



INTERNAL REVENUE COMMISSION



Fact Sheet

SECTION 65A of the GST Act – Payment of Tax in Special Cases

To all suppliers and service providers to Government Departments including the State-Owned Enterprises; the Internal Revenue Commission's (IRC) intends to issue GST withholding Notices under Section 65A of the GST Act– Payment of Tax in Special Cases.

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

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 accounting and pay GST to the IRC.

What is GST?

A Goods and Services Tax or GST is an indirect tax, which is 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% on the value of the goods and services sold (or goods imported).

Three Steps to understanding and accounting for GST

- Step 1) GST is charged by a registered person on the provision of goods and services. GST charged is called output tax
- Step 2) Registered persons purchasing goods and services will pay 10% GST. The GST paid is claimed as input credit.
- Step 3) GST payable or refundable is calculated by subtracting the GST paid (input credit) from the charged (output tax).

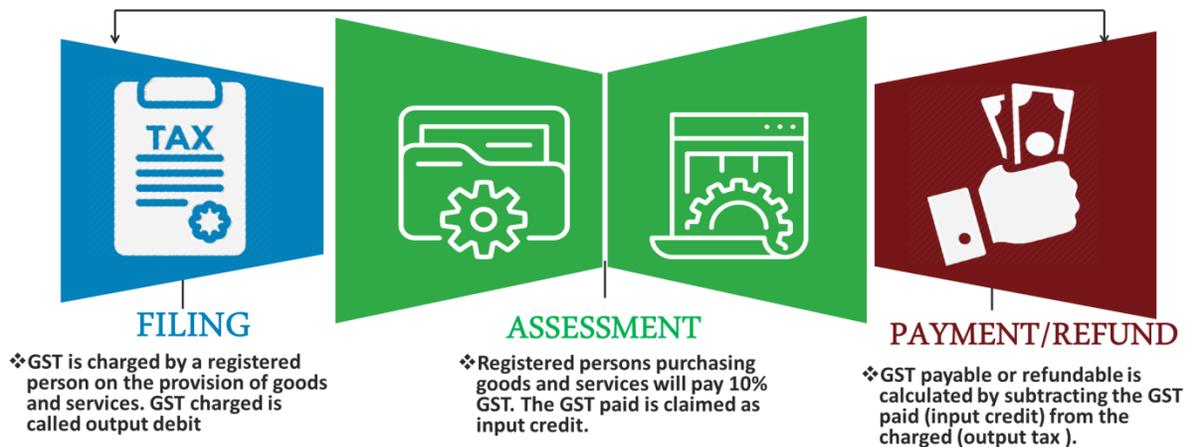
GST is not like Income Tax or Salary and Wages tax where tax is calculated on earnings. GST is a consumption tax that is ADDED to the selling price (including profit) of goods and services. Therefore, GST is not an expense to the business.

An example of reporting for sales including the GST charged and GST incurred in the GST return, G1 Form by a registered business.

Total sales including GST charged	K11,000
GST you have charged on sales – Output Tax	K1000
Less GST you have paid to suppliers – Input Credit	K750
You pay to IRC	K 250

ACCOUNTING FOR GST

BUSINESS PROCESS



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

The Commissioner General may issue a notice to a person to withhold the GST charged by one or all of its suppliers and remit the GST to the IRC, under Section 65A GST Act 2007,.

Who will it affect?

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

When will it be implemented?

Currently, Section 65A notice has been issued to certain exporters of coffee and cocoa. The Commission has decided to extend to suppliers/ service providers to Government Departments and State-Owned Enterprises to address GST revenue leakages and improve tax compliance.

The IRC is currently working on the improvement of its business processes relating to GST refunds and Section 65A. Once work is completed the Commissioner General will issue Section 65A Notices to certain Government Departments and State Owned Entities that pay GST to their service providers for the provision of good and services.

What is the implication on the issuance of the Section 65A notice?

It changes how GST is accounted for and reported by the person receiving the notice and the supplier(s). The person receiving the notice is now required to file two returns; G1 Form – GST return to account for GST in its business operations and the G2, G4, G5, or G6 Form which is the remittance form for the GST it has withheld from its supplier(s).

Failure to comply with this notice would result in financial administrative penalties including possible prosecution imposed on the receiver of the Notice.

The supplier like all other persons who are registered for GST is required to file its return by the 21st day of the following month and declare its sales including GST being the GST incurred and the amount of GST that has been withheld. Since the GST charged has been withheld and remitted to the IRC, the supplier has not deducted his GST incurred input credit. Hence, the supplier would be entitled to a refund for the GST they have paid for their business activities on the basis that the supplier has incurred the GST and has provided the information/documentation to substantiate his refund claims.

