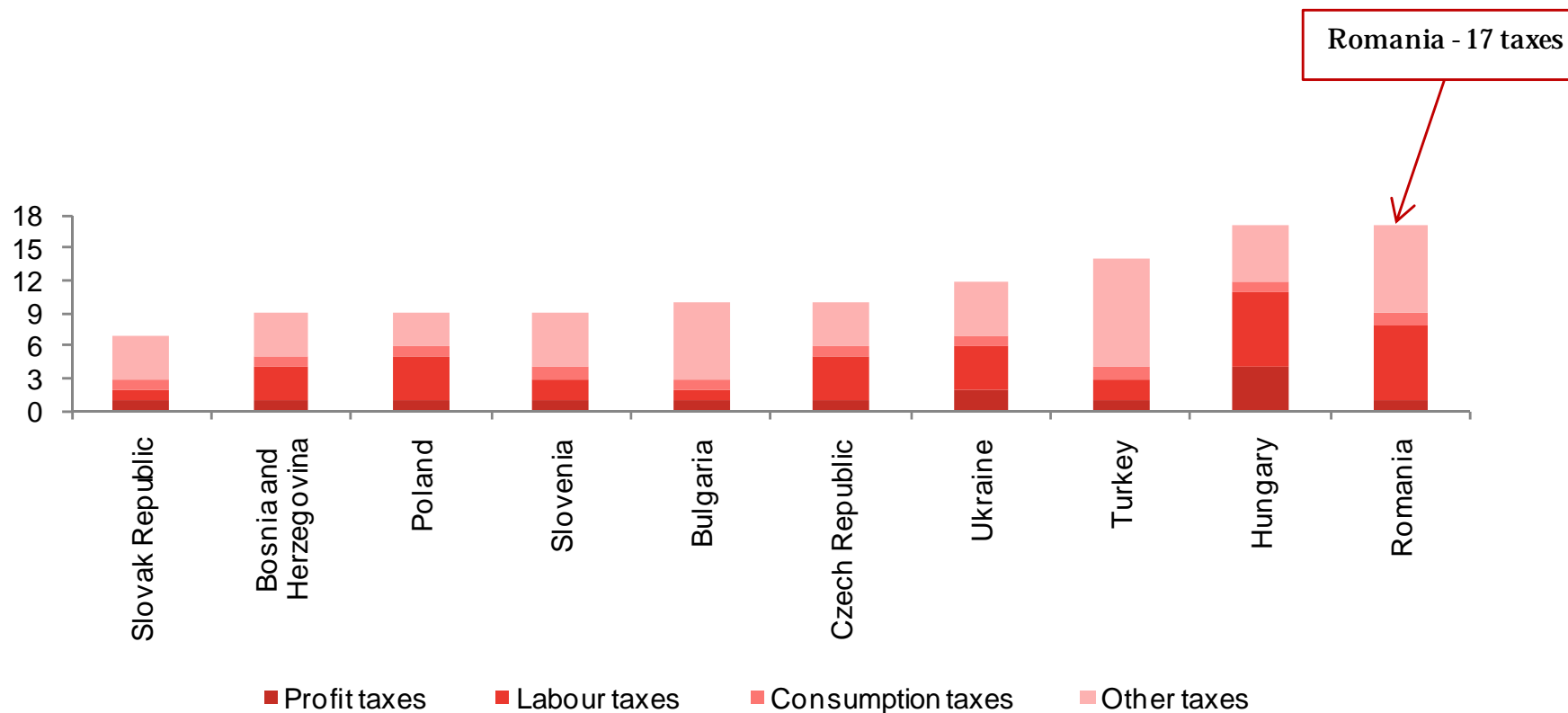
## ***Time to comply – Romania and neighbouring countries***



