

Dear Committee,

The issues discussed in the paper are very comprehensive and reflects the reality of GST collections, implementation of the GST Act and the administration. GST itself is a good tax and captures the populace where taxpayers of all sectors pay this tax depending on their consumption levels.

The impact is minimal to low income earners as they are limited to certain goods and services for consumption and likewise differs for middle to high income earners if ever there is an increase in GST. Despite this, there is no justification for an increase as the Tax Administration non-compliance level is high and a further escalation of the rate will only increase the level of non-compliance.

Anyway, I would like to respond to certain Questions in the GST Paper and these are my views.

1. Yes. GST is a good revenue mix for the PNG Government since the companies are not paying the tax but it is the consumers.

## 2. Zero Rate Supplies

Is the current scope of zero rating appropriate? Is there any item which should be changed, deleted or added? Are there better ways of achieving the intended concession?

The current scope of GST zero rating is being abused after IRC decided to put in administrative convenience. However these administrative conveniences were introduced to foster compliance and fast track developments in the country. These are more culture developed after researches were done and I see that these are more effective.

The only items that should be deleted is the zero rating to non-profit bodies. These NGO's have been granted exemption for income tax purposes and not being given a zero rated concession. This is not working out right because we now have many NGO's setting up to get double concessions (Income Tax exemption and GST zero rating).

A better way of concession for the NGO's should be through the issue of Gazettal Notice and specific for a purpose, duration and exemption on imports only.

The zero rating on medical supplies should be deleted too. Exemption should be allowed on imports of medical supplies and medical services. There is confusion when medical services are exempt while medical supplies are zero rated and medical equipments are taxable. A uniform tax application will be very helpful and the best approach would be to exempting imports of medical supplies and medical equipment and provision of medical services. The only difference would be to make it taxable if the goods (medical supplies and equipments) are supplied domestically.

## 3. Exempt Supplies

The current scope of exempt supplies is appropriate to certain areas (Items) and not to others. The provision of educational services is a function of the Education Dept. It is a government arm and does not need to register to claim the GST nor to exempt it since it is the one of the responsibility of the government to provide this vital service. Just like the Police Department providing law and order services and protecting the assets and the welfare of the citizen and non citizens, it is not required to charge the state for its services. However if we have private law and order companies like security firms, then they would charge GST on their services. they are established for a purposes. Likewise, I think Private Schools should be charging GST on educational services.

Another concern is with the current free education policy, there is no need for the schools to claim input credits under s.36(14) where schools can claim input credits on educational materials. The GST Act can be simplified with the removal of this section and removing the medical services as exempt service from s.25. It is very clear that any goods and services provided by any government departments are non taxable and that principal should prosper or continue with clarity.

Exemption by Head of State is dubious with exemption and reduced rate or zero rate and is very confusing to its application. The discretional exemptions should only be for exemptions and

specified to the entry of the goods (imports only), duration and purpose. Exempting goods on import is better than exempting on domestic supplies. This will simplify the GST collections processes, clarity in the application and improved administrations.

#### 4. GST Threshold.

If the goal of the government is to increase its tax base then the threshold has to be reduced to K50,000 turnover and compulsory so that we have many registered businesses. Considering the nature of GST effects, especially in terms of the supply chain, the longer the supply chain, the more value addition results and thereby GST increases by certain percentage. This percentage increase can make a difference. With the reduction of the threshold, it will come back to haunt the administration to have enough resources and manpower to meet the increase in workloads.

#### 5. Zero rating for Resource companies

The wording 'solely' implies only one purposes and not multi or triple purposes. It is very hard to establish or determine solely at the moment and therefore all expenses are for resource operations except for cars. We just have to determine the word 'solely' and then all other things will follow thru because they would be taxable. On the other hand, we have the zero rating for exported goods and this further supports their claim for all other expenses which would be denied with the wording 'solely'.

To simplify the process, the current administrative convenience is working properly but just needs sufficient manpower to do proper checks and balances. Again the administrative convenience was introduced for a purposes and is serving that purpose.

The changing of the word "only exports by Resource Company are zero rated" will have a two sided effect. We have exploration companies who will miss out on this because they may not export any goods but may export their services. This means it should be reworded to include services " only exports of goods and services by resource companies are zero rated".

#### 6. Payment of Refunds

Any delays in releasing refunds (overpaid GST) back into the economic cycle delays economic growth. The delay adds extra burden to the taxpayer to borrow money to meet the operational costs and thus increases the cost of services or goods. A real time audit process or system which refunds taxpayers within one or two months is the optimal standard for businesses.

The problem in IRC is the number of staff working on refunds. There are currently 6 refund auditors and we have 30,000 registered taxpayers for GST purposes. That is about 5000 taxpayers per officer a year or 416 cases a month. An officer is only capable of processing 12 cases a month depending on the risk levels.

