



2021 BUDGET COMMENTARY



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Executive Summary

- Amidst the looming political crisis and the COVID-19 pandemic, the Minister for Treasury, Hon. Ian Ling-Stuckey handed over the **2021 Papua New Guinea Budget** on behalf of Marape Government, at the Parliament on this 17th day of November 2020.
- This is the **second annual budget** presented by this government. Theme of this year budget is “**Consolidation for Growth**”.
- The Medium-Term Fiscal Strategy will be revised to 2021-25 (MTFS 2021-25) instead of *Revised MTFS 2020-24*, indicated in 2020 Budget. However the underlying **principles** guiding this budget, will remain the same, i.e., *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 2021 Budget will continue to be guided by the doctrines of development espoused by **Five National Goals and Directive Principles¹**, **Vision 2050**, PNG Development Strategic Plan (**DSP**) (**2010-2030**), the Medium Term Development Plan (**MTDP**) **II and III**, the National Strategy for Responsible Sustainable Development (**StaRS 2017**), and the Fiscal Responsibility Act 2006 (**FRA**) as amended in 2019.
- MTFS 2021-25 will be supported by updating the Medium-Term Debt Strategy (MTDS) and the Medium-Term Revenue Strategy (MTRS)
- Requiring specific mention is the **impact of COVID-19** on the global economy in 2020, where World Bank has predicted a negative growth rate of -4.9% for PNG, in their June 2020 report. Consequently the 2020 Mid-Year Economic and Fiscal Outlook (MYEFO) report, predicts a negative -3% growth rate for PNG. This is five (5) basis points less than 2020 Budget forecast.
- The hardest hit sectors owing to COVID-19 are transport, accommodation, and construction, contracting to -20%, -20.8%, and -2.5%, respectively. Mining and quarrying sector is projected to contract as well at -20.2%, against 2020 budget growth projection of 6.2 and Agriculture, forestry, and fishing (AFF) sector, is projected to grow at 1.5%, against 2020 budget projection of 3.4%.
- **Budget** presented at **K19.61 billion**, as compared to 2020 supplementary budget estimate of K17.99 billion.
- Total budgeted expenditure consists of, **K9.87 billion in operational expenditure**, **K7.47 billion in capital expenditure** and **K2.27 billion in interest payments** as against K9.54 billion, K6.39 billion and K2.06 billion respectively, from 2020 supplementary budget.

¹ I integral human development; equality and participation; national sovereignty and self-reliance; wise use of natural resources and the environment; and Papua New Guinean ways

