The PNG Economy on Facts & Figures – A look into Tax Revenue

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Introduction

- Tax Revenue – principal source of PNG government revenue (contributes more than 80% to budget.

- Tax system in PNG has wide range of impacts on the economy.

- Affects the living standards of citizens through incentives & disincentives for consumption, investment business & trade.

- In PNG , tax revenue serves as a good indicator of the economic performance.

- Recently PNG gov't stated that GDP increased from 2015 to 2016 .

- Our Question : Did GDP actually increase ?

- GDP – main measure of economic performance

- Tax Revenue – more suitable alternative measure to economic performance .

Tax Revenue Comparison: 2015 & 2016

- **1. Resources Tax Revenue Comparisons**
- PNG's economy heavily relies on its natural resources – price-takers in global market, vulnerable to global crises.
- Low commodity prices affected PNG LNG & other resources leading to low revenue & slow down of economy.
- Eg Mining & Petroleum taxes – shows a downward trend (Fig 1 below) 2012 to 2016.

Mining & Petroleum Taxes (Kmillion)

- 981.1
- 666.7
- 794.2
- 195.4
- 92.0

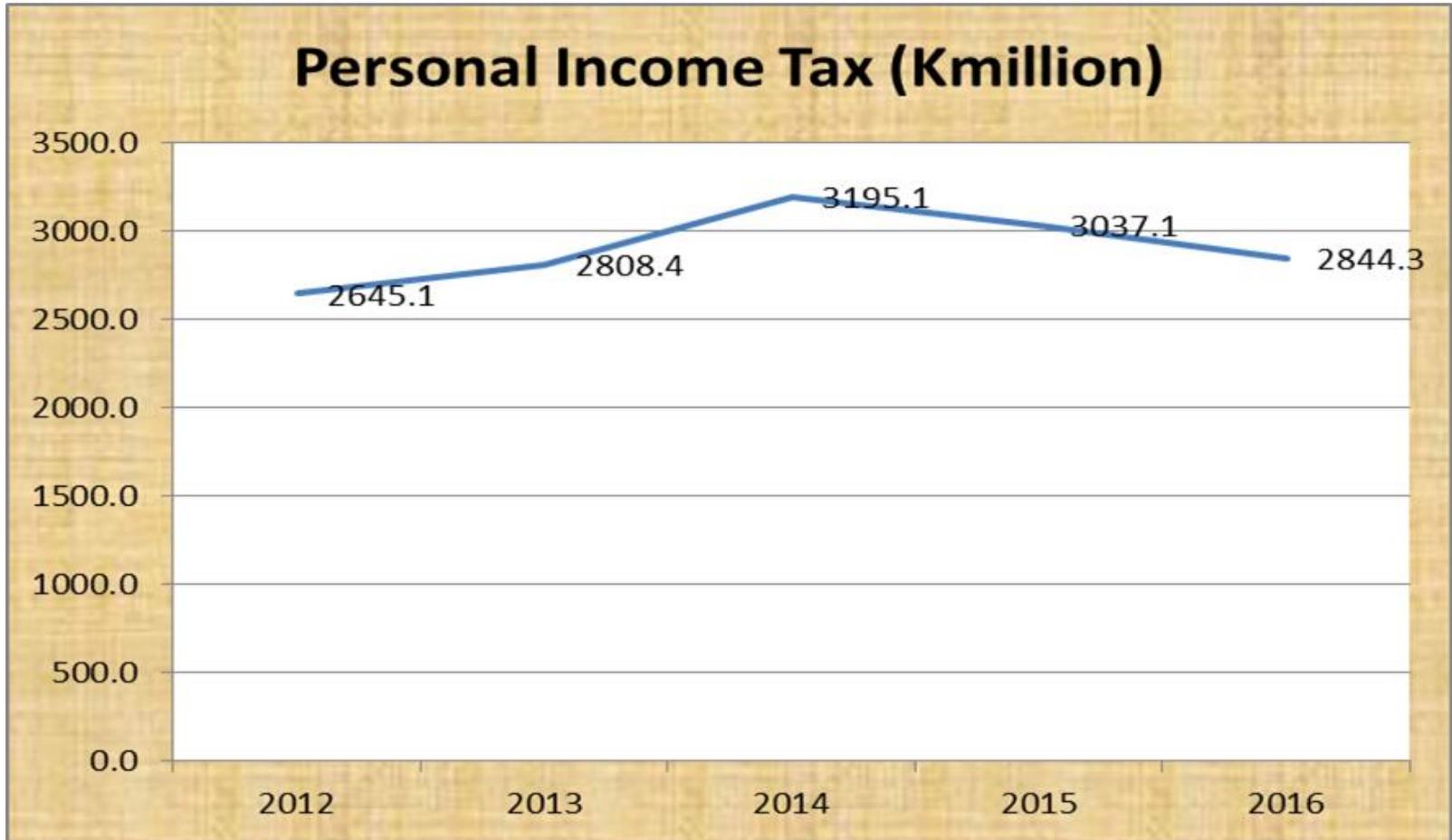Source : Treasury Dep't , BPNG, IMF & World Bank compiled by Rohan Fox (ANU)

