Report prepared for the Ministry for Foreign Affairs and Trade

FINAL

Topography of tax reform in the Pacific Islands in the period 2002 - 2012

Kieran Murray, Sally Wyatt, Robin Oliver

8 October 2013

sapere research group

About Sapere Research Group Limited

Sapere Research Group is one of the largest expert consulting firms in Australasia and a leader in provision of independent economic, forensic accounting and public policy services. Sapere provides independent expert testimony, strategic advisory services, data analytics and other advice to Australasia's private sector corporate clients, major law firms, government agencies, and regulatory bodies.

Wellington Level 9, 1 Willeston St PO Box 587 Wellington 6140 Ph: +64 4 915 7590 Fax: +64 4 915 7596	**Auckland** Level 17, 3-5 Albert St PO Box 2475 Auckland 1140 Ph: +64 9 913 6240 Fax: +64 9 913 6241	
Sydney Level 14, 68 Pitt St GPO Box 220 NSW 2001 Ph: + 61 2 9234 0200 Fax: + 61 2 9234 0201	**Canberra** Unit 3, 97 Northbourne Ave Turner ACT 2612 GPO Box 252 Canberra City, ACT 2601 Ph: +61 2 6267 2700 Fax: +61 2 6267 2710	**Melbourne** Level 2, 65 Southbank Boulevard GPO Box 3179 Melbourne, VIC 3001 Ph: + 61 3 9626 4333 Fax: + 61 3 9626 4231

For information on this report please contact:

Name: Kieran Murray

Telephone: 04 915 7590

Mobile: 021 245 1061

Email: kmurray@srgexpert.com

Contents

Tables

Figures

1. Background

1.1 Background and use for topography

This topography was commissioned by the Ministry of Foreign Affairs and Trade (MFAT) to provide an overview of tax reforms undertaken by the Pacific Island countries (PICs)[1] over the ten year period between 2002 and 2012.

This is a background paper to inform the design of a wider project to evaluate the lessons learned from efforts to reform government taxation collection in the Pacific over the past 10 years. The evaluation is to guide future work in the Pacific and inform improvements to the design and delivery of taxation reform.

This topography has been used in a number of ways for the evaluation. For example, it was used to identify similarities and differences in tax policy and tax reform. These similarities and differences were then used to identify suitable case studies. Data included in this paper was used to help identify overall trends in revenue and other macroeconomic indicators, which were factors used to consider the effectiveness of the reforms.

1.2 Objective of topography

This topography asks:

- What tax revenue reform has been undertaken in the Pacific in the past ten years, and who has undertaken, funded and been a party to this work?
- What has been the nature of the reforms and what outcomes could have been intended?
- To what extent have these reforms led to tax systems that align with orthodox (or best principles) for an efficient and effective tax system?
- Where do gaps exist in reform work and how could they be addressed going forward?

1.3 Approach

To prepare this paper we conducted the following research:

- Statistical research from databases held by the Asia Development Bank (specifically, the Statistical Database System Online), United Nations (specifically, United Nations Statistics Division National Accounts), and Central Intelligence Agency (specifically, the World Fact Book) and from the RA-FIT data collected by the IMF.
- Interviews with the Centre Coordinator, present Revenue Advisor and former revenue advisors for the Pacific Financial Technical Advisory Centre (PFTAC).

1 For the purposes of this work, 'The Pacific' refers to PFTAC member countries: Cook Islands, Fiji , Kiribati, Federated States of Micronesia, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu, Vanuatu.

- Web search for relevant literature on taxation reform.
- An email request was sent to relevant personnel within MFAT and the Australian Department of Foreign Affairs and Trade (DFAT) to identify any relevant aid programmes and to ask for information on any programmes identified.
- Direct approaches were made to New Zealand IRD and Customs for information on their programmes of assistance to Pacific Island countries (PICs).

1.4 Overview of contents

This paper is organised into the following chapters:

- Chapter 2 provides an overview of the reforms and some big picture analysis.
- Chapter 3 provides an overview of the donor support provided for taxation reforms.
- Chapter 4 provides a statistical overview of the economic position of all of the countries in 2002 and in 2012.
- Chapters 5 to 8 provide a more in-depth analysis of each of the countries, including the reforms that have occurred in the period 2002-2012 and a summary of donor support for the reforms.

2. Overview of reforms

2.1 Domestic taxes sought in response to pressure to reduce customs and tariffs

The sustained trend in tax reform in the Pacific over the past ten years has been the tax mix switch from import tariffs/duties through the introduction of goods and services tax (GST) or value added tax (VAT). The switch away from trade taxes to VAT mirrors a trend in developing countries worldwide.

In the period from 2002 until 2012, Tonga, Niue and Tuvalu joined Papua New Guinea, Fiji, Vanuatu, Samoa and the Cook Islands in implementing a GST or VAT. Plans for the introduction of a VAT are still working their way through the political system within the Federated States of Micronesia and the Marshall Islands. In addition, a VAT has been introduced in legislation in Kiribati and will be implemented in 2014. In addition, Timor-Leste imposes a sales tax on imported goods and on some designated services.

These reforms appear to have largely come about as a result of pressure, due to trade liberalisation, to move away from a trade tax system to a more domestic tax oriented system. In the case of Fiji, Papua New Guinea (PNG) and Solomon Islands, trade reform was a condition of membership of the World Trade Organisation (WTO), and trade reform would have been high on the agenda for observer nations (Tonga, Samoa and Vanuatu). In the Pacific, tariff reduction was driven by two agreements: PICTA and PACER. (PICTA is a free trade agreement[2] whereas PACER is an economic cooperation agreement). The key component elements in achieving this trade integration are trade liberalization and trade facilitation.

2.2 Tax policy reform follows a standard package

The policy advice at the time followed a 'standard package' of reforms (Sapere Research Group, Interview with Margaret Cotton, March 2013; Grandcolas 2004; Cotton 2010). Again this appears to be motivated by a need to cushion the foreseen drop in revenues from customs duties and improve tax administration. The 'package' is a five-pronged approach for improving fiscal sustainability and operational efficiency and effectiveness:

1. the introduction of a broad-based, low rate income tax, with few exemptions and discretions;

[2] PICTA came into force in April 2003. It covers trade in goods between members (services are not included), and says (paraphrased) that "no exports from member countries will be subject to any form of trade barrier when imported into other member countries". It aimed to reduce tariffs to zero for all FICs by 2012 and "negative list" protection tariffs reduced to zero by 2016.

2. the introduction of a broad-based value-added tax with few exemptions and discretions;
3. a reduction in reliance on trade tariffs and sales taxes; and
4. the introduction of comprehensive revenue administration legislation establishing and standardizing the rights and obligations of the revenue administration office, taxpayers, importers, and exporters.
5. The development of systems and processes for tax administration that make proper and efficient use of withholding and third-party information and encourage maximum voluntary compliance with the tax regime.

Improvements in tax administration and compliance are seen as integral to achieving reform. In particular, there has been a focus on moves to modernise revenue IT systems; moves towards risk-based compliance strategies; increased emphasis on large tax payers (but a shift away from large taxpayer 'units'); introduction of self-assessment capability; and allowing for cash-based assessment. This administrative strengthening has been accompanied by capacity building for the tax authority.

2.3 Standard package consistent with best practice

This 'standard package' was widely recognised as being consistent with orthodox or 'best principles' tax policy at the beginning of the evaluation period, and still is. Tax policy thinking has remained much the same since 2002 but in recent years, taxation reform has been increasingly seen as a catalyst for more responsive and accountable governments, and for expanding state capacity. Concepts like sustainability are also more common in tax policy documents. And during the last few decades the treatment of the family unit for purposes of taxation has received far more attention in tax policy design. Recent policy literature highlights how difficult and delicate achieving a suitable and coherent set of tax policies can be. (For a full articulation of the advances in taxation theory over the past few decades see Auerbach (2010)).

Recent international reviews offer some insight into what is considered to constitute 'best principles'. For example, the Mirrlees review (United Kingdom) and the Henry review (Australia) and the report of the Tax Working Group in New Zealand each appear to rely on the underlying economic principle that raising revenue from taxes should be broadly based and avoid as much as possible distorting individuals' choices. A primary goal was to minimise adverse affects on the allocation of resources. These reviews also stressed coherence, sustainability and intuitive sensibility. In each case, recommendations were made to concentrate (or continue to concentrate) efforts to raise revenue on four tax bases: personal income, business income, private consumption, and economic rents from natural resources and land. Other taxes were tolerated, provided they were precisely targeted towards correcting market failures (smoking, for example). In each case, tax simplification (such as reducing the number of income tax brackets and simplification of deductions and offsets) was seen as a goal.

Table 1 The objectives behind the 'standard package'

Taxation and government charges provide governments with the means to provide goods and services

and to redistribute income and wealth. However, most taxes distort production and/or consumption decisions, causing inefficiencies in the allocation of resources, thereby imposing costs in excess of the revenue raised. The excess burden of taxation, also known as the distortionary cost or deadweight loss of taxation, is the economic loss that society suffers as the result of a tax, over and above the revenue it collects. In the case of a tax on a good, consumers will buy less of the good because of the higher price and producers will receive less on the sale of the good and hence reduce supply of the good. The excess burden of taxation represents the lost value to consumers and producers due to the reduction in the sales of the good or service, but not captured by government revenue.

Taxes and charges affect the distribution of income and wealth in various ways. Taxes may be used to redistribute income and wealth in accordance with the value judgements of government. The impacts of taxes have prompted economists and social philosophers to consider principles or criteria for design and assessment of taxation systems. Since Adam Smith (1776) proposed the "maxims of taxation", economic and political analysts have further developed and refined these canons to provide a core set of principles of taxation that have become widely accepted by economic and political analysts and governments. For example, the briefing for the incoming Minister from the New Zealand IRD following the report of the Victoria University Tax Working Group articulated the following series of sometimes conflicting criteria:

- Efficiency and growth: Taxes should be efficient and minimise impediments to economic growth.
- Equity and fairness: The tax system should be fair. This involves both horizontal equity (fair treatment of those in similar circumstances) and vertical equity (fair treatment of those with differing abilities to pay tax).
- Revenue integrity: The tax system should minimise opportunities for tax avoidance and arbitrage and provide a sustainable revenue base for the Government.
- Fiscal adequacy: The Government should raise sufficient revenue to meet its requirements.
- Compliance and administration costs: These should be kept to a minimum.
- Coherence: Individual reform options should make sense in the context of the entire tax system. While a particular measure may seem sensible when viewed in isolation, implementing the proposal may not be desirable given the tax system as a whole.

The first principle, efficiency and growth, is worth further explanation. Economists are concerned with an efficient allocation of resources because resource misallocation can lead to reduced income growth for society at the aggregate level (more commonly referred to as economic growth). Resource misallocation means that resources have probably been directed away from more profitable and sustainable economic pursuits into less profitable and less viable activities which would detract from overall economic growth and reduce welfare. In an imperfect world, resource allocation inefficiencies are inevitable and elimination of all inefficiencies is not a practically achievable objective. In this case, the optimal policy response is generally taken to be the minimisation of aggregate inefficiencies subject to the various constraints. In practical terms, this essentially means comparing two alternative situations and deciding which one is preferable from an economic perspective. The branch of economics of dealing with designing a tax system in a less than perfect world is known as optimal taxation theory.

Most governments recognise that efficiency gains from tax changes must be weighed against the equity outcomes from changing the tax mix. Any tax or social policy change can alter the burden of tax and effective marginal tax rates borne by different groups, which has labour supply implications. These and other equity issues must be taken into consideration when developing policy, but objectively assessing 'fairness' is impossible. Assessing fairness requires a subjective assessment of the detriment done to those who have income redistributed away from them which in turn has to be offset against the benefit received by those for whom income is redistributed towards. Economists usually regard such assessments as value judgements outside the realm of economics. On the other hand, governments preside over a tax transfer system that engages in the redistribution of income that is often justified on the basis of reducing the suffering of the poor and alleviating poverty.

Keeping compliance costs to a minimum is supported by the rationale is that any effort and resources spent on compliance are diverted from productive uses and are costs imposed on a productive system. Low compliance cost systems tend to be flexible and simple. Flexibility also means that the structural features of the system should be durable in a changing policy context, yet flexible enough to allow governments to respond as required. Simplicity also refers to a need for tax policy to be internally consistent, with the adoption of rules in one part of the tax system not contradicting rules in another part of the system.

Coherence is really a means of satisfying the other objectives outlined above rather than being an end in itself. The importance of the coherence criterion has been emphasised by the Mirrlees Review when it stated:

> *The tax and benefit system should have a coherent structure based on clearly defined economic principles. There should be a clear vision of the ideal system, in which the various elements fit properly together and from which unnecessary distortions have been eliminated.*

A coherent tax system needs to fit together. For example, it is common internationally for governments to decide that personal income should be taxed at a set of increasing marginal tax rates. For such a system to be coherent it is vital that the statutory tax rates on personal income should "stick". The tax system loses coherence if this progressive tax system can be circumvented by, for example, individuals sheltering income in trusts or companies. Similarly, the tax system loses coherence if there are arbitrary differences in the ways that different forms of savings or investment are taxed.

Revenue stability is often nominated as a separate, additional assessment criterion to the core principles expressed above. The revenue stability criterion has not been endorsed in the public economics literature because it lacks a solid analytical foundation. For example in some cases there could be trade-offs between revenue stability and economic efficiency, like in the case where a government sacrifices economic efficiency for revenue stability by selecting revenue- and production-based royalty systems instead of an economic profits or resource rent-based regime.

2.4 Particularly strong push for VAT

There appears to have been a particularly strong push for PICs to implement VAT as a way to counter-act the revenue impact of countries phasing out import tariffs and duties. This 'push' appears to have started in the early 2000s, and was a clear feature of communications from the IMF and by extension, PFTAC at the time. The communication suggests that an objective to increase revenue from its base was not the principal driving force behind the changes. At the time, preliminary studies predicted that the net effect on tax revenue from the switch from import tariffs and duties to VAT would be minimal. Instead, the principal objective was overall administrative improvement. VAT was seen as a way to get PICs to achieve substantial structural adjustments (Grandcolas, 2004). Those seeking reform (including PFTAC) felt that a VAT would be the best possible catalyst to modernize the tax administration and therefore to improve its efficiency (Grandcolas, 2004).

To quote:

> *"… VAT provides all the elements needed to systematically address the weaknesses of a tax administration. That is also why a VAT takes time to implement: it takes exactly the*

time required to train, in the process, the people who will administer it, and to introduce a culture of bookkeeping for the private sector if needed."

Several other arguments were given in favour of VAT (Grandcolas, 2004):

- VAT had been implemented at that time by five PICs (PNG, Fiji, Samoa, Vanuatu and the Cook Islands had adopted a single-rate VAT) and had become a major source of revenue there;
- International experience from the (then) 120 countries in which VAT had been adopted suggested that most countries had implemented it successfully (the experience is inevitably mixed) and that VAT played a central role in generating tax revenue (in the 120 countries that had implemented a VAT by 2001, it formed an average of 27% of total tax revenue or of 5% of GDP (Ebrill et al, 2001);
- Small island countries were thought to achieve good results from VAT in terms of revenue and administration, due to the relative importance of international trade to their economies. (The presence of trade enables small island countries to collect VAT on imports and their geographical remoteness insulates the tax base, to some degree, from smuggling. The border is a convenient place to begin the withholding mechanism, and securing VAT collection on imports was considered a crucial part of ensuring effective collection of the tax throughout the chain of production and securing the success of the VAT overall);

Overall, however, the argument for introducing VAT seems to have been that the introduction of a VAT provides a major opportunity to develop new tax administration systems and procedures that were felt to be needed in the PICs. VAT was thought to act as a catalyst for change: first, within the tax collection agencies (spearheading the use of IT, modernizing the organisational structure, and developing audit methods); and second, among taxpayers (developing a culture of record-keeping, establishing self-assessment and raising the level of voluntary compliance).

2.5 Broadening the tax base and lowering rates

Several of the PICs have adopted the 'package' advice to broaden the base and lower the rates of income tax. The objective of the reductions is consistently to either facilitate more investment or simplify the regime. In the period 2002-2012 many of the countries lowered personal income taxes through increases in the tax free threshold and reductions in marginal tax rates. Similarly, corporate tax rates for both domestic and non-resident companies have been reduced in the Polynesian countries (Samoa, Cook Islands, Tonga), Fiji and Timor Leste. In 2007 Samoa reduced its corporate tax rate from 29% to 27%. In 2008 Tonga introduced a corporate tax rate of 25% for both domestic and foreign companies, replacing differential rates for foreign companies of 37-40% and domestic companies of 15-30%. In 2012 Fiji cut the corporate tax rate from 28% to 20%. In 2008 Timor-Leste reduced the corporate income tax rate from 30% to 10%.

Admittedly, the base for levying income taxes is small. In a region where a significant proportion of the population is engaged in informal enterprises, subsistence agriculture and /or unemployed there is not a lot of corporate and personal income on which to levy taxes.

2.6 Adoption of the 'standard package' complete in some regions, minimal in others

The adoption of this 'package' varies by region, according to PFTAC's former revenue advisor (Sapere Research Group, Interview with Margaret Cotton, March 2013). In Polynesia, the policy reform package has largely been adopted, but the quality of taxation administration varies. The focus now is on improving administration in the Polynesian countries. In contrast the Melanesian countries appear to have achieved very little substantive policy reform, by virtue of being larger and more fragmented and suffering from a greater degree of political instability than other regions in the Pacific. Instead the focus in the Melanesian countries has been on improving administration where feasible . Micronesia is more mixed: while the 'package' has been accepted – FSM, RMI and Kiribati have policy agendas well advanced - it has been difficult to achieve substantive reforms in practice and a lot of work remains to improve administrative practices. Palau has not pursued policy reforms but has instead focused on improving and modernising tax administration.

In its latest annual report (FY2012), PFTAC notes that its key priorities for its revenue policy and administration technical assistance work are "VAT implementation, compliance strategies and IT strategies". It also notes that "Given fiscal adjustment pressures facing many PICs, tax policy assistance is also given high priority, including in the natural resources area."

2.7 Taxes targeting tourists not part of the package

Some PICs have introduced levies or taxes targeting foreign tourists. For example, both Fiji and Vanuatu have imposed specific taxes on hotel accommodation and departure taxes over the past decade. While such taxes may be politically popular (they shift the burden of taxation on to non-voting foreigners)(PFTAC & IMF, 2010, p. 20), they are not taxes supported by PFTAC, which feels that such taxes tend to impose compliance costs on taxpayers, complicate revenue administration and dilute the focus of revenue departments. They also note that tourism taxes can have the adverse effect of reducing a destination's competitiveness.

2.8 Many countries looking to mining and resource taxes

Over the past decade several PICs have put in place regimes for mining and resource extraction, largely in anticipation of such activities. In 2003 only Papua New Guinea and

Fiji[3], with established mining industries, had regimes in place to specifically tax mining. Since then, Palau has implemented a petroleum tax, Nauru is considering changes to capture the extraction phases for phosphates, and the Cook Islands is currently in process of implementing an underwater mineral resources tax legislative regime, on advice from PFTAC. Samoa and Tonga are in the process of preparing for resource exploration and extraction.

Changes to resource tax policy and administration are challenging for revenue departments because the corporate entities involved in mining and extraction are often highly sophisticated relative to the local tax officials. To counter this PFTAC has recently supported moves to establish horizontal skills transfer, particularly in the area of resource taxes, between the revenue departments of PICs.

