



**PACIFIC ISLANDS TAX
ADMINISTRATORS
ASSOCIATION ANNUAL CONFERENCE
AUGUST 8-10, RAROTONGA, COOK ISLANDS**



Final Communiqué

The Revenue Management Division of the Ministry of Finance (RMD) hosted the 3rd Annual Conference of the Pacific Islands Tax Administrators Association (PITAA) from 8 to 10 August 2006 in Rarotonga, Cook Islands. Mr Geoffrey Stoddart, Treasurer of RMD chaired the meeting.

This conference was attended by 13 of the 15 Pacific Financial Technical Assistance Centre (PFTAC) member countries. There were 24 participants from the Cook Islands, Fiji, Kiribati, the Republic of Marshall Islands, the Federated States of Micronesia, Niue, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu and Vanuatu.

Seven observers were present from IMF (Legal Department), Australian Tax Office (ATO), Australian State Revenue, New Zealand Inland Revenue Department and PFTAC. This year we welcomed observers from the International Bureau of Fiscal Documentation and two from the Forum Secretariat in Fiji.

The Treasurer opened the Conference with a greeting and welcomed all delegates from around the Pacific. He commented on the opportunity that this conference extended to all to meet and learn from different tax administrations.

The Minister of Finance, the Hon Dr Terepai Maoate officially opened the Conference. In his address, he focused on having healthy tax systems and administrations that operated for the benefit of Government and the people. He commented that he was a firm believer in Pacific Island countries working together in exchanging ideas and learning from each other in order to improve. He emphasized the close relationship between Government and tax authorities and the tax authority and the people – the better the relationships, the greater the achievement of voluntary compliance.

The Minister was pleased for the Cook Islands to host this forum of information sharing and he looked forward to what this Conference would achieve. He thanked PFTAC as sponsor and all participants for the role they will play in making the Conference successful.

Following the formal election of chair, vice-chair and secretariat, the agenda was adopted and the conference began.

The key issues for discussion by PITAA 2006 included:

1. An update on the activities of PFTAC over the last 12 months.
2. The determination of case selection for taxpayer audit,

3. Key initiatives undertaken by member countries,
 4. Presumptive taxes and the taxation of small and medium enterprises,
 5. Managing the risks posed by large taxpayers and the design of large taxpayer divisions
 6. Comments from observers.
1. Mr Carson McNeill formally introduced himself and provide some insight into his role with PFTAC. He gave us a brief synopsis of his background with the New Zealand IRD and a view of how he saw his role developing over the course of time.

He read a brief letter of best wishes from his predecessor, Mr Christophe Grandcolas and then expressed his thanks to those that had contributed to the success of PFTAC's work.

Comment was made on how many countries were conducting reviews of their tax systems and how expertise could be provided in areas where reform was needed e.g. Information Technology, training, policy advice and legal draughting to name a few.

Countries were informed of an upcoming conference in Wellington, New Zealand in November this year discussing GST and its success in New Zealand over the past 20 years. A specific day has been set aside for those Pacific Island nations involved in consumption tax to discuss issues that concern them and to show newer nations how it can be successfully adopted in the Pacific.

A new website has been established to provide information to member countries. The site, www.pftac.org will be a mechanism to provide technical information that will aid in tax administration.

2. Ms Margaret Cotton presented the first keynote address on the determination of case selection for taxpayer audit.

Why is case selection important? What factors should be assessed in determining cases? How do you determine the risks and the factors in determining cases?

As a mechanism to answer those issues, she presented the New Zealand as a model for consideration. She discussed in some detail how the model worked and how it could be adapted for use in Pacific Island nations. It was acknowledged that each country was different, but the general principles applied.

We were shown how to build a profile for audit and how we could use the model to target areas of concern in reaching a final decision.

Some of the observations from member countries included the need to be precise in analyzing risks, the danger of presumptuously guessing areas of risk, and the need to focus on issues that are important. Members agreed with the need to target audits according to the skills of auditing staff. There is an inherent danger in performing inadequate audits that ruin the credibility of tax administrations.

A workshop was undertaken where five groups completed a risk analysis exercise identifying industries and technical issues at risk within a given tax revenue. Each team completed an assessment of the risk and then ranked the dangers associated with the risk. This exercise helped all to see how they could identify the major areas of concern and then use the profile to prioritize the risk.

Following the exercise and general discussion on the procedure, it was agreed that the model could form the basis for many countries to adapt the principles for future use.

3. Ms Susan Adams the new PFTAC Coordinator introduced herself and gave a brief insight into the higher level view of the organizations that provide aid funding.

