



Assesment of Tax Compliance Costs for Businesses in the Kyrgyz Republic

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TABLE OF CONTENTS

Executive summary	4
Reforms in administering taxes and mandatory payments in the Kyrgyz Republic	6
Time required for complying with tax legislation	8
Financial costs of tax compliance	15
Inspections by the State Tax Service and Social Fund	19
Assessment of tax authorities and perception of tax environment.....	25
Annexes	30
Annex 1. Survey methodology	30
Annex 2. Key indicators of time spent for tax accounting.....	32

EXECUTIVE SUMMARY

1. Between 2012 and 2014, the administrative burden on private businesses of complying with the requirements of tax legislation in the Kyrgyz Republic saw a decline. During 2014, for instance, a taxpayer spent an average of 34 work days on tax accounting, which is six days less than in 2012.
2. In addition to the reduction in time, the financial costs of tax accounting had fallen from US\$ 655 to US\$546 in 2014. Large enterprises, working under the general tax regime with the VAT, incurred the largest costs. Relative costs are regressive; the smaller the taxpayer, the greater the cost of tax accounting as a percentage of annual turnover. For micro-enterprises with a turnover of less than KGS one million, the relative tax administration costs was 4.8%, which is comparable to the single tax rate.
3. Tax regulation is also becoming less of an administrative burden on the country's economy. In 2014, total tax compliance costs for all taxpayers of the Kyrgyz Republic were US\$ 12.6 million, which is equivalent to 0.16% of the country's GDP. This was a reduction of 0.3 percentage points, as compared with 2012.
4. These positive changes put Kyrgyzstan in fifth place in the rating of time spent for tax accounting among 12 countries with developing economies, where similar research has been conducted for the past several years. Nevertheless, there is a need to continue reforms to further reduce the administrative burden of tax compliance on private businesses.
5. The economic effect of these tax regulation reforms in the Kyrgyz Republic amounts to US\$ 1.8 million annually.
6. Legal entities that are VAT payers incur maximum tax administration costs. Individual entrepreneurs working under a simplified tax regime incur minimal tax administration costs.
7. Most of the time spent on tax administration is used for office work to assess taxes and complete tax forms. However, entrepreneurs themselves do not consider this stage to be complicated.
8. Preparation of the Uniform Tax Declaration is one of the most time-consuming and equally difficult activities for most taxpayers.
9. Time spent on tax accounting is influenced by the time spent visiting tax authorities to file tax reports, and for other purposes. More taxpayers now file reports via the Internet and search for information through the website of tax authorities, or consult with Call Center specialists by phone. However, these trends are more relevant to Bishkek than to the regions. Fewer visits to tax authorities to file reports will reduce the administrative burden on private businesses. Total expenses of entrepreneurs for visiting the Tax Service to file tax reports are assessed at US\$ 770 thousand annually.
10. Tax control coverage remains quite high and its reduction is insignificant. In 2014, every second taxpayer faced visits by tax service representatives. Total expenses of all entrepreneurs going through tax control procedures have been assessed at US\$ 630 thousand per year. Distribution of risk-based analysis in all tax control areas, apart from planned tax audits, is one of the most effective ways of reducing the administrative burden on businesses.
11. The Social Fund has substantially reduced the scope of its control activities. In 2014, the percentage of taxpayers inspected was reduced to 30%, almost one and a half times lower compared with 2012, and total expenses for Social Fund inspections fell by more than KGS 2.5 million. The transfer of the social payments administration to the State Tax Service (STS) will also enable a significant reduction of US\$1.3 million in expenses for entrepreneurs currently spent for visits to file additional reporting to the Social Fund due to consolidation of administration of mandatory payments in the STS.
12. Smaller tax accounting costs have been the key factor in the selection of a simplified tax regime, the most attractive option for entrepreneurs. Almost two-thirds of taxpayers working under a general tax regime do not see any of its advantages. This lack of attractiveness in the general tax regime creates an additional obstacle to the development of private businesses and the national economy in general.



13. The reduced burden on entrepreneurs implies both their improved perception of tax authorities on the whole, and positive changes in assessments of certain features of the tax system.

14. In the opinion of entrepreneurs, the shadow economy remains sizeable. However, positive trends have emerged in the lower number of taxpayers understating their annual income, and in increasing amounts of income declared by them for taxation.

REFORMS IN ADMINISTERING TAXES AND MANDATORY PAYMENTS IN THE KYRGYZ REPUBLIC

A number of tax administration reforms were enacted in the Kyrgyz Republic in 2012-2014. The objective of these reforms was to enhance tax compliance by improving transparency and simplifying procedures. These measures resulted principally in the reduction of tax accounting costs for taxpayers, and making it easier to enter the formal sector of the economy, thus ensuring an incentive for its growth. Further, these measures were intended to improve the performance efficiency of the State Tax Service.

The main results achieved in the course of these reforms have been the following:

1. Starting in 2013, field tax audits have been based on analyzing the risks of non-payment. Tax audits conducted throughout the country are prepared automatically and are based on risk assessment, using both risk criteria specified in the Tax Code, and additional criteria as approved by the State Tax Service. Implementation of the risk assessment system provides for the achievement of the following objectives:

- **Effective use of STS resources.** Tax control focuses on delinquent taxpayers, and results in large tax revenues;
- **Objectivity.** A subjective factor is excluded in the selection process since the risk level is defined by the same parameters for all taxpayers;
- **Reduced tax control for good faith taxpayers.** Good faith taxpayers are seldom audited, thus creating incentives for conscientious payment of taxes.

2. Prompt response to emerging violations of tax legislation. Focusing on delinquent taxpayers enables early, consistent identification of new tax evasion schemes.


3. Starting in 2012, a fee-based service has been provided for filing tax reports via Internet through the purchase of an electronic key through a private operator. As the next step, the business community has proposed a free system for electronic filing of tax reports. In 2014, the STS implemented a system for electronic filing of tax reports, with a turnover less than the VAT registration threshold (KGS 4 million), via the Tax Service website.

4. Work is in progress on reforming the VAT. The STS has implemented a new VAT invoice administration system, which issues VAT invoices to taxpayers, and has improved internal control over them. Implementation of this system has made it possible to move to the next stage of reforms, related to the cancellation of VAT invoices as forms of strict accountability. This cancellation, and the assignment of a range of invoice numbers to the taxpayers, is the reform that will make it possible for taxpayers to file an application and electronically obtain numbers of VAT invoices, rather than having to go to tax offices to buy invoices. In addition, streamlined VAT refund procedures for good faith taxpayers are to come into effect during 2016.

5. In 2014, alternative tax payment methods via bank terminals and payment terminals was introduced. One commercial bank has made it possible to pay taxes via Internet banking, and work is in progress to increase the number of banks offering this service. The introduction of mobile banking will be the next step.

6. Starting July 1, 2015, the filing frequency for tax reporting and tax payment was reduced for businesses with a turnover of less than KGS 4 million from monthly to the quarterly, and businesses with a turnover of less than KGS 30 million went from monthly to quarterly reporting with monthly payment of taxes.

7. In 2015, preparatory work was carried out to introduce one of the most important reforms: transferring the functions of the social payment administration from the Social Fund to the Tax Service. This will ensure a substantial decrease in the costs to entrepreneurs of interacting with an additional government agency. This reform is proposed for implementation during 2016.



To assess the progress and efficiency of these tax reforms, business entities are periodically surveyed through the IFC Project. A detailed regular analysis enables reforms to be monitored and clear recommendations to the Government to be prepared; it also reduces the costs to entrepreneurs of complying with the mandatory requirements of tax legislation.

This review includes the results of two business environment surveys, and assessments of tax accounting costs for taxpayers, in 2012 and 2014.

The most economically active entrepreneurs were selected for survey purposes. Farm enterprises have been excluded due to their special tax status, as have entrepreneurs working under the tax patent.

In conducting the survey, the following criteria were used to stratify the sample:

1. **Region;**
2. **Area of activities** (production, trade, services).
3. **Taxpayer size based on annual turnover:**
 - a. Micro – less than KGS 1 million
 - b. Small – KGS 1 to KGS 4 million
 - c. Medium – KGS 4 to KGS 30 million
 - d. Large – over KGS 30 million
4. **Taxation regime:**
 - a. A single tax simplified the taxation regime for taxpayers. The use of this regime is possible provided that annual revenues do not exceed the size of the VAT registration threshold (KGS 4 million), and the organization, or individual entrepreneur, is not a VAT payer. The use of the simplified taxation regime involves the replacement of the profit tax and sales tax payments as established by tax legislation with a single tax from entrepreneurial activity at the rate of 4% or 6%, depending on the area of activity.
 - b. A general taxation regime without VAT registration. Under a common taxation system, legal entities and individuals undergo state registration with the Ministry of Justice and STS, and pay income tax and profit tax. At the same time, the taxpayer's annual turnover does not exceed the VAT registration threshold.
 - c. A general taxation regime with VAT registration, in excess of the annual turnover of KGS 4 million.

TIME REQUIRED FOR COMPLYING WITH TAX LEGISLATION

In 2014, the administrative burden of tax regulations on private businesses was reduced due to a decrease in working hours spent on tax accounting. This trend was common for all taxpayers, regardless of their turnover or taxation regime. This positive result was largely achieved due to time saved on visiting tax offices to file tax reports and for other purposes. A taxpayer, on average, spends **34 working days** for tax administration, a competitive indicator among developing countries.

Tax accounting includes completion of source documents, assessment of taxes, completion of mandatory reporting forms and their filing with the tax authorities, payment of taxes, tax control (field audits, spot check tax control) and other tax-compliance related activities.

Time spent on tax accounting represents total time spent by all employees of the taxpayer company participating in the tax administration process throughout the year. Recording of taxes by accountants as company employees is the most common tax administration practice in Kyrgyzstan. About 90% of taxpayers independently account for taxes without outsourcing to specialists, and the results of two surveys showed that this practice has not changed for the past several years. Thus, employees' salaries are the key component in the cost structure of companies for complying with mandatory tax legislation.

The administrative burden of tax liabilities has had a downward trend for the past several years. In 2012, one taxpayer spent, on average, slightly over 40 work days on tax accounting¹; in 2014, this time was reduced by 17%, totaling 33.7 days. (Figure 1)

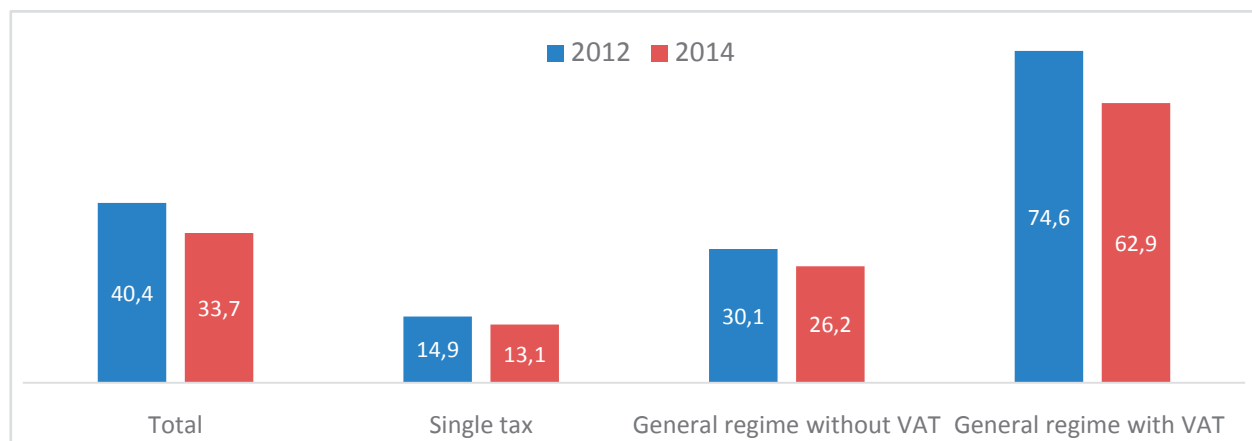


FIGURE 1. TIME SPENT ON TAX ACCOUNTING DEPENDING ON THE TAXATION REGIME, AS PERSON-DAYS

As is shown further, office work on the completion of source documents, assessment of taxes, completion of tax reporting forms and so forth takes a maximum share in the structure of time spent for tax accounting. It is, therefore, obvious, that the time taxpayers spend depends on the taxation regime under which they operate. From the tax accounting standpoint the maximum workload is on taxpayers working under a general taxation regime with the VAT registration (about 63 workdays in 2014). This is caused both by the maximum number of taxes, and by the fact that the VAT is the most labor-intensive from the tax administration standpoint, as compared with other types of taxes.

1. From this point onward, this implies the total number of person-days per year spent by all employees of the taxpayer company independently accounting for taxes.

