



# S SHUSHUYA

## PAPUA NEW GUINEA

### 2013 BUDGET COMMENTARY



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## Executive Summary

- The Honorable Minister of Treasury and Finance Hon. Don Pomb Poyle handed over the **2013 Budget** on behalf of O'Neill-Dion Government at the Parliament this afternoon at 2 PM.
- The theme of this year budget is “**Growing Our Future: Empowering our people for Inclusive and Sustainable Growth**”.
- This is the **first annual budget** of the new Medium Term Fiscal Strategy (MTFS) 2013-2017 and part of the Development Strategy Plan (DSP) 2010-2030.
- This is the **biggest ever budget** presented at **K13.03 billion**, more than 23.4% higher than 2012 revised estimated budget of K10.5 Billion. It is equivalent of investing **K1, 800 for every person** in PNG.
- Total Service Delivery Expenditure is estimated to be **K7.2 billion** and Development Expenditure is estimated to be **K5.8 billion**.
- Total revenue and grants are estimated at **K10.5 billion in 2013** with a slight increase from 2012 revised figures of K10.15 billion
- This is a **deficit budget** of **K2.6 billion** and the deficit approximately amounts to 7.2% of GDP.
- **More than 50% increase** in budget allocation for **Key Priority Areas** of Education, Infrastructure, Health, Law, Order & Justice and Land, from last budget
- The economic growth is expected to drop from an estimated 9.2 per cent in 2012 to **4% growth** in 2013. This is mainly attributable to completion of the construction phase of PNG LNG project .The **Non-mining sector** is forecast to grow by **3.4 percent** in 2013 and **Mining & Quarrying sector** is forecast to grow by **13 per cent**.
- The **inflation** level is expected to remain high at **8.0 per cent** in 2013.
- The budget introduces **number of taxation policy measures** and other minor technical amendments mainly aimed at improving the efficiency of tax system, promoting citizen businesses and achieving other objectives.

## Budget Highlights

### Key Economic Assumptions

#### Economic Growth

	2010 Actual	2011 Actual	2012 Estimate	2013 Projection
GDP Growth (%)	7.6	11.1	9.2	<b>4.0</b>
Non-Mining GDP (%)	8.5	13.2	9.5	<b>3.4</b>

#### Inflation

	2010 Actual	2011 Actual	2012 Estimate	2013 Projection
Year average (%)	6.0	8.5	4.1	<b>8.0</b>
Dec on Dec (%)	7.2	6.9	6.4	<b>6.8</b>

#### Interest Rates

	2010 Actual	2011 Actual	2012 Estimate	2013 Projection
Interest Rate (Treasury Bills)	5.5	7.8	6.8	<b>6.8</b>
Inscribed Stocks(3 year Yield)	8.1	9.0	5.0	<b>5.0</b>