- Trend confirms the economic activity in the years 2012 to 2014 where GDP increased substantially when PNG LNG under construction & shipment of first few cargoes.

- Therefore , 2015 to 2016 decline is no exception - mining and petroleum GDP has declined in the period.

- It declined by K103.4m from K195.4m in 2015 to K92m in 2016.

2. Non- Resource Tax Revenue Comparisons

- Non-resource sector gives a more clear and true performance PNG economy since bulk of the population (more than 80%) is engaged.

- Also provides a more robust check on the declining tax revenue mentioned above in the resource sector.

- Three (3) different non-resource tax has been analysed to support the argument .

- (i) Personal Income Tax (2) Company tax and (3) Goods & Services Tax (GST).

Personal Income Tax

- Total formal labour wage employment in PNG - about 300,000 which , only 4% of population.

- However, as a growing economy serves as a good indicator of economic performance.

- Figure 2 (below) ,again displays downward trend from period 2012 to 2016.

Personal Income Tax (Kmillion)

3195.1

3037.1

2844.3

2808.4

2645.1

Source :   Treasury Dep't , BPNG, IMF & World Bank compiled by Rohan Fox (ANU)

- Interviews and evidences show that formal employment declined in 2015 and 2016.
- Post Courier on October 20, 2016 reported that poor economic conditions have forced a leading PNG manufacturer (K.K Kingston) to carry out a redundancy exercise in laying off about 10% of its workers.
- PIT declined by K192.8m from K3,037.1m in 2015 to K2,844.3m in 2016.
- Thus , indicates decline of GDP in the formal employment sector.

Company Tax Revenue

- Second robust check to confirm the slow down of the economy.

- Company taxes - tax revenues collected from the income and profits of non-resource companies and businesses operating within the country including foreign and national owned entities.

- Figure 3 (below) displays the company taxes colleted for the period 2012 to 2016.

Company Tax (Kmillion)

| Year	Company Tax (Kmillion)
2012	1740.5
2013	2060.5
2014	2522.4
2015	2374.8
2016	2093.8

Source : Treasury Dep't , BPNG, IMF & World Bank compiled by Rohan Fox (ANU)

- Company tax revenue declined by K281m from K2,374.8m in 2015 to K2,093.8m in 2016.

- Moreover indicates that GDP contributed by the private sector has declined in the same period.

Goods & Services Tax (GST) Revenue Comparisons

- Measuring the economic performance through taxes on goods & services would be a better way compared to PIT & Company taxes.

-   Reason: A tax that is paid by almost , if not whole of the eligible population of the country.

- To summarise, again , a similar downward trend is noticed in figure 4 (below) indicating declining GST revenues.

