



October 2020

Provisional tax instalment management

The final instalment for 2020 is due for payment by 31 October. In what has been a turbulent year for many taxpayers, this will represent a significant opportunity to plan their corporate taxes for 2020. Provisional tax instalment notices are based on the most recent assessments in the SIGTAS system, so ensuring that the 2019 return has been assessed may help to align the provisional tax instalment with expected trading results for 2020. Further, those with income tax overpayments from previous periods will also only be able to access these amounts to offset current provisional tax liabilities once prior periods have been assessed. Taxpayers are able to vary their provisional tax instalments to match their current activity and expected profitability levels, again this provides an opportunity to plan and manage cash flows. However, penalties do apply for excessive underestimation. With continued pressure on businesses and cash flows, attending to provisional tax planning is a recommended element of effective tax management.

Changes to lodgement dates for non 31 December year-ends

In past years, the lodgement deadlines for the income tax returns for those taxpayers with a balance date that was not 31 December were generally in line with calendar year ends. For example, taxable returns were due for lodgement within six months of the year-end. However, for the current filing season the IRC introduced a number of changes which were highlighted in our [February 2020 Pulse](#), which in essence brought forward the period for filing a number of categories of returns. Changes were also introduced to reduce the filing extension available for taxpayers with substituted accounting periods (SAP). A further interruption was then introduced with some COVID-19 related extensions that were applicable through to 30 June. However, these temporary extensions have lapsed.

The result is that for SAP taxpayers, returns are required to be filed within four months of the end of the relevant year. A further final extension of one month may be considered. For taxpayers with a year-end 30 June 2020, returns are therefore due by the end of October unless the further month's extension is granted. For all taxpayers, it is important to note the IRC is looking to speed up the return filing timetable, and for those who are coming to the end of a 31 December year, planning may be required for a reduced timetable for the upcoming filing season.

COVID-19, year-end financial statements and audit season

2020 has been a challenging year for business. The impacts of a global pandemic and a broadly weakening economy will need to be considered by those preparing their year-end financial statements and leading into the annual audit season. Those turning their minds to year-end should particularly be ready to address the following perspectives with their auditor:

- The impact of reduced economic activity and lower revenues might indicate an impairment of assets. The outcome of cash flow modelling applied to assess the value of assets should reflect the expected present value of the future cash flows. When fair value is used to determine the recoverable amount, the assumptions made should reflect market participant assumptions.
- It might be necessary to write-down inventories to net realisable value. These write-downs could be due to reduced movement in inventory, lower commodity prices, or inventory obsolescence due to lower than expected sales.
- Where an entity has any financial assets that are in the scope of IFRS 9's expected credit loss model (ECL), management should consider the impact of COVID-19 on the ECL. Instruments to be considered include loans; trade and other receivables; debt instruments not measured at fair value through profit or loss; contract assets; lease receivables; financial guarantees; and loan commitments.

IRC's international integration continues

PNG recently received a "largely compliant" rating for a peer review within the context of The Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum). This is part of the IRC's continuing efforts at becoming more integrated with the global network of revenue authorities and playing its part in the broader Base Erosion and Profit Shifting (BEPS) agenda of the OECD. The review focussed on gauging the readiness of the IRC to participate in exchange of information structures (EOI) developed through the OECD, which are aimed at tracking financial flows and the beneficial ownership of assets across borders.

Included in the report is a number of recommendations for further regulatory changes, across a range of areas in order to better link with the country's Anti Money Laundering and Counter Terrorist Financing initiatives as well as the role of the Registrar of Companies in documenting and tracking the beneficial ownership of legal entities and legal arrangements (e.g. partnerships, trusts). The report notes that efforts at monitoring compliance and enforcement need to continue to improve.

The efforts of the IRC to develop their capabilities in this area align with the Commissioner General's published statements around the importance of data gathering and data matching as being critical in their efforts at enhancing compliance and ultimately increasing collections. While this report does not herald an immediate significant change to the IRC's operations, it is relevant to note that during the period reviewed, the IRC did participate in EOI with revenue authorities in Australia, New Zealand and Indonesia. The IRC also expects to integrate EOI standards into the new Integrated Tax Administration System (ITAS), which will be replacing the existing SIGTAS system. Applicability of these two OECD standards on EOI will increase the IRC's capacity to access information within tax and transfer pricing audits.

If you would like to know more about any of these developments or have any other questions, please get in touch with your usual PwC contact.

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