

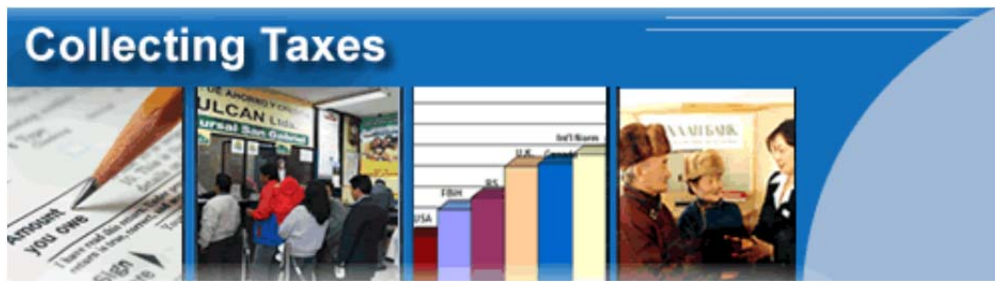
ABOUT THE INDICATORS

The Collecting Taxes Database contains performance and structural indicators about national tax systems. The database contains quantitative revenue performance indicators, such as how well a particular tax performs in generating revenues for the treasury, given its overall rate structure, and how well the overall tax system produces revenues, given the costs of administering the tax system. The database also provides tax rate information, such as the general VAT rate or the general corporate income tax rate. Other indicators describe the main features of tax administrations and economic indicators are included so that performance, rate competitiveness, and structure can be compared given the levels of country development and other factors.

There are **31** indicators that can be divided into five categories:

1. Tax revenue performance: These quantitative indicators provide a sense of how effectively the tax system produces revenues.
2. Tax structure: These quantitative indicators represent the substantive structure of tax laws in a simplified and comparative way.
3. Tax administration structure: This category includes both qualitative and quantitative indicators of the organization and size of the tax administration.
4. Economic structure: These indicators provide information about the economy of each country included in the database. They have been cited in a number of research projects as having important impact on the ability of tax systems to collect taxes.
5. Reference: These indicators neither indicate performance nor quality of the tax system, but rather provide information about the amount of revenues produced by the three major taxes and allow international comparisons. There is no specific evaluative aspect to these indicators.

The user can find many applications for the **Collecting Taxes Database**. The database facilitates international comparisons of the tax systems and their performance, structure, and administration. The user can download the entire database or choose to compare a single country with surrounding countries, countries in the broader region, or throughout the world. The **Collecting Taxes Database** can produce reports customized to the user's specific needs and requirements. The rest of this section provides information about the meaning and calculation of each of the indicators included in the Collecting Taxes Database.



TAX STRUCTURE INDICATORS

VAT Rate (VATR)

This is the general rate at which most goods and services are taxed under the value added tax. Most countries have a variety of reduced rates for certain basic goods, such as basic food stuffs, and have a zero rate on exported goods.

CIT Rate (CITR)

This is the general rate of the corporate income tax. In most countries, only one corporate income tax rate is applied to corporate profits. In addition, in most countries, owners of sole proprietorships or unincorporated partnerships pay personal income taxes and not corporate income taxes.

PIT Maximum Income Level (PITMAXL)

This is the lowest level of income, at which the top marginal personal income tax rate is imposed, expressed as a multiple of per capita GDP. For instance, if the top marginal personal income tax rate in a country applies to individuals' annual income in excess \$400,000 and the per capita GDP of the country is \$40,000, then the PITMAXL indicator would be 10, *i.e.*, the income level at which the top rate applies divided by per capita GDP. When the country applies a single rate to all personal income, the PITMINL and PITMAXL indicators will be the same.

PIT Maximum Rate (PITMAXR)

This is the highest tax rate applied under the personal income tax system on income above PITMAXL.

PIT Minimum Income Level (PITMINL)