2.9 Improvements sought to tax administration and compliance

Improvements in tax administration and compliance have been sought in most of the PICs over the past decade. In particular, there has been a focus on:

- moves to modernise revenue IT systems across the region;
- moves towards risk-based compliance strategies;
- increased emphasis on large tax payers (but a shift away from large taxpayer 'units');
- introduction of self-assessment capability; and
- capacity building for tax authority.

Most of the revenue departments in PICs remain faced with capacity issues. For example, many high value taxpayers in the PICs are corporate who use computer-based accounting systems, which can be challenging for staff at Revenue offices who lack experience with such systems. For this reason administrative strengthening has often been accompanied by capacity building for the tax authority.

Modern tax systems place considerable requirements on the private sector in terms of registering for tax, filing returns and self-assessing. Tax design therefore has to take into account the capacity of the private sector to undertake these tasks. A government could not, for example, expect the subsistence agriculture sector (significant in most countries in the region) to comply with what may be regarded in more developed economies as basic tax compliance tasks. In general, private sector capacity constraints have been taken into account in the tax reforms implemented by, for example, relatively high registration thresholds for GST (or its equivalent) so that only a relatively small proportion of businesses face the compliance requirements. In addition, some countries (such as Tonga) are moving

[3] In the case of Fiji, there are concessions given to the mine owner under a tax agreement that has been in force since 1983 (the Vatukoula agreement) which has the effect that the large scale mining enterprise run in Fiji by Emperor Gold Mines is considered by many to be essentially tax free.

towards presumptive taxes where micro-enterprises pay lump sum taxes or taxes based on turnover.

2.10 Pressure to meet international standards on tax transparency

In 2000, in the course of the OECD's project on Harmful Tax Practices, six Pacific Island jurisdictions (the Cook Islands, the Marshall Islands, Nauru, Niue, Samoa and Vanuatu) were listed by the OECD as tax havens. In 2001, the Harmful Tax Practices initiative began to focus on transparency and exchange of information. In 2003, New Zealand and Australia entered into a partnering arrangement for negotiating tax information exchange agreements (TIEAs). As part of that arrangement it was agreed that, within the Pacific, New Zealand would take the lead in engaging with the Cook Islands, Niue and Samoa, and Australia would take the lead in respect of the Marshall Islands, Nauru and Vanuatu. A key focus was on ensuring that the Pacific jurisdictions signed up to TIEAs. There was a strong desire to assist the Pacific jurisdictions to meet their international obligations on transparency and exchange of information, and one of the ways to do this was to assist them in developing a TIEA network.

New Zealand was the first country to conclude TIEAs with the Cook Islands (in 2009), Samoa (in 2010), and Niue (last year). New Zealand also concluded TIEAs with the Marshall Islands and Vanuatu (both in 2010). With the Cook Islands, the Marshall Islands and Samoa, New Zealand also concluded Supplementary Agreements that included a limited number of DTA-style Articles (in respect of Government Service, Pensions and Students) and which established a mutual agreement procedure in respect of transfer pricing adjustments. Some of these negotiations were conducted through correspondence, but (in addition to the goodwill visits referred to above) visits to conduct face-to-face negotiations were required to the Marshall Islands (in 2008) and Samoa (in 2009).

2.11 Long term advisors recruited

A recent change, in the last 2-3 years, has been the recruitment of long term revenue administration advisors from outside the PIC itself. Many of these advisors work in in-line roles for the revenue departments, supporting capacity building in tax administration and compliance. Long term advisors are now present in Samoa, Nauru, Kiribati, FSM, RMI, Tuvalu, Timor Leste, Solomon Islands, PNG and Vanuatu[4]. Prior to this change, reforms to policy and administration were staffed by intermittent technical advisors (TAs).

This has been made possible by donors making funds available for resident revenue advisors in a number of countries. These advisors provide a vital source of day-to-day support to revenue administrations and are essential for small economies undertaking fundamental tax reforms. PFTAC has assisted in this process through a mixture of identifying opportunities; drafting terms of reference; participating in the selection of resident advisors and acting as a strategic resource once advisors are in place (PFTAC 2012, p.13).

[4] Kiribati, Tuvalu, Tonga, Vanuatu, RMI and FSM had resident advisors appointed in 2012.

2.12 Tax policy remains highly diverse across the region

The features of tax policy have converged across the PICs since 2002 but there is still a large degree of diversity, despite the seemingly consistent 'package' of reforms. The diversity is difficult to grasp at first but it is possible to broadly group the countries geographically.

Generally speaking, the American-influenced Micronesian countries (the RMI, the FSM, and Palau) have rudimentary tax systems using a mix of gross revenue tax and presumptive tax in place of business income tax, and are heavily reliant on import duties and payroll taxes. The more Anglo-Australian influenced Micronesian countries (Kiribati and Nauru) are also heavily reliant on payroll taxes and trade tariffs, although Kiribati does have a simple business income tax and has now introduced a VAT into legislation. Conversely, the Anglo-New Zealand influenced Polynesian countries (the Cook Islands, Niue, Samoa, Tokelau, Tonga, and Tuvalu) have more comprehensive tax systems comprising business income taxes, VAT, and payroll tax in their policy frameworks: they are increasingly less reliant on trade tariffs. The Melanesian countries are, perhaps, the most diverse in terms of their revenue frameworks. The Fiji Islands and Papua New Guinea have comprehensive policy frameworks and each has established its revenue agency as an independent authority. Solomon Islands has a plethora of goods and sales taxes and a rudimentary income tax, while Vanuatu, operating an offshore investment centre, largely relies on VAT and trade taxes. Of all the PICs, only Tonga has all-inclusive revenue administration legislation consolidating and standardizing the powers and obligations of taxpayers, importers and exporters, and the revenue administration office. Kiribati's administration legislation has also recently been improved.

The table below outlines the high level of diversity of the Pacific's revenue policy framework.

Table 2 Status of Pacific Island Countries' Revenue Policy and Administration - 2012

	Income Tax			Indirect Tax		Administration				Imports
	Business	Personal	Gross Revenue	Sales Tax/ Goods Tax	Value Added Tax	Independent Revenue Authority	Within Ministry of Finance[a]	Combined Tax Customs Agency	Revenue Admin. Act	Import Tariffs
Cook Islands	✓	✓			✓		✓	✓		
Fiji Islands	✓	✓			✓	✓		✓		✓
Kiribati	✓	✓			For introduction 2014		✓			✓
Nauru				In discus			✓	✓		✓

				sion						
Niue	✓	✓			✓		✓	✓		
Palau		✓	✓	✓	In discussion		✓			✓
Papua New Guinea	✓	✓			✓	✓				✓
RMI		✓	✓	✓	Legislation before Parliament		✓	✓		✓
FSM		✓	✓	✓	In discussion		✓	✓		✓
Samoa	✓	✓			✓		✓	✓		✓
Solomon Islands	✓	✓		✓			✓			✓
Timor Leste	✓	✓	✓				✓	✓	✓	✓
Tonga	✓	✓			✓	✓ [b]		✓	✓	✓
Tokelau	–	–		–	–	–	–	–	–	–
Tuvalu	✓	✓			✓		✓			✓
Vanuatu					✓		✓	✓		✓

FSM = Federated States of Micronesia, RMI = Republic of the Marshall Islands

[a] or equivalent

[b] Tonga - The revenue agency is independent of the Ministry of Finance, however the chief commissioner is the Minister of Finance.

Source: Cotton, 2010 with amendments to update to 2012 by Sapere Research Group

2.13 Snapshot assessment of Pacific tax systems

To provide a snapshot of where things are at, PFTAC (2011, pp. 14-15) has undertaken a baseline assessment of tax administrations across the region against nine core components of tax administration: legislation framework, administrative framework, governance and accountabilities, corporate strategies, core processes, support processes, operating model, automation and Human Resources. It found sub-optimal administration in all core components with the four most common areas being governance and accountabilities, corporate strategies, legislation frameworks, and automation. These results are copied below in

Figure 1. Unfortunately, no such ranking of tax administrations existed in 2003 (or indeed, prior to 2011) so no ready comparison to earlier periods can be made[5].

2.13.1 About the baseline assessment tool

The baseline assessment was a self-assessed snapshot of the state of a tax administration. It was designed with the Pacific Islands in mind[6]. For example, given the very small size of many Pacific tax administrations an element may be said to be present if it is available to the tax administration within the wider Government administration even if the element is not available within the tax administration. For example, a tax administration may not have in-house information technology (IT) support but may have access to IT support from elsewhere within Government. In this case the key element, IT support, is said to be present.

The baseline assessment takes into account nine components, described more fully below.

- **Legislation Framework:** A comprehensive domestic tax base with modern (simple and clear) legislation, low tax rates and few exemptions or discretions.
- **Administration Framework:** A comprehensive framework that allows for the effective and efficient operation of the tax administration and which provides for the rights of taxpayers and the powers of the authority, uses a system of self-assessment and provides a range of offences and penalties for non-compliance
- **Governance and Accountabilities:** An environment of integrity that includes transparency of taxpayer rights and required staff conduct; with mechanisms to assure integrity of systems, procedures, and staff practices; with regular public reporting of organizational goals; plans, efforts; and outcomes based on agreed performance outcomes.
- **Corporate Strategies:** A comprehensive strategy set including business plans, compliance improvement, HR and IT strategies that provide for ongoing development and performance improvement across the operations of the tax administration.
- **Core Processes:** The streamlined operation of all core processes aimed at timely collection of revenue due, effective verification of liabilities based on revenue risks and resolution of disputes supported by a wide range of public education channels to enable taxpayers to voluntarily comply with their tax obligations..

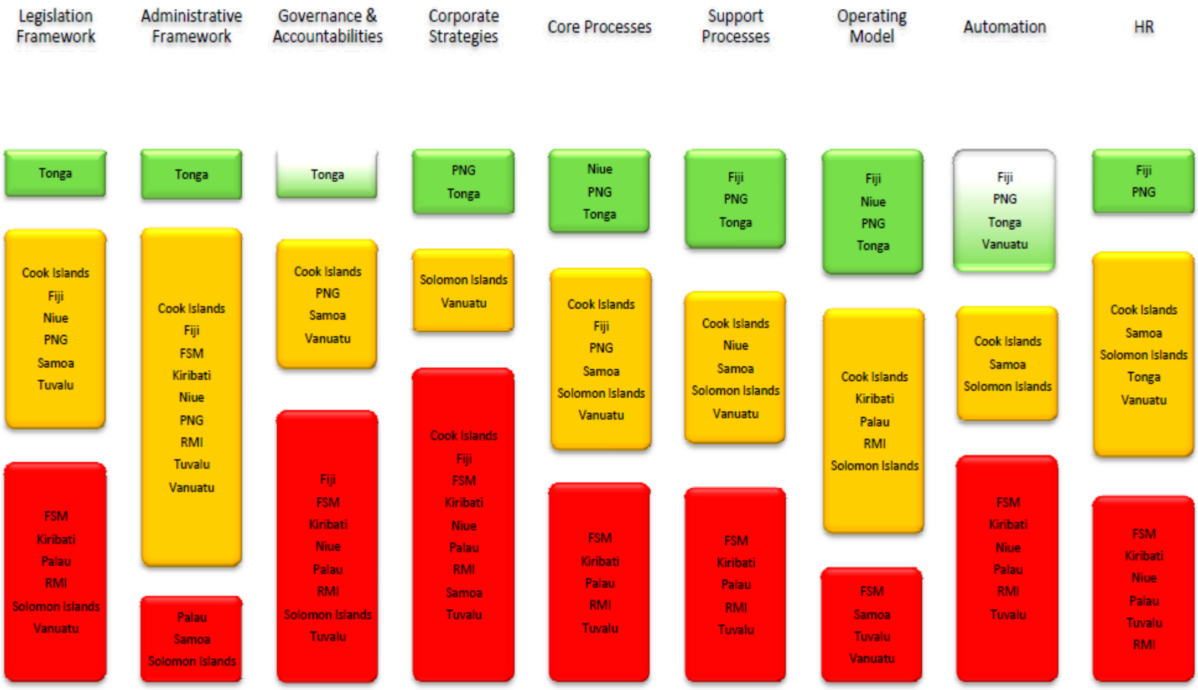
---

[5] Comments made in interviews with current and former PFTAC staff suggest that Palau in particular has made vast improvements in its taxation administration recently, in part due to strong political leadership on the issue. Kiribati made (and will be making) improvements in its IT and legislation framework in 2013.

[6] Whilst the framework was designed with Pacific Island tax administrations specifically in mind it also took into account a number of other internationally recognized reference points: IMF Topical Trust Fund "Tax Policy and Administration" program document 2010; the European Commission Fiscal Blueprints "A path to a robust, modern and efficient tax administration" 2007; the Report of the Tax and Customs Indicators produced by the Inter-American Centre of Tax Administrations 2002; and the World Bank Public Expenditure Financial Accountability Performance Measurement Framework 2005.

- **Support Processes:** A wide range of support processes aimed at enabling the efficient and effective operation of the core processes of the tax administration.
- **Operating Model:** The operating model aligns organizational activities with taxpayer needs and the revenue risks presented by taxpayer segments, balanced against the size of the organization.
- **Automation:** Automation underpins all core processes, e-initiatives are utilized, and timely accurate reporting is available.
- **Human Resources:** Human resource management provides for optimum staffing levels, timely and efficient recruitment, incentives for high performance and non-corrupt behavior among tax officers and development of the skills and professionalism needed to meet the demands of continuous improvements in the tax administration.

Figure 1 Revenue Administration Regional Baseline Assessment 2010



Source: PFTAC (2011,p.15)

2.14 Summary of a decade of reforms

The table below briefly summarises the states in 2002 and the present day. It illustrates, at a high level, that in 2013 there are gaps in the reform work across all of the PICs, no country has achieved 'full reform' (like with any country, changes to taxation policy and administration are ongoing). There is a more full description of the reforms undertaken in each country, and the likely reform agenda going forward, in the chapters that follow.

Table 3 Taxation in the PICs, then and now

Then (2002)	Now (2012)
• The Pacific Island Countries Trade Agreement (PICTA) agreement recently ratified and in force. The agreement aims to foster and strengthen trade in the Pacific region through the removal of tariff and non-tariff barriers to trade. Agreeing to remove or reduce tariffs meant that other sources of government revenue would need to be found. • The OECD had recently identified seven Pacific Island countries as meeting the technical criteria for being tax havens: the Cook Islands, Marshall Islands, Nauru, Niue, Samoa, Tonga and Vanuatu. • The IMF and the newly established regional agency (PFTAC) were actively promoting a modernisation agenda consistent with the 'package' outlined above. • Papua New Guinea (PNG), Fiji, Samoa, Vanuatu and Cook Islands had already implemented a VAT with a single rate in the 1990s. By 2003 most other PICs (namely Kiribati, Tonga, Tuvalu, the Federates States of Micronesia (FSM), the Republic of Marshall Islands (RMI) and Niue) had requested additional information on the functioning of the VAT system. • Tax administration in all countries was recognised as poor and needing reform to meet the challenges ahead. By 2002 some countries had adopted a threshold to limit the net to a number of taxpayers compatible with their administrative capacity, but most had not. Only a handful of tax administrations had automated systems, including the Cook Islands, Samoa and Vanuatu which implemented RMS in the late 1990s. Source: www.pftac.org	• In Polynesia, major policy reforms have been undertaken in all the countries except Tokelau and the Cook Islands (which had most of its substantive policy settings in place and focused largely on policy 'tweaks' and improving its tax administration). Tuvalu has simplified its Income tax regime, reduced import duties and improved its administration. Tonga has introduced the Consumption Tax (VAT) and overhauled its income tax regime. Substantial administrative improvements have been made. Like Tonga, Niue has introduced a Consumption Tax (VAT) and made changes to its income tax arrangements. Samoa (which already had a VAT in 2002) has undertaken substantial improvements to its administrative settings. The focus in Polynesia now is on improving administration. • The Melanesian countries have, in general, sought less policy reform than the other countries. Fiji, Vanuatu and PNG already had VAT in place in 2002 so the focus in these countries was on improving administrative capacity where feasible. The Solomon Islands has targeted administrative reform. Fiji is considered to be a regional leader and has focused on modernising income tax legislation, and has done preparation for the implementation of PAYE as a final tax. PNG has reactivated its Additional Profits Tax for designated gas projects, has reduced its border taxes and has had support to improve its administration operations. • Micronesia has shown mixed progress: while policy proposals have been accepted in principle it has been difficult to achieve substantive reforms in practice. Kiribati has very recently passed legislation allowing for a VAT and reduction of trade taxes. It has implemented a PAYE final regime for personal income tax and is currently pursuing a modernisation agenda. Palau has not yet implemented policy reforms but has instead focused on improving and modernising tax administration. Nauru has focused on revenue collection and establishing a revenue office. The Marshall Islands is in the process of implementing tax reform through by replacing the gross revenue tax and import duties with a net income tax and a consumption tax or value added tax. Thresholds for income tax have been change. No real reforms have been made in FSM yet, despite a reform agenda being in place for a long time. There have been administrative changes of a relatively minor nature, however.

2.15 Emerging findings

In brief, this chapter contains the following findings:

- Tax reform in many cases gained its impetus from international pressure to reduce customs and tariffs and move to a more domestic tax oriented system. There was also international pressure to improve the transparency of tax systems. The impetus has rarely, if at all, come from a desire to change the tax systems for equity reasons or as a natural evolution in 'state building'. It is unlikely tax reforms would have happened without the influence of the international community.
- Tax policy reform recommendations tended to reflect a standard 'package': the introduction of a broad-based, low rate income tax, with few exemptions and discretions; the introduction of a broad-based value-added tax with few exemptions and discretions; a reduction in reliance on trade tariffs and sales taxes; and the introduction of comprehensive revenue administration legislation establishing and standardizing the rights and obligations of the revenue administration office, taxpayers, importers, and exporters; the development of systems and processes for tax administration that make proper and efficient use of withholding and third-party information and encourage maximum voluntary compliance with the tax regime.
- The 'package' is broadly consistent with orthodox or 'best principles' tax policy.
- The capacity constraints almost universally present in the private sector in the PICs have been taken into account in the tax reforms implemented by, for example, relatively high registration thresholds for GST (or its equivalent) so that only a relatively small proportion of businesses face the compliance requirements. In addition, some countries (such as Tonga) are moving towards presumptive taxes where micro-enterprises pay lump sum taxes or taxes based on turnover.
- Notwithstanding the broad commonality of advice on reform of revenue policy and administration, many Pacific countries have had difficulty implementing the reforms. The adoption of the package varies greatly by region.
- There has been convergence towards a tax mix switch from import tariffs/duties through enactment of GSTs and VATs across PICs. A push to introduce VAT was a common feature in recommendations from PFTAC and the IMF in the earlier part of the 2000s. VAT was seen as a way to get PICs to achieve substantial structural adjustments as well as move to domestic taxes.
- The trend away from import tariffs/duties have been accompanied by greater trade liberalisation. There has also been a trend towards lower personal income tax through increases in the tax free threshold and reductions in marginal tax rates along with reductions in corporate tax rates. On a potentially negative note, some PICs have introduced levies or taxes targeting foreign tourists which can have the adverse effect of reducing a destination's competitiveness. One challenge confronting tax regimes across PICs is increased activity from mining and resource extractive industries.
- There have also been improvements in tax administration and compliance in most of the PICs over the past decade, although capacity issues remain.
- A recent change, in the last 2-3 years, has been the recruitment of long term technical advisors. These advisors are recruited typically from Australia, New Zealand or the United States and work in in-line roles for the revenue departments.

3. Donor support for tax reform

3.1 Overview

Considerable donor support has been provided for tax reform in the Pacific over the period 2002 – 2012[7]: we estimate that something in the vicinity of NZ $55 million was spent on reform programmes in this time by New Zealand, Australia and other donors in that period.