Single tax payers are exempt from paying such taxes as the VAT, the profit tax and the sales tax. In view of this, their time spent on tax accounting is minimal among all taxation regimes and constitutes only 13.1 person-days. Despite the differences in time spent by companies working under different taxation regimes, a reduction in tax administration costs was noted for all taxpayers.

With the growth of taxpayer size comes a growth in the time spent on tax accounting, from 22.8 days for micro² to 95.1 days for large taxpayers in 2014 (Figure 2).

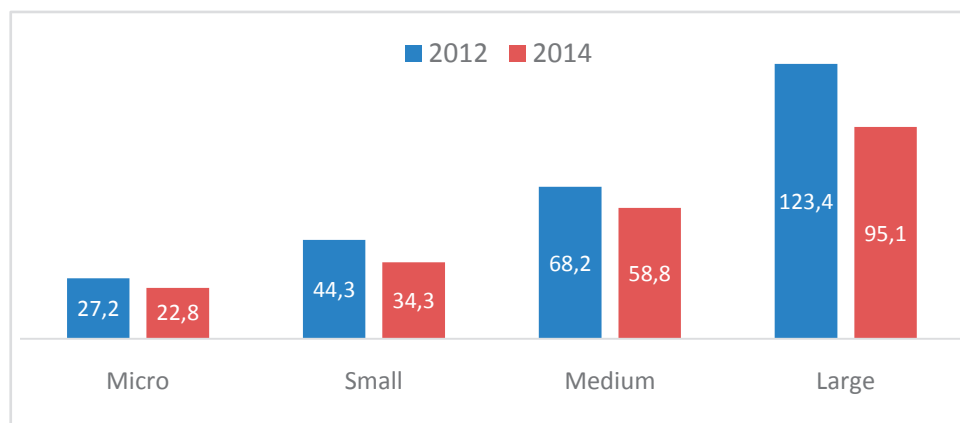


FIGURE 2. TIME SPENT ON TAX ACCOUNTING DEPENDING ON THE TAXPAYER SIZE, PERSON-DAYS

One of explanations is the fact that the larger the taxpayer, the higher the probability that he/she operates under a general tax regime. In addition, the time spent depends largely on the taxpayer type: the tax administration costs of legal entities is more than twice as great as a similar indicator for individual entrepreneurs (Figure 3).

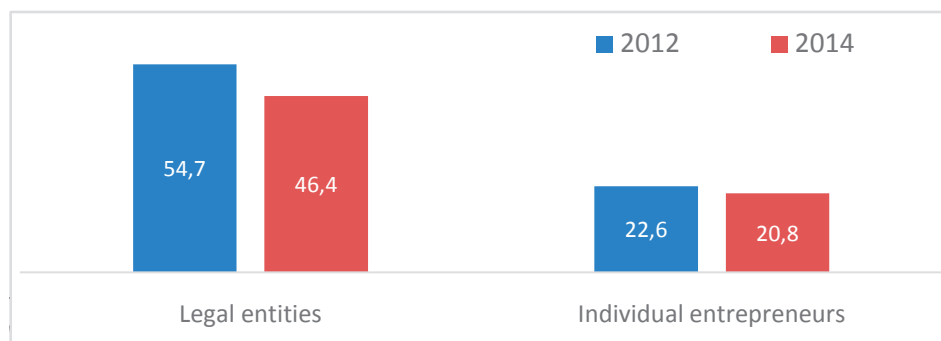


FIGURE 3. TIME SPENT ON TAX ACCOUNTING DEPENDING ON THE TAXPAYER TYPE, PERSON-DAYS

Indicators such as the taxpayer type, annual turnover and taxation regime correlate well with each other. The medium-sized and large businesses are more likely to be represented by a legal entity working under a general taxation regime with the VAT. Micro businesses, on the other hand, are represented by an individual entrepreneur working under a simplified taxation regime. The trends described above are reasonable and do not change, as shown by the results of surveys conducted during various years.

Time spent on tax accounting may vary from 12.5 days for individual entrepreneurs under a simplified regime with a turnover of less than KGS 1 million to 95.1 days for large legal entities working under the general regime with the VAT.

As has already been noted, the greater part of time spent on mandatory tax requirements is used for tax accounting in the company's office. This work took, on average, 17.7 days in 2014, almost half (44%) of total time spent on tax administration (Figure 4). All other types of tax activity require much less time.

2. All surveyed taxpayers are grouped by size on the basis of their annual turnover: micro – less than KGS 1 million, small – KGS 1 to KGS 4 million, medium – KGS 4 to KGS 30 million, and large with a turnover of KGS 30 million and above.

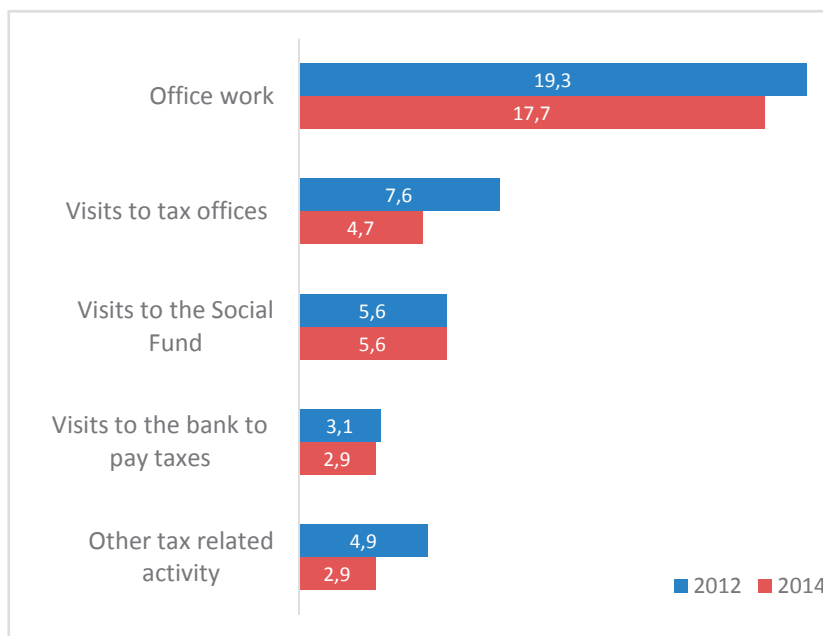


FIGURE 4. STRUCTURE OF TIME SPENT ON TAX ACCOUNTING BY TYPES OF ACTIVITIES, PERSON-DAYS

The survey results clarify the total time spent on tax accounting, and also explain the reasons for changes. Visits to tax offices, the second most costly type of tax activity, declined by almost 40% from 7.6 days in 2012 to 4.7 days in 2014, and account for most of the time saved. However, costs for similar visits to the Social Fund remained unchanged. Moreover, the individual entrepreneurs surveyed indicated a small increase in time spent on filing reports to the Social Fund. Also, it is necessary to note a substantial reduction in costs for other tax activities.

Tax accounting in the office, while the most time-consuming activity, is not difficult for taxpayers. The share of those who found it 'complicated' or 'very complicated' to compute taxes, or complete different tax forms, was not significant, and ranged within 10% of respondents (Figure 5). Moreover, in 2014, the difficulty with completing tax forms declined as compared with 2012.

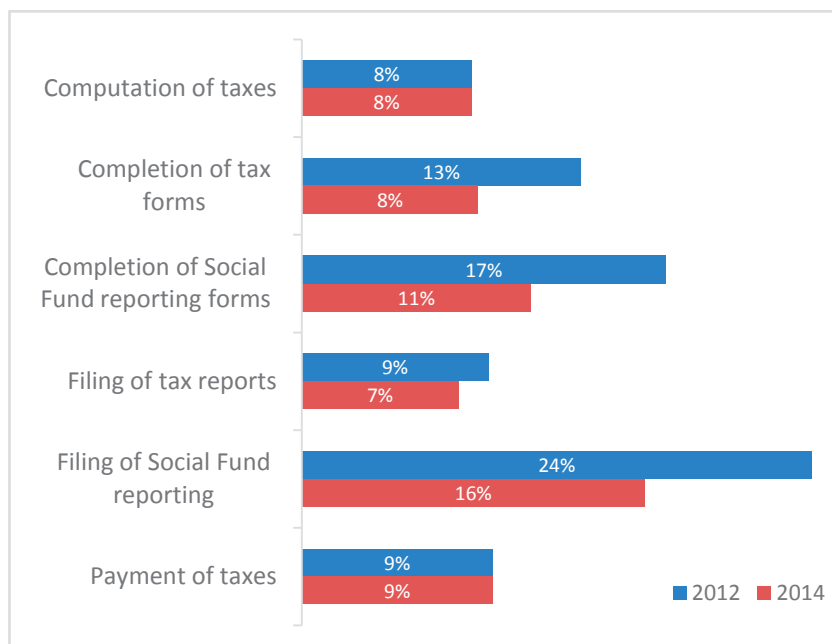


FIGURE 5. PERCENTAGE OF TAXPAYERS THAT CONSIDER TYPES OF TAX ACTIVITIES TO BE COMPLICATED

Administration of the Social Fund payments is also one of mandatory activities for complying with legislative requirements. While reporting to the Social Fund and subsequent filing does not require much time, entrepreneurs assess their communication with the Social Fund as the most problematic of all tax and other mandatory payment administration activities. However, the survey results show positive changes. For example, the share of respondents who considered file reporting to the Social Fund problematic in 2014 had declined by one third as compared with 2012. Moreover, within the framework of reforms, it is planned to fully transfer the administration of social payments from the Social Fund to the Tax Service during 2016. This will ensure a substantial reduction in costs incurred by entrepreneurs for interacting with an additional government authority, where the costs of visiting the Social Fund to file social tax reports are assessed at US \$ 1.3 million per year.

The allocation of office time by employees for different types of taxes depends upon the tax regime under which the taxpayer operates. The VAT payer spends the most time on the VAT itself and Uniform Tax Declaration: 8.4 and 7.4 days, respectively. These two taxes, being the most time-consuming in terms of their administration, were assessed differently in terms of the difficulty of their accounting. In view of maximum time spent, tax accounting for the VAT is not difficult for the taxpayers. The Uniform Tax Declaration, however, poses difficulty, where every fourth VAT payer finds its administration to be 'complicated' or 'very complicated' (Table 1).

	General regime with VAT		General regime without VAT		Single tax	
	person-days	complicated	person-days	complicated	person-days	complicated
Income tax	3.7	0.3%	1.9	5%	0.9	3%
Profit tax	6	8%	2.4	6%		
Sales tax	6.2	3%	3	4%		
VAT	8.4	9%				
Single tax					1.1	4%
Social Fund payments	4.7	3%	2	7%	1	10%
Property tax	1.6	1%	0.6	1%	1.6	2%
Land tax	1.3	3%	0.6	2%	0.5	7%
Uniform Tax Declaration (UTD)	7.4	25%	2.9	32%	1.1	21%

TABLE 1. TIME SPENT FOR TAX ACCOUNTING IN THE OFFICE BY MAIN TYPES OF TAXES IN 2014, AND PERCENTAGE OF TAXPAYERS CONSIDERING THE TAX ACCOUNTING TO BE COMPLICATED

A similar situation exists with companies working under a general regime, and not VAT payers. They spend most of their time on the sales tax and Uniform Tax Declaration, which is difficult for a third of entrepreneurs. The remaining taxes are neither difficult nor time-consuming in terms of their administration.

Tax offices may be visited for different purposes, but principally for the filing of tax reports. In contrast to entrepreneurs working under other taxation regimes, the VAT payers additionally have to visit tax offices to buy VAT invoices, which took about two work days in 2014 (Figure 6).

