

A diagnostic tool for assessing the corporate income tax compliance burden: pilot study findings

Rodney Brown and Kerrie Sadiq

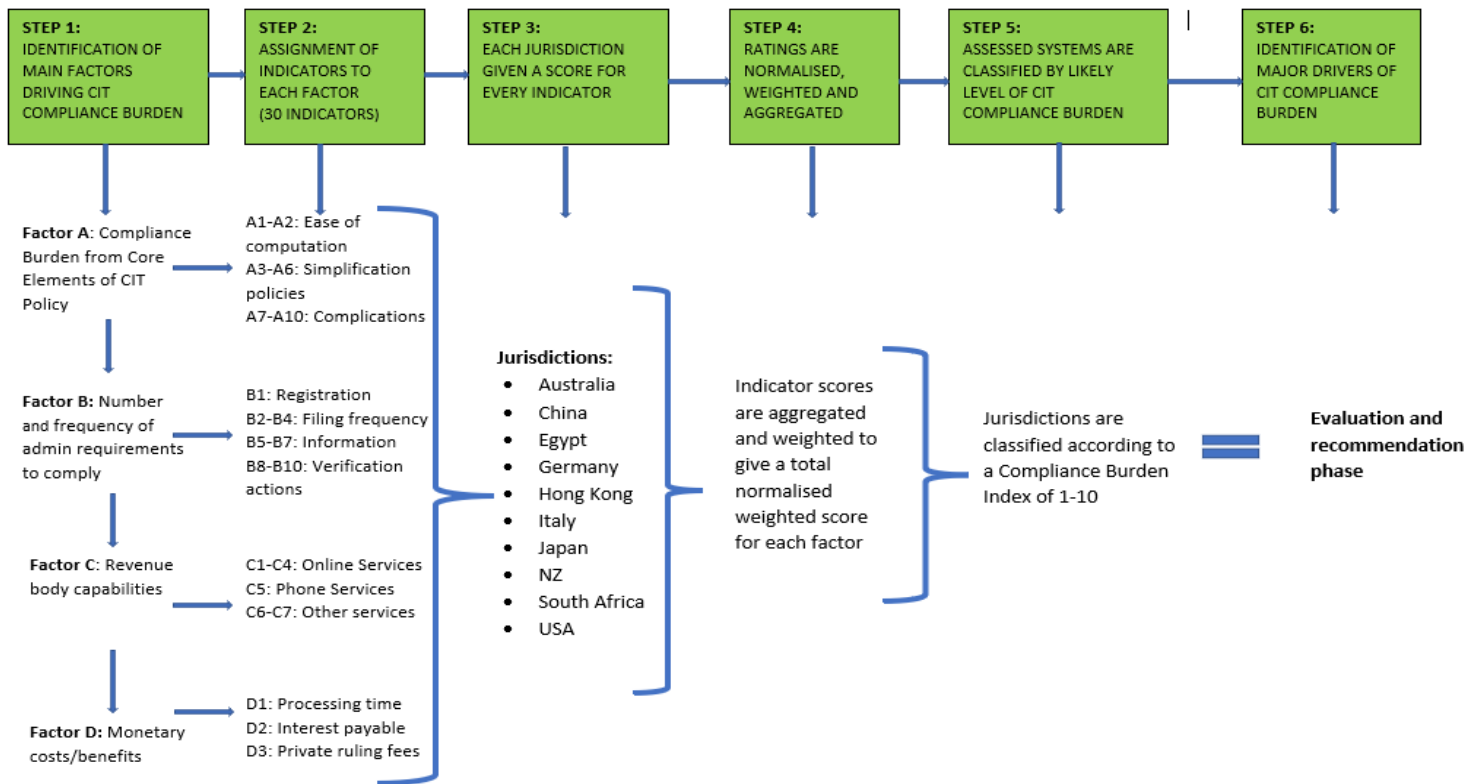
Background:

- 2012-2013: Preliminary work on a diagnostic tool for assessing compliance burdens was carried out by the Organisation for Economic Co-operation and Development (OECD).
- 2017: A pilot study on the development and testing of a diagnostic tool for assessing the VAT compliance burden across 13 countries was undertaken. The study was led by Professor Michael Walpole, Emeritus Professor Chris Evans and Adjunct Professor Richard Highfield from UNSW.
- 2019: The study was subsequently expanded to 47 jurisdictions and involved KPMG as an industry partner with a final report published that year.

Overview of Project:

- This current study expands the original VAT Compliance Burden Project (the pilot study and extended study) by applying similar principles and methodology to develop and test a diagnostic tool for assessing the corporate income tax (CIT) compliance burden.
- Consistent with the VAT project, this pilot study aims to evaluate the merits of a prototype diagnostic tool for gauging the nature and likely overall incidence of CIT compliance burden at the jurisdictional level, and to evaluate its use in comparative cross-jurisdiction assessments to promote reform.
- The pilot was conducted across 10 countries, representing a mix of advanced and developing economies.

