Outline

Taxation

1. Motivation

2. Indicators:

    a. Pillar I – Regulatory framework: Quality of regulations on taxation

    b. Pillar II – Public services: Public services provided by the tax administration

    c. Pillar III – Efficiency: Efficiency of tax systems in practice

3. Preliminary Topic Scoring

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1. Motivation – why does Taxation matter?

- Taxation is a key policy tool for governments to finance operations and provide public goods, but excessive taxation can distort markets, prevent firm growth, and foster tax evasion.

- Tax system deficiencies like complexity, inefficiency, and high compliance costs hinder private sector development and economic growth.

- Simplifying tax regulations and limiting government discretion can benefit firms, especially small and medium-sized businesses.

- Efficient tax administration systems increase productivity and growth through easy access to information, effective risk management, and transparency.

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2. Indicators – Outline

Regulatory framework
Quality of regulations on taxation

1. Clarity and transparency of tax regulations*
2. Environmental taxes+

Public services
Public services provided by the tax administration

1. Digitization in tax administration*
2. Tax audits
3. Dispute resolution mechanisms^
4. Governance of tax authority*^

Efficiency
Efficiency of tax systems in practice

1. Time to comply with tax regulations*+
2. Cost of taxation

The * symbol denotes components that will cover the **adoption of digital technologies**. The + symbol denotes components that will cover **environmental sustainability**. The symbol ^ denotes components that will cover **gender**.

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a. Pillar I – Quality of regulations on taxation

1.1	Clarity and transparency of tax regulations
1.1.1	Clarity of tax regulations
1.1.2	Transparency of changes in tax regulations
1.1.3	Simplified record keeping and temporary provisions
1.1.4	Tax registration and VAT refund
1.2	Environmental taxes
1.2.1	General framework
1.2.2	Governance
1.2.3	Transition policy

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a. Pillar I – Quality of regulations on taxation

What does it cover and why is it important?

Category 1.1 – Clarity and transparency of tax regulations

- This category measures tax regulation clarity, communication of changes, simplified and digital record keeping, and efficiency of tax registration and VAT refund processes.

- Clear and understandable tax regulations, simplified record keeping, and efficient tax processes promote private sector growth and compliance, fairness, equity, transparency, and accountability.

Category 1.2 – Environmental taxes

- This category assesses the presence of environmental fiscal instruments, absence of fossil fuel subsidies, public consultations, risk-based inspections, and transition policy.

- Important for promoting sustainable business practices, reducing negative environmental externalities, and transitioning to a green economy, while incentivizing environmentally-friendly practices in the private sector.

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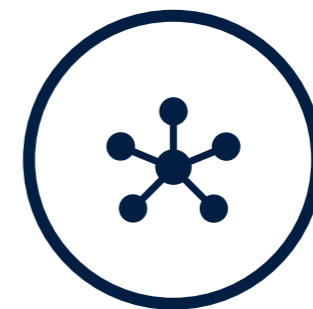
a. Pillar I – Quality of regulations on taxation

Preliminary Scoring		No. of indicators	FFP*	SBP*	Total Points	Rescaled Points
1.1	**Clarity and transparency of tax regulations**	8	8	8	16	72.7
1.1.1	Clarity of tax regulations	2	2	2	4	18.2
1.1.2	Transparency of changes in tax regulations	2	2	2	4	18.2
1.1.3	Simplified record keeping and temporary provisions	2	2	2	4	18.2
1.1.4	Tax registration and VAT refund	2	2	2	4	18.2
1.2	**Environmental taxes**	4	2	4	6	27.3
1.2.1	General framework	2	0	2	2	9.1
1.2.2	Governance	1	1	1	2	9.1
1.2.3	Transition policy	1	1	1	2	9.1
	Total	**12**	**10**	**12**	**22**	**100**

*Scoring will consider the perspectives of entrepreneurs (firm flexibility points) and broader public interests (social benefits points).

