



2018 Budget Commentary



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Executive Summary

- The Deputy Prime Minister and Minister for Treasury, Hon. Charles Abel handed over the **2018 Budget** on behalf of O’Neill-Abel Government at the Parliament this afternoon. Theme of this year budget is “**Review our Priorities, Refocus our Energies and Reinforce our Strengths**”.
- The budget is guided by the long term visions to, rank among top 50 nations in terms of Human Development Index by 2050 (**Vision 2050**), be a middle income earning economy by 2030 (**PNG DSP 2010-2030**), be a world leader in responsible, sustainable developments (**StaRS**), implement development aspirations as envisaged in **Alotau Accord 2** and **Medium Term Development Plan 2018-2022**.
- This is the **first annual budget** presented by this government and follows on the **25 day 100 point plan** presented in the supplementary budget recently tabled in parliament.
- The aim of the budget is **maintain fiscal discipline, grow revenues, strengthen economic base, improve governance** and **act strategically**.
- **Budget** presented at **K14.7 billion**, as compared to 2017 supplementary budget estimate of K12.8 billion.
- Total revenue and grants are estimated at **K12.73 billion in 2018** with increase of **K1.75 billion** from 2017 supplementary budget estimates of K10.98 billion
- Tax revenue is estimated at **K9.6 billion** more than K770 million and Non-tax revenues are estimated at **K2 billion** more than K925 million, from 2017 supplementary budget.
- **Deficit budget** of **K1.98 billion** with deficit approximately amounting to 2.5% of GDP.
- **More than 66%** budget allocation for **Key Priority Areas** of Education, Infrastructure, Health, Law & Order and Economic & Agriculture.
- The **inflation** level expected at 6.9% in 2018.
- Various tax measures introduced to facilitate increased revenue collection, simplify rules, provide transparency, obtain participation from taxpayers etc.



