

PNG Pulse

Keeping you informed



Budget Strategy Paper 2019

The budget strategy paper was presented by the Treasurer at the end of August. The paper continues the trend for enhanced transparency with respect to fiscal planning. The paper reaffirms the background for the 2019 budget presented in the MYEFO, reflecting an improvement in fiscal collections and importantly a commitment to increase the overall level of fiscal collections relative to GDP. The 2019 budget will be drafted in an economic environment that is improving, with an expectation of a compound average annual real GDP growth rate of 3.9% between 2018 and 2024. The budget planning includes an expectation of increasing gas production from existing projects, and early works for Papua LNG, Pasca and Wafi Golpu all anticipated during 2019. However, P'nyang, Frieda River and other significant projects in the planning stages are not factored into the current projections supporting the 2019 budget.

The anticipated revenue measures for 2019 continue to reflect the Medium Term Revenue Strategy and Medium Term Fiscal Strategy. For example, continued reform of the IRC, with plans to decentralise tax administration to aid collections from regional areas. The strategy also continues to identify potential legislative changes such as a review of fiscal arrangements for resource regimes, re-examining the extent of GST zero rating, and exploring other taxes (including capital gains). The budget paper stops short of committing to any of these new taxes in 2019, and given there has been limited consultation on what may be significant tax changes, it is hoped that these references continue to be to the medium term – i.e. through to 2022, rather than 2019. Nevertheless, significant changes to the PNG tax environment will continue to be possible.

Salary sacrifice in the spotlight

Recently, the IRC published a notice in relation to the tax treatment of the practice of salary sacrificing superannuation contributions. The IRC has expressed a view that the arrangements entered into by taxpayers and employees may not in all cases be sufficient to enable the salary sacrificed contributions to be treated as employer contributions. The IRC highlighted a number of aspects of the documentation process that, in their view, indicate the arrangements result in the creation of additional voluntary employee contributions (which should be made from after tax salary), rather than employer contributions which are not subject to salary of wages tax. This can have implications for the treatment of contributions as they enter the superannuation system as well as their treatment by the superannuation fund and on exit. Through some additional consultation and requests for clarification, we understand the IRC's position remains that an arrangement to increase the level of employer contributions to superannuation through an



effective salary sacrifice remains possible, but this relies on ensuring that the arrangement is reflected through appropriate contractual arrangements. Further, as we understand the IRC view has been published because of findings obtained through an ongoing audit program, we strongly recommend that any taxpayers who offer salary sacrifice options of superannuation or other remuneration elements should review their current arrangements against the IRC's current views on this matter.

Large taxpayer office

In line with the program announced in the 2018 budget, the Large Taxpayer Office is expected to be online and effective from 1 October 2018. As previously described, the aim is to provide a one stop shop for large taxpayers with a single point of contact and IRC officers allocated to a taxpayer. The officers will have responsibility for dealing with the full range of taxpayers' interactions with the IRC, from lodgements and payments through to ensuring that the responsible specialist team within the IRC addresses objections. We also understand that the LTO will have officers from the policy and advice team allocated to support the unit. The full criteria for inclusion within the LTO are not expected to be released, rather the taxpayer will receive a notification directly if they are to be migrated to the LTO. However, one criterion for inclusion is that the taxpayers' accounts with the IRC are up to date and free from error.

Tax training workshops

We would like to remind those who are interested in learning more about tax compliance that the first training workshop in our latest series will take place in Port Moresby on 16 October and in Lae on 18 October. The topic for the workshop is Withholding Taxes – Getting it right. The workshop will cover taxpayer obligations and compliance requirements associated with withholding taxes, for example, FCWT, BIPT etc. The workshop is presented in association with CPA PNG and more details and registration forms can be obtained by contacting CPA or emailing tax.workshops@pg.pwc.com

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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