KPMG

Kundu

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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.

National Budget commentary 2020 – a viewpoint

by Zanie Theron, Managing Partner

The Marape-Steven Government presented its National Budget on 28 November 2019 under the recurring theme "**Take Back PNG**". It continued the strong criticism it has had of the budget and economic management of PNG's predecessor government for its excessive expenditure, dramatically increased borrowings and misrepresentation of the true position of the PNG economy. The Government's choice between running continued deficits and abandoning some fundamental social support development appeared stark.

With that context in mind, moving from an adjusted 2019 budget deficit of K3,504m planned pursuant to the 2019 Supplementary Budget handed down several months ago to a projected 2020 deficit of K4,631m certainly was eye catching.

The Supplementary Budget had set out substantial cuts from the Service Improvement Program (K286m), the Public Investment Program (K795m) and K400m from the operational budget.

On the revenue side, the Government budgets for an increase in tax revenue of K713m (to K11,161m) over the amount predicted in the Supplementary Budget (K10,447m). This may be a challenging figure in light of reduced growth expectations for the PNG economy in 2020 of 3.3% real non-resource growth and overall GDP growth of 2.0%, the forex shortage and the tough economy of 2019 and prior.

On the expenditure side total expenditure rises from K16,526m to K18,726m. One component of that, the previous Government's recorded increases in its public service wages bill over the past years seems to continue with Compensation of Employees rising from K5,379m in the 2019 Supplementary Budget to K5,672m in the 2020 Budget. These figures do not include exit payments such as retrenchment and retirement. The Government has however flagged its intention to manage the salary overruns. Gratifyingly, the Government has also telegraphed a clear commitment to meeting some of its outstanding debts to the tune of K1,050m in 2020.

With a deficit of the size of K4,631m projected, the two immediate questions that spring to mind are how the deficit is being financed and what strategies underlie the projected expenditure.

On the first question, the Government has stated it will use some K1,365m in existing concessional loan programs, an Australian budget support facility (publicly announced previously to total K1 billion), budget support facilities from the ADB and World Bank totaling K548m, K967m through an ADB partial guarantee scheme and K757m from issuing new domestic debt.

On the second question the Government has recognized that capital expenditure, which took a significant hit in the 2019 Supplementary Budget, is necessary to grow the economy and budgets an increase of 8% (K5,980m) compared to the 2019 Supplementary Budget appropriation (K5,497m). The Government flags expenditure supporting agriculture and livestock, tourism, forestry, fisheries and SME development. The road network is an important element which gets a K200m 2020 down payment for future development and the transport sector is allocated K1,600m overall.

The Government has shown commendable restraint in not imposing substantial tax increases, with some predicting a GST rate increase and increases in personal tax, in an economy that is apparently struggling. Tax reform measures include the development of a simplified SME tax regime to assist the small business sector while bringing them into the tax net and some selective tax changes such as an increase in excise on some alcohol products and log products. That said, the Government has flagged potential tax increases in the banking and the telecommunications sector and it is understood that they are still considering the imposition of capital gains tax.

However, one tightrope the Government negotiators will have to walk is to deliver on increased tax contributions it seeks from the extractive industries sector while still bringing home the delivery of the Papua LNG project, the P'nyang gas project and the Wafi-Golpu gold mining project, among others. It is also well understood that the P'nyang and the Papua LNG projects are interdependent. Industry players will be watching closely.

In summary, the Government has shown considerable commitment to maintaining the country's social and economic development, while seeking to fine tune its revenue, expenditure and its borrowing costs. One can only wish them every success, particularly given the current depressed business sentiment.

SWT amnesty
by Karen McEntee, Tax Partner

The IRC published details of the upcoming salary or wages tax (SWT) amnesty which will run from 1 January 2020 to close of business 31 March 2020. This is a final deadline and no extensions will be granted, even to tax agents.

Under the amnesty a remittance of 100% of all SWT penalties will be applied where outstanding SWT base tax is paid in full during this period. If the taxpayer does not have outstanding base tax but has SWT penalties at the start of the amnesty then 90% of the penalties will be remitted to nil if 10% of the penalties is paid during the amnesty period.

There are a number of important pre-conditions for the SWT amnesty as follows:

- All SWT returns must be up to date including December 2019.
- The use of GST credits to offset SWT will not be allowed.
- Any SWT debt established under an IRC audit will not qualify under this amnesty.