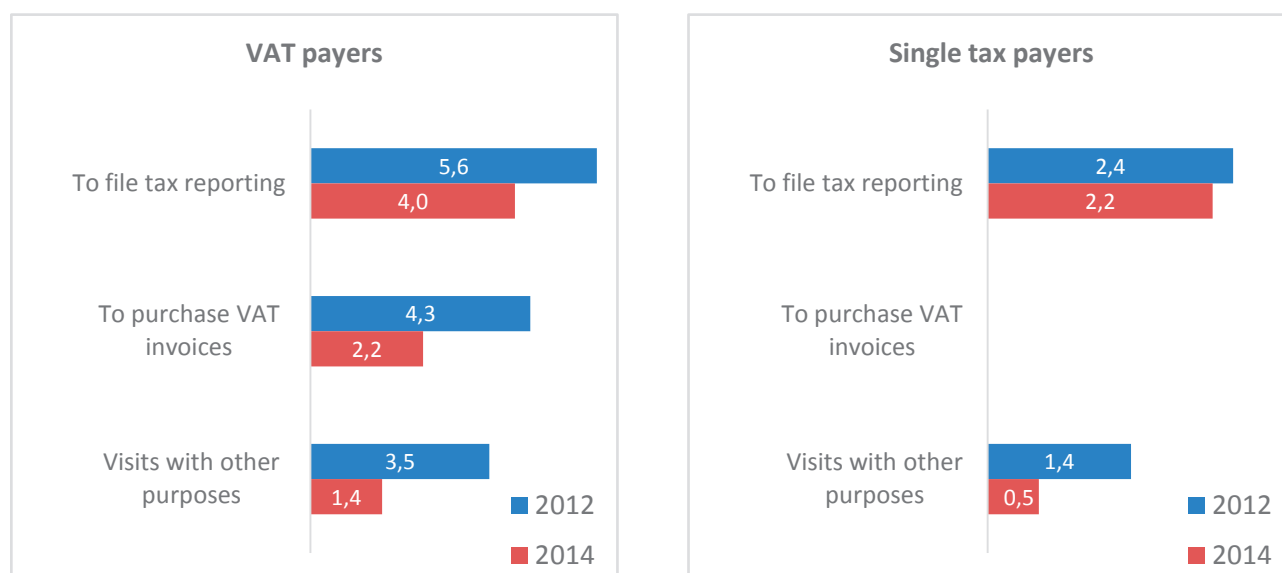


FIGURE 6. PURPOSES OF VISITS TO THE TAX SERVICE DEPENDING ON THE TAXATION REGIME, PERSON-DAYS

It can be noted that time spent visiting tax offices declined for all purposes. The VAT payers saved the most time, since their costs for filing tax reports and buying VAT invoices fell by 1.6 and 2.1 work days, respectively. One possible explanation is the VAT invoice administration reforms conducted by the STS. This reform had already brought about reductions in taxpayer time for obtaining paper invoices in 2014, and in 2016, the VAT invoices as forms of strict accountability are to be fully cancelled, and a range of invoice numbers issued to the taxpayers. The follow-up monitoring of reforms will make it possible to assess the economic effect of excluding VAT invoices from the list of documents required for strict tax reporting.

Filing of tax reports via the Internet can help reduce time spent visiting tax offices. Currently this practice is limited: 12% of surveyed taxpayers reported using the Internet to file reports (Figure 7). The survey results also show that the growth in the number of Internet users occurred only in Bishkek, where this indicator increased from 18% in 2012 to 23% in 2014. The low level of Internet use in the regions for filing tax reports significantly limits progress in reducing the overall administrative burden on private businesses in the area of tax compliance costs.

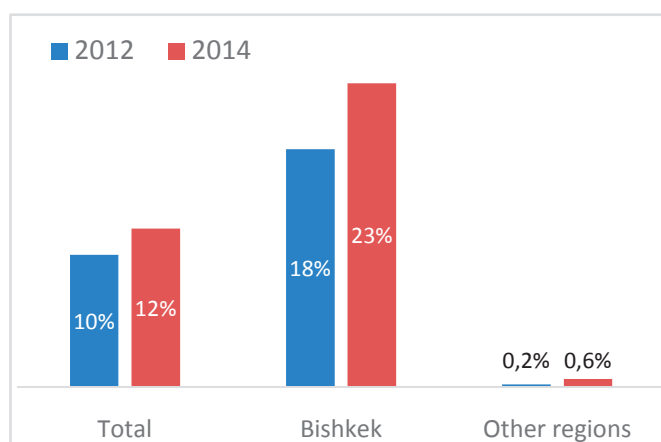


FIGURE 7. SHARE OF TAXPAYERS FILING TAX REPORTING VIA THE INTERNET DEPENDING ON THE REGION

A very substantial reduction appeared in time spent visiting tax offices for purposes not related to filing tax reports or purchasing VAT invoices. This trend was common for all taxpayers, regardless of the taxation regime they operated under. One of possible reasons might be the increase in the number of taxpayers who prefer to search for tax information without directly visiting tax offices. The number of taxpayers who prefer to search for information on the STS website increased from 45% in 2012 to 50% in 2014, and 16% of taxpayers use consultations by phone with the specialists of the STS Call Center (11% in 2012). The number of taxpayers searching for tax information on different online sites outside of the STS website has also dramatically increased. In 2012, their share was within the statistical discrepancy (about 1%), but in 2014, 16% of surveyed taxpayers reported such searches. Further promotion of remote access to tax information will enable to further reductions in tax accounting costs for entrepreneurs.

Analysis of the most frequently used sources of information about taxes and tax legislation clearly demonstrates the shift to remote interaction with tax authorities. The numbers of those who prefer to contact tax officers personally declined (from 33% to 28% in 2014), while the percentage of those who cited the STS web site as the most frequently used source of information increased from 19% to 27%.

For the past several years the World Bank Group, and IFC in particular, have conducted over ten surveys on tax compliance costs for private businesses in emerging markets and countries with transition economies, accumulating a considerable volume of empirical data for international comparison.

The general reduction of time spent for tax administration has enabled Kyrgyzstan to easily compete with other emerging markets. Out of 12 countries where a similar survey has been conducted over the last several years, the Kyrgyz Republic, with the indicator of 59 days, holds the 5th place in the rating of time spent by “average”³ taxpayers by turnover, which represents a good result (Figure 8).

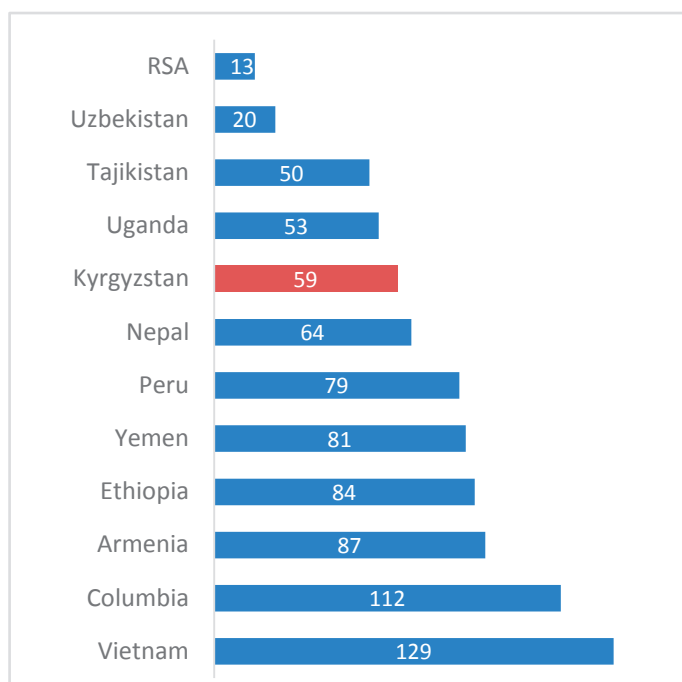



FIGURE 8. TIME SPENT ON TAX ACCOUNTING BY “AVERAGE” TAXPAYERS BY TURNOVER ACCORDING TO THE DATA OF SURVEYS CONDUCTED IN DIFFERENT COUNTRIES⁴, PERSON-DAYS PER YEAR

3. The size of the “average” taxpayer is defined differently in each country. Taxpayers with a turnover of KGS 4 to KGS 30 million (US\$ 75-566 thousand) are in this category in Kyrgyzstan. In Tajikistan, by comparison, taxpayers with a turnover of Somoni 800 thousand to Somoni 5 million (US\$ 157-980 thousand) are in this category.

4. The figure shows data for tax compliance cost surveys conducted by the World Bank Group in different countries for the past eight years. Data may be partially found at Coolidge, Jacqueline, 2012: “Findings of Tax Compliance Cost Surveys in Developing Countries”, eJournal of Taxation, Vol 10, No. 2, Oct. 2012, pp 250-287.



Nevertheless, according to the results of the Doing Business survey in 2014 on the taxation ranking, the Kyrgyz Republic holds only 136th place out of 189 countries participating in the survey⁵. According to Doing Business survey data, time to comply in Kyrgyzstan equals 210 hours per year, which conforms⁶ well to the results of the tax compliance cost survey.

All of this suggests the need for continued reforms in the Kyrgyz Republic in the area of tax regulation and reduction of the administrative burden on private businesses.

5. <http://russian.doingbusiness.org/rankings>

6. Time spent to prepare, file reporting and pay three main types of taxes and deductions are recorded: corporate income taxes, value added tax or sales tax, and labor taxes, including payroll taxes and social security deductions.

FINANCIAL COSTS OF TAX COMPLIANCE

Financial costs to taxpayers for tax accounting also declined, and consequently, the tax compliance-related total burden on the country's economy decreased from **0.19% to 0.16% of GDP**. However, for micro businesses, financial costs of tax administration remain high, becoming, in essence, an additional tax comparable by size to the single tax rate.

The financial costs of recording taxes include both the payment for working hours of all employees of the taxpayer companies involved in the tax administration process, and the payment to external specialists for the partial or full outsourcing of these functions. Moreover, the calculation of total financial costs must take into account the direct costs of buying different tax forms (pre-printed forms and VAT invoices), the purchase and maintenance of cash tills, specialized software, relevant information, data bases, costs related to participation in seminars and other costs. These costs do not include the tax-related expenses of entrepreneurs, since the objective of the surveys is to monitor the tax administration costs, and not to assess the tax burden on businesses.

In 2014, the total financial costs to the average taxpayer of the Kyrgyz Republic of fulfilling mandatory tax legislation requirements amounted to KGS 29.3 thousand per year, equivalent to US\$ 546⁷. In 2012 data, average cash costs for two years fell by 17%; in 2012 a single taxpayer spent, on average, the equivalent of US\$ 655⁸, which remained the same in the national currency at about KGS 30 thousand per year (Figure 9). The reduction in US dollar terms slightly exceeded the official inflation data, which was around 7% per annum⁹ in 2013-2014.

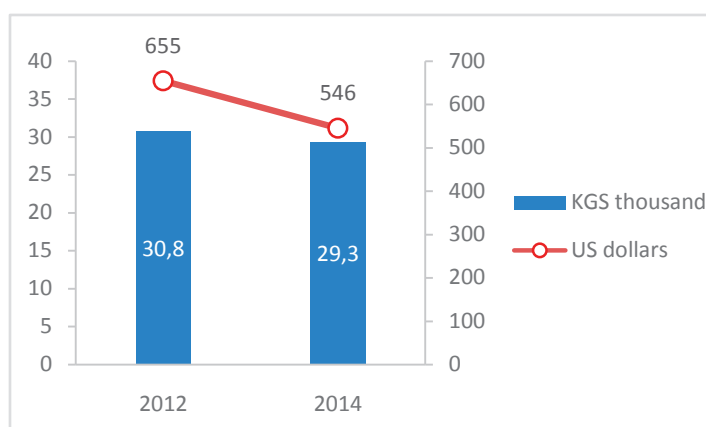


FIGURE9. FINANCIAL COSTS TO TAX PAYERS FOR TAX ACCOUNTING

Inflation is one of the possible explanations for the unchanged level of financial costs, in view of the substantial reduction in time spent for tax accounting. Financial costs are calculated as the product of time spent in person-days by average employee salary per day. During this two-year period, labor costs increased substantially. Thus, following the results of two surveys, the average reported salary of the chief accountants in the companies surveyed increased from KGS 15.2 thousand in 2012 to KGS 20.8 thousand in 2014.

It is important to understand that the assessments given above are conservative and represent the lower limit of the real actual costs of tax accounting. This is due to the fact that, during the survey, entrepreneurs in most cases indicated an official salary of their employees, on the basis of which financial costs were calculated. Considering that the real labor costs exceed officially reported costs, the taxpayers incur higher tax accounting costs as compared to estimated costs, and it is not possible to accurately calculate them.

7. Based on the average weighted rate computation in 2014 US\$1 = KGS 53

8. Based on the average weighted rate computation in 2012 US\$1 = KGS 47

9. <http://stat.kg/ru/statistics/ceny-i-tarify/>

During the surveys, the respondents were asked to name schemes for reducing the taxable base, which, in their opinion, were used by similar companies from the same activity area. In the opinion of respondents, fully or partially unofficial salaries consistently hold the first place in the rating of all possible “grey” tax schemes. There are no preconditions for changing this trend: 71% of entrepreneurs surveyed reported about the existence (here, we imply the actual use) of similar schemes in 2012, and in 2014. Moreover, this percentage depends on the taxation regime under which the business operates and may range from 63% in the opinion of single tax payers to 79% among companies under the general regime with the VAT.

In view of retaining the share of those who accept the widespread opinion about the existence of “grey” labor payment schemes, there are some positive changes in assessing the scale of this phenomenon. In 2012, in the opinion of respondents, a total of 63% of the company’s payroll was, on average, reported for taxation; the results of 2014 survey showed this indicator at 71%.

Since salaries (about 70%) constitute a major part of the financial costs of tax accounting, financial costs correlate well with the time spent, and the key trend remains, where the larger the enterprise, the higher the tax administration costs (Figure 10).

