

## **TAX AGENTS CIRCULAR NO 01 of 2006**

### **INDEX**

- 1. 2006 LODGEMENT REQUIREMENTS**
- 2. EXTENSIONS OF TIME TO PAY**
- 3. TAX AGENT LIAISON**
- 4. MISCELLANEOUS**
- 5. EXCHANGE RATES**
- 6. CONTACTS**

## **INTRODUCTION**

The purpose of this Circular is chiefly to advise tax agents of the lodgement requirements for the forthcoming year.

As is required by the Income Tax Act (hereinafter "the Act") a notice will appear in the Gazette advising who is required to lodge returns and when they must be lodged by. That notice says that all income tax returns for the year ended 31 December 2005 (hereinafter "2005 returns") are required to be lodged by 28 February 2006, or such extended date as the Commissioner General allows.

It has been the practice of this office to grant tax agents an automatic extension of time, until 30 April next following the end of the financial year, to lodge returns on behalf of their clients. This practice will continue and tax agents can lodge 2005 returns by 30 April 2006 without requesting an extension of time.

However, most tax agents will be unable to achieve full lodgement of client returns by that date and will inevitably need to request an extension of time for lodgement of an element of their clients' returns. This Circular sets out the Commissioner General's guidelines for those tax agents requiring an extension of time to complete their lodgement program.

## **THE REQUIRED RATE OF LODGEMENT**

In the past, extensions of time for the lodgement of taxable returns have been granted to 31 August. This practice will continue, but the concessions will only be granted to those who meet our performance requirements. To monitor this, tax agents will be required to advise what returns they have lodged, from time to time, and those whose lodgements are within 5% of the required percentage of lodgements by the required dates will be granted an extension of time, without fear of late lodgement penalty, to lodge the remainder of their clients returns by a specified date. Those who fail to lodge the required percentage or have totally failed lodgement extension lists will not be granted an extension of time and their clients will face the prospect of being penalised for late lodgement. The required lodgement percentages are as follows:

	<u>Taxables</u>	<u>Non Taxables</u>
By 30 April 2006	30%	20%
By 31 May 2006	50%	30%
By 30 June 2006	75%	50%
By 31 July 2006	90%	75%
By 31 August 2006	100%	90%
By 31 October 2006		100%

These are the same requirements as applied in the last lodgement season.

## **CONDITIONS**

Again, as applied in the last lodgement season, there are certain conditions that must be met before we will grant extensions for the lodgement of 2005 returns. They are:

- i) Strict observance of the lodgement priorities set out in the next section.
- ii) That returns completed and signed be forwarded to the Internal Revenue Commission (hereinafter "the I.R.C.") regularly, and at intervals of not more than a week.
- iii) That all returns lodged must contain a balance sheet and profit and loss account (where appropriate) as well as the notes to the accounts and all supporting schedules. In this regard, your attention is drawn to Regulation 23, which states that all attachments to returns must be signed. Incomplete returns will not be regarded as lodged until all attachments are lodged.
- iv) That the personal income tax return for the year ended 31 December 2005 of the tax agent (and of any partnership of which he is a member or service/administration company associated with his/her accounting practice) is lodged by 30 June 2006.
- v) That extensions of time for the lodgement of taxable returns for companies will not be granted beyond 30 June 2006 unless the provisional tax installment due by that date has been paid.
- vi) That extensions of time for the lodgement of taxable returns for companies will not be granted beyond 30 June 2006 where the return for the year ended 31 December 2004 was not lodged prior to 31 December 2005.
- vii) That the relevant extension list is received by the I.R.C. by the date specified later in this circular. In this regard, it should be noted that the due date for lists is ten days after the end of the month.

### **PRIORITIES FOR LODGEMENT**

It is not enough to simply lodge the required percentage of returns; to ensure we have the time to issue certain assessments so that they become payable by 30 September it is necessary to place the following limits on the time for lodgement of some types of returns:

- i) All 2005 partnership or trust returns are to be lodged by 30 June 2006. Wherever possible these should be lodged as a set with the returns for the partners or beneficiaries.
- ii) All taxable 2005 company returns with a taxable income in excess of K100,000 are to be lodged by 30 June 2006.

In addition, 2005 returns for individuals with either a taxable income of K30, 000 or a provisional tax credit in excess of K10, 000 are expected to be given priority so that their lodgement percentage equals or better that of our required lodgement rate.

