



2019 Budget Commentary



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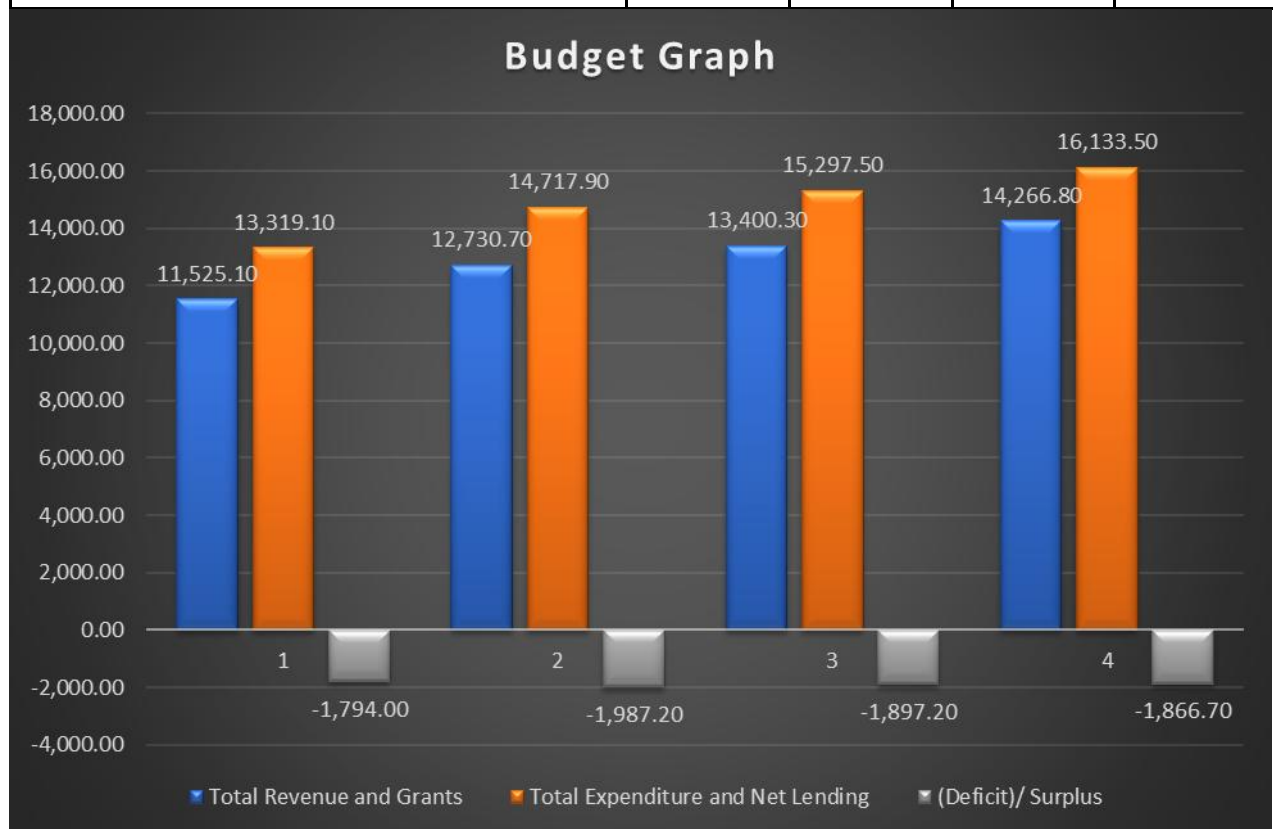
Executive Summary

- The Deputy Prime Minister and Minister for Treasury, Hon. Charles Abel handed over the **2019 Budget** on behalf of O'Neill-Abel Government, at the Parliament, this afternoon. Theme of this year budget is “**Building a Broader Based Economy**”.
- This is the **second annual budget** presented by this government and builds on the **25 day 100 point plan** presented before, last budget session. The government claims to have increased revenue, improved fiscal discipline and enhanced governance.
- The budget continues to be 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**.
- The ten pillars on which the 2019 budget is based include smaller efficient government, renewed focus on revenue, empowered private sector, simpler and fair fiscal regime, sustainable population growth, self reliant sustainable industries, encourage import replacement, job creation and SME development, Sovereign Wealth Fund creation and good governance
- **Budget** presented at **K16.13 billion**, as compared to 2018 revised budget estimate of K15.29 billion.
- Total revenue and grants are estimated at **K14.27 billion in 2019** with increase of **K0.87 billion** from 2018 revised budget estimate of K13.4 billion
- Tax revenue is estimated at **K10.78 billion** more than K828 million and Non-tax revenues are estimated at **K2.5 billion** more than K120 million, from 2018 revised budget.
- **Deficit budget** of **K1.87 billion** with deficit approximately amounting to 2.1% of GDP.
- **More than 50%** budget allocation for **Key Priority Areas** of Education, Infrastructure, Health, Law & Order and Economic & Agriculture.
- The **inflation** level expected at 5.4% in 2019.
- Various tax measures introduced to facilitate increased revenue collection, simplify rules, provide transparency, obtain participation from taxpayers etc.



