Papua New Guinea Budget 2024
Securing Our Future

Budget Alert

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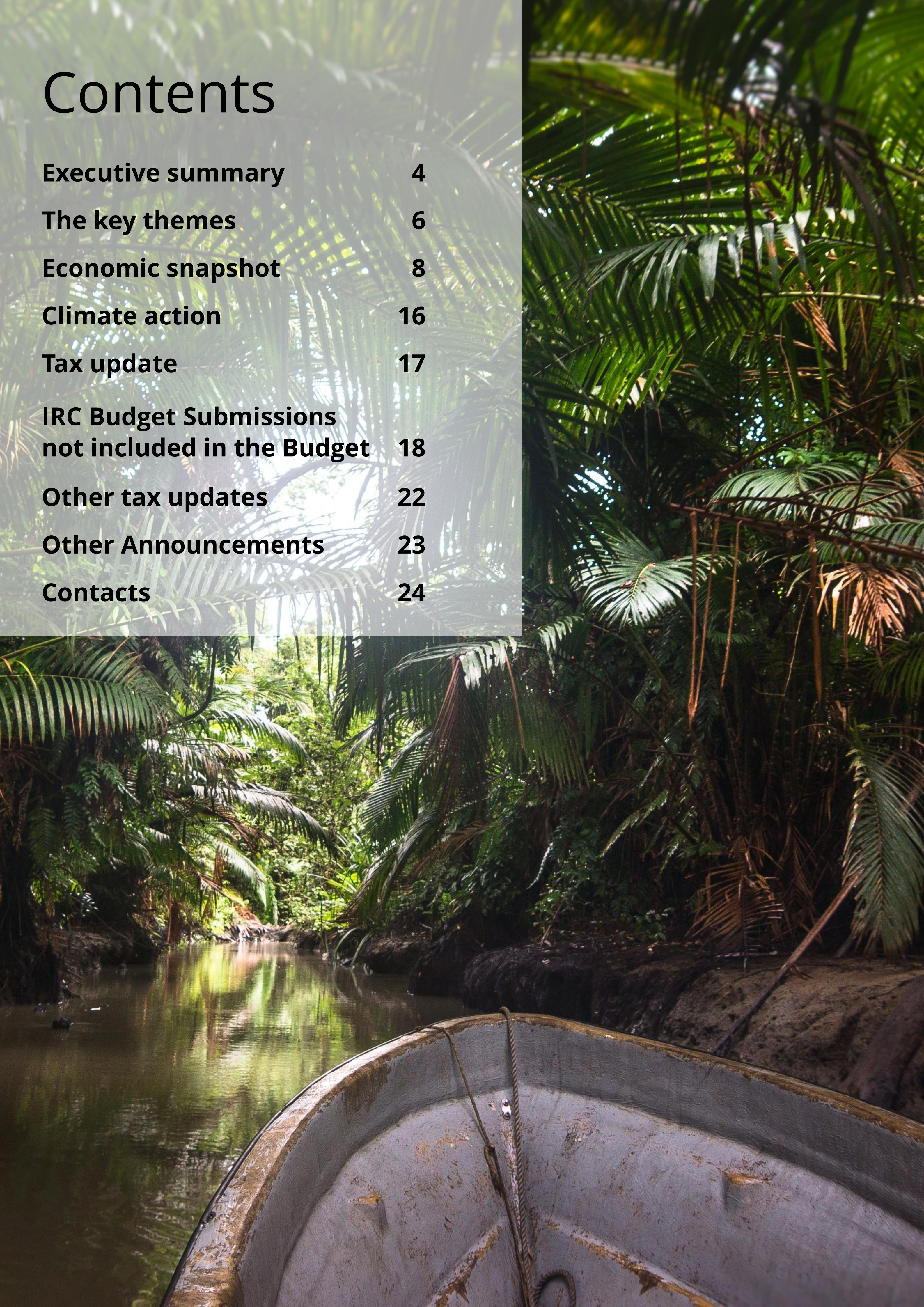


Executive summary

Securing our Future

The theme for the 2024 Budget is “Securing our Future”. The Government’s approach to doing so is through a steady hand approach and fiscal discipline. This plays out with a continuation of goals in previous years to both reduce the size of the Budget deficit and spending in key areas. Connect PNG (Land, Port, and Air capital infrastructure), Health & Education, Agriculture and Law & Justice remain priority areas.

This is still a record Budget in terms of expenditure (up 8%) and revenues (up 14.7%). This differential in their growth means the Budget deficit is trending downwards. The Treasurer stated that achieving a Budget surplus in 2027 was still the target, with the potential to achieve zero Government debt by 2034. The Government debt to GDP ratio is predicted to move from 52.6% to 51.1%.

No major tax policy announcements were made meaning the new Income Tax Act was not legislated nor any surprise broad base tax changes revealed.

On the key issue of foreign exchange, the Treasurer acknowledged a policy of devaluing the Kina against the USD was underway. While there has been speculation on the devaluation required, the Treasurer advised that the appropriate devaluation from current levels was seen as between 7% to 8%.