### **EXTENSION LISTS**

As in the past, tax agents will be required to submit extension lists advising us of the clients in respect of whom they require extensions of time for lodgement. A separate schedule is required for each of the following types of return:

1. Taxable company returns.
2. Non taxable company returns.
3. Individual returns with taxable incomes in excess of K30, 000 or provisional tax credits in excess of K10, 000.
4. Returns for other individuals.
5. Returns for all parties associated with your tax agent registration, i.e., the partnership, partners, administration company (if any) etc.
6. Partnership returns.
7. Trust returns.
8. Training levy returns.
9. Returns for salary or wages earners claiming a Section 214(1) rebate, (in view of Section 214(2), this particular extension list should be lodged by February 15).
10. Late lodgers/late payers (see below)

These lists should show each client's name:

- a) In full, and
- b) In alphabetical order, with the surname first if for an individual.

In addition, adjacent to the name of each client should be their file number, if known, and in the case of taxable companies, confirmation or otherwise that any provisional tax installment due has been paid. Where the provisional tax installment has not been paid an explanation should be provided so that we can decide whether an extension should nevertheless be granted to the taxpayer.

Late lodgers/late payers are those taxpayers who either did not lodge their 2004 returns by 31 December 2005 or did not pay their 2003 assessments by 31 December 2004. We require a separate extension list in respect of all such taxpayers, as well as an individual explanation for each client whose return cannot be lodged by 30 June 2006, as to why we should permit them to lodge their 2005 return after 30 June 2006 and advice of the date the return will be lodged.

Those tax agents requiring extensions of time beyond 30 April 2006 will be required to lodge up to five extension lists and these should be lodged as follows:

- Extension List No.1 - no later than 10 April 2006
- Extension List No.2 - no later than 10 May 2006
- Extension List No.3 - no later than 10 June 2006
- Extension List No.4 - no later than 10 July 2006
- Extension List No.5 - no later than 10 August 2006

In addition to the details referred to above, each extension list should have a front page in the following format:

	<u>Extension List No.1</u>	<u>Taxable</u>	<u>Non Taxable</u>
1.	Number of 2005 returns actually lodged to date	.....	.....
2.	Total number of 2005 returns to be lodged	.....	.....
3.	Percentage lodged to date	.....	.....
	<u>Extension List No.2</u>	<u>Taxable</u>	<u>Non Taxable</u>
1.	Number of 2005 returns actually lodged by 30 April	.....	.....
2.	Total number of 2005 returns to be lodged	.....	.....
3.	Percentage of total lodged by 30 April	.....	.....
	<u>Extension List No.3</u>	<u>Taxable</u>	<u>Non Taxable</u>
1.	Number of 2005 returns actually lodged by 31 May	.....	.....
2.	Total number of 2005 returns to be lodged	.....	.....
3.	Percentage of total lodged by 31 May	.....	.....
	<u>Extension List No.4</u>	<u>Taxable</u>	<u>Non Taxable</u>
1.	Number of 2005 returns actually lodged by 30 June	.....	.....
2.	Total number of 2005 returns to be lodged	.....	.....
3.	Percentage of total lodged by 30 June	.....	.....
	<u>Extension List No.5</u>	<u>Taxable</u>	<u>Non Taxable</u>

1.	Total number of 2005 returns actually lodged by 31 July	.....	.....
2.	Total number of 2005 returns to be lodged	.....	.....
3.	Percentage of total lodged by 31 July	.....	.....

The following problems were noted with the extension lists provided by tax agents in 2005.

- a. Many did not actually show the percentage (%) of returns lodged to the end of each month for each category.
- b. In some cases returns completed and without signatures were included in the total of returns lodged. This is not acceptable.
- c. Returns lodged after the end of the month were included. The grace period for lodging the lists was not intended to allow this.
- d. Late lodgers/late payers were included with other returns. The instructions clearly state that a separate list is required for returns lodged late in the previous years.

Tax agents are urged to take the preparation and submission of their extension lists seriously. There is nothing to be gained from either understating the number of returns to be lodged or overstating the number of returns actually lodged, as, particularly towards the end of the lodgement cycle, it will be obvious to us what has been done. In this regard, you are advised that we will accept additions to Extension List No.3 for new clients but will not accept additions to the remaining extension lists. If a new client has not bothered to make arrangements for the lodgement of returns prior to May 31 then they are not entitled to be included in the extension programme.

