



**PAPUA NEW GUINEA
2015 BUDGET COMMENTARY**

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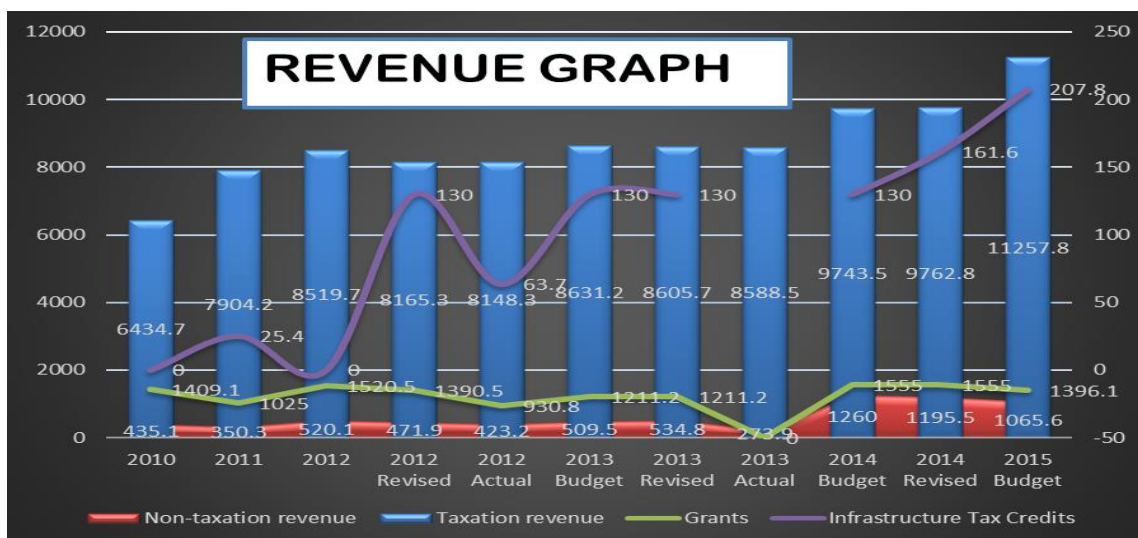
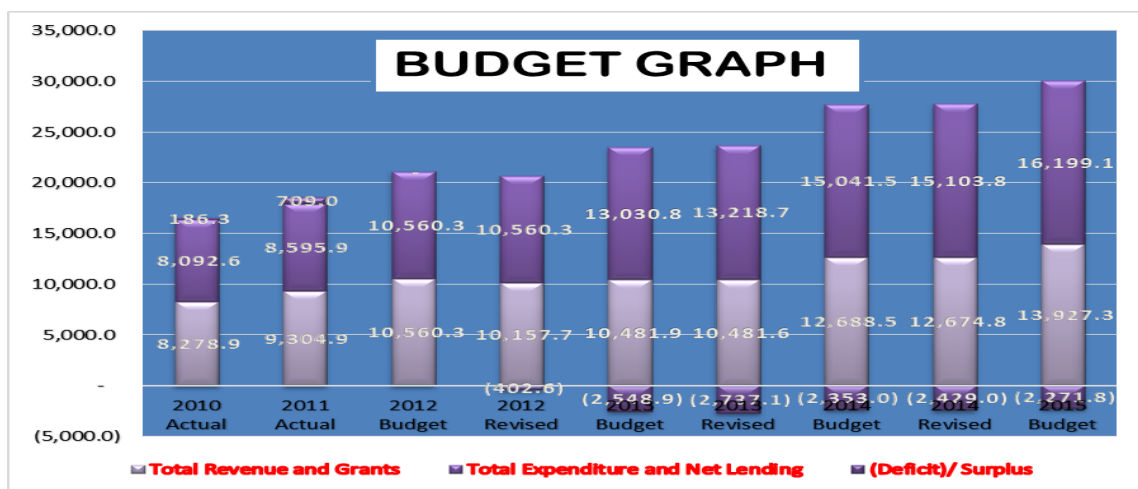
Executive Summary

