



REVENUE AND TAX

Opportunities and Options

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Overview of Presentation

- Legal framework of revenue and tax powers and functions
- Current sources of revenue and taxes to ABG
- Revenue Improvement Strategy
- Revenue Improvement Implementation
- Questions

Bougainville Constitution

“In the use of its finances and in the management and control of its finances, the Autonomous Bougainville Government shall aim to achieve fiscal self-reliance as soon as possible.”

Art. 153(1)(a) of the Constitution of Bougainville.

Bougainville's Governing Agreement and Laws

- Bougainville Peace Agreement (2001)
- PNG Constitution (as amended 2002)
- PNG Organic Law on Peace Building in Bougainville (2002)
- Bougainville Constitution (2004)
- (Organic Law on Provincial and Local Level Government)

Constitutional Framework – revenue and tax powers and functions

- Bougainville is an autonomous region and ABG is akin to a subnational government
 - Bougainville does not have full State powers
- Sharing of tax powers and functions between national government and ABG
 - Progressive transfer of some tax powers and functions conditional on certain criteria
 - Bougainville does not have the right to impose certain principal taxes ie income tax on companies, goods and services tax, and customs duties
 - BPA does allow transfer of national powers and functions if national government and ABG agree.

Current allocation of revenue and tax powers

■ National Government:

- *Income Tax* (company income tax and personal income tax)
- *Goods and Services Tax* (Value Added Tax)
- *Customs Duties*
- *Other national taxes* (stamp duties, etc)

■ ABG:

- *Developed property tax* (not in effect)
- *Road users tax* (not in effect)
- *Motor vehicle registration tax* (not in effect)
- *Liquor licensing fees*
- *Other taxes available to provincial and local level governments*
 - e.g. Sales Tax (beer and cigarettes)

ABG phased expansion of tax powers under BPA

TAX TYPE	BPA base position	'Restoration'	'Fiscal self-reliance'
Income tax – personal (PIT)	<ul style="list-style-type: none"> - Collected by National Government - 100% remitted to ABG 	<ul style="list-style-type: none"> - Collected by ABG - 100% retained by ABG 	<ul style="list-style-type: none"> - Collected by ABG - 100% retained by ABG
Income tax – companies (CIT)	<ul style="list-style-type: none"> - Collected by national government - Nil remitted to ABG 	<ul style="list-style-type: none"> - Collected by national government - Nil remitted to ABG 	<ul style="list-style-type: none"> - ABG may collect by agreement with IRC for and on behalf of IRC - revenue shared between national government and ABG as agreed.
Goods and Services Tax (GST)	<ul style="list-style-type: none"> - Collected by national government - 70% retained by National government - 30% remitted to ABG 	<ul style="list-style-type: none"> - Collected by national government - 70% retained by National government - 30% remitted to ABG 	<ul style="list-style-type: none"> - ABG may collect, by agreement with IRC for and on behalf of IRC - revenue shared between national government and ABG as agreed.
Customs Duties	<ul style="list-style-type: none"> - Collected by national government - Nil remitted to ABG 	<ul style="list-style-type: none"> - Collected by national government - Nil remitted to ABG 	<ul style="list-style-type: none"> - ABG may collect, by agreement with IRC for and on behalf of IRC - revenue shared between national government and ABG as agreed.
Other national government taxes (e.g. stamp duties)	<ul style="list-style-type: none"> - Collected by National Government - 100% remitted to ABG 	<ul style="list-style-type: none"> - Collected by National Government - 100% remitted to ABG 	<ul style="list-style-type: none"> - Collected by National Government - 100% remitted to ABG

‘Restoration’

- ‘restoration’ means the time when Bougainville has returned to a standard of peace and development approximating to that of the remainder of Papua New Guinea.
 - - *It is arguable that Bougainville has achieved ‘restoration’ as defined.*
 - - *Who makes that decision?*
 - - Not stated in BPA or governing laws.
 - - Most likely the decision would be recommended by the Joint Technical Team for approval by the Joint Supervisory Body (comprised of both National Government and ABG representatives)

ABG administered Personal Income Tax

- The autonomous Bougainville Government will assume the powers and functions to impose, set rates of, and collect personal income tax when restoration is achieved.

BPA Article 142; Organic Law on Peacebuilding in Bougainville s41(5)

- *- Bougainville would be entitled to enact and administer its own PIT law.*
- *- Careful decision requiring full awareness of 'draw down' issues*
- *- recommend a feasibility study to inform decision making*

‘Fiscal self reliance’

- ‘fiscal self reliance’ means the first year in which the revenues from company tax, customs duties and 70% of value added tax collected in Bougainville are equal to the value of the recurrent grant on a sustainable basis.
 - *“company tax” is defined for this purpose as tax on profits of companies whose principal place of business or main business activity is in Bougainville.*
 - - by definition would exclude City Pharmacy, Ella Motors, BSP, etc
 - *“Customs duties” is not defined. Does it include excise tariffs?*
 - *Value Added Tax is taken to mean GST.*
 - *70% of VAT is the percentage specified in the BPA*
 - - but subsequent arrangement between national government and provinces (excluding Bougainville) means provinces get 60% and national government retains 40%.

