2018 National Budget

Papua New Guinea

www.pwc.com/pg

Contents

The Minister for Treasury, the Honourable Charles Abel, MP handed down the 2018 National Budget on 28 November 2017.

Executive summary

The 2018 National Budget — *Review Our Priorities, Refocus our Energies and Reinforce our Strengths* — is the first 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.

Key outcomes from the Budget include:

- Inflation — 6.9% (vs 5.9% in 2017)
- Economic growth — 2.4% (vs 2.2% in 2017)
- Government revenue as a percentage of GDP — 14.6% (vs 13.5% in 2017)
- Net borrowing as a percentage of GDP — 2.5% (unchanged from 2017).

Reflecting this process of prior public announcements and consultation, with echoes from the 2015 tax review, much of this Budget brings together welcome reform elements that reflect a more modern view of the way that government plans and operates as an effective spending and taxing body.

This strategy is underpinned by two principal themes:

- a significant increase in revenue — this reflects the Government's strategy of increasing revenue from existing taxes — either through rate increases or more effective administration —rather than the imposition of new taxes
- a greater focus on public sector accountability for managing and spending public monies.

In not drastically seeking to curtail public spending, the Government is hoping to ensure that spending is targeted at productive sectors that will aid economic growth.

Naturally, not all stakeholders will welcome this Budget:

- the Government still appears to see major businesses as a soft target for enhanced revenue collection
- government agencies will come under pressure to remit surplus funds and better account for the execution of their budgets
- a focus on reducing government employee costs will challenge some in the public service.

The issue deferred in this Budget is that of reigning in government debt. With the Government running a Budget deficit of 2.5% of GDP, the debt-to-GDP ratio of 32.2% in 2018 means that debt servicing costs (the third largest expenditure item) is rising from 10.4% to 12.7% of all expenditure. This is a challenge that cannot be put off indefinitely.

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	2016 actual	2017 est	2018 proj	2019 proj	2020 proj	2021 proj	2022 proj
Real GDP growth (%)	2.0	2.2	2.4	2.2	2.0	2.5	2.8
Non-mining GDP growth (%)	0.7	1.9	3.5	3.5	3.6	3.3	3.3
Inflation (year average) (%)	6.7	5.9	6.9	5.8	5.7	5.7	5.7
Interest rate (Kina Rate Facility)	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Gold price (US$ per ounce)	1,248	1,254	1,281	1,293	1,310	1,320	1,346
Copper price (US$ per tonne)	4,865	5,945	5,960	6,059	6,183	6,272	6,357
Oil price (US$ per barrel)	44	50	51	52	54	55	57
Nickel (US$ per tonne)	9,595	10,010	10,516	11,065	11,819	12,575	13,757
Cobalt (US$ per tonne)	25,639	52,194	50,014	44,238	41,813	40,834	34,728

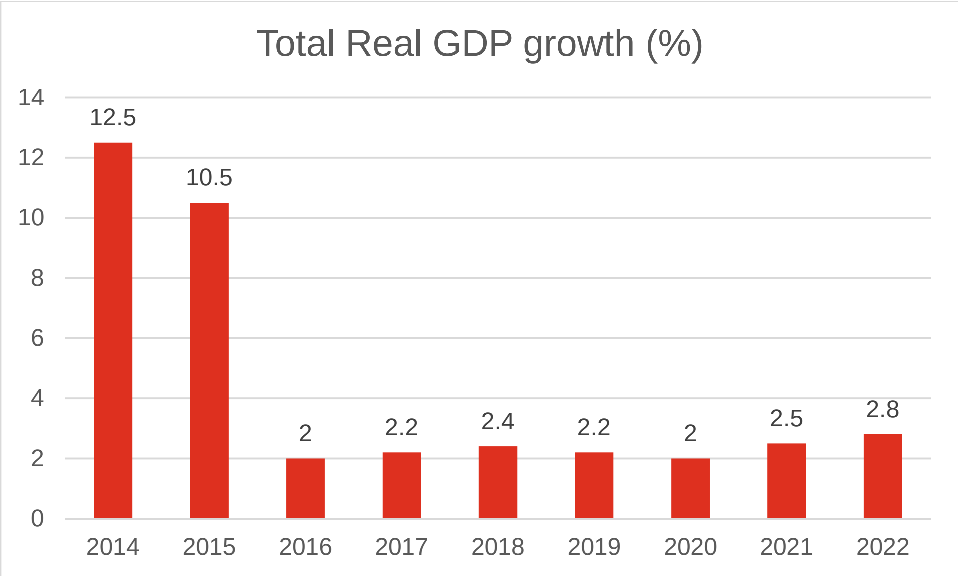
Source: Department of Treasury

Economic outlook

Not surprisingly, and thankfully, the economic outlook presented in the 2018 Budget is not different to that shown in the 2018 Budget Strategy paper released by the Treasurer just three weeks ago.

The global economic outlook has improved slightly over the past year. The International Monetary Fund (IMF) is projecting global real GDP growth in 2017 to increase by 0.1 percentage points to 3.6% from the April and July forecasts, which is itself a meaningful increase above the 3.2% growth in 2016.

