2014 Budget *Alert*

Executive Commentary

The 2014 PNG National Budget represents a continuation of the strategy and approach put in place by the Government last year.

As for 2013, it is a substantial deficit budget where Government revenue is substantially supplemented by concessional funding and grants. It has continued the three major thrusts unveiled in the 2013 budget which comprise an increase in funding for the medium term enablers such as health and education, a major commitment to “nation building” infrastructure investments and a substantial increase in funding of sub national levels of Government.

The mining and petroleum taxation review announced in the 2013 budget never took place and has now morphed into a review of the overall PNG taxation system which is said to have started in September although many operational details seem yet to be finalised. That probably summarises in a microcosm the Government’s perennial disconnect between robust and competent strategic planning and the inability of the machinery of Government to deliver outcomes.

Another illustration of this is that only 52% of budgeted capital expenditure under the Public Investment Programme for 2013 has been expended to date although the Government does say it is still awaiting more data from its agencies.

The Budget priorities outlined are therefore to continue to address implementation issues while maintaining the focus on health education and other development sectors and maintaining PNG’s macroeconomic stability. It has streamlined its internal planning process by combining the recurrent and development budgets in an effort to ensure that capital expenditure programmes are matched to appropriate maintenance and upgrade programmes to ensure infrastructure, including human capital as well as physical capital, is maintained. It has also signalled an intention to prioritise the business environment for the agriculture sector as well as small and medium enterprises.

The Government has also announced a number of procedural changes designed to get better results from money allocated to sub national levels of Government by monthly tracking of budget outcomes and changed financial procedures for money allocated to the Districts.

In summary, the numbers keep getting bigger but the issues to be addressed seem to stay the same. The Government is not shirking the challenge but there is no doubt there is a challenge.

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Economic overview of budget

The 2014 Budget

Overall Budget Strategy

The PNG national budget for 2014 projects total revenue and grants of K12.7 billion which is K2.2 billion or 21% higher than revised estimates for 2013.

Expenditure will total some K15.3 billion showing a deficit of K2.6 billion, compared to K2.5 billion planned for 2013. This deficit is 5.9% and the debt to GDP ratio is 35% both of which the Government states are in accordance with the requirements of the Fiscal Responsibility Act. The Government expects deficits in future years to reduce in line with the multi year planning approach adopted in 2013.

The Budget is set against assumptions of a modest upturn in global economic activity in 2014 as compared to 2013. Global growth is expected to be in the order of 3.6% compared to 6.2% in PNG.

This Budget focuses on 7 key priorities:-

- Maintain PNG's macroeconomic stability through adherence to its Medium Term Fiscal Strategy
- Implement major infrastructure projects and ensure efficiency in the higher levels of Provincial Government spending
- Ensure alignment between the construction of new roads and the funding required to maintain them and have similar alignment in other capital expenditure areas such as health or education
- Continue to expand health and education spending
- Establishment of a Sovereign Wealth Fund and the consolidation of mineral and petroleum assets
- Strengthen law and order
- Improve the business environment for the agriculture sector and small and medium business enterprises.

To further promote sustained growth, the Government will continue to pursue a national reform agenda. It plans major reviews of the taxation system and of the financial services sector. It also says it will prioritise competition policy as well as the business regulatory environment for local and foreign businesses.

The Government states it is committed to public sector reform and this includes "right sizing" the public sector. It announced similar intentions in last year's budget and it is unclear to what extent it has achieved real change in this area in 2013.

Specific Areas of Interest

The Government is considering modifying the design of the Sovereign Wealth Fund (SWF). The fundamental design of the SWF, as presently set out in the budget papers, is a single governance structure, onshore managed but offshore invested and onshore spent. It is to be fully integrated with the Budget and fiscal framework, governance, transparency, disclosure, accountability and asset management rules based on international best practice and the

Santiago principles. It would be overseen by an independent board located within PNG and investment undertaken by investment managers. The Government says it is now reconsidering the inflow of dividends from the PNG LNG project and the inclusion of intergenerational equity.

This will require further legislative changes, board and adviser appointments and capacity building. The Government anticipates the SWF will commence operation in 2015.