Technical assistance for reform is provided by a range of agencies. Arguably, the most predominant source of technical advice on matters taxation is the Pacific Financial Technical Assistance Centre (PFTAC), but advisors have also come from Australia and New Zealand revenue agencies, the Asian Development Bank, the World Customs Organisation and the Oceania Customs Organisation, and the Pacific Islands Forum secretariat.

Over the period 2002 – 2012, donors invested approximately NZD $8.1 million on PFTAC's Revenue Administration activities (between $0.8 – 1.2 million per annum). This investment accounted for around 15 percent of the total spend on tax reform. More on what PFTAC does with this spend is included in section 3.3, below.

PFTAC tend to provide complementary technical assistance, that is, to supplement assistance being provided using other means (this is not a stated policy). For example, in the last few years in the Cook Islands, Nauru, Niue and Solomon Islands where other advisors have been present, PFTAC technical advisors have been less utilised.

The following table captures the main areas of reform work, according to whether it has been led by PFTAC or through some other programme.

	PFTAC technical assistance (2002 – 2012) - NZ$8.1 million	Other donor support (2002 -2012) – Estimated at $47 million)
Cook Islands	In 2012 and 2013 PFTAC took the lead in a comprehensive review of the Cook Islands tax system. It has also recently provided technical assistance to the authorities to develop a draft revenue policy framework for future sea-bed mining operations. It aims to help implement these recommendations in coming years.	Support estimated at <$1 million between 2002 - 2012 Direct support for revenue administration is provided by the New Zealand government in the form of secondments from IRD to the Ministry of Finance and Economic Management and to the customs department. They are more 'in-line' roles that 'reform' roles. This is a longstanding arrangement. New Zealand Aid has provided top-up funding to support salaries in the Cook Islands Ministry of Finance and Economic Management for a senior tax auditor and a

[7] Year ending 30 June.

	PFTAC technical assistance (2002 – 2012) - NZ$8.1 million	Other donor support (2002 -2012) – Estimated at $47 million)
		financial secretary. New Zealand IRD's legal drafters provided assistance to the Cook Islands by drafting legislation for the Cook's to implement in support of the operation of their TIEAs. New Zealand IRD was asked by the Cook Islands to assist them with their Phase 1 Global Forum peer review (i.e. a review of the regulatory and legal framework for transparency and exchange of information for tax purposes). A staff member was allocated to lead the Cook Islands' response and prepare answers to the Global Forum phase 1 questionnaire. This work was conducted between October 2011 and March 2012, and necessitated two on-site visits to the Cook Islands in late 2011.
Fiji Islands	Fiji has been PFTAC's largest user of revenue TA in recent years. PFTAC has supported FIRCA in a comprehensive modernization process including the development of enhanced corporate planning, simplified income tax legislation and streamlined personal income taxation policies and procedures.	No evidence of bilateral support from Australia or New Zealand
Kiribati	In 2003 PFTAC recommended several reforms to the Kiribati tax system. These reforms included: a value-added tax (VAT); a presumptive tax; and a single ad valorem tax on imports from non Pacific countries; simplified personal income tax (PIT); single rate of corporate income tax (CIT). Kiribati continues to receive advisory support from PFTAC for the reforms. PFTAC's main focus will be on improving domestic revenue collections, in particular through supporting the implementation of IT systems that will allow Kiribati's scarce administration resources to achieve better collection performance. This will include strategic guidance to the DFAT-supported resident advisor. Following this, PFTAC will provide support to enhancements of the policy framework, including possible	Support estimated at $1.3 million between 2002 - 2012 DFAT is currently funding and providing lead support to a project for a modernisation of the tax system in Kiribati. Specifically, DFAT funds a tax advisor (in place since May 2012), who has led the first stage of the reform programme including seeing legislation through parliament which introduces a VAT. DFAT have also funded installation of new tax software (datatorque) and training/scoping missions for staff from the Kiribati Ministry of Finance in relation to the software. The New Zealand government has supported advice from New Zealand customs advisors.

	PFTAC technical assistance (2002 – 2012) - NZ$8.1 million	Other donor support (2002 -2012) – Estimated at $47 million)
	implementation of a VAT which may include legislation drafting support.	
Nauru	Nauru has been a relatively light user of PFTAC TA, mostly due to the DFAT resident advisor. PFTAC recently supported the authorities as they established a revenue office and policy framework. In 2012, PFTAC stated that it aimed to work closely with the DFAT financed revenue advisor to improve revenue policies and processes in 2012 and 2013, with a view to ultimately implement a basic consumption tax. PFTAC planned a policy mission in 2012 with follow up on corporate planning and processes in 2013 (PFTAC, 2012).	Support estimated at <$0.5 million between 2002 - 2012 DFAT has funded the in-line position of Deputy Secretary of Revenue, Dept of Finance since June 2011. In 2012/13 DFAT is funding a review of Nauru Customs regulatory framework and audit procedures. It is also funding a review of taxpayer/customer information management systems.
Niue	PFTAC provided policy advice cumulating in a number of reform recommendations in the period 1997 to 2003. The reform options were accepted in principle by the Government of Niue. Niue did not draw heavily on PFTAC assistance for the reforms in Niue that were implemented in 2009 because the majority of this work was performed with help from the New Zealand IRD under a cooperative partnership. PFTAC has recently become active again in Niue: providing advice on tax policy and administration following Niue's implementation of the NCT.	Support estimated at $1.26. million between 2002 - 2012 New Zealand IRD provided both policy and technical support to the Government of Niue throughout the reform programme that started in 2007. In 2008 and 2009, NZIRD seconded two officers to the Niue Tax Office to provide assistance on taxation reform (specifically, the National Consumption Tax) and to support capacity building. Specialist legal assistance was also provided. Niue also used assistance from New Zealand IRD with its Phase 1 Global Forum peer review.
Palau	While there has been a lot of TA support provided for Palau in recent years, the focus has not really been on taxation and taxation reform. There has been assistance provided for administrative improvements, and PFTAC intends to continue this stream of work (PFTAC, 2012). PFTAC states that its ultimate aim is to lay the foundation for a modernized tax policy and the introduction of VAT. Reform in Palau is recognised as overdue.	Neither DFAT nor New Zealand Aid have provided assistance.

	PFTAC technical assistance (2002 – 2012) - NZ$8.1 million	Other donor support (2002 -2012) – Estimated at $47 million)
Papua New Guinea	PFTAC TA in the revenue area has been limited to IT strategy development and development of enhanced Balance of Payments statistics.	Papua New Guinea has had the largest expenditure on tax reform support. Support estimated at $12 - $15 million between 2002 and 2012. Australia has a long history of support for the IRC through government to government programs. There are strong institutional links between the IRC and the ATO and significant bilateral and regional cooperation. Since 2005, under the Enhanced Cooperation Program and its successor, the Strongim Gavman Program (SGP), Australia has supported a team of senior tax technical advisers, seconded from the ATO to work with the IRC. Other international partners providing support in the last eight years include the World Bank, US Treasury, IFC and the Australian economic programme.
RMI	PFTAC Technical Assistance has supported the design of revenue policy and administration reforms, including the drafting of legislation that awaits approval. PFTAC aims to continue its TA input on revenue, in coordination with DFAT and ADB.	Support estimated at <$0.5 million between 2002 – 2012 DFAT placed a tax reform advisor in RMI in early 2012.
FSM	PFTAC Technical Assistance supported the design of revenue policy and administration reforms, including the drafting of legislation. However the reform programme largely stalled and still awaits approval. PFTAC aims to continue its TA input on revenue, in coordination with DFAT and ADB.	Support estimated at $1.5 million between 2002 – 2012. DFAT has supported the tax reform agenda at national level through the provision of advisors since 2006. DFAT has funded two tax advisors since 2009, one working exclusively on tax policy (specifically, getting the legislation through each of the States) and the other on tax administration issues.
Samoa	Support from PFTAC has been provided in Samoa's modernization of its income tax legislation, which began in 2007. The Ministry of Revenue received an award from the IMF Pacific Financial Technical Assistance Centre for Achievements in Tax Administration in	Support estimated at $18.8 million between 2002 – 2012. New Zealand IRD has provided a lot of technical assistance to Samoa over this period. They have seconded a total of 10 staff to Samoa in that time (not all of whom were involved in the ISP described below) Samoa's Ministry for Revenue began its

	PFTAC technical assistance (2002 – 2012) - NZ$8.1 million	Other donor support (2002 -2012) – Estimated at $47 million)
	the Pacific in 2009.	Institutional Strengthening Programme (ISP) for Inland Revenue Services in October 2010, with a primary objective of strengthening the quality of tax administration and laying the foundations for a sustainable change in the way it administered the tax system. Some aims of the project included to strengthen Samoa's potential tax base through improved compliance, better client service, and consistent policy advise on the reform of Samoa's tax structure. Phase 1 was completed in December 2012, and phase 2 is currently in progress. The ISP was co-funded by New Zealand and Australia, with support from NZIRD in the form of a secondment. NZIRD assisted Samoa in recruiting a number of experts in various aspects of tax administration, for secondment to Samoa. These secondments have been funded by Samoa, from its Public Sector Improvement Facility.
Solomon Islands	The Solomons were one of the largest recipients of PFTAC technical assistance in the early part of the 2000s. There has been little need for PFTAC technical assistance in the Solomons since the start of the RAMSI programme.	Support estimated at $7 - 10 million between 2002 – 2012 DFAT and New Zealand Aid funding for the Regional Assistance Mission to Solomon Islands (RAMSI) programme. RAMSI has funded long and short term advisors to the Inland Revenue Division since 2004. New Zealand Aid provided support for RAMSI from July 2009. Prior to the RAMSI programme there was New Zealand Aid funding for the "Solomon Islands tax project": RAMSI evolved from this project. There is also government to government arrangements between the NZIRD and in Solomon Islands for advice on tax legal issues.
Timor Leste	Timor-Leste and PFTAC are still in the early stages of partnership. Timor-Leste became a member of PFTAC at the beginning of Phase IV (July 2011). PFTAC has provided small amounts of TA thus far, mainly in conjunction with IMF HQ missions on revenue administration and macroeconomic	Support unknown In 2008 a major tax overhaul was made in Timor Leste. On 25 June 2008, the Timor-Leste parliament passed the Taxes and Duties Act, which provides a single framework for the imposition of tax in Timor Leste. IMF and World Bank assistance in Timor-Leste in association with

	PFTAC technical assistance (2002 – 2012) - NZ$8.1 million	Other donor support (2002 -2012) – Estimated at $47 million)
	management of resource revenues	the Public Financial Management project.
Tonga	Tonga was the recipient of a large number of TA recommendations and missions in the period 2002 -2007. More recently, the focus of PFTAC TA has been on areas other than tax. There have been TA missions to benchmark, and provide advice on, tax administration.	Support estimated at $4 million between 2002 - 2012. Since 2005, the government of Australia has provided ongoing assistance to customs reform as well as the Ministry of Revenue. Australian support has included funding two tax advisors (at least one of whom is resident), funding the Head of Customs and funding for customs infrastructure (including x-ray technology, a customs boat for Vava'u and an automated processing / customs management system (CMS). NZAid funded a two-week secondment of a tax compliance expert to the Tongan Revenue Service in 2006. NZIRD helped with recruiting that expert. In 2012 PFTAC conducted a review of Tonga's tax system and further work (that DFAT would fund) is likely to flow from that.
Tokelau	No relevant reforms in the period	No relevant reforms in the period
Tuvalu	In mid-2009 a comprehensive set of tax reforms were introduced in Tuvalu. These reforms were designed by PFTAC. In 2013 and beyond, PFTAC will provide assistance to enable the administration to adopt risk management and compliance improvement strategies and to enhance corporate planning	Support estimated at <$0.3 million between 2002 – 2012. DFAT funds a tax advisor (in place since mid 2012). Prior to the tax advisor being appointed there was an ADB funded project in Tuvalu to implement reforms recommended by PFTAC. The ADB project has now ended, and recent PFTAC TA has been focused on-the-job assistance in revenue administration.
Vanuatu	Vanuatu has been a relatively heavy user of PFTAC TA in the tax/revenue area, aimed at strengthening administrative systems, including through intensive on the job training. PFTAC TA has helped identify a programme of reforms, including implementing an income tax. A PFTAC TA was brought in under the Ministry of Finance and Economic Management to support increased revenue collection through greater	Support estimated at <$0.3 million between 2002 – 2012. The Governance for Growth (GfG) program funded by DFAT, which began in 2007, has provided support for improvements in revenue collection (alongside a PFTAC TA).

	PFTAC technical assistance (2002 – 2012) - NZ$8.1 million	Other donor support (2002 -2012) – Estimated at $47 million)
	compliance in VAT and customs collection. There are no current PFTAC missions or resident advisor in Vanuatu (but there is a GfG resident advisor).	

Source: Sapere Research Group using information provided by New Zealand Aid, DFAT, PFTAC and the New Zealand Inland Revenue Department and New Zealand Customs.

3.2 Estimated spend on taxation reforms

A summary of estimated total donor funding for taxation reform in the Pacific Islands is summarised in Table 4 below.

Table 4 Donor financial support for taxation reform in the Pacific

	Total estimated spend by donors ($ Million NZD)(1 July 2002 – 30 June 2012)
PFTAC – Tax policy and administration	$8.1
Solomon Islands	$7.2
Samoa	$18.8
Tonga	$3.7
Kiribati	$1.3
Other countries	$15.9
TOTAL ESTIMATED	$55.0

While material in absolute terms, the amounts are small relative to the total aid budgets, for example the New Zealand Aid budget for 2012 was NZ$562 million and the Australia Aid budget for the same year was AUD$4.8 billion. The comparatively small amount spent on taxation reform suggests that donors have attached a relatively low priority to taxation reform relative to other aid objectives.

3.2.1 New Zealand expenditure on tax reform

Funding from the New Zealand Aid Programme has tended to be applied to PFTAC (a total $1.6 million in 2002 – 2012 is attributable to tax reform outputs) and has included an estimated $12.8 million for reform projects. Funding has also been applied directly to reform efforts in Samoa and Solomon Islands and smaller contributions to projects in the Cook Islands, Kiribati, Niue and Tonga.

The New Zealand Inland Revenue Department (IRD) has assisted directly with Pacific reforms. Its assistance typically consisted of providing expertise, through secondments of expert staff. Over the last 10 years, NZIRD has provided assistance of this type to Niue, Samoa, Solomon Islands, and Tonga.

3.3 About PFTAC

PFTAC is one of eight Regional Techncial Assistance centres established by the IMF with the purpose of providing technical assistance (TA) and training in areas vital to macroeconomic management. PFTAC's main bodies of work are:

- Public Financial Management—moving towards a well-functioning basic PFM system.
- Revenue policy and administration—improving revenue performance and structure.
- Economic Statistics—more timely and reliable macroeconomic datasets based on
- enhanced source data
- Financial sector supervision—increased ability to enforce appropriate prudential frameworks
- Macroeconomic management—improved forecasting and policy tools.

On average, revenue policy and administration represents around a fifth of its workload and total budget.

All technical assistance is integrated into the IMF's operations, and coordinated with other regional technical assistance centres. All TA is backstopped by IMF headquarters. The aim of this is to ensure quality and consistency of policy advice.

In the area of revenue policy and administration, PFTAC's activities are guided by its previous analysis of regional priorities and lessons learned and by benchmarking national tax administrations against the requirements of a model tax office developed through the regional tax administrators association (PITAA).

PFTAC's operations are made possible by financial contributions from:

- Asian Development Bank, DFAT, European Union-Pacific Islands Forum
- Secretariat, Korea, and New Zealand Aid Programme who finance the technical assistance activities of the center.
- The Government of Fiji, which finances PFTAC's office facilities;
- The IMF, who provides the centre coordinator, office staff and oversight and management.

PFTAC also works closely with a number of other development partners who do not contribute to the center including the World Bank, the Secretariat of the Pacific Community, and the University of the South Pacific.

For the main part, donor support for taxation reform has been channelled through PFTAC and PFTAC is considered to be the regional centre of technical expertise on tax reform. To give an idea about the volume of PFTAC's work, in the first six years of our focus period (2002 – 2007, inclusive) PFTAC gave a total of 1432 recommendations on taxation policy or administration, relating to 13 countries (Cotton, 2008), the majority of which revenue departments felt were substantial recommendations to them[8].

PFTAC's tax reform work continues in almost every country in the Pacific[9]. In the FY2012 annual report, PFTAC notes that it has had either a resident advisor or short term missions in association with tax policy and administration in all of the Pacific Island countries in the preceding year except Vanuatu and PNG[10] (in which there are advisors present as a result of other programmes).

[8] A survey relating to the 1432 recommendations generated the response from revenue administrators that they felt the recommendation was 'large' or 'more large than small' in nature (Cotton, 2008).

[9] The exception is Tokelau.

[10] PFTAC Annual Report 2012, p.g 8 chart.

4. Statistical overview of PICs

The table below provides a snapshot overview of the economic statistics for the country sample in 2002 to 2011, including GDP, Population, Tax Revenue and two ratios: Tax per capita and Tax as a % of GDP. These ratios can be used as possible indicators of the state of a tax regime and how it has changed over time. It was possible to find the relevant data for the majority of countries, with the exception of Nauru, Niue and Tokelau which have significant data gaps.

Table 5 Summary of economic statistics

Country	GDP (current US$)		Population		Total tax revenue (US$)		Tax revenue per capita (US$)		Tax revenue as % of GDP		Tax revenue as % of GDP	
	2002	2011	2002	2011	2002	2011	2002	2011	2002	2011	2002	2011
Cook Islands	117,016,941	303,688,969	18,400	20,600	28,877,858	70,132,726	1,569	3,405	24.7	23.1	24.7	23.1
Federated States of Micronesia	241,738,180	310,300,000	106,200	103,600	26,300,000	37,200,000	248	359	10.9	12.0	10.9	12.0
Fiji Islands	1,932,757,794	6,730,800,000	810,000	854,000	378,752,998	872,077,496	468	1,021	19.7	21.6	19.7	21.6
Kiribati	74,854,028	180,220,941	87,400	105,300	15,648,474	36,411,879	179	346	20.3	16.9	20.3	16.9
Marshall Islands	124,698,071	170,747,697	49,900	55,000	20,100,000	25,978,650	403	472	16.1	15.5	16.1	15.5
Nauru		90,029,076	10,100	9,900								
Niue	7,906,442	23,426,654	1,788	1,460	3,200,000	4,950,000	1,790	3,390	N/A	N/A	N/A	N/A
Palau	168,926,000	212,903,000	19,400	17,800	23,900,000	35,400,000	1,232	1,989	14.1	16.6	14.1	16.6
Papua New Guinea	3,048,741,654	13,511,900,064	5,400,000	7,000,000	608,628,660	3,488,123,497	113	498	20.0	26.5	20.0	26.5
Samoa	268,706,663	668,168,811	177,200	187,800	55,079,891	188,513,035	311	831	20.5	22.4	20.5	22.4
Solomon Islands	217,235,495	719,241,028	439,000	540,000	34,627,418	265,171,174	79	491	15.9	36.9	15.9	36.9
Timor Leste	468,200,000	5,797,500,000	886,000	1,092,000		64,900,000		72		1.1		1.1
Tokelau												
Tonga	186,484,191	449,915,346	99,900	103,000	34,635,815	76,618,049	347	744	18.6	17.0	18.6	17.0
Tuvalu	16,095,897	32,316,744	9,560	11,210	3,398,952	8,852,821	356	790	21.1	18.9	21.1	18.9
Vanuatu	271,655,766	801,696,022	202,200	251,800	42,144,768	131,771,754	208	523	15.0	16.1	15.0	16.1

Source: Sapere Research Group, using data from ADB Statistical Database System Online and ADB 2013 Pacific Report. Where possible, supplementary data was used from World Bank, World Development Indicators 2012, and IMF Aides Memoires

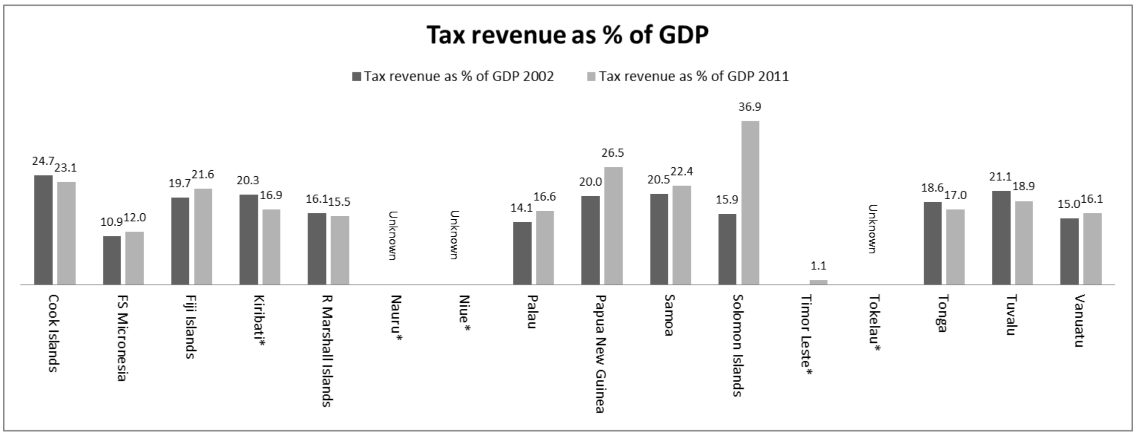
Limitations: Figures are reported in USD for comparability. Currency conversion can introduce errors and make data less reliable.

