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About Us

Vision

" To be the best performing public agency in Papua New Guinea and the leading Tax Administration in the region "

Mission

To collect revenue efficiently and appropriately on behalf of the people of Papua New Guinea to fund Government services and programs to develop our nation



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Values

Fairness and Respect:

- < *We will collect the correct amount of tax; no more and no less.*
- < *We will respect Taxpayers and ourselves alike.*
- < *We will respect the environment, gender, social and moral obligations*
- < *We will be free from bias in everything we do*

Professionalism:

- < *We will work within our assigned responsibilities*
- < *We will apply the law impartially*
- < *We will be responsible and accountable for our own work*
- < *We will actively pursue professional development through training and other skilling opportunities*

Openness and Honesty:

- < *We have high expectations starting with ourselves*
- < *We will recognize and reward honesty*
- < *We will focus on effective communication strategies*
- < *We will behave in a manner that reflects transparency*
- < *We will strive to maximize our reliability*



Purpose of the IRC Annual Report

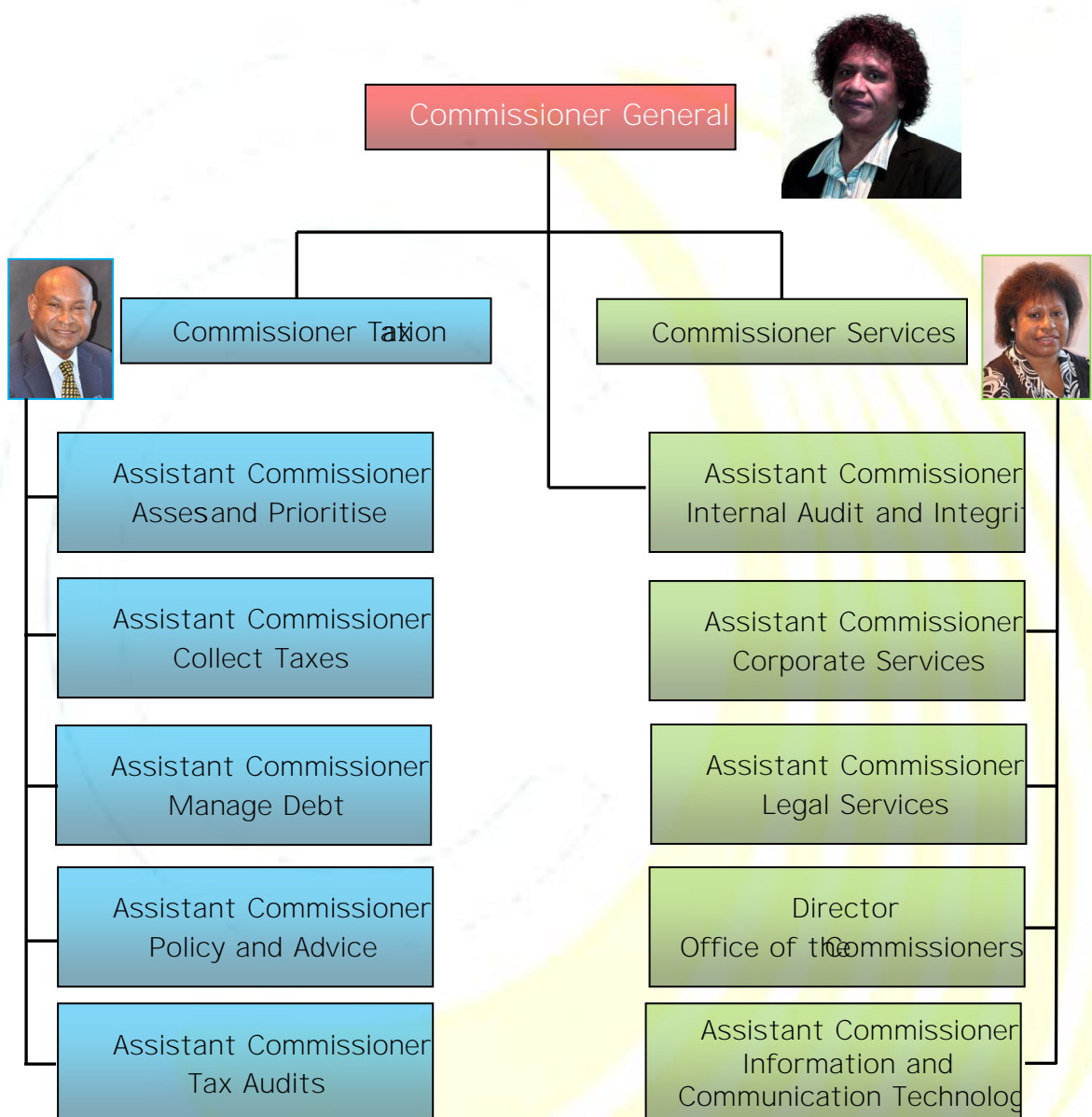
The IRC Annual Report, as a single stand-alone document, is used to satisfy the following annual legislative and policy reporting requirements placed on the IRC:

- a. *Income Tax Act 1959* Section 8
- b. *Public Finances (Management) Act 1995* Part 2 Section 5
- c. *Public Service (Management) Act 1995* Section 32 (a) and (b)
- d. *Public Service General Order 8.14* (2012)

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The IRC Structure

The chart below outlines our organisational and management structure. The IRC is headed by the Commissioner General Ms Betty Palaso and has two core functions . the Tax Wing headed by the Commissioner Taxation, Dr Alois Daton and the Services Wing, headed by Commissioner Services, Ms Pauline Bre.



The Year in Review

It is with pleasure that I present the Internal Revenue Commission (IRC) 2013 Annual Report. The Annual Report is our principal report to the President, the Vice President, the Minister, the Treasurer and the public. As an open and accountable administration, we publish this document to assure the government and community that the tax system is being effectively and efficiently managed and administered.

The IRC Corporate Plan 2013-2017 provides clear strategic direction for operating and developing the Commission, consistent with Government direction. In 2013, and in line with Government's expectations, IRC embarked on an ambitious programme of reform that aims to modernise and streamline the administration of taxes and to strengthen our governance arrangements. In the process, we were also expected to meet Government's revenue gathering expectations. The IRC 2013 Annual Report is the first of five that will report our progress against the IRC Corporate Plan as we transform into a Modern Tax Administration.



2013 Revenue Performance

Revenue collections by the IRC in 2013 were K7.33 billion which was 157 million more than the original budget projection of K7.17 billion and K118 million higher than the K7.21 billion Mid-Year Economic and Fiscal Outlook (MYEFO) projection. We achieved this strong result even though there were large shortfalls in and Petroleum Tax (MPT) collections which were due to lower than projected commodity prices. Not only did we exceed overall projected collections, we also made up for shortfalls of about K540 million compared to original Budget and about K300 million compared to MYEFO.

I am particularly pleased to report that the IRC recognised the likelihood of a shortfall in MPT payments and took decisive action to make sure other collection areas were pursued as vigorously as possible to make up for this shortfall. We made up only K540 million shortfall but also collected an additional K157 million, almost a K700 million turnaround. This outcome is something that the many hard working staff of the IRC can justifiably feel proud of.

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Revenue Accounting System (RAS II)

IRC's core business processes and systems are new Revenue Accounting System (RAS II). The RAS II system replaces the IRC's system which was implemented in the 1990s. It uses the Standard Integrated Government Tax Administration System (SIGTAS) program, which has been installed in a large number of other countries around the world. The new administration systems back into the modern world project, by necessity being implemented carefully to ensure that all internal and external stakeholder needs are met. This is a multifaceted and demanding process as the system is progressively developed and configured to accommodate complexities of PNG's tax environment. The first phase of RAS II was implemented during 2013. The IRC is:

- ◁ combining all the Tax File Number (TFNs) into a single Taxpayer Identification Number (TIN), which can be issued on the spot to intending taxpayers
- ◁ receiving all withholding tax payments on the new system
- ◁ receiving many tax payments electronically
- ◁ streamlining and simplifying forms required for reporting, and
- ◁ raising automatic penalties on lodgements and late payments (which will increase revenue for the State if taxpayers continue to be late in meeting their obligations)

Getting to this stage has involved an enormous effort by many people all across the IRC in process redesign, system testing, training, data cleansing and other preparation. The next phase, which includes Goods and Service Tax, is to be implemented by 2014.

Workforce and Organizational Development

Having well trained and competent people is critical to the IRC. IRC put a lot of effort into training its staff in 2013. In particular, there was an enormous training effort required to support the introduction of the new system. All staff had to be trained on how to use this training is ongoing as new features of the system continue to be introduced. This meant an almost continuous running of training courses across the year with almost all the training staff.

The IRC developed a new graduate and cadet program which led to 37 new graduates and 100 cadets being recruited in the year. These are the first wave of new starters under

program which will be continued in 2014 and beyond, and provide opportunities for you Papua New Guineans to be trained and have career opportunities in the IRC.

In addition, a new training package was developed to train our Provincial and Regional Officers and to start the training of our new graduates and cadets. This is a forerunner of much more training and development that we need to do in this area to build the skills and knowledge of our new staff so that they can progress in the IRC and confidently deal with the complex and diverse range of tax matters that they will encounter in their careers.

The Executive Government asked the IRC to bring forward a proposal that the IRC become a Statutory Authority. The reason for this was to provide a means for the IRC to improve its ability to attract and retain staff with the necessary high skill and technical capabilities necessary to deal with the complex work of the IRC. The IRC substantially progressed this proposal over 2013, including undertaking extensive consultation and coordination with many other stakeholders. It is now going through the Parliamentary process.

Tax Compliance

The IRC and Government both recognised the need to continue to improve tax compliance and to close any gaps which might make it easier for people and businesses to avoid paying their fair share of tax. As reflected in the announcement in the 2014 Budget that the IRC will be making increased efforts to ensure that all those who should be registered and paying tax are properly interacting with the IRC. Tax Compliance requires taxpayers to be registered with the IRC, to lodge their returns and other documentation, to report accurate information to the IRC about their tax affairs, and to pay their taxes due. In 2013, the IRC paid attention to each of these compliance areas and also started preparing for an acceleration of compliance activities in 2014.

One way of avoiding paying taxes is to try to hide from the tax collector. A current concern is that not all businesses are registered with the IRC. Similarly, that many bank accounts that are receiving income are not easily visible to the IRC and may not be caught in the tax net.

This has led to a proposal by the Bank of PNG (the Central Bank) and the Investment Promotion Authority (IPA) to work closely together across their operations to address these issues. This will ensure that IRC registration for all new businesses is integrated into the registration process so that there will no longer be any new business registered that doesn't have an Identification Number (TIN). For existing businesses, a similar approach is taken at a registration stage. In 2013, the IRC set up a link to its new computer system from within the IPA and will be issuing TINs on the spot for all new

companies in early 2014. The IPA registration will only be completed for these new companies once the IRC TIN registration process is finalised.

In addition to this, the IRC and the Central Bank will make it mandatory for a TIN to be provided in order to open or to continue to operate any business bank accounts or other bank accounts receiving income that should be taxed.

New Services to Taxpayers

The IRC was active in providing services to taxpayers in 2013, including through providing help and assistance, tax awareness sessions, tax circulars to explain aspects of tax law, and through increasing the options for electronic interactions with us.

In particular, the IRC introduced new arrangements that allowed taxpayers to pay their tax bills through electronic transfer over the internet or through their local bank branch. Since we introduced this service, we have had a number of taxpayers pay their tax bills from overseas. It also means that people no longer have to mail in their cheques or queue up at the IRC any longer to make cheque payments. As well as providing new and convenient options for taxpayers, these new arrangements are also helping the IRC to speed up collection and receipt of the revenue.

The Year Ahead

IRC performed well in 2013 and this work has set a solid foundation for continued improvement in 2014. There remain a number of important imperatives that were initiated in 2013 but are yet to be fully addressed in order to sustainably achieve optimal revenue collection outcomes, including:

- ◀ The IRC needs to get its tax administration operations running smoothly and sustainably and needs to continue to modernise its antiquated core ICT capability. We have taken the first steps towards this with the ongoing phased implementation of the new revenue accounting system (RASII)
- ◀ An important imperative is to have sufficient staff in place to manage all core aspects of standard taxation administration. For many years it has not had sufficient staff in place. This is the case for both positions undertaking basic to intermediate administrative tasks in the IRC (core processing and compliance functions) and those requiring more highly skilled professional and knowledge workforce. Based on international comparisons, it is estimated that the IRC requires in the order of 1000-1200 staff for longer term revenue sustainability.

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- ◁ The IRC needs to be able to attract and retain the right calibre of staff required, particularly for the more highly classified professional and knowledge work roles and have the ability to flexibly deploy them to areas of greatest risk to the revenue. This requires improved parity of remuneration with private sector counterparts, and more flexible arrangements in relation to structure and recruitment.

Satisfying these imperatives is a long term challenge and requires a coherent investment approach to properly optimise revenue in a sustainable way. We must build on the foundation created in 2011 and continue this long term investment in accordance with the Corporate Plan. In recognising the IRC's great potential to continue to build a better, IR message to the staff of the Commission for 2014 is:

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Betty Palaso OBE
 Commissioner General, IRC

2013 Annual Report

1. Tax Administration and Revenue Collection

Revenue Summary

The IRC and its operations provide the main source of revenue for financing government expenditure in PNG (approximately 60% of government financing in 2013 was sourced from IRC). To meet the country's spending needs and budget deficit planned for the next four fiscal years, it is important for IRC to meet and exceed its revenue performance targets. This chapter provides a detailed analysis of revenue performance data for the different direct and indirect taxes for 2013, a comparison to budget forecasts and previous years.

In 2013, IRC collected a total net tax of 7,330 million Kina¹ transferred to the Waigani Public Account (of which 2.3 million Kina was direct tax and 7.2 million Kina was GST). This is 157.2 million Kina more than the original 2013 revenue projection and 118 million Kina more than the Mid-Year Economic and Fiscal Outlook (MYEFO) revised projection of 7,211.2 million Kina.

Tax Type	2009	2010	2011	2012	2013
Individual Income Tax	1,254.5	1,553.1	2,158.8	2,645.1	2,826.5
Corporate Income Tax	1,085.9	1,201.1	1,373.1	1,740.5	2,066.9
Dividend Withholding Tax	246.6	278.8	290.7	176.5	244.6
Mining & Petroleum Tax	749.1	1,476.1	2,073.5	981.1	666.7
Stamp Duty	57.7	65.4	63.6	70.2	67.3
Gaming Machine Tax	89.2	93.1	111.3	133.9	144.6
Other Direct Taxes	54.4	68.6	73.2	105.9	96.4
Total Direct Taxes	3,537.5	4,736.1	6,144.2	5,853.1	6,112.9
GST to WPA	693.0	788.2	560.5	1,010.0	1,217.2
Total Revenue	4,230.5	5,524.3	6,704.7	6,863.1	7,329.5

Table 1: IRC Total Tax Collection 2009-2013 (million Kina)

Table 1 displays the trend of total tax revenue collections by the IRC over the past five years, and Figure 1 over the past decade. In Figure 1, the revenue trend has been overall in an

¹Note net collections are defined as total direct tax revenue plus GST revenue transferred to the Waigani Public Account (WPA). Hence net collections exclude the K354 million of GST transfers to provinces in 2013.

²Note that IRC collections include income and profits (direct taxes) and GST (inland GST and import GST) only. Revenue from import duty, export duty and excise are recorded as Customs revenue, and is not component of IRC's revenue.

upward direction during this period. 2009 experienced a decrease in revenue following the global financial crisis, which saw a drop in world commodity prices and demand, leading to a significant fall in mining and petroleum tax revenue. Since 2009, collections have again been following an upward trend, although revenue growth has experienced a slowdown in 2012, 2013 saw revenues picking up strongly from 2012 levels. Reasons for the revenue growth in 2013 will be discussed in the following sections.