Budget Highlights

Budget	2017 Actual	2018 Budget	2018 Revised	2019 Budget
Total Revenue and Grants	11,525.1	12,730.7	13,400.3	14,266.8
Total Expenditure and Net Lending	13,319.1	14,717.9	15,297.5	16,133.5
(Deficit)/ Surplus	(1,794.0)	(1,987.2)	(1,897.2)	(1,866.7)
Revenue and Grants				
Taxation revenue	9,141.4	9,639.4	9,956.5	10,784.5
Non-taxation revenue	1,439.9	2,066.7	2,419.2	2,539.2
Grants	943.8	1024.6	1024.6	943.1





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Key Economic Indicators

	2015 Actual	2016 Actual*	2017 Actual*	2018 Proj	2019 Proj	2020 Proj	2021 Proj	2022 Proj	2023 Proj
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Economic Growth

GDP Growth	10.5	2.0	3.0	0.3	4.0	3.2	4.5	6.2	6.3
Non-Mining GDP	0.7	0.7	0.2	3.1	3.1	5.4	4.9	9.7	8.9

Exchange Rate

Real Exchange rate Index (2007=100)	141.0	131.0	132.9	133.1	135.7	139.9	143.8	147.0	150.1
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Inflation

Year average (%)	6.0	6.7	5.4	5.6	5.4	5.5	5.0	4.5	4.3
Dec on Dec (%)	6.4	6.6	4.7	7.6	3.4	6.3	3.4	4.6	4.5

Interest Rates

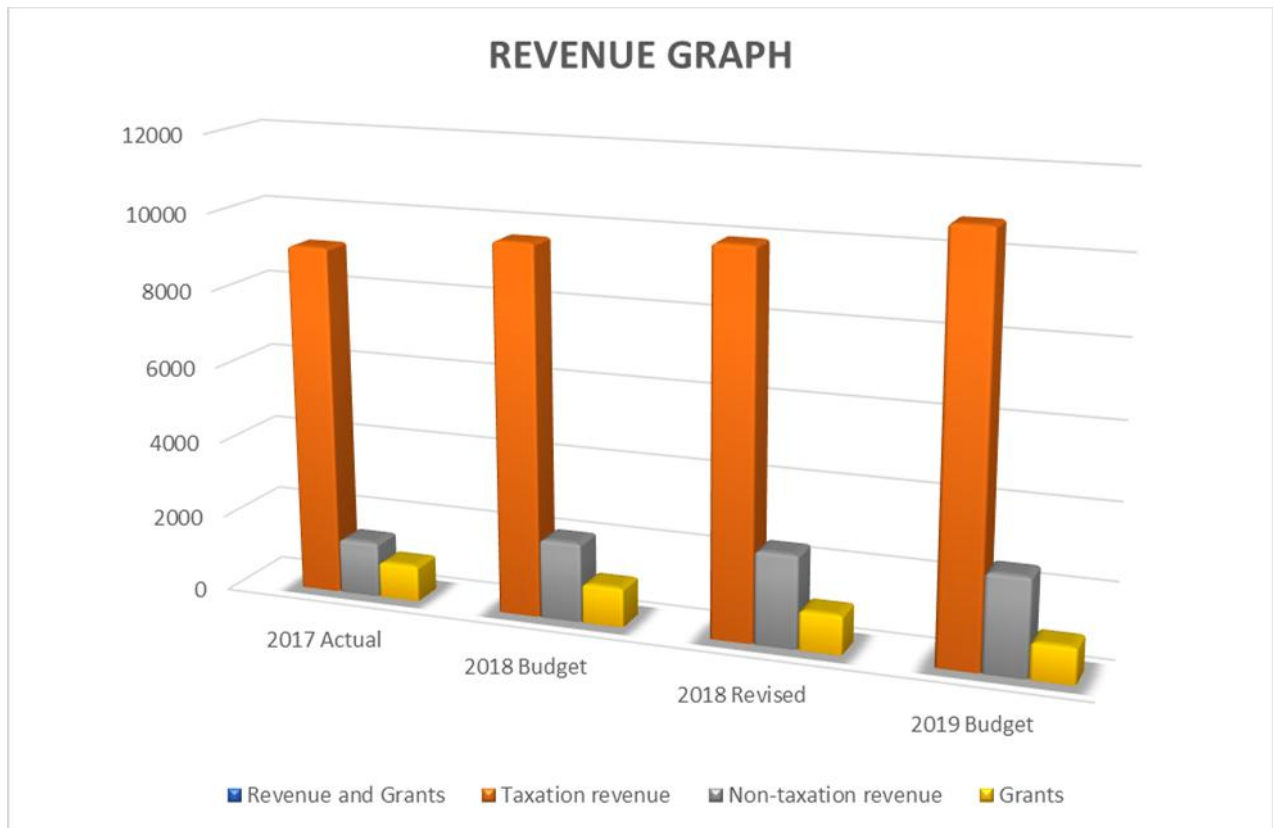
Kina Rate Facility (KFR)	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Inscribed Stock (3yr Yield)	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7