For example;

Total sales including GST charged	K11,000
GST you have collected from sales – Output Tax remitted to IRC	K1000
Less GST you have paid to suppliers – Input Credit	K750
You should have paid to IRC	K 250
Less: Section 65A Payment	K1,000
GST Refundable	K750

How can the supplier claim its GST refund from IRC?

To claim your refund you are required to file your GST return each month declaring your sales including the GST charged, the GST incurred, and the amount of GST that has been withheld. You are also required to attach a *supplier listing* which could be an excel spreadsheet listing details of your expenses. Information required in the supplier listing includes, Name of the supplier, Taxpayer Identification Number (TIN), the amount incurred, the GST amount paid, nature of the expenses, and other information as required.

Where to lodge your GST return, G1 Form, and Withholding form, G2 form?

All persons subject to Section 65A notices are required to lodge the G1 form, GST return, and G2 form, Section 65A withholding with payments at the IRC Head Office in Port Moresby.

Who to contact?

Subject	Contact Person	Telephone number	Email
Lodgment of returns, G1 and G2 forms and Payments	Mrs. Helena Solien	322 6884	solienh@irc.gov.pg
	Ms. Arua Naime	322 6714	naimea@irc.gov.pg
GST Refunds	Ms. Bernadette Uruna	322 6616	urunab@irc.gov.pg
	Lucy Pulkapo	322 6782	pulkapol@irc.gov.pg
	Degemba Gigmai	322 6939	gigmaid@irc.gov.pg
GST Advice	Anoko Sasi	322 6797	sasia@irc.gov.pg
	Steve Burke	322 6546	burkes@irc.gov.pg

Authorised by Sam Koim
Commissioner General, Internal Revenue Commission

Annex – Section 65A of the GST Act 2002

¹65A. PAYMENT OF TAX IN SPECIAL CASES.

(1) For the purposes of this section—

"person" includes a bank, a company, a partnership, the Government of the Independent State of Papua New Guinea and any public authority constituted by or under a law of Papua New Guinea;

"tax" means the Goods and Services Tax charged to another person by a supplier as a consequence of making a supply;

"buyer" means a registered person who has purchased goods or services from a registered supplier in respect of which the supplier has charged tax.

(2) Notwithstanding any other provision of this Act, the Commissioner may at any time, or from time to time, by notice in writing to a registered person, direct that person to pay to the Commissioner all tax payable by that person to his suppliers or to a specified supplier.

(3) A notice issued under Subsection (2) shall remain in force in respect of all payments to be made to the suppliers, or to a specified supplier, until revoked by the Commissioner by a further notice in writing.

(4) Where the Commissioner has issued a notice under Subsection (2) to a registered person, that person shall, when making a payment to the Commissioner in compliance with that notice, advise the supplier concerned of—

- (a) the amount of tax that has been paid to the Commissioner pursuant to that notice; and
- (b) the date of payment;

and when remitting the payment shall advise the Commissioner—

(a) the name and registration number of each supplier in respect of whom the payment has been remitted; and

- (b) the amount remitted in respect of that supplier; and
- (c) the province in which that supplier made the supply.

(5) Where the Commissioner receives tax that has been paid to him under the provisions of Subsection (2), he shall treat the receipt of that tax as if the supplier had paid it to him.

(6) When a supplier lodges a return required under Section 63 for a month during which a buyer has remitted payments on his behalf to the Commissioner under Subsection (2), that supplier shall show full details of the amounts remitted on his behalf including—

- (a) the name and address of the buyer to whom the relevant sales were made; and
- (b) the total amount of the sales for which amounts were paid to the Commissioner by the relevant buyer during the month; and
- (c) the amount of tax remitted to the Commissioner in respect of those sales by the buyer.

(7) A person who fails to comply with a notice under this section is liable to pay to the Commissioner the amount he was required to pay pursuant to Subsection (2) and for the purposes of this Act that amount shall be deemed to be goods and services tax payable by that person.

¹ Section 65A inserted by Goods and Services Tax (2004 Budget Provisions Amendment) Act 2003 (No. 29 of 2003), s2.

(8) *A person making a payment under this section is deemed to have been acting under the authority of the Commissioner and of all other persons concerned and is, by force of this subsection, indemnified in respect of that payment.*

(9) *A notice to be given under this section to the Government may be served upon such person as is prescribed and a notice so served is deemed to have been served upon the Government.*

(10) *In addition to any amount he is liable to pay under Subsections (2) or (6), a person who fails to comply with a notice under this section is guilty of an offence.*

Penalty: A fine of not less than K500.00 and not exceeding K5,000.00.