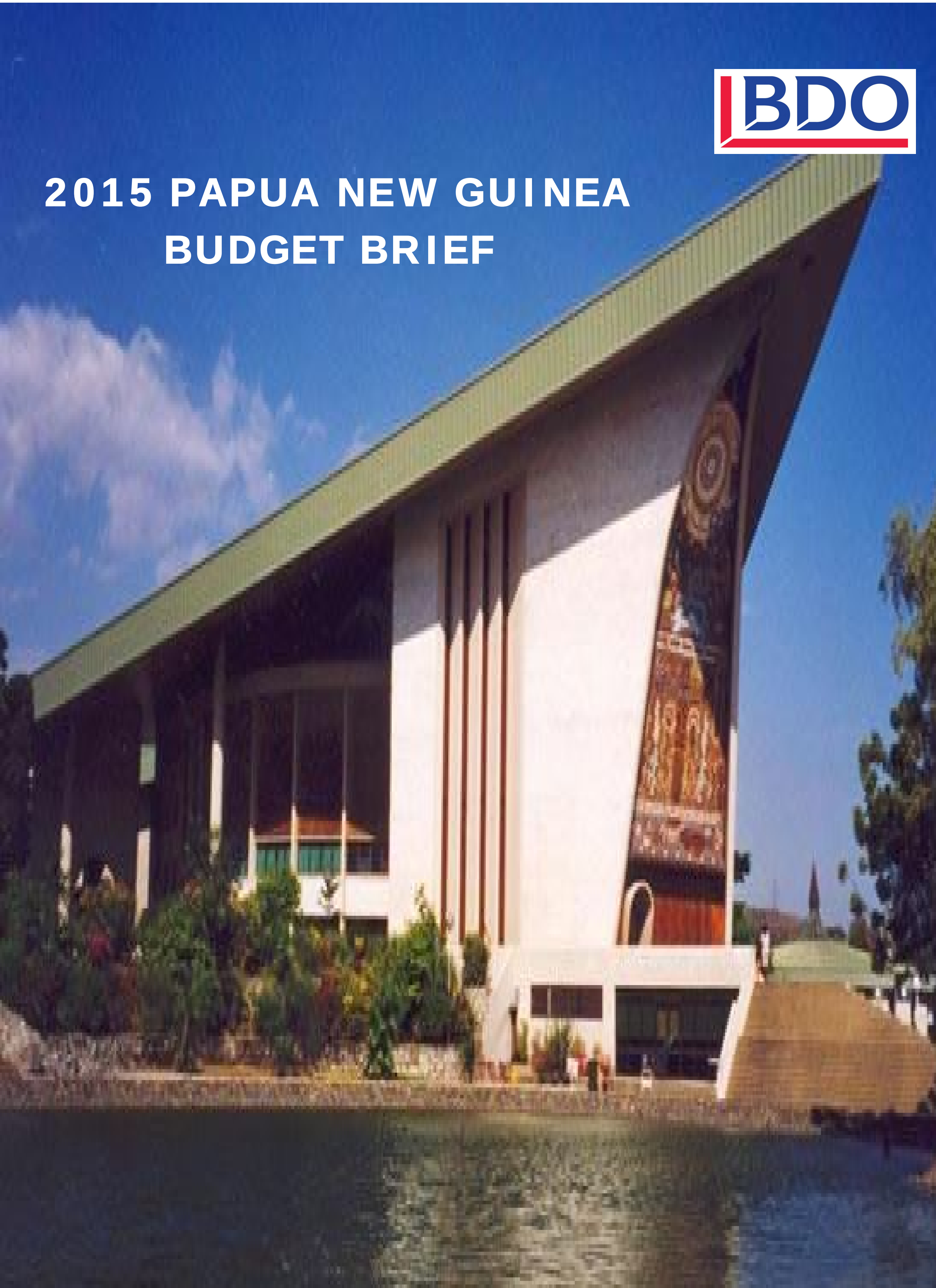
# 2015 PAPUA NEW GUINEA BUDGET BRIEF



BDO (formerly Guinn PKF) Budget Bulletin is a summary of the important announcements in the Budget and the effects these may have on your personal and business affairs.