Gross GST in millions of kina
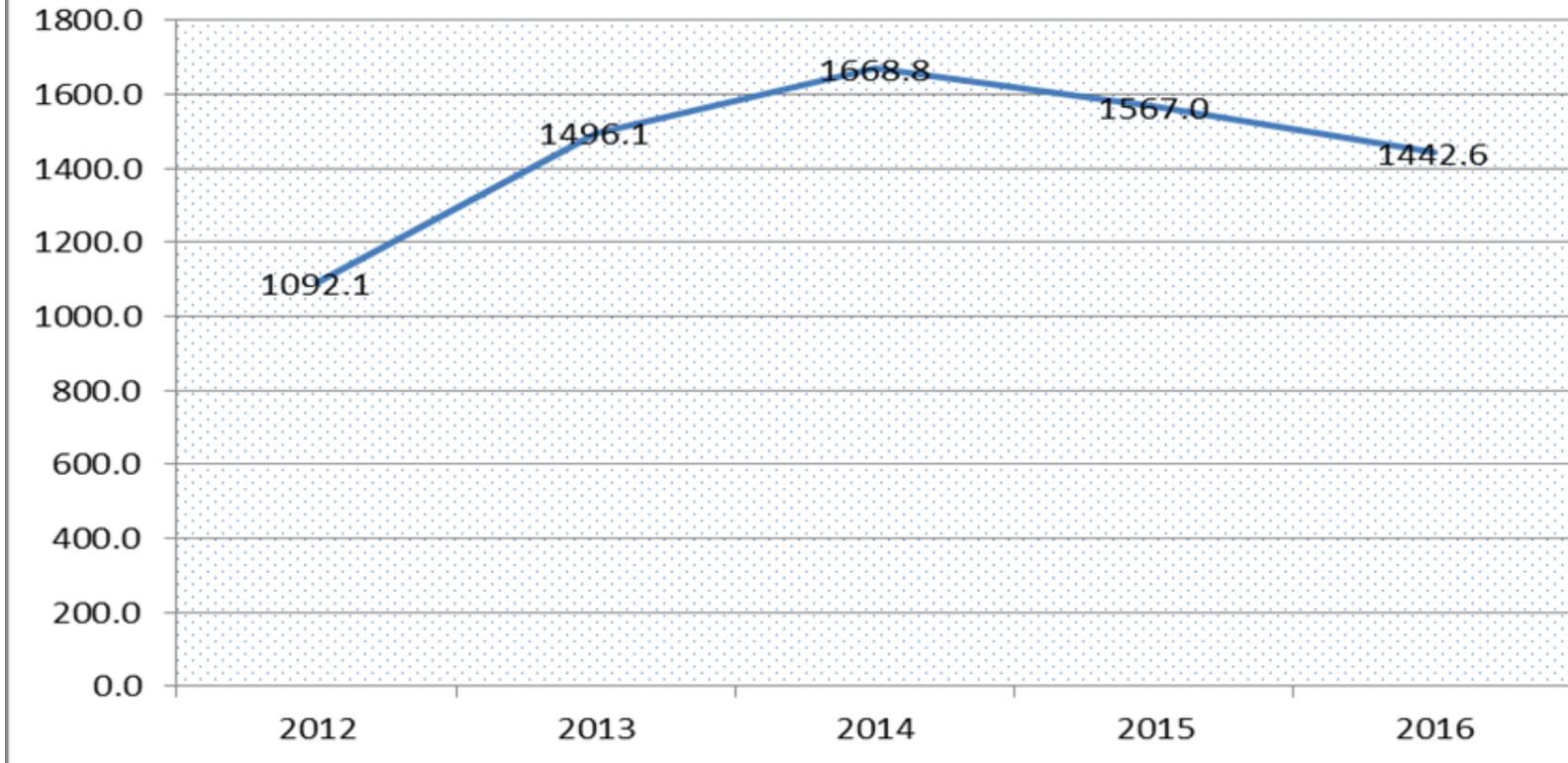
Source : Treasury Dep't , BPNG, IMF & World Bank compiled by Rohan Fox (ANU)

- (Note: precaution on reporting 2015 GST revenues since inconsistency in reporting of net GST instead of gross GST.)
- The "old" system reported "net" GST, while the "new" system reported gross GST, however, for it reported net.
- Gross GST – inclusive of provincial share before disbursements.
- We report gross GST revenue for 2015 to be consistent with 2016 gross GST comparisons.
- Finally , GST revenue declined from K1567.0m in 2015 to K1442.6m in 2016 by K124.4m.
- Therefore, firm evidence that the whole sectors of economy has been in a recession and no doubt GDP has declined between 2015 and 2016.

IRC's Tax Compliance

- A further qualification to our argument.

- The IRC mentioned tax compliance was an issue in the fall of revenue collections.