The table above shows that tax revenue as a percentage of GDP increased between 2002 and 2011 in seven of the 16 countries (FS Micronesia, Fiji, Palau, PNG, Samoa, Solomon Islands and Vanuatu). These countries had high nominal revenue growth relative to other Pacific countries. Five countries experienced declining tax revenue as a percentage of GDP (Cook Islands, Marshall Islands, Kiribati, Tonga[11] and Tuvalu).

Most countries have tax revenue as a percentage of GDP in the range of 15 to 20 per cent, with Solomon Islands a high outlier at 36 per cent[12] and Timor Leste a low outlier at just 1 per cent.

While most countries improved tax revenue per capita in nominal terms, the increase only kept pace with or outstripped GDP growth in six out of 16 countries.

Figure 2 Most countries have tax revenue as a percentage of GDP in the range of 15 to 25 per cent, and some countries have poor data sets



Source: Sapere Research Group using data from Asia Development Bank, *2013 ADB Pacific report* and Asia Development Bank, *Online Statistical Database*

[11] The Tongan decline appears to have been a 'blip' with more recent reports indicating a return to a ratio of around 20 percent of GDP in 2012/13.

[12] This has since dropped to 30.1 percent in 2013 calendar year.

Figure 3 % Seven of the 16 countries grew tax revenue more than they grew GDP

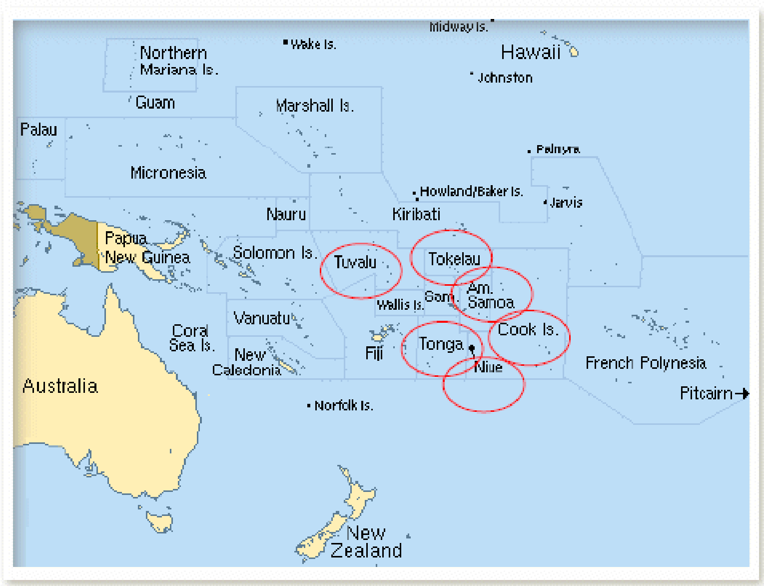
Country	GDP (local currency) 2002	GDP (local currency) 2011	Change	Total tax revenue (local currency) 2002	Total tax revenue (local currency) 2011	Change
Cook Islands (NZ$)	240,429,302	366,655,643	53%	59,334,000	84,674,000	43%
Federated States of Micronesia (US$)	241,738,180	310,300,000	28%	26,300,000	37,200,000	41%
Fiji Islands (Fiji$)	4,029,800,000	6,730,800,000	67%	789,700,000	1,543,500,000	95%
Kiribati (AU$)	132,884,836	167,951,706	26%	27,780,000	33,933,000	22%
Marshall Islands (US$)	124,698,071	170,747,697	37%	20,100,000	25,978,650	29%
Nauru						
Niue (NZ$)	16,245,000	28,283,921	74%	6,574,892	5,976,330	-9%
Palau (US$)	168,926,000	212,903,000	26%	23,900,000	35,400,000	48%
Papua New Guinea (Kina)	11,871,800,000	30,618,400,000	158%	2,370,000,000	7,904,200,000	234%
Samoa (Tala)	891,300,000	1,547,400,000	74%	182,700,000	361,600,000	98%
Solomon Islands (SI$)	1,527,600,000	5,527,800,000	262%	243,500,000	2,038,000,000	737%
Timor Leste (US$)	468,200,000	5,797,500,000	1138%	-	64,900,000	
Tokelau						
Tonga (TOP)	398,330,233	775,047,951	95%	73,982,100	131,986,300	78%
Tuvalu (AU$)	28,574,289	38,112,000	33%	6,034,000	7,203,000	19%
Vanuatu (Vatu)	36,554,000,000	70,349,000,000	92%	5,671,000,000	11,563,000,000	104%

Figure 4 While most countries improved tax revenue per capita in nominal terms, the increase only kept pace with or outstripped GDP growth in six out of 16 countries

	Tax Revenue per capita 2002 (local currency)	Tax Revenue per capita 2011 (local currency)	% increase in Tax Revenue per capita (2002 - 2011)	GDP growth (2002 -2011)
Cook Islands	NZ$ 3,225	NZ$ 4,110	27%	53%
FS Micronesia	US$ 248	US$ 354	45%	28%
Fiji Islands	FJ$ 975	FJ$ 1,807	85%	67%
Kiribati	AU$ 318	AU$ 322	1%	26%
R Marshall Islands	US$ 403	US$ 472	17%	37%
Nauru				0%
Niue	NZ$ 3678	NZ$ 4093	11%	74%
Palau	US$ 1,232	US$ 2,282	85%	26%
Papua New Guinea	PGK 439	PGK 1129	157%	158%
Samoa	WST 1,031	WST 1,925	87%	74%
Solomon Islands	SB$ 555	SB$ 3,774	580%	262%
Timor Leste		US$ 59		1138%
Tokelau				
Tonga	TOP 741	TOP 1,281	73%	95%
Tuvalu	AU$ 631	AU$643	2%	33%
Vanuatu	VUV 28,046	VUV 45,921	64%	92%

Source: Sapere Research Group using data from Asia Development Bank, *2013 ADB Pacific report* and Asia Development Bank, *Online Statistical Database*

5. Polynesia



5.1 Overview

The Polynesian countries appear to have had reasonable success with taxation reform, in the sense that they have generally adopted the 'package' referred to earlier.

5.2 Cook Islands

5.2.1 Background

The Cook Islands consists of 15 islands in the South Pacific Ocean about half way between Hawaii and New Zealand. The Cooks Islands is self-governing in free association with New Zealand and all Cook Islanders are New Zealand citizens. It has a population of around 20,600 people. While English is the official language, Maori is widely spoken.

Agriculture, employing more than one-quarter of the working population, provides the economic base with major exports made up of copra and citrus fruit. Black pearls are the Cook Islands' leading export. Manufacturing activities are limited to fruit processing, clothing, and handicrafts.

5.2.2 Tax and customs reform

The Cook Islands hadn't, until quite recently, sought major reforms to its tax policy framework. It has made administrative improvements, however, and has made small changes to its policy settings. For example, the introduction of the Seabed Minerals Act, which was introduced in 2009. The legislation makes provision for the payment of royalties, taxes, fees and other fiscal impositions under the terms of any seabed minerals agreement signed between the Government and a miner. The seabed of the Exclusive Economic Zone of the Cook Islands contains manganese nodules that are potential sources of copper, nickel, and cobalt.

Early in 2002 the Cook Islands made a commitment under the OECD Harmful Tax Practices Initiative to cooperate with the OECD to improve the transparency of its tax and regulatory systems and establish an effective exchange of information regarding tax matters with OECD countries. In short, the OECD considered the Cook Islands to be a tax haven[13]. At the time the Cook Islands had a considerable offshore finance services sector that was dependent on legislation providing for the formation and management of trusts for asset protection.

The Cook Islands has very recently (May 2013) completed a review[14] of its tax system with support from technical advisors from PFTAC/IMF. PFTAC led the review with support from a local practitioner and the Ministry of Finance and Economic Management. A final report has been received by the Cook Islands government (in May 2013). The review brief was comprehensive: aiming to assess changes in revenue collection, changes in compliance and comparing the Cooks' revenue performance end policies, including tax rates, coverage of economic sectors and exemptions with similar economies. The review also considered the effectiveness of the technical assistance provided in the Cooks and how TA can be better applied to achieve the desired outcomes.

One of the apparent reasons behind the review was to assess compliance, at the time of producing the 2012/13 Budget there was approximately $24 million in outstanding taxes and additional taxes owing to the Crown, much of it dating back many years (Press statement by Minister Mark Brown on 2012/13 budget).

The Cook Islands Border Management Modernization activity is part of a partnership between MFAT and NZ Customs which started 1 July 2011 and is scheduled to end 30 June 2016. There was a precursor activity (funded through State Sector Partnership and / or the Pacific Security Fund). Under the BMM activity, customs legislation was modernized and

[13] The Cook Islands was one of several countries in the Pacific area that the OECD identified as tax havens. The others are the Marshall Islands, Nauru, Niue, Samoa, and Vanuatu.

[14] Information about the review can be found here http://www.mfem.gov.ck/index.php?option=com_content&view=article&id=275&Itemid=18

the new legislation passed during the first two years of the activity. The activity is focused on facilitating trade by automating passenger and goods processing. The Cook Islands maintains import duties on various luxury or sin goods such as alcohol, tobacco, soft drinks and motor vehicles most of which were increased in the 2012-13 Budget.

5.2.3 Support for reform

Direct support for revenue administration is provided by the New Zealand government in the form of secondments from IRD to the Ministry of Finance and Economic Management and to the customs department. These are inline roles, rather than reform roles per se.

In 2012 and 2013 PFTAC took the lead in a comprehensive review of the Cook Islands tax system. It has also recently provided technical assistance to the authorities to develop a draft revenue policy framework for future sea-bed mining operations. It aims to help implement these recommendations in coming years.

New Zealand Aid has provided top-up funding to support salaries in the Cook Islands Ministry of Finance and Economic Management for a senior tax auditor and a financial secretary. Expenditure on this has amounted to $380,000 in the period 2011-2013. This amounts to 19 percent of New Zealand Aid technical assistance budget for the Cooks.

5.2.4 Country-specific references

2007 Nikunj Soni, Belinda Harries & Betty Zinner-Toa, Responding to the Revenue Consequences of Trade Reforms in the Forum Island Countries, Watergill Consulting Ltd.

2013 The Cook Islands Ministry of Finance and Economic Management, The Cook Islands Tax Review Explanatory Paper, February 2013.

2013 Central Intelligence Agency, The World Fact Book, https://www.cia.gov/library/publications/the-world-factbook/geos/fj.html [Accessed 21 March 2013]

PFTAC Annual Report, 2012.

Confidential aides memoires and information provided by the International Monetary Fund (PFTAC), New Zealand Inland Revenue, New Zealand Ministry of Foreign Affairs and Trade and DFAT.

Table 6 Statistical summary of Cook Islands

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (NZ$ nominal, millions)	$240.4	$263.1	$269.3	$259.3	$289.7	$310.1	$332.1	$346.0	$356.2	$366.7
Population	18,400	18,400	20,300	21,5000	23,800	21,000	21,900	22,600	23,600	20,600
Total tax revenue (NZ$ nominal, millions)	$60.2	$60.7	$60.1	$65.5	$67.6	$69.7	$77.5	$78.5	$83.8	$87.0
Tax revenue per capita	3,225	3,302	2,959	3,049	2,842	3,318	3,523	3,475	3,534	4,110
Tax revenue as % of GDP	24.7%	23.1%	22.3%	25.3%	23.4%	22.5%	23.2%	22.7%	23.5%	23.1%

Source: ADB Statistical Database Online and ADB Pacific Report 2013

5.3 Niue

5.3.1 Background

Niue is an island country in the South Pacific Ocean, 2,400 kilometres northeast of New Zealand and east of Tonga. Niue is self-governing in free association with New Zealand and all Niueans are New Zealand citizens. The population is estimated to around 1,500 people – in other words, it is a tiny country. The official languages are English and Niuean which is spoken by the majority of the population.

The economy of Niue is heavily dependent on foreign development grants, with New Zealand being the largest donor country. The major sectors of the economy are agriculture and manufacturing. The agricultural sector consists mainly of subsistence gardening, although some cash crops are grown for export. Manufacturing consists primarily of small factories to process passion fruit, lime oil, honey, and coconut cream. The sale of postage stamps to foreign collectors is an important source of revenue.

Niue's economy is very fragile. Government activities, tourism and fisheries account for the large majority of GDP. Economic activity faces many constraints: limited access to reliable air services, shortages of skilled professionals and entrepreneurial expertise, limited land and poor soil quality. Natural disasters, especially cyclones, have long lasting impact. Niue's economic difficulties are exacerbated by, and reflected in, the long-term decline of its population. As stated, Niue's fiscal position is highly dependent on external aid, particularly from New Zealand with which Niue has very close ties.

5.3.2 Tax reform

Niue was identified as a tax haven by the OECD in 2002 and subsequently agreed to cooperate with OECD to take steps to remove this status.

Tax reforms between 2008 and 2009 led to the introduction of the Niue Consumption Tax (NCT) under the Niue Consumption Tax Act 2009 from 1 April 2009 and some changes to the Income Tax arrangements in 2009.

Subject to a limited number of exemptions, the NCT imposes a 12.5% tax on all imports and on all sales by registered taxpayers. Accompanying the changes, import taxes were reset to zero except for items such as alcohol, tobacco and soft drink.

With the implementation of the Income Tax Act (Amendment) 2009, there were reductions in the personal tax rates and the secondary income tax rate. This change in the individual income tax rates would lead to decrease in collection for Income Tax and PAYE, however, it was expected that with the introduction of the NCT which took effect the same time as the Income Tax Amendment Act, the decrease in income tax collection would be compensated by the NCT collection.

Niue also made improvements in tax administration as part of the tax reforms. For example training manuals and folders that outline procedures and practices in tax administration were prepared. Further, training was conducted and procedures were put in place to enable tax officers to carry out a programme of continuous audits.

Proposed customs reforms did not take place.

5.3.3 Support for reform

During the period 1997 to 2003, the Government of Niue was considering policy options for the reform of its tax system, including consideration of its status as a tax haven, with much of the policy and technical advice (it seems) being provided by PFTAC. During this time, PFTAC presented a number of reform options to the Government of Niue including the introduction of a consumption tax, personal tax rate reductions, phasing out import duties in accordance with the PICTA agreement and replacing import duties with excise duties on certain goods. The Government of Niue adopted the PFTAC recommended tax reforms in principle and requested further policy advice from New Zealand to determine the feasibility of introducing the recommended tax reforms including implementation of these reforms. The results of this assessment are contained in the report entitled *Proposals for the Reform of the Niue tax system,* dated 4 May 2006.

New Zealand IRD subsequently provided both policy and technical support to the Government of Niue throughout the reform programme, which started in 2007. In 2008 and 2009, NZIRD seconded two officers to the Niue Tax Office to help implement the changes and to strengthen the operating capability of the Office. Specialist legal assistance was also provided. The programme of support ceased in December 2009. The advice fell under a wider programme of reform (the "Strengthened Cooperation Programme") which provided for the provision of in-line advisors, specialist advice and mentoring in the financial sector.

PFTAC has recently become active in Niue again: providing advice on tax policy and administration following Niue's implementation of the NCT.

In 2011 a review of the public financial management of Niue was performed by an external consultant, which included a PEFA assessment. This review contains an evaluation of the transparency of taxpayer obligations and liabilities, effectiveness of measures for taxpayer registration and tax assessment effectiveness in collection of tax payments.

5.3.4 Country-specific references

2009 Government of Niue, Report on the Capacity of the Tax Office, 30 May 2009

2009 VentureGroup (New Zealand) Limited, Initial Evaluation – Programme of Strengthened Cooperation: Technical Assistance and Support for the Government of Niue, Report for New Zealand IRD, September 2009

2011 Government of Niue, Niue: Public Financial Management - Performance Report Final Report August 2011.

2012 New Zealand Ministry of Foreign Affairs & Trade, Niue Key Facts http://www.mfat.govt.nz/Countries/Pacific/Niue.php [Accessed 20 March 2013]

2013 Central Intelligence Agency, The World Fact Book, https://www.cia.gov/library/publications/the-world-factbook/geos/fj.html [Accessed 20 March 2013]

2013, New Zealand Inland Revenue Department, Unofficial file notes

Table 7 Statistical summary of Niue

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (NZ$ current)	$16,245,000	$17,821,000	$17,771,000	$19,441,000	$20,541,000			$25,460,000		$28,283,921
Population	1,788		1,761	1,650	1,538	1,522	1,566	1,491	1,475	1,460
Total tax revenue (NZ$)	$6,574,892					$3,360,144	$3,692,244	$4,946,769		$5,976,330
Tax revenue per capita	$3,678					$2,208	$2,358	$3,318		$4,093
Tax revenue as % of GDP						N/A	N/A	N/A		N/A
Tax revenue to GDP						N/A	N/A	N/A		

Source: Statistics Niue. Tax revenue figures for 2007 and 2008 extracted from Government of Niue Report on the Capacity of the Tax Office, 30 May 2009. Tax revenue figure for 2009 extracted from 2011 PEFA report.

5.4 Samoa

5.4.1 Background

The Independent State of Samoa is a country encompassing the western part of the Samoan Islands in the South Pacific Ocean. Samoa consists of 10 islands, four of which are inhabited by a population of around 185,000. The two main islands of Samoa are Upolu and Savai'i. The capital city, Apia, and Faleolo International Airport are situated on the island of Upolu, where 75% of the population lives. 24% of the population lives on Savai'i, and less than 1% on Manono and Apolima each. The official languages are Samoan and English.

Key factors in Samoa's economy are: development aid, private family remittances from overseas, and agricultural exports. Agriculture employs two-thirds of the labour force, and furnishes 90% of exports, featuring coconut cream, coconut oil, noni (a fruit juice), and copra. Outside of a large automotive wire harness factory (Yazaki Corporation), the manufacturing sector mainly processes agricultural products. Tourism is an expanding sector which now accounts for 25% of GDP.

