Building a broader based economy

2019 Budget Commentary

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Contents

The Deputy Prime Minister and Minister for Treasury, the Honourable Charles Abel, MP handed down the 2019 National Budget on 13 November 2018.

Executive summary

The 2019 National Budget — *Building a Broader Based Economy* — is the second for the Deputy Prime Minister and Treasurer, the Honourable Charles Abel, and is the culmination of the process that we have seen over the past months since the election and the Alotau Accord II, the 100 Day Plan and the subsequent 25 Point Plan.

The 2019 Budget is framed by the poor headline results from the 2018 Supplementary Budget, particularly the:

- drop in GDP from 3.0% in 2017 to 0.3% in 2018. This result is driven overwhelmingly by the February 2018 earthquake and the corresponding shutdown in PNG's mines and gas LNG production facilities
- explosion in unfunded public sector compensation.

With this as a backdrop, key outcomes from the 2019 Budget (with comparisons to the 2018 Supplementary Budget) include:

- Inflation — 5.4% (vs 5.6% in 2018)
- Economic growth — 4.0% (vs 0.3% in 2018)
- Government revenue as a percentage of GDP — 16.1% (vs 16.3% in 2018)
- Net borrowing as a percentage of GDP — -2.1% (vs -2.3% in 2018).

With this as a start, the 2019 Budget reflects the continued goal of reshaping:

- the economy, with a focus on supporting investment into the non-resources sector and ensuring that public expenditure supports a broader economic base
- the Budget, with a focus on tackling the spike in public sector employment costs that emerged during 2018, and reshaping the debt profile away from higher domestic debt sources to cheaper longer term international debt sources.

There will be continuing pressure on some stakeholders out of this Budget, with:

- central government agencies and provincial governments under continued pressure to remit surplus funds and better account for the execution of their budgets
- the public service challenged to maintain a lid on staff costs.

Commenting on last year's Budget we noted that the issue deferred was that of reigning in government debt. The Government has sought to address the cost of debt, which provides some medium term budgetary relief, and projections show the debt-to-GDP ratio of getting within the 30% target by 2022.

Key budget assumptions

The major assumptions on which the budget has been based are summarised in the following table. Historic indicators are also included for reference purposes.

Principal economic indicators	2017 actual	2018 proj	2019 proj	2020 proj	2021 proj	2022 proj	2023 proj
Real GDP growth (%)	3.0	0.3	4.0	3.2	4.5	6.2	6.3
Non-mining GDP growth (%)	0.2	3.1	3.1	5.4	4.9	9.7	8.9
Inflation (year average) (%)	5.4	5.6	5.4	5.5	5.0	4.5	4.3
Interest rate (Kina Rate Facility)	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Gold price (US$ per ounce)	1,258	1,261	1,218	1,255	1,257	1,343	1,382
Copper price (US$ per tonne)	6,166	6,476	6,200	6,270	6,220	6,318	6,318
Oil price (US$ per barrel)	51	68	68	65	64	60	59
Nickel (US$ per tonne)	10,415	11,190	9,556	10,648	10,648	12,231	13,278
Cobalt (US$ per tonne)	55,988	75,256	45,682	40,955	40,955	44,901	32,739

Source: Department of Treasury

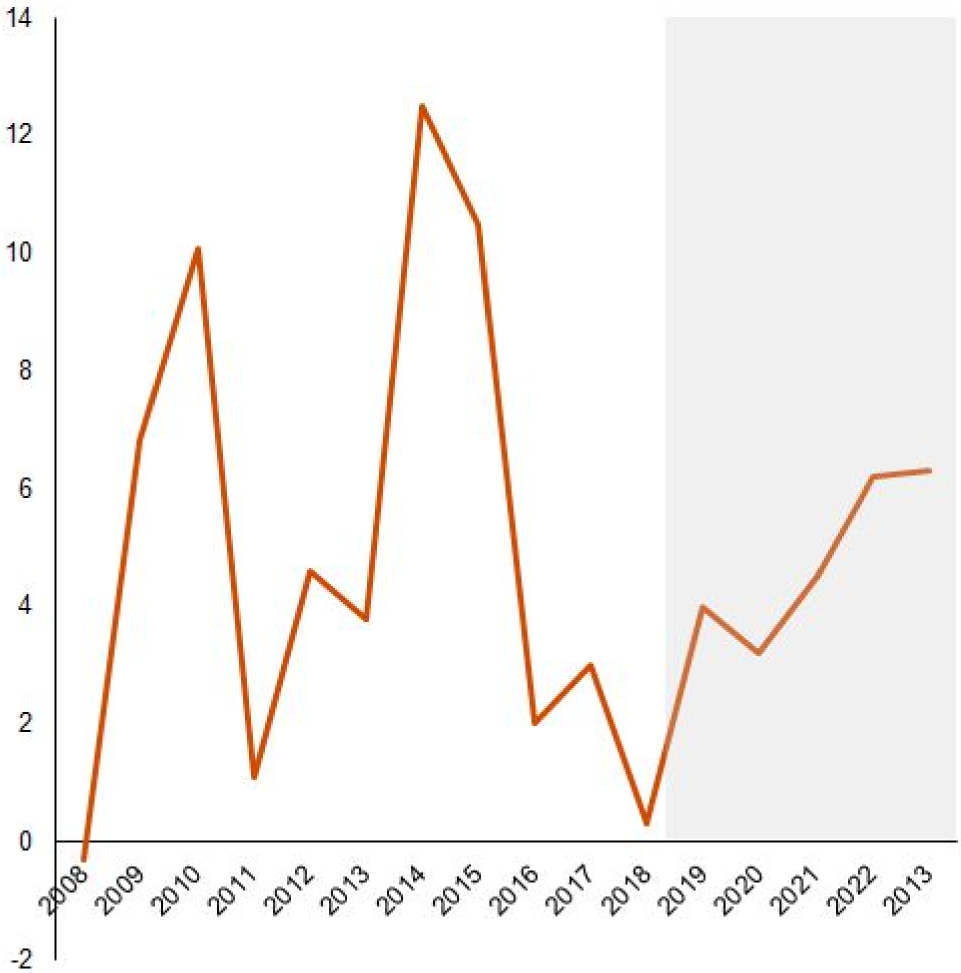
Economic outlook

Not surprisingly, and thankfully, the economic outlook presented in the 2019 Budget is not materially different to that shown in the 2019 Budget Strategy paper released by the Treasurer at the end of August 2018.

