



2009 Papua New Guinea National Budget

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Executive summary

The theme of the 2009 Budget is to “*promote sustained economic growth and to further empower and transform the rural economy*”. The budget acknowledges that PNG is not immune from global economic conditions, and the Government is seeking to insulate the economy from global uncertainties and threats.

The stated priority of the budget is to promote sustainable economic growth through empowering and transforming the rural economy, and there is a spending focus on development of the rural sector in PNG.

Key components of the 2009 Budget include:

- It is expected this budget will deliver a small budget deficit in 2009 of K10.3m. (while the 2008 Budget originally forecasted a surplus equal to 1.0% of GDP, the revised estimate also indicates a small deficit of K9.5m in 2008).
- It is expected that Government revenues and expenditure will both decrease in 2009.
- Despite external factors economic growth is forecast to be 6.2% in 2009 (revised 2008 estimate is 7.2%), while inflation is forecast to decrease in 2009.
- There appear to be no new taxes or increases in existing taxes, and only minor changes to tax laws (however, as noted below there were new taxes introduced and changes to tax laws as part of the PNG LNG Project amendments passed in September 2008).

Key budget assumptions

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

Principal economic indicators	2003 actual	2004 actual	2005 actual	2006 actual	2007 actual	2008 est	2009 proj	Average (2003 – 2008)
Real GDP Growth (%)	2.2	2.7	3.6	2.6	6.5	7.2	6.2	4.1
Non-mining GDP Growth (%)	2.1	3.2	3.4	3.8	7.3	7.9	5.6	4.6
Inflation (year average) (%)	14.7	2.1	1.8	2.4	0.9	10.6	6.1	5.4
Oil price (US\$ per barrel)	27.4	42.1	53.4	64.3	72.3	102.0	55.0	60.3
Gold price (US\$ per ounce)	363	409	445	604	697	863	600	564
Copper Price (US\$ per pound)	0.81	1.30	1.67	3.05	3.23	3.21	1.50	2.21
Interest rates % (yearly average 182 days T-Bill)	18.3	9.0	4.5	5.0	5.0	6.5	7.0	8.05

Source: National Statistical Office, IMF, Department of Treasury, BPNG

The 2009 Budget notes that there are major uncertainties surrounding the 2009 growth forecast and commodity price assumptions, given the current uncertainties in world markets. No allowance for the proposed PNG LNG Project is made in economic growth forecasts as no formal decision has been made for the project to proceed.

Financing the budget

The following table summarises the financing requirements arising as a result of the estimated budget surplus for 2009 and also includes historic information for reference purposes.

Financing the budget (K millions)	2006 (actual)	2007 (actual)	2008 (estimate)	2009 (projection)
Total revenue and grants	6,312	7,028	7,780	6,666
Total expenditure and net lending	5,776	6,552	7,790	6,676
Budget surplus / (deficit)	536	476	(10)	(10)
Budget surplus / (deficit) as a % of GDP	3.1%	2.5%	0.0%	0.0%

The key points in relation to financing the 2009 Budget are:

- Total new external borrowing of K195.0 million is expected to be undertaken in 2009, reflecting additional drawdowns on concessional loans.
- External repayments of existing loans of K224.6 million will more than offset new borrowing, resulting in a net external outflow of K60.6 million in 2009.
- The net domestic funding required in 2009 to fund the outflows in external financing will be K70.9m. This consists of K1,496.8 million in new borrowing and amortization of K1,425.9 million. No receipts from asset sales have been factored into financing the 2009 Budget.

Revenue and grants

The total budgeted revenue and grants for 2009 is expected to be derived from:

- Taxation revenue of K4,614.3 million (2008 estimate = K6,116.2 million)
- Non-taxation revenue of K1,037.8 million (2008 estimate = K479.3 million)
- Infrastructure tax credits of K40.0 million (2008 estimate = K73.7 million)
- Project support grants of K974.3 million (2008 estimate = K1,111.2 million)

Taxation revenue is forecast to fall by K1,501.9 million, or 24.5%, in 2009. The major revenue decline is expected from taxes on income and profits which is projected to fall by K1,615.2 million or 34.7%. This is partly offset by the increased revenue from domestic taxes on goods and services and taxes on international trade, which are expected to increase by K82.5 million or 8.0% and K30.8 million or 7.2%, respectively.

