

CHAPTER 4. 2008 BUDGET REVENUE MEASURES

4.1 OVERVIEW

The Government continues to draw from the benefits of high commodity prices and an improved domestic macroeconomic environment. The 2008 Budget will not introduce any new taxes or tax increases.

The 2008 Budget will instead further reduce income tax. It will also provide assistance to businesses by removing several stamp duties that are considered as impediments to business. These reforms are designed to encourage more investment to facilitate economic growth.

In implementing these policy initiatives, the Government is mindful that the current favorable international conditions being experienced are not expected to be sustained over the medium term. The initiatives are sustainable, based on projected growth in the non-mineral revenue base.

In 2007 the excise rate for gasoline-oil fuel (known as “Zoom”) was reduced on a trial basis. This trial will be extended for another year to allow sufficient data collection to enable the Government to determine the future of this policy.

4.2 INCOME TAX REFORM

In the 2006 Budget the Government announced significant personal income tax reductions to be phased in during 2006 and 2007. Given the backdrop of ongoing revenue that is continuing to grow, the Government has decided to provide further income tax relief. In the 2008 Budget, the Government will further reduce personal income tax to encourage participation in the growth of the economy.

The Government considers the tax relief that can now be provided should be directed primarily at lower income earners. Accordingly, the tax-free threshold will be increased from K6,600 to K7,000 commencing 1 January 2008.

In addition, the Government considers the current initial marginal rate of personal income tax of 25 per cent is relatively high compared to many other countries. The high initial marginal tax rate in Papua New Guinea represents a significant disincentive for low income earners to work longer hours or to seek higher paid work with more responsibility. The Government will therefore reduce the initial marginal tax rate from 25 per cent to 22 per cent from 1 January 2008. The increase in the tax-free threshold combined with the reduction in the lowest marginal tax rate provides a tax cut of K430 per year to individual tax payers earning K18,000 or above per annum.

Table 45 compares the current and new personal income tax rates and thresholds while Table 1.5 of the Revenue Tables (Appendix 1) shows the percentage reductions in the tax burden for taxpayers on different incomes and the larger relative reduction in tax paid for lower income earners.

Table 45: Current and new personal income tax rates & thresholds

Current PNG tax rates/thresholds		New 2008 PNG rates/thresholds	
Threshold	Rates	Threshold	Rates
0	0%	0	0%
6,600	25%	7,000	22%
18,000	30%	18,000	30%
33,000	35%	33,000	35%
70,000	40%	70,000	40%
250,000	42%	250,000	42%

Source: Department of Treasury

4.3 STAMP DUTY REFORM

Stamp duties are taxes that are levied on transactions. The transactions subject to stamp duty include loans, insurance contracts, bank withdrawals, setting up companies, transfer of property, leasing of land or goods and the sale of shares. The imposition of stamp duties can significantly increase the cost of doing business. Some are low value 'nuisance' taxes that raise small amounts of revenue and the removal of these taxes will save compliance costs for business and reduce tax administration costs for Government.

Consistent with the Government's commitment to removing impediments to doing business and investment, the Government will abolish a number of stamp duties as part of the 2008 Budget.

The following stamp duties will be abolished from 1 January 2008:

- (i) Agreement or Contracts for Loan;
- (ii) Loan Securities, Mortgages and Foreign Securities;
- (iii) Hire and Credit Purchase Agreements;
- (iv) Credit Arrangement;
- (v) Bills of lading; and
- (IV) Certificates of incorporation.

Stamp duty on insurance contracts and debits tax will also be abolished in 2008. However, because of the time required to adjust computing and billing systems in banks and insurance companies, it is not feasible to abolish these stamp duties from 1 January 2008. Accordingly, these two stamp duties will be abolished from 1 April 2008.

The abolition of these taxes will also have direct benefits to individuals who engage in transactions subject to these taxes.

4.4 2007 TARIFF REVIEW

In the 2007 Budget, the Government announced a review of its seven-year Tariff Reduction Program (TRP), which expired at the end of 2006. The Independent Review determined that in general, the TRP has achieved its intended effect of improving economic efficiency in the private sector. The gains to all stakeholders including producers and consumers can be maximised if the structural impediments adding to business costs are effectively addressed.

The recommendations of the 2007 Review are being considered and the Government is expected to be announcing the details of a further scheduled tariff reform in 2008, for implementation in 2009 and beyond.

4.5 HIGHLANDS HIGHWAY INFRASTRUCTURE TAX CREDIT SCHEME

The Government recognizes that the Highlands Highway is a very important infrastructure asset of the State that is in a strategic location, serving over 40 per cent of the country's population. Prior to 2002, the maintenance and rehabilitation of the Highway was neglected, resulting in its deterioration which threatened the many businesses and people who depend on it to sustain their livelihoods.