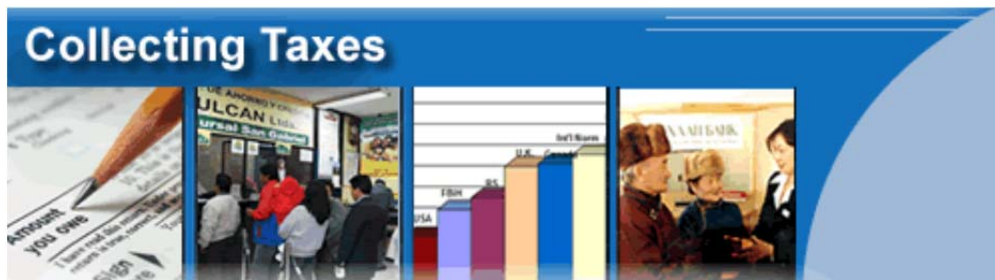
This is the lowest level of income, at which the lowest marginal personal income tax rate (PITMINR) is imposed, expressed as a multiple of per capita GDP. For instance, if the lowest level of income that is subject to the personal income tax is \$30,000 and per capita GDP is \$40,000, then this indicator will be 0.75. When the country applies a single rate to all personal income, without a zero tax bracket, the PITMINL indicator will be zero. If there is a basic personal allowance or deduction, this indicator will be computed as the value of this basic personal allowance or deduction as a multiple of per capita GDP.

PIT Minimum Rate (PITMINR)

This is the lowest non-zero positive tax rate applied under the personal income tax system.

Social Contributions Rate (SSR)

This is the rate of payment of the legally mandated social security, public pensions, employment security, basic public health care coverage, disability coverage, and other social programs, imposed on the earnings of or the payments to labor. It is the combined value of the mandatory contributions made



by both the employer and the employee, where the latter is usually withheld from employee compensation. This indicator is expressed as percent of gross salary. There is no revenue performance indicator associated with this tax.

In general, social contributions are only applied to salaries or “earned income” and are not applied to interest earnings, capital gains, and other income. In many countries, social contributions may rise with income and are usually only applied on income up to a certain level.

Tax Wedge (WEDGE)

The tax wedge is an estimate of the overall taxation of labor, expressed as percent of gross salary. It combines social contributions with personal income tax. There is no revenue performance indicator associated with this tax.

The calculation of the tax wedge is done in one of two ways: If the minimum level of the personal income tax is greater than per capita GDP, then the tax wedge is the same as the social contributions rate. If the minimum level of the personal income tax is less than per capita GDP, then this rate is applied, pro rata, to the per capita GDP and added to the social contributions rate. For instance, if the minimum personal income tax rate is 10% and is applied to income equivalent to one half of per capita GDP, then the applicable personal income tax rate for the tax wedge computation is 5%. This 5% is added to the social contributions rate, say 20%, resulting in a tax wedge of 25%.

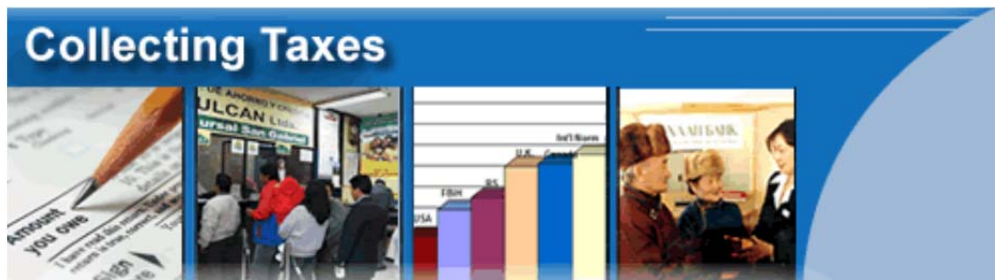
VAT Threshold (THRESHOLD)

This is the amount of annual supply, turnover or import, of goods and services, above which taxpayers must file regular value added tax (VAT) returns, expressed in current U.S. dollars. It often also represents the threshold, above which businesses must register with the authorities as VAT payers. A low or no VAT Threshold can place undue tax compliance burdens on smaller businesses that do not have sophisticated recordkeeping and unnecessary administrative burdens on the tax administration.

TAX REVENUE PERFORMANCE INDICATORS

PIT Revenue Productivity (PITPROD)

This indicator attempts to provide a sense of how the personal income tax in a country does in terms of producing revenue, given its current rates. It is an estimate of the additional tax that would be collected after a one percent increase in the personal income tax rate. It is calculated by taking the actual revenue collected as percent of GDP (PITY), divided by the weighted average personal income tax rate (PITWR). PITWR is the average of the lowest (PITMINR) and highest (PITMAXR) marginal personal income tax rates, weighted by the income level at which each rate kicks in (PITMINL and PITMAXL). For all countries, the PITPROD indicator falls between 0 and 1.



CIT Revenue Productivity (CITPROD)

This indicator represents how the corporate income tax does in terms of revenue collection, given its current rate. It is calculated by dividing the total corporate income tax revenue by the multiple of GDP and the corporate income tax rate. If, for instance, corporate income tax revenues are 10% of GDP and the corporate income tax rate is 20%, then CITPROD is 0.5.