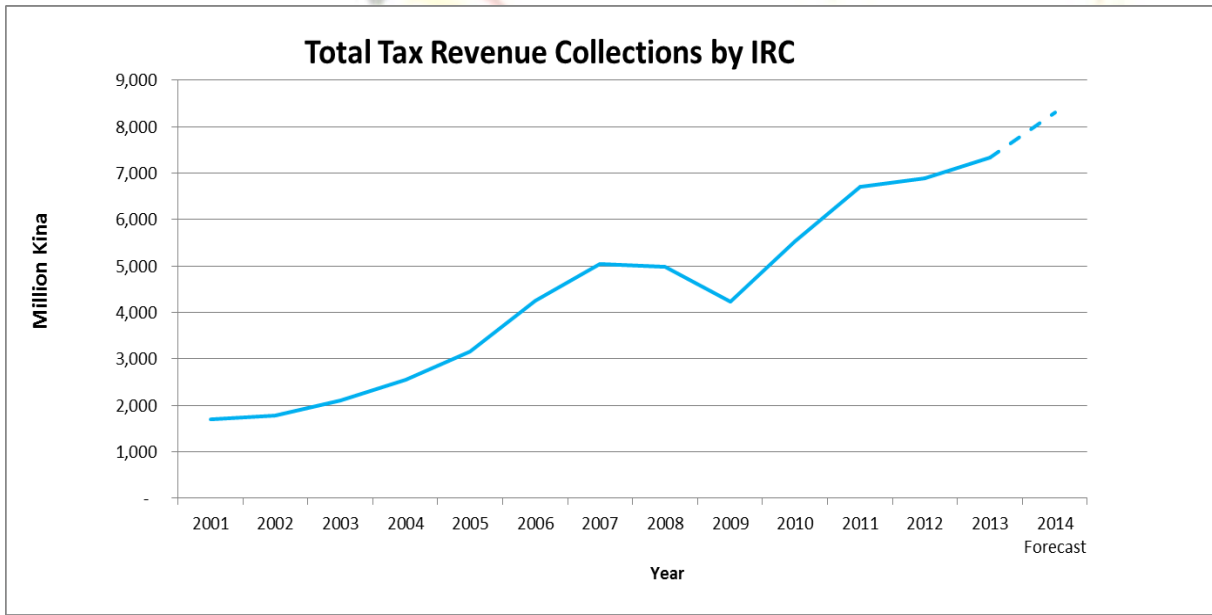


Figure1: Total Tax Revenue Collections by IRC, 2001, 2013
 Note 2014 figure is budget projection

Tax revenue as a percentage of gross domestic product (GDP) is one indicator used to determine if tax revenue is rising in line with GDP. Figure 2 plots total tax revenue and nominal GDP over time from 2005 to 2013 (left hand axis). The dashed line plots tax revenue as a percentage of GDP (right hand axis), which varied over time from a peak of 27% in 2007 to a low of 19% in 2009, when revenues fell. Revenue as a percentage of GDP is estimated at 21% in 2013. GDP has increased more sharply than tax revenue between 2011 and 2013, leading to a fall in the revenue as a percentage of GDP measure from 22% to 21%. This likely reflects a lag between higher levels of investment and government spending and the generation of additional taxable income.

³Nominal GDP gives figures for GDP that have not been adjusted for inflation (Real GDP figures include the adjustment for inflation over time). Nominal GDP is used in the comparison to tax revenue which is also not adjusted for inflation

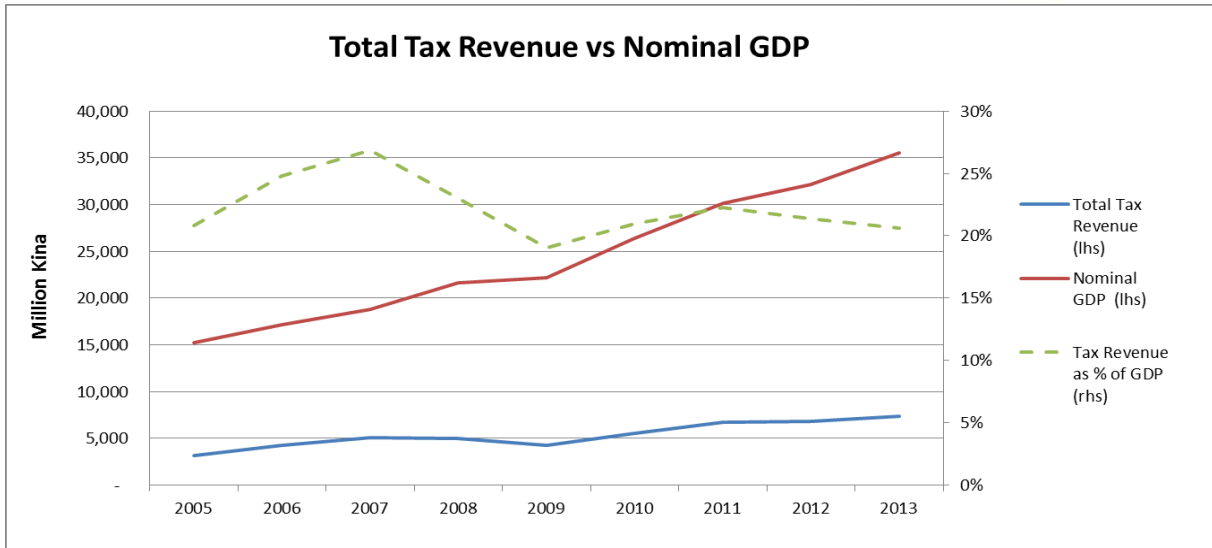


Figure 2 Total Tax Revenue vs. Nominal GDP, 2005 to 2013

In 2013, total tax revenue collections bounced strongly after 2012 performance and exceeded the initial budget projections by 2.2% (as shown in Figure 3). In the last few years, actual collections have been consistently greater than budget forecasts (e.g. 11% greater in 2011), indicating better revenue performance than expected for each year, and projections conservative relative to actual revenue performance. However, this position changed in 2012 and 2013, when budget projections for these years were strong relative to actual collections. This was largely due to high projections and petroleum tax

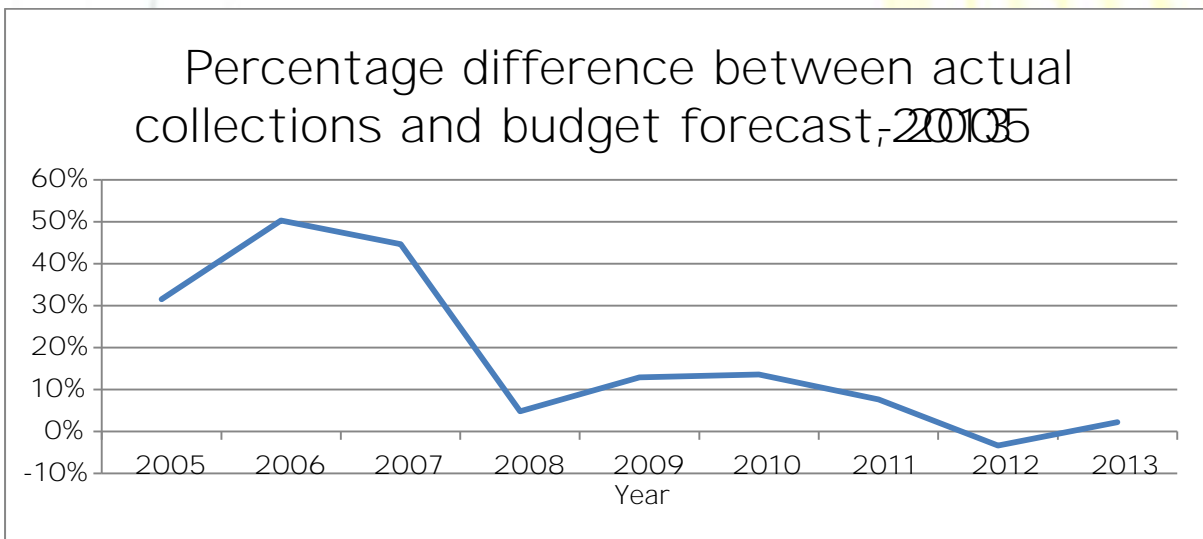


Figure 3: Percentage Difference between Actual Annual Revenue Collections and Budget Forecasts, 2005 to 2013

Note Indicates the percentage by which collections exceeded budget

Objective 1.1 Administer Taxes and Collect Revenue

Direct Taxes

Table 2 gives the breakdown of actual revenue collected in 2013 for the different direct tax types, and draws comparisons to the original 2013 budget revenue projections, and 2013 MYEFO projections. Mining and petroleum tax had the largest shortfall below budget projections (45%). However, this was partially offset by individual income tax and corporate income tax, which exceeded the budget projections by 8% and 9% respectively. Overall direct tax was 2% below the budget projection and 1% below the MYEFO projection.

Direct Tax	2013 Actual Collection (K '000)	2013 Budget Projection (K '000)	% Change	2013 MYEFO Projection (K '000)	% Change
Individual Income Tax	2,826,482	2,608,036	8%	2,740,400	3%
of which: PAYE Tax	2,758,764	0			
of which: Business Payments Tax	59,750	0			
of which: Income Tax Assessed	7,968	0			
Corporate Income Tax	2,066,940	1,891,493	9%	1,911,600	8%
Dividend Withholding Tax	244,554	197,299	24%	202,600	21%
Mining & Petroleum Tax	666,742	1,207,487	-45%	967,600	-31%
Bookmakers Turnover Tax	8,761	366.69	2289%	319	2649%
Stamp Duty	67,271	92,193	-27%	87,962	-24%
Royalty/Management Fees	27,819	18,644	49%	18,820	48%
Bookmakers Licence Fees	0	0		48	-100%
Departure Tax	6,120	5,839	5%	5,894	4%
Training Levy	6,408	2,952	117%	2,980	115%
Gaming Machine Tax	144,554	146,599	-1%	160,600	-10%
Interest Withholding Tax	45,319	45,100	0%	52,000	-13%
Sundry Receipts	1,954	1,839	6%	1,856	5%
Total Direct Tax	6,112,923	6,217,847	-2%	6,152,679	-1%

Table 2 Total Direct Tax Revenue 2013

Table 3 and Figure 4 illustrate the breakdown of 2013 direct tax revenue collection by tax type. The largest portion of tax revenue was derived from individual income tax (46%), followed by corporate income tax (34%), and mining and petroleum tax (11%).

Taxes Types	2013 Actual Collection (K'000)	Percent (%)
Direct Tax		
Individual Income Tax	2,826,482	46.2%
Corporate Income Tax	2,066,940	33.8%
Dividend Withholding Tax	244,554	4.0%
Mining & Petroleum Tax	666,742	10.9%
Stamp Duty	67,271	1.1%
Gaming Machine Tax	144,554	2.4%
Other Direct Tax	96,381	1.6%
Total Direct Tax	6,112,923	100.0%

Table3: Revenue Collection by Tax Type; Value and Percentage

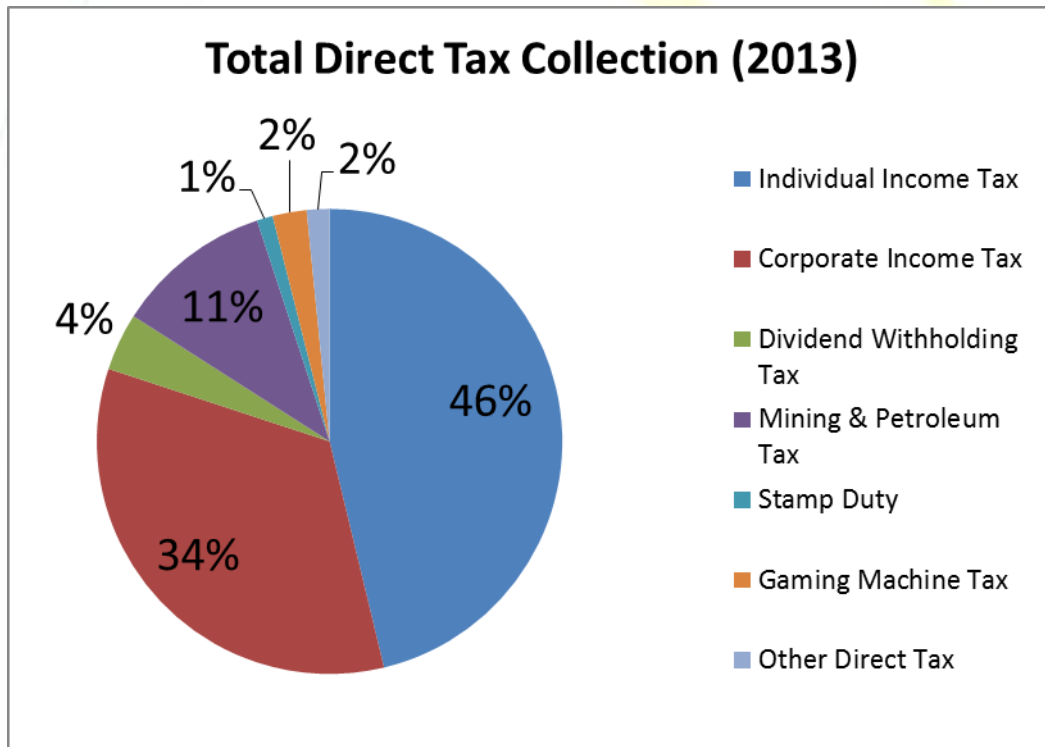


Figure4: Total Actual Collection (2013) by Tax Type

Mining and petroleum tax (MPT) is company tax applied specifically to firms operating in mining and petroleum sector (excluding dividend withholding tax from the sector), while corporate income tax is company tax revenue derived from all other economic sectors. Mining and petroleum is the sector with the greatest company tax revenue collection. Table 4 breaks down MPT revenue by sub sector and commodity. In 2013, mining accounted for 1% and petroleum 84% of MPT revenue.

Sector/Commodity	2013 Revenue (K'000)	Percentage of Total MPT	Percentage of Mining MPT
Gold	50,859	8%	46%
Copper	57,300	8%	52%
Silver	1,501	0%	1%
Mining sub total	109,660	16%	100%
Petroleum sub total	557,094	84%	
Total MPT tax revenue:	666,754	100%	

Table4: 2013 MPT Revenue by Sector/Commodity

Note Gold, copper and silver revenue breakdowns are based on estimates only.

Actual direct tax collections from 2013 and 2012 by tax type are compared in Figure5. Corporate income tax increased 18% in 2013 and individual income tax, the largest value revenue stream, increased 6% from 2012. Gaming machine tax and dividend withholding tax (DWT) increased 8% and 39% respectively. The main direct tax types to fall between 2013 and 2012 were mining and petroleum tax (-32%) and stamp duty (-4%).

