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**15<sup>TH</sup> MAY 2014**

**THE HEAD OF SECRETARIAT,  
PNG TAX REVIEW SECRETARIAT,  
DEPARTMENT OF TREASURY,  
P.O Box 1598,  
BOROKO,  
NCD.**

DEAR SIR,

## **SUBJECT: TAX REVIEW**

I WISH TO START OF MY SUBMISSION BY QUOTING POPE LEO THE XIII, IN HIS ENCYCLICAL "RERUM NOVARUM". HE SAID, AND I MAY QUOTE, THAT **"WHOEVER HAS RECEIVED FROM THE DIVINE BOUNTY A LARGE SHARE OF TEMPORAL BLESSINGS, WHETHER THEY BE EXTERNAL AND MATERIAL, OR GIFTS OF THE MIND, HAS RECEIVED THEM FOR THE PURPOSE OF USING THEM FOR THE PERFECTING OF HIS OWN NATURE, AND, AT THE SAME TIME THAT HE MAY EMPLOY THEM, AS THE STEWARD FOR GOD'S PROVIDENCE, FOR THE BENEFIT OF OTHERS"**. IN MY OPINION THIS IS A POWERFUL STATEMENT THAT HITS THE CORE OF THE COMMITTEE'S TASK. THE WORD OTHERS, AT THE END OF THE QUOTE REFERS TO HUMANITY, INCLUDING THOSE WE DON'T EVEN KNOW.

PERMIT ME TO SAY THAT THE COMMITTEE IS FACED WITH A DIFFICULT TASK OF BALANCING ECONOMICS, LAW AND MORALITY. A TASK, WHICH REQUIRE EXPERIENCE, KNOWLEDGE, SKILLS, COMPETENCE AND ABOVE ALL, SUPERNATURAL GIFTS OF INSIGHT AND FORESIGHT.

MY SUBMISSION IS BASED ON MANY YEARS OF DOING TAX WORK FOR SMALL TO MEDIUM ENTERPRISES (SMEs) IN PNG, BEGINNING IN 1988. THE SMEs EMPLOY OVER 70 PERCENT (EST.) OF THE FORMAL AND INFORMAL WORKFORCE IN PNG. IT IS THEREFORE A VERY IMPORTANT SECTOR OF THE BUSINESS AND TAX PAYING COMMUNITY IN PNG. IT WOULD BE A FATAL MISTAKE BY THE TAX REVIEW COMMITTEE TO IGNORE THEIR PLIGHT AND SPECIFIC CONCERNS IN SO FAR AS TAXATION IN PNG IS CONCERNED.

THE SMEs IN PNG FACE CHALLENGES, WHICH ARE NOT NORMALLY FACED BY LARGE NATIONAL AND MULTINATIONAL CORPORATE ENTITIES IN PNG. THE CHALLENGES THEY FACE AS A BUSINESS ENTITY AND TAXPAYER IN A HIGHLY COMPETITIVE AND CORRUPT SOCIETY AS PNG HAS SADLY BECOME IN THE LAST THIRTY (30) YEARS, ARE WORTH CONSIDERING SERIOUSLY BY THE TAX REVIEW COMMITTEE. I MAKE NO APOLOGIES TO THE DISTINGUISHED COMMITTEE FOR USING THE UNPLEASANT WORD, CORRUPTION, BECAUSE THAT IS WHAT THE EXPERTS ARE SAYING WE HAVE BECOME.

DUE TO THEIR IMPORTANCE TO THE SOCIAL AND ECONOMIC LANDSCAPE AND ORDER OF THE COUNTRY, THE STATE'S TAX SYSTEM SHOULD GIVE RECOGNITION AND SUPPORT TO SMEs. SMEs MAY NOT BE PAYING MUCH TAX TO THE STATE, BUT THEY CERTAINLY PLAY A SIGNIFICANT ROLE IN PROVIDING EMPLOYMENT OPPORTUNITIES TO THE TENS OF THOUSANDS OF CITIZENS WHO MISS OUT ON COLLEGE AND UNIVERSITY EDUCATION EACH YEAR.

I AM NOT SAYING THAT THE COMMITTEE SHOULD GIVE PREFERENTIAL TREATMENT TO SMEs. WHAT I AM SAYING IS THAT THE COMMITTEE SHOULD NOTE AND APPRECIATE THE CHALLENGES FACING SMEs IN PNG AND THE ROLE THEY PLAY IN SOCIETY'S WELFARE.

#### **THE NEED FOR INNOVATIVE APPROACH**

AT THIS STAGE, I WOULD LIKE TO ENCOURAGE THE TAX REVIEW COMMITTEE MEMBERS TO BE INNOVATIVE AND NOT BE TOO PREOCCUPIED WITH THE PAST. THE PAST SHOULD BE USED AS A REFERENCE AND OR GUIDE ONLY. THOSE WHO HOLD ON TO THE PAST WILL INEVITABLY FACE EXTINCTION LIKE THE DINOSAURS.

THE COMMITTEE SHOULD TAKE A MORE FUTURISTIC APPROACH AND BE PREPARED TO BREAK WITH CONVENTION. IF WHAT WE'VE BEEN DOING IN THE PAST IS NOT GETTING US ANYWHERE AS A NATION, WE SHOULD NOT FEAR TO CHANGE, IF THE CHANGE IS FOR THE BETTER. STABILITY IN A RAPIDLY CHANGING SOCIAL AND ECONOMIC ENVIRONMENT IS A RECIPE FOR DISASTER. IF WHAT WE THOUGHT WOULD WORK IS NOT WORKING, WE MAY AS WELL TRY DOING WHAT WE THOUGHT WOULD NOT WORK.

OUR COUNTRY AND INDEED THE WHOLE WORLD IS GOING THROUGH A PERIOD OF RAPID SOCIAL, ECONOMIC AND ENVIRONMENTAL CHANGES WHICH ARE PRESENTING COMMUNITIES WITH ALL KINDS OF CHALLENGES. THESE CHALLENGES REQUIRE PEOPLE WITH WISDOM, COURAGE, INSIGHT AND FORESIGHT TO MAKE THOSE HARD DECISIONS, WHICH WE SOMETIMES FEAR TO MAKE BECAUSE OF FEAR ITSELF.

***I AM SURE THAT THERE ARE PEOPLE OUT THERE WHO ARE WATCHING WITH INTEREST ABOUT WHAT THE TAX REVIEW COMMITTEE WILL COME UP WITH. WHAT WE SHOULD TELL THESE PEOPLE IS, WHATEVER WE COME UP WITH, WILL BE WHAT IS GOOD FOR THE OVER SEVEN (7) MILLION PEOPLE OF PNG AND NOT ANY PARTICULAR INTEREST GROUP AND SECTOR OF THE COUNTRY.***

## **1. IS THE PNG GOVERNMENT GETTING APPROPRIATE REVENUE FLOWS FROM THE CURRENT TAXATION REGIME? WHICH AREAS ARE DEFICIENT AND WHY?**

UNDER THIS SECTION OF MY SUBMISSION, I PROPOSE TO DISCUSS THE MOST BASIC TAXES: PERSONAL INCOME TAX, CORPORATE PROFIT TAX AND GST.

### **1.10 PERSONAL INCOME TAX REGIME-RESIDENT TAX PAYERS.**

THE PERSONAL INCOME TAX REGIME APPEARS TO BE SERVING OUR COUNTRY AND ITS WORKFORCE FAIRLY WELL WHEN ONE CONSIDERS THE FACT THAT IT PROTECTS OUR LOW INCOME EARNERS AND THEREFORE THE MOST DISADVANTAGED AND VULNERABLE FROM PAYING PERSONAL INCOME TAX AT A TIME WHEN THE STATE CAN MOST AFFORD IT.

THE O'NEIL/DION GOVERNMENT SHOULD BE COMMENDED FOR ITS WISDOM IN SHIFTING THE TAX BURDEN TO THOSE WHO CAN ABSORB THE IMPACT OF PERSONAL INCOME TAX ON THEIR HOUSEHOLD BUDGETS. MOREOVER, IT EXEMPTS THE INCOME OF A SIGNIFICANT PERCENTAGE OF THE COUNTRY'S WORKFORCE WHO IS STRUGGLING TO MAKE ENDS MEET UNDER THE PRESSURE OF RISING COST OF LIVING. THIS TO ME IS A VERY IMPORTANT POINT TO NOTE BY THE TAX REVIEW COMMITTEE. MORE TERSELY PUT, THE PERSONAL INCOME TAX REGIME HAS A HUMAN FACE AND PRACTICALLY EXEMPTS MEMBERS OF WORKFORCE WHO MOST NEED THE EXEMPTION.

THE QUESTION OF WHETHER THE EXEMPTION IS ADEQUATE/FAIR/JUST ETC. IS BEYOND THE SCOPE OF THIS SECTION OF MY SUBMISSION. WHAT I AM SAYING IS THAT THE PRINCIPAL AND ECONOMIC RATIONALE BEHIND THE STRUCTURE OF THE PERSONAL INCOME TAX REGIME IS NOT ONLY SOUND BUT MORALLY AND ETHICALLY SUSTAINABLE.

THE REALITY IS THAT THE STATE STILL TAXES THE WORKER WHEN HE DECIDES TO SPEND HIS WAGES IN ACQUIRING GOODS AND SERVICES THROUGH THE GOODS AND SERVICES TAX. IN OTHER WORDS, THE LOSS IT SUSTAINS BY GRANTING EXEMPTION TO 500,000 (MORE OR LESS) WORKFORCE IS CUSHIONED BY WHAT IT GAINS THROUGH OTHER FORMS OF TAXES, PARTICULARLY GST.