VAT Productivity (VATPROD)

This is a measure of how well the value added tax (VAT) produces revenue, given the current VAT rate. It is calculated by dividing VAT collections by the multiple of GDP and the VAT rate. If, for instance, VAT revenues are 10% of GDP and the VAT rate is 20%, then VATPROD is 0.5.

VAT Gross Compliance Ratio (VATGCR)

This is also a measure of how well the value added tax (VAT) produces revenue for the government, but one that is more refined than VATPROD, since it takes into account the fact that VAT is mostly only applied to final domestic consumption. It is calculated by dividing VAT revenues by the multiple of total private consumption and the VAT rate. If, for instance, VAT revenues are 5% of private consumption and the general VAT rate is 20%, then VATGCR is 25. In other words, the VAT Gross Compliance Ratio is actual VAT collections as percent of potential VAT collections. The VAT gross compliance ratio is similar to the VAT collection efficiency (c-efficiency), except that the VAT c-efficiency relates VAT collections to aggregate consumption expenditures rather than just private consumption. Since government consumption around the world consists mostly of the payment of government wages and salaries, the VATGCR might be seen as a somewhat "tighter" indicator of performance.

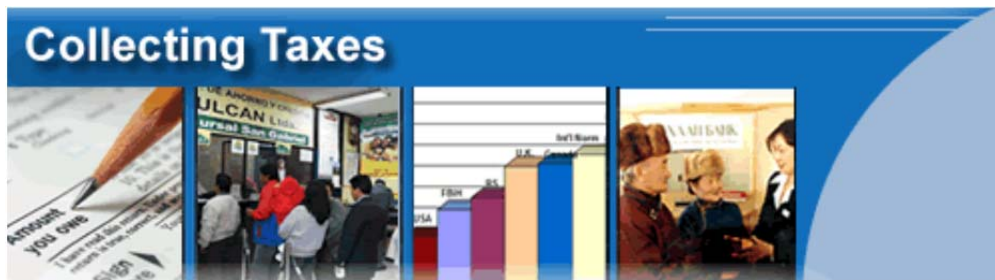
TAX ADMINISTRATION STRUCTURE INDICATORS

TAX Administration Costs (COST)

This performance indicator is the ratio of the cost of administering the tax system to the total revenues collected by the tax administration. For instance, if tax administration budget of a country is \$2 million and the country's tax administration collects \$20 million, COST is 10%, or \$10 to every \$100 collected. The lower this indicator is, the more efficient the tax system is in collecting all taxes. This cost effectiveness indicator is affected by the revenue productivity of the major taxes.

Functional Organization (FUNCTION)

In general, tax administrations are either organized by type of tax or by function. Tax-type organizations may have a value added tax department, a personal income tax department, and a corporate income tax department. Tax administrations organized along functional lines, on the other hand, have an audit department, an investigations department, and other departments responsible for a specific function



across all taxes. At present, it is considered that the best way to organize the tax administration is by function. This indicator is "1" where the tax administration is organized by function and a "0" where the tax administration is organized otherwise.

Large Taxpayers Unit (LTU)

This indicator is "1" where the tax administration has a unit devoted solely to tending to the largest taxpayers and "0" where the tax administration does not have such a unit. It is often recommended that tax administrations establish large taxpayers units, given the importance of large taxpayers to revenues.

Semi-Autonomous Revenue Authority (SARA)

This indicator is "1" for countries that have a SARA and "0" for those countries in which the tax administration is subordinated to another government body (typically the finance ministry). SARAs have been created in more than 30 countries around the world, many of them merging tax and customs administration under one, semi-autonomous body.

Customs (CUSTOMS)

A "1" indicates that tax and customs administration operate as a single, integrated institution. A "0" indicates that this is not the case.

Certification (CERTIFICATION)

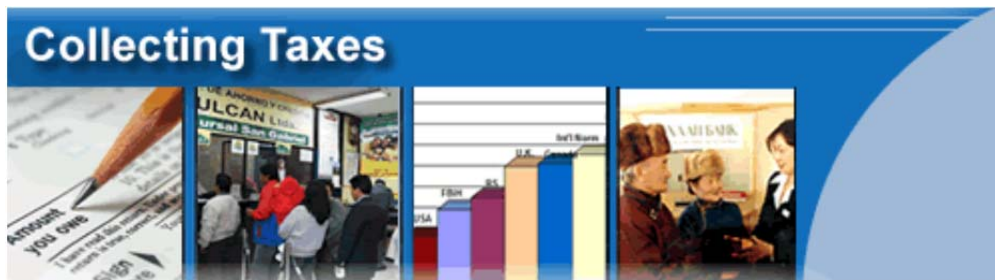
Some countries require businesses and other taxpayers to obtain a certificate or other confirmation of no outstanding tax obligations before engaging in certain activities, such as participating in public tenders, registering for duty-free import status, or obtaining a business loan. A "1" indicates that such a requirement exists. A "0" indicates that there is no such requirement.

