



Papua New Guinea

Tax Alert

December 2018

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Introduction

Welcome to the December issue of the Deloitte PNG Tax Insight!

Every month, our tax team brings to you updates in the tax legislation, policy, practices and technical tax awareness that impact taxpayers every day.

Budget 2019 Update

2019 is not far away, and there are some key tax measures announced in 2019 Budget that taxpayers will need to start readying for. The following will all come into effect on 1 January 2019:

- **Corporate Income Tax Return** – The tax loss carry forward period has been reduced. For the resource sector this has been reduced from what is currently unlimited to 20 years. For other business sectors, the period has been reduced from 20 years to 7 years. Primary production, for now, appears unaffected by these reductions. The changes effectively have retrospective effect, though the first year that tax losses are impacted by the shortened period will be from 1 January 2019. 2018 is therefore the last opportunity to use utilise your old tax losses.
- **Goods & Services Tax (GST)** – The zero-rating for supplies to resource companies has been removed. The Large Taxpayers Office has confirmed their procedure will be to adhere to a 30 day refund period. The Tax Administration Act also details tax refund procedures and timelines.
- **Tax credits and Salary or Wages Withholding Tax (SWT)** – The Government has increased the resident SWT free threshold from K10,000 to K12,500 and second tier band threshold from K18,000 to K20,000. You'll need to ensure your payroll systems reflect these changes from 1 January 2019.
- **SWT Offsets** – Following statements in the Budget suggesting tax credits offsets against SWT will be frozen, the IRC and Treasury have confirmed taxpayers will in fact continue to be allowed to use tax credits, such as GST credits, to offset SWT liabilities in the 2019 year.
- **Non-resident insurer income tax** – The IRC have advised they will be shortly releasing the new monthly forms for non-resident insurer income tax.

For those that missed the Deloitte 2019 Budget Alert, you can still view a copy using the link: <https://www2.deloitte.com/pg/en/pages/financial-services/articles/papua-new-guinea-budget-2019.html>

Legislative Update

2019 Budget Bills

The 2019 Budget Bills were passed by Parliament on 20 November 2018. The Budget Bills can be found at: <http://www.treasury.gov.pg/html/legislation/bills.html>

Superannuation (General Provisions) (Amendment) Act 2013

This amendment Act was gazetted on 24 August 2018 and confirms superannuation contributions for expatriates and the self-employed are allowable, but not mandatory. For expatriates, this includes both employer and employee contributions. We refer to our Tax Alert issued on 5 September 2018 and note care should be taken over the manner in which employer contributions are made for expatriates, in order for them to be concessionally taxed at the time of contribution.

Tax Administration Act (TAA)

The TAA was gazetted in August 2018 and will come into effect in 2019. The TAA was introduced to modernise, simplify and harmonise the law relating to the administration of tax and ensure efficient collection. The TAA remains subject to the provisions of the specific tax Acts and some changes to these Acts are expected to accommodate the TAA. The IRC has established a TAA working group to create awareness and update IRC systems prior to implementation.

Some of the matters dealt with under this Act are:

- Taxpayer Identification Numbers
- Liabilities and obligations of tax payer representatives
- Tax Records and Returns
- Tax Assessments
- Late Payment Interest
- Objections and Appeals
- Collections and Recovery of Unpaid Tax
- Tax refund procedures and timeframes
- Information Collection
- Tax Clearance Certificates
- Administrative penalties and tax offences

IRC Public Notice – Arrangements to avoid salary or wages withholding tax (SWT)

- The IRC has identified arrangements whereby interposed entities are being used to provide personal services to companies across various industries in PNG.
- The IRC perceives that such arrangements as SWT avoidance. The IRC's position is that in principal the income generated from such arrangements is from rendering directly personal skills, experience or labour of an individual and generally should be subject to SWT.
- In its recently released a public notice, the IRC has stated that:
 - It will apply section 361 of the Income Tax Act to make such arrangements absolutely void. This means that the individual rendering the service will be liable to pay tax on the full amount paid to the interposed entity.
 - Employers or employing organisations that actively undertake such arrangements will be subjected to SWT and penalised accordingly.
- IRC is strongly advising individuals or entities who are engaging or aware of such arrangements, to voluntarily inform the IRC at the earliest.

The public notice can be found on the IRC website at: <http://irc.gov.pg/wp-content/uploads/2018/11/APPLICATION-OF-SECTION-361-TO-ARRANGEMENTS-TO-AVOID-SALARY-AND-WAGES-TAX.pdf>

IRC News

- Dr Alois Daton has been appointed as the acting Commissioner General of the IRC.
- The Large Taxpayers Office (LTO) has become operational, with the first wave of taxpayers being moved to the LTO having already been notified and assigned contact officers. The LTO will handle all tax matters for taxpayers assigned to it. Part of the LTO brief is to increase audit activity.
- A new Integrated Tax Administration System (ITAS) will be procured to replace the existing system (SIGTAS).
- The IRC will establish a Program Management Office for the effective implementation of medium term revenue strategy (MTRS) reforms.
- A designated Taxpayer Services Unit will be established to develop educational materials and improve compliance.
- IRC is encouraging taxpayers to lodge and pay their taxes electronically. Where taxpayers are doing lodgement of nil returns (returns without payment), this can be sent to this email address lodgements@irc.gov.pg while lodgement with payments should be sent to payments@irc.gov.pg. Further information can be found on the IRC website at: http://irc.gov.pg/wp-content/uploads/2018/11/Tax-Administration-Instruction_Making-Tax-Payments-to-IRC.pdf

Important Reminders

- As we approach year end, taxpayers are encouraged to bring their tax accounts up to date, in particular, corporate income tax return and monthly GST and SWT obligations.
- Superannuation Contributions – to ensure contribution are updated timely and correctly, we suggest your employees check their Superannuation statements now so any issues can be fixed before the year end.

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