Of the K4,614.3 million expected to be derived in the form of taxation revenue, K3,043.9 of this balance is forecast to be in the form of taxes on income and profits comprised of:

Source	2009 (K million)	%	2008 (K million)
Mining and petroleum tax	626.5	20.6	2,392.2
Personal income tax	1,195.1	39.3	1,086.5
Company tax	877.3	28.8	778.2
Dividend withholding tax	144.2	4.7	196.8
Gaming tax	95.9	3.2	91.6
Other direct tax	85.8	2.8	93.1
Interest withholding taxes	19.1	0.6	21.1
	3,043.9	100.0	4,659.5

Source: Department of Treasury

The major cause of the expected reduction in revenue from taxes in income and profits is the decline in mining and petroleum taxes in 2009, which are estimated to fall by K1,765.7m, or 73.8%. Mining and petroleum taxes contributed 51% of all taxes on income and profits in 2008, however this is expected to fall to 21% in 2009. This reflects the substantial decline in commodity prices and appreciation of the exchange rate.

Personal income tax receipts are expected to increase by K108.9 million or 10.0% to K1,195.1 million in 2009 compared with the estimate of K1,086.2 million in 2008. Corporate income tax receipts are estimated to increase by K99.1 million or 12.7% to K877.3 million in 2009, compared with K778.2 million in 2008. These increases reflect expected solid domestic economic conditions in 2009 with strong profit and employment growth.

The net decrease in revenue derived in the form of taxes is partially offset by an increase in revenue from non-tax sources, despite a small fall in grants for 2009. The increase in non-tax revenue is largely attributable to an injection of K600.0 million of funds from the Gas Equity Trust Account. This will be used to fund one-off expenditure in 2009. Grants revenue is expected to decrease due to the appreciation of the Kina (particularly against the Australian dollar).

Recurrent and development expenditure

The total appropriation for 2009 of K6,676.7 million comprises:

- Recurrent Budget of K3,904.5 million (2008 estimate = K3,639.3 million)
- Development Budget of K2,595.2 million (2008 estimate = K1,874.6 million)
- Reappropriation into Trust Account K177.0 million (2008 estimate K0.0 million)
- Additional Priority Budget of K0.0 million (2008 estimate = K2,276.0 million)

Recurrent and development expenditure is forecast to increase during 2009. However, the abolition of Additional Priority Expenditure in 2009 (having been introduced in 2007 and continued in 2008) means that total expenditure is forecast to fall in 2009.

The Recurrent Budget

Total recurrent expenditures are forecast to increase by K265.2 million (7.3%) to K3,904.5 million from K3,639.3 million in 2008. The 2009 recurrent budget provides for major increases to various priority areas including individual Government agencies.

Major funding increases include:

- Increased funding to individual agencies

Increased funding will be provided to a number of individual agencies for specific projects and to meet increased personnel and operating costs. Major increases are being provided to Provincial Governments (K119.6 million), Hospital Management Services (K46.2 million), Education (K14.7 million), Internal Revenue Commission (K10.1 million), Transport (K6.2 million), Defence (K13.6 million), and the Office of Climate Change and Carbon Trading (K5.0 million).

- One-off Government expenditures

The 2009 Budget is providing an additional K58 million to fund a series of important one-off Government expenditures including a contribution to the Motu-Koita Assembly (K10 million), assistance to Milne Bay Provincial Government and the Western Highlands Provincial Government following destruction of Provincial offices (K13 million), the Women in Parliament initiative (K2.5 million), consultancy for Nambawan Superannuation review (K2 million), and funding for scoping work for a possible PNG team in the Australian National Rugby League (K0.5 million).

- Funding for specific road maintenance

K50 million will be provided for maintenance of the nation's priority roads, as identified in the National Transport Development Plan. This increased funding will enable the Department of Works to undertake additional routine and specific maintenance on over half of the 4,200 kilometers of priority roads.

- Air Niugini capital injection

Air Niugini will be provided with a K30 million capital injection in 2009 to assist the airline meet costs associated with re-fleeting and other operational issues.

- PNG LNG Project support funding

To support the PNG LNG Project K20 million will be provided in 2009 to meet the operating costs of the PNG LNG Project Support office.

- Establishment and operation of the National Television Service

The 2009 Budget includes K7 million in addition to the K12 million provided in the 2008 Supplementary Budget for the continued rollout and ongoing operations of the recently established National Television Service.

- Other major expenditures

Other major items announced in the 2009 Budget include new funding for the Civil Aviation Authority (K33.0 million), Oro Restoration Authority (K20 million) and National Border Authority (K4.0 million).

The Development Budget

The 2009 Budget provides for substantially increased funding to the Development Budget to pursue development priorities. The Government is seeking to promote sustained economic growth through empowering and transforming the rural economy and by providing employment opportunities to PNG citizens.

The Development Budget for 2009 is K2,595.2 million, which is K720.5 million or 38.4% higher than the revised estimate for 2008. This reflects an increase in the Government funding allocation of K857.5 million to K1,620.9 million, partially offset by a decline in funding from donor agencies due to the appreciation of the Kina.

