

An examination of the tax system of Andorra using
the Paying Taxes methodology



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Subject: An examination of the tax system of Andorra using the Paying Taxes methodology

We are pleased to present to you this examination of the tax system of Andorra. This report has been prepared for Govern d'Andorra and solely for the purpose and on the terms agreed with Govern d'Andorra in our agreement dated 20 December 2019.

In preparing this report we have applied the Paying Taxes methodology, as developed by the World Bank as part of their Doing Business study, to the tax system of Andorra to the best of our understanding of that methodology. More information on the methodology and the assumptions used in our work are set out in this report.

We have taken every effort to apply the Paying Taxes methodology in line with our experience of how the World Bank applies that methodology. There are however a number of areas where judgement is required as to the appropriate application of the methodology. Our conclusions in these areas may differ from those the World Bank would come to if Andorra were included in the Doing Business study. In line with the Doing Business methodology, our study relies on input from a number of third party contributors. While we have sought to identify appropriate contributors, we cannot guarantee that the World Bank would use the same contributors if Andorra were included in the Doing Business study, which could lead to differences in the results.

We hope that you find this report useful and we would be very happy to discuss it with you further.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Pedro Olmedilla', written over a horizontal line.

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Executive summary

- The objective of this report is to understand how the ease of paying taxes in Andorra compares to that of other economies for the calendar year to 31 December 2018, as shown in *Paying Taxes 2020*.
- To estimate the ease of paying taxes we have applied the Paying Taxes methodology as developed by the World Bank in its Doing Business study. This methodology uses a case study company and a standardised fact pattern to compare the ease of paying taxes in different economies on a like-for-like basis.
- The Paying Taxes methodology assesses the tax cost and administrative burden for a local medium sized business in its 2nd year of operation.
- To carry out our assessment we collected data from three accounting firms operating in Andorra and used this to calculate the Total Tax and Contribution Rate (TTCR) and to estimate the other indicators included in Paying Taxes. The data was collected using a questionnaire similar to that used by the World Bank to collect Paying Taxes data.
- Based on our assessment, we estimate that Andorra would:
 - Rank 20th on the ease of paying taxes compared to the 190 economies in *Paying Taxes 2020*.
 - Have a TTCR rate of 26.5% which is at the lower end of the economies in the EU&EFTA region.
 - Have a time to comply of 135 hours which is slightly below the average for the EU&EFTA economies.
 - Have a number of payments indicator of 10 which is lower than the EU&EFTA average of 10.9 payments.
 - Have an overall post-filing index score of 77.4 out of 100 (the higher the score, the more efficient the post-filing processes are) which is lower than the EU&EFTA average of 83.1 and higher than the world average of 60.9
 - Time to comply with a VAT refund score is 98.5
 - Time to obtain a VAT refund score is 14.6
 - Time to comply with a CIT correction score is 96.3
 - Time to complete a CIT correction score is 100
- In post-filing, Andorra performs significantly better than average in three out of the four components of the index. The time to obtain a VAT refund has the lowest score as our case study company can only file a refund request once a year.



Contents of the report

This report contains the following sections:

1.- Study background and methodology – this explains the background to the report, the data collection methodology and some key points as to how the Paying Taxes methodology was applied to the tax system of Andorra.

2.- Overview of the Paying Taxes methodology – we set out a summary of the main case study parameters used in Paying Taxes.

3.- Estimated ease of Paying Taxes in Andorra – this includes our estimates of the Paying Taxes indicators for Andorra and compares them to the global and EU&EFTA region averages as well as to the individual economies within the EU & EFTA region.



Study background and
methodology

1



Background and purpose of the study

Background

- The tax system of the Principality of Andorra has been evolving in step with the activity and economic structure of the country, and the tax bases have been widening to optimize the way the tax burden is distributed. This has led to a move from an almost exclusively indirect tax system to including a direct tax system which is internationally comparable.
- The Principality of Andorra has undergone substantial changes in recent years in economic and tax matters as it has opened up its economy, promoted foreign investment and facilitated the internationalization of its economy. This has included the implementation of direct taxes to the signing of agreements to avoid double taxation.
- This important transformation of the Andorran legal framework has required significant legal reform to promote the tax system and transparency. An example of this is Law 19/2016, of 30 November 2016, on the automatic exchange of information on tax matters, which reflects the agreement with the European Union for the transposition of measures equivalent to those established by Directive 2003/48/EC, and the application of the OECD standards in this area.
- In this context, and in order to continue promoting the improvement and transparency of the tax system, the Government of Andorra, through the Ministry of Finance, has requested this study of the performance of the tax system, in accordance with the methodology used for the Paying Taxes indicator of the World Bank's Doing Business Study (the Paying Taxes methodology).
- The Paying Taxes study remains a unique PwC and World Bank study, investigating and comparing tax regimes in 190 economies around the world.

Purpose of the study

- The purpose of this work is to carry out a study using the Paying Taxes methodology and applying it to the Andorran tax system.
- This study records the taxes and compulsory contributions that a medium-sized case-study company must pay in a given year, as well as the extent of the administrative burden of paying taxes and contributions and of complying with post-filing procedures, in accordance with the methodology explained in this report.

Methodology for this study (1 of 2)

Methodology

- *Paying Taxes* records the taxes and mandatory contributions that a medium-size company must pay in its 2nd year of operation as well as measures the administrative burden of paying taxes and contributions and complying with post-filing procedures. A detailed overview of the methodology can be found in the [Doing Business website](#).
- In *Paying Taxes*, the financial statements of the case study company are based upon the gross national income per capita (GNIpc) in each economy. Turnover, for example, is assumed to be 1,050 times GNIpc, after deducting various expenses, a commercial profit of 59.4 GNIpc.

