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.
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.
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 slowdown 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 collected for the period 2012 to 2016.
Company Tax (Kmillion)

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).