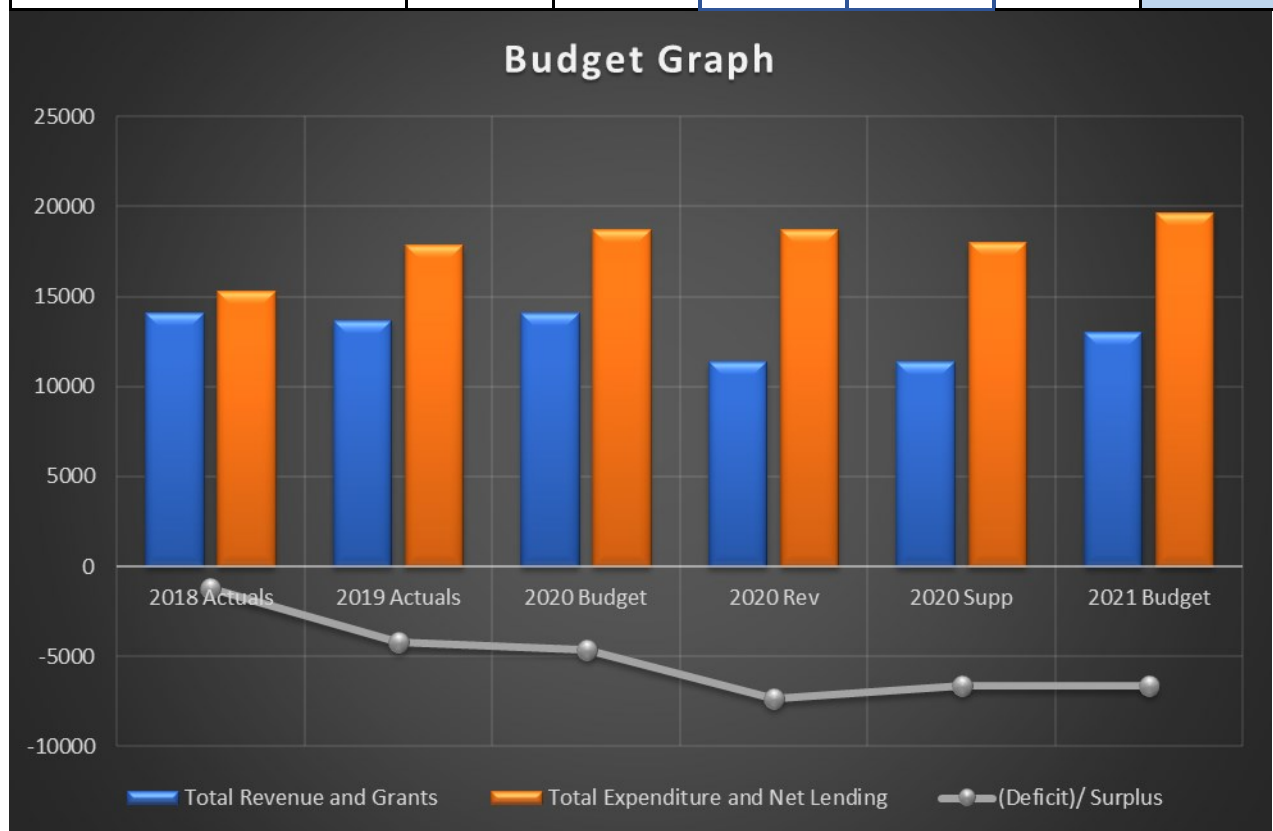


- Total revenue and grants are estimated at **K12.99 billion in 2021** with increase of **K1.64 billion** from 2020 supplementary budget estimate of K11.35 billion.
- Tax revenue is estimated at **K11.11 billion** more than K1.46 billion and Non-tax revenues are estimated at **K877 million** more than K97 million, from 2020 supplementary budget estimates of K9.65 billion and K780 million, respectively.
- A record **Deficit budget** of **K6.61 billion** with deficit approximately amounting to 7.3% of GDP.
- The inflation level expected at **3.7%** in 2021.
- Various tax measures introduced to facilitate increased revenue collection, simplify rules, provide transparency, obtain participation from taxpayers etc.