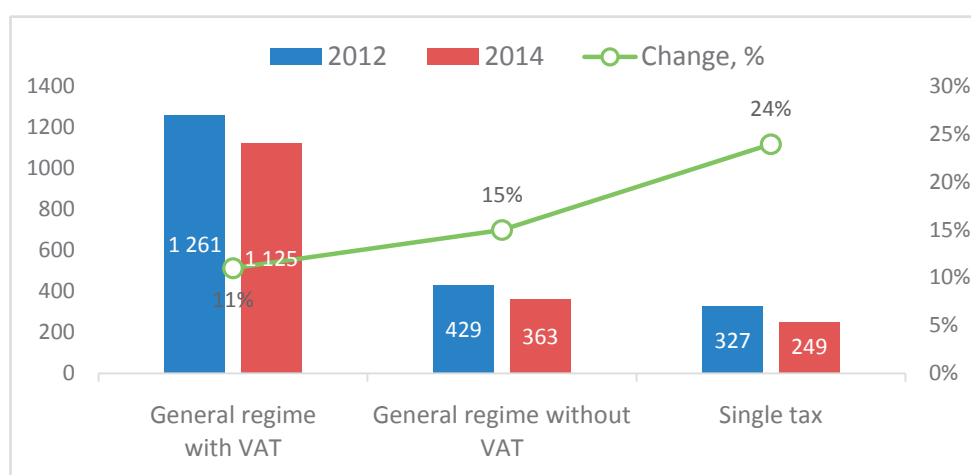


FIGURE 10. FINANCIAL COSTS OF TAX ADMINISTRATION DEPENDING ON THE TAXATION REGIME, US DOLLARS

It has already been noted that the VAT is the most time-consuming tax; therefore, the VAT-paying enterprises spend a maximum amount for tax accounting as compared to the taxpayers working under other taxation regimes.

The purchase of different tax forms (pre-printed forms and VAT invoices) and the obtaining of tax information (special literature, educational and methodological materials, and so forth) were among the tax accounting expense items. As has already been noted, taxpayers increasingly prefer to use the Internet as a source for obtaining tax information. As a result, the expenses entrepreneurs incur acquiring tax information was reduced from KGS 1.3 thousand in 2012 to KGS 840 in 2014. The survey results also showed a reduction in the costs of purchasing pre-printed forms and VAT invoices from KGS 1.5 thousand to KGS 1 thousand in 2014.

As has been noted, since 2012 the STS has begun to implement a system of electronic report filing through the STS website. Lack of the need to visit tax offices to file reports will become an additional contribution to the reduction of the administrative burden on private businesses in tax regulation. The total expenses to entrepreneurs of visiting the STS to file tax reports are estimated to have been US\$ 770 thousand annually.

The analysis of relative financial costs for tax administration show that micro-companies with a turnover of less than KGS 1 million per year bear the maximum financial burden (excluding farmer enterprises and taxpayers operating on the basis of a tax patent). Average costs to such taxpayers constitute almost 5% of annual turnover, and the survey results show that this trend has been maintained (Figure 11). Considering the fact that a majority of micro companies work under a simplified taxation regime, it may be said that tax administration is an additional tax for them, comparable by size to the single tax rate, which was 4%, or 6% of annual turnover in 2014. This is clearly a crucial barrier both for the development of micro taxpayers, and for the official registration of

informal businesses, because in such a situation, only highly profitable companies may survive after paying and administering all due taxes. Those taxpayers who cannot ensure high profitability at an early stage either do not survive thereafter, or are forced to fully or partially move to the informal sector of the economy.

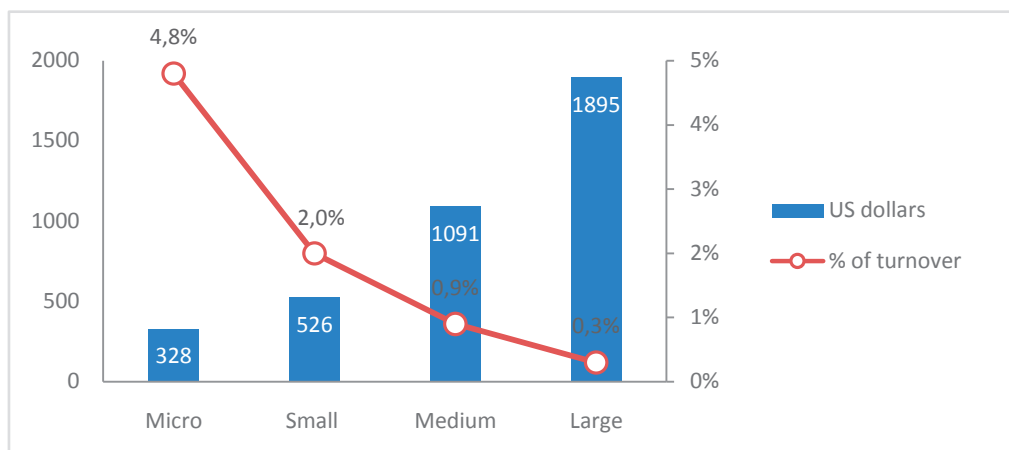


FIGURE 11. SHARE OF FINANCIAL COSTS OF TAX ACCOUNTING IN THE TURNOVER, DEPENDING ON THE ENTERPRISE SIZE

Despite maximal financial costs to large taxpayers due to the high turnover, their relative tax accounting costs were minimal, at only 0.3%. Small and medium taxpayers spend 2% and 0.9% of their annual turnover on tax accounting, respectively.

According to the data provided by the STS in 2012, 19,206 private legal entities and individual entrepreneurs¹⁰ carried out economic activities and filed tax reports in the Kyrgyz Republic. By extrapolating average financial tax accounting costs per taxpayer to the general population, in 2012 the tax compliance costs amounted to KGS 592 million, or US\$ 12.6 million, equivalent to 0.19% of the country's GDP¹¹.

By the end of 2014, the number of legal entities and individual entrepreneurs had increased by 15%, and numbered 22 thousand taxpayers, whose total tax administration costs were estimated at US\$ 12.2 million per year. Due to the reduction of costs per taxpayer, even with an increase in their total number, total costs in absolute terms were lower as compared with 2012 (Figure 12). The most notable reduction of integral expenses in the country's GDP was from 0.19% in 2012 to 0.16% of gross domestic product in 2014¹².

10. Except for farm enterprises and taxpayers working on the tax patent basis

11. <http://www.stat.kg/media/publicationarchive/f2ea7c53-8222-41f6-bc05-368614890b41.pdf>

12. http://www.24kg.org/ekonomika/4896_po_itogam_2014_goda_rost_vvp_v_kyrgyzystane_sostavil_36_protsenta/

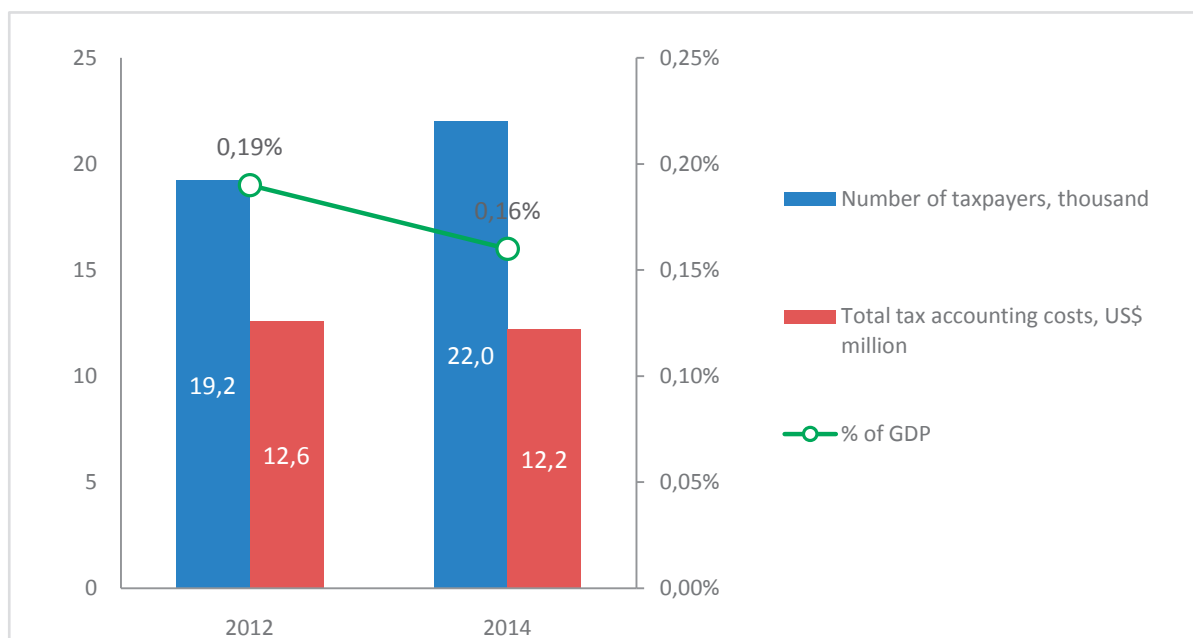


FIGURE12. TOTAL FINANCIAL COSTS RELATED TO TAX ACCOUNTING FOR ALL TAXPAYERS AND SHARE OF GDP

When assessing the economic effect of reducing the time and, subsequently, the financial costs to each taxpayer, it is necessary to consider a number of factors: change in the total number of taxpayers over the two years of observations, the exchange rate differential to the US dollar, the inflation rate, the rate of a specific tax and so forth. In other words, to obtain an objective picture of the economy after implementing reforms, it will be necessary to project the existing costs to a single taxpayer from two years ago against which the progress of reforms is measured, i.e. assess what would be the integral costs to the country's economy in view of existing tax accounting expenses. Based on official inflation rate data, the total number of taxpayers, exchange rate differentials and so forth, the annual saving from reducing tax administration costs may be assessed at US\$ 1.8 million against 2012.

In Kyrgyzstan, total tax compliance costs represent a moderate burden on the country's economy and constitute 0.16% of total GDP (Figure 13). By comparison, a similar indicator based on 2013 survey results in Ethiopia was assessed at 0.85% of GDP, which was five times higher than data for Kyrgyzstan. Nevertheless, there is a clear need to continue reforms in tax administration to further reduce the administration burden on private businesses.

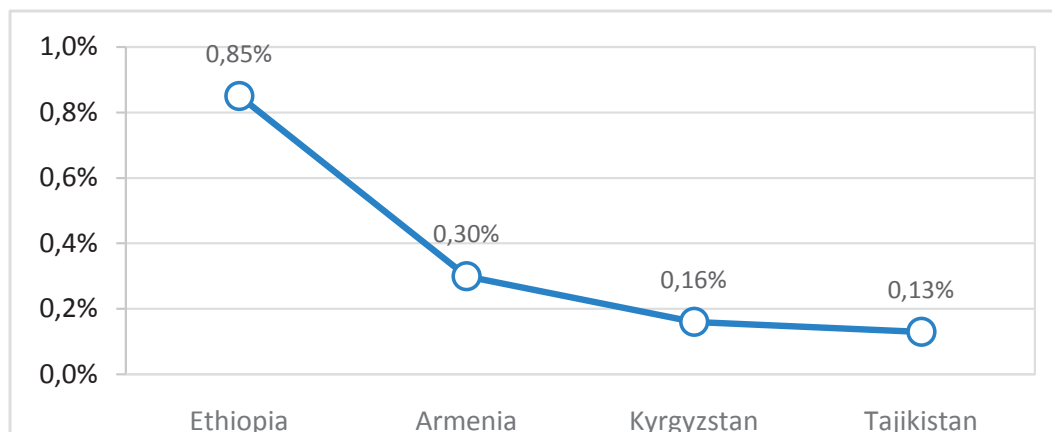


FIGURE13. SHARE OF TOTAL FINANCIAL COSTS RELATED TO TAX ACCOUNTING BY TAXPAYERS AS A PERCENTAGE OF GDP IN DIFFERENT COUNTRIES¹³

13. The figure gives data on tax compliance cost surveys conducted by the World Bank Group in different countries for the past five years.

INSPECTIONS BY THE STATE TAX SERVICE AND SOCIAL FUND

Coverage by tax audits declined slightly, but the share of audited taxpayers remains high, at over 50%. At the same time, the reduction of time spent undergoing tax audits collectively has enabled a saving of about **KGS 3.6 million** by all entrepreneurs annually.

The Social Fund dramatically reduced the percentage of audited taxpayers from **43% to 30% in 2014**, enabling a reduction of total costs by **KGS 2.6 million**. The transfer of social payments administration to the Tax Service should yield an additional economic effect in the short-term.

Government control over timely tax compliance by business entities is often a considerable administrative barrier for entrepreneurs, and costs of tax control procedures may significantly contribute to total tax administration costs.

During surveys, entrepreneurs were asked about their experience of tax audits, including all types of tax control as audits:

- Planned documentary audit by all types of taxes;
- Limited scope audit by certain types of taxes;
- Counter audit (auditing entrepreneur's counterparties);
- Spot-check audit (audit of cash funds, cash tills, patents, permissions and so forth);
- Desk audit in the tax offices.