Only 37.5 % of the Development Budget (K974.3 million) is expected to be in the form of project grants from donors (2008: 59.3%). Australia continues to be the largest project grant donor providing 72.4% of this component of the Development Budget. This contribution has increased from an estimated 69.0% in 2008, although total aid from Australian is expected to fall by K134.3 million to K699.3 million (2008: K833.6 million).

The domestic funding for Development includes a series of reallocations from the Recurrent Budget and new spending measures:

• District Services Improvement Program	K356.0 million
• Transfer of National Agriculture Development Plan funds	K100.0 million
• MOA commitments	K70.0 million
• Wharves and bridges funding	K60.0 million
• Additional Provincial and Rural Roads funding	K66.0 million
• Waigani office redevelopment	K50.0 million
• National investments	K43.0 million
• Rabaul assistance package	K25.0 million
• ADB Highlands Region Road Improvement Investments Program	K38.0 million
• Prime Minister's Community College	K30.0 million
• Provincial Impact Projects	K20.0 million
• National Stadium	K20.0 million

Additional Priority expenditure

The budget for Additional Priority Expenditure first featured in the 2007 Budget and again in the 2008 Budget. Additional Priority Expenditure was isolated from other expenditure and, broadly, represented the windfall gains to the Government from high commodity prices in 2007 and 2008. No Additional Priority Expenditure is included in the 2009 Budget.

The Medium Term Development Strategy

The '*Medium Term Development Strategy 2005 – 2010*' in part guides the allocation of funds from both the recurrent and development budgets to seven priority areas. The seven priority areas are:

- Primary and Preventative Health Care
- HIV / AIDS Prevention
- Basic Education
- Development Oriented Adult Education
- Transport Rehabilitation and Maintenance
- Promotion of Income Earning Opportunities
- Law and Justice

57% of the total Development Budget is directly targeted at the seven MTDS priority areas.

While the 2009 Development Budget Strategy still focuses on the seven priority areas it has a different prioritisation of the areas than previous Development Budgets in order to promote rural empowerment and sustainable transformation.

Taxation developments and amendments – income tax

Corporate tax rates

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

Personal tax rates

There has been no change to personal tax rates.

From 1 January 2009 the rates for residents are as follows:

Taxable Income	Tax thereon (K)	Rates on tax on excess (%)
7,000	Nil	22
18,000	2,420	30
33,000	6,920	35
70,000	19,870	40
250,000	91,870	42

From 1 January 2009 the rates for non- residents are as follows:

Taxable Income	Tax thereon (K)	Rates on tax on excess (%)
Nil	Nil	22
18,000	3,960	30
33,000	8,460	35
70,000	21,410	40
250,000	93,410	42

Tourism incentives

Continuing the theme of supporting tourism the main policy initiative of the 2009 Budget is to enhance the large scale tourism incentive.

In the 2007 Budget the government introduced a concessional taxation rate of 20% in respect of income derived by a taxpayer solely from a new large scale tourism facility or a substantially improved tourist accommodation facility. This rate applies for the 1st year in which such income is derived and for a maximum of 9 years thereafter.

The Government has recognized this incentive is not effective when combined with the initial year tax depreciation rate of 55% applicable to investment in tourism plant.

Consequently, the period of time for which the reduction in the tax rate applies has been increased from 10 years to 15 years.

In addition the eligibility criteria have been relaxed to reduce the minimum expenditure requirement from USD10 million to USD7 million and the room requirement from 150 to 100 rooms.

These amendments are a result of representations made by PricewaterhouseCoopers and the Tourism industry.

Policy on tax concessions

The 2009 Budget does not contain any new tax concessions. However, the Government has stated its intention to continue to encourage and facilitate future investment. The Government is also embarking on an awareness program to inform stakeholders of the existing tax concessions available.

The Government's policy on tax concessions is that concessions should be made available on an industry wide or sectoral basis rather than on a project by project basis. In addressing the policy on tax concessions the budget papers again noted:

“The tax system is compromised when concessions are given to specific projects or taxpayers. The use of project agreements to create special tax arrangements for individual projects has encouraged a wide range of investors to seek a growing list of tax concessions.

To enhance the integrity of the tax system, concessions provided to projects need to be confined to those available for the relevant industry in the existing tax law. This will ensure neutral and equitable tax treatment of projects in each sector, and transparency in tax policy.

Furthermore, the assurance of equitable treatment for all investors encourages further investment in the economy.”

Other amendments

A small number of other amendments will be made to the Income Tax Act including amendments to:

- Include a definition of the term “Public Authority”.
- Remove an incorrect reference to Provincial and Local Bodies in Section 24.
- Clarify the way the Review Tribunal or the National Court will hear appeals by taxpayers dissatisfied with the Commissioner General's decision on an objection to an income tax assessment. Section 247A imposes a duty of disclosure on the taxpayer to provide access to the Commissioner General to each document that is in the possession or custody or under the control of the taxpayer and is directly or indirectly relevant to any allegation in issue in the Review or appeal. This disclosure must be made within 28 days of the making of the application to the Review Tribunal or filing of an appeal to the National Court.

