



Tax Alert
Papua New Guinea

June 2021



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IRC updates

1. Salary Packaging Guide

The IRC have released an information guide on Salary Packaging which essentially confirms their prior stance. See <https://irc.gov.pg/wp-content/uploads/2021/06/Salary-Packaging.pdf>. In brief the guide states as follows:

- **What is salary packaging?**
It is a way of structuring employment income utilising concessions that are available under the Income Tax Act.
- **The IRC have listed the following that you can effectively salary sacrifice:**
 - a. Leave fares
 - b. School fees (primary and secondary)
 - c. Deductions against housing allowances (under a housing allowance variation scheme)

While not mentioned, we note there are some other benefits that can be tax effectively salary packaged including (but not limited to):

- d. Rental accommodation (taxed at prescribe values)
 - e. Employer superannuation contributions (requires amendment to remuneration terms in employment contract)
- **Are there any limits?**
The current administrative rule on salary packaging an individual's employment income is the so called "60% - 40%" split. Under this guidance the employer/employee salary packaging agreement is limited such that at least 60% of salary remains taxable as cash remuneration. Sacrificing above this limit risks the IRC considering the arrangements as tax evasion.
 - **IRC Recommendations**
The guide recommends that employers have a formal salary packaging policy in place and keep records to justify the tax concessions applied. They also reaffirm the need to have a Housing Allowance Variation (HAV) assessed by IRC before an employer can concessionally tax the housing allowances paid to employees.

We note there are other considerations to salary sacrificing arrangements such as ease of implementation, compliance with IRC procedures and cost to the employer (e.g. limitation of employer corporate income tax deductions).

If you have additional queries or would like to know more about the salary packaging, please reach out to us. Please note these rules may change if the current proposal for a new Income Tax Act is legislated (Treasury hope to have the new rules in place from 1 Jan 2022)

2. Small Business Tax

The IRC launched the small business tax on 4 June 2021. The SBT applies to small and micro businesses carried on by individuals conducting business as a sole trader with the following conditions:

- a. Conducting business solely in the country;
- b. Not registered for GST purposes;
- c. Not subject to income tax in the previous year;
- d. Earns a total annual turnover below K250,000.

For more enquiries to on the SBT, reach out directly to us or SBT@irc.gov.pg or visit the IRC's SBT resources page at <https://irc.gov.pg/small-business-tax-sbt/>

3. Tax avoidance/Evasion Patterns

The IRC has witnessed an increasing trend amongst individuals conducting businesses using their own personal bank accounts rather than their company bank accounts. It is noted that upon registering the business with the IPA and IRC for tax purposes, these individuals continue to use their private bank accounts to operate.

This is a major concern to the IRC because it is perceived that business income is not being declared to the IRC.

Apart from the administrative penalties, the IRC is compiling a list of these cases for criminal prosecution and is working closely with the Financial Analysis and Supervision Unit (FASU) and the commercial banks to detect such individuals that are avoiding to pay tax.

COVID-19 Measures at Immigration

1. Papua New Guinea moves to seven-day home quarantine for vaccinated international arrivals

In new measures announced last Friday by the Controller of Papua New Guinea's COVID-19 National Pandemic Response, fully vaccinated international arrivals from 'low to medium risk' countries will be able to quarantine for just seven days when entering the country and will be eligible for home quarantine.

'Low to medium risk' countries under the new measures are;

- Australia,
- Japan,
- Singapore,
- New Zealand,
- South Korea,
- Sri Lanka
- Vanuatu.

Unvaccinated arrivals from these countries, and arrivals from all other countries, will still be required to quarantine for 14 days. For outbound passengers leaving PNG, Air Niugini is partnering with International SOS to offer PCR COVID-19 testing prior to check-in at Port Moresby's Jacksons International Airport.

Please contact our office should you require our assistance to file applications for quarantine.

