MEDIUM TERM REVENUE STRATEGY 2018-2022

Presented by

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FOREWORD

Papua New Guinea's (PNG's) long-term development aspirations are presented in the *Medium Term Development Plan 2/3* (MTDP2/3), the *PNG Development Strategic Plan 2010-2030* (DSP), the *Vision 2050* and the Medium Term Fiscal Strategy 2018-22. Collectively, these documents articulate PNG's long-term vision to promote economic growth and, in turn, enable better living standards for its people. By 2050, PNG aspires to rank among the top 50 countries in the United Nations Development Index (HDI).
To achieve its long term vision, PNG must generate wealth and prosperity so that its people can enjoy much improved service delivery, such as affordable and accessible health care and education. We must build and maintain high standard infrastructure, for example, hospitals, schools and roads, and ensure essential and reliable utilities like power, water and communications are provided. Despite considerable support given to these areas over past years, there is yet much more to be done to achieve the set targets. Declining revenue collection trends as a percentage of GDP since 2015 has made it difficult to fully fund our development agenda and achieve our long term vision for prosperity for our people. The transformation of PNG will continually require government guidance and interventions to ensure that our strategic goals are achieved.

The MTRS is consistent with the priorities embedded in the Alotau Accord II and incorporates the respective recommendations in the Government's 100 Day Plan. Over recent years the Government has instigated a number of reviews including the comprehensive PNG Tax Review (2015) and, more recently, the PNG Medium Term Tax Policy Reform and Selected Tax Policy Issues Report (IMF 2017) that have made both high level and detailed recommendations. This MTRS adopts numerous recommendations from these reviews and establishes a detailed agenda for reform over the 2018-22 projection horizon. It will provide certainty and confidence to all of PNG citizens and investors because it sets out a comprehensive and well-structured reform agenda comprising:

- a significant lift in revenues (excluding grants) in 2018 reflecting a substantial effort to ensure compliance, some new tax measures and a number of one-off non-tax revenue measures. Between 2019-2022 revenue (excluding grants) is targeted to trend up to 14 per cent of GDP by 2022;
- the medium-term tax policy settings which give a clear picture of the likely revenues over the next five years, and gives taxpayers more certainty on how they will be treated and what the tax scenario will entail for their decisions, especially investments and business development;
- reforming the IRC and PNGCS which will be complex and will need sustained effort that will span several years;
- an improved legal framework that will require timely change to support the evolving policy and administration settings;

- improved arrangements for the collection of public entities' fees and charges and dividends, along with an enhanced monitoring framework that will lift performance and the collection of non-tax revenues; and
- the building of engagement, commitment and trust among a wide-range of stakeholders, including our development partners where significant technical assistance has been sought.

The MTRS aims for a modern and robust PNG tax system that is fair with equitable tax laws and an efficient revenue administration. I am proud to announce that changes to the tax system, overtime, will also help improve the business environment by making the tax system simpler, encourage more consistent and transparent treatment for all taxpayers, and reduce the cost of compliance for taxpayers and the operational costs for the revenue collection agencies.

This MTRS sets out the road-map for reforming Papua New Guinea's (PNG) taxation systems into a more efficient and robust tax system that is able to support the development needs of this country, whilst supporting higher economic growth rates. The O'Neill-Abel Government is fully committed in ensuring the success of the MTRS.

It is a great honor and a privilege for me to present the MTRS.

Thank you and God bless PNG.

Hon. Charles Abel, MP
Deputy Prime Minister and Minister for Treasury

CONTENT

FOREWORD _____ **I**

CONTENT III

1. BACKGROUND _____ **1**
1.1 GOVERNMENT REVENUE PERFORMANCE AND OUTLOOK _____ 1
1.2 THE NEED FOR MTRS _____ 2

2. VISION, GOALS AND OBJECTIVES _____ **4**
2.1 VISION _____ 4
2.2 GOALS AND OBJECTIVES _____ 4
2.3 MEDIUM TERM PROJECTIONS _____ 5
2.4 APPROACH OF MTRS _____ 6

3. STRENGTHENING PNG'S REVENUE POLICIES, 2018 BUDGET MEASURES & LEGISLATIVE FRAMEWORK _____ **8**
3.1 OVERVIEW _____ 8
3.2 REVENUE POLICY MEASURES – 2018 BUDGET _____ 8
3.3 MEDIUM TERM (2019-22) REVENUE POLICIES AND LEGISLATIVE IMPROVEMENTS 11
3.4 SPECIFIC REVENUE POLICY REFORMS (2019-22) _____ 11
3.5 LEGISLATIVE REFORMS _____ 13

4. MODERNIZING THE INTERNAL REVENUE COMMISSION (IRC) AND PNG CUSTOMS SERVICE (PNGCS) _____ **15**
4.1 OVERVIEW _____ 15
4.2 IRC REFORM PROGRAM _____ 17
4.2.1 IRC REVENUE COLLECTION AND CHALLENGES _____ 17
4.2.2 IRC INSTITUTIONAL STRENGTHENING AND REFORM _____ 19
4.2.3 STRENGTHENING KEY DELIVERY FUNCTIONS OF IRC _____ 19
4.2.4 STRENGTHENING CORE BUSINESS FUNCTIONS AND MANAGEMENT SYSTEMS 23
4.2.5 ALIGNING IRC'S STRUCTURE WITH ITS STRATEGIES AND FUNCTIONS ____ 25
4.3 PNGCS REFORM PROGRAM _____ 27
4.3.1 OVERVIEW _____ 27
4.3.2 CHALLENGES _____ 27
4.3.3 PNGCS REFORMS _____ 28
4.3.4 STRENGTHENING CLEARANCE PROCESSES _____ 28
4.3.5 STRENGTHENING CROSS-BORDER MECHANISMS _____ 29
4.3.6 STRENGTHENING SUPPORTING MECHANISMS _____ 30

5. STRENGTHENING NON-TAX REVENUES _____ **33**
5.1 OVERVIEW _____ 33
5.2 PUBLIC BODIES TRUST ACCOUNT _____ 34
5.3 NON-TAX FEES AND CHARGES _____ 34
5.4 STATE OWNED ENTERPRISE (SOE) PERFORMANCE _____ 34

6. FINANCING OUR TAX SYSTEM REFORM **35**

7. GOVERNANCE: ENSURING OUR SUCCESS **36**

7.3 ROLES AND RESPONSIBILITIES IN THE PROGRAM GOVERNANCE AND MANAGEMENT STRUCTURE 37

8 THE MTRS ROAD MAP **38**

Appendix 1. How the MTRS helps Vision 2050 46

FIGURES

Figure 1: Revenue performance and outlook 2012-2022 2
Figure 2: Medium Term Revenue Projections 2017-2022 (Kina Millions) 6
Figure 3: Linking Taxation Policy, Administration and Legislative Framework 7
Figure 4: IRC Revenue Collection and Outlook 17
Figure 5: PNGCS Revenue Collection and Outlook 27
Figure 6: Program Governance and Management Structure 36
Figure 7: PNG's Medium-Term Revenue Framework for 2018-2022 38
Figure 8: MTRS Roadmap 41

1. BACKGROUND

The tax system is a critical enabler for Papua New Guinea (PNG) to achieve its long-term development goals as presented in the Medium Term Development Plan 2 (MTDP), PNG Development Strategic Plan (DSP) (2010-2030), the Vision 2050 and the Medium Term Fiscal Strategy 2018-22. PNG's long-term vision is to bring about economic growth and social development that will benefit all its citizens, so that by 2050 PNG will rank among the top 50 countries in the world in the Human Development Index (HDI).

For PNG to achieve its vision, major investments in the provision of services and infrastructure, such as affordable and accessible health care and education; and in essential utilities like power, water and communications will be needed to support development and economic growth. Despite considerable support to these areas over past years, there is yet much more to be done to achieve the targeted goals.

This vision demands clear expenditure plans and adequate revenue generation through effective tax and non-tax revenue systems that also encourage investment and economic growth.

1.1 GOVERNMENT REVENUE PERFORMANCE AND OUTLOOK

Achieving the stated objectives will be challenging because revenue trends as a percentage of GDP have been declining in recent years. Total Revenue as a share of GDP has declined from 20% in 2011 to 13% in 2016. In nominal terms, Government revenue has declined from K11,835 million in 2014 to K11,003 million in 2015 and K10,485 million in 2016. Resource revenue fell from 17 per cent in 2012 to 13 per cent in 2016 as a share of resource GDP. Non-resource revenue picked up to 20 per cent of non-resource GDP in 2012 to 23 per cent in 2014 and then declined to about 18 per cent in 2016. In 2017 revenue trends continued to deteriorate against the 2017 budget targets requiring a Supplementary Budget to be tabled. While Supplementary estimates for 2017 showed a decline of 4 per cent, recent collection data shows a likely further deterioration in revenue (excluding grants) by end 2017 to well below 13 per cent of GDP. On a no-policy-change basis revenue trends are likely to continue the decline in 2018.

The decline in revenues over this period is attributed to weak sales and profitability of businesses and weak household income as a result of the fall in commodity prices, the adverse impact of the severe drought, the foreign exchange imbalances that have developed in recent years and the impact of fiscal and financing constraints on Government domestic expenditures. The latter has affected credit to the private sector, including uncertainty from the accumulation of arrears and reduction in capital spending. As business conditions tightened, part of the decline in revenue is also attributed to lower levels of compliance.

Further, non-resource, non-tax revenue (NTR) has accounted for about 5.0 per cent on average of total revenue over the past five years. The major sources of NTR are dividends from state-owned enterprises (SOEs) and statutory bodies and administrative fees and charges. Revenues have been volatile reflecting sporadic payments from state owned enterprises and statutory bodies unrelated to collections or performance. Many agencies retain revenue, operate large trust account balances and invest in projects that, at times, are unrelated to their primary mandate. In recent years NTR has increased with significant dividends paid by OTML and Kumul Petroleum. As a percentage of GDP, NTR has fluctuated between 0.3 per cent in 2013 and 1.7 per cent in 2016.

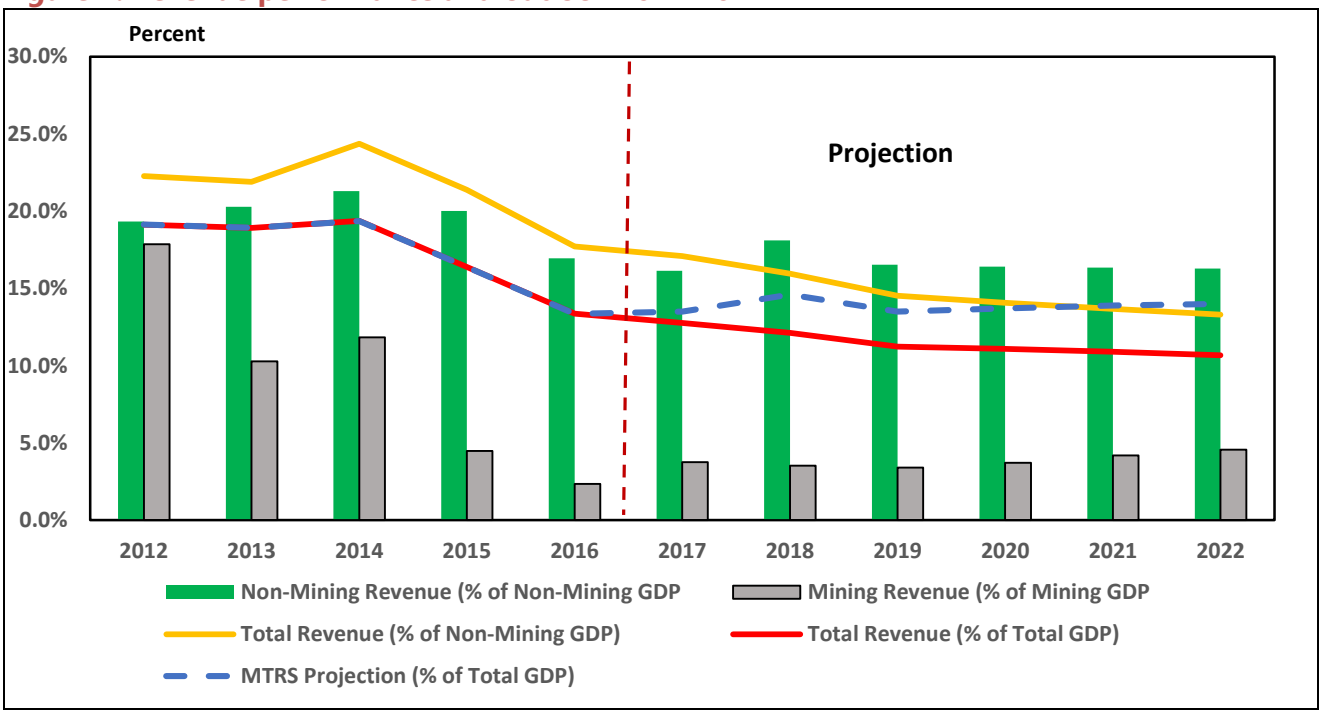
With low GDP growth rates expected to continue over the near to medium term, the mandate for revenue reforms is clear if PNG is to achieve its medium to long term visions outlined in its overarching development frameworks including the Medium Term Fiscal Strategy 2018-2022, MTDP2, DSP 2030 and Vision 2050.