With slightly improved global growth prospects, the PNG economy (i.e. gross domestic product — GDP) is projected to grow at 2.4% in real terms in 2018, up from 2.2% in 2017 (see figure below).



Business activity in the domestic economy has been sluggish, and confidence harmed, driven by:

- problems accessing foreign exchange. This issue is not specifically addressed in this Budget
- the depreciation of the exchange rate, particularly against the Australian Dollar
- the delay in paying of Government bills to the private sector.

These challenges will continue into 2018, and will continue to be a drag on the economy.

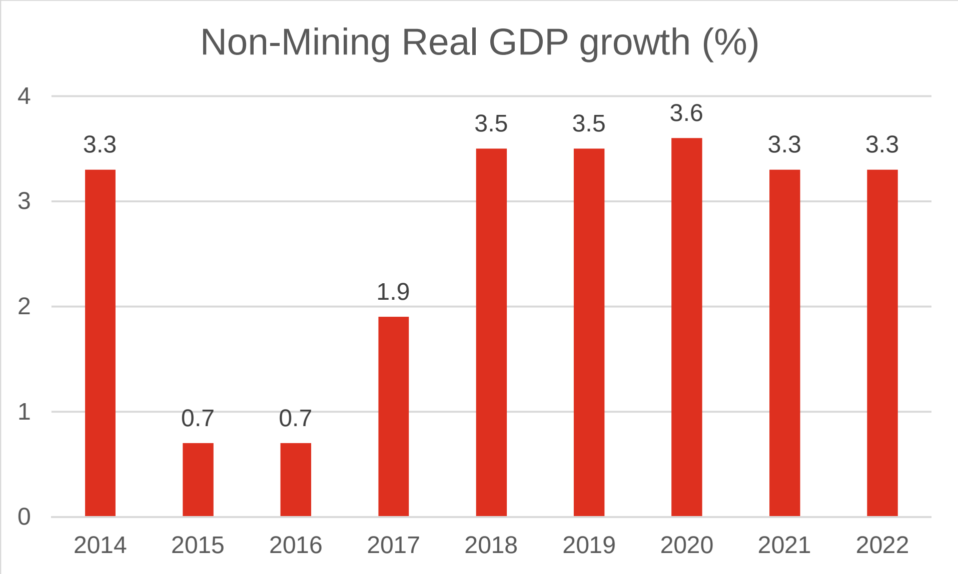
Indeed, reflecting the softer than expected economic environment, the 2017 GDP growth of 2.2% is lower than the 2.7% growth projected in the Mid-Year Economic and Fiscal Outlook (MYEFO) report and the 2.8% projected at this time last year.

This decline in economic growth reflects the contraction associated with the natural decline in PNG's major oil fields, low production and export of logs in the forestry sector, and also reflects continued softness in business activity through the last year. Such negative outcomes more than offset the positive stories of higher LNG, gold, nickel and cobalt production.

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.

As the Budget papers note, and as shown in the following figure, 'An important feature of this higher growth rate in 2018 is driven by the non-mining sectors of the economy which has direct effect on the bulk of PNG's rural population.'[1]

[1] Volume 1, p.1



Specifically, as shown in the following table, economic growth in PNG in 2018 is forecast to be driven very significantly by four non-extractive industries:

- Agriculture, Forestry & Fishing industry
- Construction
- Wholesale & Retail Trade
- Administrative & Support Services.

Contributions to Growth in Real GDP	2017	2018
Agriculture, Forestry & Fishing	0.4	0.5
Oil and Gas Extraction	-0.4	-0.3
Mining and Quarrying	1.3	0.1
Manufacturing	0.1	0.1
Electricity, Gas & Air-conditioning	0	0
Water Supply & Waste Management	0	0
Construction	0.1	0.3
Wholesale & Retail Trade	0.2	0.4
Transport & Storage	0	0.1
Accommodation & Food Services	0	0.1
Information & Communication	0	0.1
Financial and Insurance Services	-0.1	0.1
Real Estate Activities	0.1	0.2
Professional & Scientific	0	0
Administrative & Support Services	0.1	0.4
Public Administration & Defence	0.1	0.1
Education	0.1	0.1

Contributions to Growth in Real GDP	2017	2018
Health & Social Work Activities	0	0.1
Other Services Activities	0	0

This improved forecast for non-mining economic growth reflects, in part, the 'APEC bump'.

Inflation is also expected to receive an APEC bump; inflation is expected to increase by one percentage point from 5.9% in 2017 to 6.9% in 2018. This reflects:

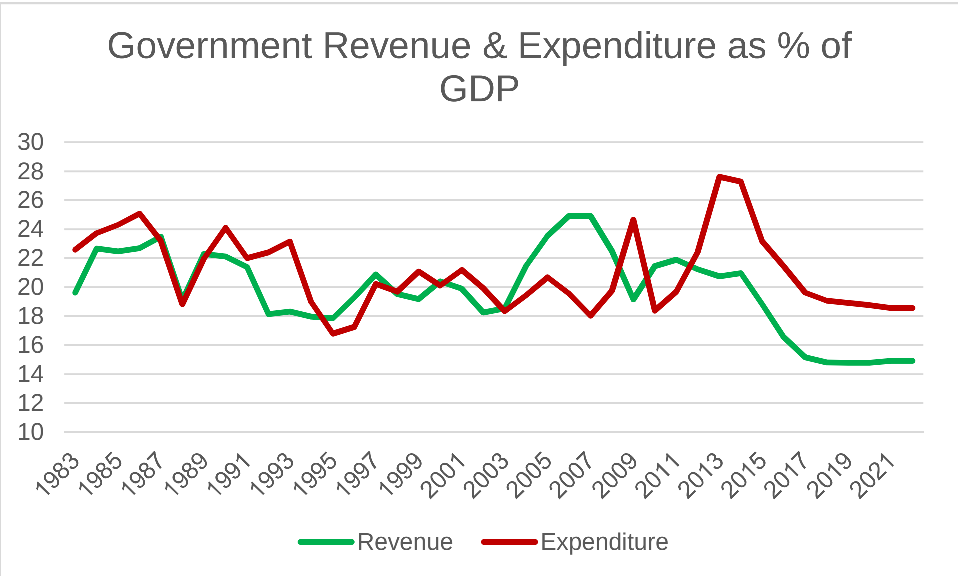
- higher spending and consumption of goods and services during the APEC meetings
- the anticipated increase in tariffs and excise rates proposed in the 2018 Budget (discussed later)
- higher global commodity prices.

Fiscal Outlook

Using IMF data and projections, the starting position for the 2018 PNG Budget is shown in the following figure. The fiscal story is a well-known one:

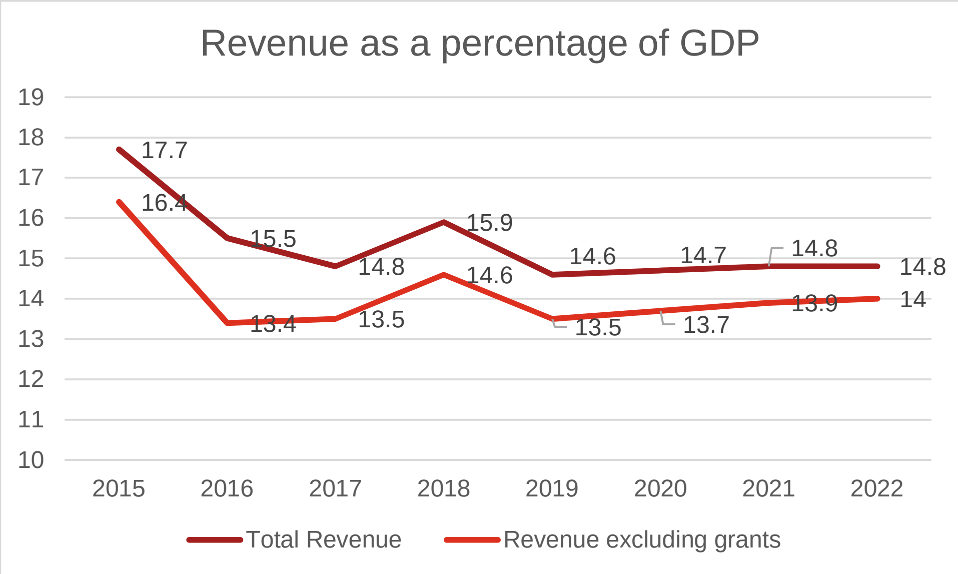
- over the past 35 years PNG has moved in and out of deficits (red line above the green) and surpluses (green line above the red)
- with government expenditures increasing significantly on the back of the commodity boom and the construction of the PNG LNG project, based on the largely unrealised expectation of higher tax receipts, current projections are for expenditure to persistently exceed government revenues.

At the same time that there is pressure to reduce expenditure, Government forecast revenues are collapsing.

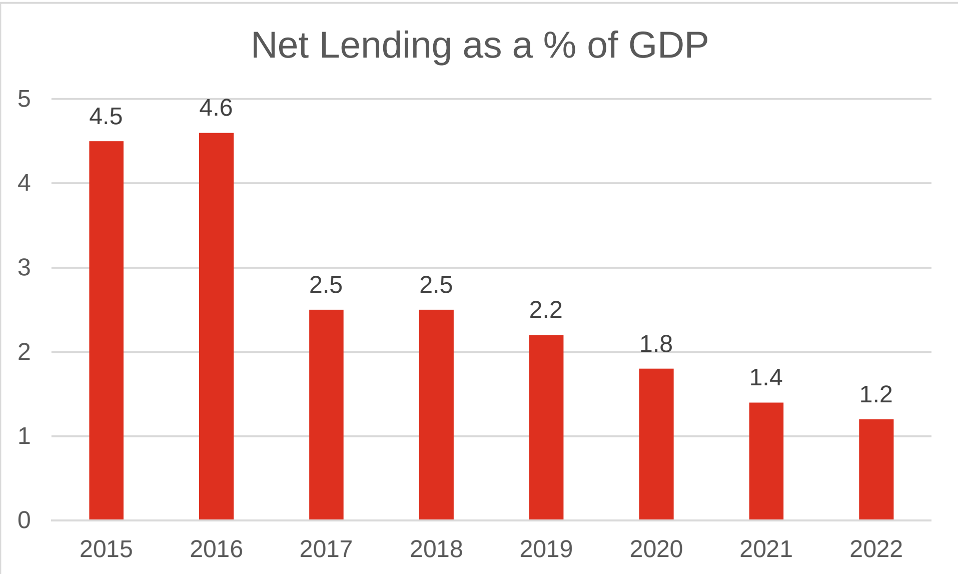


Source: IMF

On a first glance, this Budget paints the message of a stronger fiscal position, with an increase in tax revenue in 2018 of 1751.5m kina (an increase of 16%). This is a somewhat illusory increase as tax receipts are projected to fall in 2019 and then stay relatively stable in subsequent years.



