# PAPUA NEW GUINEA MEDIUM TERM REVENUE STRATEGY (MTRS) 2018 - 2022

PRESENTATION BY: MR. PETER MONDORO

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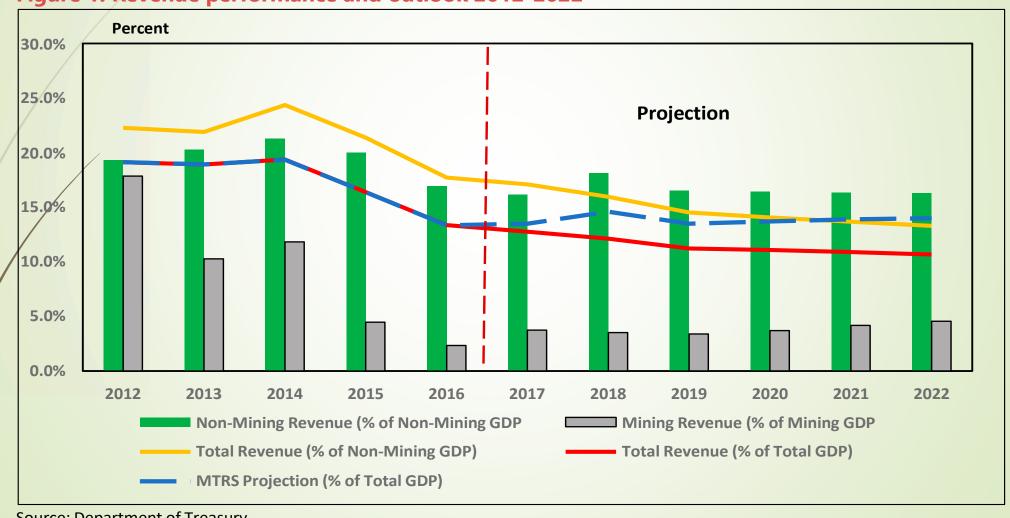April 25-26, 2019 - Tokyo

# WHY WE ADOPT THE MTRS 2018-2022

❖ Total Revenue as a share of GDP has declined from 20% in 2011 to 13% in 2016. 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 a severe drought, the foreign exchange imbalances that have developed in recent years and the impact of fiscal and financing constraints on Government domestic expenditures.

❖ 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.

# WHY WE ADOPT THE MTRS 2018-2022

**Figure 1: Revenue performance and outlook 2012-2022**



Source: Department of Treasury

# VISION AND STRATEGIC OBJECTIVES OF MTRS

❖ The vision of the MTRS is 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.

❖ To achieve the above vision, the MTRS sets the following strategic objectives:

❑ Halt the declining revenue to GDP trend and increase revenues (excluding grants) in terms of GDP to reach 14.0 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; and

❑ Fair and efficient administration that provides high quality services to taxpayers.

# HIGH LEVEL CONTENTS OF MTRS

- The MTRS sets out the legislative, administrative and policy reforms that aim to strengthen and broaden the  revenue base to fund the Government's development aspirations.

**Figure 3: Linking Taxation Policy, Administration and Legislative Framework**

# MTRS IMPLEMENTATTION IN 2018

❖ The GoPNG approved the implementation of MTRS 2018 – 2022 through the 2018 Budget passed by Parliament.

❖ Solid progress was made on implementing the first phase of the MTRS IN 2018 with most of the programmed measures on track including the establishment of the MTRS Steering Committee, the launching of the Large Taxpayers Office (LTO), and introduction of the *Tax Administration Act*. Most of the tax revenue targets were met, with a substantial increase in Mining and Petroleum Tax.

❖ Non-tax revenues improved significantly with the management of the *Public Money Management Regularisation (PMMR) Act* 2017.

# MTRS POLICY ENGAGEMENT IN 2019

❖ Major tax policy and tax administration reforms undertaken in 2019 for implementation through the 2020 Budget includes:

❑ Rewrite of the PNG Income Tax Law;

❑ PNG Tax Expenditure Reform;

❑ Introduction of Capital Gains Tax;

❑ Introduction of Small to Medium Enterprise Taxation Regime; and

❑ Review of Tariff Reduction Program

# TAXATION POLICIES YET TO BE IMPLEMENTED

❖ To achieve the vision and broad objectives over the medium-term, 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.

❖ The implementation of MTRS is supported by the MTRS Implementation Steering Committee and this Committee continues to ensure the reforms are delivered effectively.

# BENEFITS TO THE ECONOMY UPON SUCCESSFUL IMPLEMENTATION

❖ A modern and robust PNG tax system that is fair with equitable tax laws and an efficient revenue administration.

❖ 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.

❖ Improved and sustainable revenue generation over the medium term to fund basic public services to improve the livelihood of the people.

# END OF PRESENTATION