# Not an ordinary Budget for 2015

The 2015 budget is framed against the Government's Medium Term Policy Framework and designed to give each Papua New Guinean a fair opportunity to participate in the development of the nation. Hence, the theme of the budget is "**Building our Nation and Providing Opportunities for the People"**. The 2015 Budget is set at a record level of K16.2 billion, up by 7% from the 2014 budget. The focus is on

- Enhancing opportunities for the people by building the foundation of the country in 2015 whilst recognising the need for macroeconomic stability by progressively returning to a balanced budget in 2017;
- Further promote the efficient and effective implementation of major projects through improved service delivery, designing, scoping and implementation processes;
- Increased direct funding to the Provinces and Districts with more emphasis on monitoring, evaluation and compliance so as to achieve improved development outcomes;
- Continue to support policy priorities in the Education, Health, Infrastructure, Agriculture and SME sectors; and
- Continue to strengthen the justice sector, resource Corrections Services, modernise Police and rebuild the Defence Force.

The 2015 Budget is accompanied by the 2014 Supplementary Budget, which reallocates low priority expenditures to the Pacific Games and key infrastructure.

Economic growth in 2015 is expected to be at 15.5% (2014: actual of 8.4% and budget of 6.2%), driven by a full calendar year of gas production and supported by a rebound in the non-mining sectors.

Inflation is expected to be 5.5% (2014: 5.9%) due to

- Inflows from the PNG LNG exports in the latter half of 2015 which are expected to translate into a strong Kina exchange rate reducing imported (tradeable) inflation; and
- Second phase of the Tariff Reduction Program (TRP) expected in 2015 which is expected to assist and reduce the cost of imports.

## Inherent risks in the 2015 Budget

- As the 4.27% equity (LNG) sale to landowners has not yet been finalized, it will place pressure on the domestic issuance program and interest rates;
- Equity sale proceeds may be lower than forecast;
- Absence of the necessary preconditions for a successful sovereign bond issue;
- Capacity constraints in Government Agencies and Departments to fully execute the 2015 Budget; and
- Global commodity price fluctuations and impacts on agricultural growing conditions, water and electricity supply, flooding and rising sea levels.

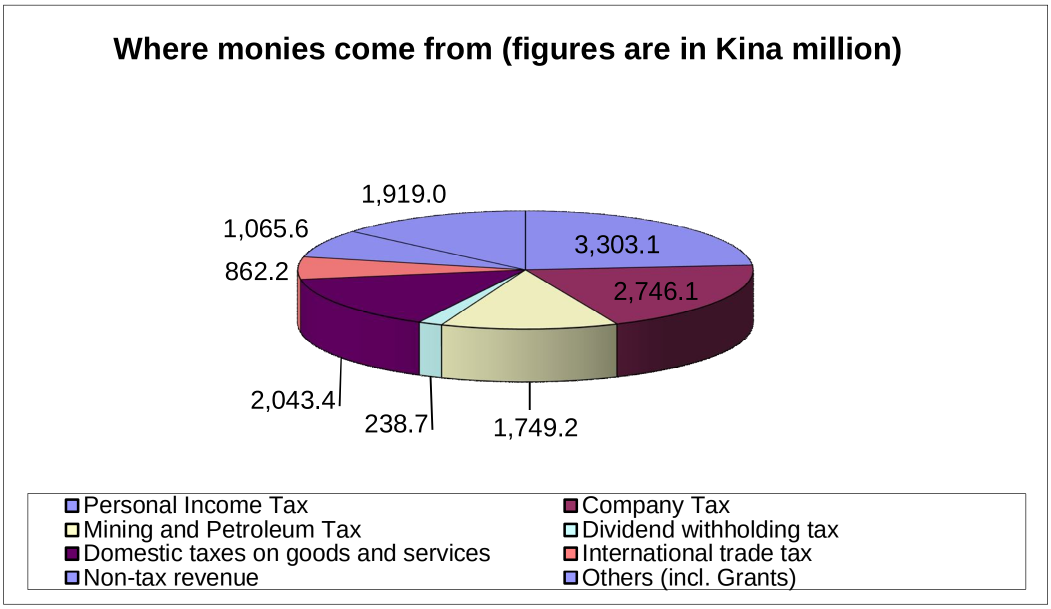
## Key Economic Indicators

The key economic indicators for 2015 are projected as follows:

| | |
|---|---|
| Real GDP growth | 15.5% |
| Real non-mining GDP growth | 4% |
| Inflation | 5.5% |
| Interest rates (Treasury bills) | 6.3% |
| Inscribed stock (3 years yield) | 8.0% |
| Oil Price (US$ per barrel) | 89.7 |
| LNG (US$ per thousand cubic feet) | 12.5 |
| Condensate (US$ per barrel) | 87.0 |
| Copper price (US$ per tonne) | 6,947 |
| Gold price (US$ per ounce) | 1,277 |
| Nickel (US$ per tonne) | 18,000 |
| Cobalt (US$ per tonne) | 30,000 |

