



## PAPUA NEW GUINEA TAXATION REVIEW (2013 – 2015)

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### UPDATE No. 1 as at 31 MARCH 2014

#### **INTRODUCTION**

A comprehensive review of Papua New Guinea's Fiscal Regime Review (tax and non-tax revenue) is now underway. This follows the Government's decision to establish a Committee consisting of five (5) eminent persons to carry out the Review. The Committee began its work on 01 September 2013.

The Tax Review Committee's first task was to put together the Terms of Reference (TOR) of the Review and this was approved by the National Executive Council on 18 November 2013.

Considering the significance and broad based impact and implications of this comprehensive Fiscal Regime review (tax and non tax), it is imperative to provide regular update and report of the progress of the review.

This first update of the work of the Tax Review Committee is as at 31 March 2014.

#### **PROJECT PLANNING FRAMEWORK & DISCIPLINE**

Considering the extensive scope, complexity and multi-dimensional facets of this very comprehensive review, the Tax Review Committee formulated and adopted the *discipline and framework of project planning* to manage, implement, keep track, and set clear milestones and deliverables of the various sub components of the review.

The project planning framework will also assist to ensure that the ultimate review outcomes are accomplished in the most cost effective and efficient manner and is ultimately completed on time and within budget.

#### **PUBLIC CONSULTATION & POLICY ISSUES PAPER**

##### **Public Consultation**

The Tax Review Committee as part of its modus operandi has begun a program of inclusive and participative stakeholder consultations.

This consultative process enables a broad spectrum of stakeholders (individuals, public and private sector, civil society and industry associations and business groups) to participate and contribute constructively to the design and architect of the tax reform.

Throughout all stages of the consultation processes, the Tax Review Committee and Secretariat will remain engaged with stakeholders. Already the Committee and the Secretariat have met with a range of Government agencies and industry groups.

**The Tax Review Committee would like to encourage you to voice your concerns, offer your constructive comments, and share your experiences for this important tax review project.**

The first of such consultations commenced on 18 December 2013 with a general call for papers and submissions to allow interested persons or groups to raise issues they believe should be considered. Advertisements of this general call for papers has been done in the daily papers over the course of the second half of December, 2013 and subsequently in January, February, March and April of 2014 respectively.

This will culminate in closure on **30 APRIL, 2014**, the due date for submissions for this phase of the consultation process.

### **Other Interactive Consultation**

Direct interactive consultation and dialogue with well established groups (listed below) has commenced;

- Workers unions,
- Business chambers and associations,
- Professional practitioners,
- Civil society groups,
- Local think tank groups,
- Sector or industry specific groups, and
- Government agencies including the two principle revenue administration agencies, namely Internal Revenue Commission and PNG Customs Service.

### **Consultative Workshops**

Specific and general workshops will also be used, as and when appropriate, to generate informed discourse and debate on specific components of the tax review including tax policy reform options.

### **POLICY ISSUES PAPER & SECTOR SPECIFIC CONSULTATION**

The next supplementary phase of stakeholder consultations will involve the release of a series of Issues Papers on different areas of taxation.

These issues papers are intended to generate interest and debate about specific areas of PNG's tax system.

It is anticipated that the results from these exchanges will help the Committee better assess the different types of tax reform options for PNG.

## **Resource Sector Issues Paper**

The first Issues Paper is on PNG's Mining and Petroleum taxation regime. This issues paper is extrapolated and distilled from a study done by a team of experts from IMF engaged by the Department of Treasury on behalf of the Government.

The Tax Review Committee and its technical team synthesized and crystallized the key reform items in the resource sector Issues Paper and released it on 20 March, 2014 and consultations with the resource sector has commenced.

The due date for submissions and responses for the resource sector is **30 April 2014**.

## **Diagnostic & Tax Benchmarking Issues Paper**

This diagnostic overview of PNG taxes is currently underway and focuses on options for reform of the income tax system that is a best fit for Papua New Guinea's present, medium and near term socio-economic development conditions and trends.

This particular issues paper is broad based and structured to consider, at the higher level, options for an effective and optimum tax mix that strikes a delicate balance between taxing of *income, consumption, and capital*.