THERE HAVE BEEN COMPLAINTS IN THE PAST BY INDIVIDUALS WHO CLAIM TO BE OVERTAXED. I THINK THAT THIS IS BASED IGNORANCE OR THE EMPLOYER MAY HAVE MADE AN ERROR IN COMPUTING THE TAX PAYABLE BY THE INDIVIDUALS. IGNORANCE IN A SENSE THAT THE CLAIM BY THESE INDIVIDUALS ABOUT BEING OVERTAXED IS BASED ON THEIR (PERHAPS NARROW) UNDERSTANDING OF WHAT THEY PAY AS TAXES AND WHAT THEY RECEIVE AS SERVICES FROM THE STATE, WHICH IS FUNDED BY THE SAME TAX THEY PAY. IN OTHER WORDS, THE TAX THEY PAY HELPS PAY FOR THE INDIRECT BENEFITS THEY ENJOY/RECEIVE.

## **1.20 APPROPRIATENESS OF REVENUE FLOWS-PERSONAL INCOME TAX REGIME.**

WHEN ONE CONSIDERS THE REVENUE INFLOWS FROM PERSONAL INCOME TAX AND THEIR APPROPRIATENESS BY SOURCE, ONE CAN SUSTAINABLY SAY THAT THE REVENUE INFLOWS FROM PERSONAL INCOME TAX COMES FROM THE MOST APPROPRIATE SOURCE-MEMBERS OF THE WORKFORCE WHO CAN MOST AFFORD IT.

THE CURRENT PERSONAL TAX REGIME IS ALSO IN HARMONY WITH THE BIBLICAL TRUTH THAT "TO THOSE MUCH IS GIVEN MUCH IS EXPECTED". THIS I THINK IS THE CRUX OF THE MATTER.

## **1.30 DEFICIENCY-PERSONAL INCOME TAX REGIME**

I SEE NO DEFICIENCY IN THE CURRENT PERSONAL INCOME TAX REGIME. THE PERSONAL INCOME TAX STRUCTURE IS BASED ON THE RIGHT PRINCIPAL AND IS MORALLY RESPONSIBLE. THE STRUCTURE SHOULD THEREFORE BE LEFT AS IT IS.

- ***THE WRITER IS INCLINED TO SUGGEST A DUAL PERSONAL INCOME TAX RATE BY SECTOR. EMPLOYEES WHO ARE EMPLOYED BY COMPANIES AND INDIVIDUALS WHO ARE INVOLVED IN SUSTAINABLE INDUSTRIES LIKE TOURISM, AGRICULTURE, FORESTRY, FISHERIES ETC SHOULD PAY LESS TAX. THIS SHOULD ENCOURAGE EXPERTISE IN THESE INDUSTRIES TO COME INTO PNG AND HELP GROW THEM. PNG NEEDS A SOLID SUSTAINABLE SECTOR, WHICH WILL SUSTAIN THE COUNTRY AFTER ALL THE MINERAL, OIL AND GAS IS GONE. THE COUNTRY NEEDS TO SACRIFICE TODAY FOR A BETTER TOMORROW.***

## **1.40 BASIC CORPORATE PROFIT TAX**

PNG HAS A FIXED COMPANY PROFIT TAX RATE, WHICH IS CURRENTLY SET AT 30 PERCENT FOR RESIDENT COMPANIES AND 48 PERCENT FOR NON-RESIDENT COMPANIES. UNLIKE THE SALARIES AND WAGE TAX RATE, WHICH INCREASES WITH THE GROSS FORTNIGHTLY INCOME, THE COMPANY TAX RATE IS FIXED REGARDLESS OF AMOUNT OF NET TAXABLE INCOME. APART FROM THIS, COMPANIES WHO DECLARE DIVIDENDS ARE SUBJECT TO DIVIDEND WITHHOLDING TAX, WHICH IS CURRENTLY SET AT 17.50 PERCENT.

THE NET PROFIT AFTER TAX AND DIVIDEND IS TRANSFERRED TO RETAINED EARNINGS AT THE END OF EACH FINANCIAL YEAR. FROM THE COMPANY'S POINT OF VIEW, RETAINED EARNINGS REPRESENT PROFIT WHICH IS REINVESTED INTO THE BUSINESS. FROM THE TAXATION POINT OF VIEW, THE RETAINED EARNINGS ARE NOT ONLY PROFIT REINVESTED INTO THE BUSINESS BUT IT ALSO REPRESENTS UNDECLARED DIVIDENDS ON WHICH THE STATE DOES NOT RECEIVE ANY DIVIDEND WITHHOLDING TAX.

FOR EXAMPLE, IF A RESIDENT COMPANY MADE SAY K100 MILLION IN NET TAXABLE PROFIT AND DECLARED K15 MILLION IN DIVIDENDS. THE STATE WOULD “LOOSE” K14,875,000 IN DIVIDEND WITHHOLDING TAXES ON THE RETAINED EARNINGS OR UNDECLARED DIVIDENDS.

MOST SMES DO NOT DECLARE DIVIDENDS AT ALL. ON THE OTHER HAND, MOST PUBLIC COMPANIES DECLARE REGULAR ANNUAL DIVIDENDS. ONE OF THE MAIN REASONS WHY PUBLIC COMPANIES DECLARE REGULAR ANNUAL DIVIDENDS IS THAT IT HAS TO KEEP ITS SHAREHOLDERS WHO ARE MEMBERS OF THE PUBLIC HAPPY.

### **1.50 APPROPRIATENESS OF REVENUE FLOWS-COMPANY INCOME TAX REGIME.**

GENERALLY, THE WRITER IS SUPPORTIVE OF THE CURRENT INCOME TAX RATE ON TAXABLE CORPORATE NET PROFITS BY VIRTUE OF THE FACT THAT NO ONE IS COMPLAINING ABOUT IT. IT APPEARS THAT THE BUSINESS COMMUNITIES ARE CONTENT WITH THE CURRENT COMPANY INCOME TAX RATE FOR BOTH RESIDENT AND NON-RESIDENT COMPANIES. WITH THE AMOUNT OF PROFITS COMPANIES ARE MAKING THESE DAYS, IT IS NOT HARD TO UNDERSTAND WHY COMPANIES APPEAR TO BE CONTENT WITH THE CURRENT CORPORATE PROFIT TAX RATE.

### **1.60 DEFICIENCY-CORPORATE PROFIT TAX REGIME**

UNDER THE BIBLICAL TRUTH OF “TO THOSE MUCH IS GIVEN MUCH IS EXPECTED”, THE WRITER IS INCLINED TO PROPOSE THAT THE COMMITTEE SERIOUSLY CONSIDER STRUCTURING THE CORPORATE PROFIT TAX RATE IN LINE WITH THE PERSONAL INCOME TAX RATE. IN OTHER WORDS, THE CORPORATE PROFIT TAX RATE SHOULD ALSO BE BASED ON THE AMOUNT OF PROFIT OUTPUT OF COMPANIES.

SECONDLY, THE GOVERNMENT OF PNG IS FOCUSED ON GROWING A STRONG AND SUSTAINABLE SME SECTOR, A MOVE THAT IS WIDELY SUPPORTED BY ALL SECTORS OF THE COUNTRY INCLUDING EXPERTS. IN VIEW OF THIS, OUR CORPORATE PROFIT TAX STRUCTURE SHOULD BE SME FRIENDLY AS WELL. MORE TERSELY PUT, THE CORPORATE PROFIT TAX SHOULD BE STRUCTURED IN SUCH A WAY THAT IT SUPPORTS THE GROWTH OF SMES; A COMMENDABLE GOVERNMENT INITIATIVE.

THIRD, THE PNG ECONOMY HAS SHIFTED TO A HIGHER LEVEL THAN SAY TEN (10) YEARS AGO. BUSINESS INPUT AND OUTPUT (VALUE) HAS INCREASED SIGNIFICANTLY AS A RESULT OF INCREASED ECONOMIC ACTIVITY IN THE COUNTRY. COMPANIES ARE REPORTING MORE PROFITS THAN EVER BEFORE. BUSINESS CASH FLOWS HAVE NOT ONLY INCREASED BUT HAVE BEEN CONSISTENT AS WELL, MEANING THAT BUSINESSES ARE BETTER OFF NOW THAN EVER BEFORE.

FOURTH, THE COUNTRY HAS BEEN VOCAL ABOUT GROWING THE SUSTAINABLE SECTORS OF THE ECONOMY, THAT IS, TOURISM, FISHERIES, FORESTRY AND AGRICULTURE.

THE COMMITTEE CAN MAKE A HUGE IMPACT BY USING THIS OPPORTUNITY TO PROMOTE THE GROWTH OF THESE SECTORS THROUGH APPROPRIATE INCOME TAX REGIME FOR THESE SECTORS. THE CURRENT CORPORATE PROFIT TAX REGIME DOES NOT OFFER ANY INCENTIVES TO INVEST AND GROW THE SUSTAINABLE SECTORS OF OUR ECONOMY.

IN VIEW OF THE ABOVE, I WOULD LIKE TO PROPOSE THE FOLLOWING CORPORATE PROFIT TAX STRUCTURE FOR RESIDENT COMPANIES TO THE COMMITTEE.