Budget Highlights

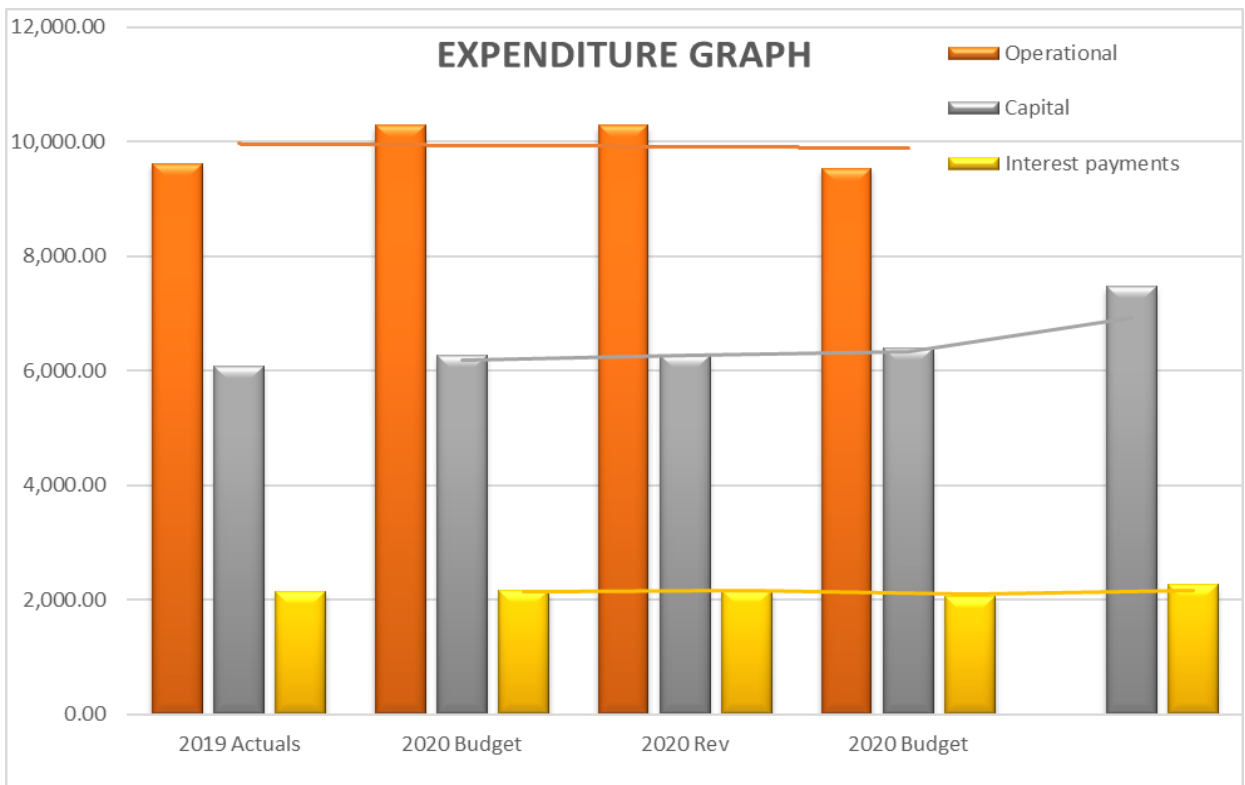
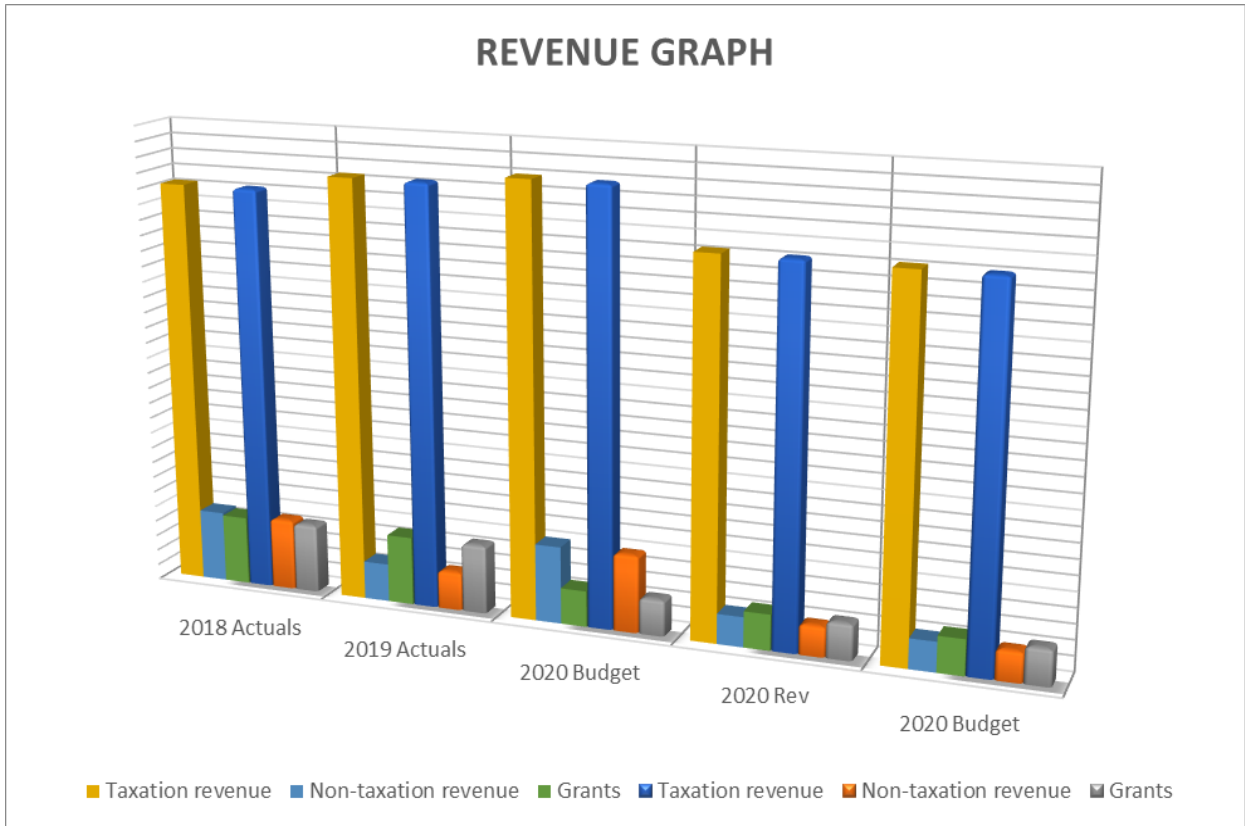
Budget	2018 Actuals	2019 Actuals	2020 Budget	2020 Rev	2020 Supp	2021 Budget
Total Revenue and Grants	14,085.2	13,680.4	14,095.4	11,395.1	11,359.0	12,995.0
Total Expenditure and Net Lending	15,297.5	17,852.4	18,726.5	18,726.5	17,989.2	19,607.8
(Deficit)/ Surplus	(1,212.3)	(4,172)	(4,631.1)	(7,331.4)	(6,630.2)	(6,612.8)
Revenue and Grants						
Taxation revenue	10,475.90	10,918.10	11,161.60	9,683.20	9,647.20	11,109.70
Non-taxation revenue	1,835.70	986.80	2,001.70	779.80	779.70	877.00
Grants	1,773.60	1,775.50	932.10	932.10	932.10	1,008.30





