

June 2019

Change in PNG leadership

With the installation of a new Prime Minister, a central question is whether there will be a significant change in economic thinking and policy direction in the upcoming parliamentary sittings and through to the budget process later in the year. In his initial address to parliament after being sworn in as the new Prime Minister, the Hon James Marape identified a number of broad priorities for the government.

He highlighted that the legal framework surrounding resource projects is based on laws that could be considered outdated. Therefore, it may be reasonable to expect that recently raised questions in relation to the extent to which resource projects contribute to the inclusive development of the nation will continue. He also restated and renewed the commitment of the previous government to halt the export of round logs therefore signalling that the push for further domestic processing remains. Among other priorities, the Prime Minister also spoke about the desire of provincial governments to exercise greater autonomy and he acknowledged that this would imply the transfer not just of public sector functions and obligations, but also an ability to raise revenue.

It remains to be seen whether the Prime Minister's statement of intent will alter the course of fiscal legislative development or whether the government will continue along the path outlined in the Medium Term Revenue Strategy. For further indications the new Treasurer Hon. Sam Basil will no doubt be providing his views in due course.

Public consultation on SME and CGT

Regional consultation by Treasury on the proposed Small to Medium Enterprise (SME) regime and Capital Gains Tax (CGT) regime is underway, with consultations undertaken in Goroka and Lae.

Based on the consultations so far it appears that any potential SME regime will be a more complex operation with the IRC and other stakeholders needing to focus not just on the design of the regulatory regime itself, but also how the regime would be able to be integrated with the existing tax administration structure of the IRC. The need to advance both of these aspects in step may push out the timing for implementation well into the next decade.

In contrast, implementation of the proposed CGT regime appears to be gaining momentum with a potential for legislation to be introduced as part of the 2020 budget which will be handed down later this year. This may mean the CGT regime could apply as early as 1 January 2020. Given proposed legislation has been drafted and the narrow application, Treasury has suggested that significant changes to tax administration would not be required before the legislation could be implemented, therefore implying that this date is achievable.

Nevertheless, Treasury has indicated an openness to consider critical design and implementation issues, including those that PwC has already identified such as:

- Whether annual capital gains tax lodgements simplify or add to administration burdens for both taxpayers and the IRC?
- Whether capital losses should be treated differently to ordinary tax losses?
- Whether a number of other CGT deferrals should be incorporated, such as for amalgamations and scrip transactions?
- Whether formal valuation requirements for transitioning assets will be required for all CGT assets or limited numbers of assets?

Consultation continues next week in Kokopo and Port Moresby with further submissions on the operation of the legislation likely to be called for shortly thereafter.

Ongoing administrative and legislative developments at the IRC

The IRC has recently instigated a change in the methodology for processing of CR1 forms. In order to ensure a greater level of control and to further eliminate the chances of fraud in the transfer of refunds and credits between tax types, there is now a separation of duties for processing CR1 forms. Different officers will be responsible for registering and then subsequently approving the transfers. We understand that this has been implemented for those outside the Large Taxpayer Office. The IRC is aiming for this change to not interfere with expected processing timeframes for the forms. Further administrative changes can be expected as the IRC continues to review and refine its internal activities.

The IRC has also indicated that a major project to re-write the Income Tax Act is ongoing. The aim of the project is to simplify, re-organise and undertake drafting housekeeping measures on the Income Tax Act of 1959 (as amended). The new act will then work in tandem with the Tax Administration Act that was passed in 2017 but is yet to be implemented. The IRC has indicated that public consultation on any newly drafted act will be undertaken and the plan for implementation is a phased approach from January 2021 in conjunction with the Tax Administration Act. However, a critical aspect of this plan is a successful introduction of an improved and modernised integrated tax administration system (i.e. SIGTAS upgrade). The expectation is that simplifying the language in the Act will enhance the level of understanding and compliance amongst taxpayers.

Recognition for service

We are thrilled to announce that the 2019 Queen's Birthday Honours List awarded an OBE to our very own David Caradus in recognition of his services to PNG in the areas of commerce and taxation. It is a true reflection of the years that David has spent dedicated to the development of the profession, the tax environment, his clients and his colleagues. Congratulations David!

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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