<b>TAXABLE PROFIT</b>	<b>PERCENTAGE</b>
0 TO K99,999	25
K100,000 TO K999,999	30
K1,000,000 AND OVER	35
<b>SUSTAINABLE INDUSTRIES</b>	<b>20</b>

THE EXTRA TAX ON THE PROFITS OF THE BIG NATIONAL AND MULTINATIONAL COMPANIES IS A SMALL PRICE TO PAY FOR THE RECENT GAINS IN THEIR PROFITS, GAINS IN ECONOMIC VALUES OF THEIR PRODUCTIVE ASSETS AND GAINS IN THE VALUE OF THEIR MINERAL, OIL AND GAS RESERVES. THE STATE, IN MY OPINION HAS NOTHING TO LOOSE BY ADDING ANOTHER FIVE (5) PERCENT TO THE CURRENT CORPORATE PROFIT TAX RATE TO RESIDENT COMPANIES EARNING NET PROFITS OF OVER K1 MILLION.

AS MENTIONED ELSEWHERE IN THIS SUBMISSION, PNG NEEDS TO GROW AND CONSOLIDATE ITS SUSTAINABLE INDUSTRY SECTOR. THIS IS ALSO IN HARMONY WITH PNG'S VISION 2050. IN MY OPINION, IT IS TIME THE STATE START INVESTING SERIOUSLY IN THE SUSTAINABLE SECTORS OF OUR ECONOMY, SO THAT SOME YEARS DOWN THE TRACK, A HIGH PERCENTAGE OF THE STATE'S REVENUES COME FROM THE SUSTAINABLE SECTORS OF THE ECONOMY.

NEEDLESS TO SAY, OVER THE YEARS THE STATE SACRIFICED/INVESTED SO MUCH IN PROMOTING, DEVELOPING, PROTECTING ETC. FOREIGN INVESTMENTS IN PNG THROUGH ITS INCOME TAX REGIME. IN MY OPINION, THE TIME IS RIGHT FOR THE STATE TO REAP THE REWARDS OF MANY YEARS OF SACRIFICE/INVESTMENT. THE COUNTRY HAS SACRIFICED SO MUCH TO BE WHERE IT IS TODAY. THIS DOES NOT MEAN THAT WE DON'T PROTECT OUR GAINS, FAR FROM IT, WHAT I MEAN IS THAT THE STATE SHOULD ALSO BENEFIT FROM ITS INVESTMENT OVER THE YEARS. I THINK THAT THE MEMBERS OF THE DISTINGUISHED COMMITTEE WILL AGREE WITH ME, MORE OR LESS.

### **1.70 GOODS AND SERVICES TAX**

GST IS A BASIC TAX, WHICH IS PAID BY ALL WHO ACQUIRE GOODS AND SERVICES FROM GST REGISTERED COLLECTORS AND PAYERS. THE CURRENT GST RATE IS 10 PERCENT ACROSS THE BOARD. THE WRITER HAS NO COMMENTS TO MAKE AT THIS STAGE.

## **2. DOES PNG'S CURRENT TAX SYSTEM TREAT TAXPAYERS FAIRLY? DOES IT OFFER LEVEL PLAYING FIELD?**

### **2.1 PERSONAL INCOME TAX REGIME.**

THE WRITER IS OF THE OPINION THAT THE CURRENT PERSONAL INCOME TAX REGIME IS FAIR TO TAXPAYERS AS MENTIONED UNDER 1.10, 1.20 AND 1.30 ABOVE. WHEN I SAY FAIR, I MEAN THE FOLLOWING AMONG OTHER THINGS:

- THE PERSONAL INCOME TAX REGIME RELIEVES LOW INCOME EARNERS FROM THE BURDEN OF PAYING MORE TAX BY EXEMPTING A SIGNIFICANT PORTION OR WHOLE OF THEIR WAGES AND SALARIES FROM TAX.
- THE PERSONAL INCOME TAX REGIME TAXES THOSE WHO CAN ABSORB THE TAX BURDEN WITH MINIMUM IMPACT OF THEIR BASIC HOUSEHOLD BUDGET.
- THE PERSONAL INCOME TAX REGIME IS REFLECTIVE OF THE FACT THAT THOSE WHO BENEFIT THE MOST FROM THE STATE'S ECONOMIC AND SOCIAL ADVANCEMENT SHOULD FOOT A SIGNIFICANT PORTION OF THE COST OF CONTINUED ENJOYMENT OF THE BENEFITS. PUT ANOTHER WAY, THOSE WHO STAND TO LOOSE THE MOST FROM THE COLLAPSE OF THE STATE SHOULD CONTRIBUTE A SIGNIFICANT PORTION OF THE COST OF SUSTAINING THE STATE AND ITS ORGANS.
- FINALLY, GOD ALMIGHTY TELLS US THAT "TO THOSE MUCH IS GIVEN MUCH IS EXPECTED OF THEM". IS THIS WHAT WE CALL JUSTICE? THE PERSONAL INCOME TAX REGIME IS IN HARMONY WITH THE TRUTH AND WHO CAN DISPUTE THE TRUTH.

### **2.2 CORPORATE INCOME TAX REGIME.**

THE WRITER IS OF THE GENERAL OPINION THAT THE CURRENT CORPORATE PROFIT TAX REGIME, WHICH IS FIXED AT 30 PERCENT ACROSS THE BOARD FOR RESIDENT COMPANIES AND 48 PERCENT FOR NON-RESIDENT COMPANIES, IS FAIR *BUT COULD BE FAIRER IF IT WAS BASED ON THE PRINCIPAL OF PAYING MORE TAX FOR MORE NET TAXABLE PROFIT.*

THE COMMITTEE IS ENCOURAGED BY THE WRITER TO EXPLORE THE POSSIBILITY OF AN INCREMENTAL TAX SYSTEM AS PROPOSED IN 1.60 ABOVE.

THE COMMITTEE IS ALSO ENCOURAGED TO GIVE SPECIAL CONSIDERATION TO USING THE INCOME TAX REGIME TO ENCOURAGE INVESTMENT IN THE SUSTAINABLE SECTORS OF THE ECONOMY AS DISCUSSED IN 1.60 ABOVE.

### **2.3 DOES THE CURRENT CORPORATE INCOME TAX REGIME OFFER A LEVEL PLAYING FIELD FOR BUSINESS?**

GENERALLY SPEAKING THE WRITER IS OF THE VIEW THAT THE CURRENT CORPORATE INCOME TAX REGIME FOR RESIDENT COMPANIES DOES NOT OFFER LEVEL PLAYING FIELD FOR BUSINESS.

FIRST OF ALL, THE RESIDENT INCOME TAX REGIME OF 30 PERCENT ACROSS THE BOARD DOES NOT REFLECT THE BIBLICAL TRUTH THAT "TO THOSE MUCH IS GIVEN, MUCH IS EXPECTED". MORE TERSELY PUT, THOSE WHO MAKE MORE SHOULD PAY MORE TO THE STATE'S UPKEEP, WHICH THE CURRENT REGIME DOES NOT REFLECT.

NEEDLESS TO SAY, THOSE WHO MAKE MORE RECEIVE FROM THE DIVINE BOUNTY CERTAIN ADVANTAGES OVER OTHERS, LIKE NUMBER OF YEARS IN BUSINESS, LOCATION OF THE BUSINESS, BETTER TRAINED EMPLOYEES, EASY ACCESS TO FINANCE AND MARKETS, SPECIAL GIFT OF THE MIND ETC. THEY SHOULD THEREFORE BE TAXED HIGHER THAN THOSE WHO ARE LESS BLESSED, SO TO SPEAK.

SECONDLY, THE CURRENT RESIDENT INCOME TAX REGIME TAXES THE WEAK AND VULNERABLE AS MUCH AS THE STRONG, RICH AND SECURE. THE WRITER SEES NO JUSTICE IN TAXING THE WEAK AND VULNERABLE AS MUCH AS THE STRONG, RICH AND SECURE.

THE STATE HAS A MORAL AND ECONOMIC DUTY TO ASSIST THE WEAK AND VULNERABLE BUSINESSES THROUGH LESS TAX TO GROW AND BECOME STRONG AND SECURE, SO THAT THEY ARE ALSO ABLE TO PAY MORE TAXES TO THE STATE IN THE FUTURE.

***THIRDLY, IT APPEARS TO ME THAT STATUS IS THE BASIS OF THE 30 PERCENT INCOME TAX RATE ACROSS THE BOARD FOR RESIDENT COMPANIES AND 48 PERCENT FOR NON-RESIDENT COMPANIES. IN OTHER WORDS, THE COMPANY INCOME TAX RATE APPEARS TO BE BASED ON THE RESIDENTIAL STATUS OF COMPANIES, WHICH MAY BE APPROPRIATE FOR EASE OF INCOME TAX ADMINISTRATION BUT HIGHLY QUESTIONABLE AS THE BEST BASIS FOR INCOME TAX DETERMINATION.***

### **3. IS PNG'S CURRENT TAXATION REGIME INTERNATIONALLY COMPETITIVE? IN WHICH AREAS IS IT NOT AND WHY?**

I AM NOT WELL VERSED ABOUT OTHER COUNTRIES TAXATION REGIME BUT COMMONSENSE AND REASON PROMPTS ME TO SAY THE FOLLOWING:



- LET ME START OFF BY SAYING, “WHERE THERE IS SMOKE THERE IS FIRE”. IN THE LAST TEN (10) TO THIRTEEN (13) YEARS INVESTORS HAVE BEEN FLOODING INTO OUR COUNTRY LOOKING FOR INVESTMENT OPPORTUNITIES. IS THIS AN INDICATION THAT OUR COUNTRY’S TAXATION REGIME IS INTERNATIONALLY COMPETITIVE? I DARE TO SAY YES.
- IN THE LAST TEN (10) TO THIRTEEN (13) YEARS MANY BUSINESS HOUSES HAVE EXPANDED THEIR OPERATIONS TO COVER ALL THE MAJOR CENTERS IN PNG AND EVEN TO RURAL AREAS. IS THIS AN INDICATION THAT OUR COUNTRY’S TAXATION REGIME IS INTERNATIONALLY COMPETITIVE? I DARE TO SAY YES.
- FOREIGN INVESTORS, OF ALL PLACES IN PNG, ARE EVEN FLOODING INTO BOUGAINVILLE, AN AUTONOMOUS REGION OF PNG, WHICH IS STILL STRUGGLING TO FREE ITSELF OFF THE SHACKLES OF POST CONFLICT SYNDROME. IS THIS AN INDICATION THAT OUR COUNTRY’S TAXATION REGIME IS INTERNATIONALLY COMPETITIVE? I DARE TO SAY YES.
- IS THERE ANY BETTER PLACE IN THE ASIA PACIFIC REGION THAN PNG TO INVEST IN? I DARE SAY VERY FEW.

