



August 2020 - GST in focus

GST in focus

The IRC has been clear that they intend to remain very focussed on GST, with the Commissioner General explaining that he expects GST to become the number one generator of collected taxes for PNG. He has described the ongoing actions in the GST space as part of efforts to close the GST gap for PNG.

The GST gap refers to the difference between the theoretical collection of GST by reference to macro economic indicators of the size of the economy, against the actual GST collections remitted to the IRC. Putting aside the issue of the existence and potential size of the GST gap, this edition of PNG Pulse highlights a number of GST compliance initiatives and some recommendations for healthy PNG GST compliance.

Section 65A notices and Tax Circular TC2020/2

We covered the announcement by the IRC of the broadening of the use of Section 65A notices in [May 2020 PNG Pulse](#). The notices alter the mechanism of GST collection in parts of the economy. Suppliers normally invoice, collect and remit the GST collected from customers (after offsetting the GST paid on their inputs). A Section 65A notice requires the recipient to pay the GST associated with invoices issued to them directly to the IRC. For these entities, their payments to suppliers are therefore reduced by the GST amount on the invoice.

The system has been operating for buyers of a number of agricultural products (e.g. coffee). However, the IRC is expanding the system to certain government departments and a small selection of state owned entities. We understand this will initially mean 15 recipients of notices, although this number is expected to grow.

While the number of additional recipients of the notices is low, the inclusion of government departments and a few large state owned entities means many suppliers will be brought into the system. For companies that supply goods or services to a Section 65A notice holder, the impacts will include:

- reduced cash flow from services supplied
- a requirement to identify taxable supplies to S65A notice holders to prepare their GST returns
- a likely delay in the assessment and processing of GST returns (see more below)
- the risk of a penalty if the S65A notice holder does not comply properly with its GST obligations.

The release of a Tax Circular 2020/2 has provided some additional detail on the operation of the system and we have received some additional clarifications from the IRC. The key features of the system will be:

- A list of the notice holders will be made public.
- The notices are effective for invoices dated from 1 August 2020.
- Suppliers have the right to request and obtain a copy of the notice if payment is withheld on any invoice.

- Notice holders will need to complete and submit a G6 form each month detailing the supplies received and amounts withheld on each invoice.
- Suppliers to notice holders will identify and complete their monthly GST return and include an amount in the line item for S65A supplies.
- The IRC has established an S65A group to administer the G6 forms and to cross check with monthly GST returns from suppliers that have made supplies to notice holders. Unless the amounts are verified, the GST return of the supplier will not be assessed (although it will be receipted as lodged).
- For suppliers who are in a refund position due to the operation of Section 65A, their refund will be processed by the S65A group referred to above.

The initiation and operation of the system is being supported by an awareness campaign for the notice holders (government departments) in relation to their obligations, however, some practical challenges could be expected. Taxpayers making supplies to any government department or state owned entity should ensure that their own systems and procedures are aligned with these new arrangements.

GST supplier listings

For some time, the IRC has been restricting the use by taxpayers of periods in which they have a GST refund. Most significantly, since [September 2019](#), GST refunds were not able to be utilised to meet SWT liabilities. The IRC then mandated the verification of the individual GST amounts that make up a GST refund claim as part of the review process. Their principal tool for this exercise has been the supplier listing. Recently it appears that supplier listings will now be required for all input GST. The IRC notice accompanying the release of S65A quotes the Commissioner General as stating “this vetting process is installed to deal with a lot of falsified and inflated GST returns. If you claim in your G1 Form a global figure, we want to see it being particularized in the ‘Suppliers Listing’”. We recommend that taxpayers seek to establish processes to capture, extract and present the details for a supplier listing to match the GST return data generated by their accounting system. It would appear that sooner or later, this will likely be required in every circumstance.

GST vs CIT reconciliations

As part of a targeted audit program in 2018, the IRC selected a number of taxpayers and required a reconciliation of annual turnover for GST and corporate income tax purposes. The base case adopted by the IRC appeared to be that differences represented turnover on which GST (or income tax) had been avoided and supplementary assessments were threatened accordingly. Responses for many taxpayers were difficult and time consuming to compile, although there were clearly a large number of appropriate reasons for these two data points to differ.

In the notices currently being issued to remind taxpayers of their GST filing obligations, the IRC has stated that “total monthly sales reported in the G1 forms must match the total amount of income from sales during that month as declared in your CIT return”. This feature is noted as a standard compliance check that the IRC is continuously monitoring.

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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