As time goes by, the issue of trust accounts seems to draw less attention. The Government observes that some K7.5 billion has been deposited into trust accounts since 2005 and observes that K450 million was allocated in the 2013 Budget and a further K645 million will be allocated in the 2014 Budget and the 2013 Supplementary Budget. The Government states that the closing balance of the accounts was some K629.6 million as at 30 September 2013. The Government notes that the quality and effectiveness of spending from trust accounts is unclear as there is a lack of detailed expenditure reports from agencies.

On a similar topic the Government notes that some K1.611 billion has been released into the bank accounts of the 89 districts. The balance as at 30 September 2013 is K92.4 million.

The Government has announced it will undertake a comprehensive review of the PNG taxation system in 2014. It will cover personal income tax, corporate income tax, excise and customs tariff arrangements, the operation and efficiency of the GST regime, mining and petroleum taxation, land property and capital gains tax, non-tax revenue, tax compliance and the efficiency and simplicity of tax administration. The Tax Review Committee will consult widely with stakeholders and will be supported by a secretariat which will provide technical and administrative support. The review is expected to take 18 months with the report to be submitted to the Government by 31 March 2015.

It is sometimes interesting to reflect that the Budget has long treated grants and concessional funding as income. The Government states that 10 years ago donor grants were almost 20% of total spending while 5 years ago that figure was around 16%. In 2014 grants from development partners are expected to be K1.555 billion or 10.2% of total expenditure so it is a lessening but still significant source of external funding.

Grants from the Australian Government accounted for K1.206 billion or 78% of total donor grants.

Funding from the Australian Government will increase by some $A400 million over the next 4 years as a result of the Joint Understanding on the Management of Asylum Seekers negotiated in March 2013. In 2014 this will include funding for the rebuilding of Angau Hospital (K45 million), deployment of Australian Federal Police personnel (K86.5 million) and rehabilitation of infrastructure at UPNG (K40.6 million).

In 2014 the Government says it will:-

- Amalgamate the Department of Personnel Management and the Public Service Commission
- Amalgamate the Department of Rural Development and the Department of Provincial and Local Affairs
- Abolish the Department of Public Enterprise
- Amalgamate the Coastal Fisheries Development Agency into the National Fisheries Authority
- Amalgamate the National Economic and Fiscal Commission into the Department of Treasury

- Amalgamate the National Aids Council into the Department of Health
- Amalgamate the office of UNESCO into the Department of Education

Debt Requirements

The estimated Budget deficit is expected to be in the order of K2.6 billion in 2014 and this will require additional borrowing to fund the State's cash flow needs.

Total public debt is therefore projected to increase from K11.6 billion in 2013 to K14 billion in 2014. Debt as a share of nominal GDP is expected to go from 33.5% to 35% which is the upper target set under the Fiscal Responsibility Act (2006). The Government says this will therefore have to be monitored.

Domestic debt is expected to move from K8.751 billion at the end of 2013 to K10.5 billion at the end of 2014 which is an increase of K1.7 billion or 19.5%. Inscribed stock and Treasury bills are the major forms of domestic debt undertaken by the government. Treasury bills are expected to provide some 46% of domestic debt in 2014.

The Government notes that it intends to issue more long term debt in 2014 to lengthen the term of its debt portfolio.

External debt is expected to increase from K2.85 billion in 2013 by a further K647.8 million. External debt continues to be provided in the main by foreign donor agencies and often have concessional terms such as grace periods for principal repayments.

Recent Economic Performance & Assumptions

The principal economic assumptions in the Budget for this year are as shown below. In line with the philosophy of multi-year forecasts, the Government sets out its expectations in these parameters on a multi-year basis as well.

