



2020 BUDGET COMMENTARY



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Executive Summary

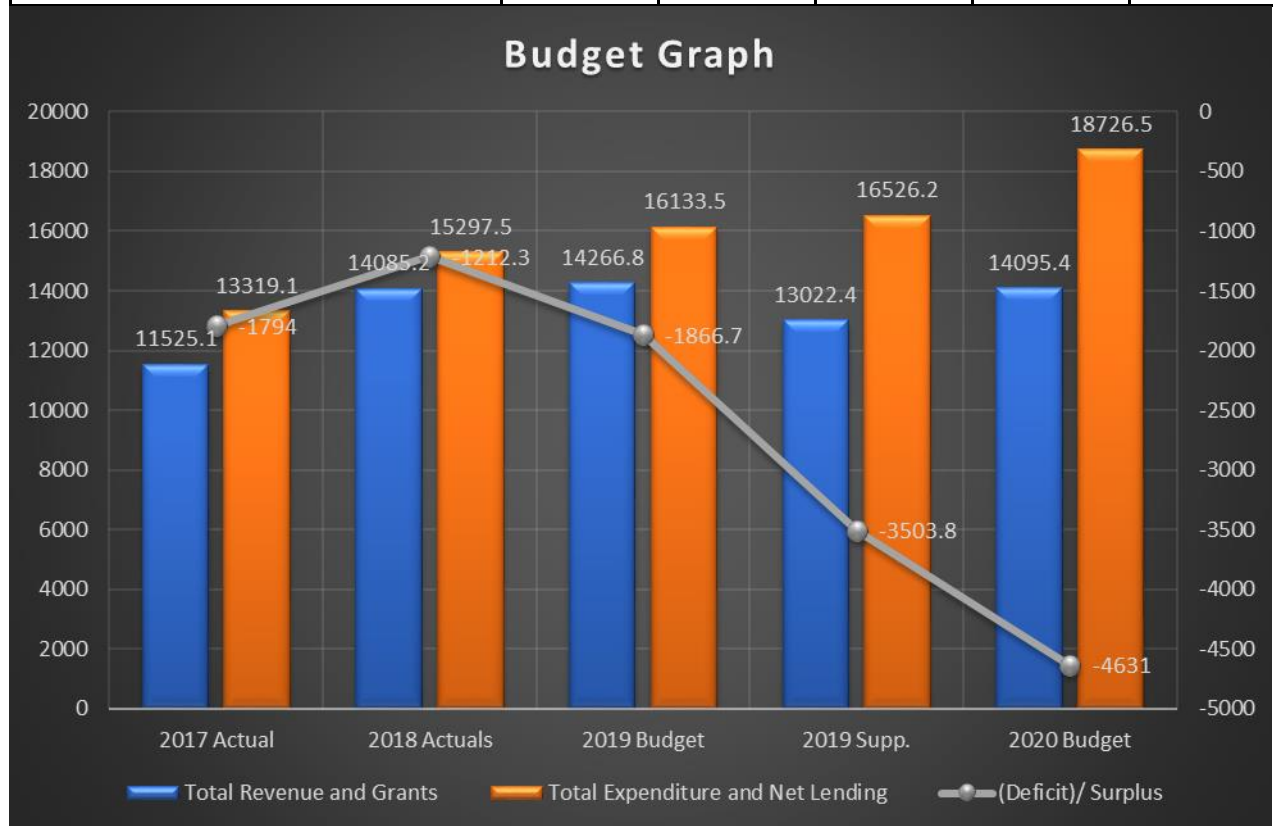
- The Minister for Treasury, Hon. Ian Ling-Stuckey handed over the **2020 Budget** on behalf of Marape-Steven Government, at the Parliament, this afternoon. Theme of this year budget is **“Take Back PNG”**.
- This is the **first annual budget** presented by this government and comes days after the 2019 Supplementary Budget, which indicated a budget hole of around K2.2billion in the 2019 budget.
- The **principles** guiding this budget is *Spend wisely, Raise revenue fairly, Finance debt cheaply, Focus on sustainable investment options, Reform program for State Owner Enterprises (SOE), Grow non-revenue growth above 5%, Ease foreign exchange, etc*
- The 2020 Budget will be guided by the recent **Marape-Manifesto**, which contains 10 declarations covering landowner benefits, economic growth, health and education, security, Small and Medium Enterprises (SME) promotion, a strong Christian Identity and Public Sector efficiency. This Manifesto is made in alignment with the **Vision 2050**, PNG Development Strategic Plan (**DSP**) (**2010-2030**), the Medium Term Development Plan (**MTDP**) **III**, the National Strategy for Responsible Sustainable Development (**StaRS 2017**), and the Fiscal Responsibility Act 2006 (**FRA**) as amended in 2019. The 2020 Budget will continue to be guided by the Medium Term Fiscal Strategy (**MTFS**) **2018-22**.
- **Budget** presented at **K18.73 billion**, as compared to 2019 supplementary budget estimate of K16.53 billion.
- Total budgeted expenditure consists of, **K12.75 billion in operational expenditure** as against K11.49 billion in 2019 and **K5.98 billion in capital expenditure** as against K5.03 billion, from 2019 supplementary budget.
- The priorities of 2010 Capital Investment Budget is guided by the Marape Manifesto Agenda 2030 to make PNG the richest black Christian nation and based on Growth Strategies such as Connect all PNG Missing Link Roads, Special Economic Zones (SEZ), Enabling Infrastructures, Agriculture commercialisation, SME development, Tourism hubs, Downstream processing, Educated and Technically Skilled Labour force
- Total revenue and grants are estimated at **K14.09 billion in 2020** with increase of **K1.07 billion** from 2019 supplementary budget estimate of K13.02 billion
- Tax revenue is estimated at **K11.16 billion** more than K714 million and Non-tax revenues are estimated at **K2 billion** more than K371 million, from 2019 supplementary budget.
- A record **Deficit budget** of **K4.63 billion** with deficit approximately amounting to 5% of GDP. This is mainly due to the arrears in payments budgeted in prior years.
- The **inflation** level expected at 5.7% in 2020.
- Various tax measures introduced to facilitate increased revenue collection, simplify rules, provide transparency, obtain participation from taxpayers etc.