Data collection

- Data was received from three external contributors, tax experts with sufficient knowledge of the Andorran tax system:
 - OCPS, Assessors Tributaris, SLU
 - Crowe - Alfa Capital Assessors i Auditors, SL
 - Gaudit, Gabinet D'Auditoria i Consultoria
- Data was collected using a questionnaire based on the publicly available [data collection questionnaire](#) of *Paying Taxes 2020* created by the World Bank.
- Data was collected for the calendar year to 31 December 2018.
- Where the data initially provided by individual contributors differed significantly, we clarified with the contributors the assumptions used to ensure consistency across all three datasets.
- We aggregated the data provided by the contributors to obtain the data shown in this report. We disregarded outlying data points and took averages of data points where appropriate.

- We then applied the paying taxes methodology to this data to arrive at the indicator results shown in the study and to convert these to the ease of paying taxes score for comparison with those of the 190 economies included in *Paying Taxes 2020*.

Total Tax and Contribution Rate

- The Total Tax and Contribution Rate (TTCR) measures the amount of taxes and mandatory contributions borne by a business, expressed as a share of commercial profit. The TTCR is designed to provide a comprehensive measure of the cost of all the taxes a business bears.
- Commercial profit is calculated as the difference between total income and total expenses excluding any possible taxes and mandatory contributions to pension and other social security funds.
- This methodology is well understood and is used by governments to help them benchmark their tax systems on a like-for-like basis and provides a platform for governments and businesses to engage in a constructive discussion on tax matters.
- The TTCR includes only those taxes that are a cost to the company such as corporate income tax, property taxes and employers' social security contributions. It does not include taxes that the company withholds from others such as VAT, personal income tax or employees' social security contributions.

Methodology for this study (2 of 2)

Financial parameters of the case study company

- As per the Paying Taxes methodology - the metrics of case study company are based on the gross national income per capita (GNIpc) value of the respective economy.
- As no GNIpc value was available for Andorra, in calculating the TTCR and the financial parameters of the case study company in Andorra, we have used the Gross Domestic Product per capita (GDPpc) figures from the official Andorran Government statistics.
- After careful consideration, we decided to use the real GDPpc value based on the registered population from Andorran Government statistics.
- We believe the real GDPpc is a more comparable metric as opposed to the nominal GDPpc as it is adjusted for inflation. Also, the GNIpc metric used by the World Bank is based on the Atlas method which also accounts for inflation. You can read more about this in the following link from the World Bank website: [LINK](#)
- The GNIpc value used by the World Bank in Doing Business is updated periodically. In the latest edition which relates to 2018 (Paying Taxes 2020), the GNIpc value for 2012 was used. Accordingly, we have used the 2012 value of the real GDPpc from official government statistics of EUR 24,094.

Defining the applicable taxes for our case study company

In determining which taxes to include in the study we considered all the taxes that might be collected or borne by our case study company in Andorra.

- Data was collected from all three contributors as to all the taxes that might be borne or collected by the case study company. Some, such as alcohol and tobacco duties, were disregarded as they are specifically excluded by the Paying Taxes methodology.
- For the taxes not specifically excluded, we considered whether they would be regarded as taxes under the Paying Taxes methodology. The Paying Taxes methodology is based on the [PwC Total Tax Contribution framework](#) which defines a tax as a payment to government, at any level (federal, state or local) which is mandatory, for no return of value, and which is used by the government to fund social expenditure.
- By applying this definition we excluded the following four payments as each results in some direct return of value to the taxpayer:
 - **Tax on the authorisation of business location (Taxa sobre l'autorització de radicació)** - this is paid to obtain an authorisation for a specific change in the administrative details of a business such as its name, location or change in activity. As this results in an authorisation being granted there is direct return of value to the taxpayer and so this should be viewed as a payment to government rather than a tax.
 - **Tax on the Register of Economic Activity Holders (Taxa sobre el Registre de titulars d'activitats econòmiques)** - this is a yearly fixed fee which is paid to enter and maintain a business in the register of economic activity holders. As the registration is a direct return of value, this should be treated as a payment to government rather than a tax.
 - **Tax on urban planning** – this is paid to obtain the licence for construction which is required to extend a building as set out in the case study. As the payment is required to obtain a licence this represents a direct return of value to the taxpayer and should be treated as a payment to government rather than a tax.
 - **Tax on construction** – similar to the tax on urban planning, this payment is required to obtain authorisation to construct the building extension that is part of the case study assumptions. As the payment is required to obtain an authorisation this represents a direct return of value to the taxpayer and should be treated as a payment to government rather than a tax.

Interpreting the results of this study

- This study provides a like-for-like comparison of the ease of paying taxes in Andorra with that in 190 economies included in Paying Taxes 2020. As the study relies on a number of case study assumptions and looks at the tax system from the point of view of a medium sized company, it may not be appropriate to apply the findings more broadly.
- In particular the TTCR measures the tax cost purely from an employers' perspective (i.e. taxes borne) and it does not measure taxes that businesses collect on behalf of others, such as personal income tax, employee's social contributions or VAT. While these taxes may be collected and administered by businesses, they are ultimately borne by employees or customers and therefore fall outside the scope of the TTCR.
- Furthermore, a number of issues faced by taxpayers in real-life are outside the scope of our study. These include cross-border tax and customs issues, transfer pricing, thin capitalisation issues and other complex tax matters.
- Our case study company is relatively simple, stable and complies fully with all relevant tax and accounting regulations. The time to comply will therefore not take account of issues regularly faced by companies such as changes in staff, periodic tax audits or inadequate accounting and tax processes.
- We strongly recommend that the data from this study is viewed in conjunction with data from other sources such as taxpayer surveys, data on Andorra's tax revenues, data on the extent of the informal economy and consideration of the overall labour tax wedge.



Overview of the Paying Taxes methodology

1



Limitations of the study and what it does not cover



The Paying Taxes study is based on a case study company to facilitate a global like-for-like comparison, it

- is not a representative company,
- does not take into account regional variations across a country,
- does not cover all aspects of an economy's business environment,
- does not cover the full range of taxes in a country.