Inflationary trends in PNG continue to lag global trends, with inflation predicted to rise to 5% in 2024, while the global trend is a decrease. The forecast inflation rate is still below global averages, though cost of living pressures for families was estimated at closer to 8% to 10%. Devaluation of the Kina will also put pressure on controlling the inflation rate.

Deloitte PNG Turns 40 in 2023

Our Papua New Guinea firm, based in our office in Port Moresby, celebrated its 40th birthday in August. Our business in PNG is a microcosm of the nation’s twelve million people, 600+ islands and over 800 local languages. We serve clients in sectors including construction, banking and finance services, aviation, energy & resources (mining, gas and petroleum), as well as international development agencies, state-owned entities and NGOs.

Final thoughts...

PNG's 2024 Budget is handed down in the context of increasing global instability – the number of armed conflicts and increased competition / tension between the US and China with the imposition of export bans has led to additional supply chain shocks, including food inflation. China's economic stability remains uncertain, and although being centrally controlled, difficult to predict with accuracy.

We expect to see more right-of-centre governments elected in the next 1-2 years, making international cooperation on several important topics more challenging. For economic, political and environmental reasons, countries will continue to transition to lower carbon economies.

Moving onto domestic PNG matters, key issues faced by businesses in PNG are focused around foreign exchange, security, infrastructure, red tape and taxes. To various degrees the Budget has touched on all these areas.

While the to do list is significant, it is positive to see the ongoing commitment to capital infrastructure development. Maximising benefit from the Public Investment Program (PIP) funds – which has grown by 257% since 2018 – will be pivotal in maximising infrastructure goals. The Government will also need to be smart in its roll-out of Special Economic Zones.

To many, the minimal touch to tax policy will be applauded, but delays to implementing the new Income Tax Act and Tax Administration Act are in other ways a missed opportunity. Broader tax reform to attract investment and capital to PNG remains worthwhile to pursue.

Security challenges remain great, and the proposed increases in police and judiciary numbers can go some of the way to addressing this.

On the issue of foreign exchange, we do not necessarily agree with the IMF that a devaluation in the current environment is appropriate and might be better timed with an uplift in resource exports. However, we understand that IMF funding is important in the short term.

Focus on growth of agricultural sector remains a priority for the Government and we agree. More can be done to supercharge the effectiveness of smallholders' ability to export and compete in global markets as well as replace imports.

Finally, re-opening of the Porgera mine is forecasted for Q2 2024. This date could again be on the optimistic side, though we are nevertheless pleased the Government is prioritising the reopening. That said, we would have liked to see additional commentary about the broader resources sector and other PNG-specific large projects that would have a transformative effect on the economy.

PNG has an opportunity to not only position itself as an engine of growth in the region, but to also take a leadership position amongst the Pacific island nations on geostrategic and great power competition based on issues of commonality, such as climate change.

Key themes

Fiscal policy

Fiscal stabilisation and repair -

3-year Budget plan targets a Budget Surplus by 2027, The vision is *"spending more wisely, raising revenues more fairly, and financing debt more cheaply"*. The Budget repair will be implemented under the Medium-Term revenue Strategy and Medium-Term Development Plan

Revenue consolidation -

Strengthening the revenue base. Total revenue is project to be PGK23,393.8 million (18% of GDP). Revenue to increase by PGK3,811 million more than 2023 Budget. Downside risks include further delays in reopening the Porgera mine, below forecast resource prices and non-payment of SOE dividend targets

Expenditure budget –

Improve quality of expenditure in essential social sectors. A significant risk on spending targets is the rising global interest rates which would increase required debt interest payments

Financing –

Budget deficit at 3.3% of GDP that is PGK3,983.6million. Deficit to be funded by external financing of PGK1,663.4 million and domestic financing of PGK2,320.4 million

Largest capital budget in PNG history -

A capital budget of PGK10,700 million. A billion Kina more than 2023 Budget

Debt -

Reducing debt to more sustainable levels with an option of nil net debt by 2034. Debt estimate of 51.1% of GDP in 2024, a slight decrease of 1.5% from 2023 supplementary budget

Strong growth in non-resource sector-

Continue its high level of growth of 5.2% in 2022, 4.5% in 2023 and now 4.7% in 2024

Foreign Exchange Shortage

The release of foreign exchange reserves is predicted to increase. This will focus on reducing the size of the outstanding FX order books for imports, while there will be continuing restrictions on external capital flows.

Where are we today (Data 2021)

Provinces	Districts	LLGs	Wards
22	96	331	6,375

Population (million)
11,781,559

Life expectancy at Birth (years)
64.3

Annual Population
Growth (%) 4.8

Infant Mortality Rate
(per 1,000 live births) **42.4**

Urban Population
(%) of Total Popn) 13.3

Maternal Mortality ratio
(per 100,000 live births) 215.0

Economic Growth
2.7% (2023)

General Literacy (%) 63

GDP (PGK million) 110,000

GDP per capita (PGK) 9,336.63

Consumer Price Index (CPI) 157.7

Merchant Trade Balance K20,990.6 million

Current Account Balance K11,635.4 million

Total National Budget (2022) K24,700.0 million

Source - National Planning and Monitoring

Economic snapshot

In 2024, the PNG economy is expected to grow by 5.3% with the non-resource again growing at 4.7% and resource sector at 7.1%.

