REVIEW OF THE RECOMMENDATIONS OF THE BOGAN TAXATION REVIEW REPORT OF 2000

The Taxation Review report was completed in October 2000 and sets recommendations aimed at:

- improving the tax system to encourage the expansion of investment, employment and economic growth;
- simplifying and improving taxation administration to facilitate compliance by taxpayers and improve efficiency in revenue collection;
- enhancing fairness in the tax system by ensuring that all taxpayers share the cost of providing Government services; and
- improving the process of tax policy formulation to safeguard the integrity of the tax system.

This matrix provides summary of the recommendations and its implementation status over the last 13 years.

	Tax Heads	Bogan Taxation Review Recommendations	Rationale for Recommendation by the Bogan Review	Implementation Status & Policy rationale for implementation or non-implementation
1	Personal Income Tax			
	1A	The rates for prescribed benefits should be changed as	To increase the value of the prescribed benefits on housing and motor vehicles	The Bogan Review recommendations had been implemented through **the**

		follows: **Attachment A**	since rates have not been changed since 1995. The definition of the low, medium and high cost housing had been changed as well.	**2001 Budget**. The rates for the prescribed benefits were updated taking account of price increases over the years. Refer **to Attachment A – Table 1 &2.** The **2003 Budget** introduced further change to the value of prescribed benefits by 25 per cent. This was done to capture the gains arising from inflation since the rates were last set in 2001. The prescribed benefits for motor vehicles were increased from K95 without fuel and K125 with fuel. Refer to **Attachment A – Table 3 & 5.** The **2011 Budget** had introduced further change to the prescribed value for housing given the substantial appreciation of housing costs. The prescribed thresholds and benefits were updated to reflect current market conditions. Refer to **Attachment A – Table 6.**
	1B	School fee rebate is set at 25% of the value of the school fees paid, up to a maximum rebate	The recommended formula was to be used in deducting for the rebate, pending proper consultations with the	As per the Bogan review recommendation, **2001 Budget** introduced a flat rate of 25 per cent for

		of K750 per student.	relevant government departments that would allow for funds to be spent directly on student's education.	the value of the school fees to be claimable as rebate and this was extended to include both government and no-government schools.
	1C	School fee rebates should be eliminated, once proper consultation with the relevant governments allow for the funds to be spent directly on students education.	Reasons are: 1. Deduction is difficult to calculate because it is calculated at the taxpayers' marginal rate. 2. There is confusion about which schools give rise to a rebate. 3. There is inequity about rebates for governmental versus non-governmental schools. 4. The rebate scheme does not contribute to equity within the country as higher rate taxpayers gain a greater benefit.	The review recommended that until the conclusion of the consultations on the rebate scheme, the school fee rebate should be eliminated through the **2002 Budget**. To date, the school fee rebate is not eliminated.
	1D	The current tax schedules should be replaced with a new set of rates: **Attachment B**	To simplify the personal tax regime with few tax brackets and flat rates. This would ensure progressiveness.	Implemented through the **2001 Budget**. The new schedule had a number of advantages over the old schedule: • the tax-free threshold was extended from K4,000 to K5,500, which took many low-income earners out of the direct tax net; and • the initial band, which extended

				from K5,500 to K16,000 was wide so that many taxpayers would pay the same rate of tax on their regular employment and their overtime employment. The new rates made almost all taxpayers better off, with relative improvements in net pay being higher at lower income levels. Refer to **Attachment B – Table 2 & 3.** The **2002 Budget** introduced further change in the lower tax-free threshold for residents, which was extended from K5,500 to K6,000. **Attachment B – Table 4.** The **2006 Budget** introduced further reforms to the personal income regime. The Government had announced significant personal income tax reduction to be phased in over 2006 and 2007. The tax-free threshold was increased from K6,000 to K6,600 over two years.

				A new immediate tax rate of 30 per cent was introduced to apply to income between K18,000 and K33,000. Refer to **Attachment B – Table 5.** The **2008 Budget** introduced further changes to the personal income tax regime by increasing tax-free threshold from K6,600 to K7,000. **Refer to Attachment B – Table 6.** The **2012 Budget** introduced further change to the personal income tax regime by increasing tax-free threshold from K7,000 to K10,000 to account for bracket creep whereby tax burden on salaries and wages increased due to wage rises caused by inflation. Refer to **Attachment B – Table 7.**
2	Corporate Income Tax			
	2A	The recommendations for the National Investment Policy Volume II should be	Taxation Review recommended that the recommendations of the National Investment Policy – Volume II should	Refer to **Attachment C – Table 1.**

		implemented. **Attachment C**	be implemented.	
	2B	Consideration should be given to increasing the loss carryforward from seven years to twenty years, in keeping with the current gas tax regime.	The review recommended this change for consistency of tax treatment of corporations operating in different sectors of the economy. At the time, the loss carryforward for companies operating in the gas sectors was afforded twenty years.	The loss carryforward for mining and petroleum project was extended from seven years to twenty years in the **2001 Budget**. In the **2003 Budget**, the twenty-year time limit for the loss carry forward period is eliminated and replaced with an indefinite loss carry forward. This measure simplifies administration of the tax system for companies and the IRC. In summary, mining, petroleum and gas projects and primary industries now have an indefinite loss carry forward period while all other companies are subject to a 20 year limitation.
	2C	The anti-avoidance provisions of the Income Tax Act should be examined to prevent alienation of income in case where services are rendered by interposed corporate entities.	To prevent transfer pricing thus reducing profit and taxable income to the State.	The **2013 Budget** extended the thin capitalisation laws applying to extractive industries to include all foreign controlled taxpayers. These entities will not be able to deduct interest payments on debt which is

