

PNG Pulse

Keeping you informed



Mid-Year Economic and Fiscal Outlook

The end of July 2018 saw the release of the MYEFO report for 2018. Unlike the prior two years in which the reports showed a deterioration of economic and fiscal conditions upon which the budget had been set requiring a supplementary budget to be introduced, the current year's report has a much more positive tone.

In fiscal terms, the report highlights that despite the potential for a setback due to the February earthquake which impacted oil and gas production, fiscal performance is at or above expected levels for the first half of the year. The Government's commentary on fiscal matters is framed in the context of the Medium Term Revenue Strategy and the Medium Term Fiscal Strategy. These documents produced by the Government cover the period 2018-2022 and shaped the current budget. Given the mid-year results and the continued emphasis on the execution of the strategies contained in the documents, we can expect that they will continue to set the tone for Budget 2019 and beyond.

The detail in the report reinforces a number of the policy and tax administration matters that we have observed and commented on over the past months. The commentary also provides additional insight on some of these initiatives. For example, enhanced compliance efforts as a result of investment into the IRC are credited with increased collections of GST and maintaining corporate income tax collections. Mining and petroleum tax collections are up, partly on volume and partly on external prices for commodities. However, salary and wages tax collections are down with concerns around the level of formal employment, particularly in the non-mineral sector. Overall the message is that collections will be up on last year and total government revenue will also reflect a higher proportion of GDP than in the prior year – which was one of the Government's key undertakings as part of the Medium Term Revenue Strategy.

The report also highlights the status of revenue measures introduced by the 2018 Budget and highlights progress with the Large Taxpayer Office, IRC compliance improvement strategy, continued recruitment for the IRC etc. The structural changes within the IRC are expected to have longer term positive impacts on revenue collection. For taxpayers, the message is clear that the current audit programs will continue, and expand. The IRC's focus on compliance and enforcement will also continue to intensify.



Of the 2018 Budget changes, one that is taking a little longer to implement is the Tax Administration Act. At the time of the Budget, the act was expected to be operative in 2019. However, the MYEFO report now refers to implementation over a three phase period with the bulk of the measures being operative from January 2020. Nevertheless, “easy to implement” measures should be in place earlier.

The conclusions that can be drawn from the document as they relate to the tax issues that taxpayers can expect to see and face are relatively clear. The 2018 Budget set up a number of medium term initiatives seeking to boost revenue collections as a percentage of GDP. This built on work started by the Tax Review Committee in late 2015. So far, we have seen structural changes in the IRC, a boost to their resources, efforts to broaden the tax base through audit activity and more aggressive compliance monitoring. We can expect to see more of the same. On the legislative agenda, we have seen changes to mining taxation, an increase in tariffs and some excises, and the elimination or suspension of a number of tax items perceived as incentives. The budget planning process for 2019 is already underway and while the specifics of the legislative agenda are not publicly available, the pages of the Medium Term Revenue Strategy and Medium Term Fiscal Strategy may be worth revisiting.

If you would like to know more about these recent developments or have any other questions, please get in touch with your usual PwC contact.

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