Number of Taxpayers per Tax Staff (PAYERTOSTAFF)

This is a measure of the number of active taxpayers in the country relative to the size of the tax administration's staff. An active taxpayer is a person, business, or other entity that files tax declarations or otherwise reports to the tax administration on a regular basis. In countries that rely heavily on the personal income tax, where taxes are withheld from salaries and most individuals are required to file with the tax administration, this indicator can be relatively large. In countries where the personal income tax is of lesser importance and where the value added tax is of significant importance, the number of active taxpayers relative to the number of tax administration staff is usually lower.

Tax Staff (TAXSTAFF)

This is a measure of the size of the tax administration relative to the size of the country's population. TAXSTAFF is the total number of staff of the tax administration per 1,000 of national population. For



instance, if the tax administration has 1,000 employees and the total population is 1,000,000 persons, then TAXSTAFF is 0.001, *i.e.*, one tax staff member for every 1,000 persons in the country.

ECONOMIC STRUCTURE INDICATORS

Per Capita GDP (PCGDP)

This is the GDP of the country – the market value of goods and services produced during the year – per inhabitant, based on purchasing-power parity and expressed in current U.S. dollars.

Agriculture Sector (AG)

This is the value added by the agricultural sector as percent of GDP. This indicator is relevant to the tax system since in many countries, especially in the poorest countries, the agricultural sector is often much of the country's activity, but is not monetized and hence extremely difficult to capture within the tax net of a country.

Imports (IMPORTS)

This is the imports of goods and services expressed as percent of GDP. This indicator is relevant to the tax system and especially to the collection of the value added tax (VAT). In many countries, the vast majority of VAT collection takes place at the border. In addition, even though this border-collected VAT is refundable upon domestic transactions, capturing VAT at the boarder greatly enhances the ability to better enforce VAT compliance.

Consumption (PCONS)

This is aggregate private consumption expressed as percent of GDP. Private consumption is relevant to tax system performance, since it is approximately the tax base of the value added tax.

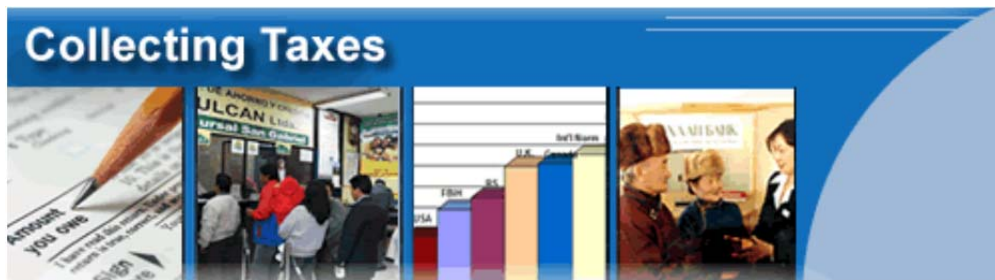
Hydrocarbon-“Rich” (HYDROCARBON)

Hydrocarbon-“rich” countries are those, in which hydrocarbon and/or mineral resources account for more than 25% of fiscal revenue or 25% of total export proceeds. This indicator is “1” for these countries and “0” for all other countries. This indicator is important to the tax structure and tax performance, since most hydrocarbon-rich countries rely heavily on receipts from the extractive industries. In some countries, key state-owned companies capture many of the rents from resource extraction and share these with the government. In many countries, extractive companies also pay corporate income taxes, which are relatively easy to capture from this narrow population of firms.

REFERENCE INDICATORS

PIT Revenues (PITY)

This is the level of personal income tax collections as percent of GDP.



CIT Revenues (CITY)

This is the level of corporate income tax collections as percent of GDP.

VAT Collections (VATY)

This is the level of value added tax collections as a percent of GDP.

Total TAX Revenue (TAXY)

This is the sum of total taxes collected by the tax administration and customs as percent of GDP.

VAT Year (VATYEAR)

This is the year in which the value-added tax (VAT) was introduced. It provides an indication of the "age" of the country's VAT system.