				over and above a 2 to 1 debt to equity ratio. The alienation issue remains and such potential tax avoidance arrangements are considered by IRC on a case by case basis.
	2D	When the VAT system is fully functional, review the provisions of business income withholding tax which was introduced as a compliance measure to facilitate compliance from intra-industry type service contract.		Business income withholding taxes were not reviewed. IRC views that there is still high risk of non-compliance in certain industries, even with GST in place. However, some Business Payment Tax (BPT) changes were announced in the 2014 Budget which will reduce the number of industries requiring Certificate of Compliance (CoC) and reporting.
	2E	Allow purchase of assets with a value of less than K1000.00 to be allowable deductions (immediate expensing).	To be treated as allowable deductions rather than being subject to depreciation rules. Would greatly simplify compliance and verification for many taxpayers thus reducing the cost of compliance and tax administration.	This recommendation was implemented through the **2001 Budget**. Asset value less than K1000 was treated as allowable deductions.
	2F	Simplify depreciation of	This change gives greater flexibility to	This recommendation was

		capital assets worth K100,000.00 or less, by creating asset pools which correspond to the depreciation schedules currently in force. Such accounts would be managed by adding annually the total costs of all newly acquired assets to the balance of the pool. At the same time, proceeds from the disposal of any old assets would be deducted from the balance of the pool. The gain or loss on sale of an asset which is pooled would not give rise to an additional allowable deduction or assessable income.	businesses in regard to their asset registers as to whether to pool or treated under the current deprecation rule. There will be no need to keep records for assets worth K100,000.00 or less. It will greatly simplify the work of IRC.	implemented through the **2001 Budget**. Asset value of more than K1000 but less than K100,000 was pooled or treated under the current system at the taxpayers election.
	2G	Amend income tax act to provide for grouping of companies which are wholly owned subsidiaries.		This recommendation was not implemented but Division 7A, Section 145(a) – (i) currently allow amalgamation of company registration.
	2H	Amend the income tax act to provide for partial self-assessment for large corporations.		Not implemented. However, IRC is using an administrative approach to move towards partial self-assessment for all corporations.

	2I	Outsource audit of large corporations.		This was not implemented due to secrecy provisions stipulated in the Income Tax Act protecting the taxpayer information. This proposal also raised issues of conflict of interest that were not able to be resolved satisfactorily
	2J	Exempt from income tax interest derived from micro loans made to cottage and rural or village based economic activities.		Not implemented. No proposal for legislative change has been made.
	2K	Change the stringent provisions on accreditation of tax agents in order to spun development of a new pool of mid- level tax agents (i.e those with diploma or certificates in accounting and business) to cater for needs of small to medium type business and other taxpayers.		Recommendation was implemented. The requirements were relaxed and caused an influx of lesser qualified registrants. This caused a number of problems which resulted in remedial action being taken to increase the tax agent registration fees and other specific actions to reduce the adverse impact on the tax system.
	2L	A strategic economic plan, in keeping with the principles articulated in this report, should be commissioned.	To identify and map PNGs primary economic base and resource strengths and constraints. The completed strategic economic plan will serve as the primary economic blueprint for	The Bogan Review recommendations are implemented through the development of Millennium Development Plan and Papua New Guinea Development Strategic Plan

			redesign and modification of State structures, institutions, laws and regulations, and systems to promote the targeted or priority economic areas or clusters. This provides an integrated and concise economic landscape over the medium term and the next 15 to 30 years.	2010 – 2030.
3	Forestry Tax			
	3A	Sections 21(c), 24(4), and 24(5) of the VAT Act should be repealed. The sale and export of unprocessed logs should be treated in the same manner as any other product for the purposes of VAT.	The sale of an unprocessed wood is exempted from VAT whereas processed wood is zero-rated. The problem is that the exporter will have to increase the price to account for VAT cost due to the exemption. Businesses need to apportion their inputs among exempt and taxed sales and this complicates compliance for both IRC and industry. Therefore Review recommends for VAT to be zero-rated on export of both processed and unprocessed logs.	Given the review recommendations, the export of unprocessed log is zero-rated under the **2001 Budget**, in line with the treatment for other export industries.
	3B	The export tax on logs be increased to the following rates: **Attachment D**	Industry complained of increase in the payment of log export tax due to depreciation in Kina because tax	As part of the **2002 Budget**, the Government had reduced the log export tax by five percentage points,

			liability is paid in kina terms. However, the review is ascertained that effective tax rate for logs fell to an average of 32% during the second quarter of 2000 and this forecast to remain in the foreseeable future. In addition, companies had been under-invoicing their log exports and also that there is evidence of under-valuation of the value of logs exported.	contrary to the Bogan Review recommendations. Refer to the **Attachment D – Table 1.**
	3C	Repeal section 10 of the Customs Tariff Act (1990). There should be no ministerial discretion to exempt the export of a taxable good from the payment of tax.	This recommendation was made with the aim of increasing transparency in government spending and minimizing lobbying.	Section 10 repealed and replaced with a provision that allows grant of exemption upon the National Executive Council (NEC) decision and gazettal by the Office of the Governor General.
	3D	As part of the forestry and conservation Project, the PNG Forest Authority assisted by the World Bank should examine the forest revenue system, with the aim of making recommendations on the following: elimination of tax expenditure on domestic processing industry; allocation of logging rents among central		The has been several review done to the PNG Forest Revenue System and one of the most comprehensive study was under the World Bank technical assistance. PNG Forest Authority is not helpful with the PNG Tax Review that they have not provided information on the implementations of the recommendation. It is assumed that most of the recommendations done under the World Bank technical

		government, landowners, and logging companies; the prevalence of transfer pricing and denomination of the export tax.		assistance is not yet implemented. Except the change of denomination of the currency which was implemented by Treasury.
	3E	The IRC should vigorously pursue logging companies who engage in tax evasion, using the prima facie evidence of transfer pricing.	There is evidence that many logging companies do not pay company tax although they have operated for more than eight years. There are also evidence of logging companies under-invoicing log exports and under-valuing value of logs exported.	The **2001 Budget** recommended that the PNG Forest Authority examine the issue of transfer pricing and suggest ways in which it can be minimised. According to IRC, it has invested in transfer pricing capability building and is considering these issues in its normal audit process.
		In light of the forecast for a stable kina, the export tax should remain denominated in Kina.	The Review recommended for no change given the foreseeable stability of the kina.	The **2003 Budget** converted the Kina thresholds into US dollars at the exchange rate applicable at that time which was around US$0.25/Kina. This conversion was done to provide certainty to the logging industry. In late 2005, the Kina appreciated to around US$0.33/Kina and the industry argued strongly for the original thresholds to be adjusted, using a re-conversion of the original kina thresholds at the new exchange rate. However, the government declined to do this but reduced the log export tax