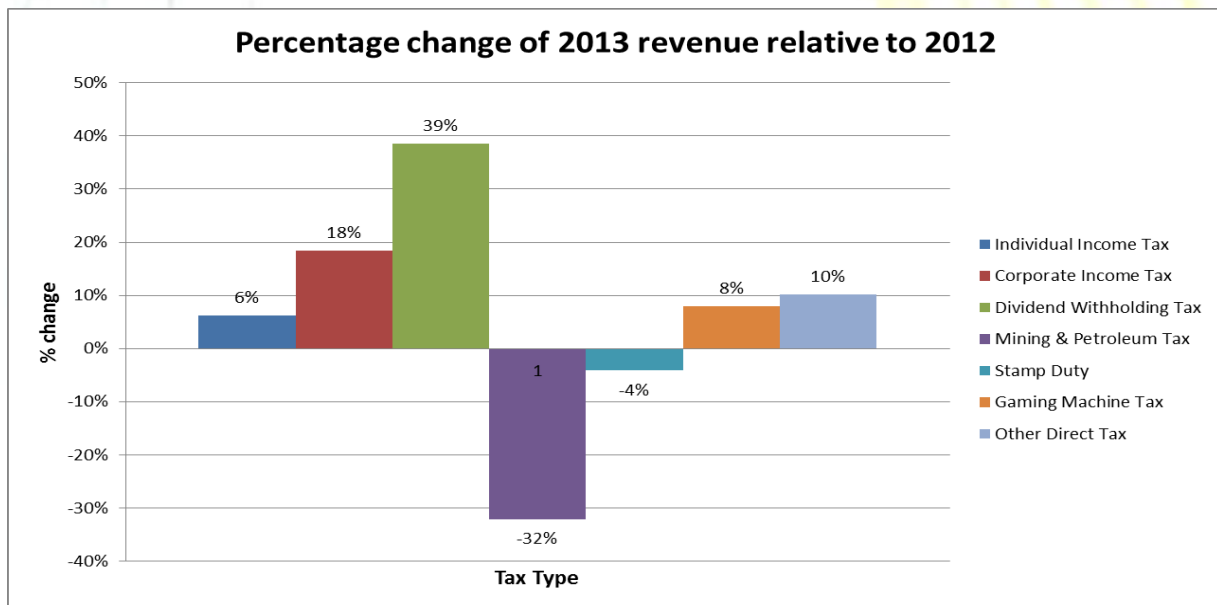


Figure5: Percentage Change of 2013 Revenue Relative to 2012 by Direct Tax Type

Taxes Types	2012 Actual Collection (K'000)	2013 Actual Collection (K'000)	Percentage (%) Change
Direct Tax			
Individual Income Tax	2,645,116	2,826,482	7%
<i>of which: PAYE Tax</i>	2,570,037	2,758,764	7%
<i>of which: Business Payments Tax</i>	62,180	59,750	-4%
<i>of which: Income Tax Assessed</i>	12,899	7,968	-38%
Corporate Income Tax	1,740,503	2,066,940	19%
Dividend Withholding Tax	176,495	244,554	39%
Mining & Petroleum Tax	981,087	666,742	-32%
Bookmakers Turnover Tax	9,459	8,761	-7%
Stamp Duty	70,156	67,271	-4%
Royalty/Management Fees	17,843	27,819	56%
Bookmakers Licence Fees	43	-	-100%
Departure Tax	6,543	6,120	-6%
Training Levy	3,747	6,408	71%
Gaming Machine Tax	133,878	144,554	8%
Interest Withholding Tax	67,382	45,319	-33%
Sundry Receipts	871	1,954	124%
Total Direct Tax	5,853,124	6,112,923	4%

Table 5: Direct Tax 2012 Actual Collection and 2013 Actual Collection

Individual income and company tax actual revenue increased in 2013 due to continued strong domestic economic growth driven largely by the continuation of the construction phase of the PNG Liquefied Natural Gas (LNG) Project. The large investment in PNG associated with the construction phase of the LNG Project has resulted in greater profitability in 2013 for firms in the construction, transport, retail, and communication sectors, and other supporting industries. Growth in the number of new companies has also contributed to greater corporate income tax in 2013.

Increased formal direct employment with the LNG contractors, and employment with secondary industries benefiting from the economic boom generated by the construction phase of the LNG Project, has led to employment growth of 6.4% in the resource sector and 7.9% in the service sector in 2013. This has been the main driving factor behind growth in individual income tax revenue in both 2012 and 2013. However, these high levels of individual income tax revenue are only expected to be sustained through the continuation of the construction phase and the additional employment it has generated.

MPT outcomes in 2013

The main contributing factors to the overestimation of MPT collections in the 2013 budget and the fall in MPT collections in 2013 relative to 2011 are set out in the following paragraphs

In 2013, almost all of the major mines in PNG reported increases in production costs of 20%. This resulted in one major mine making a loss with a significant downwards impact on income tax in the year. Most of the major mines also reported lower production of minerals

Adding to this, the fall in mineral prices, coupled with appreciation of the Kina and high original price projections for MPT resulted in the shortfall in MPT collections in 2013.

Figure 6 shows the average actual price against projections for gold and copper world spot prices

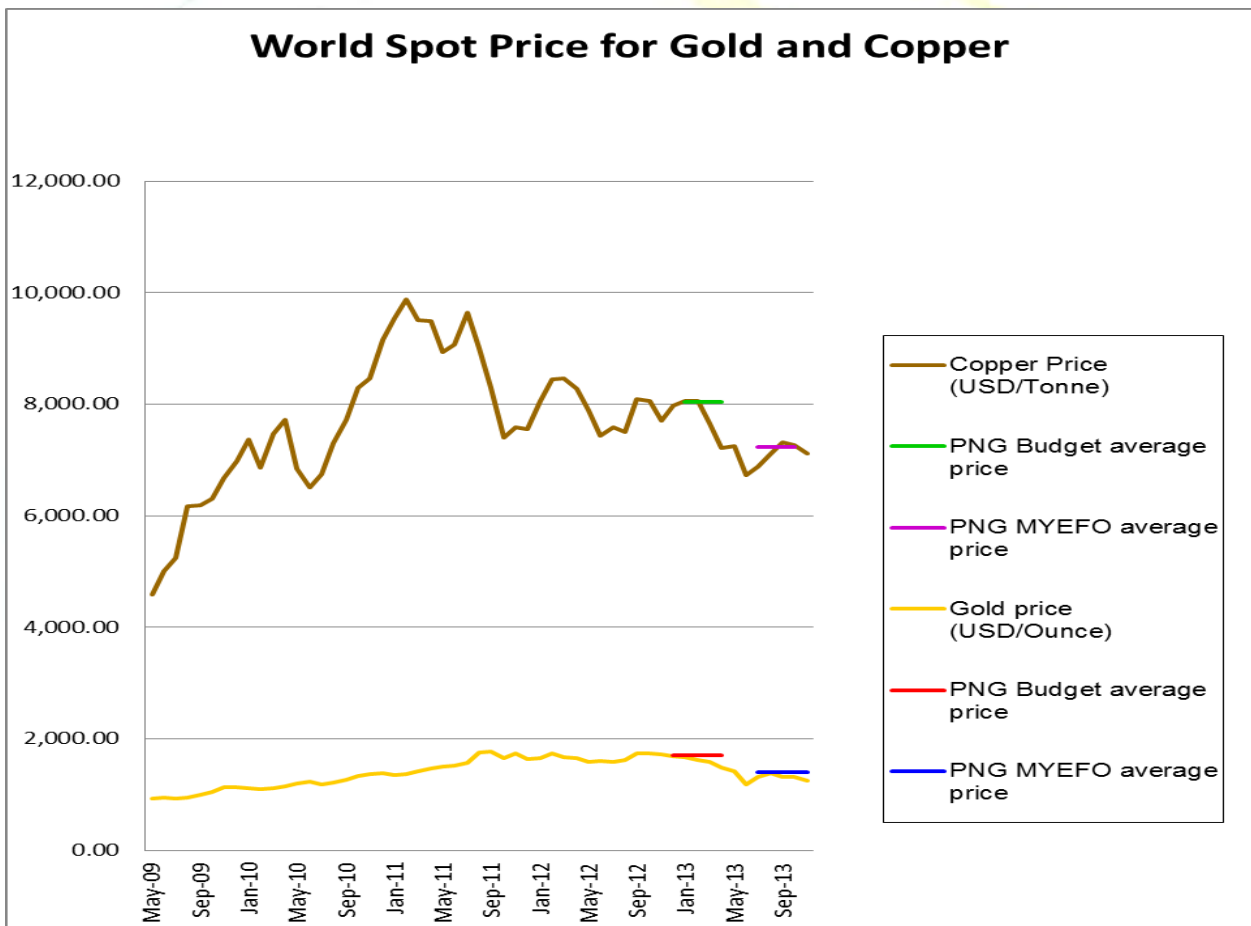


Figure 6: Copper and Gold Actual Price Trends (2009) and 2013 Budget Projected Prices

Goods and Service Tax (GST)

Total GST collections in 2013 were 2,020 million Kina (which is 17% below budget projections) and total GST disbursements were 2,209 million Kina leaving a net balance of GST revenue equal to 189 million Kina. However, GST distributed to the Waigani Account in 2013 was 28% ahead of the Budget projection.

Goods and services tax experiences constant flows as GST registered taxpayers both receive GST revenue from taxable sales to IRC, and claim GST refunds. When GST incurred on inputs exceeds GST collected from sales during the period, (which is usually the case for export and resource oriented sectors) registered taxpayers will be entitled to receive a refund of the difference. This results in significant 'churn' of GST revenue. Besides flows of GST between taxpayers and IRC, there are also disbursement flows of GST to provincial governments and the central government Waigani Public Account (WPA).

The reason behind the 189 million Kina net balance in 2013 is mainly due to a large disbursement of GST transferred to WPA in January 2013, which was the result of a build up in the balances of the GST accounts over the preceding several months. This resulted in a greater overall GST disbursement in 2013 than would have otherwise been the case. Total tax revenue is calculated as total direct tax plus GST transfers to WPA for a time period.

	2013 Actual Collection/ Disbursement (K '000)	2013 Budget Forecast (K'000)	Percentage Change
GST Collections			
Import GST Revenue (collection from ports)	983,117	1,331,700	-26%
Inland GST Revenue (collection from provinces)	1,037,119	1,088,089	-5%
Total Collection	2,020,236	2,419,789	-17%
GST Disbursements			
Total GST Refunds	638,334	1,228,484	-48%
GST Distributed to Provinces	353,583	357,500	-1%
GST Distributed to WPA	1,217,200	954,418	28%
Total Disbursements	2,209,117	2,540,402	-13%

Table 6: GST Collection and Disbursement 2013 Actual and 2013 Budget Forecasts

Tables 6, 7 and 8 show the total GST collections from ports and provinces (including NCD) for 2013 and 2012, as well as the GST disbursements which include GST refunds, distribution to provinces and GST transferred to WPA. Total GST collections in 2013 were

⁴It should be noted that Customs also collects GST on imports which is to be reclaimed from IRC as input credits by registered taxpayers in their GST returns.

17% lower than the 2013 Budget Forecast. However, due mainly to lower refunds, the amount of GST Distributed to the Waigani Public Account (WPA) was actually ahead Budget by 28%. Import GST was 26% lower than projected at Budget while Inland (GST from all Provinces) was 5% lower than projected.

However, compared to 2012 figures, Inland GST (from all Provinces) actually increased 29% (refer Table 7) while reported Import GST was 17% lower than in 2012. This reflects, at in part, a phasing down of LNG Project construction associated imports in 2013 and is consistent with reduced levels of input tax credit claims made in connection to L businesses in 2013.

GST Collection Type	2012 Actual Collection (K'000)	2013 Actual Collection (K'000)	Percentage Change
GST Collections at Ports	1,185,468	983,117	-17%
GST Collections in Provinces:			
<i>Central</i>	6,378	4,054	-36%
<i>East New Britain</i>	34,012	35,627	5%
<i>East Sepik</i>	16,880	17,440	3%
<i>Eastern Highlands</i>	46,754	30,647	-34%
<i>Enga</i>	3,412	2,619	-23%
<i>Gulf</i>	766	474	-38%
<i>Madang</i>	22,470	23,740	6%
<i>Manus</i>	1,343	2,439	82%
<i>Milne Bay</i>	10,561	15,672	48%
<i>Morobe</i>	175,846	195,672	11%
<i>National Capital District</i>	553,920	560,600	1%
<i>New Ireland</i>	16,044	15,591	-3%
<i>Autonomous Region Bougainville</i>	7,603	6,997	-8%
<i>Oro</i>	5,717	4,638	-19%
<i>Sandaun</i>	3,185	2,778	-13%
<i>Simbu</i>	5,733	3,438	-40%
<i>Southern Highlands</i>	18,946	21,191	12%
<i>West New Britain</i>	20,853	24,357	17%
<i>Western Highlands</i>	56,537	54,835	-3%
<i>Western Province</i>	11,759	14,314	22%
GST Collections in Provinces Sub Total	1,018,717	1,037,119	2%
Total GST Collection	2,204,185	2,020,236	-8%

Table 7: GST Collections; 2012 and 2013 Actual Collections

GST Disbursement Type	2012 Actual Disbursement M	2013 Actual Disbursement M	Percentage Change
GST Refunds	1,133,106	638,333	-44%
GST Transferred to Waigani Public Account	1,010,000	1,217,200	21%
GST Distributed to Provinces:			
<i>Central</i>	2,000	2,246	12%
<i>East New Britain</i>	9,611	10,982	14%
<i>East Sepik</i>	4,436	4,337	-2%
<i>Eastern Highlands</i>	10,550	15,369	46%
<i>Enga</i>	1,233	924	-25%
<i>Gulf</i>	250	305	22%
<i>Madang</i>	4,747	7,455	57%
<i>Manus</i>	189	718	280%
<i>Milne Bay</i>	2,512	2,753	10%
<i>Morobe</i>	57,143	57,844	1%
<i>National Capital District</i>	149,649	202,461	35%
<i>New Ireland</i>	3,741	4,740	27%
<i>Autonomous Region of Bougainville</i>	1,784	2,019	13%
<i>Oro</i>	1,249	2,281	83%
<i>Sandaun</i>	1,128	1,435	27%
<i>Simbu</i>	1,692	3,421	102%
<i>Southern Highlands</i>	1,587	5,255	231%
<i>West New Britain</i>	3,930	7,031	79%
<i>Western Highlands</i>	13,190	16,671	26%
<i>Western Province</i>	3,217	5,336	66%
GST Distributed to Provinces Sub Total	273,839	353,581	29%
Total GST Disbursement	2,416,944	2,209,117	-9%

Table 8 GST Disbursements; 2012 and 2013 Actual Disbursements

Of the sum of GST revenue disbursed in 2013, the largest proportion was allocated to the Waigani Public Account (55% of total GST disbursements). The balance was then allocated between transfers to provincial government accounts (16%) which is a fixed amount lower than for Bougainville (ARB) and Refunds (29%) as illustrated in Figure 7.

⁵Note: GST distributed to each province in a given year is calculated as 60% of the net GST collections from each province (i.e. gross GST collected from the province minus GST refunds to that province) from two years prior. Except for Bougainville (ARB) and distributions are calculated as 30% of GST collections from the current year.

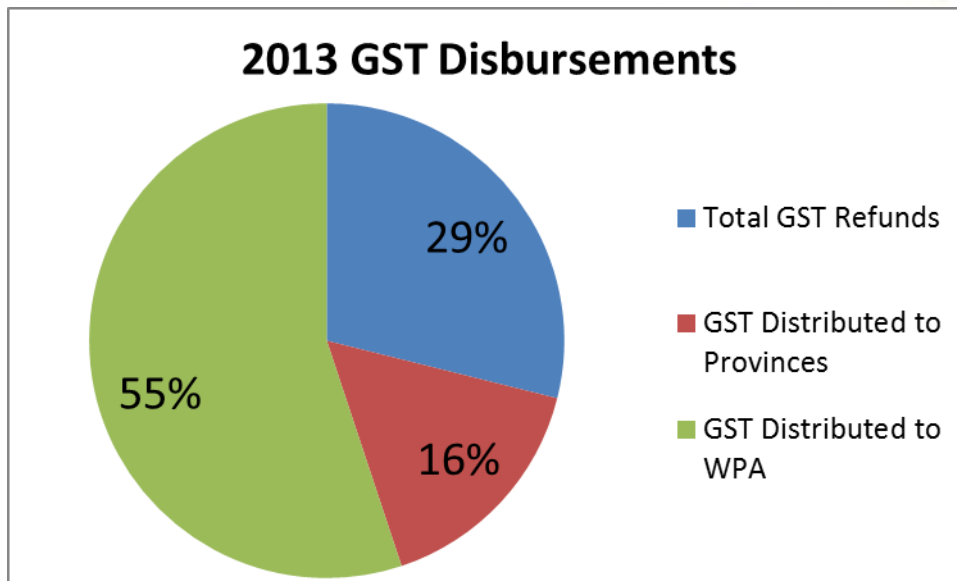


Figure7: 2013 GST Disbursements by Destination (%)

Activities supporting Revenue Collection in 2013

During 2013, the IRC processed new registrations, lodgements and assessments shown in Tables 9, 10 and 11 respectively.

