Kundu

February 2022 No2

Foreword

Our second Kundu newsletter for February 2022 provides an overview of PNG's economic outlook, addresses the transformation agenda of the IRC, and outlines IRC's intended focus on the taxation of the aid sector and personnel.

KPMG in PNG has dedicated in-house specialists in all the following areas: internal audit/risk, visa migration, corporate finance, management consulting, IT advisory, fraud investigation as well as tax and assurance. As such we are well placed to provide a truly multi-disciplined approach to business advisory.

Please enjoy this month's Kundu and reach out to us at kmcentee@kpmg.com.au if you would like to see KPMG cover specific topics in future editions.

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PNG's economic outlook looking more promising
by Wayne Osterberg, Director, Advisory Services

The COVID-19 period has not been great for the PNG economy. It has been characterised by stop-start movement restrictions; lockdowns of varying degree; supply chain disruptions and labour mobility restrictions. In addition, businesses have borne increased operating costs due to testing, sanitary precautions and staff illness and absences. The pandemic has coincided with the closure of Porgera Mine, which employed several thousand people and generated around 10% of FX inflows. On the positive side, commodity prices have held up well – particularly gold and LNG prices – and the fiscus has been able to access concessionary funding from donors and multi-lateral agencies.

2022 appears to be starting on a more optimistic note. Travel restrictions are easing between PNG and Australia; mandatory quarantine is receding in Australia for incoming traveller and in PNG for all vaccinated inbound arrivals. This is freeing up the mobility of technical skills and making PNG more accessible for many interactions that rely on face-to-face meetings.

PNG, and indeed the South Pacific, grows in geopolitical importance in an uncertain global climate. Australian corporates have concluded deals here in recent months – Telstra's proposed acquisition of Digicel; and Santos' deal with Oil Search reflect this. Austrade in PNG has been active in facilitating business interactions between the two nations and the Australian Government Infrastructure Financing Facility for the Pacific will supply A$580m in financing to support the repair and upgrade of several key ports in PNG. Lombrum Naval Base on Manus Island will be upgraded at a cost of A$175m.

The long awaited P'nyang Gas Project was recently given impetus with an agreement signed between GoPNG and the project participants to progress the development of the 4.3tcf gas field. An agreement with Barrick on the reopening of Porgera Mine and the long awaited Wafi Golpu project remain to be concluded, as does the signing of a Gas Agreement with Twinza Oil to progress the Pasca Project. Moving those projects closer to production will further bolster the prospects for the economy if they can be concluded.

2022 is an election year and this will bring an intense focus from the government's side on achieving some wins to take onto the campaign trail in the first half of the year. It is likely to result in higher spending which will support broad disposable income and those businesses that rely on this for their livelihood. World energy prices are rising in the disruption being caused by the Eastern European crisis and these will benefit PNG's exports.

Rising global inflation will be imported into PNG and this will be of concern to policy makers and the Bank of PNG. Global supply chain disruptions have not yet worked themselves through and the shortage of shipping containers and capacity is further impacting imports into PNG, being at the end of most supply chains.

The political uncertainty generated by national elections will likely dampen activity in the middle of the year. There is much to be optimistic about in Papua New Guinea in 2022, but if recent history, both here and abroad, has taught us anything, we should always be prepared for the unexpected.

The transformation agenda of the Internal Revenue Commission

by Paul Asamoah, Senior Manager, Tax, Transactions & Accounting Services

The Internal Revenue Commission (IRC) of Papua New Guinea (PNG) in a recent media release had indicated that it is on a transformation agenda focused on raising the projected revenue to fund the National Budget of PNG and a vision to transform the organisation into a robust, modern, and efficient tax administration by 2025.

The IRC in 2021 exceeded its revenue collections target despite the COVID-19 challenges. The IRC attributes the upturn in its revenue collection to several factors including the decision to stop the unverified GST credit offset against salaries and wages tax, increases in mining and petroleum taxes and the introduction of the online payment portal amongst others.

In 2022, the IRC has a gross tax revenue projection of K10.509billion. To achieve this, the IRC has outlined some initiatives it intends implementing in 2022. In aligning with the realities of the COVID pandemic, IRC is looking at achieving a seamless interface between its people, processes, and systems with the view of delivering on its core mandate and addressing ongoing and emerging challenges. As a result, the IRC has indicated that it would be implementing a new organisational design and structure. Hopefully, this new structure leads to an enhanced taxpayer experience with the IRC.

Another initiative is the turn towards technology in its quest to move away from manual and laborious processes and adopt automation. The organisation has been allocated funds by the Government for the implementation of an Integrated Tax Administration System and funding support to progress the work around a GST Monitoring System (GMS). The roll out of technology solutions by the IRC should bring some relief to taxpayers as it would take away some of the challenges inherent in the current manual processes of the IRC. It would also provide the IRC with the relevant information for risk assessments for audit purposes and decision making.

The IRC intends harnessing data from this digital transformation to derive useful insights to leverage tax compliance and enhance timely decision making. It also acknowledges that there is a high rate of non-compliance and the prevalence of tax evasion and fraud. The IRC intends to address this through tax crime investigation and prosecution. As a result, it is expected that the IRC would roll out more aggressive tax audits and investigations during 2022.

In conclusion, the IRC is geared towards transforming the organisation and its operations in line with achieving its set transformation agenda. Whilst some of the initiatives would ultimately improve the taxpayer experience, business would need to get on top of their tax compliance readiness for these expected audits.

Taxation of and compliance audits for aid projects and personnel

by Karen McEntee, Partner, Tax, Transactions & Accounting Services

IRC released a circular this week clarifying the tax treatment of contractors and employees working in the Aid sector. It has commonly been misunderstood in the sector that contractors in receipt of donor funding for aid projects, from for example the Australian government, would automatically be exempt from income tax in relation to any profits arising from their activities in PNG. However, it is not that simple. While the Treaty on Development Co-operation between the Government of Australia and the Government of Papua New Guinea agrees for an exemption from income tax or other similar taxes on income or profits for companies in certain circumstances, the Treaty has no force of law in PNG unless underpinned by domestic legislation. The same applies for other bilateral donor treaties. The applicable domestic law in this case is the Aid Status (Privileges and Immunities) Act 1977. This Act provides for the grant of designated aid status to certain organizations and to personnel attached to those organizations.

Where an organization has obtained designated aid status in relation to a particular project the IRC have confirmed to us that it will be exempt from:

- Tax on its income and,
- Import duty (but not customs duty) on vehicles, plant and equipment imported or purchased for the purpose of performing functions under an aid agreement entered into with the PNG State.

In order to obtain designated aid status a company must request from the IRC an introduction to PNG DFAIT who manage the process. The Aid Status (Privileges and Immunities) Act provides that the Head of State, acting on advice, may grant designated aid status to an organization. Where designated aid status is granted a certificate is issued by the Minister for DFAIT.

To extend the exemption to employees, the organisation may apply for the individuals involved in the project to be granted designated aid status. This involves certification by the Minister for DFAIT and publication of the employee details in a Gazettal notice.

The income tax exemption does not apply to subcontractors of the party who has contracted with the donor government i.e. in this case, if the managing contractor were to subcontract to another company, that third party company would not be able to avail of the same income tax exemption.

The area is further complicated by the fact that PNG DFAIT have not been approving designated aid status in recent years. Therefore, this is a tricky area for those involved in the aid sector, whether currently operating in PNG or about to commence a new project in PNG. It would be important that such organisations and individuals seek advice particularly given IRC have said they will be conducting compliance audits on the sector in the near future.

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