



NATIONAL PARLIAMENT

OFFICE OF DEPUTY LEADER OF OPPOSITION & MEMBER FOR BULOLO

P O PARLIAMENT, PARLIAMENT HOUSE, WAIGANI 131, NCD, Papua New Guinea

Telephone: (675) 3277 636 / 635 Facsimile: (675) 327 7637 E-mail: dlopposition@hotmail.com

TAXATION REVIEW COMMITTEE PUBLIC CONSULTATION PRESENTATION

HON. SAM BASIL MP

DEPUTY OPPOSITION LEADER & MEMBER FOR BULOLO

SUBJECT: TAX AND TARRIFF AMENDMENTS PROPOSED FOR AGRICULTURE AND BUSINESS AND INDUSTRY AND FOR INDIVIDUALS.

Chairman

Committee Members

Members of Business Community

Members of the general community

Ladies & Gentlemen

SALUTATIONS:

First I thank the Committee for taking this opportunity to Morobe, the biggest province and the industrial capital in PNG.

It is a good occasion that we talk about matters which we hear almost everybody talks or complains and refers to as "I am a taxpayer" and I am entitled to this and that. It is true but it is the system that we must look at whether it is serving us or not and what are our issues and expectations that must be fixed or addressed.

Too often we expect Members of Parliament to make decisions or decide what is good or bad for you. However, such opportunity as this provides the opportunity for you to address your concerns.

The Committee will hear your concerns and submissions and look at the business aspects, economic implications and whether the existing laws allow our proposal. If not, does the Constitution or other laws allow and if not should Parliament change these laws to enable our concerns to be considered and given due prominence as intended.

The Committee will compile these issues and alternatives and will assess and analysis and submit its Report to NEC and to Parliament, which will accept, reject or amend and incorporate into our legislative framework.

My presentation will be making references to issues and events and locations and entities that operate in Morobe as example. Any names are for reference and clarification purposes. It should not be seen as me supporting these persons or business or against them. This is for illustration purposes.

Before I take most of your time, I will provide brief background of why this Submission contains the proposals and actions. I will then in summary propose the changes for and against the current

taxation and tariff regime. The explanations and background of my submission is about 12 pages. I will not go through detail but is for the Committee, unless you all want me to continue.

INTRODUCTION:

Taxation and tariff is two edged sword that must be used properly for the economy. All of us don't want to pay taxes or government charges. Even business wants tax exemptions or reduced taxes. If the Committee recommends that to NEC or Parliament, it will not be approved as there might not be enough revenue for the state.

Therefore, , due economic analysis must be made that will ensure business thrives, goods and services are affordable including imported and locally produced items and that people have access to services and at least benefit from the taxes.

We must encourage business to expand to rural areas and we must provide incentives for them to shift. Jobs and other income earning opportunities are taken to the people instead of them flocking to the congested urban centres.

Time and again, we have delivered Budgets and with a message of hope to our ordinary citizens. Most of our people live in outlying areas and some do not know we are talking here.

We have talked about the benefit of strong economic growth; lowering costs of living and improving the welfare of ordinary citizens. We have talked about participation in economic activities; opportunities in the formal workforce and to build future for families.

PNG has 12 years of uninterrupted economic growth, with higher than average GDP rate of more than 5 percent, across international level.

In that period, opportunities existed for our people to benefit. We had kina appreciating, where the people could benefit through the exchange rate savings with lower prices for goods and services to our ordinary citizens.

Similarly, with the kina depreciating, our farmers could have benefitted from exports of their primary produce, with increased prices or alternatively rely on our own domestic products

The opportunity to grow the micro economic level is to ensure funding with institutional capacity to deliver to the people, determine the destiny, and contribute to the economy.

SME development and expansion must start with land and agriculture. The four factors of production is land, labour, capital and entrepreneur skills

We must strategize to build and encourage our local industries. The country needs to impose embargoes, quotas and relook tariff to encourage and promote our agriculture sector. Fruits, vegetables and livestock products that are produced locally should encourage.

