

Tax Review Secretariat  
Department of Treasury  
P. O. Box 542  
WAIGANI 131  
National Capital District



Dear Sir/Madam,

**RE: INDEPENDENT SUBMISSION – REVIEW OF THE TAX REGIME IN PAPUA NEW GUINEA**

**1. Basis and Rational for Tax Regime Review**

The tax system review should be done on the basis of efficiency, fairness, health and safety and capacity. Is the current tax system efficient and fair to everyone – those that qualify to pay taxes? Can we afford to implement it? Do we need a safe, clean and healthy environment which is conducive to social and economic progress?

The current tax system is, in my view is not efficient because it is cumbersome and is a burden on every tax payer. It is not a fair tax regime because it causes serious discriminatory effects and economic distortions. Mining and petroleum tax regimes are clearly examples of such regimes. And, in my view it does not stop there, we should go beyond that and remove any tax that introduces economic and social distortions and imposes all sorts of direct and indirect financial and non-financial costs.

Some of the taxes such as Dependency Rebates, School Fee Rebates, and so on while may be justified, cause all kinds of social and economic distortions and problems. Dependency Rebate, for example, leads to a population explosion which makes it very difficult for the government to raise revenues to provide public goods such as education and health services, law and order (from population explosion), and so on, for the nation. School Fee Rebate generates a similar economic and social effect.

Policies and taxes that promote production and control of Bad Social Goods such as alcohol and tobacco, should be reviewed with a view to abolishing them. These products cause significant direct and indirect social, health and economic costs on the nation and government. Alcohol and tobacco create all sorts of social and health problems. A new tax regime should be geared to towards a better social and economic environment and a healthy and productive population which are conducive to social and economic development.

The tax system should also be based on the institutional capacity to implement a new tax regime. If we do not have the capacity, then, we do not need a cumbersome tax regime that cannot be fully and effectively be implemented by the government. Tax is a technical area and a cumbersome and complicated tax regime does not help implementation.

**2. Rational for Tax Review**

- (a) The tax system should be based on **economic rational and justification** – economic distortions mentioned above are a case in point.
- (b) The other should be to **broaden the economic base** from which the government can raise tax revenues. This does not have to in the form of direct support such as taxes concessions and subsidies (which in themselves cause more distortions). The key to broadening the economic

base is development and maintenance of public infrastructure assets (such as roads, bridges, wharves, etc.) and investment in health and education (quality education and health services and not necessarily free education).

- (d) The government needs to really address its commercial interest in **State-owned enterprises (SOEs)**. The SOEs are major stumbling block to broadening the economic base for tax purposes, as they provide the key economic inputs to the production of goods and services. So long as SOEs exist, the government will continue to have a narrow and inefficient tax base to raise tax revenues. Some tax payers will even go to the point of evading taxes, because they cannot afford both the high cost of doing business and making tax payments to the State.

### 3. A New Tax Regime

- (a) Consumption based Tax Regime - The new tax regime should be based more on indirect taxes - consumption tax - than direct taxes. It means the government should consider doing away with most of the tax forms we now have and progress towards consumption taxes such as Value added Tax (VAT) and Goods and services Tax (GST).
- (b) Environment Taxes – The government should consider introducing a number of taxes on the basis of promoting health and safety of our environment:
- (i) Noise Control Tax – to curb noise from factories, radios, stereos, cars, music, etc.
  - (ii) Environment Tax – to curb environment pollution from cars, industrial waste, human waste, littering (such as plastics and betel nut), etc.; and
  - (iii) Health Tax (Betel Nut, Alcohol and Tobacco Tax) – All hospital (private and public) to charge excess fee for patients who chew betel nut, smoke tobacco and consume alcohol to promote health and safety and law and order in communities.

Yours sincerely,



Elim Kiang (Mr.)  
24 April 2014