‘Fiscal self reliance’

- How is Bougainville progressing towards ‘*fiscal self reliance*’ as per the definition provided?

Fiscal Self Reliance Equation		
	2016 year	Notes:
Company Tax	727,850	IRC trust account statements (unaudited)
VAT (GST) 70%	1,532,118	IRC trust account statements (unaudited)
Customs Duties	79,452	Buka Office, Customs Service (unaudited)
Total Revenue	2,339,420	
Recurrent Grants	41,291,300	‘Cash Releases in 2016’ ABG Dept of Treasury and Finance Briefing Note dated 31 March 2017
FSR Percentage achievement	5.66%	

Source:

‘Fiscal self reliance’

What if a more general interpretation of ‘*fiscal self reliance*’ was adopted and included all revenue derived by government from Bougainville?

INTERNAL REVENUE 2016 year	
REVENUE TYPE	ACTUAL COLLECTED
Wage withholding (group) tax	19,403,000
Goods and services tax	2,188,740
Company tax	727,850
Customs duties	79,452
Motor vehicle registrations	266,703
Liquor licensing fees	94,230
Sales tax - beer	29,590
Sales tax - cigarettes	59,544
Housing rentals	-
Sundry revenue	164,297
Mining exploration license	40,000
Miscellaneous	137,204
Recoveries from former years	43,007
TOTAL INTERNAL REVENUE	23,233,617
Recurrent Grants	41,291,300
FSR Percentage achievement	56.27%

‘Fiscal self reliance’

- Bougainville has quite some way to go before it achieves ‘fiscal self reliance’ as defined.
- In order to achieve that goal according to the prescribed definition:
 - *- the economy must grow substantially to generate higher levels of VAT/GST*
 - *- company tax as defined must also grow substantially.*
 - *- company tax means income tax on profits of companies whose principal place of business or main business activity is in Bougainville*
 - *-the best prospect for a significant increase in company tax is the reactivation of large scale mining in Bougainville.*
 - *- the level of customs duties must grow with more direct imports into PNG via Bougainville*
 - *- administration and compliance of all taxes must improve*

Power to vary tax rates under the BPA

■ Company Income Tax:

- *The National Government retains the power to set rates for company tax, Value Added Tax (GST) and customs duties.*
- *But after ‘fiscal self reliance’ is achieved, ABG will have power to set rates and collect company tax provided that the effective rate of company tax will not vary from the National Government’s rate by more than five percentage points. (BPA s144)*
 - *Currently, the company income tax rate is 30%*
 - *Bougainville may increase the rate up to 35% or decrease the rate down to 25%*
- *There are various policy considerations to take into account in deciding the increase or decrease the tax rate*
- *The variation to the tax rate would be achieved by way of amendment to the national government’s income tax law.*

Power to vary tax rates under the BPA

■ Personal Income Tax:

- *ABG will have the power to adjust the rate of personal income tax to apply in Bougainville by no more than five per cent. (BPA s141(b))*

- Currently, the personal income tax rates are:

Resident			Non-Resident		
Taxable Income PGK	Tax thereon PGK	Rates of tax on excess %	Taxable Income PGK	Tax thereon PGK	Rates of tax on excess %
10,000	Nil	22	Nil	Nil	22
18,000	1,760	30	18,000	3,960	30
33,000	6,260	35	33,000	8,460	35
70,000	19,210	40	70,000	21,410	40
250,000	91,210	42	250,000	93,410	42

- *ABG may increase the rate up to 47% or decrease the rate down to 37%*
 - The variation to the tax rate would be achieved by way of amendment to the national government's income tax law or if and when Bougainville introduces its own PIT law after 'restoration' has been achieved.

ABG - current sources of revenue and tax

- Most of ABG's tax revenue comes for IRC remittance of wage tax (group tax) collected from the ABG payroll and the 30% share of GST collected
- Bougainville Sales Tax on Beer and Cigarettes
 - *Addressed elsewhere in the Summit*
- Liquor Control Act 2001
 - *(currently under review?)*
- Motor vehicle licenses and registration
 - *Administered by MVIL*
 - *Revenue remitted to ABG*

ABG Revenue Objective

A suggestion:

Maximize revenue available to ABG to improve fiscal self reliance and the ability to fund services to the public without placing an unacceptable burden on growing the economy.