We must reduce tariff on imports in agricultural production and processing. Our food prices will increase with depreciation of kina but as fertilizers, chemicals, feedstock, veterinary items are imported at reduced tariff, we expect the benefits in lower prices passed to consumers.

REASONS FOR TAXATION:

Enforcement of taxation laws and application of various tariff and tax rates on certain individuals, firms or various industries is important in the generation of revenue for the State. It is also used to discourage certain consumption patterns. For example, 100-150 percent tariff is applied on luxury vehicles like Range Rover so that working vehicle is purchased or people do not spend money on harmful products or to encourage production of certain local products. Also, taxes are imposed at certain rates to encourage a savings culture, increase consumption of locally produced goods and services, create employment and income opportunities or to encourage certain sectors of the local economy to grow.

Further, taxes including tariff are applied to protect local jobs, businesses and industries and to encourage them to be competitive, hence compete with established foreign businesses.

FOCUS:

As local Member from Morobe, my presentation will be geared towards addressing the issue of individuals and the business sector in my Electorate, Province and PNG. My focus will be on Individuals, certain business area, Agriculture sector, businesses community and other general issues.

INDIVIDUALS ON SAVINGS CULTURE IN APPROVED FUNDS:

To start with individuals, the Government announced policy that low income earners especially for those earning below K16, 000 per year will not pay tax and amount supposed to be paid as tax should be used to pay for education and health needs or for general savings.

We do not know if the intended purpose had been achieved. With the introduction of subsidized education and now free health services, it appears the savings must be increasing.

From my observation, these savings are spent on unnecessary and harmful activities such as Alcohol, gambling, smoke and bettlenut and street lamp flaps and cones – unhealthy habits. We cannot regulate consumption choices, but we can discourage it by introducing policies to save the monies or use to generate further income.

My proposition is to encourage a savings culture. Although these monies are supposed to be saved, in PNG, generally we do have a habit of saving the excess funds in the banks to be withdrawn within a month. Hence, there must be incentives for the tax saved to be directed into a permanent savings fund or approved superannuation fund.

In this case, I submit that the Tax Threshold should be increased to K20, 000. Also, a person who has direct pay deduction above the compulsory employee and employer Superannuation amount to an approved superannuation or savings and loans society for more than 3 years should not be taxed after leaving employment due to resignation, termination or retirement.

EQUITABLE SYSTEM OF EDUCATION SYSTEM AND EDUCATION REBATES:

There was a provision in the Income Tax Act that provided for persons paying schools fees in Permitted institutions outside of Government Schools to claim school fee rebates of 25 percent of fee paid or K750, whichever was the higher.

A person who pays K10, 000 in an approved permitted school would be entitled to K2, 500 or K750, in this case K2, 500.00 being the higher.

This provision was removed in 2003 when school fee subsidies were provided with maximum of K750 rebate was allowed. Government schools charged school fees were less than K500 and Private and church and permitted schools charge fees at K3-5000 per annum whilst Internal Educational Agency schools charged beyond K10, 000 per annum.

The school fee subsidy of K250-500 per student in Government schools given to children in permitted schools equates to less than 5 percent. Even the K750 tax rebate allowed is negligible or equivalent to less than 8 percent.

In 2012 the National Government announced 100 percent tuition free education. The intention is noble as enrolments increased but t classroom, accommodation and teaching materials have not been complemented. There are shortage of space in schools whilst others seek quality education through church, private and IEA schools. Between 2003 and 2013, permitted schools tuition fee and other charges have increased with fees for Grade 1-12 being around K15-20,000 per annum.

This policy has reduced the burden on majority of our parents, but quite a portion of our population are conscious of distance to schools, quality education, Christian education, quality learning environment and prefer Permitted Schools.

Consider two taxpayers at same salary level, same tax rate and net pay. One has three children in government schools benefits from 100 percent subsidized tuition fees (say $K500 \times 3 = K1,500$) and save the Tuition fee component. The other has three children in permitted school pays (say $K5000 \times 3 = K15,000 - K1,500$ subsidy = $K13,500$) K13, 500 benefits. The parent in permitted school enjoys 1 percent subsidy. He is allowed rebate of $K750 \times 3 = K2,250$ which is 2 percent. The parent ends up paying 97 percent of the school fees.