**OTHER MATTERS PERTAINING TO EXTENSION LISTS**

These include:

- 1. If extension lists are not lodged, clients will not have an extension of time beyond April 30.
- 2. It is not necessary when lodging a batch of returns to prepare a covering advice listing the returns lodged or to prepare a lodgement advice.
- 3. Each 2005 return lodged after 30 April 2006 should bear the following endorsement:

**"Extension to ..... granted"**

**All returns, where an extension has been granted should bear the above endorsement. Failure to do so would result in imposition of late lodgement penalty with an assumption**

**that no extension has been granted.**

4. Only 2005 returns should be included on the extension lists. If for some reason an extension of time is requested for an earlier year return, a specific request should be made and directed to the attention of our **Tax Agent Liaison Officer**.
5. Where a request for an extension in respect of a taxpayer with tax outstanding (which is not subject to a dispute) is made, payment for the liability should accompany the request for extension. Even so, such extensions will only be granted to 30 June.
6. If a final notice is issued in respect of a particular taxpayer that taxpayer ceases to qualify for any extension and the return must be lodged by the date specified in the final notice. Final notice enquiries should be directed to our Defaults Section.

### **SALARY OR WAGE RETURNS.**

Salary or wage earners who fall into any of the following categories are obliged to lodge returns;

1. Did not have the correct tax deducted each pay period.
2. Are claiming deductions from salary or wages in excess of K200 (and this would include anyone in receipt of a non taxable allowance - their allowances are not exempt income and they would be claiming a deduction for up to the amount of the allowance received).
3. Received a termination payment.
4. Had non salary or wage income in excess of K100.
5. Wish to claim education expenses.
6. Received a Housing Allowance variation for 2005.

It is important to realise that a rebate of tax under Section 214 (1) can only be allowed if the return was lodged by February 28 of the following financial year, or such extended date as the Commissioner General may permit.

### **MINING & PETROLEUM RETURNS**

Returns for 2005 year of income should be submitted no later than 31 August 2006 for taxable returns and 31 October 2006 for non taxable returns. This should provide sufficient time for operators in the various licences to prepare and circulate the operator statements to the various participants in each licence.

Tax agents should note that participants in exploration licences are also required to submit returns in the year following the year of income. The IRC has been lenient up to now regarding this requirement. But from hence forward all licence holders, whether in exploration or development licences, must submit returns by 31 October in the year following the year of income.

All non-taxable 2005 returns lodged after 31 October 2006 will attract a late lodgement penalty of

K100 per month.

Resource Monitoring Division is responsible for assessing tax returns for resource (mining and petroleum) companies and any queries should be addressed to senior officers listed under the contact list in this circular.

### **LATE LODGEMENT PENALTIES**

All late lodgement penalties for 2005 returns will be calculated from 1 July 2006.

Late lodgement penalty which can be imposed under Section 316 (1) at 100% of the tax assessed or K100 for each complete month late, whichever is the greater.

Our late lodgement penalty policy for the coming lodgement season is to remain unchanged. Significant features of that policy are:

1. No late lodgement penalty for 2005 returns lodged on or prior to 30 June 2006.
2. There will also be no late lodgement penalty for taxable 2005 returns lodged on or prior to 31 August 2006, provided they are subject to an extension of time to that date, and there is either; no tax outstanding for previous years, or the tax outstanding is disputed and subject to a written deferral advice, pending resolution of the dispute.
3. Similarly, there will be no late lodgement penalty for 2005 returns falling into the above mentioned category which do have tax outstanding and which has not been deferred, if both the tax outstanding and the tax expected to become payable under the assessment are paid on or prior to 31 August 2006. However, late payment penalty may still apply.
4. All taxable 2005 returns lodged after 31 August 2006 will be subject to late lodgement penalties, ranging from 5% to 20% on a daily basis from 1 July 2006. The rate of penalty depending upon prior history and whether all tax, including the tax expected to be due under the assessment, has been paid on or before lodgement.
5. All non taxable 2005 returns lodged after 31 October 2006 will also attract a late lodgement penalty of not less than K50 per month.

### **APPLICATION FOR EXTENSIONS OF TIME TO PAY TAX NOT IN DISPUTE**

All applications for an extension of time to pay tax owing, but not disputed must be made on the standard form, which is available from this office on request. The application should be lodged prior to, and **NOT** subsequent to, the due date for payment.

