



Pacific Islands Tax Administrators Association
Interim Secretariat

Fiji Revenue & Customs Authority
Revenue & Customs Services Complex
Nasese, Suva
TEL: 679.324.3000
FAX: 679.331.5537
EMAIL: intpitaasec@frca.org.fj



www.frca.org.fj

PACIFIC ISLANDS TAX ADMINISTRATORS ASSOCIATION HEADS MEETING

WCO FRCA Regional Training Center,

Suva, Fiji

10th – 12th September 2013

DAY 1

23rd July 2014

INTRODUCTION

1. The Heads of Pacific Islands Tax Administrators (PITAA) gathered for their 11th Annual Meeting in Fiji. The meeting hosted by Fiji was held at the Fiji Revenue and Customs Authority (FRCA) Complex from 23-25 July, 2014. The three day meeting had eleven agenda items relating to administrative and strategic issues concerning PITAA as well presentation from PITAA observers.
2. The meeting was chaired by Mr. Jitoko Tikolevu, the Chief Executive Officer of the Fiji Revenue & Customs Authority. Also in attendance were members of PITAA namely the Republic of Fiji, Samoa, the Kingdom of Tonga, Cook Islands, Federated States of Micronesia, Republic of Kiribati, Nauru, Niue, Papua New Guinea, Republic of Marshall Islands, Solomon Islands, Timor- Leste, Tuvalu, Vanuatu. Observers present were from the Pacific Financial Technical Assistance Centre (PFTAC), International Finance Corporation (IFC), International Monetary Fund Fiscal Affairs Department (IMF FAD), New

Zealand Inland Revenue Department (NZIR), New Zealand Ministry of Foreign Affairs & Trade (NZ MFAT), Organization for Economic Cooperation and Development (OECD), Pacific Technical Assistance Mechanism (PACTAM), and Australian Department of Foreign Affairs and Trade.

OFFICIAL OPENING

3. The Chair welcomed all PITAA members and Observers to the 11th PITAA Heads Meeting and invited the Permanent Secretary for Finance to deliver his opening speech following the traditional ceremony of welcome performed by employees of the Fiji Revenue & Customs Authority. The opening speech is appended as Annex I.

AGENDA ITEM 1 – ELECTION OF CHAIR, ADOPTION OF CONFERENCE AGENDA

Election of the Chair

4. Tonga moved that Fiji be the chair. PNG seconded the motion by Tonga. The motion was agreed to by all members and adopted. The new chairman CEO FRCA welcomed all present.

Adoption of the Conference Agenda

5. Samoa moved the motion to adopt the Agenda. The motion was seconded by the RMI.
The motion was agreed by all members and adopted. The Meeting Agenda is Annex II.

Housekeeping

6. The interim Secretariat advised the participants on the location of emergency exits and dinner venues for the 3 days meeting.

AGENDA ITEM 2 - PITAA OPERATIONAL ISSUES

PITAA Secretariat Progress Report

7. The representative of the Interim PITAA Secretariat, Ms. Arieta Dimuri of FRCA, provided a report to the PITAA members on the key tasks it had undertaken since the last PITAA meeting held in Honiara, Solomon Islands last year.

8. The meeting was informed of the interim Secretariat's task namely:
 - a) Follow up on 2013 PITAA meeting preparation for PITAA heads meeting;
 - b) Secretariat organized a workshop for working groups on capacity building and regional model; and
 - c) Liaison with PFTAC.

9. The following issues were discussed in detail:
 - a) Continuous partnership with PFTAC in the area of capacity building;
 - b) The need for member administration to implement the funding model adopted at the last PITAA meeting;
 - c) PNG have remitted a total of FJ\$53,853.51. The amount relates to PITAA Subscription amounting to FJ\$26,961.99 and \$26,891.52 for PITAA Training. The chair informed the members that Fiji was given

approval from the FRCA Board to pay its PITAA Subscription of AUS\$50,000.00;

- d) Members discussed the need for the PITAA Secretariat to be able to send members an invoice for the PITAA Subscription;
- e) The budget will clarify how the funds will be used.