In an almost unprecedented global environment, almost all countries have had positive economic growth in the past year, with the International Monetary Fund (IMF) projecting global real GDP growth of 3.7% in 2018-19, but with lower immediate and mid-term outlooks as a confluence of factors (trade tensions, normalisation of US monetary policy, rising oil prices, etc) result in lower growth forecasts in advanced, emerging and developing countries.

Unlike recent years, PNG's gross domestic product (GDP) growth was particularly influenced by a single domestic factor; the February 2018 earthquake was more important than the more traditional drivers of changes in commodity prices or large investment swings. The almost two month halt in production after the earthquake meant that in 2018 the PNG economy is expected to grow at 0.3%, lower than the 1% expected at MYEFO and significantly lower than the 2.4% projected at the time of the last Budget.

Real GDP Growth



Year	Real GDP growth		Year	Real GDP growth
2008	-0.3		2016	2.0
2009	6.8		2017	3.0
2010	10.1		2018	0.3
2011	1.1		2019	4.0
2012	4.6		2020	3.2
2013	3.8		2021	4.5
2014	12.5		2022	6.2
2015	10.5		2023	6.3

While business confidence feels more upbeat than at this time last year, a number of key problems continue to exist, the most obvious being:

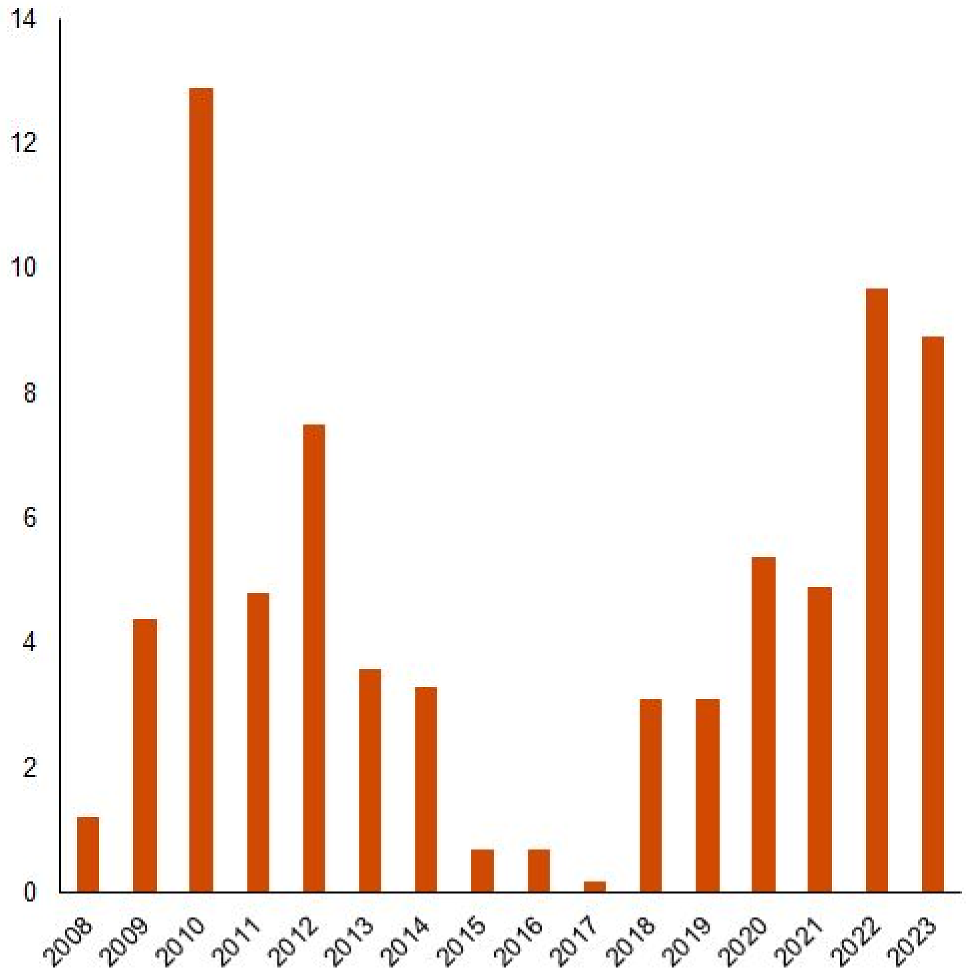
- problems accessing foreign exchange
- the delay in paying of Government bills to the private sector.

Both of these are addressed, at least in part, by elements of this Budget:

- The Government has specifically called out the issue of foreign exchange availability. We expect that in the medium term the currency challenges will be ameliorated as funds come into the country from recent overseas borrowing, and as major resource projects swing into profitability,
- The Government will be, in relative terms, more comfortable in its cash position given new loan facilities, more pressure on SOEs to pay dividends and the continued sweeping of government accounts. This means that it will be better able to pay its bills on time.

As we noted last year, the real challenge for the PNG economy is to become more diversified, and hence less reliant on positive movements in global commodity prices to drive investment. There are some positive signs of this occurring, albeit from a low base. For example, as shown below, real non-mining GDP in 2018 bounced back from the lows of 2015-2017, and in 2018 exceeded mining GDP (although affected by the earthquake).

Real Non-Mining GDP Growth (%)



Year	Real Non-Mining GDP growth		Year	Real Non-Mining GDP growth
2008	1.2		2016	0.7
2009	4.4		2017	0.2
2010	12.9		2018	3.1
2011	4.8		2019	3.1
2012	7.5		2020	5.4
2013	3.6		2021	4.9
2014	3.3		2022	9.7
2015	0.7		2023	8.9