Each application for an extension time to pay must include:-

- (1) Details of the taxpayer's current financial position, including details of any bank overdraft limit and current actual bank overdraft or bank balance.
- (2) Reasons why alternative financial arrangements were not sought for payment of the tax.



- (3) Where the extension of time sought is longer than three (3) months, or the amount involved is more than K5000, a detailed statement of assets and liabilities, plus a statement of income and expenditure, over the period of the extension, must be furnished.

As a general rule, no extension of time to pay will be granted to taxpayers that have failed to comply with the terms of previous extensions of time in relation to either lodgement of returns or payment of tax.

Where an application for extension of time to pay tax includes tax in dispute the amount of tax in dispute should be clearly distinguished from the amount not in dispute. All applications for extension of time to pay tax are to be referred directly to the Manager, Debt Management Section.

It is the responsibility of your clients to make funds available to meet income tax liabilities. They should not channel funds into business expansion in priority to payment of taxation.

Additional tax for late payment will be imposed at the rate of 20% per annum.

Requests for remission of additional tax for late payment imposed will only be considered when the outstanding base taxes have been paid and all other taxation matters are up to date, including lodgment of group stationery.

As a general rule, no extension of time to pay outstanding taxes, including salary or wages tax deduction remittances will be granted after the issuance of a National Court Writ of Summons or a District Court Summons.

**Additional tax on late remittance of salary or wages tax will be calculated 20% flat plus 20 percent (%) per annum calculated from the due date.**

### **Application to defer payment of tax in dispute**

An application to defer payment of tax in dispute will not be considered until satisfactory arrangements have been made for the payment of any tax that is not in dispute. If the dispute is an objection, deferment should be requested until the objection is resolved. If the dispute becomes an appeal (because an objection is disallowed), a fresh request for deferment should be made.

Such deferments, if granted, will be subject to the condition that any further details requested by this office to enable the dispute to be resolved, will be furnished promptly. Failure to adhere to this condition will result in the deferment being revoked and the imposition of penalties for late payment.

Legal action may be taken to recover the outstanding amount.

Where a request for deferment of tax is lodged on the letter of objection/appeal, a copy should be forwarded to our Debt Management Section. If the request is made separately to the objection/appeal, the request should be referred directly to the Manager, Debt Management Section.

### **TAX AGENT LIAISON OFFICER**

The tax agent liaison officer is responsible for all aspects of tax agent registration and review of tax agent extension lists. It should be noted that a number of tax agents have been deleted from our list as

they have failed to complete registration requirements or have not lodged any returns. **It should be remembered that unregistered tax agents are not permitted to charge fees for preparation of tax returns.**

Our liaison officer is also available to deal with any taxation query where the tax agent is unable to get a satisfactory reply or is unsure which section to deal with.

## **MISCELLANEOUS MATTERS**

### **1. Tax Changes in 2006.**

In 2006 budget, the Government has provided significant benefits to the taxpayers. Major reform of the income tax scales has been undertaken. Incentives have been provided for the agriculture and tourism sectors, and relief has been provided on the double taxation of company income distributed as dividends.

(1) **Personal Income Tax Reform:** This has been phased in over 2006 and 2007.

- A 10 percent increase in the tax-free threshold, which will increase from K 6,000 to K 6,600 over two years.
- A new intermediate tax rate of 30 percent has been introduced to apply to income between K 18,000 and K 33,000.
- The top marginal tax rate has also been adjusted.

The personal income tax reform has been introduced over two years beginning 1 January 2006, as shown in the table below.

<b>2005 PNG tax rates</b>		<b>2006 PNG tax rates</b>		<b>2007 PNG tax rates</b>	
Threshold	Rates	Threshold	Rates	Threshold	Rates
0	0%	0	0%	0	0%
6,000	25%	6,300	25%	6,600	25%
16,000	35%	18,000	30%	18,000	30%
-	-	33,000	35%	33,000	35%
70,000	40%	70,000	40%	70,000	40%
95,000	47%	150,000	45%	250,000	42%

(2) **Double Taxation of Company Income:** The Government has amended the Income Tax Act to make Dividend Withholding Tax (DWT) the final tax on dividends distributed to domestic individual shareholders. Resident individual shareholders will no longer be required to declare dividend income in their income tax returns.