In addition an appeal to the National Court shall be a hearing “de novo” and neither the taxpayer or the Commissioner General shall be restricted to material or evidence considered in determining the taxpayer’s objection.

The amendments give rise to some concerns particularly in relation to their impact on the privilege which should be extended to communications between the taxpayer and their advisors. We will be discussing these issues with the Internal Revenue Commission to see if an administrative solution to this potential issue can be put in place.

- Deal with existing applications for review and appeals to the National Court which have not yet been determined. These applications and appeals will be subject to the following:
 - if the tax in dispute has not been paid the taxpayer is required to pay the tax assessed which remains unpaid by 30 January 2009 and if not paid by that date the review or appeal shall stand dismissed;
 - the review or appeal shall be heard in accordance with Section 247A (note that the reference in the Bill to Section 247B appears to be incorrect); and
 - the duty of disclosure applies as if the application or appeal were lodged on 1 January 2009.
- Oblige taxpayers to retain records for at least seven years after lodging tax returns or accounts to which they relate (instead of seven years from the transaction date).

Taxation developments and amendments – mining, petroleum and gas

There were no amendments relating to the mining, petroleum and gas industries in the 2009 Budget. However, in September 2008 there were a number of amendments passed to facilitate the implementation of the PNG LNG Project. These amendments include:

- A technical amendment to Section 35(2)(e) and Section 155H to delete the references to the Bank of Papua New Guinea to reflect liberalisation of exchange control and to ensure interest paid by companies carrying on mining, petroleum or gas operations to a non-resident lender is exempt from income tax and interest withholding tax. This amendment has an effective date of 3 September 2007.
- A new definition of “gas operations” to extend the definition to include liquefaction, refining and storage for the purposes of the PNG LNG Project.
- An amendment to allow the PNG LNG Project additional deductions where the internal rate of return is below the project’s commercially viable level.
- An amendment to the income tax regulations to clarify when a petroleum field converts to a gas field.
- The reinstatement of additional profits tax for all designated gas projects, including the basis upon which additional profits tax will apply to the PNG LNG Project.
- An amendment to exempt the PNG LNG Project from customs and excise taxes during the construction of the PNG LNG Project and any subsequent phase of the project where total costs exceed USD 50 million.

- An amendment to exempt the PNG LNG Project and its customers from any export taxes.
- An amendment to exempt the PNG LNG Project from the 2% additional tax normally imposed on resource projects in exchange for fiscal stability.
- An amendment to exempt the PNG LNG Project from stamp duty on restructuring of ownership interests in the PNG LNG Project where the transfer is between a PNG LNG Project company or its affiliates or between PNG LNG Project companies.

Taxation developments and amendments – goods & services tax

There were no amendments to the Goods & Services Tax law.

Taxation developments and amendments – stamp duties

There were three amendments to the Stamp Duties Act:

- To prevent stamp duty avoidance when entering into two or more agreements for the same transaction between the same or related parties.
- To amend Section 48(C)(1)(c) to clarify the existing law and achieve the original policy intent where portions of the same property are sold to the same or related parties.
- To correct the date for the abolition of stamp duty on insurance contracts to 1 April 2008.

Taxation developments and amendments – customs, excise and indirect taxes

Excise duty – alcohol and tobacco

There have been no changes to the excise duty on alcohol and tobacco products.

Excise tariff rates

There have been no changes to other excise duty rates.

Customs Tariff Act

There have been no changes to the customs duty rates. The budget papers noted the Government had proposed in 2007 that it would consider further reductions in 2009. Given the uncertainty and volatility currently surrounding the economic outlook, consideration of further tariff reductions has been deferred until 2010, when the economic outlook is expected to be more settled.

Customs Act

Amendments are being made to the Customs Act:

- to discourage smuggling by increasing the load limits which can be seized by Customs from 250 to 500 tonnes, and extend customs control in territorial waters from 3 to 12 nautical miles to be consistent with the National Seas Act; and
- to empower the courts to impose an additional penalty for smuggling dutiable goods, counterfeit goods and excisable goods which relates to the value of customs duty which has been avoided and the value of the smuggled goods.

The PNG Budget commentary has been prepared to provide a prompt overview of the general issues raised in the 2009 Budget. It does not cover exhaustively the subjects discussed. When specific issues occur in practice it is necessary to refer to the laws and regulations and to obtain appropriate professional advice.

While every care has been taken in the preparation of this publication, no warranty is given as to the correctness of the information it contains and no liability is accepted for any statement or opinion, nor for any error or omission

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