



Kundu

July 2021



Foreword



In this month's edition we discuss the Final Budget Outcome (FBO) Report for 2020. In the tax space, some clarity around tax lodgement deadlines extended for two months, new IRC requirements for GST transfers and refunds, and a stern word around the IRC noting fraudulent Certificates of Compliance, Tax Clearance Certificates and TIN numbers. Also, some positive signs around streamlining of the PNG work permit and visa processes in the future. A very relevant topic at this time in PNG is Anti-Money Laundering and what companies and industries need to comply. Note that here, KPMG can be of great assistance in terms of getting you compliant!

KPMG in PNG has 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. 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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Final budget outcome report 2020

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

The PNG Government recently released the Final Budget Outcome (FBO) Report for 2020. The purpose of the FBO report is to:

- Provide the final fiscal outcomes against the 2020 Budget and the subsequent 2020 Supplementary Budget
- Provide a comparative analysis of the 2020 outcomes for Total Revenue and Grants, Total Expenditure and Net Lending, Financing and the Budget Balance against the 2020 Supplementary Budget estimates; and
- Provide explanations of significant variances in outcomes compared to the Supplementary Budget estimates as well as previous years' actuals

Not surprisingly the FBO for 2020 presents a budget deficit of K7,304.4 million or 8.9 per cent of GDP. This is higher by K674.3 million or 10.2 per cent when compared to the 2020 Supplementary Budget estimate of K6,630.1 million or 8.1 per cent of GDP.

Total Revenue and Grants receipts in 2020 amounted to K12,093.3 million, higher by K734.3 million or 6.5 per cent compared to the 2020 Supplementary Budget's estimate of K11,359.1 million. This positive outcome was due to a higher collection in Personal Income Tax (PIT) (up by K209.3 million), and Interest Withholding Tax (IWT) (up by K129.9 million), Dividends (up by K218.5 million), and drawdown of grants from development partners (up by K492.2 million). However, compared to the 2019 actuals, total revenue and grants is lower by K1,587.2 million or 11.6 per cent.

Total Expenditure and Net Lending in 2020 amounted to K19,397.8 million, higher by K1,408.5 million or 7.8 per cent compared to the 2020 Supplementary Budget estimates of K17,989.3 million. Compared to the 2019 actuals, total expenditure and net lending is higher by K1,545.3 million or 8.7 per cent.

Table 1: Budget Balance 2019 – 2020 (Kina Million)

	2019 Actuals	2020 Budget	2020 Supp. Budget	2020 Outcome
Revenue and Grants	13,680.5	14,095.5	11,359.1	12,093.3
Expenditure and Net Lending	17,852.5	18,726.5	17,989.2	19,397.8
Budget Balance	-4,172.0	-4,631.1	-6,630.1	-7,304.4
% of GDP	-5.0%	-5.0%	-8.1%	-8.9%
Debt Stock	33,666.9	37,185.0	39,851.5	40,186.4
Debt to GDP (%)	40.0%	40.3%	48.9%	49.2%
Non-resource primary (% of non-resource GDP)	-5.5%	-5.8%	-8.2%	-9.4%

Source: Department of Treasury

There has been a slight compositional shift in debt financing structures with a slight increase in external debt and a slight decrease in domestic debt. This is in line with the aim to move towards lower cost concessionary financing over the medium term.

Table 2: Total Revenue and Grants (Kina, Million)

	2019 Actual	2020 Supp. Budget	2020 Outcome
Tax Revenue	10,918.1	9,647.2	9,802.1
Donor Grants	1,775.6	932.1	1425.0
Other Revenue	986.8	779.8	866.2
Total Revenue	13,680.4	11,359.1	12,093.3

Source: Department of Treasury

The donor grants were largely from Australian DFAT and ADB to assist with the pandemic and also towards PNG's development aspirations.

2020 saw the rapid gathering of cheap external financing from development partners totalling K4.4 billion. In addition, the Marape Government raised K2.5 billion from a COVID-19 Treasury bond issue, and drew down K1.6 billion in cheap, project loans.

Compared to 2019, total capital investment increased by K813.5 million, or 13.4 percent, and Government capital investment increased by K908.2 million, or 30.3 percent. The Arrears Verification Committee commenced in 2020 assessing claims against the State. Claims of K4.4 billion were submitted and in 2020 K255 million were paid. The payment of arrears owed to Government suppliers would have helped soften the impact of the pandemic on the sector.

Anti-money laundering and counter terrorist financing in PNG

by Raymond Conchina, Manager, Advisory Services

In 2015, the PNG Anti-Money Laundering and Counter Terrorist Financing Act (AML/CTF Act) Act became law in 2015 and applies to Financial Institution and Designated Non-Financial Businesses and Professions (DNFBPs) located in PNG. This act is created in accordance with the International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation (International AML Standards) set by the Financial Action Task Force (FATF) as adopted by 180 countries, including Papua New Guinea.

The AML/CTF Act established the Financial Analysis and Supervision Unit (FASU), an operationally independent financial intelligence unit within the Bank of PNG. Under the Act, FASU collects, analyses and disseminates financial intelligence, including to the Royal PNG Constabulary, for investigative purposes. In addition, FASU supervises financial institutions and Designated Non-Financial Businesses or Professions (DNFBPs) for compliance with their obligations under the Act. Below are the list of businesses supervised by FASU:

Financial Institutions	Designated Non-Financial Business or Professions (DNFBP)
1. Commercial banks	1 Real estate agent
2 Foreign subsidiaries of banks	2. Motor vehicle dealership
3 Savings and loan societies, microbanks, micro-finance companies	3. Dealers in precious stones
4 Life insurance, general insurance	4. Dealers in precious stones
5 Superannuation funds	5. Legal firms
6 Investment banks	6. Notary publics or other independent
7 Mortgage companies, finance companies	7. Trusts or service providers
8 Money remitting services, money change	8. Accounting firms

What does this mean if you are a FASU supervised business?