(3) **Tourism Incentives:** The Income Tax Act has been amended to provide a double deduction for overseas tourism promotion costs incurred from 1 January 2006 onwards. The type of

expenditures that is covered by the double deduction is similar to those provided for under the double deduction for manufactured export market development costs. To provide an incentive for investment in facilities for tourists, the Government has also extended eligibility for accelerated depreciation under section 73 of the Income Tax Act to hotels, restaurants and recreational tourism facilities (such as sport fishing). This amendment applies to capital investment undertaken from 1 January 2006.

- (4) **Further implementation of the “Green Revolution” tax incentives.** The 2004 budget had announced a concessional income tax rate of 20 per cent to apply for ten years to new agricultural projects with investment of more than K 5 Million. The rate was to apply to projects commencing construction between 1 January 2004 and 31 December 2006. The eligibility period for this concession has been extended for a further five years and it now applies to eligible projects commencing before 31 December 2011. In addition, the minimum investment threshold has been reduced to K 1 Million.

The 2005 budget had announced an increase in the Infrastructure Tax Credit for agriculture projects from 0.75 percent to 1.0 percent of assessable income. From 1 January 2006, this rate has been increased to 1.5 percent of assessable income. This will provide for agricultural companies to undertake more infrastructure investment in their project areas, including road maintenance.

(5) **Other technical amendments include:**

- Transfer of exploration expenditure under section 155L: This section provides that when the owner of a resource project for resource right transfers the interest in the project or right to another taxpayer, deductions for the capital or exploration expenditure incurred in relation to that project or right can be transferred to the new owner. The wording of the provision has now been clarified to ensure that it matches the policy intent of the provision, to allow transfer of deductions for exploration or capital expenditure that has been incurred in relation to the resource projects or right.
- Extension of loss carry forward amalgamation provision to include “same business” test. Under the Income Tax Act, a company can carry forward losses even if its ownership has changed over the period, as long as it continues in substantially the same business as it was carrying out at the time it incurred the losses. This “same business” test has not been available to allow carry-forward of losses when two companies have amalgamated. The amalgamation provisions of the Income Tax Act has been amended to introduce a “same business” test to allow carry-forward of losses following a company amalgamation when there is no continuity of ownership but the new company is continuing in substantially the same business as when the losses were incurred.
- Appeal provision for Research and Development tax concession: An appeal mechanism has been introduced into the Income Tax Act to provide for a right of appeal in cases where the Research and Development Expenses Approval Committee has denied a taxpayer’s application to make use of the 150 percent Research and Development income tax concession.
- Reduced Income tax rate for non-resident mining companies: The income tax rate on the

income of non resident mining companies has been reduced from 48% to 40%.

- Reintroduction of regulation to define ring-fencing of petroleum projects: The former regulation 10 G to the Income Tax Act has been reintroduced. It details the taxation “ring fence” around the Kutubu, Gobe and South East Mananda petroleum projects.

### **Management Fees.**

- It is clarified that last year’s amendment to the deeming provision of s 68AD(4) in no way overrides the Management Fee Withholding Tax provisions of Double Tax Agreements (DTAs), which PNG has with various countries. For example our treaties with Australia, Canada, China, Germany, Korea and Singapore do not allow the application of Management Fee withholding tax on a particular payment in the absence of a permanent establishment in PNG. That position will remain unchanged despite the inclusion of the deeming provision. This is because the source of the management fee, under those DTAs, must relate to a permanent establishment in PNG of the DTA country resident entity for PNG to have taxing rights.
- Similarly, it is clarified that the limits on deduction for management fees imposed under sections 68AD and 155M do not override the relevant provisions of DTAs that PNG has with various countries. In particular, the 2% domestic limit will not automatically be applied where effected PNG taxpayers have obtained prior approval from IRC that the actual amount of management fees paid represents a legitimate arms length price in terms of the particular DTA in question. Practice Statement 2005/1 (PS2005/1), recently published by IRC, explains in detail how we will administer these provisions. All tax agents with clients who are effected by these provisions should familiarize themselves with PS 2005/1.

**2005 Returns Computer Format:** Tax returns will again be made available on diskette. This year they have been formatted in Office 97. Any tax agent wishing to have a copy of our diskette should make the appropriate arrangements with our Tax Agent Liaison Officer. The official returns for 2005 will be **printed in green on white paper**. Also, to securely bind the returns, we would ask that they be stapled three times along the left hand side, rather than just the one staple in the top left hand corner. Tax agents who require a supply of printed taxation returns will need to contact this office with details of their requirements. Requests should be addressed for the attention of Records Section or to the Taxation Liaison Officer.