10. The meeting noted that PITAA has come a long way and future sustainability of the organization is dependent on self-funding.

AGENDA ITEM 3 - PITAA STRATEGIC PLAN

11. The Chairman informed the PITAA members that of the four Working Groups formed last year, the Capacity Building and Regional Model Working Group members were able to meet last month (June 16th – 20th 2014) in Nadi, Fiji made possible by funding provided by IMF-FAD.

Capacity Building Working Group:

12. Capacity Building Working Group chair, Ms. Daphney Stone of Tonga, elaborated on the following key updates:
- The working group have had discussion with PFTAC to identify capacity building areas;
 - The working group had analysed the Training Needs Survey responses from members and prioritized the trainings identified according to tiers;
 - The working group expressed the need for Interim Secretariat to undertake a comprehensive training needs survey;

- The working group expressed the need for administration to respond to survey questions on time.
13. The forum was advised that the analysis showed that different administrations have different training needs. Seven priority trainings were identified by the working group and of the seven identified, four were rated as high priority by the three tiers. The four topics were:
- a) Industry tax issue
 - b) Cash economy
 - c) Auditing of MNE
 - d) Transfer pricing
14. The following international agencies and donor partners have agreed to assist in the capacity building training:
- PFTAC** - expressed its support to provide training in core tax area
- World Bank** - made commitment to provide training on industry tax issue and other topic.
- NZIRD** - expressed its interest to provide training relating to cash economy. Mr. Graham Hunt requested that the interim Secretariat write formally to NZIR seeking assistance in the cash economy training.
15. The meeting noted that due to budget constraints of similar administrations, consideration can be given to have training and communication being disseminated to PITAA members online.

16. The Chairman thanked the working group for their presentation and noted the support from PFTAC, World Bank and NZ IRD to provide capacity training.
17. The meeting noted the training needs contained in Annexure 1 and agreed with the recommendation. In regards to the Terms of Reference, members agreed that the executive committee will review and finalise the document.

The meeting noted the presentation and timeline the capacity building working group has proposed.

18. **Communications Working Group**

19. Vanuatu, chair of the Communication Working Group, provided a brief presentation on the tasks undertaken since last PITAA meeting. The following issues were discussed:

- A communication strategy needs to be developed;
- A PITAA website needs to be created;
- The need to use technology to facilitate communication such as the use of E- Newsletters;
- The Secretariat to take a lead role in designing and implementing database to store data and information on PITAA members.

20. The 11th PITAA meeting noted the update from the working group and endorsed the development of communication strategy by 30 September

2014; the updating of the website to be updated by 15 January 2015. It was further agreed that the website to be launched on 26 January 2015.

PITAA Heads Meeting Working Group

21. PNG, the chair of this working group, updated the meeting on tasks undertaking with the following recommendations:

- the need to have a permanent secretariat;
- the need to have an executive committee;
- the need to appoint the Head of the PITAA secretariat; and other staff budget constraint;
- the need to implement the structure in phased approach due to the adoption of an organizational structure of the secretariat.

22. Based on recommendations of the PITAA Heads working group, the 11th PITAA meeting made the following decisions:

(i) Establishment of the permanent secretariat to be based in Suva, Fiji.

(ii) Membership of the Executive Committee to comprise of:

(a) Chairman,

(b) Vice Chairman,

(c) Representative of Tier 1 (as per Funding Model),

(d) Representative of Tier 2 (as per Funding Model), and

(e) Representative of Tier 3 (as per Funding Model)

23. Tonga sought clarification on the duration of the executive committee. It was agreed that the executive committee meet bi-annually and amendments to the constitution to be made accordingly.
24. The 11th PITAA meeting agreed that amendments to the constitution be made in respect of;
 - a) removal of head of secretariat as part of the executive committee;
 - b) inclusion of Tier 3 to the executive committee and that the tenure of membership of the executive membership be 2 consecutive years.
25. Members agreed that the deadline of the PITAA Subscription be payable at the end of October of 2014. The PITAA Secretariat is responsible for following up with the PITAA members on their annual subscription responsibilities.
26. It was further agreed that a Head of Secretariat and a Training Coordinator/ Office Administrator to be appointed.

