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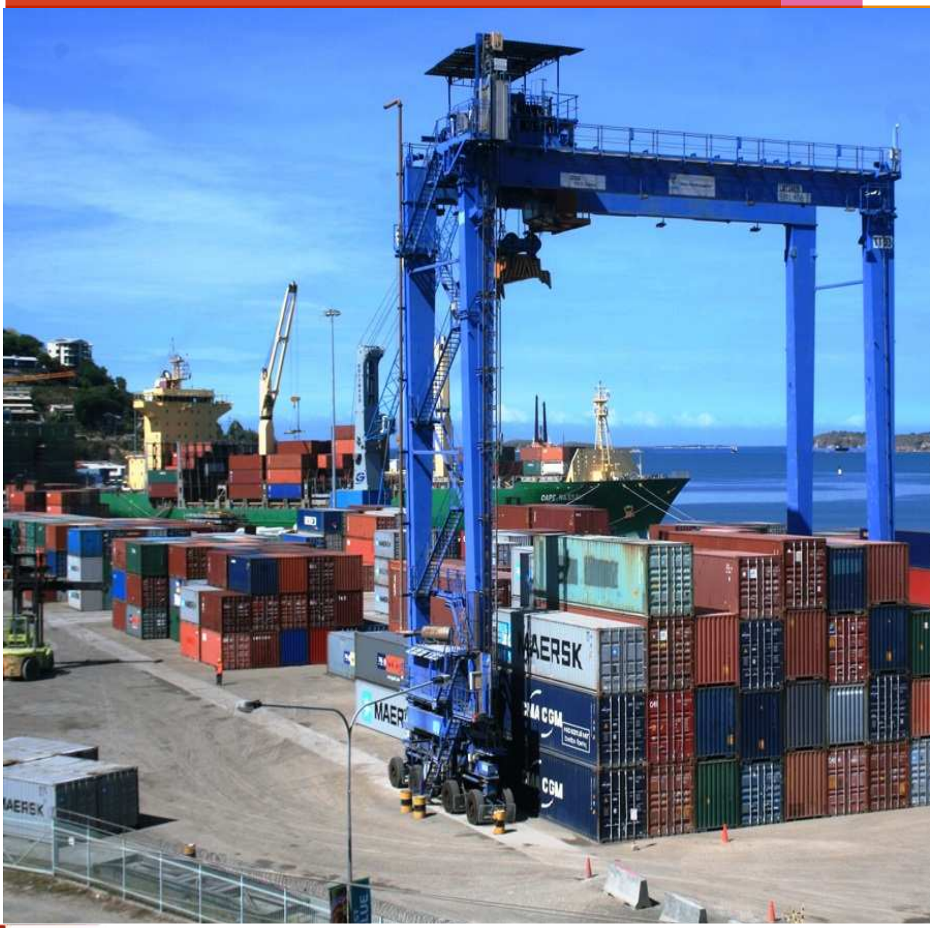
2014 National Budget

PwC Budget Summary

Papua New Guinea



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The Minister for Treasury, the Honourable Don Polye, MP handed down the 2014 National Budget on 19 November 2013.

Executive summary

The theme of the 2014 Budget is "Consolidate Gains For Sustained Growth Through Prudent Investments" and represents Papua New Guinea's largest ever budget. A central theme of the budget is the Government's ongoing commitment to growing the country's future by making key investments focused on inclusive and sustainable growth for all.

Key components of the 2014 Budget include:

- The 2014 budget will be PNG's biggest ever at K15 billion.
- Economic growth is projected at 6.2% in 2014, up from the 2013 estimate of 5.1%.
- In 2014 the main sectors expected to drive growth are oil and gas, extractive industries, agriculture, personal and social services sectors.
- The 2013 Budget deficit of 7.9% has been reduced to 5.9% in the 2014 Budget. The Budget is expected to return to surplus from 2018.
- The Budget's debt to GDP ratio is 35 per cent in 2014, reducing to below 30 per cent over the forward estimates.
- Inflation is forecast to be 6.5% in 2014, up from the 2013 estimate of 4.0%.
- As with the prior year, the 2014 Budget continues to recognise the significance of the PNG LNG Project as a driver of economic growth.
- No new taxes were introduced.

