



May 2022

Legislative changes implemented

Income tax

The legislation drafted to support the Treasurer's announcements last month to mitigate the impacts of cost of living increases has now been certified and released. The initiatives announced were to address income tax rates for salary and wages, as well as the GST imposed on fuels.

For the SWT changes, the legislation operates as predicted - with the increase in the tax free threshold of PGK 5,000 for the period 1 June to 31 December 2022. The change to the rates act confirms that this will be a temporary measure and the remaining SWT tax bands remain unchanged. Employees in the formal sector will have an increase in take home pay of approximately PGK 40 per fortnight.

All employers should review their payroll systems to ensure that the impact of the changes has been reflected for payrolls from 1 June.

GST

The changes for GST are less straightforward. The legislation makes the supply of fuel to "households" and "small and medium business" an exempt supply. For those familiar with the operation of GST, an exemption is not the same as zero rating. Exemption means that while no GST is imposed on the taxable supply, it also prevents taxpayers in the supply chain from claiming input GST in relation to the supply.

While the IRC has issued some guidance, it was issued with little, if any, consultation with those involved in the fuel supply chain and unfortunately, it leaves a number of important questions and issues unanswered.

The aim for administration appears to be to capture the exempt nature of the supply at the point of import. While eliminating import GST would have the effect of reducing the cost of fuel through the supply chain, the implementation of this system will require some significant administration and cooperation of Customs. Currently, there does not appear to be guidance or confirmation that Customs will essentially exempt the import of all fuel for the period of the revised measures. If this is not the case, then the mismatch of GST on import will need to be addressed.

However, if all imports are free of GST, then the administration of the GST exemption moves to the level of the distributor. While the IRC's guidance does seem to equate sales made through a service station as being exempt (i.e. assuming that all customers of the service station are households or small and medium businesses) which is arguably a workable solution for administration at a retail level, the position of direct bulk sales to large businesses or to other entities (that are not resource projects or power producers) is not addressed.

Ultimately, the supply of fuel in the economy continues and the market players have already had to adapt or to adopt positions with respect to whether and when to charge GST. The impact on consumer retail prices has also been impacted through ICCC pricing mandates. Therefore, the risk now becomes that decisions made during the

confusion and uncertainty associated with the legislative change have created the conditions for future challenges to GST positions of those involved in the market. This is a troubling outcome and one that arises with a lack of coordinated policy objectives, legislative amendments and tax administration. Taxpayers will be hoping that their experiences of this type of rushed and non-consultative legislative amendments will not be an ongoing feature of PNG's fiscal environment.

Outdoor compliance teams in POM

The IRC has announced the recommencement of operations of their NCD Outdoor Compliance Teams. These officers have been deployed throughout NCD for Debt Recovery Enforcement and Lodgement programs which are described as targeting non-filers.

The range of enforcement campaigns have been impacted over the past two years through the pandemic and more recently with the staffing challenges for the IRC. However, stronger enforcement continues to be a core strategy for the IRC in 2022.

IRC press update

The IRC recently promoted its success in corporate income tax collections by announcing the largest single contribution to consolidated revenue in early May representing the collections of provisional tax and advance payment tax at the end of April 2022.

Collections of provisional tax arise through the estimates for current year tax payable. For corporate taxpayers that are not in the resources sector, the provisional tax notices are driven from the last annual assessment and subject to an uplift of 8% per annum. The IRC did not provide details of the makeup of the balance collected, however, it would be expected that the corporate income tax collections remain somewhat subdued as a result of general economic conditions in 2021.

For resource companies, the advance payment tax is based on current year production and pricing estimates and the IRC was clear in its statements that stronger oil, gas and mineral markets are key contributors for the significant upward expectation for 2022 collections. The final level of collections for 2022 will clearly be dependent on continued strong international commodity markets.

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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