



## Tax Alert

# Tax and Immigration Updates

March 2021



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### Income Tax Act Rewrite

Treasury has advised it is still working away on the Income Tax Act (ITA) rewrite and that their aim is to have the new ITA passed in the June sitting of Parliament, with the new ITA effective on 1 January 2022.

Treasury has stated it is conducting an internal workshop on the submissions before finalising a 5th draft. They have advised this is expected to be completed in March and have engaged with the IRC for IRC feedback. Treasury has also advised that consultations with

tax agents and industry will be held in April or early May, and that they will advise the consultation dates once they are finalised. This leaves an extremely tight window for commenting on the revisions before the new ITA's finalisation. In the meantime, if you would like further information on the ITA rewrite, please refer to our rewrite series at [Tax Act rewrite alerts](#) or contact one of our team.

The status of the Tax Administration Act and its timelines is not clear but it is expected to be amended this year and commence with the new ITA .

### Breakfast with the Commissioner General

The Port Moresby Chamber of Commerce and Industry (POMCCI) hosted the business breakfast session held at the Royal Papua Yacht Club on 17th February 2021. During this session the Commissioner General, Mr. Sam Koim addressed the following topics.

#### Cash Transaction Threshold

"Cash does not leave an audit trail hence making it difficult to audit and hold these operators accountable".

The Commissioner General (CG), Sam Koim mentioned that the proposed cash transaction threshold limit is targeted at certain industries that are considered high-risk due to increase in cash movements.

This reform will provide a cohesive framework to address tax evasion and increase collections as part of IRC's Vision to become a Robust, Modern and Efficient Tax Administration by 2025.

The CG stated that the legislative proposal is with the Department of Treasury and will be advocating for this to be tabled in the next Parliament sitting.

#### IRC Proposed Projects

As part of the Medium Term Revenue Strategy (MTRS), IRC is undergoing a major organisation redesign, assisted by International Monetary Fund which is anticipated to realign the organisational structure and the functional areas, with a separation of roles between headquarters and operational functions.

#### Effective Tax Collection

As part of the Strategic Pillars, IRC is introducing the following measures for effective tax collection under the existing tax regime;

- Collection at source – GST components will now be withheld and wired directly to IRC when Government entities make payments to their service providers.
- Reducing Salary or Wages Withholding Tax (SWT) filing obligations – IRC is proposing to have limited SWT filings, that is, having to lodge a one-time declaration and a one-time group reconciliation.
- Online payment portal – IRC will be introducing electronic payments of all tax types effective this year.
- IRC plans on extending tax office branches in all provinces of Papua New Guinea (PNG).

### GST De-grouping

The CG is proposing to de-group business structures for Goods and Services Tax (GST) purposes. This exercise will enable IRC to identify where the businesses are operating in and where the money is coming from.

The de-grouping exercise is for companies or businesses who file tax returns only from their Headquarters but have branches in different Provinces in the country.

The CG, says the aim of the exercise is to accurately record GST at the point of sale and revert the GST distribution to that Province. We caution taxpayers monitor these changes as they will likely increase their GST compliance burden and also increase the scope for taxpayer errors and resulting penalties.

### VAT Monitoring System

IRC plans to introduce the Value-Added Tax (VAT) monitoring system in place to collect GST at cashiers for retail businesses.

### Other Related Matters

- IRC are currently redesigning the tax forms to be user-friendly.
- The CG also confirmed that the Income Tax Act (ITA) Rewrite is at its 5th draft and will welcome business groups and tax agents for consultation.

### Covid-19 Measures at Internal Revenue Commission

Given the alarming rate of community transmission of Covid-19 in the country, PNG Internal Revenue Commission (IRC) are imposing strict Covid-19 measures to limit physical contact with taxpayers and the public at IRC Headquarters and all branches within the country.

