Column 13: The Management of Tax Incentives

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Tax Incentives include special tax exemptions, deductions or the deferral of tax liabilities to encourage the growth or competitiveness of a type of business or activity.

A previous column for the Review examined the advantages and disadvantages of such incentives in the law and the Review will shortly be publishing a paper for public consultation on this issue.

Yet beyond simply the pros and cons of such incentives, the issue of how such incentives are offered and managed is equally important.

Firstly, if incentives are to be provided, this needs to be done within a clear policy framework and with a clear goal. The overriding question should be – what are the development priorities of the country and what role can the tax system play in achieving this?

The Review's preliminary analysis suggests further work is needed to develop such a framework. Currently, tax incentives are provided for a broad range of purposes and industries. No doubt all businesses and industries want to be incentivised – but if everyone is 'incentivised' then no one is - this simply represents a redefining of the tax system as a whole.

Clearly identifying how a particular incentives fits within that framework can also increase transparency and build confidence in the system – in the course of the Review a number of concerns have been raised about why one business obtains an incentive and another not.

There also needs to be an ongoing assessment of the costs and benefits of tax incentives. Once in the law, an incentive can be forgotten about and continue to provide a benefit that no longer aligns with the priorities of the countries. These incentives also have a cost in terms of foregone revenue – the continued assessment and publication of these costs can help inform the debate about the ongoing need for the incentive.

In estimate the cost of an incentive, the effective collection of data is critical. The development of a new information system in the IRC is a positive step forward. As has been done in the past, this data can be published yearly as part of the Budget process.

Where an incentive is provided, this should be included clearly in the law – providing certainty for the taxpayer and also transparency for the system as a whole.

Ultimately, whilst the Review will consider the advantages and disadvantages of tax incentives, it is likely that they will continue to form part of the tax system in some way. Therefore effectively managing these incentives becomes critical, to ensure they deliver the best value to PNG.

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