Regional Model meeting working Group

27. Fiji, which chaired the regional model working group, highlighted the works of the group with the following recommendation:
 - Regional model for Disaster Recovery;
 - Regional model for Customer Service;
 - Regional approach for Microsoft licensing Negotiation; and
 - IT Strategic Plan

28. The 11th PITAA meeting noted the importance of customer service in the effective delivery and taxation services.
29. The 11th PITAA noted and supported the recommendation on regional models for Disaster Recovery, Customer Service and Information Technology.
30. The 11th PITAA further noted and agree that:
 - a) The timeline for Regional model for Disaster Recovery is within 12-24 months. The secretariat to approach donor partners in respect of funding,
 - b) Fiji is willing to share its experiences in terms of Customer Service within timeline of 12-24 months. The secretariat to approach donor partners in respect of funding,
 - c) For the Regional approach for Microsoft Licensing Negotiation, secretariat to approach donor partners for funding and that the region to adopt the Australian/NZ model,
 - d) Regional model for IT Strategic Plan to have a timeline of 12 months, template to be developed for the region and the secretariat approach donor partners for funding.

AGENDA ITEM 4: PACIFIC MANAGEMENT DEVELOPMENT PROGRAM (PMDP) UPDATE

31. Papua New Guinea presented an update on the Pacific Management Development Program (PMDP). Members noted the success of the program and quality of projects presented by PMDP participants.
32. Members noted that since the establishment of the program, PNG, Vanuatu and Fiji have hosted the training; 126 participants have undergone the program; 118 projects were delivered by participants.
33. The 11th PITAA meeting noted the progress of the Pacific Management Development Program. Members agreed that the program be included in the overall PITAA Capacity Building program.

AGENDA ITEM 5: PITAA COUNTRY PRESENTATION

34. Members noted the presentation by Tonga on “Compliance and Audit: Analysis of Consumption Tax and Income Assessments”.
35. Members noted the presentations from Fiji on Transfer Pricing, Gold Card Concept and the Joint ID Card.
36. Members noted the presentation from PNG on its ICT Challenges

37. In his closing remarks for Day One, the Chair summarized the decisions made by members relating to the recommendations provided by the PITAA Working Group and agreed to by members. He emphasized the need for members to be supportive of the PITAA Secretariat and its activities.
38. PITAA members were invited to an opening dinner hosted by the Chief Executive Officer of Fiji Revenue & Customs Authority, Mr. Jitoko Tikolevu, at the Five Princes Restaurant.

DAY 2

24th July 2015

39. The chair welcomed the participants to the 2nd day of the meeting and invited comments based on country presentations from Tonga, Fiji, and PNG. No comments were received from the floor and the chair proceeded to Item 6 of the Agenda.

AGENDA ITEM 6: PICS BENCHMARKING

40. PFTAC Coordinator, Mr. Scott Rogers, delivered a presentation on benchmarking. The presentation challenged the PITAA members on whether reforms are delivering the desired results. In addition, tax administration heads were asked to identify areas that are causing the reforms to fail. In this regard, the presentation highlighted that the use of

benchmarks will assist in measuring the performance. PFTAC conducted a tax baseline assessment on 9 key components of tax administration such as (i) Legal & Policy Framework; (ii) Governance and Accountability; (iii) Automation; (iv) Corporate Strategies; (v) Human Resources; (vi) Administrative Framework; and (vii) Operating Model.

41. The presentation stated that based on the survey, it can be concluded that there has been improvement in the 9 core areas; and that the improvements had been in the areas that were weak in the past.