BASED ON THE ABOVE, THE WRITER IS INCLINED TO SAY THAT PNG’S CURRENT TAXATION REGIME (COMPANY TAX, PERSONAL INCOME TAX AND GST) IS INTERNATIONALLY COMPETITIVE AND SHOULD NOT BE TAMPERED WITH SIGNIFICANTLY. WE NEED TO CREATE A CONSISTENT ENVIRONMENT WHERE POTENTIAL INVESTORS CAN ASSESS AND MAKE INVESTMENT DECISIONS.

***IN MY OPINION, THE SECRETARIAT SHOULD BE MORE CONCERNED ABOUT STRUCTURING THE INCOME TAX REGIME TO ASSIST, GROW AND PROMOTE SUSTAINABLE SECTORS OF THE ECONOMY INVOLVING MORE PNG INPUT (LABOR, CAPITAL AND LAND).***

LET ME CONCLUDE THIS SECTION OF MY SUBMISSION BY SAYING THAT THE DECISION TO INVEST IN ANY COUNTRY IS NOT DRIVEN BY THE TAXATION REGIME ALONE. INVESTORS CONSIDER THINGS LIKE SECURITY OF INVESTMENT, RELIABILITY AND CONSISTENCY OF ELECTRICITY SUPPLY, RELIABILITY AND CONSISTENCY OF TELECOMMUNICATION, RELIABILITY AND CONSISTENCY OF WATER SUPPLY, A FREE AND VIBRANT JUSTICE SYSTEM, A FREE AND VIBRANT DEMOCRACY, RELIABLE BANKING SYSTEM, COST AND AVAILABILITY OF QUALITY LABOUR, QUALITY OF INFRASTRUCTURE, HOSPITALS, ROADS ETC.

***THE TAX REVIEW COMMITTEE MUST FREE ITSELF FROM THE SUPERSTITION THAT TAXATION REGIME IS THE MAJOR HINDRANCE TO INVESTMENT IN PNG TODAY.*** THE WRITER IS OF THE OPINION THAT THE BIGGEST HINDRANCE TO INVESTMENT IN PNG IS LACK OF RESPECT FOR RULE OF LAW, INEFFICIENT AND CORRUPT PUBLIC SERVICE MACHINERY AND POOR PUBLIC INFRASTRUCTURE.

I MEAN, WHAT DO WE EXPECT AS A COUNTRY, WHEN YOU HAVE POLITICIANS RUNNING AFTER CHIEF JUSTICES IN THE COURT CHAMBERS? WHAT DO YOU EXPECT AS A COUNTRY WHEN ELECTRICITY AND WATER SUPPLY AND TELECOMMUNICATION ARE IN COMA? WHAT DO YOU EXPECT AS A COUNTRY WHEN THE INSTITUTIONS, WHICH ARE SET TO ENFORCE LAW AND ORDER IS IN CRISES THEMSELVES? WHAT DO YOU EXPECT AS A COUNTRY WHEN CONSTITUTIONAL OFFICE HOLDERS BOW DOWN TO POLITICAL PRESSURE AND BECOME POLITICAL PUPPETS AND STOOGES? WHAT DO YOU EXPECT AS A COUNTRY, WHERE PROCESSES AND SYSTEMS, WHICH ARE PUT IN PLACE TO SAFEGUARD THE COUNTRY'S SCARCE RESOURCES IS TWISTED TO ENRICH POLITICIANS AND POLITICAL CRONIES? WHAT DO YOU EXPECT AS A COUNTRY WHEN IT APPEARS TO THE INTERNATIONAL COMMUNITIES THAT WE HAVE TWO SETS OF LAWS, ONE FOR THE GRASSROOTS AND ONE FOR THE LEADERS? THE ANSWER IS SIMPLY NOTHING, NOT ZERO BECAUSE ZERO IS ALSO A NUMBER. IF THERE IS ANYTHING AT ALL, IT WILL BE MISERY, ECONOMIC HARDSHIP, RULE OF THE JUNGLE, ETC.

TAXATION WISE, PNG APPEARS TO BE AN ATTRACTIVE PLACE TO INVEST IN. WE HAVE A CONSISTENT INCOME TAX REGIME FOR INVESTORS TO WORK IN. THE COUNTRY IS LET DOWN BY THE PREVALENCE OF WHAT I MENTIONED ABOVE. I NOTE THAT THREE (3) MEMBERS OF THE DISTINGUISHED COMMITTEE ARE FORMER CHIEF COLLECTORS OF TAXES. THEY WILL PROBABLY AGREE WITH ME ON THE ABOVE.

ACCORDING TO THE WRITER, PNG'S CURRENT TAXATION REGIME IS INTERNATIONALLY COMPETITIVE AND SHOULD BE LEFT ALONE.

#### **4. AS A TAXPAYER IS PNG'S TAX SYSTEM EASY TO UNDERSTAND AND COMPLY WITH?**

PNG'S TAX SYSTEM IS BASED ON THE AUSTRALIAN, NEW ZEALAND AND ENGLISH TAX SYSTEM. IT IS CERTAINLY NO DIFFERENT FROM THE OTHER EUROPEAN AND ASIAN COUNTRIES. THE GOALS AND OBJECTIVES OF OUR TAX SYSTEM IS ALSO THE SAME AS THOSE OF OUR TRADING PARTNERS.

IN OTHER WORDS, THERE IS NOTHING UNUSUAL ABOUT PNG'S TAX SYSTEM. ON THE MOST PART OF IT, OUR TAX SYSTEM IS EASY TO UNDERSTAND AND COMPLY WITH.

IT IS PROBABLY FAIR TO SAY THAT OUR FOREIGN INVESTORS APPEAR TO UNDERSTAND OUR TAX SYSTEM FAR BETTER THAN PNG NATIONALS. THEY ALSO APPEAR TO APPRECIATE AND COMPLY WITH THE REQUIREMENTS OF OUR TAX SYSTEM BETTER THAN PNG NATIONALS.

THE CHALLENGE FOR IRC IS TO GET THE NATIONAL SMES TO UNDERSTAND OUR TAX SYSTEM AND COMPLY WITH OUR INCOME TAX ACT. SMES IN PNG, MUST BE MADE AWARE OF THEIR DUTY AND OBLIGATION TO OPERATE THEIR BUSINESS IN COMPLIANCE WITH THE INCOME TAX LAWS OF OUR COUNTRY.

I KNOW AND APPRECIATE THE FACT THAT IRC IS CONTINUOUSLY CARRYING OUT TAX AWARENESS EXERCISES/CAMPAIGNS TO GET PEOPLE TO UNDERSTAND OUR TAX SYSTEM.

TAXPAYERS SHOULD BE ENCOURAGED BY IRC TO SEEK THE SERVICES OF QUALIFIED TAX AGENTS TO INFORM THEM ABOUT OUR TAX SYSTEM AND WHAT THEY NEED TO DO TO COMPLY WITH THE INCOME TAX ACT.

ON A MORE POSITIVE NOTE, IT IS PLEASING TO SEE BETTER EDUCATED PEOPLE GETTING INTO BUSINESS TODAY. THIS SHOULD GREATLY ASSIST IN SO FAR AS TAX EDUCATION AND AWARENESS IS CONCERNED.

## **5. WHAT AREAS OF THE CURRENT TAX COMPLIANCE AND REVENUE ADMINISTRATION ARE HINDERING OR OBSTRUCTING THE EFFICIENT OPERATION OF BUSINESS?**

### **5.1 TAX COMPLIANCE**

IF BY TAX COMPLIANCE, ONE MEANS CONDUCTING ONES INCOME TAX AFFAIRS WITHIN THE LEGAL AND ADMINISTRATIVE PARAMETERS SET BY IRC, THEN IRC HAS A LOT TO IMPROVE ON.

TAX COMPLIANCE WORK BY IRC MAY TAKE OVER 95 PERCENT OF IRC'S ACTIVITIES. IT IS AN AREA, WHICH REQUIRE FROM IRC PERSONNEL, AN ARRAY OF SKILLS AND KNOWLEDGE, NOT ONLY OF THE LAW BUT HOW BUSINESS AND GENERAL ECONOMY OPERATE. IT ALSO REQUIRES FROM IRC PERSONNEL EXCEPTIONAL COMMUNICATION SKILLS, PATIENCE AND UNDERSTANDING.