Two surveys demonstrate the reduction in tax audit coverage by four percentage points to 54% in 2014. However, this reduction is insignificant, since more than half of taxpayers annually face the need to undergo tax audits. However, tax control coverage relies heavily on the taxation regime under which the taxpayer operates, and may affect almost three-fourths of entrepreneurs who are VAT payers working under the general regime (Figure 14).

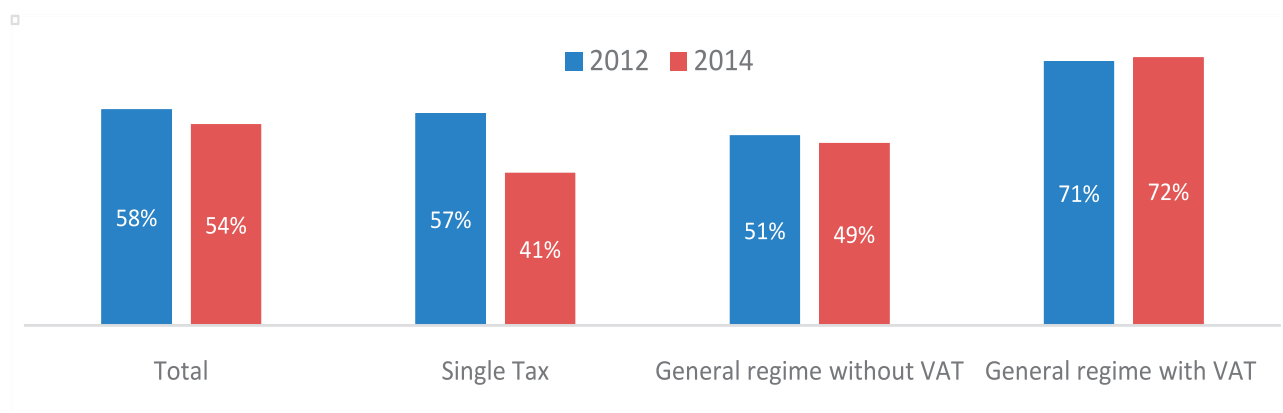


FIGURE 14. PERCENTAGE OF TAXPAYERS AUDITED BY TAX AUTHORITIES DEPENDING ON THE TAXATION REGIME

Indicators of audit coverage is quite high. For comparison, a similar survey conducted in Ethiopia in 2013 revealed that less than one-third of taxpayers (32%) underwent a tax audit during the year. In 2009, in Uzbekistan, this indicator was only 14%. One of key decisions enabling a reduction in the administrative burden on private businesses because of tax audits is to implement risk analysis methods in selecting taxpayers for audit. In other words, it is necessary to audit only enterprises where there is a high probability of detecting violations in tax legislation. For example, in the Republic of South Africa, where a similar practice is used, the tax audit coverage does not exceed 5% of small and medium-sized enterprises.

Reductions in the coverage of audited taxpayers are uneven, and differ significantly depending on the taxation regime. Thus, the share of audited taxpayers working under the general taxation regime has not changed. This is fair both for the VAT payers, and for others. The main reduction was due to the single tax payers, whose coverage by tax audits changed significantly from 57% in 2012 to 41% in 2014. A similar situation can be observed in an analysis of the relationship of the share of audited taxpayers and the taxpayer type. While the percentage of audited individual entrepreneurs in 2014 fell by seven percentage points, coverage of legal entities by tax audits for these two years remained virtually unchanged (Figure 15).

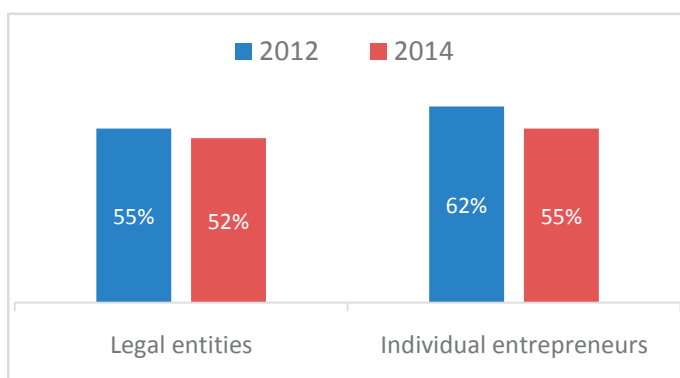


FIGURE 15. PERCENTAGE OF AUDITED TAXPAYERS BY TAX AUTHORITIES DEPENDING ON THE TAXPAYER TYPE

Moreover, dependency of the tax audit coverage on the taxpayer size (annual turnover) remained as in 2012. The larger the company, the higher the probability of being audited by tax authorities (Figure 16).

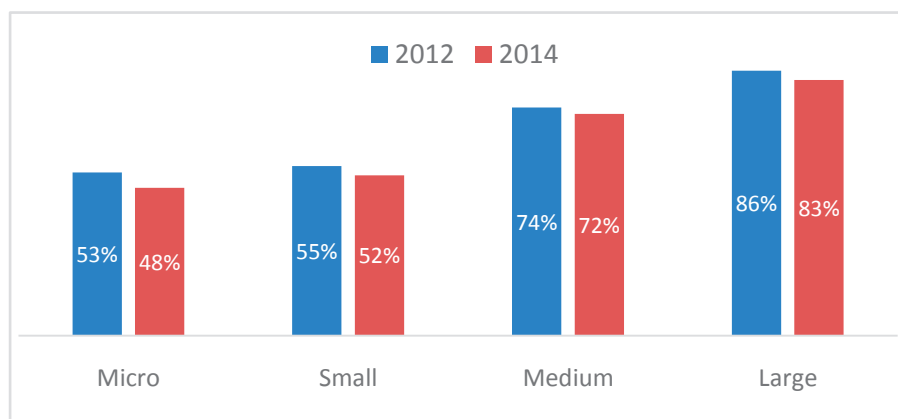


FIGURE 16. PERCENTAGE OF AUDITED TAXPAYERS BY TAX AUTHORITIES DEPENDING ON THE TAXPAYER SIZE

The analysis of results of different surveys conducted in the Kyrgyz Republic in recent years show that a reduction in tax control coverage of private businesses is a consistent trend. For the past six years the share of audited small and medium-sized legal entities¹⁴ fell from 87%, following the 2008 survey results, to 48% in 2014 (Figure 17). If an existing trend is maintained, it will be possible to forecast that the tax control coverage in 2016 shall decrease to less than 40% of small- and medium-size business representatives (legal entities). At the same time, this forecast may be considerably improved if tax authorities introduce risk assessment systems when conducting all types of internal controls.

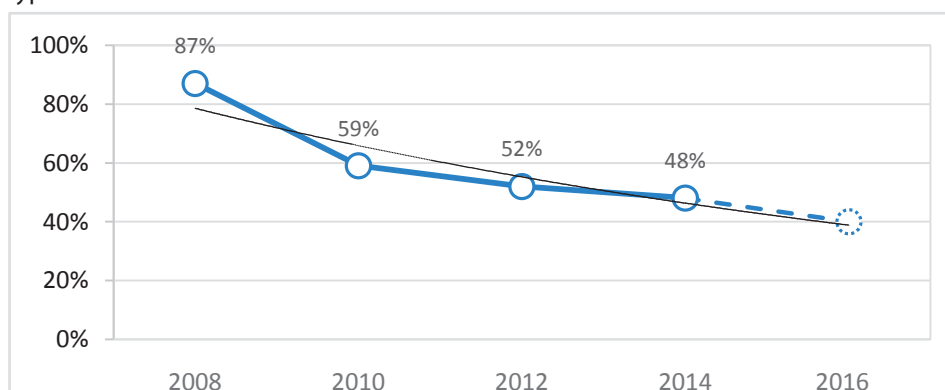


FIGURE 17. CHANGE IN TAX AUDIT COVERAGE OF SMALL- AND MEDIUM-SIZE LEGAL ENTITIES

On average, a single audited taxpayer spent KGS 2.7 thousand undergoing tax control in 2012. By applying this data to the country's economy, all reviewed taxpayers of Kyrgyzstan spent about KGS 29.7 million, or US\$ 630 thousand, in 2012 (Figure 18).

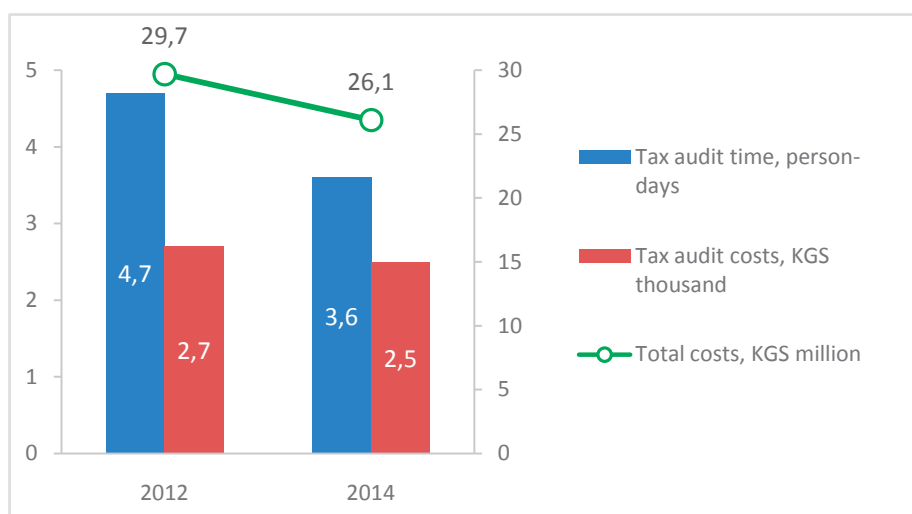


FIGURE 18. COSTS OF UNDERGOING TAX SERVICE AUDITS

At the same time, costs incurred by government agencies themselves to organize and exercise controls, which should be considerable, were not accounted for. According to entrepreneurs' estimates, in 2014 a tax inspector spent about 13 hours during one inspection in the taxpayer's office and this indicator largely differs depending on the taxpayer size from five hours for micro businesses to 32 hours for large companies. Each taxpayer facing tax audit from tax authorities was, on average, audited twice during 2014. Thus, actual costs to the country's economy of controlling activity in tax compliance must be considerably higher, but cannot be assessed within the framework of the surveys conducted.

14. In this case, only small and medium size legal entities were compared because it was possible to identify comparable data for this category from surveys conducted in 2008 and 2011.

The survey results showed that not only tax control coverage, but also the time spent on it, were reduced in 2014 as compared to 2012. If, in 2012, one taxpayer spent, on average, 4.7 work days on all tax audits, then in 2014, 3.6 days were needed. As a result of all these factors, total financial costs to all groups of entrepreneurs¹⁵ under review decreased to KGS 26.1 million, and the economic effect of the cost reduction was KGS 3.6 million, equivalent to US\$ 77 thousand at the 2012 rate of US\$ 1 = KGS 47.

The reduction of the administrative burden on private businesses of reducing tax administration costs positively impacted tax compliance by entrepreneurs. It may be said with confidence that control by the tax authorities reveals a considerably lower number of offences in the tax compliance area. In 2012, fewer than half of audited taxpayers (42%) reported a lack of any negative implications following the results of their last tax audit; two years later, this percentage had increased to 58%. It also indicates the need to introduce a risk assessment system by tax authorities in performing all types of tax controls, in order to improve their efficiency.

For those who experienced a certain impact from controlling agencies in 2014, financial sanctions were main negative implications, following the results of the tax audit: fines or penalties were imposed on 29% of taxpayers, and payable taxes were increased for 17% of audited taxpayers.

A logical effect from reducing the time spent on tax audits was the drastic reduction in the number of those taxpayers who thought that they wasted their time during the tax audit. In 2012, these had been almost one-fourth of audited taxpayers; in 2014, this number had decreased to only 8% (Figure 19).