This is double jeopardy to a tax payer earning same amount and paying same tax with other counterpart benefitting 100 percent. The students in Government or Permitted Schools sit for the same National Exam and fight for space to same High School, colleges and Universities.

The parent in Government schools ends up with spare cash saved whilst parents in Permitted Schools will have to find spare cash to pay school fees. There is burden imposed on some parents who have to cut other expenses to enable their children in Permitted Schools whilst other parents maintain same consumption pattern with school fees saved spent on other items. It seems unfair.

Hence, I submit that IRC re-introduce the amended provision on 25 percent school fee rebate and the K750 maximum allowed and that it should be 25 percent of the School fees paid or K750 of which the higher should be allowed as Rebate. In real terms the taxpayer on same amount but with children in different system are benefiting 100 percent (Government schools) or 25 percent (permitted schools) on in real terms. The Government must be seen to practice equality and equity and be seen as subsidizing for all children so that we develop a society that is free from bias against the Government.

(Note. Many will say this rebate system will benefit politicians but 10 MP from Morobe don't have all the kids to fill ACE Schools, SDA and EBC Schools, IBS, ITI, IEA Coronation and TAFE College. This submission is to assist the ordinary citizens and also the many parents of children in permitted schools in rural areas who work hard for school fees).

AGRICULTURE SECTOR:

PNG is focussed on the non-renewable resource extraction sector, with blind eye to majority of the population that rely on customary land and agricultural production to cater for every day food, money for education and health costs, clothing, transport charges and other needs.

Since 1986, the agricultural sector has been subjected to various incursions by pest and diseases that continues to affect the livelihoods of our people and may ultimately cause havoc on agricultural production and threatening food security and export revenue.

PNG experienced the coffee rust disease in 1986, Potato Leaf Blight in 1990's followed by Cane Sugar Blight, Varroa Mite (bee and pollination), Coffee Berry and Cocoa Pod Borer, Cattle tick, Newcastle Disease and now coconut and betel nut palms wilting and dying out.

The apiculture (honey-bee) industry is affected by varroa mite infection that threatens honey production but may impact on pollination of commercial and food crops.

Further, PNG has a growing poultry industry where 12.8 million birds are raised and sold by smallholder farmers worth K384 million and combined with the commercial sector is around K600 million annually.

Australia allocates up to K250 million in its Budget to cater for eradication of pests and diseases and yet does not allow uncooked poultry and livestock products into their country. In PNG, our funding is almost zero for containment yet allows imports.

The Customs, IRC, Department of Agriculture & Livestock and the National Agriculture Quarantine Authority (NAQIA) must conduct Import Risk Assessments for the importation of fresh fruit and vegetables, uncooked meat products, poultry and egg products.

I submit that we must use taxation and tariff to protect our jobs, economic opportunities and expansion of our local industries. That does not mean that we do not trade with others.

To build up the agriculture sector (copra, coffee, cocoa, apiculture, livestock, tea, sugar, fruits and vegetables etc.), I submit that, we must consider the following:-

1. **Impose increased tariff on fresh fruit and vegetable that we can grow locally such as cabbage, broccoli, tomatoes, carrot, beans etc.** We may not meet the demand now but market forces will enable our farmers to produce more and also supply quality demanded. We must do it now. Apples, grapes, oranges and other fruits and vegetable that we do not grow can continue to be imported.
2. **DAL, NAQIA and Customs and IRC must carry out research as to where and how the various pests and diseases are coming from and the likely threats to the country. Any importation of items that are suspected of being hosts of these pest and diseases must have tariff increased.**

For example, if it is found that sugar, tobacco or soft drinks, live imports of chicken and eggs products are host of these pests and diseases, the tariff and even taxation rate for that particular industry must be increased so that we protect our agriculture sector.

We may lose out on certain tax and employment but agriculture provides incomes and livelihood for the majority of Papua New Guineans.