Indeed, the net Budget position, while improved (see figure below), reflects a delay in the goal of moving the Budget back to surplus (which will not be achieved before 2022, at the earliest).



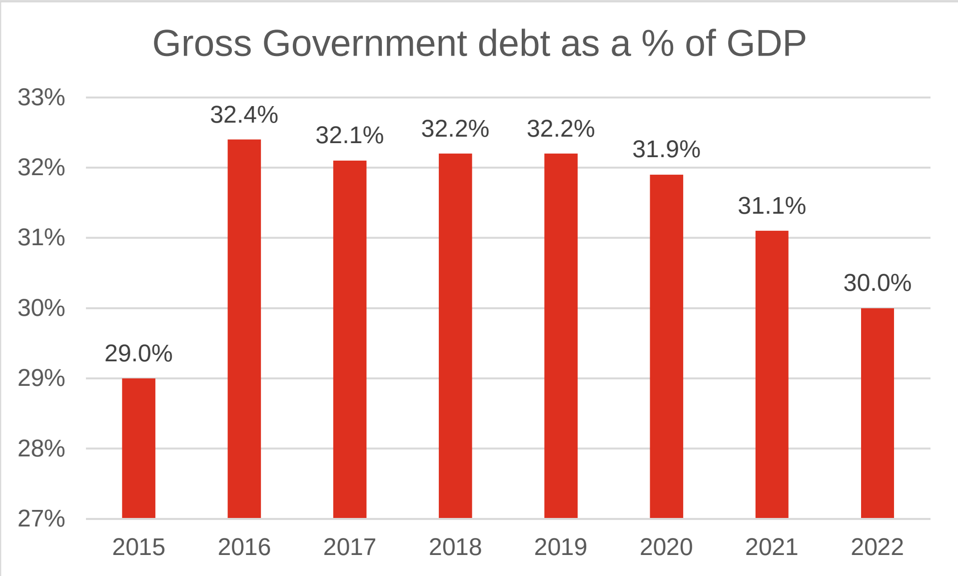
While it is necessary to see the PNG Government committed to fiscal resizing to bring the Budget back to balance, this will not be an overnight correction, as noted recently by the IMF mission to PNG:

> *'The mission also strongly supports the government's intention to strengthen its revenue base over the medium term. To achieve its Sustainable Development Goals, PNG will need to harness significantly higher revenue from the resource and non-resource sectors in an efficient and equitable*

manner. This will take some time but, with adequate resourcing and external technical support, including from the IMF, it can be achieved over the medium term.'[2]

The consequence of continuing to run a Budget deficit is the increase in debt and the consequential debt repayment obligations.

Acknowledging this less than hawkish approach to debt reduction, the Government recently amended the *Fiscal Responsibility Act* to allow debt levels up to 35% of GDP (as opposed to the 30% that previously existed). Debt levels are forecast to stay under this threshold and reduce slightly over the forward estimates.



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 not an unreasonable objective.

Indeed, the World Bank has recently published analysis that argues that increasing public expenditure in PNG could help improve development outcomes.[3] According to the Augmented Human Development Index (AHDI), which incorporates health, education, and infrastructure provision, PNG currently has human development outcomes that are lower than expected given current per capita levels of government spending. At the same time, human development indicators in PNG remain relatively low due to low levels of public spending, implying that increasing public expenditure could help improve development outcomes.

The key here is to ensure that the spending is undertaken efficiently and on appropriate matters. This is the challenge for the Government, and which should be the focus of public scrutiny of the Budget's implementation.

---

[2] IMF 2017, 'IMF Staff Completes 2017 Article IV Mission to Papua New Guinea' available at https://www.imf.org/en/News/Articles/2017/09/18/pr17357-imf-staff-completes-2017-article-iv-mission-to-papua-new-guinea

[3] See World Bank 2017, *Financing Pacific Governments for Pacific Development*, Pacific Possible Background Report No. 7, Washington, DC

Revenue and grants

In 2018, total revenue is projected at K12,730.7m, comprising of K9,639.4m in tax revenue, K1,024.6m in grants and K2,066.7m from other revenues (dividends and department fees and charges). Compared to the 2017 Supplementary Budget estimate, total revenue is higher by K1,751.5m.

A breakdown of the total budgeted revenue and grants for 2018 is set out below.