Moreover the imperative for raising additional revenue on a sustained basis also reflects fiscal financing constraints, wherein macroeconomic stability objectives dictate lower fiscal deficit and debt trends. Under the amended Fiscal Responsibility Act, the Medium Term Debt Strategy is required to lower the debt to GDP ratio to 30 per cent by 2022. With constraints on expenditure reductions, the challenge is to raise sufficient revenue to fund improved service delivery and public investment so that economic growth can be supported at the same time.

Whilst work has progressed to contain and rebalance fiscal expenditures, a clearly planned revenue mobilization strategy is critical firstly to halt the downward revenue trend and then secondly to lift revenue trends above expenditure trends to enable a declining fiscal deficit and debt to GDP trajectory. In this respect, along with the reforms to tax and non-tax revenue, a number of one-off measures will be implemented in 2018 to lift revenues that will be used to fund the necessary adjustments to a number of difficult expenditure categories.

Figure 1 shows the revenue profile and possible outlook with (without) the reforms specified in this Medium Term Revenue Strategy (MTRS).

Figure 1: Revenue performance and outlook 2012-2022



Source: Department of Treasury

1.2 THE NEED FOR MTRS

With PNG confronted with a serious erosion in its revenue base which is expected to continue if little is done and, given PNG's development needs and financing constraints, the imperative for a lift in revenue performance and reform of the revenue system over the short and medium term is clear.

The tax system envisaged in this MTRS reflects the need for mutual responsibility and accountability in the development process and careful planning and management with clear targets.

To provide the essential link between revenue collections and development goals the Government will ensure that the resource envelope in the MTDP3 is aligned with the resource targets in the MTRS to ensure clear and realistic development programs for PNG.
Importantly the MTRS will support the implementation of the Alotau Accord II and incorporate the directives in the Government's 100 days Plan.

In this context, the MTRS defines the vision, goals and objectives, approaches, administrative reform measures and improvements in tax and non-tax policies for strengthening tax collections, compliance and monitoring systems over the medium term. This MTRS provides the reform framework for developing the revenue system into an efficient system that is able to support the improved and sustained delivery of services, economic growth and macroeconomic stability.

2. VISION, GOALS AND OBJECTIVES

2.1 VISION

This MTRS supports PNG's Vision of improving the ranking of PNG to reach the top 50 countries in HDI. In this regard, mobilizing sufficient revenue is indispensable for strengthening ownership of the country's development that contributes to achieving the country's goals.

This vision aims to develop sustainable revenue generation through an effective and equitable tax system and a much improved performance from non-tax revenues that will help fund higher public investment levels, improved services and higher economic growth rates.

2.2 GOALS AND OBJECTIVES

To achieve the above vision, this MTRS sets the following goals and objectives:

- halt the current declining revenue to GDP trend and lift levels significantly in 2018 to fund the adjustment costs in the 2018 budget, then sustain higher revenue (excluding grants) to GDP trends above 14 per cent to 2022;
- increase compliance substantially, both through greater enforcement, particularly with respect to large tax payers, and increase the use of the Tax Administration Diagnostic Assessment Tool, but also through encouraging a culture of voluntary compliance to reinforce revenue collections at lower administration costs.;
- broaden the revenue base by introducing measures to fill the tax gaps and rationalize tax incentives, and lessen the tax burden on the current narrow range of personal income tax payers but with equitable outcomes paramount;
- make corporate tax schedules more competitive but do so through the removal of a myriad of concessions, tax exemptions and special arrangements;
- lift non-tax revenue collections substantially by amending the respective legislation of public bodies to improve the pass-through of collections and dividends into the CRF, transfer unutilized trust fund balances, and enhance the performance of state bodies to sustain higher collections and dividends;
- progressively increase the budget for revenue agencies but target increased appropriations to clearly defined revenue generating areas and outcomes;
- strengthen revenue policy, the legislative framework and administration components of the revenue system for a more effective, simpler and efficient tax system; and
- respond to the need of an expanding market economy, the increasing number of taxpayers and sophistication of business, as well as facilitate management in providing an effective tax paying service.

Overall the vision will be achieved by strengthening tax policies, compliance, legislation and administrative capacity and systems geared towards effective and robust revenue systems. This will contribute to improvement in the country's investment climate and private sector development as well as ensuring greater equity and fairness in the revenue system.

The reforms are based on a number of tax principles presented in Box 1.

Box 1. Tax Policy Reform Principles

Efficiency/Neutrality. Taxes should be raised, as much as possible, in a non-distorting fashion, leaving economic choices the same as they would have been without taxes. This involves, for example, minimizing tax exemptions and special regimes whereby governments try to favor specific economic sectors or economic activities.

Simplicity and transparency. Simple taxes are good taxes, for all can understand them and few can evade them. In this respect, a tax with simple rules, few and low rates, minimal exemptions, as well as a clear, wide and measurable base provides more revenue and less opportunity for evasion. Furthermore, the tax system should be based on few such taxes to avoid the proliferation of small inefficient taxes that represent heavy administrative costs and provide opportunities for corruption.

Equity/Fairness. Although countries may hold widely different views on equity, it is generally suggested that individuals with similar incomes should pay similar taxes (horizontal equity) and that individuals with higher income should pay more taxes (vertical equity).

High revenue generating capacity. The tax system should be able to supply the government with the resources it needs to meet its spending obligations on a sustainable basis. Furthermore, as tax revenues from different taxes might fluctuate, the tax system should rely on a mix of a few taxes to lower the risk of wide annual fluctuations in overall tax revenue.

Harmonization/Coordination with other systems. Tax harmonization and coordination with economic partners or geographical neighbors will help prevent opportunities for various forms of tax avoidance and/ or evasion, and avoid incentives for tax competition that could lead to revenue loss.

Greater reliance on domestic taxes. Less reliance on distortionary trade taxes and greater reliance on domestic taxes such as VAT and excises which tax all goods and services irrespective of their origins, helps countries to obtain the benefits of free and open trade, as well as to comply with WTO obligations.

Feasibility. The design of taxes should be aligned with the capacity of the tax administration to implement and collect tax revenue.

Integration. All main taxes should be consistent, in terms of thresholds, rates and registration to ensure fair treatment of all taxpayers, and minimize administrative costs.

2.3 MEDIUM TERM PROJECTIONS

The medium term projections under the MTRS 2018-22 framework are presented in Table 1.

Figure 2: Medium Term Revenue Projections 2017-2022 (Kina Millions)

	2017 Supp Bud Est	2018	2019	2020	2021	2022
Revenue and Grants	10,979	12,731	12,583	13,552	14,666	15,876
% of GDP	14.9%	15.9%	14.6%	14.7%	14.8%	14.8%
of which Revenue (exgrants) % GDP	**13.6%**	**14.6%**	**13.5%**	**13.7%**	**13.9%**	**14.0%**
Taxes	8,869	9,639	10,565	11,511	12,568	13,720
% of GDP	12.0%	12.0%	12.3%	12.5%	12.7%	12.8%
Taxes on income, profits and capital gains	5,535	5,565	6,151	6,723	7,369	8,070
Taxes on payroll and workforce	12	-	0	-	-	-
Taxes on goods and services	2,755	3,448	3,762	4,106	4,485	4,900
Taxes on international trade and transactions	568	626	653	683	715	750
Donor Grants	968	1,025	943	932	932	932
% of GDP	1.3%	1.3%	1.1%	1.0%	0.9%	0.9%
Other revenue	1,142	2,067	1,074	1,108	1,166	1,224
% of GDP	1.5%	2.6%	1.2%	1.2%	1.2%	1.1%

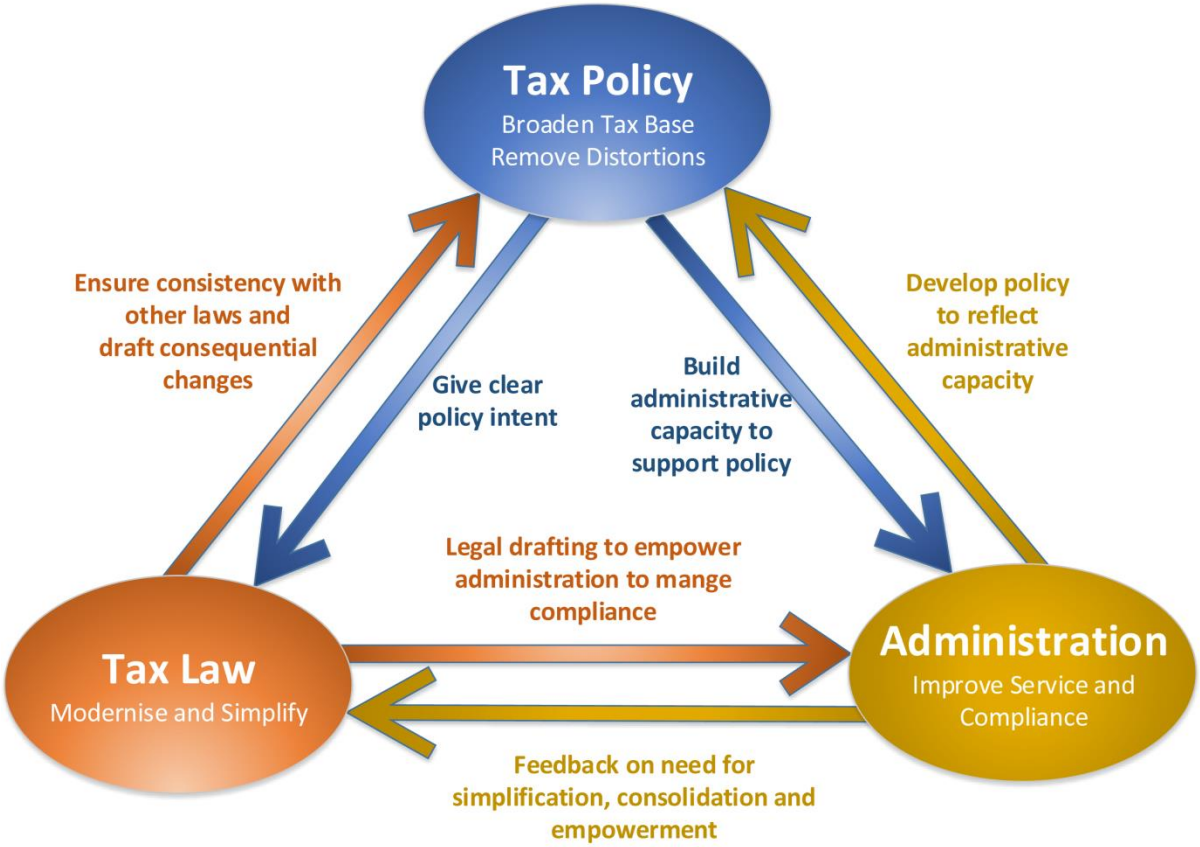
Source: Department of Treasury

Based on some significant additional tax measures in 2018, tax collections are budgeted to increase by 9 per cent in 2018 and by 8 per cent per year going forward. Non-tax revenue collections are expected to increase substantially reflecting one-off transfers from a number of trust accounts and the Government directive in the 100 Days Plan to return 90 per cent of collections to the CRF. The one-off additional inflows will be used to fund the overall fiscal adjustment, clear some arrears and lift public investment levels. Some of the gains from the reforms will be reinvested back into revenue generating activities. These are expected to stabilize the domestic revenue (excluding grants) profile over the medium-term to reach a 14.0 per cent of GDP target by 2022.

2.4 APPROACH OF MTRS

The MTRS treats the policy, administrative and legal components of the tax system in a holistic and interactive way. It provides for essential coordination between the policy, administrative and legal elements of the system, as summarized below:

Figure 3: Linking Taxation Policy, Administration and Legislative Framework



This approach is essential to managing the revenue challenges by building a tax system that is compatible to the changing economic environment, evolving business practice and resistant to avoidance. These interdependencies and linkages between the different elements of the tax system aim to create a business, investment and tax environment that has clear policies that support national development, social objectives and encourage investment.

The approach to improving non-tax revenue performance will be to manage public agencies, including SOEs much more efficiently and transparently to ensure both improved collections and dividends are passed through more effectively to the CRF and services are enhanced.

3. STRENGTHENING PNG'S REVENUE POLICIES, 2018 BUDGET MEASURES & LEGISLATIVE FRAMEWORK

3.1 OVERVIEW

PNG needs a robust and modern revenue system that generates a higher and sustainable level of revenue. The reforms are aimed at:

- improving the competitiveness and efficiency of the tax system to attract capital to help expand, retain and encourage investment, employment and economic development;
- ensuring that the tax system reflects the principles of an effective tax system reflected in Box 1;
- ensuring the tax system is appropriately balanced between taxes on land, resources, capital and labour;
- ensuring the tax system meets PNG's projected revenue needs; and
- ensuring a much more efficient and transparent regime for the improvement in non-tax revenue collections.

PNG has a tax to GDP ratio of 12.4 percent (2016 figure). The table below shows the comparison of collections against similar countries and the World; as well as some policy variables for comparison. The country comparisons indicate that personal and corporate income taxes are high, while GST, trade and other taxes are low. It is also worth noting that effective tax rates are likely to give a somewhat different appraisal. Still there are strong arguments for broadening the base for tax purposes.