				by five percentage points. Refer to **Attachment D – Table 2.**
4	Gas			
	4A	Royalty and development levy should each remain at 2%, with royalty a tax credit and development levy a tax deduction. An amendment to the Income Tax Act is necessary to implement this.	The Review recommendations to the gas tax regime encompass international and domestic economic conditions having impacts on the level of investments in the mining and petroleum sectors. The domestic economy was slowly recovering from the economic crisis with cash flow problems. The international commodity prices were low and corresponding decline in the level of exploration activities in the mining and petroleum sector around the world. Taking these factors into account, the review recommendations were more orientated to refinement of the tax regime thus removing provisions that warrant discretions and assurance of fiscal stability to the investors given the instable political environment.**SR = Same Rationale.**	The **2001 Budget** reaffirmed that royalty and development levy remained at 2 per cent, with royalty a tax credit and development levy a tax deduction.

	4B	The calculation of wellhead value should reflect deduction of only the operating cost of in-field processing and transport facilities. The rules should be set out in regulations under the Oil and Gas Act.	SR	The **2001 Budget** also reaffirmed that calculation of wellhead value reflect deduction of only the operating cost of in-field processing and transport facilities. These rules are set out in regulations under the Oil and Gas Act. Note that LNG Gas Project Agreement for the calculation of wellhead value allows deduction of operating costs including shipping and marketing, amortisation and capital allowance.
	4C	No equivalent of mining levy should be applied to oil or gas.	SR	No equivalent of the mining levy is applied to oil or gas project.
	4D	New projects should be granted the import tariff rates planned for the conclusion of the tariff reform program. The 'basket rate' limitation should not be granted.	SR	Refer to implementation status of 4C.
	4E	The corporate income tax rate for gas should remain at 30%.	SR	This recommendation was implemented in the **2001 Budget.**
	4F	The project basis of assessment should be retained; the project ringfence should include those gas fields, processing and transport facilities (up to the	SR	It was also announced in the **2001 Budget** that project basis of assessment is retained and the project ringfence for gas projects includes those gas fields, processing and transport facilities (up

		PNG border) dedicated to the project.		to PNG border) dedicated to the project.
	4G	A technical criterion based on the gas-oil ration (GOR) resulting from actual productions should be set out in regulations to determine when a field is to be treated as gas and when as oil. An oil field should not be included within a gas project ringfence.	SR	The **2001 Budget** also implemented the technical criterion based on the gas-oil ratio (GOR) resulting from actual production be set out in regulations to determine when a field is to be treated as gas and when as oil. An oil field was not to be included within a gas project ringfence.
	4H	If an oil field is reclassified as a gas field, and included within an existing designated gas project, its net project receipts for additional profits tax purposes should be set at zero.	SR	Refer to 4I below.
	4I	Revised additional profits tax terms (see page 44) should apply to the consolidated cash flows of each designated gas project.	SR	The **2001 Budget** announced the implementation of review recommendation that revised additional profits tax terms be applied to the consolidated cash flows of each designated gas project. If an oil field is reclassified as a gas field and included within an existing designated gas project, its net project receipts for additional profits tax purposes will be

				set at zero.
5	Oil			
	5A	Royalty and development levy should each remain at 2%, with royalty a tax credit and development levy a tax deduction. An amendment to the Income Tax Act is necessary to implement this.	The Review recommendations to the gas tax regime encompass international and domestic economic conditions having impacts on the level of investments in the mining and petroleum sectors. The domestic economy was slowly recovering from the economic crisis with cash flow problems. The international commodity prices were low and corresponding decline in the level of exploration activities in the mining and petroleum sector around the world. Taking these factors into account, the review recommendations were more orientated to refinement of the tax regime thus removing provisions that warrant discretions and assurance of fiscal stability to the investors given the instable political environment.	The **2001 Budget** reaffirmed that royalty and development levy remained at 2 per cent, with royalty a tax credit and development levy a tax deduction.
	5B	No equivalent of the mining levy should be applied to oil or gas.	SR	No equivalent of mining levy is applied to oil or gas.

	5C	New projects should be granted the import tariff rates planned for the conclusion of the tariff reform program. The 'basket rate' limitation should not be granted.	SR	Refer to implementation status of 5B.
	5D	The corporate tax rate for oil should be reduced to 45%.	SR	It was announced in the **2001 Budget** that tax rate for oil be reduced to 45 per cent, only for new projects (i.e. those not yet engaged in the production of oil, either under a PDL license or under Extended Well Testing). The **2003 Budget** introduced special fiscal terms whereby companies issued with PPL issued before 1 January 2008 and converts to PDL before 1 January 2018 to be entitled to a reduced petroleum corporate tax rate of 30 per cent.
	5E	The special provisions (corporate tax and additional profits tax) relating to frontier areas should be eliminated.	SR	The **2001 Budget** also announced to eliminate special provisions (corporate tax and additional profits tax) relating to frontier areas.
	5F	Corporate tax and additional profits tax should continue to	SR	The **2001 Budget** also announced that corporate tax and additional profits tax

		be assessed by petroleum project; a "petroleum project" should normally include production from one PDL covering a single field or integrated complex of fields, together with any field processing facilities and pipeline necessary to deliver oil to the PNG port of export.		was continued to be assessed by petroleum project for the petroleum industry. A "petroleum project "normally include production from one Project Development License (PDL) covering a single field or integrated complex of fields, together with any field processing facilities and pipeline necessary to deliver oil to the PNG port of export. The **2003 Budget** amended the terms of the APT by abolishing the first tier of APT as an incentive to the industry while the second tier is maintained.
6	Mining			
	6A	Mining levy should be phased out; in return, existing mining projects should forgo the "basket rate" provision limiting import duty rates.	The Review recommendations to the gas tax regime encompass international and domestic economic conditions having impacts on the level of investments in the mining and petroleum sectors. The domestic economy was slowly recovering from the economic crisis with cash flow problems. The international	The recommendation was implemented in the **2001 Budget** for the Mining Levy to be phased out over four years, subject to agreement from existing mining projects to forgo the "basket rate" provision limiting import duty rates. The mining levy was to be reduced in four equal steps, each of 25 per cent, beginning 1 January 2002, at

