



November 2021

Budget 2022 tax changes

The budget has been brought down in Parliament and contained a number of surprises. Firstly however, an item that was not presented was the new Income Tax Act draft. This draft was the subject of a “final” consultation in September 2021 but did not reach the stage of legislation for this budget. The status of the document is therefore unclear, although presumably further work will be undertaken to complete the drafting and include the transitional provisions and the subsidiary regulations as required before the bill is once again presented. Taxpayers will also hope that this provides a further opportunity for stakeholder engagement during 2022.

The most significant tax change in Budget 2022 was the introduction of a Market Concentration Levy. This is a fixed fee levy payable by taxpayers that hold more than 40% market share in either the banking or telecommunications sector. Market share is determined through data from market regulators (NICTA or Bank of PNG). The levy is a fixed fee, payable in instalments during the year aligned with the provisional tax payment schedule. The levy is set at PGK 95 million for telecommunications and PGK 190 million for the banking sector. Given the current market distribution in these sectors, these levies will be imposed on only one entity from each sector. The levy is an additional tax burden - it is not a tax deductible cost. While limited in scope to only two taxpayers, the design of the levy is a departure from previous practice and also a departure from more recent tax reform principles.

The provisions surrounding the tax credit scheme for spending on prescribed projects were amended. While the usage limit was increased to 2% of assessable income across the board, there was also a series of amendments to control the utilisation of the tax credits and in particular limit the ability to carry forward of the balances. Those who have existing credits and those taxpayers participating in prescribed projects will need to examine the provisions carefully.

There were a significant number of other amendments to the Income Tax Act, GST Act as well as other revenue acts (stamp duties, departure tax etc) which were required in order to allow for the coming into effect of the Tax Administration Act. These amendments will become effective upon gazettal. While no timetable for the effective date of the Tax Administration Act was provided, it has been anticipated that it would need to be in place before the new Income Tax Act. Therefore, the effective date may be during 2022. The move to the Tax Administration Act will require taxpayers to review the detailed provisions on all actions from lodgements, assessments, payments, penalties, objections and appeals as there are some changes that will impact taxpayers’ rights and obligations.

You can read more about PwC’s budget views [here](#).

IRC updates

COVID-19 restrictions

The IRC has increased its operations with the move to a code orange from the recent code red. While the impacts of COVID-19 in the community remain significant, the IRC has determined that they can safely move to having more resources available within their offices and to move back towards the restoration of a broader range of

activities. The IRC has continued to provide access to basic tax administration functions throughout the pandemic and is looking to maintain as many of their ongoing initiatives as possible.

Commissioner General presentation

The Commissioner General was a presenter at the recent CPA Annual Conference. Mr Koim took the opportunity to summarise the recent activities of the IRC and set out a range of initiatives that are currently in place or coming in the near future. He stated that the IRC is currently working on 30 reform projects across six pillars in accordance with their strategic plan. Mr Koim then identified that the impacts of COVID-19 on the economy has caused a number of areas of revenue risk with falling formal employment, the growth of micro and small businesses, and the generally reduced business conditions causing financial stress to taxpayers. He went on to then again confirm his previous announcements on the success of Section 65A collections and integration with IFMS, and the banning of offset of GST credits against SWT. Finally he again stressed the commitment of the IRC to data analytics and the use of more technology more generally with the introduction of the myIRC online platform for lodgements, a Gross Margin Scheme (GMS) GST monitoring system for transactions passing through cash registers, and the procurement of Integrated Tax Administration System (ITAS) in 2022. The presentation is consistent with other recent announcements and the observed initiatives of the IRC in tax administration. Therefore, taxpayers can expect the current focus on collection to be maintained.

IRC debt swaps

The IRC has announced an intention to work with taxpayers and the government of PNG to offset outstanding tax liabilities against receivables owing from the government of PNG. The first example of this type of arrangement has been reported as being completed to reduce the level of unpaid taxes owed by PNG Power Ltd by PGK105 million through this offset mechanism. The Commissioner General has indicated that further examples will be facilitated.

Year end matters

For most taxpayers, December marks the end of the financial and tax years. As this time approaches, it is appropriate to reflect on actions and considerations that should part of the year-end process, some of these may include:

- Ensure that you have identified any and all outstanding returns, existing balances of tax owing or receivable and ensure that these balances are reconciled between taxpayer and IRC records.
- Be aware of the close of another tax year and the impact that this may have on the continuing availability of carry forward tax losses.
- Where relevant, review the status of notifications for Country by Country (CbyC) obligations (however, noting that the IRC continues to suspend the requirement to file CbyC reports).
- Review accruals and provisions and consider whether they continue to be appropriate - remembering that expenses that are not incurred by the end of December will generally not be deductible for income tax purposes.

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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