Collection % GDP	World	SIS[1]	PNG
Income Tax	7.44	3.17	7.80
Payroll Tax	0.82	0.02	0.00
Property Tax	1.00	0.31	0.00
Goods and Services Tax	9.61	5.01	3.81
Trade Tax	1.97	3.19	0.79
Other Tax	6.35	6.17	0.00
PIT Rate	29.8	21.5	47
CIT Rate	23.8	22.6	30
VAT Rate	15.9	9.1	10
VAT Threshold (USD)	61475.0	50505.2	80000

1/ Small Island States

3.2 REVENUE POLICY MEASURES – 2018 BUDGET

Consistent with the objectives and goals in this MTRS and guided by the Alotau Accord II and the Government's 100 Days Plan, the 2018 Budget – the first budget under this new strategy - approves a number of revenue policy measures which comprise:

1) significant increases in funding for the Internal Revenue Commission (IRC) and PNG Customs to engineer a concerted increase in compliance and collections which are estimated to amount to an additional K755.0 million in 2018;

2) the removal of the training levy and double deduction for training estimated to amount to K75 million;

3) an increase in the diesel excise to 23 toea from 10 toea to align rates more with petrol excise, estimated to amount to K67 million;

4) increasing import tariffs for imported refined fuel and petroleum products, and halting the Tariff Reduction Program estimated to amount to K70 million;

5) the realignment of the export duty on unprocessed old–growth logs to capture resource rents at varying log species, estimated to amount to K20 million;

6) a reduction in abuse in GST claims by educational institutions by removing GST zero rating status for educational institutions, estimated to amount to K6.4 million; and

7) Other policy measures which comprise:

    i. the suspension of the last phase of the current Tariff Reduction Program in 2018 to allow a review to determine the effects of the TRP;

    ii. the alignment of the taxation treatment of royalties in the resource sector to be a deduction rather than a tax offset;

    iii. the announcement of the introduction of an IRC Tax Administration Act to modernize and simplify tax administration for increased efficiency and efficient taxpayer services;

    iv. the establishment of a large tax payer office to focus particularly on increased compliance of large tax payers;

    v. clarifying the definition of resource company in the GST Act to ensure that only operation license holders benefit from zero rated status;

    vi. “pay now litigate later” policy to improve compliance and increase receipts;

    vii. the holding of parent companies liable for related companies’ tax liabilities;

    viii. the clear distinguishing of agricultural/primary production to logging or timber operations;

    ix. ensuring foreign contractors do not include prescribed contracts in their assessable income as it should be dealt with under the Foreign Contractors Withholding Tax regime;

    x. legalizing taxpayer identification number registration;

    xi. introducing specific bribery offences to minimize fraud and corruption;

    xii. construction of APEC facilities under an Infrastructure Tax Credit (ITC);

    xiii. transferring the powers from Treasurer to IRC Commissioner General (CG) to declare land owner resource trusts in consultation with the Secretary Treasury; and

    xiv. ensuring the Extractive Industry Transparency Initiative (EITI) and Financial Analysis and Supervision Unit (FASU) have access to tax data.

The 2018 Budget also approves a number of amendments to modify the 2017 Budget amendments. These comprise:

1) the introduction of transitional provisions for application of Additional Profit Tax (APT) to existing projects to ensure fairness;
2) the carving out of resource projects with fiscal stability clauses in project agreements;
3) ensuring dividends distributed through companies are taxed once;
4) ensuring superannuation is exempt from Dividend Withholding Tax (DWT); and
5) the correction of drafting errors made to the Customs Harmonized System (HS) 2017.

IRC made solid progress in 2017 increasing voluntary compliance and employing 60 additional people. While lodgments have now increased, most of them are at nil returns, requiring auditing to ensure what is lodged is correct. In 2018 IRC will progressively grow its auditing capacity in the Compliance Audit Division as well as implementing a Large Tax Payer Office.

These initiatives will be supported by an additional funding amount of K19.0 million, bringing the total funding for IRC to K105.0 million for the 2018 Budget. This additional work is expected to raise K600 million in 2018. IRC's total collection in 2018 is expected to be around K7.9 billion.

Further, in light of the weak economic environment and cash flow needs of Government, collection of tax arrears will be accelerated by forgiveness of penalties under the Commissioner's discretionary powers.

Similarly PNGCS will receive an additional K5.0 million on top of the K65.5 million budget allocation to undertake a revenue recovery exercise through the post clearance audit and cargo clearance process. This is expected to bring an additional K155.0 million in 2018. Total collections expected from PNGCS in 2018 are around K1.8 billion.

In terms of non-tax collections, the 2018 Budget projects Non-Tax Revenue of 2,066.7 million, a significant increase on collections in 2017 and on recent year-average collection trends. Some of the significant increase will be one-off (estimated to be K1,295 million), as the Government implements its 100 Day Plan directive to pass-through 90 per cent of the collections of revenue generating agencies and as large trust fund balances in some of the agencies are transferred to CRF. Amendments to the respective agency laws will be enacted to implement the directives in the Government's 100 Days Plan on this issue. The Government also will improve collections from public corporations where adequate dividends have not been transferred in the past and, to sustain such inflows, the Government will establish processes to enhance the performance of these entities.

Moreover, significant impact revenue measures amounting to K1,270.0 million will be implemented in 2018 comprising:

i. transferring bank balances from the following agencies:
   - NFA: K400 million,
   - NGB K75 million;
   - MRA K30 million;
   - NMSA K10 million;
   - CEPA K10 million; and
   - KCHL K40 million

ii. additional increases are also programmed in dividend payments (compared to the 2017 Supplementary estimates) from NFA amounting to K250 million, KCH K80 million, KPHL K100 million, OTML K100 million, NGCB K75 million and BPNG K50 million.

3.3 MEDIUM TERM (2019-22) REVENUE POLICIES AND LEGISLATIVE IMPROVEMENTS

To achieve the vision and broad objectives over the medium-term, commencing in 2019, the Government will focus on:

- continuing with increased compliance activities, particularly with respect to large tax payers, and continuing the use of the Tax Administration Diagnostic Assessment Tool;
- continuing to broaden the revenue base by introducing further measures to fill the tax gaps and rationalize tax incentives;
- continuing the removal of tax concessions, tax exemptions and special arrangements;
- continuing to rebalance the tax composition from income to broader based taxes, including a review of GST rates offset by reducing the tax wedge on labour income;
- introducing a capital gains tax to broaden the tax base, reduce opportunities for evasion and enhance equity;
- reviewing and rationalizing tax incentives and reviewing the potential for lower corporate income tax rates;
- Bringing SME's into the tax net through a simplified tax regime;
- providing more tax certainty by simplifying and modernizing the tax legislation; and
- strengthening tax expenditure reporting.

3.4 SPECIFIC REVENUE POLICY REFORMS (2019-22)

Specific revenue policy measures that are to be considered for implementation over the 2019-22 period entail:

1) Personal Income Tax

- increases in the tax-exempt threshold from K10,000 to K15,000 phased in over 2 years;
- increase in the 2nd tier threshold accordingly in a phased manner;
- reform the PIT rate schedule (reduce the effective tax rate for lower income bands);
- tighten up fringe benefits taxation (employer provided accommodation, transportation, loans etc.);
- review for consideration the removal of tax rebates for education, salary and wage expenses and dependents; and
- commence a review of superannuation and other retirement benefits taxation.

2) Goods and Services Tax

- remove zero-rating for suppliers to Extractive Industries (EI) companies, charities and aid organizations;
- extend the GST exemption on imports for mining and petroleum companies to sub-contractors for equipment that is solely and exclusively used in mine operations;
- include domestic suppliers to mining and petroleum companies within the standard GST, but ensure that exemptions are only given for goods exclusively used in mine operations and GST refund processes are speedy for mining and petroleum companies;
- exempt charities and aid organizations rather than zero-rating these; and
- review a GST rate increase after compliance measures have been successfully implemented and other tax broadening measures having been considered.

3) Corporate Income Tax

- reduce the CIT rate in phases when tax incentives are significantly rationalized;
- simplify the depreciation schedule including removing or reducing accelerated depreciation;
- tighten thin capitalization rules;
- limit loss carry forward to 5 years and reduce overseas loss carry forward to 5 years; and
- utilise, as needed, external audit firms to review specialist industries.

4) Capital Gains Tax

- introduce CGT on real property including mining and petroleum licenses.

5) Extractive industries fiscal regime

- change the royalty valuation basis to field-gate from well-head;
- consider adding an additional levy with the same base as the royalty providing early and dependable revenue for the budget;
- segment future LNG and petroleum projects for tax purposes between upstream and midstream, ensuring adequate pricing along the gas/oil value chain;
- eliminate the practice of granting/negotiating concessions/fiscal incentives on a case by case basis (especially now that the fiscal regimes are harmonized); and
- narrow the scope of the Resources Contract Fiscal Stability Act.

6) Excises

- link the six-monthly indexing of specific excise duty rates to CPI inflation while keeping a minimum cap on a transitional basis;
- introduce excise on cellular airtime at a rate of 5-10 per cent;
- continue to increase the excise on diesel gradually to align with petrol; and
- review the scope to adjust other excise rates (tobacco, alcohol, fuel) while removing excise duties from so-called luxury items.

7) Small Medium Enterprise Taxation Regime

- introduce a presumptive tax (turnover tax) for businesses with turnover below the VAT threshold.

8) Tax incentives

- review tax incentives with a view to rationalize these;
- publish an annual statement on tax expenditure; and
- phase out the ITC scheme or, as a second-best measure, limit the scope of the infrastructure tax credit scheme to focus on infrastructure projects in remote areas with strengthened oversight of project selection and implementation.

9) Other taxes

- introduce a bank tax through a bank levy imposed quarterly on banks' assets;
- review the import tariff reform reduction program; and
- commence a review of the potential for greater use of land and property taxes in PNG.

10) Resource Contracts Fiscal Stabilization Act

- review and limit the scope of taxes for purposes of stabilization to major tax heads.`
- continue to enhance reporting and controls over revenues collected by authorities to optimize revenue to the CRF and efficient delivery of respective agency services;
- implement the policy framework and procedures for fees and charges contained in the recent amendments to the Public Finances (Management) Act and conduct a review of existing fees and charges by the end of 2018; and
- improve the monitoring of SOEs and establish a policy committee to liaise with KCH to establish mechanisms to enhance the performance of SOEs.

3.5 LEGISLATIVE REFORMS

Most of PNG revenue legislation is outdated, complex and not easily accessible by taxpayers. Simplifying and modernizing revenue legislation will increase efficiency. Legislative reforms should comprise:

1) Income Tax Act

- Modernize and simplify the ITA legislation in a targeted fashion by:
  (i) finalizing the *Tax Administration Act;*
  (ii) preparing a modernized version of the existing legislation; and
  (iii) incorporating policy changes.

- **Review the tax administration legal framework.** There are different administrative rules for different taxes. This makes it difficult for taxpayers to know what the rules are and this in turn means the IRC must duplicate forms, processes and materials for each different tax. Hence, this is an unnecessary expense for taxpayers and for the IRC. Introducing a new tax administration law will set out common procedures for the main taxes, give greater consistency between the administrative rules for the different taxes and more certainty on taxpayers' obligations and rights. The tax procedures law will also clearly set out the powers of the IRC. For example, this initiative will simplify and align payment and filing dates, electronic filing and payment, and compliance improvement initiatives like the removal of bank secrecy and streamlined penalties for non-compliance.

To undertake the necessary legislative reforms, Treasury and IRC will be adequately resourced. The recruitment, training and up-skilling of revenue policy officers is important to ensure the tax

policy development process is workable and effective to contribute to achieving an efficient and robust tax system.

4. MODERNIZING THE INTERNAL REVENUE COMMISSION (IRC) AND PNG CUSTOMS SERVICE (PNGCS)

4.1 OVERVIEW

Strengthening and modernizing the revenue administration agencies is key to effective revenue collections. While the introduction of new revenue policy measures may raise revenue, much depends on administration efficiency. Numerous reviews have highlighted institutional and capacity issues within the revenue administration agencies and that both agencies are not equipped to manage the high levels of non-compliance in the community. Therefore, enhancing revenue administration will cover the strengthening of the administration of the IRC and PNGCS (Box 2).

In this respect IRC will undertake a formal third party Tax Administration Diagnostic Assessment Tool (TADAT) assessment from 2020. The TADAT assessment will benchmark the IRC against the international good practices in tax administration and give IRC an objective assessment of the health of key components of PNG's tax administration, thereby helping to identify where ongoing improvements are needed.

IRC has conducted an informal self-assessment using TADAT to provide a standardized means of assessing the health of key components of its administration system and its level of maturity in the context of international good practice. With improvements made to its revenue administration systems under this strategy, IRC aspires to improve all its current assessments with particular emphasis on improving the TADAT compliance assessment from 'D' to 'B', hence supporting the achievement of the revenue (excluding grants) target of 14 per cent of GDP by 2022.

Box 2. Principles of Effective Tax Administration

A proper legal framework for tax administration that provides an appropriate balance between the rights of taxpayers and the powers of the tax agency.

Efficient organizational and staffing arrangements, featuring: strong headquarters; function-based organizational design; minimal management layers and appropriate spans of control; streamlined field operations; and organizational alignment to key taxpayer segments (e.g., a large taxpayer office); and sufficient numbers of staff assigned to each level of the organization and each function.

A system of self-assessment directed at creating an environment of taxpayer voluntary compliance (thereby minimizing intrusion of revenue officials in the affairs of voluntary taxpayers, while concentrating enforcement efforts on those representing a higher risk).