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	2012 actual	2013 est.	2014 proj	2015 proj	2016 proj	2017 proj	2018 proj
Real GDP Growth (%)	8.0	5.1	6.2	21.2	2.7	3.4	3.3
Non-mining GDP Growth (%)	9.1	4.7	1.6	4.3	3.6	4.1	4.1
Inflation (year average) (%)	2.2	4.0	6.5	5.0	5.0	5.0	5.0
Interest rates (Kina Rate Facility)	6.75	6.25	6.25	6.25	6.25	6.25	6.25
Gold price (US$ per ounce)	1,668	1,428	1,359	1,368	1,391	1,395	1,409
Copper price (US$ per tonne)	7,959	7,344	7,213	7,216	7,298	7,382	7,349
Oil price (US$ per barrel)	105	100	79	76	72	70	70
Nickel (US$ per tonne)	17,542	15,520	15,017	15,255	15,461	15,636	15,792

Source: Department of Treasury

The outlook for the Papua New Guinea economy continues to remain positive in 2013 despite the less favourable world economic conditions. The economy is projected to grow at 5.1 per cent in 2013, underpinned by the strong confidence and optimism investors and businesses have in the opportunities the economy continues to offer.

In 2014, the domestic economy is projected to grow at 6.2 per cent, representing 14 years of uninterrupted economic growth. This is despite the gradual winding down of the construction phase of the LNG project over the first half of 2014.

The strong growth is supported partly by the gas and petroleum sector with the first production of PNG LNG project gas. It is also partly supported by a rebound in the mining sector as key mines return to normal production in 2014 after the disruptions encountered in 2013.

Nickel production is also expected to ramp up to over half of full capacity lifting total output from the sector in 2014.

Financing the Budget

The 2014 Budget is projected to go into a deficit of K2.5 billion to enable spending on major priority areas. The following table summarises the financing requirements arising as a result of the 2014 Budget and also includes historic information for reference purposes.

Financing the budget (K millions)	2012 (actual)	2013 (budget)	2013 (revised)	2014 (proj)	2015 (proj)	2016 (proj)	2017 (proj)	2018 (proj)
Total revenue and grants	9,566.0	10,481.9	10,481.6	12,688.5	14,029.0	14,824.3	15,972.5	16,672.6
Total expenditure and net lending	10,046.9	13,030.8	13,218.7	15,041.5	15,291.1	15,707.8	16,101.9	Not available
Budget surplus/(deficit)	(480.9)	(2,548.9)	(2,737.0)	(2,353)	(1,262.1)	(883.5)	(129.4)	Not available
Budget Balance (% of GDP)	(1.5)	(7.2)	(7.9)	(5.9)	(2.5)	(2.2)	(1.8)	(1.8)
Public debt	8,485.6	8,514	11,600.4	13,955.9	15,270.8	16,477.3	17,545.4	18,679.9
Debt to GDP (%)	24.1	32.0%	32.6	35.2	29.3	29.9	29.7	29.7

Source: Department of Treasury

Total revenue and grants is forecast to increase from K12,688.5 million in 2014 to K14,029.0 million in 2015. From 2015 to 2018 Total Revenue and Grants is expected to pick up considerably to K16,672.6 million in 2018.

The increase in revenue is in line with the start of production of the PNG LNG project and supported by continued domestic economic growth. Strong growth is expected from mineral taxes, while non-mineral taxes continue to maintain growth. Mineral revenue is expected to increase after the PNG LNG project production begins in 2014.

Revenue and grants

Tax Revenue is expected to pick up from K9,743.5 million in 2014 to K10,598.7 million in 2015 growing to K14,416.9 million by 2018. The increase in 2015 is projected to be driven by strong mineral tax inflows from the LNG production and supported by slight increases in non-mineral tax inflows, expected to continue to grow in line with the growing economy.

Non-Tax Revenue is projected to rise significantly to K1,641.4 million in 2015, from K1,260.0 million in 2014, driven mainly by the inclusion of the LNG dividend from the PNG LNG project.

From 2016 to 2018, Non-Tax Revenue is projected to decrease slightly before picking up to K1,151.7 million in 2018. The decline in 2016 and 2017 is attributed to a slight decrease in the LNG dividend which offsets the increase in State Owned Enterprise (SOE) Dividends. Mining and Petroleum Dividends remain constant from 2015 to 2017 whilst growth in Other Non-Tax Revenue or Departmental Revenues is expected over the medium term. The Government is currently reviewing Departmental Revenues to increase the country's revenue base through assisting State Agencies to update their fees and charges to be in line with modern pricing levels as well as to improve compliance with existing fees and charges.