3. **We must reduce tariff on all agricultural inputs such as fertilizers, weedicides, pesticides and insecticides, feed meal, tractors and implements so that we increase food production as well as food processing in this country.**
4. **We must allow seven (7) years tax break on all agriculture sector – growers and processors, and grower-processors so that losses of up to seven (7) years can be claimed back to encourage investment in the agriculture sector.**
5. **Also, the Green Revolution Initiatives introduced by Somare Government must be reactivated. This relates to funds that are expended by firms and companies for research, development and extension and training of smallholder and outgrower farmers should be granted tax credit for amounts expended.**

The processes and procedures must be clearly established and publicized for those interested or engaged to claim credits. This must be done through an application process and those assessed to qualify must be advised accordingly.

6. **Also Government must provide for 100 percent tax depreciation for all plant, equipment, machinery and vehicles for those engaged in growing of all commodity crops.**

As we have not captured the benefits for supply of fresh fruit, vegetables and livestock to the major resource extraction projects as our agriculture sector was not geared to take advantage. The Committee should consider a period of ten to 15 years so that our farmers are ready to supply Gulf LNG, Stanley Gas, Wafi/Golpu, and other mining projects coming on stream.

If we reduce tariff and tax on items used as inputs into agriculture production, definitely, we will reduce costs of production of fresh fruit and vegetable, livestock products (beef and sheep etc.), chicken products, and so the price to consumers and also we gain food security for the country which will create a healthy, wealthy nation enshrined in the Vision 2050.

Now, almost all the agriculture sector is in the hands of smallholders. We cannot wait and become like countries in Africa who were once like PNG but are now facing starvation and poverty. We must provide for food security and poverty alleviation.

We cannot continue to say to invest in agriculture when DSIP for Agriculture is paid to buy 5 tractors with implements at K1 million when we can buy 10 tractors with K1 million and even depreciate the costs of tractor so that we give maximum value to our people through supply of food at affordable rates whilst creating income earning opportunities, employment and growing the economy.

MONOPOLY SITUATION

We must also be careful not to use protection of jobs, business and opportunities to reduce tariff when there is a monopoly situation. Any benefits through taxation or tariff may see that particular industry being protected and supported to expand into a strong monopoly.

For example, we may have single rice and sugar cane grower, cattle company, poultry processor or plywood mill. To protect this local industry, we increase the tariff by 50 percent. If we have a single participant, what is the guarantee that more employees will be engaged and the local products is cheaper than imported item. The changes the protection offers must be visible – say a K2.00 for item should now sell at K1.70 etc.).

For example, we can use local eggs and sugar to produce biscuits and prices should be reduced as they gain economies of scale in production. Plywoods are used in buildings and so costs of classrooms or houses should lower than buildings constructed from imported plywoods.

I submit that protection should be provided through tariff if there are three or more participants in that particular area so that their actions and competition will allow quality and affordable products for our people. Also, we can see how many actual jobs are created and how their products can be used as inputs into other sectors. This will see reduction in cost of these products over time as well as increase employment and contribution to general economy.

Some products use local raw materials but are expensive against imported items. For example, we can produce honey locally using local materials; however other factors such as fuel, electricity and transport costs can increase sales price to consumers. There are scenarios where local honey without preservatives are sold at K30 per kilogram in our shops whilst imported honey from New Zealand with added preservative sells at K20 per kilogram.

Sometimes, our local protected industry may become complacent and may not respond to consumer needs. They may want to supply Lae and Madang and Port Moresby only where transport is reliable rather than supplying Gulf, Western, the Highlands where costs of transport and access is hard hence our consumers or the people suffer.

Whilst trying to protect the industry, the impact of the tariff increase does not make our local product any cheaper or better in quality. Hence, the need to assess its impact on the industry and economy and also the benefits of prices flowing down to consumers.

PROTECTION BUT REDUCTION IN INPUT COSTS FOR LOCAL BUSINESS:

If the Government wants to give tariff and tax exemptions to rice, beef, tapioca etc. in agricultural sector, we must ascertain that we get quality producers, at required times at affordable prices than imported item.

Bulolo District produces the popular Zenag Chicken. We may even want to produce Bulolo Beef and Government may increase tariff on import of poultry or cattle /beef products.