Streamlined collection systems and procedures aimed at securing timely revenues without imposing undue compliance costs and inconvenience on the business sector.

Service oriented approaches whereby the tax administration operates as a trusted advisor and educator, ensuring that taxpayers have the information and support they need to meet their obligations voluntarily.

Risk-based audit and other verification programs aimed at detecting taxpayers who present the greatest risks to the tax system, supported by effective dispute resolution.

Extensive use of IT to gather and process taxpayer information, undertake selective checking based on risk analysis, automatically exchange information between government agencies, and provide timely information to support management decision making and tax policy formulation.

Modern human resource management practices that provide incentives for high performance and non-corrupt behavior among tax officers as well as develops staff skills and professionalism.

Effective models for ongoing institutional change, including enhancing strategic planning capabilities, building coalitions with external stakeholders, and developing an internal culture that is receptive to change.

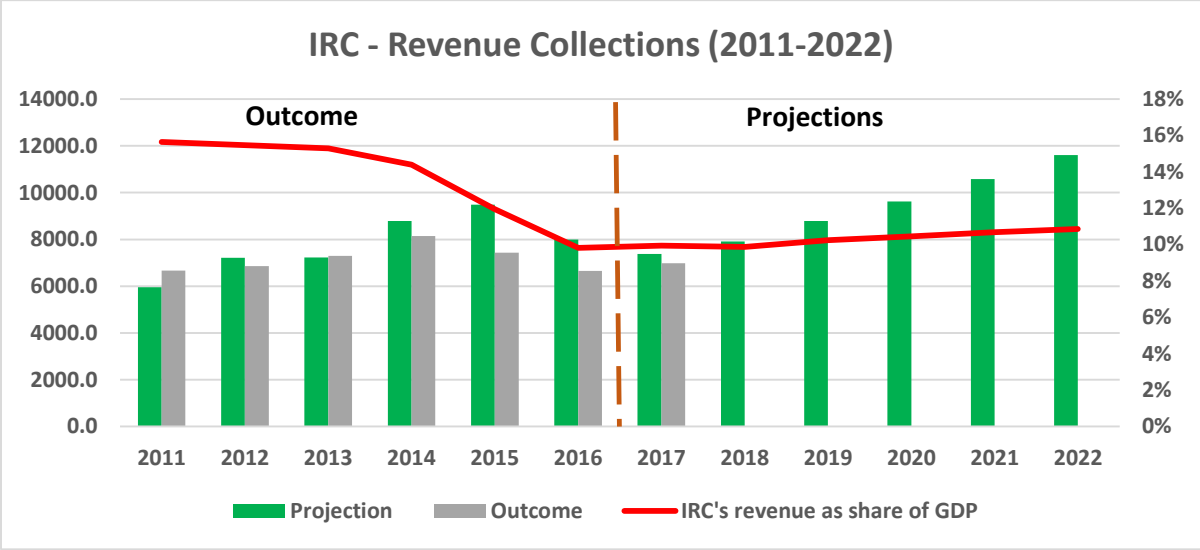
An environment of integrity and good governance with transparency of taxpayer rights and required staff conduct, with mechanisms to assure integrity of systems, procedures and staff practices, and to regularly inform the public of organizational goals, plans, efforts, and outcomes

4.2 IRC REFORM PROGRAM

4.2.1 IRC REVENUE COLLECTION AND CHALLENGES

IRC collects nearly 80 per cent of the tax revenue. IRC's revenue collection has declined since 2015 reflecting mainly lower commodity prices and compliance issues. End 2017 estimated outcomes are likely to show that the revenue (excluding grants) trend continues to decline to under 13 per cent of GDP. This MTRS aims to reverse this declining revenue trend and increase levels of collections over the term of the MTRS to contribute towards a revenue (excluding grants) target of 14.0 per cent by 2022 (table 1).

Figure 4: IRC Revenue Collection and Outlook



Source: Department of Treasury

Challenges

IRC's administers more than 40,000 wage and salary taxpayers, 25,000 corporate taxpayers and 31,000 GST registrants. This is a significant responsibility and it is important that IRC has adequate resources and a strong skill base and adopts efficient processes to enable it to perform its legislated mandate. The current workload is cleared by a total of 600 staff. It is anticipated that the staff on strength within IRC will need to increase to accommodate the increased workload associated with improvements in taxpayer compliance and a growing tax base. Principal among the challenges faced by IRC as it develops are firstly, its capacity to cope with the growth in workload as the tax base increases, and secondly, its ability to grow the required technical knowledge and skills of an expanding workforce to deliver against compliance expectations. Other key challenges include:

- complexity of administering the PNG taxation system, such as complications associated with cross border trade and e-commerce;
- growing the SME sector and challenges faced in understanding and complying with their tax obligations and the growing informal sector and inability to tax incomes derived from this sector; and

- limited ability for IRC to grow central, provincial and regional functions due to externally applied bureaucratic processes and other cross agency jurisdictional issues, such as; underfunding, limitations on office accommodation, the timely release of operational funds, limited access to key Government accounting systems and protracted procurement processes.

To address these challenges, IRC will undertake a comprehensive and balanced institutional strengthening and reform program to include the following strategies:

- **Enhanced Governance and Management Systems:** Enhanced organizational design, strengthened leadership, management and governance arrangements are required to ensure IRC is properly structured to deliver its mandate;

- **Segmentation:** A key principle behind the IRC's strategy acknowledges that different sized taxpayers have different needs and pose different compliance risks. In most countries, a very small percentage of the largest taxpayers generate the bulk of revenues – normally between 50-80 percent of total tax collections – and this is certainly true in PNG;

- **Self-assessment:** The IRC will move closer to full taxpayer self-assessment by replacing the outdated manual processing of tax returns with new e-filing technology. This will remove large volumes of paper and allow a large proportion of IRC's staff to be trained in more value-added work and the strengthening of its core functions;

- **Service Oriented Approaches to Facilitate Voluntary Compliance:** The IRC is building a new taxpayer services' function to provide taxpayers with higher levels of service and programs to educate existing and future taxpayers. Effective taxpayer information and service campaigns that help taxpayers understand the procedures, their obligations and why paying tax is important to help develop PNG will be undertaken;

- **Extensive Use of IT**:The current Revenue Administration System being used within IRC is becoming dated and unsupportable, but reliable. It performs the essential core functions: registration, processing, payments/accounting and reporting. The current system doesn't provide the modern services like e-filing that are needed to streamline processes, reduce compliance costs and minimise manual activities. IRC needs to invest in a 'next generation' revenue administration system as a significant component of its administrative reform agenda;

- **Streamlined Systems and Procedures** An important element of the IRC's corporate strategy is to make the tax system easier to administer by simplifying laws, such as the introduction of the Tax Administration Act, and reducing compliance costs for taxpayers and operational costs for the IRC. This will streamline processes making it easier for taxpayers to comply, whilst simultaneously reducing large volumes of paper processing which distract IRC from conducting more value-added compliance improvement activities; and

- **Strengthening Core Tax Processes:** An important element for determining IRC's core processing capacity in the future will be the use of improved IT systems, such as e-filing and e-payment, which will transfer some tax processing responsibilities to the taxpayer. IRC's strategy therefore recognizes that it will need to achieve a critical mass of processing capacity in the medium term, to ensure that processing backlogs do not occur, while seeking improvements to systems and processes that will ultimately reduce the workload and improve service delivery.

4.2.2 IRC INSTITUTIONAL STRENGTHENING AND REFORM

A comprehensive reform strategy for IRC has been developed and will be articulated in the *IRC Corporate Plan 2018-22*. The detailed planning for the overall delivery of these strategic outcomes will be fully matured and expressed as part of the IRC's Annual Planning Process. The MTRS' strategic outcomes will be delivered through the execution of IRC's next five Annual Work Plans. IRC's Institutional Strengthening and Reform Program as mandated by the MTRS is summarized in the following paragraphs.

4.2.3 STRENGTHENING KEY DELIVERY FUNCTIONS OF IRC

Taxpayer Registration

A fully functioning and integrated registration system with accurate identification capability is critical for a robust tax administration and can provide the foundation for effective revenue administration. In order to modernize the effectiveness of taxpayer registration, the IRC will implement the following measures:

- establish an integrated registration management process for businesses through a centralized database with the cooperation of the Investment Promotion Authority and other Government Agencies;
- conduct regular updates to taxpayers' profiles;
- positively confirm the existence and details of the companies requesting registration through physical inspection or other measures;
- conduct a campaign across PNG to gather registration information through street surveys, third parties and the media to ensure that trading entities are registered as taxpayers; and
- establish MoUs with provinces to obtain information in relation to businesses operating in major cities, towns and districts in order to broaden the tax base and enhance revenue generation.

Taxpayer Services

Taxpayer services is a key function that helps establish tax compliance and tax culture as well as strengthen the effectiveness of revenue management and tax collection. Effective taxpayer information and service campaigns will be undertaken that help taxpayers understand the procedures, their obligations and why paying tax is important to help develop PNG will be undertaken. To achieve this objective, IRC will implement the following:

- design and implement a Comprehensive Strategy for Taxpayer Service Delivery, including a plan to provide high quality services to PNG's large taxpayers;
- create wide awareness amongst taxpayers of what their responsibilities under a self-assessment system will be and the need for them to comply with PNG's tax laws;
- increase the number of staff within taxpayer services and provide additional resources and means for taxpayer service delivery at each IRC Office to meet service demand and ensure effective taxpayer service delivery;
- develop, strengthen and disseminate tax information to the public through workshops, news, radio, television, websites, posters and brochures in order to promote a positive tax culture;

- carry out taxpayer educational campaigns aimed at influencing the 'culture' of paying taxes and improving compliance through simple messages on how to correctly complete tax forms, pay taxes and simple book-keeping skills aimed at maintaining and improving taxpayer records as part of influencing taxpayer behaviour;
- establish a call center capability at head office and within the IRC and a tax consultation function at each Provincial Tax Centre;
- develop a multi-media system for receiving taxpayer complaints and effective processes for dealing with issues raised;
- leverage information derived and feedback from the complaints handling process and develop and publish a Taxpayer Charter;
- design and implement a training program for staff to develop expertise in taxpayer services and dissemination; and
- strengthen the capacity and cooperation with private sector stakeholders; such as accountants, auditors, legal experts and tax agents, in order to promote compliance and for IRC to understand taxpayers' needs.

Tax Processing

Taxpayers are obliged to file their tax returns regularly. Currently, the filing of tax returns in PNG is done manually. Therefore, IRC's core tax processing capacity is largely determined by the efficiency of the workforce and the amount of work generated by the number of taxpayers in the tax net at any point in time. The amount of manual processing is expected to reduce with the introduction of the next generation computer system, but in the meantime the manual processing workload is expected to increase as a result of improved taxpayer compliance through the strengthening of IRC's enforcement and compliance activities as the MTRS is implemented. Thus, IRC will apply the following:

- increase the number of tax processing staff and facilities commensurate with the workload to ensure all lodgments and payments are processed in a timely fashion;
- ensure that there is sufficient tax processing capacity to avoid reverse workflows in other parts of the tax administration and to avert unnecessary duplication of effort;
- Improve the current mechanism to allow taxpayers to file their returns and process tax payments within the limitations of the current information technology system;
- review and modernise each element of the tax collection process to simplify the tax processes and improve its effectiveness and efficiency;
- design and implement a training program for staff to develop expertise in taxpayer processing procedures and systems;
- develop a long term and holistic modernization of electronic filing and payment in order to reduce costs and time of the taxpayers and the burden on tax administration; and
- rollout of SIGTAS Registration component to provinces to capture new registrations and assist in enforcement activities.

Revenue Intelligence and Risk Management

The introduction of the current IT System has brought with it an automated assessment regime that heavily relies on honest taxpayer input. This has brought about a shift in how IRC must manage the

risk to revenue; the risk at the front end of the revenue administration process now requires management and must be mitigated with compliance strategies at the back end of the process. In order to achieve the best long-term compliance in return for the resources employed, revenue authorities have turned to risk management to better allocate scarce resources and achieve optimum compliance outcomes. Revenue intelligence involve gathering and analysing data from multiple sources and then using that information to guide compliance activities. Without a systematic capability to guide compliance activities, resource allocation decisions are open to question and criticism and, more importantly, potential tax revenue may be lost. IRC has formally established a Case Selection and Intelligence Division (CSID) to deliver this essential service but this fledgling capability needs to be fully developed over the next five years to reap revenue benefits. It is also needed to satisfy PNG's international obligations for the sharing of revenue intelligence with other jurisdictions. Accordingly, IRC will:

- develop a compliance risk model for PNG and use that to inform a compliance risk management strategy;
- use the PNG Risk Model and Compliance Strategy as a way of positively influencing taxpayers through a range of compliance responses and to optimise compliance outcomes with IRC's finite resources;
- continue to improve the compliance risk assessment methodology while using existing methods to target entities that present both high risk and high revenue as a priority for compliance activities;
- strengthen the collection of taxpayers' information through automatic sharing of information within the IRC and among relevant institutions;
- develop an extensive and well secured database to support IRC's Revenue Intelligence functions; and
- to the extent feasible, digitise existing tax records to provide easy and efficient access to taxpayer records.