The total budgeted revenue and grants for 2014 are expected to be derived from the following sources:

Revenue Summary (K millions)	2012 (Actual)	2013 (Budget)	2013 (Revised)	2014 (Budget)
Total Revenue	**8,571.4**	**9,140.7**	**9,140.5**	**11,003.5**
Growth on Previous Year	3.8%	6.6%	6.6%	20.4%
Per cent of GDP	26.7%	25.7%	26.4%	27.8%
Taxation revenue*	**8,148.3**	**8,631.2**	**8,605.7**	**9,743.5**
Growth on Previous Year	3.1%	5.9%	5.6%	13.2%
Per cent of GDP	25.4%	24.3%	24.9%	24.6%
Non-taxation revenue	**423.2**	**509.5**	**534.8**	**1,260.0**
Growth on Previous Year	20.8%	20.4%	26.4%	135.6%
Per cent of GDP	1.3%	1.4%	1.5%	3.2%
Total revenue and grants	**9,566.0**	**10,481.9**	**10,481.6**	**12,688.5**
Growth on Previous Year	2.8%	9.6%	9.6%	21.1%
Per cent of GDP	29.8%	29.5%	30.3%	32.0%

Source: Department of Treasury

* Comprises of taxes on income and profits (K7,117.2m), domestic taxes on goods and services (K1,879.4m) as well as taxes on international trade (K746.9m)

The composition of the tax revenue is as follows:

Taxation revenue (K million)	2014 (projection)	2013 (Revised)	2012 (actual)
Personal income tax	2,852.0	2,740.4	2,648.7
Company tax	2,647.4	2,061.6	1,744.5
Dividend withholding tax	261.3	232.8	190.7
Mining and petroleum tax	1,001.8	815.7	981.1
Interest withholding tax	49.0	49.0	67.4
Other direct tax	125.0	115.6	108.8
Gaming tax	180.8	170.6	133.9
Taxes on income and profits	7,117.2	6,185.8	5,875.1
Domestic taxes on goods and services	1,879.4	1,721.7	1,575.5
Taxes on international trade	746.9	698.2	697.7
Total taxation revenue	9,743.5	8,605.7	8,148.3

Source: Department of Treasury

The strong increase in mineral tax inflows in 2015 is expected to be driven mainly by Petroleum Taxes and supported by expected increases in Company Tax, Excise Duty on Imports and Goods and Services Tax. Other non-mineral taxes such as Other Direct Tax, Gaming Tax, Excise Tax and Other Indirect Tax are also expected to show reasonable growth. This is expected to more than offset the expected fall in Personal Income Tax and Export Duty. The expected fall in Personal Income Tax reflects significant employment tax contributions from the LNG construction works dropping off as LNG employment drops in line with the winding down of the construction phase of the project. The decline in Export Duty is due to the decreasing logging activities due to the expected closure of some of the major logging sites.

Service delivery and development expenditure

The total appropriation for 2014 comprises

Total Expenditure and Net Lending 2014 (K millions)	2013	2014	2015	2016	2017
Administration **	3,753.4	3,747.7	3,892.3	4,059.9	4,205.1
Economic & Agriculture	491.7	777.9	765.0	781.3	798.0
Education	1,343.0	1,501.7	1,468.4	1,501.7	1,535.8
Health	1,089.0	1,382.3	1,348.9	1,380.2	1,412.2
Infrastructure	1,882.0	2,723.3	2,655.9	2,712.0	2,768.6
Law and Order	1,022.6	1,296.0	1,264.3	1,293.8	1,323.9
Provinces	3,462.2	3,638.4	222.9	227.7	232.7
Social	174.8	227.1	222.9	227.7	232.7
Total ***	13,218.7	15,294.5	15,291.1	15,707.8	16,101.9

Source: Department of Treasury

** Includes various multi-sector costs (such as superannuation, workers compensation and interest payments).

*** The Total Appropriations does not include whole of government savings in 2014 and adjustments to the aggregate estimates allowances across the forward estimates.

The Service Delivery Expenditure

Total Appropriated expenditure in 2014 is estimated to be K15,294.5 million. This represents a K2,075.8 million or 15.7 per cent increase over the revised 2013 Budget appropriation (K13,218.7 million). This level of spending is consistent with the 2014 Budget Strategy Paper recommendations for a maximum deficit of 5.9 per cent and a debt to GDP ratio of 35 per cent.