42. The presentation emphasized on the new tools that can assist in performance measurement and these are:

a) Tax Administration Diagnostic Assessment Tool (TADAT), which provides measurement of tax administration activities. It assesses whether administrations have the modern building blocks for a modern tax administration. TADAT is similar to PEFA. TADAT will be implemented from 2015 (by external evaluators) that will assess the consistency of results between different tax administrations. The results will not be published but it can be used in dialogue between tax administrations to improve performance;

b) Revenue Administration Fiscal Information (RA-FIT) Tool that focus on “how the whole system is working” rather than assessing “the effectiveness of building blocks” as achieved through TADAT. RA-FIT

focuses on a wide range of questions relating to performance. RA-FIT will allow international comparability. In doing so, it will highlight the weak areas that needs to be addressed.

43. PFTAC questioned the current monitoring mechanism of tax administration to measure efficiency and effectiveness of tax administration and suggested that TADAT and RA-FIT can be considered. PNG, Tonga, Vanuatu have indicated they have attempted to use these tools.
44. PFTAC stated that in a recent forum economic ministers meeting, it came out prominently that private sector were concerned with tax administration in some areas. It was suggested that tax administration can use private sector as an ally to push reforms. PFTAC stated that next year, the focus will be towards Institutional Strengthening and Capacity Building. PFTAC acknowledged that a lot of work has been done in Tax Policy and Legal area and the focus now will be on core tax function.
45. PFTAC suggested that risk management approach can be used to target auditing as well as strengthen tax administration to achieve voluntary compliance.
46. The 11th PITAA meeting noted the PFTAC presentation and agreed that TADAT and RA-FIT can be used by administrations to measure performance.

AGENDA ITEM 7: TAX REFORM EVALUATION REPORT

47. NZ Foreign Affairs and Trade Aid Program team presented an overview of NZ assistance programs to tax administrations in the pacific. It stated:
- a) That NZ has spent NZ\$55m towards aid support for tax administrations in the region,
 - b) That the adoption of low rate and broad based taxation regime has been supported,
 - c) Those political economy considerations had been crucial to ensure that the reforms have political support in addition to the technical support, which is always received from tax administrations,
 - d) That donor would be interested in building credible tax systems that has support of both the administration and the taxpaying community.
48. The fragility of tax reform is an important consideration for aid donors. The following were suggested as a means to have better engagement with donors:
- a) The need for administrations to capture data to measure effectiveness of aid;
 - b) The need for greater coordination between PITAA members; and
 - c) The need for clearer understanding between tax administration and the private sector.

49. PFTAC stated that tax administration would not be able to measure efficiency and equity impacts of aid project without being involved in government expenditure management such as the impact of subsidies.
50. The 11th PITAA meeting noted the presentation from NZ Foreign affairs representative, Mr. Vinayak Nagaraj.

AGENDA ITEM 8: PROPOSAL ON INTERNATIONAL WORK IN THE PICS
--

51. The World Bank presented on the international work in PICs. the presentation covered the following:
 - a) Base Erosion and Profit Shifting (BEPS) impact on PICs. BEPS has been led by OECD,
 - b) Some of the BEPS issues for developing countries involve:
 - i. modifying residency rules;
 - ii. introducing thin capitalization rules;
 - iii. reduced withholding tax rates
 - iv. tax incentives being reviewed; and
 - v. transfer pricing,
 - c) Information sharing between tax administrations is becoming more prominent and developing countries can develop exchange of information mechanisms,

52. The 11th PITAA meeting noted the World Bank presentation particularly the willingness by OECD to work with countries on an individual basis. Members agreed to a common agreement on exchange of information as a start.

