

Technology makes paying business taxes easier

1/2/20



Partner and Head of Tax Practice, PwC
Latvia
Ilze Rauza

Paying Taxes 2020, an annual study of global tax administration produced by PwC and the World Bank Group, finds that economies around the world have made it substantially easier for their businesses to pay taxes thanks to technology. The report highlights the significant advantages that tax authorities give their taxpayers if they embrace technological advances. In Brazil and Vietnam, for example, the time it takes to comply with tax obligations fell by 23%, while some other countries reported a big drop in the number of tax payments.

The EU/EEA average total tax and contribution rate (TTCR) remained relatively flat at 38.9% with 161 hours to comply and 10.9 payments. All European indicators were lower than the global average.

Latvia's TTCR¹ of 38.1% appears to be the lowest Baltic indicator (42.6% in Lithuania and 47.8% in Estonia).² Agate Ziverte, a senior tax manager at PwC Latvia, comments on the Baltic percentages:

"Although Latvia has the lowest tax burden according to the methodology used, this is largely due to how social tax is split between the employer and the worker. Adding up the taxes payable by employers and workers would bring the Baltic burden percentages a lot closer."

In Latvia, tax compliance takes 168.5 hours, a measure that is gradually falling but still considerably exceeds the European average as well as 95 hours in Lithuania and only 50 in Estonia! However, Latvia has only seven payments (ten in Lithuania and eight in Estonia).

A. Ziverte continues:

"The amount of work that goes into calculating Latvian payroll taxes is huge, while the total number of payments is low. This suggests that the payroll taxation system is complicated and therefore inefficient, something worth revising."

The worldwide findings confirm the significance of embracing technology, which substantially improves the tax authority's cooperation with businesses and shortens the time to comply. If Latvia is to push this indicator down closer to Estonia and Lithuania, the Latvian tax authority should continue automating the national e-filing system and cooperate with businesses more actively.

In terms of tax refund efficiency, length and processes, the Baltic states are global and European leaders. The EU/EEA has a post-filing index of 83.1 (on a scale from 0 to 100), with 99.4 in Estonia, 98.1 in Latvia, and 97.5 in Lithuania.

In Europe, 24 out of 32 economies made tax changes affecting their TTCR. Romania saw a huge drop (from 40% to 20%), while Italy made the largest increase (from 53.1% to 59.1%).

Overall, the global average compliance burden remained relatively stable across the four key indicators

used to measure the ease of paying business taxes:

- 234 hours to comply;
- 23.1 tax payments;
- a TTCR of 40.5%; and
- a post-filing index of 60.9.

While the global average TTCR remained almost flat, individual economies have made significant policy shifts. Saudi Arabia and the United Arab Emirates have introduced VAT to broaden their tax base and reduce reliance on natural resource revenues. Ghana has partially moved from VAT to cascading sales taxes. The US, China, Morocco and Gambia have reported important reductions in taxes on profits.

About Paying Taxes

The World Bank Group and PwC have been producing this study for 14 years to compare 190 economies in terms of –

1. their total tax burden,
2. the time it takes to comply with the main tax obligations (corporate income tax, labour taxes un VAT), and
3. the number and frequency of tax payments.

The report models business taxation in each economy based on uniform methodology and a medium-sized domestic company as a case study to make the data comparable and allow conclusions about global tax reforms both historically and in terms of competition between economies.

¹ The TTCR is a measure of all the taxes expressed as a percentage of the case-study company's commercial profit, which is not the same as any statutory tax rates, whether alone or combined. The findings are also affected by the Baltic states having a different social tax split between the employer and the worker. For a full description of the methodology used and the criteria for the case-study company go to <http://www.doingbusiness.org/methodology/paying-taxes>

² Paying Taxes 2020 uses national tax information for 2018.