Budget Highlights

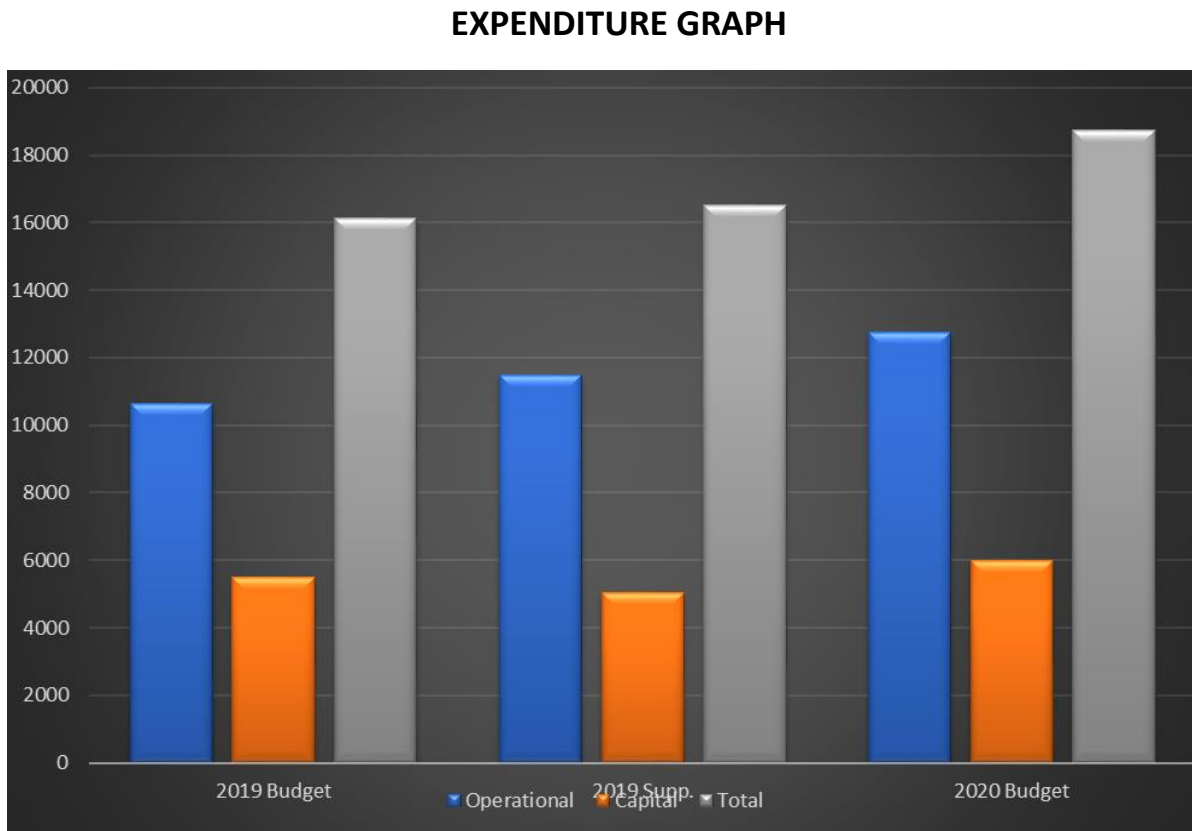
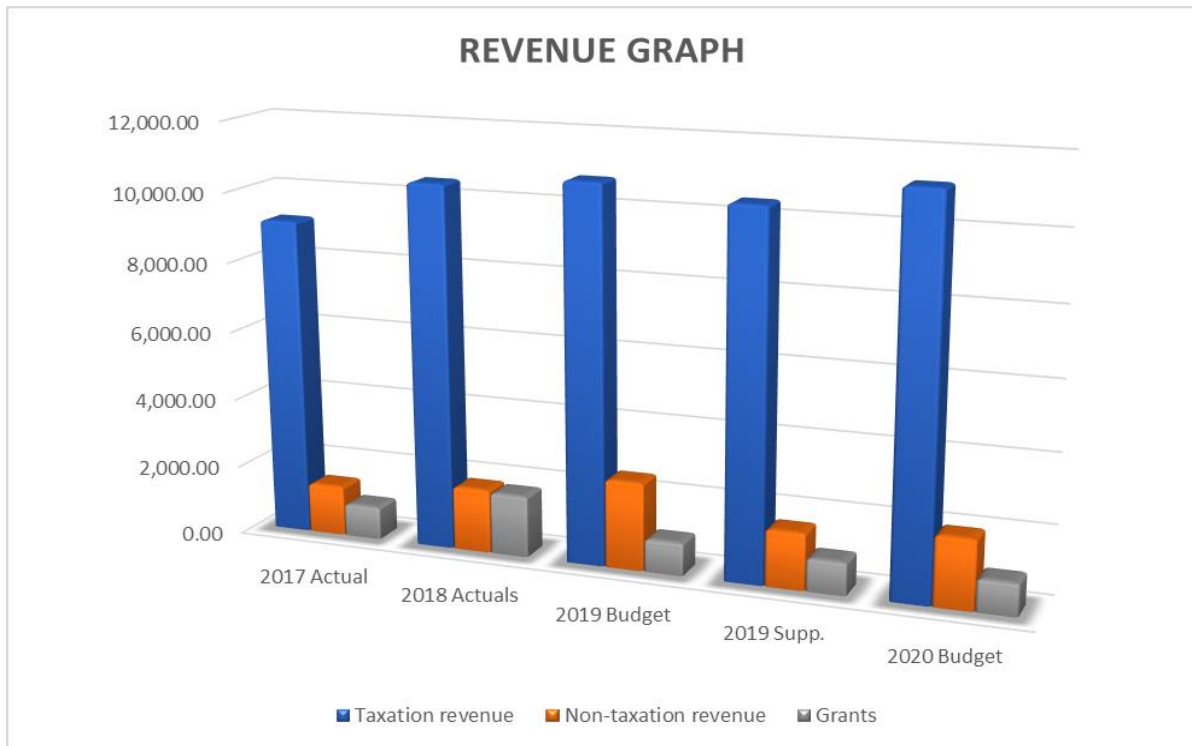
Budget	2017 Actual	2018 Actuals	2019 Budget	2019 Supp.	2020 Budget
Total Revenue and Grants	11,525.10	14,085.20	14,266.80	13,022.40	14,095.40
Total Expenditure and Net Lending	13,319.10	15,297.50	16,133.50	16,526.20	18,726.50
(Deficit)/ Surplus	(1,794.00)	(1,212.30)	(1,866.70)	(3,503.80)	(4,631.00)
Revenue and Grants					
Taxation revenue	9,141.40	10,475.90	10,784.50	10,447.60	11,161.50
Non-taxation revenue	1,439.90	1,835.70	2,539.20	1,631.40	2,001.90
Grants	943.80	1,773.60	943.10	943.10	932.10

