



February 2020 - Special Edition

Income Tax Act Rewrite

In a sign that aspects of the Medium Term Fiscal Strategy continue to influence implementation of policy decisions within government, Treasury has released for public consultation the much anticipated rewrite of the *Income Tax Act* (the Act).

Whilst the full impact of the rewritten Act will emerge as its details are scrutinised over the coming weeks, the rewrite is advertised as an attempt to simplify tax law to enable greater participation, and ultimately greater compliance in the tax system. In trying to achieve this, a number of design features have permeated the initial draft:

- simplifying and consolidating provisions in a more consistent and structured manner
- placing further emphasis on self assessment
- assuming the application of the legislated, but not yet enacted, *Tax Administration Act* by removing administration elements from the rewritten Act, and
- proposing to implement a number of policy shifts, including some that were previously unannounced.

Whilst this list is likely to evolve after review of the legislation, some of the key policy areas impacted by the rewrite include:

- **Capital Gains Tax (CGT):** the previously announced CGT regime has been narrowed and included. Commencement of a CGT regime will require additional steps beyond the passage of the rewritten Act, however it is expected to apply to PNG land and interests in companies whereby more than 50% of their assets are PNG land.
- **Resources Taxation:** Whilst ring fencing of project income and expenditure looks to be maintained, changes to depreciation calculations, including deductions for acquisition costs and the reduction in the Additional Profits Tax uplift factor from 15% to 13%, may impact the resources sector. Transitional provisions and how the measures will impact other projects taxed under the existing regime are the subject of further consultation.

- **Banking and Insurance:** Specific provisions have been included which look to allow those in the banking and insurance sectors deductions (subject to caps) for provisions, marking a significant shift from the current Income Tax Act.
- **Taxation of Employment Benefits:** The rewritten Act has opened the possibility of revisiting the taxation of employment benefits, in particular housing and motor vehicle benefits from a 'prescribed value' approach, to a market value approach (albeit with a long transition period). Previous suggestions to revisit this policy were met with strong resistance from a number of stakeholders.
- **Taxation of Non-Residents:** Recent policy changes have sought to rely more heavily on withholding taxes, as opposed to income taxes to collect taxation from non-residents deriving PNG sourced income. The current draft of the rewritten Act suggests a return to taxation of non-residents in PNG only where a permanent establishment exists in PNG, with withholding taxes applying to specific payments of amounts which may be deemed to have a PNG source.

No commencement date has been announced and it is clear that ensuring transitional provisions are carefully drafted will be critical. Treasury has indicated that it would like to finalise the rewrite of the Act by mid 2020 to enable it to pass through parliament, presumably in the budget sittings, in November this year.

It is unclear precisely how long consultation will continue, however Treasury has verbally advised that submissions in relation to the rewritten Act are encouraged by mid April.

If you would like to know more about this development 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

© 2020 PricewaterhouseCoopers. All rights reserved.

PwC refers to the Papua New Guinea member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.