



## February 2022

### IRC exceeds collection targets

As widely reported in late December and into January, the IRC has announced that their collections for 2021 exceeded the planned targets by approximately PGK 200 million. The reporting for this achievement focussed on overcoming the challenges of COVID interruptions to business generally and the operations of the IRC.

The Commissioner General also acknowledges the critical role that a number of initiatives implemented over the past 18 months have played in boosting collections from an economy that has been generally slowing. The key initiatives most often identified are Section 65A GST direct collections and the cessation of the ability to use GST refunds to offset other tax liabilities. The impact of these initiatives in the GST area continue to speak of stopping leakage and “unverified” credits. These relatively blunt instruments have certainly boosted the cash retained by the IRC significantly.

However, having accurate recording of tax collections and refund balances in real time remains a challenge. For example, Section 65A collections are recorded on a cash basis, whereas the corresponding GST output tax credit that should be available to suppliers is generally recorded on an accruals basis on the completion of GST returns.

Within the past few days, the Commissioner General has somewhat acknowledged the one sided impact of the reporting of increased collections only by stating that the IRC recognises refunds of GST currently owed to taxpayers are sitting at PGK 411 million. Nevertheless, this number would appear to be at odds with the most recent estimates from industry groups that have reported outstanding GST refunds running approaching PGK 2 billion. The recent change in practice of the IRC to defer the entry into the SIGTAS system of GST returns showing a refund until the completion of the full “verification” of the return will no doubt continue to cause a distortion in the timing of refund recognition and the overall balances outstanding in the system.

Irrespective of the challenges of measurement, it is clear that the IRC will have a continued focus on GST as a key driver of higher collections and a potential source of tax leakage.

### IRC Strategic Plan for 2022 released

The Commissioner General recently released information in relation to the 2022 strategic plan for the IRC. The focus continues to be on increased collections. The national budget had already highlighted this by planning a significant uplift in year on year collections in excess of 15% in total (and over 20% for GST).

The plan also repeats a number of other commitments from the November budget papers including implementation of a GST monitoring system, advancement of the SIGTAS replacement, and further development of the myIRC online platform. However, the IRC strategic plan also includes some other initiatives that could have significant implications for tax administration in 2022 and beyond. There are few details of these initiatives and there has been little if any consultation with taxpayers to date with respect to how these potential significant changes will be implemented and administered. Nevertheless, the coming year could see:

- further widening of the Section 65A system for direct collection
- a direct collection at source system for SWT
- digital and technical enhancements to CoCs to reduce fraud

- further internal use of data analytics (and presumably the collection of more data to enable this initiative)
- further criminal prosecutions for tax offences
- new internal organisational design for the IRC.

Commitments to better systems for administration will certainly be welcomed by all taxpayers, as will the efforts at targeting cases of fraud. However, given the very real challenges of implementing complex systems and undertaking major change management programs simultaneously, 2022 will be a challenging year for the IRC and taxpayers.

### **MyIRC platform progress**

In December 2021, the IRC launched its online platform known as MyIRC. The platform is described as enabling taxpayers to make payments and lodgements online, to instigate enquiries, to look up valid TINs and CoCs etc. The platform also has a feature that allows tax agents to engage through the platform on behalf of their nominated clients. The platform has been launched as a minimal viable product - which means that many of the more advanced features are yet to be made available.

The core of the platform is the requirement for each taxpayer to be registered with a unique email address and to have its identity verified. While this follows a logical path in the context of individual taxpayers, corporate taxpayers, groups of companies and other forms of business may not find the system as natural. As the product does continue to evolve, we would expect that the range of guidance and answers to common challenges will become clearer.

### **New Public Notice targeting the aid sector**

In another Public Notice, the IRC has stated their position with respect to the mechanism for the application of tax exemptions that have commonly been adopted within the aid sector. The notice walks through the concept of an entity achieving designated aid status which can then allow for tax exemptions to be applied for individuals associated with projects run through the entity.

The notice highlights the IRC view that the application of tax exemptions available through international agreements and treaties requires a basis in domestic law to operate, specifically through the application of the Aid Status (Privileges & Immunities) Act. It also highlights the role of the PNG Department of Foreign Affairs in the administration of the system. The IRC has indicated that they will be conducting compliance checks within the sector.

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:**

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