



PAPUA NEW GUINEA TAXATION REVIEW (2013 – 2015)

UPDATE No. 2 as at 31 JULY 2014

This is the second update of the work of the Taxation Review Committee. The update is in two parts. Part. 1 is in respect of *Stakeholder Engagement*, and Part.2 covers *Research and Policy Development*.

Part 2. RESEARCH AND POLICY DEVELOPMENT

The stakeholder engagement outlined in Part 1 of the update has and will continue to inform the research and policy development work being undertaken by the Committee and the Secretariat. Notably, the views and issues raised in the course of consultation will help to inform the development of the various issues papers (and ultimately the draft final report) that the Committee will be releasing during the course of the Review.

The Committee and the Secretariat have also been engaged in a number of other, complementary reform processes underway. Notably, the Review has been involved in taxation aspects of the development of the SME Master Plan as well as the Mining Act Review currently underway.

In addition, to better inform the overall direction of the tax reform process and also to inform the Committee's interim report to Government in the lead up to the 2015 Budget, the Committee will be releasing a broader Issues Paper, making the case for tax reform and outlining the broad directions for such reform. The paper will also be used as a means of consulting publicly on possible early areas for reform.

The terms of reference for the Review are broad and significant work has been undertaken to date in a number of areas. Indeed, a number of Issues Papers are currently being developed. Other key areas of progress to date include:

AREAS OF THE REVIEW	STATE OF PLAY	COMMENTS
Revenue Administration Reform	<p>Contracts were awarded on 14.7.2014 to Deloitte and Pricewaterhousecoopers to undertake diagnostic review of the IRC and PNG Customs Services respectively. This work has commenced and is expected to be completed by the end of September. Results from this will form the baseline report of PNG's principle revenue raising agencies and will inform the preparation of a specific issues paper on "Revenue Administration Reform".</p> <p>An Issues Paper is currently under preparation.</p>	<p>Feed-back received to date from the Committee's consultations suggests that improvements in revenue administration need to be a significant focus of any reform process.</p> <p>The "loud" and key message from stakeholders is that good tax policy cannot be effectively implemented if PNG does not first reform its revenue administration. There is widespread call by stakeholders for revenue administrators (both Internal Revenue Commission and Department of Customs) to be held fully accountable for their performance and actions under a prudent governance framework, and more particularly for vast improvements to the level, scope, quality and effectiveness of services rendered to the public.</p>
Mining and Petroleum Taxation	<p>Issues Paper No. 1 on the extractive industries was prepared and released on 20 March, 2014, with submissions due by the end of May. These submissions are continuing to be considered by the Committee.</p>	<p>A copy of submissions (other than those marked confidential) can be found from the tax review website (www.taxreview.gov.pg).</p> <p>This is a complex area of tax reform, requiring close engagement and ongoing dialogue with the Industry. The Committee and Secretariat will continue their discussions with the Industry to further explore the issues raised in the submissions.</p>
Corporate & International Income Tax	<p>Issues Paper No. 2 was released on 31 July 2014 and is currently open for consultation. Submissions are sought by 29 August.</p>	<p>This paper highlights a number of possible areas for reform in this important area of taxation. It also includes a discussion on a number of specific issues raised by stakeholders during consultations to date.</p>

Small Business Taxation	The Committee is currently working with the International Finance Corporation (IFC) to prepare an issues paper focussing on small businesses. This will be released for public consultation shortly.	This paper will explore the challenges that small businesses face in meeting their tax obligations and the barriers to formalisation (and growth) that this presents.
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The remaining issues papers, covering – Personal Income Taxation, Excise, GST, Land and Property Taxation, CGT, Other Indirect Taxes, Tariffs, Tax-Incentives and Non-Tax Revenues will be issued during the remainder of 2014 and early 2015.

SUPPLEMENTARY WORK UNDERTAKEN

In addition to the specific work undertake on Issues Papers, the Review Committee has also undertaken a range of other work to assist in the research and policy development work of the Review.

1. The Year 2000 Tax Reform Recommendations

The Review Committee also undertook a comprehensive evaluation of all the recommendations of the Bogan Tax Review of 2000. This exercise was necessary to ascertain the proportion or number of recommendations from that Review that have been implemented and if not, why not?

2. Comparative Study and International Benchmarking

The Review Committee commissioned a separate study to compare and benchmark Papua New Guinea’s tax regime to that of countries of comparable size, including stage of development. The exercise included countries within the region. This study is important to help update our data and information which will inform the design and structure of reform, more particularly to ensure PNG’s tax regime is sync with the rest of the world and that the country is placed in a more advantageous position to attract capital and investments.

3. Autonomous Region of Bougainville

The Committee has also done some preliminary work on Bougainville. Although the Terms of Reference does not cover Bougainville, the TRC is cognizant of Bougainville’s unique constitutional position with distinct provisions on revenue matters. This also encroaches on the area of fiscal federalism and poses exclusive challenges with organic law implications in the sharing of powers between the ABG and the National Government. The technical team made a preliminary visit to Buka and met with President John Momis, ABG Finance Minister, Chief Secretary and seven (7) other Senior Executives of the Bougainville Government. The Tax Review Committee is reviewing the Autonomy arrangements relating specifically to Revenue Sharing and a report was done by ABG lead advisor, Mr Mark Smith on “Taxation and Fiscal Self-reliance provisions of Bougainville Peace Agreement”. Mr Smith’s report will also be used as basis for the Committee’s research and consultation outcomes.

SUPPORT FOR THE REVIEW

The Department of Treasury has established the Tax Review Secretariat to provide the technical and administrative support to the Committee. The team of experts are seconded from the Department of Treasury, Internal Revenue Commission, PNG Customs Service, Department of Finance, Department of Trade, Commerce & Industry and an advisor from the Australian Treasury.

The Secretariat is also supported by international technical consultants and advisors where appropriate. The technical secretariat undertakes the day-to-day activities of the Review, including research and analysis (drawing on international benchmarking standards and practices, global and regional trends in tax policy design and administration, and academic modelling), preparing papers and briefings for the Committee, drafting reports, and arranging and managing stakeholder consultations.

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

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