

October 2019

Budget time

As widely expected, the government has tabled a supplementary budget for 2019 last week. The discussions in parliament focussed on actions to cover the increase in the annual deficit predicted for 2019. The increase in the annual deficit has been attributed to an increase in the wage bill, further identified government arrears for goods and services procured from the private sector, arrears in public works payments, and additional interest costs from financing the deficit. This has resulted in re-appropriations to reduce capital expenditure and district and provincial development grants. The government has increased the debt level as a percentage of GDP currently permitted by legislation.

The debate over the state of the economy and efforts to balance the budget will also no doubt influence the ongoing planning for the 2020 National Budget to be brought down in November. This will be the next opportunity the government has to consider measures for revenue raising rather than the reduction in expenditure that is a characteristic of the supplementary budget.

Prime Minister indicates Special Economic Zones (SEZ) being considered

At a breakfast hosted by the Port Moresby Chamber of Commerce and Industry, the Prime Minister, the Hon. James Marape, suggested that his government is considering adopting a number of SEZ for particular under-developed areas in PNG, which are generally outside of Port Moresby. He noted that investors in these SEZ may be able to benefit from a number of fiscal concessions which are offered to encourage development in these particular areas. This is in contrast to the previous government's Medium Term Revenue Strategy which supported the elimination of incentives across the PNG fiscal landscape.

Whilst details of the particular concessions are not public, it is understood that these may include tax "holidays" for periods of up to 10 years. Whilst eligibility criteria is still being developed, Mr Marape indicated that a strong emphasis on land ownership and the involvement and development of small to medium enterprise in the projects would be a critical element in the analysis. The Prime Minister did not provide a time frame for consultation or application, however is not the first time such an idea has been canvassed by his government.

IRC media release impacts

Further to the announcement by the IRC that the transfers of GST credits to meet SWT liabilities would cease there remained a number of administrative questions that taxpayers were facing in light of the immediate impact of the announcement. Based on the current experience of the past few weeks, we can confirm that:

- It appears that transfer requests lodged but unprocessed prior to the date of the media release will not be processed. For taxpayers in this situation we recommend the immediate payment of outstanding liabilities and consideration of whether a request for the remission of penalties should be lodged.

- Those taxpayers working with the IRC to correct IRC errors on their statements of account resulting from changes to its tax administration system in 2013 should similarly no longer expect that historically available GST credits will be available to offset any liabilities that subsequently appear on SWT statements.

For taxpayers in a structural GST refund position, principally exporters, we understand that representations to allow the previous practice to continue have been lodged by a number of industry bodies and other peak bodies. However, there is currently no formal response from the IRC to these representations.

Acting Commissioner General speaks at PwC event

Earlier this month PwC hosted a Let's Talk Tax event which was attended by Mr Sam Koim, the Acting Commissioner General for the IRC. Mr Koim spoke on his vision for the further and future development of the IRC. The focus will be on developing the productivity of the IRC through technology and in particular the better use of the data that is collected by the IRC. The recent media release and announcement of the cessation of the ability to transfer GST credits to offset SWT obligations is such an example. Mr Koim explained that the decision was a response to observed data flows that, in the view of the IRC, indicated that the fraud risk was significant. He also responded to audience comments reflecting concerns with the dispute resolution process by acknowledging that more work is required to develop a level of verified trust in taxpayers by the IRC, although he stressed that this will take time. Questions were also raised on the challenges for the IRC in developing and extending their capacities and capabilities in light of expected legislative and other developments (e.g. CGT, SME taxation, re-write of the Income Tax Act, new IT system etc). While acknowledging the challenge, he remained committed to a timeframe that would see most current initiatives in operation in 2021.

Provisional tax due

The end of October is the due date for the third instalment of provisional tax for 2019. This can provide an opportunity to vary the amount of the instalment where relevant. The basis for the notice will include the most recent assessment in the IRC's system and therefore for most entities will have been updated for the 2018 income tax return. The issue of the notice may have also triggered penalties where there has been a re-assessment upwards. Companies should review their positions accordingly.

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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