



Taxation Circular
TC 2020/2

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Internal Revenue Commission - Taxation Circular

Taxation Circular TC 2020/2: “Section 65A Notice pursuant to the Goods and Services Tax Act 2003

SUBJECT

1. This Taxation Circular introduces the application of Section 65A “Payment of Tax in Special Cases” Notice pursuant to section 65A of the *Goods and Services Act 2003* (as amended) and the attendant obligations of the person who receives the Notice.
2. The circular details how the information should be reported in the GST return - G1 Form, and the GST withholding forms -- G2, G4, G5, and G6 Forms.
3. The effective date for implementation is **01st of August 2020**. This effectively means that the withholding of GST on payments shall start thereon and not retrospective. It is applicable to invoices issued for payments commencing in August 2020 on the supply of goods and services.
4. Those who fail to comply with a Section 65A notice after being served, will face penalties available to the Commissioner General.

BACKGROUND

5. Section 65A was introduced in 2002 to address the non-compliance issues through a withholding process. However, this provision was rarely utilized.
6. The Commissioner General has initiated a project under this provision to address growing concerns of non-compliance, starting with government contractors and then to all others.
7. This initiative is specifically tailored to address the unique compliance challenges faced by IRC in administering the revenue laws, especially in collecting GST.

8. The Section 65A notice creates a participatory process where IRC actively involves in verifying and netting GST output debts from input credits.
9. As this is a new initiative that involves a third party withholding arrangement, careful attention shall be given to this Circular for this process to be administered effectively.

EXPLANATION

What is GST?

10. A Goods and Services Tax (GST) is an indirect tax, imposed on the sale of all goods and services in Papua New Guinea and on the importation of goods into Papua New Guinea. GST is imposed at a rate of 10% by registered persons in reference to the value of the goods and services sold (or goods imported). All exports of goods are zero-rated, which means GST is charged at zero percent.
11. Three Steps to understanding and accounting for GST
 - Step 1) GST is charged by a registered person on the sale of goods and services. GST charged on the sale of goods or supply of services is called output debit.
 - Step 2) Registered persons purchasing goods and services will pay 10% GST. The GST paid is claimed as input credit.
 - Step 3) GST payable to the IRC is calculated by deducting the GST paid (input credit) from the GST charged (output debit).
12. An example of reporting for sales including the GST charged and GST incurred in the GST return, using G1 Form by a registered business.

| | |
|---|--------------|
| Total sales including GST charged | K11,000 |
| GST charged on sales – Output Tax | K1,000 |
| Less GST paid on purchases – Input Credit | - K750 |
| You pay to IRC | K 250 |

What is Section 65A Notice under the GST Act – Payment of Tax in Special Cases?

13. It is a provision in the GST Act that enables the Commissioner General to issue a notice to a person, compelling that person to withhold the GST charged by one or all of its suppliers of goods and services and remit the GST withheld to the IRC pursuant to that notice.

Why is it important to issue a Section 65A notice?

14. GST is not an expense to the business, it is passed on along the supply chain where value is added and eventually borne by the final consumer. It is important that persons conducting businesses are registered for GST and correctly account and pay GST to

the Internal Revenue Commission (IRC).

15. The provision allows the Commissioner General to address non-compliance and encourage suppliers to correctly report and pay the right amount of GST to the IRC.

Who will it affect?

16. Any person who receives the Section 65A notice from the Commissioner General of IRC and their supplier(s) of goods and services.

Can the Commissioner General issue a Section 65A notice to a person who is not conducting a taxable business activity for the purposes of GST?

17. Yes. The Commissioner General may issue a Section 65A Notice to persons who are not conducting taxable activities, such as, government departments or statutory authorities. Such persons are not required to lodge a GST return - G1 form but will only lodge the G6 form - GST withholding form with the payment as final consumers.

What is the implication on the recipient of the Section 65A notice and its supplier(s)?