New Taxpayer Registrations	
Type of Registration	Number
Individual Income Tax	2,214
Company Income Tax	2,004
Group Tax	1,831
Goods and Services Tax	1,477

Table9. New Taxpayer Registrations in 2013

Lodgements	
Type of Lodgement	Number
Individual Income Tax	4,950
Company Income Tax	6,420
Group Tax	1,831
Goods and Services Tax	75,260

Table10 Lodgements Processed in 2013

Assessments	
Type of Assessment	Number
Individual Income Tax	5,254
Company Income Tax	6,437
Provisional Tax	2,225
Training Levy	419
APT	76
Stamp Duty and 10A cases	2,499
Goods and Services Tax returns processed	73,702

Table 11: Assessments Processed in 2013

The IRC also:

- ◁ Issued 1,298 Final Notices for lodgement of outstanding income tax and training levy returns and reviewed and issued 800 Up Demand Notices.
- ◁ Issued 18,647 Final Notices for lodgement of outstanding business payments tax, group tax and GST returns
- ◁ Registered and processed 544 Section 313 surmounts outstanding returns
- ◁ Received 69 new objections to assessments raised by and finalised 94 including some from previous periods. There were 157 valid objections on hand the end of 2013.
- ◁ Received 57 new requests for amendment and finalised 46 including some from previous periods. There were 113 requests for amendment on hand at the end of 2013.
- ◁ Issued 1,996 Tax Clearances
- ◁ Provided certificates of compliance (CoCs) to 4,731 applicants, with 81 certificates issued in the year and a stock of 1,153 applications as at 31 December 2014 (some of which may not be issued due to 2014 Budget changes)
- ◁ Reconciled backlogs of many thousands of withholding tax accounts (8,080 salary and wage accounts, 7,352 business payments tax accounts, 413 dividend withholding tax accounts, 586 interest withholding tax accounts, 245 royalty withholding tax accounts and 113 management fee withholding tax accounts)
- ◁ Receipted 5,920 cheques and
- ◁ Conducted 80 general taxpayer education and awareness sessions around the country as well as 21 targeted information sessions to industries, schools, etc.

Objective 1.2 Simplify legislation and improve tax administration framework

Cost of Collection and Revenue Collection

In 2013, the cost of collection of revenue, revenue collected stood at 0.7%. This indicator has been on a downward trend from 0.8% in 2009 to 0.5% in 2011. This falling trend in operating costs as a percentage of revenue has been driven mostly by an increase in absolute revenue collections, but also by a decrease in IRC actual operating costs. Operating costs should typically increase (or at least decrease) with corresponding increase in revenue, due to the additional manpower and resources required to collect more revenue. A fall in operating costs as a percentage of revenue represents a lack of spending on sufficient resources in the case of IRC.

In 2013, IRC's expenditure increased by 0.1 percentage point to 0.7%, however this still represents a relatively low cost. This cost includes expenditure on personal emoluments as well as goods and services required for tax administration. This implies that revenue collection, although increasing, may currently be constrained and below potential levels due to insufficient staff numbers at the scale of operations. IRC is also incurring additional costs of investing in future capability, including a new system. A graphical depiction of operating costs as a percentage of revenue for the past six years is shown in Figure 11.

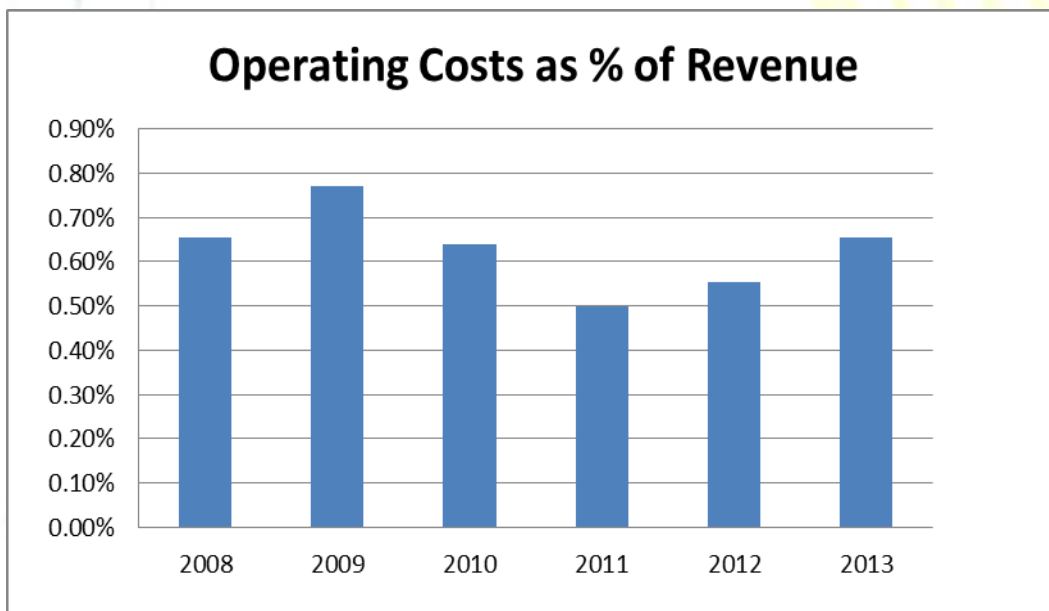


Figure 11: IRC Operating Costs as a Percentage of Total Revenue

Objective 1.3 Develop and refine core tax administration processes

IRC's core business processes and systems are new Revenue Accounting System (RAS II). The RAS II system replaces the IRC's system which was implemented in the 1990s. It uses the Standard Integrated Government Tax Administration System (SIGTAS) program, which has been installed in a large number of other countries around the world. The new administration systems back into the modernization project, by necessity being implemented carefully to ensure that all internal and external stakeholder needs are met. This is a multifaceted and demanding process as the system progressively developed and configured to accommodate PNG's

After converting all withholding tax types to the new system, SIGTAS went 'live' in 2013. Getting to this stage involved an enormous effort by many people across the IRC, a process redesign, system testing, training, data cleansing and other tasks. The SIGTAS implementation strategy has held IRC in good stead with all key milestones for 2013 met or exceeded. The next phase, which includes Goods and Services Tax, is scheduled to be implemented by mid-2014.

Business Process Improvement

2013 saw IRC embark on an ambitious conversion scheme migrating taxpayers over to the new system, while at the same time, cleansing their accounts, clearing backlogs, and ensuring only accurate taxpayer data was migrated to. During this process, many thousands of backlogged returns were queued up for processing at the IRC for various reasons. As at 31st December 2013, approximately 1700 taxpayer accounts in SIGTAS were reopened, including over 1600 related to Salary and Wages tax, the balance being other withholding taxes. More than 350 million Kina has been paid using the new processes and new forms at year end.

In addition to the cleansing of electronic data, IRC launched a campaign to archive old, unneeded documentation from storage, resulting in many tonnes of outdated taxpayer materials dating back to 1959, being destroyed, freeing up valuable space to reform our document and filing schemes. Through SIGTAS, the procedures we use for document lodgement and storage have been dramatically changed. A new document storage policy was also implemented, ensuring that unnecessary paper work is not going forward.

Further to this extensive process reform campaign, the existing tax form in use for our new system has been redeveloped, doing away with the old 'carbonless' forms worth hundreds of thousands of Kina to print each year and to maintain. The changes to taxpayer

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forms will greatly reduce the cost of compliance for businesses. do they need specialized hardware to deal with forms so far they need to send hard copies of documentation into the IRC.

Working with the Bank of Papua New Guinea (the central bank) and the 4 Commercial banks, the groundwork has been laid to establish a banking link newKina Automated Transfer System (KATS) and the IRC's SIGTA. for this link to be connected over the waiting for KATS to be configured and acceptance testing to be completed. When in place, expected in 2014, this link will expedite processing times.

Streamlining Registration Processes

Through SIGTA, all the old Tax File Numbers (TFNs) are combined into a single Taxpayer Identification Number (TIN), which can be issued on the spot to intending taxpayers provide the required documentation

The IRC also well advanced establishing a small office located with the Investment Promotion Authority (IPA) so that every IPA registrant will also be registered with IRC and be issued with an IRC TIN number. This office is expected to become operational early in 2014.

A dedicated a team of 40 short term contractors focused on tracking down missing taxpayers and companies avoiding registration and lodgement. This team began work in November with a specific emphasis on identifying missing taxpayers those who were no longer replying to IRC correspondence because they had changed address or other contact details or were otherwise not responding. 200 of these had been found by the end of the year.

Other registration work in 2013 included starting to match the IPA registration database against the IRC registration database. Those found to not be registered with the IRC will be followed up activities in 2014.

Receiving Electronic Payments

The ability to receive electronic transfers was introduced to shorten the processing time it takes to clear cheques and get taxpayer revenue into the government account. The IRC now receives a substantial portion of revenues via electronic transaction and expects this to continue to increase dramatically throughout 2014.

Positioning for Taxpayer Self-Assessment and Voluntary Compliance

To mitigate implementation risks, stakeholder and taxpayer awareness activities were conducted throughout 2013, guided by RAS Internal and External Communications Plan. These activities were aimed at educating and informing the taxpayers and stakeholders on the changes and improvements being made to tax administration to improve voluntary compliance and to progressively pave the way towards self-assessment. Amongst these achievements were:

- ◁ 29 new taxpayer forms were created in 2013. The associated taxpayer guides describing the use of the forms were also developed with the final version of the guides expected early in 2014.
- ◁ The IRC website was updated to better leverage this tool to communicate with taxpayers and to distribute forms
- ◁ IRC took out newspaper ads and did radio and TV interviews with the public the new ways to comply with the Income Tax Act
- ◁ Tax agents were engaged in meetings and in one-on-one sessions to walk them through the new processes recognising that they were our partners in implementing administrative changes.

SIGTA now raises automatic penalties on late lodgements and late payments encouraging taxpayers to improve their lodgement and payment performance. This will increase revenue for the State if taxpayers continue to meet their obligations.

Objective 1.4 Improve compliance and broaden tax base

Collecting Debt

The IRC put substantial additional effort into a debt reduction strategy in 2013, which resulted in the finalisation of 3,830 overdue debt cases. The number of cases finalised was roughly equivalent to the number of new overdue debt cases, which meant that the total number of outstanding overdue debt cases reduced only slightly over the year.

The IRC is further increasing its debt collection resources and focus in 2014, with additional staff, staff training, and further new collection approaches planned as at 31 December 2013.

Notwithstanding the additional effort over the year end of 2013, the total taxpayer debt to IRC stood at 2.4 billion Kina, or 33% of total tax revenues as shown in Table 12

	2009	2010	2011	2012	2013
Total outstanding debt (end of year), million Kina	1,680	1,732	2,121	2,035	2,434
Total tax revenue, million Kina	4,230	5,524	6,705	6,863	7,330
Debt percentage of revenue	40%	31%	32%	30%	33%

Table 12 Total Debt (including debt not yet due) compared to Total Tax Revenue (million Kina)

The 2013 total outstanding debt amount and percentage of revenue increased from 2012 levels in large part because of the "not yet due" component of debt being higher at the end of 2013. This bulge in recent debt still outstanding is due to clearing of backlog assessments in 2013 and the raising of a large assessment that has been disputed, and is not currently collectible.

As shown in Table 3 and in Figure 8, 34% of the total debt stock at the end of 2013 is aged between 1 and 5 years old, and 25% of the debt is over 5 years old. The majority of the debt at this age becomes increasingly difficult to recover as the ability of the taxpayer to repay this debt becomes more diminished over time as his or her debts accumulate, and they are prohibitively high. Over this period, companies may also have ceased trading.

However a proportion of this older debt is recoverable. The IRC's Management Division reinvigorated activity in relation to older debt, including issuing new garnished notices, increased numbers of writs of summons and commencing director penalty

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notices These firmer action strategies and approaches will be further extended in 2013 with an expectation of continuing improvements in collection, particularly in relation to the significant proportion of the stock of debts less than 12 months old and a higher probability of collection.

Age of Debt	2009	2010	2011	2012	2013
Current Debt (not yet due)	35	36	236	99	264
1 - 12 months	564	492	641	650	740
13 - 60 month	759	826	805	778	834
> 60 months	322	377	439	508	591
Total Debt Holdings	1,680	1,732	2,121	2,035	2,439

Table 13 Total Debt by Age of Debt and Year (Million Kina)

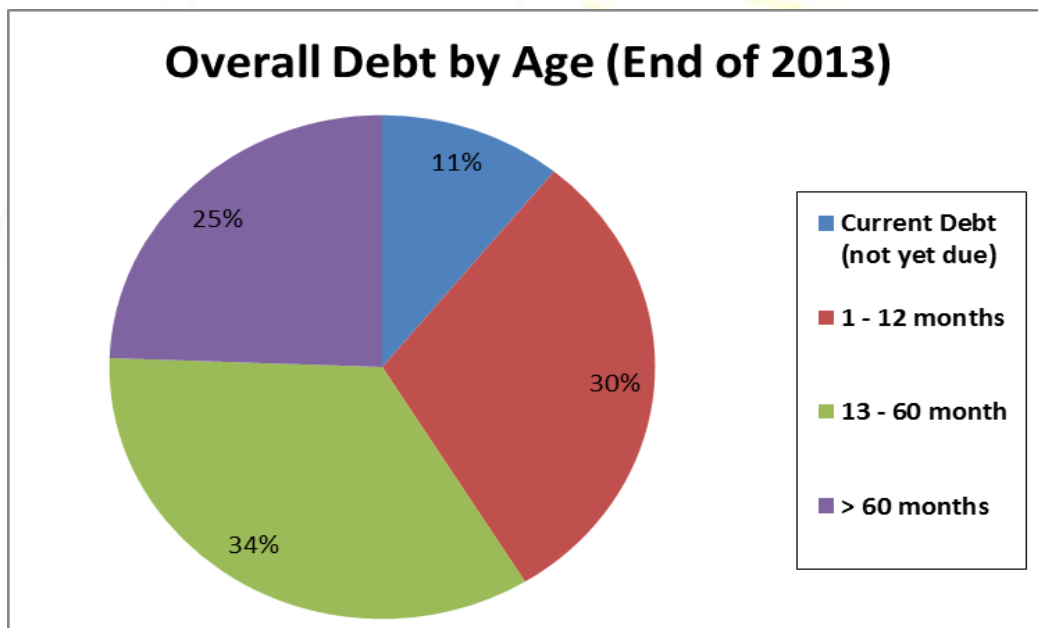


Figure 8 Proportion of the Total Debt on Hand by Age Range of Debt (2013)

Figure 9 illustrates the change in debt as a percentage of revenue over time by age category of debt. This shows that debts aged over 12 months represent a higher proportion of revenue, although have shown a declining trend since 2009 (from 25% of revenue in 2009 to 22% of revenue in 2013). Debts less than one year are lower in value, and have remained more constant as a percentage of revenue (around the 14% mark).

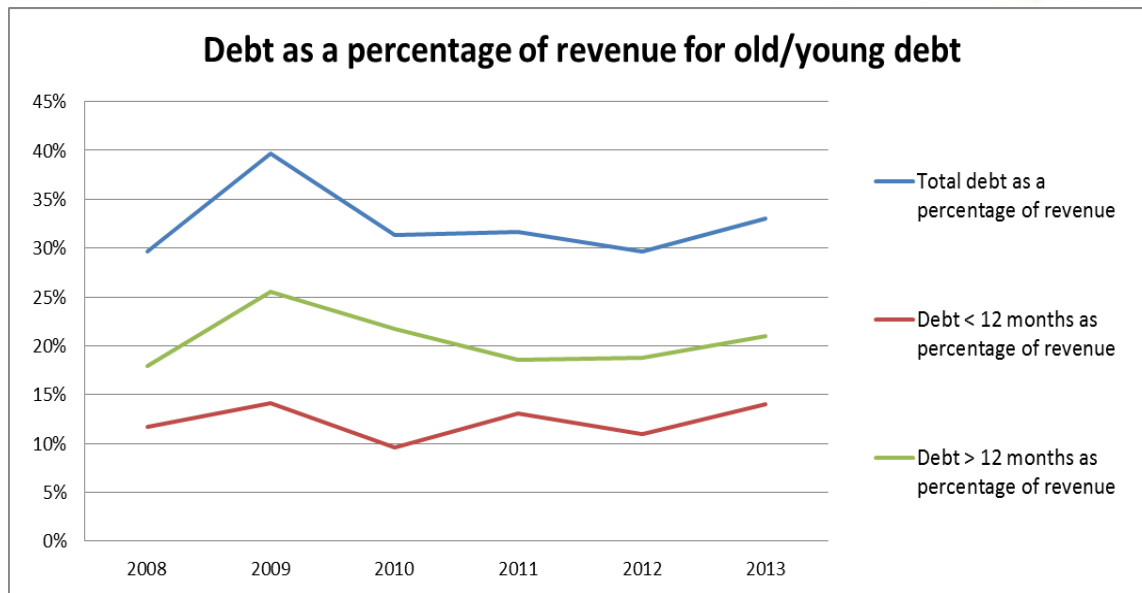


Figure 9. Debt as a percentage of revenue for old/young debt

The IRC has continued its efforts during 2013 to recover and reduce taxpayer debt by finalising as many outstanding cases as possible given the resource constraints. During 2013, 3,830 debt cases were finalised, and the total cases on hand at the end of 2013 is equal to 8,770.