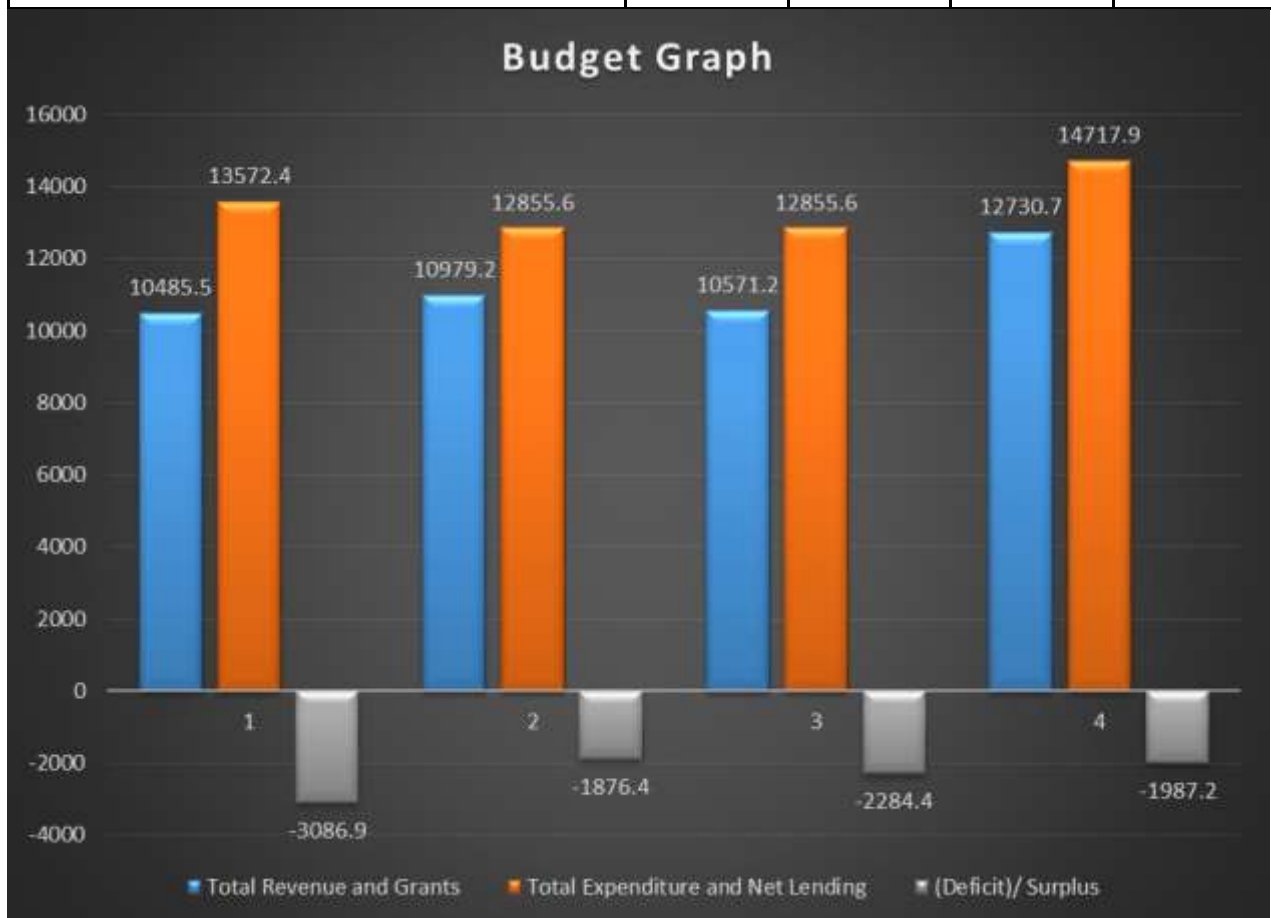
Budget Highlights

	2016 Actual	2017 Est	2018 Proj	2019 Proj	2020 Proj	2021 Proj	2022 Proj
Economic Growth							
GDP Growth	2.0	2.2	2.4	2.2	2.0	2.5	2.8
Non-Mining GDP	0.7	1.9	3.5	3.5	3.6	3.3	3.3
Inflation							
Year average (%)	6.7	5.9	6.9	5.8	5.7	5.7	5.7
Dec on Dec (%)	6.6	5.9	6.9	5.1	5.7	5.7	5.7
Interest Rates							
Kina Rate Facility (KFR)	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Treasury bills(182 day Yield)	4.5	4.5	5.0	5.0	5.0	4.5	4.0
Inscribed Stocks(3 year Yield)	9.7	9.7	9.7	9.7	9.7	9.7	9.7
Mineral Prices							
Oil (USD/Barrel)	44.0	50.0	51.0	52.0	54.0	55.0	57.0
Copper (USD/Tonne)	4,865	5,945	5,960	6,059	6,183	6,272	6,357
Gold (USD/Ounce)	1,248	1,254	1,281	1,293	1,310	1,320	1,346
Nickel (USD/Tonne)	9,595	10,010	10,516	11,065	11,819	12,575	13,757
Cobalt (USD/Tonne)	25,639	52,194	50,014	44,238	41,813	40,834	34,728
LNG (US\$ per thousand cubic feet)	8	8	8	8	9	9	9
Condensate(US\$/barrel)	44	50	51	52	54	55	57
Agriculture Prices							
Coffee (USD/Tonne)	3,627.0	3,454.0	3,488.0	3,652.0	3,796.0	3,796.0	3,796.0
Palm Oil (USD/Tonne)	640	630	612	614	614	614	614
Cocoa (USD/Tonne)	2,892	2,025	1,945	2,020	2,020	2,020	2,020
Copra (USD/Tonne)	1,459	1,680	1,705	1,731	1,731	1,731	1,731