**Company Tax Returns:** All returns must clearly indicate the taxable income figure in the appropriate panel on the front page. Words like “as enclosed” or “as per the statement” are not acceptable. Failure to do so would result in treatment as an incomplete return. Tax agents are also reminded that according to Regulation 23 of the Income Tax Act any balance sheet, profit and loss statement, document, list or information accompanying a return shall be signed by the person making and furnishing the return and shall bear an endorsement so that it may be identified as so accompanying the return. It is unfortunate to note that this requirement is not being met by many taxpayers and their agents. It is emphasized that henceforth unless this requirement is met, the return shall be deemed not have been duly furnished.

**Company Provisional Tax:** The uplift factor for 2006 Provisional Tax Assessment is to be 5%.

**International Agreements:** New tax treaties with the Republic of Indonesia and the Kingdom of Thailand have been concluded, however, both are still pending ratification.

**Quoting our References:** As is the case with most efficient organizations, it is the practice of the I.R.C. to have its letters bear the name of a contact officer and a reference. The object is to enable tax agents/payers to contact the writer by phone or to have their reply directed to the right person/area. Some tax agents are not quoting our reference on their reply. Remember that if you neglect to quote our reference, we may not be able to give your client the service they would expect.

**Taxation Review Tribunal:** All current matters waiting to be dealt with by the Tribunal should now have been scheduled for at least a preliminary conference. If you are aware of any case where there has been no contact from the tribunal, would you please inform Pauline Bre, the Tribunal Secretary, by telephone on (675) 322 6719, facsimile (675) 321 7962.

Under the current law, any new request for review of the Commissioner General's decision on an objection must be lodged directly with the Tax Review Tribunal. The address is **P O Box 391, Port Moresby.**

Request for review should be set out in accordance with Regulation 34 on Form 6A . You should also provide the Tribunal with a copy of the notice of assessment in question and any adjustment sheet or explanation given for the assessment, the objection to the assessment, the Commissioner's decision on the objection, as well as any other document that you believe would assist the Tribunal in its review of the decision. The tribunal will aim to fix the matter for a preliminary conference at its first sitting following receipt of the request.

**Charges For Photocopying:** Regulation 100 of the PNG Income Tax Act states that the Commissioner General may, at the request of any person entitled to receive the information, make photocopies of documents held with him for supply to that person and charge an amount not exceeding 50 toea per page for the supply of the photocopies.

## **GST**

### **Non lodgment of returns and penalties.**

There has been widespread abuse of the leniency of the office in the allowance of late returns. The division in general has not been charging penalties for defaulting taxpayers. However, if a firm is more than one month behind in the lodgment of the returns, penalties by way of additional tax will be imposed. These penalties are 10% flat of the GST payable and 20% per annum. No submission for the reduction in these penalties will be entertained until the taxpayer is up to date and the base GST paid.

### **Exemption letters zero rating aid organizations.**

This office does not issue exemption letters for Goods and Services Tax so that Aid Organizations etc are able to make zero-rated purchases. An Aid Provider may appoint an organisation to be the "principle contractor". The funds the principle contractor receives from the aid provider are zero-rated. Zero rating will not apply to any other contractor/sub contractor. The principle contractor will pay GST on all supplies it receives and claim that back in the monthly GST return.

## **Tax Agents, Aid Organizations and Education Institutions.**

Donor agencies do not appoint tax agents to prepare GST returns. We are closely monitoring donor-funded projects with the donor agencies to ensure donor funds are not abused by unscrupulous individuals.

The Department of Education does not approve nor endorse the use of tax agents in preparing school GST returns for the same reasons as outlined above.

## **Mining**

Legislation to zero rate the mining, petroleum and oil industries (1<sup>st</sup> January 2001) applies to those companies involved in the actual extracting and exporting of these products. All their local purchases and imports (except for cars, and items that are to yield exempt supplies) are to be taxed at 0% rate. Zero rating applies only to goods and services used in the actual mining and exploration activities. It does not extend to other services including tax credit schemes. A provision in the GST Act, Sec 14 ensures a mining company purchasing goods or services that are not to be used directly in the mining activity, pays back to the IRC the GST that was zero rated at the time of supply. Note, a company with a mining/exploration license that is dormant in that area of exploration or mining will not be regarded as a mining company and therefore will not be entitled to zero rate its supplies.