Samoa has faced a difficult macroeconomic environment in recent times. Following the global economic crisis growth stagnated, remittances fell and fiscal revenues declined sharply. This was exacerbated by a devastating tsunami in mid-2009.

Samoa responded with a substantial fiscal stimulus financed by domestic and external debt accumulation and also with monetary stimulus including central bank lending to non-bank financial institutions. Growth has however been slow to pick up and with fiscal deficits still relatively high, debt levels elevated and international reserves declining the authorities will continue to face macroeconomic management challenges. The IMF noted in 2012 that a key challenge is to reduce the fiscal deficit to bring public debt to a more sustainable level. A restraint on recurrent expenditure, including government wages and salaries was suggested.

There have been a number of large institutional strengthening projects conducted in Samoa in recent years. For example, PFTAC TA was instrumental in setting up a medium-term budgeting system and the development of quarterly national accounts in Samoa, both of which are now supported by long term institutional strengthening projects.

5.4.2 Tax reform

Samoa has vastly improved its revenue administration in recent years under institutional strengthening initiatives, specifically, the Institutional Strengthening Programme (ISP) which began in 2010. This progress was reflected in an award at the 2011 PITAA annual meeting.

The programme was instigated following a 2007 situation analysis from PFTAC outlining what they needed to do. Following this, PFTAC support was used to draft new legislation for self-assessment and to draft legislation for small business regime.

Samoa signed a Tax Information Exchange Agreement (TIEA) with Australia in December 2009. The TIEA provides for exchange of information, on request, in both criminal and civil tax matters. Samoa has also signed an agreement with Australia that deals with the allocation of taxingrights and transfer pricing adjustments.

In early 2013 PFTAC technical advisors performed a strategic revenue review that analysed recent revenue developments and identify policy and administrative actions that could help increase revenues. A PFTAC report has been prepared.

5.4.3 Support for reform

Support from PFTAC was provided to diagnose the situation in Samoa, and recommend reforms (2007). PFTAC subsequently assisted with drafting its new income tax legislation.

Samoa's Ministry for Revenue began its Institutional Strengthening Programme (ISP) for Inland Revenue Services in October 2010, with a primary objective of strengthening the quality of tax administration and laying the foundations for a sustainable change in the way it administered the tax system. Some aims of the project included to strengthen Samoa's potential tax base through improved compliance, better client service, and consistent policy advise on the reform of Samoa's tax structure. The funding for the ISP was structured through a Public Sector Improvement Facility (PSIF) funded by Australia, New Zealand and the Government of Samoa. PSIF has received funding from 2008 to 2013. Split in totality of the Programme is Government of Australia (via DFAT) AUD$13.7m and Government of New Zealand NZ$6.5m (NZD$23.8 million, $18.8 million of which was received between 2002 and 2012).

NZIRD assisted Samoa in recruiting a number of experts in various aspects of tax administration, for secondment to Samoa. These secondments have been funded by Samoa, from its Public Sector Improvement Facility[15].

In 2011, NZIRD provided Samoa's Ministry for Revenue with a container load of office furniture (desks, chairs, etc) that was surplus to requirements.

5.4.4 Country-specific references

2012 International Monetary Fund, Samoa: 2012 Article IV Consultation, IMF Country Report No.12/250.

2013 Samoa Ministry for Revenue, Tax Administration Reform, Presentation to PITAA conference October 2013

2013 Central Intelligence Agency, The World Fact Book, available at: https://www.cia.gov/library/publications/the-world-factbook/geos/ws.html

"Strengthening Samoa's Revenue Ministry" article on New Zealand Aid Website [[http://www.aid.govt.nz/media-and-publications/development-stories/march-2012/strengthening-samoa%E2%80%99s-revenue-ministry]]

PFTAC Annual Report 2012.

---

[15] New Zealand IRD has provided a lot of technical assistance to Samoa over this period. They have seconded a total of 10 staff to Samoa in that time (not all of whom were involved in the ISP)

Confidential aides memoires and information provided by the International Monetary Fund (PFTAC), New Zealand Inland Revenue, New Zealand Ministry of Foreign Affairs and Trade and DFAT (formerly AusAID).

Table 8 Statistical summary of Samoa

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (US$ current, millions)	268.7	324.7	376.7	432.9	439.7	555.9	573.8	525.9	578.0	668.2
Population	177,200	177,700	178,200	178,700	180,700	181,600	183,500	185,000	186,400	187,800
Total tax revenue (Western Samoa Tala m)	182.7	206.5	219.7	242.2	272.9	334.1	330.2	324.7	354	361.6
Total tax revenue (US$, current, millions)	55.1	70.1	77.3	88.9	95.5	129.5	132.2	119.8	137.9	156.2
Tax revenue per capita (US$)	311	395	434	497	529	713	721	648	740	831
Tax revenue as % of GDP	20.5	21.6	20.5	20.5	21.7	23.3	23.0	22.8	21.9	22.4

Source: GDP (Samoa Tala) sourced from ADB Statistical Database Online, query 'Samoa GDP 2002-2012' on 17/12/2013. Population 2002 - 2011 sourced from ADB Key Indicators for Asia and the Pacific, Country table - Samoa, updated 31 July 2013, accessed via ADB's SDB download module. Total tax revenue 2002-2011 sourced from ADB Key Indicators for Asian and the Pacific, Country table - Samoa, updated 31 July 2013, accessed via ADB's SDB download module. Tax revenue as % of GDP 2002-2011 sourced from ADB Statistical Database System Online, Query "Samoa Tax revenue as % of GDP", 28/02/2012. Currency conversions have been performed by Sapere.

5.5 Tokelau

5.5.1 Background

Tokelau is a territory of New Zealand, situated in the South Pacific north of Samoa and east of Tuvalu, about midway between Hawaii and New Zealand. It consists of three coral atolls with a combined land area of 10 square kilometres. At the 2011 census is had a population of 1411, with a labour force of 440 in 2001. The official languages are Tokelauan, English and Samoan.

Tokelau has the smallest economy in the world, with an annual purchasing power of about US$1000 per capita. Tokelau's small size, isolation and lack of resources hinder economic development. Agriculture is at a subsistence level. The economy of Tokelau relies heavily on aid from New Zealand, which amounted to around NZ$10 million annually in 2009. New Zealand's support amounts to 80% of the government budget. A trust fund, currently worth US$32 million, was established in 2004 to provide Tokelau with an independent source of income. The other sources of revenue are sales of copra, postage stamps, souvenir coins and handicrafts. Another important source of income is family remittances from individuals in New Zealand.

Tokelau has increased its GDP by more than 10$ through registrations of domain names under the .tk domain.

Table 9 Statistical summary of Tokelau

	1987 estimate	1993 estimate	2011
GDP (US$ PPP)		$1,500,000	
Population			1411
Total government expenditures	$2,800,000		
Total tax revenue (US$)			$430,800
Tax revenue per capita (US$)			$305

5.5.2 Tax reform

There has been no mention of a tax reform in Tokelau recently, and PFTAC notes that Tokelau rarely accesses PFTAC TA.

5.5.3 Country-specific references

2013 Central Intelligence Agency, The World Fact Book, available at: https://www.cia.gov/library/publications/the-world-factbook/geos/tl.html

5.6 The Kingdom of Tonga

5.6.1 Background

The Kingdom of Tonga (Tonga) is a constitutional monarchy comprising an archipelago of over 170 islands, 36 of which are inhabited, covering 740 square kilometres. It is located one third of the way from New Zealand to Hawaii. It has a population of around 105,000 people. Tongan is the official language of the Kingdom, although English is widely spoken by most Tongans.

Around 70 per cent of the population derive at least part of their livelihood from farming, most of it subsistence farming. Tonga has a narrow export base in agricultural goods with squash-pumpkin (to Japan and Korea), root crops and coconuts (to New Zealand) as well as kava and vanill being the main crops. Agricultural exports, including fish, make up two-thirds of total exports. The country must import a high proportion of its food, mainly from New Zealand. The country remains dependent on external aid and remittances from Tongan communities overseas to offset its trade deficit. Half the remittances come from the US and most of the rest from New Zealand and Australia where large numbers of Tongans live. Tourism is the second-largest source of hard currency earnings following remittances.

Tonga has faced a difficult macroeconomic environment in recent times. Following the global economic crisis growth stagnated, remittances fell and fiscal revenues declined sharply. The financial sector also came under pressure as a result of high levels of nonperforming loans in the banking sector. High debt levels constrained fiscal space and the authorities approached development partners to provide budget support to enable key services to continue. Recent donor conferences have endorsed the authorities' prudent fiscal strategy and development partners are currently working on a joint policy matrix to underpin budget support.

5.6.2 Tax reform

Arguably Tonga has been the most active Pacific Island nation in its pursuit of tax reform. In 2003 Tonga reformed the administration of taxation with the enactment of the Revenue Services Administration Act that provided the foundation for a modern system of revenue administration based on self-assessment and voluntary compliance. In November 2004 the Revenue Services Department installed the Revenue Management System (RMS) to automate the processing and collection of tax.

On 1 April 2005 Tonga introduced a VAT or Consumption Tax. The Consumption is applied to imports and domestic supplies of goods and services and is applied at the rate of 15%. The Consumption Tax replaced four previous taxes:

- Port and Services Tax that was a fairly uniform levy of 20% on the duty-inclusive value of imports.
- Sales Tax at 5% on a very narrow range of goods.

- Fuel Sales Tax applied on petroleum fuels.
- Room Tax applied at 5% on tourist accommodation.

With the enactment of the Excise Tax Act 2007, Tonga introduced a new excise tax regime. Under this new regime, excise duty rates were applied to tobacco products to achieve a uniform treatment according to tobacco content while excise duty rate applying to alcoholic beverage was changed to provide uniform taxation of products based on alcohol content. It also amended the excise duty rates applying to petroleum products to a volumetric rate.

In 2008 Tonga introduced a new Customs Tariff Schedule as part of its accession to the World Trade Organization. This required Tonga cutting import duties from rates as high as 45% on general goods and up to 30% on excisable goods to rates of 15 to 20%.

In 2008 Tonga also overhauled its personal income tax system by raising the tax free threshold, reducing marginal tax rates and establishing PAYE as a final tax.

In the early stages of the reforms, revenues rose faster than expected (IMF, 2012, p. 10). However, recently collections have been anaemic due to the weak economy, decline in remittances and a shrinking share of trade taxes (despite increases in excises).

The PFTAC strategic revenue review and PFTAC's regional benchmarking exercise showed that Tonga is "one of the regional leaders in terms of implementing modern administrative practices" (PFTAC, 2012).

Going forward, reform will probably include further policy enhancements, including natural resource taxation and further improvements to administration including, IT development, and risk management and compliance strategies.

5.6.3 Support for reform

Since 2005, the government of Australia has provided ongoing assistance to customs reform as well as the Ministry of Revenue. Australian support has included funding two tax advisors (at least one of whom is resident), funding the Head of Customs and funding for customs infrastructure (including x-ray technology, a customs boat for Vava'u and an automated processing / customs management system (CMS).

NZAid funded a two-week secondment of a tax compliance expert to the Tongan Revenue Service in 2006. NZIRD helped with recruiting that expert.

PFTAC has provided TA to Tonga in all sectors in recent years, collaborating closely with other development partners. While the particular focus has been on public financial management (where PFTAC has been working with the ADB to assist the authorities design and implement a reform roadmap), there have been TA missions to benchmark, and provide advice on, tax administration.

In 2011, PFTAC reviewed Tonga's tax system (Cotton et al, 2011). The review finds that the tax policy setting in Tonga is reasonable in a comparative context but there is room for improvement in the efficiency and effectiveness of revenue collection.

5.6.4 Country-specific references

2006 Tongan Minister of Finance Siosiua T. T. Utoikamanu, Consumption Tax – The Tongan Experience, Conference Paper November 2006, http://archives.pireport.org/archive/2007/July/07-27-rp.htm [Accessed 27 March 2013]

2006 Revenue Services Department, Revenue Reform Discussion Document: for a better and fairer tax system, http://www.revenue.gov.to/ArticlePreview.aspx?ID=630&Print=1 [Accessed 27 March 2013]

2011 Cotton, Jenkins, and Mullins, Revenue Policy and Administration Review, Aide-Mémoire, International Monetary Fund, Pacific Financial Technical Assistance Centre.

2012 International Monetary Fund, Tonga: 2012 Article IV Consultation, IMF Country Report No.12/166.

2012 New Zealand Ministry of Foreign Affairs and Trade, Kingdom of Tonga, http://www.mfat.govt.nz/Countries/Pacific/Tonga.php [Accessed 27 March 2013]

PFTAC Annual Report 2012.

2013 Australian Government Department of Foreign Affairs and Trade, 'Kingdom of Tonga country brief', http://www.dfat.gov.au/geo/tonga/tonga_brief.html [Accessed 27 March 2013]

2013 Central Intelligence Agency, The World Fact Book, https://www.cia.gov/library/publications/the-world-factbook/geos/fj.html [Accessed 27 March 2013]

Confidential aides memoires and information provided by New Zealand Inland Revenue, New Zealand Ministry of Foreign Affairs and Trade and DFAT (formerly AusAID).

Table 10 Statistical summary for Tonga

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (US$ current, millions)	186.5	209.1	237.8	264.7	285.9	315.4	353.0	322.4	360.8	449.9
GDP (Tongan Pa'anga th)	73982.1	82638	86144.1	98420.2	122344.2	126174.3	125954.4	129096.1	114536.5	131986.3
Population	99,053	99,659	100,286	100,926	101,584	102,254	102,910	103,519	104,058	104,509
Total tax revenue (Tongan Pa'anga th)	TP 73,982	TP 82,638	TP 86,144	TP 98,420	TP 122,344	TP 126,174	TP 125,954	TP 129,096	TP 114,537	TP 131,986
Tax revenue per capita (Tongan Pa'anga)	741	823	855	973	1,204	1,237	1,231	1,259	1,114	1,281
Tax revenue as % of GDP	18.6	18.6	18.2	19.2	20.6	20.9	19.1	19.4	16.1	17.0

Source: GDP 2002-2011 sourced from ADB Statistics Database Online, Query "Solomon Islands GDP current prices" on 18/11/2013. Population 2002 - 2011 sourced from ADB Key Indicators for Asia and the Pacific, Country table - Tonga, updated 31 July 2013, accessed via ADB's SDBC download module. Total tax revenue 2002-2012 sourced from ADB Statistical Database System Online, Query "Tonga Central government taxes 2002-2013" on 02/10/2013. Calculations of ratios and currency conversions performed by Sapere.

5.7 Tuvalu

5.7.1 Background

Tuvalu is an island group consisting of nine coral atolls in the South Pacific Ocean, about one-half of the way from Australia to Hawaii. It has a population of around 9,800 people. Tuvalu has two official languages: Tuvaluan that is spoken by almost everyone, and English but is not generally used. The languages of Samoan and Kiribati are also spoken.

Subsistence farming and fishing are the primary economic activities. Fewer than 1,000 tourists, on average, visit Tuvalu annually. Job opportunities are scarce and public sector workers make up most of those employed. About 15% of the adult male population work as seamen on merchant ships abroad, and remittances are a vital source of income. Substantial income is received annually from the Tuvalu Trust Fund (TTF) an international trust fund established in 1987 by Australia, New Zealand and the United Kingdom and supported also by Japan and South Korea. The US Government is also a major revenue source for Tuvalu because of payments from a 1988 treaty on fisheries, the South Pacific Tuna Treaty. Tuvalu also derives royalties from the lease of its ".tv" internet domain name.

5.7.2 Tax reform

In mid-2009 a comprehensive set of tax reforms were introduced in Tuvalu. These reforms were designed by PFTAC.

There is a new simplified progressive personal income tax encompassing a more progressive scale with wages tax becoming a final tax. Personal income tax is now collected by employers through final withholding at source.

The Tuvalu Consumption Tax (TCT) was first introduced at the rate of 3% which replaced sales tax and progressively import duties as well as reduce the room tax rate. The rate has since been increased to 7%.

A presumptive tax has been introduced on businesses with turnover below the TCT threshold based on the payment of a flat amount for quarter which replaced the income tax on net profits.[16] Registered businesses pay $AUS100 per quarter while for activities not required to register as a business pay $AUS20 per quarter. The presumptive tax has the characteristics of a lump sum tax.

Import duties has been reduced in accordance with Pacific Island Countries Trade Agreement (PICTA) requirements with import duty rates on imports from outside the PICTA area reduced to reflect the change in customs valuations from FOB to CIF.

An excise duty has been imposed on beer, cigarettes and tobacco, sugar, soft drink, refined petroleum products, tea, coffee, perfume, alcohol, ice cream and plastic bags.

16 The imposition of a presumptive involves the use of indirect means to ascertain tax liability.

The package of reforms also included the introduction of a taxpayer identification number and better enforcement powers for tax administrations. According to the IMF, tax compliance has improved.

5.7.3 Support for reforms

The reforms summarised above were designed by PFTAC and supported by an ADB project. The ADB project has now ended, and recent PFTAC TA has been focused on-the-job assistance in revenue administration.

There has been a DFAT (Australia) financed resident advisor seconded to the revenue administration since mid 2012. Maintenance of appropriate IT solutions will be a critical element of this advisor's work and PFTAC will look to support this by integrating Tuvalu officials in regional and sub-regional support groups being developed under PITAA. In 2013 and beyond, PFTAC will provide assistance to enable the administration to adopt risk management and compliance improvement strategies and to enhance corporate planning (PFTAC, 2012).

5.7.4 Country-specific references

2009 Unicon Limited & Adam Smith International, Final Report TA No. 4902-TUV Capacity Building for Taxation Reforms in Tuvalu Funded by the Asian Development Bank Contract Number COSO/70-119.

2012 International Monetary Fund, Tuvalu: 2012 Article IV Consultation, IMF Country Report No.12/259.

2013 Central Intelligence Agency, The World Fact Book, https://www.cia.gov/library/publications/the-world-factbook/geos/fj.html [Accessed 27 March 2013]

PFTAC Annual Report, 2012.

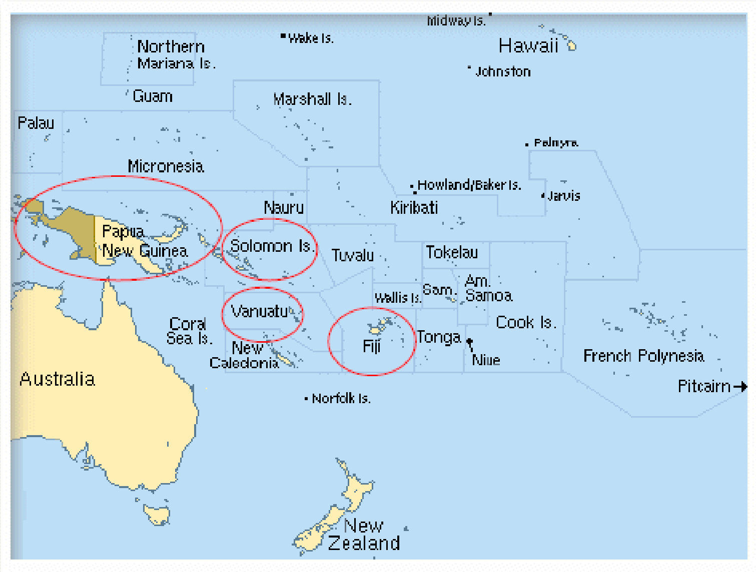
Confidential aides memoires and information provided by the International Monetary Fund (PFTAC), New Zealand Inland Revenue, New Zealand Ministry of Foreign Affairs and Trade and DFAT.