In order to address the maintenance issue, the Government introduced a one year special Infrastructure Tax Credit (ITC) rate of 1.25 per cent in 2002 for the Highlands Highway. This allowed resource companies to undertake maintenance and rehabilitation work on affected sections of the Highlands Highway and claim the expenditure as a credit against their assessable income. In the 2005 Budget, the special ITC scheme was renewed for another year with the normal two year carry-forward for unused credits.

Between 2002 and 2004, up to 109 kilometres of the affected sections of the Highlands Highway were maintained and rehabilitated at a cost of K21.5 million under the ITC scheme.

Since 2005, the total ITC funding increased further to K170 million of which a significant amount was directed to maintenance and rehabilitation work on the Highlands Highway. In 2006 and 2007, over K250 million has been provided through direct budget funding for maintenance and rehabilitation of the Highlands Highway, including replacement of bridges.

The Highlands Highway ranks in the top “very high priority” national roads under the Government’s Transport Development Plan (2006-2010). This Plan is to provide safe and reliable transport services to all sections of the community in PNG through maintenance and rehabilitation of existing roads, and construction of new roads only where economically feasible.

There are however administrative and capacity issues affecting timely and proper implementation of projects, thereby causing unnecessary delays and additional costs for the State. In view of these issues and the priority already given to the Highlands Highway, the special ITC rate of 1.25 per cent for the Highlands Highway will be allowed to expire at the end of 2007. The general ITC rate of 0.75 per cent is still available and can be used by companies for maintenance of the Highlands Highway.

4.6 REFORM OF BEER EXCISE

There are currently three rates of excise based on the alcohol content of the beer - a “low strength” rate, a “standard” rate and a “high strength” rate. The lowest rate applies to beer with an alcohol content of not more than 2.5 per cent alcohol by volume. This incentive has not yet resulted in the production of this type of beer in Papua New Guinea. However, a trial of “mid strength” beer has recently commenced.

The Government supports the production of lower strength beers. However, the existing structure does not provide any incentive for the production of “mid strength” beer. Currently, such beer is taxed at the “standard” rate. To encourage the production of “mid strength” beer the Government will restructure the thresholds for the application of beer excise and introduce a new concessional rate for “mid strength” beer. This will apply to beer with an alcohol content by volume of more than 2.5 per cent but not more than 3.5 per cent. The proposed four excise rates are as shown in Table 46 below.

Table 46: Beer Excise Rates and Thresholds from 30 November 2007

Description	Excise Duty Rate
Beer not more than 2.5% alcohol	K34.52 per lal
Beer more than 2.5% and not more than 3.5% alcohol	K44.53 per lal
Beer more than 3.5% and not more than 4.5% alcohol	K50.74 per lal
Beer more than 4.5% alcohol	K58.92 per lal

Source: Department of Treasury

The new structure and rates of excise will apply from 30 November 2007.

4.7 GASOLINE OIL FUEL (“ZOOM”)

The 2007 Budget announced that a concessional excise rate of 30 toea per litre would be levied on pre-mixed gasoline oil fuel (“zoom”) for 2007. Previously, the majority gasoline component was taxed at the rate applying to gasoline (61 toea per litre). The impact of the measure was to be assessed prior to the 2008 Budget so that a decision could be made whether to make this measure permanent. Unfortunately, the reform was not able to be implemented until June 2007. Because of the delay in implementation, insufficient data is available to make an assessment of the impact of this measure. As a consequence, this measure will be extended until the end of 2008 so that an assessment can be made in time for the 2009 Budget.

4.8 TAX CONCESSIONS

As part of the efforts to encourage investment, the Government offers a number of tax concessions in the agriculture, forestry, fisheries, manufacturing, petroleum, and mining sectors.

As well as sector specific concessions, there are some tax concessions that can be claimed by all. They include:

- Research and Development Incentive, where a 150 per cent income tax deduction is allowed for expenditure on Research and Development.
- Double deduction for Staff Training Costs, which allows a double deduction against company income tax for the payment of salary and wages of registered apprentices or other employees attending full-time training at a Government training Institute or prescribed tertiary institution.
- Duty Drawback, which is a rebate paid to exporting manufacturers when they export goods equal to the amount of duty already paid on new materials.
- Export Sales Exemption, which exempts profits from export sales for the first three years and income from increases in exports for the following four years.
- Accelerated and Flexible Depreciation, which allows for capital assets to be written off at a faster rate than their effective lives.

