



Kundu

February 2020



## 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.

### Retiring the Income Tax Act at sixty one By Karen McEntee, Partner, Taxation Services

The existing Income Tax Act had its sixtieth birthday last year and is being put into forced retirement. The new Income Tax Act comes with the promise of being modern, thinner, relevant, less complex and more coherent. While younger and fresher does not always mean better let's hope we are not left with broken promises.

There is no doubt the existing legislation is unwieldy and at times difficult to decipher. Even more daunting is that it is impacted by the Rates Act, Regulations and other seemingly unconnected legislation.

To tidy this up the Income Tax Act is being re-written. In doing so the legislators are also taking the opportunity to include some policy changes. At a meeting with Treasury and the IRC this week we were given a high level overview of some of these draft changes. The draft legislation will be published on the Treasury website in the coming days and a consultation period of five or six weeks will follow during which Treasury will accept submissions from interested parties. The effective date of the new legislation may be any time after 1 July but more likely 1 January.

The draft legislation is likely to include changes to the taxation of employee benefits such as housing and motor vehicles with a possible move to more market based valuations. Also proposed is the extension of the school benefit exemption to tertiary education which will be welcomed by many parents and exemptions for medical insurance and mess meal employee benefits.

Other proposed changes include limiting the new capital gains tax regime to real property and to shares in companies that derive the majority of their value from real property. Changes are also foreshadowed to the taxation of foreign companies with a possible move away from foreign contractor withholding tax and back to income tax returns for branches with permanent establishments in PNG. Insurance companies may see an alignment of tax and accounting treatment while banks may see a tax recognition of loan loss provisions.



With a tight timeline for submissions we will be keenly reviewing the draft legislation with the interests of our clients in mind.

Time will soon tell if the new Act will live up to its youthful promises.

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## The stock market as a driver of growth for PNG

by Wayne Osterberg, Director, Advisory Services

There is much energy being devoted to the strategies to improve the economic outlook for PNG. The domestic economy is recovering from a post boom hangover and the government is grappling with thorny negotiations in full view of both sceptics and optimists. Meanwhile the world economy is struggling not to catch the after effects of the coronavirus.

It is a difficult time for policymakers and perhaps a consideration of the stock exchange as an engine of growth for PNG is warranted.

How does a stock market drive growth? Primarily by allowing capital to be employed more efficiently into companies which drives economic activity and economic growth.

More specifically;

- The fact that the listed companies are regulated, and need to adhere to rules in terms of information to be provided and procedures to be followed, brings a far greater degree of transparency for investors which in turn brings greater confidence to investors.
- It allows for smaller investors to participate in companies as owners and gain exposure to sectors of the economy they may not otherwise be able to.
- An active stock market attracts foreign capital into the country which further improves growth. Foreign portfolio investors are a double edged sword as they are not always long term investors, but on balance they bring greater confidence and depth to a market.

What would make a stock market attractive to investors?

- A good regulator: The regulator needs to apply the appropriate oversight of the market with the overarching principles of transparency, integrity and investor protection. These are paramount to ensure that companies seeking to list, and investors seeking to buy, have faith in the market operators and the environment.
- Tax concessions: Taxes are paid to benefit the public good. In the event that a tax concession will stimulate the public good in another way, it could be viewed as fiscally neutral. Consideration could be given, in the PNG context, to a concession on stamp duties for the reorganisation of property holding companies in anticipation of a stock market listing. Such concessions are not uncommon globally.
- Liquidity: This is fundamental and is an argument often raised in relation to the PNGX. It is not liquid. Yes, it could be more liquid, but liquidity cannot be created instantly, particularly in a relatively small market like PNG, with exchange controls. This will be a gradual process.

In conclusion the capital markets provide a significant opportunity to boost growth in PNG. The above considerations provide a fairly simplistic overview of some of the issues in an effort to stimulate debate regarding the sustainable economic growth of Papua New Guinea.

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## Financial management challenges for PNG businesses

by Lizette Theron, Senior Manager, Business Advisory Services

In Papua New Guinea the level of compliance with existing financial laws, rules, and regulations, as well as the application of 'best practice', is uncertain. Weaknesses undoubtedly exist in financial management, accounting and the auditing support available. More often than not, the absence, non-optimisation or failure of systems and processes compromise overall cash flow, with a direct detrimental effect on an organisation's performance and reputation risk.

The issues we frequently see for PNG businesses include:

- Challenges in performing accounting procedures (back office accounting), often due to resourcing and capacity constraints.
- Difficulty in preparing financial statements, again usually due to a lack of skills and capacity.
- The absence of or inadequate controls and manuals around finance processes and procedures.
- A lack of understanding by staff of accounting policies and related concepts and;
- Inefficiency in the processes and systems applied – even where accounts are manually maintained in excel it is possible to do so in a more efficient manner.

Despite these challenges, with some attention, weaknesses can be eradicated and organisations, both private and public, can comply with best practice and relevant finance legislation requirements.

In a PNG landscape becoming ever more focused on compliance we are finding an increased interest by our clients in enhancing their financial management functions.

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## IPA clampdown against non-compliant companies

We have seen and heard of instances where the IPA have recently been clamping down on non-compliance with statutory compliance requirements. This included issuing notices to prosecute and levying penalties in the millions of kina. The prosecution threats were against not just the company but also the directors personally. The companies in question had outstanding annual returns. We strongly recommend that non-compliant companies get their records up to date – contact us if you need assistance.

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## New work permit card system

A new work permit card system is to be introduced with security and other enhanced features. Tied to this a new work permit application form must be used from 16 March 2020

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## Government bodies moving to online payments

We understand that many Government bodies have and are moving to online payment systems in recent times. These systems facilitate payments online in PGK with a PNG bank debit card. No more queuing in lines will be a welcome change for businesses and individuals alike.

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## IRC becoming tougher on tax deadlines

The IRC have accelerated the income tax deadlines this year with taxable returns due 30 June (as before) and non-taxable due 31 July (rather than the extended deadline of 31 October previously granted) for those with tax agents. It appears extensions of time may be harder to get and the imposition of penalties is likely. Non-compliant taxpayers could be subject to a late lodgement penalty of 100% of the tax plus a late payment penalty of 20% per annum. Given the likely rush for lodgement come June and July taxpayers should plan ahead, speak with their tax agents and get their tax returns in progress.

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