As a result of the direct actions undertaken by debt reduction officers, a total of 1.556 million Kina of debt was collected through payments received during the year. The actions undertaken to collect this debt and the amount of debt reduced by payments implementing these actions are presented in Table 14.

Early actions such as the issuance of demand notices resulted in a 1,247 million Kina reduction in overdue payments. Twelve and three million Kina were collected through garnishee notices and legal action respectively, while 294 million Kina was a result of granting payment extensions. In 2014, IRC will embark on a more aggressive programme of recovering outstanding debt through legal action, where earlier actions (e.g. issuing notices) have not been successful.

In addition, a further 176 million Kina of debt was reduced by other actions (payment) in 2013 including write offs, transfers (which involve offsetting debts of the same revenue type against credits in another revenue type) and additional tax for late payment reduced.

Of the total debt on hand at the end of 2013, 229 million Kina of this debt (or 9%), was in a formal state of dispute and treated as temporarily payable. This includes debt which has a status where an objection has been lodged, an appeal has been lodged, or an amendment has been requested. However a proportion of this debt may become

collectable again in the future when the status of the debts (on the dispute is resolved).

Actions Taken to Reduce Debt (2013)	Debt reduced ('000 Kina)
Actions wherby debt reduced by payment:	
Issuance of Final Notice	414,80
Issuance of Demand Letter	406,18
Manual Demand	426,04
Garnishee Notice	12,39
Legal Action	3,03
Extension Granted	293,89
Debt Reduced by Payment Sub-total	1,556,35
Other Actions: whereby debt reduced (non-payment):	
Write Offs	6,51
Transfers	126,90
Additional tax for late payment reduced	42,16
Debt Reduced by Other Action Sub-total	175,58
TOTAL Debt Reduced	1,731,94

Table 14: Debt Reduced From Direct Actions Taken by Debt Reduction Officers in 2013

A further 228 million Kina (or 9%) of debt was subject to negotiated payment arrangements where taxpayers were unable to pay the full amount all at once, while a further 237 million (or 10%) is subject to legal action. 71 million kina is awaiting offset by credits due to taxpayers from other assessments yet to be finalised by the IRC, while 60 million is listed for write off due to be irrecoverable due to such things as the business no longer being in operation. Given the limited resources available overall for this work, the IRC in recent years has focused more on actually collecting outstanding debts than completing the paperwork required for write off action.

Table 15 gives a breakdown of debt on hand by tax type in 2013 and the percentage change in debt between 2012 and 2013 for each tax type. Overall debt increased by 20% in 2013 although as noted earlier this includes a larger than normal amount which is not yet due for payment. Debt for all tax types increased due to clearing of backlog of assessments for various tax categories in 2013, which resulted in the raising of additional tax debt.

Tax Type	2012	2013	Percentage Change
Company Tax	1,440	1,655	15%
Group Tax	227	270	19%
Goods and Services Tax	151	185	23%
Individual Tax	136	231	69%
Business Payment Tax	20	19	-6%
Others	60	75	25%
TOTAL	2,035	2,435	20%

Table 15: 2012 and 2013 End of Year Debt by Tax Type (Kina)

Company tax debt makes up the largest proportion of debt (68%) as illustrated in Figure 10. This is followed by group tax debt (11%), Individual tax debt (9%), and GST tax debt (8%).

Company tax debt is high relative to other tax types partly because it is one of the highest value revenue streams. In addition, there have been delays in the past with assessing company tax returns (partly due to their technically challenging nature) and delays issuing assessments. Delays of this kind increase the time period over which the company's income is earned and when the assessments are issued, which can make it more difficult to collect the company tax debt. Poor lodgement compliance amongst company taxpayers is also a factor. This has led to many cases of default assessments being issued which the taxpayer may then object to or refuse to pay, especially if the assessment has been overestimated by assessors.

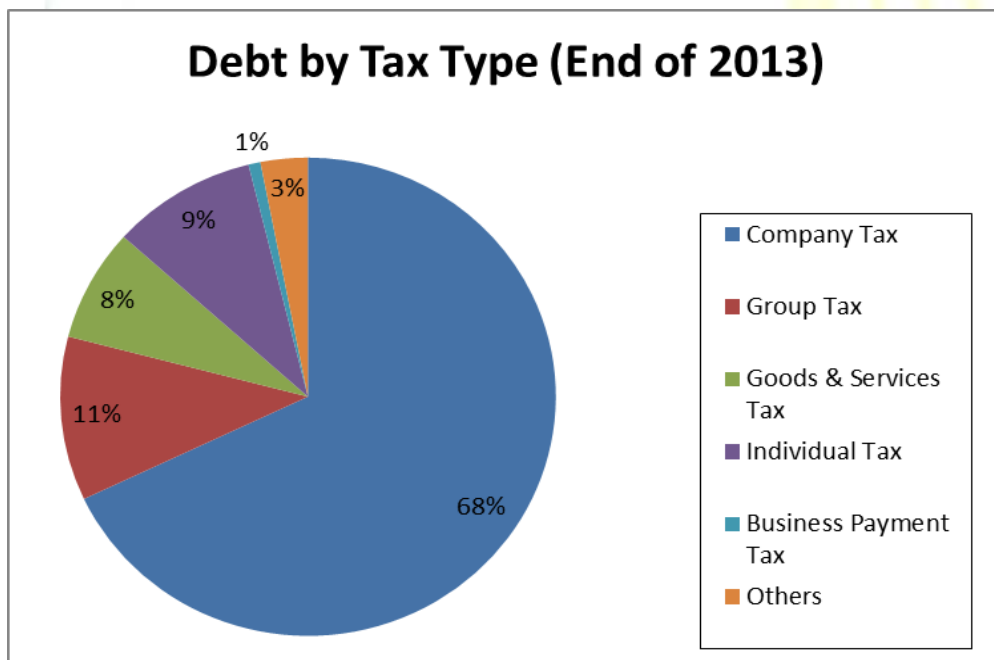


Figure 10: Debt by Tax Type, 2013

Penalties and Breaches of the Tax laws in 2013

The IRC pursues an active policy of enforcement of penalties, including late lodgement tax return penalties, late payment penalties, and omitted income from tax return penalties. Penalties are an incentive for voluntary taxpayer compliance which improves tax revenue performance.

Table 6 outlines the breaches or evasion of the Income Tax Act 1959 (as amended) and the compliance action taken.

Breaches or evasion of Income Tax Act	Compliance action taken	
	Number of cases	Value (Kina) (If applicable)
Section 313 - Failure to lodge income tax returns	554 summons processed	19,945 final notices issued
Section 313 . Court fines	332	K287,500
Section 316 (1) - Late lodgement penalties for income tax returns lodged late	3	K112,874
Legal costs	1	K53,000
Section 275(O) - Underestimation of provisional tax	0	0
Section 272 - Garnishee on bank accounts	634	K201,857,291
Section 262 - Penalty for unpaid tax (late payment penalty)	1,584	K62,031,565

Table 6: Breaches of the Tax Laws in 2013

The IRC is currently litigating over a disputed tax liability, with appeals against the IRC tax assessment expected to be heard in the PNG National Court. As part of this litigation, the IRC was successful in the Supreme Court in defending its Garnishee Notices issued to collect part of the tax payable. Further actions by the IRC, to collect the balance tax payable; through a Summary Judgment was also upheld in the Supreme Court.

Tax Audit Results

During 2013, income tax audits were completed on Medium Enterprises in the wholesale/retailing and fishing industries, with total revenue of K34.9 million raised.

A total of 62.4 million Kina was raised through the completion of comprehensive non deduct and remit audits completed on Group and Business Payment Clients (taxpayers) including government agencies, private enterprises and sole traders within country.

There were forty one audits completed in both High Net Worth Individual Cash and Economy projects resulting in reverse of 6.5 million Kina as these were mostly cases from the low income bracket.

GST Audits were also completed on two Small and Medium Enterprise Clients resulting in 23.4 million Kina in revenue raised compared to 7 million Kina in 2012.

A total of 4,554 comprehensive GST Refund audits including deregistration of inactive accounts completed on GST payers submitting claims for refunds. These GST taxpayers included:

- < Schools
- < Religious and aid organisations
- < NGOs/Charities
- < LNG Project Contractors and mining and exploration companies
- < Exporters
- < Coffee/cocoa
- < Aid workers and diplomats

This audit activity included reviewing claims that raised a total of 28.4 million Kina worth of GST claims disallowed as Revenue savings.

During the year the Tax Audit Division continued its enforcement in the Large Business & International (LBI) compliance with a number of audits underway, including some in resources sector. The LBI team raised revenue totalling 57 million Kina in 2013.

Whilst low staff numbers remains a significant issue for the Tax Audits Division, improvements have been made in our case management processes including the introduction of electronic case registers and case workshopping and improved targeting of audit work based on industry type and risk analysis.

There is ongoing support from the Australian Taxation Office to improve capability in conducting transfer pricing and case selection and risk management at the Tax Audit

Division also benefited from the support of Bank technical assistance, supporting mining and energy audit training and on the job training of RC large business staff.

Overall, while some IRC audit activities raised less than expected, this was offset by better than expected outcomes of business audit (27 million Kina over projections), GST Debit audits (3.2 million Kina over projection) and GST Refund integrity (with 1.1 million Kina in additional revenue protected).

Initiatives to raise additional revenue in the audit operations capability are among key priorities and will continue into the year 2014.

2. Leadership and Governance

Objective 2.1 @ k #
are developed and strengthened

Revised Governance Arrangements

In January 2013, the Prime Minister directed IRC to investigate and develop a proposal to transform the IRC into a statutory authority. Potential governance arrangements for IRC to become a Revenue Authority were developed during the year as part of this proposal. This included the IRC as a Statutory Authority, remaining a government agency and continuing to play a significant public service role in collecting revenue for the State. The change to IRC's relationship with Government has the potential to strengthen our relationship with Government and other Public Sector Departments as a result of the renewed focus on developing effective governance and communication arrangements.

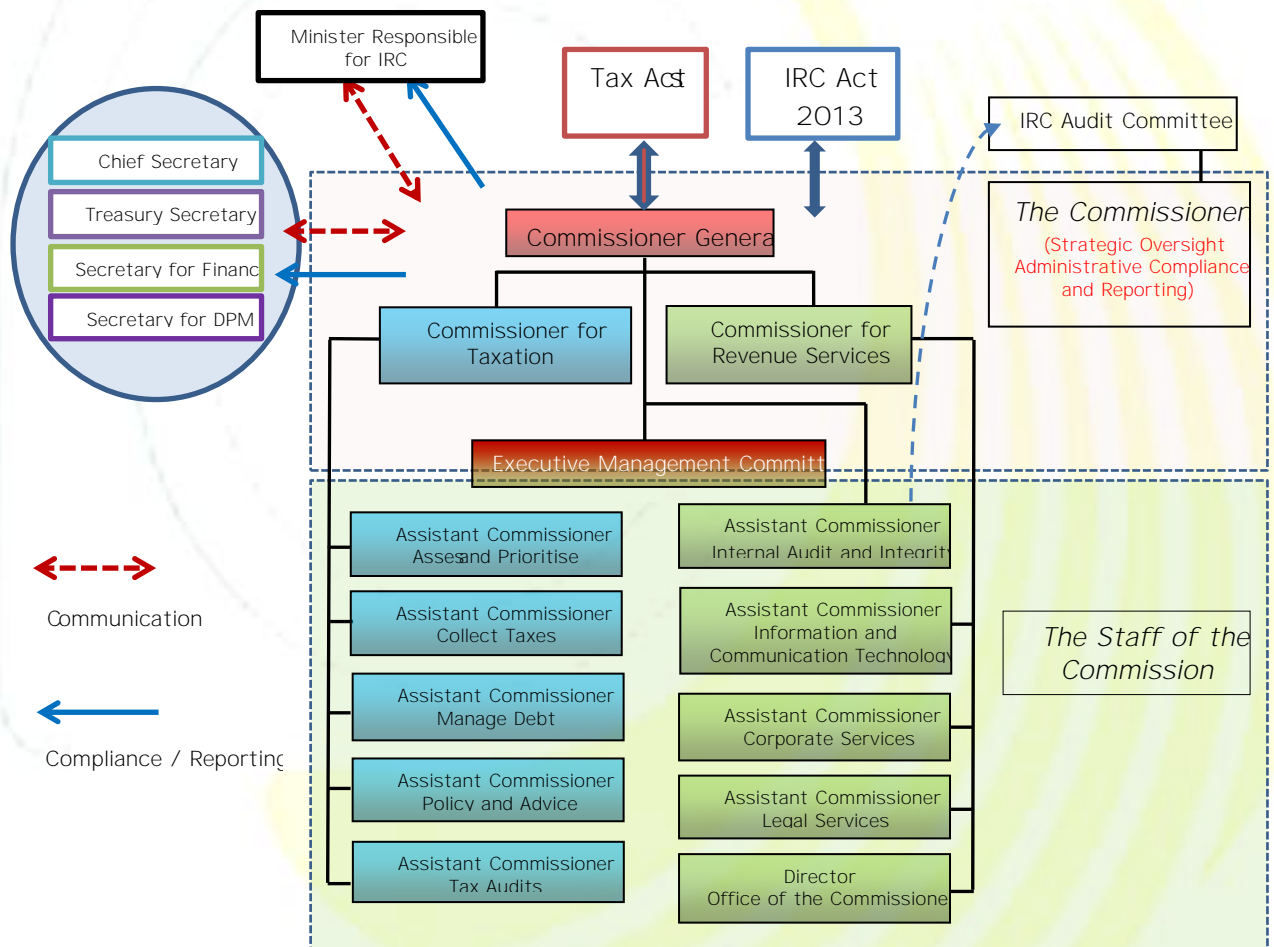


Figure 11: IRC Proposed Governance Arrangements As a Statutory Authority

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In brief, the proposed Bill establishes the Commission as the governing body of the IRC comprising of the Commissioner General and the Commissioners. Under the new arrangements, the Commissioner General will be guided exclusively by the Tax Act in respect to collecting revenue and the relationship with Government with respect to tax matters. The other Channels, specifically mandate the governance arrangements for the operation of IRC as a Statutory Authority, oversees on management oversight, administrative policy development and approval, audit and compliance requirements and the transition arrangements. The Commission is also responsible for reporting directly to such Audit Committees established under the Public Finance (Management) Act 1995.

Planning, Reporting and Accountability

The IRC launched its new Corporate Plan in February 2013. Each IRC Division developed its own complementary five-year Strategic Plan that include Divisional vision, mission, and activities that support the outcomes of the IRC Corporate Plan. The Divisional strategies were framed to align with the Corporate Plan with clear linkages from the IRC Corporate Plan 2012-2017. To support implementation of the Corporate Plan, the IRC invested heavily during 2013 in developing its planning and reporting framework.

IRC also rolled out a program to develop Expectations for all staff with the majority of staff having time to place at the end of the year. As a result of this effort, IRC now has a robust framework to evaluate individual performance and its corporate performance against the Corporate Plan and the Work Plans.

Governance reporting was consistent with timely production and presentation of the 2012 Annual Work plan and 2012 Annual Report reviewing annual revenue collections; budget expenditure; governance frameworks; administrative and other activities. Monthly revenue collection reports and quarterly budget reviews were also produced on time. The 2013 IRC Annual Work Plan, raised in January, was submitted ahead of time to Treasury for the release of warrants to the Chief Secretary in accordance with Circular Instruction 23/2011. The Annual Work Plan clearly articulated the activities needed to be conducted throughout the year to support strategic direction for 2013. The work plan also detailed responsibilities and key performance indicators that were carried through the section plans to the staff's individual comprehensive suite of plans that IRC's performance reported.

During 2013, the Wing and Division conducted regular internal management meetings to ensure progress was being made against the Work Plans. These meetings also provided a mechanism for cross divisional coordination of activities and for operational

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problems to be either resolved or elevated. In addition to these measures, the Executive met with the entire IRC Senior Leadership Team to analyse operational programmes and reconcile it against strategic direction at each of the mid-year and end-of-year reviews. The foundations for the 2014 IRC Annual Plan were also set at the 2013 end-of-year review to confirm the strategic direction and to ensure that the objectives flowed into operational activities for the following year.

