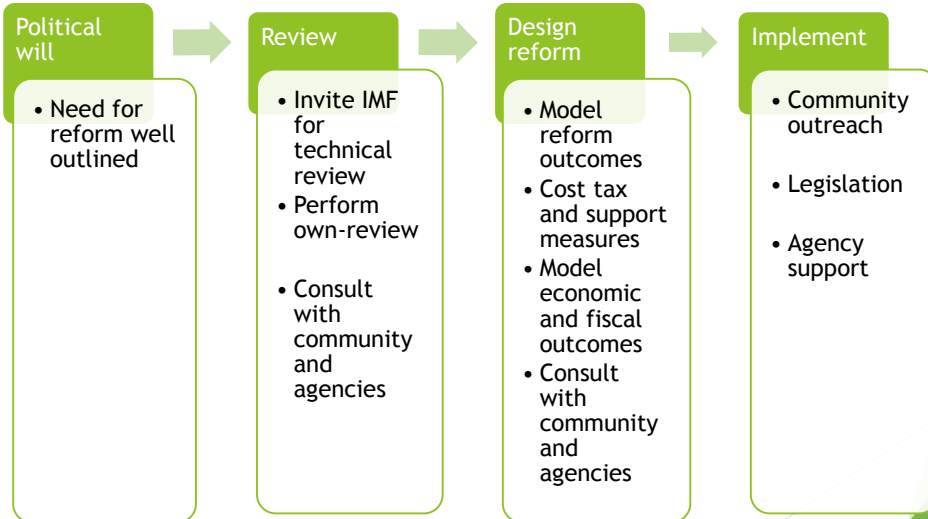


Tax reform in the Cook Islands

Cook Islands tax reform

- ▶ Pressure to rebalance the tax system away from *income-based* taxes (paid by local residents) towards *consumption-based* taxes (VAT; paid by tourists)
- ▶ Remove loop-holes in tax and import treatment
- ▶ Increase NCD taxation measures and broaden the coverage of alcohol and sugar-sweetened beverage (SSB) taxation
- ▶ Improve the progressive nature of the income-tax and social security systems
- ▶ Simplify the tax system

Cook Islands Tax Reform



Results

- ▶ Package of reforms
- ▶ Cost neutral change
 - ▶ Increases in revenue offset against compensation measures
- ▶ Broad community acceptance and bi-partisan support
- ▶ More closely aligned the tax system to the economic structure of the country

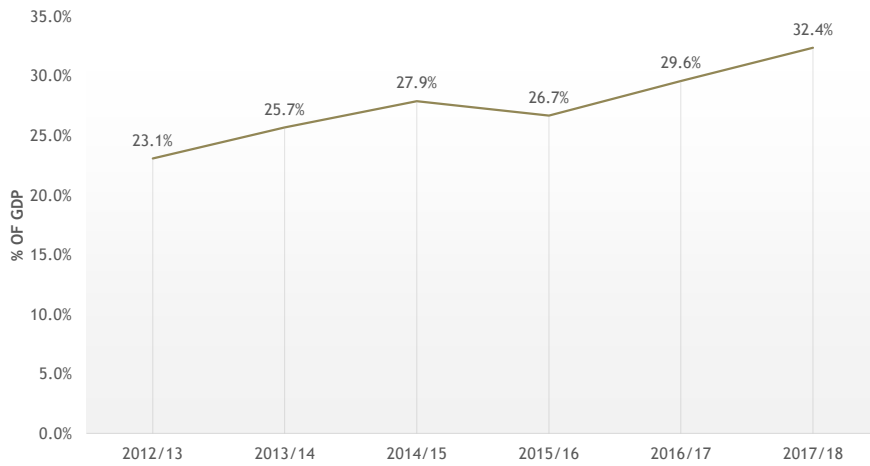
Results

- ▶ Doubled old-pensions
- ▶ Increased the minimum wage
- ▶ Gave more resources to the Tax and Customs offices
- ▶ Created tax outreach office
- ▶ Trade liberalisation and simplification
- ▶ More progressive income tax and raised the tax-free threshold
- ▶ Mostly paid by VAT increase and NCD taxation

Results

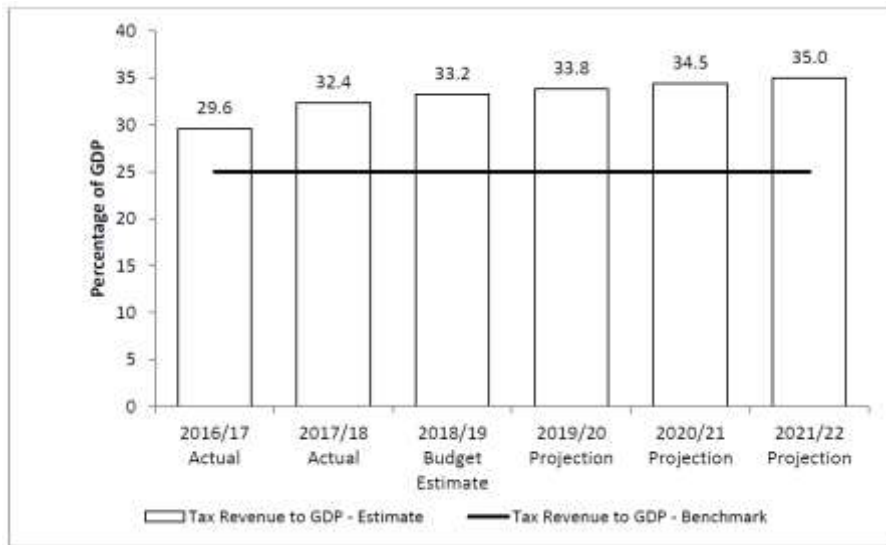
- ▶ Import (now excise-equivalent) duties increased, but coverage of products greatly reduced
 - ▶ Most revenue come from NCD products (alcohol, SSB, tobacco)
- ▶ Income tax initially fell in line with tax cuts, but recovered to slightly above pre-reform levels
- ▶ VAT continues to grow strongly

Cook Islands tax revenue



Source: Cook Islands Budget estimates, Ministry of Finance and Economic Management

Cook Islands forward estimates



Source: Cook Islands 2018/19 Budget

Aside: Tobacco

Table 1. The Cook Islands import tariff rates (NZ\$) 2000–2014

Product	Per	2000/2001	2008/2009	2012/2013	2013/2014	2014/2015
Cigarettes (>1.134g)	'000	162.00	279.40	371.60	494.23	657.33
Cigarettes (<1.134g)	'000	49.00	49.00	49.00	494.23	657.33
Loose tobacco	kg	5.70	5.70	5.70	494.23	657.33
Other tobacco	kg	5.70	5.70	5.70	494.23	657.33

Source: *Forestalling in the Cook Islands: lessons for tobacco taxation in the Pacific*

Other reforms

- ▶ Debt management system (Loan Reserve Fund)
- ▶ Cash management policy
- ▶ Budget process and reporting
- ▶ e-payments for suppliers, payroll, child payments and old-age pensions
- ▶ Integration of local banking systems
- ▶ Elimination of some Government fees and charges