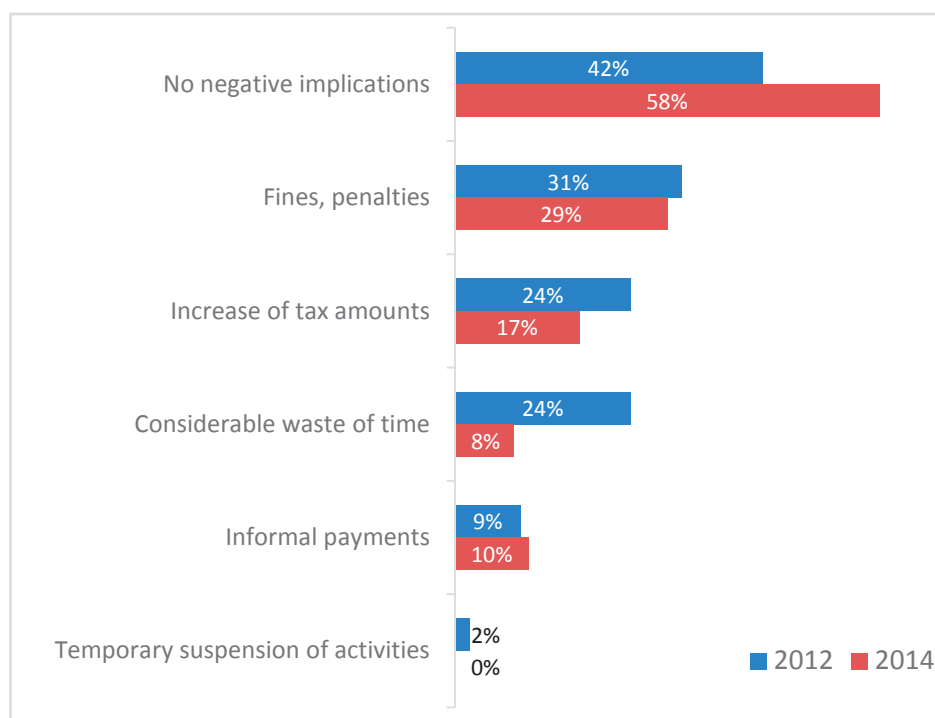


FIGURE 19. NEGATIVE IMPLICATIONS BASED ON THE LAST AUDIT RESULTS

The costs of administering payments to the Social Fund can be also viewed as part of total tax accounting costs, since they are mandatory for all taxpayers. Moreover, within the framework of reforms conducted in the country, it is planned to transfer the administration of social security payments from the Social Fund to the Tax Service, which shall also have an economic effect through reducing the costs to entrepreneurs of filing reports both in hard copy, and electronically. In this respect, the STS provides broad options for filing reports electronically for small businesses. Besides, the Social Fund is another controlling agency that has the right to audit the activities of business entities and actively controls them. The planned transfer of the social security payment

15. An equal number of taxpayers was used to compare results during computations (19,206 in 2012).

administration from the Social Fund to the Tax Service will enable the auditing of such payments during tax audits. This will also considerably reduce the costs to entrepreneurs. In 2014, the Social Fund audited almost every third taxpayer, while in 2012 43% of entrepreneurs had been audited.

Reductions in coverage by Social Fund audits in 2014 was common for all taxpayers, but the maximum reduction was noted, first of all, among entrepreneurs working under the simplified taxation system. This group of taxpayers was less interesting for purposes of Social Fund audits, and the percentage of audited entrepreneurs in this group has fallen by over half since 2012 (Figure 20).

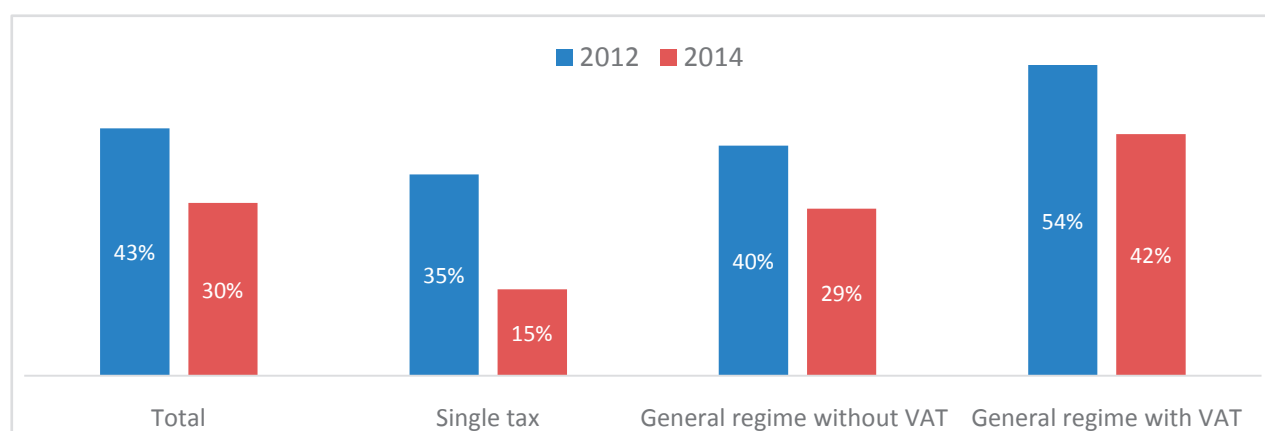


FIGURE 20. PERCENTAGE OF TAXPAYERS AUDITED BY THE SOCIAL FUND DEPENDING ON THE TAXATION REGIME

Since the Social Fund administers only social payments, the costs for undergoing audits is considerably lower compared with tax audits. In 2014, a single audited taxpayer spent only 1.3 person-days, or about KGS 800, to undergo the Social Fund audits (Figure 21). At the same time, the survey results showed no evident cost reduction for the past two years. On average, a tax audit involved approximately the same time and money in both 2012 and 2014. The only substantial reduction was the decrease in audit coverage by almost one and a half times, from 43% to 30%, that resulted in a considerable reduction in total costs for all reviewed taxpayers, from KGS 7.1 million in 2012 to KGS 4.5 million¹⁶ as of the end of 2014 (Figure 21). Thus, due to reduced coverage by Social Fund audits, all taxpayers saved KGS 2.6 million, or US\$ 55 thousand¹⁷, in 2014, which is comparable to the economic effect of reductions in time and financial costs for the Tax Service audits.

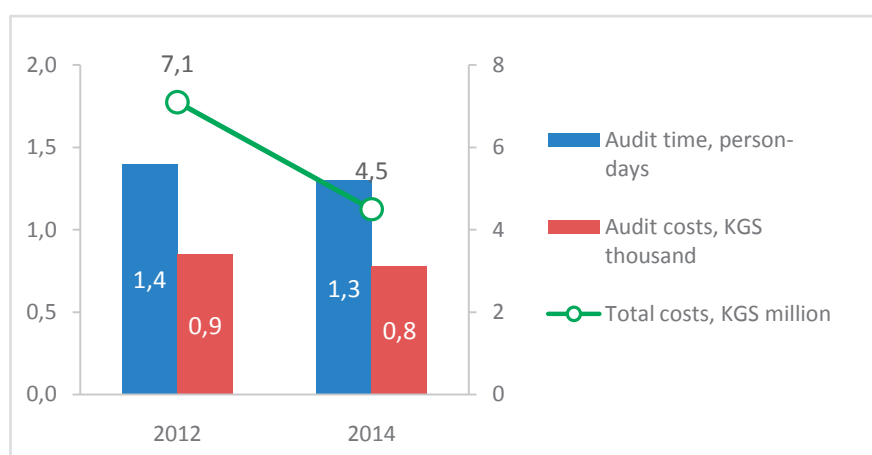


FIGURE 21. SOCIAL FUND AUDIT COSTS

16. An equal number of taxpayers was used to compare results during computations (19,206 in 2012)

17. At the 2012 rate (US\$ 1 = KGS 47)

Also, as with the Tax Service, coverage by Social Fund audits grows with the increase in taxpayer turnover, from 25% for micro to 53% for large enterprises. Increased attention on the part of controlling agencies to large enterprises by turnover, and working under the general taxation regime, and also costs related to all audits, may represent an additional administrative burden for enterprises in transferring from the simplified taxation regime to the general one. The survey results also indicated this, where every fourth large taxpayer told about artificial splitting of business as one of the most common schemes for reducing a taxable base. A common opinion of entrepreneurs that their tax regime has no advantages speaks well for the simplified taxation regime: almost two-thirds of surveyed VAT payers and over half of taxpayers under the general regime without VAT share this opinion. By comparison, a similar indicator among taxpayers under the simplified regime was only 22%.

Likewise, as compared with the general taxation regime, the share of those who considered smaller tax accounting costs to be an advantage of their tax regime was much higher among single tax payers. A total of 59% of surveyed entrepreneurs working under a simplified regime reported this. It is necessary to note that saving on tax administration costs is a common advantage, over taking such an important factor as the lower amount of payable taxes, reported by only 24% of single tax payers (Figure 22).

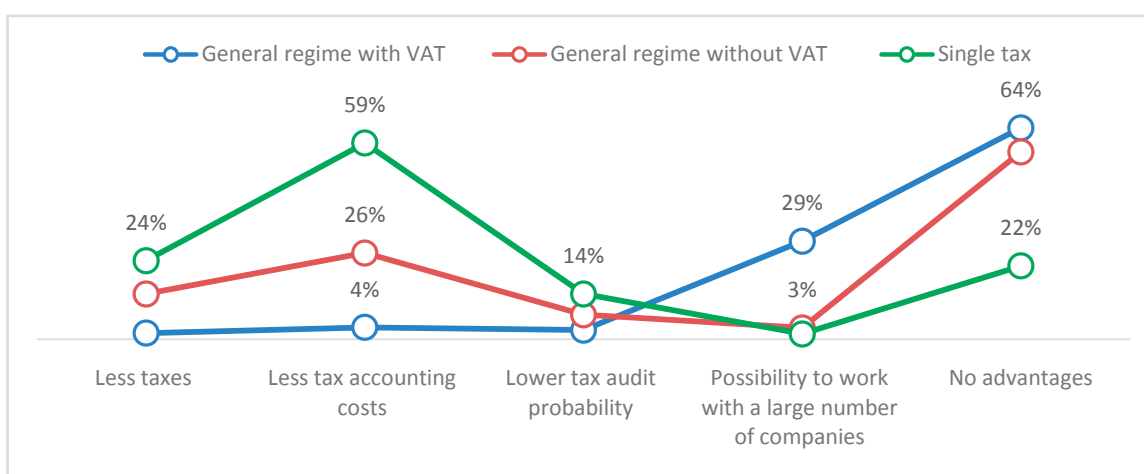


FIGURE 22. MAIN ADVANTAGES OF THE TAX REGIME UNDER WHICH THE TAXPAYER OPERATES, IN THE OPINION OF SURVEYED ENTREPRENEURS, 2014

Despite the relatively low financial costs of tax audit procedures, the fear of the tax audit itself can be the main factor impacting selection of the taxation regime. A full 14% of taxpayers operating under the simplified regime viewed the lower incidence of tax audits as one of advantages of the tax regime under which they operate.

The VAT payers have been forced to work under their taxation regime due to large turnovers, and found almost no other advantages of being VAT payers. The only advantage of the general regime with VAT was the possibility of working with a large number of companies.

Entrepreneurs' desire to pay taxes under the simplified regime, to minimize both the administrative costs of tax accounting and the amount of payable taxes showed that entrepreneurs had no incentives to grow within the formal economy and transfer from the simplified regime to the general taxation regime with the growth of their businesses. All of this, clearly, has had a negative impact on the development of certain enterprises, and on the real sector of the economy as a whole.

ASSESSMENT OF TAX AUTHORITIES AND PERCEPTION OF TAX ENVIRONMENT

Positive changes were noted in the perception of the tax administration relating to the assessments of the honesty and impartiality of tax authorities. The complexity of tax legislation rather than adherence to its mandatory requirements posed a great challenge for entrepreneurs. At the same time, a positive trend was also noted in the area of information availability and complexity.

During surveys, taxpayers were asked to give their subjective assessment of different performance aspects of tax officers, and also give their opinions about the general perception of the tax administration. Figure 23 shows average values on a scale from 0% to 100%, where the latter means full compliance with the estimated parameter. It is necessary to note that all reviewed features received quite high scores from the entrepreneurs surveyed. Qualifications and professionalism of specialists received maximum scores; honesty and impartiality of tax officers received the lowest scores.

However, the survey results showed material differences in the perception of tax authorities by entrepreneurs in the capital and regions. Taxpayers in Bishkek gave considerably lower scores on all reviewed aspects, as compared to the scores given in other regions of the country. The most notable difference is seen in the perception of the employees' willingness to help taxpayers. Thus, outside Bishkek, willingness to help taxpayers was rated, on average, at 75%; a similar indicator for the capital was only 55% in 2014. It can be assumed that the smaller the municipality, the closer the informal relations between civil servants and the business community, which ensures greater support for entrepreneurs by tax officers in recording and adhering to tax accounting, as compared to a large metropolitan city.

