



Papua New Guinea

Tax Alert #1



In this issue

In this Alert, we bring to you updates on the following:

- Personal Income Tax Relief
- IPA reregistration required for Visa processing
- GST Refund (CR2) and Offset (CR1) Requests
- 2023 Budget changes Gazetted
- Management Fee Withholding Tax and Treaty Interpretation
- Reminders on Tax and Statutory Compliance

Have something to contribute? E-mail us at DTTtaxPG@deloitte.com.au to include in the next Tax Alert.



Introduction

Happy New Year

Welcome to the first issue of the Deloitte PNG Tax Insight for 2023. Our tax team brings to you updates in the tax legislation, policy, practices and technical tax awareness that impact taxpayers every day.



Temporary Personal Tax Relief

Following the 2023 National Budget sitting, the IRC has issued the public notice on 05 January 2023 confirming the temporary increase in Employees Tax-Free Threshold to K20,000.

The tax-free threshold is applicable to resident taxpayers and is legislated only for a twelve month period scheduled to end on 31 December 2023.

The resident tax rate is as follows:

Where annual income	Marginal Tax Bracket Rate	Gross Tax
does not exceed K20,000	0%	$N \times 0$
exceeds K20,001 but does not exceed K33,000	30%	$N \times 0.30 - 6,000$
exceeds K33,001 but does not exceed K70,000	35%	$N \times 0.35 - 7,650$
exceeds K70,001 but does not exceed K250,000	40%	$N \times 0.40 - 11,150$
exceeds K250,000	42%	$N \times 0.42 - 16,150$

Note that there were some errors in the IRC Fortnightly tables released on 5 January 2023. The IRC uploaded an updated Fortnightly Tax Tables in the IRC website on 03 February 2023. Please ensure payroll systems are adequately updated for this temporary change in the tax-free threshold using the correct formula as provided by the IRC.

We note that the non-resident rates have not changed and that there remains no tax-free threshold for non-resident individuals.



IPA Reregistration and Visa Processing

The department of immigration has advised that it is requiring companies applying for visas to be re-registered with the IPA and provide the new IPA Certificate. This is despite the legislation not requiring re-registration with the IPA until 30 November 2023.

We note that while the IPA migration to the new system has not been completed, companies can presently re-register through manual lodgements. If you would like further information regarding this please email one of the contacts listed below.



GST Refund (CR2) and Offset (CR1) Requests

The IRC further issued a public notice on 13 January 2023 in relation to the GST refund requests due to a significant backlog of requests.

The IRC has taken some key initiatives to address the caseload, these include:

- Recruitment of additional resources;
- Review and modification of processes and procedures to achieve set deadlines;
- The reduction of the quantity of the initial information required at the time of lodging the request.

To assist IRC in reducing the current caseload, taxpayers are requested to comply with the following:

- When lodging the GST request, (CR1) or (CR2), provide the sales and suppliers listing in accordance with the public notice issued in September 2022.
- Allow the officers time to conduct the verification of the requests;
- Requests on the status of the case is limited to a four-weekly interval;
- CR1 and CR2 forms are not to be sent unless requested;
- The submitted GST request will initially take time as the request has to be allocated and actioned.

The IRC envisions to reduce the turnaround time of the GST request to under 60 days.



2023 Budget Amendments Acts Gazetted

The amendments Acts accompanying the changes announced in the 2023 Budget have been certified (12 January 2023) and now Gazetted, Gazette date 23 January 2023. This includes the abovementioned changes to the salary and wages tax rates as well as the increased corporate tax rate of 45% for commercial banks.



Management Fee Withholding Tax and Treaty Interpretation

In January a delegation from the Australia PNG Business Council delegation went to Canberra. Discussions included challenges facing Australian businesses working with PNG customers. The IRC's interpretation of the tax treaty with Australia was raised, and promoting trade between the two countries. Australian Treasury reaffirmed its position on the matter, which disagrees to the interpretation of the IRC. A formal statement subsequently issued by Australian Treasury on 8 February 2023 noted:

- The Australian Government considers that Papua New Guinea's (PNG) proposed imposition of a management fee withholding tax (MFWHT) is inconsistent with the Australia-PNG tax treaty. The Australian Government is of the view that management fees are normal business profits covered by article 7 of the treaty which assigns the taxing rights over this income to Australia (where the Australian resident does not have a permanent establishment or branch in PNG) and not PNG.
- The Australian Government has communicated this view to PNG formally via both the Competent Authority under the treaty (the Australian Taxation Office) and through the Australian High Commission directly to the Commissioner-General of the PNG Internal Revenue Commission (IRC).

- Notwithstanding the representations the Australian Government has made, the PNG IRC remains of the view that its interpretation of the tax treaty is correct and that its imposition of the MFWHT is necessary to address integrity issues that allow management fees to be paid to overseas companies to avoid paying tax in PNG.
- The Australian Government maintains its view that the PNG IRC approach to the MFWHT is inconsistent with the tax treaty and should it be implemented, will make it more expensive for Australian business to serve PNG. Consequently, the Australian Government has not proposed amending the treaty to resolve this issue and does not support renegotiating the treaty.
- The Australian Government will continue to engage with PNG authorities on this issue, noting that the treaty provides limited capacity to resolve disagreements as it does not currently bind either party to engage in arbitration.

We note that for now the IRC have withdrawn their public notice and have stated further communications will be made once consultation with the tax treaty partners is complete.



Reminders: Tax and Statutory Compliance

- 28 February is the due date for all Annual reconciliations; and
- Annual Returns with filing month in February are due by 28 February 2023.

For more details please contact your key Deloitte contacts or any of the following:

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