



TAX REVIEW COMMITTEE

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THE POLITICAL ECONOMY OF TAX REFORM – “GETTING THE BALANCE RIGHT”.

The Chairman of the PNG Tax Review Committee, Sir. Nagora Bogan, KBE stressed that tax reform should not be blindsided by a tax purists approach and this entrapment can occur when you consider that tax is something you live with from cradle to grave.

He pointed out that in the design and architect of tax reform, it is important to see the tax system as a “system” rather than consider its different elements in isolation. The silo approach to tax reform ignores the fact that tax systems are part of the fabric of a nation.

The focus on institutional design and technical and legal issues of tax is incomplete if it ignores the political nature and dynamics of taxation and how the reform becomes legitimate.

Consequently, any review of a tax system needs to factor in the political economy drivers that underpin tax reforms and how the political context of a country shapes their intended outcomes.

Scrutiny of the political economy of taxation is complex, as many diverse and multi-disciplinary issues need to be taken into consideration. In tax policy, distributional issues are important, so getting to sustainability is not going to be just an issue of getting advice on efficiency from economists.

Tax policy, should be creditable, relevant and meaningful and must take into account dynamic settings, including such things as political context (for example elections), institutional settings, culture and legacies, information and communications and marketing, tax debate framing, winners and losers from the reform, organized versus disorganized groups are all going to be critical.

Sir. Bogan said what our people need to realize and appreciate is that tax reform is complex. It involves different stakeholders with diverse interest and trade-off. It affects people across different political, economic and social strata of society. It creates winners and losers, who will vociferously defend their interest, however many of the interest maybe contrary to public good and the best interest of PNG.

But, the ultimate objective is that design of tax reform must take into account what is in the best interest of PNG and its people, not the parochial and self-centred interest of individuals or groups.

Ultimately, a good tax system has to be politically sustainable and political economy would enable deep understanding therefore, a better posturing for political sustainability and meaningful tax reform.

Authorized by the Chairman of the PNG Tax Review Committee.

28th October, 2015