The non-resource sector's performance is expected to be driven by growth in the Wholesale and Retail sector, Real Estate, Transport and Storage, Accommodation and Food Services supported by the reopening of the Porgera Mine. In addition, the growth is supported by Construction projects related to Connect PNG and growth in the Finance and Insurance sector.

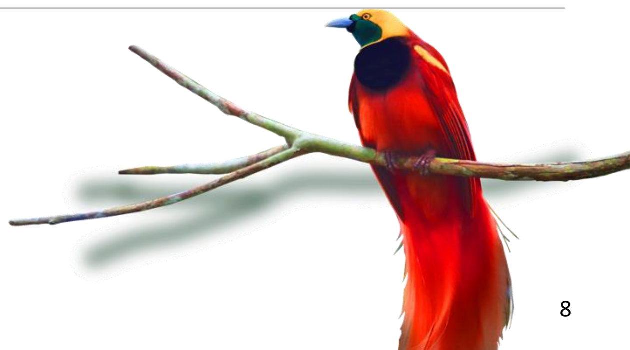
The resource sector fared less well in 2023 with a growth rate of 2.2% predicted, down from a forecast 6.9% in the 2023 MYEFO. This was a result of decreased production (to expectations) for existing mines, as well as further delays in the reopening of Porgera. Porgera is now forecasted to open in the second quarter of 2024, driving the forecasted growth of the mining sector to 20.3% and a 7.1% growth in the resource sector overall. Further delays in the reopening of Porgera from this time, which appears a real risk, will continue to materially impact forecasted figures.

The Oil & Gas Sector is expected to grow by 0.8% in 2024 due to upgrades in the PNG LNG production.

Key facts and figures

Table 1: Key macroeconomic indicators (Source: Department of Treasury – 2024 Budget Vol 1)

	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Budget	2024 Budget
Economic Growth								
Total real GDP (%)	2.2	-0.3	4.5	-3.2	-0.8	5.2	2.7	5.3
Non-Mining Real GDP (%)	1.5	4.0	1.6	-0.4	3.8	5.2	4.5	4.7
Inflation								
Year Average (%)	5.4	4.7	3.6	4.9	4.5	5.3	3.5	5.0.
Interest rate								
Kina Rate Facility (KFR)	6.25	6.25	5.88	3.50	3.0	3.13	3.33	3.33
Inscribed Stock (3-year yield)	9.7	9.0	10.5	9.0	9.0	0.0	4.7	4.7
Mineral Prices								
Gold (US$/oz)	1,258	1,270	1,392	1,770	1,800	1,801	1,918	1,973
Copper (US$/tonne)	6,166	6,517	6,006	6,170	9,308	8,819	8,501	8,285



Economic snapshot

Table 2: Overall Budget balance (Source: Department of Treasury – 2024 Budget Vol 1)

	2022 Actual	2023 Budget	2023 Suppl. Budget	2024 Budget
Revenue	18,538.2	19,582.0	20,403.0	23,393.8
Expenditure	24,390.0	24,566.9	25,337.9	27,377.5
Net deficit	-5.851.8	-4,984.9	-4,934.9	-3,983.8
% of GDP	-5.3%	-4.4%	-4.4%	-3.3%
Government debt (% GDP)	48.4%	51.9%	52.8%	51.1%

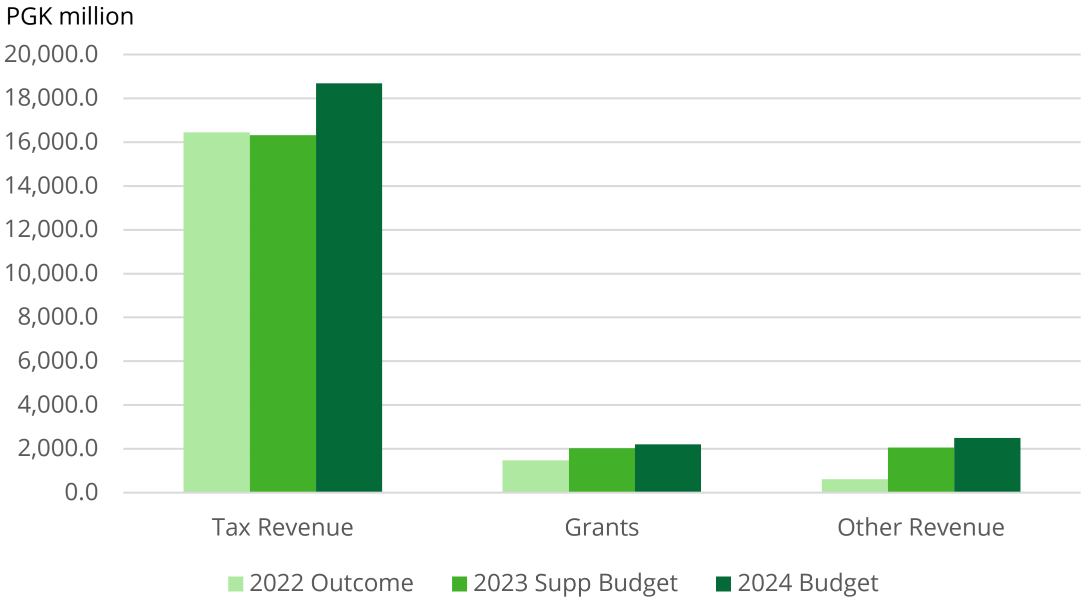
Revenue, expenditure and net deficit figures are in PGK million

The resulting budget is a fiscal deficit of K3,983.8 million or 3.3% of GPD. This is expected to be funded by net external borrowing and net domestic borrowing debt. In 2023 borrowing between the two sources was roughly evenly split.