#### Commodity Prices

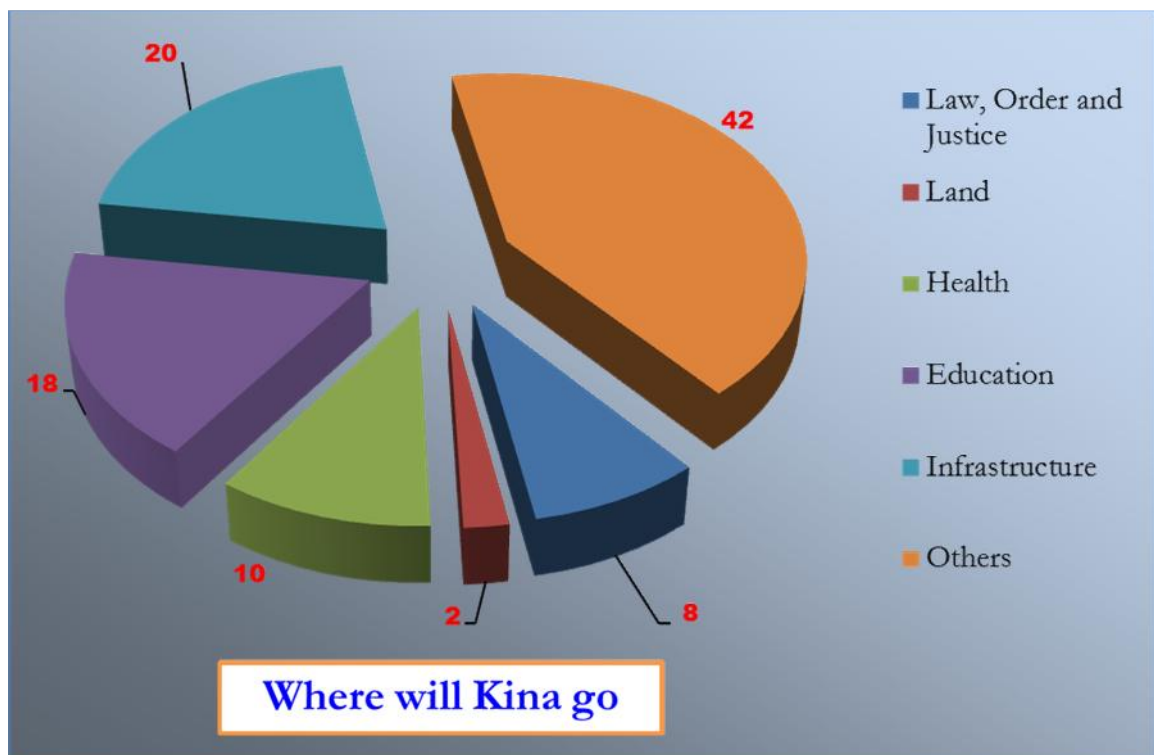
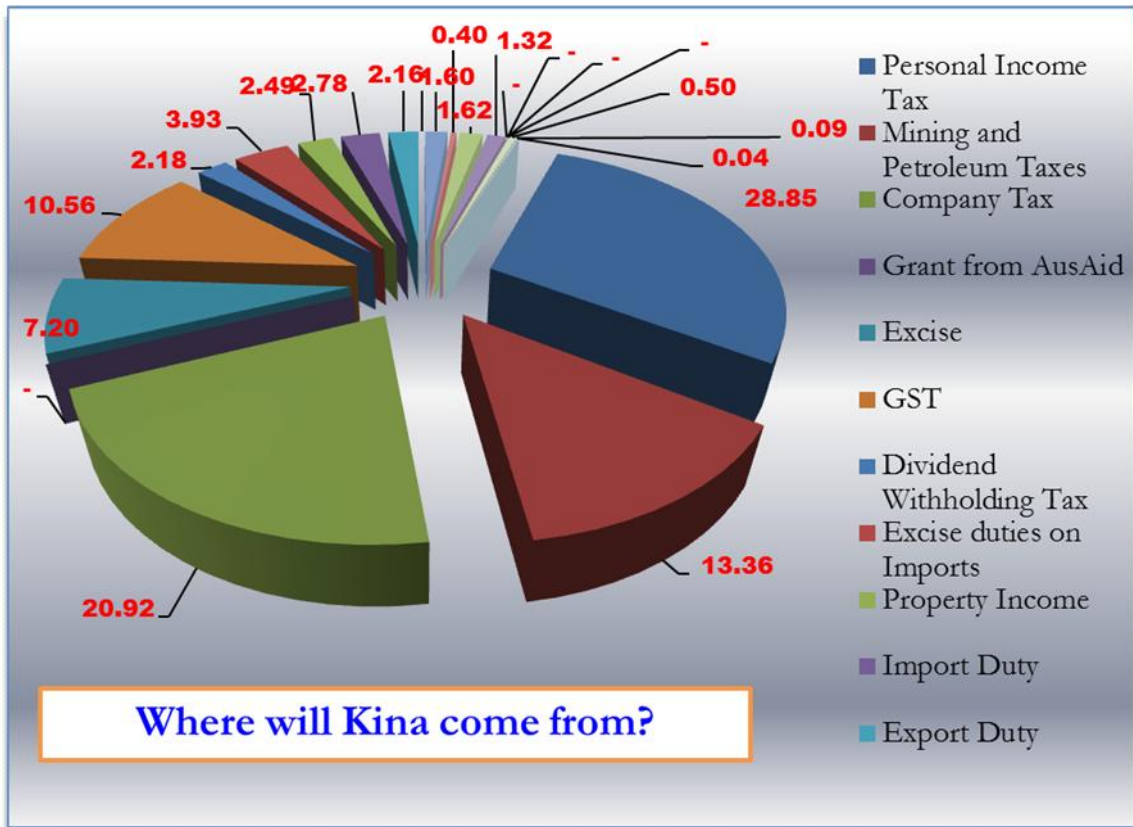
	2010 Actual	2011 Actual	2012 Estimate	2013 Projection
Oil Price (USD/Barrel)	79.0	104.0	96.0	<b>103.0</b>
Copper Price (USD/Tonne)	7,538.0	8,823.0	7,824.0	<b>8,047.3</b>
Gold Price(USD/Ounce)	1,225.0	1,569.0	1,648.0	<b>1,701.8</b>
Nickel Price(USD/Tonne)			22,909.0	<b>17,454.0</b>
Cobalt (USD/Tonne)			14.0	<b>15.0</b>
LNG (US\$ per thousand cubic feet)			11.6	<b>11.7</b>
Condensate(US\$/barrel)			104.0	<b>96.0</b>

