2017 PAPUA NEW GUINEA BUDGET BRIEF

BDO Budget Bulletin is a summary of the important announcements in the Budget and the effects these may have on your personal and business affairs

Tight Budget for 2017

The 2017 budget has been framed against a relatively weak world economic environment that is still recovering from low commodity prices and lower than anticipated growth of the domestic economy. The theme of the 2017 budget is **"Responsible Fiscal Consolidation for Future Growth & Development"**. The 2017 national budget expenditure is set at K13,349.5 million against K11,473.1 million expected revenue or a deficit of K1,876.4 million.

The focus for the 2017 budget are on:

- enhancing opportunities by building the foundation for the future development of the country while recognising the need for macroeconomic stability by returning to a balanced budget beyond 2021;
- continuing to support Government's key policy priorities in education, health, infrastructure, agriculture and tourism sectors, rural development and Small to Medium Enterprises;
- facilitating the 2017 General Elections and hosting of the 2018 APEC Summit;
- promoting efficient and effective implementation of major projects through improving design, scoping, and implementation processes;
- placing more emphasis on monitoring, evaluation and compliance so as to achieve improved development outcomes;
- strengthening efficiency in the public sector; and
- strengthening and improving spending controls particularly in relation to the escalating public sector wage bill.

The economic growth in 2017 is expected to be at 2.8% (2016: 4.6%), driven by a rebound in agriculture, fishery and forestry, mining and quarrying and the non-resource sectors after a dismissal performance in 2016. On the other hand, the petroleum sector will revert to trend after absorbing the full impact of the LNG production in 2014 and 2015.

Inflation is expected to increase to 7% (2016: 5.7%) reflective of the continued depreciation in the Kina exchange rate among major trading partners and volatile movements in the prices of seasonal items. The election related spending and the slight recovery in commodity prices are expected to boost income and spending in the economy.

Key Economic Indicators

The key economic indicators for 2017 are projected as follows:

Real GDP growth	2.8%
Real non-mining GDP growth	3.0%
Inflation	7%
Interest rates (Treasury bills)	6.25%
Inscribed stock (3 years yield)	9.7%
Oil Price (US$ per barrel)	50
LNG (US$ per thousand cubic feet)	8
Copper price (US$ per ton)	4,832
Gold price (US$ per ounce)	1,301
Nickel (US$ per tonne)	10,459
Cobalt (US$ per tonne)	25,243

Revenue

The total revenues and grants for 2017 is projected at K11,473.1 million, which is K248.4 million lower than the 2016 supplementary budget of K11,721.5 million. The decrease in revenue estimate is due to weak collections from key revenue sources mainly wages and salary taxes, mining petroleum tax and dividends.

Revenue Source	Amount in Kina, Million
Taxes on Income, Profits and Capital Gains	5,818.90
Training Levy	17.60
Taxes on Goods and Services	2,762.20
Import Duty	230.00
Other Import Taxes	2.90
Export Tax	326.60
Election fees	24.00
Grants	1,045.30
Other revenue - dividends and rents	1,245.60
	11,473.10

Expenditure

The total expenditure in 2017 is estimated to be K13,349.5 million. The level of spending resulted in a budget deficit of K1,876.4 million or 2.5% of GDP and will bring total debt in 2017 to 28.8 per cent of GDP. The source of funding for the above expenditure will be as follows: (a) Government funds of K11,928.9; and (b) Donor funds of K1,420.6.

	Operational	Capital	Total
Administration	2,065.20	667.10	2,732.30
Community & Culture	35.10	189.50	224.60
Debt Services	1,382.90	-	1,382.90
Economic	178.70	219.20	397.10
Education	980.00	182.50	1,162.50
Health	869.90	351.60	1,221.50
Law & Justice	952.00	172.50	1,124.50
Provinces	2,589.70	1,402.20	3,989.90
Transport	254.10	643.10	897.20
Utilities	30.60	185.60	216.20
	9,338.20	4,013.30	13,349.50

Taxation

The 2017 Budget introduces a number of revenue and administrative measures, which are broadly consistent with the Tax Review Committee's (TRC) recommendations.