Major policy initiatives in 2014 for the service delivery expenditure are:

- Housing and Land Development K61 million (K319 million over four years).
- Universities Infrastructure K222.8 million (K562.8 million over four years).
- Continued roll-out of Tuition Fee Free Education K605 million (around K3.5 billion over four years).
- Agriculture / SME Development K313 million (around K1.4 billion over four years).
- Hospitals Redevelopment K267.2 million (K762.2 million over four years).
- Completion of facilities for the 2015 South Pacific Games K375 million, including K316 million advanced in the 2013 Supplementary Budget (K625 million in total).
- Roads and Bridges funding K1,417.9 million.
- Increased allowances for Village Court and other local officials K50 million (K462 million over four years).

Financing & Debt Strategy

The domestic debt market in 2013 continued to grow as the Government issued increased volumes of debt into the market to fund its development needs. There was strong demand from investors for Government debt, in particular from the commercial banks for Treasury Bills. This demand is expected to continue into 2014.

Total public debt is projected to increase from K11,600.4 million in 2013 to K13,955.9 million at the end of 2014 as a result of the projected budget deficit for 2014. Similarly, debt as a share of nominal GDP is projected to increase from 33.5 per cent to 35 per cent to meet the Government's development agenda. The *Fiscal Responsibility Act 2006* sets an upper target on debt on issue of around 35 per cent of debt to GDP. This limit will need to be closely monitored during 2014.

2014 Central Government Financing (K millions)	2013 Balance (estimated)	2014 Repayment (estimated)	2014 Borrowing (estimated)	2014 Balance (estimated)	2014 Net Change
Domestic Debt	8,750.9	5,313.4	7,021.1	10,458.6	1,707.7
Treasury Bills	4,106.2	4,956.3	5,101.1	4,250.9	144.8
Inscribed Stock	4,644.8	357.1	1,920.0	6,207.7	1,562.9
External Debt	2,849.5	223.4	871.2	3,497.3	647.8
International Agencies	2,833.2	207.1	871.2	3,497.3	664.1
Commercial loans	16.3	16.3	-	-	(16.3)
Total	11,600.4	5,536.8	7,892.3	13,955.9	2,355.5
% of Nominal GSP	33.5%			35.2%	

Source: Department of Treasury

Changes to the Sovereign Wealth Fund

Given the anticipated surge in mining and petroleum projects in the country with the potential of increased revenues to the government, a Sovereign Wealth Fund was developed. The Sovereign Wealth Fund was developed to provide a possible mechanism to help insulate the PNG economy and the budget from the volatility and fluctuations in revenue. In 2011, the Government endorsed the policy and legislated a framework with the design and institutional framework of PNG SWF guided by international best practice, the Sovereign Wealth Fund Generally Accepted Principles and Practices (the Santiago Principles), and domestic requirements.

The Organic Law was subsequently passed into Law in February 2012. Since then, the Government has undertaken a review of the Organic Law to ensure proper constitutional processes are followed. The Government is considering modifying the design of the PNG SWF to provide a greater focus on intergenerational equity consistent with PNG's Constitutional obligations.

In considering this, the Ministerial Committee on Economic Sector (MCES) has agreed to have a Savings Fund to replace the Development Fund. In this regard the National Budget will take care of PNG's economic and social development needs consistent with its development priorities and objectives. However, the internationally applauded PNG SWF structure and institutional framework will remain. The PNG SWF will continue to:

- Have a single governance framework.
- Be onshore managed, offshore invested and onshore spent.
- Be fully integrated with the budget and fiscal framework.
- Promote governance, transparency, disclosure, accountability and asset management rules based on international best practice (the Santiago Principles).
- Be overseen by an Independent Board located within PNG.
- Have investments undertaken by experienced investment managers.

Major Cities Infrastructure Package

Successful urban centres are critical to continued growth and national development. PNG‟s major cities require major investment to rehabilitate and upgrade ageing infrastructure, particularly as the drift of rural populations to these centres is likely to accelerate in coming years.