			commodity prices were low and corresponding decline in the level of exploration activities in the mining and petroleum sector around the world. Taking these factors into account, the review recommendations were more orientated to refinement of the tax regime thus removing provisions that warrant discretions and assurance of fiscal stability to the investors given the instable political environment.	which time the basket rate provisions cease to apply. However, the decision to phase out the mining levy was overturned thus **2003 Budget** allowed the mining levy to be kept at 2002 rates at an ongoing basis.
	6B	New projects should be offered the import duty regime due to prevail at the end of the tariff reform period.	SR	It was announced in the 2001 Budget that new projects will be granted the import tariff rates planned for the conclusion of the tariff reform program. Other import duty concessions will not be granted.
	6C	Royalty: no change recommended.	SR	The **2001 Budget** reaffirmed that royalty and development levy remained at 2 per cent, with royalty a tax credit and development levy a tax deduction.
	6D	Corporate tax and dividend withholding tax to be reduced to a combined rate of around 37% (consisting of a 30%	SR	It was announced in the **2001 Budget** that corporate tax rate of 30 per cent and dividend withholding tax rate of 10 per cent was to be applied to mining

		corporate tax rate and 10% dividend withholding tax). The branch rate would reduce to 37%.		projects (applying to both SML and ML) in the future.
	6E	The mining tax regime should apply to facilities needed to produce the "first saleable product"; dedicated transport facilities or processing plant should therefore be taxed as mining.	SR	It was also announced in the **2001 Budget** that mining tax regime (referring to 6D above) was designed to be applied to facilities needed to produce the "first saleable product"; dedicated transport facilities or processing plant.
		If mine products are processed in a plant taxed under the normal business regime, and then exported as a raw material, the "manufactured exports" tax holiday should not be available to that plant.	SR	It is also announced in the **2001 Budget** not to afford manufactured exports tax holiday if the mine products are processed in a plant taxed under the normal business regime and then exported as a raw material.
		The mining tax regime should apply in future to both Special Mining Leases and Mining Leases.	SR	Refer to 6D above.
7	General Mining & Hydrocarbon			

	7A	Loss carryforward should be increased from seven to twenty years (current regime for gas).	The Review recommendations to the gas tax regime encompass international and domestic economic conditions having impacts on the level of investments in the mining and petroleum sectors. The domestic economy was slowly recovering from the economic crisis with cash flow problems. The international commodity prices were low and corresponding decline in the level of exploration activities in the mining and petroleum sector around the world. Taking these factors into account, the review recommendations were more orientated to refinement of the tax regime thus removing provisions that warrant discretions and assurance of fiscal stability to the investors given the instable political environment.	The **2001 Budget** announced the implementation of the review recommendation to increase loss carryforward for mining and petroleum projects from seven to twenty years. The **2003 Budget** eliminated twenty-year time limit for the loss carry forward and replaced with an indefinite loss carryforward for companies operating in the mining, petroleum and gas projects. Other companies are subject to a 20 year limitation except for primary industry companies whose loss carry forward id for an indefinite period.
	7B	Depreciation rules to be uniform: 10% per annum straight line for long-life assets, pool depreciation for exploration expenditures and short-life assets (25%).	SR	The **2001 Budget** implemented the review recommendations in relation to the depreciation rules to be applied uniformly to mining, petroleum and gas projects. As a result, the accelerated depreciation provision was recommended to be eliminated

				(subject to a transitional provision permitting retrospective application of straight-line depreciation where an existing project can demonstrate adverse cash flow or debt cover consequences not offset by the reduction in tax rates).
	7C	The accelerated depreciation provision should be eliminated.	SR	Refer to 7B above.
	7D	Future exploration expenditures anywhere in PNG should be deductible against assessable income for corporate income tax (separately for oil and gas, on one hand, and mining on the other) at a rate of 25% each year of the accumulated pool of current AEE (provided that a loss is not created) and subject to a maximum reduction in tax payable of 10%.	SR	Through the **2001 Budget**, future exploration expenditures anywhere in PNG was made deductible against assessable income for corporate income tax (separately for oil and gas, on one hand, and mining on the other) at a rate of 25 per cent each year of the accumulated pool of current AEE (provided that a loss is not created) and subject to a maximum reduction in tax payable of 10 per cent in that year.
	7E	Exploration expenditures leading to project development (and not already deducted)	SR	This review recommendation was implemented in the **2001 Budget**.

		should be deducted under the present declining balance rules, but with a divisor of four for mining as well as oil and gas.		
	7F	Discretionary provisions allowing further deductibility of exploration by regulation, or under an agreement, should be removed.	SR	This review recommendation was implemented in the **2001 Budget.**
	7G	Carryforward of unused deductions for relinquished areas should be extended to 20 years for mining and oil (current provisions for gas).	SR	This review recommendation was implemented in the **2001 Budget.**
	7H	The continuity of ownership provisions in the Income Tax Act on the transfer of exploration expenditure should be removed in respect of future exploration. This will permit the sale of abortive losses to an operator able to deduct them. (This and the extension of loss carry forward are important incentives to potential explorers with no	SR	This review recommendation was implemented in the **2001 Budget**.

		current presence in PNG).		
	7I	Definition of exploration and capital expenditure expenditures should be reviewed and redrafted. Expenditure on SMLs or PDLs should always be treated as capital (ACE) not exploration (AEE). Existing allocations of unused allowances should be reviewed by the IRC with support of the Department of Mineral Resources and the Department of Petroleum and Energy.	SR	This review recommendation was implemented in the **2001 Budget**.
	7J	A two-tier additional profits tax system should be introduced in all three sectors. The APT ringfence will also continue to be on a project basis in the mining sector. The APT tiers proposed are: 15% accumulation with 20% tax rate, 20% accumulation with 25% tax rate (first ties APT deductible against net project receipts for the second). An	SR	This Taxation Review recommendation was implemented in the **2001 Budget**. However, the APT was abolished for the mining sector in the **2003 Budget** and first tier of APT is abolished as an incentive to the petroleum sector while maintaining the second tier.

