Tax League Tables: Scoring or Measuring

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The competitiveness wars: a potted intellectual history

- Competitiveness Rankings have long had appeal
- Concerns about decline or catching up
- Wealth (GDP per head) as a measure of performance
- Competitiveness of firms
- Competitiveness of nations (trading performance)
- OECD Framework conditions – tax
- World Competitiveness Report vs Doing Business

World Competitiveness Report : the birth of a new league table based on opinion

Global Competitiveness Index rankings and 2007-2008 comparisons

Country/Economy	GCI 2008-2009 rank
United States	1
Switzerland	2
Denmark	3
Sweden	4
Singapore	5
Finland	6
Germany	7
Netherlands	8
Japan	9
Canada	10
Hong Kong SAR	11
United Kingdom	12

Doing Business : Measuring and Scoring

- World Bank has published this report since 2003
- Underlying idea is that countries that make is easier to do business will grow more than those where various obstacles created by government are in place but could be removed.
- Not based on opinion but questions around what to measure and how to aggregate specific measures into an overall indicator that has economic meaning

Doing Business – Tax Indicators

- Ranking Countries
- Number of Payments
- Time Required
- Total Tax Rate

Country Rankings

- At the top of the rankings are the Maldives and Qatar.
- Questionable whether these are the regimes which countries should be aiming for.
- One is a series of islands with very nice beaches and the other is a small oil-rich state, therefore making them less relevant to the typical policy-maker.

1.Number of Payments

- DB drastically under-estimates this due to their assumption that e-filing is the norm among companies. No evidence is provided for this, and a recent OECD report suggested that e-filing rates were very low (i.e. less than 20%) in many developed states i.e. UK, USA.
- For VAT and CT, monthly or quarterly payments are the norm, not annually as DB assumes.

Table 1: Payment Obligations for Major Taxes in Selected Countries: Estimate of Actual Tax Payments

Country	Frequency and timing of tax payments: VAT	Frequency and timing of tax payments: Corporate profits/ income tax (CIT)	Frequency and timing of tax payments: Employee withholdings (PITW)	Typical number of actual payments in a fiscal year		DB's estimate of tax payments (allowing for e-filing (EF) where relevant)
Canada	Monthly- within 30 days of liability period	Monthly- at the end of each month of the year of income, and the balance 2 or3 months after end of income year	Monthly- by 15th day after end of liability period	37		2 (EF assumed for both VAT and CIT)
Japan	Monthly- within two months of liability period	One half-yearly payment 8 months into income year, & balance with tax return when filed	Monthly—by 10th of following month	26		2 (EF assumed for both VAT and CIT)
Korea	Quarterly	One half-yearly payment 8 months into income year, balance with return	Monthly-by 10th day of following month	18		2 (EF assumed for both VAT and CIT)
UK	Quarterly - within one month of liability period	Quarterly- in 7th, 10th of income year, and 1st and 4th of following year and balance on assessment	Monthly-by 19th of following month	21		2 (EF assumed for VAT, but not CIT, in which case there should be 5 CIT payments /1
USA	n.appl.	Quarterly- by 15th of the 4th, 6th, 9, and 12th months of the income year, & balance with return when filed.	Monthly	17		1

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Employee Withholding

- DB completely ignores this issue
- Unclear why this is the case, as its methodology and assumptions imply it should be considered.
- However, it is a major requirement for many businesses, especially as some states can have very complex employee withholding mechanisms (sometimes requiring monthly reports to Revenue body).

Independent Indicator?

- Finally, although the number of payments is useful information to have (if measured properly), we are uncertain it should be an independent indicator.
- The number of payments is clearly related to the time required. This is arguably what really matters to businesses, and we therefore suggested the number of payments should merely be used as a factor in the time required category.

2.Time Required

- In theory, a sensible indicator (i.e. indicates compliance cost, which is not considered in study of tax rates).
- Interesting variations even for the same tax, e.g. VAT across EU
- (Dutch)Standard Cost Method – mapping from legal requirements to administrative burdens and a budget for red tape

Quality checking the time data – the evidence

- Measured by subjective judgments of local staff. This, and many of the figures raise worries about the cross-country consistency and the reliability of the indicator.
- Some evidence from governments that outliers really are outliers, e.g. Mexico

Other Considerations

- Considering the importance of cash flow to businesses, the timing of tax payments and the speed of tax refunds by the authorities is an important consideration.
- Revenue's services and procedural requirements i.e. range of payment mechanisms, number of revenue bodies to deal with, need to submit invoices with VAT returns.
- Corruption in Tax administration.

3.Total Tax Rate Indicator

- Very difficult to get an accurate measure, thus many different types of indicators exist.
- This is a modelling approach.
- Advantage: Can observe how changes in tax system affect the tax burden.
- Includes more taxes, as it is includes greater detail of investment than most modelling approaches.

Disadvantages

- Sensitive to precise description of the firm (representative nature of this firm may vary across countries) and assumptions about land transactions
- Tax burden measured for one year only (i.e. the second year of a firms operation), as opposed to the lifetime of the investment.

Disadvantages

- Includes taxes which evidence suggests are passed onto others i.e. employer social security contributions, which are often passed onto employees in the form of lower wages.
- This is important, as these contributions can raise large amounts of revenue. Governments could alter their TTR substantially by shifting from employer contributions to employee contributions.

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Disadvantages

- Not split into two tax measures: TTR with employer contributions excluded (therefore giving return on investment), and The Tax Wedge (therefore giving the tax burden on employment).
- Includes payments which are not taxes i.e. compulsory private pensions contributions.
- Excludes import tariffs and export taxes which is major source of revenue for developing countries.

Conclusions : Work in progress that can benefit from discussions within the ITD Framework

- Doing Business was a great idea that has and can catalyse much needed change to business environment – naming and shaming works!
- But…. need to scrutinise the tax indicators to really understand what the policy messge should be and……
- Room for improvements to the indicators to align indicators with standard understanding of tax incidence and improve estimates of burden on business from the firms role in tax administration

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