Revenue Utility

Types of revenue and their utility to government

Abbrev.	Classification	Explanation
T	Tax, excise, duty	A compulsory contribution to government revenue levied by the State.
L	License, registration, permit, fee	Payment made principally to regulate an activity and generally set at a level to adequately cover costs of administration eg drivers' license fees. Some license fees may include a premium which recognizes exclusive privileges of the license holder eg telecommunications or broadcasting licenses.
P	Payment for goods or services	Payment made for or with the expectation that goods or services have or will be provided by government eg electricity, water, garbage collection. This revenue source may or may not cover the costs of providing the goods or services.
I	Income, royalty, rent	Revenue received for use of government assets or property eg mining royalties, lease of government land. The cost to the government is typically the depletion of government resources or depreciation of capital assets.

Revenue Improvement Strategy

- To achieve ABG's revenue objective – four elements to strategy:
 1. *Advocate for full revenue entitlements under BPA*
 2. *Improve compliance with current revenue and tax laws*
 3. *Implement new revenue initiatives*
 4. *Assess feasibility of 'draw down' of select national powers and functions*

Revenue Improvement Strategy

■ Advocate for full revenue entitlements under BPA

Topic	Item
a. Grants from GoPNG	Restoration and Development grant shortfall
b. Remittances of tax collected by IRC	Personal income tax (100%) Goods and Services tax (30%)
c. Other GoPNG taxes	Excise duties Stamp duties
d. Off shore fisheries revenue	Share of revenue from waters associated with Bougainville

Revenue Improvement Strategy

■ Improve compliance with current revenue and tax laws

Topic	Item
a. Bougainville laws and regulations	Bougainville sales tax (beer and cigarettes)
	Liquor licensing
	ABG contractors compliance with taxes
b. GoPNG laws	IRC administered tax (Income Tax, GST)
	MVIL administered land transport

Revenue Improvement Strategy

■ Implement new revenue initiatives

Topic	Item
a. ABG revenue initiatives	Sales tax (beer and cigarettes) reform
	Liquor licensing reform
	Developed property tax
	Road users tax
a. ABG/GoPNG revenue initiatives	State leasehold land rents
	Small business income tax
	Withholding tax on agricultural commodities
	Withholding tax on small scale/alluvial mining

Revenue Improvement Strategy

- Assess feasibility of 'draw down' of select national powers and functions

Topic	Item
a. Taxes	Personal income tax after 'restoration' achieved
b. Land transport	Motor vehicle licensing and registration, etc
c. GoPNG enterprise	Agricultural commodities board

Revenue Improvement – select topic

- Large scale mining
 - *Substantial revenue in the past; uncertainty for the future*
 - *Long lead time to commencement of production*
 - *around 10 years or more*
 - *Even longer lead time for tax revenue*
 - Profit after recovery of pre production costs
 - Income tax exemption may apply
 - *Revenue to ABG from royalties and dividends where ABG is a shareholder*
 - *Royalties and dividends do not count in Fiscal Self-Reliance equation*

Revenue Improvement – select topic

■ Government owned enterprises

- *Current ABG business enterprises - profitable?*
 - *Principles and caveats re government involvement in business*
 - *Finding Balance 2014 – Benchmarking the Performance of State Owned Enterprises in Island Countries (ADB 2014)*
 - PNG, Fiji, Samoa, Tonga, Solomon Islands, Marshall Islands case studies
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1. *The risks of political interference and noncommercial decision making remain high.*
 2. *Governments have tried to address this fundamental flaw by creating legal, governance, and monitoring frameworks to mimic the conditions and incentives faced by private sector firms. Comprehensive SOE frameworks only lead to improved SOE performance if the political will to implement them exists.*
 3. *SOEs perform best in an environment supporting full commercial orientation, with strong governance, performance incentives, and hard budget constraints.*

Revenue Improvement – select topic

■ PNG State Owned Enterprises

- PNG Water, PNG Power, Port Authority, Airport (NAC),
- Large infrastructure costs, small revenue base in regional areas
- SOEs obliged to provide services nationally with nationwide infrastructure but some areas more profitable than others
 - *Profitable centres subsidise non- profitable centres*

■ PNG statutory authorities, boards, etc

- Cocoa Board, Kokonas Industri Korpresen, etc
- Revenue generally covers administration and surplus reinvested into the industry by way of improving stock, product quality, accessing /expanding markets, etc
- Revenue generally does not go to consolidated revenue to be spent on primary government services ie health, education and law and order.
- Other reasons besides revenue which justifies interest in regulating an industry-
 - Management and control of a local commodity