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b. Pillar II – Public services provided by the tax administration

2.1	Digitization in Tax Administration
2.1.1	Services for taxpayers (filling and payment)
2.1.2	Sex-disaggregated data
2.1.3	Taxpayer database
2.1.4	Interoperability
2.2	Tax Audits
2.2.1	Risk-based system
2.2.2	Types of audits and uniform practices
2.3	Dispute Resolution Mechanisms
2.3.1	First-Level Review Mechanism
2.3.2	Second-Level Review Mechanism
2.3.3	Gender equality during tax disputes
2.4	Governance of Tax Authority
2.4.1	Transparency
2.4.2	Public accountability
2.4.3	Gender composition of the staff in tax administration

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b. Pillar II – Public services provided by the tax administration

What does it cover and why is it important?

Category 2.1 – Digitization in tax administration

- Assesses tax administration's digital infrastructure for e-filing and e-payment, gender-disaggregated data, simple registration, and cross-checking information on the tax portal.
- Digitization in tax administration reduces compliance costs, corruption, and tax evasion while promoting organizational changes and uptake of technology within firms.

Category 2.2 – Tax audit

- Assesses tax audit efficiency, including risk-based systems, national tax audit plans, audit types, administration practices, and taxpayer audit monitoring.
- Efficient tax audits improve tax authority performance, lower enforcement costs, and provide effective tools to curb tax avoidance.

Category 2.3 – Dispute resolution mechanisms

- Assesses available dispute resolution mechanisms at both first and second levels. It also measures gender equality.
- Efficient and impartial tax dispute resolution mechanisms serve to protect taxpayers' rights and promote fairness. Having a streamlined mechanism can save time and cost.
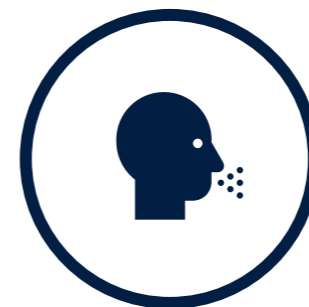
Category 2.4 – Governance of tax authority

- Assesses tax authority governance, including transparency, public accountability, and gender diversity in staff.
- Transparent and accountable tax administrations promote trust, enhance compliance, and strengthen the social contract between citizens and governments, while the gender composition of tax authority staff can promote gender equality and improve business outcomes.

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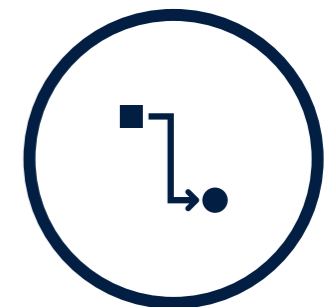
b. Pillar II – Public services provided by the tax administration

Preliminary Scoring

		No. of indicators	FFP*	SBP*	Total Points	Rescaled Points
2.1	**Digitization in Tax Administration**	**15**	**15**	**15**	**30**	**57.7**
2.1.1	Services for taxpayers (filling and payment)	8	8	8	16	30.8
2.1.2	Sex-disaggregated data	1	1	1	2	3.8
2.1.3	Taxpayer database	4	4	4	8	15.4
2.1.4	Interoperability	2	2	2	4	7.7
2.2	**Tax Audits**	**5**	**4**	**5**	**9**	**17.3**
2.2.1	Risk-based system	2	2	2	4	7.7
2.2.2	Types of audits and uniform practices	3	2	3	5	9.6
2.3	**Dispute Resolution Mechanisms**	**4**	**4**	**4**	**8**	**15.4**
2.3.1	First-Level Review Mechanism	2	2	2	4	7.7
2.3.2	Second-Level Review Mechanism	1	1	1	2	3.8
2.3.3	Gender equality during tax disputes	1	1	1	2	3.8
2.4	**Governance of Tax Authority**	**3**	**2**	**3**	**5**	**9.6**
2.4.1	Transparency	1	n.a.	1	1	1.9
2.4.2	Public accountability	1	1	1	2	3.8
2.4.3	Gender composition of the staff in tax administration	1	1	1	2	3.8
	Total	**27**	**25**	**27**	**52**	**100**

*Scoring will consider the perspectives of entrepreneurs (firm flexibility points) and broader public interests (social benefits points).