4.8.1 Estimating the size of tax concessions

The Government has over successive budgets been estimating and reporting on the size of its tax concessions. Table 47 shows the estimated size of the tax concessions for the past five years. Details of the amounts forgone are set out in Appendix 1 Table 1.2 -1.4.

Table 47: Estimated Cost of Tax Concessions 2002 to 2006 (Kina Millions)

Year	2002	2003	2004	2005	2006
Amount	34.4	76.7	34.9	37.7	30

Source: Department of Treasury

4.8.2 Recent developments

Increasingly, requests for tax concessions are made on a project basis through project agreements. This is not the preferred tax policy approach. Tax concessions should be provided on an industry wide or sectoral basis, in order to ensure neutral tax treatment of competing firms in an industry.

There has also been a movement towards including in project agreements general tax concessions that are already contained in the existing tax law. In order to address this problem, the Government is embarking on an awareness campaign to inform all stakeholders of the various tax concessions available. All existing fiscal concessions have been compiled to ensure all stakeholders are aware of the availability of different sector-specific concessions as well as general concessions. These concessions are available in law and there is no need for investors to seek to have them included in project agreements.

4.8.3 Policy on Tax concessions

To ensure that future budgets are supported by a reliable revenue stream it is important that the tax base of the economy is maintained and not eroded.

The tax system is compromised when concessions are given to specific projects or taxpayers. The use of project agreements to create special tax arrangements for individual projects has encouraged a wide range of investors to seek a growing list of tax concessions.

To enhance the integrity of the tax system, concessions provided to projects need to be confined to those available for the relevant industry in the existing tax law. This would ensure neutral and equitable treatment of projects in each sector, and transparency in tax policy. The assurance of equitable treatment for all investors would encourage further overall investment in the economy.

4.9 OTHER MINOR TECHNICAL AMENDMENTS

As in previous years, a number of minor (non-policy) changes to the taxation laws have become necessary for various reasons — to improve the clarity of the tax laws, overcome interpretational issues, bring them into line with international agreements, streamline them and reduce compliance costs. In brief, the measures are:

1. Amendment of the of the Customs Act to:
 - ensure adequate notice is provided before actions can be brought against Customs officers; and
 - extend the definition of the offence of collusion to include activities such as colluding with agents to defraud the revenue or smuggle goods into Papua New Guinea.
2. Amendment of the Customs Act Regulations to give the Commissioner General of Internal Revenue the discretion to apply a lower licence fee.
3. Amendment of the Customs (Prohibited Exports) Regulation to impose restrictions on the exportation of Papua New Guinea currency, foreign currency or alluvial gold.
4. Amendment of the Customs (Prohibited Imports) Regulation to correct errors concerning intellectual property rights and to align the period of disposal with the period of suspension of clearance for suspected counterfeit goods.
5. Amendment of the Customs Tariff Tax Act to:
 - repeal the tariff classifications and replace them with a new set of tariff classifications that reflect updated international standards; and
 - reflect the cessation of manufacture in Papua New Guinea of “crown corks”.
6. Amendment of the Excise Act to:
 - impose a penalty on outstanding excise payments;
 - broaden the meaning of excise prosecution; and
 - improve the institution of prosecution penalties to reflect current practices.
7. Amendment of the Excise Tariff Act to:
 - remove the reference to “refinery gates” in the taxation of gasoline oil fuel (“zoom”); and
 - extend the temporary concessional excise rate for roll your own tobacco until 31 December 2009.
8. Amendment of the Income Tax Act to:

- ensure the collection of revenue is not impeded by the absence of a Commissioner General of the Internal Revenue Commission;
 - allow the Commissioner General to facilitate an exchange program with other jurisdictions;
 - remove now incorrect references to the VAT Act;
 - remove now incorrect references to the Organic Law on Integrity of Political Parties and Candidates;
 - extend accelerated depreciation to restaurants as intended by amendments contained in the 2006 Budget; and
 - clarify the order of deductions for Allowable Capital Expenditure.
9. Amendment of the Income Tax Act Regulations to add Abau, Aitape and Lake Kopiago districts to the list of districts for the purposes of the application of the Rural Development Incentive to implement NEC decision 161/2007.
10. Amendment of Schedules 4.2 and 4.4 of the Income Tax, Dividend (Withholding) Tax and Interest (Withholding) Tax Rates Act to clarify their application to non-resident corporations.
11. Amendment of the Rationalisation of the Public Service Act to extend the expiry date for imposition of a concessional rate of tax on redundancy payments to public servants to 31 December 2008.
12. Amendment of the Stamp Duties Act to clarify that the land rich provisions do not apply to share transfers where the company's asset is a resource licence.