Compliance and Enforcement

Auditing is used to verify whether taxpayers are accurately filing their returns and paying their share of tax. Therefore, a key element of revenue administration is a robust audit program to provide assurance that taxpayers are accurately reporting and paying their tax liability which in turn ensures the integrity and fairness of the tax system. There are a range of audit activities that can be employed to help mitigate risks to revenue and mobilise revenue. Similarly, a variety of enforcement activities can be used to help ensure taxpayer compliance and to promote changes to taxpayer behaviour; ranging from telephone and email reminders to firmer actions such as Direct Penalty Notices, Departure Prohibition Orders and Garnishee actions. IRC has recently expanded its enforcement capabilities that had a positive effect on compliance. However there remains a substantial capacity and capability gap in this critical area, particularly in auditor numbers and skill levels. Increasing the capacity of the IRC Audit capability across all tax types and segments is critical in mobilizing revenue. IRC will:

- as a priority, increase the number of auditors available to conduct critical compliance work through a combination of recruitment and training of entry level staff and lateral recruitment of more experienced auditors into senior audit and compliance management roles;
- target high risk entities using revenue intelligence for audit to potentially generate additional revenue and to positively influence taxpayer compliance behavior;

- seek additional donor support to develop IRC's audit capability and to directly assist in the conduct of large and complex audits;
- significantly increase the number and quality of audits across all tax types and all segments; and
- conduct intelligence led enforcement sweeps to ensure registration, lodgment and payment compliance amongst high risk businesses and sectors.

Debt Reduction and Collection

This MTRS acknowledges that debt collection remains a challenge for IRC. This can be due to a number of reasons such as: debts have not been written off although the debtors have disappeared years ago; companies file their tax returns without payment; taxpayers who do not cooperate and provide information to the IRC's auditors; and multiple-year uncollectable debts that have led to the increase in fines and interest payments. In order to address these challenges, the IRC will implement a number of measures:

- conduct a comprehensive stock take of all debt cases with the aim of identifying and writing off uncollectable debt;
- ensure that debt is not allowed to age and become uncollectable by prioritizing collections and timely escalated implementation of debt collection measures;
- planning for and undertaking taxation prosecutions on breaches of tax laws including tax evasion;
- fully implement stringent measures for debt collection to the extent as provided for under the tax laws, up to and including winding up business entities, confiscating or detaining debtors' properties and prosecuting debtors; and
- develop and implement procedures and introduce a case management system for debt collection.

Objections and Dispute Resolution

TADAT places an emphasis on having systems in place to effectively resolve disputes and process taxpayer objections. This work is currently being dealt with in the Policy and Advice Division (PAD). This Division also provides technical, legislative and policy advice to both internal and external clients. PAD is under strength in terms of both capacity and capability. IRC will further develop PAD's performance in its assigned roles by:

- increasing the capacity of PAD by establishing additional positions for legal officers and recruiting to these positions;
- seeking donor support to provide a long-term advisory support to improve the capacity of the PAD, but in particular, the objections and dispute resolution team;
- investing in and reinvigorating the Income Tax Review Tribunal; and
- formally developing and promulgating the Division's processes and procedures to ensure standardized and timely dispute resolution.

4.2.4 STRENGTHENING CORE BUSINESS FUNCTIONS AND MANAGEMENT SYSTEMS

Upgrading IRC's Revenue Administration System

A modern information and technology (IT) support system is critical for supporting the administration of taxes and efficient collection of revenue. The automation of tax processing tasks reduces manual workload, provides significant and highly accurate tax data, increases the effectiveness of staff and reduces turnaround times. IRC's current IT system, the best available when it was acquired in 2011, is reliable, but basic when compared to newer systems. While it performs the essential core functions; registration, processing, payments, taxpayer accounting and reporting, it doesn't provide modern services like e-filing that IRC needs to help streamline processes, reduce compliance costs and further minimise manual activities. The current system has rapidly become dated and is also coming to the end of its supportable life.

IRC therefore needs to invest in a 'next generation' revenue administration system as a significant component on its administrative reform agenda. The new system must have the essential additional components such as e-filing and e-payments, taxpayer and tax agent self-service through on-line portals, case management and workflow to facilitate all case types (e.g. audit, debt, dispute, taxpayer service etc.). It must also have a business intelligence function which will provide support for automated actions; lodgement demands, and debt demands as well as risk identification, compliance case selection and treatment solutions. The new capability would also need to provide interconnectivity with other data sources such as the Investment Promotion Agency (IPA), PNGCS and the banks. Hence, IRC in establishing the new IT system will implement the following measures:

- develop a statement of requirement for a new revenue administration IT system;
- Investigate available options and develop the necessary procurement and implementation strategies and plans for its acquisition;
- purchase, install, configure and transition to the new system ensuring staff are properly trained in its use;
- recruit additional staff across IRC with the necessary technical competencies and system and database management skills to support IT modernisation and process automation;
- over time, and in line with the IT modernisation program, more electronic and self-service options will be provided to taxpayers to ease their interactions with the IRC; and
- in the interim, continue with the current revenue administration system to provide the core elements for an effective tax administration; taxpayer registration, lodgement and payment processing, taxpayer accounting and revenue reporting.

Enhancing Governance and Management Systems

IRC is expected to properly manage, govern and monitor performance outcomes of the tax administration system but also be constantly thinking about and developing business processes that reflect modern practice. Accordingly:

- a strong headquarters capability will be established to provide detailed analysis and advice to the Commission through developing the capacity of the Office of the Commissioners;
- organizational performance and internal processes will be investigated and analysed with the aim of improving processes and better informing IRC's decision making processes;
- IRC's project activity will be monitored and coordinated to ensure delivery;
- operational work will directed and guided by monitoring outcomes; and

- assurance processes and a common set of strategies and procedures will be developed to ensure consistency in the tax service delivery area across the country.

Financial Management and Accountability

IRC has undertaken a significant process of transforming its financial management practices since its establishment as a Statutory Authority in 2014. IRC will continue to develop its financial management competencies so that it is fully and transparently accountable, able to meet its obligations under the *Public Finances Management Act (PFMA) 2016* and international reporting standards as well as being capable of reporting its full financial position to the PNG Parliament. IRC will undertake a range of reforms that will improve its ratings under TADAT and PEFA, including:

- fully implementing the whole-of-government financial management system (Integrated Financial Management System (IFMS));
- establishing and recruiting additional key financial management personnel;
- automating the bank reconciliation process, with cooperation and support from the Department of Finance, for all IRC revenue accounts in IFMS; and
- updating all financial management policies, processes and procedures to ensure they are fully aligned with legislation, stakeholder requirements, transparency requirements and international reporting standards.

Human Resources

Human resources play a vital role in the achievement of the IRC's overall strategic objectives. IRC's human resources are the "people element" of what the MTRS is hoping to achieve in the medium to` long term. This will ensure that IRC has the right people in place and with the right mix of skills and that IRC staff display the right attitudes and behaviour and are developed in the right way. As part of the *IRC Corporate Plan 2018-22*, IRC is to develop and implement a Human Resources (HR) Strategy to ensure:

- IRC's organisational structure is progressively refined and redefined to support IRC's transformation;
- the IRC structure is populated through lateral movement and recruitment of the best and the brightest employees to carry out its mission;
- the IRC Human Resources Management System is defined and developed;
- staff are held to account for their attitude, behaviour and outcomes through active performance management;
- HR Division's capacity is enhanced by the outsourcing of HR activities that will enable bulk and executive recruitment and the updating of job descriptions; and
- IRC's training packages are developed, approved and delivered to provide staff with quality tax administration and professional development training that is recognised under PNG's National Qualification Framework.

4.2.5 ALIGNING IRC'S STRUCTURE WITH ITS STRATEGIES AND FUNCTIONS

Catering for Large Taxpayers

To address the needs of PNG's largest taxpayers and to ensure that they comply with their tax obligations, the IRC is to create a Large Taxpayer Office (LTO) where the activities and compliance rate of those large taxpayers can be closely monitored. IRC will:

- initially develop the Large Taxpayer Office capability in audit and other compliance activities to optimize revenue opportunities from this sector;
- seek donor assistance to define the roles, functions and structure of the LTO;
- progressively grow the LTO through lateral appointments and recruitment;
- In the short to medium term, appoint expatriate specialists to develop and mentor IRC staff;
- Develop Service Strategies to:
    - realign and fully service the large taxpayer services unit;
    - implement electronic registration, filing and payment;
    - improve access and distribution of tax information and declaration forms;
    - coordinate with key taxpayers and industry partners to improve services;
    - promote and conduct regular periodic forums, meetings and workshops on compliance; and
    - conduct advisory/administrative support activities;
- Develop Enforcement Strategies to:
    - establish a benchmark for tax agents lodging and paying on behalf of clients;
    - from a Risk based approach, conduct limited scope audits, comprehensive audits and conduct debt recovery actions;
    - propose mandatory electronic submissions of key declarations;
    - develop capability, audit training and standard procedures to benchmark high risk industries; and
    - establish legislation and an index database on transfer pricing, tax planning, tax avoidance, tax reduction and tax evasion practices.

SME and Other Audit Capability

As part of the taxpayer segmentation strategy, IRC will establish a Compliance Audit Division (CAD) to specifically address compliance issues associated with the other taxpayers (apart from those catered for in the LTO). These initiatives will significantly support the overarching strategy to broaden the tax base and improve compliance. IRC will:

- progressively grow CAD through the recruitment of graduate accountants;
- develop and implement audit training to develop new recruits in the conduct of audits;
- in the short to medium term, appoint expatriate specialists to develop and mentor IRC staff;
- develop Service Strategies to:
    - establish outbound call centre to access registration, lodgments and payments;
    - target a communications campaign for registrations – especially provincial and district towns;

    - implement a ‘right from the start’ program via city/town council offices.
    - improve access and distribution of tax information and declaration forms;
    - coordinate with city/provincial councils and other industry partners to improve services;
    - promote and conduct regular periodic forums, meetings and workshops on tax compliance; and
    - introduce tailored SME tax programs to reduce compliance costs;
- Develop Enforcement Strategies to:
    - target selected segments of taxpayers for registration and default assessments;
    - leverage from new third-party data on business registration, consumption, work permits, bank accounts, city & provincial councils;
    - develop capability, audit training and standard procedures to benchmark high risk industries;
    - from a risk-based approach, conduct limited scope audits, comprehensive audit and conduct desk audits; and
    - target one successful referral from each SME segment for criminal prosecution.

Regional and Provincial Tax Centres

To improve service delivery and community reach, IRC will progressively upgrade its Provincial Offices to become tax centres capable of processing all tax types in addition to providing other taxpayer services. The priority for this rollout will be determined by the amount of economic activity in each Province. Necessary activities will include:

- determining the priority for the development of Regional and Provincial Tax Centres by assessing local economic activity and its potential to generate revenue;
- developing local ICT infrastructure (including secure data links) to enable automated systems to be connected;
- recruiting additional locally based staff and training them in tax laws and in the use of the system; and
- upgrading ICT hardware in IRC’s network to support the increased decentralisation of the system.

Taxpayer Services

IRC will establish a new Taxpayer Services Division in order to effectively deliver improved services to taxpayers and enhance and influence community behaviour. The establishment of this division is a long-term investment in improving compliance by influencing taxpayer behaviour through education and awareness. As it is not expected to immediately mobilise revenue, the Taxpayer Services Division will not be fully populated immediately but will be allowed to mature over the period of the MTRS. Specifically, IRC will:

- seek donor support to assist in defining and developing the new Taxpayer Services function and the skillsets required of its staff;
- develop the Taxpayer Services Division’s role, structure, processes and procedures; and
- progressively grow the Division through lateral appointments and recruitment.

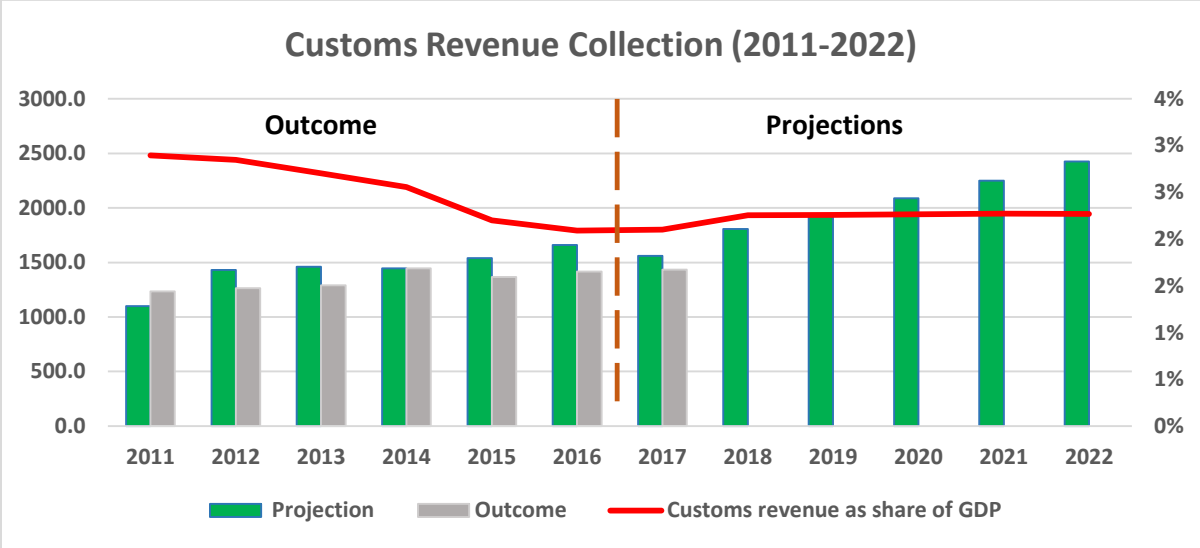
4.3 PNGCS REFORM PROGRAM

4.3.1 OVERVIEW

PNGCS has three key functions - border and community protection, trade facilitation and revenue collection. PNGCS' mission is to protect PNG's borders, communities and industries in order to enhance facilitation of international trade and travel; and more importantly to protect and collect revenue for the Government.

