PNG Pulse

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Infrastructure Tax Credit Scheme (ITCS) Revised Guidelines 2019

The PNG National Planning Ministry recently issued what they have described as revised infrastructure tax credit scheme policy guidelines. The scheme had been suspended in early 2018 and in a bid to increase transparency and ensure that only qualified projects are eligible for government assistance.

The revised published guidelines propose a number of changes to the scheme's operations, including:

- an increase in the limits for primary production companies (from 1.5% of assessable income to 2%)
- change in the approval process to involve district and provincial authorities as well as national level agencies
- the introduction of a requirement that a proportion of the approved grants are expended within the host province of the applicant.

Other aspects such as the ability to carry forward credits and the general categories of taxpayer that can be eligible for the schemes remain unchanged.

Nevertheless, as the tax credit element of the scheme is administered through the Income Tax Act, in order for the proposed guidelines to be implemented and available, changes in legislation would be required. These are yet to be introduced although they may form part of this year's budget changes.

Request for budget submissions

As is normally the case, each year the Department of Treasury invites policy submissions from interested organisations and the public with respect to the priorities for the annual Budget. PwC is a regular contributor of submissions to this pre-Budget process, taking the opportunity to advocate for various tax related initiatives.

The Medium Term Revenue Strategy (MTRS) has provided a detailed framework for improving the effectiveness and efficiency of PNG's tax system and its contents are therefore highly relevant in understanding the scope and direction of future budget changes. We do expect Treasury to continue focusing on the MTRS. The areas identified in last year's budget that would be considered for changes in 2020 include:

- introduction of a minimum tax based on a percentage of revenue on taxpayers that make losses
- reviewing and simplifying tax depreciation rates and schedules
- the possibility of a capital gains tax
- introducing a separate and simplified tax regime for taxation of small and medium enterprises (SMEs).

Submissions can be made up until 30 April 2019 and we encourage all interested parties to consider making submissions in relation to aspects of the tax reform agenda that are of particular concern. If you would like to better understand the impact of potential budget changes or you would like us to assist you with a submission, please get in touch with your usual PwC contact.

Provisional tax instalments

The first instalment of provisional tax for companies is due at the end of this month. As usual, taxpayers have the option to consider a variation of their instalment amounts should they believe that the taxable income used to calculate the instalments is in excess of the expected taxable income for the current year. The application to reduce the instalments can be lodged at any time up until the due date for the final instalment (31 October).

The IRC's system continues to automatically revise provisional tax notices in some circumstances during the year (e.g. the assessment of a prior period return), and where this creates an uplift in provisional tax - penalties continue to be automatically applied. Current practice is that penalties imposed in this manner will generally be waived, however, taxpayers should actively monitor their expected results to manage their provisional tax where possible.

Taxpayers with substituted accounting periods continue to have challenges with the timing of provisional tax payments not matching with the tax period.

IPA Act revision and update on Foreign Investment Regulatory Authority bill

As reported in last month's Pulse, a draft Foreign Investment Regulatory Authority Bill was tabled in Parliament during the last parliamentary session. The bill as drafted sought to establish a new authority that will be tasked with certification of foreign investment - a task that is currently performed within the IPA. It also significantly extended the reserved activity list to limit the involvement of foreign investors in portions of the economy.

As a response to further consultation, the current expectation is that this bill will be withdrawn. However, in order to address some of the concerns that prompted the drafting of the original bill, a number of existing institutions and regulatory tools are being reviewed and strengthened.

As an example, the IPA Act is being revised. The proposed changes to the bill and an explanatory memorandum in relation to the changes is available through the website of the IPA. The intent is to both clarify and strengthen the role of the IPA, to introduce a Registrar of Foreign Investment and to overhaul the compliance and monitoring powers of the agency. The bill addresses the scope and concept of reserved activities - which are still able to be enumerated in the regulations and introduces the concept of a restricted activity. A restricted activity is one that will be open to foreign investment, but based on conditions to be included in the regulations.

The period for comments on the changes has now closed, and the progress of the reform will need to be monitored. There is currently no date scheduled for the proposed new framework to come into force.

New public procurement in operation

This month saw the launch of the National Procurement Commission, which has replaced the Central Supply and Tenders Board. In addition to the new name, the NPC represents the significant changes to the underlying legislative framework surrounding public sector procurement that was introduced by the National Procurement Act.

One example of a change for procurement that falls within the scope of the commission, is restrictions on the award of tenders to non-citizen owned national companies. Contracts with a value of up to PGK 10 million are reserved for PNG citizens or citizen owned companies; from PGK 10 million to PGK 30 million the award of the contract will require a 50/50 JV between citizen and non-citizen or at least 50% of the value of the contract to be undertaken by national companies; and contracts above PGK 30 million are unrestricted.

Work permit changes

The Department of Labour and Industrial Relations has announced and is implementing a number of changes to the process for the renewal of work permits for non-citizens. These changes are effective from 1 April 2019 and focus on requirement for an upgraded training report and succession plan to be presented as part of any renewal.

The training report needs to provide evidence of the training that has been conducted by the non-citizen and the employing entity to enable skills of national employees to be developed in the expatriate's area of expertise. As part of the requirement for enhanced training plans, all in-house trainers will need to be registered with the National Training Council. The succession plan will need to document the organisation's plan for ultimately filling the role through citizen employees.

If you would like to know more about these recent developments or have any other questions, please get in touch with your usual PwC contact.

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