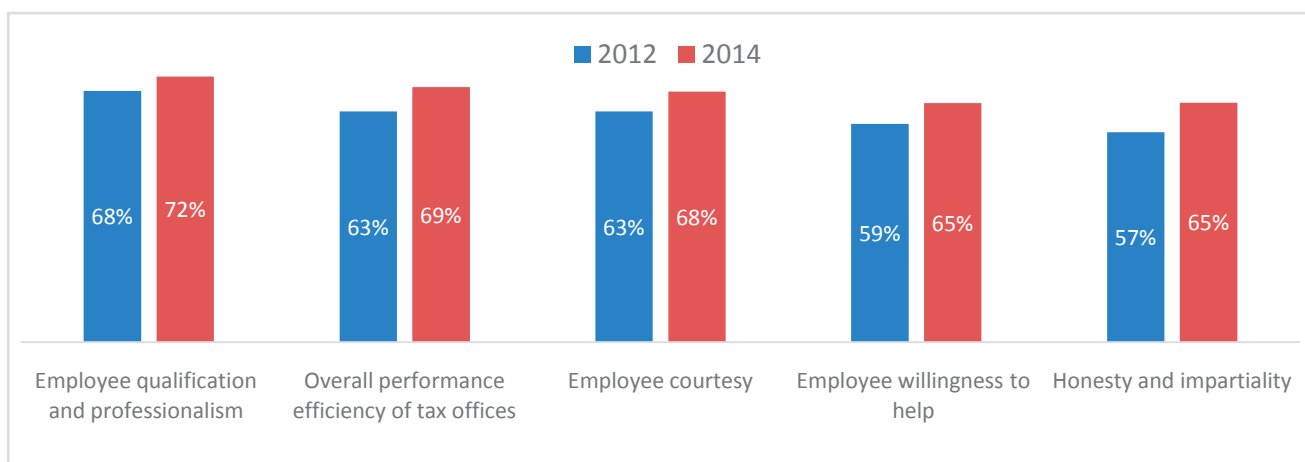


FIGURE 23. ASSESSMENT OF CERTAIN PERFORMANCE FEATURES OF TAX OFFICERS

In 2014, all features with no exceptions received higher scores, compared with 2012 (Figure 23). The most extensive progress was observed in assessments of honesty and impartiality in the work of tax officers. The improved general perception of the tax administration's performance may be related to the reduction in time spent and financial costs to entrepreneurs of tax compliance.

Apart from performance quality assessments, respondents also expressed their opinions about certain features of the tax system as a whole, assessed on a five-point grading scale from "not a problem at all" to "a big problem". All rated features could be combined

into two groups: complexity of tax legislation itself (frequency of changes, availability of information and qualified consultations, number of normative and legal acts and their inconsistency, and so forth), and complexity of meeting its mandatory requirements (accounting for taxes, completion of tax forms and frequency of filing them, number of tax audits). It is an interesting fact that the first group of features is more difficult for entrepreneurs than the second group of factors directly related to the tax administration (Figure 24). This means that it is more difficult for the taxpayer to understand tax legislation than to comply with its mandatory requirements afterwards.

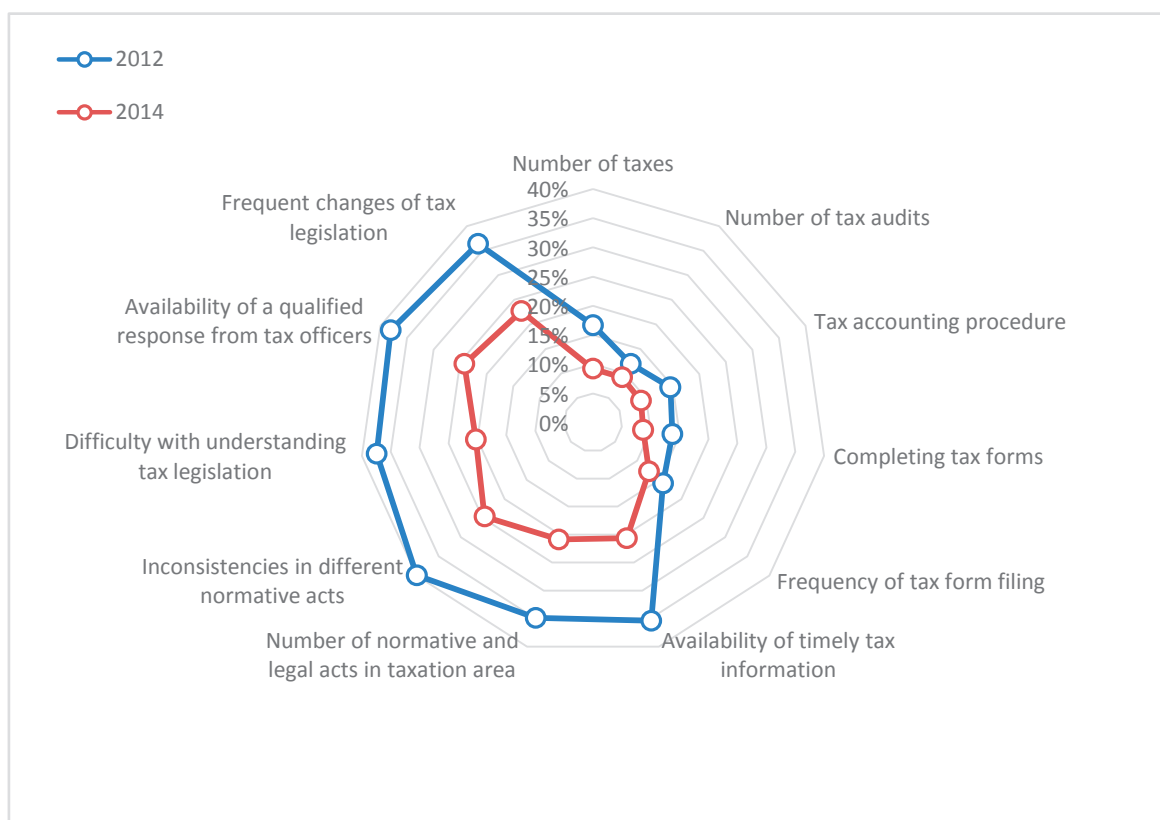


FIGURE 24. ASSESSMENT OF CERTAIN TAX SYSTEM FEATURES, % OF RESPONDENTS THAT MARKED "A PROBLEM" OR "A BIG PROBLEM"

At the same time, the analysis of survey findings conducted at different times revealed positive changes in assessing the complexity of different features of the tax system. The greatest changes concerned information availability and difficulty in understanding it. In 2014, the share of those taxpayers who found information difficult to understand fell on average by 10 percentage points as compared with 2012. In other words, positive trends in the taxpayers' perception of the tax system were observed, specifically in its most problematic part.

In conclusion, respondents were requested to give their opinions about different aspects of doing business directly related to tax compliance. Only 30% of surveyed entrepreneurs believed that there was an advantage for businesses to pay taxes as such. In spite of this, every second taxpayer was confident that all companies had to pay taxes regardless of their turnover or profits. In other words, private businesses recognized their responsibility for complying with tax legislation. This opinion was quite consistent, as the percentage of those respondents who supported it did not change appreciably during the two years between two surveys (Figure 25).

The actual reduction of time and financial costs for tax administration impacted the change in the perception of taxpayers about the complexity and costly characteristics of tax accounting. In 2014, there was a substantial decrease in the number of respondents who found tax accounting to be costly (from 45% to 31%) and tax procedures to be complex (from 33% to 23%).

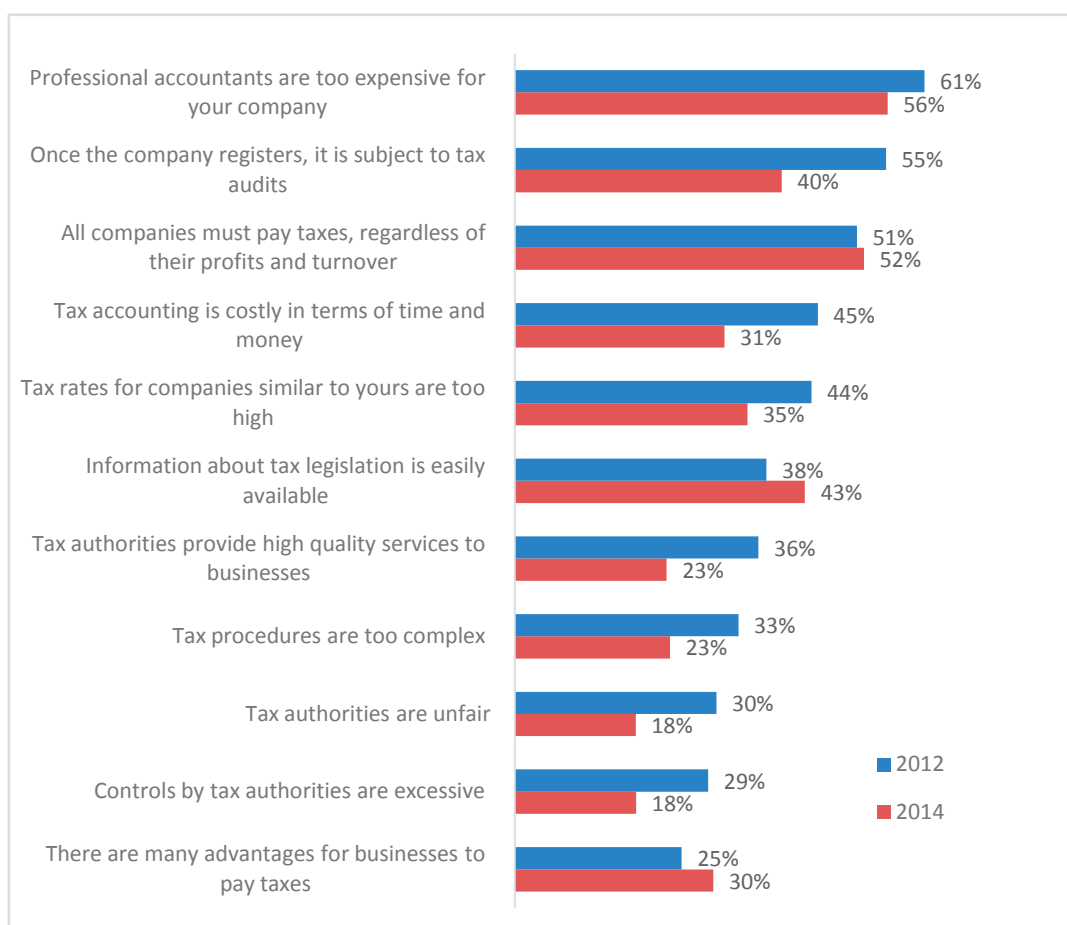


FIGURE 25. ASSESSMENT OF DIFFERENT ASPECTS OF DOING BUSINESS RELATED TO TAX COMPLIANCE, % OF RESPONDENTS WHO AGREED WITH THE STATEMENTS

One of possible reasons why businesses did not see advantages in paying taxes were the tax rates. In 2012, 44% of taxpayers surveyed found tax rates for their companies or similar companies, to be too high. The survey showed a positive reduction in this indicator. In 2014, however, this percentage changed little, as every third entrepreneur found tax rates to be high. Yet, it is necessary to consider the subjective perception of the overall tax burden by entrepreneurs. According to the annual Doing Business survey data for 2014, the total tax rate¹⁸ for taxpayers of Kyrgyzstan was only 29% of profits, one of the best indicators for Central Asian countries¹⁹. By comparison, a similar indicator in Tajikistan exceeded 80% of total company profits (Figure 26).

18. The total tax rate shows the size of taxes and mandatory deductions which must be paid by the company for the second year of operations, and is shown as a share of its operating profit.

19. <http://russian.doingbusiness.org/data/exploretopics/paying-taxes>

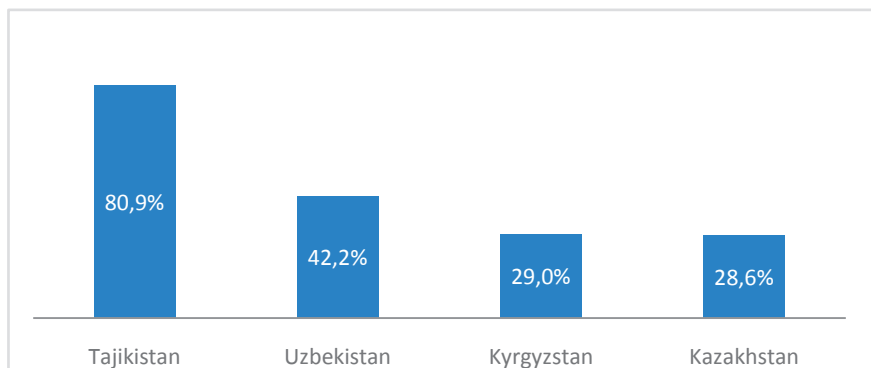


FIGURE 26. TOTAL TAX RATE (% OF PROFIT) FOR ENTREPRENEURS FROM THE CENTRAL ASIAN REGION ACCORDING TO DOING BUSINESS SURVEY DATA FOR 2014

As the result of a relatively high tax burden, entrepreneurs have been forced to use different schemes to reduce their taxable base. As mentioned earlier, one of the most common ways has been paying unofficial (full or partial) salaries. The second prevailing way has been to lower the company's real annual income declared for taxation. Clearly, it was not possible for the survey to ask an entrepreneurs whether they fully or partially declared their income. For this reason, indirect assessments were used: respondents were asked to respond by referring to somebody's business and other companies working in the same area, which enabled an implicit assessment of the scale of the problem under review. These assessments should be viewed as conservative, keeping in mind that the real situation was worse than the simulated one.