### Budget

(in million kinas)

	2010 Actual	2011 Actual	2012 Budget	2012 Revised	2013 Budget
Total Revenue and Grants	8,278.9	9,304.9	10,560.3	10,157.7	<b>10,481.9</b>
Total Expenditure and Net Lending	8,092.6	8,595.9	10,560.3	10,560.3	<b>13,030.8</b>
(Deficit)/ Surplus	186.3	709.0	-	(402.6)	<b>(2,548.9)</b>
<b>Revenue and Grants</b>					
Taxation revenue	6,434.7	7,904.2	8,519.7	8,165.3	<b>8,631.2</b>
Non-taxation revenue	435.1	350.3	520.1	471.9	<b>509.6</b>
Grants	1,409.1	1,025.0	1,520.5	1,390.5	<b>1,211.1</b>
Infrastructure Tax Credits		25.4		130.0	<b>130.0</b>
<b>Taxation revenue</b>					
Tax on Income and Profits	4,668.1	6,144.1	6,543.0	5,965.8	<b>6,215.5</b>
Dom.Taxes on Goods and Services	1,193.1	1,040.8	1,256.4	1,482.3	<b>1,613.4</b>
Taxes on International Trade	573.5	719.3	720.3	717.3	<b>802.3</b>
<b>Total Expenditure and Net Lending</b>					
Service Delivery Expenditure	4,160.4	5,346.7	6,123.2	6,123.1	<b>7,235.0</b>
Development Expenditure	3,278.9	3,249.2	4,437.1	4,437.2	<b>5,795.8</b>
Supplementary Budget	653.3	-			

Shishya is a business name registered in Papua New Guinea and owned by Shishya (PNG) Ltd



## Direct Taxation measures

### Tax rates and Thresholds

- No change in corporate or personal tax rates

### NIL Assessments

- An amendment is proposed to the Income Tax Act 1959 to recognize *NIL assessment* as an assessment, and thereby giving certainty and equal treatment with positive assessments. The amendment provides that a statement from the IRC which states that no tax is payable, is a NIL assessment. A NIL assessment will however not confirm tax losses to be carried forward. The changes are prospective in nature and will apply to income year commencing on or after 1 January 2012 in relation to tax assessment made after 1 January 2013

### Extension of Thin Capitalization Rules

- The budget proposes an amendment to the Income Tax Act, 1959 to include all foreign controlled taxpayers, excepting approved finance institutions under the thin capitalization rules, which is currently applicable to the extractive companies only. A debt to equity ratio of 2 is to 1 is proposed, and amendment is expected to take effect from 1 January 2013. This will mean that all the foreign controlled entities which have heavy debt funding and minimal equity funding will be denied tax deduction, for any interest exceeding the statutory limit

### Bookmakers Turnover Tax

- The budget proposes to repeal section 211(b) in the Gaming Control Act 2007 to correct a legal anomaly over the right over the Bookmaker Turnover Tax (BTT). The repeal will do away with the payment of BTT into a consolidated revenue account and thereby establish the right of provinces

### Amendment of Gas-Oil Ratio to determine Conversion of Petroleum to Designated Gas Project

- With effect from 1 January 2013, Regulation 10I of the Income Tax Regulations 1959 dealing with the prescribed Gas-Oil Ratio, for the purposes of determining the conversion of Petroleum project into Designated Gas Project, will be applied in terms of *total gas and oil resources sold* as against the total gas and oil produced