Table 11 Statistical summary of Tuvalu

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (US$ current, millions)	$16.1	$18.9	$20.4	$21.8	$22.6	$27.4	$34.5	$28.0	$29.4	$32.3
Population	9,560	9,680	9,980	10,280	10,430	11,130	11,030	11,090	11,150	11,210
Total tax revenue (AU$ th)	6,034	5,601	5,777	6,110	5,018	6,041	6,067	5,629	5,620	7,203
Total tax revenue (US$ millions)	3.4	3.8	4.0	4.7	Unknown	5.1	5.8	4.5	4.8	6.1
Tax revenue per capita (US$)	356	388	402	453	Unknown	461	526	409	427	545
Tax revenue as % of GDP	21.1	19.8	19.7	21.4	Unknown	19.5	16.8	16.2	16.2	18.9

Source: GDP 2002-2011 sourcd from ADB Statistical Database Online, Query "Tuvalu GDP current prices 2002-2011", on 18/11/2013. Population 2002 - 2011 sourced from ADB Key Indicators for Asia and the Pacific, Country table - Tuvalu, updated 31 July 2013, accessed via ADB's SDBC download module. Total tax revenue 2002-2005, 2007 sourced from ADB StatisticAl Database System Online, Query "Tuvalu central government taxes 2002-2013" on 01/03/2013. Tax revenue as % of GDP 2002-2005 and 2007-2011 sourced from ADB Statistical Database System Online, Query "Tuvalu Tax revenue as % of GDP", 28/2/2012. Some figures extrapolated by Sapere. Currency conversions performed by Sapere.

6. Melanesia



6.1 Overview

The Melanesian countries are larger geographically and have larger populations than the other PICs. Comparatively, they have experienced a far greater degree of political instability over the past decade and as a consequence have found it more difficult to achieve fiscal reforms. There are also deeply entrenched sectoral interests in these countries, which have made policy reforms challenging. The focus has therefore fallen on improving tax administration in the Melanesian Islands rather than pursuing policy initiatives.

6.2 Republic of Fiji

6.2.1 Background

The Republic of Fiji (Fiji) is an island country in the South Pacific Ocean located about 1,100 nautical miles northwest of the North Island. Fiji has a population of around 868,000 people. While Fiji is archipelago comprising more than 332 islands, most of the population is located on the two major islands of Viti Levu and Vanua Levu. Fiji has three official languages: Fijian, English and Fiji Hindi.

The industries that make the largest contribution to GDP are manufacturing mainly producing informal products and food products, agriculture including subsistence farming and crops such as sugar and taro, and hotels and restaurants driven by tourism. Fiji's economic performance over the past 25 years has been poor, undermined by political instability coupled with several military coups.

6.2.2 Tax reform

Recent tax reforms by Fiji include raising the tax free threshold for income tax and cutting the corporate tax rate. Accompany lower taxes has been increased efforts to improve compliance.

In 2011 Fiji moved to increase customs duties on several imported manufactured products items in order protect its local manufacturing sector.

Fiji raised the rate at which it levies its Value Added Tax (VAT) from 12.5% to 15% on 1 January 2011.

Fiji introduced a Capital Gains Tax (CGT) on 1 May 2011 that replaced the Land Sales Tax. It is levied on profits or gains realized on the disposal of capital assets, at the rate of 10%. It was argued that a CGT would be a more equitable and transparent form of taxation.

In 2012 Fiji raised the tax free threshold and cut marginal income tax rates for Fijians earning less than $FJD70,000, thereby reducing or eliminating income tax for 99% of existing income taxpayers. However, this reduction in income tax was offset by a new Social Responsibility Levy applied to income earners earning over $270,000 a year. The Social Responsibility Levy was justified on the basis that people at the top end should help those at the bottom. However, it is not intended that the Social Responsibility Levy by permanent measure, with a commitment to reduce the levy as people move off welfare payments or as Fiji's GDP grows. In 2013 the Social Responsibility Levy was changed to the Social Responsibility Tax.

In 2012 Fiji also cut the corporate tax rate from 28% to 20%. It was argued that the new corporate tax rate should free up money for businesses to invest in new opportunities, new infrastructure, and reward increased productivity.

In 2012 Fiji also imposed a new 2% levy on outstanding balances on credit cards on a monthly basis, introduced a new fringe tax regime as well as a levy on the sale of luxury cars.

In 2012 Fiji broadened the 5% Hotel Turnover Tax to cover restaurant and other services and was renamed a Services Turnover Tax. It also increased the Departure Tax by 50%. Furthermore, a new fringe benefits tax regime was introduced whereby employers would be responsible for paying and remitting the required amount at the rate of 20%.

In 2013 Fiji has introduced a Green Tax that will impose an extra 2 cents per litre on all imported fuels, except kerosene, white benzene, and pre-mix. The objective of this policy is to promote a cleaner environment and reduce dependence on imported mineral fuels.

In relation to tax administration, the IMF (2011, p. 6) has commented that Fiji is one of the regional leaders in terms of administrative processes. In 2012 Fiji implemented an income tax self-assessment regime. In 2013 will implement a presumptive tax regime from 2013 which will provide a simplified tax regime for Small Business Enterprises.

6.2.3 Support for reform

Fiji has been PFTAC's largest user of revenue TA in recent years. PFTAC has supported FIRCA in a comprehensive modernization process including the development of enhanced corporate planning, simplified income tax legislation and streamlined personal income taxation policies and procedures.

6.2.4 Country-specific references

2011 International Monetary Fund, Republic of Fiji: 2010 Article IV Consultation—Staff Report and Public Information Notice on the Executive Board Discussion, IMF Country Report No. 11/85.

2011 National Budget Address by Mr Sayed-Khaiyum, Enhancing Economic Growth and Inclusive Development, 26 November 2010.

2012 National Budget Address by Commodore Josaia Voreqe Bainimarama, Empowered Fijians and a Modern Economy, 25 November 2011.

2012 International Monetary Fund, Republic of Fiji: 2011 Article IV Consultation, IMF Country Report No.12/44.

2013 National Budget Address by Commodore Josaia Voreqe Bainimarama, Investing in our Future, 22 November 2012.

2013 Central Intelligence Agency, The World Fact Book, https://www.cia.gov/library/publications/the-world-factbook/geos/fj.html [Accessed 19 March 2013]

Confidential aides memoires and information provided by the International Monetary Fund (PFTAC), New Zealand Inland Revenue, New Zealand Ministry of Foreign Affairs and Trade and DFAT.

Table 12 Statistical summary of Fiji

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (Fiji, current, millions)	4,029.8	4,390.6	4,726.7	5,084.4	5,371.5	5,483.2	5,785.0	5,721.5	6,186.7	6,730.8
GDP (US$ current, millions)	1,932.8	2,381.0	2,629.0	3,000.3	3,058.9	3,444.9	3,870.3	2,806.3	3,093.4	3,802.9
Population	810,000	816,000	821,000	827,000	830,000	835,000	841,000	845,000	851,000	854,000
Total tax revenue (Fiji$ m)	789.7	929.9	1,033.3	1,065.8	1,227.2	1,230.4	1,243.1	1,212.2	1,303.5	1,543.5
Total tax revenue (US$, millions)	378.8	504.3	574.7	628.9	698.9	773.0	831.7	594.6	651.8	872.1
Tax revenue per capita (Fiji$)	975	1,140	1,259	1,289	1,479	1,474	1,478	1,435	1,532	1,807
Tax revenue per capita (US$)	468	618	700	760	842	926	989	704	766	1,021
Tax revenue as % of GDP	19.7	21.3	22	21	22.8	22.0	21.7	21.5	21.4	21.6

Source: GDP 2002-2011 sourced from ADB Statistical Database Online, Query "Fiji GDP current prices" on 18/11/2013. ADB Data Note indicates pre-2005 figures are not comparable to post-2005 figures owing to measurement differences. Population 2002 - 2011 sourced from ADB Key Indicators for Asia and the Pacific, Country table - Fiji, updated 31 July 2013, accessed via ADB's SDBC download module. Total tax revenue (Fiji$ m) 2002-2011 sourced from ADB Statistical Database System Online, Query "Fiji Central Government Taxes 2002-2013" on 01/03/2013. Tax revenue as % of GDP 2002-2010 sourced from ADB Statistical Database System Online, Query "Fiji Tax revenue as % of GDP" on 28/02/2013. Sapere has performed currency conversions.

6.3 Papua New Guinea

6.3.1 Background

Papua New Guinea is composed of islands along with the eastern half of the island of New Guinea between the Coral Sea and the South Pacific Ocean, east of Indonesia. It has a population of around 7 million people. It has three official languages: Tok Pisin which is widely used and understood; English which is spoken by 1%-2%; and Hiri Motu is spoken by less than 2%. In addition, there are some 860 indigenous languages spoken.

The economy has a small formal sector, focused mainly on the export of those natural resources, and an informal sector, employing the majority of the population. Agriculture provides a subsistence livelihood for 85% of the population. Mineral deposits, including copper, gold, and oil, account for nearly two-thirds of export earnings. A consortium led by a major American oil company is constructing a liquefied natural gas (LNG) production facility that could begin exporting in 2014. As the largest investment project in the country's history, it has the potential to double GDP in the near-term and triple Papua New Guinea's export revenue. Papua New Guinea's main macroeconomic challenges will come from managing the impacts of the resource boom. The authorities plan to establish a sovereign wealth fund to manage revenue volatility and ensure steady financing for development.

6.3.2 Tax reform

The PNG tax system compares extremely favourable to other developing countries. According to a recent report produced by USAID and Fintrac Inc (p. 101):

In general, PNG's tax system is not saddled with many of the common shortcomings found in the tax regimes of other developing countries. Cumbersome, low-yield taxes that pepper the tax codes of other nations are largely absent. While tax filing and payment is still paper-based, the procedures are straightforward, and efficiency is likely to improve with the introduction of online filing later this year. The Internal Revenue Commission (IRC) has adopted a customer service–oriented approach and conducts taxpayer awareness trainings in rural areas when funding allows. By and large, taxpayers consider their dealings with the IRC to be respectful and corruption-free.

As a result, voluntary taxpayer compliance within the formal sector is common, and revenue collection is high. This is the case despite PNG's status as a relatively high-tax jurisdiction.

With the developments of an LNG export industry, PNG has reactivated the operation of its Additional Profits Tax (APT) that will be applied in the case of designated gas projects. The APT had only ever previously been applied to the Bougainville Copper Mine. While a 30% corporate tax rate applies to every company in PNG, the APT will require an additional 7.5% when the internal rate of return on a project exceeds 17.5%, and another 10% when the rate exceeds 20%.

6.3.3 Support for reform

Papua New Guinea has received a large amount of international support for tax reforms since 2005. In particular, Australia has provided support over a long period for the IRC through government to government programs. There are strong institutional links between the IRC and the ATO and significant bilateral and regional cooperation. Since 2005, under the Enhanced Cooperation Program and its successor, the Strongim Gavman Program (SGP), Australia has supported a team of senior tax technical advisers, seconded from the ATO to work with the IRC.

The ATO advisers have provided leadership support in the following areas:

- Executive Leadership – SES Officer
- Active enforcement/audit – EL2 Officer
- Advising & Law clarification – EL2 Officer

From 2008, there has been a 'twinning' arrangement between the PNG IRC and the Australian Tax Offices called PATOTS. This arrangement was intended to complement the higher level capacity building assistance provided through the SGP. The twinning scheme is designed to focus on IRC officers at lower to middle level management. At least three advisors from the ATO have been working under this arrangement.

Other international partners providing support since 2005 include:

- World Bank support for tax administration in the minerals sector. At least one full time international consultant for most of the period since 2005
- US Treasury support commencing in 2010 for the movement of the IRC from a full assessing to a self assessing environment.
- International Finance Corporation (IFC) support in taxpayer service improvement to the SME sector.
- European agency support for a full time economist since 2009.
- Australian government support under its economic program for full time consultant s in internal audit & fraud and IT support.

More recently (in the last three years), there have been several major initiatives from within the IRC that have received international support. The IRC commenced a major three year modernisation program with the support of its international partners in 2012 as follows:

- Implementation of the SIGTAS Revenue Accounting system from about 1 April 2012 with automated processing of a large number of processes currently undertaken manually by the IRC;
- Major structural change now being considered in the IRC in a movement away from the existing paper based assessing system to an *"assess on figures approach"* as the first step in an anticipated progression to an automated "*full self assessment* "model; and
- A continuation of existing capacity building activities under the SGP, PATOTs and World Bank Programs.

Most of this recent work has occurred without PFTAC support. The main focus of PFTAC TA has been in the macroeconomic area and supporting the authorities manage the macroeconomic impacts of resource-based growth. Assistance in the revenue area has been limited to IT strategy development and development of enhanced Balance of Payments statistics.

6.3.4 Country-specific references

2008 Blair Price, 'PNG LNG slugged by profits tax', energynewsbulletin.net, 3 June, http://www.energynewsbulletin.net/storyview.asp?storyid=198254&sectionsource=s0 [Accessed 21 March 2013]

2012 International Monetary Fund, Papua New Guinea: 2012 Article IV Consultation, IMF Country Report No.12/126.

2012 USAID and Fintrac Inc., AgCLIR Papua New Guinea: Agribusiness Commercial Legal and Institutional Reform Assessment, Agenda for Action May 2012.

2013 Central Intelligence Agency, The World Fact Book, https://www.cia.gov/library/publications/the-world-factbook/geos/fj.html [Accessed 20 March 2013]

Confidential aides memoires and information provided by the International Monetary Fund (PFTAC), New Zealand Inland Revenue, New Zealand Ministry of Foreign Affairs and Trade and DFAT.

Table 13 Statistical summary of Papua New Guinea

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (US$ current, millions)	3,048.7	3,839.2	4,250.4	4,930.4	5,660.2	6,359.1	7,950.6	8,490.2	9,497.0	13,511.9
Population	5,400,000	5,600,000	5,800,000	5,900,000	6,100,000	6,300,000	6,400,000	6,600,000	6,800,000	7,000,000
Total tax revenue (PNGK m)	2370.0	2677.9	3220.1	3744.0	4944.8	5854.0	5756.1	4974.5	6434.7	7904.2
Total tax revenue (US$ millions)	608.6	776.4	1,016.9	1,222.9	1,656.4	1,979.9	2,118.6	1,891.3	2,315.2	3,488.1
Tax revenue per capita (PNGK)	439	478	555	635	811	929	899	754	946	1,129
Tax revenue as % of GDP	20.0	20.2	23.9	24.8	29.3	31.1	26.6	22.3	24.4	26.5

Source: ADB Statistical database online, with currency conversions performed by Sapere.

6.4 Solomon Islands

6.4.1 Background

Solomon Islands is an archipelago of nearly one thousands islands, with a total land area of over 28,000 square kilometers. The islands are spread over an area of up to 300,000 square kilometers situated to the east of Papua New Guinea While the official language is English, only 1-2% of the population speaks English. There are 70 local language spoken on the islands. These languages are Melanesian, Polynesian and Micronesian. The most commonly used language on the islands is Pidgin.

More than 75% of the labour force of Solomon Islands is engaged in subsistence and fishing. Logging constitutes about 75% of the country's exports, fish produce about 10% and palm oil and cocoa beans constitute about 5% each. The islands are rich in undeveloped mineral resources such as lead, zinc, nickel, and gold. An 18-month Standby Credit Facility was provided by the IMF in June 2010 and succeeded in restoring macroeconomic and financial stability. A strong commodity-based recovery is underway led by logging and mining activities (strong demand for logs and minerals from emerging Asian economies).

There is a large international presence in the Solomons, mainly through the RAMSI programme of assistance which caters for much of the technical assistance needs in the government.

6.4.2 Tax reform

Solomon Islands has made significant progress in improving revenue administration—it recently was awarded one of two regional awards at regional tax administrators association (PITAA). The administration reforms were led by RAMSI.

Currently the government of Solomon Islands is working on a plan to reform tax policy. The government agrees with the IMF that the current revenue system depends too heavily on a narrow set of activities like logging and needs to be broadened and strengthened to reinforce the tax base. The tax reform consists of simplifying the existing tax system to distribute the burden more equally, and a newly developed natural resource tax framework, with a separate fiscal regime for the mining industry.

The first part of the work, simplifying the existing tax framework, is consisting of a reduction in the granting of tax holidays and other exemptions. Further tax reform will be pursued with the objective of strengthening the tax base, shifting reliance away from direct taxation and simplifying the administration of tax for the government and compliance burden for taxpayers.

The natural resources tax framework, encompassing the fishing and forestry sector has been developed, including a separate fiscal regime for the mining sector which will remove the need to negotiate individual taxation agreements with mining companies. The framework also aims at creating clear and transparent expectations for companies coming into Solomon Islands in these sectors. The focus of the framework is on introducing taxes that investors will have to pay to the Government for the extraction of the natural resources.

Drafting of the legislative changes was begun in 2011 and has been mentioned to be expected to be submitted to Parliament in 2012, however we have not found evidence that such a submission has been made at the time of writing.

PFTAC has stated that it will make resources available to support modernization on income tax legislation and VAT implementation should the authorities choose to pursue this

6.4.3 Support for reform

The programme of assistance to Solomon Islands Inland Revenue Division were conducted under the DFAT and New Zealand Aid Programme funded RAMSI programme and prior to that, under the Solomon Islands Tax project funded by the New Zealand Aid Programme. New Zealand Inland Revenue has also contributed to the programme by advertising for and selecting advisors to fill secondment positions with Solomon Islands Revenue (funding for the arrangement is provided by the New Zealand Aid Programme). A similar arrangement has been agreed between the Australian Taxation Office and DFAT. At least 11 New Zealand Inland Revenue employees have been seconded to Solomon Islands Revenue under this arrangement, including 2 secondees to the Deputy Commission position.

6.4.4 Country-specific references

2011 International Monetary fund, Solomon Islands: 2011 Article IV Consultation, Third Review Under the Standby Credit Facility, and Request for Arrangement Under the Standby Credit Facility—Staff Report; Staff Supplements; Public Information Notice and Press Releases; and Statement by the Executive Director for Solomon Islands. IMF Country Report No. 11/359.

Solomon Islands Government Medium Term Fiscal Strategy: 2011-2016 August 2011 Update available at: http://www.mof.gov.sb/Libraries/Economic_Data_Reports/MTFS_2011-2016_August_2011_Update.sflb.ashx

2013 Central Intelligence Agency, The World Fact Book, available at: https://www.cia.gov/library/publications/the-world-factbook/geos/bp.html

PFTAC Annual Report 2012.

Confidential aides memoires and information provided by the International Monetary Fund (PFTAC), New Zealand Inland Revenue, New Zealand Ministry of Foreign Affairs and Trade and DFAT.

Table 14 Statistical summary of Solomon Islands

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (SBD current, millions)	1527.6	1790.2	2067.8	2329.4	2748.4	3277.8	4115.4	4325.7	4713.9	5527.8
GDP (US$ current, million)	217.2	243.6	277.1	320.9	377.2	460.8	583.2	547.4	591.7	719.2
Population	439,000	449,000	459,000	470,000	481,000	492,000	504,000	516,000	528,000	540,000
Total tax revenue (SBD millions)	243.5	340.4	472.1	564.9	690.3	925.0	1,223.2	1,308.3	1,603.1	2,038.0
Tax revenue per capita (SBD)	555	758	1,029	1,202	1,435	1,880	2,427	2,535	3,036	3,774
Tax revenue as % of GDP	15.9	19.0	22.8	24.3	25.1	28.2	29.7	30.2	34.0	36.9

Source: GDP (SI$) sourced from ADB Statistical Database Online, query 'Solomon Islands GDP current prices 2002-2012' on 17/12/2013. Population 2002 - 2011 sourced from ADB Key Indicators for Asia and the Pacific, Country table - Solomon Islands, updated 31 July 2013, accessed via ADB's SDBC download module. Total tax revenue 2002-2012 sourced from ADB Statistical Database System Online, Query "Solomon Islands Central Government Taxes 2002-2013" on 02/10/2013. Tax revenue as % of GDP 2002-2011 sourced from ADB Statistical Database System Online, Query "Solomon Islands Tax revenue as % of GDP", 28/02/2012. Sapere has performed currency conversions.