IRC Audit Committee

The IRC Audit Committee was formed in 2008 and has met every quarter since its inaugural meeting in February 2009. The role of the Audit Committee is to assist the Commissioner General and the Executive Management Team in fulfilling their responsibilities for achieving good corporate governance within the IRC. The current Chair of the IRC Audit Committee is Mr Reuben Aia (Morobe Mining Regional & Economic Development). The committee consists of five members:

- ◁ Secretary Department of Finance (or Delegate);
- ◁ Commissioner General IRC;
- ◁ Auditor General of PNG; and
- ◁ Two independent members (currently including the Chair of the Committee)

Overseen by the Audit Committee, the IRC has implemented recommendations made by the Auditor General Office for the 2009, 2010 and 2011 financial years.

Staff Attitudes, Behaviours and Culture

Improving IRC's staff attitudes, behaviours and organisational and the individual values was the subject of extensive discussion by the IRC leadership team at both year and end of year reviews. Issues relating to corruption, integrity, performance, attendance, behaviour and other actions that would result in disciplinary action were deliberated on. It was resolved that the IRC Leadership Team would make a concerted effort to address and correct poor behaviour and in particular to consistently deal with attendance issues and performance with all supervisors and managers directed to focus more on staff attendance and performance and to apply the correct discipline procedures and process. While both attendance and performance has resulted in some Divisions, this emphasis will continue into 2014.

Concurrent with the launch of the IRC Corporate Plan 17, 2013, the IRC also launched its new logo and corporate image. To further promote a sense of identity within IRC and to improve organisational culture, IRC staff received new corporate forms featuring the new logo. This has had a positive effect on staff morale and public image.

Considerable effort has been made in the past 12 months, all floors in Revenue House have been carpeted. The Commission has seen 441 wheelie bins of antiquated tax documents dispatched for shredding and an almost equivalent amount of furniture, equipment and other material removed from the workplace during the final quarter as a result of a revitalised Board of Survey process.

IRC Trust Accounts

The IRC is responsible for four Trust Accounts. These Trust Accounts are used exclusively for the administration of revenue collected and disbursed with requirements (these requirements are variously legislated in the Home Tax Act 1959 Part III Division 2 Revenue Raising Arrangements of the Organic Law on Peace Building in Bougainville Autonomous Bougainville Government and Bougainville Referendum Goods and the Service Tax Act 2002) and in accordance with the relevant Trust Instruments. The IRC cannot exercise discretionary spending from any of these Trust Accounts. The IRC maintains complete and up to date reconciliation records for each of these discretionary accounts. The reconciliations have also been submitted to the Department of Finance in accordance with the relevant Trust Instrument.

Gender Equity and Social Inclusion

IRC staff regularly attend Gender Equality and Social Inclusion (GESI) related activities. Two senior male executives from IRC attended GESI Male Advocacy training during the year. IRC GESI Representatives attended for "Reclaiming the Night" the 47th Reconciliation Walk where the Commissioner of Taxation was the guest speaker. IRC male members are now encouraged to wear a black shirt on Thursdays to reflect their advocacy for protecting women from violence. IRC staff also addressed the event facilitated by the Economic and Public Sector Program.

Donor Support

The Internal Revenue Commission (IRC) has continued to benefit from the support of its partners in development. This has contributed significantly to our performance in many areas of our operations and also helped position us to take on some of the very large challenges associated with implementing our corporate plan objectives.

In particular, the Australian Aid Program provided funding for four Economic and Public Sector Program (EPSP) advisors and a number of project related grants, three Strong Gavman Program (SGP) advisors deployed from the Australian Taxation Office (ATO) and a range of twinning activities under the ATO Twinning Scheme (PATOTS). The EPSP advisors supported our key areas of need in the IRC; governance and change

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management, internal investigations and integrity, human resource management and development of a graduate and cadet program, the development of a training capability and training curriculum. The Strongim Gavman Program (SGP) advisors provided specialist advice and capacity building across the organisation and particularly in relation to critical tax technical and taxpayer compliance responsibilities. This was supported by PATOTS twinning activities and other support from the ATO including for internal audit development of Tax Circulars, audit case selection, taxpayer debt management

We will continue to need the support of advisors in these areas in 2014 given the magnitude of the challenges faced by the IRC in meeting our vision as outlined in our n Corporate Plan 2013-17 to complete the transformation into a modern tax administration and to meet our revenue targets in 2014

In addition, the World Bank sponsored a project aimed at building audit capacity within mining and energy sector and RDC also had an Economist provided by the Overseas Development Institute. The IRC also benefited from technical assistance and advice, on setting up Large Taxpayer Office, from the US Department of Treasury Office of Technical Assistance, Revenue Advisory Program.

Objective 2 @ k # refined and redefined to support the post RASII environment

IRC to be established as a Statutory Authority

IRC has, for a number of years, been attempting to recruit staff to cover shortfalls building the workforce proved to be complex and problematic due to not being competitive with the commercial sector with respect to staff remuneration. As a result, IRC failed to grow at the desired rate and instead just managed to cover attrition rate, despite enormous human resources effort and suffered progressive deterioration of staffing levels and work performance. In order to address this staffing dilemma, IRC sought to be given similar license as the Bank of Papua New Guinea to set its own terms and conditions of employment subject to the provisions of the *Salaries & Conditions Monitoring Committee Act*. In January 2013, the Prime Minister directed IRC to investigate and develop a proposal to transform the IRC into a statutory authority.

Considerable effort was expended by the IRC's Executive in developing the governance frameworks associated with IRC becoming a Statutory Authority as previously described under Objective 2. The Cabinet Submission Drafting instructions and the supporting documentation, clearly setting out the rationale and the methodology for transforming the IRC into a statutory authority, the initial draft of the required legislation and legislative amendments were completed in March and were circulated for comment by the various stakeholders. The submission took into account the earlier experiences of transforming Public Service agencies into statutory authorities and as such, the draft Bill was to accurately reflect experience, current policy and the strategy set out in the drafting instructions. By August, the final draft was passed to the Legislative Council and State Solicitors for clearance.

The Submission was signed jointly by the Treasurer and the Minister for Public Services in October 2013 in preparation for presentation to the National Executive Committee (NEC). In December 2013, after almost 12 months of effort, the IRC Executive Team supported by Legal Division, the NEC endorsed the proposal for IRC to become a Statutory Authority. The Bill will now need to be approved by Parliament in 2014. This is a significant achievement and a milestone for IRC, allowing for the required improvements to staff pay and conditions, paving the way for the IRC to be more competitive in the labour market and better able to attract and retain staff with skills.

IRC has an appropriate organisational structure to support the delivery of revenue expectations and strategic outcomes

The RAS II project has brought with it a level of automation that requires structural adjustment within the IRC to meet the shift of risk and compliance management from 'front end' of the tax process to 'back end'. It also provides opportunities for staff to focus on higher value work within the IRC. To better manage tax compliance, there will need to be substantial increases in the size of the collection, taxpayer advice and education, assessment, case selection and audit functions within the IRC. The strategy progressively grow and reconfigure the IRC's structure with the capacity to absorb and train the workforce. The strategy recognises the need to carefully balance these activities to ensure that revenue collection remains the priority result. The IRC's post RAS II organisational structure continued to evolve through 2013.

Two workshop sessions were conducted with senior and executive level staff members to develop the overarching design assumptions for IRC as a modern tax administration. The functional construct of the first post RAS II organisational structure at Port Moresby processing centre has been discussed and agreed to in principle for implementation through 2014.

During 2013, IRC continued to invest heavily in the 'US' operating group of 16 IRC staff who have been working on SIGTAS implementation. The training and experience that has been provided to this team has effectively built capacity within IRC and the organisation is reaping daily rewards from this ongoing investment. In the interim, the team's existence for nearly two years, the team is driving process change and reform from within IRC and is helping to define the final organisational form.

The IRC's approved staff ceiling has remained below that required for a modern tax administration in the PNG context. The business environment has also become more complex, with increased use of technology, speed of transactions, and globalisation, and higher service expectations. According to several international benchmarks, IRC staff numbers, and the approved staff ceiling, are significantly below that required for a modern tax administration in the PNG context. With support from Treasury and Finance, IRC has recruited 100 new positions for additional graduate and cadet staff in 2014. These positions will be absorbed into IRC's structure as the structure is progressively refined.

IRC's Human Resources (dHTR) has determined that the organic evolution of HR capacity and capability should be strengthened and grown to meet the challenges of IRC's future expansion, increased modernising of

the IRC Statutory Authority proposal. A new Divisional structure for HR was designed for implementation early in 2014.

In October 2013, a short term contract for sixty workers was placed with a local recruitment firm so that backlogs in critical areas could be adequately resourced and addressed. This bolstered IRC activities in identifying missing taxpayers' sender' mail, processing lodgements and enforcement of debt collection and preparation and support for RAS II and for expanding the taxpayer to enable increased revenue collection in 2014.

3. People and Training

Human Resources Strategic Plan is aligned with the three strategic themes of the Corporate Plan (2013-2017) with its aim to deliver effective, integrated people initiatives and services that make a difference to performance.

2013 has been the year of the implementation of the new Human Resources Business plan and the beginning of its operations in a new model. The business plan reflects our contribution to achieving activities defined in our way forward and aims to facilitate delivery of the outcomes.

The main objective for the Human Resources Division in the three strategic themes is to ensure our contribution to achieving future people capability requirements in the IRC continue and are supported with the right resources processes in place for the future.

Objective 3.1 Populate the IRC structure through recruitment and lateral movement of the best and brightest employees to carry out our mission

In 2013 IRC improved its recruitment program to support workplace performance and productivity towards creating a highly engaged workforce and a means by which we can achieve greater efficiency. During this twelve months, HR has strengthened its capacity to recruit and has demonstrated an ability to do so over a period of time. We are also focusing on our employment brand which is to be a PNG Employer of Choice.

The Human Resource team delivered a range of Human Resources Services and successfully rolled out a number of initiatives as part of brand building and ongoing refinement of recruitment. Table 7 contains particular detail for the 2013 as compared with 2012.

Recruitment Batch 1

The IRC recruited against the new Graduate and Cadet Program in 2013 19 graduates and 13 cadets were recruited into the IRC workforce. They commenced the 12 month program with a mixture of formal training and development activities as a work experience role that anticipates their being offered permanent positions in June 2014. This included on the job training in different parts of the business where there are urgent revenue outcomes needed and in other areas that are facing great change. This Program has given the

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graduates and cadets the opportunity to develop required skills, expertise and competencies needed for future business also given them exposure to different workforce opportunities which they may aspire

HUMAN RESOURCES	December 2013	December 2012
National Permanent Officers	320	293
Non-Citizen Officers	5	4
Probationary Officers	63	76
Unattached Officers	11	11
Casuals on Payroll	33	0
Staff on Strength	432	384
Staff Ceiling	581	581
Understaffed by	149	197

Table 17: Summary of Human Resources for 2013

Recruitment Batch 2

To help ensure IRC delivers to specific business needs, 46 managerial and technical role positions were advertised to support operations. No suitable external applicants could be identified. Of the 46, only 10 internal promotions were achieved however this process has allowed us to obtain a clearer picture of those capability gaps in the organisation that will need to be addressed in an alternative way, other than attempting to recruit from domestic workforce market.

Recruitment Batch 3

23 lower level jobs in the Provincial offices were advertised to meet manpower needs at Provincial level. Out of the 23, four conditional offers and two internal promotions were achieved.

Recruitment Batch 4

To ensure IRC people capability continued for the new tax system a total of 33 short contracts were hired in a 15 month period in August 2013.

Recruitment Batch 5

To meet additional business demands in the new tax system and to achieve our outcomes, total 60 short term workers were hired under a service provider arrangement for a three month period in November 2013.

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The 2013 initiatives in recruitment and human services also included

- ◁ Finalisation of approved structural transfers made in 2012.
- ◁ The realignment of business activities in required areas: Telephone Audit Section transferred from Tax Audit Division to Manage Debt, and the Operations Support section transferred from Corporate Services to Assess & Proliferation Division.
- ◁ Loaded the approved 100 positions into the IRC Establishment to a total of 681 at the end of 2013.
- ◁ Refreshed the orientation program for graduate and cadet with new requirements
- ◁ Facilitated the first GESI activity in the IRC, with a workshop conducted in consultation with DPM counterpart for our senior managers, particularly Directors and Assistant Commissioners, in September 2013
- ◁ Refreshed the disciplinary and attendance policy, provided refresher sessions for Port Moresby and Regional Managers in order to address behavioural issues at all times as well as recognise and respect our business objectives
- ◁ Implemented IRC redundancy process for members through our 2013 budget. This work gave rise to the opportunity to rethink our work processes with respect to our retirement, resignation, redundancy and attachment processes in order to enable long-standing staff to better prepare for life after leaving the IRC.

Graduate and Cadet Development Schemes are developed and implemented

2013 has been the first year of graduate intake. Our current regional Certificate 2 and 3 in Government, together with basic tax modules and the new Public Service Induction as well as the job training have been provided for the new staff both at the work site and Papua New Guinea Institute of Administration (PNGIPA)

Objective 3.2 The IRC Human resources management capability is defined and developed

HR roles, responsibilities and relationships with Stakeholders, Clients and Customers are developed and defined

Human Resources (HR) Branch has begun the journey in 2013 responding to the changing IRC environment with an organisational review of its capability against the emerging requirements associated with IRC becoming a Statutory Authority. As a result of the review, the plans for the HR Branch to be restructured as a Division were developed for implementation early in 2014. The HR Management Team is strengthening its stakeholder engagement with its internal stakeholders and with the Department of Personnel Management. Relationships with other external stakeholders and clients were further developed through the IRC Executive.

A workforce plan has been developed and implemented to support IRC's strategic outcomes

IRC HR staff visited Australian Tax Office and New Zealand Revenue in 2013 which has helped to shape the initial development of a new workforce plan which is expected to be completed by mid-2014.

HR business processes are automated, standardised, and integrated through the adoption of enhanced systems

A major problem with the new Human Resource Information System (HRIS) (the ALESCO System) led to data cleansing exercises after extensive discussions with DPMT and Concept (the system provider). By the end of the year the system had been fully implemented and will provide the level of information required by the new HR Division which will reduce existing problems with managing the IRC workforce.

Objective 3.3 @ k

and delivered to provide staff with quality administration training that is recognised under h v 8 v j

The IRC has begun the journey of establishing the foundations of the PNG IRC Training Administration Learning and Development Academy, not just for PNG but for tax training other Pacific island nations. 2013 has seen the development of the initial tax training package which makes use of additional tax technical modules that externally developed Certificates and Diploma in Government, which are nationally recognised qualifications endorsed by the National Training Council (NTC). Key to the design of the academy, and initially operating in a virtual format will be its strength in partnering with well established training and educational providers. In the longer term the academy may be established as a state training facility.

Establish partnerships with IRC Divisions as primary HR Clients

The IRC Training Unit within its Human Resources Branch strengthened its stakeholder engagement with its internal IRC stakeholders through the implementation of the Department of Personnel Management (DPM) Capacity Needs Assessment (CNA) funded through the Economic and Public Sector Program (EPSPT). This whole of government model examines the internal workforce and training needs of each IRC unit, and then matches training requirements to the forecasted requirements and expectations of the IRD. This work commenced in 2013 and will continue throughout 2014.

Additionally the Training Unit is using the now annual development of the IRC training calendar as a means to better communicate with its internal stakeholders, as has delivery and maintenance of attendance to the SIGTAS training program, which has allowed all staff to better connect with the work of the Training Unit.

Develop and implement a comprehensive workplace skills plan

The CNA process will shape the final IRC training plan, with expected completion in mid 2014, the learning and development framework is complete as at the end of 2013 / 2017. This provides a platform for the delivery program, the focus for 2013 / 14 has been training to support the rollout and implementation of SIGTAS.