### Minor Technical Amendments to Income Tax Acts

- Substitute all reference to “Division III.9C” in section 6D of the *Income Tax , Dividend Withholding Tax, Interest Withholding Tax (Rates) Act 1984* to “Division III.9B”
- Repeal and replace reference to sub section “46CA(5)” to “46CA(4)” in the definition of eligible taxpayer appearing under sub section 46CA(1) of the Income Tax Act, 1959
- Add the words “in accordance with Section 25A of this Act” after “Commissioner General” under subsection 69E(1) of the Income Tax Act, 1959
- Repeal the words “other than money” under subsection 69E(1) of the Income Tax Act, 1959

### Clarification on the application of Additional Profits Tax

- In May 2008, the definition of resource project was amended to include “a designated gas project”. The intention of this amendment was to extend the application of the Additional Profits Tax to all the gas projects, including the PNG LNG Gas Project

## Indirect Taxation measures

### Tax rates and Thresholds

- Import tariff of poultry will increase from K2.00 per kilogram to K2.20 per kilogram
  - Import tariff of plywood will increase from 35% to 50%
  - Excise duty on Tobacco Products increased by 10%
  - Minimum Threshold introduced for landed costs of pre-used motor vehicles ranging between US\$3,000 to US\$10,000, depending on engine capacity or vehicle type
  - Excise Rate increase for Pre-used Motor Vehicles as below-
    - Trucks & special purposes motor vehicles
    - Tractors above 4 Litres
    - Motor Cycles
    - PMVs
    - Security Vans
    - Chassis with Motor
  - Open backed Double Cab Vehicles
  - Small-medium cars (1.5-2.7 litres)
  - Large cars(>2.7 litres)
- } Increase to 20% from present 10%
- Increase to 60% from present 40%
- Increase to 80% from present 60%
- Increase to 120% from present 110%

- Aims to assist local manufacturers in reducing their cost of doing business and compete with overseas companies
- Aims to recover the health cost which government will incur through primary health scheme, and to restore real excise rate
- Aims to arrest the loss of revenue to the Customs as a result of under declaration of landed cost of pre-used vehicles imported
- Aims to reduce vehicle congestion and quality of vehicles plying.

The above changes are expected to come into effect from **1 January 2013**



### **GST Distribution System**

- Amendment is introduced to the *Inter-governmental (Functions and Funding) Act 2009* to restore a provision in the law that causes provinces which imposes a sales or service tax to forfeit their share of GST revenue of 60%. This provision does not apply to Bougainville owing to guarantees on GST payments under the Peace Agreement;

### **Minor Amendments to National Roads Authority Act**

- Substitute all reference to “Internal Revenue Commission” with the words “Papua New Guinea Customs Service”, wherever appearing
- Substitute all reference to “Commissioner General of Internal Revenue” with the words “Commissioner for Customs”, wherever appearing

### **Minor Amendments to Forestry Act**

- Substitute all reference to “Commissioner General of Internal Revenue” with the words “Commissioner for Customs”, wherever appearing, to establish clear responsibility of the PNG Customs Services to collect log export development levy.

## A comprehensive suite of tax and regulatory services

### Direct Tax and Regulatory Services

- direct tax and regulatory advisory & statutory compliances
- international tax advisory & planning
- regulatory advice and support under
  - Central Banking Act
  - Investment Promotion Act
  - Companies Act
- inbound investment advisory & entity set-up
- outbound investment & cross-border transaction advisory
- tax health checkups
- tax due diligence
- expatriate tax advisory & compliance services

### Indirect Tax Services

- advisory & strategic consulting in relation to GST, Customs, Excise, Stamp Duty and other allied legislations
- compliance assistance
- representation
- review/ health check/ GST audit
- tax due diligence

### Transfer Pricing Services

- local documentation studies
  - functions & risk analysis
  - comparability analysis
- planning study (margins reviews for budgeting, new transaction planning)
- review of agreements from a transfer pricing perspective
- structuring cost sharing arrangements for inter-company transactions

### Compliance and Outsourcing

- maintenance of books of accounts
- payroll processing, including tax computation and remittance and filing associated returns with the IRC
- accounts payable/ receivable processing
- banking support
- preparation of Final Accounts
- audit support
- secretarial support
- migration advisory and assistance

# Contact us

For more information on the budget please,

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