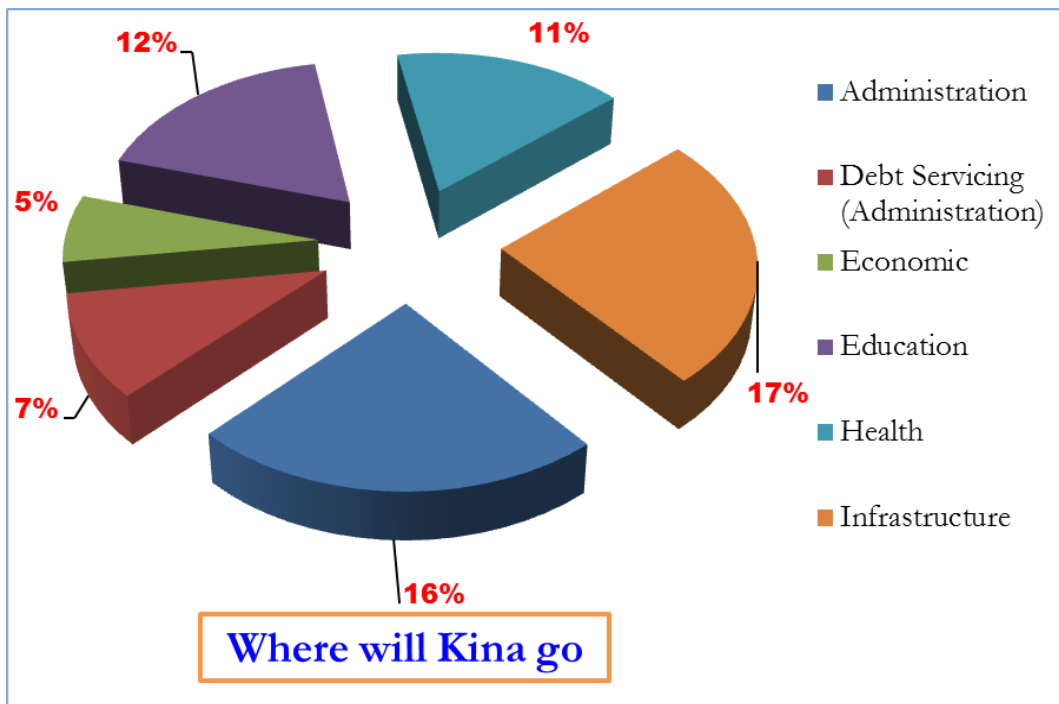
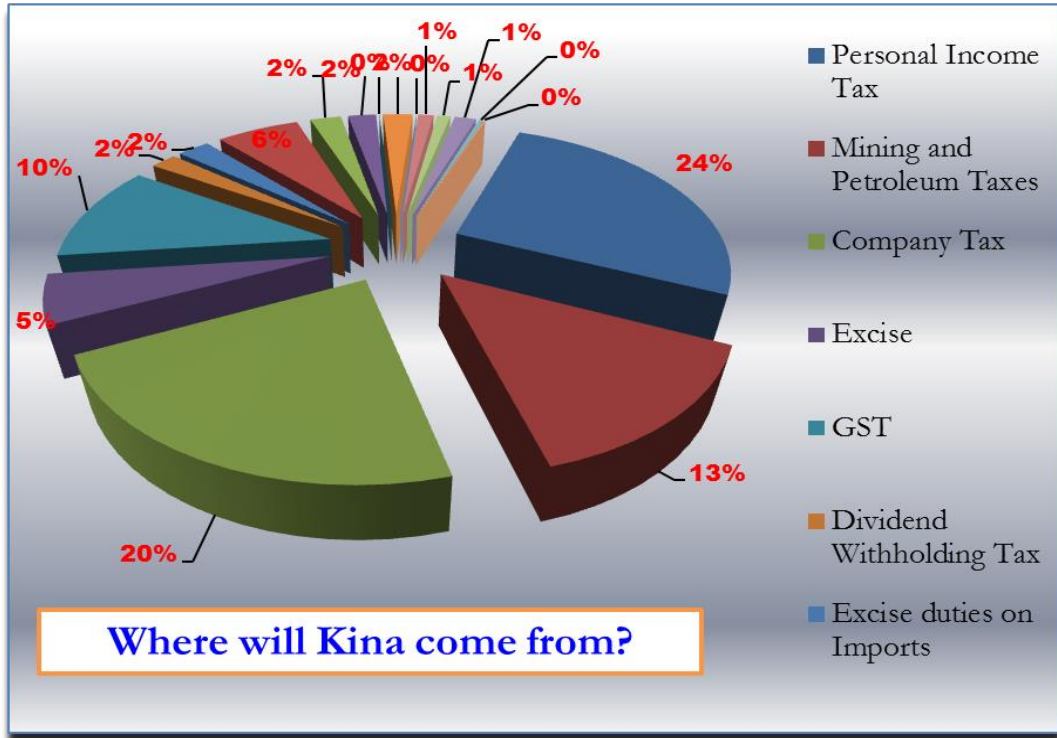
- The Treasurer Hon. Patrick Pruaitch handed over the **2015 Budget** on behalf of O'Neill-Dion Government at the Parliament on 18 November 2014 at 2 PM.
- Theme of this year budget is “**Building our Nation and Providing Opportunities for our People**”.
- **Third annual budget** of the new Medium Term Fiscal Strategy (MTFS) 2013-2017 and part of PNG Development Strategy Plan (DSP) 2010-2030. The budget draws supports from Papua New Guinea Fiscal Responsibility Act 2006 (FRA, Medium Term Fiscal Strategy 2013-2017 Budget Strategy Paper and Medium Term Debt Strategy.
- **Biggest ever budget** presented at **K16.2 billion**, more than 7.3% higher than 2014 revised estimated budget of K15.1 Billion.
- Total revenue and grants are estimated at **K13.9 billion in 2015** with a **slight increase of K1.2 billion** or 9% from 2014 revised estimates of K12.7 billion
- Tax revenue is estimated at **K11.2 billion** more than 15% and Non-Revenue revenues are estimated at **K1.1 billion** dropping more than 10%, from 2014 revised estimates.
- **Deficit budget** of **K2.3 billion** with deficit approximately amounts to 4.4% of GDP.
- **More than 50%** budget allocation for **Key Priority Areas** of Education, Infrastructure, Health, Law & Order and Economic & Agriculture, from last budget.
- High economic growth of **15.5%** expected in 2015 with full gas production.
- The **inflation** level expected to ease to 5.9% in 2014 and **5.5%** in 2015.
- **Public Sector Program Efficiency Review** introduced
- The **Current account balance** projected to move to large surplus of **K7.1 billion** or **14%** of GDP
- Sovereign Wealth Fund will be integrated into budget and fiscal policy framework
- With a comprehensive tax review still in progress the budget has deferred introducing any major tax reforms. However in line with the government's effort to increase tax compliance a **number of taxation policy measures** are introduced.

