



INTERNAL REVENUE COMMISSION

PROPOSED TAX LEGISLATIVE CHANGES – 2024 BUDGET

INTRODUCTION

This media release serves to offer valuable insights to both taxpayers and the broader public regarding a set of legislative amendments that the Internal Revenue Commission (IRC) is proposing for inclusion in the upcoming 2024 national budget, scheduled for next month.

Our objective is to proactively inform and prepare taxpayers for the imminent fiscal modifications and considerations that may influence their tax responsibilities, fostering a clearer understanding of these impending changes.

The following proposed tax policy legislative amendments aim to enhance administrative efficiency, reduce the compliance burden on taxpayers, and improve revenue collection in Papua New Guinea (PNG). Each amendment is motivated by specific objectives that align with these overarching goals. The proposals aim to optimize the tax system's functionality and taxpayer experience.

REVENUE MEASURES

1. MAINTAIN THE TAX-FREE THRESHOLD FOR SALARY AND WAGES EARNERS AT K20,000 AND REPEAL DEPENDENT REBATES:

Objective:

The objective of maintaining the tax-free threshold for salary and wages earners at K20,000 while repealing dependent rebates is to simplify the tax law and reduce compliance costs for taxpayers.

In the 2023 Budget, the Government increased the individual tax-free threshold from K17,500 to K20,000 on a temporary basis for 12 months. This has benefited a number of employees directly as well as had the indirect impact up the marginal tax brackets. It is proposed that the threshold be maintained at K20,000 on a permanent basis from 2024 onwards.

The current dependant rebate regime provides very minimal relief to employers. The repeal is anticipated to simplify the compliance burden on employees in calculating salary and wages tax.

Impact:

- Continued benefit of a K20,000 tax-free threshold
- Taxpayers will no longer need to calculate and substantiate dependent claims, leading to lower administrative costs for both taxpayers and the government
- Simplification of legislation, tax calculations and processing

2. SECTION 65A NON-COMPLIANCE PENALTY UPDATE

Objective:

The recent roll out of the Section 65A Initiative to collect goods and services tax (GST) at source has been a successful initiative for the Government. However, there have been a number of recipients of the Notice who have blatantly failed to comply with the Notice. As a compliance measure, s.65A of the **Goods and Services Act 2003** will be amended to increase the existing penalty fee for non-compliance from K1, 000.00 to K50, 000.00. The amendment seeks to encourage compliance with the law.

Impact:

- Penalty deterrence

3. REDUCED TIMEFRAME WITHIN WHICH A GST REUND CLAIM MAY BE MADE

Objective:

The current law provides for a period of 8 years to be able to claim a GST refund. This has allowed for all kinds of fraudulent refund claims dating back several years. Where a taxpayer believes they have a refund, they should be able to substantiate it and claim it within a reasonable period. The current 8-year period is unreasonably long and provides an opportunity for fake invoices and other abuse to flourish.

Impact:

- Administrative efficiency
- Anti-abuse

4. INTRODUCE A DOUBLE TAX TREATY OVERRIDE PROVISION:

Objective:

The proposal seeks to introduce a double tax treaty override provision to retain PNG's existing domestic law ability to tax management fees in certain cross border transactions involving treaty partners. The proposal stems from and seeks to address the following scenarios: -

- (i) Four of PNG's doubles tax treaties purport to limit its ability to tax income earned by a non-resident that provides management services to a company resident in PNG. These treaties do not contain a Technical Fees Article which would otherwise give PNG the taxing right to tax management fees.
- (ii) Some non-resident taxpayers have engaged in treaty abuse strategies undermining tax sovereignty by claiming tax treaty benefits in situations where these benefits were not intended to be granted, thereby depriving PNG of potential tax revenues derived from management services.

The IRC has initiated discussions with the relevant treaty partners with a view to re-negotiating the respective treaties to include a Technical Fees Article.

Impact:

- Allows PNG to collect taxes on management fees where applicable
- Prevents potential revenue leakage due to gaps in existing treaties
- Its is estimated that K106m is foregone in management fee withholding tax annually

5. CLARIFY PENALTY TAX RATE ON WITHDRAWALS FROM RETIREMENT SAVINGS ACCOUNTS

Objective:

The proposal stems from complaints received by retirees that their superannuation savings kept in retirement savings accounts, are being unfairly taxed. It is important to clarify that the penalty tax applies only to the income that lost its exemption, which is the interest accrued since the last interest applied to the account by the ASF.

Some ASFs may have been applying the 30% penalty tax rate to the entire withdrawal amount, but it should be correctly interpreted that the penalty pertains only to the taxable interest component, not the principal, which is of a capital nature and not subject to taxation.

The measures is aimed at ensuring retirees are not unfairly taxed on their savings. The measure will apply prospectively.

Impact:

- Provides clarity on the tax treatment of withdrawals from retirement savings accounts

6. INCREASE THE THRESHOLDS FOR THE CITIZEN EMPLOYEE FIRST TIME HOME BUYER SCHEME FIRST-TIME HOME BUYER STAMP DUTY-FREE THRESHOLD:

Objective:

The objective is to increase and align the Citizen Employee First Time Home Buyer Scheme threshold with the stamp duty-free threshold for first-time homebuyers from K400,000 and K500,000 respectively, to K700,000. This is to adjust and align with current property market prices in PNG. This supports home ownership and reduces the financial burden on first-time buyers.