## **GST Refunds**

Many clients are experiencing delays in receiving their GST refund cheque. While we are aware of this, we would like to explain the process behind issuing a cheque and the rationale behind our procedures.

When a GST return is received it is lodged, checked and referred for processing. We are currently processing in excess of 4000 GST returns a month so a delay in processing can normally be expected. Exporters and businesses in a large monthly credit position are identified at the point of lodgment for faster processing. Refund auditors will examine each of these returns. In all cases a supplier listing will be requested from the taxpayer or if the agent prepares the returns, the agent. The refund will be examined and amended if necessary.

Taxpayers contracted to a mining or aid project will be requested to supply a copy of the contract. The contract will be confirmed with the issuing party before any refund is given. If the contract is genuine and is current, normal processing procedures will apply.

When a refund is approved for release, the accounts department will examine the taxpayers other tax accounts. If there are tax arrears, the refund will be applied in total or in part to those arrears with the balance, if any, released. Many companies request GST refunds to be used to offset arrears or to be applied to taxes due for payment. If you want GST refunds applied to other taxes due for payment, please advise us in writing.

All GST refund cheques will be posted. IRC staff are not permitted to collect cheques in any circumstances.

## **GST Audits**

In 2000, we commenced conducting GST Audits. Since that time staff audit training, and well-developed staff selection methods have produced a small but excellent audit team. We give our thanks to the professional firms and tax agents who understand our (and the law) requirements and provide all the information and assistance required. Whatever the audit result is we try to ensure that it is as accurate as possible and to the satisfaction of the agent and their client.

During audits we frequently encounter taxpayers who do not provide information required. We will assess the GST liability of these taxpayers on the basis of what is available to us. Tax agents are urged to examine their client's record keeping and accounting methods to ensure they are complete, fair and honest.

### **GST Registration.**

New GST registrations will commence from the day (to the nearest month) the registration is received. There will be no backdating of the date under any circumstances.

### **GST Advisory Service**

We employ a number of qualified and experienced people who can assist taxpayers and agents with GST enquiries. Good use of this service is being made. Nevertheless, some tax agents and taxpayers make their own interpretation instead of getting advice from the IRC. This can result in reassessment and recovery action later.

### **The IRC Expects Professionalism by Accountants**

The accounting profession in PNG has undergone many changes over the last few years. We see this in the academic sector, the use of international standards and overseas practices and promotion of professionalism and good business ethics within the accounting profession.

An accountant is responsible to their client and to the respective Government agencies to do what the law requires. The IRC acknowledges that most accountants act professionally and provide a valuable community service in assisting clients to comply with Papua New Guinea's taxation laws. However, it is apparent that a number of accounting professionals fail to meet minimum standards. The IRC, in association with the Enhanced Cooperation Program between PNG and Australia, will improve the targeting of its audit resources and compliance activities to ensure that these individuals meet their obligations and do not gain an unfair advantage over those who act responsibly.

The IRC is particularly concerned that new tax professionals properly understand their clients' taxation obligations and display a reasonable and professional attitude in their dealings with IRC.

The IRC has found that some accountants who prepare tax returns do not give correct advice to their clients. This is evident in the failure of some clients to keep proper records. Such clients not only risk close IRC scrutiny through taxation audits, but are also failing to ensure their own profitability and viability.

In 2006 and beyond we expect a good relationship with most accounting professionals. The IRC is conscious of its obligations to the profession, and the community in general, to deal appropriately with those tax agents (and clients) who refuse to meet their own taxation obligations. We urge such agents and clients to reconsider their compliance obligations soon.

## Pamphlets

It is our intention to release in the course of the year GST guides for the following;  
 Charitable, Religious and Community Organizations  
 Education Industry  
 Health and Medical Services Industry  
 Overseas Aid Bodies  
 as well as revise the main guide to Goods and Services Tax and the attendant forms used.