Methodology:



Example of Survey Instrument (Factor D)

D. Monetary costs/benefits associated with compliance

Compliance Burden Indicators	Relevant rating
D1. Time generally required for revenue body to process CIT refunds after taxpayers submit applications: 1. Within one month 2. One to two months 3. Longer than two months 4. Not available	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4
D2. Payment of interest on delayed refunds: Interest is not payable to taxpayers unless CIT refund remains unpaid after: 1. One month 2. Two months 3. Three months 4. No interest is payable on CIT refund in any case	<input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4
D3. Does revenue body charge fees for private tax rulings? 1. No 2. Yes	<input type="checkbox"/> 1 <input type="checkbox"/> 2
COMMENTS (If you wish to elaborate on any ratings in this section or any features of your country's CIT regime not covered by the above indicators but with significant implications on compliance burden, please do so here)	

Factor Weightings Provided by Participants

Country	Suggested Weightings			
	Factor A	Factor B	Factor C	Factor D
	Tax law/policy complexity	Administrative requirements	Revenue body capabilities	Monetary costs/benefits
Australia	0.45	0.30	0.20	0.05
China	0.60	0.10	0.20	0.10
Egypt	0.25	0.30	0.30	0.15
Hong Kong	0.25	0.25	0.25	0.25
Italy	0.20	0.50	0.20	0.10
Japan	0.50	0.15	0.05	0.30
New Zealand	0.30	0.20	0.30	0.20
South Africa	0.30	0.20	0.30	0.20
USA	0.40	0.40	0.15	0.05
Range	0.20-0.60	0.10-0.50	0.05-0.30	0.05-0.30
Median	0.30	0.25	0.20	0.15
Arithmetic Mean	0.361	0.267	0.217	0.156
Geometric Mean	0.340	0.241	0.195	0.131
Normalised Geometric Mean	0.375	0.265	0.215	0.144

Theoretical Scores

Factor	Minimum unweighted score	Maximum unweighted score	Normalised weightings	Minimum normalised weighted score	Maximum normalised weighted score
A	10	38	0.375	3.752	14.256
B	10	38	0.265	2.655	10.087
C	7	33	0.215	1.505	7.095
D	3	9	0.144	0.433	1.299
Totals	30	118	1.000	8.344	32.738

Normalised Weighted Scores and Compliance Burden Index

Range of total weighted scores: 8.344 to 32.738	Proposed weighted score range	Compliance Burden Index	Classification
	8.344 – 10.783	1	Very Low
	10.784 – 13.223	2	
	13.224 – 15.662	3	Low
	15.663 – 18.102	4	
	18.103 – 20.541	5	Medium
	20.542 – 22.980	6	
	22.981 – 25.420	7	High
	25.421 – 27.859	8	
	27.860 – 30.299	9	Very High
	30.300 – 32.738	10	

Country Ratings (Factor A)

	Tax law/policy complexity indicators (* denotes use of default indicator)										Total score (min. score = 10, max. score = 38)	Normalised weighting	Normalised weighted score
Country	1 Number of tax rates for different entity types	2 % Taxpayers subject to >1 rate	3 % Taxpayers eligible for exemption from CIT	4 Approval required for exemption	5 Special regimes which simplify tax computation and compliance	6 % Taxpayers using special CIT regimes identified in Indicator 5	7 Number of adjustments required between financial accounts and tax returns	8 Special regimes which complicate tax computation and compliance	9 % Taxpayers using special CIT regimes identified in Indicator 8	10: Frequency of legislative amendments of CIT law			
Australia	2	1	3	3	4	5	3	3	2	2	28	37.5%	10.505
China	3	1	3	2	1	4	4	3	2	1	24	37.5%	9.004
Egypt	1	1	3	4	4	5	3	4	1	2	28	37.5%	10.505
Germany	1	1	3	4	1	4	4	2	4	4	28	37.5%	10.505
Hong Kong	3	3	2*	4	4	5	4	3	2*	3	33	37.5%	12.381
Italy	2	3	3	1	3	3	4	3	2	2	26	37.5%	9.754
Japan	2	1	3	1	4	5	4	3	2	2	27	37.5%	10.130
New Zealand	2	1	3	4	1	5	3	3	2	2	26	37.5%	9.754
South Africa	3	1	3	4	1	4	4	3	2	2	27	37.5%	10.130
USA	1	1	1	4	4	5	4	4	1	4	29	37.5%	10.880
Mean											28		10.355

Country Ratings (Factor B)