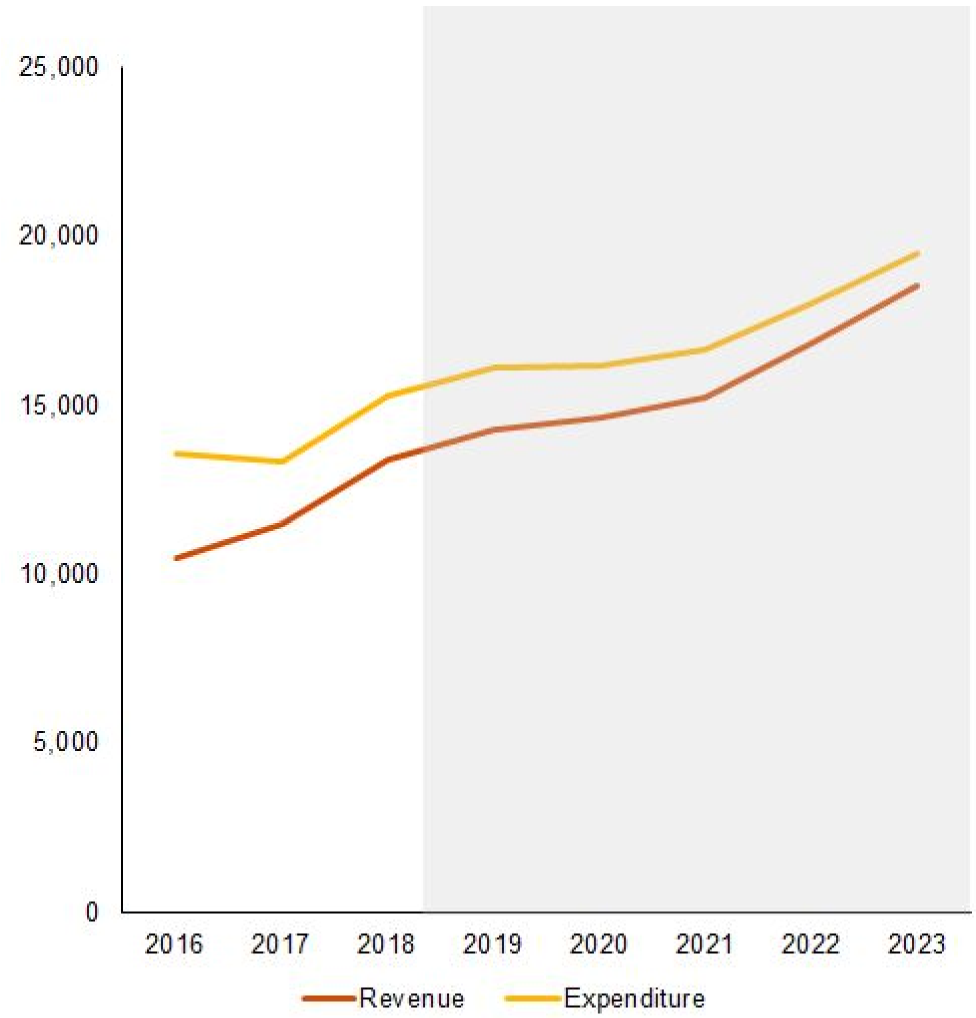
This is important as this growth is most likely to reflect real income improvements for the bulk of PNG's rural population.

Despite this non-mining growth, the real change expected in the coming year is the 'oil and gas extraction' industry coming back on line.

Contributions to Growth in Real GDP	2018	2019
Agriculture, Forestry & Fishing	0.5	0.5
Oil and Gas Extraction	-1.9	1.2
Mining and Quarrying	0.0	0.6
Manufacturing	0.1	0.1
Electricity, Gas & Air-conditioning	0.0	0.0
Water Supply & Waste Management	0.0	0.0
Construction	0.1	0.3
Wholesale & Retail Trade	0.3	0.4
Transport & Storage	0.1	0.1
Accommodation & Food Services	0.1	0.0
Information & Communication	0.1	0.1
Financial and Insurance Services	0.1	0.1
Real Estate Activities	0.0	0.1
Professional & Scientific	0.0	0.0
Administrative & Support Services	0.4	0.2
Public Administration & Defence	0.2	0.2
Education	0.1	0.1
Health & Social Work Activities	0.1	0.1
Other Services Activities	0.0	0.0
TOTAL	0.3	4.0

Fiscal Outlook

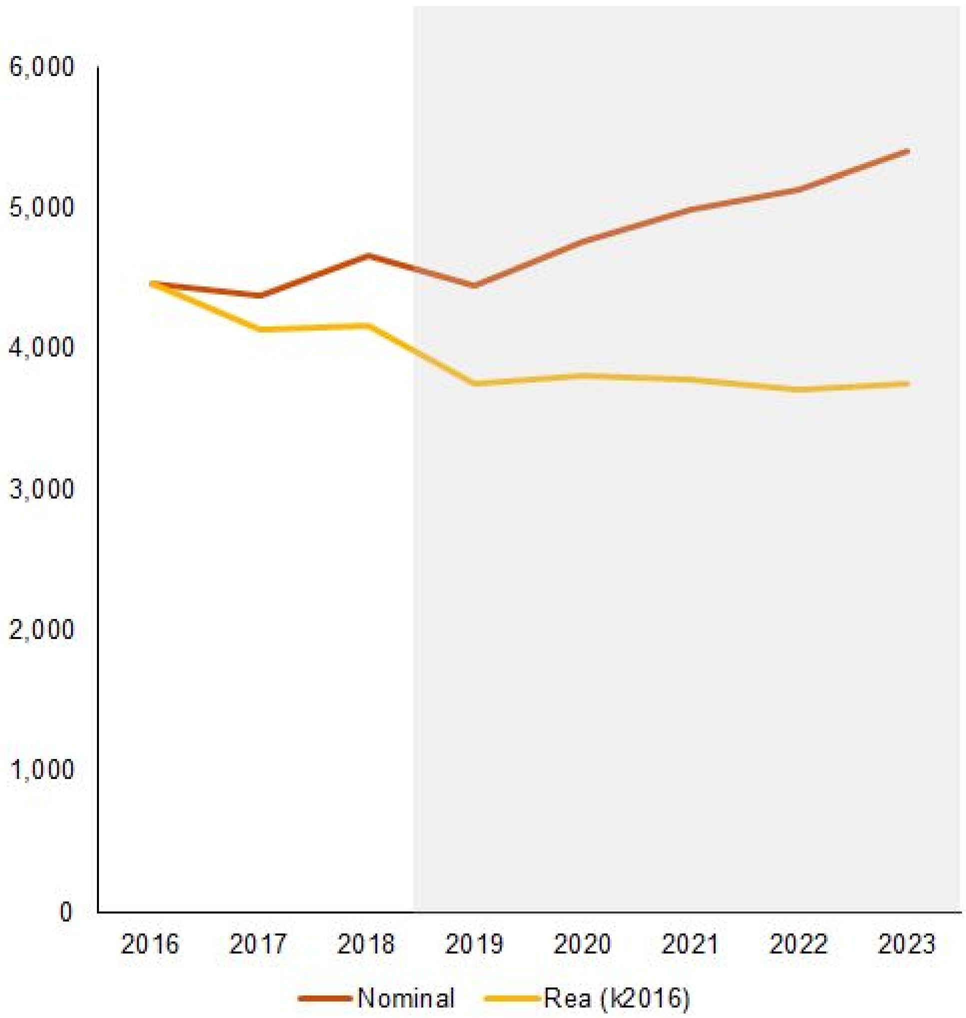
While 2018 saw a welcome increase in tax revenue, as shown in the figure below, this was accompanied by a significant jump in expenditure (largely public sector wages). Indeed, the expenditure jump was expected to be so significant a Supplementary Budget was necessary to reign spending in to the 2018 levels shown in the figure below.