The Government will provide K838.6 million (including K73.9 million in donor grants and loans) in 2014 for the development of infrastructure in PNG's four major cities of Port Moresby, Lae, Mt Hagen and Kokopo. The infrastructure projects represent initial steps toward developing each city as a central hub in key areas of enterprise:

Port Moresby (Commerce)

The Government will provide K281.8 million in 2014 to develop Port Moresby into the commercial hub of the country. The key infrastructure projects for Port Moresby include K170.0 million for new and existing roads, K30.0 million for the upgrade of Port Moresby General Hospital and K30.0 million to complete the upgrade and rehabilitation of Jacksons Airport.

Lae (Industry)

The Government will provide K437.4 million in 2014 to develop Lae into the industrial base of PNG. The key infrastructure projects for Lae include K270.0 million for the Lae Port Development Project, K100.0 million for new and existing roads and K65.2 million for the rebuilding of Angau Hospital under the 2013 joint understanding with the Australian Government.

Mt Hagen (Agriculture)

The Government will provide K61.4 million in 2014 to develop Mt Hagen into the agricultural centre of PNG. The key infrastructure projects for Mt Hagen include K40.0 million for new and existing roads, K20.0 million for the redevelopment of Mt Hagen Hospital and K1.4 million for the Mt Hagen Rice Project.

Kokopo (Tourism)

The Government will provide K58.0 million in 2014 to develop Kokopo into the tourism hotspot of PNG. The key infrastructure projects for Kokopo include K20.0 million for water and sewerage upgrades, K15.0 million for upgrade works to Tokua Airport and the road from Kokopo to the Tokua Airport and K3.0 million for the implementation of the tourism midterm master plan.

Other projects and reforms

Review of the financial services sector

In 2014 the Government will conduct a broad ranging review of the overall operation and governance of the PNG financial services sector. This review will identify policies and practices to assist in improving the efficient operation of this important sector. The review will cover amongst other issues:

- Systemic risks in the financial sector.
- Barriers to the growth in deposits and lending.
- Governance of micro-financing institutions.
- Access to banking services to remote areas.
- Enabling the growth and expansion of a sound debt market (financial capital market).

A Financial Inclusion and Literacy Programme to be run by the Treasury and BPNG will be an important policy initiative over the coming years to ensure greater demand for financial services.

Public Private Partnerships

The Government recognises the important role the private sector can play in expanding service provision in PNG, including working with the State through public private partnerships (PPPs). PPPs are a way to increase private sector involvement in the supply of public services.

To harness this potential, the Government is examining the feasibility of a number of PPPs in the power and transport sectors. It is important to emphasise that a PPP is simply a method to competitively procure, deliver and maintain infrastructure and services through cooperation between a public institution and one or more private enterprises via a long term contractual agreement e.g. to build and maintain a highway, or to plan and develop a large scale commercial agriculture project.

The Government has developed specific PPP legislation to complement existing and planned PPP arrangements. This legislation will lead to additional expertise in Government via the creation of a PPP Centre. This additional PPP transaction expertise, combined with legislation that requires transparent processes to execute PPP arrangements be followed, should provide the private sector enhanced confidence to invest in PNG PPPs.

Treasury has prepared a PPP bill that is now before the Legislative Counsel to bring it to Parliament towards the end of 2013.

Infrastructure Funding

Total infrastructure sector funding is K2.7 billion including K769 million in donor funding. Construction and maintenance of roads and bridges infrastructure is a critical area for which Department of Works will receive over K1.6 billion (including K339 million from donors).

The Independent Public Business Corporation will have funding of K514.5 million; including K55 million for the PNG LNG Fibre Cable; K411.3 million (including K141.3 million from ADB) for the Lae Port Development Project and K47.8 million (K27.8 million from JICA) for the Port Moresby Sewerage Project.

PNG Power will have an allocation of K425.2 million including K75.8 million (K49.8 million from ADB) for the PNG Town Electricity Investment Project and K28 million from JICA for the Ramu Transmission System Reinforcement Project.

Education Funding

Total funding for the Education sector in 2014 will be K1.5 billion, an increase of K160 million from 2013 Budget appropriation levels. The Department of Education will receive K1,082 million which demonstrates the Government's commitment to education. The government's key policy is tuition fee-free education for Elementary level to National High Schools (costing K605 million with a further K43 million in trust). Students from over 18,000 schools in PNG will benefit from this policy.

In addition the department delivers flexible open distance education which support students from years eight to ten to complete their studies away from the class room; special education; and accreditation of high quality tertiary and vocational institutions. A total of K23 million will be provided for Curriculum Development Materials which includes the procurement of text and resource books for teachers in elementary and primary schools. K11 million will be provided for National Examinations to cater for grade 8, grade 10 and grade 12 examinations in 2014.