	Administrative requirements indicators (* denotes use of default indicator)												
Country	1 % New taxpayers registered electronically	2 Frequency of CIT return filings	3 Frequency of CIT payments	4 % Taxpayers required to make CIT payments	5 Information required for a CIT return	6 % Taxpayers required to submit additional documentation	7 Records retained	8 % Taxpayers subject to verification actions each year	9 % Verification actions that result in disputed CIT assessments	10 Existence of cooperative compliance program	Total score (min. score = 14, max. score = 38)	Normalised weighting	Normalised weighted score
Australia	2	1	3	3	2	2	2	2	2	1	20	26.5%	5.309
China	5	1	3	4	1	1	3	3	1	1	23	26.5%	6.105
Egypt	1	1	2	4	3	4	2	3	3	2	25	26.5%	6.636
Germany	1	1	3	4	2	4	3	1	2	2	23	26.5%	6.105
Hong Kong	3*	1	2	4	2	2*	2	1	3	2	22	26.5%	5.840
Italy	1	1	2	4	3	2	2	3	3	1	22	26.5%	5.840
Japan	3*	1	2*	3	2*	4	2	1	1	1	20	26.5%	5.309
New Zealand	2	1	5	4	3	4	2	1	2*	1	25	26.5%	6.636
South Africa	1	1	2	4	3	4	2	3	3	2	25	26.5%	6.636
USA	2	1	3	4	4	1	2	3	1	1	22	26.5%	5.840
Mean											23		6.026

Country Ratings (Factor C)

	Revenue body capabilities indicators (* denotes use of default indicator)									
Country	1	2	3	4	5	6	7	Total score (min. score = 7, max. score = 33)	Normalised weighting	Normalised weighted score
	Quality of revenue body's website	% CIT payments made directly through revenue body's online payment facilities	% Taxpayers using revenue body's online facilities to file CIT returns	Quality of revenue body's online transaction services for additional services	Quality of revenue body's phone inquiry service	Quality of revenue body's support services for newly registered businesses	Time required for revenue body to issue private tax rulings after submission			
Australia	2	1	1	3*	2	2	1	12	21.5%	2.580
China	2	1	1	2	3*	2	1	12	21.5%	2.580
Egypt	3	3	1	2	3	3	1	16	21.5%	3.440
Germany	3*	1	1	3*	3*	3*	3	17	21.5%	3.655
Hong Kong	2	2	5	5	1	3*	2	20	21.5%	4.300
Italy	2	1	4	3	3	2	3	18	21.5%	3.870
Japan	3*	4	1	5	1	1	3	18	21.5%	3.870
New Zealand	1	4	1	2	4	2	3	17	21.5%	3.655
South Africa	3	1	1	4	4	4	3	20	21.5%	4.300
USA	2	1	1	2	3	4	3	16	21.5%	3.440
Mean								17		3.569

Country Ratings (Factor D)

Country	Monetary costs/benefits indicators (* denotes use of default indicator)			Total score (min. score = 3, max. score = 9)	Normalised weighting	Normalised weighted score
	1 Time required for revenue body to process CIT refunds	2 Payment of interest on delayed funds	3 Does revenue body charge fees for private tax rulings			
Australia	1	1	1	3	14.4%	0.433
China	1	1	1	3	14.4%	0.433
Egypt	2	4	1	7	14.4%	1.011
Germany	2	3	2	7	14.4%	1.011
Hong Kong	2*	2*	2	6	14.4%	0.866
Italy	3	2	1	6	14.4%	0.866
Japan	1	1	1	3	14.4%	0.433
New Zealand	2	4	2	8	14.4%	1.155
South Africa	3	1	2	6	14.4%	0.866
USA	3	2	2	7	14.4%	1.011
Mean Score				6		0.809

Factor A: Key Takeaways

- While there are different corporate tax rates within jurisdictions, once a taxpayer determines which rate applies to them, in most jurisdictions there is only one rate within the relevant category of taxpayer.
- All jurisdictions, except two, indicated that less than 25 percent of corporate taxpayers were eligible for exemptions from CIT.
- Six jurisdictions indicated they had no special simplification regimes with the consequential flow on that most jurisdictions also indicated that taxpayers were not using any simplification regime.
- All jurisdictions indicated that there were significant numbers of adjustments required from financial accounts in CIT returns, with three indicating the number was between five and 20 and seven indicating the number was more than 20.

Factor B: Key Takeaways

- All jurisdictions surveyed were consistent in indicating that CIT returns were filed once a year. However, frequency of payments varied significantly across jurisdictions and across different sized corporate taxpayers.
- Responses to indicator B5 (the amount of information required for the completion of the CIT return) suggest a large variance across jurisdictions but, in most cases, very little variation within jurisdictions across different sized taxpayers.
- Six jurisdictions had cooperative compliance programs while four did not.