6.5 Republic of Vanuatu

6.5.1 Background

The Republic of Vanuatu (Vanuatu) is group of islands in the South Pacific Ocean about 1,750 kilometres east of northern Australia. It is composed of more than 80 islands, 65 of which are inhabited. It has a population of around one quarter of a million people. The official languages are English and French although over 70% of the population speak pidgin

This economy is based primarily on small-scale subsistence agriculture, which provides a living for about two-thirds of the population. The main agricultural products are copra, coconuts, cocoa, coffee, taro, yams, fruits, vegetables and beef. Fishing, offshore financial services, and tourism are the other mainstays of the economy. A small light industry sector caters to the local market. Tax revenues come mainly from import duties and a VAT. Economic development is hindered by dependence on relatively few commodity exports, vulnerability to natural disasters, and long distances from main markets and between constituent islands. Australia and New Zealand are the main suppliers of tourists and foreign aid.

In response to foreign concerns about Vanuatu being a tax haven, the government has promised to tighten regulation of its offshore financial centre. After negotiations with the OECD, Vanuatu has been removed from the OECD list of non-cooperative jurisdictions under the Harmful Tax Initiative, having committed to the internationally agreed tax standard. It entered into a tax sharing information agreement with Australia in 2010.

6.5.2 Tax reform

Vanuatu introduced a VAT on 1 August 1998 which is imposed at a rate of 12.5%. The introduction of a VAT was also accompanied by the abolishment of custom duties.

The biggest recent change has been in relation to reductions in custom duties following Vanuatu's accession to the WTO. Vanuatu agreed to bind all of its tariff rates to an average final bound rate of 39.7% (43.6% for agricultural products and 39.1% for industrial products) with 85% of tariff lines at either at 35% or 40%. For 98 tariff lines related to products such as wines, spirits, beer, turbo propellers, tobacco, weapons, turbo jets, chemicals, cell phones, radios and televisions, Vanuatu is phasing in tariff reductions by 2012 to 2015, depending on the product. Vitamin tariffs have been removed entirely.

6.5.3 Support for reform

A PFTAC TA was brought in under the Ministry of Finance and Economic Management in association with the Governance for Growth project to support increased revenue collection through greater compliance in VAT and customs collection. The support was aimed at strengthening administrative systems, including through intensive on the job training. The outcomes from this intervention appeared to be good: Government VAT collections up 15% on same period in 2011, directly attributed by government to the support of the TA (despite a drop in overall economic activity over the same period) (AusAID 2012, pg 68).

PFTAC has also helped the authorities investigate tax policy options to increase Vanuatu's relatively low tax to GDP ratio.

There are no current PFTAC missions in Vanuatu. The PFTAC Annual Report 2012 alludes to plans to have an AusAID (now DFAT) -supported resident advisor who will help the administration implement reforms recommended by previous PFTAC TA, but this does not appear to have happened.

6.5.4 Country-specific references

2011 New Zealand Ministry of Foreign Affairs & Trade, Republic of Vanuatu Key Facts, http://www.mfat.govt.nz/Countries/Pacific/Vanuatu.php/index.php [Accessed 28 March 2013]

2011 Pacific Institute of Public Policy, Joining the World's Economic Parliament:, July 2011: Vanuatu's accession package to the WTO explained.

2013 Central Intelligence Agency, The World Fact Book, https://www.cia.gov/library/publications/the-world-factbook/geos/fj.html [Accessed 28 March 2013]

2012 Government of Australia, Governance for Growth - Phase II 2012-2016 Program Design Document, Post Peer Review Edit, November 2012

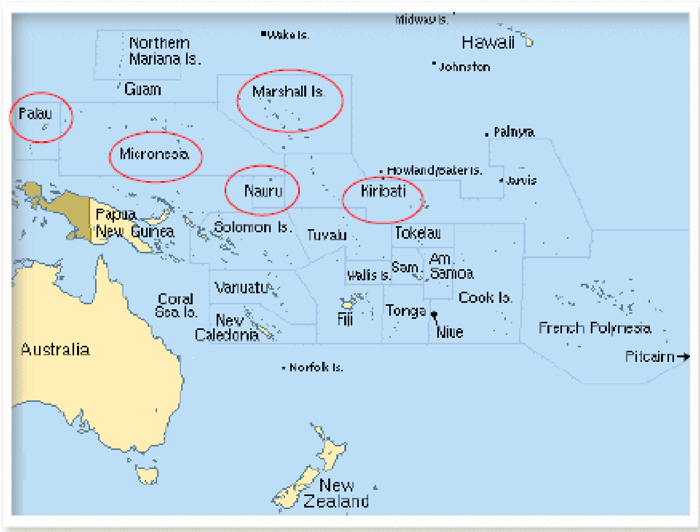
Confidential aides memoires and information provided by the International Monetary Fund (PFTAC), New Zealand Inland Revenue, New Zealand Ministry of Foreign Affairs and Trade and DFAT.

Table 15 Statistical summary of Vanuatu

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (Vanuatu Vatu m)	36554	38425	40803	43148	48612	53926	61607	65119	67912	70349
Population	202,200	206,900	212,300	217,800	223,500	229,400	235,400	238,900	245,400	251,800
Total tax revenue (Vanuatu Vatu m)	5671	6022	6622	7095	8126	9818	11444.3	10855	10888	11563
Total tax revenue (US$, current, millions)	$62.4	$66.2	$72.8	$78.0	$89.4	$108.0	$125.9	$119.4	$119.8	$127.2
Tax revenue per capita (Vanuatu Vatu)	28,046	29,106	31,192	32,576	36,358	42,799	48,616	45,437	44,368	45,921
Tax revenue as % of GDP	15	15	16	16	16	18	18	17	16	16

Source: GDP 2002-2011 sourced from ADB Statistics Database Online, Query "Vanuatu GDP current prices 2002-2011" on 18/11/2013. Population 2002 - 2011 sourced from ADB Key Indicators for Asia and the Pacific, Country table - Vanuatu, updated 31 July 2013, accessed via ADB's SDBC download module. Total tax revenue 2002-2011 sourced from ADB Statistical Database System Online, Query "Vanuatu Central government taxes 2002-2013" on 01/03/2013. Tax revenue as % of GDP 2002-2011 sourced from ADB Statistical Database Online, Query "Vanuatu Tax revenue as % of GDP", 28/2/2012. Currency conversions performed.

7. Micronesia



7.1 Overview

The Micronesian PICs are characterised by their very small size and small economic base. Due to the historical presence of North Americans in the region there is a strong American influence on the legal system. The revenue regimes in these countries started from a very poor base and have suffered from poor policy design and administration. Over the last 10 years FSM, RMI and Kiribati have policy reform agendas well advanced, but tractable change has been difficult to achieve legislatively due to constitutional issues (for example, in the FSM only the federal government can impose income tax but only states can impose VAT therefore mirror legislation is required for each state).

7.2 Republic of Kiribati

7.2.1 Background

The Republic of Kiribati (Kiribati) is an island country consisting of 33 coral atolls in the Pacific Ocean straddling the Equator as well as the International Date Line. It has a population of around 101,000 people. While English is the official language of Kiribati, it is not much spoken outside of the island capital of Tarawa. Outside of the capital, the residents of Kiribati speak Gilbertese, also known as the Kiribati language.

Kiribati is one of the least developed countries in the world. Copra and fish represent the bulk of production and exports. Tourism also provides more than one-fifth of GDP. Foreign financial aid from the EU, UK, US, Japan, Australia, New Zealand, Canada, UN agencies, and Taiwan accounts for 20-25% of GDP. Another important source of foreign income is remittances from seamen on merchant ships abroad.

7.2.2 Tax reform

In 2003 PFTAC recommended several reforms to the Kiribati tax system. These reforms included: a value-added tax (VAT); a presumptive tax; and a single ad valorem tax on imports from non Pacific countries; simplified personal income tax (PIT); single rate of corporate income tax (CIT). Follow up diagnostic and assessment reports were prepared by PFTAC advisors in 2009 and 2011, repeating these messages and giving advice about preparing for reform.

In 2009 Kiribati began its reforms by introducing legislation to treat income tax deductions from salary and wages (PAYE) as a final tax.[17] Under this reform, most personal deductions were incorporated into a higher tax-free threshold, with the result that very few employees are required to submit annual tax returns, and there will be significantly fewer refunds processed. Kiribati also introduced a withholding tax at the source in March 2009 (retroactive to January 2009). In relation to licence fishing fees, Kiribati introduced an auction system in September 2010.

The Kiribati reform programme gained momentum in 2012 when a technical advisor was recruited to support a modernisation programme and implementation of an RMS database system. This programme evolved into a programme in which Kiribati's tax policy and legislation were changed to introduce a VAT and simultaneously reduce customs tariffs and duties. The legislation was drafted and passed into law in 2013 and will be introduced in April 2014. The installation and implementation of the RMS system and a widespread communications programme regarding the upcoming changes to the tax system are happening at present.

7.2.3 Support for reform

DFAT is currently funding and providing lead support tothe project for a modernisation of the tax system in Kiribati. This initiative focuses on improving Kiribati's income tax management system by upgrading IT systems for more efficient collection of taxes. The initiative will also support reform to tax policy and legislation. The project has received advisory support from PFTAC for the reforms, including strategic guidance to the DFAT-supported resident advisor and legislative drafting support. The New Zealand government has supported advice regarding the impact of the changes on customs management and systems.

7.2.4 Country-specific references

2011 International Monetary Fund, Kiribati: Staff Report for the 2011 Article IV Consultation, IMF Country Report No. 11/113.

[17] This means there is no reason for wage and salary earners to lodge an income tax return unless they are earning other income.

2012 Kiribati Government, 2012 Budget: Enhancing Inclusive Development through Effective Partnership.

2013 Central Intelligence Agency, The World Fact Book, https://www.cia.gov/library/publications/the-world-factbook/geos/fj.html [Accessed 19 March 2013]

PFTAC Annual Report 2012

2010 Government of Kiribati, Kiribati Public Financial Management - Performance Report

Confidential aides memoires and information provided by the International Monetary Fund (PFTAC), New Zealand Ministry of Foreign Affairs and Trade and DFAT.

Table 16 Statistical summary of Kiribati

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (AUS$ current, thousand)	132,884.8	139,128.5	138,503.7	139,138.0	138,948.7	147,383.5	160,538.8	162,800.0	164,082.7	167,951.7
Population	87,400	88,900	90,400	92,500	94,600	96,700	98,800	100,800	103,100	105,300
Total tax revenue (AUS$ current, thousand)	27,780	29,852	31,866	30,586	30,298	33,495	33,376	31,772	31,880	33,933
Tax revenue per capita (AUS$)	318	336	353	331	320	346	338	315	309	322
Tax revenue as % of GDP	20.3	20.7	22.9	22.2	21.9	22.6	18.9	unreliable	unreliable	16.9

Source: ADB Key Indicators for Asia and the Pacific, Country table - Kiribati, updated 31 July 2013, accessed via ADB's SDBC download module

7.3 Republic of the Marshall Islands

7.3.1 Background

The Republic of the Marshall Islands (Marshall Islands) are composed of two archipelagic island chains of 29 atolls, each made up of many small islets, and five single islands in the North Pacific Ocean, about half way between Hawaii and Australia. It has a population of around 68,000 people. The Marshall Islands has two official languages: Marshelles spoken by over 98% of the population along with English which is also widely spoken.

Through the Compact of Free Association, signed between the Marshall Islands and the United States in 1986 and amended in 2003, the US provides significant financial support to the country. As such, assistance payments from the US Government is the mainstay of the Marshall Island's economy. Agricultural production, primarily subsistence, is concentrated on small farms; the most important commercial crops are coconuts and breadfruit. Small-scale industry is limited to handicrafts, tuna processing, and copra. The tourist industry is a growing part of the economy.

7.3.2 Tax reform

Marshall Islands is still in the process of implementing tax reform through by replacing the gross revenue tax and import duties with a net income tax and a consumption tax or value added tax. In addition, income tax will be remodelled to waive all taxes on the first $4,160 - so that workers earning the minimum wage of $2 per hour will pay no income tax - while adding a third tier of tax to the current 8% and 12% for high-income earners. This would see all income over $20,800 - now 12% - be taxed at 16%. The tax reform package would also establish a new Tax Authority as an agency independent of the Ministry of Finance responsible for administering the new tax regime.

The tax plan was drafted by a joint public-private sector tax commission. Private sector members of the tax commission see tax reform improving the business and investment climate, particularly the switch from the gross revenue tax to a net profit tax. There is also significant donor interest in and push behind the new tax package, with provision of loans and grants being contingent on introduction and passage of reform legislation.

7.3.3 Support for reforms

PFTAC Technical Assistance has supported the design of revenue policy and administration reforms, including the drafting of legislation that awaits approval. PFTAC aims to continue its TA input on revenue, in coordination with DFAT and ADB.

7.3.4 Country-specific references

2011 International Monetary Fund, Republic of the Marshall Islands: 2011 Article IV Consultation, IMF Country Report No.11/339.

2013 Central Intelligence Agency, The World Fact Book, https://www.cia.gov/library/publications/the-world-factbook/geos/fj.html [Accessed 19 March 2013]

2013 Giff Johnson, 'New Marshalls Tax Reform Plan Draws Mixed Reactions: Some local business community members divided over revamp', Marianas Business Journal, 11 March.

2013 Presentation by Bruce Bilimon (Assistant Secretary, Customs, Treasury, Revenue & Taxation, Republic of Marshall Islands Ministry of Finance) to the PITAA conference, Honiara, October 2013.

Confidential aides memoires and information provided by the International Monetary Fund (PFTAC).

Table 17 Statistical Summary of Marshall Islands

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (US$ current)	124.7	126.9	131.1	137.6	143.4	149.8	152.7	151.7	163.2	170.7
Population	49,900	50,300	50,800	51,600	52,000	52,300	53,000	53,600	54,200	55,000
Total tax revenue (US$ m)	20.1	23.1	22.5	24.3	25.1	27.1	26.2	24.3	25.2	26.0
Tax revenue per capita (US$)	403	459	443	471	483	518	494	453	465	472
Tax revenue as % of GDP	16.1	18.2	17.2	17.6	17.5	18.1	17.1	16.1	15.5	15.5

Source: ADB Key Indicators for Asia and the Pacific, Country table – Marshall Islands, updated 31 July 2013, accessed via ADB's SDBC download module

7.4 Federated States of Micronesia

7.4.1 Background

The Federated States of Micronesia (FSM) is island group in the North Pacific Ocean consisting of four major island groups totalling 607 islands which cover a longitudinal distance of almost 2,700 km just north of the equator and lie northeast of New Guinea. It has a population of around 112,000. The official language of FSM is English, but with several other languages spoken including Chuukese, Kosrean, Pohnpeian, Yapese, Ulithian, Woleaian, Nukuoro, and Kapingamarangi.

Economic activity in FSM consists primarily of subsistence farming and fishing. Similar to the Marshall Islands, the FSM economy is heavily dependent on financial support from the US through a Compact of Free Association agreement.

7.4.2 Tax reform

No real reforms have been made in FSM yet, despite a reform agenda being in place for a long time. There have been administrative changes of a relatively minor nature, however. A set of bills to create the Unified Revenue Authority (URA) and to introduce a net profits tax (effective October 2013) and a value added tax (effective October 2014) in lieu of gross revenue and state sales taxes were approved by the national government as well as two out of the four state governments, but will not take effect until they are approved by all states. It is hoped by advisors that this reform will remove the bias against industries with relatively high fixed costs and distortions from different tax rates across goods and services, making the FSM tax system more efficient.

7.4.3 Support for reforms

PFTAC Technical Assistance has supported the design of revenue policy and administration reforms, including the drafting of legislation that awaits approval. PFTAC aims to continue its TA input on revenue, in coordination with DFAT and ADB.

7.4.4 Country-specific references

2013 International Monetary Fund, Federated States of Micronesia: 2012 Article IV Consultation, IMF Country Report No.13/16.

2013 Central Intelligence Agency, The World Fact Book, https://www.cia.gov/library/publications/the-world-factbook/geos/fj.html [Accessed 19 March 2013]

2103 Presentation to the PITAA conference, Honiara, October 2013

Confidential aides memoires and information provided by the International Monetary Fund (PFTAC).

Table 18 Statistical summary of Federated States of Micronesia

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (US$ current, million)	241.7	245.1	239.6	249.8	253.0	255.9	261.3	277.5	294.1	310.3
Population	106,200	105,800	105,800	105,600	105,000	104,500	103,900	103,400	102,800	103,600
Total tax revenue (US$ m)	26.3	24.1	27.3	29.2	29.7	27.8	29.3	31.7	35.3	37.2
Tax revenue per capita (US$)	248	228	258	277	283	266	282	307	343	359
Tax revenue as % of GDP	10.9	9.8	11.4	11.7	11.7	10.8	11.1	11.3	11.9	12.0

Source: ADB Key Indicators for Asia and the Pacific, Country table – Marshall Islands, updated 31 July 2013, accessed via ADB's SDBC download module

7.5 Republic of Nauru

7.5.1 Background

The Republic of Nauru (Nauru) is an island country in the South Pacific Ocean which is located south of the Marshall Islands. It is the world's smallest independent republic and has a population of around 10,000 people and is only 21 square kilometres in size. Nauruan is the official language although English is widely spoken and understood and used for most government and commercial purposes.

The Nauru economy is heavily dependent on foreign development grants, with Australia being the major donor country. The country has also received a recent economic boost with the re-opening of a Regional Processing Centre by the Australian Government for asylum seekers. The major industry in Nauru is the mining and export of phosphates. Primary reserves of phosphates were exhausted and mining ceased in 2006, but mining of a deeper layer of "secondary phosphate" in the interior of the island began in 2007 and is ongoing and reserves may last another 30 years. Other industries are fishing and coconuts products. The unemployment rate is high at 29%.

Nauru has recently returned to growth following years of stagnation, mainly due to a pick-up in phosphate exports. The fiscal position has stabilized, but remains compromised by high debt, low revenues and poor state-owned enterprise performance. There is no domestic financial sector, following the collapse of the Bank of Nauru in 1995. Few comprehensive statistics on the Nauru economy exist. Statistics on taxation are unavailable.

Table 19 Statistical summary of Nauru

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (AUS$ current, million)	...	...	37.6	34.4	33.7	27.6	49.5	70.1	68.6	83.9
Population	10,100	9,900	9,700	9,500	9,100	9,200	9,400	9,500	9,700	9,900

Source: GDP (AU$) figures sourced from ADB Statistical Database Online, query 'Nauru GDP 2002-2012' and 'population' on 17/12/2013

7.5.2 Tax reform

Under pressure from OECD following Nauru's identification as a possible tax haven, Nauru introduced anti-avoidance legislation in 2003. In October 2005, after satisfactory results from the legislation and its enforcement, OECD lifted the non-cooperative designation.

Currently, Nauru has no legislation authorising taxation of businesses or households. A new Nauru Revenue Office (NRO) commenced operations in July 2011 with the intention of generating improved revenue collection from import duties, license fees etc as it has the enhanced capacity to enforce existing fee collection mechanisms. A broad based consumption tax has also been mooted.