The Government is also committed to rehabilitating the higher education institutions of PNG and will provide K414.4 million for the sub-sector including K210.7 million for the Office of Higher Education and a further K192 million for targeted infrastructure projects at a number of universities including K15 million for the Law School at the University of Papua New Guinea and K5 million for the Open Campus University. The O'Neill-Dion Government is keen on improving the quality of higher education in PNG commencing at the higher institutions to international standards through accreditation of courses offered by the university.

The raising of the quality education at university level will guide the lower levels of education to upgrade themselves to meet the requirements of entry into higher institutions.

Improvements in administration – IRC and Customs

While the Government is not undertaking major tax reform prior to consideration of the tax review, the Government has encouraged the Internal Revenue Commission and PNG Customs to improve their revenue administration in 2014. This is expected to raise an additional K750 million.

Health

In 2014 total funding for all agencies in the Health sector will be K1.4 billion. The Department of Health (K666.4 million) and Hospital Management Services (K516.2 million) have the majority of funding in the Health Sector.

Funding in this sector will support the upgrade and redevelopment of 16 existing hospitals. This includes K65.2 million for Angau Memorial Hospital (including K45.2 million from the Australian Government under the 2013 Joint Understanding), K50 million for Enga Hospital, K30 million for Port Moresby General Hospital. K114 million is provided for the following provincial and district hospitals: Boram, Daru, Kerema, Kundiawa, Manus, Mendi, Modilon, Mt Hagen, Nonga, Popondetta and Vanimo. The Government also provided a further K8 million for the design of two new hospitals in Central and Hela Provinces.

Law and Order

The Law and Order sector will receive funding of K1.3 billion in 2014.The Police Department will continue to receive funding through its Police Modernization Program (K69 million in 2014). K6.5 million is specifically for the recruitment of 480 new Officers and K62.5 million is for the facelift of the Police training college and other Police facilities. Police will continue to receive the K15 million in the 2014 Budget for the construction of Police patrol stations along the PNG LNG corridor and Site.

The Department of Defence in 2014 will also continue to receive funding for the rebuild program. K30 million will be specifically for the rebuild of the PNG Defence Force and K25 million for the purchase of land to allow the relocation of Murray Barracks and Lancron Naval Base.

As part of the Government's Commitment, Defence will continue to recruit an additional 400 uniformed personnel at a cost of K3 million in 2014. Correctional Services in 2014 is also recruiting additional uniformed personnel of 150 at a cost of K1.9 million to ensure the number of warders is maintained to substitute for the ageing of the current force. This Government has awarded an increase in Village Court Officials allowances amounting to K38.4 million per annum, commencing in 2014 Budget.

Microeconomic reforms

The O'Neill-Dion Government strongly considers micro-economic reform to be the engine for sustainable growth of the private sector. Accordingly, the Government will continue to pursue a comprehensive national micro-economic reform agenda in 2014. The Government will prioritise competition policy as well as the business regulatory environment for local and foreign business investors.

The Government will also undertake micro-economic reforms in SOEs and conduct further restructuring of the Ok Tedi Mine and the PNG Sustainable Development Programme to improve operational efficiencies and growth outcomes. These reform processes are essential so as to allow the PNG economy to continue to grow at a high rate.

Review of Public Sector

The Government's reform efforts will also address the underlying issues that impinge on public sector service delivery and private sector led market development.

The Government is also committed to public sector reform that will enhance the efficiency and effectiveness of the public sector. One of the planned reforms is that the Government is to undertake an amalgamation of Government Agencies with duplicate functions in 2014. In addition, efforts will also be needed to implement the 'one person, one position, one pay principle', so as to eliminate an estimated several thousand 'ghost' employees in the public sector.

Taxation developments and amendments

In 2013 the Government established a Tax Reform Committee to undertake a National Tax Review. The Tax Reform Committee is made up primarily of former Commissioners General and it is expected the Tax Reform Committee will hand down its report in 2014 in time for changes to be implemented in the 2015 National Budget. Consequently, it is not surprising that the 2014 Budget does not include many taxation changes.

The 2014 Budget includes a handful of amendments primarily to introduce some safeguards, repeal the operation of the research and development concession and amend the circumstances in which a certificate of compliance is required.

