



Tax Alert
Papua New Guinea

May 2021

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IRC updates

1. Reinvigorating Certificate of Compliance (COC)

The IRC has released a guide on COC. This can be found at: <https://irc.gov.pg/wp-content/uploads/2020/12/Reinvigorating-Certificate-of-Compliance.pdf>. A COC is required in certain industries, with a failure to produce a valid COC requiring the customer to deduct a 10% business payment tax from the invoice/contract value. The following industries fall within the COC regime.

1. Building and Construction
2. Road Transportation
3. Repair or maintenance of motor vehicle
4. Construction of items of joinery
5. Security Services
6. Hire and lease of plant and equipment

If you are engaging in a contract for any of the above services ensure the COC and business payment tax requirements are met.

2. Spotlight on logging Companies

IRC has announced that they consider logging companies to be high-risk sectors and accordingly will revamp its compliance audit activities. We understand around 20 logging companies have been earmarked to be audited. The IRC have indicated that based on the findings there may be several actions undertaken including criminal prosecution.

3. Major focus on Small Business Tax (SBT)

IRC has been steadily conducting various training and awareness sessions across the country regarding the SBT. IRC SBT champions have been highlighting the importance of compliance to the small business holders. SBT is being officially launched on 04th of June 2021 at Unity Mall, Waigani.

4. Taxation Exemptions and Concessions granted through Government agreements

The IRC has released a strong statement that where tax concessions or exemptions have been granted by Government agencies without consulting IRC or the Treasury or being reflected in PNG's tax laws would not be honoured. They have stressed that any exemptions or concessions can only be granted by the National Parliament through enactment of appropriate tax laws.

New Income Tax Act

The Revenue Policy Team is currently reviewing the 6th draft of the new Act. Once this is completed then consultation with stakeholders can recommence.

The new Income Tax Act is now expected to be tabled for the November sitting of Parliament.

Covid-19 Tax relief Measures, PNG and Australia

The IRC have not announced any new or extensions to Covid-19 relief measures applicable for affected businesses in PNG. Taxpayers should therefore continue to comply with their tax obligations as per usual deadlines.

Of relevance to PNG business owners and employees who have spent additional time in Australia due to Covid-19 and associated border restrictions, on 25 May 2021 the ATO updated their [website guidance](#) on whether the presence of employees in Australia due to the impacts of COVID-19, may create a permanent establishment. The updated guidance confirms that the ATO's current compliance approach is applicable until 31 December 2021.

Tax residency rules changes for the Australian expatriate employees

The Australian Federal Budget for 2021-22 handed down on the 11th of May 2021 proposed some changes to the residency tests for Australian individuals to better reflect the modern times. Under the current rules residency is determined based on ordinary residence, domicile, 183 day test and superannuation test.

The budget states that these tests would be replaced with the following:

- The primary test whereby a person will be tax resident if they are physically present in Australia for 183 days or more in an income year; and
- In other cases, a secondary test will apply, using a combination of:
 - Physical presence (for example, being in Australia in an income year for 45 days or more, or overseas employment for up to two years); and
 - Measurable objective "factors" (having a right to reside permanently in Australia, close family being generally located in Australia, having available Australian accommodation, and/or Australian economic interests).

For foreign nationals who work in Australia but qualify as temporary residents, being a tax resident may not make much difference to their Australian tax position, as once they leave Australia they are essentially taxed as if they are non-residents.

As PNG has a double tax agreement with Australia, if an individual is considered to be a tax resident under the respective tax residency rules of both countries, the tie-breaker tests within the tax treaty can continue to be used to allocate tax residency to one of those states. If you are unsure of your residency or how the new rules would impact, please feel free to contact us.



Reminders: Tax and Statutory Compliances

- The second Provisional Tax payment for 31 December 2021 year ends is due 31 July 2021
- The extended deadline for taxable returns for Income tax returns for the 31 December 2020 year ends is 30 June 2021 in accordance with the tax agent lodgment programme

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