The study assumes the company is in the formal sector.

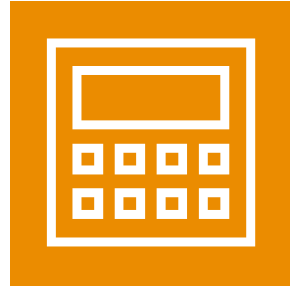


The sub-indicators do not measure the social or economic programmes funded through tax revenues where objectives may differ.

The Paying Taxes methodology

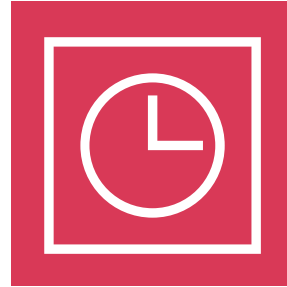
The four sub-indicators

The results are collected using four sub-indicators



1

Total Tax and Contribution Rate



2

Time to comply



3

Number of payments



4

Post-filing index

Both the tax cost and the tax compliance burden are important from the business point of view and these are measured using four sub indicators.

*The first 3 are pre-filing indicators.

The Paying Taxes methodology

Basic fact pattern

Paying Taxes records the tax cost and administrative burden for a local medium sized business in its 2nd year of operation

- 1 Limited liability taxable company
- 2 Operates in the country's largest business city
- 3 100% domestically owned
- 4 Has 60 employees: 4 managers, 8 assistants and 48 workers
- 5 Performs general industrial or commercial activities
- 6 Does not participate in foreign trade
- 7 Has a turnover of 1,050 times income per capita

The Paying Taxes methodology

Post-filing index scenario 1

VAT refund process

- 1 — The company makes large capital purchase: pot manufacturing machine
- 2 — Machine value is 65 times income per capita of economy
- 3 — Sales are equally spread per month
- 4 — Cost of goods sold are equally expensed per month
- 5 — Machinery seller is registered for VAT or general sales tax (GST)
- 6 — Input VAT will exceed output VAT in June 2018
- 7 — Excess input VAT will be fully recovered after four consecutive months

The Paying Taxes methodology

Post-filing index scenario 2

CIT correction process

- 1 — An error in tax liability calculation leads to incorrect income tax return and hence underpayment of corporate income tax
- 2 — The company discovered the error and voluntarily notified the tax authority
- 3 — The value of the underpaid income tax liability is 5% of the corporate income tax liability due
- 4 — The company submits the corrected information after the deadline for submitting annual tax return, but within tax assessment period.

Estimated ease of
paying taxes in Andorra

2

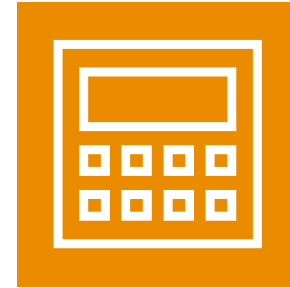
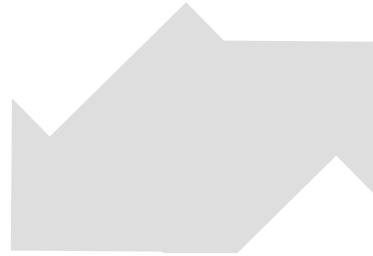


Estimated Andorra results under the Paying Taxes methodology



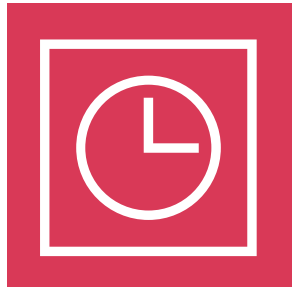
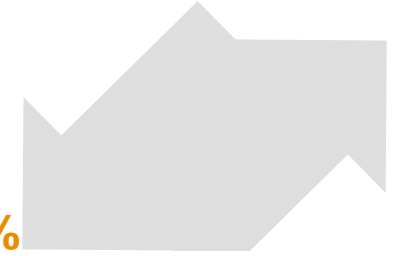
Number of payments

10.0



Total Tax and Contribution Rate

26.5%



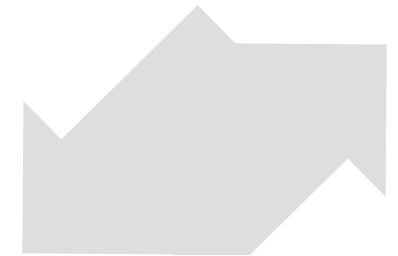
Time to comply

135 hours



Post-filing index

77.4/100



- Note: A higher post-filing score, indicates more efficient post-filing processes

Estimated ease of paying taxes score for Andorra

Andorra	2018	Score
Number of tax payments:	10	88.3
Time to comply with the tax system (hours per year):	135	86.7
Total Tax Rate (cost of all taxes borne by the company as a % of commercial profits):	26.5%	99.5

Post-filing index	2018	Score
(A) Time to comply with a VAT refund	0.8 hours	98.5
(B) Time to obtain a VAT refund	47.5 weeks	14.6
(C) Compliance time to correct CIT error (including review time)	3.5 hours	96.3
(D) Time to complete CIT review, where applicable	Review likelihood <25%*	100.0
Score for post-filing index (Average of A, B, C and D):		77.4

