



PAPUA NEW GUINEA

BUDGET COMMENTARY

2012

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Executive Summary



The Honorable Minister of Treasury and Finance Hon. Don Pomb Poyle handed over the **2012 Budget** on behalf of O'Neill-Namah Government at the Parliament this afternoon at 2 PM.

The theme of this year budget is “**Sharing the Wealth & Empowering Our People**”.

This is the **second annual budget** of the Medium Term Development Plan (MTDP) 2011-2015 and the Development Strategy Plan (DSP) 2010-2030.

This is the **biggest ever budget** presented at **K10.5 billion** more than 13% higher than 2011 budget of K9.3 billion.

Focus on **2012 National Election, 2015 South Pacific Games**, improving the road infrastructure and education

Increased budget allocation for **Key Priority Areas** of Education, Infrastructure, Health, Law, Order and Justice

The economy is expected to grow by **7.8 per cent** in 2012 compared to the anticipated growth of 8.9 per cent in 2011. The **Non-mining sector** is forecast to grow by 7.4 percent in 2012 and **Mining & Quarrying sector** is forecast to grow by 20.2 per cent.

The **inflation** level is expected to remain high at **7.6 per cent** in 2012.

Tuition Fee Free Education proposed for up to Year 10 and 75 per cent subsidy for Year 11 and 12 apart from various other measures to promote education.

Establishment of a **Sovereign Wealth Fund** funded by the State revenues arising from the PNG LNG and other resource projects;

Budget Highlights



Key Economic Assumptions

Economic Growth

	2010 Actual	2011 Estimate	2012 Projection
GDP Growth	7.6	8.9	7.8
Non-Mining GDP	8.5	10.8	7.4

Inflation

Year average (%)	6.0	8.7	7.6
Dec on Dec (%)	7.2	7.7	8.1

Interest Rates

Interest Rate (Treasury Bills)	5.5	4.5	7.5
Inscribed Stocks(3 year Yield)	8.1	5.6	9.0

Commodity Prices

Oil Price (USD/Barrel)	79	90	85
Copper Price (USD/Tonne)	7,538	8,800	8,819
Gold Price(USD/Ounce)	1,225	1,566	1,884

(in million kinas)

Budget

	2010	2011	2012
Total Revenue and Grants	8,278.9	9,840.2	10,560.3
Total Expenditure and Net Lending	8,092.6	9,928.3	10,560.3
(Deficit)/ Surplus	186.3	(88.1)	-

Revenue and Grants

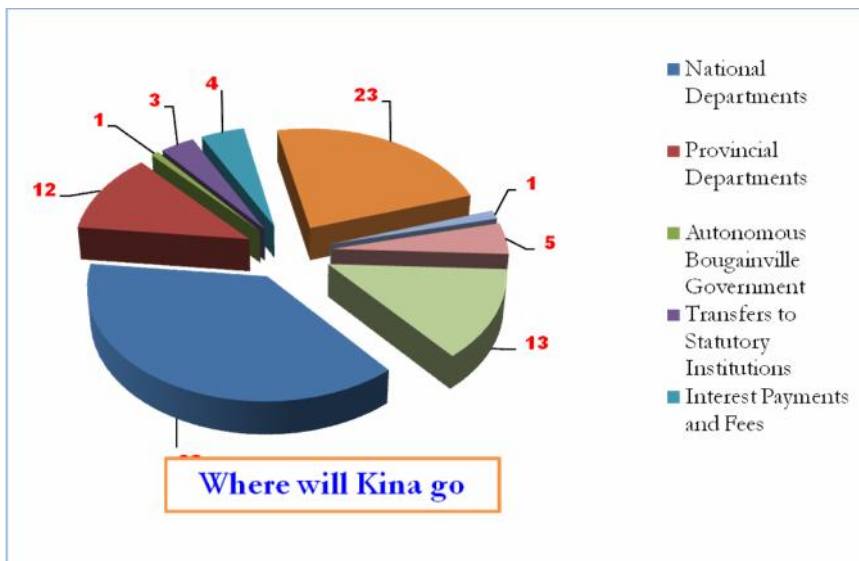
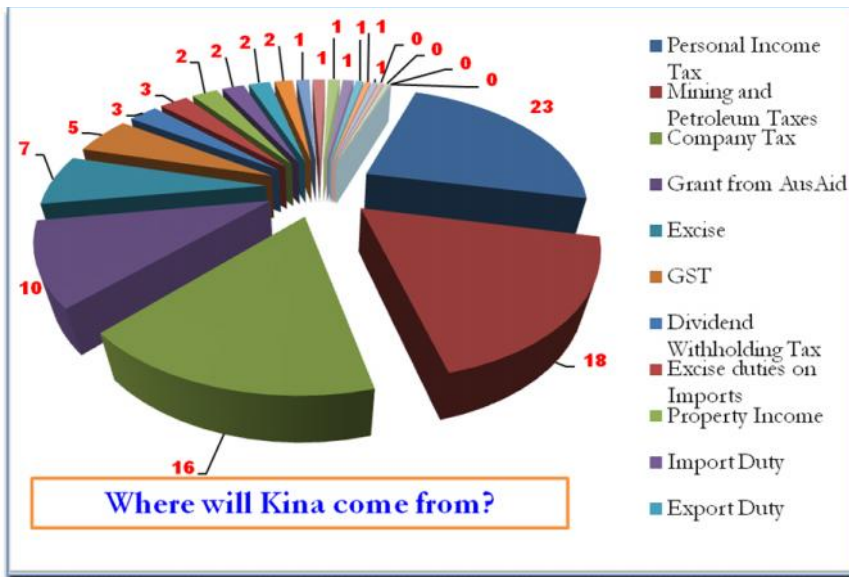
Taxation revenue	6,434.7	7,896.9	8,519.7
Non-taxation revenue	435.1	357.2	520.1
Grants	1,409.1	1,586.1	1,520.5

