



Pre-Budget Alert

November 2022



A new Income Tax Act

Treasury concluded the next round of workshops with stakeholder groups at the start of September 2022. These workshop discussions were based on the 9th version of the draft new Income Tax Act. Key statements arising out of the workshop include:

1. The new Income Tax Act is expected to be passed with the Budget. It is not expected to vary too greatly from the 9th version released for discussion, but will hopefully incorporate some of the feedback points made in the September workshops.
2. Treasury advised the new Income Tax Act is scheduled to come into effect from 1 January 2024. This means that tax years starting on 1 January 2024 and afterwards will be the first under the new Act. For substituted accounting period taxpayers, this may mean a deferred start for annual income tax returns, but compliance with other aspects, such as withholding taxes will commence immediately from 1 January 2024.
3. Treasury had not yet drafted the Regulations to the new Income Tax Act but was intending to do so in the near future. The Regulations contain important rules that supplement the sections of the new Act, including transitional provisions, transfer pricing guidelines and explanation of prescribed amounts.
4. While not many further changes are expected before the new Act commences, Treasury did concede there may be some alterations required in 2023. Treasury therefore left open the possibility of further submissions that could be made on this, and on the Regulations, once drafted.
5. Treasury acknowledged there were other tax reforms that may have an impact on the new Act, and require amendments, including the Central Bank's recommendations for the Superannuation and Life insurance review, as well as the development of Special Economic Zones.

Deloitte shortly will be release the updated series of tax alerts on the new Act, with comments now based on draft Version 9 of the Act. We reiterate that the new Act, while largely a rewrite, does contain some substantive changes that are important for taxpayers to understand prior to the new Act's implementation date.

We will provide further updates on any changes to the Act, as presented with the 2023 Budget, after the Budget.



Other Tax Reforms

1. Personal income tax free threshold

The Government had introduced some relief measures to counter inflationary aspects in the economy. This included temporarily raising the tax free threshold for resident individuals from PGK12,500 per annum to PGK17,500 per annum. These temporary measures are from 1 June 2022 to 21 December 2022.

The Government has stated a number of times its desire to reduce taxation on individuals. This was alluded to again in the Mid-Year Economic and Fiscal Outlook (MYEFO) report, with a suggestion that the tax-free threshold for individuals may increase permanently up to PGK20,000. Improved collections from the IRC have made this policy move more affordable, so some increase in the threshold may possibly be actioned.

2. Fuel Exemptions

Another temporary relief measure was the removal of excise and GST exemption on fuel. The MYEFO also alluded to the possibility of this temporary relief measure being extended from its expiry on 31 October 2022 to 31 December 2022, which Treasury has subsequently confirmed. However, it is not expected that this relief will become permanent beyond that date.

3. Carbon Taxes

We anticipate the Budget will contain announcements on climate initiatives and introducing a Carbon Tax, but we currently have no details.

Medium Term Revenue Strategy (MTRS)

The previous MTRS went from 2017 to 2022 and included important reforms such as modernising the Income Tax Act and introducing a capital gains tax. The new strategy has not yet been released, though it was mentioned in the 2022 Budget that the

next one would be finalised in 2022. The MTRS gives businesses an understanding over the Government's tax reform policy for the next 5 years and it is an important document in understanding Government policy. It is hoped that the next MTRS will be released.

International Tax Developments

The IRC has provided an update on international tax developments on its website. The IRC noted PNG was rated "Largely Compliant" on its implementation of the tax transparency standard of Exchange of Information on Request (EOIR) by the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) in September 2020, after undergoing a rigorous peer review process. PNG has signed two critical multilateral tax conventions since 2019:

- The first one is the Multilateral Convention to Implement Tax Treaty-Related Measures to Prevent Base Erosion and Profit Shifting (MLI), signed in 2019.
- The second one is the Convention on Mutual Administrative Assistance in Tax Matters ("MAAC") signed in 2021. The IRC stated the MAAC facilitates international cooperation for better

operation of national tax laws amongst 146 member jurisdictions of the Inclusive Framework. The two treaties are now awaiting ratification by PNG. IRC is working closely with the Department of Treasury to have all laws updated and harmonized.

The IRC noted that international tax developments have also been reflected in aspects of the Income Tax Act rewrite. It also noted it continues to receive technical assistance from our international partners, such as the Organisation for Economic Cooperation and Development (OECD), the Global Forum, and the Asian Development Bank (ADB), and are utilizing the expertise provided by these partners to build capacity within the IRC concerning international tax.

Management Fee Withholding Tax

In the abovementioned international tax update, the IRC referred to its public notice regarding its right to tax management fees after reviewing the source tax rules under some of its existing double tax treaties (which do not expressly provide for management fees). The IRC stated the OECD's two-pillar approach under international tax developments complements its position on the treaty application of management fee withholding tax and that once implemented by PNG, this two-pillar solution will complement the

Marape-Rosso Government 'Take Back PNG' policy to strengthen and broaden the country's income tax collections.

We note the effect of this statement is unclear but suggests the IRC considers future legislative and bilateral agreement amendments will resolve the management fee withholding tax issue in their favour.

 Collections

The MYEFO also released details of revised forecasted tax revenue collections to 31 December 2022. These showed higher collections than that originally budgeted in the 2022 Budget, up by PGK1,345.6 or 10.7%. In fact, the IRC announced in September that it had already collected 9.7 billion kina in tax revenue.

The increase in collections was despite the MYEFO forecasting lower than budgeted growth in the PNG economy in 2022, down

to an expected 4.5% growth in GDP compared to 5.4% in the 2022 Budget. Tax revenues were in particular boosted by the higher resource prices, particularly LNG and Oil. Personal income tax, GST and excise were negatively impacted by the temporary tax relief measures to counter inflation.

Revised collection forecasts were summarised as follows:

Tax Revenue (PGK million)	2021 Outcome	2022 Budget	2022 MYEFO
Personal Income Tax (PIT)	3,467.9	3,608.3	3,256.6
Company Tax (CIT)	1,690.3	1,763.2	1,763.2
Mining and Petroleum Taxes (MPT)	635.4	738.4	3,000
Withholding and Other Income Taxes	562.5	469.2	859
GST	2,457.2	3,223.4	2,699.6
Stamp Duties	1.4	51.8	51.8
Excise Duty	998.3	1,192.9	751.5
Import Excise	282.8	314.7	260.1
Bookmakers' and Gaming Machine Turnover Tax	234.7	288.7	338.7
Other Taxes on Goods and Services	19.4	23.7	28.5
Import Duty & Import Taxes	379.7	419.9	419.9
Export Tax	399.1	428.5	439.5
Grand Total	11,128.7	12,522.7	13,868.4

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