Towards Economic Independence for Bougainville, The Value of the “Value Added Tax” as an Important Source of Revenue.

Economic Independence; the capacity to raise funds and meet their own expenditures, is a goal for Bougainville.

Attaining economic independence in Bougainville must begin with an evaluation of where Bougainville currently is at in terms of its expenditure requirements and the revenues required to pay for these commitments. Expenditures for Bougainville are pre-determined given the fact that access to services such as education, healthcare, policing etc., - public services that cannot be cut from the levels currently available. Bougainville must also allocate funds for investments in new developments and services. The ABG then has to look at the revenue sources to match the expenditure requirements.

Value Added Tax (VAT) is an important revenue source for the ABG budget, that is yet to be fully realised. This article makes a case for VAT and shows that comparatively, many small island states depend on VAT as a major tax revenue source. Most of the data presented here is drawn from the PNG NRI publication “Research Report 9: Increasing Revenues for the Bougainville Government” and released under the Bougainville Referendum Research Project (BRRP) in January 2021.

Where is Bougainville currently getting its revenues from?
In 2020, the total ABG budget was approximately K440 million. The table below shows the major revenue sources and the allocations for recurrent and development budget activities.

<table>
<thead>
<tr>
<th></th>
<th>ABG Internal Revenue (K)</th>
<th>GoPNG Grants (K)</th>
<th>Donors (K)</th>
<th>Total (K)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurrent</td>
<td>27,990,000</td>
<td>150,964,000</td>
<td>-</td>
<td>178,945,000</td>
</tr>
<tr>
<td>Development</td>
<td>18,971,843</td>
<td>241,600,000</td>
<td>3,600,000</td>
<td>260,171,843</td>
</tr>
<tr>
<td>Total</td>
<td>46,961,843</td>
<td>392,564,000</td>
<td>3,600,000</td>
<td>439,516,843</td>
</tr>
</tbody>
</table>

Sources of Revenues
Of the nearly K440 million budget, about K47m or just 11% of the budget, was funded from internal revenues, K3.6 million by donors and the balance from grants by the national government.

Internal Sources of tax Revenue
Bougainville’s internal tax revenue sources include the Bougainville Group Tax, - comprising of company tax but mostly personal income tax (K23.0m) , Goods and Services Tax or VAT (K0.5m), Tuna Royalties from the National Fisheries Authorities (K5.0m), and other sources (K1.99m). In 2020, the IRC collected VAT and remitted K500 000 as captured in the Budget. This accounted for 2% of total tax revenues, but there is huge potential for increasing this revenue source for the ABG.

How can Bougainville increase its internal revenues?
The report recommends pursuing both short term initiatives and longer term initiatives through growing the economy as the tax base. A key short term measure that was recommended, focuses on increasing spending levels of the public and in doing so, increase the VAT revenues to Government.

The Value Added Tax (VAT)
A VAT of 10% is imposed on the value of goods and services produced. For instance, when someone purchases goods at a shop for K55, one also pays a K5.50 tax, - ten percent- in addition to the cost of goods charged, so a total of K60.50 is paid. The K5.50 along with other amounts that have been collected, are remitted to the tax office by the shop owner.

The total economy GDP or money changing hands in Bougainville is estimated at 1 billion kina every year. If 10% of that was collected as VAT, there is the potential revenue of K100 million kina every year to the ABG. The VAT is an indirect tax and thus requires an effective administration for collection. VAT in Bougainville is currently collected by the Internal Revenue Commission (IRC) and transferred to the ABG.

Bougainvilleans earn incomes through cocoa and other commodity crops and also through the sale of alluvial gold. Public servants
and other workers earn salaries. They all purchase goods and services from incomes earned. However, much of the transactions in purchase of goods and services is not captured through formal retail shops and establishments. The ABG needs to strategically work on increasing this important revenue source.

The immediate task is for the ABG to work with the IRC and ensure that tax is being paid and collected. Business houses need to be registered and checked to ensure that appropriate levels of tax are being collected and remitted.

It is also important for the ABG to start planning and developing the regional towns and business centres across Bougainville. Proper land titles need to be allocated, businesses invited and supported to establish business activities to provide goods and services. They would be registered with the tax authorities to collect and remit VAT taxes collected.

The other important strategic consideration is for the ABG to develop income earning opportunities for the people to get money. Formal job creation, to increase employment and salary incomes is one strategy. This can be achieved through promoting the establishment of businesses providing goods and services. The potential for promoting tourism and hospitality activities across Bougainville is another potential area for development.

The ABG needs to invest in the provision of sound infrastructure such as transport, maintenance of roads and sea transport in order to facilitate movement of people and goods. In addition, provision of adequate security to enable free trade and commerce is critical. Other important considerations include investments in providing reliable electricity and communications, both critical for urban as well as rural areas of Bougainville.

The ABG can strategically work to improve the VAT from K$500,000 in 2020, to K$10m in 2022 and progressing to more than K$100m by 2030. In order to achieve this, the ABG needs to plough back the tax generated into growing the economy.

**VAT as a Major Tax Revenue Source.**

Bougainville’s economy, size and resource endowments makes it comparable to several other small island states such as Vanuatu, the Solomon Islands, Trinidad and Tobago and others.

Chand et al (2021), examined the tax structure of these group of small island states and found that the VAT was “by far the most important source of tax revenue” for these states (p.26) and that it accounted for 11.3 percent of total GDP. Take for example, Vanuatu, where corporate and personal income tax are not collected. Instead, 80 percent of the tax revenue is sourced from VAT collection.

**The VAT and Bougainville**

The VAT is an under-developed but important source of revenue for development in the immediate short term by the ABG. It can set the foundation as a sustainable revenue source as other shorter and longer term revenue streams are explored and brought online.

The beauty of the VAT is that it is people-focused. It forces governments to look at how people will increase their incomes and spend the incomes to purchase goods and services and improve the quality of their lives. In doing so people also contribute to the Government revenue so that Government has money to pay for public goods and services, such as health, education and transport. The VAT tax system can also bring about greater accountability as the people that pay the taxes and the business houses that collect the tax, demand Government to spend money in areas where they can all mutually benefit.