

Foreword

As KPMG is the only professional services firm in PNG with dedicated in-house specialists in all of the following areas: internal audit/risk, visa migration, corporate finance, management consulting, IT advisory, fraud investigation as well as tax and assurance, we are well placed to provide a truly multi-disciplined approach to business advisory. We hope you enjoy our regular KPMG Kundu.

CGT and SMEs: consultation process to commence by Karen McEntee, Partner, Tax

Treasury have recently announced that the consultation process for the new proposed Capital Gains Tax (CGT) and Small Medium Enterprise (SME) tax regimes are to take place in May and June 2019. Treasury have made available draft legislation for the consultation process although they have emphasised it is still in the development stage and should not be taken as Government policy.

CGT

Currently PNG does not have a capital gains tax which means that gains arising on investments in capital assets such as land, buildings, shares etc. are not subject to tax in PNG. The new draft CGT regime proposes a 15% capital gains tax on gains arising to PNG tax residents or non-residents on the disposal of:

- PNG real property (i.e. land and buildings, interests in mining and petroleum resources including information and the underlying licenses) or
- Shares in a company listed on the Port Moresby stock exchange or
- Shares in a company that derives more than 50% of its value directly or indirectly from PNG real property or
- An option or right to acquire an asset referred to above

Assets not subject to CGT include an individual's principal place of residence, an interest in customary land, an asset of an exempt taxpayer, trading stock or a depreciable asset.

CGT would apply to assets acquired prior to the introduction of the CGT regime however under the proposed scheme the base cost would be taken as the fair market value as at the commencement of the CGT regime, rather than the base cost on acquisition.

The gain for CGT purposes would be calculated as the disposal proceeds minus the base cost on acquisition/ construction minus any incidental costs of acquisition or disposal. Capital losses would be ring-fenced against future capital gains, while any CGT would be due for lodgement and payment within 28 days of disposal.



The new proposals also include a requirement for a purchaser to withhold 10% of the sales proceeds from a non-resident vendor although the vendor and purchaser could apply for a variation to a lower rate if the actual CGT is expected to be lower. Any withholding tax deducted would be available for offset against the final CGT payable.

The proposed legislation also includes provisions around CGT deferrals, replacement assets, roll-overs in group re-organisations and anti-avoidance provisions.

SME

Treasury are proposing a more simplified regime for the taxation of SMEs. The consultation paper outlines a range of options and includes a proposal for an SME annual turnover threshold of K250,000 in line with the GST threshold and a two rate turnover tax regime with a lower rate for trading businesses and a higher rate for non-trading businesses. It also includes a proposal for a flat rate tax on micro businesses conducted by an individual where the turnover is below a certain threshold – the discussion document proposes a tax of K250 on a turnover of less than K60,000 while the draft legislation provided suggests K400 on a turnover of less than K50,000.

Also of note is a proposal for quarterly GST and SWT returns for SMEs to ease their administrative burden.

It will be an interesting few months seeing what comes out of the consultation processes. If either regime is introduced, in whatever form, there will certainly be some major changes to the PNG tax landscape.

New world of lease accounting by Pieter Steyn, Director, Audit and Assurance Services

Leasing is a common way for entities to obtain the use of assets without having to purchase them outright. This is common to many businesses, especially in sectors like the airline industry, retail, and shipping.

IAS17 vs. IFRS16

A few factors led to the need for a new leasing standard:

- Previously, a significant source of finance was not recognised on the statement of financial position; and
- Due to a lack of comparability in financial statements.

As a result, market analysts and investors were not able to properly compare entities that borrow to buy assets with those that lease assets without having to make adjustments that involve significant estimates.

IFRS 16 changes lessee accounting substantially. It will reduce the need for investors to make adjustments, by providing a richer set of information than was available when companies applied IAS17, providing further insight into a company's operations and funding.

IFRS 16 was developed to address the problems of off-balance sheet financing and lack of comparability in financial statements. The treatment for most leases under IFRS 16 is that the lessee must now recognise a right-of-use asset and lease liability on the statement of financial position. Measuring lease liabilities for these entities will be a real challenge, but this is more than just an accounting change.



It could impact;	If you have;
<ul style="list-style-type: none"> • Debt, credit rating and covenants • Capital expenditure • Distributable reserves • Financial planning • Data availability • Earnings • IT systems, processes, and controls • Lease contracts negotiations • Employee performance plans • Tax 	<ul style="list-style-type: none"> • Lease with termination and renewal options • Leases with variable payments – e.g. based on sales, CPI or open market rent review • Service charges bundled with lease payments e.g. property management or maintenance services • Leases with provisions to restore property • Sub-lease agreements • Inter-company leases

Interestingly, lessor accounting under IFRS 16 is largely consistent with that under IAS 17 that is, by accounting for a lease as either an operating or a finance lease.

IFRS 16 will result in a substantial change to many entities' balance sheets. A robust and timely assessment phase, that includes representatives from across the business, is critical for a successful implementation of the new standard.

National procurement commission

In our November edition we foreshadowed the introduction of the National Procurement Commission (NPC) and more stringent conditions around the granting of government contracts. The NPC was set up with effect from 1 April 2019 and replaces the Central Supply and Tenders Board for the procurement of goods and services by the Government.

Amongst the new conditions applicable, the awarding of contracts of K1 to K10m will be restricted to PNG citizen owned national companies, contracts of K10.1m to K30m may be awarded to 50/50 joint venture partnerships of both PNG and foreign owned companies while contracts of K30.1m and above would be open to all national and foreign owned companies.

IPA survey and spot inspections

The IPA have announced they will be carrying out a database survey and spot inspections on businesses operating in the NCD area. The exercise will take place from 24 April to 31 May 2019 and is aimed at obtaining economic data from the business community and ensuring companies are complying with IPA legislation and other regulatory requirements.

Infrastructure tax credit scheme

Revised guidelines for the infrastructure tax credit scheme were recently issued by the National Planning Ministry. A number of changes have been proposed including changes in the approval process to include district and provincial authorities as well as national level agencies, a condition that a portion of the approved grants are spent within the host province and an increase in the limits for primary

production companies (from 1.5% to 2%). However, changes to the Income Tax Act would be required to effect these proposals into law.

Provisional tax

The first instalment of provisional tax is due for payment by today, 30 April 2019. Penalties will be automatically applied for late payment.

Consultation process for work permit restrictions

The Department of Labour and Industrial Relations have proposed that a large number of roles currently open to expatriates would be reserved for PNG citizens. A consultation seminar was recently held with interested parties to discuss the proposals. During this meeting a draft document was issued with a list of roles and specifications as to whether they are open to expatriates, required to be advertised or are restricted to PNG citizens only. In addition responses to a public review questionnaire on these proposals are to be returned to the Department by 1 May 2019. For any queries please contact our visa migration specialist, May Solulu at msolulu@kpmg.com.au.

New joiners

Finally, we are delighted to announce the return of Eunice Takendu as Senior Tax Manager after her stint in industry. We are also very happy to welcome Louwrens Erasmus as Associate Director to our Tax team. Louwrens has over 27 years of experience having previously worked in the South African tax office, as a tax practitioner with Big 4 firms and as a CFO across South Africa, Nigeria, Oman, Namibia and Jamaica.

© 2019 KPMG PNG. KPMG PNG is associated with KPMG Australia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.