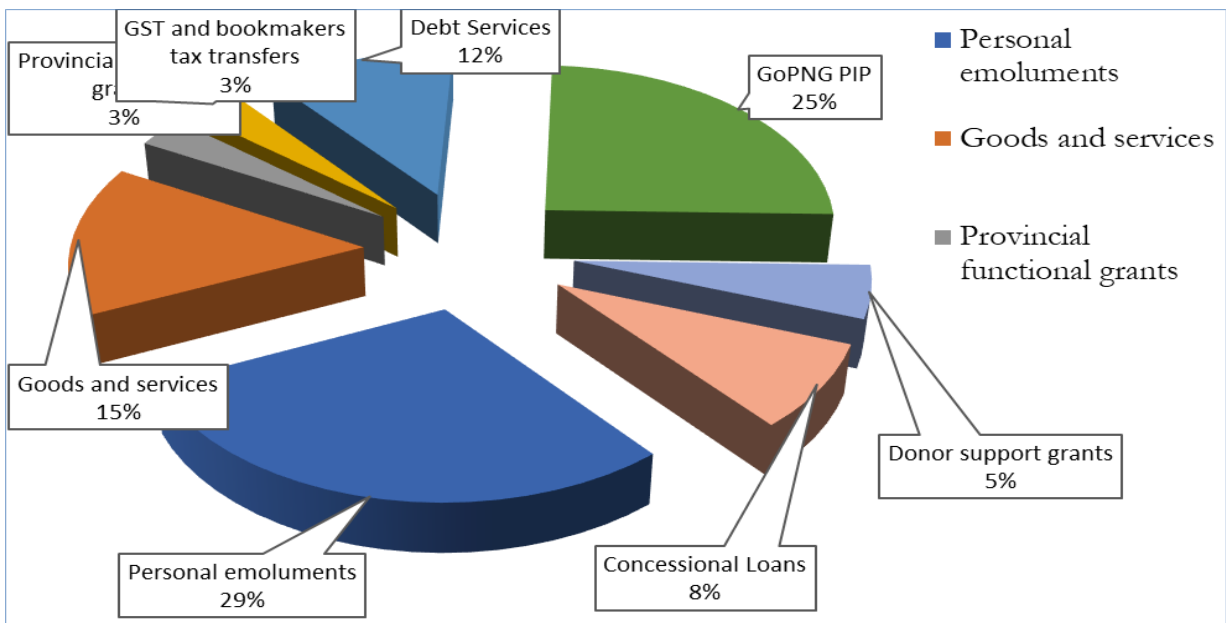
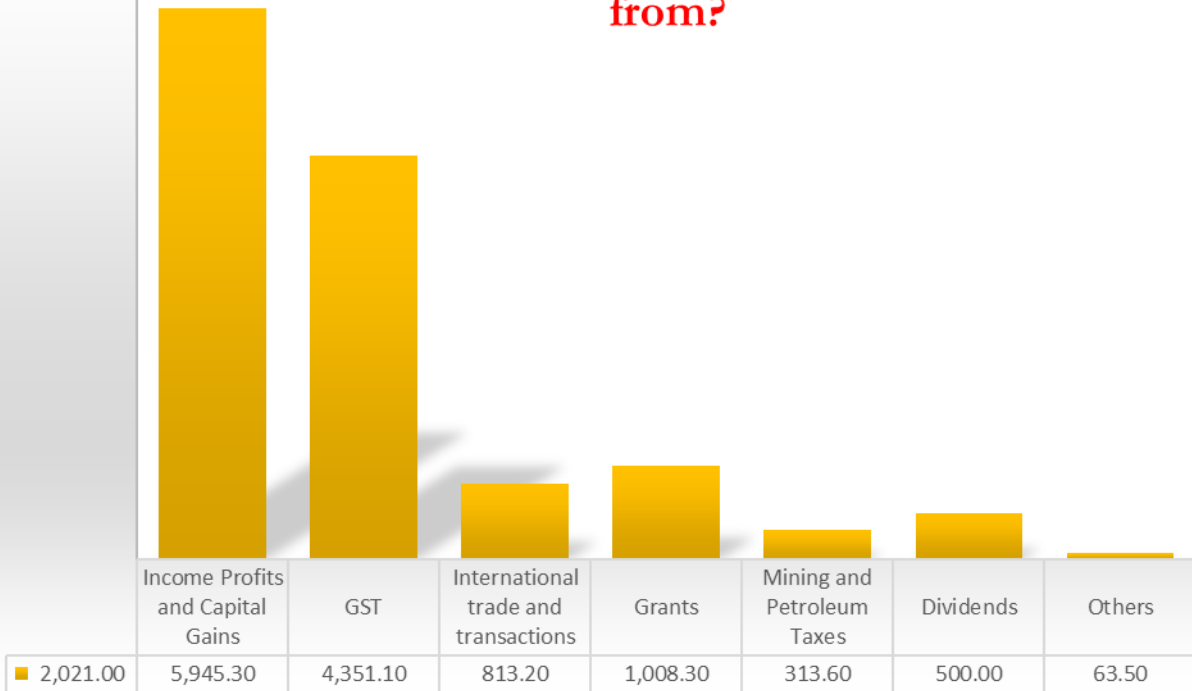
2021 PNG Budget Commentary

