



April 2022

GST amendments announced

The final session of Parliament before the election took place last week with more tax developments announced. Last month the Treasurer had flagged an intention to temporarily eliminate GST on selected goods, however, the announcements this week represented parts of a cost of living package of measures reported to be valued at PGK 611 million in giveaways by the Treasurer. These include:

- the removal of fuel excise and GST on all fuel products for a period of six months from May (PGK 250 million)
- an adjustment in the tax free threshold for personal income tax (PGK 135 million - see more below)
- a plan to work with local businesses to deliver a package worth PGK 100 million of cost reductions on a number of products and
- funding for school project fees (PGK 126 million).

The move away from broader temporary revisions in the GST rates for a range of products was acknowledged as being driven by the complexity for the broader business community of a planned implementation. While it will be arguably simpler to administer the fuel excise and GST on the import of fuel alone, the other elements of the package retain significant complexity. In particular, the plan to work with local businesses on cost reductions for products such as tinned fish, flour, and rice is reported to be executed through administrative contracts negotiated with the IRC. All changes will require the certification of the amendment bills to be finalised, and presumably more information on implementation will be made available through Customs and IRC in the coming weeks.

Personal Income Tax rate changes

As part of the cost of living package of amendments described above, the Treasurer has committed that the tax free threshold for personal income tax will be raised from the equivalent of PGK12,500 to PGK17,500 (on an annual basis). The measure will impact on salary and wage earners in the formal sector with a reduction in personal taxes of approximately PGK40 per fortnight due to the increase in the threshold. There were no other amendments to the tax brackets and therefore the lowest tax rate bracket was simply reduced by the PGK5,000 uplift. However, the measure remains described as temporary and will be in place from 1 June 2022 to 31 December 2022. Employers will need to make adjustments to their payroll systems in order to ensure they remain compliant in relation to their obligations to withhold from salary and wages.

Final Budget Outcome 2021 released

During the most recent Parliament, the Treasurer also took the opportunity to deliver the final budget outcome (FBO) for 2021. This annual report has been associated with the requirement for supplementary budgets in recent years, however, this was not the case this year. Thanks to actual international donor grants received being more than PGK 1 billion higher than the original amount budgeted for 2021, the budget deficit came in slightly below the originally budgeted figure and represented 6.7% of GDP for the year. The FBO reports that tax revenues were higher than budgeted and indeed we have already seen the IRC sharing this news in recent months with

collections recorded at PGK 200 million over 2021 expected levels. However, the impact of the additional donor funds was much more significant on the final deficit outcome.

The Treasurer also described other efforts at budget repair, including the ongoing substitution of lower cost multilateral financing, closing the gap on government arrears, and better budgeting for operational expenditure.

IPA yet to operationalise Companies Act changes

Since the passing of the latest amendments to the Companies Act in February 2022, the IPA has been moving towards a position to make life more difficult for companies that fail to maintain their records in a timely manner. For example, the Companies Act will provide grounds for deregistration should there be a six-month delay in filing an annual return. The process of removal from the register has also been simplified and the process of reinstatement has been made more onerous as it would require court procedure to be reinstated. The changes also require a refresh of all registrations under the new rules. The aim of the legislation is to upgrade to meet international norms associated with anti-money laundering and KYC requirements.

Although the date for implementation remains uncertain, it provides a timely reminder that regularly reviewing and maintaining a company's IPA registration is an important duty. Not only filing annual returns but changes to office holders and even operating locations should be notified to the IPA on a timely basis.

IRC updates

The past month has seen the recommencement of taxpayer awareness sessions in a number of provinces after COVID-19 related delays in the second part of 2021. The most recent sessions remain targeted at entities that are likely to qualify for the Small Business Tax (SBT) regime but had ambitious three-day agendas which included collaboration with the IPA, NDB and others. The implementation of the SBT regime therefore continues to attract significant internal resources from the IRC and represents part of their ongoing efforts to broaden the tax base.

Another area of focus for the IRC was also highlighted with the publication of what was described as a "Schedule of Tax Crimes". The presentation collated the provisions outlining offenses under the Income Tax Act, GST Act, Stamp Duty Act, the criminal code (disclosure of official secrets, corruption, extortion etc) as well as under the Tax Administration Act 2017 (although described as non-operational). The document represents an impressive collection of provisions and is available on the IRC's website for taxpayer's perusal.

Budget submissions due

Each year, the Treasury welcomes submissions from the public for consideration as part of their process of preparation for the annual budget to be brought down in November. In line with the usual timetable, contributions should be provided by the end of April. Given the challenging recent history of consultation on the rewrite of the Income Tax Act, the rushed introduction of the additional company tax for dominant market players in banking and telecoms, and the short term adjustment to GST proposed last week, the overall direction for tax reform and tax legislative amendments are much less predictable in 2022 than would have been expected given the signals from a number of years ago. Nevertheless, there continue to be areas where clarifications to legislation or bold new initiatives would be welcomed and this is an opportunity to be heard.

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.

For more information, contact:

Peter Burnie

Partner

peter.burnie@pwc.com