



November 2023 - Pre-budget edition

IRC publishes its budget submissions

The Budget 2024 season is well underway with Parliament scheduled to return in late November. A key item for the next sitting will be the tabling of the 2024 Budget. As usual, the Treasury has called for submissions from interested stakeholders for items and options to be considered for inclusion as part of the budget legislation. This is generally the opportunity for community groups, business chambers etc to suggest a range of fiscal measures that cover policy matters, as well as administration and technical amendments.

For the past several years, the process of budget submissions for fiscal changes has also taken place in the shadow of the ongoing project to rewrite the Income Tax Act. So far there have been at least ten drafts produced and a number of these have been subject to an external consultation process. However, there has been no confirmation that this revised Income Tax Act will be coming to Parliament in the budget session in November 2023.

Rather the IRC has focussed on a range of proposed changes to existing legislation. For ease of reference they have grouped them as recommendations for revenue measures, policy initiatives and legislative updates.

Under the auspices of revenue measures, the IRC proposes:

- proposing to maintain the tax free threshold at its (currently temporary) level of PGK 20,000 per annum
- eliminate the dependent rebate that is currently available
- increase penalties for non-compliance for recipients of Section 65A notices
- reduce the statutory time limits under which a GST refund claim can be made (currently eight years)
- introduce a provision to override the application of certain double tax agreements to enhance the ability of the domestic law to capture tax on cross border management fees
- clarify the penalty tax rates on withdrawals from retirement savings accounts
- increase the thresholds for stamp duty exemption for first time home buyers (up to PGK 700,000) and align this to tax beneficial home ownership arrangements
- introduce quarterly or bi-annual GST filing for entities with annual turnover of less than PGK1.5M
- remove the requirement for the IRC to consult with the Bank of PNG in order to determine arm's length interest rates on loans.

Policy initiatives are listed as:

- Improve the process for writing off tax debts.
- Introduce a basis for a tax debt swap arrangement to allow taxpayers to offset amounts owing from the government against tax debts.

Finally legislative updates proposed by the IRC are:

- An update of the Departure tax Act
- Updates to the Tax Administration Act

The media release of the IRC provides some commentary on the basis for each of these initiatives, however, there is no information provided on whether the initiatives are supported by legislative drafts. The release does make it clear that these are recommendations to the Treasury and ultimately the determination of tax policy and (and therefore the adoption and implementation of any of these initiatives) remains with the government. Therefore, the stage is set for a range of fiscal changes at Budget 2024, but we will need to wait until the legislation is tabled to know what items will potentially become law.

FBO 22, MYEFO 23 and Supplementary Budget

The Treasury has released the Final Budget Outcome (FBO) for 2022. This document provides a retrospective analysis of the government's account comparing the budget and supplementary budget for 2022 against the actual outcomes. This is an annual process and the Treasury's report provides an interesting insight into the government's execution against their plans for both revenue and expenditure.

The FBO confirmed that the government's deficit for 2022 (at 5.4% of GDP) landed slightly better than expected budget (5.6%). The overall result overcame the challenges of the cost of living pressures experienced during 2022 as well as the continued disruptions to global markets. PNG's economic challenges were offset by better than expected tax collections as a result of sustained high commodity prices and the Treasury concludes that the country's economy remained on track for the planned centrepiece of the 13 year Budget Repair and Reconstruction Plan that was introduced as the background for the 2022 budget.

Nevertheless, the FBO also makes clear that continuing along the path to budget repair will require sustained pressure on a number of areas. The document highlights that the growth in tax collections above planned levels during 2022 was due to high process for resource exports and warns that this is unlikely to continue. Tax collections from the non-resource economy have not been increasing as planned for a number of years.

The FBO notes that expenditure was also in excess of the planned envelope from the budget mainly as an outcome of increasing the PIP, general election expenditure, the household assistance package and continued clearance of arrears. Pressure will continue to limit overruns, particularly for personal emoluments across the public sector.

As an indicator on the current year's outcomes, the Mid Year Economic and Fiscal Outlook (MYEFO) was released in June 2023. This document continues the themes from the FBO and highlights the ongoing challenges in maintaining the Budget Repair Plan of the Marape Rosso government. As of June 2023, the economy was on track to meet the goals of a deficit of 4.4% as set out in Budget 2023.

The MYEFO also flagged that there were some additional revenues that would be available, thanks to continued elevated tax collections. This was the basis for the government to then propose a Supplementary Budget in October - to allocate the surplus funds to spending priorities. At the time of the MYEFO other uses of the funds were proposed including the potential contribution into the Sovereign Wealth Fund, however, this did not come to pass. The other continued theme in the MYEFO was the growth rate for the economy with non resource GDP predicted to grow strongly at 4.8%.

The Supplementary Budget in October was different from those that were issued in recent years. Rather than seeking to cover unplanned expenses the Supplementary Budget appropriated revenue in excess of plan to meet expenses that were also in excess of plan. The effect was to increase the overall spending envelope and maintain the planned deficit unchanged.

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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