

# RMI TAX AND REVENUE REFORMS

*A Holistic Approach to Reforming  
the Tax and Revenue System*

## Session 1 Presentation 1b

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# PRESENTATION OUTLINE:

- I. Mandate
- II. Tax Reform Objectives
- III. Rationale – Why Reform?
- IV. Principles
- V. Reform Policies
- VI. Specific Recommendations
- VII. Tax Reform Timeline
- VIII. Assistance Needed



# MANDATE

1. In mid 2008 Cabinet established the Tax and Revenue Reform and Modernization Commission.
2. Includes private and public sector members.
3. Commission to make recommendations to Cabinet on a new tax regime.



# TAX REFORM OBJECTIVES

1. To deliver to the Government a proposal for consideration to reform current tax system and structure that are appropriate and suitable for the purpose of meeting the current and future financial needs of the RMI and a tax and revenue design conducive to current realities and circumstances;



# TAX REFORM OBJECTIVES

2. To deliver to the Government a proposal for consideration to strengthen the capabilities and effectiveness of the revenue collecting administration, sufficient to implement the revenue and tax reforms and improve the level of (voluntary) compliance of RMI Tax Payers;





# TAX REFORM OBJECTIVES

3. To take the role and responsibility of governing and oversight of the design to ensure effective implementation of these changes needed to enhance a sustainable revenue stream to the Government.



# WHY REFORM?

- Compact funding impact:
  - \$500,000 annual decrement in compact funding
  - Post Compact Financial Arrangement --- 2024
- Tax laws outdated and need to be modernized:
  - Gaps and weaknesses
  - Some areas not taxed at all – business income
  - GRT unfair for businesses and does not encourage investment
  - The level of compliance with the tax laws needs to be higher – non compliance unfair to those who comply



# WHY REFORM?

- To adapt to the changing global economic and fiscal environment:
  - Encourage private sector investment
  - Promote exports
  - Provide an environment for job growth
  - Help reduce out-migration
  - Adapt to current economic and social realities





# REFORM PRINCIPLES

|                            |                                         |
|----------------------------|-----------------------------------------|
| Transparency and Certainty | Effective and Efficient Administration  |
| Fairness and Equity        | Simplicity                              |
| Fiscal Sustainability      | Broad Based                             |
| Pro-Private Sector         | Foreign Direct Investment               |
| International Trade Focus  | Keep Tax Burden Low                     |
| Neutrality                 | Consideration of Local Government Taxes |



# REFORM POLICIES

1. Revenue neutral to existing taxpayers as a group and thus not result in tax increases.
2. Increased tax revenues should come from enforcement of those not currently paying or underpaying.
3. Tax regulations are to be applied equally to the private sector, national and local governments and state owned enterprises.



# REFORM POLICIES

4. Broadening of tax base to minimize tax burden and to include other items not currently taxable.
5. Consideration of the introduction of a Revenue Authority of the RMI with a governing board of directors, which shall also oversee the mandate to provide for rules and approval of tax exemptions.



# SPECIFIC RECOMMENDATIONS (1)

## Personal Income Tax:

1. Expand the range of taxed income to include allowances and in-kind benefits.
2. Impose interest and dividends at a rate at 3%.
3. Expand the tax free threshold to \$4,160 per year and apply it to all taxpayers.
4. Add an additional rate of tax of 16 percent for salary and wages greater than \$20,800.



# SPECIFIC RECOMMENDATIONS (1)

| <b>Current Personal<br/>Tax Rates</b>               | <b>Proposed Personal<br/>Tax Rates</b> |
|-----------------------------------------------------|----------------------------------------|
| 0 - \$1,560 @ 0 percent                             | 0-\$4,160 @ 0 percent                  |
| \$1,561-\$5,200 @ 8%<br>(with first \$1,560 exempt) | \$4,161-\$10,400 @ 8%                  |
| \$5,201-\$10,400 @ 8 percent                        | \$10,401 - \$20,800 @12%               |
| >\$10,400 @12 percent                               | >\$20,800 @ 16%                        |





# SPECIFIC RECOMMENDATIONS (2)

Business Net Profit (Income) Tax from Current Gross Receipts Tax:

*Apply 20% to all taxpayers with gross annual revenue greater than \$100,000 (including pooling of revenue of commonly owned businesses).*



# SPECIFIC RECOMMENDATIONS (3)

## Presumptive Tax:

*Retain the GRT as a presumptive tax for small businesses (that is those not covered by the income tax) with the following features:*

For businesses with gross annual revenue of less than \$10,000, retain the flat rate but consider increasing the amount (current 3%).



# SPECIFIC RECOMMENDATIONS (4)

## Consumption Tax:

*Introduce a consumption in the form of a VAT to replace the hotel and resort tax, standard rate import duties, and local government sales taxes.*



# SPECIFIC RECOMMENDATIONS (5)

## Excise Tax:

*Replace the existing import duties on alcohol, tobacco, motor vehicles, and fuels with excise taxes.*



# TAX REFORM TIMELINE

## 3 Year Implementation Program:

- 2011: Drafting legislation for consideration by Cabinet by early January 2011, begin developing the transition, training and automation estimates.
- 2012: Commence new authority, business and personal income taxes and ceasing of Gross Revenue Tax.
- 2013: Introduction and commencement of the consumption tax and other complementary works to ensure effective collection of revenues.





# ASSISTANCE NEEDED

## Administration reform needs:

- Customs Management Information System
- Tax Management Information System
- Legal Advisor – Pilot Program with the ADB
- Reform Program Coordinator (experienced Tax Reform specialist)
- Office Space