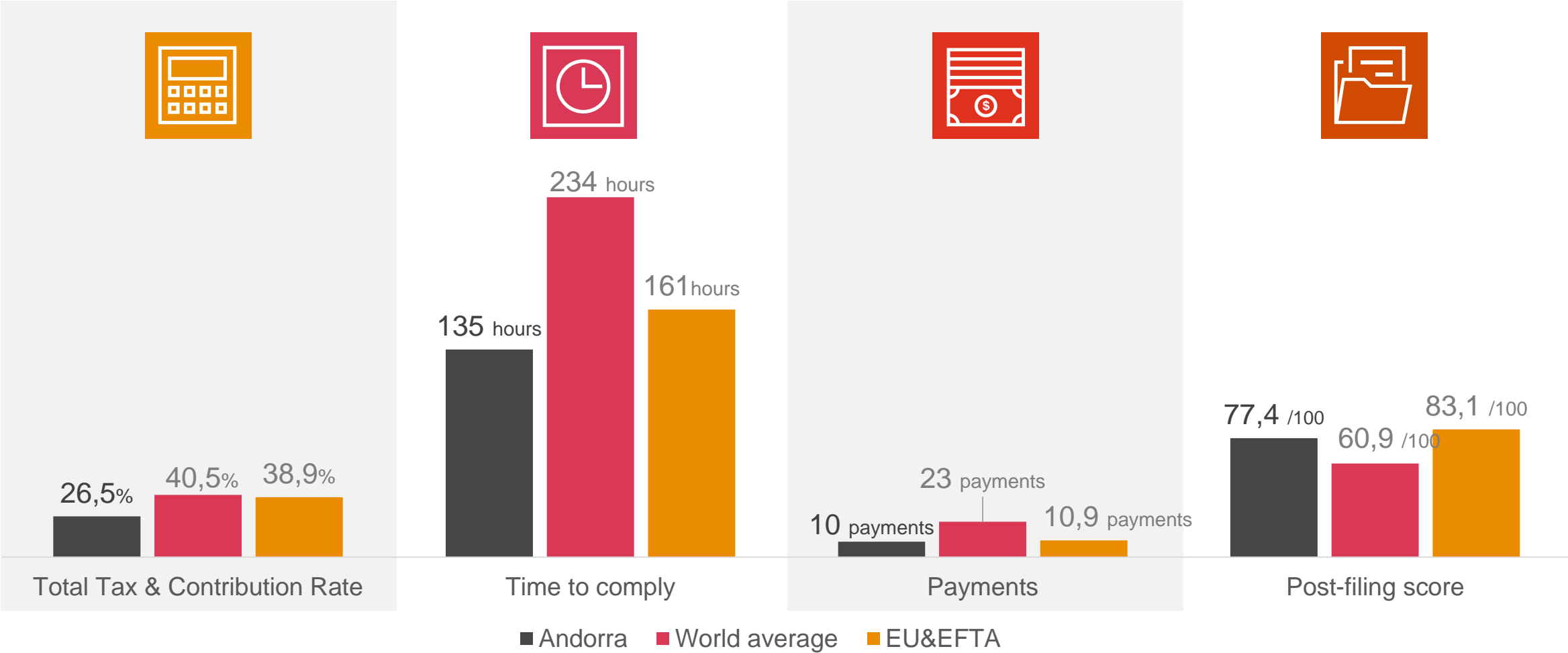
Indicative ranking compared to Paying Taxes 2020:

20

88.0

Note: Review likelihood <25% indicates that an audit is unlikely and so the economy receives the best score on this component.

Comparison of the estimated ease of paying taxes for Andorra with the world and EU&EFTA averages from Paying Taxes 2020



The estimated Total Tax and Contribution Rate (%) for Andorra

The Total Tax and Contribution Rate calculation (TTCR)	EUR'000 Andorra	TTCR Andorra
A - Profit before tax (PBT)	1,154	
<i>Add back above the line taxes borne</i>		
Employer paid - Social security contributions	253	17.66%
Property tax	0.8	0.06%
Transport tax	0.1	0.01%
Tax on insurance contracts	0.6	0.04%
Tax on capital gains arising from transfer of immovable property	20.2	1.41%
Environmental tax	0.5	0.03%
Tax on commercial, business and professional activities	2.2	0.15%
Tax on street lightning	0.3	0.02%
B - Taxes borne other than corporate income tax	277	
C (A+B) Profit before all taxes borne/commercial profit	1,431	
D - Corporate income tax	102	7.11%
E - Total taxes borne	379	
Profit after tax	775	
Total Tax Rate =E/C		26.5%

Estimated time to comply (hours)

Andorra

Time to comply	Corporate income tax	Labour taxes	VAT	Total
Prepare	18	39	21	78
File	4	36	9	49
Pay	1	5	2	8
Total	23	80	32	135

Note: The time to comply is an average of the data received from three contributors for Andorra

Estimated number of payments indicator

Andorra

Profit tax payments	Payments indicator	Actual payments	Notes
Corporate income tax	1	2	online
Tax on capital gains arising from transfer of immovable property	1	1	