Revenue Improvement Implementation

- *ABG Revenue Advisory Group*
 - Peak forum within ABG to identify, prioritise, manage, and implement revenue and tax initiatives
- *Revenue and Tax Summit – to inform, discuss and seek feedback*
- *ABG Revenue Improvement Strategy (to be discussed)*
- *Revenue Improvement Implementation Plan (to be discussed)*
 - Revenue Initiatives – currently underway
 - Revenue Options – to be assessed before decision to pursue further

Revenue Initiatives

The following is a range of revenue initiatives that ABG is managing or has prioritised for development:

1. *Restoration and Development Grant arrears*
2. *State land lease rental*
3. *Offshore Fisheries (tuna and other migratory stocks)*
4. *Sales tax (beer and cigarettes) compliance*
5. *Sales tax (beer and cigarettes) extension*
6. *IRC remittances of Personal Income Tax and GST*
7. *IRC administered tax compliance*

Revenue Initiatives

- 8. Tax compliance check for ABG contractors*
- 9. Excise duties paid in ARoB*
- 10. Small business income tax*
- 11. Agricultural commodities withholding tax*
- 12. Change to BPA revenue provisions*
 - a. Definition of fiscal self reliance
 - b. GST share (30/70)
 - c. Branch profits tax

Revenue Initiatives - management

- Whole of ABG position on revenue initiatives
- Clarity and consistency regarding which ABG Dept has primary responsibility for progressing the initiative
- Constant and effective management by ABG of all initiatives
- Peak forum within ABG to provide oversight
- Consultation with all key stakeholders in public and private sector

Revenue Options

The following are a range of revenue options available to ABG including those suggested to ABG to consider:

1. *Developed property tax*
2. *Road users tax*
3. *Land transport*
 - a. Motor vehicle registration
 - b. Taxis and PMV licenses
 - c. Motor vehicle fines and penalties
 - d. Bougainville vehicle license plates
4. *Departure/arrival 'tax'*
5. *Alluvial gold regulation and compliance*

Revenue Options

6. *Buai 'exports' to provinces*
7. *Commodities board (noting ABG Dept of Economic Developments priority for this)*
8. *Use of Bougainville airspace for telecommunications*
9. *Bougainville internet 'country' domain*
10. *Gambling, lotteries license fees*
11. *Overflight fees*

Revenue Options - management

- All suggestions for revenue improvement are to be logged irrespective of apparent merits
- Each option requires a 'position paper' to be completed to address:
 - *legal position,*
 - *policy issues,*
 - *revenue potential and*
 - *administration requirements*
- If an option is approved, then becomes a 'revenue initiative' and managed accordingly

Revenue policy - guiding principles

1. **Equity and Fairness.** *Similarly situated taxpayers should be taxed similarly.*
2. **Certainty.** *The tax rules should clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined.*
3. **Convenience of Payment.** *A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer.*
4. **Economy in Collection.** *The costs to collect a tax should be kept to a minimum for both the government and taxpayers.*
5. **Simplicity.** *The tax law should be simple so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner.*
6. **Neutrality.** *The effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum.*
7. **Economic Growth and Efficiency.** *The tax system should not impede or reduce the productive capacity of the economy.*

Suggested priority areas for action

- Off shore fisheries revenue sharing
- Personal Income Tax / group tax and GST
 - *Taxpayer compliance*
 - *Remittances from IRC to which ABG is entitled*
- Government leases of land in Bougainville
- Sales Tax (Beer and Cigarettes) compliance
- Sales Tax extension (fuel, alcohol, tobacco products)
- Withholding tax on agricultural commodities.

Potential Revenue?

- Not all revenue opportunities and options have been fully assessed and properly costed
- Some preliminary assessment of potential revenue:
 - *National government grant arrears* *DoTF to provide*
 - *Offshore fisheries* *DPI to provide*
 - *Alluvial mining* *DOMER to provide*
 - *State land lease income* *DLPPEC to provide*
 - *Improved tax compliance and remittance of tax to ABG* *IRC/DoTF to provide*

* Details to be provided in ABG Dept presentations scheduled for later in this Summit

Recap

- Legal framework of revenue and tax powers and functions
- Fiscal self reliance
- Current sources of revenue and taxes
- Revenue Improvement Strategy
- Revenue Improvement Implementation
- Priority areas for action

Key messages for revenue improvement

- Maximise revenue under current arrangements with GoPNG
- Determine what revenue options are within ARoB powers (now and in the future)
- Assess and prioritise revenue options on potential to contribute to ABG Treasury on a net-revenue basis
- Apply revenue and tax policy principles for sound laws and regulations
- Implement revenue measures effectively and efficiently
- Implement measures that will grow the economy!

Questions