Summary of Economic Parameters

	2012	2013	2014	2015	2016	2017	2018
Economic Growth (%)							
GDP	8.0	5.1	6.2	21.2	2.7	3.4	3.3
Non-Mining GDP	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 Rate (%)							
Kina Rate Facility	6.75	6.25	6.25	6.25	6.25	6.25	6.25
3 years Inscribed Stock	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Mineral Prices							
Gold (US$/oz)	1,668	1,428	1,359	1,368	1,391	1,395	1,409
Copper (US$/tonne)	7,959	7,344	7,213	7,216	7,298	7,382	7,349
Oil (Kutubu:US$/bbl)	105	100	99	95	94	93	95
Nickel (US$/tonne)*	17,542	15,520	15,017	15,255	15,461	15,636	15,792

In the near term, the Government expects economic growth to rebound in 2014 and increase substantially in 2015 with the commencement of full gas production from the LNG Project. From that point on it is expected to revert to trend. However, these medium term forecasts do not include any provision for a second LNG project coming on stream, which would present an upside if it did occur.

The Government continues to focus on promoting growth in the agriculture and fisheries sectors in the medium term, as they do for the forestry sector but current data limitations there make the medium term outcomes less certain.

Key Priorities – Medium Term Development Plan Enablers

Law and Justice

Improving law, order and justice remains a key enabler to achieving Government's development goals under the Medium Term Development Plan 2011-2015 (MTDP).

In terms of the 2014 Budget K1.3 billion will be provided to the law and justice sector. The 2014 Budget saw an increase of K273.4 million (26.7%) in funding to this sector compared to that of 2013. The major recipients of the increased funding in the 2014 Budget will be the Departments of Police and Defence. The additional funding will also be allocated to thousands of officials working in more than 1,600 Village Courts across the country who have not seen allowance increases since 1990.

The Government again emphasised that apart from the clear social benefits of a civil and orderly society, establishing a robust law and justice system is imperative in the creation of a strong economy. Through the Law and Justice Sector Strategy Framework, the Government aims to reduce crime rates by 8.3% by 2015 with key strategies to achieve this being: accessibility to law and justice services, retention of key personnel, effective use of restorative justice and early dispute resolution.

In order to achieve the planned reduction in crime the infrastructure challenges continue to be a focus of the Government's development budget. In addition the Government has committed to an additional 480 police recruits per annum, an additional 150 correctional services personnel, upgrading the police training college, funding the Independent Commission Against Corruption (ICAC) and funding Operation Sweep.

The major expenditure allocations for Law and Justice include:

	Total (K mill)
National Anti-corruption Task Force (Operation Sweep)	20.0
Police Modernisation Program	84.0
Rebuild of PNG Defence Force	58.0
Department of Correctional Services	1.9
PNG-Australia Law & Justice Partnership Program	146.2

Transport

The PNG transport network is rapidly deteriorating. The Government acknowledges in the 2014 Budget that extensive construction and maintenance is required. On this basis the transport sector continues to be the highest funded sector in the 2014 Budget.

This sector has seen increased commitments over successive budgets and continues to be a significant beneficiary of aid funding. However, a number of issues continue to plague this sector, including allocation and poor prioritisation of funding, delays in government processes and procurement, landowner issues and governance failures. The 2014 Budget sees the Government remain committed to improving the three modes of transport to establish an investment platform for sustainable growth and effective service delivery.

The 2014 Budget includes more than K1 billion for road funding, some of the impact projects to receive this funding include:

	Allocation of Funding (K mill)
Port Moresby city roads	170.0
Lae city roads	100.0
Mt Hagen town roads	40.0
National Roads Rehabilitation and Maintenance Program	100.0
Highlands Highway (Maintenance)	150.0

Other major transport infrastructure projects included in the 2014 budget include the following:

	Allocation of Funding (K mill)
Lae Port Development (Tidal Basin)	270.0
Jackson Airport Expansion	30.0
Civil Aviation Development Expansion Program	26.0

Education

In terms of the 2014 Budget K1.500 billion will be provided to the education sector. The 2014 Budget saw an increase of K158.7 billion (11.87%) in funding to this sector compared to that of 2013.

The major spend in primary and secondary education will be to the National Education Plan (NEP) 2005-2014 and the Universal Basic Education Plan (UBE). The focus of these two initiatives is to continue resourcing and implementing education reforms supported by the national, provincial and local level governments.