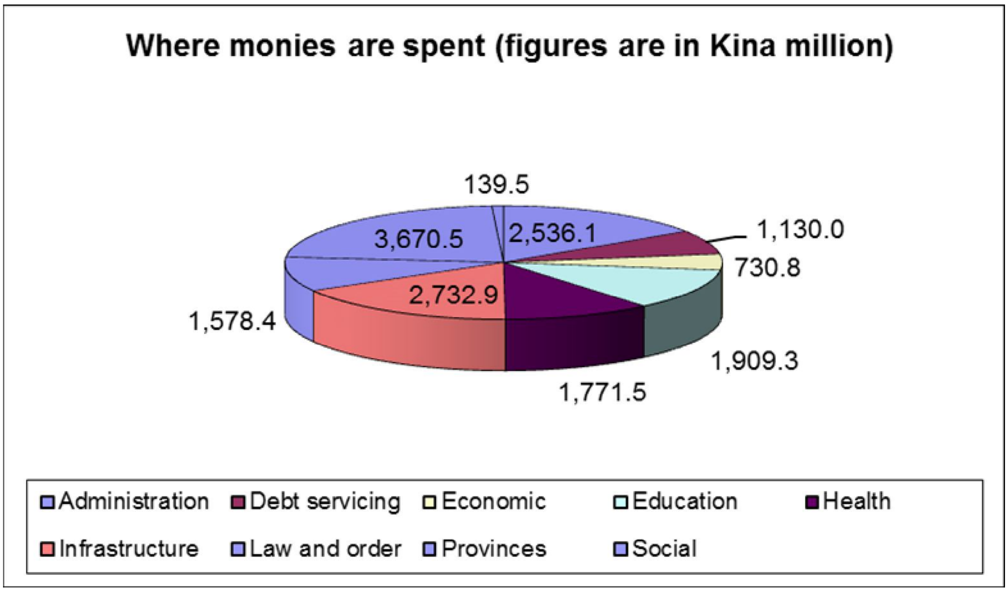
## Revenue

The total revenues and grants for 2015 are anticipated at K13.93 billion which is 10% higher than the 2014 revised estimate of K12.67 billion. The increase in revenue estimate is broadly based with growth in taxes on income and profits, domestic taxes on goods and services and taxes on international trade.




## Expenditure

Total expenditure in 2015 is estimated to be K16,199.1 million. This represents K1,095.3 million or 7.2 per cent increase over the 2014 Revised Budget of K15,103.8 million. The level of spending resulted in a budget deficit of K2.3 billion or 4.4% of GDP.



# Direct Taxation

All direct tax amendments are effective 1 January 2015 unless an alternate date is specified.

## Corporate and personal tax rates

There has been no change to the general corporate income tax rates of 30% for residents and 48% for non-residents. There has also been no change to the personal tax rates.

## 150% Deduction for Sponsorship and Gifts in respect of the 2015 Pacific Games

Section 69K of the ITA was amended clarifying the eligibility of 150 per cent deduction incentive to gifts and sponsorship of money or property for the 2015 Pacific Games to the (a) PNG Sports Federation and Olympic Committee, Inc . or (b) the Pacific Games (2015) Authority, and to clarify the role of the Commissioner General in valuing these gifts and sponsorships.

## Royalty Withholding Tax (RWT) now a final tax

The 5% Royalty Withholding Tax (RWT) will be deemed a final tax. This amendment will now reduce the administrative burden of the IRC and will not require individual recipients of royalties to lodge their income tax returns.

## Director's liability for Company's non-remittance of salary and wages tax (SWT) obligations

A director of a company is now prevented from escaping liability by winding up a company in the instance the company fails to report Salary and Wages amounts within 3 months of their due date.

## Amendment on Income Tax Act (ITA) to clarify the definition of debt, equity and interest for purposes of Thin Capitalisation Rules

A clarification as to the definitions of "Debt", "Equity", "Interest" for the purpose of calculating a debt to equity ratio for Thin Capitalisation Rules has now been inserted in 68AF of the ITA.

# Indirect Taxation

All indirect tax amendments are effective 1 January 2015 unless an alternate date is specified.

## Director's liability for Company's non-compliance with Goods and Services Tax obligations

The IRC introduces measures to enhance tax compliance for Goods and Services Tax obligations. This measure will make directors of companies, who fail to comply with GST obligations, personally liable for a penalty equal to the amount that the company ought to have remitted to IRC.

