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Focus on GST

The IRC continues its well documented focus on GST administration as part of the stated campaign to have GST as the highest revenue earner among the taxes in place in PNG. In pursuing this goal the Commissioner General has spoken at length on his views around the existence of a GST gap between calculated potential and actual collections as well as the requirement to validate and audit all GST claims. The past weeks have also seen a range of announcements and initiatives which continue this focus on GST. These include:

GST “de-grouping”

GST has an important role in supporting the budget collections and in particular the metrics for distribution of funding to provincial budgets. Currently, 60% of the GST collected from business activity in each province is returned to the province as part of the budget allocation. Therefore, the identification of trade and activity at a provincial level is key data.

The Commissioner General recently announced a plan to undertake a “de-grouping” exercise for companies that have operations throughout PNG. However, it appears at this time this is probably not a reference to the provisions of the GST Act that allow a group of associated entities to file a single GST return. Rather, the intention appears to be aimed at reinforcing the reporting and collecting of data on the level of activity being undertaken at the provincial level. This data is currently collected through disclosure on the monthly GST form that requires the listing of GST taxable sales by province. The initiative is described as being linked to a broader taxpayer mapping exercise that commenced last year to gather additional data on taxable activity throughout the country.

Reminder on recent GST amendments

As a further escalation of the information campaign, the IRC has also released notices that highlight the changes to the GST regime implemented over the past three years through budget announcements. While these changes were legislated, the IRC is conducting a further awareness and information campaign in 2021. The changes being highlighted include:

- the change in status of schools and educational institutions restricting their ability to input tax credits associated with the supply of educational materials (effective 1 January 2018)
- the removal of zero rated on input status for resource companies (effective 1 January 2019), which requires suppliers to resource companies to charge GST.

Administration of GST claims

A common element to the recent notices is the reference to the status of historical claims, or the acknowledgement that the changes in legislation are effective from different periods. However, the notices highlight that claims from earlier periods will be accepted on condition that the claims are “fully substantiated” and not outside the “eight year period of limitation”. The GST Act currently permits a refund up to eight years from the end of the relevant GST period - as long as written application is made within that time frame.

> The GST Act imposes an obligation on the IRC to refund the excess of input GST over output GST. However, the current administrative process for requesting the refund is to lodge a CR2 form. Taxpayers will need to consider how the current process can meet the requirements of the GST Act to secure their right to refunds where applicable.
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> As many taxpayers are aware, the "full substantiation" of a GST claim signals a significant process - essentially a comprehensive audit of each GST period in which input exceeds output GST. The recently imposed administrative requirement of producing and lodging a supplier listing now also appears required for all historic claim periods.

The GST landscape in PNG is complex. Legislative changes, administrative and documentation changes, the impact of the cross over of other tax regimes (e.g. fiscal stability, Section 65A regime etc) and the systemic nature of GST obliges taxpayers to ensure that GST compliance is considered at the time of entering a transaction and through the set up and design of accounting systems. We recommend that taxpayers review their understanding and compliance with GST for their PNG operations.

COVID-19 and tax compliance

As of mid March 2021, the IRC has not indicated that there will be any changes to the compliance program and deadlines for the 2020 filing season. Although the final lodgement program for those using a tax agent has yet to be released, we would expect that it will follow the broad direction of prior years which require most taxable returns to be lodged by 30 June and treats companies that do not lodge their 2020 return before the end of 2021 as late lodgers that will not qualify for an extension in the next year.

While the government has imposed a range of COVID-19 related restrictions, taxpayers are reminded that timely compliance remains required. The IRC penalty regime largely operates automatically to impose significant penalties on late payment and late lodgement of most monthly returns.

The IRC has also implemented a number of COVID safe protocols which limit the interactions with taxpayers at IRC offices. Lodgements and service counters remain open, however, the changes in process may also lead to delays in the normal operation of the IRC. This should also be considered for other taxpayer interactions with the IRC including matters such as obtaining tax clearance certificates and certificates of compliance.

If you would like to know more about any of these developments or have any other questions, please get in touch with your usual PwC contact.

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