



Papua New Guinea

Tax Alert

November 2020

In this issue

This month, we bring updates on the following:

- Commissioner of Customs Appointment
- PNG Immigration and Citizenship Authority (ICA) Updates - Closure Date for Work Permit Application Lodgements with Dept of Labour & Industrial Relations
- Internal Revenue Commission (IRC) Tax Reform Proposals
- IRC Press Conference
- Investment Promotion Authority (IPA) / Registrar of Companies (ROC) Website
- Investment Promotion Authority (IPA) Update – Change of Filing Month for Annual Return
- Internationals Arriving into PNG must wear the GPS Ankle Bracelet – Update
- Work permits to come under Immigration and Citizenship Service Authority (ICSA)
- Internal Revenue Commission (IRC) signs MoU with the Immigration and Citizenship Service Authority (ICSA)
- November Deadline Reminders

Commissioner of Customs Appointment

The official Handover-takeover of the outgoing Chief Commissioner of Customs, Ray Paul, OBE, and incoming **Chief Commissioner, David Towe** was held on 29 October 2020 at the APEC House in Port Moresby.

We congratulate Mr. David Towe on his appointment to this role and wish Mr Paul our very best wishes for his future endeavours.

PNG Immigration and Citizenship Authority (ICA) Updates - Closure Date for Work Permit Application Lodgements with Dept of Labour & Industrial Relations

We've received a formal notice from the Department of Labour confirming that:

1. New Work Permit applications last lodgement date will be on **20 November 2020**
2. Renewal of Work Permit applications last lodgement date will be on **27 November 2020**
3. Department of Labour will close on the **18 December 2020** and re-open on the **13 of January in the new year 2021**

Any Work Permit Renewal applications expiring in November, December & January should be forwarded to our office so we can finalise and lodge before the above due dates.

IRC Proposes Tax Relief and No New Taxes

The IRC is proposing a number of tax law reforms which Mr. Koim calls "legislative nudges", aimed at reducing the burden of compliance and enabling IRC to focus on its current strategy of "effective collection". The four proposals listed below have been submitted to Treasury for its consideration, ahead of the 2021 Budget.

1. Abolishing Stamp Duties on Lease and Hire Purchases

The IRC proposals include repealing the nominal stamp duty on leases. Lease agreements will still have to be lodged at the stamp duties office but no duty will be payable. This will allow IRC to continue to register lease arrangements for intel and data analytical purposes. Lease would still need to be stamped with an impressed stamp for the agreement to be enforceable in Court.

The proposal is aimed to ease the burden on lessees who already pay GST on their lease rentals. Historical data collected by the IRC shows that the revenue foregone will be minimal. The proposal, if accepted and legislated, will not absolve those who failed to pay stamp duties on leases prior to the law change.

"By this amendment, not only will there be minimal impact on the Government revenue, but the Government is offering relief to property owners hence encouraging them to comply by paying tax on leases", says Mr. Koim.

2. Reducing filing obligations for Salaries or Wages tax (SWT) – A collection at Source Initiative

This proposal is aimed at making the existing collection mechanism of SWT more efficient as well as reducing the compliance burden on employers. It relates to collecting SWT at source from the employer's bank account as and when they pay their employees.

The amendment will introduce a generic authority for the Commissioner General to direct different filing and payment due dates as well as different reporting obligations. This would apply on a case by case basis to certain taxpayers who have the ability and consent to having their standard fortnightly SWT bill automatically deducted from their bank accounts and remitted to the IRC as and when salaries are paid.

Furthermore, employers will only be required to lodge one remittance advice at the beginning of the year declaring their employee details and one annual reconciliation form at the end of the year. Where there are variations to their payroll, they will need to inform the IRC. This means at most employers will only need to interact with the IRC three times annually with respect to their SWT obligations.

The IRC has been in discussions with the Bank of South Pacific (BSP) and they've agreed to trial this new method of collecting SWT at source.

3. Collecting Prescribed Royalty Withholding Tax (PRWT) Directly from Project Developers – A collection at source initiative

Section 142C of the Income Tax Act provides for a prescribed royalty withholding tax at a 5% rate be deducted from all prescribed royalties paid to customary landowners.

While the exact details of the IRC's proposal will need to be worked through, the IRC notes that royalty payments are paid directly to the relevant regulator responsible who then pays it to the landowners and bears the final obligation of withholding and remitting the 5% PRWT to the IRC. This IRC proposal seeks to address the issue of delay in collecting the PRWT. The proposed measure will place the burden on the Project Developer to deduct and remit the PRWT directly to the IRC. This will ensure timely receipt of this tax by IRC.