Establish and consolidate partnerships in PNG

The Training Unit during 2013 developed and further strengthened its relationship with key IRC training stakeholders, both in using them for delivery, such as the Institute of PNG Public Administration (PNGIPA) the delivery of the core component of its Graduate and Cadetship program, being the Certificates Two and Three in Government, and core to the 2013 training program pilot of the Tax Administration Regional Program, was delivered in two locations Madang and Kokopo. This program was developed and delivered in partnership with the Strongin Gavman Program (SGP) advisers. A small project to develop the training materials into competency based learning materials, funded by EPSP, commenced late in 2013 with completion expected early in 2014.

Additional stakeholder engagement with the Australian Tax Office (ATO) and the New Zealand IRD was built on a study and research visit which will now allow for the sharing and contextualisation of training and learning resources at the local level. The Training Unit has become an active member and participant of PNG and Development Society and PNG Human Resources Institute attending conferences and workshops as a means to increase professional capacity of the unit.

Establish and meet registration criteria and Register as a Training Organization

The IRC will, over the next two years, seek registration with the NTC to become a registered training organisation (RTO). This will be possible when established and staffed with qualified trainers. Current staff are upgrading existing qualifications to become NTC compliant qualified trainers and assessors. They will be supported by 14 IRC officers who have completed the National Certificate 2 in Training and Assessment (Instruction) units at this level include: Facilitate Individual Learning, Facilitate Group Based Delivery and Assess Competency. This group, and other trainers within the IRC will continue this learning journey through to Master Trainer (Certificate 4) which will be necessary as the IRC seeks its registration with the NTC to become an RTO towards our objective of becoming a tax administration academy, offering accredited training to our internal stakeholders and critically in the future to other taxation authorities in the Pacific.

Develop Tax Administration qualifications all levels in IRC and integrate IRC training into Public Service Training Package

Late in 2013, work commenced on integrating existing resources, and newly developed resources into and as part of the Public Service Training Package qualifications. Certificates, being the Certificate 2 in Government, and the Certificate 3 in Government

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currently under use by the IRC for the Graduate and Cadetship program. The first intake is expected to graduate with these qualifications in mid 2014.

A successful pilot of the tax administration draft materials developed by Strongin & Coan Program (SGP) advisers in consultation with Economic and Public Sector Program (EPS) advisers was delivered to over forty IRC regional officers in Koroia and Madang in 2013. These materials and the evaluation from the two pilot programs have provided the base material for the development of the tax administration training curriculum. The development of these new tax administration modules training currency KSI commenced in November 2013.

The first tranche of delivery resources (training materials) are due for completion by March 2014. These resources, for six key learning areas have been pitched at the PNG Certificate 3 level, and include modules for, Income Tax (Entities and GST), IRC Overview (Economy & SIGTAS) Income Tax II (Income, Deductions, Rebates and Credits, Forms & Schedules) Other Taxes (SWT & Withholding Taxes) Administrative (Business Payment & Registration).

The modules will link to the Certificate 3 and 4 in Government, and will be elective modules as part of the Tax Training Package. The PNG tax administration training package modules once developed will be validated by the IRC during a pilot program in Port Moresby and regional IRC officers. Once validated, they will be lodged with the National Training Council (NTC) for endorsement and registration as national competency based learning modules.

Additional specialist areas, such as financial management (including soft skill areas) such as the Management Development Program and GESI programs, including existing modules and programs delivered by IRC partner training stakeholders, such as UPNG Accounting for accountants, will be contextualised and harmonised with our competency standards and other existing units to become part of the Public Service Training Package (Tax Administration).

Deliver and manage training programs

For 2013, the training delivery was primarily aimed on supporting the roll out of the Standard Integrated Tax Administration System (SITAS) training program, with a particular focus on the six core modules; Tax Roll, TIN Request, Tax Accounting and Filing, Cashing and Assessing. Additional training modules were developed for delivery in 2014.

Table 8 presents a summary of training activities for 2013.

Training Activities	Nos.	Remarks/Details
Number of training programs conducted/coordinated/co-facilitated/assisted	57	<ul style="list-style-type: none"> < 41 SIGTAS < 2 Quality Customer Service (QCS) sourced to ITI < 2 IRC Regional Tax (Madang & Kokopo) < 2 PMDP (Suva & Madang) < 1 Requisition Forms Training by Finance & Budget (Kokopo) < 1 Registration Forms Training for regional officers < 1 PNG Public Service Induction for officers < 7 PNGIPA training blocks for Graduates & Cadets (4 blocks Grads/3 b - Cert 3 in Gov't for Grads & Cert 2
Number of participants trained in 2013	770	<ul style="list-style-type: none"> < 603 SIGTAS < 20 QCS < 33 IRC Regional Tax < 50 PMDP < 6 Requisition Forms Training < 17 Registration Forms Training < 4 PNG Public Service Induction < 37 (Cert 3 in Gov't for 24 Grads &
Study leave applications	14	Out of 14 applicants 5 got selected
Full-time studies	5	<ul style="list-style-type: none"> < 4 Diploma in Accounting < 1 Advance Diploma in Accounting
No. Of officers registered for part-time in 2013	13	<ul style="list-style-type: none"> < 8 Diploma in Accounting < 1 Diploma in Business < 2 Certificate in Accounting < 1 Bachelor in Economics < 1 Diploma in HRM
Number of school leavers/no school leavers placed for work experience (OJT) in 2013	37	<ul style="list-style-type: none"> < 4 for Lodgement and Enforcement < 5 for Operations Support < 3 for HRM < 2 for Stamp Duty < 2 for Corporate Services < 3 for Individual Assessing < 4 for Properties/Facilities < 4 for HR < 1 for Registry < 2 for COC < 4 for Debt Reduction < 2 for SME Audits < 1 for Finance & Budget
No. of officers currently on full time studies *These commenced studies in 2011/2012	5	<p>All have completed their semesters</p> <ul style="list-style-type: none"> < 3 will complete studies this year (2013) <ul style="list-style-type: none"> o 1 Dip in Acc o 1 Dip in Public Admin o 1 Degree Acc < 2 will continue in 2014 <ul style="list-style-type: none"> o 1 Degree IT o 1 Dip Business

Table 18 Summary of Training Activities for 2013

Throughout 2013 an emphasis was placed on professional development of IRC officers establish skills and obtain qualifications training and learning and development. The SIGTAS "Super User Group" and members of the National of IR Certificate 2 in Training and Assessment (TAA) (Instructor). Many of them also commenced study in the National Certificate TAA (Trainer and Assessor). These staff and other IR officers developing nationally recognised skills in training delivery will be critical to the IRC as it strengthens its capacity to deliver training and implement the five year learning development strategy.

Many IRC officers took advantage of opportunities for external training and professional development in both technical and corporate services areas, including quality customer service, train the trainer, IT, audit areas and legal skills. For leadership development attended and completed the Pacific Manager Development Program, leadership courses. Conference attendance, both nationally and internationally continue to be part of the learning and development cycle, and a number of key relevant tax administration and core corporate service conferences were attended by 2013.

4. Core Enabling Functions

Objective 4.1 @ k

appropriate and effective information, technology and communication systems

The IRC's ICT Division is responsible for providing ICT support to the Commission. In 2013, the Division was extremely busy not only on normal support, development and maintenance work, but also in supporting the refinement and implementation of RAS II (using the SIGTAS software) in conjunction with the specialist SIGTAS implementers.

The ICT Division performed consistently well in 2013 with most of the priority tasks assigned for the year being achieved. The performance of the Division was recognized by the awarding of the Commissioner General's Commendation for the Division's performance in delivery of ICT Support to the RAS II Project and ICT requirements of the Commission. This is testament to the overall performance of the ICT Divisions and reflects the commitment and dedication of the ICT staff and the Commission.

2013 has been the year of the implementation of the new IRC Corporate Plan (2013-2017) and the beginning of the revised ICT Division Strategic Plan (2013-2017). The ICT Strategic Plan is aligned with the four strategic themes of the Corporate Plan but most of the activities in the plan are focused on strategic theme 1 of the Corporate Plan. The main objective for the ICT Division in fulfilling this strategic theme is to ensure that IRC business activities are fully supported by appropriate and effective Information Technology and Communications. In order for this objective to be achieved the following outcomes with relevant activities have been identified in the ICT Strategic Plan.

An Effective ICT Infrastructure

Activities for this outcome include server maintenance and network upgrades, connecting the regional and provincial offices as part of the Wide Area Network project, integrated communications by replacing and upgrading the PABX and setting up the disaster recovery equipment and site.

The major highlights for these activities for 2013 were the connection of the Lae regional office and the installation of the Voice over Internet Protocol (VoIP) telephony system as part of the integrated communications activity. These were significant achievements for the ICT Division and historic milestones for IRC.

Apart from these achievements a major upgrade was carried out to replace and upgrade network equipment for the office local area network (LAN) as part of having an effective Infrastructure.

Capable Delivery of Key Services

Activities identified for this outcome include the integration of the Service Desk to improve the effectiveness of Service Delivery and the maintenance and support of Desktop and Mobile Computing.

Service Desk software was acquired in 2012 but ICT required experienced and qualified Manager to implement and manage the application. With the recruitment of the Service Desk Manager early in 2013 the ICT service desk has improved significantly with acceptable turnaround times and timely feedback and updates. This has been another highlight for 2013.

A total of 165 Desktop PC's and 30 Laptops were replaced across 10 Provincial Offices including Goroka, Mt. Hagen, Vanimo, Madang, Lae, Manus, Kimbe, Kokopo, Buka and Pongdetta.

ICT Services Aligned to Business Needs

The Strategic Plan 2013-17 is a major component of this outcome and this plan is overseen by the ICT Steering Committee which meets on a monthly basis to monitor all the activities of the plan and take decision on issues affecting the progress of the activities to ensure business objectives were achieved.

An Effective Governance and Management of ICT

The ICT management continues to play a significant role in ensuring the objective of the division is achieved and to ensure the activities for each outcome identified in the Strategic Plan are carried out. In 2013 the management team continued applying the management tools and techniques adopted from the previous strategic plan to monitor and track the activities for each outcome. This has proven to be very successful with the milestones being achieved in 2013 and the significant improvements in the performance of staff and division as a whole.

The introduction of Expectation Statements and adoption of the Reporting Framework to mention a couple of the management tools has greatly assisted in the governance and management of the operations of ICT Division.

The reporting framework has been introduced to the other divisions who also adopted the reporting format and template. This is another significant contribution of the ICT Division in 2013.

Applicable Core and Non-core Business Applications Implementation and Support

The primary role has been to support the implementation of SIGTAS by providing the infrastructure and environment for rolling out this new Application. The ICT still provides a good number of super users who are responsible for the business process mapping, developing flow charts and instructions and user acceptance testing and training as part of the development and implementation of SIGTAS.

Apart from providing support for SIGTAS, the Division is still maintaining and supporting the legacy system (RAS).

Support is also provided for core business applications such as JAD Management System that assists the Internal Audits and Integrity staff with their case selections PNGinLaw and Australia Taxes applications that assist the Legal Services Division with their legal work.

Achievements

Wide Area Network Connection of the Office is a historic milestone for IRC and a significant achievement for the ICT Division. The Office now has access to services provided at the Head Office, the major one being the email.

PABX Upgrade The installation of a new PABX system with VoIP capability is another milestone for IRC.

Upgrade Core Network Network equipment has been upgraded to meet the needs of the business in terms of reliability and availability of services.

Service Desk Service Desk installed and fully implemented by the new Service Desk Manager with system administrator knowledge and experience.

Key Success Factors

Executive Support The ICT Division has received sustained positive support from the IRC Executive Division which has empowered it to achieve most of its priority tasks for 2013.

Effective Team Work Team work has played a significant part in the achievements of the tasks assigned for the year. A team-oriented environment has been created with every officer contributing to the achievements of the division.

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Improve Relationships with Internal/External Stakeholders With this experience of delays caused by stakeholders in the delivery of some of the areas identified that needed improvement was the relationship with stakeholders. With the improved relationships with internal and external stakeholders ICT has experienced some improvements with stakeholders in the delivery of services which the division with its deliverables.

Effective Communication Communicating the expectations and challenges of the organization to the officers makes them aware of their expectations and this has contributed to the overall performance of the division.

Effective Reporting Framework Constant and regular reviews and reports of the work plan has proven to be another contributing factor for the successes of 2013.

Challenges

The challenges experienced highlighted in the 2012 annual report were again experienced in 2013. This includes unplanned but high priority projects taking up much needed resources, greater demand on ICT operations to address conflicting priorities which causes some capacity and capability issues, dependencies on other stakeholders (Internal/External) causing delays in achieving desired outcomes.

Despite these challenges the ICT Division will continue to strive for excellence to support transformation of the IRC as it partners with its stakeholders both internal and external in fulfilling the aspirations of IRC being the best government agency and leading tax administration in the Pacific.

Objective 4.2 @ k # effectively and accountably managed administered

For the 2013 GoPNG financial year, IRC was allocated a total annual appropriation Parliament of K51,896,200 for its operations. This comprised an appropriation K45,896,200 the recurrent budget and K6,000,000 in the development budget. Of this amount, about 99% or K51,895,375 were released in warrants by Department of Treasury and about 7.5% or K3,899,732 remained unspent at 31 December 2013. Table 1 summarises the financials of IRC. The explanations for the funds that remained unspent at the end of the financial year at 31 December 2013 under the recurrent and development budget are provided in the following paragraphs.

Expenditure Type	Original Appropriation	Revised Appropriation	Warrants Issued to IRC	Amount Spent	Unutilized Funds	Balance Not Warranted
RECURRENT						
Personal Emoluments	K22,411,300	K22,102,500	K22,102,500	K19,022,764	K3,079,736	
Goods and Services	K23,484,900	K23,793,700	K23,792,875	K23,251,212	K 541,664	K 825
Total:	K45,896,200.0	K45,896,200.0	K45,895,375	K42,273,796	K3,621,399	K825
DEVELOPMENT						
RAS II	K3,000,000	K3,000,000	K3,000,000	K2,993,831	K 6,169	0
Institutional Housing	K3,000,000	K3,000,000	K3,000,000	K2,727,835	K272,165	0
Total:	K6,000,000	K6,000,000	K3,700,000	K5,721,667	K278,333	K0
Overall Total:	K51,896,200	K51,896,200	K47,925,000	K47,995,463	K3,899,732	K825

Table 18 Summary of Expenditure against Appropriation for

Recurrent Budget

The recurrent budget comprised the provisions for Personnel Emoluments and Goods and Services budgets. Of the total amount of K22,102,500 allocated to the IRC to pay for personnel emoluments there remained a balance of K3, 079,735.81. This was mostly for Item 111 (Salaries) amounting to K2,330,232.44. The balance was mainly due to:

- Salary movements arising from IRC continuing to lose an average of 100 staff per month due to IRC's strict disciplinary action.

- ◁ Although IRC advertised extensively to recruit a number of vacant positions, only a few were filled due to a lack of suitable applicants. For example of the 23 positions that were advertised in March, only three positions were filled.
- ◁ As at 31st December 2013, IRC had a total staff on strength of 432 out of a ceiling of 581 albeit a net increase of 48 to the 2012 staff on strength number.

The balance of the savings under Personnel Emoluments K749,503.37 were from votes such as item 112 (casual wages) K3,421.75, Item 114 (leave fares) K267.16 141 (gratuities) K503, 942.40 and Item 113 (overtime) with an amount of K241, 872.06

The underspend under item 113 (overtime) was caused by Section 4 funds transferred in cover the DPM approved special overtime rates for IRC was not fully utilised due to configuration delays. The savings in gratuities were due to vacancies in positions that were eligible for contracts and staff transfers.

Of the total amount of Goods & Services K23,792,875, there remained a balance of K541,663.49 at 31st December 2013, noting that an amount of K825 for expenditure item 222 (travel and subsistence) was overlooked by Treasury in the annual allocations. The reasons for underspending of the Goods and Services are explained below. Only those amounts considered substantial and material are articulated.

Item 222 Travel Allowances and Item 232 Rental. An underspend of K63,545.10 and K105,362.00 respectively was due to delays in processing claims by the Department of Finance Accounts, Male Branch on behalf of Manage Debt Divisions Islands Region.

