



## July 2021

### 2020 Final Budget Outcome released

The PNG Government recently released the final budget outcome for 2020. This report reconciles the original and supplementary budget for 2020 against actual spend and receipts. As can probably be expected, the headline result of the report was to highlight the challenges faced by the government finances during 2020, and even with a recast supplementary budget in late 2020, overall expenditure was more than PGK700m higher than planned. The deficit ballooned out to 8.9% of GDP and it was international donors as well as international and multilateral financing that was required to plug the gap.

More specifically on tax collection, the overall statistics appear to reflect the underlying events and actions implemented by the IRC during 2020. For example, personal income tax collection was the stand out performer for tax, with collections exceeding even the supplementary budget estimates by PGK200m. Rather than reflecting an increase in wages or formal employment, the report acknowledges that this is largely the result of the IRC preventing the offset of GST against SWT. GST collections did nudge up over the estimate in the supplemental budget - although they were PGK170M lower than the original 2020 budget and still remain a long way from the goal of being the largest tax. The largest contributor to the overall tax take remains SWT, which represents almost 36% of the tax collected in 2020. The report does contain a section with a discussion on arrears, but there is no data available from the report on the level of unprocessed GST refunds, only that total GST refunds during the year were PGK228m almost 20% lower than the budgeted amount for refund.

### Compliance extension from IRC

On 1 July, the IRC announced a general extension of time for the filing of 2020 income tax returns. The original date for lodgement of taxable returns was 30 June 2021. Nevertheless, the IRC indicated that in order to provide clarity a period of four months through to 31 October 2021 is now available for the lodgement of returns under a tax agent program. This brings the lodgement of non taxable returns in line with the deadlines that had been applicable in prior years - and extends the deadline for any remaining taxable returns that were not lodged on time before the issue of the IRC notice.

### IRC notices

The IRC's strategy of increasing their level of communication and outreach to taxpayers has been continuing, for example:

- A particular focus recently has been a series of regional visits and public forums primarily aimed at explaining the application of the Small Business Tax Regime (also known as the SME tax regime). The IRC is yet to publish any information on the level of enrolments in this regime which targets businesses with an annual turnover below the GST registration threshold of PGK250,000 per annum.
- The Commissioner General was active in 2020 in signing cooperation agreements with a number of provinces to expand the regional footprint of the IRC. These efforts have now begun to take shape as the IRC has been opening or reopening offices in more regional locations.
- The IRC has also shared with the public some of the initiatives being taken to boost their productivity. In addition to tracking the use of IRC vehicles, the focus of the Commissioner General on a data driven

approach can also be seen through the announcement that the IRC will be checking up on IRC officers' actions through productivity monitoring software to track attendance as well as tracking employee's screen activities.

## **PNG considerations for recent global tax developments**

On 1 July, 130 countries of the 139 members of the OECD Inclusive Framework on Base Erosion and Profit Shifting ('IF') - including PNG - committed to fundamental changes to the international corporate tax system. Under Pillar One, a share of the consolidated profit of a Multinational Enterprise (MNE) will be allocated to markets (i.e., where sales arise). Pillar One will apply to MNEs with profitability above 10% and global turnover initially above EUR 20bn. The profit to be reallocated will be 20 to 30% of the profit in excess of 10% of revenue. However, two sectors have been carved out from Pillar One: extractive industries and regulated financial services. Under Pillar Two, the IF members have agreed to enact a minimum tax system with a minimum effective tax rate (ETR) of at least 15%. Given the domestic corporate tax rate of 30% it would appear that PNG would likely fall comfortably within the Pillar Two commitments. Pillar One will require complex multinational rules and regulations to be developed, and ultimately reflected in domestic legislation.

While it is unlikely that there will be a significant impact for PNG taxpayers in the near future, the ongoing march of international tax reform will have consequences for cross-border activities and investment structures. International drivers coupled with a locally driven tax reform agenda in the form of PNG Income Tax Act rewrites and the discussion over the appropriate mechanism for taxing future resource projects will mean a watching brief will be required for PNG taxpayers.

## **Charities and NFP sector revisited**

The IRC has recently issued a tax circular that is aimed at clarifying the Commissioner General's views on the operation of Section 25A which provides for the exemption of income of a charity approved by the Commissioner General. This area of tax law has been the subject to a variety of approaches from charities or organisations seeking to pursue their activities and there are a number of complexities for not-for-profit organisations that seek to comply. While additional guidance and circulars are welcome, the new document as drafted unfortunately is not necessarily comprehensive or free from doubt. Nevertheless, as this appears to be an area of focus, participants in this sector should review their structures and operations to understand their obligations and ensure compliance.

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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