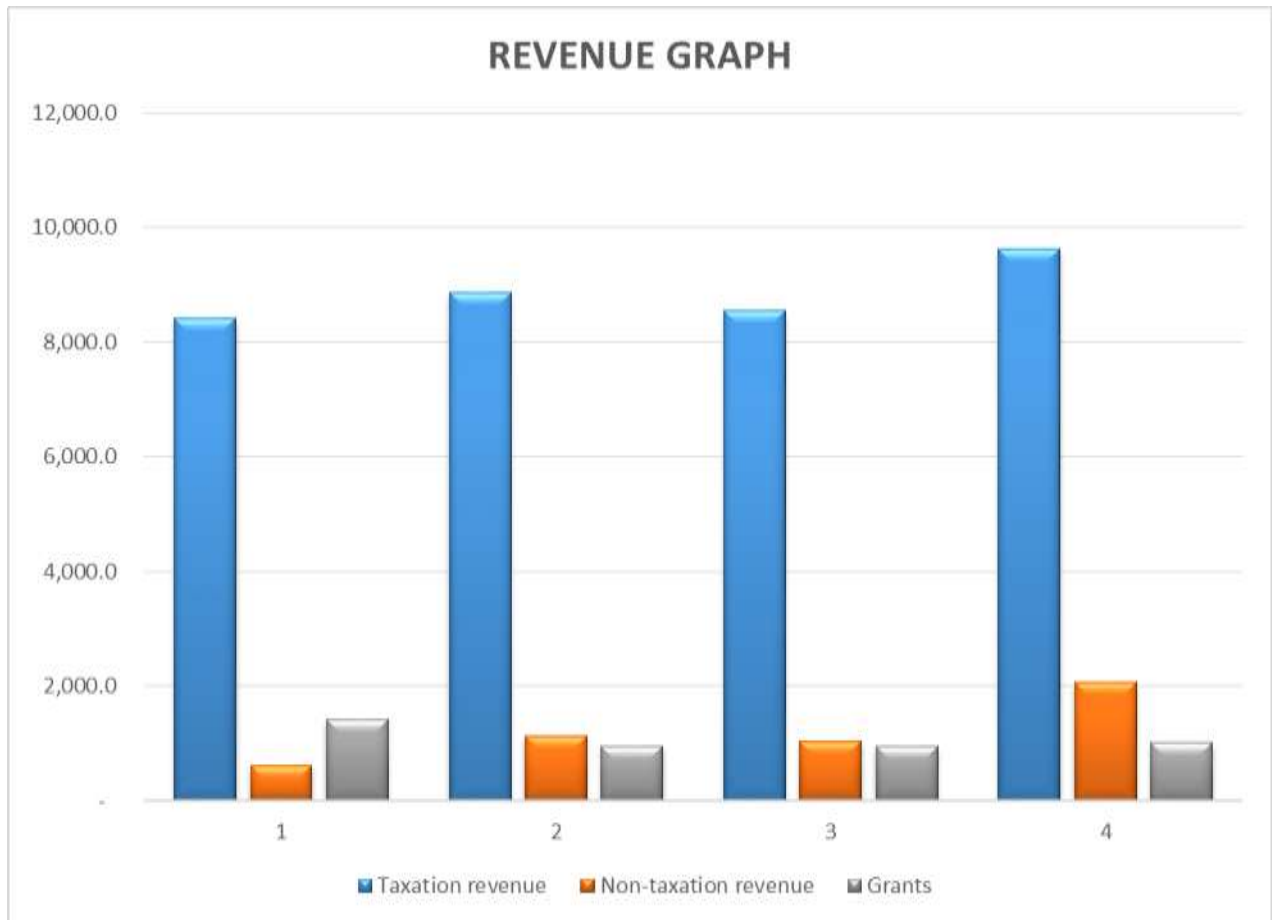
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Budget	2016 Actual	2017 Supp. Budget	2017 Revised	2018 Budget
Total Revenue and Grants	10485.5	10979.2	10571.2	12730.7
Total Expenditure and Net Lending	13572.4	12855.6	12855.6	14717.9
(Deficit)/ Surplus	(3086.9)	(1876.4)	(2284.4)	(1987.2)
Revenue and Grants				
Taxation revenue	8421.6	8869.3	8547.6	9639.4
Non-taxation revenue	633.9	1141.8	1055.5	2066.7
Grants	1430.1	968.1	968.1	1024.6
Infrastructure Tax Credits	0	0	0	0