	Revenue	Expenditure			Revenue	Expenditure
2016	10,485.5	13,572.5		2021	15,236.1	16,625.5
2017	11,525.1	13,319.7		2022	16,846.6	17,986.6
2018	13,400.3	15,297.0		2023	18,516.4	19,516.6
2019	14,266.8	16,133.5				
2020	14,630.8	16,189.8				

As noted above, a real challenge identified by the Government has been the issue of staff salaries, brought to a head by the need for the 2018 Supplementary Budget to provide for an extra K525.5m of unfunded staff compensation. The figure below shows the nominal 'compensation of employees' and the real values in 2016. In effect, the Government is assuming that staff costs will rise with inflation (i.e. stay flat in real terms). This seems an optimistic goal given the expenditure on infrastructure facilities (e.g. district hospitals, etc) that will require additional staff.

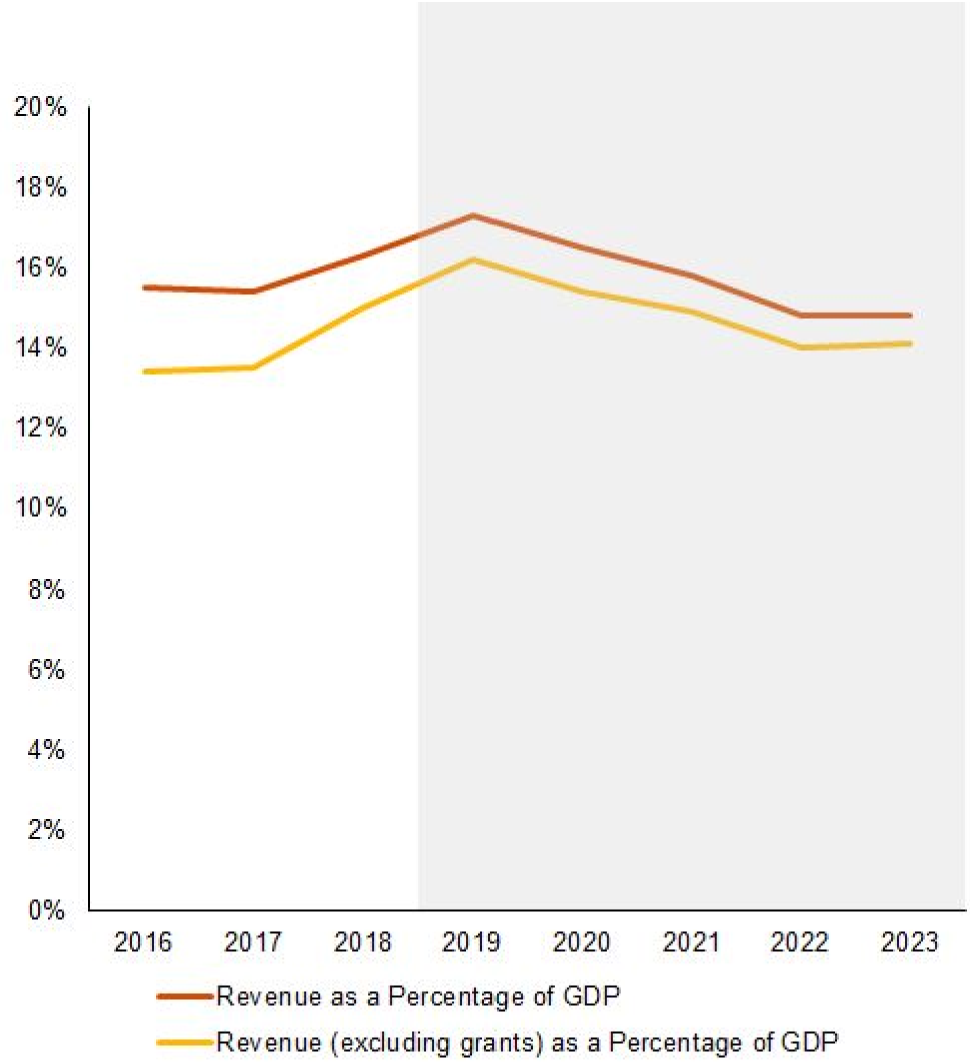
Staff compensation (million Kina)



	2016	2017	2018	2019	2020	2021	2022	2023
Nominal	4,463.4	4,376.4	4,662.8	4,448.5	4,770.3	4,993.4	5,130.1	5,407.2
Real	4463.4	4140.1	4163.9	3758.1	3808.3	3787.1	3715.7	3747.9

The Government's target for revenue is 14% of GDP (excluding grants). The low GDP growth in 2018 boosted this value, but even over the forward estimates the Government is projecting that this will continue to be achieved.

We stress that this 14% target should not be seen as an end in and of itself. Rather, the goal should be growing the PNG economy, and raising revenue from a broader base to support a developing economy. It would be perverse if a higher tax revenue target were celebrated at the expense of GDP growth.

