

Papua New Guinea

Tax Alert

August 2020

In this issue

This month, we bring to you updates of measures taken by the Internal Revenue Commission (IRC) and the PNG Immigration and Citizenship Authority (ICA).

The Internal Revenue Commission (IRC) -Issuance of Section 65A Notice pursuant to the Goods and Services Tax Act 2003

The IRC has issued a media release (dated 6 August 2020) announcing the start of a project for implementation of Section 65A Notices. This is now supported by Taxation Circular TC 2020/2.

Section 65A enables the IRC to issue notices directing a customer to remit GST charged by their suppliers directly to the tax office. The reasoning for this project is to address non-compliance by suppliers, who either fail to pay the GST received to the IRC or do so late. The project will initially focus on Government Departments and SOE's, given there is perceived non-compliance by Government contractors, but is expected to be expanded to other taxpayers. It is currently used in the agricultural sector where it was perceived that GST was being charged to customers but not being remitted to IRC by their suppliers.

The recipient of the notice is required to file or submit two returns: G1 Form – GST return to account for GST in its normal business operations, and either the G2, G4, G5, or G6 Form (depending on the taxpayer's sector), - which is the remittance form for the GST it has withheld from its supplier(s) under the section 65A requirements.

The goal of the IRC is clear, removing the supplier as a GST collection agent so that GST payment go directly to the IRC, which will then remove one potential level of non-compliance. However, we see a number of significant concerns with this initiative, such as:

- GST, as it is designed, is a relatively efficient tax. An important pillar of this is the ability for businesses to offset GST paid on inputs against GST paid on outputs. Removing this will mean those business will need to instead recover the GST from the IRC. With lengthy delays and additional compliance in seeking GST refunds (compounded by the previous decision to not allow GST credits to be offset against salary and wages tax), funds will instead be locked up in the IRC. While this may be the IRC's preference, GST will become an inefficient tax.

- Most suppliers account for GST on an accruals basis, meaning the GST on supplies is often included in a GST return before the supplier is actually paid. This is likely to give rise to transitional issues, where the recipient of the section 65A notice pays GST directly to the IRC despite the supplier having already accounted for it, creating a doubling up of GST.
- While the roll-out of the initiative largely remains to be seen, complying taxpayers are likely to be caught up in the initiative, disrupting GST where it actually works.
- SOEs and Government departments often do not pay within a month of being invoiced. This could mean that GST is actually received by the IRC later under this initiative. Penalties for late payment would then fall on the SOE's, creating a false economy in Government collections (through penalties). Curiously, this could be advantageous to suppliers who are on an accrual basis and having to wait long periods of time to collect their receivable. They will no longer have to pay GST output tax well in advance of receiving the cash.
- This measure creates additional compliance for all parties, including the IRC, again eroding the efficiency of the GST tax system.

The Immigration and Citizenship Authority (ICA) – The New Normal Operations

The Chief Migration Officer of the ICA in its Circular No:71/2020, dated Tuesday 28th July advised of its new normal processes with respect to visa, passport and citizenship matters.

The following key measures are noted;