In the process, we could be removing affordable products from people's kitchen. As shown in the honey story, imported marinated 1 kg imported beef or chicken may sell for K24 whilst local frozen 1kg beef or chicken sells at K36. A price difference of K12. Even the imported products, transported from New Zealand and had 50 percent tariff applied is cheaper and fresh than the locally produced and frozen product.

We must ensure that tax or tariff benefits must ensure the locally produced chicken or beef must sell at K22-K25. This will enable competition with tariffed imported finished product from New Zealand.

So, I submit that we must reduce or apply zero rate tariff on chicken and stock feeds, veterinary supplies and pesticides and products such as corn, sorghum, grain that are processed as stock feeds to reduce the cost of production and enable products to compete with imported items.

Also I submit that tax losses from agriculture sector must be carried for seven years to allow them to cover their capital and investment costs.

Without prejudice to Zenag Chicken and New Guinea Table Birds that compete, an anticipated or real demand for poultry products can divert their attention to supply a secured contract bulk market rather than normal trading customers and individuals.

What if both agree to increase their prices due to transport costs. Both local and imported poultry products are outside reach of ordinary people. They resort to other meat, which tends to be cheap imported lamp flaps. We have pushed our people into lifestyle diseases and strain on the health system and the tax payer's monies. We must have 3-4 or more entities involved.

REDUCTION OF TARIFF AND OTHER TAXES ON USED VEHICLES

Any form of transport used is important to move people and cargo and other services. There is perception that used vehicles are causing traffic congestion hence need to increase tariff and taxes. This argument is a fallacy and only punishes our people. Vehicles are used to transport goods and services to and from. There is no traffic congestion along the Okuk Highway, Ramu Highway, Magi or Hiritano Highway.

The argument for increased tariff and taxes is congestion but most vehicles in NCD and Lae are diverting to the maintained roads from Boroko to Gerehu rather than Baruni Road or Tokarara which not maintained.

We are also penalising our average citizens who cannot afford the luxury Landcruiser and Mazda selling at K120, 000 however, a second hand vehicle of the same type selling at K50, 000 can carry more people, cargo and service many others.

I submit that we reduce tariff and tax on second hand vehicles and increase taxes on luxury vehicles to reduce congestion. We need more vehicles to transport goods and supplies into places like Bulolo and Menyamya for K40 per person or wait for a Single Landcruiser to charge K200 per person to Menyamya. We must reduce the tariff on second hand vehicles.

REMOVAL OF ZERO TARIFFS ON RE-IMPORTS

Many heavy equipment and machinery are imported for use in our industries. The Government wants to encourage SME, job creation and business opportunities in the country. We must encourage that repair, maintenance and servicing of machinery and equipment is done in the country. This is to ensure jobs are created, skills are developed and business thrives.

There is a tendency where most heavy equipment, plant and equipment are sent overseas for repairs and are returned due to zero tariffs. However, there may be circumstances where some of these work needs to be sent to specialised manufacturers or producers but we must retain this to create our jobs. By allowing this zero tariff imports, we are actually exporting job opportunities and business overseas.

This does not encourage our local business nor creates jobs for our neither people nor training on such plant and equipment. **We must remove the Zero tariff on imports so that such work are done in the country.** This may require foreign investors setting up shop here as well as recruiting qualified personnel.

If we remove zero tariff, we are creating jobs, training opportunities and skills transfer for our people as well spin off activities to supporting industries. Ultimately, the foreign business will

train our locals, jobs are created and money is circulated in the economy and encourages other business and in the long term, this business can be acquired by locals.

INDUSTRY:

There are many sectors and industry. We have different tax regimes and processes. When the opportunity arises such as in Extractive industries, Petroleum and Gas or Manufacturing, further submissions will be made.

At this juncture, any business that operates 20 kilometres outside of a declared city limit must be given certain tax considerations. The further we move into rural district centres, certain tax benefits must be given and the more remote, the more tax benefits should be allowed.

For example, I have submitted for entities in the agriculture sector, which would normally operate in rural areas. They would benefit from Agricultural tax credits and benefits such as 100 percent depreciation.

