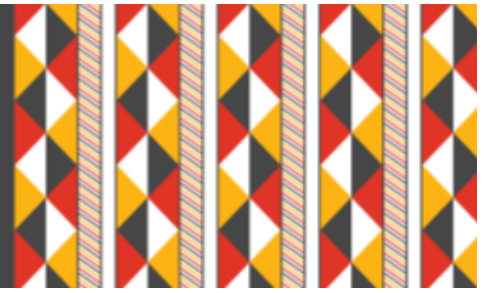




PNG Pulse

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June 2024

IRC update

In late May the IRC released their year in review report for 2023 which highlighted the ongoing efforts at collecting revenue and exceeding the levels established in the Government of PNG's national budget. The impact of the Final Budget Outcome for 2023 is addressed elsewhere in PNG Pulse, but the key items reported by the IRC reflect their key metrics. The IRC notes that the cost of collection against GDP ratio is particularly low by world standards. This added focus on measurement is a key part of the IRC's ongoing mission to become a more efficient and effective revenue agency and should be applauded. The level of transparency in relation to collections will no doubt provide more data for those responsible for budget planning.

In support of the IRC's Data Management Strategy, the IRC reported their involvement in a workshop hosted by PNG Department of Information and Communications Technology which was used to discuss and address issues such as data security in line with the national framework for Data Governance. This government initiative is described further in this month's PNG Pulse. It is clear that the IRC is looking to use data in a broader way, whether as a means to identify risk areas (though data matching) or to enhance the efficiency of their operations (for example with the proposed Integrated Tax Administration System to be implemented). Taxpayers should be aware of this increased focus and equally seek to understand how their own tax administration can be enhanced through more effective use of data.

Audit and inspection remains a priority for the IRC to enhance collections and enforcement activities. In order to continue to promote this aspect of the IRC's operations particularly in provincial and regional centres, a workshop was conducted in Lae to consolidate the standard operating procedures for tax audits and reviews. This commitment to a consistent approach to reviews and audits is an important driver of efficiency and will also be of benefit to taxpayers.

Final Budget Outcome

Last month saw the release by Treasury of the Final Budget Outcome (FBO) for 2023. This is part of the regular reporting cycle for Treasury and forms an important part of managing the country's fiscal position. As the name implies, it is a reconciliation of 'actual vs budget' for revenue and expenditure of the Government of PNG for 2023.

Overall, the FBO shows that despite reflecting a supplemental budget during 2023 that assumed revenue would significantly exceed the budget forecast and using the opportunity to allocate the expected excess revenue to increase spending, the actual result for the year came out between the original budget and supplementary budget figures with revenue and grants amounting to PGK 19.8 billion. This still meant that the annual deficit ran slightly under budget at 4.5% for the year.

The FBO confirmed that company taxes, personal income tax mining and petroleum taxes all had significant increases over the 2023 budget line and GST also presented substantial growth over the 2022 estimate (and the supplementary budget estimate). The FBO papers attribute the increase in collections to a range of factors, for example nominal wage growth as a driver for Personal Income Tax (PIT) increases (rather than a significant growth in the numbers of employees in the formal sector), company tax collections supported by the increase in tax rate on banks (rather than broad increases in profitability of companies), and GST as the result of the elimination of the GST relief on retail fuel and the extension of Section 65A collections efforts. As is always the case, the level of outstanding potential GST refunds represented through refundable GST returns that have not been verified by the IRC is not reported.

Non tax related collections were significantly lower than predicted in both the 2023 budget and supplementary budget. The major line items contributing to this shortfall were dividends from State Owned Entities (2023 Budget estimate PGK1.9 billion against 2023 actual of PGK 479 million), and administrative fees (2023 Budget estimate PGK 122 million against actual of PGK 7 million). The line item captioned administrative fees should include land lease rentals, government imposed admin fees and rentals for institutional housing.

The lessons from the FBO will no doubt be used to inform the process of putting together Budget 2025 which will be due for release in November this year. Recent reporting from the International Monetary Fund supported the Government of PNG's continued fiscal consolidation as part of their 13 year deficit reduction plan. The 2023 FBO shows that the Government was able to remain on the narrow fiscal path set out by that plan, despite a range of budget plans and assumptions not being met.

Data Governance Policy

We have recently seen some significant developments in the area of Data Governance and Data Protection with the launch of the Government's policy in this area last month. The scope of the policy is wide, setting out a framework for effectively managing, sharing, and protecting data. The Ministry of Information and Communications Technology noted that with the rapid growth in the use of digital technologies, proper regulation is required to mitigate risks to individuals, businesses and the economy generally from misuse of data as well as establish policies that can facilitate data driven innovation and growth.

The policy's objectives include:

- Data protection
- Accountability and transparency in the use of data
- Promoting data literacy and awareness
- Providing regulatory certainty in this space

The policy has been published and will no doubt be the trigger for further action in this area. For example, this month saw the holding of a Data Governance Workshop. This workshop appeared to focus mostly on areas of the public sector that each hold and utilise data and one of the outcomes of the workshop is expected to be the development of a Data Governance baseline report with the view to enhance collaboration, improve data quality and reliability and to make better use of data in decision making across government agencies.

The policy is yet to lead directly to the development of new regulation within this space, however the way in which the policy shapes the regulatory environment for data and the digital economy could have significant impact on businesses operating within PNG. Decisions under the scope of this policy will influence how PNG considers data sovereignty. The policy is relatively clear on the importance of the primacy of PNG in data sovereignty for the public sector, however, there are not yet similar deterministic statements in this regard for the private sector. The policy does note the importance of alignment with international norms, but businesses will need to monitor for further stakeholder engagement opportunities.

If you would like to know more about any of these developments or have any other questions, please get in touch with your usual PwC contact.

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