AGENDA ITEM 9: IMPACT OF G20 POLICIES ON BEPS ON DEVELOPING COUNTRIES
--

53. Australian Ministry of Foreign Affairs representative, Ms. Alexander Hutchinson, presented its approach towards the implementation of BEPS. In Feb-March, there were four regional consultations. The report on consultations will be discussed by G20 in November 2014. Australia, as the chair of G20, would like to engage with developing countries. Australia and New Zealand also had its consultation. After all the consultation so far, it was established that the challenges to implement G20 recommendations in developing countries differs with that of G20 member countries one example is tax incentives.
54. OECD representative, Mr. Nicolas Pinaud, provided an overview of BEPS. It was explained that BEPS deals with tax avoidance in shifting the profits between countries especially from a high tax jurisdiction to low tax jurisdiction, for example, transfer pricing, thin capitalization, Controlled Foreign Companies, Treaty Shopping and Abuse, digital economy. It distorts competition. It also distorts investment decisions and it is an issue of fairness as it deprives the governments of tax revenues. It was stated that

BEPS is a global issue that requires global solutions. BEPS is not an anti-business initiative. BEPS has 15 action points.

55. New Zealand Inland Revenue Department representatives, Mr. Charles Ngakil and Mr. Graham Hunt, also presented on their experience with BEPS.

They stated that:

- a) NZ has seen complex structures and supports BEPS;
- b) The UN Committee is focusing on developing countries, in particular identifying BEPS issues for developing countries
- c) PITAA members were given a questionnaire such as if PITAA members face BEPS issues

56. The 11th PITAA meeting:

- a) noted the presentations from the World Bank Group/ IFC, Australian MFAT, New Zealand MFAT and New Zealand IRD.;
- b) agreed to complete the questionnaire handed by UN;
- c) agreed that taxation on Digital economy be considered as a priority issue;
- d) agreed that OECD, Australia and World Bank will assist Vanuatu in the communication of BEPS expectations given that Vanuatu do not have an income tax regime;
- e) noted that Australia will discuss the “tax sparing” provisions in DTA and will revert with its position.
- f) noted the NZ’s commitment to review DTA with Samoa and Solomon Island.
- g) noted the NZ’s commitment to discuss the review of DTA with Fiji.

57. In his closing comments, the chair expressed his sincere appreciation to the PITAA donors and partners that gave a presentation. He urged members to note the presentation and fully utilize tools and assistance available to lift their administration to another level.

58. The members and observers were invited to a cocktail and BBQ co-hosted by PFTAC and the 2015 PITAA Heads Meeting host, PNGIRC, at the Royal Yacht Club.

Day 3
25th July 2014

59. The chairman welcomed the participants to the 3rd and final day of the 11th PITAA meeting and proceeded to Agenda Item 10.

AGENDA ITEM 10: CASH AND HIDDEN ECONOMY
--

60. NZ IRD presented on Cash and Hidden Economy and Tax Administration for the 21st century. The presentation essentially emphasized the benefit of designing a good tax system and preparing tax administration to deal with challenges for the 21st century. It was stated that partnership with taxpayer is critical and efficiency gains can be attained through providing simple system and processes. The driver for enhancing efficiency gains will be technology. Other drivers include:

- a) PAYE system can be simplified by avoiding the case of taxpayers to lodge returns;
- b) Capital gains would be a future issues since ageing population will lead to accumulation of capital;
- c) Business Tax administration can be improved by providing more certainty on the provisional tax calculations. Consideration can be given for taxpayers to have a “tax bank” where taxpayers can have one account to deal with tax.

61. NZ IRD also presented on hidden economy. NZ’s approach to hidden economy was discussed. Hidden economy was defined to include monetary and non-monetary transaction that leads to tax evasion and avoidance. It was stated:

- a) that Hidden Economy is estimated to be 12.7% of GDP that equated to NZ\$25billion;
- b) that NZ have a team that deals with hidden economy and an industry based relationships in high risks sectors;
- c) that \$85m has been received from Government for NZ IRD to implement a 10 year programme to deal with hidden economy;
- d) that NZIRD stated with research and evaluation programme. The research work involved designing and executing surveys to obtain data. Research also involved finding out other methodologies such as those developed by OECD;
- e) that NZ IRD has engaged with the community to compile intelligence relating to hidden economy;

- f) that risk profiling activities are critical to identify high risk taxpayers;
- g) that social media can be used to influence taxpayers to comply;
- h) that building economic modeling techniques will assist in detection.