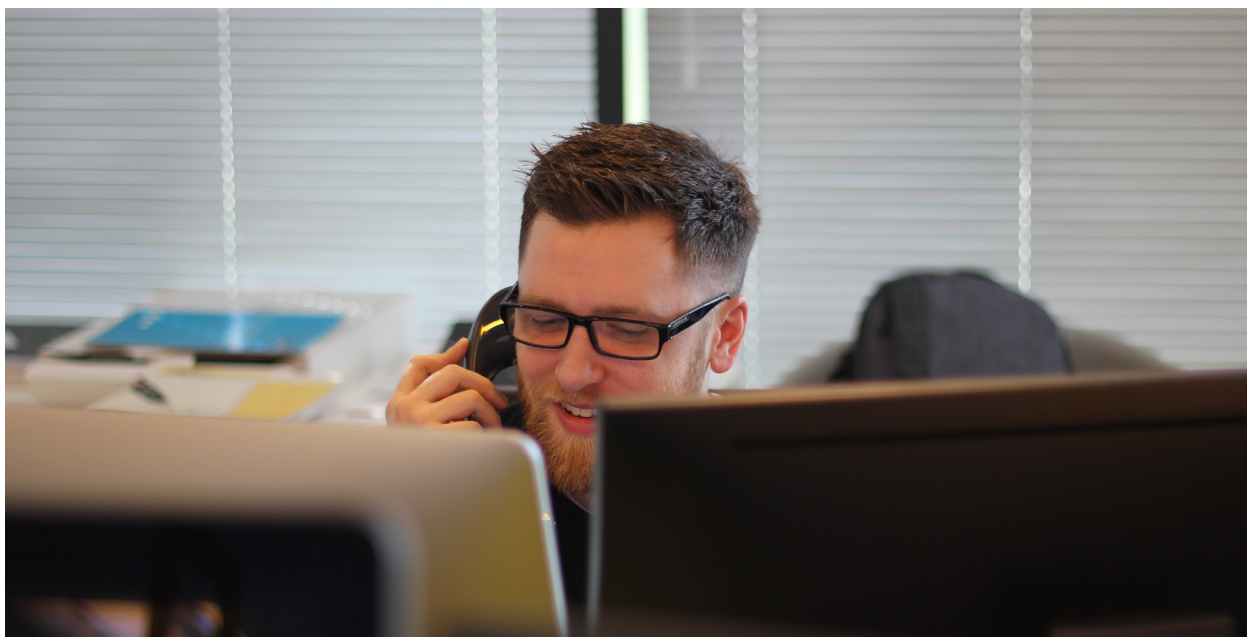
- The Counter Services will be open from 8:30 am to 11:30 am only, however their client service branch will continue to provide assistance in receiving applications (extensions, passports) and attending to any other queries, or making appointments via *clientservices@immigration.gov.pg* or telephone.

- All payments can be made via The Online Payment directed to this website: <https://ica.gov.pg/login> or through EFTPOS at the authorised cash office.
- Online Status Checks Facility can be accessed here: <http://evisa.ica.gov.pg/evisa/account/status>
- All visiting clients must adhere to strict health and safety measures which includes; masking up, use of sanitizers and social distancing.

Refer table below for specific matters:

Type	Purpose	Email
Short Term Visas	For One-off extensions	shorttermextension@immigration.gov.pg
All ABTC applications	For assistance	abtc@immigration.gov.pg
PR applications	For updates and responses	pr@immigration.gov.pg
Visa Management	New Entry applications	newentries@immigration.gov.pg
Citizenship	For any queries	citizenship@immigration.gov.pg

Refer PNG ICA website: <https://ica.gov.pg/public-notice/2020/ica-new-normal-client-service-operations> for a copy of the circular.



Tax Implications relating to Long Service Leave

In response to COVID-19 challenges, employers have implemented various measures to maintain their businesses that could have tax implications. In this regard, staff are being forced to take LSL (but not terminated).

In accordance with changes effected in 2018, Long Service Leave payments are taxed at 2% where these conditions are met:

- the accrual is at a rate that does not exceed six months after 15 years,
- An employee completes a minimum of 15 years of service with an employer, and,
- payment is made to the employee because of retirement from or termination from employment.

It is important to be aware of the last condition, an employee who takes LSL entitlements **without terminating** their employment will be subject to tax at their marginal tax rates and not the concession rates.

If you would like to discuss further, please let us know.

Corporate Income Tax- Extension of Filing Due Date – Strict Measures

The IRC has now become strict with the granting of extensions to taxpayers on the Extension Lodgement Program, after the 30 June 2020 due date for filing Corporate Income Tax returns.

We have noted that the IRC has denied a number of taxpayers applications for Extensions of Filing of Corporate Income Tax returns for failing to meet the conditions of the extension lodgement program, as stipulated in the IRC Tax Agent Bulletin No.1 of 2020, ***“extensions, including further extension of time, for lodgement of tax returns will not be allowed if tax arrears or any outstanding tax matters have not been made.”***

Taxpayers are therefore encouraged to ensure other tax arrears or outstanding are settled before applying.

IRC Forecasts Kina 2 Billion drop in collections

The IRC has forecast a K2.16 billion drop in revenue to that forecasted in the 2020 National Budget. This is based on simulation exercises performed by the IRC in light of impacts of the Covid-19, as at April 2020, meaning this figure is likely to be updated. Total tax revenues in the 2020 Budget were originally forecast at K11.1 billion, and highlights the revenue challenges facing the IRC and the Government.

Important Reminders

The next extended deadline for Corporate income tax returns for the year ended 31 December 2019 is 31 August 2020. We encourage you to adhere to this deadline to avoid any penalty charges.

There have been no further updates on the progress of the Income Tax Rewrites, however, it is still set to be effected by 1 January 2021.

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