Total revenue and grants (Kina millions)	2016 Actual	2017 Supp. Budget	2017 Revised	2018 Budget	Variation 2018/ Supp. Budget
Tax revenue	**8,421.6**	**8,869.3**	8,547.6	**9,639.4**	**770.1**
% of GDP	*12.4%*	*11.9%*	*11.6%*	*12.0%*	0.1%
Grants	**1,430.1**	**968.1**	**968.1**	**1,024.6**	**56.5**
% of GDP	*2.1%*	*1.3%*	*1.3%*	*1.3%*	*0.0%*
Other revenue	**633.9**	**1,141.8**	**1,055.5**	**2,066.7**	**924.9**
% of GDP	*0.9%*	*1.5%*	*1.4%*	2.6%	1.1%
Total revenue	**10,485.5**	**10,979.2**	**10,571.2**	**12,730.7**	**1,751.5**
% of GDP	*15.5%*	*14.8%*	*14.3%*	*15.9%*	*1.1%*

Source: Department of Treasury

Tax revenue

Taxes on income, profits and capital gains

Taxes on income, profits and capital gains are estimated at K5,564.9m comprising of K3,250.2m in personal income tax, K1,971.5m in company income tax, K89.5m in mining and petroleum tax (MPT), K137.4m in dividend withholding tax, K84.2m in interest withholding tax and K31.9m in royalties and management tax.

Taxation revenue 2015-2017 (Kina millions)	2016 (Actual)	2017 Supp. Budget	2017 Revised	2018 Budget	Variation 2018/Supp. budget
Taxes on income, profits and capital gains	**5,286.2**	**5,534.8**	**5,084.9**	**5,564.9**	**30.1**
Personal income tax	2,844.3	3,035.7	2,996.7	3,250.2	214.5
Company tax	2,093.8	2,143.6	1,792.2	1,971.5	-172.1
Mining and petroleum tax	92.0	77.1	52.6	89.5	12.4
Royalties tax management tax	44.3	46.5	29.5	31.9	-14.5
Dividend withholding tax	132.6	146.3	134.5	137.4	-8.9
Interest withholding tax	78.7	85.0	79.2	84.2	-0.8
Tax-related court fines	0.0	0.0	0.0	0.0	0.0
Sundry IRC taxes and income	0.5	0.5	0.2	0.2	-0.4

Source: Department of Treasury

Taxes on payroll and workforce

The training levy is abolished effective from 1 January 2018 and there will be no revenue from 2018.

Taxes on payroll & workforce (Kina millions)	2016 (Actual)	2017 Supp. Budget	2017 (Revised)	2018 Budget	Variation
Training levy	14.4	11.7	12.9	0.0	-11.7
Total	**14.4**	**11.7**	**12.9**	**0.0**	**-11.7**

Source: Department of Treasury

Taxes on goods and services

Taxes on goods and services are projected at K3,448.3m in 2018 (including K1,974.2m in gross GST collections, K782.3m in excise duty, K395.1m in import excise and K174.4m in gaming machine turnover tax).

The gradual increases in commodity prices in the agriculture and the mining sectors in 2018 are expected to support income and spending on goods and services in the economy. This is expected to be strengthened by sales and GST collections at the provinces and the ports.

The gradual improvements in income and spending in the economy are expected to support the sales of excise-related items thus increasing excise duty and import excise. The excise duty will be supported by previous increases in the base rate on tobacco, previous increases in excise indexation rate of alcohol and a levy on diesel and petroleum.

Taxes on Goods & Services	2016 (Actual)	2017 (Supp. Budget)	2017 Revised	2018 Budget	Variation
Taxes on goods and Services	**2,584.1**	**2,754.6**	**2,936.4**	**3,448.3**	**693.7**
GST	1,442.6	1,484.7	1,734.0	1,974.2	489.5
Stamp duties	79.2	50.9	58.9	60.0	9.1
Excise duty	603.7	691.1	618.2	782.3	91.3
Import excise	272.2	300.3	298.7	395.1	94.8
Bookmakers' turnover tax	7.8	36.4	32.3	33.0	-3.4
Gaming machine turnover tax	163.5	171.0	171.0	174.4	3.4
Departure tax	4.4	11.3	11.6	12.8	1.5
Motor vehicle registration	6.8	7.2	7.4	11.9	4.7
Other taxes on use of goods and on permission to use goods or perform activities	0.8	0.8	1.0	1.2	0.4
Other taxes on goods and services	3.1	0.9	3.3	3.4	2.5

Source: Department of Treasury

Grants

Grants for 2018 are projected at K1,024.6m. Of this, donor grants are projected to be K752.8m from foreign governments and K271.8m from international organisations.

Grants	2016 (Actual)	2017 Supp. Budget	2017 Revised	2018 Budget	Variation
Grants	**1,430.1**	**968.1**	**968.1**	**1,024.6**	**56.5**
From foreign governments	1,261.4	829.4	829.4	752.8	-76.6
From international organisations	168.7	138.7	138.7	271.8	133.1

Source: Department of Treasury

Other revenue

In 2018, other revenue is projected at K2,066.7m comprising mainly of K1,250.0m in dividends, K31.2m in rent (mainly land lease rentals), K112.5m from sales of goods and services, K1.0m in fines, penalties and profits and K631.4m in transfers not elsewhere classified (mainly trust fund balances transferred from various authorities).

Of the total dividends, K100.0m is expected from Kumul Consolidated Holdings, K300.0m from Kumul Petroleum Holdings, K400.0m from National Fisheries Authorities, K200m from Ok Tedi mine, K75.0m from National Gaming Board, K25.0m from Motor Vehicle Insurance and K150.0m from the Bank of Papua New Guinea.