2. Combined visa and work permit system on its way in Papua New Guinea

A combined online application process for both visas and work permits is on its way, according to Papua New Guinea's Chief Migration Officer, Stanis Hulahua. A 'one-stop shop' process for foreign nationals seeking to work in PNG is being developed by the country's Immigration and Citizenship Authority (ICA).

Under the new system, a single application process would cover both visas and work permits, so that 'when visa is issued, it's also a work permit.' Hulahua also said the authority was also reducing the amount of time it took to obtain a visa or a passport, with a visa now taking ten days instead of 15 and passports issued within seven days (or within 24 hours in an emergency).

We will alert you to developments as they unfold.

3. Visa renewal trips

A common issue faced by PNG businesses and their existing foreign employees has been the long-standing requirement to leave PNG until they receive their new visa. Given the 'challenging'

COVID-19 situation, which has made international travel problematic, Hulahua said the ICA had put in place processes to 'facilitate mobility'. It has introduced a process 'whereby visas are reissued in-country on a case-by-case basis', while Hulahua says similar provisions will apply for those who have overstayed their visa.

Do not hesitate to contact our office should you require our assistance to apply for visa extensions (both long term & short term), change of status visas whilst applicant remain in PNG & overstayed visas.

4. Post-COVID travel

With a view to assisting efficient post-COVID international travel, Hulahua revealed the ICA was working on a new border management system which will track incoming passengers and record details such as evidence of vaccination. He said the system would enable PNG to 'limit the quarantine time for people entering our country.'

Watch this space for more new developments.

IRC Audits

In recent years, the IRC have been performing tax audits on taxpayer accounts on all tax types, but in particular the Corporate Income Tax (CIT), GST and Salary/Wages Withholding Tax (SWT) accounts.

How are taxpayer selected for audits?

The IRC say that taxpayers are selected at random for audits. There are however certain issues that may trigger the IRC to perform audits, which may include but are not limited to, the following:

- Upon analysis, they have determined a variance in the Total Sales/Income reported in the annual CIT return against what has been reported in the monthly GST returns for any given year;
- The taxpayer has been in a tax loss position or refundable position for several years running.

On the first issue we recommend that reconciliations of GST and CIT returns are prepared as an internal check and as a process to facilitate efficient reviews. On the latter issue we suggest that clients ensure they prepare an internal document supporting losses especially where these are expected to continue over a number of years or where the tax treatment differs from accounting treatment (for example accelerated depreciation) which may help to quickly deal with IRC queries. This may need to be supported by appropriate transfer pricing documentation in the case of multinationals.

How can a taxpayer be ready to respond to an audit?

The following are some tips to ensure your company's readiness if selected for an audit:

- Ensure all records including workpapers and supporting documents that have been used as the basis for preparing the respective annual and monthly returns are properly filed and maintained so they are readily available;
- Document reasons for significant variances, and tax positions taken that may not be immediately obvious on review; and Ensure the supporting information maintained is in a layout/format that is user friendly and can be easily interpreted by the tax office.

Should you require further information regarding this, please reach out to us.

Tax insights

G7 agreement on Pillar One and Pillar Two

On 5 June 2021, the G7 finance ministers published a Communiqué which sets out high-level political agreement on global tax reform, including the reallocation of a share of the global residual profit of certain businesses to market countries (Pillar One) and a minimum effective tax rate, on a country by country basis, of at least 15% (Pillar Two). It is anticipated that the IRC and Treasury will keep a close eye on these developments in anticipation that the rules may favour more taxable profits being allocated to PNG in certain circumstances, and want to understand those cases where the reverse may be the result.



Reminders: Tax and Statutory Compliances

- Where a taxpayer has tax payable, income tax returns for the year ended 31 December 2020 are due by 30 June 2021 in accordance with the tax agent lodgment programme
- Annual Returns with filing months in June are due by 30th June
- 7th June is the due date for Salary & Wages Withholding Tax (SWT)
- 21st June is the due date for Goods & Services Tax (GST) and Other Withholding Taxes (FCWT, MFWT, BIPT)

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