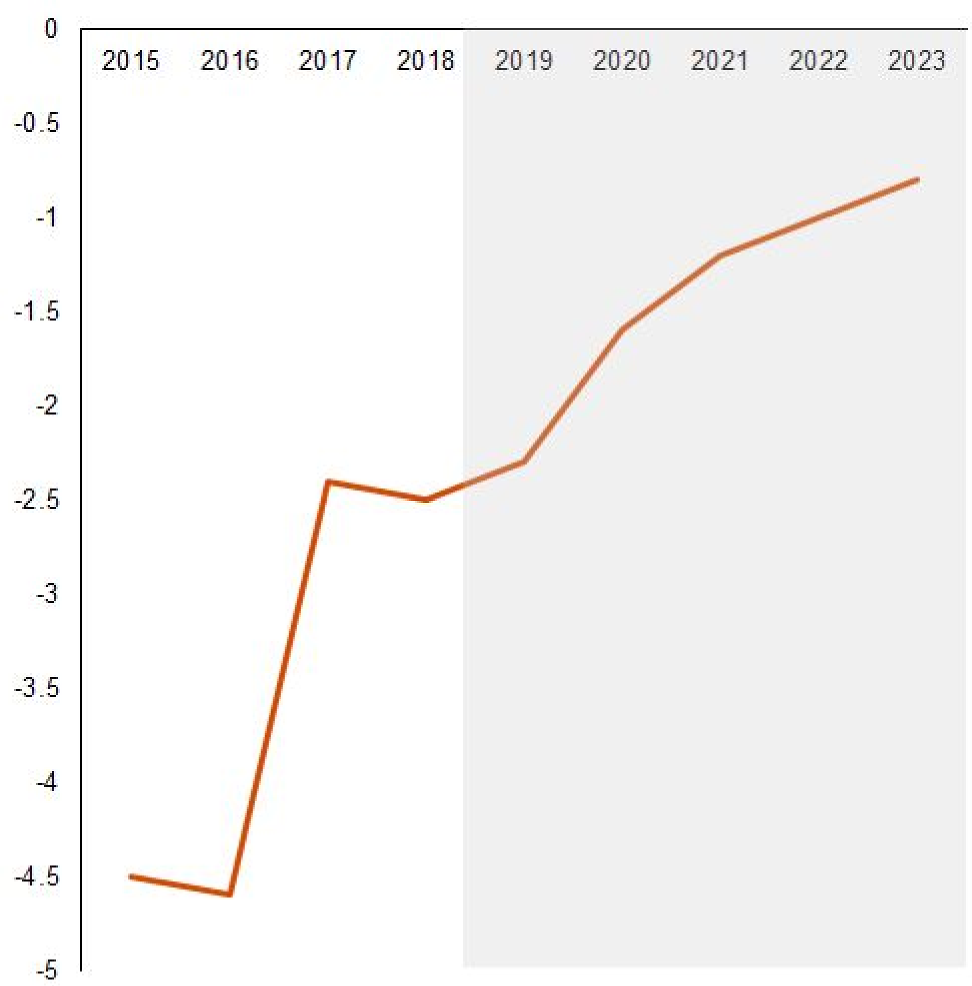


	Revenue as a Percentage of GDP	Revenue (excluding grants) as a Percentage of GDP
2016	15.5%	13.4%
2017	15.2%	13.3%
2018	16.3%	15.0%
2019	16.1%	16.2%
2020	15.3%	15.4%
2021	14.8%	13.9%
2022	14.8%	14.0%

2023	14.8%	14.1%

Getting the Budget back to surplus is not an explicit goal of the Government. Indeed, the net Budget position, while forecast to improve (see figure below), reflects a delay in the goal of moving the Budget back to surplus (which will not be achieved before 2023, at the earliest).

Net Borrowing (as a % of GDP)

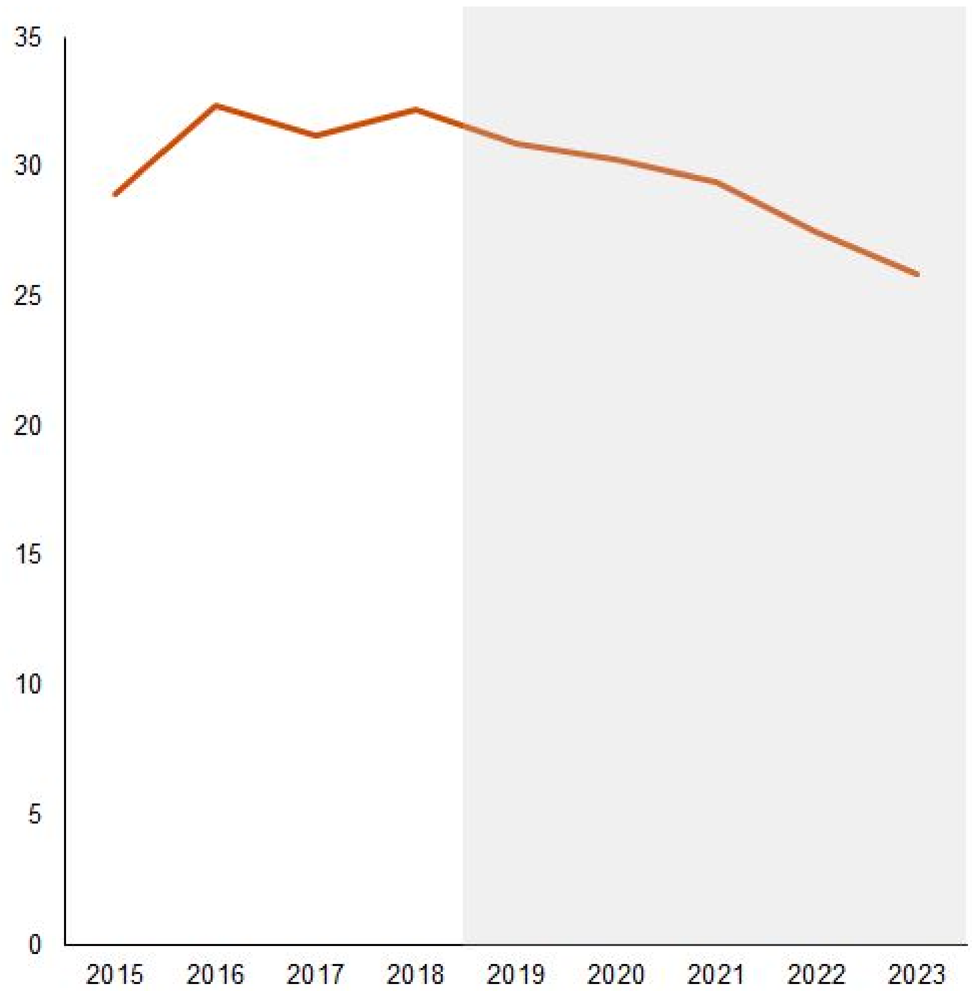


	Net Borrowing as a Percentage of GDP
2015	-4.5
2016	-4.6
2017	-2.4
2018 (supp)	-2.3
2019	-2.1
2020	-1.6
2021	-1.3

2022	-1.0
2023	-0.8

While not committed necessarily to achieving a Budget surplus, the *Fiscal Responsibility Act* puts a fiscal constraint on government in that it allows debt levels up to 35% of GDP. Debt levels are forecast to stay under this threshold and fall over the forward estimates.

Total debt as a percentage of GDP



	Total debt as a percentage of GDP
2015	29
2016	32.4
2017	31.2
2018 (supp)	30.9
2019	30.8
2020	30.3
2021	29.4

2022	27.5
2023	25.9

The Government's claim — supported by the public declarations in the Alotau Accord II, the 100 Day Plan and the subsequent 25 Point Plan — is that expenditure will be increasingly targeted at spend aligned with stimulating economic growth.

This is a reasonable objective.

The key here is to ensure that the spending is undertaken efficiently and on appropriate matters. This is the challenge for the Government, which it has embraced by seeking to put guiding constraints on Provincial Governments to ensure that they are spending in the 'right' areas.