Total Revenue and Grants for 2024 is projected at PGK23,393.8 million, that is 18.6% of GDP. This is 14.7% higher than the 2023 Supplementary Budget estimate.

Total Expenditure and Net Lending is projected at PGK27,377.5 million which is 8.0% higher than the 2023 Supplementary Budget estimate. The Government's funding priorities are education, health and law and order.

Chart 1: Where does PNG's revenue come from? (Source: Department of Treasury – 2024 Budget Vol 1)



- Tax revenue is expected to increase by 14.5% amounting to PGK18,694.8 million or 15.3% of GDP in 2024.
- The non-tax revenue is expected to increase by 21% to PGK2,494.0 million or 2% of GDP.

Economic snapshot

Table 3: Tax revenue by source (Source: Department of Treasury – 2024 Budget Vol 1)

Tax Revenue (PGK million)	2022 Actual	2023 Supp Budget	2024 Budget
Personal Income Tax (PIT)	3,652.1	3,868.2	4,341.0
Company Tax (CIT)	2,756.9	3,040.5	3,761.2
Mining and Petroleum Taxes (MPT)	4,036.1	3,025.6	3,550.0
GST	2,475.1	3,036.1	3,236.4
Excise Duty	1,157.2	1,172.9	1,326.4
Withholding and Other Income Taxes	807.2	748.8	803.2
Gaming Machine Turnover Tax	328.1	337.8	358.1
Import Excise	247.2	254.5	300.0
Bookmakers' and Gaming Machine Turnover Tax	35.4	17.8	47.1
Stamp Duties	30.3	35.8	46.3
Import Duty	469.9	414.3	455.0
Export Taxes	436.2	339.7	433.8
Other Taxes*	20.3	27.2	34.8
Sundry IRC Taxes & Income	0.3	0.2	0.2
Grand Total	**16,452.3**	**16,319.4**	**18,693.5**

*Other Taxes = Departure Tax, Motor Vehicle Tax, Other Taxes on Goods and Services

Tax revenue growth in 2024 of 13% in the 2023 MYEFO forecasts is based on a 10% nominal growth in GDP, 3% from new tax measures and a 1.5% increase from taxpayer compliance gain. This growth is on top of strong revenue growth in the last few years driven by increased compliance measures.

PNG has put in place a new Medium-Term Revenue Strategy (MTRS 2023-2027) to improve PNG's revenue framework through strengthening the existing tax policies, updating tax legislations and improving tax administrative capacity. Amongst other things, this seeks to make GST the largest source of non-resource revenue.

Economic snapshot

Table 4: Non-Tax Revenue (Source: Department of Treasury – 2024 Budget Vol 1)

Tax Revenue (PGK million)	2022 Actual	2023 Supp Budget	2024 Budget
Grand Total	**610.5**	**2,057.4**	**2,494.0**
Transfers not elsewhere classified	89.7	674.7	1,248.0
Fines, Penalties and Forfeits	0.1	1.9	0.0
Sales of Goods and Services	6.4	156.7	0.0
Property Income	514.3	1,224.1	1,246.0

Non-tax revenue is projected to increase by 21.2% to PGK2,494 million. This is due to expected higher dividend payments from State-Owned Entities and the full implementation of the Non-Tax Revenue Act 2022.

Table 5: Dividends from State-Owned Enterprises (Source: Department of Treasury – 2024 Budget Vol 1)

PGK million	2022 Actual	2023 Supp Budget	2024 Budget
Grand Total	**480.0**	**1,132.5**	**1,150.0**
Kumul Petroleum Holdings	300.0	600.0	700.0
Kumul Minerals Holdings	0.0	382.5	200.0
Kumul Consolidated Holdings	180.0	150.0	250.0
National Gaming Control Board (NGCB)*	N/A*	N/A*	200.0

*N/A = Not available.

In the 2024 Budget, the Government has tasked the NGCB to remit a minimum of PGK200 million to the Consolidated Revenue Fund as a statutory transfer to support the annual budget.

The Government intends to consolidate revenue generated by various state authorities for prudent management through the budget process.

Economic snapshot

The Medium-Term Fiscal Strategy 2023-2027

The fiscal strategy over the medium term is to grow revenue faster than expenditure with an intention to reduce the large Budget deficits. The 13-year Budget Repair Plan continues to target a surplus by 2027 and option of nil net debt by 2034.

The Medium-Term Revenue Strategy (MTRS) aims at building a revenue base to fund the medium and long-term expenditure plans while incorporating additional reforms. The key focus areas include tax administration reforms and improved compliance to increase the revenue.

