

PNG Pulse

Keeping you informed



Changes to Long Service Leave provisions

One of the significant tax law changes introduced in the 2018 Budget which takes effect from 1 January 2018 is a change to the taxation of long service leave entitlements.

The aim of the provisions is to broadly align the taxation treatment of long service leave paid out on termination with the taxation treatment of lump sum payments exiting the superannuation environment. Currently, long service leave is taxed at marginal rates, whereas superannuation fund payouts can benefit from reduced rates of personal taxation based on the period of membership of the fund. As the change is effective from 1 January 2018, there can be a substantial reduction in the applicable tax for long term employees who defer their retirement to access the reduced rates.

The impact of the changes can be seen in the following table:

Years of service	Less than five years	Not less than five years and not greater than nine years	Not less than nine years and not greater than 15 years	A minimum of 15 years of service
Rate of tax	Marginal rates	The lesser of 15% or the applicable marginal rate	The lesser of 8% or the applicable marginal rate	2% of the sum

The concessional rates are applicable for long service leave accruing at no more than six months for 15 years of service.

Changes to the requirements for Tax Identification Numbers

The 2018 Budget introduced a range of new sections in the Income Tax Act to further develop the controls and usefulness of TINs as a method for tax administration.

Currently TINs are not required for taxpayers that earn only income that has been subject to tax on a withholding basis. This removes the obligation for obtaining a TIN for most individual taxpayers whose income is from salary or wages or bank interest. However, the changes to the Income Tax Act that will be effective from 1 January 2018 seem to indicate that this limitation will no longer be applicable. Further, the provision of a TIN to a financial institution in order to open (and maintain) a bank account has been introduced. Although the requirement for a TIN does not apply to non-residents, presumably a non-resident with a bank account in PNG may require a TIN to meet the requirements of the financial institutions.

The changes to the act also require that the taxpayer notify the IRC within 28 days for changes in taxpayer details, including change of address, change of business, change of email contact etc. This requirement appears to duplicate the obligations of an entity registered with the IPA to notify that agency of changes in operations.

The changes to the act also introduce a range of penalties associated with TINs including:

- Failure to apply for a TIN
- Misuse of a TIN
- Failure to provide a TIN when required
- Failure to notify the IRC of changes in taxpayer details associated with the TIN

Historically, the IRC's position is that they were ill-equipped to be able to administer a system with universal requirements for TINs to be issued to all taxpayers. We are currently seeking further clarification from the IRC in relation to the implementation of these requirements.

Dividend rebate restored

Of the budget changes that focussed on reversing some of the unintended consequences from the 2017 Budget, the re-introduction of the dividend rebate for dividends that pass between domestic companies is perhaps the most relevant as we come to the end of 2017. The fix has been done by way of eliminating the repeal provision that was introduced in the last budget.

Although there has been some questions raised as to whether this mechanism is sufficient to clarify the position for the 2017 year, we believe that it does remove the uncertainty that has surrounded dividends declared in 2017.

IPA actions delayed

Although the IPA's plan for de-registration of non-compliant entities remains, the impact of the recent outages of the on-line registry and the delays of a number of weeks in getting the system up and running has meant that de-registration actions will not commence until early 2018.

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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