The Government also remains committed to meeting the Millennium Development Goal (MDG Goal 2) to "Achieve Universal Primary Education". Under this banner, Government will provide K605 million in 2014 to the Department of Education for the Tuition Fee-Free (TFF) policy. About 18,232 schools in PNG will be beneficiaries of the TFF education in 2014.

Some of the major educational spend in terms of the 2014 budget include the following:

	Allocation of Funding (K mill)
Higher Education Recapitalisation Program	10.0
Tuition Fee-Free	605.0
Curriculum Development Materials	23.0
Rehabilitating Higher Education Institutions	222.8

Utilities

The Government continues to recognise that fundamental public utilities are essential to the growth and development of all sectors of the economy.

Consistent with Government initiatives detailed in 2013, the 2014 Budget for utilities (Water & Sanitation, Electricity, Information & Communication Technology) focuses on the decentralisation of service delivery, partnerships with the private sector and increasing the effectiveness of lower levels of government in service delivery.

The Government's medium term goals in these areas include:

- Increasing the total population's access to improved water sources to 47% by 2015
- Improving access to improved sanitation to 51% by 2015
- Ensuring that 27% of households have access to electricity by 2015
- Increasing the number of mobile subscribers to over 700 per 1000 people by 2015

- Improving internet access by 20% by 2015.

Some of the major expenditure items of the 2014 Budget for utilities include:

- Port Moresby Sewerage System Upgrading Project
- Rural water supply
- Rural electrification program
- Government's new information system, the Integrated Government Information System (IGIS)
- PNG LNG fibre optic cable.

Primary and Preventative Health Care

Improving health care for all Papua New Guineans remains a key enabler of achieving Government's development goals under the MTDP. With 47% of the total health services provided in the country being managed and operated by churches, the Government has committed K1.4 billion to the health sector in 2014 to continue to address this regression.

Consistent with the MTDP the Department of Health has developed a Medium Term Development Plan 2011-2015 to guide health infrastructure investment to 2015.

The Government has noted that PNG's geographical terrain and basic transport infrastructure has led to increasing costs in the delivery of health services, which have been absorbed by the consumer.

In the 2014 Budget the Government remains focused on the rehabilitation of existing infrastructure, training of community health workers, effective management of drugs and medical supplies or equipment especially in the rural areas. The Development Partners particularly AusAID, NZAID and the UN continue to contribute significantly to the health sector.

A key point of the 2014 Budget is the Hospitals Infrastructure Redevelopment Package, which provides K267 million in 2014 for the upgrade and redevelopment of 16 existing hospitals:

	Allocation of Funding (K mill)
Angau Memorial Hospital	65.2
Enga Hospital	50.0
POM General Hospital	30.0
Other Provincial Hospitals (including design)	122.0
TOTAL	**267.2**

Economic sectors

Agriculture

Two thirds of the country's population live in rural areas and rely on agriculture for survival. In the 2014 Budget the Government has allocated significantly more revenue to agriculture to support growth in this sector.

The major investments in this sector are the National Development Bank (NDB), the Special Economic Zone – Corridor Development and the establishment of the Agricultural Commercialisation Equity Fund.

The allocation to the NDB will build on the funds allocated to the body in 2013 (K80 million) to assist with the growing need for financing of indigenous businesses. It is proposed that the Special Economic Zone – Corridor Development initiative will develop basic infrastructure including powerlines, roads and wharves to encourage investment in agricultural processing and manufacturing and export. The first identified region is Sepik Plains for its potential to produce oil palm.

The 2014 Budget saw the announcement of the Agricultural Commercialisation Equity Fund, a pilot program under which subsidies will be provided to landowners for the costs associated with developing existing land for commercialisation. The initiative is intended to further aid in the identification of investors for the development of agricultural commodities such as coffee, cocoa, oil palm and rice. This initiative aligns with the Government's medium term initiative to unlock land for development.

Fisheries

PNG has the largest fisheries zone in the South Pacific with an Exclusive Economic Zone of 2.4 million square kilometres. In recognising the significant potential of this sector the Government endorsed the National Fisheries Development Plan Framework (NFDPF) 2006-2016.