18. It changes how GST is accounted for and reported by the person receiving the notice and the supplier(s). The recipient of the notice is now required to file or submit two returns; G1 Form – GST return to account for GST in its normal business operations, and either the G2, G4, G5, or G6 Form, - which is the remittance form for the GST it has withheld from its supplier(s).
19. A person who fails to comply with Section 65A notice will be liable to pay to the Commissioner General the amount he was required to pay pursuant to the notice as well as fines up to K5,000.00 and possible prosecution. This may also extend to further penalties in the case of a continuous breach.

What is the implication on the supplier(s)?

20. Where a registered person or supplier has sold goods and services to a recipient of the Section 65A Notice, the supplier is required to file and submit their GST return, together with a suppliers' listing, as required on or before the 21st day of the following month.
21. In their monthly GST return, the supplier is required to declare the total sales including the GST being withheld and the GST (input tax) incurred on their business expenses.
22. Furthermore, suppliers subject to Section 65A withholding are required to complete Line 16 of the G1 GST return form and lodge.
23. Suppliers whom GST has been withheld under Section 65A Notice will not be penalized for late payment of GST but will be penalized with additional penalties for late lodgment of GST return - G1 form.
24. For example;

| | |
|--|---------------|
| Total sales including GST charged | K11,000 |
| GST you have collected from your sales – Output Tax remitted to IRC | K1,000 |
| Less GST you have paid to suppliers for supplies to your business– Input Credit | K750 |
| You should have paid to IRC | K 250 |
| Less: Section 65A Payment (Line 16) withheld from suppliers selling or engaged by you | K1,000 |
| GST Refundable | K750 |

How can the supplier claim its GST refund from IRC?

25. To claim GST refund, you are required to file your GST return for each month declaring the total sales including the GST charged, the GST incurred, and the amount of GST that has been withheld.
26. The amount of GST withheld must be declared in line 16 of the GST return, G1 form.
27. You are also required to attach a *supplier listing* which can be an excel spreadsheet containing the details of all the business expenses.
28. Information required on the supplier listing must include; Name of the supplier, Taxpayer Identification Number (TIN), the total amount incurred, the GST amount paid, the details of each expense, the payment details (cash/cheque) and other information as required. An example of the suppliers listing can be found in the example below in paragraph 31.

Where to lodge your GST return - G1 Form, and Withholding forms - G2, G4, G5 & G6 form?

29. All persons' subject to Section 65A notices are required to lodge the G1 form (GST return), G2, G4, G5, and G6 form with payments at the IRC Head Office in Port Moresby. This can also be sent via email through to details provided below.
30. For example. An extract from the G6 form.

| DETAILS OF GST S65A DEDUCTIONS | | | | | | |
|--------------------------------------|---|-----------------------|----------------------|--------------------|----------------------|--|
| TAXPAYER IDENTIFICATION NUMBER (TIN) | NAME AND ADDRESS OF PERSON/BUSINESS | INVOICE NUMBER & DATE | GST EXCLUSIVE AMOUNT | GST S65A DEDUCTION | GST INCLUSIVE AMOUNT | |
| 512345678 | Haraga12 Constructions Ltd, PO Box 000 Port Moresby NCD | E1234 01-01-20 | 10,000 | 1,000 | 11,000 | |

| | | | | | |
|---------------|---|-------------------|-------------------|-------------------|-------------------|
| 501234567 | Hehah45 Catering Ltd, PO Box 000 Boroko NCD | E5678 02-01-20 | 5,000 | 500 | 5,500 |
| 523456780 | Rakalau67 Joinery Ltd, PO Box 000, Gordons | E9101 03-01-20 | 50,000 | 5,000 | 55,000 |
| 510234567 | Siale89 Designers Ltd, PO Box 000, Boroko NCD | E1213 04-01-20 | 10,000 | 10,000 | 110,000 |
| 512345687 | Super10 Security Services Ltd, PO Box 000 Port Moresby NCD | E1415 05-01-20 | 30,000 | 3,000 | 33,000 |
| Totals | | | 195,000.00 | 19,500.000 | 214,500.00 |

**The above listed TIN's and Entities are examples and represented only for this circular.*

31. In the example above, the recipient of the Section 65A Notice (withholder) is a Government Department. It will only lodge the G6 form with the payment of K19,500 to the IRC by or before the 21st day of the following month, declaring all transactions that have occurred in the reporting month.