This issues paper also undertakes a disciplined approach to benchmarking of Papua New Guinea's current tax regime to that of country's at similar stage of development or those within the neighbourhood or within Papua New Guinea's geographic region. This informs the process to ensure the reform process places Papua New Guinea in a competitive tax position to attract, encourage and retain investment and capital.

Finally, this part of the tax review will focus also on consideration of well known classical tax reform axioms of *efficiency, simplicity and equity*.

## **Other Issues Papers**

Other Issues Papers will be progressively released throughout 2014.

## **RELATED SUPPLEMENTARY WORK**

### **Past Reforms**

A comprehensive review matrix of past tax reforms is underway. This includes the last extensive tax reform undertaken in 2000.

This exercise is important to capture facts and understand the underlying policy rationale for the tax policy recommendations in these past reforms, but it also concurrently enables the Tax Review Committee to ascertain whether the recommendations of the past reforms were fully or partially implemented and, if not, why not?

### **Non Tax Reform**

Preliminary work has commenced to establish the current range and type of non tax imposts and levies managed and collected by various Government agencies.

Data and information from this review will inform the review of the non tax impost and levies to establish whether there is merit to retain them or consolidate and rationalize them or simply to align them with modern socio-economic conditions and business practices.

## **REVENUE ADMINISTRATION AGENCY REVIEWS**

The Tax Review Committee decided, right at the very outset of the review, that it will as a critical strategic imperative include administrative dimensions of tax reform.

The Tax Review Committee is of the professional view that to undertake tax policy reform without tax or revenue administration reform is a risky proposition.

Both are integrally intertwined because how a tax system is administered affects its *yields, incidence and efficiency*.

In fact the real tax system people and businesses face reflects not just the tax law, but how that law is implemented and whether there is administrative capacity and competency to administer the tax law with strong institutionalized taxpayer service ethos.

This also extends to the ability and capacity of tax policy promulgators and tax administrators to make sure that the system is frequently updated and refreshed and is congruent with economic (i.e. includes business practices and culture), social (includes demographic shifts), political and technological shifts and trends.

The Tax Review Committee has commissioned independent experts to undertake a professional, independent and more objective diagnostic review of PNG's revenue agencies (Internal Revenue Commission and PNG Customs Service). Particular focus of this diagnostic review is the institutional, operational and administrative functions and capabilities of both agencies.

This Diagnostic Review will commence shortly.

The methodology for the diagnostic review consists of four key phases. Firstly, an inception phase which involves initial meeting with revenue agencies and policy makers, phase 2 involves interface with tax payers and tax practitioners, phase 3 involves review and assessment, and phase 4 the final phase which is reporting.

## **DRAFT REPORT & PROPOSED REPORTING TIMELINES**

Once the bases of all Consultations and Issues Papers have been established, the Tax Review Committee will then evaluate and decide on a more informed basis the tax policy options and architect and design of the tax reform which will culminate in writing and releasing a full encompassing Draft Report.

This draft report will be the subject of further inclusive and participative consultative exchanges and the results of which will form the Final Report of the Tax Review Committee.

Considering the magnitude, size, scope and complexity of the reform, the Tax Review Committee is of the professional view that the reform will have to be staged and implemented sequentially ( i.e. staggered over a number of years).

This will enable proper implementation plans incorporating capacity, resource, financial and administrative implications.

Taking this into account, the report recommendation, once it is approved by the Government, is expected to be released and implemented in stages.

The first part of the report outlining the broad principles, tax reform axioms, optimum mix, and reform framework including incorporation of tax policy options considered to be quick wins or low hanging fruits will be submitted in October, 2014 for inclusion in the 2015 budget.

The second and final part of the report together with implementation plans will be tabled in the first quarter of 2015.

Any enquiries should be directed to the Head of Secretariat, PNG Tax Review Secretariat via this email address: [info@taxreview.gov.pg](mailto:info@taxreview.gov.pg) or by telephone (325 5977). Alternatively, you can visit the Tax Review website ([www.taxreview.gov.pg](http://www.taxreview.gov.pg)) for further information.

You can also get involved through social media by joining our Facebook Group “PNG Tax Review”.

**Sir Nagora Bogan, KBE**

Chairman

PNG Tax Review Committee