Revenue and grants

In 2019, total revenue is projected at K14,266.8m, comprising of K10,784.5m in tax revenue, K943.1m in grants and K2,539.2m from other revenues (dividends and department fees and charges). Compared to the 2018 Budget estimate, total revenue is higher by K1,536.1m.

A breakdown of the total budgeted revenue and grants for 2019 is set out below.

Total revenue and grants (Kina millions)	2017 Actual	2018 Supp. Budget	2019 Budget
Tax revenue	9,141.4	9,956.5	10,784.5
% of GDP	12.1	12.1	12.2
Grants	1,439.9	1,024.6	943.1
% of GDP	1.9	1.2	1.1
Other revenue	943.8	2,419.2	2,539.2
% of GDP	1.2	2.9	2.9
Total revenue	11,525.1	13,400.3	14,266.8
% of GDP	15.2	16.3	16.1

Source: Department of Treasury

Tax revenue

Taxes on income, profits and capital gains

Taxes on income, profits and capital gains are estimated at K6,247.1m comprising of K2,949.5m in personal income tax, K2,556.3m in company income tax, K428.1m in mining and petroleum tax (MPT), K149.2m in dividend withholding tax, K116.0m in interest withholding tax and K47.8m in royalties and management tax.

Taxation revenue 2015-2019 (Kina millions)	2017 (Actual)	2018 Budget	2018 Revised	2019 Budget
Taxes on income, profits and capital gains	5,317.4	5,564.9	5,691.9	6,247.1

Personal income tax	3,093.8	3,259.2	3,050.5	2,949.5
Company tax	1,794.1	1,971.5	1,991.5	2,556.3
Mining and petroleum tax	113.6	89.5	362.5	428.1
Royalties tax management tax	42.7	31.9	43.9	47.8
Dividend withholding tax	181.7	137.4	136.9	149.2
Interest withholding tax	91.4	84.2	106.4	116.0
Tax-related court fines	0.0	0.0	0.0	0.0
Sundry IRC taxes and income	0.0	0.2	0.2	0.2

Source: Department of Treasury

Taxes on goods and services

Taxes on goods and services are projected at K3,773.9m in 2019 (including K2,188.8m in gross GST collections, K922.7m in excise duty, K321.7m in import excise and K197.3m in gaming machine turnover tax).

While GST collected at the ports in 2018 tracked well, GST in the provinces were trending at 2017 levels due to K51.0m of the tax liability being offset by GST credits and non-realisation of K200.0m revenue.

Taxes on Goods & Services	2017 (Actual)	2018 Budget	2018 Revised	2019 Budget
Taxes on goods and Services	3,255.1	3,448.3	3,542.3	3,773.9
GST	1,868.8	1,974.2	2,086.6	2,188.8
Stamp duties	42.4	60.0	90.0	97.3
Excise duty	757.3	782.3	793.9	922.7
Import excise	347.8	395.1	297.3	321.7
Bookmakers' turnover tax	36.0	33.0	28.6	31.2
Gaming machine turnover tax	178.7	174.4	181.0	197.3
Departure tax	14.2	12.8	8.4	9.0
Motor vehicle registration	6.4	11.9	11.9	0.3
Other taxes on use of goods and on permission to use goods	0.8	1.2	1.2	0.9
Other taxes on goods and services	2.7	3.4	43.4	4.6

Source: Department of Treasury

Grants

Grants for 2019 are projected at K943.1m. Of this, donor grants are projected to be K775.8m from foreign governments and K167.6m from international organisations.

Grants	2017 (Actual)	2018 Budget	2018 Revised	2019 Budget	Variation
Grants	1,439.9	1,024.6	1,024.6	943.1	-81.5
From foreign governments	1,281.9	752.8	752.8	775.8	23.0

From international organisations	158.0	271.8	271.8	167.6	-104.2

Source: Department of Treasury

Other revenue

In 2019, other revenue is projected at K2,539.2m comprising mainly of K1,205.0m in dividends, K55.2m in rent (mainly land lease rentals), K124.2m from sales of goods and services, K0.8m in fines, penalties and profits and K1,153.3m in transfers not elsewhere classified (mainly trust fund balances transferred from various authorities).

Of the total dividends, K800.0m is expected from Kumul Petroleum Holding based on budget assumptions of 2018 gas prices, K200m from Ok Tedi mine, K80.0m from Kumul Consolidated Holdings, K25.0m from Motor Vehicle Insurance and K100.0m from the Bank of Papua New Guinea.

Other revenue (millions)	2017 (Actual)	2018 Budget	2018 Revised	2019 Budget	Variation
Other revenue	943.8	2,066.7	2,419.2	2,539.2	119.9
Property income	860.9	1,321.9	1,450.6	1,260.8	-189.7
Interest	0.0	0.7	0.7	0.7	0.0
Dividends	841.6	1,250.0	1,430.0	1,205.0	-225.0
Mining, petroleum and gas Dividends	562.3	500.0	900.0	1,000.0	100.0
Dividends from statutory authorities	279.3	625.0	500.0	100.0	-400.0
Dividends from state-owned enterprises	0.0	125.0	30.0	105.0	75.0
Withdrawals of income from quasi-corporations	0.0	40.0	0.0	0.0	0.0
Rent	19.3	31.2	19.9	55.2	35.3
Sales goods and services	62.8	112.5	63.3	124.2	60.9
Administrative fees	22.9	46.6	27.5	63.0	35.5
Incidental sales by non market establishments	39.9	65.8	35.8	61.2	25.4
Fines, penalties, forfeits	1.6	1.0	1.0	0.8	-0.2
Other transfers	18.5	631.4	904.3	1,153.3	249.0

