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Executive Summary

- The Honorable Minister of Treasury and Finance Hon. Don Pomb Poyle handed over the **2014 Budget** on behalf of O'Neill-Dion Government at the Parliament on 19 November 2013 at 2 PM.
- The theme of this year budget is “**Consolidate Gains for Sustainable Growth Through Prudent Investments**”.
- This is the **second annual budget** of the new Medium Term Fiscal Strategy (MTFS) 2013-2017 and part of the Development Strategy Plan (DSP) 2010-2030. The budget draws supports from Papua New Guinea Fiscal Responsibility Act 2006 (FRA) and the 2014 Budget Strategy Paper.
- This is the **biggest ever budget** presented at **K15.04 billion**, more than 13.8% higher than 2013 revised estimated budget of K13.21 Billion.
- Total revenue and grants are estimated at **K12.7 billion in 2014** with a **slight increase of K2.2 billion** or 21% from 2013 revised estimates of K10.5 billion
- Tax revenue is estimated at **K9.7 billion** i.e. an increase of 13% and Non-Revenue revenues are estimated at **K1.3 billion** i.e. almost two times increase.
- This is a **deficit budget** of **K2.3 billion** and the deficit approximately amounts to 5.9% 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. This budget presents the budget using unique sectoral approach.
- The economic growth is expected to improve to 6.2% in 2014 as PNG expected to ship its first gas shipment. The **Non-mining sector** is forecast to grow by **1.6 percent**.
- The **inflation** level has eased from record levels in 2012 to 5.1 percent in 2013 and expected to remain at **6.5 per cent** in 2014. The inflation is further expected to ease to 5% in 2015 to 2017.
- The budget introduces **number of taxation policy measures** and other minor technical amendments mainly aimed at improving the efficiency of tax system and achieving other objectives.

Budget Highlights

Key Economic Assumptions

Economic Growth

GDP Growth

2010	2011	2012	2013	2014
7.6	11.1	8.0	5.1	6.2
8.5	13.2	9.1	4.7	1.6

Non-Mining GDP

Exchange Rate

Real Exchange rate Index (2007=100)

	155.0	175.2	167.0	165.9
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Inflation

Year average (%)

6.0	8.5	2.2	4.0	6.5
7.2	6.9	1.6	6.0	4.6

Dec on Dec (%)

Interest Rates

Interest Rate (Treasury Bills)

5.5	7.8	6.8	6.3	6.3
8.1	9.0	5.0	5.0	5.0

Inscribed Stocks(3 year Yield)

Commodity Prices

Oil (USD/Barrel)

79.0	104.0	105.0	100.0	99.0
7,538.0	8,823.0	7,959.0	7,344.0	7,213.0
1,225.0	1,569.0	1,668.0	1,428.3	1,359.0
		17,542.0	15,520.0	15,017.0
		28,761.0	24,600.0	26,240.0
		12.2	12.3	12.3
		105.0	100.0	79.0

Copper (USD/Tonne)

Gold (USD/Ounce)

Nickel (USD/Tonne)

Cobalt (USD/Tonne)

LNG (US\$ per thousand cubic feet)

Condensate(US\$/barrel)

Budget

Total Revenue and Grants

2012 Budget	2012 Revised	2012 Actual	2013 Budget	2013 Revised	2014 Budget
10,560.3	10,157.7	9,566.0	10,481.9	10,481.6	12,688.5
10,560.3	10,560.3	-	13,030.8	13,218.7	15,041.5
-	(402.6)		(2,548.9)	(2,737.1)	(2,353.0)

Total Expenditure and Net Lending
(Deficit)/ Surplus

Revenue and Grants

Taxation revenue

8,519.7	8,165.3	8,148.3	8,631.2	8,605.7	9,743.5
520.1	471.9	423.2	509.5	534.8	1,260.0
1,520.5	1,390.5	930.8	1,211.2	1,211.2	1,555.0
-	130.0	63.7	130.0	130.0	130.0