TAX COMPLIANCE IS AN AREA, WHICH NEEDS URGENT REVIEW IN THE LIGHT OF TECHNOLOGICAL ADVANCES. THE WRITER IS OF THE OPINION THAT AUTHORITIES ARE NOT FOCUSING ENOUGH ON THE IMPACT TECHNOLOGICAL ADVANCES ARE HAVING ON THE WAY BUSINESSES AND ECONOMY OPERATE.

#### **5.1.1 MANPOWER QUALITY-TAX AGENTS**

IT IS BECOMING INCREASINGLY CLEAR THAT THERE IS A SIGNIFICANT MANPOWER QUALITY PROBLEM WITH TAX AGENTS AND IRC PERSONNEL DEALING WITH TAX PAYER'S INCOME TAX AFFAIRS. THERE IS AN URGENT NEED FOR PEOPLE DEALING WITH INCOME TAX AFFAIRS, BOTH IN IRC AND TAX AGENTS, TO CONTINUE TO UPGRADE THEIR SKILL AND KNOWLEDGE LEVEL TO DEAL COMPETENTLY WITH TAX COMPLIANCE WORK.

CURRENTLY, WE HAVE REGISTERED TAX AGENTS WHO DO NOT EVEN KNOW HOW TO DISTINGUISH BETWEEN DEDUCTIBLE AND NON-DEDUCTIBLE OUTGOINGS UNDER THE INCOME TAX ACT! WORSE STILL, WE HAVE REGISTERED TAX AGENTS WHO CANNOT EVEN DISTINGUISH BETWEEN CAPITAL OUTGOINGS FROM RECURRENT/PERIODIC OUTGOINGS! IT IS FRIGHTENING TO SAY THE LEAST, TO KNOW THAT THERE ARE PEOPLE OUT THEIR PRACTICING AS TAX AGENTS WHO DO NOT QUALIFY BY MILES TO BE CALLED TAX AGENTS.

I MEAN TAX AGENTS ARE SUPPOSED TO BE PROFESSIONALS IN THEIR OWN RIGHT NOT ANY TOMS, DICKS AND HARRIES ON THE STREET.

THE ABOVE SCENARIO IS CAUSING A MAJOR HINDRANCE TO TAX COMPLIANCE WORK BECAUSE COMPLIANCE WORK REQUIRES KNOWLEDGE ABOUT THE INCOME TAX ACT AND MORE IMPORTANTLY HOW IT WORKS. TAX AGENTS MUST KNOW THE SPIRIT AND THE LETTER OF THE PNG INCOME TAX ACT. YOU CAN'T CALL YOURSELF A TAX AGENT IF YOU DON'T KNOW THE MECHANICS OF THE INCOME TAX ACT OF PNG AND BASIC ACCOUNTING.

I WOULD LIKE TO SUGGEST THAT IN FUTURE THOSE WHO WISH TO REGISTER AS TAX AGENTS MUST FIRST PASS A QUALIFYING EXAM SET BY IRC OR AT LEAST THE CPA PNG INCOME TAX MODULE. ADDITIONALLY, THEY MUST HAVE BEEN INVOLVED IN TAX WORK FOR A CERTAIN NUMBER OF YEARS UNDER A COMPETENT TAX EXPERT/AGENT.

FOR EXISTING TAX AGENTS, WE SUGGEST THAT IRC DEVELOP SKILLS UPGRADE SEMINARS AND SHORT COURSES, SIMILAR TO THOSE OFFERED BY CPA PNG FOR TAX AGENTS TO ATTEND. TAX AGENTS WOULD BE COMPULSORILY REQUIRED TO ATTEND THIS SEMINARS AND SHORT COURSES IN ORDER TO QUALIFY FOR REGISTRATION AT THE BEGINNING OF EACH YEAR. THOSE WHO HAVE NOT CLOCKED THE REQUIRED HOURS AND ATTENDED THE COMPULSORY SEMINARS AND COURSES SHOULD NOT BE REGISTERED.

IRC MUST DEMAND QUALITY. QUANTITY CAN NEVER REPLACE QUALITY.

### **5.1.2 MANPOWER-IRC PERSONNEL.**

IRC HAS A LOT OF WORK TO DO IN TRAINING THEIR STAFF TO HANDLE TAX COMPLIANCE WORK COMPETENTLY. SOMETIMES IT APPEARS THAT IRC OFFICERS ARE NOT UP TO TASK IN DEALING WITH TAX COMPLIANCE MATTERS.

MOST TIMES, IRC STAFF KNOWS THE INCOME TAX ACT AND REGULATIONS, AND HOW IT WORKS, BUT WHEN IT COMES TO SIMPLE CLERICAL WORK, THEY STRUGGLE TO READ AND UNDERSTAND EVEN THE SIMPLE INCOME TAX ACCOUNT RECONCILIATION STATEMENT. THIS RESULTS IN WRONG DECISIONS AND UNWARRANTED/UNNECESSARY LENGTHY PROCESSES TO ACHIEVE AGREEMENT AND COMPLIANCE.

### **5.1.3 ACCOUNTABILITY AND RESPONSIBILITY**

ONE OF THE BASIC REQUIREMENTS IN MANAGEMENT OF EXECUTION OF TASKS IN ANY ORGANIZATION IS TO ESTABLISH ACCOUNTABILITY AND RESPONSIBILITY FOR COMPLETION OR PERFORMANCE OF EACH TASK. IT FORMS THE BASIS OF REWARDING EMPLOYEES FOR A JOB WELL DONE AND REPRIMANDING EMPLOYEES FOR POOR PERFORMANCE.

CONFUSION CAN ALSO ARISE WHEN TWO (2) OR MORE PEOPLE ARE TRYING TO COMPLETE A TASK, WHICH IS MEANT FOR ONE (1) PERSON ONLY.

IT APPEARS THAT IN IRC NO ONE PARTICULAR PERSON IS RESPONSIBLE FOR MANAGING A PARTICULAR GROUP OF TAXPAYER'S AFFAIRS. SOMETIMES YOU SPEAK TO AT LEAST THREE (3) TO FOUR (4) DIFFERENT PEOPLE BEFORE A JOB IS DONE AND SOMETIMES IT DOES NOT GET DONE AT ALL. WORSE STILL, EACH TIME YOU SPEAK TO A DIFFERENT PERSON YOU HAVE TO START ALL OVER AGAIN, WHICH IS VERY INEFFICIENT AND COSTLY TO THE TAXPAYER. IT IS CERTAINLY NOT THE WAY TO DO BUSINESS.

STRICT ACCOUNTABILITY AND RESPONSIBILITY SHOULD BE ENFORCED TO ENHANCE ADMINISTRATION AND COMPLIANCE WORK OF IRC.

#### **5.1.4 CENTRALIZED –V-DECENTRALIZED OPERATIONS**

IRC OPERATIONS HAVE REMAINED CENTRALIZED EVEN AFTER ALMOST 40 YEARS OF INDEPENDENCE. THIS IS A STATEMENT OF FACT. THE MILLION DOLLAR QUESTION IS; WHY IN THIS DAY AND AGE OF COMPUTERS? WHY IN THIS DAY AND AGE OF ADVANCE TECHNOLOGY WHERE PILOTS ARE ABOUT TO BE MADE REDUNDANT BY THE THOUSANDS BECAUSE WE WILL SOON HAVE COMPUTERS FLYING AIRCRAFTS OF ALL SIZES AND COMPLEXITY?

PROVINCIAL GOVERNMENTS WERE ESTABLISHED IN 1975 AS A MECHANISM THROUGH WHICH THE NATIONAL GOVERNMENT SHARED ITS POWER WITH THE PROVINCES. JUST RECENTLY, OUR PEOPLE IN BOUGAINVILLE WERE GRANTED EVEN MORE POWERS TO GOVERN THEIR OWN AFFAIRS WITHOUT MUCH RESTRICTION FROM WAIGANI. POLITICALLY WE HAVE DECENTRALIZED BUT INSTITUTIONALLY WE ARE STILL VERY MUCH CENTRALIZED. THE MILLION DOLLAR QUESTION IS; WHY AT THIS DAY AND AGE?

RECENTLY, THE WORLD'S LARGEST COMPANY, EXXON MOBIL LIMITED EXPANDED ITS OPERATIONS TO PNG. IT IS A COMPANY WITH ASSETS VALUED AT OVER K500 BILLION. THE CEO OF EXXON MOBIL LIMITED SITS IN USA AND RUNS THE EXXON MOBIL OPERATIONS AROUND THE GLOBE. THE MILLION DOLLAR QUESTION IS; HOW DOES EXXON MOBIL LIMITED DOES IT AND IRC A SMALL ORGANIZATION, COMPARABLY, CANNOT DO IT?

IRC WOULD DO ITSELF AND THE TAXPAYERS A LOT OF FAVOR BY DECENTRALIZING ITS OPERATIONS TO THE REGIONS AND THE PROVINCES. IRC WOULD SAVE THE COUNTRY HUNDREDS OF MILLIONS OF KINA, IF IT INVESTED IN DECENTRALIZING ITS POWERS. THE AMOUNT OF TIME IT TAKES TO DEAL WITH COMPLIANCE ISSUES UNDER THE CURRENT CENTRALIZED REGIME IS INCREDIBLE, TO SAY THE LEAST.