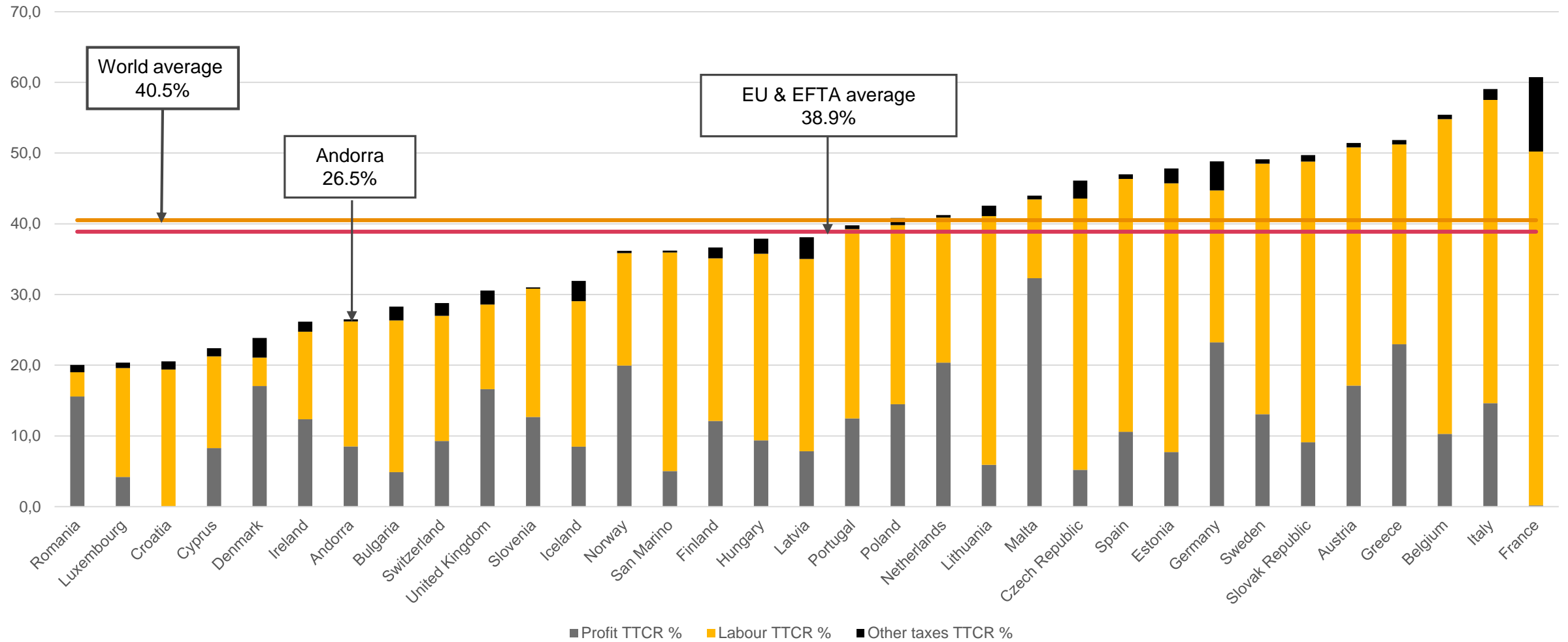
Labour tax payments	Payments indicator	Actual payments	Notes
Employer Social security contributions	1	12	online
Employee Social security contributions	0	12	jointly

	Payments indicator	Actual payments	Notes
Total	10	46	

Other tax payments	Payments indicator	Actual payments	Notes
Value added tax (VAT)	1	12	online
Property tax	1	1	
Transport tax	1	1	
Tax on insurance contracts	1	1	
Fuel tax	1	1	
Environmental tax	1	1	
Tax on commercial, business and professional activities	1	1	jointly
Tax on street lightning	0	1	jointly