Factor C: Key Takeaways

- All jurisdictions considered the quality of the revenue body's website to be at least reasonable, with several rating the service as good or excellent.
- Jurisdiction responses to the quality of phone services were mixed. Most jurisdictions rated phone services as adequate.
- In terms of other support, ratings were highly variable across the 10 jurisdictions.

Factor D: Key Takeaways

- In terms of time taken to process CIT refunds, Italy, South Africa, and the United States were the slowest, taking on average longer than two months.
- Australia, China, and Japan were the quickest taking on average less than one month. Generally, the jurisdictions that provided the quickest refunds were also those jurisdictions that paid interest on delayed refunds.
- The charging of fees for private tax rulings was mixed across jurisdictions with five charging and five not charging fees.

Analysis of Survey Findings:

Country	Total normalised weighted score for each factor				Total normalised weighted score – ALL FACTORS	Compliance Burden Index	Compliance Burden Index (Rounded)
	Factor A	Factor B	Factor C	Factor D			
Australia	10.505	5.309	2.580	0.433	18.827	4.868	5
China	9.004	6.105	2.580	0.433	18.123	4.608	5
Egypt	10.505	6.636	3.440	1.011	21.592	5.888	6
Germany	10.505	6.105	3.655	1.011	21.276	5.771	6
Hong Kong	12.381	5.840	4.300	0.866	23.387	6.550	7
Italy	9.754	5.840	3.870	0.866	20.331	5.422	5
Japan	10.130	5.309	3.870	0.433	19.742	5.205	5
New Zealand	9.754	6.636	3.655	1.155	21.201	5.743	6
South Africa	10.130	6.636	4.300	0.866	21.932	6.013	6
USA	10.880	5.840	3.440	1.011	21.170	5.732	6
Mean Score	10.355	6.026	3.569	0.809	20.758	5.580	6

Jurisdiction Rankings:

Compliance Burden Index	Number of Jurisdictions	Jurisdictions
1	0	-
2	0	-
3	0	-
4	0	-
5	4	Australia, China, Italy, Japan
6	5	Egypt, Germany, New Zealand, South Africa, United States
7	1	Hong Kong
8	0	-
9	0	-
10	0	-

Comparison of CIT Compliance Burden Diagnostic Tool and PwC/WB *Paying Taxes* 'Time to Comply' (2018 fiscal year)

Jurisdiction	Prototype Diagnostic Tool			Paying Taxes – Time to comply (CIT)		
	CBI	Classification	Rank	Estimated hours to comply in 2018	Classification	Rank
Australia	5 (4.868)	Medium	2	37	Low	3
China	5 (4.608)	Medium	1	40	Medium	6
Egypt	6 (5.888)	Medium	8	56	High	8
Germany	6 (5.771)	Medium	7	41	Medium	7
Hong Kong	7 (6.550)	High	10	20	Very Low	1
Italy	5 (5.422)	Medium	4	39	Medium	5
Japan	5 (5.205)	Medium	3	38	Medium	4
New Zealand	6 (5.743)	Medium	5	34	Low	2
South Africa	6 (6.013)	Medium	9	96	Very High	10
USA	6 (5.732)	Medium	6	87	Very High	9

Drivers of CIT Compliance Burden

- Factor A: the compliance burden from the core elements of the CIT policy caused the highest compliance burden with total scores for factor A ranging from a low of 24 (China) to a high of 33 (Hong Kong) out of a possible 38.
- Factor B: ranged from a low of 20 (Australia and Japan) to a high of 25 (Egypt, New Zealand and South Africa) out of a possible score of 38 however it was within the 10 ten indicators that there was a deal of variation. While it is difficult to detect a discernible trend, information required for both the tax return as well as additional documentation are two areas that researchers consistently indicated contribute to the compliance burden.
- Factor C: experience with revenue authority affected the compliance burden both negatively and positively. Total scores for Factor C ranged from a low of 12 (Australia and China) to a high of 20 (Hong Kong and South Africa) out of a possible score of 33.
- Factor D: monetary costs and benefits associated with compliance to have little effect on the CIT compliance burden. Total scores for Factor D ranged from a low of 3 (Australia, China and Japan) to a high of 8 (New Zealand) from a possible score of 9.

Conclusion:

- Unlike the VAT diagnostic tool that found significant variations between jurisdictions, this was not the case with CIT, at least in the sample of 10 jurisdictions used for the purposes of testing the survey.
- Consistent with the roll out of the VAT diagnostic tool on a far more extensive basis, future research in this area is highly desirable. This would include asking survey participants to provide written feedback on the prototype CIT diagnostic tool and the preliminary findings of the pilot study.