The Medium-Term Debt Strategy on the other hand targets low-cost financing within prudent risk levels.

MTRS Policy Reforms	**MTRS Legal Reform**
Reduce Personal Income tax - Rebalance the tax composition from employees to consumption taxes (primarily being GST)	Update and consolidate existing relevant Acts – Introduce the New Income Tax Act, implement the Tax Administration Act, consolidate various tax exemptions into one tax law
GST – Broaden the GST tax base to be the largest source of non-resource revenue	International Agreements and Treaties – Review of treaties to ensure economic value
Tax Exemptions and Incentives – Rationalize the regime to minimize tax leakages	Asset registers – Establish a register for real property, shares and Government entitlements
Corporate Income Tax – Ensure a sustainable and fair corporate income tax regime	**Administrative Reform**
Mining & Petroleum Tax - Improve administration and compliance to minimize revenue leakage	Internal Revenue Commission – achieve a high level of voluntary compliance, align the organization structure to its strategy, promote integrity and prevent corruption, promote digital transformation
Superannuation and Life Insurance – consider the recommendations from the industry review report	PNG Customs – Harmonize legislation with best international practice, strengthen administration and promote efficiency
Non-Tax Revenue – Implement the Non-Tax Revenue Administration Act 2022 to broaden the revenue base. Implement the revised Dividend Policy	

Economic snapshot

Medium Term Development Plan IV (MTDP IV) 2023 - 2027

The objective of this is to achieve increased job creation, broadening the revenue base, increase downstream processing and improving the quality of life for all Papua New Guineans.

Strategic Priority Areas under MTDP IV
Strategic Economic Investments
Connect PNG Infrastructure
Quality and Affordable Health Care
Quality Education and Skilled Human Capital
Rule of Law and restorative Justice
National Security
National Revenue and Public Finance Management Act
Digital Government, National Statistics and Public Service Governance
Research, Science and Technology
Climate Change and Natural Environment Protection
Youth and Gender Development
Strategic Partnership

The 2024 Capital Expenditure Budget will fund the above 12 SPAs

MTDP IV Targets
To achieve a PGK200 billion economy by 2030
To create 1 million additional jobs by 2027
Increase export revenue by PGK50 billion by 2027
Reduce imports by PGK5 billion by 2027
Increase internal revenue to PGK25 billion by 2027
Increase Capital Expenditure to PGK30 billion by 2027

Economic snapshot

2024 Capital budget

Table 4: Development Partner Contributions (Source: Department of Treasury – 2024 Budget Vol 1)

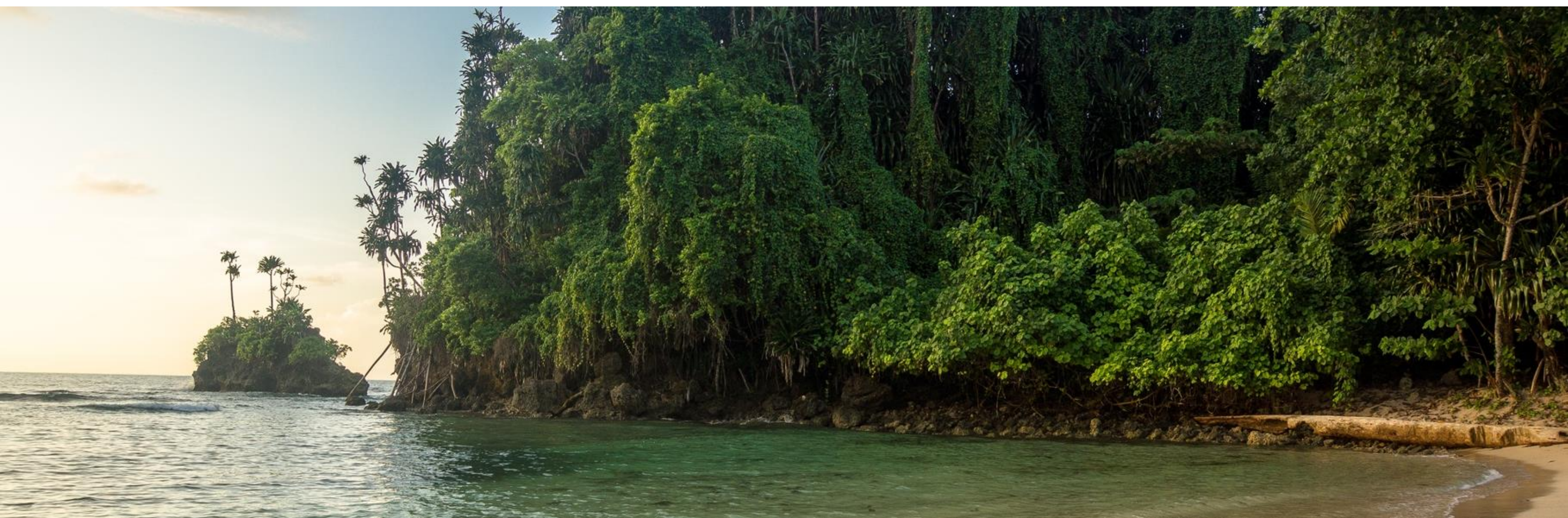
Development Partner (PGK million)	Grants	Loans	Goverment Counterpart
ADB	231.0	273.9	60.0
CESKA	99.9	40.6	20.0
Australia	1,231.5		13.0
China	15.0		
Indian EXMIN	10.0	30.0	
Japan	0.0	386.3	16.0
New Zealand	315.5		
AIFFP	93.0	161.9	
UN	204.0		2.0
USAID	0.0	16.8	2.0
World Bank	5.0	294.4	53.0
Total	2,204.9	1,203.9	166.0

Australian (through DFAT) remains the largest contributor of grants.