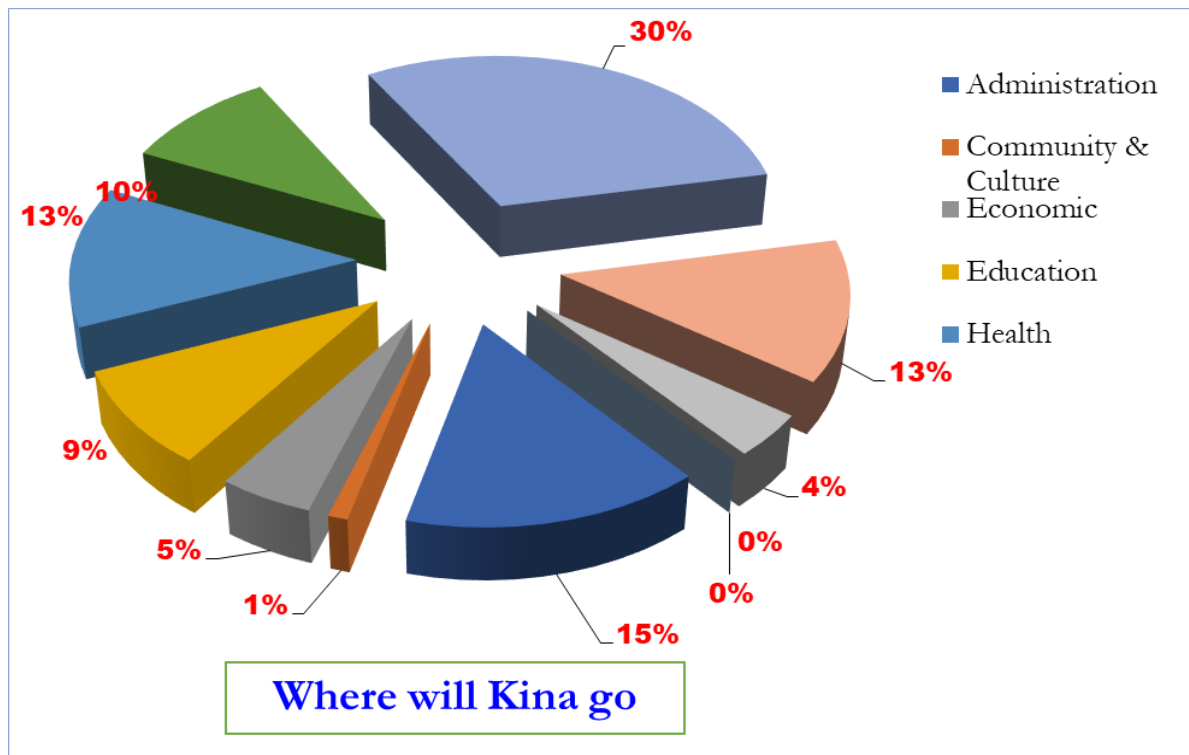
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Key Economic Assumptions	2016 Actual*	2017 Actual*	2018 Proj	2019 Proj	2020 Proj	2021 Proj	2022 Proj	2023 Proj	2024 Proj
Economic Growth									
GDP Growth	4.1	3.5	(0.8)	5.0	2.0	2.8	2.9	3.2	3.3
Non-Mining GDP	1.5	1.5	3.4	2.9	3.3	3.8	4.1	4.6	4.6
Exchange Rate									
Real Exchange rate Index (2007=100)	131.0	132.9	131.6	130.7	133.1	136.1	139.9	143.6	143.6
Inflation									
Year average (%)	6.7	5.4	4.7	4.4	5.7	6.7	6.8	6.5	5.7
Dec on Dec (%)	6.6	4.7	4.8	4.4	6.2	6.9	5.3	7.6	5.5
Interest Rates									
Kina Rate Facility (KFR)	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Inscribed Stocks (3 year Yield)	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7
Mineral Prices									
Gold (US\$/oz)	1,248	1,258	1,270	1,380	1,510	1,536	1,558	1,577	1,596
Copper (US\$/ton)	4,865	6,166	6,517	5,989	5,849	5,900	5,946	5,983	5,994
Oil (Kutubu Crude: US\$/barrel)	44	51	65	58	54	52	51	51	52
LNG (US\$ per 000 cu.ft)	8	9	11	11	11	11	10	11	11
Nickel (US\$/tonne)	9,595	10,415	13,109	10,782	11,034	11,566	11,973	12,395	12,395
Cobalt (US\$/tonne)	25,639	55,988	72,820	22,258	23,180	24,050	24,500	25,000	25,000
Agriculture Prices									
Copra	1,848.0	2,999.0	2,309.0	2,386.0	2,608.0	2,839.0	3,086.0	3,201.0	3,266.0
Cocoa	9,358.0	6,470.0	7,552.0	7,793.0	8,600.0	9,348.0	10,161.0	10,540.0	10,755.0
Coffee	9,358.0	10,714.0	10,128.0	9,934.0	12,120.0	14,657.0	15,932.0	16,527.0	16,864.0
Palm Oil	1,877.0	2,155.0	1,884.0	1,746.0	2,150.0	2,337.0	2,540.0	2,635.0	2,689.0
Rubber	3,333.0	4,655.0	3,911.0	4,752.0	5,119.0	4,706.0	4,706.0	4,706.0	4,706.0
Tea	4,222.0	4,727.0	4,107.0	4,233.0	4,255.0	4,260.0	4,260.0	4,260.0	4,260.0
Copra Oil	3,358.0	4,519.0	3,430.0	2,371.0	2,578.0	2,802.0	3,045.0	3,159.0	3,223.0
Logs (K/m ³)	294.0	302.0	304.0	322.0	356.0	316.0	343.0	356.0	364.0