Mineral Prices

Oil (USD/Barrel)	49	44	51	68	68	65	64	60	59
Copper (USD/Tonne)	5,502	4,865	6,166	6,476	6,200	6,270	6,220	6,318	6,318
Gold (USD/Ounce)	1,160	1,248	1,258	1,261	1,218	1,255	1,257	1,343	1,382
Nickel (USD/Tonne)	11,831	9,595	10,415	11,190	9,556	10,648	10,648	12,231	13,278
Cobalt (USD/Tonne)	29,255	25,639	55,988	75,256	45,682	40,955	40,955	44,901	32,739
LNG (US\$ per '000 cubic feet)	8	8	9	10	10	10	10	10	10
Condensate (US\$/barrel)	49	44	51	68	68	65	64	60	59

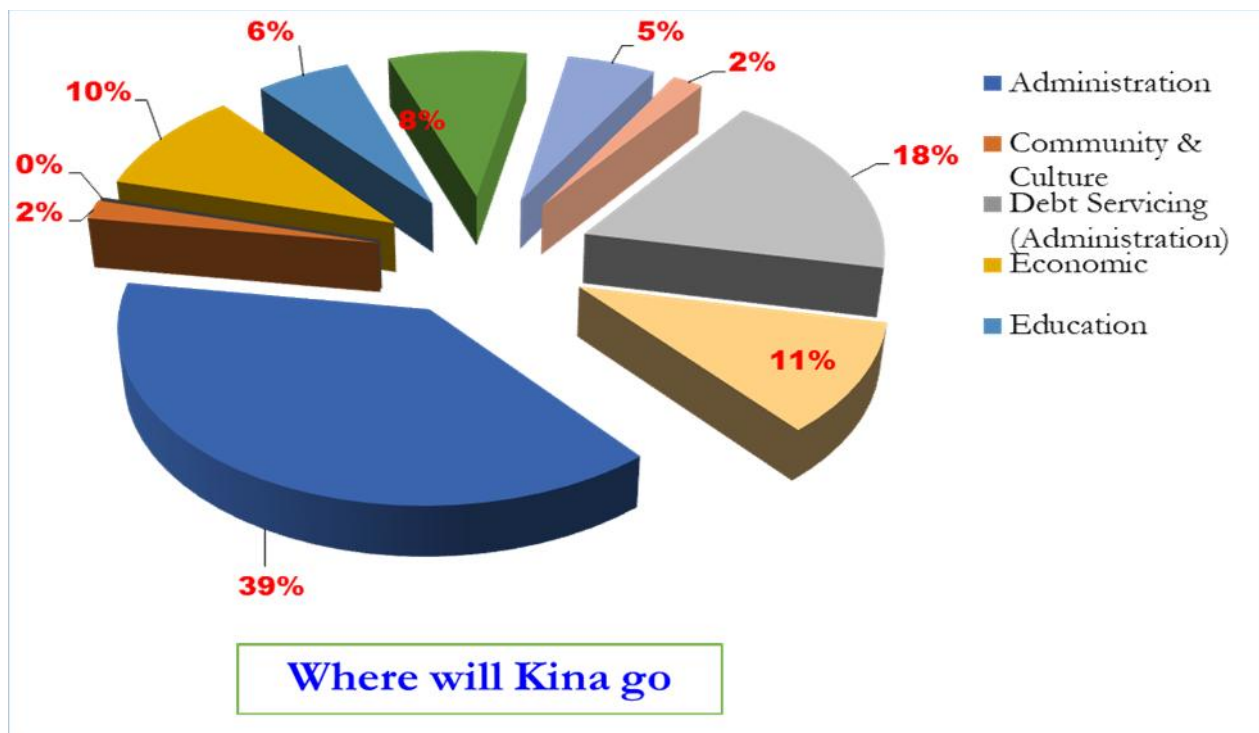
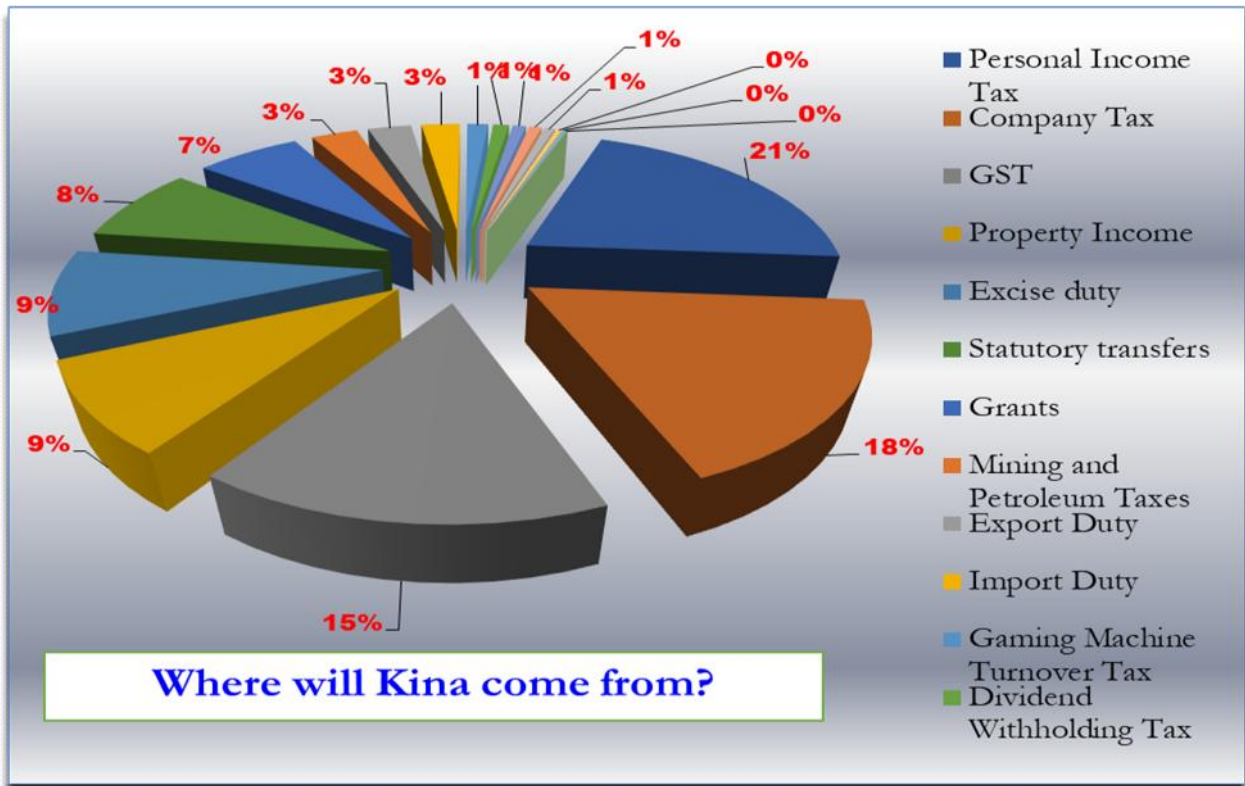
Agriculture Prices

Coffee	9,220	9,358	10,714	9,841	10,409	11,584	12,377	12,377	12,377
Palm Oil	1,720	1,877	2,155	1,951	1,987	1,987	1,987	1,987	1,987
Cocoa	8,260	9,358	6,470	7,546	7,235	7,349	7,349	7,349	7,349
Copra	1,339	1,848	2,999	2,302	2,341	2,354	2,358	2,358	2,358
Rubber	3,534	3,333	4,655	4,517	4,663	4,621	4,598	4,598	4,598
Tea	3,939	4,222	4,727	4,872	4,994	5,019	5,039	5,039	5,039
Copra Oil	2,690	3,358	4,519	3,598	3,643	3,643	3,643	3,643	3,643
Logs (K/m3)	269	294	302	312	314	313	313	313	313





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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.