Other revenue (millions)	2016 (Actual)	2017 Supp. Budget	2017 Revised	2018 Budget	Variation
Other revenue	**633.9**	**1,141.8**	**1,055.5**	**2,066.7**	**924.9**
Property income	**551.3**	**925.1**	**898.5**	**1,321.9**	**396.8**
Interest	0.0	4.0	4.0	0.7	-3.3
Dividends	528.9	870.0	870.0	1,250.0	380.0
Mining, petroleum and gas Dividends	300.5	600.0	600.0	500.0	-100.0
Dividends from statutory authorities	228.4	250.0	250.0	625.0	375.0
Dividends from state-owned enterprises	0.0	20.0	20.0	125.0	105.0
Other dividends	0.0	0.0	0.0	40.0	40.0
Rent	22.4	51.1	24.5	31.2	-19.9
Sales goods and services	**63.5**	**115.2**	**84.5**	**112.5**	**-2.8**
Administrative fees	28.7	62.8	42.3	46.6	-16.2
Incidental sales by nonmarket establishments	34.9	52.4	42.2	65.8	13.4
Fines, penalties, forfeits	**1.8**	**0.8**	**1.7**	**1.0**	**0.3**
Other transfers	**17.2**	**100.7**	**70.8**	**631.4**	**530.6**

Source: Department of Treasury

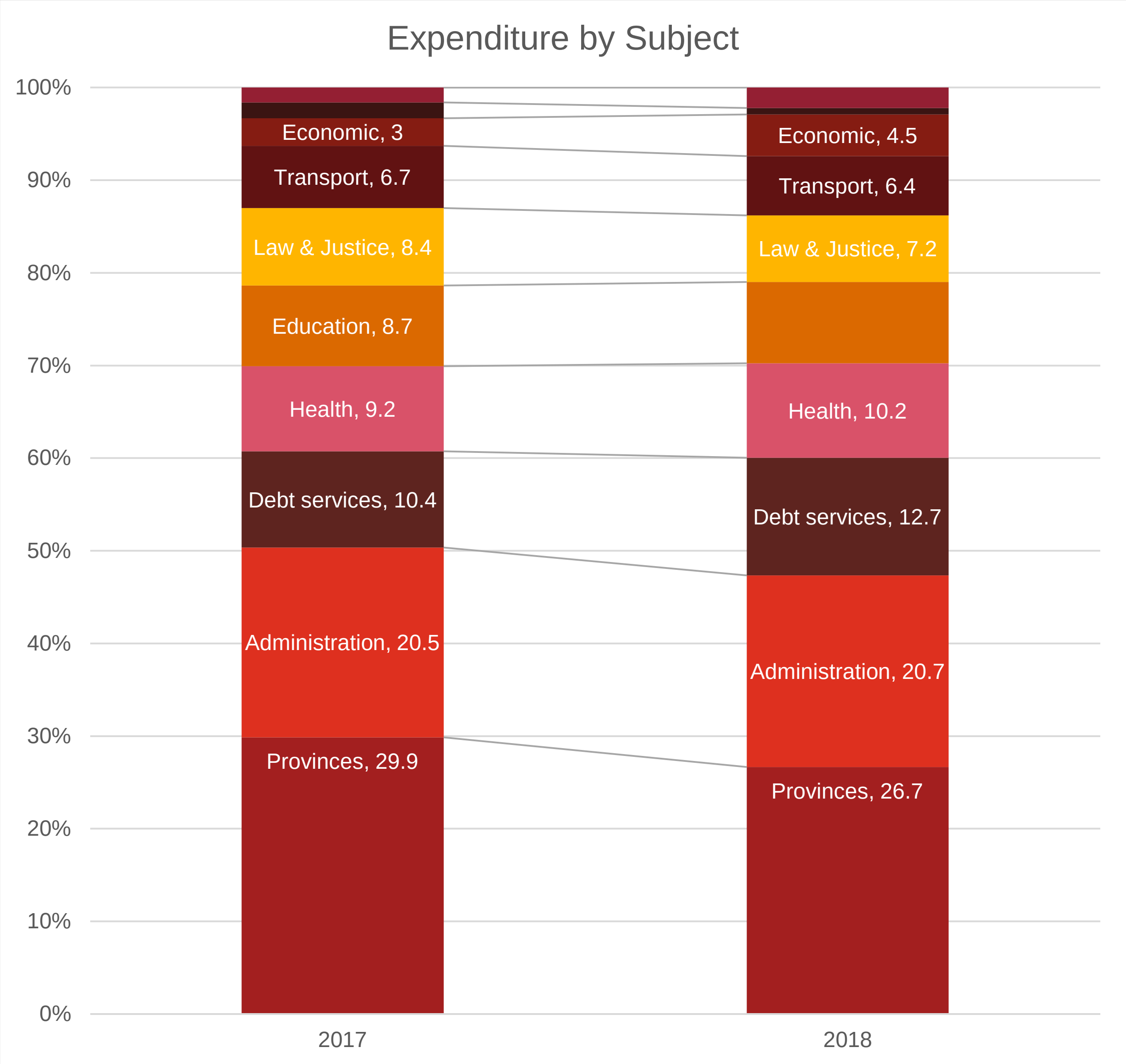
Expenditure

Total expenditure in 2018 is estimated to be K14,717.9m, of which K13,099.4m is funded by the Government of PNG, K593.9m is funded through loans and K1,024.6m is funded through grants. The total expenditure is significantly higher than the 2017 Supplementary Budget appropriations by K1,862.3m or 14.5%.