In an effort to increase technical assistance, five other Centres have been established – one in the Caribbean, one in the Middle East and three in Africa.

Attention was drawn to a new initiative from PFTAC where they propose to take on internships where the intern will be seconded to Fiji for 3-6 months and conduct mission visits to member countries.

4. Country Presentations.

All member countries provided a review of compliance initiatives undertaken over the last 12 months.

Key issues that arose were, in no particular order:

- Educating the public and raising the profile of the tax authority,
- Having a legal system that has sufficient deterrents and amending the law where necessary,
- The establishment of compliance units and the development of appropriate strategies,
- A preparedness to proceed to Court for legal action,
- The undertaking of, or need for, a new tax reform,
- The implementation of adequate information technology,
- Staff development and retention issues,

All in attendance recognized that these issues affected the effectiveness of tax administration. Each country faced at least one of the concerns and some several issues.

5. Mr Lee Burns presented the second keynote address on “Presumption of Taxation” – Taxation of small and medium enterprises.

Lack of business records, lack of taxpayer education, ignorance of obligations, a negative view of paying taxes, the failure to make a proper distinction between private and business expenditure and the ease of manipulating income through cash transactions are all factors that make the taxation of small and medium size enterprises difficult to tax.

The address gave members an opportunity to consider the advantages and disadvantages associated with implementing presumptive taxes. What taxpayers do you target? How do you determine an appropriate presumptive tax? What percentage or monetary value should be used in setting a “fair” tax rate? Would a simplified tax system be a better alternative?

Each country was left to consider what would be best in its own nation. The open forum that followed highlighted the diversity of difficulty that faced different nations. While the issue is clear subjective, the address and discussion gave all the opportunity to consider whether presumptive tax would be an option in their tax administration and how it might be implemented if deemed appropriate.

6. Managing the Risks Posed by Large Taxpayers and the Design of Large Taxpayer Divisions

The final keynote address was delivered by Mr Iru Loi, Assistant Commissioner, Papua New Guinea. While delivered from a PNG perspective, it highlighted the challenges faced when dealing with Corporate entities.

These challenges included:

- The complexity of the industry and in understanding the law,
- The need for experienced staff, both the training and the retaining of those staff,
- The time involved in auditing these businesses,
- Maintaining skills equal to the best Corporate lawyers and accountants in the business.

PNG recognized that the Mining & Petroleum industry was a priority areas. They developed a specialized unit to focus attention on the industry and formulated a plan to address manage tax assessment. It is recognized that staff confidence is an important issue and that the establishment of a competitive career structure is aimed at retaining high level experienced staff. This will also promote staff confidence, which is an ingredient to compliance success.

The Australian Tax Office commented that they issue a compliance policy document for public consideration. This achieves transparency and informs the public of the direction of the tax authority in areas of compliance.

7. Observer's Comments.

All observers, without exception, commented on the success of this year's Conference. It was noted that the presentations and discussion has moved to another level from last year.

Assistance available to Pacific Island nations was reemphasized. Some suggestions offered included the "pooling" of resources, use of the "pool" as a training mechanism and the coordination of data (i.e. Department of Statistics, economic forecasters) to provide information for risk management.

The Forum Secretariat made the comment that with the application of trade agreements in the near future, there is a need to consider fiscal reform where there is a major impact on Crown Revenue with the removal of levies and duties. In that respect a document will be made available for member countries.

Two websites were mentioned that provide information on tax dialogue, IMF www.itdweb.org and ATO www.ato.gov.au.

It was also recommended that information be circulated between countries. This may include case law, educational data, questions that need answers and other areas of expertise that can be shared. Information can be relayed electronically i.e. by e-mail.

8. Closing

The Conference accepted the offer of Papua New Guinea to host the fourth annual PITAA Conference from 14 to 16 August 2007 in Port Moresby and the offer of Vanuatu to host the fifth Conference in August 2008.

The key topics for discussion next year will be (a) managing the implementation of taxation reforms, (b) managing large taxpayers, (c) regionalization of tax administration and (d) information technology. It was also agreed that country presentations each year should include an update on legislative amendments over the next 12 months and why they were made.

Delegates expressed their gratitude to Cook Islands for hosting this year's conference and to PFTAC for its sponsorship. The members are thankful to all personnel that expended their efforts in the success of the Conference and to the keynote speakers for their contributions.

This communiqué will be posted under the PITAA section of the PFTAC website.

Mr Geoffrey Stoddart

Chairman

Rarotonga, August 11 2006.