## Locations

Main office located in Port Moresby on the 1<sup>st</sup> floor Burns House, next door to the current Revenue Haus. Phones 321 1209 and Fax 321 2878

## Regional Offices

Momase	PO Box 421, Lae	Ph	472 2749	Fax	472 7474
Highlands	PO Box 135, Mt Hagen	Ph	542 1533	Fax	542 1009
Islands	PO Box 422, Kokopo	Ph	982 8180	Fax	982 8625

## Provincial Offices

Alotau	PO Box 222, Alotau	Ph	6411024	Fax	6411034
Buka	P O Box 241, Buka	Ph	9739243	Fax	9739243
Daru	P O Box 264, Daru	Ph	6459120	Fax	6459120
Enga	PO Box 135, Mt. Hagen	Ph	5471184	Fax	5471184
Goroka	PO Box 585, Goroka	Ph	732 1404	Fax	732 2606
Kavieng	P O Box 294, Kavieng	Ph	9841032	Fax	9841032
Kimbe	PO Box 424, Kimbe	Ph	9834346	Fax	9834346
Madang	PO Box 215, Madang	Ph	852 1921	Fax	852 1922
Manus	PO Box 369, Manus	Ph	4709376	Fax	4709376
Mendi	P O Box 659, Mendi	Ph	5491105	Fax	5421009
Popondetta	P O Box 30, Popondetta	Ph	3297809	Fax	3297805
Simbu	PO Box 192, Kundiawa	Ph	7351009	Fax	7351019
Vanimo	P O Box 66, Vanimo	Ph	8571192	Fax	8571270
Wabag	P O Box 682, Wabag	Ph	5471184	Fax	5471184
Wewak	P O Box 101, Wewak	Ph	8561022	Fax	8561555\

## EXCHANGE RATES

The exchange rates for **2005** are as follows:

	USD	AUD	NZD	GBP	JPY	EURO	CAD
Jan – June	0.3208	0.4152	0.4481	0.1713	34.02	0.2499	0.3964
July – Dec	0.3239	0.4313	0.4667	0.1834	37.13	0.2692	0.3836



Annual	0.3223	0.4228	0.4568	0.1770	35.48	0.2590	0.3904
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**CONTACTS**

<b><u>Names:</u></b>	<b><u>Area of Responsibility:</u></b>	<b><u>Telephone:</u></b>
Mr Rakatani Helai	Tax Agent Liaison Officer	3226786
Mrs Ueri Pahina	A/Director Assessing	3226710
Mrs Pauline Loi	Manager, Company Assessing	3226742
Mrs Silvian Here	A/Manager, Individual Assessing	3226714
Mr Biuna Papua	Manager Business Unit – Tax Audit	3226673
Ms Annette Baker	Senior Complex Auditor	3226620
Mr Benjamin Harry	Senior Complex Auditor	3226637
Mr Paru Elliott	Senior Complex Auditor	3226590
Ms Emily Loko	Actg/Manager, Tax Clearance	3226565
Ms Mary Aisa	Senior Advising Officer - GST	3081135
Mr Warren Auka	Manager GST Regional Operations	3081121
Mr Sebastian Pangih	Senior Advising Officer - GST	3081132
Ms Karo Lakou	Manager Other Taxes	3226501
Mr Kunzin Toman	Manager Income Reporting System	3226668
Mrs Martha Kiangugu	Manager, Compliance Unit – Income Reporting	3226832
Mrs Henao Guria	Manager Legal Unit – Debt Management	3226729
Mrs Elizabeth Avel	Manager, Accounts	3226788
Mr Steven Tsivele	Actg/Director, Source Collection Audit	3226669
Mr Stephen Burke	Manager, Source Collection Audit	3226681
Ms Lalau Stephen	Senior Advising Officer, Source Collection Audit	3226665
Ms Arua Naime	Manager, Salary or Wages Tax. Admin.	3226642
Mr Stanley Pala	Manager, Defaults	3226677

Mr Joseph Maiauka	Manager, Non Res. Withholding Tax and Interest Withholding Tax	3226628
Mr Ragen Vine	Director, Resource Monitoring	3226656
Mr Ambrose Kebai	Director, Resource Monitoring - Mining	3226546
Ms Pauline Bre	Appeals, (Review Tribunal)	3226719
Mr Yana Kae	Training Levy & D. W. T	3226531
Mr Lohia Koani	Liquidation Assessor	3226530
Ms Colleen Kulu	Liquidation Assessor	3226849

**The Commissioner General and his staff would like to wish all tax agents and their staff a Prosperous New Year. We look forward to another year of harmonious working relationships.**

David Sode **MBE**,  
Commissioner General of Internal Revenue.  
28/02/2006.