As stated by the government, the intention is to reduce total expenditure as a percentage of GDP from 18.4% in 2018 to 16% by 2022. The 2018 budget will focus initially on areas that have, in the past, exceeded expenditure appropriations which by necessity forced substantial reductions in the capital and development budget to meet financing and other constraints. This led to very low productivity in service delivery and public investment levels – both key to lifting economic growth and improving the lives of the people of PNG.

Notable changes in expenditure patterns from 2017 to 2018, as outlined in the table below, include:

- an increase in debt servicing costs (increasing from 10.4% to 12.7% of total expenditure)
- reductions in expenditure directed at the Provinces (declining from 29.9% to 26.7% of total expenditure) and Law and Justice (declining from 8.4% to 7.2% of total expenditure) .



Source: Department of Treasury

Taxation developments and amendments

This year represents the first year in the new Medium Term Revenue Strategy (MTRS) 2018-2022. The budget and tax changes are formed by and aligned with intent of the MTRS which in turn is guided by the Alotau Accord II and the government's 100 day plan.

As such, the tax changes in the 2018 budget are crafted to stabilise the fiscal situation in the country. The aim is to raise the level of tax collection to 14.6% of GDP from the 2017 level which is anticipated to be below 13%. It appears that many of the proposed changes described in the MTRS continue to be influenced by the 2015 report of the Tax Review Committee although the current budget does not seek to immediately implement any of the remaining significant areas for reform, for example to address the balance between direct and indirect taxes, nor the taxation of capital gains.

Nevertheless, in presenting the budget, the Treasurer has highlighted five major measures that will be implemented from 1 January 2018. These are centred around:

- improving revenue collections through greater compliance and strengthening revenue agencies
- removal of the training levy and double deduction for training
- an increase in import tariffs and excise on diesel fuel
- a change in the export duty applicable to unprocessed old growth logs
- the introduction of the Tax Administration Bill

In addition to these measures, there are also a number of minor technical amendments, as well as amendments to address the unintended consequences from last year's amendments to dividend withholding tax and additional profits tax on resource projects.

The main tax measures are summarised below.

Strengthening revenue raising agencies

The Government's focus for 2018 is to strengthen the revenue raising agencies, IRC and Customs. This is through increased funding as well as the establishment of a large taxpayer office and a number of focussed task forces to increase collections. The budget for the IRC has been increased by 44% from 2017 to 2018. Total increased collections of K755m are expected as a result of the enhanced capacities of the IRC and Customs in 2018.

In addition, regional governors are encouraged to work with the Provincial Tax Office to establish an Interim Compliance task force to improve GST collections and compliance in the provinces. The objective is to ensure that increased funds will be available for the provinces as 60% of the net GST collection is ultimately provided to provincial authorities. The Government will also partner with Industry Associations to institute a Revenue Taskforce to be overseen by the Office of the Attorney General. The focus will be to disrupt trade in illicit imports.

There is also a commitment to increase the audit capacity of the IRC to target areas such as GST offsets and facilitate voluntary compliance. The budget acknowledges that there will potentially be more in the way of tax amnesties as they have targeted collection of arrears through forgiveness of penalties under the Commissioner's discretionary powers.

Removal of the training levy and double deduction for training

The Budget removes the training levy and double deduction for training incentives on the basis that they have outlived their purposes. This is on the assumption that companies already have an incentive to train and up-skill their employees to add value to their businesses to remain competitive.

Although the abolishment of the training levy will reduce revenue collected, the overall impact of the combined measures is expected to raise K75m in 2018.

Reforms to import tariff and excise on diesel

The budget suspends the last phase of the current tariff reduction program (TRP), increases import tariffs on refined petroleum products as well as increasing tariff on selected other imported products. The aim of the broad range of increased tariffs is to strengthen and support domestic manufacturing. This is described as a response to manufacturers raising concerns in relation to competition from imported goods. These measures are expected to raise K4m in 2018.

With respect to importation of refined petroleum products, the Government announced that in order to appropriately implement the agreed Import Parity Pricing model the Customs Tariff Rate for imported Diesel and Petrol is set at K.10 per litre. The implementation of the customs tariff is expected to raise K65.9m in 2018.

In addition, there are also changes to excise applicable to Diesel with the excise being increased progressively to be aligned with that applicable to Petrol. The initial increase is to K0.23 (from K0.10). The excise will be raised every two years until it is aligned with the rate applicable to petrol.

Realign export duty of unprocessed old-growth logs to capture resource rents at varying log species

The changes are in response to the view that the current system of taxation of the logging industry does not accurately reflect the resource rent that should be captured from the industry.

As a result, export duty will be imposed based on the FOB value based on the nature of the log species. The average duty as a percentage of log price will be increased to 35.3%, although the rates imposed will vary from 25%-40%.