32. As for the supplier of the goods or services in the example above, Rakalau Joinery Ltd, their only business transaction for the month was made to the Government Department that was issued with the Section 65A notice. Rakalau will therefore lodge their GST return, G1 form, declare the sales inclusive of GST and fill in Line 16 of the G1 form.

The information reported will be as follows:

Rakalau's Suppliers listing which is used to complete the G1 form below.

| Date | Name of Supplier | TIN | Details of expense/purchase | GST Amount | Total amount | Payment Details |
|-----------|--------------------|------------|-----------------------------------|--------------|---------------|-----------------|
| 1/01/2020 | ABC Hardware Ltd | 500xxxxxxx | Purchase of timber | 1,000 | 11,000 | EFT-POS (Card) |
| 1/01/2020 | TOY Upholsters Ltd | 5000xxxxxx | Refurbished work on the furniture | 1,000 | 11,000 | EFT-POS (Card) |
| 2/01/2020 | ABC Hardware Ltd | 500xxxxxxx | Wood vanish, Paints and screws | 300 | 3,300 | EFT-POS (Card) |
| | | | TOTAL | 2,300 | 25,300 | |

| | |
|--|---------|
| Total sales including GST charged | K55,000 |
| GST you have collected from sales – Output Tax | K5,000 |

| | |
|--|---------------|
| remitted to IRC | |
| Less GST you have paid to suppliers – Input Credit | K2,300 |
| You should have paid to IRC | K 2,700 |
| Less: GST withheld by Section 65A | K5,000 |
| GST Refundable | K2,300 |

33. In the above example, if the recipient of the Section 65A Notice (withholder) is a company. It will lodge G1 return and G6 form together with the payment of K19,500 to the IRC before or by the 21st day of the following month in which the transactions occurred.

Distinguishing Section 65A Notice from Business Payment Tax

34. The business payments tax / Income reporting Systems provide for tax to be deducted by those payers who made taxable business payments, at the rate of 10%, when the payment is made, especially in circumstances where the recipient does not have a valid Certificate of Compliance from IRC. That is completely different from Section 65A regime under the GST Act as particularized herein.

Additional Information

35. For additional information or any queries in-relation to this Section 65A on Special Payments, please do not hesitate to contact the following officers of IRC.

| Name | Division | Position | Contacts |
|------------------|--|------------------------------------|--|
| Anoko Sasi | Policy & Advice Division | GST Manager | Ph: 321 6797 Em: sasia@irc.gov.pg |
| Steve Burke | Policy & Advice Division | Director Tax Advising & Liaison | Phone: 322 6546 Email: burkes@irc.gov.pg |
| Bernadette Uruna | Small Medium Enterprise Audit Division | GST Refund Audit Manager | Phone: 322 6616 Email: urunab@irc.gov.pg |
| David Kepang | Small Medium Enterprise Audit Division | GST Refund Audit Assistant Manager | Phone: 322 6779 Email: kepengd@irc.gov.pg |

| | | | | | |
|---------------|---------------------------------|--------------|-------------------|------------------|--|
| Lucy Pulkapo | Small Enterprise Division | Medium Audit | GST Audit Manager | Refund Assistant | Phone: 322 6782 Email: pulkapol@irc.gov.pg |
| Arua Naime | Transaction Processing Division | | Director | | Phone: 322 6714 Email: naimea@irc.gov.pg |
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Authorized by

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Subject References

Invoices
Person
Supplier
Taxable supply

Legislative References

Goods and Services Tax Act 2003

- Section 65A