Development Partners are required to align their assistance programs and projects with the recently launched MTDP IV strategic priority areas.

The Government is providing PGK166 million as counterpart financing.

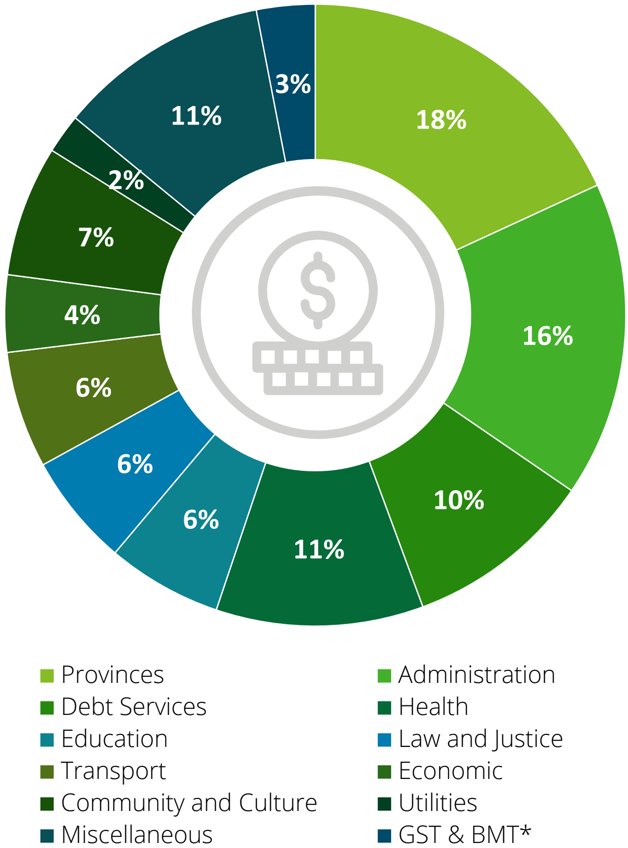
Concessional loan financing is to mainly support transport and power infrastructure investments.



Economic snapshot

Chart 3: Where does PNG's expenditure go? (Source: Department of Treasury)

Expenditure by Sector	2024 (PGK million)
Provinces	4,081.8
Administration	5,012.4
Debt Services	3,050.8
Health	2,588.5
Education	4,081.6
Law and Justice	2,164.3
Transport	2,013.5
Economic	1,608.3
Community and Culture	214.0
Utilities	1,201.0
Miscellaneous	1,361.4
Total	**27,377.6**



Increased funding for health and education. Funding to support 3,400 teachers and 840 health workers. 11.3% increase in Government Tuition Fee Subsidy (GTFS).

Law and order is given additional funding with a 9.5% increase in expenditure for law and justice sector.

Utilities received a significant increase in budget allocation compared to last year. This sector comprises of 9 agencies including water, sanitation and electricity. PGK80million is allocated for SOE reform and PGK100million for Air Niugini re-fleeting.

Economic sector saw an increase 45.9% compared to last year. This increase was partially due to the creation of a State Equity Fund (PGK150million) to support agriculture and other investments.

Climate Action

The National Reduction on Emission on Reforestation and Degradation (REDD+) Strategy 2017-2027 is the Government's mechanism intended to reduce adverse impacts on socio-economic loss resulting from various natural disasters. This contributes to PNG's commitment as member of the United Nations Framework Convention on Climate Change (UNFCCC), Paris Agreement and other like obligations.

The Government, with the assistance of the Climate Change and Development Authority (CCDA), have drafted the Climate Change (Management) (Carbon Markets) Regulation 2023 as the framework for managing the country's carbon market activities. This is part of the Government's intent to better manage climate change and relating adaptation programs.

Furthermore, the Bank of Papua New Guinea (BPNG) and the Centre for Excellence in Financial Inclusion (CEFI) have launched a Green Finance Policy with the help of the New Zealand Government. The Government also aims to improve its access to global climate funds. To aid this, the Global Green Growth Institute (GGGI) through the PNG CCDA have initiated various trainings for CCDA officers and other stakeholders to better understand the necessities in accessing global climate funds. Better access to these funds would allow the Government to sustain its mitigation programs.

The progressive log export tax was increased from 50% to 70% in the 2023 Budget, funds from which were to support the establishment of the Biodiversity and Climate Change Fund. This is now decreased back to 50%. This is to address the concerns raised by the forestry sector due to the low demand in the export market for logs and bad weather affecting production.