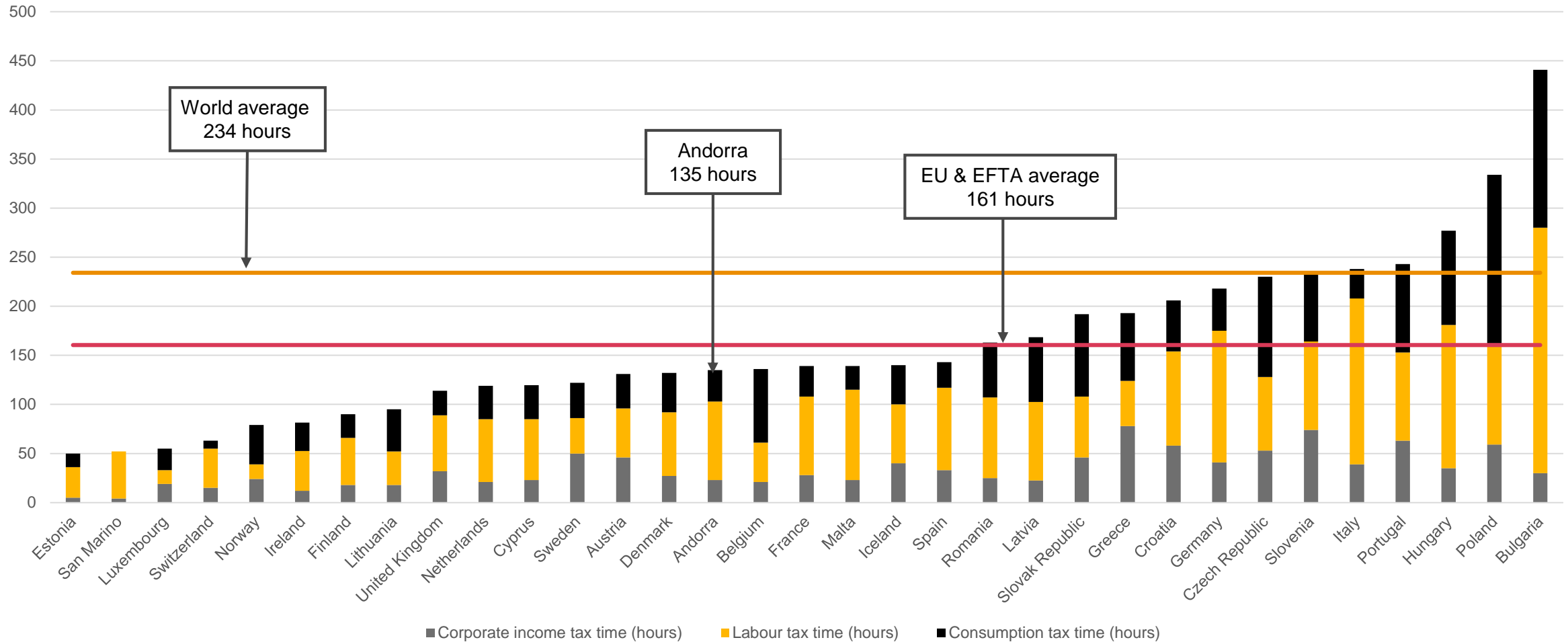
Total Tax and Contribution Rate

Andorra compared with EU & EFTA data from Paying Taxes 2020



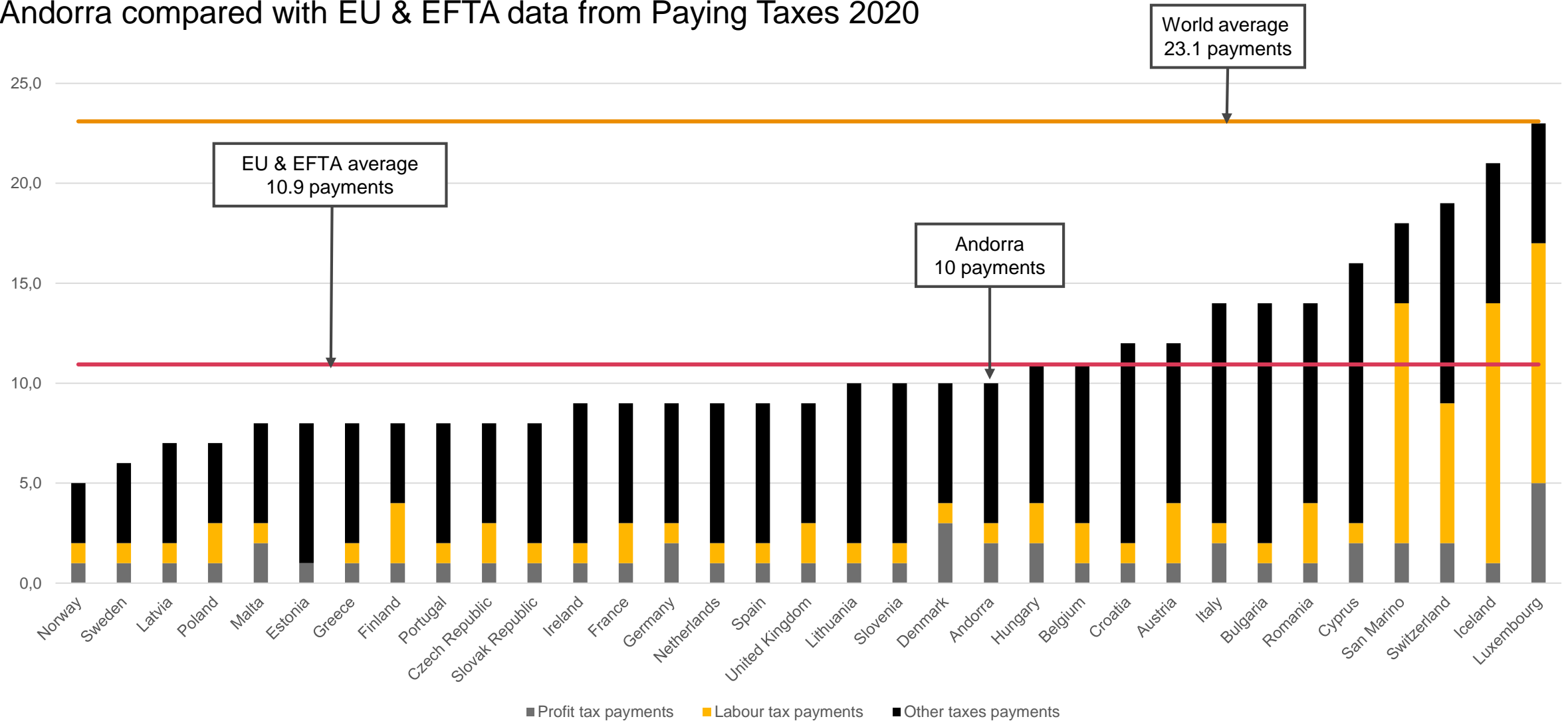
Time to comply

Andorra compared with EU & EFTA data from Paying Taxes 2020



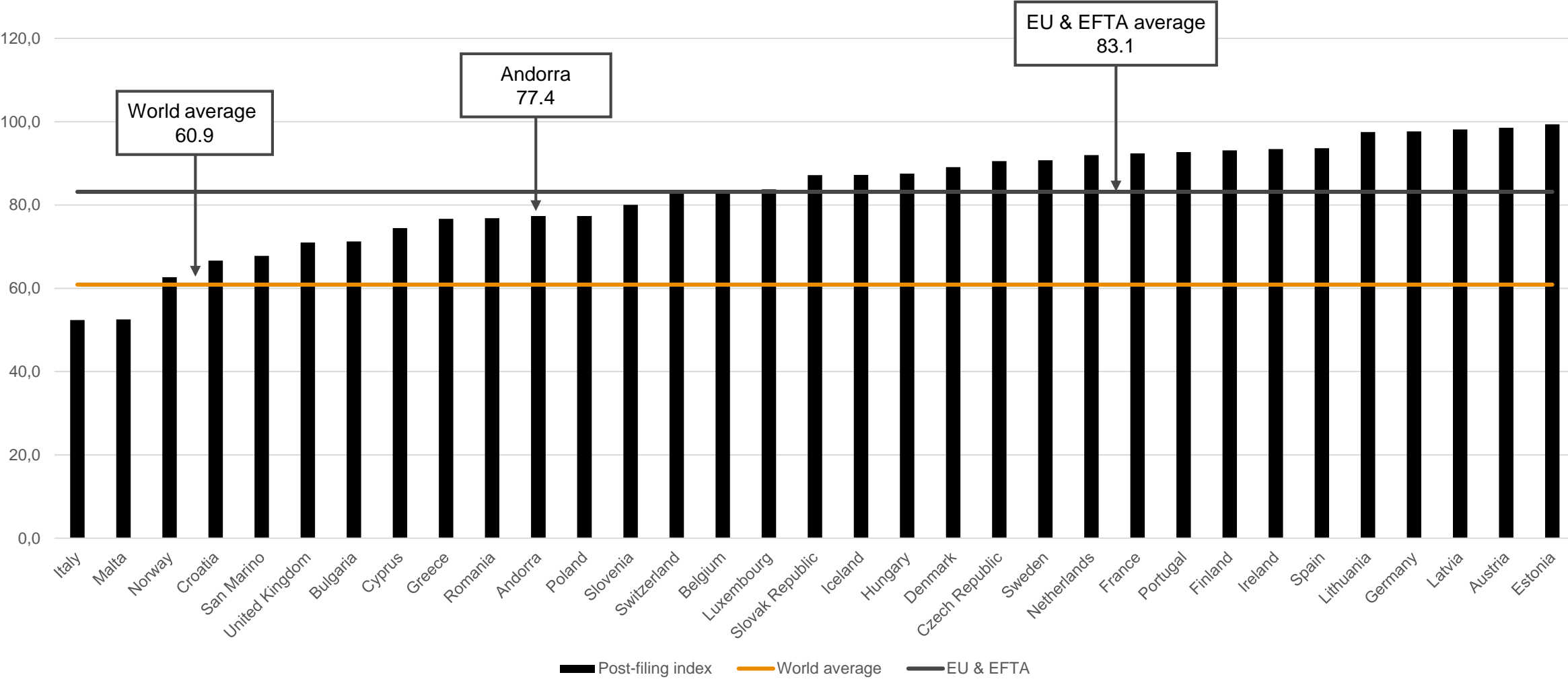
Number of payments

Andorra compared with EU & EFTA data from Paying Taxes 2020

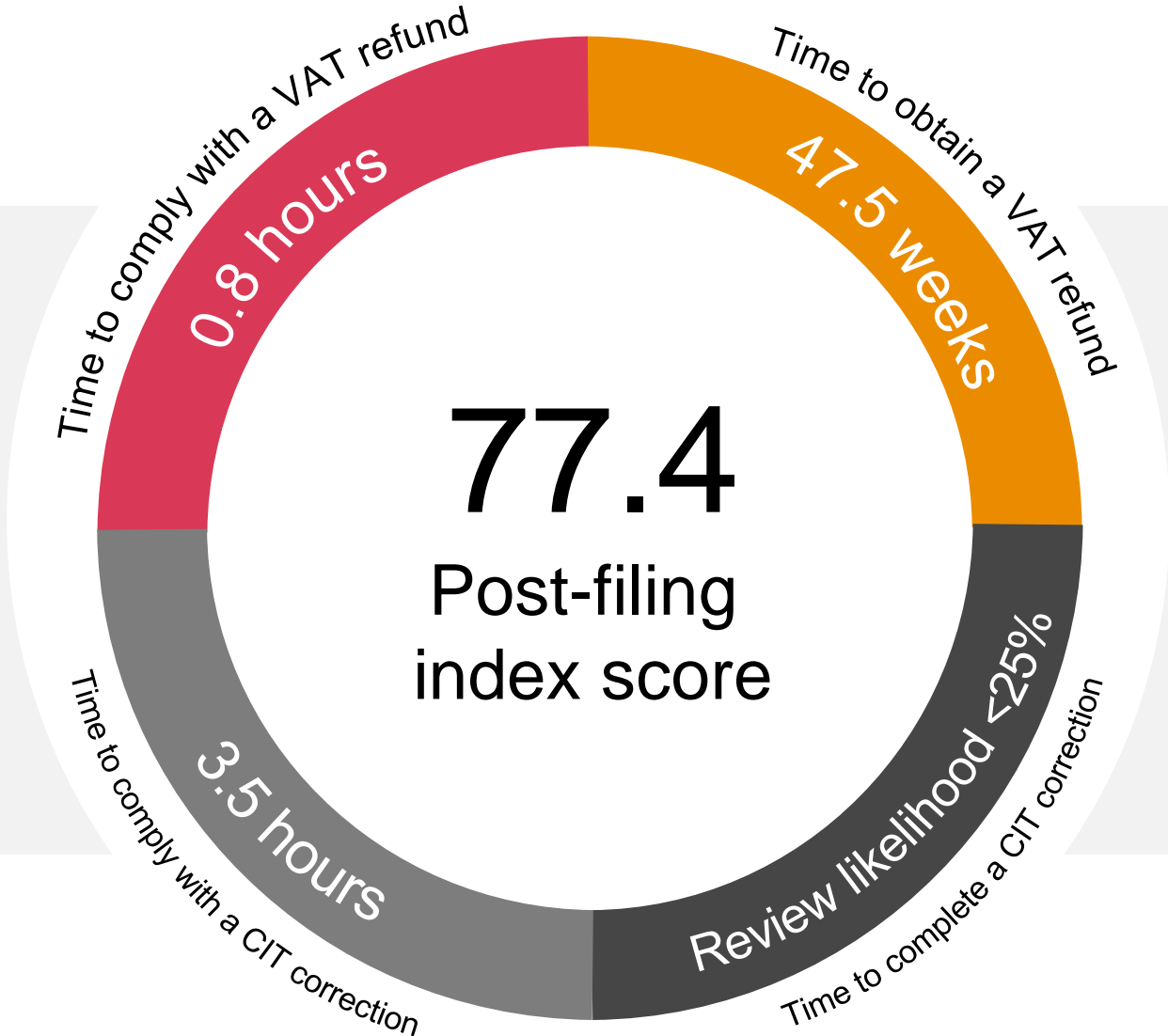


Post-filing index score

Andorra compared with EU & EFTA data from Paying Taxes 2020

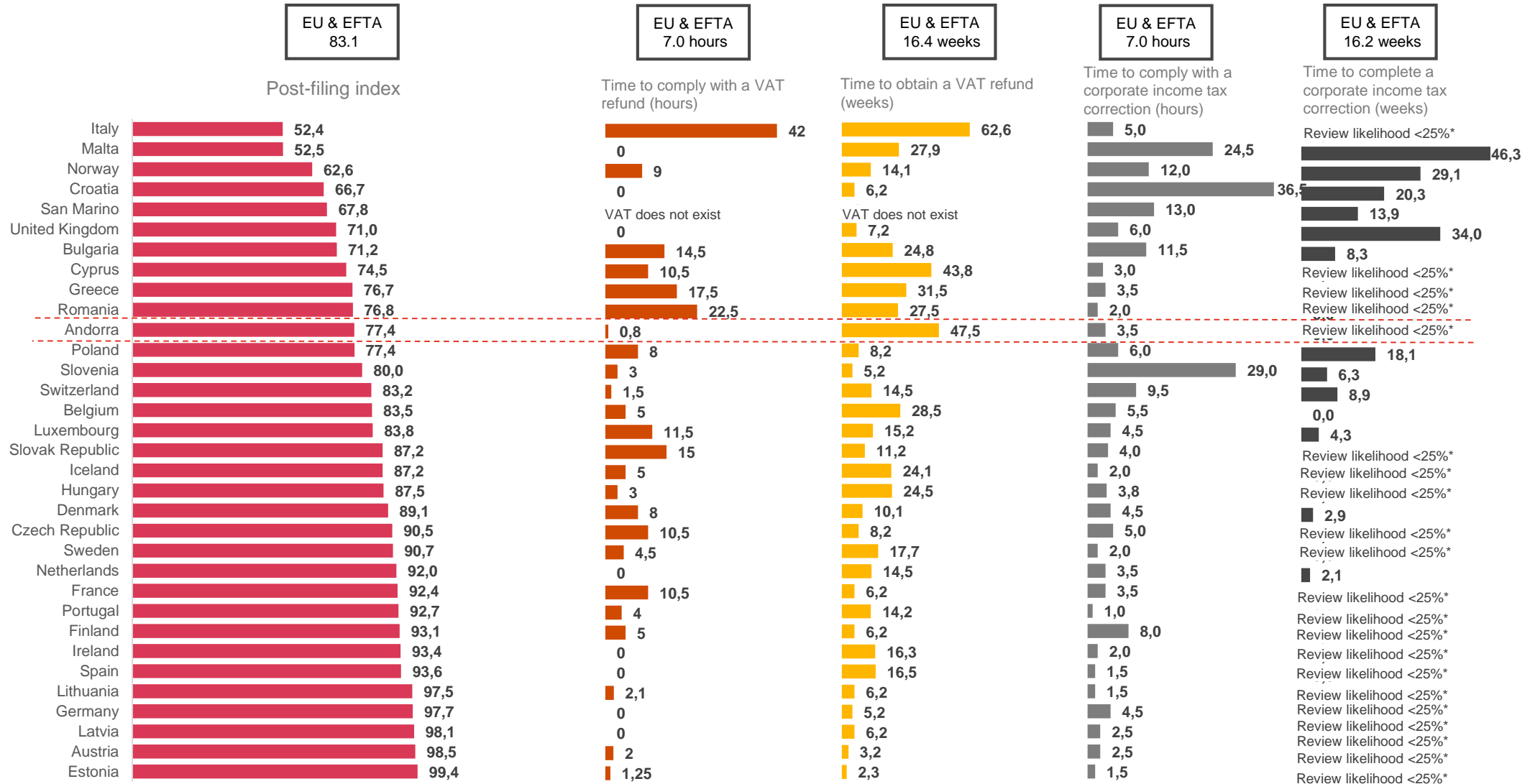


Post-filing results for Andorra



Post-filing index score

Andorra compared with EU & EFTA data from Paying Taxes 2020



* Review likelihood <25% indicates that a review is unlikely so the economy receives the best score on this component.

Time to comply with a VAT refund (hours)

Breakdown of VAT refund compliance time

	VAT refund compliance time (hours)
Time spent gathering information from internal sources	0.7
Preparing the refund claim	0.1
Preparing documents to substantiate the claim for the refund	-
Time spent submitting the VAT refund claim	-
Time spent making representations at the tax office	-
Completing any other mandatory activities or tasks associated with the refund including responding to any resultant audit	-
If the refund triggers a review:	
Gathering information and preparing documentation as required by the tax auditor	-