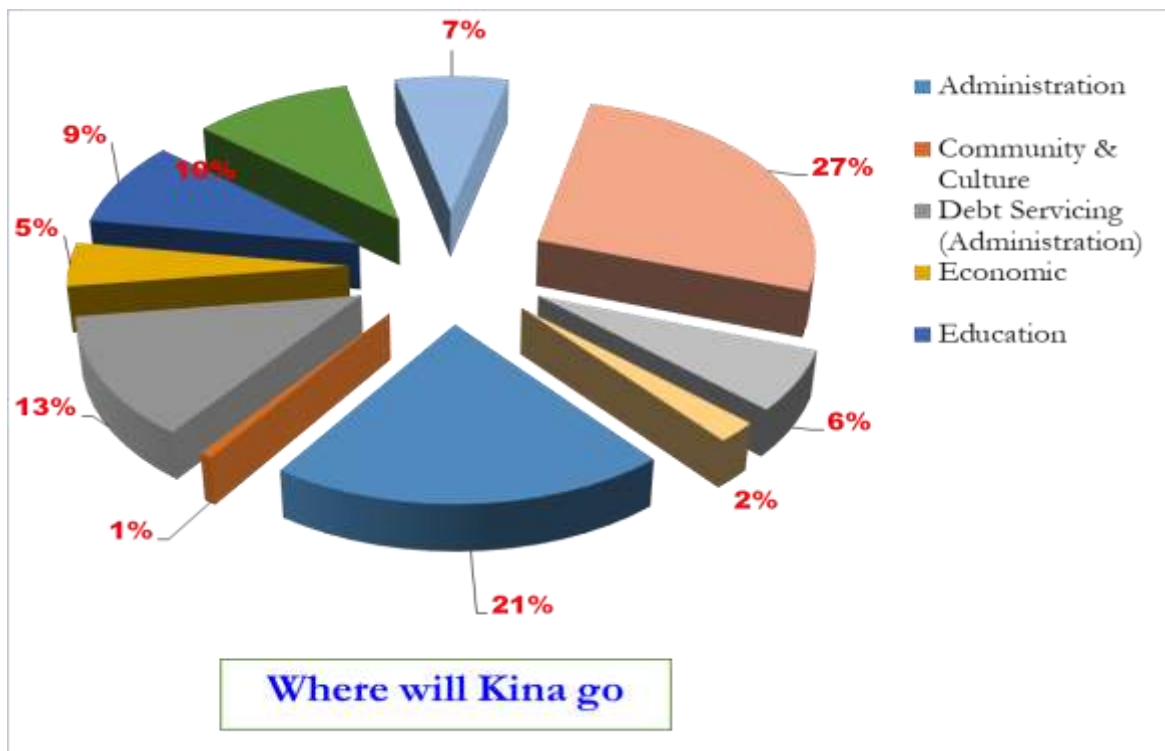


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Medium Term Fiscal Strategy (MTFS) 2018-2022

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.

In summary key fiscal basis against which the MTFS will be monitored are

Revenue	Expenditure	Deficit and Debt
<ul style="list-style-type: none">• Grow revenue base (excl grants) to 14% of GDP by 2022• Achieve zero average annual non resource primary balance	<ul style="list-style-type: none">• Reduce total expenditure over GDP to 16% by 2022• Allocate 2/3 of expenditure budget(excl debt service) to key enablers• Reduce personnel cost to under 35% of total non-resource non grant revenue in 2022• Expenditure from SWT shall be made from National Budget and shall not exceed 5 years long term moving average of mineral-petroleum receipts /non mineral-non petroleum receipt	<ul style="list-style-type: none">• Achieve zero-average annual non resource primary balance over the medium term (to 2025)• Achieve Fiscal deficit (Debt to GDP ceiling) to range below 30% by 2022



100 Day, 25 Point Plan

Point 1/2	Maintain fiscal deficit at 2.5% and debt to GDP at 30%
Point 3	Curtail unsustainable growth in government personnel emoluments
Point 4	Reduction in certain Service Improvement Program (SIPs) in 2017
Point 5	Drawdown balance Credit Suisse loans and access World Bank/ADB budget support funding
Point 6	Oil Search to supply 50% of Napanapa refinery needs in kina terms, POM Gas 58MW electricity project, Rice local production with private partnership, Central Bank intervention to improve reserves
Point 7	Non tax revenue agencies to remit 90% of revenue to Consolidated Revenue Fund(CRF)
Point 8/ 10	New Medium Term Revenue Strategy includes New Tax Administration Bill
Point 9	Establishment of Task Force for IRC, Lands and Customs & Illicit Trade,
Point 11	Progress of significant resource projects such as Wafi Golpu, PNG LNG expansion, Papua LNG, Western LNG etc
Point 12	Launch of Australia DFAT grant funded projects
Point 13	Progress on power projects such as 58 MW POM Gas projects, 30MW PNG Biomass Project, Ramu2 180 MW Project, Naoro Brown River Hydro Project, Hela Gas Power Solution etc
Point 14	High impact projects such as International Submarine Cable, Pacific Marine Industrial Project and Sepik Plains Agriculture Projects
Point 15	Commencement of US\$1 billion Highlands Highway Project
Point 16	Gerehu 3B Affordable Housing Project
Point 17	Enga Provincial Hospital / Mount Hagen Hospital PPP redevelopment
Point 18	Ceasing of Closed Tender Financing and introduction of National Procurement Authority Bill
Point 19	Audited accounts of State Owner Enterprises and Statutory Authorities by mid 2018
Point 20	Appointment of all prescribed boards
Point 21	Freeing Landowner resource landowner benefits from PNG LNG and OK TEDI
Point 22	Suspension of proposed amendments to Lands Act, IPA Act, Agriculture Investment Act, Agriculture Administration Adjustment Act, Mineral Resources Authority and Mining Act.
Point 23	National Energy Authority Bill currently being finalised
Point 24	Population Policy
Point 25	MTDP3 to be published in 2018