		option of a lower fixed rate with inflation adjustment should be offered. For existing mining and petroleum projects the new accumulation rates should be applied to future calculation of accumulated net project receipts from the date when new corporate tax rate is applied.		
	7K	The additional exploration incentive would not apply to additional profits tax. The project ringfence for APT to remain as at present.	SR	The **2001 Budget** implemented this recommendation.
	7L	The debt-equity limitation in the Income Tax Act should be raised to 3:1 for oil and gas. The same rule should be added to the Act in respect of mining.	SR	The **2001 Budget** announced the implementation of the review recommendation relating to the debt-equity limitation to be raised to 3:1 for oil and gas. The same rule was to be added to the Act in respect of mining.
	7M	VAT to be zero-rated for domestic inputs to the oil, gas and mining sectors, and effectively zero-rated for imports where substantial refunds would otherwise due.	SR	This review recommendation was implemented in the **2001 Budget**.

	7N	Stamp duty on reorganisation to be reduced to 2%.	SR	This review recommendation was implemented in the **2001 Budget** that Stamp Duty on transfers of securities or interests in mining and petroleum rights will be reduced to 2 per cent.
	7O	Interest withholding tax should continue to be exempted for interest paid abroad on approved mining and petroleum project debt.	Most companies operating in the extractive industry is capital intensive thus significant portion of their capital is loan thus imposition of interest withholding tax is an additional cost to doing business in the country.	Interest Withholding tax is continued to be exempted.
	7P	Taxation of interest received within PNG from mining or petroleum companies to be at the mining, oil or gas rate respectively. (This is an important anti-avoidance measure).	SR	The 2001 Budget reaffirmed the review recommendation that taxation of the interest received within PNG by mining or petroleum companies to be at the mining and or petroleum rate respectively. This is an important anti-avoidance measure.
	7Q	Deduction of management fees or home office overheads to be limited to 2% of operating expenses, or 2% of AEE for exploration and 2% of ACE during construction.	SR	The **2001 Budget** had also implemented the review recommendations relating to deduction of management fees.
	7R	Personal income taxation of leave fares for mining and petroleum employees should	SR	This review recommendation was implemented in the context of the **2001 Budget.**

		be subject to a general rule, with no further discretion. This rule should conform to general industry practice in the region.		
	7S	Abandonment and restoration expenses should be accumulated under a tax-deductible provisioning system for new projects; current projects should remain subject to existing rules.	SR	It was announced in the **2001 Budget** that abandonment and restoration expenses was to be accumulated under a tax-deductible provisioning system for new projects; projects operating at the time were to be subject to existing rules.
	7T	The Government should seek specialist advice on the appropriateness of introducing a rule obliging local operations whose overseas parents engage in hedging with PNG product to apportion profits and losses on hedging ratably to the PNG branch or subsidiary.	SR	
8	Fiscal Stability			
	8A	The fiscal stability term should be 10 years. However, where projects are committed to	The review noted that assurance of fiscal stability is of value to the project developers but providing fiscal	This review recommendation was implemented in the **2001 Budget**. The Budget also announced that the Oil

		construction before end-2003 Government should be prepared to offer a term equal to the maximum term of initial project debt, if greater than 10 years.	stability in specific clauses in each of the specific projects as Mining Development Contracts (MDCs) and Petroleum Agreements amounts to differentiated fiscal treatments. The review team propose to have general framework - established under a law a separate "fiscal stability agreement" that will be available to major resource projects so that it is transparent and non-discriminatory.	and Gas Act and the Mining Act will be amended to make clear that fiscal terms may not be the subject of Agreements made under those Acts. A new law concerning Fiscal Stability in Major Resource Projects will be drafted to provide for separate agreements guaranteeing stability of the fiscal terms in place in general legislation on the date of the agreement. The Government will prepare and publish Model Fiscal Terms (based on the draft presented by the Tax Review) for inclusion in agreements made under the new law. The new fiscal stability agreements will be available, without discrimination, to investors in major mining and petroleum projects.
9	Tax Administration			
	9A	IRC should develop a field audit strategy and program.		This recommendation was implemented with audit division strategic plan in place along with

				program work plans and supplemented by additional specific field audit strategies and programs such as those supported by World Bank.
	9B	Mining and Petroleum companies should be obliged to submit reconciliation between their tax returns and their audited accounts.		Not implemented.
	9C	Joint venture partners should be obliged to cause the operator to submit to the IRC a financial statement for the joint venture as a whole, reconciled with the individual partners' returns.		IRC reported that it has implemented this recommendation.
	9D	The IRC, Departments of Petroleum and Energy and Mineral Resources should develop common systems for the reporting of mining and petroleum expenditures. IRC staff should receive training from DPE and DM on technical, economic and accounting concepts for the		DPE and DRM has been providing training in the past and they continue to collect and provide information to the IRC but it less than in the past.

		mining and petroleum sectors.		
	9E	Early consideration should be given to outsourcing assessment and audit functions for mining and petroleum tax to private sector consultancies and overseas tax administration with consulting arms.		Refer to 15E.
	9F	Data recording and retention at the IRC should be improved to support not only tax audit, but also revenue analysis and forecasting on a project-by-project basis at the IRC		IRC reported that system limitations have prevented this recommendations from been implemented in the past. However, recent introduction of RAST 2 and SIGTAS system will assist in implementing this.
10	Infrastructure Tax Credits			
	10A	The allowable infrastructure tax credit should be reduced from 2% of the assessable income to 0.75% of assessable income, beginning in the 2001 tax year (2001/2002 in the case of substituted accounting periods).	The tax credits is the first call on the government resources as far as operations of the tax credit scheme is concerned. It is a tax offset from the taxable income. Therefore, its impact on the government cash flow is significant.	The tax credit scheme rate was reduced from 2 per cent to 0.75 percent in the 2001 Budget as per the Tax Review recommendations. Note that tax credit rate for primary production was increased from 1 per cent to 1.5 per cent in the **2007 Budget**.