Time spent submitting documents requested by the tax auditor	-
Total	0.8

Time to obtain a VAT refund (weeks)

Breakdown of VAT refund waiting time

	Time to receive VAT refund (weeks)
Time waiting before submitting the refund claim (monthly)*	2.2
Mandatory carry forward period**	26
Time between the submission of a refund claim and the start of a review	19.3
The following processes would take place while waiting for the refund to be received:	
Interacting with the tax auditor from the start of the audit until there are no further interactions	N/A
Waiting for the tax auditor to issue the final tax assessment from the submission of all relevant information and documents until there are no further interactions	N/A
Time from receipt of the final assessment to the release of the refund	N/A
Total	47.5

*Time waiting for submitting the refund claim is a standard measure and is equal to the half of the VAT filing period (expressed in weeks).

**Although there is no mandatory carry forward period in Andorra, our case study company cannot make a refund claim until the last VAT filing of the year (January). Our case study company has excess input VAT in June and has to carry this forward until last filing period of the year before filing for a refund – which in this case is 6 months, i.e. 26 weeks.

Time to comply with a CIT correction (hours)

Breakdown of a CIT correction time

	Time to comply with CIT audit (hours)
Information gathering and document preparation required to notify the tax authorities	2.0
Submission of relevant documents required for the correction	1
Time spent making payments	0.5
If the correction triggers a review, time is spent on:	
Gathering information and preparing documents as required by the tax auditor	-
Submission of documents requested by the tax auditor	-
Total	3.5

Time to complete a CIT correction (weeks)

Breakdown of a CIT correction completion time

	Time to complete CIT review (weeks)
Time between submitting the correction and being able to make the additional payment e.g. if the tax authority has to issue an assessment before the payment can be made	-
Time for the tax authority to start the audit from the moment of submitting the amended CIT return and making the payment of the additional CIT liability due	-
Interacting with the tax auditor from the start of the audit until there are no further interactions	-
Waiting for the tax auditor to issue the final tax assessment from the moment submitting all relevant information and documents until there are no further interactions	-
Total	Review likelihood <25%

Review likelihood <25% indicates that a review is unlikely so the economy receives the best score on this component.

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