Item 228 Training. There was an underspend of K81,628.55 under earmarked for training under Item 228. Training funds for the Legal Services Division were not fully utilised due to change in work plan and activities. Unutilised training funds under Office of the Commissioners (OOC) were set aside for the Pacific Manager Development Project (MDP) training; however, they were not utilised as intended because other Divisions kept training costs for their respective officers from their divisional training budgets. The savings under the Training item arose due to the unavailability of officers to attend the ongoing in-house training in preparation for the rollout of SIGTAS.

Item 276 Furniture & Equipment. A balance of K 109,238.47 remained under the Furniture and Equipment item which arose because of delays in the procurement approval process. K56,458.00 was earmarked for office equipment for the new Lae office but was not spent due to delays in securing an alternate office space. The remaining K52,780.47 comprised of smaller amounts across IRC.

The remaining balance of K181,889.37 in goods and services consisted of smaller amounts across IRC.

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Development Budget

The IRC project related development budget supported two key projects the Revenue Accounting System II Project (RAS II) and the Institutional Housing Project. Warrants for the full amount of K6,000,000 were released by Department of Treasury. Of this a total of K2,993,831 was spent on the modernisation of the Accounting system under RAS II, leaving a balance of K169 which was insufficient to make any other payments under the contract. The IRC Institutional Housing Project allocated a total of K2,727,835 to purchase properties in Lae and Goroka, to build the Lands Manager house in Kokopo which was destroyed by fire. Minor renovations at two existing properties at Gerehadi in NCD were also undertaken. Due to very high and volatile property market a balance of K272,165 was insufficient to purchase any property in the priority centre of NCD.

**SUMMARY STATEMENTS OF RECEIPTS AND PAYMENTS
FOR THE YEAR ENDED 31st DECEMBER 2013**

RECIPTS - TREASURY APPROPRIATION	2012	2013
Recurrent Costs		
Personal Emoluments	20,790,000.00	22,411,300.00
Goods and Services	23,485,000.00	23,484,900.00
Total Receipts	44,275,000.00	45,896,200.0
Development Projects		
RASII	3,000,000.00	3,000,000.00
Housing	2,200,000.00	3,000,000.00
Total Receipts	5,200,000.00	6,000,000.00
Recurrent and Development Projects Total Receipts	49,475,000.00	51,896,200.00
 PAYMENTS - TREASURY APPROPRIATION		
Personal Emoluments	20,852,600.00	19,022,764.00
Goods and Services	23,634,200.00	23,251,212.00
Total Payments	44,486,800.00	42,273,976.00
Development Projects		
RASII		2,993,831.00
Housing	4,988,200.00	2,727,835.00
Total Payments	4,988,200.00	5,721,666.00
 Unused funds includes unissued funds		
Recurrent - Personal Emoluments		3,079,736
Recurrent - Personal Emoluments - Goods and Services		541,663
Recurrent - Personal Emoluments . Un-issued funds		825
RASII		6,169
IRC Institutional Housing		272,165
Total Unused Funds		3,900,558
Recurrent and Development Projects Total Payments	49,475,000.00	51,896,200.00

GOVERNMENT APPROPRIATION Æ ALLOCATION

RECEIPTS WARRANTS	2012	2013
PERSONAL EMOLUMENTS		
211 Salaries & Allowances	19,541,300.00	20,480,900.00
212 Wages	63,200.00	50,000.00
213 Overtime	100,300.00	279,900.00
214 Leave Fares	639,000.00	590,800.00
217 Education Subsidy		
215 Gratuities	483,800.00	700,900.00
SUB TOTAL	20,827,600.00	22,102,500.00
GOODS & SERVICES		
222 Travel & Subsistence	2,374,000.00	2,653,230.00
231 Utilities	3,850,000.00	4,182,450.00
223 Office Materials and Supplies	717,400.00	773,900.00
224 Operational Material and Supplies	242,000.00	328,000.00
225 Transport & Fuel	394,900.00	514,800.00
226 Consultancy Fees	2,090,000.00	855,000.00
232 Rental of Property	885,800.00	1,011,700.00
233 Routine Maintenance	2,021,000.00	2,331,050.00
227 Other Operational Expenses	8,643,000.00	6,248,370.00
228 Training	860,600.00	1,377,900.00
251 Membership Fees	40,500.00	97,300.00
SUB TOTAL	22,119,200.00	20,373,700.00
CAPITAL		
271 Furniture & Equipment	2,118,200.00	2,682,500.00
273 Purchase of Vehicles	660,000.00	737,500.00
275 Plant & Equipment		
SUB TOTAL	2,778,200.00	3,420,000.00
DEVELOPMENT PROJECTS		
226 RASII Consultancy Fees		2,900,000.00
276 Construction & Improvements & Renovation of Houses	1,500,000.00	100,000.00
227 Other Operational Expenses Housing		300,000.00
276 Construction & Improvements & Renovation of Houses	2,150,000.00	2,700,000.00
SUB TOTALS	3,650,000.00	6,000,000.00
OTHERS		
Unreleased Warrants		
Personal Emoluments	25,000.00	
Goods & Services	25,000.00	825.00
RASII Development Housing	50,000.00	
SUB TOTAL	100,000.00	825.00
TOTAL APPROPRIATION	49,475,000.00	51,896,200.00

PAYMENTS FROM APPROPRIATION - WARRANTS ALLOCATION

PAYMENTS		2012	2013
PERSONAL EMOLUMENTS			
211	Salaries & Allowances	15,454,639.00	18,150,667.56
212	Wages	30,194.99	46,578.25
213	Overtime	65,168.00	38,027.94
214	Leave Fares	458,930.76	590,532.84
217	Education Subsidy		
215	Gratuities	450,677.00	196,957.60
	SUB TOTAL	16,459,609.75	19,022,764.19
GOODS & SERVICES			
222	Travel & Subsistence	2,249,929.55	2,588,098.50
231	Utilities	3,808,675.86	4,182,450.00
223	Office Materials and Supplies	700,049.50	748,704.02
224	Operational Material and Supplies	240,074.98	327,801.72
225	Transport & Fuel	358,409.58	476,683.30
226	Consultancy Fees	2,036,476.00	855,000.00
232	Rental of Property	764,659.55	905,935.47
233	Routine Maintenance	1,880,955.48	2,284,330.10
227	Other Operational Expenses	7,137,492.06	6,218,844.02
228	Training	805,779.45	1,296,271.45
251	Membership Fees	25,606.62	56,331.40
	SUB TOTAL	20,008,108.63	19,940,449.98
CAPITAL			
271	Furniture & Equipment	2,067,214.81	2,573,261.53
273	Purchase of Vehicles	555,877.58	737,500.00
275	Plant & Equipment		
	SUB TOTAL	2,623,092.39	3,310,761.53
DEVELOPMENT PROJECTS			
226	RASII Consultancy Fees		2,893,831.33
276	Construction & Improvements & Renovation of Houses	1,500,000.00	100,000.00
227	Other Operational Expenses - Housing		192,377.86
276	Construction & Improvements & Renovation of Houses	2,194,916.10	2,535,457.55
	SUB TOTALS	3,694,916.10	5,721,666.74
OTHERS			
RECURRENT			
	Unutilized Funds	6,689,273.13	3,899,732.56
	Unutilized warrants		825.00
	SUB TOTALS	6,689,273.13	3,900,557.56
DEVELOPMENT PROJECTS			
	Unutilized Funds - RASII		
	Unutilized warrants - Housing		
	SUB TOTALS	-	-
TOTAL PAYMENT		49,475,000.00	51,896,200.00

Objective 4.3 @ k # and anticorruption activities

The key role of the Internal Audit and Integrity Division (IAID) is to address directly underpinning of the professionalism and accountability of the IRC:

. Our key objective is to foster public confidence in IFC operations and to analyse corporate risks and identify opportunities for improved performance.

Internal Audit

The Internal Audit Unit deals with issues of corporate behaviour and accountability. focuses on promoting and ensuring IRC's compliance identification of measures to improve our operational efficiency and effectiveness.

The Internal Audit Unit initially planned to complete 13 audits in 2013 across the Agency. By the end of 2013, a total of 11 audits were completed. One Ad hoc Audit project was completed and issued. The audit reports received positive responses from IRC Management and the Executive. Recommendations and were issued to the Divisions concerned for implementation. IRC Executive Management supported the recommendations and actively supports their implementation.

Post audits will be conducted in 2014 to monitor the implementation of the recommendations endorsed. The 2014 Internal Audit Annual Work Plan has been developed with a target of 12 Internal Audits to be conducted across IRC during the 2014 Financial Year.

On the job audit training was provided during 2013 by Australian Tax Office (ATO) and incorporated three separate Twinning Programs of two weeks duration in the first two trips and three weeks duration in the third trip.

Training from Deloitte, sponsored by the Governments of PNG and Australia was coordinated by the Department of Finance.

The staffing level of the Internal Audit Unit is at a critically low level. Recruitment and retention of suitable candidates to fill the vacant Internal Audit positions was one of the major challenges for the Internal Audit Unit. Consequently a number of Internal Audit positions across various levels remain vacant.

Internal Investigation

The Internal Investigation Unit focuses on issues of individual behaviour and accountability and the minimisation of fraud and corruption risks across the IRC. The IRC investigates allegations of corrupt, criminal and seriously improper conduct within the IRC and assists in ensuring successful convictions of people arrested and charged both disciplinarily and criminally.

The Internal Investigation Unit provides a deterrent effect which is targeted towards minimising the level of corruption in the IRC. The Unit facilitates Fraud Awareness and Education presentations to staff levels throughout the Organisation.

During 2013, the Internal Investigation Unit conducted 15 sessions on Fraud Awareness and Corruption Prevention to external stakeholders and business people. Originally, a target of 24 completed Internal Investigations was set for 2013. The Internal Investigation Unit experiences similar issues to the Internal Audit Unit in relation to recruiting and retaining suitable staff. Due to the extremely low staffing level in the Internal Investigation Unit, this target was not met. At the end of 2013, the total number of completed Internal Investigations was 10. Lack of staff numbers within the Internal Investigation Unit continued to have an adverse effect on the completion rate of matters.

During 2013, IAID received 64 incident and information reports alleging possible corrupt, criminal or seriously improper conduct by IRC employees. The number of complaints received increased compared to the previous year as a result of the Fraud Awareness and Education Campaign. The anti-corruption hotline email address received five notifications during 2013. Throughout 2013 eight IRC officers were charged and dismissed, one IRC officer was demoted.

The 2014 Internal Investigation Annual Work Plan has been developed with a target of 20 proactive and reactive Internal Investigations planned for completion during the 2014 Financial Year.

The Internal Investigation Unit staffing is at a critically low level necessitating a recruitment activity to address staff numbers. Consequently a number of Internal Investigation positions at various levels remain vacant. The number of complaints received compared to the staff on strength to address the matters was a challenge faced by the Internal Audit and Integrity Division.

External Audit Activities

The Auditor General's Office (AGO) conducted the internal control systems and accounts of the IRC relating to both recurrent and development budget expenditure for the 2012 financial year.

The AGO Management Letter was received by the Commissioner General on 17 January 2014. The audit report detailed ten findings and recommended actions. The Commissioner General accepted these findings and recommendations and responded to the Auditor General within the statutory frame.

The majority of the findings related to minor anomalies that have since been addressed by the Agency. In conjunction with the IRC Audit Committee, work will continue into 2014 to address any outstanding issues.

IRC Fraud Control Plan

The IRC Fraud Control Plan has been drafted in an effort to protect against attempts by any person, from within or outside the Agency, to gain money, assets, information or other benefit, or unfair advantage by deception. The Fraud Control Plan is the basis for the strengthening of an ethical and successful Internal Revenue Commission.

Fraud prevention and control is the responsibility of all staff of the IRC and the objectives of the Fraud Control Plan will be achieved by ensuring all staff have the skills and a robust investigative process regarding allegations of corrupt, criminal and serious misconduct is maintained.

IRC Reserve Police Unit

The draft memorandum of Understanding between IRC and the Royal Papua New Guinea Constabulary was sent to RPNCG during 2013. It is envisaged that this will be progressed during 2014 and is dependent upon the staffing levels in IAID being increased.

Objective 4.4 The IRC is assisted with achieving its corporate and divisional objectives through effective and reliable legal services

The Legal Services Division plays a crucial role in administering the national tax system and facilitating the collection of taxes/revenue for the State through the provision of effective and reliable legal services to both the core tax business and to the general administration of the organization.

Our services also included delivering legal advice and representation to external stakeholders, international development partners, the business community and the taxpaying community in general. The Legal Services Division also plays a vital role in assisting key government departments and agencies by providing tax advisory and legal drafting services for tax technical legislative proposals.

With the launch of the new IRC Corporate Plan (2013-2017) coinciding with the Government's 'year of implementation' theme, priority targets planned for the year. On top of that, the Division successfully managed to complete the drafting of the *Internal Revenue Commission Bill 2014* and secure the necessary government approvals which will now see the IRC transform into a statutory authority. 2013 also saw the launch of the IRC Corporate Plan covering the following key priority areas:

Legal Officers and support staff possess the right skills, knowledge and training to carry out their duties effectively

Lawyers within the Division attended various training courses on contract drafting, management (PMDP), representation to the SGATAR Conference, international taxation and oil & gas taxation. All staff also underwent the SGTAS training.

Continuous Legal Education (CLE) for the lawyers is taken seriously and every opportunity to improve the skills and knowledge of the lawyers is utilised. Apart from the sanctioned courses and training undertaken, the lawyers also participate in Briefing where new developments in the law practice is discussed and shared.

Despite a number of administrative challenges, in terms of staffing levels and the skills/knowledge gap in the division, the young lawyers stepped up to the plate and performed with much enthusiasm which assisted the Division in achieving its 2013 objectives. The dedication showed by the junior lawyers, the Divisional Head and Director adopting a much more relaxed supervisory role towards the later part of the year

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Stakeholders have confidence in our legal advisory services

The Advising Branch of the Division provides legal advice on about 10 pieces of revenue legislation that are administered by the Commissioner General. The main focus in the provision of legal services was directed to the interpretation of the Income Tax Act, Stamp Duties Act, Goods and Services Tax Act, and other Revenue Laws.

The finalisation and publication of two taxation circulars in 2013 capped off a remarkable achievement for the lawyers who authored them. The Branch finalised the long awaited Bookmakers Trust Account.

Litigation cases are finalised with appropriate outcomes and within a practical timeframe

Despite administrative challenges to do with internal referral processes, the Litigation Branch, consisting of two lawyers at any one time, performed well in obtaining close to K600,000 in judgement debts.

The CG and the IRC is professionally represented in Court, at Tribunals and other domestic and international forums

The Commissioner General was amply represented in court and at the various overseas forums attended by the lawyers. The IRC is also a key member of several inter-committees such as the Committee on Investment, Protection & Agreements (IPPA) where the Division attends for the IRC.

Legislative changes and advice is communicated to all staff in a timely fashion

Legal Services assisted in the preparation of legislative change proposals and tax policy changes with the Department of Treasury which were incorporated in the 2014 Tax Budget Amendments. The Division supported the Department of Treasury by providing legal and tax advice on government tax policy initiatives including:

- ◁ Enabling the Commissioner General to share exchange information with the chief collector of taxes of the Autonomous Region of Bougainville or his delegate
- ◁ Clarifying the power of the Commissioner General to vary and revoke approvals for charitable status
- ◁ Phasing out of the specific 50% deduction of expenditure for scientific research
- ◁ Safeguarding government revenue collections from expenditure under the tax credit scheme

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- ◁ Increasing the minimum value of an eligible payment required for the purposes of a certificate of compliance (COC)
- ◁ Technical amendments to clarify drafting errors in the Tax legislation
- ◁ Repealing the discretionary power of the Minister to declare persons or entities as State Instrumentalities for stamp duty purposes

The key achievements for 2013

- ◁ The drafting and finalisation of the Internal Revenue Commission Bill to transform the IRC into a statutory body, including obtaining the necessary NEC and stakeholder approvals
- ◁ Continuous legal advisory support for the IRC Institutional Housing Project and RAS and related Projects
- ◁ Finalisation of the Bookmakers Trust Account
- ◁ Ratification of the Double Tax Treaty between GoPNG and the Government of New Zealand and Indonesia by Parliament
- ◁ The publication of two Tax Circulars
- ◁ Supporting the process for selection of the Chairman of the Income Tax Review Tribunal
- ◁ Completion and signing of the MOU with Customs and various Provinces