

## Column 7: What makes a good tax system?

How can we know if the tax system is working well for PNG? This is the basic question that the Tax Review had to answer before it could begin its work.

A good tax system should satisfy five general principles.

1. **Revenue:** A good tax system should raise sufficient revenue to ensure that the government can deliver services that meet the community's expectations.
2. **Competitiveness and efficiency:** A good tax system should promote economic growth and thus create more jobs, higher incomes, more services, lower prices and less poverty.
3. **Fairness:** A good tax system should be fair: it should create a level playing field for businesses and it should ensure that individuals each pay their fair share.
4. **Simplicity:** A good tax system should make it as simple as possible for taxpayers to comply with their tax obligations. It should also minimise the administrative costs for government.
5. **Trust in government and accountability of government:** A good tax system, including a reliable tax administration, should help build trust in government. It should also support greater government accountability.

Although improving the efficiency of the tax system is just one consideration, it is often a key motivation for tax reform. Why is it so important to establish a competitive and efficient tax system?

Taxes create a burden for businesses, workers and consumers but tax reform can help to make PNG a more attractive place to do business and thereby stimulate economic growth and job creation. For example, over the past seven years, real GDP per person has grown by almost five per cent per year. Over the same period, formal sector employment has grown just as strongly.

Economic growth can also drive poverty reduction: just look at China. Between 1990 and 2009, real GDP per person grew by almost 10 per cent per year. And extreme poverty fell from 60 per cent to 12 per cent over the same period.

Many reforms are needed to help the economy to grow but creating an efficient and competitive tax system will make an important contribution. That is a key objective for the PNG Tax Review.

If you wish to have a say on the future of PNG's Tax system, please contact the Tax Review on [info@taxreview.gov.pg](mailto:info@taxreview.gov.pg), (675) 325 5977 or visit the website [www.taxreview.gov.pg](http://www.taxreview.gov.pg).