



May 2020

IRC and COVID-19 response

With the revision of the state of emergency, the IRC has progressively added to the capacity of their offices that are working as normal. While enhanced social distancing measures continue, taxpayers can expect that ongoing matters which were paused will now be picked up again by the relevant officers.

Taxpayers should also be mindful that the IRC's published package of assistance is limited in scope and application. In particular, there are no deferrals for:

- the payment of provisional tax that was due at the end of April
- SWT and GST monthly payments.

Deferrals of tax payments are only available for taxpayers that were assessed for corporate income tax or personal income tax on lodgements made under the 2020 lodgement program (in other words for 2019 annual returns). There is the potential for deferral of the lodgement of corporate income tax and personal income tax returns for the 2020 lodgement program for two months without the imposition of penalties.

The IRC has also reaffirmed that taxpayers that excessively vary down their provisional tax payments for 2020 will potentially face underestimation penalties that are able to be imposed under the provisions of the Income Tax Act.

GST changes

The IRC, through a media release, has announced a significant increase in the use of Section 65A GST notices as part of their ongoing program at enhancing GST collections. The Section 65A notice requires the recipient to pay the GST associated with invoices received by them directly to the IRC, with a payment of the net invoice amount to the supplier. The IRC plans to issue these notices to all government entities including state owned entities.

Although this type of GST collection methodology is currently in place for very limited sectors of the economy, it is currently beset with a number of administrative and compliance challenges with the tracing and acknowledgement of payments and matching them to the GST returns of service providers. Nevertheless, the IRC states that it is currently configuring its systems to allow for the roll out of the notices which it expects to issue within the coming weeks.

Service providers to government entities and state owned entities will need to review their own processes with respect to accounting and controls as well as work with the further guidance and system changes that will be anticipated.

With the wider implementation of the notices, it is hoped that more extensive guidance on the system changes as well as further information for taxpayers will be forthcoming shortly.

New tax circular on medical supplies

TC2020-1 has been released to supersede TC2015-2. This circular provides guidance on the scope of the definition of medical supplies for the purposes of the GST Act. The Act provides that supplies of “medical supplies” are subject to zero rating for GST purposes. The circular also clarifies that the import of such equipment will be exempt from GST.

The original circular drew a distinction between medical supplies and medical equipment. The supply of medical equipment does not attract zero rating for GST purposes. Previously the nature of a medical supply focused on the consumable nature of the item (e.g. medical gases, single use equipment, drugs, bandages etc). However, the new circular has increased the scope of the definition through a reference to the “essential character test” in assessing the function of the item. The result is that the scope of medical supplies that will attract zero rating for GST has been broadened to include items such as hospital beds, ventilators, diagnostic equipment (X rays, CAT scanners), and other comparable items.

The new circular is applicable from 1 March 2020.

Tax clearance certificates

Obtaining a tax clearance certificate in order to support the payment of an international invoice has become a regular feature for taxpayers. The basis for the IRC’s involvement in the process is not to authorise the transaction nor the payment being sought - but to ensure that, if required to protect the revenue of the state, undertakings are made by the taxpayer as a condition for the issue of the certificate. Historically, this has meant the role of the IRC was to evaluate the transaction from the perspective of the potential application of a withholding tax to the payment and to ensure the taxpayer did not have unpaid tax liabilities.

The IRC practice with respect to the review of potential transactions and the basis under which a tax clearance certificate is issued has continued to evolve and arguably has moved away from the nature of the original purpose of the tax clearance certificate process as described in the Act. Most recently the IRC issued a 2017 public notice providing administrative guidance for taxpayers in making TCC applications.

At the current time, the process for application, review and approval of tax clearance certificates again appears to be undergoing changes. The processing time has increased, the level of supporting documentation required has increased, and the ability to obtain clearances for a category of obligations (rather than on a transaction by transaction basis) appears to be under threat. Although there is no published change to the public notice and formal guidance available from the IRC with respect to the TCC process, taxpayers should be aware of the changes and be prepared for additional time and administration that will likely be associated with obtaining tax clearances in order to undertake the payment of international obligations.

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

For more information, contact:

Peter Burnie

Partner

peter.burnie@pwc.com

© 2020 PricewaterhouseCoopers. All rights reserved.

PwC refers to the Papua New Guinea member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.