Key Economic Assumptions	2017 Actual	2018 Proj	2019 Est.	2020 Proj	2021 Proj	2022 Proj	2023 Proj	2024 Proj	2025 Proj
<i>Economic Growth</i>									
GDP Growth	3.5	(0.8)	4.9	(3.0)	2.2	2.8	2.6	2.8	2.5
Non-Mining GDP	1.5	3.4	2.8	(0.6)	2.3	3.6	3.7	3.9	3.5
<i>Exchange Rate</i>									
Real Exchange rate Index (2007=100)	132.9	131.6	130.7	133.1	136.1	139.9	143.6	143.6	143.6
<i>Inflation</i>									
Year average (%)	5.4	4.7	3.6	3.7	4.8	4.2	4.3	4.6	4.6
Dec on Dec (%)	4.7	4.8	2.8	4.9	3.6	4.9	4.3	4.1	4.1
<i>Interest Rates</i>									
Kina Rate Facility (KFR)	6.25	6.25	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Inscribed Stocks (3-year Yield)	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7
<i>Mineral Prices</i>									
Gold (US\$/oz)	1,258.0	1,270.0	1,392.0	1,688.3	1,716.0	1,734.0	1,753.0	1,772.0	1,790.0
Copper (US\$/ton)	6,166	6,517	6,006	5,368.6	5,215	5,285	5,356	5,419	5,473
Oil (Kutubu Crude: US\$/barrel)	51.0	65.0	57.0	35.8	38.1	41.1	43.2	45.4	46.9
LNG (US\$ per 000 cu. ft)	9	11	10.6	8.3	8.6	9.0	9.5	10.0	10.2
Nickel (US\$/tonne)	10,415	13,109	10,960	10,354	11,714	11,612	11,714	11,834	11,976
Cobalt (US\$/tonne)	NA	NA	22,836	21,691	25,247	26,429	27,606	29,594	29,950





Where will Kina come from?



Where will Kina go



Medium Term Fiscal Strategy (MTFS) 2021-2025

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 by 2025, 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.

The significant impact of 2020 supplementary budget is the revision of the macro fiscal indicators like the debt-to-GDP ceiling is revised from 45% to 60%., with the aim to bring it down to below 40% in 10 years. Key anchors of the MTFS framework 2021-25 is presented below.