Source: Department of Treasury

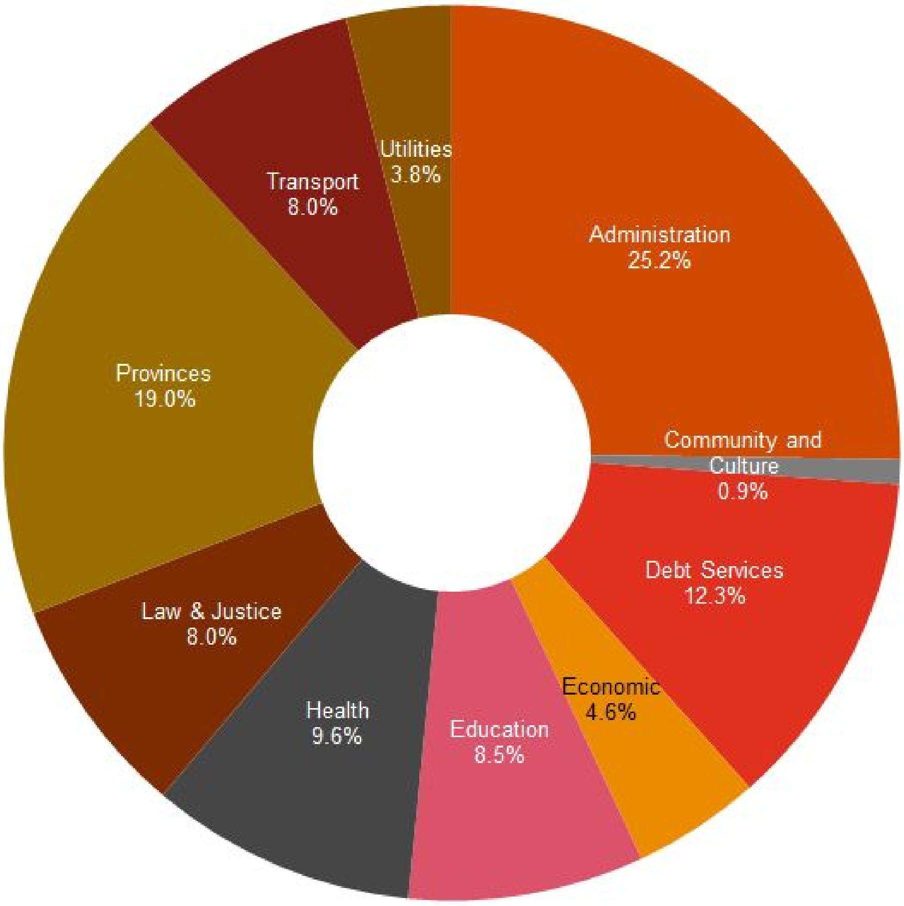
Expenditure

Total expenditure in 2019 is estimated to be K16,133.5m, which is is significantly higher than the 2018 Budget appropriations by K1,415.6m or 9.6% above the 2018 Budget expenditure.

The forecast pattern of government expenditure is shown in the following figure, with the largest three areas of expenditure being Administration (25.2%), Provinces (19%) and Debt Services (12.3%).

Notably, relative to GDP, debt servicing has decreased from 12.7% to 12.3%, and expenditure directed at the Provinces has declined significantly from 26.7% to 19%.

Operational and Capital Expenditure



	Percentage of GDP (2019)
Administration	25.2%
Community and Culture	0.9%
Debt Services	12.3%
Economic	4.6%
Education	8.5%
Health	9.6%
Law & Justice	8.0%
Provinces	19.0%
Transport	8.0%

Utilities	3.8%

Source: Department of Treasury

Taxation developments and amendments

2019 represents the second year in the Medium Term Revenue Strategy (MTRS) 2018-2022. The 2019 budget and tax changes were formed by and aligned with the intent of the MTRS which in turn has been guided by the Alotau Accord II and the government's 100 day plan.

The 2019 budget introduces a number of new revenue measures that support the Government's efforts towards fiscal consolidation and the need for continued investment in key expenditure priorities (ie education, health, infrastructure and law and order). The objective was to ensure an equitable burden is shared among taxpayers without compromising revenue collection.

In summary, the tax changes in the 2019 budget underpin the Government's efforts towards:

- fiscal consolidation but protecting and strengthening its revenue streams to increase revenue levels above 14% of GDP by 2022; and

- broadening and deepen the tax base in an efficient way to achieve revenue levels above the targeted 14% of GDP by 2022.

The 2019 budget also announces several revenue policy development areas largely consistent with the MTRS. The intention is to engage in consultation with respect to these policies in 2019 to gauge views from stakeholders to firm up the policies for implementation in 2020 and beyond.

The main tax measures are summarised below.

Change to personal tax rates

The Government introduced changes to the personal tax rates as follows:

- increase the tax free threshold from K10,000 to K12,500; and
- an increase in the 22% marginal tax rate threshold from K18,000 to K20,000

As a result of the changes, individuals earning over K20,000 will benefit from the lower tax rates up to a cap of K710 annually.

The changes are intended to provide relief to low to middle income earners and rebalances the tax composition from income to consumption by relieving the burden on labour income.

This is a positive change for individual taxpayers, particularly low to middle income earners as it reduces the tax burden on salary and wages. However, overall revenue collections from personal income tax remain relatively high, representing approximately 4.1% of GDP, compared to most developing countries in the Asia Pacific Region that have a ratio of about 1-3% of GDP for similar taxes. There is still room therefore for the Government to consider the balance of revenue collected from personal income tax to further encourage engagement and incentivise individuals in the formal sector.

Changes to the carry forward of tax losses

The Budget reduces the ability to carry forward tax losses, effective from 1 January 2019, to:

- 20 years for the resource and primary production sectors; and

- 7 years for all other taxpayers.

The rationale for the change is that the current rules are overly generous and raise concerns about whether taxpayers can be in business when they are not making profits for 20 years. The Government also comments that the change for other taxpayers to 7 years is consistent with the taxpayers' record keeping requirements.

Given that the ability to carry forward losses is restricted by the continuity of ownership and same business test, this change adds another restriction on the carry forward of losses. While there are arguments to support the Government's position with respect to persistent loss companies, the imposition of restrictions on losses carried forward will be of concern to new investors in the market, especially start up companies that can incur losses in their initial years (and can take several years to recoup the losses due to high tax depreciation against their capital expenditure).

Continue to strengthen revenue administration agencies

Consistent with recent years, the Government's focus for 2019 is to improve revenue policy and institute effectiveness of revenue administration in a coordinated manner with an objective of collecting more tax revenue collections on a sustainable basis. The Government acknowledges that there are significant institutional and capacity issues within the revenue administration agencies and therefore it is crucial that revenue administration agencies are strengthened with the adoption of the principles of an effective tax administration system. The MTRS aims to achieve this by increasing awareness, compliance and enforcement.

Key reforms for the IRC in 2019 include:

- establishing a Program Management Office for effective implementation of MTRS
- operationalising the LTO in the short term with a view to balance short term capacity and a strong longer term vision
- procuring a new Integrated Tax Administration System (ITAS) to replace SIGTAS
- establishing a designated Taxpayer Services Unit to develop educational material and improve tax compliance with the tax laws
- develop a broader Compliance Improvement Plan to address specific risks to revenue collections and improve compliance
- introduce KPIs and continuous monitoring and evaluation to help IRC manage and improve the way IRC operates
- review HR policies and procedures around recruitment to align HR management to a more modern tax administration.