In the opinion of entrepreneurs themselves, the majority of taxpayers conceal part of their income from taxation. In 2012, three-fourths of respondents said that companies similar to theirs did not fully declare their annual income. About one-third of the company's sale proceeds were, on average, excluded from the taxable base (Figure 27). The second survey showed that this practice had declined to 67%, and the average percent of annual income which was declared for taxation increased to 77% in 2014. In spite of these positive changes, however, tax avoidance has remained a nationwide phenomenon. Tax authorities must promote the continued reduction of the shadow economy both by applying controlling techniques and by offering incentives to business entities.

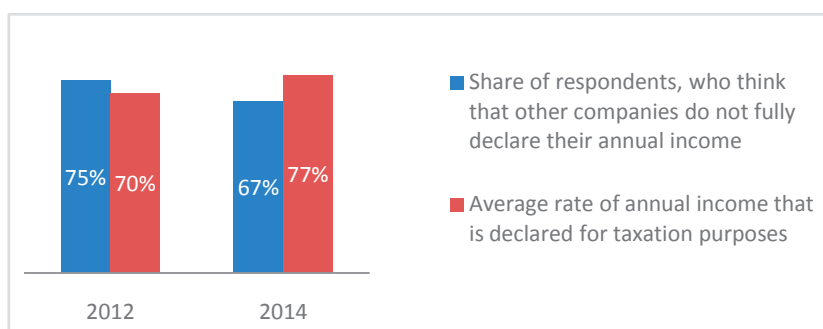


FIGURE 27. ASSESSMENT OF THE SCOPE OF ANNUAL IN COME UNDERSTATEMENT TO REDUCE TAX ABLE BASE

What allows entrepreneurs to avoid taxes? As taxpayers themselves reported during the first survey, the protection of tax authorities and imperfect legislation enable them to use different schemes to reduce their taxable base (Figure 28). Despite the fact that the survey has not focused on informal relationships, results have indicated an apparent benefit from informal arrangements with tax authorities.

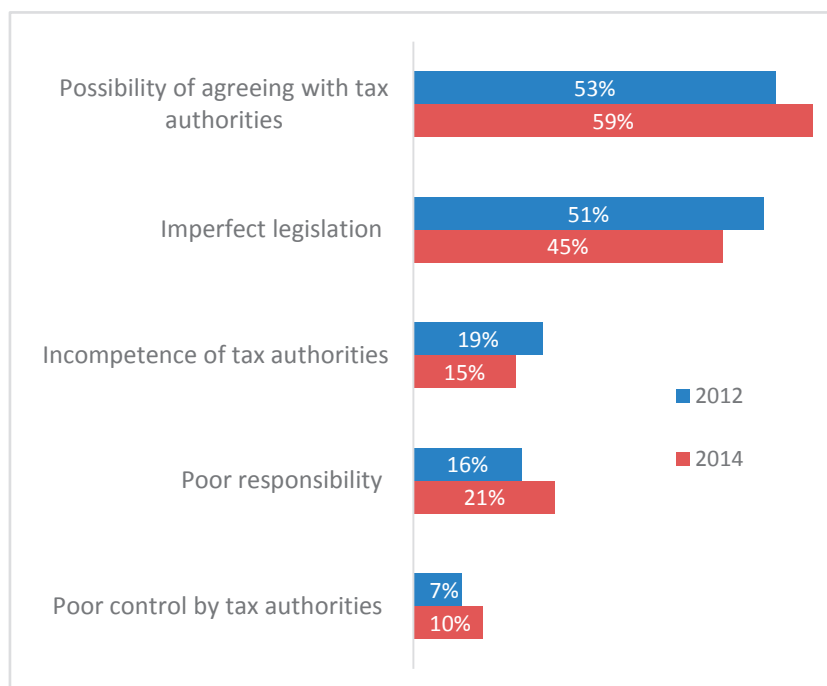


FIGURE 28. POSSIBILITY OF REDUCING THE TAXABLE BASE

The second survey identified a disturbing trend. With the decrease in the number of those respondents who think that imperfect legislation or incompetent tax authorities contribute to tax avoidance, there has been an increase in the share of taxpayers who cited the possibility of negotiating with tax authorities, as well as poor responsibility, as reasons for concealing part of their income. In other words, in the opinion of entrepreneurs, the improvement in the legal framework is neutralized by the inadequate work of certain tax officers.

ANNEXES

ANNEX 1

SURVEY METHODOLOGY

Legal private for-profit entities and individual entrepreneurs who carried out economic activity and filed tax reports in 2012 and 2014 were subjects of the survey. Due to the special tax status, farm enterprises, as well as entrepreneurs working on a tax patent, were excluded from the survey. According to the data provided by the Tax Service, the general population size was 19,206 taxpayers in 2012, and 21,981 taxpayers in 2014.

The survey was conducted in all regions of the Kyrgyz Republic,

1. The first survey (2012 reporting period) for the period from October 2013 through February 2014.
2. The second survey (2014 reporting period) for the period from January through April 2015.

Formal personal interviews with a structured questionnaire were used for surveying respondents. Owners (individual entrepreneurs) or managers of taxpayer companies, or other most competent specialists in the survey subject, such as financial directors, accountants and others, acted as survey respondents.

To conduct the survey the sampling was stratified by the following criteria: region, activity area, size based on annual turnover and taxation regime. Taxpayers were randomly selected for survey purposes.

TABLE 1. DISTRIBUTION OF SURVEYED TAXPAYERS BY STRATA

Taxpayer type				
	2012		2014	
Legal entities	885	58%	839	56%
Individual entrepreneurs	631	42%	667	44%
Total	1516	100%	1506	100%
Region				
Bishkek	712	47%	746	50%
Osh	152	10%	169	11%
Chui region	203	13%	111	7%
Issyk-Kul region	72	5%	96	6%
Naryn region	20	1%	42	3%
Talas region	27	2%	22	1%
Osh region	143	9%	103	7%
Jalal-Abad region	143	9%	147	10%
Batken region	44	3%	70	5%
Total	1516	100%	1506	100%
Activity area				
	2012		2014	
Production	385	25%	367	24%
Trade	495	33%	476	32%
Services	636	42%	663	44%
Total	1516	100%	1506	100%
Taxpayer size (annual turnover)				
Micro (less than KGS 1 million)	759	50%	745	49%
Small (KGS 1 million to KGS 4 million)	283	19%	301	20%
Medium (KGS 4 million to KGS 30 million)	241	16%	242	16%
Large (KGS 30 million and over)	233	15%	218	14%
Total	1516	100%	1506	100%
Taxation regime				
General regime with VAT	610	40%	583	39%
General regime without VAT	567	37%	565	38%
Single tax	339	22%	358	24%
Total	1516	100%	1506	100%

The taxpayer base for the two surveys was developed and provided by the STS at the request and according to the methodology developed by the IFC experts. The final sample population was 1,516 respondents in 2012 and 1,506 respondents in 2014.

ANNEX 2

KEY INDICATORS OF TIME SPENT FOR TAX ACCOUNTING

Assessment criterias	Year	Total	Legal entities	Individual entrepreneurs	Legal entities (general regime with VAT registration)	Legal entities (general regime with VAT registration)	Legal entities (simplified regime)	Legal entities (micro)	Legal entities (small)	Legal entities (medium)	Legal entities (large)
1	2	3	4	5	6	7	8	9	10	11	12
Time spent by tax administration types, working days											
1. Officework	2012	19,3	27,8	8,6	42,5	15,9	5,2	17,2	22,5	40,4	70,7
	2014	17,7	26,7	8,5	39,7	14,8	4,8	15,3	21,1	37,8	59,4
2. Visits to the tax offices	2012	7,6	9,7	4,9	13,7	6,3	5,0	6,4	9,7	13,6	19,4
	2014	4,7	5,8	3,6	7,8	4,0	2,6	4,0	5,3	7,4	10,5
3. Visits to the Social Fund	2012	5,6	6,8	4,2	7,4	6,5	3,9	6,2	6,5	7,0	10,3
	2014	5,6	6,5	4,7	7,3	5,9	3,4	5,6	5,9	6,9	10,0
4. Visits to the bank	2012	3,1	3,6	2,5	4,0	3,3	2,0	3,1	3,4	4,5	4,5
	2014	2,9	3,1	2,7	3,4	2,8	2,9	2,6	3,1	3,4	4,0
5. Other activity	2012	4,9	6,8	2,4	10,7	3,5	2,0	3,7	5,0	8,9	23,2
	2014	2,9	4,4	1,4	7,1	1,6	1,6	1,8	3,4	6,7	11,2
Time spent for tax accounting in the office by different taxes, working days											
1. Income tax	2012	2,6	3,3	1,5	4,6	2,3	1,0	2,2	2,5	4,0	9,4
	2014	2,3	3,0	1,4	3,9	2,2	1,0	2,1	2,3	3,4	6,9
2. Profit tax	2012	3,8	4,8	2,1	6,6	3,1		4,0	3,6	6,0	9,5
	2014	3,7	4,7	2,2	6,3	2,9		3,4	3,7	6,2	8,1
3. Uniform tax declaration	2012	4,1	6,0	1,7	8,5	3,9	1,1	4,0	5,7	7,9	13,0
	2014	3,8	5,6	1,9	7,8	3,6	1,4	3,1	5,4	7,3	11,4
4. Sales tax	2012	4,3	5,1	2,7	6,6	3,7		3,2	4,2	7,7	11,5
	2014	4,1	5,0	2,6	6,4	3,5		2,9	4,1	7,3	9,9
5. VAT	2012	8,6	9,1	4,5	9,1			7,1	6,8	9,2	13,5
	2014	8,4	8,9	3,8	8,9			6,9	6,9	8,9	12,1
6. Single tax	2012	1,2	1,9	1,1			1,9	1,9	1,6		1,1
	2014	1,1	1,3	1,1			1,3	1,1	1,6	0,8	

1	2	3	4	5	6	7	8	9	10	11	12
7. Social Fund payments	2012	2,8	3,7	1,5	5,3	2,4	1,2	2,4	3,0	4,8	10,2
	2014	2,6	3,6	1,5	4,9	2,3	1,1	2,3	2,8	4,3	8,2
8. Property tax	2012	1,0	1,4	0,4	1,8	0,6	0,1	0,9	0,8	2,0	2,2
	2014	1,0	1,3	0,5	1,7	0,7	0,5	0,7	0,8	1,8	2,3
9. Land tax	2012	0,8	1,0	0,5	1,4	0,6	0,2	0,7	0,7	1,3	2,1
	2014	0,8	1,1	0,5	1,3	0,7	0,5	0,6	0,7	1,2	2,1
10. Excise tax	2012	4,4	6,1	1,1	7,4	0,1		1,5	0,1	2,4	18,9
	2014	4,8	4,8		4,7	6,0		5,0	4,8	4,4	5,4
11. Subsoil use taxes	2012	2,7	2,7	2,5	3,1	1,7		1,4	1,2	3,1	6,2
	2014	2,8	2,9	1,5	3,0	2,7		2,3	2,1	4,1	2,6
12. Income tax on non-residents	2012	3,6	3,6	0,0	3,6					4,4	2,8
	2014	2,6	2,6		2,6						2,6
Time spent on visits to tax offices, working days											
Visits to file reports	2012	4,3	5,0	3,4	5,8	4,5	2,9	4,0	5,0	6,3	7,5
	2014	3,4	3,7	3,1	4,0	3,4	2,1	3,1	3,7	3,9	5,0
Visits to purchase VAT invoices	2012	4,2	4,3	3,5	4,4	0,0		2,1	4,6	4,6	6,0
	2014	2,2	2,3	1,2	2,3	2,0		1,9	2,1	2,3	2,8
Other visits	2012	2,0	2,7	1,2	3,6	1,9	2,1	1,9	2,5	3,3	6,0
	2014	0,7	1,0	0,5	1,4	0,6	0,5	0,4	0,8	1,4	2,7
Coverage and time spent on tax audits											
Percentage of audited taxpayers	2012	58%	55%	62%	72%	43%	25%	41%	53%	75%	88%
	2014	54%	52%	56%	72%	33%	40%	37%	49%	71%	83%
Average number of audits among audited taxpayers	2012	2,1	2,0	2,3	2,1	1,8	2,0	1,7	2,0	1,9	2,8
	2014	2,0	2,0	2,0	2,0	2,1	1,8	1,8	2,1	1,8	2,6
Time spent on visits among audited taxpayers	2012	4,7	6,5	2,6	8,1	4,1	3,9	4,2	5,0	7,3	13,2



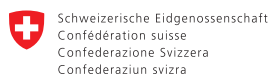
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This report can be obtained in print or electronic format
at the following address:

Orion Business Center, 4th floor,
Erkindik boulevard, 21
Bishkek, 720040, Kyrgyz Republic
Tel.: +(996 312) 62 61 62

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