Tax amendments are effective 1 January 2017 unless an alternate date is specified.

1. Amendment to the value of prescribed rates for employer provided accommodation

The value of prescribed rates for employer provided accommodation has been amended to reflect current market rates. While off-shore employer provided accommodation will be taxed in full.

New and Old Prescribed Rates per Fortnight

Type of Housing	Value of taxable benefit per fortnight					
	New			Old		
	Area1	Area2	Area3	Area1	Area2	Area3
Very High Cost house or flat	2,500	1,500	-	-	-	-
Up-Market Cost house or flat	1,500	1,000	-	-	-	-
High Cost house or flat	700	500	-	700	500	-
Medium Cost house or flat	400	300	-	400	300	-
Low Cost house or flat	160	150	-	160	150	-
Mess/Barracks	60	50	-	60	50	-
Government Mess/Barracks	7	7	-	7	7	-
Low cost housing scheme	-	-	-	-	-	-

New and Old definition of Types of Housing

Type of Housing	Weekly rental	
	New	Old
Very High Cost house or flat	K5001 and above	-
Up-Market Cost house or flat	3001 to K5000	-
High Cost house or flat	K1001 to K3000	More than K3000
Medium Cost house or flat	K300 to K1000	K1000-K3000
Low Cost house or flat	below K300	below K1000

2. Standardisation on the tax treatment of corporate income tax, dividends, interest and foreign contractors across all sector of economy

a) Dividend withholding tax rate at 15%

Sectors	New rates	Old rates
Non resource companies	15%	17%
Mining	15%	10%
Gas & Petroleum	15%	0%

b) Corporate income tax rate at 30%

Sectors	New rates	Old rates
Non resource companies	30%	30%
Resource companies		
Mining	30%	30%
Gas	30%	30%
Petroleum (project in production prior to 31/12/2000)	30%	50%
Petroleum (project commencing production from or after 01/01/2001)	30%	45%
Petroleum (PPL granted between 01/01/03 & 31/12/07 and production licence granted before or by 31/12/2017.)	30%	30%

c) Foreign contractor Withholding Tax (FCWT) to 15% flat rate

New rate	Old rate
Final tax of 15% of the taxable income	12% on gross value of contract (deemed taxable income equal to 25% of gross contract income which is taxed at non - resident corporate rate of 48%)

d) Uplifting exemption from interest withholding tax for Foreign Lenders to Resource Companies

Interest derived by a non-resident lender from a company engaged in mining, petroleum or gas operations in Papua New Guinea is no longer exempt from interest withholding tax.

3. Removal of Double Deduction for Exploration Expenses

Section 156E of the Income Tax Act provides double deduction of exploration expenses for mining companies. This section of the Act has now been removed to align and simplify and for increased tax base.

4. Revamped Additional Profit Tax (APT) or Resource Rent Tax

The application to exend across the mining, oil and gas sector to ensure that PNG fairly benefits the super normal profits from the resource sector.

New rate	Old rate
A flat nominal rate of 15%, a single APT threshold rate of 15% and APT rate of 30%	APT rate of 7.5% and 10% are imposed when the super normal profit kicks in at two threshold rates of 17.5% and 20% respectively.

5. Implementation of Minimum Standards for Base Erosion Profit Shifting (BEPS)

The Income Tax Act now includes Division 16A relating to specific requirement for transfer pricing and country by country reporting.