I MEAN, FOR A SIMPLE CHEQUE PAYMENT, IT TAKES AT LEAST THREE (3) MONTHS TO GET IT CREDITED TO THE TAX PAYER'S ACCOUNT, IF YOU ARE AN ENBP BASED TAXPAYER. IT TAKES A FURTHER SIX (6) MONTHS OR MORE FOR THE OFFICIAL RECEIPT TO ARRIVE AT THE TAX PAYER'S PLACE OF BUSINESS.

IN THE MEANTIME, THE TAX PAYER GETS BOMBARDED WITH DEMAND LETTERS TO SETTLE AN ACCOUNT, WHICH WAS SETTLED THREE (3) MONTHS AGO!

COMPARE THE ABOVE WITH EXXON MOBIL LIMITED OR UMWU LIMITED. THE MOMENT A PAYMENT IS MADE IN PORT MORESBY OR RABAU, EXXON MOBIL LIMITED IN USA AND UMWU LIMITED IN PORT MORESBY WILL KNOW INSTANTLY! THE CUSTOMER'S ACCOUNT IS CREDITED INSTANTLY. THERE IS NO TIME LAG, IT IS INSTANT AND ON LINE.

A SIMPLE REQUEST FOR ADJUSTMENT TO THE TAXPAYERS ACCOUNT TAKES MORE THAN A YEAR AND NUMEROUS LETTERS AND TELEPHONE CONVERSATIONS TO ACTUALLY ACT UPON. THERE ARE SO MANY PROBLEMS ASSOCIATED WITH CENTRALIZED TAX OPERATIONS, PARTICULARLY THE TIME FACTOR.

IRC HAS NO CHOICE BUT TO DECENTRALIZE ITS OPERATIONS. IT IS THE WAY FORWARD FOR PNG.

#### **5.1.5 MONITORING**

MONITORING TAX PAYER'S INCOME TAX AFFAIRS IS AN IMPORTANT AND INTEGRAL PART OF ENSURING THAT TAXPAYERS ARE OPERATING WITHIN THE PARAMETERS SET BY THE INCOME TAX ACT. MONITORING IS PART OF THE TAX COMPLIANCE WORK OF IRC.

THE MONITORING WORK OF IRC INCLUDES LETTERS, TELEPHONE CALLS AND ACTUAL VISITS TO TAXPAYERS AND THEIR TAX AGENTS. IN TERMS OF IMPACT, ACTUAL VISITS FROM IRC OFFICERS TO TAX PAYERS AND THEIR TAX AGENTS, HAS MAXIMUM IMPACT AND SHOULD BE INCREASED. THIS IS PART OF RELATIONSHIP BUILDING BETWEEN IRC AND TAX PAYERS.

IT MAY BE ADVISABLE FOR IRC TO HAVE OFFICERS STATIONED AT ALL PROVINCIAL HEADQUARTERS TO MAKE REGULAR VISITS TO TAX PAYERS AND THEIR TAX AGENTS. REGULAR VISITS BY IRC OFFICERS TO TAX PAYER'S PLACE OF WORK AND TAX AGENTS SHOULD BE INCREASED AS SUCH VISIT IMPACTS GREATLY ON TAX PAYERS.

#### **5.1.6 SECTION 272 NOTICE**

THE USE OF SECTION 272 NOTICE, WHICH IS USUALLY ISSUED BY IRC TO COMPEL TAX PAYERS TO PAY OUTSTANDING INCOME TAXES, SHOULD BE REVIEWED. THE WRITER IS OF THE OPINION THAT THE BEST WAY TO DEAL WITH NON-PAYING TAX PAYERS IS TO CONTINUE TO CHARGE INTEREST ON THE OUTSTANDING TAX TO INCREASE THE STATE'S SHARE OF THE TAX PAYER'S ASSETS/REVENUE/BUSINESS.

IRC SHOULD THEN CONSIDER USING THE BUSINESS PAYMENTS TAX PROVISIONS TO COMPEL THE TAX PAYER TO PAY. IN OTHER WORDS, DENY THE TAXPAYER THE CERTIFICATE OF COMPLIANCE SO THAT THE TAX PAYER'S GOODS AND SERVICES INVOICES ARE SUBJECT TO 10 PERCENT WITHHOLDING TAX.

THE DENIAL OF THE CERTIFICATE OF COMPLIANCE ALSO HAS THE EFFECT OF REDUCING THE TAX PAYER'S CHANCE OF OBTAINING BUSINESS/WORK AS THE CERTIFICATE OF COMPLIANCE IS NOW A COMPULSORY REQUIREMENT WHEN TENDERING/BIDDING FOR WORK IN PNG.

SECTION 272 NOTICE SHOULD BE THE NOTICE OF LAST RESORT. THE NOTICE ALSO PLACES IRC AND THE TAXPAYER IN A POSITION WHERE THEIR HANDS ARE TIED. I MEAN, HOW WILL THE TAX PAYER PAY WHEN THE BANK ACCOUNT IS FROZEN?

## **5.2 REVENUE ADMINISTRATION**

IF BY REVENUE ADMINISTRATION, ONE MEANS LODGEMENT OF INCOME TAX RETURNS RIGHT DOWN TO ACTUAL COLLECTION OF THE TAX ASSESSED, WE MAKE THE FOLLOWING COMMENTS.

### **5.2.1 LODGEMENT OF INCOME TAX RETURNS**

LATE LODGEMENT OF INCOME TAX RETURNS SHOULD, REGARDLESS OF THE REASONS GIVEN BY THE TAXPAYER, ATTRACT HIGHER LATE LODGEMENT FEES THAN WHAT IRC IS CHARGING NOW. THIS SHOULD IMPROVE THE RATE OF LODGEMENT OF INCOME TAX RETURNS BY TAXPAYERS. *IRC SHOULD NOT BE AFRAID TO CHARGE WHAT IT IS LEGALLY AND JUSTIFIABLY ALLOWED TO CHARGE.*

### **5.2.2 INTEREST ON OUTSTANDING TAX**

IRC RARELY CHARGES THE MAXIMUM INTEREST CHARGEABLE ON OUTSTANDING TAXES PRESCRIBED BY THE INCOME TAX ACT. IF IRC CHARGED INTEREST ON OUTSTANDING TAXES AT A RATE PRESCRIBED BY THE INCOME TAX ACT, IT WOULD COLLECT QUITE A SIZEABLE AMOUNT OF INCOME.

APART FROM THE ABOVE, IT WOULD ACT AS A CATALYST FOR TAXPAYERS TO PAY THEIR TAXES ON TIME. A LOT OF TAXPAYERS ARE WILLING TO SETTLE THEIR BANKERS AND OTHER SERVICE PROVIDERS ON TIME. WHY NOT IRC? *IRC SHOULD NOT BE AFRAID TO CHARGE WHAT IT IS LEGALLY AND JUSTIFIABLY ALLOWED TO CHARGE.*

THE ONLY EXCEPTION SHOULD BE WHEN THE TAX PAYER IS GRANTED EXTENSION OF TIME TO PAY THE TAX DUE.

TAXPAYERS SHOULD PLAN IN ADVANCE TO PAY THEIR TAXES. THEY SHOULD NOT WAIT TILL THEY RECEIVE THEIR ASSESSMENT FROM IRC.

### **5.2.3 REVENUE ACCOUNTING**

AS MENTIONED ELSEWHERE, THERE IS A NEED FOR IRC TO IMPROVE ON THE TIME IT TAKES TO PROCESS AND ACCOUNT FOR RECEIPT OF INCOME TAX PAID.

IT TAKES EVEN LONGER FOR THE OFFICIAL RECEIPT TO REACH THE TAXPAYER. THE ABOVE SCENARIO CREATES ABSOLUTE CHAOS AND CONFUSION. THIS MAY SOUND LIKE A PETTY PROBLEM OR NON-ISSUE. CONSIDER THE FOLLOWING:

A TAXPAYER PAYS K25,000.00 TO IRC. THE IRC ACCOUNTS PEOPLE RECEIVE THE PAYMENT AND DECIDE TO POST THE OFFICIAL RECEIPT LATER. IN THE MEANTIME, IRC SENDS A LETTER OF DEMAND TO THE TAXPAYER DEMANDING AN IMMEDIATE SETTLEMENT OF THE SAME K25,000.00 THE TAXPAYER SETTLED A MONTH OR TWO (2) EARLIER. THE TAXPAYER INFORMS IRC THAT A PAYMENT OF THE SAME WAS DISPATCH A MONTH OR TWO AGO. THE IRC OFFICER THEN REQUESTS THE TAXPAYER TO PRODUCE THE OFFICIAL RECEIPT AS EVIDENCE OF SETTLEMENT OF THE TAX! THE TAXPAYER REPLIES, I AM STILL WAITING FOR THE OFFICIAL RECEIPT FROM IRC! BOTH THE IRC OFFICER AND THE TAXPAYER ARE LITERALLY STUCK BECAUSE SOME CLERK IN IRC HAS DECIDED TO POST THE OFFICIAL RECEIPT LATER OR FORGOT TO POST IT TO THE TAXPAYER! IT DOES NOT END THERE. THE IRC OFFICER REQUESTS THE TAXPAYER TO FAX OR EMAIL THE BANK STATEMENT, WHICH SHOWS THAT THE CHEQUE PAYMENT WAS DEBITED TO THE TAXPAYERS ACCOUNT AND SO IT CONTINUES.

THE ABOVE COULD TAKE UP TO FOUR (4) WEEKS OR MORE. IT IS SIMPLY NOT THE WAY TO CONDUCT BUSINESS.