Medium Term Fiscal Strategy (MTFS) 2018-2022

The MTFS aims to support medium term development plans and maintain macro-economic stability and is composed of three major components

- **Medium term revenue strategy** (MRTS) that aims to build revenue base capable of financing government medium- and long-term expenditure plans. These includes **policy reforms** consisting of *simplified small business regime, review of tax exemptions/incentives, review of excise and export duties, tax base broadening, rebalance tax composition from income to consumption based* and **legal reforms** consisting of simplify and consolidate existing Acts, obtain economic value from international agreements, establishment of asset registers, bank secrecy codes amendments, public agencies and **administration reforms** aimed at *managing compliance risks, improve systems/process and develop strategic leadership and management*
- **Medium term expenditure strategy** aims to reduce total expenditure to GDP ratio from 18% to 16% by 2022, reallocate expenditure mix from personnel emoluments and goods and service to priority capital allocations
- **Debt management strategy** that delivers low cost financing within prudent risk levels at same time ensures macroeconomic stability and allows flexible funding to government.

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Here is how the government feels they fared against each strategy, since last budget

Revenue	Expenditure	Deficit and Debt
<ol style="list-style-type: none"> 1. Programmed measured were on track including - <ul style="list-style-type: none"> • Establishment of MTRS steering committee • Launch of Large Taxpayers Office • Introduction of Tax Administration Act • Various PNG Custom reforms 2. Revenue targets met to large extent with substantive Increase in Mining and Petroleum tax. 3. The flip side was the low personal tax collection owing to the subdued economy 	<ol style="list-style-type: none"> 1. Government spending very low 2. Implementation hurdles faced owing to various external factors like subdued economy, APEC, lack of control of operational expenditure, lack of public investment etc. 3. Public payroll expenditures are underbudgeted 4. Capital expenditure needs to be well targeted and accountability checks put in place. 5. Tax expenditure statement (TES) covers incentives under <i>Income Tax, GST and Customs Tariff, Acts</i> 	<ol style="list-style-type: none"> 1. Increased reliance on external debt and this continues. 2. Public debt interest cost increased 3. Domestic Debt market needs to be developed by flattening domestic yield curve, increase domestic liquidity at lower interest rate and increase contribution of organised private sector credit 4. Fiscal deficit needs to be reduced.