Budget Highlights

Key Economic Assumptions	2010 Actual	2011 Estimate	2011 Actual	2012 Actual	2013 Actual	2014 Estimate	2015
Economic Growth							
GDP Growth	7.6	8.9	11.1	8.0	5.0	8.4	15.5
Non-Mining GDP	8.5	10.8	13.2	9.1	4.9	1.4	4.0
Exchange Rate							
Real Exchange rate Index (2007=100)			155.0	175.2	164.1	155.1	157.3
Inflation							
Year average (%)	6.0	8.7	8.5	2.2	5.0	5.9	5.5
Dec on Dec (%)	7.2	7.7	6.9	1.6	2.9	8.3	4.4
Interest Rates							
Interest Rate (Treasury Bills)	5.5	4.5	7.8	6.8	6.3	6.3	6.3
Inscribed Stocks(3 year Yield)	8.1	5.6	9.0	5.0	5.0	5.0	8.0
Commodity Prices							
Oil (USD/Barrel)	79.0	90.0	104.0	105.0	104.0	95.5	89.7
Copper (USD/Tonne)	7,538.0	8,800.0	8,823.0	7,959.0	7,331.0	6,904.0	6,947.0
Gold (USD/Ounce)	1,225.0	1,566.0	1,569.0	1,668.0	1,411.0	1,273.0	1,277.0
Nickel (USD/Tonne)				17,542.0	15,030.0	17,255.0	18,000.0
Cobalt (USD/Tonne)				28,761.0	24,600.0	32,623.0	30,000.0
LNG (US\$ per thousand cubic feet)				12.2	12.3	12.3	12.5
Condensate(US\$/barrel)				105.0	100.0	85.0	87.0

Budget	2012 Budget	2012 Revised	2013 Budget	2013 Revised	2014 Budget	2014 Revised	2015 Budget
Total Revenue and Grants	10,560.3	10,157.7	10,481.9	10,481.6	12,688.5	12,674.8	13,927.3
Total Expenditure and Net Lending	10,560.3	10,560.3	13,030.8	13,218.7	15,041.5	15,103.8	16,199.1
(Deficit)/ Surplus	-	(402.6)	(2,548.9)	(2,737.1)	(2,353.0)	(2,429.0)	(2,271.8)
Revenue and Grants							
Taxation revenue	8,519.7	8,165.3	8,631.2	8,605.7	9,743.5	9,762.8	11,257.8
Non-taxation revenue	520.1	471.9	509.5	534.8	1,260.0	1,195.5	1,065.6
Grants	1,520.5	1,390.5	1,211.2	1,211.2	1,555.0	1,555.0	1,396.1
Infrastructure Tax Credits	-	130.0	130.0	130.0	130.0	161.6	207.8





Direct Taxation measures¹

Tax rates and Thresholds

- No change in corporate or personal tax rates

Director's Penalty and remission rules to retrospectively apply from 1 January 2011

- Director's liability to pay salary or wages tax under section 299AD amended to apply to persons who became directors of company after the due date of payment.
- New section 299AI included to restrict Director Penalty Remission rules S.299AG to companies, who also comply with reporting obligations apart from payment obligation.