Direct Taxation measures

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

Tax rates and Thresholds¹ to apply from 1 January 2019

- No change in tax rates
- Long service leave (LSL) payments will be taxed at concessional rates based on the number of years of services. This is consistent with the superannuation tax rules-
 - Less than 5 years - Marginal rate prescribed
 - 5 years to less than 9 years - Lesser of, 15% or marginal rate prescribed
 - 9 years to less than 15 years - Lesser of, 8% of marginal rate prescribed
- Makes necessary amendments in Section 46B to allow for concessional taxation of LSL

Electronic mode of lodgement of returns, notices, other documents² to apply from 1 January 2017

- Introduces discretionary power to Commissioner to decide and allow taxpayer, to electronically lodge tax returns, apply TIN, pay tax or other document and for IRC to pay a refund of tax, serve document, etc, using a computer or mobile device,
- Enables Commissioner to charge manually processing fee where a taxpayer opting electronic means switches back to non-electronic means, without seeking prior approval.

Tax Payer Identification Number (TIN) changes to apply from 1 January 2017

- Makes TIN mandatory registration for all persons carrying a taxable activity to apply for TIN within 21 days of commencement of activity. Non-residents, only liable to withholding taxes, are excluded.
- Voluntary registration is allowed in certain cases.
- Provides discretionary powers to Commissioner to issue TIN to person who fails to apply.
- TIN to be one stop shop tax registration and will be used to register other tax types.
- Taxpayer is required to notify changes to particulars, address, activity, bank details etc within 28 days of such change occurring.

¹ Income Tax, (Salary or Wages Tax) (Rates)(2018 Budget) (Amendment) Bill 2017

² Income Tax (2018 Budget) (Amendment) Bill 2017



- Compulsory quoting of TIN in all IRC correspondences, to withholding tax agent, to financial institution and regulatory bodies.
- TIN only allowed to be used by taxpayer, authorised tax agent or representative.
- Clarifies procedures for cancellation of TIN
- Introduces following penalties in relation to a taxpayer who commits following offences-
 - K100 for each month or part of month for failure to apply /cancel TIN, when required
 - K500 for failure to notify change of circumstances or fails to quote TIN where required,
 - K1000 where he uses TIN of other without approval or allows such usage.

Preservation notice to apply from 1 January 2018

- Allows Commissioner on existence of reasonable cause, to issue a preservation notice on a financial institution, for a period not exceeding 14 days to block accounts of taxpayer, freeze access to cash, valuables, precious metals held in a safe deposit and provide information relation to taxpayer accounts or contents of safe deposit locker.

Discontinuation of Double Deduction for Staff Training / Training levy To apply from 1 January 2018

- Double deduction allowed for prescribed staff training to end on 31 December 2017
- Training levy shall cease to apply from 1 January 2018.

Royalty and Development levy no longer tax creditable to apply from 1 January 2018

- Royalty and development levy payable by petroleum or designated gas project, for a year of income is allowable deduction. For periods prior to 1 January 2018, such levies will be tax creditable and allowed to carry forward to future years, until fully utilised.

Foreign Contractor clarifications To apply from 1 January 2018

- Income subject to Foreign Contractors Withholding tax (FCWT) not an assessable income and no deduction allowed for expenditure incurred, directly or indirectly, to earn such prescribed income.

