

January 2019

Tax amnesty for salary sacrifice superannuation shortfalls

In September 2018 we highlighted the concerns of the IRC with respect to the potential underpayment of salary and wages tax where salary sacrifice arrangements are not correctly applied. The IRC has now issued a notice advising taxpayers of an opportunity to undertake a voluntary disclosure for situations in which an employer believes that they have inappropriately applied salary sacrifice arrangements. The amnesty is effective through to 7 March 2019 and would require additional disclosure to be included within the February 2019 SWT return. Revision is permitted for the period from 1 January 2014 and the amnesty allows for the remission of all penalties that would be otherwise applied to the underpayment.

In order to evaluate whether a taxpayer has a potential underpayment we would recommend that salary sacrifice arrangements involving superannuation in particular are reviewed. Taxpayers should consider whether their current arrangements sufficiently document the mutually agreed changes to employment arrangements, ensure that superannuation obligations are met from employer funds in order to be characterised as an employer contribution and contributions are correctly described in submissions to authorised superannuation funds.

Personal Income Tax changes in place

The IRC has released the new tax tables reflecting the changes to the tax free threshold and the personal income tax brackets from last November's budget. Despite concerns raised in local social media, the net effect of the changes is to reduce the burden of personal income tax through a lift in the tax free threshold. The new tax tables should be used from 1 January 2019. Taxpayers should check that the correct version of the tax tables has been implemented in your payroll process.

Tax Clearance Certificates

As we start another calendar year, it is worth noting that the thresholds for requiring a tax clearance certificate will be reset. As a reminder, from 2017, no tax clearance certificate is required for remittances up to PGK 500,000 annually per taxpayer. Beyond this level, tax clearance certificates will be required. While the application process is generally running smoothly, we note that in circumstances where a renewal of an existing certificate is required (for example where the taxpayer was unable to obtain foreign currency during the validity period of the certificate), the IRC is insisting on the return of the original certificate before a renewal will be issued.

Import GST

From 1 January 2019, the provision allowing the zero rating of inputs for resource companies has been repealed. Therefore, goods and services provided to resource companies should now be subject to standard GST on invoicing. However, the GST provision allowing the import of goods by resources companies for the conduct of resource operations remains in place. Despite this provision remaining in the legislation, we understand that Customs have currently taken the position that all imports for resources companies should no longer be effected

without the imposition of import GST. There is also continuing uncertainty over the application of the provisions of the GST Act that allow for the provisions of Gas Agreements to override the provisions of the Act. Therefore, to the extent that Gas Agreements under the Oil and Gas Act allow for zero rating of supplies, and the exemption of imports from GST - then this should also continue.

We recommend that suppliers to resource companies should clarify the particular circumstances of the supply of goods or services before finalising their invoicing position.

Annual reconciliations; SWT, FCWT etc

All taxes that are collected through monthly withholdings require an annual reconciliation report to be completed by the taxpayer responsible for the withholding. As the first month of 2019 is quickly passing us by, it is timely to remember that annual withholding tax reconciliations are due to be lodged in February and March as follows.

Tax type	Due date
Business Income Payments Tax	15 March 2019
Dividend withholding tax	28 February 2019
Foreign contractor withholding tax	28 February 2019
Interest withholding tax	28 February 2019
Management fee withholding tax	28 February 2019
Non-resident royalty withholding tax	28 February 2019
Prescribed royalty withholding tax	28 February 2019
Salary or wages tax*	14 February 2019

The salary or wages tax Reconciliation Statement (form S6) is due by the 14th of February and along with it, you are also required to complete and lodge an electronic file in Excel format (S1 or S1-L) with all of the SOE data. The provision of an employee statement of earnings (form S1 or S1-L) is no longer mandatory, however a copy should be provided to each employee upon request.

The reconciliations are clearly required where an amount of the relevant withholding tax has been withheld during the year. However, the position with respect to “nil” reconciliations is less clear. While we understand that nil reconciliations are not strictly required for these other taxes, in many cases, consolidated statements of account will identify annual reconciliations as outstanding if not filed. In these cases, missing lodgements can trigger adverse consequences such as demand letters from the IRC or delay the issue of tax clearance certificates or certificates of compliance. Taxpayers should therefore consider filing reconciliations in line with the accounts represented in their consolidated statement of accounts with the IRC.

Country by Country reporting - latest developments

The IRC has released some additional instruction with respect to the CbyC reporting requirements contained within the Income Tax Act. Although the first CbyC reports were originally due during 2018 (with respect to the 2017 year), the IRC has now indicated that reporting is suspended until further notice. The notification process as described in the Act does however continue to be in force.

The notification from the IRC was uploaded on their website in early January 2019 - despite being dated some weeks earlier. The IRC states they will issue a further announcement once they are in a position to re-establish the acceptance of reports.

The cumulative result of the enactment of the initial legislation, the current failure of PNG to sign up to the proposed multilateral agreements as part of the BEPS, the CbyC reporting information sheet published by the IRC and this most recent notice is that the application of the CbyC reporting principles to local and non-resident entities operating in PNG is uncertain. This is despite the fact that tax policy statements and the medium term strategies for PNG continue to show a commitment to enhanced engagement on international tax issues. In light of these circumstances, it is perhaps fortunate that the CbyC reporting provisions in the Act continue to have no specific penalties applied for non-compliance.

Increased revenue collections for 2018 by IRC

The IRC has released revenue performance and collections for 2018 highlighting revenue collection exceeded the 2018 budget projected performance by as much as 8.4%. The growth in revenue tax heads is as summarised below;

Tax type	Growth rate (%)
Corporate income tax	8
Salary or wages tax	3
Dividend withholding tax	12
Interest withholding tax	25
Royalty withholding tax	20
Stamp duty	125
GST including import GST	10
Foreign contractor withholding tax	-18
Partnership and PIT	-34

The IRC attributes the positive performance to the reforms undertaken in its first year implementation of the Medium Term Revenue Strategy (MTRS) by increasing its service capacity and public engagement. The IRC notes that this has resulted in doubling of filing rates, improvements in on-time filing, and almost 80% shift to online payment methods and electronic payments.

Also as a result of various compliance and enforcement initiatives the IRC notes that they were successful in recovering back-taxes and improving the revenue performance. Approximately K300m in taxpayer debt due in previous years was recovered in 2018.

We expect the IRC to continue with the MTRS implementation and an increased effort in compliance and enforcement initiatives for 2019.

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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