

# ***PNG Pulse***

## ***Keeping you informed***



### ***2019 Budget changes to GST – normal service resumes***

Perhaps the most significant legislative change in the PNG National Budget for 2019 was the removal of the GST zero-rating status for inputs to resources companies. From a technical perspective, this change arguably makes for a more traditional (and efficient) GST system – i.e. businesses charge GST on their supplies, with those customers who are eligible claiming the GST back in their monthly GST return. Only exempt supplies (e.g. financial services) and some remaining zero-rated supplies (e.g. exports) will not attract GST.

In the context of the resources sector, the change will mean that those business supplying solely or principally resource projects and exploration companies, who have been in a perennial GST refund position in recent years, will now charge GST and most likely have a GST liability to the IRC each month. Consequently, resource companies will now incur GST and then lodge GST returns with the IRC claiming the GST charged as input credits (and requesting refunds of the GST or transfers of the GST credits to other tax liabilities). There should be no “cost” arising from the GST to resource companies, however GST will need to now be factored into cash-flow projections and other modelling due to the potential lag between paying GST to a supplier and recovering the GST from the IRC.

#### **GST refunds**

We are hopeful that with less taxpayers now requiring a refund of GST (on the basis there are fewer resource companies than the number of their suppliers who have been in refund positions) there will be an improvement from the IRC in the timely issue of refunds. However, this may require additional staffing resources and administrative support from the IRC, and we are yet to hear whether the refund administration process will change given the legislative change.

One area that will be of particular relevance for those who continue to be in a GST refund position will be comments in the budget documents in relation to potential restrictions on the use of GST credits to meet other tax liabilities. Recent practice has been to offset GST refunds against their monthly salary or wages tax liabilities. The legislative basis for this is broadly provided in the GST Act which allows the IRC to apply a taxpayer’s GST refunds against other tax (not just GST) owing by the taxpayer. However, while there has been no amendment to this legislation, the Budget Economic and Development Policies did include a comment that the policy of allowing GST to be offset against salary or wages tax liabilities will be halted “in 2019”. We will be seeking confirmation from the IRC of when change may come into effect, including the legislative basis for any potential change.

## **Imports by resource companies**

While the zero-rating of supplies to resource companies has been repealed, it appears that imports by resource companies will be still exempt from GST as this provision of the legislation was not included in the amendments in the Budget Amendment Bills. Some may have expected that the import GST exemption would also be repealed and it is possible this is a drafting oversight by the Government.

However, one view is that by not repealing the import GST exemption, the Government is effectively providing all resource companies with a sector wide de facto import GST Deferral Scheme. This would be a positive result as the formal Import GST Deferral Scheme first legislated in 2016 has not worked effectively in practice since implementation.

Needless to say we will be monitoring the certified budget legislation to confirm the status of import GST for resource companies.

## **Other matters**

Some other technical matters arising from the zero-rating change include:

- There has been no amendment to the reverse charge provision which requires resource companies to reverse charge (i.e. return) GST when they make an exempt supply (e.g. employee provided accommodation). Technically this means that a resource company cannot claim GST on the cost of the exempt supply, but also has to return GST on the supply (effectively a double cost of GST would be borne).
- Some resource projects may have clauses in their project agreements with the Government providing for the zero-rating of supplies to the project. Other projects may have fiscal stability arrangements which effectively locks in the tax law when the agreement is signed.

We anticipate that these projects will be seeking to confirm their GST status with the IRC (and Treasury) so they can inform suppliers whether they have maintained a zero-rating status. Clearly, as fiscal stability is generally a project based agreement, this may lead to a single taxpayer group being both zero rated and subject to GST on different inputs.

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.

---

### **Contact**

Peter Burnie  
Partner, Tax  
(675) 321 1500 | (675) 305 3100  
peter.r.burnie@pg.pwc.com

© 2018 PwC. 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](http://www.pwc.com/structure) for further details.