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c. Pillar III – Efficiency of tax systems in practice

3.1	Time to Comply with Tax Regulations
3.1.1	Time to file and pay taxes
3.1.2	Use of electronic systems to file and pay taxes
3.1.3	Duration of generic tax audit
3.1.4	Tax dispute
3.1.5	Use of VAT refund
3.1.6	Environmental report
3.1.7	Environmental audits
3.2	Cost of Taxation

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c. Pillar III – Efficiency of tax systems in practice

What does it cover and why is it important?

Category 3.1 – Time to Comply with Tax Regulations

- Assesses time taken for tax compliance, including audits, dispute resolution, and environmental reporting, as well as the use of electronic systems and VAT refund.

- Efficient tax compliance time is critical for firms to minimize delays, costs, and economic distortions, and to increase organizational efficiency.

Category 3.2 – Cost of Taxation

- Assesses the financial cost of taxation through the effective tax rate (ETR) estimation for corporate profit-based taxes, labor taxes and social contributions, and consumption taxes.

- The effective tax rate impacts firms' after-tax profitability, ability to compete in the market, and overall financial health, as well as affecting decisions related to investments, financing, and other business activities.

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c. Pillar III – Efficiency of tax systems in practice

Preliminary Scoring

		No. of indicators	Rescaled Points*
3.1	**Time to comply with Tax Regulations**	**8**	**50**
3.1.1	Time of file and pay taxes	1	7.1
3.1.2	Use of electronic systems to file and Pay Taxes	2	7.1
3.1.3	Duration of generic tax audit	1	7.1
3.1.4	Tax dispute	1	7.1
3.1.5	Use of VAT refund	1	7.1
3.1.6	Environmental report	1	7.1
3.1.7	Environmental audits	1	7.1
3.2	**Cost of Taxation****	**3**	**50**
	Total	**11**	**100**

*Scoring on Pillar III will consider the perspectives of entrepreneurs (firm flexibility points) only. For each indicator, scoring is calculated using the distance-to-frontier approach. Each category in Pillar III has the same weight. Within each category, each subcategory also has the same weight.

** This preliminary scoring assumes that cost of taxation will be scored, and in case it is not, 3.1 will be assigned 100 points.

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3. Preliminary topic scoring

Pillar	Title	No. of indicators	FFP	SBP	Total Points	Rescaled Points	Weight
I	Regulatory framework: Quality of regulations on taxation	12	10	12	22	100	0.33
II	Public services: Public services provided by the administration	27	25	27	52	100	0.33
III	Efficiency: Efficiency of tax systems in practice	11	100	n.a.	100	100	0.33

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4. Data Sources

Data collection sources:

Pillars I, II, and III

- **Private sector experts:** Tax advisors, tax consultants, tax lawyers, tax specialists and tax auditors

Pillar III

- **Enterprise Surveys:** A representative sample of companies with different characteristics in size, region and industry. *(only in parts of the pillar)*

Data validation sources (for expert questionnaires):

- **Public sector experts:** Representatives from tax administrations and revenue authorities.

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5. Parameters for expert consultations

General Parameters

Location of firms
Largest city

Determines the applicable taxes, may affect the process of tax registration and complaints, making it a critical parameter for assessing regulatory framework, public services, and efficiency in taxation.

Tax residency
Tax resident of the assessed economy

Tax residents and non-residents are subject to different rules, regulations, and requirements, which can complicate data analysis and comparison. Taxation data focuses on tax residents of the assessed jurisdiction.

Sector and activity
Excluding mineral, extractive, and financial sectors

Taxation of mineral, extractive, and financial sectors is excluded due to the complexity arising from cross-border operations, contractual arrangements, specialized knowledge requirements, and extensive regulations, which differ substantially from regular taxation.

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6. Expert Screening and Selection

Relevant expert professions:
- Tax advisors, consultants, accountants, lawyers, specialists, auditors, etc.

Relevant areas of specialization:
- Specialists in accounting, tax reporting and compliance, corporate tax law, environmental tax law, indirect taxation, tax administration law, tax dispute resolution, tax registration and deregistration procedures; tax review and enforcement; labor taxes and social contributions; etc.

Assessment of experts' knowledge and experience related to taxation and associated regulations, services, and processes:
- Professionals with a significant knowledge and years of experience in taxation and related regulations, services, and processes.

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Thank you

Q&A

Taxation

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