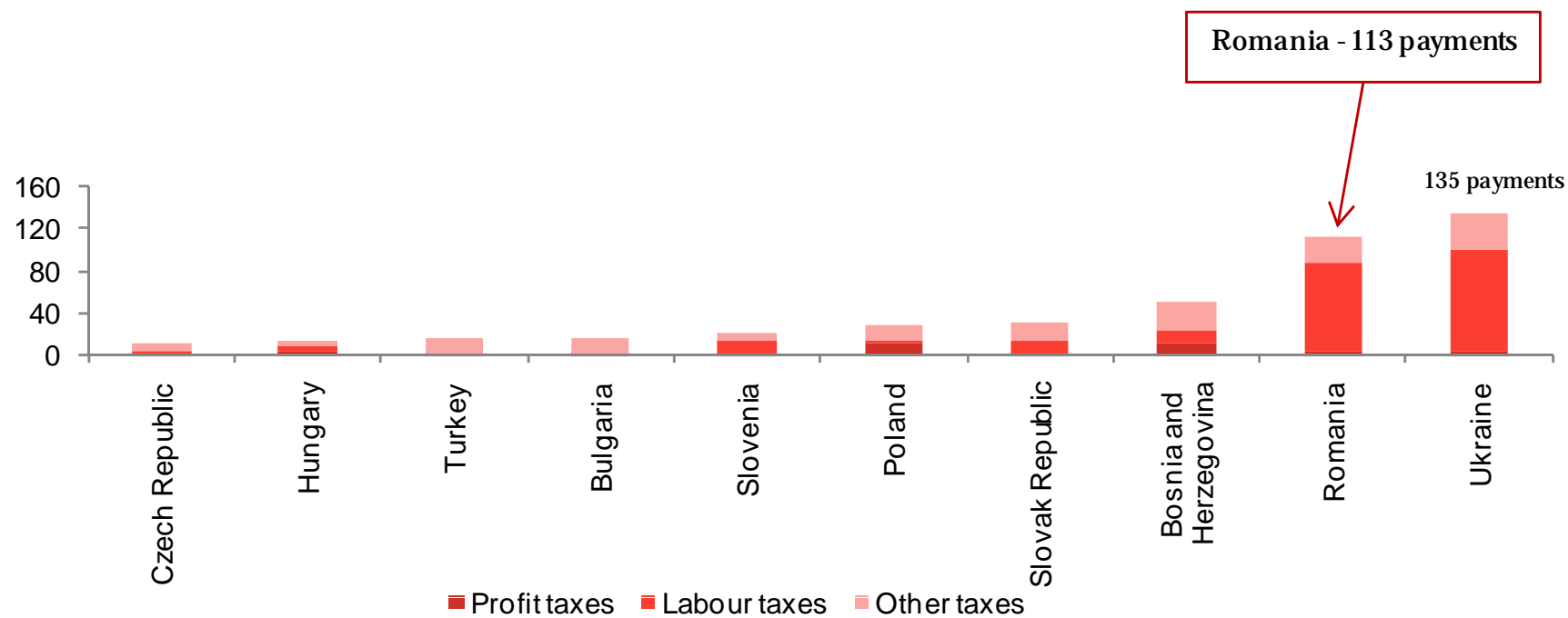
## *Number of tax payments*



## ***Number of taxes – Romania and neighbouring countries***



## ***Number of tax payments – Romania and neighbouring countries***



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## ***Key Themes for Romania***

In order to simplify the tax system and ease the taxpayer's fiscal burden the following need to be considered:

- **Tax compliance measures**
- **Tax cost measures**
- **Tax administration and other tax measures**

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## ***Key Themes for Romania***

### **Tax compliance measures**

- Easing the compliance burden through:
  - efficient electronic filing and payment system available
  - collection of social security contributions by the same tax authority (e.g. ANAF)
  - reduction in the number of taxes (e.g. labour taxes)
  - reduction in the number of tax returns required to be submitted annually (e.g. introduction of the single tax return)
- Tax collection improvement
  - simplification → more resources available → improved collection → more tax revenue
  - less compliance → less mistakes → more tax revenue



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## ***Key Themes for Romania***

### **Tax cost measures**

- Capping the social security contributions

### **Tax administration and other tax measures**

- Holding company legislation implemented under domestic tax law
- Fiscal group consolidation for VAT and for corporate income tax
- Advance pricing agreements and effective ruling practice

## ***Paying taxes 2011 results – alternative scenario***

Paying taxes 2011 result if both the single tax return for social security contributions and electronic filing & payment for all taxes would have been available

	2011 - current status	Rank	2011 – alternative scenario	Rank
Total Tax Rate	44.9%	114	44.9%	114
Compliance hours	222	87	186	65
Payments number	113	182	11	35
Ease of Paying Taxes		151		59

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# ***Paying taxes 2011 - Questions***

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