Other Budget Initiatives

1. The Medium-Term Fiscal Outlook is now determined by the revised Medium-Term Fiscal Strategy under the new Marape-Steven Government agenda driven by 'Take back PNG'. To achieve this, the Government has set its own guidelines and objectives set in the Marape Manifesto and made necessary changes to the medium-term fiscal anchors and strategic objectives that were first presented in the MTFs 2018-22 in the 2018 Budget. These changes are done in alignment with Government objectives and policies and changing economic conditions in 2020. At the mid-point of implementation of the MTFs 2018-2022 the Government has taken a stock of the performance so far and made adjustments to bring the strategy in line with the vision of the new administration.
2. Major tax reforms that are considered in 2020 are
 - Introduce a simplified and more concessionary tax regime for SMEs
 - Enhance Land Lease Rental Payments;
 - Increase excise on "social drinks";
 - Increase on homebrew fines from K200 to K50,000;
 - Increase alcohol and cigarette excise by 10.0 per cent, remove suspension of six-monthly excise indexation rate and revert to 5.0 per cent six monthly increases,
 - Capture resource rent on the export of unprocessed old - growth logs by increasing progressive duty rate from the current average of 32.0 per cent to an average of 50.0 per cent;
 - Reduce import excise on imported new and used vehicles;
 - Uplift concessional threshold to K6,000.0 for passengers from abroad over 18 years and K3,000.0 for passengers below 18 years;
 - Broaden coverage of Tariff Item 2206.00.10 to include alcoholic drinks substantially made from edible produce grown in PNG;
 - Tightening Thin Capitalisation rule;
 - Adjust the Telecommunication Universal Access Levy and design actions for increasing License Fees; and Increase Banking License Fees and examine increases targeting the spreads on foreign exchange spreads



Direct Taxation measures

The budget introduces several key tax measures aimed at increasing collection, driving efficiency and making tax laws easier to comply.

Tax rates and Thresholds effective date yet to be announced

- Certain individuals who are eligible and opts to pays tax as Small Business Tax regime (detailed below) will be allowed to pay tax in following manner

Annual gross income	Tax to be paid on gross income
<= K50,000	K400
K50001-K250000	2%

Small Business Tax Regime effective date yet to be announced

- The following Individuals are covered under this proposed regime
 - doesn't provide professionals services such as medical, dental, legal, accounting, financial, managerial, engineering, architecture, consulting or other similar services are covered.
 - conducts business solely in PNG
 - not registered for GST
 - total turnover does not exceed K250,000
- A small business assessee, may opt to be taxed under normal provisions however will not be allowed to opt for small business regime for 3 years from taking such option.
- Small business assesses, earning a gross annual income of K50,000 or less, will be assessed on annual basis and earning between K50,001 and K250,000 gross annual income, will be assessed on quarterly basis.
- Records required to be maintained includes Daily sales register, salary or wages register and any other records, required. Such records need to be maintained for 3 years from end of tax period.
- Small business return need to be furnished within 28 days from either annual or quarterly closing date. Such return will be considered as a self assessment return.



Consistent Thin Capitalisation Rules effective 1 January 2020

- Resource business would be liable to same thin capitalisation rules as non-resource businesses and thereby required to maintain a debt to equity ratio of 2:1, as against 3:1 allowed earlier.

Relaxation of the taxpayers choosing to appeal retrospective 1 January 2018

- Dissatisfied with a tax assessment, taxpayer who chooses make review application or appeal in the National Court is allowed to pay 50% of the tax and penalty accrued, till the date of making the application.

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Alignment of due dates for provisional tax payment to the balance date effective 1 January 2020

- In order to align the provisional tax payment due dates for all taxpayers, including those taxpayers who have adopted substituted accounting period, following amendments are made,
 - first instalment is payable within 90 days from end of preceding year of tax or substituted year of tax approved.
 - second instalment is payable within 180 days from end of preceding year of tax or substituted year of tax approved.
 - third instalment is payable within 270 days from end of preceding year of tax or substituted year of tax approved.

Minor technical amendments/clarifications effective 1 January 2019

- Minor amendments to remove incorrect reference on the loss carry forward provision



Indirect Taxation measures

GST amendments

- Nil

Amendment to Customs Tariff effective 1 January 2020

- Replace fixed log export duty rate with stepped fashion progressive log export duty rate and achieve on an average 50% tariff.
- Minor amendments to correct the coding and description of imported margarines (both liquid and non-liquid)

Amendment to Excise Tariff

- Uplift the temporary suspension of the indexation applied on alcohol and tobacco products and revert to 5% biannual indexation from 1 June 2020.
- Continuation of second tier tobacco excise, for a 2-year period from 1 December 2019 to 1 December 2021, to assist in combating illicit products.
- Reduction in import excise for brand new vehicles, currently ranging between 100% and above, to 40%, and for used vehicle ranging between 100% and below, to 20%.



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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