Non-resident insurer To apply from 1 January 2018

- Amendment to specifically include prescribed tax, to apply at time of payment in special circumstances, using resident rates for Lloyd's underwriters as per the Insurance Act.

APEC Haus Project – tax incentives To apply from 1 January 2018

- Amendment to include APEC Haus Project under definition prescribed infrastructure developments and deeming expenditure incurred on such project, by a taxpayer or related corporation to be income tax paid in respect if taxpayer's liability assessed for year of tax relating to that year of income, however limited to 1.25% of assessable income and in any case, not exceeding K170 million.



Amendment to Review or Appeal process To apply from 1 January 2018 except otherwise provided

- Payment of tax (include additional tax) due and payable on assessment, being the subject matter for review or appeal, is a pre-cursor to making an application for review or appeal. Else the appeal will be treated as invalid.
- In case of appeals filed prior to 1 January 2017, where tribunal or National Court review has not commenced substantive review or hearing, the taxpayer may be asked to pay the tax before proceeding.

Shareholder and related entities made liable to tax To apply from 1 January 2018

- Commissioner allowed to recover unpaid tax and penalty due in relation to a taxpayer from his Shareholders or its related entities.
- Related entities in relation to shareholder, which is not a natural person, includes any person, body corporate or other body or association, whether corporate or incorporated, if
 - It controls composition of the board or equivalent governing body
 - It is in a position to exercise of control of more than 50% of voting rights
 - Controls more than 50% shareholding
 - Holds at least 5% of the shareholding
 - Entitled to at least 5% dividends
- Shareholders are jointly and severally liable to pay their portion of tax within 30 days of, so becoming liable. Commissioner may sue them and take them to court.
- Related entities are jointly are severally liable when neither taxpayer of shareholder has paid the tax demanded. Commissioner may sue them and take them to court.

Tax clearance certificate limit increased

- Threshold exemption limit for tax clearance increased from K200, 000 to K500,000.

Minor technical amendments/clarifications To apply from 1 January 2018 except otherwise provided

- The definition of “primary production” is amended to clarify that it does include, forestry, logging or timber operations.
- Under exclusion category of secrecy provisions, two new information recipient are included- Extractive Industries Transparency Initiative Secretariat and Financial Analysis and Supervision Unit
- To enables the Commissioner to use powers available under the Act to meet PNG’s obligation under a Mutual Administrative Assistance Agreements indicates that *tax* includes foreign tax, *unpaid tax* includes foreign tax remaining unpaid by due date and *taxpayer* to include person liable to foreign tax.



- Shifts power from Minister to Commissioner, to declare a trust to be a landowner resources trust by way of gazette notice.
- Taxpayer are encouraged to pay tax at the time of lodgement of return or before expiry of 30 days of assessment notice.
- Additional tax introduces for incorrect claim of deductions, carry forward loss and exemption.
- Include Bribery as an offence and allows imprisonments for up to 5 years.
- Other minor amendments to remove incorrect references and include clarifications.

2017 Budget corrections

- Superfunds made exempt from DWT
- Ensuring dividends distributed by companies are taxed once
- Resource projects transitional provisions
- Clarifies that taxation treatment of LNG Project Company as well as any other resource company, subject to a fiscal stability agreement, will continue to apply.
- Other drafting errors

Tax administration Bill

- Introduction of new Tax Administration Bill to ensure upgradation, simplification and modernisation of tax system. This includes standardisation of process, consistent application of administrative rules, and certainty of taxpayer's rights and outcomes.
- Cover entire administration process right from registrations, recordkeeping, returns, assessments, payments and collection objections and appeals, tax clearance, communication, e-filing etc.



Indirect Taxation measures

GST amendments

- Definition of “resource company” updated to ensure no misuse by non-operator of resource licences.
- Repeals GST zero rated status for certain education institutions

Amendment to Customs Tariff

- Suspends last phase of Tariff Reduction Program
- Increases tariff on imported petroleum and other items to protect local manufacturers.
- Increases customs tariff rate for petrol and diesel to 10 toea per litre.
- Capture resource rent on unprocessed old-growth logs by applying progressive duty rate as opposed to fixed rate.

Amendment to Excise Tariff

- Proposes to increase diesel excise from 10 toea to 23 toea in 2018 to align with petrol excise.



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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