No doubt this amnesty will be welcomed by many taxpayers particularly given the punitive level of penalties automatically applied for the late payment of SWT (20% flat tax plus 20% interest per annum).

The first step is for taxpayers to ensure their SWT returns and liabilities are up to date and properly recorded so as to place them in the best position to avail of this amnesty. There should also be some thought given to the timing of the payment of historic liabilities and what this might mean for the penalty remission. We are already working with clients who will be availing of this amnesty and are putting in place strategies to maximise the potential benefits available.

Change in HR outlook with advancing technology in PNG

by Shimar Saxena, Manager, Advisory Services

Today's employers in Papua New Guinea face a daunting array of historic challenges as they speed into a digital economy that's already transforming businesses and the traditional human resources (HR) functions that serve them. HR change is inevitable and there is a noticeable shift in attitude from viewing employees as resource intensive assets to investible capital.

HR managers in PNG have conflicting attitudes and approaches to this change. More forward-looking HR leaders are confidently harnessing the value from Human Capital, garnering insights that will redefine the traditional HR model and the contribution it may have to the firm. These HR Managers are proactively following strategic plans and implementing new technologies such as analytics, digital labour and artificial intelligence while pursuing the critical new skills needed to succeed.

On the other hand one may also notice a much larger proportion of 'less-confident' HR leaders who remain on the sidelines and are slow to adapt to these agile conditions. These HR leaders may have adopted a risky stance towards the pace of the PNG market. Those HR leaders making limited strides could, in a few short years, see today's global technological disruptions leave them unable to compete.

Nevertheless, that being said it is interesting to see that in PNG, HR or Human Capital is being identified and leveraged as a key strategic functional unit incorporating new value drivers in the form of technology, data and automation.

Tax bills passed in parliament with technical errors

In our KPMG 2020 Budget Review we had outlined a number of technical errors in the Budget Bills. These Bills were passed before Parliament during this week and we understand the technical errors were not corrected prior to passing. Therefore it will remain to be seen how or if these will be amended during 2020 although we are informed that the corrections are being worked on.

The Bills had intended to correct some technical errors in relation to the carry forward of losses arising from the 2019 Budget. We understand that it was intended that losses incurred between 2005 and 2018 could be carried forward to 2025 for non-resource/non-primary production companies. However the Budget Bills did not appear to achieve this aim. Instead, it appears that a carry forward loss will be denied from 1 January 2019 for losses incurred pre 31 December 2018.

Another technical error of note relates to the due dates for provisional tax. The Budget Bills had intended to change the due dates for provisional tax for substitute accounting periods. However, it appears to also impact other companies with 31 December fiscal years. The provisional tax due dates for such companies appears to be changed from 30 April, 31 July and 31 October to 90 days, 180 days and 270 days after 31 December. Again, we understand this was not the intention and it is expected that these errors will be corrected.

We can only hope that for clarity purposes all required amendments are made early in the New Year.

Income tax deadlines during 2020

We have received indications from the IRC that they are expecting taxable income tax returns for the year ended 31 December 2019 to be lodged by 30 June 2020, without any extensions being granted. In line with prior years we expect that any companies with outstanding income tax returns at 31 December 2019 would have to lodge their 2019 tax return by 30 April 2020.

The IRC seem to be signalling a more hard line approach in relation to the enforcement of income tax deadlines. This may pose an issue for companies whose audit will not be completed by the 30 June deadline. We raised this point with the IRC who said they would expect a tax return to be lodged based on the draft financial statements/trial balance and then an amended return to be lodged, if required, once the financial statements are finalised.

We are currently speaking with clients to manage and plan for this deadline noting the tight turnaround times between the end of the audit and the income tax deadline.

IPA deregistration extended to January

The IPA issued a list in the national newspapers of 5,000 companies that they intended to de-register by mid-December. The IPA have now extended this deadline to 16 January 2020. These related to companies that had not filed returns since 2000. While many of these companies are likely dormant it is a reminder to all that statutory compliance records must be kept up to date as in addition to penalties there is also a risk of strike off for non-compliance.

Filings must also be made within certain timeframes in relation to changes in directors, shareholders or operating locations amongst others.

Residential land tax incentive

A public notice was recently issued by NCD in relation to a potential write off of pre-2016 land tax where land tax for 2016 to 2019 is paid between 9 November and 20 December 2019. Certain conditions apply which include that it relates to self-occupied properties being a single dwelling house on a State lease zoned residential property

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