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 that have applied from 1 July 2012.

From 1 January 2014 the rates for residents will continue to be as follows:

Taxable income (K)	Tax thereon (K)	Rates on tax on excess (%)
10,000	Nil	22
18,000	1,760	30
33,000	6,260	35
70,000	19,210	40
250,000	91,210	42

From 1 January 2014 the rates for non- residents will continue to be as follows:

Taxable income (K)	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

Research and Development

One of the more significant tax changes in the 2014 Budget is an amendment to phase out the additional 50% deduction for expenditure incurred on approved research and development projects with effect from 1 January 2014. Under the existing law a taxpayer can apply on a prospective basis for approval of research and development projects. Where the projects are approved the taxpayer is entitled to a deduction for 150% of the eligible costs.

The change to eliminate this concession from 1 January 2014 has been introduced in the light of the challenges encountered in the administration of the current law and in particular finding appropriate and technically qualified specialists to assess the applications. In addition, the cumulative potential revenue cost of projects for which approval has been sought is significant. The budget papers suggest there are contingent liabilities of K2.4 billion in respect of projects yet to be approved. The budget papers also point to an inconsistency between Section 95(9) of the Income Tax Act and Regulation 10F of the Income Tax Regulations. The Government will amend the Regulation 10F in 2014 to ensure there is consistency with the Income Tax Act.

Research and Development expenditure, including donations to approved research institutes, remains deductible on a 100% basis. However, the Budget papers do not address the question of how the Internal Revenue Commission (IRC) will deal with applications which have yet to be reviewed.

Certificates of Compliance

Taxpayers engaged in certain industries are required to provide a certificate of compliance to their principal for contracts of K500 or more or for contracts which are in aggregate K3,000 or more to one payee. Where the certificate of compliance is not provided the payee is required to withhold business income withholding tax at the rate of 10% from the amounts payable under the contract.

The current thresholds of K500 in relation to one contract and K3,000 in relation to one payee were introduced in 1992 and have not been updated for inflation. One of the consequences of this for the IRC is an increase in applications for certificates of compliance resulting in a backlog of applications which the IRC is struggling to process.

In order to reduce the administrative burden and to reflect inflation the amendments will increase the threshold to K5,000 for one contract and remove the aggregating provision. In addition, a number of industries will be removed from these provisions including surveyors, engineers, architects, cleaning and garbage collection firms, advertising and sign writing firms, entertainers, professional services providers such as accountants, lawyers, doctors and consultants.

Infrastructure Tax Credit Scheme

The infrastructure tax credit scheme applies to taxpayers engaged in mining, petroleum or gas operations and tourism. Under the general scheme expenditure incurred on approved infrastructure can be claimed as a credit against tax payable by the company undertaking the infrastructure project. Under the original scheme the amount for which a tax credit could be claimed was limited to 0.75% of the taxpayer's gross income. Consequently, there was a limit placed on the amount of resource project taxes which could be spent on infrastructure projects.

A recent amendment introduced an additional tax credit scheme for an "approved national infrastructure project". Under this scheme the National Executive Council (NEC) was able to approve national infrastructure projects such that tax credits would be available in excess of the 0.75% cap. The Budget papers suggest this posed significant risks to the Government's revenue from mining and petroleum projects. The proposed amendment will limit the meaning of approved national infrastructure project to those approved prior to 19 November 2013.

The amendment will have the practical effect of limiting the national infrastructure tax credit scheme to the NEC approved two year refurbishment of Marea House and any other project approved prior to 19 November 2013.

Excise Duties

The 2014 Budget introduces an amendment to the descriptions of alcohol products in the Excise Tariff Act with effect from 1 January 2014. The amendment is intended to address inconsistent descriptions of alcohol products in the Excise Tariff Act and the Customs Tariff Act and to ensure consistency with the 2012 Harmonised System of tariff codes.

One of the consequences of the amendment is to shift certain alcohol products to higher tax bands and as such a higher rate of excise duty will apply.

Stamp Duty

The Stamp Duties Act is to be amended to repeal Section 6(c) which provides an exemption from stamp duty for a person declared by the Minister as an instrument of the Government. The change is intended to remove the future potential risk for abuse and save the Government revenue in the future.

Minor Technical and Administrative amendments

The 2014 Budget contains a number of minor technical amendments and included commentary on administrative amendments in relation to refunds. These are summarised as follows:

- An amendment to the secrecy provisions of the Income Tax Act to enable the Commissioner General of the IRC to share and exchange information with the Chief Collector of Taxes of the Autonomous Region of Bougainville.

