PNG Pulse

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Budget Strategy Paper released

While the exact content of the budget remains unclear, the shape of next week's announcement can be expected to be in line with the recently released (delayed) MYEFO, and the 2021 Budget Strategy Paper that was released this week. Unsurprisingly, the framing for the budget is heavily impacted by the COVID-19 pandemic, the generally suppressed nature of commodity prices, the effect of the shut down of the Porgera Joint Venture, as well as temporary halts in Ok Tedi's operations as a result of public health concerns.

The budget strategy paper reiterates that PNG's economy has undergone a contraction in 2020 of 3% against growth of 2% that had been the base for the 2020 budget. The deficit is therefore larger than predicted at the time of last year's budget and the MYEFO and supplementary budget released shortly afterwards were focussed on reducing expenditure where possible and securing additional funding for the increased deficit.

In this context, some of the key fiscal policy matters included in the Medium Term Revenue Strategy, such as the rewrite of the Income Tax Act, the introduction of a capital gains tax, and a new Taxation Administration Act are widely expected to be delayed. The budget strategy document notes that the projections do not yet include revenue gains anticipated from some of these changes. The fiscal changes foreshadowed continue to be focussed on enhancing the administration of the revenue authorities.

Finally, the budget strategy document proposes a range of recovery scenarios over the medium term, before determining that the moderate case recovery was most appropriate. The moderate case envisages a return to operation for Porgera in the second half of 2021 and GDP growth in 2021 of 2.2%. Nevertheless, it remains to be seen whether the signals from the strategy paper will be reflected in the official 2021 budget.

IRC's budget submission

The IRC has taken the unusual step of making a public statement in relation to proposals for fiscal changes in advance of the 2021 budget announcement. Despite acknowledging the primacy of Treasury in the role of developing fiscal policy and supporting legislation, the Commissioner General goes on to describe a wish list for 2021 that ranges from tax changes to policy matters. The IRC supports the abolition of stamp duties on lease contracts - with a view to encouraging leases to come out of the shadows at the cost of minimal lost revenue, suggests substituting the IRC for the current regulatory agencies in the role of collector of prescribed royalty payments, proposes a direct debit collection mechanism for SWT in conjunction with employers' banks, and enforcing the use of eftpos transactions for certain industries to allow for an easier audit trail. It is not clear whether these changes will be incorporated by Treasury in the budget papers to be released next week.

Nonetheless, the press release from the Commissioner General is generating a discussion on a collection of innovative potential directions for fiscal policy and administration options.

IRC partnership and provincial activity accelerates

The past 12 months has seen the IRC enter into a significant number of agreements with provincial authorities as well as other government departments. These agreements appear to have the goal of both raising awareness of the IRC's goals as well as building connections that will assist the IRC in its strategic plans. The latest agreements are no different in their aim, the past month has seen particular action through:

- signing an agreement with the Immigration Department, through which the IRC sees the opportunity for enhanced monitoring of business activities of foreign individuals and businesses
- entering into an agreement with the Hela Provincial Government.

The IRC has also embarked on a number of ambitious plans including undertaking a series of coordinated visits by teams from the main IRC offices to other provinces with the view of conducting a compliance and collection sweep as well as an exercise described as a Tax Identification Number cleansing. The TIN cleansing is aimed at identifying and ultimately closing the gap between the number of TINs issued and the number that file returns on a regular basis. It was widely quoted that filers make up around 10% of the TINs on issue.

Year-end approaching

For most taxpayers, December marks the end of the financial and tax years. As this time approaches, it is appropriate to reflect on actions and considerations that should part of the year-end process, some of these may include:

- Ensure that you have identified any and all outstanding returns, existing balances of tax owing or receivable and ensure that these balances are reconciled between taxpayer and IRC records.
- Be aware of the close of another tax year and the impact that this may have on the continuing availability of carry forward tax losses.
- Where relevant, review the status of notifications for Country by Country obligations (however, noting that the IRC continues to suspend the requirement to file CbyC reports).
- Review accruals and provisions and consider whether they continue to be appropriate - remembering that expenses that are not incurred by the end of December will generally not be deductible for income tax purposes.

PwC's Budget Breakfast webcast

Our annual Budget Breakfast, co-hosted with the Badili Club, is scheduled on 18 November, 7.30am PNG time. This year's event will be done virtually via a webcast, where we will be providing an analysis of the economic and tax impacts of the 2021 Budget. You can register to the webcast using this link. The event will be recorded so you will be able to watch it at a later date. Please refer to the attached invite for more details.

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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