Key priorities under the NFDPF include increasing the value and volume of downstream products, promoting quality fish products, encouraging sustainable fishing, improving fishing communities' access to markets and encouraging vertical and horizontal linkages between markets.

Under the NFDPF the Government has committed to increase processed fisheries and increase PNG vessels' share of total catch from 1% to 5%. Significant investment is required with the Pacific Marine Industrial Zone (PMIZ) in Madang being the first of such investments.

The 2014 Budget provided no specific expenditure plan for the fisheries sector in 2014.

Forestry

The Government expects production to increase in the Forestry sector following depressed levels of activity over the past two years.

A significant issue in the forestry sector remains land availability for plantations. The Government aims to further increase production through initiatives like the Productive Partnership in Agriculture (PPAP), an objective of which will include the rehabilitation of existing plantations.

The 2014 Budget provided no specific expenditure plan for the forestry sector in 2014.

Mining

Mining continues to be the major contributor to the PNG economy, with two thirds of total export revenue being contributed by this sector.

The 2013 Budget anticipated K1,207.5 billion in tax revenue from the Mining and Petroleum sector. This has been revised to K815.7 million. The lower mining taxes collected in 2013 is largely due to the decline in commodity prices such a gold and copper over the 2013 year.

The 2014 Budget anticipates Mining and Petroleum Taxes of around K1,002 billion to be collected in 2014. A rebound in production is expected from the major mines following the disruptions encountered in 2013 due to bad weather, landowner issues and maintenance requirements. Specifically, nickel production at the Ramu mine is expected to ramp up to 80% of full capacity lifting total output from the mining sector in 2014.

The 2014 Budget provided no specific expenditure plan for the mining sector in 2014.

Oil and Gas

The 2014 Budgets anticipates the PNG economy will grow by 6.2%, which is largely based on the expected growth in the Oil and Gas Sector due to the commencement of gas production in 2014 (non-mining GDP is only expected to grow by 1.6%).

The Oil and Gas sector is expected to grow 354% in 2014. This growth will be a direct result of gas production, which will substantially override the natural anticipated decline in oil production. Substantial increases in growth are again expected in 2015 with full gas production having commenced. The increase in gas production is expected to override the decline in the oil fields.

The continued depressed global economic conditions which have led to a decrease in commodity prices could result in lower than expected growth in this sector and lower export receipts. This would directly affect the Government's revenue and domestic economic growth and is a key risk to the economic and fiscal outlook and 2014 Budget.

The 2014 Budget provided no specific expenditure plan for the Oil and Gas sector in 2014.

Manufacturing

In PNG the manufacturing sector is dominated by industries processing natural resources (agricultural and non-renewables) to finished products such as canned fish, furniture, biofuel, refined palm oil, canned meat, plywood and veneer. PNG's manufacturing is highly concentrated in Port Moresby and Lae and to a lesser extent Madang with these three centres containing about 70% of the manufacturing sector.

The manufacturing sector is expected to have grown 3.5% in 2013. This growth reflects a moderation in domestic demand due to the slowdown of the PNG LNG project construction activities and lower commodity prices. The sector is expected to grow slightly in 2014 with the sector reverting back to trend growth in 2014.

The Government aims to transform the sector from a predominantly light manufacturing to higher value production as well as adapting new technologies. Strategies to achieve this goal consistent with the MTDP include promoting export orientation, promoting the tuna processing industry in PNG, attracting foreign investment in PNG, removing inefficiencies and other measure to lower the cost of doing in business in PNG.

In 2014 the Government will be focused on reducing the cost of doing business by addressing issues such as law and order, regulatory constraints, entrepreneurial capacity building, access finance, environmental effects in production and perhaps most interestingly, subsidies to reduce the impact of fluctuations in global prices.

Telecommunications

Telecommunication costs remain a key impediment to business investment and economic growth in PNG. The 2014 Budget saw the Government commit to various initiatives to develop this industry in PNG.

The National Information and Communications Technology Authority (NICTA) will remain the body that regulates the Information and Communication Technology (ICT) sector. However, it is proposed that in 2014, additional regulatory frameworks will be introduced to increase usage and competition in this sector, with a particular focus in the data services segment.