RECENTLY, IRC INTRODUCED A SYSTEM OF ELECTRONIC PAYMENT OF TAXES.

THIS IS A WAY FORWARD FOR ALL STAKEHOLDERS, IF THE NEW SYSTEM IS MANAGED DUTIFULLY. WE SAY THIS BECAUSE EVERY SYSTEM IS ONLY AS GOOD AS THOSE WHO MANAGE IT. THE ELECTRONIC PAYMENT SYSTEM BRINGS WITH IT NEW CHALLENGES AND APPROACHES TO THE WAY BUSINESS IS CONDUCTED FOR IRC AND THE TAXPAYER.

THIS DOES NOT SOLVE THE PROBLEM OF TIMELY PROCESSING OF PAYMENTS AND UPDATING OF TAXPAYERS ACCOUNTS. THE NEW SYSTEM ONLY SHORTENS THE TIME IT TAKES FOR THE TAX PAYMENT TO REACH IRC AND PREVENTS THE OCCASIONAL DISHONORING OF TAX PAYERS CHEQUES BY THE BANK.

#### **5.2.4 EXTENSION OF TIME TO PAY TAX**

IN SOME CASES, TAX PAYERS WHO CANNOT AFFORD TO PAY THE TAX IN ONE LUMP SUM USUALLY APPLY TO IRC TO PAY THE TAX IN INSTALLMENTS. IN ALL CASES, IRC AGREES WITH THE TAXPAYER, WHICH IS COMMENDABLE AND OF ASSISTANCE TO THE TAX PAYER.

THE DISTURBING FACT IS THAT, THERE HAVE BEEN MANY CASES, WHERE THE TAX PAYERS FAILED TO HONOR THEIR COMMITMENT TO IRC, OR LIVE UP TO THE AGREEMENT, WHICH WAS STRUCK TO HELP THEM PAY THE TAX IN THE FIRST INSTANCE.



***THE WRITER WOULD LIKE TO PROPOSE THAT BEFORE THE AGREEMENT TO PAY THE TAX IN INSTALLMENT IS SIGNED, THE TAXPAYER MUST SIGN AN AUTOMATIC DEDUCTION AUTHORITY FOR HIS/HER BANK TO DEDUCT THE AGREED AMOUNT AT AGREED INTERVALS AND PAY IRC UNTIL THE AGREED PERIOD EXPIRES. IN THIS WAY, THE CHANCE OF THE TAX PAYER DEFAULTING IS MINIMIZED, IRC'S INCOME IS SECURED AND THE TAX PAYER IS FREED FROM HIS/HER OBLIGATION.***

## **6. DOES PNG HAVE THE RIGHT MIX BETWEEN THE TAXATION OF LAND, CAPITAL AND LABOUR AND BETWEEN TAXATION OF INCOME AND CONSUMPTION?**

### **6.1 DOES PNG HAVE A RIGHT MIX BETWEEN THE TAXATION OF LAND, CAPITAL AND LABOUR?**

IN MY OPINION THE CURRENT MIX BETWEEN TAXATION OF LAND, CAPITAL AND LABOUR IS OPTIMAL AND SHOULD NOT BE CHANGED SIGNIFICANTLY.

THE COMMITTEE COULD CONSIDER IMPOSING A TAX OF NOT LESS THAN 2.50 PERCENT ON CAPITAL GAINS. THE STATE SHOULD PERHAPS BE COMPENSATED FOR ITS CONTRIBUTION TO CREATING THE ECONOMIC GAINS IN VALUES OF ASSETS IN THE LAST EIGHT (8) TO TEN (10) YEARS. MANY TAX PAYERS MADE HUGE CAPITAL GAINS PROFITS, WHICH IS NOT SUBJECT TO TAX. THE STATE RECEIVES THE DUTY ON THE GROSS SALE VALUE OF THE LAND ONLY. THE SELLER WALKS AWAY WITH CAPITAL GAINS PROFITS, WHICH IS TAX FREE IN PNG TODAY.

### **6.2 DOES PNG HAVE A RIGHT MIX BETWEEN THE TAXATION OF INCOME AND CONSUMPTION?**

THERE MAY BE ROOM FOR ADDITIONAL TAX ON CONSUMPTION.

THE WRITER IS TEMPTED TO PROPOSE THAT THE CURRENT GST RATE BE INCREASED FROM THE CURRENT RATE OF 10 PERCENT. ALTERNATIVELY, WE CAN LEAVE THE CURRENT GST RATE (10%) AS IT IS AND INCREASE THE CUSTOMS DUTY ON ALL ITEMS.

THE WRITER PREFERS THE LATER ALTERNATIVE OF INCREASING THE CUSTOMS DUTY ON IMPORTED GOODS. THE MAIN REASON IS THAT THE WRITER IS NOT CONVINCED THAT THE STATE IS RECEIVING ALL THE GST THAT IS COLLECTED BY THE SUPPLIERS OF GOODS AND SERVICES IN PNG. LET'S FACE IT AND BE REALISTIC. I SUSPECT THAT SOME GST COLLECTORS DO NOT ACCOUNT FOR ALL THE REVENUE THEY RECEIVE FROM THE SALE OF THEIR GOODS. SOME KEEP THE UNRECORDED CASH SALES IN SAFES HIDDEN IN THEIR PREMISES.

WHAT DO YOU CONCLUDE WHEN A CHINESE RETAILER USES K300,000 IN CASH TO PAY FOR HEAVY EQUIPMENT! WHERE DID THE CASH COME FROM?!

SECONDLY, THE CUSTOMS DUTY IS COLLECTED BY THE STATE ON THE SPOT AND DOES NOT PASS THROUGH A THIRD PARTY LIKE GST. THE GST PASSES THROUGH A REGISTERED COLLECTED OF GST, WHO DEDUCTS THE INPUT CREDITS AND PAYS THE RESIDUE TO THE STATE. THE STATE HAS LITTLE OR NO CONTROL OVER THE BASIS OF THE TAX PAID.

## **7. DO YOU THINK THERE ARE OPPORTUNITIES TO BROADEN PNG'S TAX BASE SO AS TO MAINTAIN REVENUE AS A SHARE OF GROSS DOMESTIC PRODUCT?**

LIMITED OPPORTUNITIES EXIST IN PNG TO BROADEN THE COUNTRY'S INCOME TAX BASE. IT IS COMMON KNOWLEDGE THAT IN PNG, ONLY EIGHT (8) TO TWELVE (12) PERCENT OF THE TOTAL POPULATION, PAYS INCOME TAX TO THE STATE. THE REST DO NOT PAY ANY INCOME TAX AT ALL. THE WHOLE POPULATION, HOWEVER, PAYS GOODS AND SERVICES TAX AT ONE STAGE OF THE TAX CHAIN.

MAINTAINING REVENUE AS A SHARE OF GROSS DOMESTIC PRODUCT IS A REASONABLE OBJECTIVE FOR THE STATE. THE STATE DESERVES A FAIR AND REASONABLE SHARE OF THE GENERAL INCREASE IN THE WEALTH OF ANY NATION.

THERE IS NO REASON WHY THE STATE CANNOT MAINTAIN ITS REVENUE AS A SHARE OF GROSS DOMESTIC PRODUCTS UNLESS THERE IS A LEAKAGE SOMEWHERE ALONG THE TAX CHAIN. THERE IS ENOUGH GROSS DOMESTIC PRODUCT FOR EVERYONE INCLUDING THE STATE TO ENJOY.

PERMIT ME TO SAY THAT BROADENING THE TAX BASE ALONE IS NOT ENOUGH. TO ACHIEVE MAXIMUM IMPACT, THE TAX BASE BROADENING EXERCISE MUST BE COMPLIMENTED BY BETTER TRAINED IRC PERSONNEL, BETTER LOGISTICS THAN WE HAVE TODAY, APPROPRIATE ORGANIZATION STRUCTURE, BETTER MANAGEMENT INFORMATION SYSTEM, BETTER REMUNERATION FOR IRC EMPLOYEES, INCREASED AUDIT BY IRC ETC.

THE WRITER IS OF THE VIEW THAT MANY TAX PAYERS ARE PAYING LESS THAN WHAT THEY SHOULD BE PAYING. MANY CITIZENS ARE OPERATING OUTSIDE THE TAX NET. *IRC IS NOT DOING WHAT IT SHOULD DO TO COLLECT EXTRA REVENUE FOR THE STATE AS HIGHLIGHTED IN 5.2.1 AND 5.2.2 ABOVE.*

### **7.1 CAPITAL GAINS TAX**

AS WE MENTIONED ELSEWHERE IN THIS SUBMISSION, THE COMMITTEE SHOULD SERIOUSLY CONSIDER INTRODUCING A CAPITAL GAINS TAX IN PNG. TAXPAYERS ARE ENJOYING LARGE TAX FREE GAINS THROUGHOUT PNG, WHILE THE STATE, WHICH ASSISTED IN CREATING THESE GAIN IS MISSING OUT ON ITS FAIR SHARE.

THE STATE DESERVES A FAIR SHARE FROM ITS EFFORT/INPUT IN CREATING THESE ECONOMIC AND FINANCIAL GAINS ENJOYED BY TAXPAYERS TODAY.

THE WRITER APPRECIATES THE FACT THAT NOT ALL THE GAINS ARE DUE TO WHAT THE STATE HAS DONE.

IN THE SAME LINE OF ARGUMENT, THE WRITER ALSO APPRECIATES THE FACT THAT NOT ALL THE GAINS ARE A RESULT OF WHAT THE OWNER OF THE ASSETS DID.