6. Amendment to the tax on export of unprocessed old-growth logs

The current Customs Tariff Act 1990 provides a fixed 28.5% tax on the export of unprocessed old growth logs. This had been amended to a progressive export duty rates as follows:

New 2017 Thresholds (FOB price, US$/m3)	New Export Tax (US$/m3)
0	Px0.095
Above $25.00	Px0.2375-3.56
Above $30.00	Px0.4275-9.26
Above $35.00	Px0.4750-1092
Above $40.00	Px0.5225-12.82
Above $55.00	Px0.6175-18.04

7. Increase in Alcohol and Tobacco Excise

With the intention of minimising social law and order problems related to alcohol consumption and health problems associated to tobacco consumption, effective 01 December 2016, alcohol and tobacco products excise will increase as follows:

Product	New rates	Old rates
Alcohol	Bi-annual rate of 5%	Bi-annual rate of 2.5%
Tobacco	Per annum 15%	Bi-annual rate of 5%

8. Increase in Diesel Excise and Departure Tax

In order to ensure adequate funding and support to the NRA of maintaining the existing national road networks, excise on diesel will increase as from 01 January 2017. Departure tax will also increase to account for its real value in relation to inflation over time.

	New rates	Old rates
Diesel excise	10 toea	6 toea
Departure tax	K114	K30

9. Merge Bookmaker Stamp Duty into Bookmaker Turnover Tax (BTT) and increase BTT rate

	New rate	Old rate
BTT	BTT + stamp duty = 15% of the net turnover	4% of the Net turnover
Stamp duty		Stamp duty on each bet depending on the threshold of the bet

10. Redistributes the gross profit of gaming machines

	New rate	Old rate
Government share	55%	46%
Community Benefit Fund	10%	14%
Permit Holder's share	20%	25%

To protect the integrity of tax system on Inter-Governmental Relations (Functions and Funding) Act, the bookmakers turnover tax sharing arrangement is amended whereby eligible provinces will receive 40% of the tax while 60% is retained by the national government.

Technical and Administrative Amendments

All technical and administrative amendments are effective 1 January 2017 unless an alternate date is specified.

Removal of Tariff Item 2402.20.30 from the Excise Tariff Act

Tariff item 2402.20.30 pertains to covering for cigarettes of tobacco substitutes with filter containing dark fired tobacco. This product is no longer in the market but importers are bringing in tobacco products and misclassifying them under this tariff item code to access the low excise rate under this product. To minimise abuse of this tariff item code, this budget introduces an amendment to repeal this item code.

Simplifying the Taxation of Dividend Withholding Tax

The 2017 Budget introduces an amendment to Section 189B and Division 4 (Sections 311A to 311O) of the Income Tax Act 1959, along with Regulation 65A of the Income Tax Regulations to ensure simplification in the administration of the tax on dividends, particularly the application and incidence of DWT. The company making the payment or crediting the dividend in the account is liable to withhold and pay tax upon that amount (previously the liability to pay tax was by the person or trustee deriving income), repealing Section 189D of the ITA. The 20% additional tax due for unpaid DWT will now apply at the expiration of the time (previously 60 days after the expiration to the time) when it becomes due and payable. Further, Section 189E – Refund of DWT is repealed.

Technical Housekeeping Amendments

The following amendments will correct typographical errors and outdated referencing to clarify the law for ease of administration:

a) A general administration provision included Section 6 of the ITA to ensure consistency between the Internal Revenue Commission Act 2014 (IRC) and Income Tax Act 1959;

b) Section 9 (4)(e) and (g) of the ITA are repealed to correct outdated legislative references to the Central Banking Act and a secrecy provision respectively;

c) Amendment to section 144 AB (1) to change the word 'country' last appearing in Section 144AB (1) to the correct word 'company';

d) Section 299F (2) of the ITA is also amended replace the word 'employer' used in subsection (2) with the word 'employee';

e) Update to Regulation 88 (1) of the Income Tax Regulation 1959 to correct outdated referencing of 'Supreme Court' to 'National Court';

f) Further amendment to the heading of Part VI Division 2 of the ITA by deleting the words "and royalty payments"; and

g) Repealing of redundant exemption provisions under Section 22A, 22B, 23, 25B, 29(1) (a) to (j), 35(2)(a), 36B, 38, 43A of the ITA.

Papua New Guinea Taxation Review Committee

The Government will assess the TRC's recommendations relating to Mining and Petroleum Taxation, Taxation Incentives, Capital Gains Taxation, and tax administration in 2017 for consideration in the 2018 Budget and beyond. This will also include the review into the current Tariff reduction program and Non-tax fees and charges.

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