The Government intends to continue with its plan to provide ICT services to remote parts of PNG and bridge the “digital divide” through the roll-out of telecommunications infrastructure by operators through a bidding process.

The Government remains committed to the completion of the national fibre optics network infrastructure linking Port Moresby to the LNG site and onwards to Madang.

Tourism

Once again Government has noted in the 2014 Budget the growth potential in the tourism sector. PNG’s abundance of natural beauty could result in tourism contributing significantly more to the PNG economy. With regard to this sector, the 2014 Budget focuses on the need for development, particularly the development of water, sewerage and sanitation in an already growing tourist destination, Kokopo.

Taxation and Customs

Overview

Consistent with what the Government has been saying of late, this Budget sees no new or increased income taxes. It does however see the repeal of two concessional measures and the streamlining of administration for several others. There is one Customs measure which sees certain beer products moved to a higher level of excise duty.

In its Budget the Government has planned for additional revenue of K585 million to be collected by the PNG Internal Revenue Commission (IRC) and of K150 million by the PNG Customs Service (Customs) in the 2014 income year. That is anticipated as a result of additional compliance activities on the part of both organisations and in the case of IRC also due to streamlining of certain legislative regimes that will reduce burdensome internal reverse work flows.

In order to ensure that is achieved, the annual appropriations for each have been significantly increased as follows:

- IRC - K76.2 million in 2014, from K45.9 million in 2013
- Customs – K63.5 million in 2014, from K36.3 million in 2013

Income Tax

On the income tax front the main measures of note are:

- The research and development 150% tax deduction concession is repealed as of 1 January, 2014
- The recently enacted 'extended' infrastructure tax credit provisions are to be repealed as of the 19th September 2013, but the 'old' scheme remains in place
- The certificate of compliance and income reporting (business payments tax) regime is to be amended from 1 January 2014. The changes will raise the reportable transaction threshold to K5,000, remove the catch-all annual aggregating provision and remove altogether a number of low-risk trades or professions from this regime.

Research and Development

Introduced in 2004, the research and development (R&D) concessions provided for a 150% tax deduction for qualifying expenditure, where applied for by the 31st December of the year prior to that of the planned expenditure. When originally introduced in Bill form this concession was intended to apply only to the agriculture sector, but in passage through Parliament was extended to all industry sectors.

Despite a bright start to administration, more recent years have seen a struggle for sufficient technical capacity to be deployed within both the IRC and the independent Committee appointed to assist them with approval or otherwise of submissions. In addition, the size and volume of submissions lodged annually has seen the potential tax foregone through this concession escalating to levels approaching K2.4 billion. That level of contingent liability is substantial and any further increases could not be sustained going forward.

From 2014 onwards that 150% concession is abolished. Existing submissions lodged for up to and including the 2013 year which are yet to be considered will still be valid, once the supporting provisions in the *Income Tax Regulations* are amended to be wholly consistent with the base provisions in the *Income Tax Act*. Those base provisions stress the need for such R&D expenditure to be on matters that are technically uncertain, involve innovation or novelty and which might produce technical efficiency benefits for the taxpayer's business.

Whilst the 150% concession is abolished, legitimate future R&D expenditure, including for donations to approved research institutions, will remain deductible at 100% of that expenditure.

Infrastructure Tax Credits

The traditional infrastructure tax credits (ITC) regime applies to project expenditure by taxpayers on community benefit projects, generally in rural areas. For project expenditure as approved by the Department of National Planning and Monitoring, taxpayers in the resource, agriculture and tourism sectors are entitled to claim a tax credit up to a maximum of between 0.75% and 1.5% of assessable income for the relevant income year. This regime remains in place and is unaffected.

However, certain additions were made to the ITC provisions around the middle of this year, which extended the ITC regime greatly. They gave the NEC power to approve such credits for projects of national importance, regardless of the location of the project and with no maximum limitations on the percentage of assessable income of the relevant taxpayer which could form such credits.