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 measures 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) Government will pursue a comprehensive national reform agenda to support greater private sector participation at the micro level aimed at creating an enabling and conducive environment for private sector growth. Following measures are announced in this relation-
 - a. The foreign exchange imbalance will be arrested through debt management programs
 - b. Government arrears to private sector will be cleared from budgetary allocations
 - c. Substantial adjustment to tariffs and excises to assist domestic manufacturing against cheaper imports
 - d. Domestic debt retirement programs
 - e. Improvement in performance of State-owned enterprise sectors
 - f. Large number of mining and petroleum projects to kick off in 2019
 - g. APEC positive infrastructure announcements expected
- 2) Measures to be taken to improve State's commercial investments by restructuring and monitoring the State-Owned Enterprises, managing the mining and petroleum assets, broader reforms to improve agricultural and non-resource sectors,



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 1 January 2019

- In a move to lower burden on low- and middle-income earners, budget has proposed an increase in the tax-free threshold to K12,500 from K10,000 and increase in second threshold, from K18,000 to K20,000
- We have worked below, the savings above changes are expected to bring-

<i>Annual salary</i>	<i>Annual savings-Resident</i>	<i>Annual savings – Non-residents</i>
<K10,000	Nil	Nil
Between K10,001 to K12,500	22% of amount above K10,000	Nil
Between K12,501 to K18,000	K550	Nil
Between K18,001 to K20,000	K550+22% of amount above K18000	8% of amount above K18000
K20,001 and above	K710	K160

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Educational rebate no longer available effective 1 January 2019

- Education rebate will be repealed, in order to simplify administration. So, 2018 will be last year, to claim same. However, companies can continue to claim deduction for certain education expenses on behalf of employees and their dependents.

Loss carry forward rules amended effective 1 January 2019

- New loss carries forward rules, revises maximum period a business can carry forward losses, to
 - 20 years for Resource and Primary production companies
 - 7 years for all other taxpayers, in line with record keeping requirements.
- There are no transitional rules introduced, so it is not clear, as to what happens to a company, which has losses carried forward for period, prior to 7 years.



Non-resident insurer effective 1 January 2019

- Non- resident insurers will be able to lodge monthly returns, on 21st of following month, like any other withholding tax.

Anti- bribery and inducement rules effective 1 January 2019

- Strict rules are introduced, to discourage an IRC officer, from demanding or accepting bribe, or other inducements, from any person.

Minor technical amendments/clarifications effective 1 January 2019

- Minor technical amendments to Foreign Contractors provisions, to remove doubts and clarify intent of law.
- Incorrect turnover criteria used for categorising “excluded MNE entity” for CbCR, is now rectified by replacing, 203 billion with 2.3 billion.
- Other minor amendments to remove incorrect references and include clarifications.

Other administrative provisions effective 1 January 2019

- Introduces secrecy provision to restrict IRC from sharing information, obtained under exchange of information, under tax treaty provisions.
- Paying authority is now allowed to lodge the monthly returns by 21st of following month, in line with all other withholding tax types, excepting SWT, which is still due on 7th of following month.



Indirect Taxation measures

GST amendments effective 1 January 2019

- Removal of GST zero rating status on supplies made to resource company and instead apply standard 10% rate.
- Minor amendment to incorrect references, in refund provisions

Amendment to Customs Tariff

- Tariff increased to provide relief and protection, for following local pioneer industry and manufacturers, from cheap imports
 - Edible items like flour etc
 - Certain meat and poultry products
 - Wooden Furniture
 - Printed textiles
 - Various others
- New export tax of K15 per kg on sea cucumbers introduced, to provide administrative support to National Fisheries Authority, in order to ensure sustainable fishing.

Amendment to Excise Tariff

- Suspension of the indexation applied on alcohol and tobacco products.
- Introduction of second tier excise, at half the main tier price, for a 1-year period, to shift customers from untaxed market segment, to taxed market segment.
- Removal of various household items like TV, Playbox, Microwave etc from luxury goods classification and from excise tax.



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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