62. The 11th PITAA meeting:

- a) noted the NZ IRD's presentation on hidden economy;
- b) noted that hidden economy is highly prevalent in the PITAA member countries; and
- c) agreed that greater collaboration between tax administration is critical for containing the hidden economy levels

AGENDA ITEM 11: IMF PRESENTATION ON TAX REFORM POLICY
--

63. The presentation stated that advanced economies have been challenged to reduce the government debt levels and this has prompted reforms such as fiscal consolidation.

64. It was also highlighted that tax incentives differs between countries and there had been significant tax competition that saw reduction in tax rates.

These included:

- a) Philippines : Sin tax reform
- b) Malaysia : Introduction of GST
- c) Bangladesh : Switching from GST to VAT
- d) India : Introducing GAAR and international Taxation reforms

65. The presentation stated that countries must be careful in concluding a double tax agreement as it could open up tax planning opportunities.
66. The 11th PITAA meeting noted the IMF presentation and agreed that revenue loss from tax incentives needs to be clearly calculated.

IMF Presentation on Small and Medium Businesses

67. The IMF presented on taxation regime for Small and Medium Enterprises (SME). It explained the importance of SMEs in the economic development. Advantages and Disadvantages of special tax preferential arrangements for SMEs were discussed. A case for special treatment may not be relevant to existing firms but for new firms. In terms of targeting, use of government expenditure may be better than the tax regime.
68. It was stated that tax rates and thresholds can be used to assist SMEs.
69. The presentation provided options for special regimes for SMEs such as tax calculated on presumptions based on turnover and assets. It was stated that tax rate should be lower than the effective tax rate on other taxpayers.
70. Tonga informed the forum that it had introduced a “Small Business Tax” that is levied on turnover below \$100,000. The tax is an option for taxpayers and they can still remain in the normal tax system if they wish to. The tax was renamed from “Presumptive Tax” to “Presumptive Tax” and this has helped in the implementation. The tax is based on turnover and rates are

set at progressive level. Tax is 5% on turnover of \$50,000 whilst amounts below this level are taxed at lower rate.

71. Samoa also shared its experience on SME taxation and it was highlighted that a number of reforms were introduced to look at taxi business.
72. The 11th PITAA meeting noted the IMF presentation on SMEs.

Other Matters

73. It was confirmed in the 2013 PITAA Conference held in the Solomon Islands that PNG would host the 2015 PITAA with RMI to host the 2017 PITAA conference. However 2016 host was not confirmed, therefore the chairman invited volunteers to host the 2016 PITAA conference.
74. With no offer to host the 2016 PITAA Conference, the members note the willingness by Fiji to host the 2016. The members further note that Vanuatu has agreed to host the 2018 PITAA Conference.
 - a) In summary, the hosting of the PITAA Heads Meeting will be as follows:
 - i. **2015** Papua New Guinea Inland Revenue Commission
 - ii. **2016** Fiji Revenue & Customs Authority
 - iii. **2017** Republic of Marshall Islands Customs, Treasury and Taxation Department
 - iv. **2018** Vanuatu Customs & Inland Revenue.

75. The 2014 PITAA Heads Meeting communiqué was presented to the PITAA Members and Observers.

Concluding Comments

76. Chair thanked the participants and presentations made. The Kingdom of Tonga CEO, Mrs. Daphney Stone, acknowledged the host administration for the well-organized meeting and the Interim Secretariat for the planning and logistics.
77. The Chairman on behalf of the Government of Fiji thanked the participants for their attendance and contribution to the PITAA. He reminded the members to work together and justify the existence of PITAA and Fiji is proud and honored to host the Secretariat. He also acknowledged the support provided by the interim PITAA Secretariat team.
78. Members and Observers were invited to the closing night dinner at the Holiday Inn Hotel hosted by the CEO of FRCA.

The meeting concluded at 4.13pm.

-end-