It quickly became apparent to Government that this extended version could work against the original legislative intent of the ITC regime and could also compete against current Budget priorities. Accordingly it is repealed with immediate effect. The one project already approved under these extended ITC provisions however, being the refurbishment of Marea Haus (commonly known as the 'pineapple building'), is quarantined from this repeal and will proceed to completion.

Certificate of compliance and business payments tax

These combined regimes apply to contracts for the provision of services, where the contractor or service provider in question operates within one of a wide range of specified industry sectors. Unless that contractor or service provider possesses a current certificate of compliance (COC) from the IRC, then the customer making payment to them is required to withhold 10% business tax and remit same to the IRC. That 10% tax is then claimable by the contractor or service provider as a credit in their business income tax return for that income year.

The thresholds for application of these regimes were set in 1992 and are quite outdated. In addition, the IRC has had to use significant resources in recent years to administer the present requirements for an increasing number of small and/or low-risk taxpayer groupings. Accordingly, as of 1 January 2014 these regimes will be streamlined and result in tangible compliance savings to both the IRC an affected taxpayers.

From that date the threshold for single payment above which business payments tax deduction needs to be considered by the customer rises from K500 to K5,000. In addition, the old aggregating provision of K3,000 in total payments per annum by a customer (payer) to the one contractor or service provider is repealed altogether. These two changes are expected to remove a number of small contract service providers from the COC system, reduce the drain on IRC administrative resources plus similarly reduce administration costs to those taxpayers making payments to service providers under these regimes.

To complement this streamlining, operators in a substantial number of industry sectors are to be removed from the reach of this system at the same time. Recent compliance evaluations have established the particular trades or professions involved to pose a low risk from a voluntary compliance perspective. They include:

> surveyors, engineers, architects, cleaners, entertainers, advertising firms, and other professional service providers such as accountants, consultants, doctors and lawyers.

Other tax technical amendments

- **Secrecy provisions** – these will be amended from 2014 to allow the IRC to share taxpayer specific information with the Chief Collector of Taxes for Bougainville;
- **Approved charitable bodies** – presently once such status is formally granted by the IRC, it lasts for a set 5 year period. Amendments applying from 2014 will allow the IRC to review and revoke such status if it thinks fit to do so, at any time during the 5 years.

Tax administration improvements and development

- **Tax refunds to be direct in future** – the IRC has previously been inhibited from making income tax refunds promptly, due to having to source such refund amounts from limited annual appropriations through the Budget. From 2014 they can be made by transferring funds from the IRC tax administration account. This will help promote voluntary compliance and reduce the drain on IRC taxpayer enquiry resources.
- **Taxation Review Committee -** this body has only just been formally established and is in the process of being resourced with a secretariat and proper funding. Due to report in 2014, its objectives are to improve competitiveness, simplicity and fairness across the whole PNG tax system, by considering options for changing the mix of tax burden(s) placed on land (resources), capital and labour. It is intending to consult widely and publically in early 2014, before making recommendations for the 2016 budget measures.

Stamp Duty

Removal of ministerial exempt status discretion

Provisions exist within the Stamp Duties Act for the State plus for Provincial Governments and Local Level Governments to be exempt from the payment of stamp duty. There is presently also a further discretion allowed to the Minister to declare any person or body to be an instrumentality of the Government.

It is perceived that this particular Ministerial discretion could cause risks to future revenue, so it is being repealed as of 1 January 2014. The on-going duty exemptions for legitimate Government instrumentalities will remain intact.

Customs & Excise

On the Customs and Excise front there is only one measure of note this year.

Increase in excise rates on certain beer products

Since changes in 2012 to implement the harmonised system descriptors required by PNG's commitments as a member of the World Customs Organisation, there has been an inconsistency in the definitional descriptions of certain alcohol products between the *Customs Tariff Act* and the *Excise Tariff Act*.

Amendments are to be introduced accordingly from 1 January 2014, to revise the descriptions for certain item numbers within the *Excise Tariff Act*. These apply only to products of "beer or mixed drinks containing beer" at certain percentage levels of alcohol by volume. It will result in those products with percentages from 2.6% to 4.5% moving into higher excise duty brackets.

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