This is in response to international commentators confirming that the volume of logs leaving PNG shores does not match the benefits being received from the industry. The intention is that the progressive tax should encourage the establishment of downstream processing facilities and for additional spin-off activities.

Tax Administration Bill

The budget introduces a new bill, the Tax Administration Bill. This Bill will introduce measures to simplify and modernise tax administration. The bill will set out common procedures and processes for the main taxes, and consolidate and streamline the powers of the Commissioner General.

The bill will enable changes such as the standardisation of lodgement dates for various tax types and allow the implementation of e-filing etc. However, although the bill will be introduced for enactment as part of this budget, its implementation will be deferred to provide the opportunity for public consultation before becoming effective.

Other tax changes

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:

- defining ‘primary production’ as applicable in the agriculture sector and to exclude only the logging sector from benefitting from agricultural incentive deductions.

- defining a ‘resource company’ to limit the potential for non-operator companies in the petroleum and gas sector to benefit from zero rating on GST inputs.

- increasing the tax clearance threshold for sending money overseas to K500,000 to reduce compliance and administration costs

- implement a pay now and litigate later policy

- introduction of a specific bribery offence provision for taxpayers

- making registering taxpayer identification numbers (TIN's) a legal requirement for those operating a business
- taxing termination benefits (representing long service leave) for employees on the same basis as superannuation payments (as opposed to at the employees respective top marginal tax rate).
- removing the right to claim certain GST input tax credits for educational institutions
- aligning the taxation treatment of royalties in the resource sector between petroleum and mining entities be confirming that all royalties will be a deduction rather than a tax credit
- providing the ability for taxpayers to pay their tax liability on lodgement
- imposing penalties for incorrect or non-disclosure of losses and deductions
- simplifying the administration of non-resident insurers tax
- ensuring the Extractive Industry Transparency Initiative (EITI) and Financial Analysis and Supervision UNIT (FASU) have access to tax data
- allowing the Commissioner General of the IRC to declare a trust to be a land owner resource trust with approval from the Secretary of Treasury
- shareholders to be liable for the tax liabilities of subsidiaries and related companies
- ensuring foreign contractors do not include expenses related to prescribed contracts in their assessable income as it should be dealt with in the FCWT regime
- include provisions to support the use of electronic communication by taxpayers and the IRC, and potentially to invoke fees for manual processing should a taxpayer refuse to participate in electronic programs

Budget 2017 corrections

The budget introduces a number of amendments to modify the 2017 budget measures. These were a result of drafting issues leading to unintended consequences contrary to the intended policy objectives. These include:

- Introducing transitional provisions for the application of the Additional Profit Tax to existing projects
- The carving out of resource projects with fiscal stability clauses in project agreements
- Ensuring dividends distributed through companies are taxed once
- Ensuing superannuation funds are exempt from DWT
- Correcting drafting errors made to the Customs Harmonized System (HS) 2017.

Medium term revenue strategy (MTRS)

The current budget has been prepared on the basis of the MTRS. The changes to legislation proposed for implementation or presentation in the current budget session are described above. However, a core element of the MTRS is to continue to build up a revenue base able to finance the Government's expenditure plans on a sustained basis, but that generates these revenues in an efficient and fair manner.

The MTRS was aided by the PNG Taxation Review's findings in late 2015 and a recent 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.

According to the MTRS, the Government will focus on:

- continuing with increased compliance activities, particularly with respect to large taxpayers
- broaden the revenue base by introducing further measures to fill the tax gaps and rationalize tax incentives
- continue the removal of tax concessions, tax exemptions and special arrangements
- continuing to rebalance the tax composition from income to broader based taxes, including a review of GST rates offset by reducing the tax wedge on labour income
- introducing a capital gains tax to broaden the tax base, reduce opportunities for evasion and enhance equity
- reviewing the rationalizing tax incentives and reviewing the potential for lower corporate income tax rates
- bringing SME's into the tax net through a simplified tax regime
- providing more tax certainty by simplifying and modernizing the tax legislation
- strengthen tax expenditure reporting

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

For further information, please contact:

Jonathan Seeto
Managing Partner
jonathan.seeto@pg.pwc.com

Stephen Beach
Partner
stephen.beach@pg.pwc.com

Peter Burnie
Partner
peter.r.burnie@pg.pwc.com

David Caradus
Senior Tax Counsel
david.caradus@pg.pwc.com

Jason Ellis
Partner
jason.b.ellis@pg.pwc.com

Jonathan Grasso
Partner
jonathan.a.grasso@pg.pwc.com

Christopher Hansor
Partner
christopher.hansor@pg.pwc.com

Alison Judd
Partner
alison.judd@pg.pwc.com

Rajul Makan
Partner
rajul.makan@pg.pwc.com

Kanthan Rajadurai
Principal
kanthan.rajadurai@pg.pwc.com

Port Moresby office
PwC Haus, Level 6
Harbour City, Konedobu
PO Box 484, Port Moresby
T: (675) 305 3100 | (675) 321 1500
F: (675) 321 1428

Lae office
ANZ Haus, Level 1
Aircorps Road
PO Box 451, Lae
T: (675) 472 2644
F: (675) 472 6270

About PwC and this publication

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 223,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com/pg.

www.pwc.com/pg