Over the past 10 years, PNGCS contributed K11.4 billion to government revenue as shown in figure 4. From 2007 to 2016, the total PNGCS revenue as a proportion of total tax revenues doubled from 6 per cent to 13 per cent. Main contributors were from import GST (most of import GST is input tax credits which are claimed back through refunds or tax offsets), excise duties, customs tariffs and export duties. Collections are expected to increase over the medium term through increased compliance efforts. The PNGCS share of total revenue collections is expected to increase from 4 per cent per annum to about 7 per cent per annum.

Figure 5: PNGCS Revenue Collection and Outlook



Source: Department of Treasury

4.3.2 CHALLENGES

There are ongoing challenges that need to be addressed in order to improve Customs' revenue collection. Some administrative challenges are in the following areas: tax evasion/smuggling, customs' declaration procedures, intelligence gathering and analysis, risk management, customs valuation and post clearance audits. In terms of oversight or governance, PNGCS needs to progress its plans to fully transition to become an independent statutory authority and formalize the revised organizational structure and relevant accountabilities. This should be followed by targeting policies to support increased collections and effective corporate governance, especially in building human resources and capacity.

4.3.3 PNGCS REFORMS

In addressing the challenges identified above, the strengthening of customs administration will focus on these core areas: (1) clearance processes, (2) cross-border mechanisms and (3) supporting mechanisms.

4.3.4 STRENGTHENING CLEARANCE PROCESSES

Customs Declarations

Manifest Control - Based on good global practice, the PNGCS should receive pre-arrival information such as the name of the shipper/carrier, the goods, quantity, weight and container number from the carrier/shipping companies prior to the arrival of goods for verification. Anecdotal evidence suggests there is a mismatch between actual imports and information contained in submitted documents. In some cases, the invoices do not identify the minimum information of commercial activities related to specific goods and copies of invoices are accepted to hasten the clearance processes. Therefore, the possibility of falsified import documents can be relatively high, leading to the mis-declaration of price, quantity and classification of goods. In some cases, shipping agencies and brokers receive the original shipping documents but do not provide them to the PNGCS in a timely manner. Besides, some companies legally act as both customs broker companies and importing companies without identifying the real name of the importing companies or individuals. To address these challenges, the PNGCS will implement the following measures:

- prepare and introduce procedures for pre-arrival customs clearance;
- develop and implement a complete transit module in ASYCUDA;
- finalize and implement the MoU between the PNGCS and Shipping agencies on the management and exchange of pre-arrival information in a regular and timely manner; and
- strengthen the mechanism to manage customs broker companies, and warn and punish anyone who is not legally permitted to operate as customs' brokers.

Verification of Custom Valuation - PNGCS acknowledge the existing valuation policy is outdated and needs to be reviewed. This is necessary to comply with the World Customs Organisation standards. In order to address this issue, PNGCS will, in consultation with the Department of Treasury, review the Customs Valuation Policy commencing in 2018.

Identification and Classification of Risks

Risk Management - Risk Management is used to improve trade facilitation through the reduction of unnecessary inspections and minimise the clearance periods at the port by classifying arrived cargo into four channels: Red (document and physical inspection), Yellow (document inspection), Blue and Green (Post Clearance Audit). The PNGCS has made progress in risk management but not to desired standards. Areas to improve on are: (1) effectiveness of selectivity criteria of risk management; and (2) incomplete reconciliation of the manifests, partially updated profiles of importers, partial risk analysis and limited intelligence functions. To improve the Risk Management system, the PNGCS will implement the following:

- update the risk selection criteria and integrate it into PNGCS Management Database System based on the principle of professionalism;

- install a PNGCS Management Database System to all customs' border checkpoints; and
- regularly observe and evaluate trader's risk criteria and provide regular updates.

Intelligence – the Intelligence Management System is developed and used to update risk indicators and integrate them into the ASYCUDA system in order to establish risk selection criteria. The ASYCUDA system then gives color signals and sends reports to all the customs border checkpoints. However, the intelligence management system is not fully functional because the intelligence unit is understaffed with limited capacity and skills. In order to improve the effectiveness of the intelligence management system, the PNGCS will implement the following measures:

- collect data from all sources in order to effectively manage the Customs Intelligence System;
- increase the number of intelligence officials and implement a fully functioning intelligence management system; and
- develop and implement a systematic action plan for intelligence management, inter-linked with the relevant institutions.

Post Clearance Audit (PCA)

An audit on customs declarations is used as a tool for trade facilitation by reducing excessive cargo inspections at ports or borders. It is only applied to goods categorized under Blue and Green channels. PCA within PNGCS is facing substantial challenges. The PCA has been extended to only a few on-site audits, which leaves room for revenue leakages. In addition, many importers and businessmen have not properly managed bookkeeping in accordance with PNGCS laws, causing difficulties for on-site audits. The number of officials is inadequate with limited capacity for expanding the coverage of on-site audits. Information sharing between the PNGCS and other relevant agencies is not timely and not up to date.

To improve compliance, the PNGCS shall strengthen the effectiveness and scope of PCA through the implementation of the following measures:

- appropriately staff the PCA unit to make it fully functional;
- disseminate the mechanism of the PCA to all relevant businessmen, especially related to the obligations to manage proper bookkeeping and documents regarding import and export;
- establish an automated risk information exchange channel among relevant customs offices from the results of the PCA; and
- maintain the independence and professionalism of PCA officials by avoiding many positions for each official at the clearance office.

4.3.5 STRENGTHENING CROSS-BORDER MECHANISMS

Strengthening cross-border mechanisms will focus on smuggling and customs valuations.

Smuggling

In PNG, smuggling is still a major challenge as many counterfeit products are prevalent and tobacco products is a case in point. This is because: (1) strong smuggling networks still exist; (2)

misclassification of products and country of origin is partly caused by falsified customs declaration; (3) patrol and inspection tools are insufficient; (4) the exempted goods are not properly monitored and evaluated; (5) act of breaking down large shipments into smaller cargoes and hiding under informal trading activity along the border as well as seaway smuggling still exists; and (6) information sharing among the PNGCS and relevant agencies is not effective.

To prevent and suppress all forms of smuggling, PNGCS will implement the following measures:

- develop an annual operational plan to reduce all forms of smuggling;
- finalize and implement a medium-term anti-smuggling plan with clear indicators and timeframe;
- enhance officials' capacity to lodge criminal cases against smugglers;
- strengthen the compliance on usage of customs tax exempted goods; and
- establish temporary bonded customs storage along the borders and urban areas to reduce the dispersal of smuggled goods and to reduce compliance burdens on traders; and
    - develop a National Command Centre.

Customs Valuation

PNG is yet to fully comply with the WTO valuation standards. The current PNGCS valuation system is outdated and needs to be reviewed. Failure in not addressing this issue has significant implications for revenue collection. To improve customs valuation and avoid revenue leakage, PNGCS will undertake a review of the valuation policy in commencing in 2018.

4.3.6 STRENGTHENING SUPPORTING MECHANISMS

Improving supporting mechanisms include the strengthening and expansion of ASYCUDA, encouraging the implementation of engagement and communication with external stakeholders, establishment of an institutional development plan, monitoring and evaluation of the customs' reform program and improved human resource management and internal audit.

ASYCUDA

ASYCUDA's core function is to facilitate trade through the standardization and simplification of customs documents and data as well as the computerization of customs functions and data collection from all border checkpoints throughout the country. This is necessary to quicken the process of customs clearance and to provide trading information and data for analysis.
The ASYCUDA system is situated at the Customs Headquarters and only a few regional offices have access to this system. Traders and customs' brokers can enter trade data into ASYCUDA from the companies' premises directly without having to physically visit the Customs' offices. The ASYCUDA has not been implemented to its full potential for these reasons: (1) important modules (i.e. manifest module, customs bonded warehouse module, transit module and trader profile module) have not been fully used; and (2) there is no automated connection among existing systems such as the connection to ASYCUDA.

Therefore, to ensure the full function of ASYCUDA and to extend the implementation of this system, PNGCS will implement the following measures:

- install the ASYCUDA to relevant institutions at the border checkpoints; and

- connect the ASYCUDA to other PNGCS IT systems and extend the remaining functions of ASYCUDA.

Engagement and Communication with External Stakeholders (ECEP)

The PNGCS acknowledge ECEP is critical in promoting compliance and effective trade facilitation. Some of the initiatives under development in support of ECEP is implementing the Trusted Trader Program and Authorized Economic Operator (AEO) Program. To encourage more active and effective involvement of the private sector, the PNGCS will implement the following measures:

- Organize a forum on CPSPM to address the concerns of the private sector; and
- Implement an incentive mechanisms for high compliance traders.

Institutional Strategic Plan

In 2018 PNGCS will develop its strategic plan for the next five years. It is aimed at improving its administration and, once completed, will be crucial in building a modern PNGCS administration, in line with international good practice in terms of structure, expertise and operational procedures.

Monitoring and Evaluation of Customs Reform Program

The PNGCS will improve resourcing and capacities of the Modernization Unit to effectively monitor and evaluate its reform program.

Human Resource Management

The PNGCS acknowledge human resource management is crucial in strengthening its administration over the MTRS period. This is necessary as current discretionary practices at the management and operational level remain a challenge. This is due to the lack of operational management and monitoring systems. Also, human resource management of the PNGCS still faces some challenges: (1) in practice, a number of customs officials occupy multiple positions, undermining their performance due to additional workloads and burdens; (2) customs officials' adherence to the code of ethics is still poor; and (3) customs officials still lack the capacity, knowledge and skills necessary for carrying out their roles and duties.

To strengthen the code of conduct and professional ethics and capacities as well as redefine roles and responsibilities, the PNGCS will implement the following measures:

- avoid assigning multiple positions;
- strengthen the adherence to the code of conducts of customs officials;
- strengthen the capacity of customs officials through necessary training programs;
- increase the number of customs complaint boxes at main border checkpoints; and
- recruit public relations' officials at Customs offices.

Internal Audit

PNGCS has an internal audit unit within its existing structure. It needs to be adequately and legally resourced to enable it to function effectively. To strengthen the effectiveness of internal audit, the PNGCS will implement the following short-term measures:

- support a fully functioning Office of Internal Audit based on roles and duties stipulated in existing regulations through the allocation of appropriate resources;
- develop a regular internal audit reporting system for the Director of this Division; and
- promote the cooperation between the Office of Internal Audit of the PNGCS; and other audit agencies such as the audit committee system prescribed under the Public Finance Management Act.

This strategic framework will be clearly articulated in the PNG Customs Service Plan 2018-2022 with clear direction for implementation. This plan will be supported through Divisional Annual Work Plans.

5. STRENGTHENING NON-TAX REVENUES

5.1 OVERVIEW

Non-tax revenue contributes on average around 10 per cent to Government revenue.

The Government is determined to strengthen non-tax revenue collections by ensuring an effective and efficient application of good corporate governance practices and greater transparency and accountability in all statutory bodies and State-owned entities (SOEs).

As part of that, the Public Finance Management Act (1995) was extensively amended in 2016 to strengthen accountability, transparency and use of public funds. The amendment gives increased public finance management powers to the Departments of Treasury and Finance to ensure effective governance and administration of the PFMA. Since the amendments in 2016, some progress has been made in achieving these objectives – but much more needs to be done.

The key areas that deal with public finance that require priority attention to increase revenue, accountability and performance comprise: public bodies trust accounts; the collection of non-tax fees and charges; and public funds from SOE's investment returns.

As part of implementing the amended PFMA, a joint review, led by the Inter-Departmental Committee (IDC) comprising of the Departments of the Prime Minister and NEC, Treasury and Finance, was commenced in mid-2017 into all Trust Accounts (TA) belonging to public bodies, including all statutory bodies and SOEs.

The review focused on the monitoring, reporting and management of fiscal risks associated with the operations of all statutory bodies and SOEs and to develop a robust framework for managing and monitoring the financial positions and fiscal risks of state entities. The specific objectives of the review are to:

- develop cost effective and robust operational, fiscal and governance systems and processes to be utilised by all statutory bodies & SOEs; and
- increase government revenues into the CRF to support the Budget; but
- ensure SOEs continue to achieve commerciality flexibility, whilst paying appropriate returns directly to the State.

Initial outcomes of the review recommended:

- rationalization of statutory bodies and SOEs;
- development of a stringent framework for the establishment of new statutory bodies and SOEs;
- the streamlining of trust accounts; and
- the rationalization of SOE and KCH management systems and governance structures.

5.2 PUBLIC BODIES TRUST ACCOUNT

The first phase of the review of all public bodies trust accounts has been completed. Issues identified in the management of TAs by public bodies are now being addressed by the Department of Finance.

Trust accounts operating in breach of the PFMA are to be revoked and all funds contained in the TAs are to be transferred into the Consolidated Revenue Fund (CRF). Section 13 of the PFMA requires that all public money is paid to the CRF, and failure to comply is an offence – (see Section 106A). Respective legislation of a number of public bodies, however, provides scope for revenue retention to fund operational and program costs.