Tax Updates

The 2024 Budget took a light touch approach to tax policy. The changes announced included:

Tax free threshold and dependant rebates

First up a positive announcement. The tax-free threshold is to be maintained at PGK20,000. This measure impacts all resident taxpayers and indefinitely maintains the increase announced in the 2023 Budget.

However, it was disappointing to see the removal of the dependant rebate. We note the IRC also proposed the removal of the rebate in their Budget submission, arguing on the basis of administrative cost for both Government and taxpayer alike. However, those getting the rebate are mainly the employees and not the employer (who carry the cost of compliance). For most employers the cost of passing on the rebate is not significant.

Those affected most are individual taxpayers. For high income taxpayers this is not a significant cost (perhaps it means a takeaway coffee or two less per fortnight) but for the lower paid and those with three children (rebate PGK40.38 per fortnight) this represents an increase in tax burden compared to the current position and there is no offset.

Tobacco Excise Regime

The Temporary Tier 2 Tobacco Excise Regime introduced in 2019 will be made permanent given the positive impact it has had in addressing the illicit Tobacco Trade.

Reduction in Progressive Log Export Regime

Addressing concerns of the forestry sector, the progressive log export tax will be reduced from 70% to 50% on average to address concerns due to the low demand in the export market for logs. The Government's objective remains to ban the export of unprocessed logs by 2025.

Customs Tariffs

Several import tariffs, that are mainly used as inputs in manufacturing are exempted with an intention to reduce local production costs and thereby encourage local production.

Donations

The deductions allowed to charitable bodies or organisations will be reviewed in 2024 to ensure these provisions are not abused.

IRC Budget Submissions not included in the Budget

The following were other measures recommended by IRC but not taken up in the Budget:

Tax Treaty Override Position

Tax Treaties

- For big global businesses perhaps the most controversial suggested change related to the proposal that the domestic law on Management Fee Withholding Tax (MFWT) should apply to all management fees paid to non-residents of PNG. It is important to note that the definition of "management fees" is very wide and includes payments made to a non-resident for services provided outside PNG. The definition is as follows.

  "Management fee" means a payment of any kind to any person, other than to an employee of the person making the payment and other than in the way of royalty, in consideration for any services of a technical or managerial nature and includes payments for consultancy services, to the extent the Commissioner is satisfied those consultancy services are of a managerial nature; (emphasises added)

- PNG currently has 10 Tax Treaties. Of these it is strongly arguable that 6 (being Australia, New Zealand, Singapore, Canada, China and Korea) (Note IRC say 4, presumably excluding the latter two countries) reduce the rate of MFWT from the statutory rate to 0% whereas the rate is reduced to 15% in the case of Fiji and 10% in the case of Indonesia, Malaysia and UK.
- The proposal sought to override the bilateral agreement between PNG and other sovereign states. However, the Tax Treaties override domestic law and so to be effective, require amendment to the Treaties or termination of the respective Treaties.
- It is important to understand why the IRC are seeking this change. Obviously, revenue generation (estimated at PGK106million per annum – which actually seems low). However, it is also driven by their belief that management fees are being grossly overstated and, in many cases, simply not justified. This attitude may be born out of the broader frustration with the application of the treaties. Attempts to illustrate to the IRC that the fees are justifiable and supported by transfer pricing documentation (invoices, management agreements etc.) and OECD methodologies are ongoing, but the justification is not helped by an underlying IRC view that management fee are not genuine expenses.
- If the override were to occur, the non-residents may face tax issues in their home jurisdiction. The 17% MFWT is likely to exceed the tax payable in the home country on the net margin made on the management fees which in turn may in some cases restrict the foreign tax credit. For example, where a taxpayer applies a cost plus 5% approach the imposition of MFWT at 17% effectively puts the non-resident in a negative position after tax. This raises the question of how could this meet an arm's length approach without a substantial increase in the mark-up.
- We note that the IRC proposed treaty override would not be limited to related party transactions.
- Finally, the IRC submission suggests ongoing consulting with the treaty partners to have the treaties renegotiated such that a specific article to address management fees is inserted into the treaty. This appears to be the approach taken by Treasury as per the Medium-Term Revenue Strategy. We believe that this is by far the more responsible approach.

IRC Tax measures not included in the Budget

Tax Administration Act (TAA)

- It is no surprise that the TAA already requires amendments, even before it is put into effect, but this suggestion would have been very welcomed. It recommended that a Ruling system be enacted. Such a system is essential to the operation of a self-assessment system. The ability for a taxpayer to get a ruling on difficult tax questions before filing a tax return is essential to protecting the taxpayer from harsh penalties where a technical position is taken on the interpretation of the Tax Acts.
- Furthermore, Public rulings will set the benchmark for IRC in areas such as penalty application and ensure taxpayers can challenge unfair application of penalties against a set of criteria established by the Commissioner. It is interesting to note that the Solomon Islands TAA commenced on 1 January 2023 and IRD (Solomon Islands Tax Department) have circulated draft Public Rulings for consultation on a variety of topics including the application of penalties and the meaning of a "reasonably arguable position". These topics should be valuable precedence for IRC.

