



Papua New Guinea

Tax Alert

September 2020

In this issue

This month, we bring updates on the following:

- Mid-Year Economic Forecast and Fiscal Outlook Report (MYEFO) 2020
- Income Tax Act rewrite and other changes to the Income Tax Act
- GST Section 65A Notices
- The Memorandum of Understanding (MoU) between Internal Revenue Commission and Certified Practicing Accountants Papua New Guinea (CPAPNG); and
- The Revocation of Late Penalty Fee Waiver for Annual Returns.

Mid-Year Economic Forecast and Fiscal Outlook Report (MYEFO) 2020

The Treasurer has released the MYEFO 2020 on 11 September 2020. The key tax announcements are as follows:

Income Tax Act Rewrite

The report notes that finalisation of the rewrite of the Income Tax Act (the new ITA) is not complete and is now likely to be sometime in 2021. It notes further consultation was targeted for August 2020, however this has not yet happened. This is a welcome and sensible readjustment of the reform timeframes, originally scheduled for 1 January 2021, given the number of concerns raised on the new ITA, and the limited time to prepare both from a taxpayer and regulator perspective.

Specifically the MYEFO stated: *Businesses are concerned that a significant number of issues remain to be resolved to ensure a smooth transition to the updated ITA. Following consultations, and after there is confidence that the modernization is not having unintended policy consequences, the ITA will be updated and finalized for tabling in Parliament. This is now more likely to be sometime in 2021.*

Changes of the Thin-Capitalisation rules for the Extractive Sector

The report affirms that the reduction of the thin capitalisation debt to equity ratio for the extractive sector from 3:1 to 2:1 will be effective from 1 January 2021. While this measure now brings extractives in line with other sectors, due to the significant upfront costs involved in a resource project and level of debt funding required, the 3:1 ratio was a recognition of the unique position of the sector. This reform is not just affecting related party debt, but is based on all debt. Unfortunately it represents yet another erosion of the fiscal attractiveness of PNG as an investment destination for large resource projects.

Tax Administration Act (TAA)

The IRC is undertaking administrative reforms in preparation for the implementation of the TAA, a process which has been disrupted by COVID-19. This means that it is now possible that there will be a staged implementation of the TAA. Initial changes from the TAA are still expected to be from 1 January 2021. For further information please refer to our tax alert: *Income Tax Act Rewrite Series – Topic 11*, which focuses on the TAA.

Other Technical Amendments

It appears from the MYEFO Report that the previously circulated Income Tax (Amendment) Bill 2020 will now be legislated to bring in the contemplated changes (see February 2020 Tax Alert for further details: <https://www2.deloitte.com/pg/en/pages/tax/articles/png-tax-alerts.html>). It is unclear what revisions have been made since the draft Bill was circulated, however, the MYEFO Report specifically mentions the following changes to the current ITA:

- The introduction of the Small to Medium Enterprise (SME) Taxation Regime. This is also covered in the new ITA, but it now appears this new regime will become effective prior to the new ITA's start date.

- Reducing the percentage of disputed tax that must be paid before a tax appeal can progress to 50%, backdated to 1 January 2018. See also our tax alert mentioned above on the TAA which is relevant to the appeals process.
- Amending of the due dates for provisional tax so that they move in line with different year ends for companies operating under a Substituted Accounting Period.

Revised Tax Revenue Forecasts

The impact of COVID-19 and other factors on the PNG economy have had a significant negative effect on the IRC's tax collections. These were summarised in the MYEFO report as follows:

Tax Revenue (Kina million)	2018 Actual	2019 Actual	2020 Budget	2020 MYEFO
Personal Income Tax	3,101.90	3,211.60	3,215.00	3,308.00
Company Tax	1,933.00	1,696.90	2,085.40	1,648.60
Mining and Petroleum Taxes	775	760.7	561.20	161.2
Withholding and Other Income Taxes	309.3	401.20	367.80	352.80
GST	2,067.10	2,252.50	2,341.90	2,002.90
Stamp Duties	100.3	46.6	55.5	35.3
Excise Duty	774	1061	1215	964.2
Import Excise	300.8	299.7	292	273.7
Bookmakers' and Gaming Machine Turnover Tax	225.5	244.4	264.9	150.4
Other Taxes on Goods and Services	69.7	32.30	23.50	11.50
Import Duty	418.3	511.2	427.8	347.3
Export Tax	392.4	297.3	455.4	390
Grand Total	10,467.30	10,815.40	11,305.40	9,645.90



IRC Issues Section 65A Notices

The IRC has issued a Public Notice announcing that it has issued GST Section 65A Notices to some Government Departments and State Owned Entities (SOEs). The notices came into effect on 1 August 2020 meaning taxpayers should be aware of the implications before filing their August GST return, due 21 September 2020. See our August Tax Alert for more details on the impact of Section 65A notices (<https://www2.deloitte.com/pg/en/pages/tax/articles/png-tax-alerts.html>).

The following SOEs and Government Departments have been issued with the GST Section 65A Notices:

- Kumul Petroleum Holdings Limited
- Kumul Consolidated Holdings Limited (which we note is not subject to GST anyway)
- National Fisheries Authority
- National Airports Corporation
- Department of Treasury
- Department of Finance
- Department of National Planning and Monitoring
- Department of Education
- Department of Higher Education, Research, Science and Technology
- Department of Health
- Department of Defense
- Department of Personnel Management
- Department of Prime Minister and National Executive Council
- Department of Works; and
- The Royal Papua New Guinea Constabulary.

IRC strengthens partnership with CPAPNG

The IRC has issued a media release, dated 11 August 2020 announcing a strengthened partnership with CPAPNG through the signing of an MoU on 10 August 2020. The primary purpose of the MoU is for 'Information Sharing'. This arrangement now allows the IRC to monitor and ensure that 'Tax Compliance' is a criteria for CPA holders intending to register as:

- Accounting Firms;
- Tax Accountants;
- Liquidators;
- Company Auditors; and/or
- Public Accountants.

Such information will assist IRC in its plans to initiate a project with the Investment Promotion Authority (IPA) under its existing partnership to improve accounting firms' or individual businesses' structures and introduce transparency, accountability and visibility with business trust accounts.

With the agreement, IRC is targeting TIN registration as a basic requirement for accountants before they can operate on their own. Accountants practicing as Tax Agents will be required to have CPAPNG membership to operate.

Revocation of Late Penalty Fee Waiver for Annual Returns

The Office of the Registrar of Companies has issued a public notice on 28 August 2020 to inform all company directors and stakeholders that the earlier issued notice, by which Annual Returns' late penalty fee relief was granted until 30 June 2020, in response to the Covid-19 State of Emergency has been revoked.

However, companies may continue to be relieved from requirements under **Sections 101 (1)** and 179 (1) of the **Companies Act 1997** respectively until 31 December 2020, hence the following:

No application for extension of time is required despite Sec. 101 (3) even if the holding of Annual Meeting is extended beyond prescribed six months.

No application for extension of time is required despite Sec. 179 (2) even if the time for preparation of audited financial statements is extended beyond the prescribed five months.

The above is valid until further notice.

For more information, you can contact the following numbers and/or email;

- Team Leader Companies: [308 4443](tel:3084443)/belindak@ipa.gov.pg
- Team Leader Non Companies: [308 4447](tel:3084447)/kilai@ipa.gov.pg
- Team Leader Customer Services: [308 4494](tel:3084494)/allisons@ipa.gov.pg or ipaonline@ipa.gov.pg

Reminders

All Provisional Tax variations for the year must be submitted before the due date of the final instalment on 31 October 2020. You can either submit these electronically/ by hand delivery/ mail/ courier to IRC –Port Moresby.

Papua New Guinea

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