Taxation revenue

Tax on Income and Profits	4,668.1	6,073.5	6,543.0
Dom.Taxes on Goods and Services	1,193.1	1,151.2	1,256.4
Taxes on International Trade	573.5	672.2	720.3

Total Expenditure and Net Lending

Recurrent Expenditure	4,160.4	5,338.0	6,123.2
Development Expenditure	3,278.9	3,924.5	4,437.1
Supplementary Budget	653.3	665.8	



Tax rates and Thresholds

- No change in corporate or personal tax rates;
- The personal tax threshold proposed to be increased from K7,000 to K10,000 and expected to come into effect from 1 July 2012. A person earning up to K10,000 or more will have a tax saving of about K660 per annum;

Tax concessions on redundancy payments

- Tax concessions proposed on redundancy payments made under an Approved Redundancy Scheme. The Commissioner shall approve a redundancy scheme where he is satisfied that 30 or more employees are to be genuinely made redundant under that scheme or from public sector. The rate of tax applicable to redundancy payments will be 15% up to a cap to be determined based on number of years of service. Amounts over the cap will be continue to be taxed at marginal rates;

Specific exemptions for 2015 Pacific Games

- Exemptions from income tax for income of 2015 PNG Pacific Games Limited and for income arising from or in connection with participation in the games as an athlete's or competitor;
- 150% deduction on donations of K500,000 or more in respect of the 2015 Pacific games made to the PNG Sports Federation & Olympic Committee, the Pacific Games (2015) Authority or 2015 PNG Pacific Games Limited;
- Zero rating of supplies of goods and services to the PNG Sports Federation & Olympic Committee, the Pacific Games (2015) Authority or 2015 PNG Pacific Games Limited;
- Exemption from import GST for goods other than passenger cars imported by above organizations/participants, customs and excise duty exemption on certain prescribed goods;

Abolition of Export Exemption on Manufactured Goods

- Income tax exemption presently available for certain newly manufactured goods is proposed to be abolished from 1 January 2015;

Customs and Excise

- With effect from 1 January 2012, the tariff reduction program extended to include intermediate goods which include basic commodities such as meat,

flour, pasta, shoes, and key business imports such as steel and infrastructure costs such as bridges. A reduction of tariff rate from 15% to 10% proposed;

- Increase in excise duty on tobacco and alcohol by 15% with effect from 1 January 2012;

Resource Companies

- A special tax credit of 1.25 per cent proposed for emergency repairs carried at the Highlands Highways taking the Infrastructure Tax Credit from present 0.75% of assessable income to 2% of assessable income;
- Mining and Petroleum companies, allowed to carry forward the resource project site rehabilitation and environmental cleanup deductions for use against their other projects. This is proposed to apply only to new projects;

Concessions to Bank to promote Community Service Obligations

- Tax incentives extended to banks for opening of new branches, sub-branches and agencies in rural areas to service rural population. The concession will be available until 31 December 2017. No requirement to provide 52 free transactions per annum;

Property Unit Trusts

In order to promote the utilization of property unit trust as an investment vehicle the following tax measures are proposed-

- Reduction in stamp duty from 5% to 2% on property transferred into a unit trust or property unit trust in relation to transfers made between 1 January 2012 to 31 December 2014;
- Relaxation of ownership test and trust allowed to invest abroad;

GST amendments

- Goods and Service Tax (GST) registration threshold increased from K100,000 to K250,000; taxable period threshold from K250,000 to K650,000 and accounting basis threshold from K500,000 to K1,250,000 to allow for indexation;

Administrative amendments

- A new information management system known as Standard Integrated Government Taxation Administration System(SIGTAS) is proposed to be introduced from 2012;

- Various administrative amendments are proposed to allow Commissioner General to accept electronic returns and lodgment of returns outside of Port Moresby, accept electronic payments, reinforce right to collect and recover penalties, etc.
- Penalty proposed for lodgment of incomplete returns under the Income Tax and GST Acts;
- Amendment to the GST Act to allow for levy of late lodgment penalty.

Contact us

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Disclaimer

The PNG budget commentary is prepared to provide a general overview of the various measures suggested in the Budget speech and is not meant to be an expert document. The publisher does not accept any responsibility to any person for any statement, opinion, omission or error.