## Amendment to Stamp Duties Act in relation to stamp duty on Rental Income

The Government will introduce the implementation of a major compliance measure in relation to rental income. This measure involves an amendment to the Stamp Duties Act 1952 to make it mandatory for owners of rental property or landlords to provide their Taxation Identification Number (TIN) on lease documentation so that the Internal Revenue Commission (IRC) can more easily identify the landlords and their likely taxation liabilities when stamp duty processing is undertaken.

## Ensuring the Commissioner General administers the GST distribution in accordance with the Intergovernmental Relations (Functions and Funding) Act 2009

An amendment to ensure the Commissioner General administers the National and Provincial Inland GST Trust Accounts only in accordance with the Intergovernmental Relations (Functions and Funding) Act 2009 and notwithstanding any other Acts of Parliament.

## Tobacco Excise to increase by 5 per cent Bi-annually (10 per cent annually)

The Government recognises the high health risk and increased treatment costs of tobacco related diseases. To discourage consumption and recover part of the health cost, it has therefore chosen to increase the excise duty on tobacco by a set 5 per cent biannually (or 10 per cent annually).

### Introduction of new tariff item to cater for misclassified cigarettes

Amendment to the Customs Tariff Act 1992 and Excise Tariff Act 1956 introduces two new tariff items to cater for misclassified cigarettes such as Pall Mall and other manufactured cigarettes with filter containing tobacco other than dark fired tobacco or those without filter containing tobacco and or other tobacco substitutes containing dark fired tobacco. The amendment introduces new tariff items which will ensure that cigarettes are correctly classified under the new tariff item 2402.20.40 and 2402.20.50 reflecting their descriptions. The excise rate of this tariff items will be consistent with the current practice. Effective 1st December 2014, the excise rate of cigarettes will be the K261.51 per 1000 sticks, subject to 5% increase every 6 months interval (31st of May and 30th November). .

### Introduction of new tariff item for other meats and edible offal that do not fall in the mechanically deboned meat (MDM) description

A new tariff item for other meats and edible offal that do not fall in the mechanically deboned meat (MDM) description has been introduced. This new tariff item will be inserted in Heading 0207 for meat and edible offal, the poultry of heading 01.05, fresh, chilled or frozen. This amendment will avoid potential confusion in identification of appropriate items and rates. The import duty rate of this tariff item will be consistent with other tariff items under heading 0207 except for MDM.

## Technical and Administrative Amendments

All technical and administrative amendments are effective 1 January 2015 unless an alternate date is specified.

### Update of fees and charges for Departments of Health, Police, Lands and Physical Planning, Labour and Industrial Relation, and Community Welfare Development

The Government has a mandate to collect fees and charges for the services it renders to the public through the various agencies. However, it has been found that many of these fees and charges have not been reviewed and updated for some time. As part of the broader efforts to modernise the non-tax revenue system, the fees and charges of the Departments of Health, Police, Lands and Physical Planning, Labour and Industrial Relations, and Community Welfare Development will be updated from 1st January 2015.

### Enhancement of Compliance measures for convicted taxpayers who fail to comply with Court Orders

The Government will introduce tougher measures to deal with convicted tax offenders who fail to comply with legally issued court orders. The current penalty for non-compliance with court order ranges from K500 to K5,000, which is the same as the penalty applying to the tax offence committed at the time of offence. The Government will introduce a jail term not exceeding 12 months to a convicted tax offender and increased monetary fines at different levels of fines for an individual and corporate taxpayer. The increase in the amount of court order fines and the different levels of fines will range from K1,000 - K10,000 and K5,000 - K50,000 for natural person and corporate persons, respectively. Additional penalty of K50 per day will apply during which the failure, refusal or neglect continues.

### Improvement of Data Flows, Transparency of Tax Incentives and Statistics

Currently, the secrecy provision in Section 9 of the Income Tax Act 1959 does not allow for information to be transferred to Treasury for the purpose of forecasting and policy formulation or to the National Statistics Office (NSO) for the production of the National Accounts and other statistics. An amendment was made to the Secrecy provisions allowing the IRC to provide relevant information to Treasury for the purpose of estimating or analysing taxation revenue or estimating the costs of policy proposals, and to the NSO for the production of the National Accounts and other statistics.

### Membership to the Global Forum on Transparency and Exchange of Information on Tax Matters

The Government will support PNG's membership to the Global Forum on Transparency Exchange of Information in Tax Matters. This is a Global Forum that provides support to countries with limited administrative capacity, particularly in building their capacity to engage in exchange of information with other jurisdictions.

Should you require assistance or additional information, please contact us
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