

CHAPTER 4. 2009 BUDGET TAXATION MEASURES

4.1 OVERVIEW

The main tax policy initiative in the 2009 Budget is to enhance the existing large scale tourism accommodation incentive. The enhancements are aimed at further encouraging investment in the tourism industry by increasing the period of time over which the concessional company tax rate of 20 per cent is applied and by relaxing the eligibility requirements.

The 2009 Budget also introduces minor tax policy and technical amendments to improve tax compliance, remove unintended errors, overcome interpretational issues, remove minor distortions and to clarify the operation of the law.

The taxation measures in the 2009 Budget have been framed in the context of substantial falls in commodity prices and the global financial crisis, which have significantly reduced the revenue estimates for 2009.

4.2 2009 TARIFF REDUCTIONS PROGRAM

Following the review of the Tariff Reductions Program in 2007, the Government announced it would consider further tariff reductions in 2009.

Given the uncertainty and volatility currently surrounding the economic outlook, consideration of further tariff reductions has been deferred until 2010 when the economic outlook is expected to be more settled.

4.3 ENHANCEMENT OF EXISTING INCENTIVES TO THE TOURSIM SECTOR

The Government will enhance the existing tax incentives for large scale investments in tourism accommodation, which were introduced in the 2007 Budget. The current incentives include:

- A higher accelerated depreciation rate of 55 per cent;
- A concessional company tax rate of 20 per cent for the first ten years of operation;
- Double deductions for staff training expenditure;
- Infrastructure tax credits equal to 1.5 per cent of gross income; and
- An exemption from GST for the purchase of travel and accommodation by foreign tourists prior to arrival in PNG.

Currently, recipients of the large scale tourism accommodation incentive receive a higher rate of accelerated depreciation, which will generally result in tax losses in the first few years of operation. As a result, the concessional corporate tax rate (which only applies for 10 years) is not effective until the initial year loss has been recouped in subsequent tax years.

In recognition of this, and to further encourage investment in large scale tourism accommodation, the Government will increase the period of time over which the concessional company rate applies from 10 to 15 years.

In addition, the Government will relax the eligibility criteria to access the large scale tourism accommodation incentive. This will further encourage tourism developments, where investments are on a smaller scale. The Government will reduce the minimum capital requirement from US\$10 million to US\$7 million and the room requirement from 150 to 100 rooms.

4.4 TAX CONCESSIONS

Though there will be no new tax concessions in the 2009 Budget, efforts to facilitate and encourage investment continue. In addition to the significant amount of funds directed towards key priority areas such as rehabilitation and maintenance of public infrastructures and maintaining law and order to ensure a conducive environment for private investment, the Government also has in place a number of general tax concessions.

These concessions are available to all sectors of the economy and include:

- The Research and Development Incentive, which provides a 150 per cent income tax deduction for expenditure on Research and Development;
- The Double Deduction for Staff Training Costs, which provides 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 institution or prescribed tertiary institution;
- The Duty Drawback, which provides a rebate to manufacturers on exported goods equal to the amount of duty paid on new materials;
- The Export Sales Exemption, which provides an exemption from company tax for income derived from exports of prescribed goods for the first three years, and for income from the increase in export sales for the following four years; and
- Accelerated and Flexible Depreciation, which allows for capital assets to be written off at a faster rate than their effective life.

4.4.1 Existing tax concessions

In the past, tax concessions have been granted on a project basis through project agreements. This is not the preferred tax policy approach. Tax concessions should instead be made available on an industry wide or sectoral basis to create a level playing field for competing firms in an industry.

There is also a growing concern that project agreements contain general tax concessions that are provided in the existing law. The Government is embarking on an awareness campaign to inform stakeholders of the various tax concessions available. Existing fiscal concessions have been compiled to assist stakeholder awareness of sector-specific and general concessions. These concessions are available in law and there is no need for investors to seek to have them included in project agreements.

4.4.2 Maintain the integrity of the Tax Base

To ensure that future budgets are supported by a consistent 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 will ensure neutral and equitable tax treatment of projects in each sector, and transparency in tax policy.

Furthermore, the assurance and certainty of equitable treatment for all investors encourages further investment in the economy.

4.5 MINOR POLICY AND TECHNICAL AMENDMENTS

In order for the tax administration to be compatible with modern ways of doing business and changing taxpayer behaviour, the Government continues to introduce minor policy and technical amendments in the annual budget. The 2009 Budget includes minor policy changes to improve tax compliance and increase the administrative efficiency of the Internal Revenue Commission. The technical amendments are intended to remove minor errors, overcome interpretational issues and clarify the operation of the law.

4.5.1 Minor Tax Policy Changes

- Amend the Customs Act to discourage smuggling by increasing the load limits of vessels that can be seized by Customs from 250 to 500 tonnes, and extend customs control in territorial waters from 3 to 12 nautical miles in order to be consistent with the National Seas Act;
- Amend the Customs Act to empower the courts to impose an additional penalty for smuggling dutiable goods, counterfeit goods and excisable goods which is related to the value of customs duty that has been avoided and the value of the smuggled goods;
- Amend the Income Tax Act to include Sections 247A and 247B to clarify the way the National Court will hear appeals to a taxpayer's objection with the Commissioner General's decision relating to an income tax assessment. This amendment imposes a duty of disclosure on the taxpayer to ensure that the taxpayer and Commissioner General have the same information before the court; and
- Amend Section 364 of the Income Tax Act to oblige taxpayers to retain records for seven years after lodging tax returns (instead of seven years from the transaction date). This amendment will promote fairness to all taxpayers and ensure there is an incentive to lodge tax returns in a timely manner.

4.5.2 Minor Technical Amendments

- Amend Income Tax Act to define "Public Authority";
- Amend Section 24 of the Income Tax Act to remove an incorrect reference to Provincial and Local Bodies;

- Amend Section 16A of the Stamp Duties Act to prevent stamp duty avoidance when entering into two or more agreements for the same transaction between the same or related parties;
- Amend Section 48(C)(1)(c) of the Stamp Duties Act to clarify the existing law and achieve the original policy intent where portions of the same property are sold to the same or related parties; and
- Amend Section 101(2) of the Stamp Duties Act to insert the correct abolishment date for duty on insurance policies of 1 April 2008.