Technology makes it easier for taxpayers

Technology employed by economies across the globe has made it substantially easier for businesses to pay their taxes, says a report from PwC and the World Bank.

Kyle Mandy

Paying Taxes, 2020 highlights the significant advantages tax administrations provide their taxpayers if they embrace technological advances. However, implementing online filing and payment systems continues to be a challenge on the African continent, resulting in the region having the highest number of payments (34.7) and the second highest time for companies to comply with their tax affairs (285 hours). Africa also saw an overall increase in its total tax & contribution rate (47.3%) – mainly due to changes to certain levies in Ghana that effectively moved them from being value-added taxes to cascading sales taxes.

The report draws upon a comparison of the taxation of business in 190 economies. The report models business taxation in each economy using a medium-sized domestic case study company.

Overall, the global average of the compliance burden for business taxation remained relatively stable across the four key measures used to evaluate ease of paying taxes for businesses: time to comply (234 hours); number of payments (23.1); total tax and contribution rate (40.5%) and a post-filing index (60.9 out of 100).

South Africa's overall position in the rankings – 54 – has declined from 2018 (48).

“This year we have seen some significant changes in the TTCR of individual territories as they seek to radically change the structure of their tax system to address local circumstances. As these countries’ performance has increased, so has South Africa’s overall position declined.

“The TTCR measures the amount of taxes and mandatory contributions payable by businesses, after accounting for allowable deductions and exemptions, as a share of commercial profits. A country will improve its TTCR ranking, if there is a decrease in the mandatory taxes and contributions payable. In South Africa’s current economic climate, there is no scope to decrease taxes and South Africa is not in a position to follow the global trend towards lower corporate tax rates," Kyle Mandy tax policy leader for PwC South Africa says.

It is notable that South Africa continues to perform relatively well for the number of hours to comply with its taxes – 210 hours – compared to the world average of 234 hours, as well as the number of tax payments made (SA: 7; Global average: 23).

“This is mainly due to South Africa having a world class online filing and electronic payment system, which continues to make it easier to pay taxes.”

Since 2012, the world average time to comply with tax obligations has decreased and an average of 4.4 fewer payments are required. Technological advancements drove both improvements. The average total tax and contribution rate have edged lower to 40.5% from 41.9% over the same period.

The African scenario

Overall, the number of payments in the Africa region fell by 1 to 34.5, driven by a drop of 38 payments in Côte d’Ivoire where most companies embraced online payments for the first time. It is noteworthy that this was the greatest reduction in payments for any economy in 2018. Of the 53 economies in Africa only Ghana saw an increase in the number of payments indicator.

South Africa’s TTCR remains little changed at 29.2%. The African TTCR rose slightly between 2017 and 2018 from 47.0% to 47.3%. The TTCR in 30 out of the 53 economies in the region is above the world average (40.4%).

In 2018, nine economies in Africa increased their TTCR. The largest increase was in Ghana (by 23 percentage points to 55.4%) due to the introduction of two levies which have the characteristics of cascading sales tax. At the same time, the standard VAT rate was reduced.

Six economies in Africa decreased their TTCR. The largest decrease was in The Gambia (by 8.3 percentage points to 48.4%).

In South Africa, the time taken to correct a CIT return remains unchanged from 2017 (11 hours) compared to the global average of 14.6 hours). If the correction results in further interaction with the tax authority it can take 31.6 weeks (global average – 25.5 weeks) from the submission of the correction until the completion of any interactions with the tax authority, including audits. In Africa it takes the case study company 14.4 hours on average to correct the error in the corporate income tax return and comply with any resulting interactions with the tax authority.

The time taken to obtain a VAT refund in South Africa has decreased from 16.6 weeks in 2017 to 15.5 weeks in 2018 (global average – 27.3 weeks). The time taken to comply with a VAT refund (8.5 hours) remains below the global average of 18.2 hours.

In the African region, the average time to comply with a VAT refund is 27.7 hours ranging from zero time in Seychelles to 89 hours in Egypt. On average, where a VAT refund is available it takes 33.8 weeks to obtain it ranging from 4.3 weeks in Mauritius to 109.9 weeks in Tanzania.

The global post-filing index has climbed to 60.9 in 2018 from 58.9 five years ago. The modest overall increase masks major improvement. The higher the score the more efficient it is to receive VAT refunds and correct corporate income tax returns. South Africa has a post-filing index of 60.7. In Africa, the average post-filing index score improved to 56.2, driven by significant improvements in Tunisia and Côte d'Ivoire. Liberia and Morocco have the most efficient post-filing processes in Africa with both having scores of 98.6.

"The Post-filing index sub-indicator is one where South Africa has significant potential to improve its score. The issue of VAT refunds has been a contentious one in recent times with delays in the payment of VAT refunds which has, arguably, clouded the perceptions of contributors to the survey. PwC's assessment, based on empirical data, of the time it takes to obtain a VAT refund is significantly better than that reflected in the report. It is hoped that with the reforms that have and are being undertaken by SARS in 2019, a significant improvement in the post-filing index will be seen in the 2019 survey," Mandy says.

New technologies offer tax administrations multiple opportunities to make the process of paying taxes more efficient and these are constantly evolving. It is important for tax administrations to keep up to date with developments in technology and to exploit these for the benefit of themselves and taxpayers. Businesses, for their part, should incorporate new tax technology into their operations to respond to the increased demand for data from tax administrations and to reduce the time it takes for them to comply.