



## December 2021

### 2021 - An IRC year in review

The past 12 months have once again contained plenty of action and activity in PNG tax and in particular the IRC's administration of taxation. Reflecting upon the variety of initiatives and announcements, it is possible to draw a number of themes that are perhaps worth noting by taxpayers as we end 2021 and move to 2022.

#### *Compliance crunch*

It seems clear that the pressure on compliance will continue to increase. The tone from the top of the IRC, their willingness to move towards prosecution and the public awareness on tax evasion are all aspects of this trend. The IRC has publicly named a number of individuals and companies that were prosecuted during the year. Currently the prosecutions have revolved around the use and abuse of Certificates of Compliance and combined with notices and other messaging, the IRC has taken clear steps towards building confidence in the integrity of the IRC as an institution when it comes to not tolerating corrupt behaviour and the use of the tax system to obtain unfair advantage.

#### *GST as a growth engine*

As we have often reported during 2021, GST remains a focus. This year saw the introduction and expansion of Section 65A as a direct collection mechanism. This direct collection mechanism was then further integrated with the government finance system (IFMS). Despite the fundamental design challenges and the potential for the Section 65A mechanism to interrupt the classical operation of an indirect input/output tax, it is possible that the current arrangements may mark only the beginning of an expanding campaign of GST collection at source. It can only be hoped that the IRC is able to develop a methodology of tracking the remitted GST, and dealing with the inherent challenge of suppliers operating on an accruals basis, and the GST credit recognition being on a cash basis. The process of validation and verification of GST input credits for taxpayers expecting refunds has also been one of the stories of 2021. The budget 2022 estimates that GST collected in 2022 will increase from the 2021 level by almost PGK1 billion, and therefore we can expect that the ongoing restrictions and limitations on the use of tax credit transfers, the instigation of 100% audit of input credits, the extension of the list of "mandatory" documentation will show no signs of relaxation for 2022.

#### *A point of view*

In addition to the increased levels of communication and notifications in relation to due dates for filings, the IRC has also taken an active stance in relation to a range of matters - including some where the agency appears to be promoting tax policy matters, a role most usually associated with treasury rather than the administrators of the system. Early in the year, there was a proposal to limit cash transactions in the economy. The IRC has also expressed views on the battle between NCDC and Central province on the appropriate allocation of GST revenue collected in NCDC. The IRC also felt the need to remind the public of the dangers of seeking to include any tax based incentives or exemptions in government sponsored agreements.

#### *Changing views*

The IRC's interpretation of PNG's Double Tax Agreements and how management fee withholding tax applies was a story in two parts. In February, the IRC announced their view that management fee payments to Australia, New Zealand and Singapore would no longer be free from withholding tax. Rather, 17% should be applied. This view

was withdrawn within two weeks. However, October saw the view resurface with the release of a public notice reverting to the position espoused in February. The position is being challenged on its technical merits. How taxpayers deal with this challenge will be top of mind for many going into 2022.

#### *Adding to the toolbox*

The IRC has taken a number of steps to sharpen their collection tools during the year. The party responsible for implementing the withholding applicable to prescribed royalty payments was shifted to the project operator to allow for better control and faster collection of these remittances. Towards the end of the year, the IRC has also announced a plan for valuations to be obtained from one of an approved set of valuers in order to support the value upon which stamp duty is calculated.

#### *Digital agenda*

Technology is seen by the IRC as a key to unlocking a more efficient and effective tax administration. The focus on data to develop and refine strategies for audit and compliance has been spoken about at length. Based on announcements in 2021, then 2022 may see another leap in the use of technology in a range of areas. There are plans for a GST monitoring system, an upgraded SIGTAS administration system, and the activation of a long awaited online lodgement and payment portal. For those more used to associating the IRC with over the counter lodgements and paper based compliance, the impact of these changes may be significant.

### **Legislative agenda - year in review**

The expectation for 2021 was that it would be the year of the Income Tax Act rewrite. After a consultation in 2020, anticipation was high for more consistent consultation on the significant rewrite with an understanding that it would be effective from 1 January 2022. However, as the year progressed and with COVID-19 playing havoc with the ability of Treasury and IRC to work through the changes that would need to be made for a new act to be implemented a consultation which was styled as “final” was held late in the year with a concession of pushing back the effective date to 2023. Nonetheless, the budget presented in late November did not include a new Income Tax Act - however, it did court controversy with the introduction of market concentration levies for the principal players in the telecommunications and banking sectors. Despite 2022 being an election year, the hope is for more consultation on the new Income Tax Act before it is brought into effect in January 2023. The other legislative change that taxpayers will need to consider in 2022 will be the likely implementation of the Taxation Administration Act. While seemingly innocent, the administration act has the potential to make taxpayers go back to school to understand their rights and obligations.

While much of the focus in recent years has rightly been on domestic tax matters, 2021 was also the year which saw PNG signing the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAAC). This is another step forward to enable the IRC to integrate with tax authorities in other countries, to automatically exchange information, and request assistance in tax recovery matters across borders. While this convention is yet to be ratified, this could add another dimension to the IRC’s arsenal.

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](mailto:peter.burnie@pwc.com)

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