7.5.3 Support for reform

Nauru has been a relatively light user of PFTAC TA. This reflects a number of DFAT financed resident advisors and the limited absorption capacity in the main institutions.

PFTAC recently supported the authorities as they established a revenue office and policy framework. PFTAC TA has also supported the production of national accounts and balance of payments statistics.

In 2012, PFTAC stated that it aimed to work closely with the AusAID (now DFAT) financed revenue advisor to improve revenue policies and processes in 2012 and 2013, with a view to ultimately implement a basic consumption tax. PFTAC planned a policy mission in 2012 with follow up on corporate planning and processes in 2013 (PFTAC, 2012).

7.5.4 Country-specific references

2011 Republic of Nauru, 2011-12 Budget and the Estimates of Revenue and Expenditure.

2011 Asia Development Bank, Asian Development Bank & Nauru: Fact Sheet.

2012 Australian Agency for International Development (AusAID), Annual program performance report 2011: Nauru Program.

2013 Central Intelligence Agency, The World Fact Book, https://www.cia.gov/library/publications/the-world-factbook/geos/fj.html [Accessed 20 March 2013]

7.6 Palau

7.6.1 Background

The Republic of Palau (Palau) is group of islands in the North Pacific Ocean, southeast of the Philippines. It has a population approaching 21,000 people. Palau has two official languages: Palaun which is spoken by over 60% of the population and English which is spoken by over 9% of the population. Other major languages include Filipino which is spoken by over 15% of the population and Chinese which is spoken by almost 5% of the population.

The economy consists primarily of tourism, subsistence agriculture, and fishing. The government is the major employer of the work force. Palau has a Compact of Free Association with the US which provides Palau with US aid ("Compact grants") in return for furnishing military facilities.An overarching challenge for Palau is to achieve self sufficiency when the renewed Compact grants expire in FY2024, as the public service relying heavily on financial assistance from the US. For these reasons, "Fiscal consolidation remains the highest priority" according to PFTAC (PFTAC, 2012).

7.6.2 Tax reform

The IMF observed last year that comprehensive tax reform is long overdue in Palau. The focus so far has been on improvements in taxation administration, including on IT development and improved corporate strategy and compliance.

Recent changes to tax policy include increasing the hotel tax from 10 to 15% and introducing a green fee increase or environmental protection fee.

7.6.3 Support for reform

While there has been a lot of TA support provided for Palau in recent years, the focus has not really been on taxation and taxation reform. There has been assistance provided for administrative improvements, and PFTAC intends to continue this stream of work (PFTAC, 2012). PFTAC states that its ultimate aim is to lay the foundation for a modernized tax policy and the introduction of VAT.

7.6.4 Country-specific references

2012 International Monetary Fund, Republic of Palau: 2012 Article IV Consultation, IMF Country Report No.12/54.

2013 Central Intelligence Agency, The World Fact Book, https://www.cia.gov/library/publications/the-world-factbook/geos/fj.html [Accessed 20 March 2013]

PFTAC Annual Report, 2012.

Table 20 Statistical summary of Palau

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (US$ current, million)	168.9	173.3	190.8	206.3	210.1	211.8	212.7	197.5	196.5	212.9
Population	19,573	19,698	19,803	19,906	20,011	20,118	20,228	20,346	20,472	20,609
Total tax revenue (US$ million)	23.9	24.2	27.8	31.8	31.2	30.7	32.8	29.2	31.1	35.4
Tax revenue per capita (US$)	1,232	1,235	1,411	1,598	1,600	1,599	1,745	1,578	1,718	1,989
Tax revenue as % of GDP	14.1	14	14.6	15.4	14.9	14.5	15.4	14.8	15.8	16.6

Source: GDP figures sourced from ADB Statistical Database Online, query 'Palau GDP 2002-2012' on 17/12/2013. Population figures sourced from ADB Statistical Database Online, query 'Palau population 2002-2012' on 17/12/2013. Total tax revenue figures sourced from ADB Statistical Database Online, query 'Palau central government taxes 2002-2012' on 17/12/2013

8. Timor-Leste

8.1.1 Background

The Democratic Republic of Timor-Leste is a country in Southeast Asia, situated on the eastern half of the island Timor, which it shares with Indonesia, the nearby islands of Atauro and Jaco, and Oecusse, an exclave within the Indonesian West Timor. The size of the country is about 15,000square kilometres. The official languages are Portuguese and Tetum, but also Indonesian and English are spoken commonly.

Timor-Leste has seen double digit growth rates over the last few years and is expected to have the sixth largest GDP growth in the world for 2013. Timor-Leste's economy floats mainly on offshore oil and gas reserves, with 57% of exports consisting of oil and gas exports. After petroleum, the second largest export is coffee, which generates about $10 million a year. The rural population still heavily relies on subsistence farming. 80% of the labour force works in agriculture.

In 2005 the Timor-Leste Petroleum Fund was established, a fund of the government into which the surplus from oil and gas income is deposited. By 2011 it had reached a worth of US$8.7 billion.[18] East Timor is labelled by the International Monetary Fund as the "most oil-dependent economy in the world". The Petroleum Fund pays for nearly the government's entire annual budget, which has increased from $70 million in 2004 to $1.3 billion in 2011.

The economy is dependent on government spending and, to a lesser extent, assistance from international donors. Private sector development has lagged due to human capital shortages, infrastructure weakness, an incomplete legal system, and an inefficient regulatory environment.

Timor Leste has been having inflation running into the double digits. The IMF advised slowing the planned increase in capital spending over the next few years to better align with the absorptive capacity of the economy and administrative constraints. In the absence of monetary policy (Timor-Leste uses the U.S. dollar), fiscal policy is key to containing high inflation and sustaining strong growth. The government plans to reduce the non-oil fiscal balance to a sustainable level over the next 10 years, to provide an anchor for fiscal policy in the future.

Four separately distinguishable taxation regimes exists for Timor-Leste's sovereign territory and areas identified in the Timor Sea Treaty.

8.1.2 Tax reform

There was very little reform in Timor Leste early in the 2000s due to political instability but in 2008 the tax environment changed considerably. On 25 June 2008, the Timor-Leste

[18] http://en.wikipedia.org/wiki/East_Timor - cite_note-irin-asia-40

parliament passed the Taxes and Duties Act (Law No.: 8/2008) (the "TDA"). The TDA has effect from 1 January 2008 for annual taxes and from 1 July 2008 for all other taxes. The TDA applies to the territory of Timor-Leste including the JPDA (except for the Bayu-Undan and Greater Sunrise areas).

The TDA repealed UNTAET Regulation 2000/18, UNTAET Directive No. 2001/2 (and the Petroleum Tax Act) to provide a single framework for the imposition of tax in Timor Leste (subject to the overlay of the Timor Sea Treaty).

However, the TDA did not repeal the legal regime applicable for the collection and recovery of tax, for tax offences and for sanctions.

Significant features of the TDA include:

a. a reduction in the tax rate for legal persons and for non-resident persons from 30% to 10%;

b. a reduction in the maximum Wage Income Tax rate for resident natural persons from 30% to 10%;

c. the removal of the "minimum income tax" for business enterprises;

d. the removal of the entitlement to interest deductibility (unless incurred by a financial institution);

e. the upfront deductibility of business inputs. This extends to all capital items including buildings (but excluding land) and trading stock which may be depreciated at 100% during the year of acquisition;

f. the indefinite carry forward of tax losses;

g. reductions in the rates of Import Duty (from 6% to 2.5%); and

h. reductions in the rates of Sales Tax on imported goods (from 6% to 2.5%).

8.1.3 Support for reform

Timor-Leste receives substantial assistance in Public Financial Management from the World Bank administered PFM reform project. In addition, Timor-Leste receives significant amounts of IMF TA, including resident advisors, which is expected to continue.

Timor-Leste and PFTAC are still in the early stages of partnership. Timor-Leste became a member of PFTAC at the beginning of Phase IV (July 2011). PFTAC has provided small amounts of TA thus far, mainly in conjunction with IMF HQ missions on revenue administration and macroeconomic management of resource revenues. Timor-Leste officials have also begun participating in Pacific regional training delivered/financed by PFTAC.

Going forward, PFTAC has expressed an intention to work with IMF HQ assistance towards implementing a VAT. Detailed assistance is expected to be delivered in the context of the larger Public Financial Management project.

8.1.4 Country-specific references

2011 International Monetary fund, February 2012. Democratic Republic of Timor-Leste: 2011 Article IV Consultation—Staff Report; Informational Annex; Debt Sustainability Analysis; and Public Information Notice IMF Country Report No. 12/24

2013 Central Intelligence Agency, The World Fact Book, available at: https://www.cia.gov/library/publications/the-world-factbook/geos/tt.html

PFTAC Annual Report 2012.

Table 21 Statistical summary of Timor-Leste

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (US$ current, millions)	468	489	1,079	1,801	2,824	2,965	4,439	3,299	4,216	5,798
Population	886,000	904,000	923,000	945,000	968,000	992,000	1,015,000	1,040,000	1,067,000	1,092,000
Total tax revenue (US$, current, millions)			46.2	27.3	27.8	26.8	39	46.7	50.2	64.9
Tax revenue per capita (US$)			50	29	29	27	38	45	47	59
Tax revenue as % of GDP	4.3	1.5	1.0	0.9	0.9	1.4	1.2	1.1	4.3	1.5

Source: All data sourced from ADB, Statistical Database System Online, 01/03/2013

9. Existing evaluation material

9.1.1 Existing evaluation materials

The following table summarises the evaluations available on tax and revenue reform for the countries identified as having done some form of reform (i.e., one or other of agenda setting, policy options and implementation) and summarises any gaps that exist.

Table 22 Existing evaluation material for the countries

Country	Evaluation material available	Gaps in evaluation material
FSM	In December 2010 a report on a joint review of all technical advisors in FSM was produced. It has a few lines on the FSM tax reform advisor and tax revenue advisor. A presentation at the 2013 PITAA conference summarised the tax reform journey in FSM and included some 'lessons learned'. The IMF country report from 2013 includes data on revenue adequacy. PEFA assessment in January 2012 which assesses transparency of taxpayer obligations and liabilities and effectiveness of measures for taxpayer registration and assessment. Baseline assessment of tax administration by PFTAC 2011.	There are not major gaps. There does not appear to have been a detailed evaluation of tax reform work in FSM but the existing material, read together, provides a quick snapshot of outcomes.
RMI	PEFA assessment in December 2011 which assesses transparency of taxpayer obligations and liabilities and effectiveness of measures for taxpayer registration and assessment. A presentation at the 2013 PITAA conference summarised the tax reform journey in RMI and included some 'lessons learned'. The IMF country report from 2013 includes data on revenue adequacy. Baseline assessment of tax administration by PFTAC 2011.	There are not major gaps. There does not appear to have been a detailed evaluation of tax reform work in FSM but the existing material, read together, provides a quick snapshot of outcomes.. Evaluation material might be more available after the reforms have finished being implemented.
Solomon Islands	DFAT has completed an Independent progress report on Medium Term Program of Assistance for Solomon Islands Inland Revenue Division (June 2011). The Office of Development Effectiveness has produced a Policy Dialogue case study on the Core Economic Working Group (CEWG) for the Solomons. Baseline assessment of tax administration by PFTAC 2011.	The DFAT evaluation is a program-level evaluation/progress report rather than an evaluation of 'lessons learned'. It does contain recommendations for future programs of assistance but does not assess the reform program in terms of high level outcomes.

Country	Evaluation material available	Gaps in evaluation material
	There was a PEFA assessment planned for 2012 but remains unpublished.	
Samoa	2011 PITAA award In early 2013 PFTAC technical advisors performed a strategic revenue review that analysed recent revenue developments and identify policy and administrative actions that could help increase revenues. A PFTAC report has been prepared.	The 2013 review is more of a strategic review about what could be done next than an evaluation per se, but contains evaluative material and a summary of macroeconomic statistics. It evaluates the policy setting and administrative context, but does not appear to evaluate the process of reform.
Tonga	In 2011 PFTAC conducted a review of Tonga's tax system. See Cotton, Jenkins, and Mullins (2011): "Revenue Policy and Administration Review", Aide-Mémoire, International Monetary Fund, Pacific Financial Technical Assistance Centre. Baseline assessment of tax administration by PFTAC 2011. PEFA assessment May 2010.	The existing review evaluates the policy setting and administrative context, but does not appear to evaluate the process of reform.
Niue	An initial evaluation of the tax reforms was prepared for the IRD in 2009 by VentureGroup Ltd and there was a 2009 report on the capacity of the tax office that has some statements about the effectiveness of reform work. There are unofficial file notes available from the IRD from 2013. Thas was a PEFA evaluation of the Public Financial Management in Niue (August 2011) (available from www.pftac.org) which assesses transparency of taxpayer obligations and liabilities and effectiveness of measures for taxpayer registration and assessment. Baseline assessment of tax administration by PFTAC 2011.	Some gaps but read in totality, the existing material provides an overall picture. IRD has confirmed it hasn't formally evaluated its involvement in Niue and has an interest in the findings of this evaluation.
Papua New Guinea	Independent Evaluation of EPSG Twinning Schemes Initiative (by dr Penelope Murphy) with examples particular to the PNG-Australia Taxation Office Twinning Scheme (PATOTS) (published 28 May 2010). There was subsequently a response prepared by DFAT. As a result of this report the Australian Aid Program's changed its approach to technical assistance in PNG to include less focus on corporate capacity building, more focussing support where there is strong PNG Government ownership and leadership and more consideration of less expensive modes of technical assistance. PEFA assessment in September 2011 which assesses transparency of taxpayer obligations and liabilities and effectiveness of measures for taxpayer registration and assessment. Baseline assessment of tax administration by PFTAC 2011.	No major gaps, but the DFAT evaluation is a program-level evaluation/progress report rather than an evaluation of 'lessons learned'. It does contain recommendations for future programs of assistance but does not assess the reform program in terms of high level outcomes or process.

Country	Evaluation material available	Gaps in evaluation material
Kiribati	PFTAC aides memoires from 2009 and 2011 contain some macroeconomic information but not evaluations per se. PEFA assessment in January 2010 which assesses transparency of taxpayer obligations and liabilities and effectiveness of measures for taxpayer registration and assessment (led by the Asia Development Bank). Baseline assessment of tax administration by PFTAC 2011.	There is little evaluation material available for Kiribati but more may become available after implementation of the VAT reform has had sufficient time to embed. DFAT, who providing lead support to the project of modernisation which started in 2012 have indictated an intention to include Kiribati in an evaluation by DFAT of Tax reforms in Pacific Island microstates (the ToR has been drafted). The evaluation will be of Nauru, Kiribati and Tuvalu.
Cook Islands	In 2012 and 2013 PFTAC has taken the lead in a comprehensive review of the Cook Islands tax system alongside the Ministry of Finance and Economic Management (MFEM). The review is unpublished at this point but the review brief includes the question: "review would consider the effectiveness of prior technical assistance and how TA can be better applied to achieve the desired outcomes". (background to the review is available from www.mfem.gov.ck) A PEFA evaluation of the Public Financial Management in the Cooks (August 2011) (available from www.mfem.gov.ck) which assesses transparency of taxpayer obligations and liabilities and effectiveness of measures for taxpayer registration and assessment. Baseline assessment of tax administration by PFTAC 2011.	We have not seen the recommendations from the review conducted by MFEM in cooperation with PFTAC. The review brief suggests that the review will include some evaluation questions about the appropriateness of policy, administration and the modality of reform but does not use a DAC framework or similar.
General evaluation material	Pacific Islands Tax Administration Baseline Assessment (PFTAC 2011) which uses a nine-point assessment tool to assess PICs against a model tax office (the model being one that recognises the context of PICs). Evaluation of capacity constraints in PFM in Small Pacific Countries (December 2012) which compares PEFA scores across 12 small PICs. Cotton (2010) and (2008) research material providing guidance on issues affecting the achievement of revenue reforms in PICs Evaluations of PFTAC. Three independent evaluations have been commissioned by IMF (and June 2009, September 2004 and 1997) and in addition, ADB evaluated PFTAC in 2006. Asian Development Bank (ADB) conducted a special evaluation study (SES) to assess the effectiveness of Asian Development Bank (ADB) support for public sector reforms in Pacific developing member countries (DMCs). The SES addressed three key questions: Was ADB support relevant to Pacific DMC reform needs? Was ADB's approach to supporting reforms in the Pacific and use of the program loan modality and technical assistance (TA) effective? How can ADB improve its support to	Aside from the two reports authored by Margaret Cotton (2010 and 2008) reports and the ADB special evaluation study, there is very little material available which questions the process of reform.

Country	Evaluation material available	Gaps in evaluation material
	Pacific DMCs for reforms? The SES evaluates 11 loans approved over 1996–2002 to 8 Pacific DMCs—2 in Micronesia (the Federated States of Micronesia [FSM] and the Republic of the Marshall Islands [RMI]); 3 in Melanesia (Papua New Guinea [PNG], Solomon Islands, and Vanuatu); and 3 in Polynesia (Cook Islands, Samoa, and Tonga). Available from www.oecd.org or www.adb.org	

Appendix 1 References

2010 Alan J Auerbach, "Directions in Tax and Transfer Theory," in Melbourne Institute, Australia's Future Tax and Transfer Policy Conference, 63–71. Available from www.taxreview.treasury.gov.au

2010 Asia Development Bank, The Political Economy of Economic Reform in the Pacific , Chapter by Margaret Cotton, 'Achieving Revenue Reform in the Pacific: Taking Revenue Policy and Administration Advice from Intent to Reality'.

2008 Margaret Cotton, 'Change Content and Aid Effectiveness: How the Size of Change Content Affects Implementation of Technical Assistance Recommendations in Developing Pacific Island Countries", Masters Thesis, Massey University.

2004 Christophe Grandcolas, 'VAT in the Pacific Islands', Asia Pacific Tax Bulletin, January/February 2004, 12.

1927 Frank P. Ramsey, 'A Contribution to the Theory of Taxation', The Economic Journal, 37, 47-61.

2007 Nikunj Soni, Belinda Harries & Betty Zinner-Toa, Responding to the Revenue Consequences of Trade Reforms in the Forum Island Countries, Watergill Consulting Ltd.

2008 Ramesh Durbarry, 'Tourism Taxes: Implications for Tourism Demand in the UK', Review of Development Economics, 12, 21-36.

2010 Pacific Financial Technical Assistance Centre (PFTAC) and the International Monetary Fund (IMF), Improving Revenue Collection and Capacity in Forum Island Countries, September 2010.

2010 Commonwealth of Australia, Australia's Future Tax System, material available at www.taxreview.treasury.gov.au

2010 Victoria University Tax Working Group, A Tax System for New Zealand's Future, material available at http://www.victoria.ac.nz/sacl/cagtr/twg/report

2010 Institute for Fiscal Studies, Mirrlees Review, Reforming the tax system for the 21st Century: Dimensions of tax design, material available at www.ifs.org.uk

2011 Pacific Financial Technical Assistance Centre (PFTAC), Pacific Islands Tax Administration – Baseline Assessment Framework, Prepared by Margaret Cotton PFTAC Revenue Advisor, September 2011.

2011 Briefing for the Incoming Minister of Revenue – 2011, Inland Revenue New Zealand Policy Advice Division, available at http://taxpolicy.ird.govt.nz/publications

2012 Pacific Financial Technical Assistance Centre (PFTAC), Annual Report, November 2012.

2011 Pacific Financial Technical Assistance Centre (PFTAC), Annual Report, November 2011.

2013, Sapere Research Group, Evaluation interviews, March 2013 – September 2013