

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.

IRC stepping up audit and recovery activities

by Karen McEntee, Tax Partner

We have seen in the past few weeks a definite increase in IRC activities in the areas of debt collection and audit investigation. This coincides with recent media publications reporting that the IRC have estimated, based on their new risk based assessment tools, that tax of PGK18bn has been under-reported for 2016. It also follows Treasury's expectations, as published in the Mid-Year Economic and Fiscal Outlook 2019, that tax collections would increase in late 2019 due to targeted tax audits and debt collection efforts.

We have seen recent audit activities include:

- The comparison, by the IRC, of lodged GST returns with lodged corporate income tax returns and queries being raised on discrepancies.
- IRC estimating the corporate income tax due for particular periods based on lodged GST and salary or wages tax returns, where corporate income tax returns are unlogged and;
- Further salary or wages tax and foreign contactor withholding tax audits.

Currently within IRC focus are the resource sector, construction, banking/ finance and superannuation industries. Meanwhile the IRC will also soon be commencing transfer pricing audits, particularly on the primary production industry, and it is understood the groundwork for these has already commenced. The Large Taxpayer unit has also advised it expects to increase its audit activity and desk reviews.

Indications are that the IRC will also be increasing their focus on the taxation and compliance of individual taxpayers including high net worth individuals. The form this will take is not yet clear but it will likely involve increased resourcing, training and expertise within the IRC combined with audit tools and data matching techniques targeting individual taxpayers. This could also involve the analysis of information shared by BPNG in relation to the movement of funds offshore.



In terms of debt recovery and collection we have seen an increase in:

- The issue of garnishee notices to banks and;
- Demand notices to taxpayers for outstanding returns and payments.

According to the IRC they have a number of levels of internal escalation before issuing a garnishee notice. If taxpayers fail to respond adequately to IRC requests for information, the issue may be escalated to the next level. Therefore it is important that IRC demands are appropriately addressed and communication is maintained with the IRC.

In brief it is clear the IRC have and will become more active and we expect to see increased taxpayer profiling, data analysis and information exchanges with other Government departments in the near future. We recommend correspondence by the IRC is taken seriously, appropriately addressed and communication lines are kept open and that taxpayers review their tax affairs, which may include a tax health check, to identify and correct any issues where required.

Highlights from the business advantage PNG investment conference

The 2019 Business Advantage PNG Investment Conference took place over 19-20 August. The event that was hosted at the Shangri-La hotel in Sydney is considered a premier event and KPMG was proud to be the major sponsor and participant. Opened by Minister for Commerce and Industry Wera Mori, representing Prime Minister James Marape, the conference was attended by over 300 delegates from nine different countries.

The firm was represented by Zanie Theron, Leonisa Bosimbi and Wayne Osterberg. The keynote speaker on day one was certainly the highlight of the conference. Bernard Salt is a world-renowned demographer and former KPMG partner. He emphasised the growing importance of China in the world economy and sought to map where China and other countries in the region might end up in 10 years' time. The key message here was about PNG being uniquely positioned in the region and that it can provide much of what the Asia-Pacific region requires in terms of energy and agriculture exports.

Other highlights included insights brought by PNG industry leaders in energy, resources and aviation. The conference took place concurrently with negotiations in Singapore over the Papua LNG project between the PNG Government and lead developer Total SA. Peter Graham of Ok Tedi Mining and Gereia Aopi of Oil Search discussed the state of PNG's resources sector at the conference. Air Niugini CEO Alan Milne also talked about the progress being made to return PNG's national airline to profitability. Some innovative ideas included servicing the route between Cairns and Hong Kong for seafood export from Australia, as well as providing engineering services to Australian airlines in Port Moresby.

PNG's energy sector was addressed, with delegates hearing from PNG Power Acting Managing Director Carolyn Blacklock, who spoke of the state-owned utility's progress on improving reliability on the Port Moresby grid from 70 per cent to over 99 per cent and its plans to access more cheap hydropower.

Our managing partner, Zanie Theron, delivered a presentation on delivering professional services in PNG. The challenges, opportunities, recommendations and advice for new entrants were covered as part of this. In particular she highlighted the changing landscape in PNG which included technology, the impact of millennials and the growing need for quality above cost.

All in all this was a very successful conference and the full slides and videos will be available shortly on the Business Advantage website businessadvantagepng.com.

Royal commission lessons for PNG

The findings from the recent banking Royal Commission in Australia include important lessons for PNG's Boards of Directors.

The report highlighted failings in organisational culture, governance and remuneration. Also, the Commissioner had strong words for the failings of the regulators. Not only was the law not obeyed, but it was also not enforced effectively. PNG's Directors and corporate regulators would be well served by taking time to understand the report's findings and recommendations. But do we in PNG have the will and systems to do so?

Some of the failings included companies having a culture of not reporting significant compliance breaches to senior management and the Board, Directors not sufficiently challenging management and not getting the right information, remuneration arrangements rewarding inappropriate performance, and Boards not sufficiently focusing on non-financial risks. Also, regulators in many respects were too timid.

Often, improving the quality of information given to Boards will result in giving Directors less material. Directors also need to be more challenging of management.

In many of the cases of misconduct revealed at the Commission, the organisation in question had chosen the pursuit of profit over the interest of customers and above compliance with the law.

The question for Directors in deciding what is in the best interests of a company is not a binary choice between customers and shareholders. Usually when these interests are opposed, it is because some shareholders have a short-term outlook. The more appropriate lens for Directors is "what is in the best interests of the company in the short, medium and long term".

PNG Boards would benefit from scheduling a time to discuss the findings and recommendations from the Commission and how these impact their processes.

APEC travel cards and eVisas

Business visa applications must now be done online through the eVisa system for the seventy qualifying countries. Applicants from non-qualifying countries must however continue to lodge paper applications. As previously reported by us the multiple business entry visa was withdrawn late last year which has meant that business visitors to PNG can only obtain a single entry visa valid for thirty days. The eVisa online application system should take some of the pain out of this process as the eVisa is instantaneous.

A valuable visa option for those who qualify is the APEC Business Travel Card. These cards are valid for five years and have the added benefit of special fast track entry and exit lanes. The card enables visitors to explore new business opportunities, attend meetings and conduct trade and investment activities. To qualify the applicant must be a passport holder of a participating APEC country or be a Hong Kong permanent resident with any valid travel document, they must travel regularly to conduct trade and investment activities in the APEC region and they must not have been convicted of a criminal offence.

As an aside the PNG Immigration & Citizenship Authority website now provides Mandarin and Bahasa language options.

IPA updates

The Investment Promotion Authority (IPA) is currently in discussions around the imposition of late fees on Annual Returns submitted after their prescribed due dates.

Irrespective of a company's size the late fee is currently a standard K1,000 per company per year, which raises a question around equity, especially for small to medium enterprises (SMEs).

Some of the ongoing discussions held by the IPA have been around:

- A possible late fee reduction for SMEs and;
- A possible waiver of fees where a company has a large number of outstanding returns. For example if a company has ten years of annual returns to be lodged, imposing late fees on only five of those years and waiving late fees for the remainder.

These discussions are ongoing and we will follow them closely as they may impact companies that are currently non-compliant with their Annual Return lodgements.

© 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.