Thin capitalization rules for non-resources companies to retrospectively apply from 1 January 2013

- A new Subsection 68AF introduced and the definition of "debt" and "equity" included.
- To avoid unintended consequence of application the general definition of debt, equity and interest is repealed.

2015 Pacific Games Sponsorship and Gifts Will apply from 1 January 2015

- Existing section 69K repealed and replaced with new section to -
 - inserts word sponsorship and clarifies that it relates to PNG 2015 Pacific Games Limited
 - clarifies that PNG Sports Federation and Olympic Committee Inc. refers to PNG Olympic Committee Inc.
 - clarifies role of Commissioner for valuing sponsorships in consultation with PNG 2015 Pacific Games Limited.

¹ Income Tax (2015 Budget)(Amendment) Bill, 2014 and Stamp Duties (2015 Budget) (Amendment) Bill 2014

Prescribed Royalty Payments / Rate of Eligible payment Will apply from 1 January 2015

- A new Division 6C is introduced to administer the collection of Prescribed Royalty Withholding tax, and provides that it is a final tax in the hands of the landowners.
- Amendment to s139 to refer to Prescribed Royalty Withholding tax under Division 6C.
- Removal of references to Prescribed Royalty Withholding tax under section 276.
- Repealing section 280(9) and inserting new clause specifying the “required amount” under subsection (1), to be 10% of the gross amount of the payment.

Penalty for failure to furnish return / refusal to furnish evidence Will apply from 1 January 2015

- Penalty separately prescribed for individual and company.
- For individual -Increased from current K500 minimum to K5000 maximum plus K50 per day of default, to K1000 minimum to K10000 maximum, or a term of imprisonment not exceeding 12 months, plus K50 per day of default.
- For Company -Increased from current K500 minimum to K5000 maximum plus K50 per day of default, to K5000 minimum to K50000 maximum, or a term of imprisonment not exceeding 12 months for public officer, plus K50 per day of default.

Minor amendments

- In relation to taxation certificates, the definition of “Central Bank” and “bank” is clarified, and reference to Central banking Act is corrected. **To retrospectively apply from 20 April 2000.**
- In relation Approved Redundancy payment dealt under S46CA, an incorrect reference to “Subsection” is replaced with “Section”. **To retrospectively apply from 1 January 2012.**
- Secrecy provisions amended to enable Commissioner General to provide tax information to Department of Treasury and National Statistics office however restricted to only specific information for class of taxpayers, and tax incentives to particular project or entities. **Will apply from 1 January 2015.**

Stamp Duties Amendment- Compulsory TIN number for stamping of lease agreement

- Taxpayers requesting stamping of lease agreement are compulsory required to provide Taxpayer Identification Number failing which lease document shall not be stamped. **Will apply from 1 January 2015.**

Indirect Taxation measures²

Amendment to Customs Tariff will apply from 1 January 2015

- Introduction of a new tariff items **0207.14.90/0207.27.90** for **other meat and edible offal**, that do not fall in the mechanically deboned meat (MDM) description. The import duty rate proposed is **K1.8 per kilogram** and consistent with other items.
- Introduction of new tariff items for catering for including misclassified cigarettes as below

2402.20.40	Cigarettes of tobacco or tobacco substitutes with filter containing tobacco other than dark fired tobacco	K65 per 1000 sticks
2402.20.50	Cigarettes of tobacco and or tobacco substitutes without filter containing tobacco other than dark fired tobacco (spear or equivalent)	K65 per 1000 sticks

Amendment to Excise Tariff will apply from 1 December 2014

- Basis of measurement of excise tariff on tobacco products changed. An adjustment will be effected every six months by multiplying the duty rate then applicable by a fixed percentage amount of 5%, and adding the resultant figure to existing duty rate, to arrive at new duty rate
- The bill introduces two new tariff items **2402.20.40** and **2402.20.50** to cater for misclassified cigarettes (refer under Customs section)

Director's Liability for Collection of Goods and Service Tax (GST)

- Existing penalty provisions under Part XIV moved to Division 1 and a new Division 2 created for including Director's liability for Collection of GST.
- Salient features of the provisions are –

² Goods and Services Tax (2015 Budget)(Amendment) Bill 2014 / Customs Tariff (2015 Budget)(Amendment) Bill 2014 /Excise Tariff (2015 Budget)(Amendment) Bill 2014

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- Directors jointly and severally liable for the company unpaid GST. Applies to persons who are directors of company on or after due date of payment
 - Unpaid GST includes any interest or additional tax or penalty payable
 - Directors are able to enter into an agreement in writing, to pay the tax outstanding within specified timeframe.
 - Remission is allowed only on reasonable grounds such as illness or reasons beyond control.

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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