As a FASU supervised business you are required to:

- Conduct an AML/CTF risk assessment
- Develop and implement an AML/CTF program
- Appoint an AML/CTF compliance officer (insourced or outsourced)
- Review and update your organisation's AML/CTF risk assessment and program
- Ensure that an independent audit of your overall AML/CTF framework is carried out
- Comply with the a number of reporting obligations

Organisations in PNG face unique challenges in complying with these requirements such as a lack of resources, limited technology and/or a lack of understanding of how AML regulations affect them. KPMG has been assisting various clients to address these challenges and our multi-skilled team in PNG can:

- Provide a comprehensive, tailored AML program to strengthen AML systems and controls and to meet regulatory requirements
 - Respond rapidly to incidents, carry out focused investigations and assist in identifying and managing AML risk
 - Independently review AML arrangements helping clients to understand their risks, identify gaps and improve / enhance systems
 - Train staff on AML issues, risk management and other responsibilities to raise awareness and develop an AML 'culture'
 - Assist in evaluating / selecting automated transaction monitoring or payment filtering systems to help prevent and detect money laundering where there are large volumes of transactions to monitor
 - Profile high risk clients such as politically-exposed persons or counterparties operating via other jurisdictions, to enhance KYC compliance and customer knowledge
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New requirements for GST refunds and transfers

IRC announced this week that they require the following to be submitted with any CR1 or CR2 form requesting a transfer, offset or refund of GST credits:

- Completed form CR1
- Purchases/supplier listing – this should include supplier name, TIN, purchase details etc
- Sales listing
- Bank statements for the period in question
- Tax invoices for the period

This is quite a concerning development considering some taxpayers could have hundreds of invoices for each tax period placing an enormous administrative burden on both the taxpayer and the IRC. This is a departure from IRC's current requirement that only invoices with GST over K5,000 need be provided which seemed a more sensible approach. It is difficult to believe the IRC would have the capacity to check the tens of thousands of invoices that will be sent to them each month. As it stands GST refunds have been taking a year to issue so further delays should be expected.

In addition, the requirement to provide bank statements is difficult to understand given GST returns are largely prepared based on invoices therefore the bank statement for the period is unlikely to show either the payment or the income. We will be raising our concerns with IRC on these matters.

Income tax extensions

As mentioned in last month's issue of the Kundu newsletter the IRC had issued a Circular affording a further two month extension to taxpayers included in a tax agent lodgement listing. There seems to be some confusion over the period of extension as we have heard reports that some think the extension is until 31 October. However, as mentioned last month and as confirmed by us again with IRC this week the extension is for two months only which means those companies (not late lodgers) with a 31 December year end now have an extension until 31 August (for taxable companies) and 30 September (non-taxable companies).

Streamlining of work permit and visas

There are plans in the works for the merger and streamlining of the PNG work permit and visa processes which will hopefully result in a quicker and more efficient process in the future. This would be much welcomed as currently the process can take from six weeks to many months depending on the circumstances. We are still awaiting official details of the proposed processes and the timeline for introduction.

Fraudulent COCs and TCCs

As part of their fight against fraud the IRC issued a notice this month warning taxpayers of fraudulent Certificates of Compliance, Tax Clearance Certificates and TIN numbers including forged signatures. Taxpayers are urged to check with Mr Dollarcruise in relation to the validity of a Certificate of Compliance prior to making any payment to a local contractor while banks should contact Mrs Katie Price to confirm the validity and signature on a Tax Clearance Certificate.

IRC also reminded taxpayers that such services are free and if any officer requests payment for services then this should be reported to the appropriate authorities.

Provisional tax

The second installment of 2021 provisional tax for companies with 31 December year ends is due by 31 July 2021. The first installment for companies with a 31 March substitute accounting period and the third installment for companies with a 30 September substitute accounting period are due for payment by 29 July and 26 July respectively. If companies estimate their 2021 provisional tax to be lower than that assessed by IRC they can vary the provisional tax downwards but should be aware penalties apply if they underestimate the tax by 25%. Companies should also ensure they obtain an updated provisional tax notice where their tax return has been assessed in the interim as IRC automatically re-assess provisional tax after each tax return assessed.

Charitable bodies

IRC issued a Circular in July setting out their interpretation of the tax legislation applying to charitable bodies. The Circular applies to charitable bodies seeking exemption under Section 25A Income Tax Act. There may be exemptions available to 'not for profit' organisations under other legislative provisions which may be easier to obtain so it would be important to seek tax advice to ensure the easiest and most appropriate exemption is sought. To qualify under Section 25A the charitable body cannot be a limited company and IRC require it to have an irrevocable trust in place which prevents the settlor or trustee of the trust from profiting from the proceeds of the charity organisation in any way.

Our social media presence

As usual, you may access our regular multi-disciplined thought leadership pieces, newsletters and updates on our KPMG PNG LinkedIn page. Also connect via our webpage www.kpmg.com.pg and Facebook <https://www.facebook.com/pngkpmg/>

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