To meet the Government's urgent revenue needs in the 2018 Budget, the Government will transfer the accumulated balances in a number of agency trust accounts to the CRF to assist in the fiscal adjustment, as well as request additional dividend payments from both statutory bodies and SOEs (se Section 3.2 for details).

Over 2018 the IDC team will make further recommendations on the additional transfer of trust fund balances into the CRF and continue its reviews into the governance and accountability regimes for statutory bodies and SOEs.

5.3 NON-TAX FEES AND CHARGES

As noted a number of statutory bodies collect fees and charges, and revenue retention to meet operational and program expenses is prescribed in their enabling Acts. While some may be using these public funds for the intended purposes, there remains significant concern on the use of these funds, given the lack of transparency and accountability. The amended PFMA provides for the review of those fees and charges and also the review of the use of those funds.

Further, the Government through its 100 Days Plan has committed to bring all collections from fees and charges to CRF and to allow only 10 per cent of the total collection of each agency to be retained. The Government is committed to give legal effect to this arrangement as part of the 2018 Budget through the introduction of the Public Money Management Bill. This will ensure all funds come through CRF and agency expenditure will now be based predominately on budgetary priorities and appropriations.

As part of the ongoing review, there will also be an evaluation done into the current fees and charges to ensure compatibility with the current fiscal and economic environment. The recent amendments to the PFMA now centralise the fixing and review of fees and charges for all public and statutory bodies within the Department of Finance.

5.4 STATE OWNED ENTERPRISE (SOE) PERFORMANCE

Over the medium term, Government is putting due emphasis on improving the internal management of SOEs and statutory bodies, combined with enhancing external oversight to improve the performance of these entities. In this respect the Departments of Treasury and Finance are developing a dividend policy to facilitate appropriate returns to the State.There will also be a review into the use, governance and management of public funds by SOEs.

6. FINANCING OUR TAX SYSTEM REFORM

The Government is fully committed to this MTRS and recognizes that to reform the tax system as envisaged in this framework will incur significant costs. In the 2018 Budget the Government has increased the appropriation to the IRC by 44 per cent to K105 million and to Customs by 31 per cent to K70.5 million.

The significant costs of the revenue reform program going forward are expected to be shared between the Government and development partners. Relevant departments and agencies were involved in the development of this plan and, as part of the Government medium-term fiscal strategy, have committed to a 5-year investment plan to support the MTRS. The investment funding will be in addition to that appropriation normally made by Government to deliver core agency outcomes.

Over the MTRS time horizon the Government will fund:

- increased capacity and resources in the tax policy and legislative drafting area;
- improved services to the large taxpayers through the establishment of a Large Taxpayer Office;
- more extensive use of IT through the procurement of a next generation Revenue Administration System;
- in terms of taxpayer compliance, the development of the capacities of the Compliance Audit Division and the associated development and delivery of training packages;
- the development of the IRCs' risk management, case selection and intelligence capability;
- improvements to taxpayer knowledge and awareness and compliance through the establishment of a Taxpayer Services capability;
- improved tax processing capacity through a combination of efficiency improvements and additional core capacity;
- the establishment of regional and provincial Tax Centers across the country to decentralize tax administration services closer to areas of economic activity; and
- increased capacity and resources in Customs' services.

The Government will also need support from PNG's development partners. In this respect the Government is also committed to working closely with the IMF, Asian Development Bank, Australian Government, the European Union and the World Bank to provide additional funding, technical assistance and training to support the reform program. A full investment plan including development partner support will be finalized over the near term.

A major benefit of the MTRS is that all partner support will be aligned and coordinated under the Government-led MTRS. This will be a new approach to guiding donors' contributions and support under the Government's leadership.

7. GOVERNANCE: ENSURING OUR SUCCESS

7.1 IMPLEMENTING THE MTRS

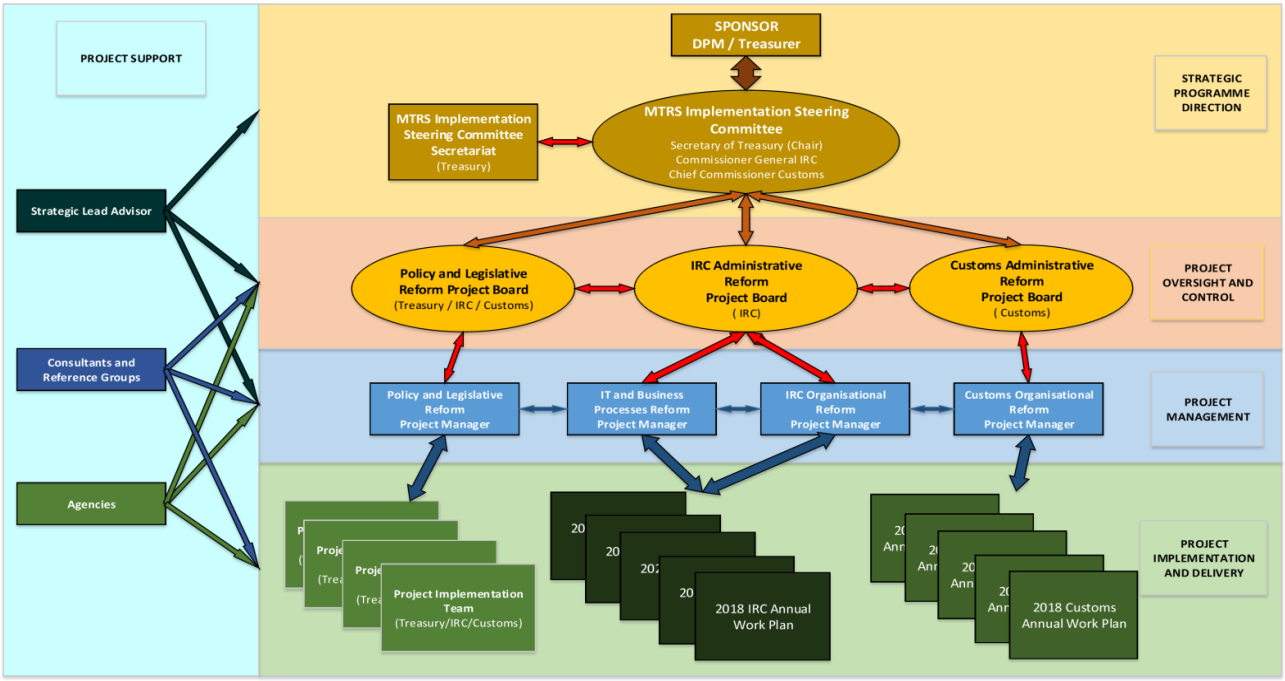
The collection of inter-dependent activities (projects) needed to bring about this level of change will be assembled to form an overarching program of work – the Revenue Reform Program (RRP). This RRP will be carefully governed, guided, monitored and coordinated during its lifecycle to ensure each project delivers its outcomes as described and on time as set out in the MTRS. Each project within the program will be monitored by a central program steering committee regardless of whether the projects relate to policy, administration or legislation.

All aspects of change will be actively managed, from inception to implementation. It is critical that strong program management is provided as well as a comprehensive change capability.

7.2 SETTING UP A PROGRAM GOVERNANCE AND MANAGEMENT STRUCTURE

Figure 4 illustrates the program management structure which includes: a program sponsor and a steering committee to ensure strategic program direction; three reform project boards to provide project oversight and control with project managers and implementation teams. Because the Program will involve substantial re-engineering of existing arrangements, often across multiple agencies, provision for expert user reference groups has been made. Donors, consultants and contractors will be engaged to provide resources, advice or services not available from within the Government.

Figure 6: Program Governance and Management Structure



7.3 ROLES AND RESPONSIBILITIES IN THE PROGRAM GOVERNANCE AND MANAGEMENT STRUCTURE

Overlaying program management arrangements across the general management structure of the agencies will cause conflict within the program regarding accountability and reporting. Therefore, clear protocols will be established regarding the program governance structure (accountabilities and reporting arrangements). Reform activities will be closely monitored and coordinated at each level within the Program Governance and Management Structure.

The Program Sponsor will be the Deputy Prime Minister and Minister for the Treasury, Hon. Charles Abel.

8 THE MTRS ROAD MAP

Figure 7: PNG's Medium-Term Revenue Framework for 2018-2022

PNG's Medium-Term Revenue Strategy 2018-2022		
Strategic Objectives	• Halt the declining revenue to GDP trend and increase revenues (excluding grants) in terms of GDP to reach 14 per cent by 2022 • Clear policies that support national development goals and encourage investment • Broad based taxes that ensure everyone makes a fair contribution to the nation • Clear laws that define the rights and obligations of taxpayers and administrators • Fair and efficient administration that provides high quality services to taxpayers	
Policy Reform	**Legal Reform**	**Administration Reform IRC and Customs**
1. Personal Income Tax • Rebalance the tax composition from income to consumption by relieving the tax burden on labor income **2. Goods and Services Tax** • Broaden the GST tax base by limiting the extensive use of zero rating; • Review an increase in the GST rate depending on the revenue need and implementation of alternative taxes **3. Excise** • Review rates for alcohol, tobacco and gaming; • Review excisable products; and • Review introduction of excise on Cellular airtime. **4. Export Duty** • Examine unprocessed products eg fish, sawlogs, oil palm **5. Review of the import duty**	**Update and consolidate existing Acts** • Simplify legislation and separate taxing measures from administration measures • Locate all administration laws/regulations within a tax Administration/Procedures Act • Customs legislation modernization • Simplify Income Tax Act and other legislation **International agreements/treaties** • Review to ensure economic value • Ensure technological capability to comply exists before committing to new arrangements **Asset Registers** • Establish definitive registers with respect to real property, shares, government entitlements such as licenses **Bank Secrecy**	**1. IRC will achieve high levels of voluntary compliance** • IRC's core delivery functions are effective and efficient to administer taxes and collect revenue • Modernise IRC's policy and legislation to reflect IRC's risk based strategy and business processes • Improve Compliance and Broaden Tax Base **2. IRC's organisation structure is aligned to its strategy** • A Large Taxpayer Office is established and fully functional as a Division • Case Selection and Intelligence Division is fully functional • A strong headquarters function is developed and implemented • Regional and provincial Tax Centres are established across the country to decentralise tax administration services • A Taxpayer Services capability is established and fully functional • A Compliance Audit capability is established and fully functional as a Division

• Suspend the last phase of Tariff Reduction Program (TRP) to allow a review into TRP • Increase tariff rates to assist domestic manufacturers. • **Tax Exemptions and Incentives** • Review existing incentives and exemptions and prepare tax expenditure budgets • Adjust arrangements based on economic value **6. Corporate Income Tax** • Reducing corporate income tax with scaled back tax incentives and accelerated depreciation provisions for resource sectors. • Simplify administration of corporate income tax • Review of superannuation taxation regime **7. Resource Contracts Fiscal Stabilization Act;** • Limit the scope of taxes for stabilization to major tax heads **8. Small business regime** • Design a simplified system for tax calculation and payment **9. Fill the tax gaps and Expand the tax base** • Review the introduction of a bank levy; • Introduce CGT on real property including mining and petroleum licenses;	• Ensure ready access to bank information by tax administration	**3. IRC's processes, systems and structure are aligned to effectively manage compliance risk** • IRC's operating system meets its current and future needs • Self-assessment is fully operational • IRC has sstreamlined collection systems and procedures **4. IRC is adequately resourced and effectively leads, manages and governs those resources** • IRC has in place a robust management and governance processes • IRC's Budget, Assets and Facilities are efficiently, effectively and accountably managed and administered • A Taxpayer Charter is developed • Effective relationships are established with IRC's key stakeholders **5. IRC's management and staff have the needed knowledge, skills, attitude and integrity** • Develop management and leadership training for managers and supervisors at all levels • Provide specialist training in areas as needed e.g. LTO, Audit • Managers and staff meet the standards of integrity and behavior expected of an employee of the IRC • IRC's Productivity is enhanced through Internal Audit and Anti-Corruption Activities **6. Strengthening Customs Clearance Processes** • Customs Declarations: Manifest control and verification of customs valuation • Post clearance Audit (PCA)

• Develop a broad policy and procedures for fees and charges and review non-tax fees and charges; and • Review resource revenue regime. **10. Non-Tax Revenue** • Transfer 90% of all public moneys to Consolidated Revenue Fund and 10% to support operations of collecting agencies • Continue the review of all Public bodies Trust Accounts consistent with the revised Public Finance Management Act • Review all public funds utilized by SOEs • Review all existing non-tax fees and charges		**7.** Strengthening Cross boarder Mechanisms to address illicit trade **8.** Strengthening supporting mechanisms such as the ASYCUDA, increased resources and capacity in the Audit and cargo clearance section and extend Container Examination facility to other port such as the Lae Port **9.** Strengthen governance, accountability, transparency and use of public funds through Finance and Treasury

Political Support	External Resources
• Provide strong reform governance and management • Ensure Government-led effort including all agencies • Consult widely to generate community support	• Identify capacity needs for reform development and implementation • Identify available external support from donor partners to provide extra capacity • Formalize agreement with donors on MTRS support