Although the service counters will be open for service, strict protocols will be enforced including "no mask no entry" at all points of entry, compulsory temperature checks, hand sanitation and

social distancing at all IRC offices nationwide. All meetings with taxpayers and external stakeholders at the Headquarters will all be cancelled. These measures will continue until further notice from the IRC.

During these time, IRC would like to encourage all taxpayers to use Online facilities for lodgements, payments and correspondence, which are much more convenient. Visit the IRC website at <https://irc.gov.pg> for relevant email addresses.

### National Executive Council (NEC) approves 2020 Bills for Immigration and Citizenship Service (Amendment) and Employment of Non-citizen (Amendment)

According to the article released on 18th February 2021, The National Executive Council (NEC) has recently approved the 2020 Bill for Immigration and Citizenship Service (Amendment) and the Employment of Non-citizen (Amendment).

Hon. James Marape confirms that Cabinet has approved the proposed amendments and drafting of instructions to the Immigration and Citizenship Service Act 2010 and Employment of Non-Citizenship 2007 which aims to give effect to a new arrangement of processing work permits.

Under these proposed arrangements, work permit processing and administration provisions will be done by PNG Immigration and Citizenship Authority as contained in the Employment of Non-Citizens Act 2007, whilst the policy and related approval criteria will remain under the Department of Labour and Industrial Relations consistent with the broad constitutional mandate.

Hon. James Marape also stated that having the two departments work side by side, the approach to visa, work permit administration, integrated compliance and monitoring activities and enforcement of the Law would be enhanced.

Secretary for Personnel Management will work closely with the two departments to give effect to the new legal arrangements, once the Bills are passed in Parliament.

### Small Business Tax Regime

The Internal Revenue Commission conducted a stakeholder workshop on 9 February 2021 to introduce the Small Business Tax (SBT) regime.

SBT law was passed by Parliament in 2019/2020. The regime introduces two new sections to the Income Tax Act, sections 11A and 223A. It is an initiative of the Marape Government to reduce compliance burden for micro and small business operators and to provide low concessional tax rates to taxpayers operating in these sectors.

The SBT regime applies only to taxpayers registered as a sole trader with an annual turnover up to K250,000. The tax is applied to two business categories.

#### Micro Business Sector

- Sole Traders with an annual turnover of less than K60,000.
- Tax is charged at fixed flat rate of K250 per annum.
- The tax return is due 28th February of the following year.

#### Small Business Sector

- Sole Traders with an annual turnover of K60,000 to K250,000.
- Tax is charged quarterly at K62.50 for the first K15,000 and additional 2% on the excess amount. This means that if a small business sole trader does not make more than K15,000 in a quarter (less than K60,000 in that year), he/she will end up paying K250.

#### SBT does not apply to businesses generating income from the following:

- Professional services such as Accounting, Medical, Engineering, Architecture, Consulting, etc.

#### To qualify for the SBT regime, taxpayers are required to:

- Register with the Investment Promotion Authority (IPA) as a Business Name and not as a company;
- Maintain a stand-alone business account (separate from an individual's personal account);
- Keep record of sales receipts; and
- Maintain a wages register for employees where relevant (employees of the business would be subject to salary/wages tax)

Existing micro and small businesses currently registered for tax and filing of tax returns under the present income tax regime can elect to move into SBT regime provided the taxpayer is a sole trader. Businesses under the SBT regime will still be subject to the Certificate of Compliance (COC) regime.

The Internal Revenue Commissioner (IRC) have developed the various tax forms to be used in this regime which will come into effect once the regime is in operation. Workshops have been conducted by the IRC in different centres in PNG to introduce the regime to the relevant business sectors. The SBT regime is expected to come into operation in April 2021 soon after the gazettal.



#### Reminders: Tax and Statutory Compliance

7th April is the due date for Salary & Wages Withholding Tax (SWT)

21st March is the due date for Goods & Services Tax (GST) and Other Withholding Taxes (FCWT, MFWT, BIPT)

2020 Annual Returns that are due in March

IPA Six-Monthly Terms & Conditions Reports for periods ending March 2021

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