Key reforms for Customs in 2019 include:

- strengthen cross border mechanisms to detect smuggling, contraband, illicit goods, evasion of duties, bribery and undervaluation
- strengthen post clearance audit
- improve Customs clearance and risk assessment of cargo
- implement a customs services plan 2018-2022 to deliver strong border protection and effective trade facilitation to increase compliance and enhance revenue collections.

Any changes that increase the capability and capacity within the IRC and Customs is a step in the right direction. The key will be in implementation, especially the introduction of the ITAS. We encourage the IRC to seek feedback from stakeholders in its design before implementation.

Removal of GST zero-rating for supplies to resource companies

Currently supplies to resource companies are zero-rated, resulting in suppliers claiming credits and/or refunds on expenses incurred by the suppliers that attract GST. The Government considers that this creates administrative complexity especially where supplies are also made to non-resource companies. They also consider that the propensity for fraud by suppliers is increased by not returning GST output tax to non-resource companies thereby increasing the GST credit/refund.

The Budget removes the GST zero-rating status for suppliers to resource companies. The key driver for the change is to address fraud and improve tax administration for supplies to resource companies.

The change will result in a net GST refund position for resource companies. Currently it is a time-consuming process to obtains refunds from the IRC. The Government addresses this by referring to the ability to offset these credits against other tax liabilities and the GST deferral scheme (to ensure no GST arises on direct imports).

This change is expected to reduce revenue leakage by K86.0m in 2019 and is effective from 1 January 2019.

Our understanding is that one of the factors behind the introduction of the zero-rating status for resource companies was to encourage contractors and suppliers to resource participants (in particular overseas contractors) to obtain the necessary Investment Promotion Authority and IRC registrations (in order to claim their GST refunds). While most suppliers in the resources sector are now registered, with the various resources projects to be developed in the coming years the Government should consider other mechanisms to encourage compliance by any new suppliers entering PNG.

In our experience taxpayers have found it difficult to be approved to make imports under the import GST Deferral Scheme since its inception. This has, in part, been due to approvals both being required from the IRC and PNG Customs in order to be admitted to the scheme.

We expect resource companies (who are unlikely to be part of the Deferral Scheme at the moment) may want to register for the Deferral Scheme and it will be important the administrative processes surrounding the scheme are improved ahead of these applications in 2019.

Reforms to excise

The budget suspends and reduces the rate of excise indexation for alcohol and tobacco, introduces a second tier for tobacco and removes excise rates on certain luxury goods.

The changes to alcohol and tobacco excise regimes are in direct response to concerns raised by local manufacturers that demand has reduced on PNG made products due to higher prices resulting from previous excise increases and stiff competition from imported substitutes involving cheap illicit products. The trade off is for the Government to protect its revenue base by combating illicit trade and unregulated products and support the local manufacturers.

In relation to luxury goods, the Government acknowledges that many luxury goods that currently attract excise are basic household needs and therefore will no longer be subject to excise. These include TV’s, play boxes and microwaves.

The changes are expected to raise K70m in 2019.

Any initiatives to support local manufacturers and crack down on illicit goods are positive.

Amendments to import duties

The Government is amending import duties to provide relief to local pioneer infant industries and local manufacturers from lower cost imported goods by increasing import duties on certain imported items.

The increases include import duties on:

- wooden furniture
- shopping bags
- flour
- milk and cream products

The increased duties are expected to raise K10m in 2019.

New export tax on Sea Cucumbers (Beche-de-mer)

The Government is concerned about capturing a sufficient resource rent and ensuring the sustainability of the harvest of sea cucumbers, and therefore proposes to introduce a new export tax of K15 per kilo. The new tax will assist the National Fisheries Authority to curb overharvesting and ensure sustainable sea cucumber fishing.

The new tax is expected to raise K10m in 2019.

Tax Administration Bill

This was introduced in the 2018 budget to simplify and modernise tax administration. The bill sets out common procedures and processes for the main taxes, and consolidate and streamline the powers of the Commissioner General with an expectation to improve tax administration and therefore increase revenue generation.

A working group has been established within the IRC to ensure proper awareness is made and IRC systems are expected to be upgraded before implementation in 2019.

Other tax changes and corrections

Other policy measures are also being introduced to increase the efficiency of the tax system and enhance tax compliance through clarification of tax laws and simplification of tax administrative procedures and processes for the benefit of tax administration and taxpayers. These include:

- removal of the education rebate to simplify administration

- empower the Commissioner General to form the quorum to determine the large backlog of R&D claims

- changes to the application of soliciting offences against IRC officers to bring forward the application date to 1 January 2019

- changes to the lodgement of annual non-resident insurers tax returns to monthly lodgements from 1 January 2019

- facilitate PNG's membership to global forum and multilateral instruments on base erosion and profit sharing (BEPS)

- consolidation of lodgement and payment dates for withholding taxes. All withholding tax due dates are now the 21st of the following month, although SWT remains the 7th of the following month

- technical change to confirm that the dividend withholding tax for individuals is a final tax and therefore should not be included in individuals income tax returns

- technical amendments to the FCWT rules which clarify the intent of the provisions (resulting in no policy change)

- correct a drafting error from 2017 to confirm that the country by country threshold is K2.3bn, not K203.0bn.

Also, in 2018 changes were made to customs tariffs to provide relief to local pioneer infant industries and local manufacturers from lower cost imported goods by increasing import duties on certain imported items. Many of these intended changes were omitted from the 2018 budget unintentionally and therefore have been corrected in the current year.

Policy development areas for 2019

The MTRS was aided by the PNG Taxation Review's findings in late 2015 and a report in August 2017 by an International Monetary Fund (IMF) technical team on PNG's tax administration, tax policy and legislation. The MTRS provides a detailed framework for improving the effectiveness and efficiency of PNG's tax system and its contents are therefore highly relevant in understanding the scope and direction of future budget changes. The 2019 Budget continues their focus on the MTRS and will review several forms that require public consultation and awareness for expected implementation from 2020.

These include:

- introducing a capital gains tax

- impose excise on sugar sweetened beverages to combat obesity, diabetes and other health issues

- proposing a minimum tax based on a percentage of revenue on taxpayers that make losses

- review and simplify tax depreciation rates and schedules

- investigate a turnover tax on the mobile telecommunication sector

- introducing a separate and simplified tax regime for Small and Medium Enterprises (SME's).

With a clear strategy in place, these principles and some additional detailed policies will be expected to provide the basis for future budget changes.

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