IN VIEW OF THIS, IT IS ONLY FAIR AND REASONABLE THAT BOTH THE STATE AND THE OWNER OF THE ASSET SHARE THE CAPITAL GAIN.

THE ONLY REVENUE THE STATE CURRENTLY RECEIVES IS THE DUTY ON THE GROSS SALES VALUE OF THE ASSET. FINANCIALLY, THE TAX PAYER IS BY FAR THE BIGGEST BENEFICIARY. THIS IS NOT FAIR TO THE STATE AND NEEDS TO BE REVIEWED BY THE COMMITTEE SO THAT A FAIRER BENEFIT SHARING ARRANGEMENT IS REACHED.

THE WRITER IS OF THE OPINION THAT A CAPITAL GAINS TAX OF NOT LESS THAN TWO AND HALF (2.50) PERCENT WOULD BE REASONABLE.

## **7.2 PMV OPERATORS**

PMV OPERATORS CONTINUE TO EARN TAX FREE INCOME WHILE RUNNING ON AND USING PUBLIC ROADS CONSTRUCTED AND MAINTAINED BY THE STATE. THEY ALSO ENJOY THE PROTECTION OF THE POLICE FORCE WHILE ON THE ROAD CONDUCTING THEIR BUSINESS. ADDITIONALLY, THEIR CHILDREN ENJOY FREE EDUCATION. THE WEAR AND TEAR OF PUBLIC ROADS AS A RESULT OF FREQUENT USE OF THE ROADS BY PMV'S IS QUITE HIGH COMPARED TO PRIVATE VEHICLES, WHICH ARE LIGHTLY USED.

SOME MAY ARGUE THAT PMV OPERATORS PAY GST ON THE INPUTS, WHICH IS A TAX AS WELL. IT IS TRUE THAT PMV OPERATORS PAY GST ON INPUTS LIKE SPARE PARTS, INSURANCE ETC. BUT SO DO SCHOOL KIDS, OLD MEN AND WOMEN ON WHATEVER THEY PURCHASE IN SHOPS. THE DIFFERENCE IS, UNLIKE SCHOOL KIDS WHO PAY GST AS WELL, THE PMV OWNER PROFITS FROM RUNNING A PMV.

THE WRITER ESTIMATES THAT PMV OPERATORS MAKE ON THE AVERAGE K12,000 TO K15,000 NET PROFIT PER YEAR PER PMV. THE AMOUNT IS ABOVE THE PERSONAL INCOME TAX THRESHOLD. IF THE PMV IS OPERATED BY AN INCORPORATED ENTITY, ONE WOULD BE LOOKING AT K3,600 TO K4,500 IN CORPORATE PROFIT TAX PER ANNUM PER PMV.

THE TAX REVIEW COMMITTEE SHOULD CONSIDER THE POSSIBILITY OF TAXING THE PMV OWNERS. THE TAX SHOULD BE A ONE OFF COMPULSORY PAYMENT MADE TO THE STATE AT THE TIME OF RENEWAL OF THEIR PMV LICENSE. AN AMOUNT OF BETWEEN K2,000 TO K3,000 PER ANNUM WOULD BE RECOMMENDED PER PMV.

***THE AMOUNT OF ADDITIONAL REVENUE COLLECTED SHOULD NOT BE A PARAMOUNT CONSIDERATION, WHAT IS IMPORTANT IS THAT EVERYONE IS CONTRIBUTING TO THE STATE'S UPKEEP.***

### 7.3 MINE CONTRACTORS

CURRENTLY, DIRECT CONTRACTORS TO MINING COMPANIES DO NOT CHARGE GST ON THEIR INVOICE TO THE MINING COMPANY. ON TOP OF THAT, THE MINING CONTRACTOR CLAIMS A FULL REFUND OF THE INPUT TAX EACH MONTH. I DARE TO ASK WHY?

THE WRITER DOES NOT SEE THE RATIONALE IN THE MINING CONTRACTOR CLAIMING REFUND OF THE INPUT TAX. FOR A START, THE MINING CONTRACTOR ALREADY RECEIVES BETTER MARGINS FROM THE MINING COMPANY THAN NORMAL. THE REFUND OF THE INPUT CREDIT IS A FINANCIAL GAIN THE CONTRACTOR DOES NOT DESERVE

THE WRITER WIS HES TO PROPOSE THAT THE ABOVE PRACTICE BE AMENDED AS FOLLOWS:

- THE MINING CONTRACTOR SHOULD NOT BE ALLOWED TO CLAIM THE INPUT TAX AS IS CURRENTLY THE PRACTICE. THE INPUT TAX SHOULD BE FORFEITED TO THE STATE. WHEN PREPARING THE STATUTORY ACCOUNTS FOR INCOME TAX DETERMINATION, THE CONTRACTOR SHOULD BE ALLOWED TO CLAIM THE GST PAID ON INPUT AS AN ALLOWABLE EXPENSE.
- THE FORFEITED INPUT TAX BECOMES ADDITIONAL TAX REVENUE TO THE STATE.

CONSIDER THE FOLLOWING;

#### CURRENT METHOD-TAX IMPLICATION

	K
SALES	100,000
EXPENSES (NET OF INPUT TAX)	45,455
INPUT TAX	4,545
SALES	100,000
EXPENSES	<u>45,455</u>
NET TAXABLE PROFIT	<u>54,545</u>
TAX THERETO (.30 x 54,545)	16,364
LESS: REFUNDED INPUT TAX	<u>4,545</u>
NET TAX PAID	<u>11,819</u>

PROPOSED METHOD-TAX IMPLICATION

K

SALES	100,000
EXPENSES (NET OF INPUT TAX)	45,455
INPUT TAX	4,545

SALES	100,000
LESS: EXPENSES	<u>50,000</u>

NET TAXABLE PROFIT	<u>50,000</u>
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TAX THERETO (.30 x 50,000)	15,000
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ADD: FORFEITED INPUT TAX	<u>4,545</u>
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NET TAX PAID	<u>19,545</u>
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**8. OTHER MATTERS**

**8.10 BUSINESS PAYMENT TAX**

IRC SHOULD DO A BIT MORE ON MONITORING THE COLLECTION AND REMITTANCE OF BUSINESS PAYMENT TAX, PARTICULARLY THE ENFORCEMENT PART OF IT.

THERE HAVE BEEN MANY OCCASIONS IN THE PAST, WHERE THE 10 PERCENT WITHHOLDING TAX DEDUCTED FROM GOODS AND SERVICE PROVIDERS, WHO DO NOT HAVE A CURRENT CERTIFICATE OF COMPLIANCE, IS NOT REMITTED TO IRC.

THIS IS A MAJOR CONCERN FOR THE TAX PAYER FROM WHOSE INVOICE THE AMOUNT IS DEDUCTED. THE CONCERN IS, THE TAX PAYER IS DENIED A TAX RELIEF FOR THE AMOUNT DEDUCTED BECAUSE HE/SHE DOES NOT HAVE A P7 FORM TO CLAIM THE TAX RELIEF.

THE WRITER PROPOSES THAT IRC INTERVENE ON INSTANCES LIKE THE ABOVE TO ENSURE THE FUNDS ARE REMITTED TO IRC AND THE TAX PAYER GETS A TAX RELIEF OF THE AMOUNT REMITTED. IRC'S INTERVENTION AS AN INDEPENDENT PARTY IS ALSO NECESSARY BECAUSE MATTERS LIKE THIS CAN DAMAGE BUSINESS RELATIONSHIPS.

**CONCLUSION**

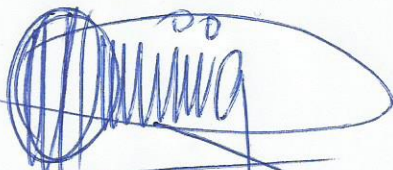
I WOULD LIKE TO TAKE THIS OPPORTUNITY TO THANK THE GOVERNMENT FOR ITS WISDOM IN APPOINTING SUCH A HIGH POWERED TEAM TO TAKE CHARGE OF THIS IMPORTANT EXERCISE AT THIS EXCITING PERIOD OF OUR COUNTRY'S DEVELOPMENT. THE COMMITTEES RECOMMENDATIONS WILL IN NO DOUBT HAVE FAR REACHING AND LONG LASTING NATIONAL IMPLICATIONS.

I ALSO WISH TO TAKE THIS OPPORTUNITY TO THANK THE COMMITTEE FOR HAVING THE WISDOM TO APPOINT OTHER EXPERTS TO ASSIST IN THIS IMPORTANT EXERCISE.

MY HUMBLE ADVICE TO THE DISTINGUISHED COMMITTEE AND THE TEAM OF EXPERTS IS, TO REMAIN GUIDED IN YOUR DELIBERATIONS BY NATIONAL INTEREST ABOVE ALL ELSE, BECAUSE YOUR RECOMMENDATIONS WILL AFFECT NOT ONLY US WHO ARE ALIVE TODAY, BUT THOSE WHO WILL BE BORN TOMORROW.

THANK YOU ALL AND MAY GOD ALMIGHTY BLESS AND GUIDE YOU AND YOUR COMMITTEE MEMBERS AND EXPERTS.

YOURS FAITHFULLY,

A handwritten signature in blue ink, appearing to read "Patrick Dissing". The signature is stylized with a large, circular flourish on the left side and a long, sweeping underline that extends to the right.

**PATRICK DISSING**