PNG Pulse

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COVID-19, fiscal support measures and the economy

Since the initial set of announcements in April by the Treasurer in relation to the PNG government response to COVID-19, followed by IRC phase 1 and the response from other statutory and regulatory bodies PNG has moved on from the initial state of emergency. The passing of the Pandemic Act has provided the basis for the controller to be essentially reappointed to continue to monitor the public health situation and issue instructions as part of the Niupela Pasin or new normal regime.

With the Asian Development Bank recently releasing a supplemental outlook for 2020 that predicts PNG's economy to have a more significant contraction this year and much moderated growth prospects in 2021, it is clear that further support would be welcomed by business. However, in part due to the limited fiscal space available to the Government, there have been no further financial support measures announced, and the status of delivery of some of the announced items remains unclear.

For the IRC, the largely non-cash measures for deferred lodgement deadlines and limited extensions for payment periods do continue, although the final impact of these will have effectively passed through the system by the end of August with the expiry of the two-month extension for the lodgement of taxable corporate income tax returns.

IRC penalty reminder

The IRC has publicly confirmed that penalties will be automatically applied to GST and SWT payments remitted after the respective due dates from 1 July 2020. Historically, the IRC's systems had offered a short grace period for payments made on or about the due date and penalties were not automatically imposed.

This initiative was planned to have been introduced in April 2020 but was deferred as part of the IRC's COVID-19 response. Despite the re-introduction of additional measures as part of the Niupela Pasin status under the Pandemic Law, the IRC has determined that this measure will take effect.

Taxpayers should be well aware that SWT is due on the 7th day of the month for the salary and wages of the previous month and GST payments are due on the 21st day of the month following the tax period. The IRC expects that taxpayers will plan around weekends, public holidays and other potential causes of delay in order to meet the statutory deadlines.

The beginning of the end for SIGTAS

The past two national budgets have allocated funding to the IRC for a number of reform items and capacity building items as they work on towards the delivery of the Medium Term Fiscal Strategy. One of the items that was specified was funding for a new Integrated Tax Administration System (ITAS).

In a significant milestone for this project, the National Procurement Commission has opened the tender for a Commercial off the shelf (COTS) New Integrated Tax Administration System. Bids are set to close on 28 August 2020.

Both taxpayer and IRC expectations are high that the new system will both make the tax compliance process smoother and more efficient as well as provide a solid basis for the IRC's actions to improve collections and broaden the tax base.

Income Tax Rewrite in Focus: Capital Gains Tax

Continuing our recent series, we take this opportunity to highlight some of the most significant areas in which the new Income Tax Act may impact taxpayers. In this edition, we review the potential introduction of Capital Gains Tax (CGT) provisions.

An initial consultation in relation to CGT was based on a background paper that was the subject of our comments in the April 2019 Special Edition. The draft new Income Tax Act has largely adopted the structures and strategies that were outlined in the original background paper. Despite the range of feedback and comments received as part of the consultation there are few changes that appear to have been adopted.

In terms of the scope of the tax, the most notable change is to remove shares listed on the Port Moresby Stock exchange from the CGT net. Rather the tax will continue to be focussed on land (including interests in mining and petroleum licences) and shares in land rich companies (those where more than 50% of the value of the company is derived from interests in land).

The rate applicable to capital gains remains at 15%. The cost base for assets for those acquired before the entry into force of the new act is either historic cost or fair market value at the date of the commencement of the CGT provisions. The taxpayer is able to elect which option to apply at the time of the lodgement of the capital gains tax return. In other words, there continues to be no grandfathering of pre-CGT assets.

Other key elements of the CGT as proposed, including the requirement for returns to be furnished for each transaction that creates a capital gain or loss, for capital losses to be available for indefinite carried forward and offset only against capital gains remain in the draft new Income Tax Act.

There continues to be a requirement that purchasers of a taxable asset should withhold 10% of the purchase price where the vendor is a non-resident. The vendor and purchaser could apply to the Commissioner General to vary the withholding tax rate to a lower rate (e.g. where 10% of the gross proceeds do not reflect the tax liability of the capital gain, or the asset is not PNG real property). The legislation proposes any withholding tax suffered would be creditable against the vendor's ultimate CGT liability.

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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