

Dear All

Today the Supreme Court granted the Government's request for a stay order in relation to the decision to declare the VAT invalid. This order will remain in force until 1 July 2003. The order of the Supreme Court was obtained by mutual consent of the parties to the original proceedings, namely the National Government and the Morobe Provincial Government. This Consent Order was one of a number of matters agreed between the National Government and the Morobe Provincial Government in a Memorandum of Understanding. Other matters which the National Government has undertaken to do include:

- (1) To introduce a Bill in the November 2002 Sitting of Parliament to :
 - (a) to repeal the VAT Act 1998 and the VAT Revenue Distribution Act,
 - (b) to introduce a National Goods and Services Tax (GST), enabling distribution of inland GST revenue in the ratio of 20% to the national government and 80% to provincial governments,
 - (c) the distribution referred to in (b) above is to take effect from 1 January 2004, and will be adjusted on 1 January 2005, subject to the findings and recommendations of the National Economic Fiscal Commission Report, based on the study into intergovernmental fiscal relations undertaken in 2002 and 2003 and finalised by the end of 2003.
- (2) To consider reducing the general level of GST to 8%, if the economy improves.
- (3) To consider making provision for exemptions in the GST legislation on such basic items as are classified by the Commissioner General of Internal Revenue and which items shall be the subject of the study by the National Economic Fiscal Commission Report referred to above.
- (4) To consider collection of GST by provincial governments (not including Bougainville) to the extent they have administrative capacity to do so.

We understand that the repeal of the law and the introduction of GST are intended to be effective from 1 January 2004. This should mean the VAT will continue as usual until that time. However, we understand there will also be legislation introduced to validate the existing law.

From a business perspective the decision of the Supreme Court has not caused any significant disruption. Consequently, the National Government and Morobe Provincial



Government are to be congratulated for resolving the issues in a timely and sensible manner.

The existing VAT operates with very few exemptions or items which are zero-rated and is administered by a central agency. The proposals for GST to be collected by Provincial Governments could significantly increase the cost to business of administering GST. While we understand the GST law would be uniform there is likely to be a significant increase in compliance costs where businesses operate in a number of provinces. There will also be the need to ensure that refunds are able to be dealt with expeditiously under such arrangements.

Given the timing of the changes there will be opportunity for business to work with the Government to ensure any changes do not increase the cost of compliance.

Should you require any further information please contact me or David Caradus.

Regards

John Leahy
Managing Partner
Tuesday, 15 October, 2002