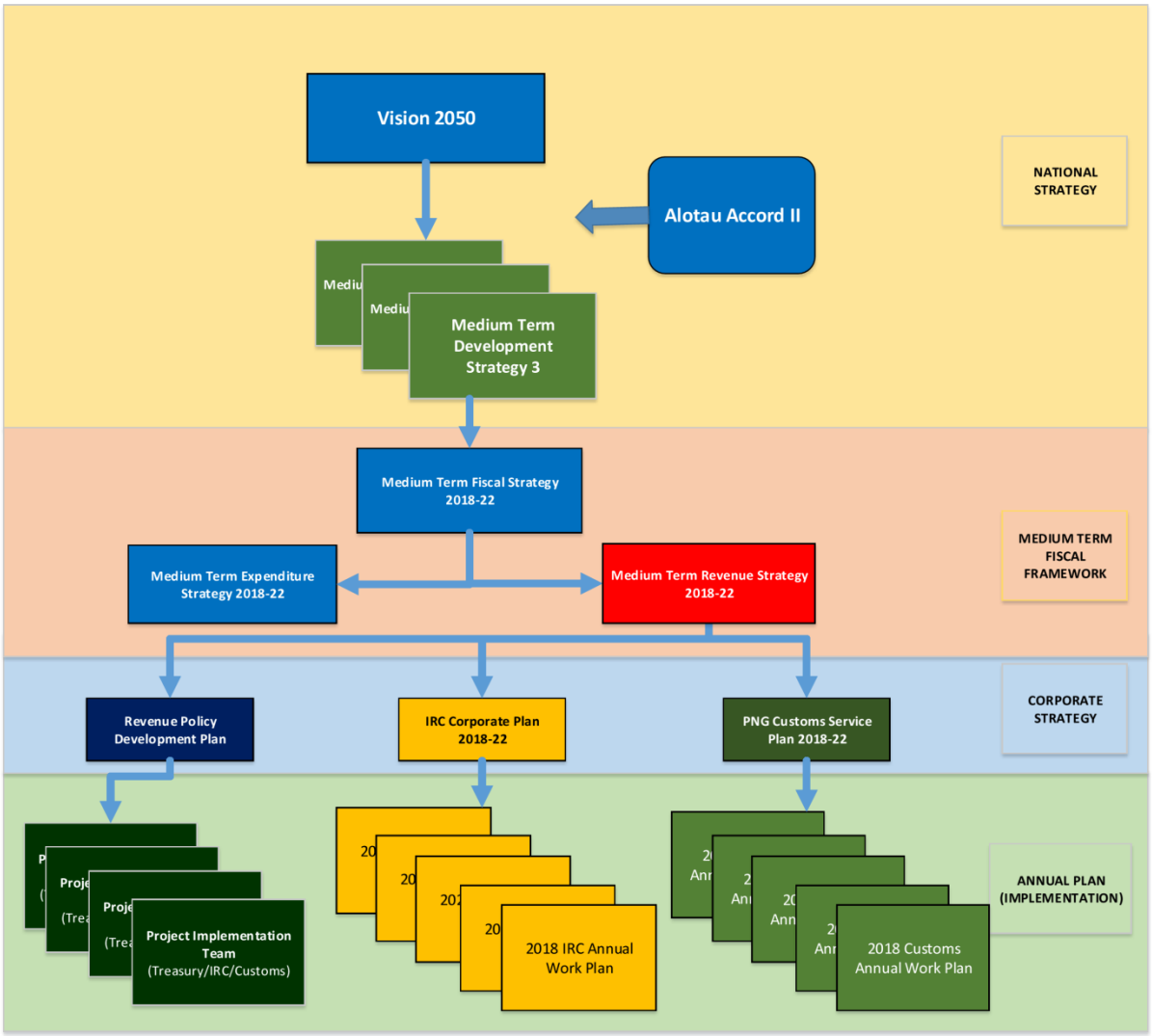
Figure 8: MTRS Roadmap

		2018	2019	2020	2021	2022
POLICY REORMS						
PERSONAL INCOME TAX						
Rebalance the tax composition from income to consumption by relieving the tax burden on labor income	PIT tax-free threshold to be increased annually		Implement			
	Tighten the taxation of fringe benefits (employer provided accommodation, transportation,		implementation			
	Commence a review of superannuation and other retirement benefits taxation, with any reforms being in the longer term.	Review				
GOODS & SERVICES TAX						
Broaden the GST tax base by limiting the extensive use of zero rating; and review increase in the GST rate to offset the reduction in PIT	Review an increase in GST rate (rate dependent on revenue objective)		Implement			
	Remove zero-rating of suppliers to EI companies, charities, and aid organizations		Implement			
	Extend the GST exemption on imports for mining and petroleum companies to sub-contractors for equipment that is solely and exclusively used in mine operations					
	Treat domestic suppliers to mining and petroleum companies within the standard GST, but ensure speedy GST refund processing for mining and petroleum companies					
	Exempt charities and aid organizations rather than zero-rating these					
CORPORATE AND INTERNATIONAL TAXATION						
Reducing corporate income tax with scaled back tax incentives and accelerated depreciation provisions for resource sectors. **• Simplify administration of corporate income tax**	Reduce the Corporate Income Tax rate for Non- resource companies if tax incentives are rationalized sufficiently, including removing or reducing accelerated depreciation, while maintaining the CIT rate for extractive companies			implement		
	Abolish Training Levy and double deduction for training	implement				
	Simplify the depreciation Schedule, including reducing or removing accelerated depreciation		implement			
	Tighten the thin Capitalization rules			implement		
RESOURCE CONTRACTS FISCAL STABILIZATION ACT						
	Review and limit the scope of taxes for stabilization to major tax heads	Review	implement			
EXCISE TAXATION						
	Review introduction of excise on cellular airtime at a rate of say 5-10 percent					
	Increase the excise on diesel gradually to align with petrol	implement				
TAX INCENTIVES						
Review existing incentives and exemptions and prepare tax expenditure budgets **• Adjust arrangements**	Review tax incentives with a view to rationalize these	Review	Implement			
	Publish an annual statement on tax expenditure		Report			
	Phase out the ITC scheme or as a second best limit the scope of the infrastructure tax credit scheme to focus on infrastructure projects in remote areas with strengthened oversight of project selection and implementation	Implement				

		2018	2019	2020	2021	2022
based on economic value						
SMALL BUSINESS TAXATION REGIME						
Design a simplified system for tax calculation and payment			Design	implement		
NON-TAX REVENUE	Develop a policy framework and procedures for fees and charges and conduct a review of existing fees and charges by the end of 2018					
OTHER TAXES						
	Reintroduce the variable export tax linked to the price	implement				
	Review the import tariff reform	Review				
	Review introduction of a bank tax: a bank levy imposed quarterly on balance of bank's assets		implement			
	Commence a review of the potential for greater use of land and property tax in PNG	Review				
LEGISLATIVE REORMS						
Income Tax Act and Other legislations	Modernize and Simplify the ITA legislation;					
	Finalize Tax Administration Act	Announce	Implement			
	Prepare a modernized version of the existing legislations	Design			implement	
	Incorporate policy changes					
TAX ADMINISTRATION REFORMS IRC						
Strengthening Key Delivery Functions of IRC						
Taxpayer Registration	Establish an integrated registration management process	Design				
	Conduct regular updates to taxpayers' profiles		Review		Review	
	Positively confirm company details upon registration	Implement	Conduct			
	Conduct a National registration campaign	Conduct		Conduct		Conduct
	Develop MoUs with Provinces to obtain information on businesses operating in major cities, towns and districts	Develop				
Taxpayer Services	Design and implement a Comprehensive Strategy for Taxpayer Service Delivery	Design & Implement			Review	
	Create wide awareness amongst taxpayers of what their responsibilities under a self-assessment system	Conduct				
	Increase the number of staff and provide additional resources within taxpayer services		Recruit			
	Develop, strengthen and disseminate tax information to the public	Develop	Disseminate		Review	
	Design and implement a taxpayer services and dissemination training program	Design	Train			
	Strengthen cooperation with private sector to promote compliance and understand taxpayers' needs	Design	Conduct			
Tax Processing	Increase the number of tax processing staff and facilities commensurate with the workload	Recruit and Develop Facilities				

		2018	2019	2020	2021	2022
	Ensure sufficient tax processing capacity to avoid reverse workflows and to avert duplication of effort	Continually Review & Adjust				
	Improve the current mechanism to allow taxpayers to file their returns and process tax payments	Design		Review		
	Review, modernise and simplify the tax processing procedures		Review			
	Design and implement a training program for staff to develop expertise in taxpayer processing	Design & Train	Train			
	Develop a long term and holistic modernization of electronic filing and payment	Review, Develop & Implement in conjunction with new IT System				
	Rollout of SIGTAS Registration component to provinces to capture new registrations	Implement				
Revenue Intelligence and Risk Management	Develop a compliance risk model for PNG and Compliance Strategy	Develop & Implement				
	Use the PNG Risk Model and Compliance Strategy to influence taxpayers with a range of compliance responses		Conduct			
	Continue to improve compliance risk assessment methodology	Review, develop & Implement				
	Strengthen the collection of taxpayers' information through automatic sharing of information	Develop & Implement				
	Develop an extensive and well secured database to support IRC's Revenue Intelligence functions	Develop	Use	Review	Develop	Use
	Digitise existing tax records to provide easy and efficient access to complete taxpayer records	Develop & Conduct				
Compliance and Enforcement	Rapidly increase the number of auditors available to conduct critical compliance work	Recruit & Train				
	Target high risk entities using revenue intelligence for audit	Conduct				
	Seek budget funding and/or donor support to develop IRC's audit capability	Review & Obtain				
	Significantly increase the number and quality of audits across all tax types and all segments	Implement				
	Conduct intelligence led enforcement sweeps to ensure compliance amongst high risk businesses and sectors		Conduct		Conduct	
Debt Reduction and Collection	Conduct a comprehensive stock take of all debt cases and writing off uncollectable debt	Conduct		Conduct		Conduct
	Ensure that debt is not allowed to age and become uncollectable	Conduct				
	Fully implement stringent measures for debt collection to the extent as provided for under the tax laws	Develop	Conduct & Review			
	Develop and implement procedures and introduce a case management system for debt collection	Develop	Implement			
Objections and Dispute Resolution	Increase the capacity of PAD by establishing additional positions for legal officers	Recruit				
	Seek donor support to provide a long term advisory support to improve the capacity of the PAD	Develop	Implement			
	Invest in and reinvigorate the Income Tax Review Tribunal	Develop	Conduct			
	Formally develop and promulgate the PAD's processes and procedures	Develop				

		2018	2019	2020	2021	2022
Strengthening Core Business Functions and Management Systems						
Upgrading IRC's Revenue Administration System	Develop a statement of requirement for a new revenue administration IT system	Develop				
	Investigate options, develop procurement and implementation plans for the acquisition		Plan			
	Purchase, install, configure and transition to the new system ensuring staff are properly trained in its use			Procure, Implement & Use		
	Recruit additional staff across IRC with the necessary technical competencies		Recruit & Train			
	Use current revenue administration system to provide the core elements for the tax administration	Conduct & Retire				
Enhancing Governance and Management Systems	Fully implement of the whole-of-government financial management system (IFMS)	Design				
	Establish and recruit additional key financial management personnel	Recruit				
	Automate the bank reconciliation process for all IRC revenue accounts in IFMS	Implement				
	Update all financial management policies, processes and procedures		Review & Implement		Review & Implement	
Human Resources	Develop and implement a Human Resources Strategy	Develop				
	Define and refine IRC's organisational structure			Review		
	Populate IRC's structure through lateral movement and recruitment	Conduct				
	Define and develop the IRC Human Resources Management System		Develop		Refine	
	Develop and deliver quality tax administration and professional development training to staff	Develop and Deliver				
Aligning IRC's Structure with its Strategies and Functions						
Catering for Large Taxpayers	Develop the Large Taxpayer Office capability in audit and other compliance activities	Design & Develop				
	Seek donor assistance to define the roles, functions and structure of the LTO	Review				
	Progressively grow the LTO through lateral appointments and recruitment	Recruit & Train				
	Appoint of expatriate specialists to develop and mentor LTO staff	Appoint & Employ	Employ			
	Implement large taxpayer service and enforcement strategies	Implement				
SME and Other Audit Capability	Establish a Compliance Audit Division (CAD) to specifically address compliance issues associated SME taxpayers	Design & Develop				
	Progressively grow CAD through the recruitment of graduate accountants	Continually Recruit & Train				
	Develop and implement audit training to develop new recruits	Design & Conduct				
	Appoint of expatriate specialists to develop and mentor CAD staff.	Appoint & Employ	Employ			
	Implement SME service and enforcement strategies	Implement				
Regional and Provincial Tax Centres	Determine the priority for the development of Regional and Provincial Tax Centres	Assess		Assess		Assess
	Develop local ICT infrastructure (including secure data links) to enable automated systems to be connected	Develop & Implement				
	Recruit additional locally based staff and training them in tax laws and in the use of the system	Recruit & Train				

		2018	2019	2020	2021	2022
	Upgrade ICT hardware in IRC's network to support the increased decentralization of the system	Continually Review, Design & Upgrade				
Taxpayer Services	Seek donor support to assist in the defining and developing the new Taxpayer Services function	Seek & Develop				
	Develop the Taxpayer Services Division's role, structure, processes and procedures		Implement& Review			
	Progressively grow the Division through lateral appointments and recruitment	Recruit & Train				

Appendix 1. How the MTRS helps Vision 2050