	10B	The carryforward of excess credits should be reduced by limiting them to two years for current and future years, while excess credits for prior years must be spent by end-2003.	This recommendation is partly attributed to ensuring that Mining and Petroleum companies execute the tax credit scheme projects in a timely manner and also to maximise tax receipts.	The Tax Review recommendation was implemented through the **2001 Budget.**
	10C	Maintenance of government infrastructure should be allowed as a tax credit.	The provincial governments of the respective provinces where tax credit scheme projects are undertaken were to take care of the maintenance of the infrastructures previously undertaken under the scheme. However, the provincial government did not do maintenance so therefore the maintenance is taken care of by the tax credit scheme again.	This Tax Review recommendation was announced in the **2001 Budget**to allow utilization of tax credits for maintenance of government infrastructure.
	10D	The Department of National Planning and Monitoring should be made responsible for the administration of the scheme, supported by the Department of Mineral Resources and Petroleum and Energy, and the IRC and provincial administrators.	The Department of National Planning and Monitoring was not taking control of the tax credit scheme and also not supported by the Department of Mineral Resources and Petroleum and Energy and the IRC. Given this scenario, the resource companies were not fully exercising their rights thus result in K46.2 million in contingent liabilities at the end of 1999.	This Tax Review recommendation was implemented as of **2001 Budget**. The tax credit scheme projects are current appraised and approved by the Project Approval Committee (PAC) comprising members from the Departments of National Planning and Monitoring, Treasury, Agriculture and Livestock, Works and Mineral Resources Authority. The PAC has more weaknesses than just lack of

				monitoring. It is no longer attended by Secretaries and Deputies, no financial analyst and no proper frameworks.
	10E	The infrastructure tax credit scheme should be reported as tax expenditure in the in the National Budget, in order to improve transparency and facilitate comparison with other areas of development expenditure. This should include projections, estimates and actual tax expenditures.	Inclusive of all forms of tax expenditures, tax credit scheme is revenue forgone in terms of the money that would have channelled to the normal budget process. Therefore, government had no idea on the magnitude of the revenue forgone. Ultimately it schemes lack transparency and accountability in its operations.	This Review Recommendation was implemented through the **2004 Budget** when the Government took an initiative to start identifying tax expenditures (tax concessions or exemptions) in the same away as direct government expenditures. The 2004 Budget provided a review and analysis of tax expenditures relating to tax exemptions, deferrals and the tax accredit scheme.
	10F	Primary producers should be allowed to deduct the cost of spending capital projects which are public infrastructure and which lead to the derivation of income.	Tax credit scheme is not extended to the agricultural companies given the capacity of agricultural companies in comparison to the resource companies and also looking at the IRC resources in terms of monitoring taxation affairs of these companies.	Contrary to the Tax Review recommendations, the **2005 Budget** extended tax credit scheme to the primary production sector and the tax credit rate is 1 per cent. In the **2006 Budget**, the tax credit rate was increased from 1 per cent to 1.5 per cent.
11		Excise		
	11A	The 40% ad valorem import excise on concentrated spirits	The review recommended that excise duty be directly related to the volume	The **2001 Budget** announced that a fixed (moving away from ad valorem)

		should be repealed immediately.	of alcohol so that drinks with higher alcohol content will attract higher excise duties. It was also noted that taxes were effectively levied at the same rate on every litre of spirits and there is little price incentive to encourage the production or consumption of lower strength products.	charge was to be levied on specific quantities of products being imported or produced. Under the new regime, alcohol attracted a specific rate for each litre of pure alcohol (LAL), while tobacco products attracted a specific rate for each 1000 cigarettes or each kilogram of tobacco. In the case of alcohol, excise duty was directly related to alcohol strength so that drinks with higher alcohol content attracted higher excise duties.
	11B	Beginning in May 2001 all specific excise rates should be increased by 2.5% every six months, until and including November 2002.	By changing from an ad valorem to a specific system, the automatic indexing of the tax base will be lost so therefore specific rates need to be increased automatically twice every year in May and November at 2.5%.	This Taxation Review recommendation was implemented through the **2001 Budget.**
	11C	A quota system should be put in place so that during May and November of each year a quota is in force. The quota will be equal to the average monthly clearances during the previous six months. Clearances in May and November up to the value of	The purpose of the quota system (clearance system) was to allow manufacturers to clear unlimited quantities of goods at all times. However, during quota months (i.e May and November) clearances up to the average monthly clearances made in the previous six months would be allowed at the old rates. The move to	This Taxation Review recommendation was implemented in the **2001 Budget**.

		the quota can be effected at current excise and import duty rates. Clearances in May and November in excess of the quota will be cleared at the new duty rate in force.	have excise and import duty on beer, spirits, wine, alcohol beverages, cigarettes and tobacco from what was used to be based on the selling price (ad valorem) to a fixed (specific) charge per quantity of alcohol or tobacco content was to address the following issues: • The application of import and excise duty lacked transparency; • The design of the excise and import duty encouraged sale of very high alcohol content beer at the same price as low content alcoholic beverages; • Changes to rates of excise by successive government had made production planning very difficult; and • The very high levels of protection in the form of high rates of import duty had encouraged smuggling and under-invoicing of excisable goods.	

	11D	The current excise duty and import duty rates for beer, spirits, wine, ready-to-drink alcoholic beverages, cigarettes, and tobacco should be replaced according to the table below.	Changes to tariff rates were consulted widely with business houses, general public and stakeholders throughout the country.	The **2001 Budget** implemented the Taxation Review recommendations.
12		Tariff Arrangements		
	12A	There should be no change to the tariff reduction timetable.	This was because the tariff reform program was just being implemented at the time of Bogan Review and so it was still too early to assess its impact on the economy.	
	12B	There should be no formal mechanism by which tariff reclassifications are considered. In very exceptional cases, the IRC and Department for Finance and Treasury can consider rate changes.	Changes to tariff rates were consulted widely with business houses, general public and stakeholders throughout the country.	
	12C	Legislative changes should be introduced to remove ministerial discretion in grating import duty exemptions to commercial	The data on tax expenditure is not sufficient to determine the cost of concessions and exemptions given to the industries. Removing such discretionary powers would reduce	Currently, Section 9 of the Customs Tariff Act does not have ministerial discretion. It only provides for the Head of State to act on NEC advice.