In this case, if a business opens a furniture or shoe factory in Menyamya, where such business would not operate. **Hence, provisions must be made to give 3 years tax holiday as well as 50-70 percent tax depreciation on capital acquisition so as to encourage them. Further such business must also be allowed tax losses for up to five years.**

PIONEER INDUSTRY STATUS, TAX HOLIDAYS AND INCENTIVES:

There were provisions in law to give pioneer industry status as well as give tax incentives such as tax holidays for number of years to increase investment in certain sectors of the economy. This was used in the 1980-1990's but mostly to foreign enterprise. Tax exemptions and import tariffs were reduced and state land secured to get the industries up and running.

Whilst I encourage foreign and local investment, many have not been genuine and even if they are making huge profits now, their contribution to certain social and community obligations is next to nil. Some were even assisted by State through funding of feasibility studies, securing of prime real estate land and even state equity. Some even stated that local materials will be sourced once the industry is up and running.

Some have been small operators but now have become corporate giants. Without offence, when cement factories were supposed to quarry limestone, it was decided that it must be imported and later sourced locally. Now do we have local quarry. We gave 30 years exemption to InterOil and this company has entered into the retail outlets and now into exploration etc. While we are located into the 30 years, do we hear about InterOil fixing some roads for the Motu Koitabu people or sponsoring Port Moresby Vipers or Softball?

Some of our resource extraction companies did not even declare profits for over 10 years and never paid certain taxes. Yes, they invested so much money to extract gold or copper or timber. The gold, copper or trees were not planted by these companies. It was on land guarded by Papua New Guineans for generations and supposed to be owned by the people.

These enterprise invested monies in heavy and specialised equipment and manpower to extract these resources, yet they have 100 percent access to these natural resources and even ask the State and people to contribute equity when our equity is supposed to be 50 percent or more even considering the top soil area that is being destroyed.

In the agriculture sector, we heard about investors in Tapioca and Cashew nuts to extract oil and rice investors to undercut our huge rice import bills. Departments of Agriculture & Livestock, Commerce & Industry and Lands & Physical Planning manpower, technical and financial resources were used to survey and acquire land, conduct feasibility studies and inject working capital to get them off the ground.

After some years, we have yet to hear about when the oils will be extracted or rice will be milled. Look at our farmers and SME and other local enterprise. They cannot afford surveyors let alone their application for State Land Lease is taking ages. State cannot afford K5 million to conduct feasibility studies and even provide equity contribution to get them into production.

Farmers who continuously supply Lae city from the Huon Gulf, Markham, and Bulolo etc. are doing it for 15-20 years and even go to extent of building roads with their hands. What an irony we have. As stated above in supporting local products, would the oil, fuel or even rice will be cheaper than those imported or produced locally by our farmers.

My submission is that we must open all the pioneer status (the provisions may have been repealed but some are still benefitting from the time periods allowed), tax exemptions and holidays to any Papua New Guinea and must be given equal consideration to secure State Lease, provide state equity and other benefits. We know that Papua New Guineans are generous and we see our small business sponsoring students, assisting in local events, provide employment and the profits will remain in PNG.

TAX ADMINISTRATION:

We must immediately review the Government financial system. We have closure of accounts that also affects payment of tax rebates, GST credits and refunds from the IRC.

We expect the taxpayers to pay tax in December and January whilst we close our books and doors to the taxpayers. We argue that warrants are released in February whilst we issue notices that by 28 February, all tax returns to be filed. What if the business all state that their accounts are closed and follow the Government system. The country will not have the funds to run the budget.

Also, many tax payers complain about outstanding assessments and unpaid credits or school fee rebates or GST refunds. **Taxes from employees are paid when salaries are paid or companies pay when due hence their rebates must also be processed in a timely manner as fast as it is collected.**

CONCLUSION.

Taxation and tariff is two edged sword that must be used properly for the economy. Hence, due economic analysis is done to ensure business thrives, goods and services are affordable and can compete or protect against imported items and that people have access to services which Government might not provide. We must shift to rural area and where majority are located.

The explanatory notes are attached.

Thank you all for your time.

SAM. H. BASIL