The rationale behind these proposed amendments is rooted in the need for an up-to-date policy framework that accurately represents the current real estate market conditions. The last adjustments made in 2011 were appropriate at the time, but property values and construction costs have continued to rise significantly since then.

By raising the thresholds for both the Citizen Employee First Time Home Buyer Scheme and the stamp duty concession to K700,000, we can ensure that these policies remain relevant and effective in providing support to citizens looking to enter the housing market.

Impact:

- Align our tax and stamp duty policies with the current economic landscape, ultimately benefiting both citizens and the broader economy
- Make home-ownership more accessible for first-time buyers.
- Stimulate the housing market by encouraging more property transactions

7. REDUCE THE FILING FREQUENCY OF GST TAX RETURNS:

Objective:

The objective of reducing the filing frequency of GST tax returns from monthly to quarterly or bi-annually is to reduce the compliance burden on taxpayers with a turnover of less than K1.5m. This change aligns with the economic realities and resource constraints faced by businesses.

Impact:

- Reduced compliance burden. Small businesses often have limited resources and administrative capacity. Lowering the filing frequency eases the administrative burden, allowing them to focus more on their core operations.
- Lower compliance costs: Small businesses typically incur costs for accounting, bookkeeping, and tax preparation. Less frequent filing means fewer costs associated with these activities.
- Improved liquidity: Longer intervals between GST filings mean that small businesses can hold onto their funds for a longer period before remitting them to the tax authority. This can help with cash flow management.

8. EFFICIENCY IN DETERMINING THE ARMS-LENGTH MARKET INTEREST RATE ON LOANS

Objective:

The proposal seeks to remove the requirement for the Commissioner General to consult the Bank of PNG when determining whether loan agreements between related parties in the extractive sector were entered into based on arm's-length interest rates. The aim is to streamline the process and reduce unnecessary delays.

Impact:

- Administrative efficiency: Speeds up the decision-making process regarding interest rates on related party loans.
- Provides clarity and expedites the tax assessment process.
- BPNG have been consulted and are in concurrence

NEW POLICY INITIATIVES

10. REVIEW AND IMPROVE THE EXISTING TAX DEBT WRITE-OFF PROCEDURE:

Objective:

The objective of enhancing the tax debt write-off procedure is to provide the Commissioner General with more authority to determine when and how much to write off. This allows for more flexibility and transparency in managing tax debts and ensures that write-offs are based on sound judgment and financial considerations. It also streamlines the process which is currently misaligned in terms of the threshold for write-off.

Impact:

- Enhanced revenue management: Ensures that tax debts are written off judiciously, optimizing revenue collection.
- Administrative efficiency: Streamlines the debt management process.
- Nil impact on revenue.

The measure will ensure consistency with the general Government debt write-off process under the **Public Finance Management Act** but recognise that tax debts are within the ambit of the Commissioner General's authority to verify and certify as irrecoverable,

11. INTRODUCE THE LEGAL BASIS FOR A TAX DEBT SWAP ARRANGEMENT:

Objective:

The proposal introduces a legal basis for a formal tax-debt swap arrangement. This approach allows taxpayers to offset tax debts against monies owed to them by the government. This provides a mechanism for taxpayers to effectively manage their tax liabilities.

This proposal aims to ensure consistent liquidity flow in the PNG economy, especially for the small tax base. It is expected to significantly reduce government debts to contractors by two and a half times the initial threshold, providing a practical solution to address cashflow impacts, liquidity bottlenecks and stimulate economic activity.

Impact:

- Encourages taxpayers to settle their outstanding tax debts
- Offers taxpayers an efficient means to manage tax liabilities and alleviate cashflow impacts

LEGISLATIVE UPDATES

11. UPDATES TO THE DEPARTURE TAX ACT

Objective:

Certain provisions of the Departure Tax Act and Regulation are amended to remove references to departure tax as a postal stamp as well as other outdated references. The amendment modernises the departure tax laws and provides better clarity and certainty around its application and administration.

12. UPDATES TO THE TAX ADMINISTRATION ACT

Objective:

Given its enactment in 2017, updating the Tax Administration Act is necessary to align with the evolving tax landscape, changing government priorities, taxpayer expectations, technological advancements, international standards, and to ensure the efficiency and effectiveness of tax administration in the current environment. Of significance, is the proposed introduction of a rulings system.

CONCLUSION

In essence, the proposed tax legislative changes for the 2024 budget in Papua New Guinea represent a comprehensive suite of measures with the primary objectives of streamlining administrative processes, lightening the compliance load on taxpayers, and optimizing revenue collection.

These encompass a wide spectrum of adjustments, including maintaining the tax-free threshold and refining penalty structures, introducing a provision to address double tax treaties, and re-evaluating debt write-off protocols.

Furthermore, these reforms aim to bring tax legislation up to date, harmonize tax policies with the contemporary economic landscape, and invigorate economic activity. Ultimately, these initiatives are intended to create a more equitable, efficient, and responsive tax system that promotes the nation's economic progress and development.

It is worth noting that while tax policy formulation remains the purview of the Department of Treasury and the Government, the IRC is advocating for these changes to complement the ongoing reform efforts at IRC.