- However government allocation to the IRC have been on an increasing trend since 2012 (as shown by figure below.)
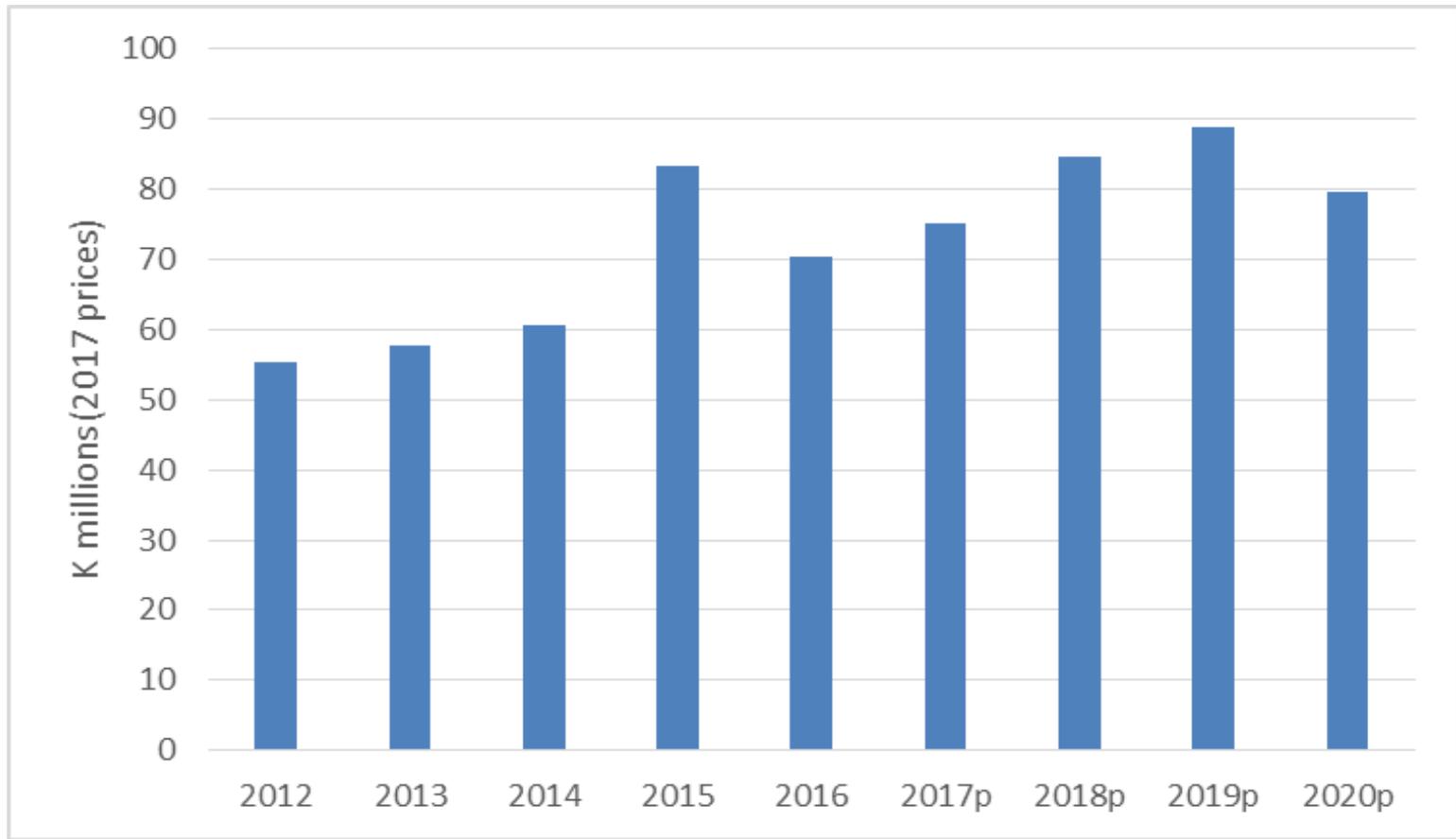
Internal Revenue Commission funding (adjusted for inflation)
Source : Treasury Documents

- Moreover, discussions with IRC management and advisers suggested that compliance levels have been increasing due to increased funds and capacity.

- We were told that IRC staff had increased from 324 in 2013 to 660 currently – thus, compliance would not be a real issue.

Conclusions

- Resources & Non- resources taxes revenue decline all point to the same direction that tax revenue declined between 2015 & 2016.

- Thus, the slow down of the economy and decline of GDP.

- Therefore, it is hard to believe, in part, that the non-resource economy has not been contracting in 2015 & 2016 (as claimed by the government).