Ruling System

Retirement Savings Accounts (RSA)

- The superannuation industry has long requested changes to the taxation of RSAs, especially around the taxation of amounts rolled into and withdrawn from RSAs. Some of these issues have been considered in the Income Tax Act rewrite process, and with the IRC also advocating change, it is disappointing that the wait for change to taxation of RSAs continues.

Improved savings

IRC Tax measures not included in the Budget

Citizen Employee First Home Buyer

- A recommended change that would have been welcomed was the IRC recommendation of an increase in the threshold for both the Citizen First Time Home Buyer scheme and the related stamp duty concession to properties up to PGK700,000 in value, which is a more realistic threshold in larger urban areas. This is an important scheme to make home ownership more accessible for first time buyers. Unfortunately, in practice, it has limited application as the scheme is not offered by all employers. In turn this then limits those capable of benefitting from the scheme to a select few employees. It would be great to see the scheme reworked so that a wider net of individuals gets the benefit and helps the country achieve a much higher level of home ownership by citizens.

More homeowners

Tax Debt Swap Arrangement

Improvement in debt settlement

- Unfortunately, too many businesses have found themselves in the position where a Government department or entity owe them money (for goods or services) for very long periods of time but when it comes to paying their taxes the law requires payment on time or face late payment penalties. Some IRC officials have attempted to be of assistance in the past but unfortunately faced insurmountable issues in taking this pragmatic approach. It is therefore disappointing that the IRC proposal to legally allow Government debts owed to the taxpayer, to be offset against the tax due, has not made it to the Budget. The devil would of course have been in the detail so we will need to watch this space to see how and if this progresses. No doubt affected taxpayers would hope that the requisite legislation is enacted sooner rather than later.

IRC Tax measures not included in the Budget

GST Changes

- The IRC recommended three changes to GST. The first related to the filing frequency for GST returns. Where a taxpayer's turnover is less than PGK1.5million they recommended that it only be required to file GST returns quarterly (rather than monthly) thus reducing the compliance costs for the taxpayer and IRC. Where GST is payable the taxpayer potentially would have the use of the GST payable in the business for much longer. Of course, if the taxpayer is in a refund position, then the larger periods between refund requests will arise.
- The second recommended change was to reduce the current 8-year timeframe for requesting GST refunds (by refiling amended GST returns). It is disappointing to see that the filing of fraudulent returns is the rationale for this proposed change. There are other mechanisms for dealing with fraud and fraudulent taxpayers in the GST Act. Changing a time limit does not seem like a taxpayer friendly basis especially for those honest taxpayers who genuinely pick up errors and seek refunds. To be refused because other taxpayers might file fraudulent returns does not seem an equitable rationale.
- The third change related to the penalty for not complying with Section 65A (which requires GST output tax to be paid direct to the IRC rather than the supplier). This would increase the penalty from PGK1,000 to PGK50,000. As the notices are generally to Government departments and entities this is effectively the Government charging itself a penalty for failure to apply the law.

Developments in GST

Other Tax Updates

Income Tax Rewrite

- The latest issued version of the draft New Income Tax Act was version 10 (updated for CGT). We understand the IRC and Treasury are working on version 12. We had been told that the draft legislation would be introduced to Parliament with the Budget but unfortunately that has not materialised. No specific update on commencement was mentioned, though we understand that Treasury are still working to a commencement date for the new Act of 1 January 2025.
- We have prepared detailed commentaries on the 9th version, and these can be accessed by the following link.

Income Tax Act rewrite

Consequential amendments

Tax Treaties and Multilateral Instrument (MLI)

- PNG has ratified its MLI. This will impact the structure for doing business both in and with businesses in PNG. We recommend any non-residents, located in Treaty countries, doing business in or with PNG consider the impact of these changes. A separate alert covers this topic.

Other Announcements

Sector Reforms

To understand the value of its sectoral investments and the potential to grow these investments, the Government through the Department of Treasury will progress the following:

- State Investment Review, Development of an Investment Registry, Development of Medium-Term Sectoral Investment Strategy and Development of Resource Project Benefits Management Policy.

Getting it right

SOE Reform

State Investment Strategy 2024

- The Department of Treasury have drafted a revised 2024 Dividend Policy intended to provide clear guidelines to State Owned Entities (SOEs). It sets out the revenue targets for respective SOEs and clear targets on the intended dividend payments to the Government.
- The revised 2023 Dividend Policy and Dividend Payment Strategy are being finalised and will be sent to the National Executive Council at the end of 2023 for endorsement for implementation in 2024.

Consumer and Competition Framework Reform

- In 2024, the Department of Treasury will work with relevant government agencies to establish framework for the Neutrality Principles to improve market systems of Stated Owned Entities.
- Starting in 2024, the Department of Treasury will initiate the development an appropriate policy framework of the consumers in the country for consumer protection.

Competitive and Dynamic Private Sector

Protecting low skilled workers

Minimum Wages

- There is ongoing concern that many employers have not been paying the existing minimum wage. A Working Committee has been established to review and work on these issues and subsequently penalise employers who are not complying.
- The review process will also help with the negotiations of further increase to the current minimum wage rate.

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