		projects by amending section 9 of the Customs Tariff Act (1990).	cost to Government revenue.	
13		Value Added Tax		
	13A	In the short term, sufficient resources should be allocated to the IRC in the 2001 Budget to ensure that the VAT division is fully staffed, the necessary auditors and inspectors are recruited and trained and the provincial offices are established.		Additional resources were provided to the IRC to implement VAT/GST.
	13B	In the medium term, the IRC should give consideration to consolidating business registrations, and assessing and auditing functions in order to improve efficiency as part of its overall strategy of improving tax administration (refer to sections on tax administration).		IRC has implemented this. Registration has been consolidated with implementation of the new accounting system and a single taxpayer identification number (TIN) has also been implemented. All assessing functions were also consolidated into one division as were all audit functions under IRC'S Organisation Redesign of 2010.
14		Tax Policy Formulation		

	14A	Wherever possible a generally applicable framework of taxation should be adopted in preference to discretionary powers.	This issue had not been seriously looked at over the years, although some attempts had been made through the budgets over the years. The Fiscal Responsibility Act 2006 has provisions meant to stabilise macroeconomic conditions and this Act should have covered provisions articulating general applicable frame or outlining specific tax concessions that available. The provision should do away with specific tax concessions for specific projects (do away with PA, SMLA, MLA, etc).	
	14B	The tax policy function should be strengthened in the fiscal branch of the Department of Finance and Treasury. Consideration should be given to the engagement of one or two experts from IRC or a local accounting firm to help strengthen this function.	This recommendation was necessary as there was low capacity for tax policy formulation at the Department of Treasury.	The Department of Treasury had established Revenue Policy Branch in the Economic Policy Division. Staffs are recruited for this branch and it should come on full strength in 2014.
	14C	NEC procedures and guidelines should be amended to stipulate that only tax policy	The Department of Treasury is responsible for formulation and implementation of tax policies for the	It is the normal practice that any NEC Submissions that has tax policy implications are assessed by Treasury

		submissions approved by the Minister for Finance and Treasury will be considered.	country.	in consultation with IRC and Customs before it is table at the NEC for making decision. However, there are instances where this process is being hijacked.
	14D	A mechanism to provide a conduit for private and public-sector contributions to tax policy articulation should be developed.	The rationale for this recommendation was to introduce tax policies that are widely acceptable and avoid serving certain sections of the community.	Treasury introduces tax policy changes in consultation with the private sector and the government stakeholders including IRC and Customs. IRC and Customs provides advice on implementation aspect of the tax policy changes.
	14E	The excise tax on gaming machines be reduced from 150% to 70%.	The review noted that 150% excise duty on the purchase of new gaming machine tend to be punitive as taxes on gaming machine industry had increased over the years since 1995. Due to high excise on the purchase of new machines, the industry was hardly importing new machines to replace the old machines. Therefore, it was recommended that excise duty be reduced to a moderate rate of 70%.	The **2004 Budget** reduced the Poker Machine excise duty to 50 per cent. The current excise duties on Poker Machines were too high that there were no imports of gaming machine occurring. The existing machines were quite old and needed replacement.
	14F	The distribution of gross profits from gaming machines be amended, so that 62% be paid into consolidated revenue, 6% be paid into the	The distribution of the gross profit from the gaming machines were proposed to be redistributed in the following manner due to increase in cost of operating the Poker machines	The 74 per cent of the profits from gaming machine is paid to the National Government. Of the remainder, 22 per cent is paid to the owners of the gaming machine sites

		provincial trust account, 24% be paid to site owners, and 8% be paid to operators. The national government trust account should be closed down.	by the site owners and operators and the allegations of misappropriation of the Governments share by the National Gaming Board.	and 4 per cent is paid to the gaming machine operators.The provision allowing the portion of the gaming tax paid to the provincial governments was revoked in 2001 and replaced by a provision that allowed the National Gaming Control Board to pay a proportion of the gaming taxes into a trust fund called Community Benefits Fund Account. Funds in this trust account were misused so the provision was repealed and all monies were paid into the Consolidated Revenue.
	14G	The Gaming Machine Act should be amended so that tax is assessable in respect of total taxable gross profit collected and payable to operators. This amendment would help IRC to collect all revenues and made it payable directly to the operators. Currently site owners pay the operators.	The current practice of sharing the profits among the site owners, operators, provincial and national governments lack transparency and IRC does not have power to collect taxes on all funds collected by and payable to operators.	The **2004 Budget** had introduced amendment to the Gaming Machine Act to ensure that site permit holders promptly collect revenues from the machine and bank them daily. The amendment made operators liable for Gaming Machine Tax on receipts both paid to and payable to them from site permit holders. Thus operators are only liable for Gaming Tax on actual payments received.
15		Tax Administration		

	15A	The IRC should consolidate client registration for individuals and businesses, with each taxpayer being given a single tax number.		This recommendation was progressively implemented since 1st July, 2013 with new revenue accounting systems called SIGTAS.
	15B	The IRC's mail management systems should be consolidated, streamlined and rationalized.		All postal mail is now processed in the IRC at a single point of entry. A colour coding system was implemented in 2012 to improve IRC handing of "return to sender".
	15C	The IRC's should consolidate assessing functions of all tax type where it is feasible.		This recommendation was implemented since 1st January, 2010 through the Organisation Redesign.
	15D	The IRC should structure assessing functions along business lines of large businesses, small and medium enterprises, and small and medium enterprises, and individuals and sole proprietors to more effectively address their special needs.		This recommendation was implemented since 1st January, 2010 through the Organisation Redesign.
	15E	All audit functions should be consolidated to bolster and improve the effectiveness of compliance by: outsourcing large audits/investigations		Also refer to 9E. IRC consolidated all audit functions since 1st January 2010 through the organisation design. As identified in 9E, outsourcing of audit has not occurred due to security

