KPMG

Kundu

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Foreword

The PNG Supplementary Appropriation Bill for 2022 is now available and we discuss this document in some detail this month. On the tax front, we are pleased to report that the tax Act rewrite has recommenced this month. Also, we explain the guidelines around how to access GST offsets. In terms of IRC tax revenue, a record collection year was reported by the Prime Minister. Finally, there are some very positive movements in terms of the turnaround times of work permits and the process involved in lodging the applications.

KPMG in PNG has dedicated in-house specialists in all the following areas: internal audit/risk, visa migration, corporate finance, management consulting, IT advisory, fraud investigation as well as tax and assurance. As such we are well placed to provide a truly multi-disciplined approach to business advisory.

Please enjoy this month's Kundu and reach out to us at kmcentee@kpmg.com.au if you would like to see KPMG cover specific topics in future editions.

Zanie

Papua New Guinea Supplementary Appropriation Bill 2022 and other changes

by Cieran Kelly, Senior Tax Consultant

The Supplementary (Appropriation) Bill 2022 will allocate an additional K1.59 billion in government expenditure for the year ending 31 December 2022 with a little over K1 billion authorised for immediate payment. About two thirds of the money will be spent paying down State debts in one form or another. Nevertheless, the same planned deficit is predicted due to increased expenditures.

Most of the appropriated amount has come from better-than-expected tax receipts from entities in the petroleum sector whose profits have soared on the back of high global oil prices. Back in July, the IRC announced that the total tax revenues collected for the first half of 2022 was around K1.2 billion above their earlier projections. The remainder of the appropriated amount, about K390 million, comes from reallocations away from previously budgeted items of expenditure.

Highlights include:

- K255 million to pay down arrears.
- K243 million for DSIP/PSIP payments.
- K210 million for the reopening of the Porgera Gold Mine.
- K201 million for public service salary overruns.
- K160 million in school fee subsidies.

Fuel taxes

With the May 2022 fuel exemptions set to expire at the end of October, Parliament recently passed the Excise Tariff (Supplementary Budget) (Amendment) Bill 2022 and the Goods and Services Tax (Supplementary Budget) (Amendment) Bill 2022 to extend the operation of the tax cuts through to the end of the calendar year.

The mechanisms that give effect to the tax cuts are the same as they were previously. The Excise Tariff Bill removes all excise tariffs charged on the import or manufacture of diesel, petrol and as zoom until 31 December 2022. Importantly, certain resource companies, international freight operators and power produces are not eligible for the exemption on excise tariffs. For certainty, the Bill includes a list of entities that are covered by these three general categories.

The GST Bill is slightly more nuanced. Diesel, petrol, zoom and kerosene are classified as exempt supplies for GST purposes which means input tax cannot be claimed, nor can output tax be charged. New subsections under Section 25 of the GST Act will make exempt the supply of petrol, diesel, zoom and kerosene supplied for the use of households and small and medium-sized businesses, other than supplies imported or supplied for the sole use in carrying on the operations of a resource company, international freight operator or power producer until 31 December 2022.

These fuel tax exemptions only apply up until 31 December 2022. From 1 January 2023 onwards however, we expect that the excise tariffs on diesel, petrol and zoom will be reimposed and that the GST rate of 10% will again be applied to sales.

The reimposition of the taxes in conjunction with the possibility of high oil demand during the European winter and further constrained supplies as consequence of a Russia/Ukraine war that is far from over, suggests that a significant price spike in the cost of petrol and diesel is a genuine possibility in early 2023.

Income Tax Act Re-write

As mentioned last month after a year of silence the consultation process for the Income Tax Act Re-write was revived on 2 September. Prior to the consultation we were provided with a ninth draft of the proposed legislation. The ninth draft has taken on board some of the feedback received from the October 2021 consultation however, there are still a number of areas to be hammered out including transitional provisions and supporting regulations. Treasury were willing to accept some further brief consultation points from stakeholders, but it remains to be seen whether these will be taken on board and what the final legislation will look like. What was initially purported to be a simplification of the Income Tax Act has ended up encompassing many policy changes.

While Treasury advised they intend for the legislation to be passed with the upcoming Budget in November it is unlikely the legislation will come into force until January 2024. This at least gives taxpayers a year to consider and plan for the new legislation as well as providing time for the transitional provisions and regulations to be passed and for IRC to prepare for the impacts of the new legislation.

GST and GST credit offset

A thorn in the side of most taxpayers is trying to get access to the GST credits they have built up and are in fact entitled to under law. The process to offset the GST credit against other taxes or to get a cash refund can take many months. We advised last month that IRC have changed out the team dealing with this area and we have seen more engagement from IRC in the past month which is promising. IRC also issued a circular in September setting out the mandatory requirements for lodging GST credit offsets and refunds as follows:

- For non-Large Taxpayer Office taxpayers, applications must be lodged at the counter at Regional/Provincial or HQ offices or emailed through gst_refund_review@irc.gov.pg
- The form CR1 or CR2 must be completed and lodged.
- A supplier listing should be attached for the period the refund relates to and if a credit offset is being done then also for the period it is being transferred against.
- The supplier listing must show the date of purchase, the supplier's name, the TIN number, the gross amount, the GST amount claimed and a description of the goods or services.
- The sales listing should be attached for the period the refund relates to and if a credit offset is being done then also for the period the credit is being transferred against.
- The list must show the date of sale, the purchaser's name, the gross amount, the GST amount and if the sale is treated as exempt or zero rated then the reason why.
- Any other information the IRC may request should be provided in a timely manner.

A shake-up of the work permit process

The Immigration and Citizenship Authority (ICA) announced this month that from 15 September all work permit applications and renewals should be lodged through email. ICA are promising enhanced turnaround times of 10 days as a result. ICA has been experiencing backlogs in recent times so any improvement in the turnaround times would be welcome. The move to scanned copies rather than original lodged documents is a new departure although the announcement mentioned hard copies may be requested in certain cases so it appears the applicant should have the original documents on hand.

Of note is that ICA say that if the application lodged is missing any documents the applicant has three days from request to provide the documents or else the application will be deemed closed and the forfeiture of the application fee. Given the very high government application fees that apply this is concerning and underlines the need for only complete applications to be submitted.

As an aside we understand Immigration's recently launched eVisa portal has been down due to technical difficulties in recent days.

Record tax collection by IRC

Earlier this month PM Marape announced a record K9.7 billion tax revenue collection by IRC. This was largely attributed to windfalls in the petroleum and gas sector directly related to the Russia-Ukraine conflict resulting in higher oil prices. Other taxes also performed well which was attributed to IRC's increased focus on tax inspections, awareness and verifications.

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