Anchors	2019	2020 Budget	2020 Rev	2020 Budget	2021	2022	2023	2024	2025
Deficit as % of GDP	-4.9	-5	-9	-8.1	-7.6	-5.6	-3.3	-2.1	-1.5
FRA deficit (excl concessional loans)	-3.2	-3.7	-6.8	-6	-5.3	-3.4	-0.3	1.7	2.2
Expenditure rule	-20.2	15.6	19.7	18.7	18.4	17.1	16.4	15.9	15.3
Non resource primary balance	-5.4	-5.8	-9	-8.2	-7.8	-5.6	-2.4	-0.4	-0.2
Debt (% of GDP excluding arrears)	39.8	40.3	50.2	49.4	53.6	54.9	54.9	53.8	52.1



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

- No changes in tax rates are proposed

New anti-avoidance provisions effective date to be announced by way of a notice in National Gazette

- Introduction of a new **S.65K** to bring all arrangements to convert an employee into an independent contractor, to tax under Salary or Wages Tax.
- Following criteria are introduced for determining a consulting relationship, as an independent contractor
 - **Ownership test** –
 - assumes success and failure of business and makes profit or loss accordingly.
 - decides when, what, how and where the work is done.
 - can hire another to do the work
 - responsible for fixing any unsatisfactory work on own account and time
 - **Outcome or Results test**
 - Total remuneration is fixed and do not depend on duration of work. Meaning the independent contractor is paid a fixed remuneration, for obtaining a specific outcome or result.
 - **Client dependency test**
 - More than 80% of the taxable income is not derived from services rendered to one person.
 - Works for more than one person
 - Provides own tools and equipment and is responsible to cover all operating cost for carrying out the work
- Where a service contract fails to fulfill the above criteria's, the service provider will be treated as an employee and subject to Salary of Wages tax.



New Loss carry forward rule clarified effective 1 January 2019

- Transitional provisions introduced to clarify that, all losses remaining un-deducted and unexpired on 31 December 2018, may be carried forward and deducted from income derived in 2019 or later years, subject however to a minimum of, the unexpired loss period under earlier provisions or seven (7) years, calculated from 1 January 2019.

Amendment to company provisional tax instalments due date retrospective from 1 January 2020

- Amending the first, second and third instalment due dates for payment of Company Provisional Tax from 90,180 and 270 days to 120,210 and 300 days, from end of year of tax. This is done to revert to the arrangement prior to 2020 budget amendments and to allow accurate estimation and collection.

Withholding of Prescribed Royalty (Withholding) Tax (PRWT)- retrospective 1 January 2020

- Liability to withhold PRWT payable to customary landowner is shifted, from a regulator to developer. This is done to enable quicker ascertainment and collection of tax.

Small Business Tax Regime effective date to be announced by way of a notice in National Gazette

- The following Individuals are covered under this proposed regime
 - does not 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 GST threshold (currently K250,000)
 - was not subject to income tax.
- Small business owner, 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 owner, earning a gross turnover of K60,000 or less, is considered as Micro business. Such business is assessed annually and required to pay K250.
- Small business owner, earning a gross annual turnover between K60,001 and K250,000, will be assessed on quarterly basis. Tax payable is sum of K62.50 plus 2% of turnover more than K15,000.
- 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 needs to be furnished within 28 days, either from annual or quarterly closing date, as applicable. Such return will be considered as a self-assessment return.



Indirect Taxation measures

GST amendments

- Nil

Amendment to Customs provisions effective 1 January 2021

- Amendments to increase the Customs penalty fee and powers of Commissioner, to deter reoccurring offences and boost voluntary compliance.
- Introduction of a new provision, to deter smuggling of tobacco products, into PNG.
- Increasing the minimum threshold value from K1,000 to K5,000, for production of commercial invoice, for customs valuation and home consumption purposes.
- Making all excisable goods less than K50 imported, at a land or sea border, to be free of duty.

Amendment to Excise Tariff effective 1 January 2021

- Allowing the importation of Hybrid vehicles by specifically including it under tariff list and allotting tariff code, description, and duty rate.
- The categories of Hybrid vehicles are included below –

Tariff Item	Description	Rate
8703.40.00	Other vehicles, with both spark ignition internal combustion reciprocating piston engine and electric motor as motors for propulsion, other than electric charged vehicles	20%
8703.50.00	Other vehicles, with both spark ignition internal combustion reciprocating piston engine (diesel and semi diesel) and electric motor as motors for propulsion, other than electric charged vehicles	
8703.60.00	Electric charged vehicles, with both spark ignition internal combustion reciprocating piston engine and electric motor as motors for propulsion.	
8703.70.00	Electric charged vehicles, with both spark ignition internal combustion reciprocating piston engine (diesel and semi diesel) and electric motor as motors for propulsion.	
8703.80.00	Other vehicles, with only electric motor for propulsion	



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 check-ups
- 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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