

IM4DC

Action Research Report

SUMMARY

Researcher:

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School/Centre:

Department of Mineral and Energy Economics

University/Institutions:

Curtin University

Key themes:

Governance and Regulation

Key countries:

Papua New Guinea

Completion:

September 2014

Research aims:

This PhD research examines whether the PNG mineral taxation regime has equitably fulfilled the fiscal expectations of all stakeholders within its existing framework. Fieldwork in PNG collected data to measure:

- source-based direct and indirect taxes flow
- wealth transferred to PNG stakeholders
- investor's return on investment
- marginal effective tax rate (METR) and AETR

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Methods for Reconciling the Mineral Fiscal Contents of Multi-stakeholders and the Resulting Implications in Papua New Guinea

Mineral fiscal allocation efficiency amongst stakeholders in a complex multicultural setting can be harnessed through recognising the distinct fiscal needs of each stakeholder. The challenges facing the PNG mining industry relate to how the fiscal framework affects and benefits each stakeholder at the micro level. The suitability of each tax instrument could reflect how a stakeholder's fiscal expectations can affect that of another. The mainstream literature on mineral taxation often views the industry and government as the only stakeholders, which is reflected in many legislative frameworks, including that of PNG. This view tends to externalise the fiscal expectations of the community, which in turn affect the fiscal expectations of the industry and the government. This PhD research examines whether the PNG mineral taxation regime has equitably fulfilled the fiscal expectations of all stakeholders within its existing framework.

Fieldwork was carried out in Papua New Guinea (PNG) in July-August 2014 to collect micro level fiscal and financial data from three mines and the government of PNG (GoPNG) to measure:

1. all the source-based direct and indirect taxes flowing to both the GoPNG and host mining communities. The significance of this data is that the conceptual tax analysis does not capture all the fiscal benefits flowing to a nation.
2. the wealth transferred to PNG stakeholders through direct and indirect taxes from individual mines. The data required for this task were: total taxes (direct and indirect taxes) and pre-tax cash flow. This will measure the wealth transferred in the form of taxes relative to the economic return on the investment.
3. the investor's return on investment. This will require gross revenue, and net profit.
4. marginal effective tax rate (METR) and average effective tax rate (AETR). These variables require both financial and fiscal data.

The fiscal data from the three mines comprised direct and indirect taxes. The majority of indirect taxes flowed to the host communities, provinces and regions, while direct taxes are collected centrally by the Government of PNG and redistributed to the communities.