Charting the Fiscal Future - the role of tax reform

19 November 2016
May you live in interesting times...

In the past few years globally:

• The GFC
• The retreat of global trade
• A rise in populism
• Rising inequality

And locally:

• Commodity price falls
• Severe drought conditions
Should this impact the fiscal agenda?

- Yes…and no
- The need for taxes
- Short, medium and long term thinking
- Best practice in policy making
  - Establish and set goals
  - Determine a way to achieve the goals
  - Measure progress
How to identify our fiscal future?

• What do we want?

• When do we want it?

• How are we going to pay for it?
What do we want?

The big picture

- Vision 2050
- Development Strategic Plan 2010-2030
- Medium Term Development Plan 1 (2011-2015)

But let’s not forget

- National Strategy for Responsible Sustainable Development (StaRS)
- SME Policy
- Priority sectors
- Participating in global and regional forums

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How to fund our ambitions?

Three funding areas for government

• Taxation
• Donor grants
• Dividends, fees and charges

Today we focus on taxation – source of almost 80% of the funding in the current budget
The role of tax reform

- Average tax to GDP ratio in OECD countries is around 30%, in PNG it is less than 15% (according to most recent budget papers).
- Not a perfect measure, but little doubt that more tax revenue is required, particularly with the development goals established by government.
- Most significant step was establishment of tax review committee.
- Reported in November 2015, and effectively accepted by the government early 2016.
- For 2017 budget, Treasury acknowledged that the TRC report recommendations were in play.
Tax reform – best practice

- Creating a “fair” system
- Appropriately sharing the burden of tax throughout society
- Using tax as a lever for desirable policy goals
- Establish a clear framework for measuring impacts
- A coordinated inclusive approach from policy, legislative and administrative perspectives
Tax Review Committee Report 2015

- Provided a broad 5 year plan for the significant shake up that was proposed
- A strong focus on the need for better transparency and clarity around fiscal policy and measuring the impact of policies against goals
- The resource sector was a special focus, looking at whether the value captured for the government from non-renewable resources was appropriate
- There is a need to reconsider the balance between direct and indirect taxation
- There is a need to capture windfall gains and gains from capital assets
Putting theory into practice – budget time

- 2016 budget was issued within weeks of the TRC report, very little impact
- 2017 budget was the first opportunity to start the journey
- Some key ideals one would want to see:
  - Consultation
  - Consistency
  - Clarity
  - Alignment with overall goals and stated objectives
- This is a difficult task with lots of competing priorities
Putting theory into practice – budget time

• Some attributes that are not seen to be best practice;
  ✓ Complexity
  ✓ Confusion
  ✓ Retrospectivity
  ✓ Imbalance

• This is a difficult task with lots of competing priorities
Balanced score card – 2017 budget

- Customs and excise changes
  - Alcohol excise increase
  - Tobacco excise increase
  - Diesel fuel excise increase
- Stamp duty/gaming/departure tax changes
  - Stamp duty on betting tickets replaced by increase turnover tax
  - Changes to the sharing of the tax collected
  - Changes to the sharing of gaming taxes
  - Increase departure tax
Balanced score card – 2017 budget

- Income tax changes
  - Corporate tax rate reduced to 30% for oil projects
  - Increase in taxable value of employer housing
  - Foreign contractor withholding tax changes
  - Elimination of double deduction for mining exploration
  - Introduction of APT for all resource projects
  - BEPS reporting
  - Changes to log export tax
Balanced score card – 2017 budget

• Dividend and interest withholding tax changes
  ✓ Standardisation of dividend withholding tax rates at 15%
  ✓ Changes in the application of DWT between companies
  ✓ Removal of exclusion from assessable income for individuals and non-residents
  ✓ Removal of exemption from interest WHT for resource projects
What happens next?

• Fiscal policy is a marathon, not a sprint
• The fiscal future is not pre-determined or fixed, it is subject to change and influence
• Should be developed through applying best practices
• Perhaps the best guide is the tax review committee report itself, for example, 2017 changes can generally be identified within the TRC report

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The 5 year plan

Proposed Five (5) year Staged Approach for Comprehensive Tax Reform Program is illustrated below:
Be prepared

• Tax administration
  ✓ Funding of IRC, increased compliance programs
  ✓ Significant base of recommendations
• Rebalancing of direct and indirect taxation
  ✓ There will be winners and losers, ultimate overall tax take needs to increase
  ✓ Reduction in PIT, increase in tax free threshold but increase in GST
  ✓ Align with development of economy
• Resource sector
  ✓ Further reform possible
Be prepared

• Review tax incentives
  ✓ Clarity, consistency, transparency
  ✓ Accelerated depreciation
• Consider taxation of capital gains
  ✓ Much talked about opportunity for revenue raising
  ✓ Part of aim of capturing windfall gains
• Reduction in volatility in property related taxes
  ✓ Potential replacement of stamp duty with a property tax
Thank you...