

Bougainville : Tax Revenue Challenges

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Introduction

- Current & potential challenges of tax revenue collection in AROB.
- If vote for independence (October ,2019) – decision to adopt PNG’ s current tax code or not & if not whether to review existing legislation or not.
- Assumption : Tax base constant & discussions on current tax rate , policy & effects .
- Researches prove that one of factors that affect patterns of tax in countries are influenced by structures in neighbouring countries – so PNG & AROB.

- Chand (2018) mentioned a budget estimate of K300 m is needed to effectively run AROB.
- 2017: however, ceiling at K162 m falling short of 138 m.
- 2018 : increase but ceiling at 226 m falling short of K74 m.
- Increase mainly due to increase in grants for lead up to referendum : K31.5 m (2017) to K78 m (2018).
- Objective : fill the revenue gap thru increase tax revenue collection.

Methodology

- Desk top research – supported with evidence of information mainly from internet.
- Discussions done in 2 parts: (1) policy perspective (2) Administrative perspective – emphasis placed here.
- Historical cross sectional qualitative data used .
- Most data from the ABG website , especially AROB 2017 tax summit presentations.

PART 1: Challenges Relating to the Tax Policy

- Good tax policy influences economic development .
- Potential future Bougainville gov' t or AROB needs more revenue for economic development.
- ABG – Fiscal Self–Reliance & not Fiscal Autonomy .
- BPA Paragraph 137 – deemed to achieve in the first year when revenues from company tax (100%) , customs duties (100%)& 70% GST equal to value of recurrent grant on sustainable basis.

Revenue Sharing Issue

- Compelling Issue – BPA Paragraph 137 – only accounts for 3 specific types of taxes.
- Need proper definition of self-reliance to include “all revenues” generated in the AROB.
- Eg in 2016 company taxes – K727,850 , GST K1,532,118 & customs duties K2,379,009 – self reliance – 5.66% first definition.
- All revenues – K23,233,617– self reliance– 56.27% second definition.
- Even 70% GST has limiting factor ,why not 100%?

Policy Legislation Issue

- Lack of clarity on application of grant formula.
- Funds disbursed to ABG over the last few years has been on adhoc basis.
- Evidence can be seen on total value of grants to the ABG by the PNG Government in the years 2014 (K155m), 2015 (K60m) and 2016 (K57m) where there was no steady formula used.

PART II – Tax Revenue Collection Challenges

- Challenges to Collecting Income & Consumption taxes
- Income Tax – a major source of tax revenue in AROB.
- In 2016, of K20, 716,002 total revenue collected K19, 403,000 (94%) came from Group Tax.
- Challenge – unsustainable since employers & employees may change , switch jobs, die etc.

Value of revenues generated within Bougainville , 2014– 16

Description	2014	2015	2016
Bougainville Group Tax	9,500,000	12,830,000	19,403,000
Goods & Services Tax	2,226,452	297,556	656,622
Motor Vehicle Registration	221,270	239,050	266,703
Liquor Licensing Fees	111,994	88,412	94,230
Liquor Tax	887,000	45,700	29,590
Tobacco Tax	7840	36,000	59,544
Housing Rentals	0	0	0
Sundry	1,028,855	564,333	164,297
Mining Exploration	0	0	40,000
TOTAL	13,985,425	14,103,066	20,716,002

Source: Presentation by Secretary for the Department of Finance and Treasury at the Tax and Revenue Summit on 27 September 2017.

Consumption Tax

- Make up the mainstay of revenue base for most countries – over 150 countries have a VAT regime.
- Sustainable and a good indicator for economic performance .
- GST – second largest tax revenue collected by ABG.
- Major challenge to promote growth of SME and turning the informal businesses into formal businesses.

Challenge to Collection of Resources Taxes

- **Mineral Resources tax –**
- Estimated that the reopening of Panguna mine would generate significant tax revenue of US 560 million per year – more than 6 times revenue needed to run the AROB economy.
- Major challenge – Bougainville Mining Act (2015) not comprehensive of tax regime – PNG to legislate or new tax Act needed for AROB.
- Also other mines apart from Panguna – Tore , Isina , Jaba & Manetai.

- ABG sets rates for land taxes – flexible to collect– revenue collected from board fees.
- Challenge – ABG to validate property register on current properties not formally documented.
- 2,375 properties at current – would increase when property register is validated.
- Fisheries – at least 30% of the PNG catch is taken in waters associated with Bougainville which would put the value at over USD 333 million – over K1 billion.
- Challenge – set out fisheries tax rates – making more transparent & efficient than current auction basis trading.

Challenges to collection of Export & Import Taxes

- Export taxes levied mostly on agricultural & mineral products in the primary producing countries.
- Levy export taxes when currency depreciates & import taxes when currency appreciates.
- Bougainville Cocoa provided 33% of overall PNG production from 2006 – 2016.
- Challenge would be to levy on an agreed rate, either between the ranges of 1% to 5 %.
- AROB Copra – also an important commodity for export taxes.
- Import tax common challenges – revenue leakages when currency depreciates , fraud & corruption , weakness in policies , manpower shortage, skills shortages, best practice international etc.

Costs of Taxation

- A new Bougainville government needs the following for its tax office:
 - New tax regime
 - New technology such as PNG's Standard Integrated Government Tax Administration System (SIGTAS) program.
 - Recruit more staff & train.
 - A new Revenue Building .

CONCLUSION

- Estimated budget of K300 million is needed by the ABG .
- 2017 budget gap of K138 million & 2018 budget gap of K74 million. Appropriate options currently available to increase in the collection of tax revenue to fill the gap.
- Tax Policy Challenge – Definitions of Self-Reliance according to legislation.
- No clear evidence that the PNG government is using the recurrent grant formula to calculate its annual grants towards the Bougainville Government.
- Consumption tax such as GST is sustainable to grow economy than Income Tax – so grow SMEs.
- BTO needs sufficient highly skilled human resources , new infrastructure & new technology to efficiently collect tax revenue. .
- Possible to manage self-government on the conditions that the revenue challenges are met or will be able to meet in the transition period for a while before being stabilized.

End of Presentation !

Thankyou 😊