		(particularly the resource sector); intelligent profiling according to compliance risks; improving and enhancing the IRC's information gathering and matching capacity; and compelling banks by law to render information on all transactions above K10,000.00		provisions but a number of large audits have been undertaken since the review and a number of them are currently being undertaken. IRC has been building case selection capability in recent years and will implement improved profiling and information gathering/matching capability along with the new computer system as part of a new revenue raising project funded by government in the 2014 Budget. IRC has access to information on all transactions above K10,000.00.
	15F	The IRC should consolidate and rationalize its collection points and explore, as part of its service outreach to clients, the viability of entering into arrangements with commercial banks to collect and remit taxes.		Implemented.
	15G	The IRC should work closely with the Department of Finance and Treasury to streamline and improve the tax	Refunds of tax have been slow due to insufficient funds appropriated. Submission approved in the 2014 National Budget for IRC to transfer	It was announced in the 2012 Budget that the Income Tax Act already provides for the payment of tax refunds when taxpayers have overpaid

		refund process, along similar lines to VAT refunds.	funds from its administration account to the IRC refunds account to pay tax refunds.	their taxes. An authority for this was provided by Treasury in late 2013 along with advice that no appropriation would be provided in 2014 Budget. Subsequently IRC implemented an administrative solution in 2014 to pay income tax refunds, using similar practices to the existing GST refunds. No change to the law is required.
	15H	The IRC should develop a strategic business plan that clearly articulates the organisation's medium to long-term objectives and strategies. The development and monitoring of the plan could be undertaken by IRC's corporate affairs division.		IRC had implemented this recommendation. The current corporate plan is for 2013 – 2017.
	15I	All complex cases in respect of tax defaulters should be outsourced to external lawyers at the sole discretion of the commissioner General or the Commissioners.		Not implemented.
	15J	As part of its strategic business plan, the IRC should reorient		This recommendation was implemented since 1st January 2010 by

		itself towards a culture of client services, paying particular attention to the size of each client.		engaging with top 250 taxpayers. This was done by establishing a key client unit.
	15K	The Commissioner General and Commissioners for Tax and Customs should be appointed for fixed terms of between five and seven years. The Commissioner General should be appointed by the Governor-General, acting on advice of NEC, while the Commissioners for Tax and Customs should be appointed by the Commissioner General.	The current practice is that an appointment of the Commissioner General is done by the Minister for Finance and Treasury upon recommendation of the Commissioner General. Therefore, the tenures of the Commissioner General and the Commissioners are not assured by legislation. Therefore, Bogan Review recommended in the **2001 Budget** that appointments must be done to ensure security of tenure and the Commissioner General's remuneration to be fixed by the National Parliament upon recommendation by the Salaries and Remuneration Commission.	Income tax legislation Section 6 amended effective 1 January 2001 to effect recommendations for fixed terms of appointment of Commissioner General by Head of State acting on advice for period not less than five years or more than seven years. Income tax legislation section 4(2) amended by Section 6B effective 1 January 2001 to effect recommendation for appointment of Commissioner for Taxation. New arrangements are to be put in place along with IRC's move to Statutory Authority status.
	15L	The Commissioner General and Commissioners for Tax and Customs should be subject to the leadership code and, consequently, scrutiny of the ombudsman Commission.	It was also announced in the **2001 Budget** that Commissioner General be subjected to leadership code and allow for dismissal upon non-performance or criminal activity.	The Commissioner General and Commissioner of Taxation are both subject to the Leadership Code and under the new Statutory Authority arrangements, the Commissioner General and the Commissioners will

		Only a tribunal, called in accordance with the Organic Law on the Duties and Responsibilities of Leadership would have the power to sack one of the Commissioners.		be subject to the Leadership Code.
	15M	The IRC, as part of its statutory obligation and its general corporate governance, should publish and table in Parliament a supplementary management report in addition to the annual reports on its performance and operations.		Not implemented.
	15N	The Commissioner General's remunerations should be fixed by National Parliament, following consideration of a recommendation by the Salaries and Remuneration Commission.		Refer to item 15K.
	15O	The IRC as part of integrity enhancement and corporate governance develop a specific code for its staff and taxpayer service charter.		Code for staff developed and implemented whereas initial taxpayer service charter work commenced but not completed. Task included in IRC 2013 – 2017 Strategic Plan.

	15P	The IRC should critically appraise its information technology systems and either upgrade or consider the viability of outsourcing.		A new information technology system called SIGTAS, acronym for Standard Integrated Government Tax Administration System being implemented through phases commencing 1 July 2013 with TIN registration for corporate taxpayers.
	15Q	The IRC should prepare a plan outlining problems and suggesting solutions with regards to its human resource needs.		Implemented. This resulted in a proposal for Statutory Authority status which is currently being passed by Parliament. IRC has also commented a graduate and cadet program and is also engaging short term contract staff for various activities.
	15R	The IRC should work closely with the Department of Finance and Treasury to develop a mechanism which would enable the IRC to access funds in a way which provides incentives and opportunities for additional revenue generation.		IRC and Treasury had put in place where warrants were released on a quarterly basis so that delay in disbursement of funds would not jeopardise its operations for revenue generations. IRC and Treasury work closely through a committee to deliberate on both tax administration and policy issues.
	15S	The IRC should present to the NEC a revised schedule of legislated penalties for offences relating to corruption		Both IRC and PNG Customs Service have reviewed and updated the penalty provisions. According to IRC, it has a zero tolerance policy towards

		and non-compliance with the tax and customs acts. Where warranted, discretion should reduced.		corruption and takes action and corruption cases are referred to the RPNGC for criminal investigation and potential prosecution by State.
	15T	Baseline studies and analysis should be conducted on the tax base, costs of compliance and Customs cargo clearance systems to assist the qualitative process of tax/fiscal policy formulation as well as daily management decisions and strategic planning.		According to PNG Customs Services, assistance from Oceania Customs Organisation conducted the baseline study in late 2013 and a report is yet to be furnished. For IRC, no baseline studies have been conducted
	15U	All tax statutes, codes and subsidiary legislation be rearranged and properly codified in a structured and easily comprehensible manner as part of the overall emphasis of client services.		PNG Customs Services planned to consolidate the legislation this year (2014). For taxation, no comprehensive simplification exercise has been conducted but has previously been proposed by IRC.