THE NATIONAL RESEARCH INSTITUTE
PAPUA NEW GUINEA

PUBLIC POLICY BLOG

Growing cities and towns in Papua New Guinea through Goods and Services Tax revenue

Logea Nao

www.pngnri.org
No. 25
May 2022

The fiscal capacity of the National Government is critical to ensure the provision of goods and delivery of services to the people. In this regard, the collection of tax is a critical component of government's revenue generation that enables it to meet its operational and development expenditure priorities. In Papua New Guinea (PNG), the tax regime consists of direct and indirect taxes. The former includes income tax from salaries or personal emoluments and corporate tax, whilst the latter includes Goods and Services Tax (GST).

GST is a tax imposed on the sale of goods and services in the country or goods imported into the country at a rate of 10 percent of the value of goods and services sold or goods imported. GST collection is done by the Internal Revenue Commission (IRC) in each province as this is where economic activities occur. Currently, 60 percent of GST revenue collected from the provinces is remitted back to the provinces to support their provincial budgets in the delivery of goods and services for residents in the provinces (including cities and towns) as well as visitors from outside the province.

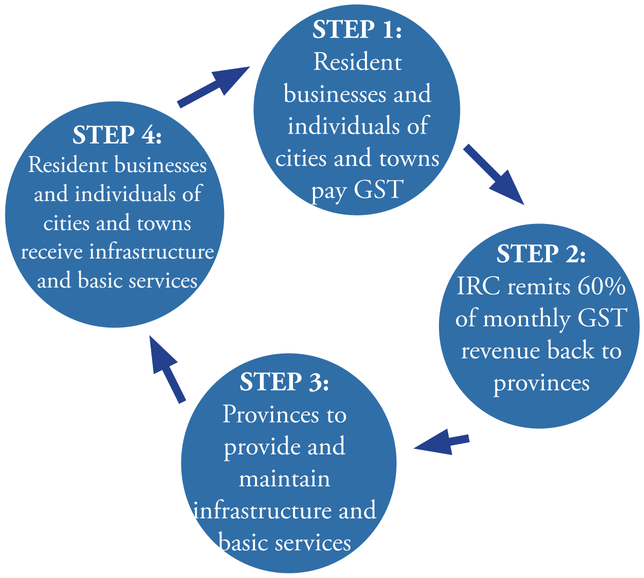
However, there is a growing concern on the effectiveness of this arrangement due to either lack of or poor quality of goods and services provided to people in the provinces. These include deteriorating conditions of roads and bridges; and lack of services which include public parks and toilets, garbage collection and maintenance of law and order for a conducive environment for families and businesses to enjoy.

In light of the above concern, this article argues for direct transfer of GST revenue back to the city or town that generates it purposely for the maintenance of trunk infrastructure and delivery of basic services. Particularly for the reason that GST is paid by those that engage in direct cash transactions, therefore, the income generated from GST by the government and remitted back to the originating province should be directly used for their benefit.

Process of GST revenue collection, remittance and use in PNG

The current process of GST revenue collection, remittance and use in PNG is depicted in Figure 1 below. Step 1, businesses/individuals pay GST for every cash transaction undertaken. Step 2, IRC remits 60 percent of all monthly GST revenue raised by the province back to the province as budgetary support. Step 3, provinces provide services to all residents of the provinces as well as visitors. Step 4, resident businesses and individuals access services provided. Residents and visitors continue to engage in direct cash transactions, hence, contribute to GST revenue generated by the provinces.

Figure 1: Process depicting the social contract between the State and its citizens.



Source: Adapted from various legislations concerning GST in PNG (including Goods and Services Tax Revenue Distribution Act, 2003).

GST revenue is already being used by one municipal authority for its city roads

In 2020, Lae City Authority, Morobe Provincial Government and IRC signed a memorandum of agreement (MOA) under which PGK14,000,000 from 20 percent of Morobe's monthly GST remittance to the National Government had been allocated to maintain roads in Lae City. This effort is commendable. However, the concern with this arrangement is that it is on an adhoc basis as it has been done through an MOA and because there is political will and leadership at the province to do so. Aside from this, how much of the GST revenue is tied specifically to maintain other basic services such as public parks, markets and toilets, and to maintain law and order within Lae City?

The example above points to the need for a portion of GST revenue to be transferred directly to the city or town that generates the GST revenue purposely for the maintenance of the trunk infrastructure and delivery of basic services for the enjoyment of the city or town residents and visitors. The current unsustainable system of reliance on direct grants from the National Government and provincial governments does not appear to be working effectively.

What can be done to grow cities and towns through GST revenue

At present, nothing is tying down Step 4 and Step 5 in Figure 1 (refer diagram above). Therefore, businesses and residents of provinces, particularly, cities and towns, are either not receiving the services they expect or not at the expected standard. It is for this reason that the proposition for direct transfer of GST revenue back to the city or town that generates it has been made. This can enable cities and towns to build and maintain public infrastructure and deliver basic services effectively.

The proposed way to address this is to make the necessary amendments to the city-specific legislations (e.g. Lae City Authority Act, 2015) or the Goods and Services Tax Revenue Distribution Act, 2003. It is also proposed that the GST share for the provinces (remitted by National Government back to the provinces) be tied into the maintenance of the provincial transport network. This can promote inter-provincial connectivity via transport infrastructure.

Conclusion

The proposition made above is not intended to create an additional layer of requirements. It is however, intended to better implement the social contract between the State and its citizens by holding the government accountable by its citizens through the provision and maintenance of quality infrastructure and reliable basic services and in doing so solicit support from citizens in the upkeep of the same. In doing so, cities and towns can compete with each other for businesses and visitors, and also sustainably maintain existing as well as build new physical infrastructure, ultimately achieving growth.

About the Author

Logea Nao is a Research Fellow with the Sustainable Land Development Research Program at the PNG National Research Institute. She holds a Masters and Graduate Diploma in International and Development Economics from the Australian National University. Her research interests include economic development, land economics and policy, housing economics and policy.