Non-taxation revenue

Grants

Infrastructure Tax Credits

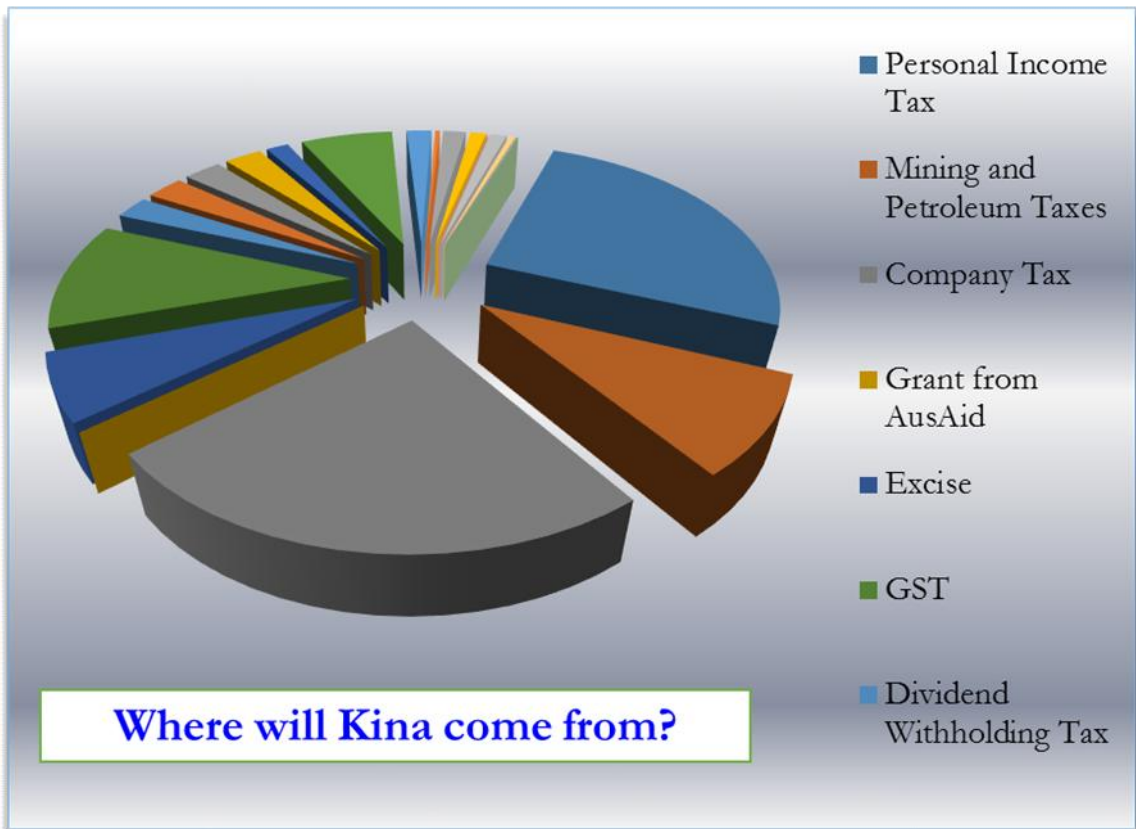
Taxation revenue

Tax on Income and Profits

6,543.0	5,965.8	5,875.1	6,215.5	6,185.8	7,117.2
1,256.4	1,482.3	1,575.5	1,613.4	1,721.7	1,879.4
720.3	717.3	697.7	802.3	698.2	746.9

Dom.Taxes on Goods and Services

Taxes on International Trade



Direct Taxation measures

Tax rates and Thresholds

- No change in corporate or personal tax rates

Abolition of Research & Development Expenditure

- Effective 1 January 2014, the budget proposes to abolish 150 per cent deduction currently available for expenditure incurred on Research & Development. This measure is mainly aimed at removing the administrative difficulty faced by the Internal Revenue Commission (IRC) in managing this incentive. However certain eligible expenditures like donations made to approved research institutions and capital expenditures will continue to be deductible. This change is mainly expected to impact mining and petroleum sectors.

Amendment to Infrastructure Tax Credit Scheme

- Effective 1 January 2014, the budget proposes to amend the definition of “approved national infrastructure project” to include any infrastructure project of national importance as approved by the National Executive Council prior to 19 November 2013. It is expected that this amendment will allow the government to consider the infrastructure projects through budget process and ensure that the resources are applied for high priority project.

Amendment to Certificate of Compliance (COC) Threshold

- Effective 1 January 2014, the budget proposes to raise current eligible payments in relation to single contract from K500 to K5000 and do away with the annual threshold of K3000 applied in relation to each payee. This is expected to ease the administrative burden on IRC as well as taxpayers.

Power to revoke Charitable Status

- The budget empowers the Commissioner General to revoke the charitable status of an approved charitable body or institution, where he has reasons to believe that the conditions of approval are not complied with.

Minor Technical Amendments to Income Tax Acts

- Including communication of information to the Chief Collector of Taxes of Autonomous Region of Bougainville or his delegate to a list of exceptions under the secrecy provisions contained in section 9(4) of the Income Tax Act, 1959.
- Repeal and replace reference to section “298” to “289” in the definition of certificate of compliance appearing under section 354K of the Income Tax Act, 1959
- Repeal and replace a reference to “othe” with “other” dealing with cancellation of paying authority registrations under section 354R of the Income Tax Act, 1959

Minor Amendment to Stamp Duties Act

- Repeal para (c) of Section 6 of the Stamp Duties Act to exclude from exemption any person approved as instrumentality of government. The purpose of this amendment is to remove any possible abuse and safeguard revenue.

Other Administrative Measures

- All Income Tax refunds will be administered by way of a tax refund account to ensure speedy processing of tax refunds.
- **Five compliance Measures** dealing with *registrations, lodgment, reporting, payment and earlier processing* are undertaken by IRC in consultation with the Treasury. This will involve engagement of additional staff, technology and other resources to ensure additional compliance and increase in revenue by K600 million in 2014.

Comprehensive Review of PNG Tax System

- The government has established a taxation review committee to undertake a comprehensive review of PNG tax system and report on its final outcome by 31 March 2015. The objectives of review is to align the PNG revenue in line with its aspiration to become a competitive middle income nation, improve competitiveness and efficiency, enhance fairness and simplicity, consider the optimal tax mix, improve compliance and increase non tax revenue.

Indirect Taxation measures

Tax rates and Thresholds

- No change in customs or excise tariffs.

Amendment to Tariff code and description for Alcohol

- Schedule 1 of the Excise Tariff Act is amended by repealing and substituting the existing tariff codes with the following –

Tariff Item	Description
2203.00.10	Beer or mixed drinks containing beer, not more than 2.5% alcohol by volume
2203.00.20	Beer or mixed drinks containing beer, more than 2.5% and not more than 3.5% alcohol by volume
2203.00.30	Beer or mixed drinks containing beer, more than 3.5% and not more than 4.5% alcohol by volume
2203.00.40	Beer or mixed drinks containing beer, more than 4.5% alcohol by volume

The above is expected to be consistent with Customs Tariff Act and may move some items to higher excise bracket.

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

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