4. Minimum Cash Transaction Threshold

The GST Act already allows the Commissioner General to give directions to certain taxpayers/industries with respect to how they capture their GST input tax. Interestingly this proposal goes well beyond the accounting for GST to allow the Commissioner General to direct certain industries such that their customers have to pay via EFTPOS when making purchases of K1,000 or more. This raises a number of issues and it is unclear whether this proposal has been discussed with the Bank of PNG.

The intention here is to minimise the audit verification burden on the IRC when dealing with cash transactions. For the IRC, EFTPOS or other e-payment methods are a more effective way to establishing a clear paper/audit trail to assist them with minimising the revenue leakage in GST.

This initiative is also aimed at curtailing the cash economy that also fuels the black (illicit) economy. The IRC notes evidence suggests that businesses that insist on operating with large volumes of cash are either doing so to avoid tax or are engaging in money laundering activities.



IRC in the Press

In a press conference held by the IRC on 30 October 2020, with the General Commissioner of IRC, Mr. Koim announced the IRC Provincial Visitation, inspection and Taxpayer survey project, and the IRCs proposals for new legislation amendments for the upcoming budget.

As noted above, Mr. Koim announced that no new tax increments will be proposed by the IRC to Government ahead of the 2021 National Budget. He said the IRC has taken on the approach not to propose tax increases, but to focus on “effective collection” in light of the data it has on GST and the trend of consumption behaviour of people in light of COVID-19.

The IRC has also announced it has signed a Memorandum of Understanding signed with the Hela government and would establish an office in Hela.

Immigration and Citizenship Authority (ICA) Memorandum of Understanding

The Commissioner General has also noted that under the Memorandum of Understanding with the ICA the IRC would target foreign workers in the country who are not paying their taxes. The ICA data would be used to help inform the IRC on a person’s duration in the country, whether they are coming in as an employee and their tax residency. Finally, it would better enable the IRC to act to prevent an individual from leaving the country if they have outstanding taxes.

IRC Provincial Visitation, Inspection and Taxpayer Survey Project

Mr. Koim affirmed during the Press Conference that only 10 per cent of all registered Tax Identification Number (TIN) holders in the country have been complying with the requirements to pay their taxes and filing their annual returns.

He further announced a major deployment of around 100 IRC officers, that will begin inspections in all provinces apart from NCD, to undertake its largest verification to date.

Mr. Koim said the exercise will consist of compliance inspections, door knocking, debt recovery, and investigating tax evasion around the country for three weeks. He said the overall aim is to validate the total active number of taxpayers within the IRC database.

Investment Promotion Authority (IPA) / Registrar of Companies (ROC) Website

The Investment Promotion Authority (IPA) / Registrar of Companies (ROC) has changed the look of its website. Users who frequently use the ‘Online Services’ tab will now see that majority of the links have been locked out of view.

For search purposes, users can access all available registries. However, only registered users (those logged into/can log into the website) can see all other available options.

Investment Promotion Authority (IPA) Update – Change of Filing Month for Annual Return

The IPA has published in their October 2020 newsletter an update on the filing month of a company’s annual return. Apart from filing the annual return, a company may change its filing date by writing a letter to the Registrar of Companies to issue a new filing month. This service is free for the first request. If the company wishes to make another request for a second change of date, then they will pay a fee of K1,000.

Internationals Arriving into PNG must wear the GPS Ankle Bracelet – Update

Following on from our October tax alert, the National newspaper has published on 3 November 2020 that the cost of required ankle bracelets to be worn by expatriates entering the country is K100 each and the cost of these bracelets are to be met by the expatriates or their employers.

It is proposed ankle bracelets will be on trial for a month after which there will be a review. At present, PNG citizens and residents are exempted.

Work permits to come under Immigration and Citizenship Service Authority (ICSA)

The issuance of work permits to expatriates working in the country will soon be transferred to the Immigration and Citizenship Service Authority (ICSA) from the Department of Labour and Industrial Relations. Acting chief migration officer, Robert Kennedy said they are in the process of seeing that this function with the Labour department is transferred successfully to them.

Mr Kennedy said that the National Executive Council (NEC) has already made the decision for this function to be transferred to ICSA and they are looking to implement this function by June of 2021.

Reminders

As mentioned in our October 2020 Tax Alert, companies which have a substituted accounting period (and who lodge through a tax agent) and have requested for an extension, must have their corporate income tax returns lodged by 30 November 2020.

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