Refunds can be processed on a timely manner if the government is serious in turning over cases and increasing economic activity in the country. Delays in the refunds holds up economic activity. A classic example is on the coffee sector. Coffee is a seasonal crop and should refunds for a taxpayer be delayed for three months or more, IRC is directly involved in starving the operations of the company and will eventually cease operation. IRC should be promoting economic growth.

Another concern is due to the work load and pressure, cases are not being screened or audited properly. This is a great risk to revenue loss where fraud eventually takes root because there is no proper checking.

Reducing the number of taxpayers getting refunds will also reduce workload and will result in staff concentrating on few cases and may do a proper audit. This will means changing the zero rating and some administrative conveniences. Reducing the number of refund taxpayers will also have a bearing on the number of staff needed to perform the functions.

I suggest more staff are recruited to increase the staff ceiling but dependant on reducing number of taxpayers getting refunds.

## 7. GST Refunds for Educational Institutions

The refunds for educational materials for there for a purposes but now that the Government has the Free Education Policy, there is no need for the refunds to the schools. The section 31(16) should be repealed and removed.

Educational services should be a taxable services if provided by Private Institutions. Educational services which are exempt should be repealed and changed to taxable services except for government funded schools.

## 8. Possible Reform Directions

I do not support the view to increase the GST to 12.5% or 15% even though it may be lowest compared to our neighbours. GST collections and administrations are not developed to justify increasing the rate. For example we have a very high non-compliance rate and administering the GST is still a Blue Sky norm to determine. Justifying a reduction in the PIT to increase GST is not sufficient when our compliance level is very high and administration is poor.

I suggest the rate to remain at 10% and improve the compliance and administration of GST. If the compliance improves with administration and should GST collect remain low, than it can justify for the increase of GST gradually to 12% and up.

## 9. Voluntary Registration

The voluntary registration should be done away and make it compulsory for registration with a reduced turnover of K100,000.00 pa. This will increase a number of taxpayers (businesses) to register and increase the chain of business transaction (supply chain) which will eventually increase GST revenue collection on the mark ups. All businesses registered now in the SIGTAS will either have a GST account or not depending on their threshold and it will be automatic if they meet the threshold.

10. What are benefits in implementing a flat rate system for small businesses? What problems might it raise?

Having a flat system will not work for small businesses as it will give more tax accounting and reporting work to them. We should simplify the system to make it user friendly for the small businesses. The best option for me is to go with the compulsory threshold. Those who fall short of the threshold would take up GST paid as expenses (added) to the total cost of goods and may claim an expenses when lodging IT returns. The small businesses will benefit from paying reduced tax rates with IT, save money from paying agents on GST accounting and more so the taxpayer has less work in filing returns.

It will also help the taxpayer pay a lesser tax.

## 11. Improving Compliance

The administrative convenience is a cultured process which works well with PNG taxpayers after researches have been made and made laws. The only problem on compliance and fraud was a result of manpower. IRC did not have enough resources (staff) to conduct a proper audit to verify claims and when the taxpayers saw the need, they capitalised on that to lodge false claims. If only IRC has enough manpower then it would not be like that.

The withholding arrangement has increased the compliance level and payment and returns are lodged on time. Removing it will further increase non compliance in the coffee industry. The best suggestion is to maintain the current arrangement and only increase number of staff (resources).

The impact on changing the administration of GST remains an obstacle if staffs (manpower) are not addressed. Taxpayers (resource companies) want refunds paid on a timely manner to avoid cash flow problems. I don't see any problem or any impact if the process can function smoothly.

## 12. Discretionary Power

The terms "exemption and reduced rate" are used incorrectly. Exemption should be applied only on goods imported and must be stated clearly in the gazette notice. Reduced rate (zero rate)

should be applied to both imports and domestic supplies. If exemption is used for both import and domestic supplies then it will complicate the GST applications.

Another option is to have zero rating as the only option for the Discretionary powers.

### 13. Deferred GST on Imports

The deferral system is a better way to remove bottleneck in the GST process and also improve revenue cycle for business. In fact there is a zero effect on GST collected at the entry and claimed again as input credit when the import is a registered taxpayer and the goods are for taxable activity. The benefits would be less work for refunds and improved economic activity due to availability of cash.

The deferral system should only apply to compliant taxpayers and the payment system changed so that importers can pay GST into the Taxation Revenue System. This will make it easier for revenue administration and refunds on a timely manner. One of the problem with Customs is the delay in furnishing GST payments into the GST revenue account on time.

The GST act can be amended or inserted with a clause to make GST payments to the IRC and discretion of the Commission to defer GST on imports and make Customs do the calculation and determination of value of import (assessment) and GST on the value. Taxpayer (importers) must bring the Customs entry form containing GST bill for payment.

On the other hand, Customs may only collect GST on imports from unregistered persons or individuals who import. Registering any unregistered person that imports will only inflate the number of taxpayers registered for GST purposes to conduct taxable activities.

Thank you and I applaud the committee for a good work, research and recommendations.

Regards,

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