- A new subsection in Section 25A which relates to exemption of income of Charitable Bodies giving the Commissioner General of the IRC the right to review and revoke the charitable status at any time during the period of the exemption.

- Section 219C is amended to change a reference to another subsection in Section 219C.

- An amendment to correct minor drafting errors in Section 354K and Section 354R.

- Arrangements relating to the administration of income tax refunds have been changed to enable the IRC to now transfer funds from their administration account to the IRC refund account every time a refund is ready to be paid to a taxpayer. The refund is then paid from the IRC refund account. This arrangement will assist the IRC in ensuring refunds are processed and paid out much faster and also help to promote voluntary compliance of taxpayers as they will be assured that any refund of overpaid taxes will be promptly processed and paid.

Revenue Compliance Measures

The Treasury and IRC have developed a strategy to improve compliance and collections based on the existing tax system. This work has resulted in the following five compliance measures being identified:

- **Registration Compliance**- this will involve the IRC materially increasing the number of businesses registered for tax purposes and also putting incentives into place that will better secure voluntary registration with the IRC.

- **Lodgement Compliance**- this measure will see the IRC devote more attention to higher order prosecution including non-compliance court orders.

- **Reporting Compliance**- the IRC proposes to undertake substantially more verification and audits.

- **Payment Compliance**- work to be undertaken within this measure will see the IRC introducing new approaches to dealing with debt, reflecting in particular experience of overseas jurisdictions.

- **Earlier processing**- this measure will involve the IRC hiring additional staff and having the ability to employ short term contractors so as to enable the IRC to minimise on carry-over stocks.

The IRC strategy involves:

- Additional staff (largely low skilled PNG staff, with some engagement of consultants and non-citizen contractors where high end skills are needed and local skills are sufficient).

- Additional use of technology (requiring additional staff and technical support) to ensure that processes are undertaken in a more timely manner.

- Voluntary compliance will be encouraged, supported by education, follow-up and increased use of media.

- Involuntary compliance will be addressed by increased legal action to enforce obligations to register, lodge report correctly and pay.

Future Development of taxation policy

Papua New Guinea Taxation Review

The Government has established a Taxation Review Committee comprised of distinguished Papua New Guineans:

- Sir Nagora Bogan (Chairman)
- David Sode (Deputy Chairman)
- Sir John Luke Critton
- John Lohberger
- Aivu Tauvasa

The Tax Review Committee will consult widely with stakeholders which will include an opportunity for stakeholders to provide their perspectives on the broad directions for reform and key priorities. In addition the Committee will release and consult on draft reports containing specific proposals and/or recommendations.

The objectives of the review are to:

- Align PNG's revenue system with its development aspirations of being a competitive middle income nation in the Asian century.
- Improve the competiveness and efficiency of the tax system to encourage investment, employment and economic development.
- Enhance the fairness and simplicity of the taxation system.
- Consider options to change tax mix between the levels of taxation on land (including resources), capital and labour.
- Improve taxpayer compliance including considering options to enhance services to taxpayers and reduce the cost of compliance through the use of modern technology.
- Review non-tax revenues with the aim of ensuring fees are appropriate and fair.

The Tax Review Committee will consult widely with stakeholders. International experience shows that broad and effective consultation is critical to the successful delivery, implementation and sustainability of the reform. The Review is expected to include at least two separate phases of consultation:

1. "Blue sky" consultation – stakeholders will be invited to provide their perspectives on the broad directions for reform and key priorities. This phase would help the Committee to formulate ideas for the direction of tax reform, build a consensus of the need for reform, and ensure key areas of public interest are covered in the Review.

2. Consultation on draft recommendations - the Committee will release and consult on draft reports containing specific proposals and/or recommendations.

Consultations will include regional workshops in Port Moresby, Lae, Kokopo and Mount Hagen. Notices of the regional workshops will be advertised in the both daily newspapers to inform the public about the consultations. Stakeholders will also be given the opportunity to submit written submissions.

Correspondence and inquiries on the review should be directed to the Head of Secretariat either by email (kessy_sawang@treasury.gov.pg) or mail (Head of Secretariat, Tax Review Secretariat, c/-Department of Treasury, PO Box 542, Waigani, NCD).

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