



## September 2020

### **MYEFO and Supplementary budget released**

The Mid-Year Economic and Fiscal Outlook report (MYEFO) was presented in the most recent Parliamentary sitting, along with the 2020 Supplementary budget. It was no surprise that the documents present a picture of a worsening fiscal and economic situation for PNG from the time of the original budget being brought down in November last year. Anticipated government revenue decline for the year is approaching PGK 3 billion from a projected revenue base of PGK 14 billion. Total expenditure will be reduced only slightly and reprioritised to deal with COVID-19 requirements. As a result, the 2020 deficit will increase and is planned to be met largely through additional international donor financing. The supplementary budget deals with the prioritisation of expenditure and does not contain new revenue measures.

Tax revenues are tracking behind budget estimates in all categories. The MYEFO notes that the additional revenue raising measures introduced for 2020 have been largely ineffective due to a range of factors including reduced business activity levels and delays in establishing system changes. For example, the enhanced land lease rental payments have generated no additional revenue and the SME taxation system is yet to be operational.

The MYEFO has revised 2020 budget assumptions to reflect movements in global commodity prices, with oil reduced to USD 35.8 per barrel and gold increased to USD 1,668 per ounce. Other economic indicators including GDP growth in mining and non mining sectors as well as formal employment indices have deteriorated since the budget was constructed.

An important item addressed in the report is the status of the rewrite of the Income Tax Act. The report notes that a number of submissions have been received and are being assessed. The concerns of business are acknowledged and there remains a significant amount of work to be done to reduce the potential for unintended policy changes being introduced as part of the review. The report concludes by indicating that it is more likely to be tabled in 2021. However, the Tax Administration Act is still expected to be brought into force on 1 January 2021.

### **IPA developments**

The IPA had previously announced a waiver of late fees for the lodgement of annual returns - through to 20 June 2020. They have now indicated that no further penalty relief is available. Therefore, late fees will now be applied. However, should companies be in a position where they require an extension of time to lodge their annual return - the requirement to apply for an extension is no longer in force, even if the date for the annual general meeting is deferred past the prescribed five months.

## IRC outreach

The IRC's campaign at keeping taxpayers informed of developments continues with a number of recent announcements and initiatives.

A list of Section 65A notice recipients has now been published. The 15 entities and organizations include a range of government departments as well as two state owned entities. The notification reinforces that the IRC will be expecting to see GST returns for August, which will be lodged by 21 September, reflecting the impact of these notices. As covered in [our last edition of Pulse](#) there will likely be a number of transitional challenges, and taxpayers that are providing services to one of the notice recipients should consider the implications for them as soon as possible.

The IRC has also continued to seek cooperation and cooperative agreements with an expanding range of associations, organisations and industries. The common themes for these arrangements is the interest in accessing more comprehensive data, and establishing platforms for information sharing. The exact nature of the initiatives to be undertaken under the frameworks of the various memoranda of understanding (MOUs) are not explicitly stated and may not be immediately enacted, although these may set the foundation for further integration of the IRC in capturing data real time.

Recent examples of MOUs and meetings held include those with:

- IPA - with follow on engagement to investigate data sharing
- CPA - with the aim of enhancing links with accountants as "gatekeepers of compliance" according to the Commissioner General and ensuring tax knowledge is core for all members
- CASA - with the aim of better tracking the compliance of owners of aircraft in the country
- Representatives of the banking sector - to explore the extent of information captured by the financial sector and whether this could enhance the IRC's compliance actions.

The availability and use of data is increasingly part of the efforts of revenue authorities worldwide, and the IRC's efforts in this area are part of this worldwide trend. The challenge will be in having the appropriate resources in place to capture, analyse and review data within a suitable legislative framework on data privacy.

## Organic Law on development of hydrocarbons and minerals

The ministries responsible for mining and petroleum recently published briefing information in relation to an Organic Law on Papua New Guinea's Ownership and Development of Hydrocarbons and Minerals and the Commercialisation of State Business. The proposed Organic Law presents a framework for PNG to radically change the basis for the exploitation of minerals and petroleum through replacing the current royalty and tax regime with a regime described as production sharing. The Organic Law is eligible to be brought to the floor of parliament, but this did not occur in the most recent session which is now concluded. Although not envisaged to be in operation until 2025, the changes proposed are fundamental and in particular propose a production sharing regime for mining as well as petroleum development, although such regimes are generally not applied to mining projects.

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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