



Kundu

October 2021



Foreword



This month it is important to understand the recent change in the IRC's position around management fee withholding taxes, due to the significant implications this may have on businesses. We also talk about how the global pandemic has forced a dramatic acceleration in the area of digital transformation.

There are further interesting points to note this month around the IRC's move online, further GST developments and an update on a possible banking and telco levy.

It is very important to note that the deadline for the submission of PNG work permit applications is 19 November 2021, with counter service unavailable at this time.

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.

Janie

Management fee withholding tax

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

As mentioned in our recent Tax Alert earlier this month, the IRC yet again changed their position in relation to the application of Management Fee Withholding Tax (MFWT) and its interaction with the Double Tax Agreement (DTA). This will have significant implications for many taxpayers, not just those making payments to related parties overseas but also to those making payments to third parties providing certain types of services overseas.

Under PNG domestic legislation MFWT of 17% may apply to management fees paid or credited (whichever is earlier) to non-residents by PNG residents or by PNG non-residents with a permanent establishment in PNG. A management fee is a payment of any kind, other than to an employee or by way of a royalty, in consideration for any services of a technical or managerial nature and includes payments for consultancy services, to the extent the Commissioner is satisfied those consultancy services are of a managerial nature. Management fees can include payments to related parties or to third parties and the obligation is on the payer to deduct and remit the MFWT to the IRC where it applies.

It was previously accepted by IRC that where a management fee was paid to a resident of a DTA country, the rate of tax was subject to the relevant “business profits” article. This meant that withholding tax did not apply to management fees paid to Australia, Singapore or New Zealand for example. Backdated to 1 October 2021 the IRC view is now that the “business profits” article does not apply to management fees. Instead, the relevant “other income” articles apply unless the DTA has a “technical fees” article in which case the technical fees article applies, as it always has done.

Indications from IRC are that they do not intend to change their interpretation again at this stage. However, we understand the ATO and the NZ Inland Revenue are of the view that a double tax credit would *not* be allowed in Australia or NZ for any MFWT deducted as they believe the payment should not be subject to MFWT under the business profits article. Given the 21 November deadline for the remittance of October withholding tax is fast approaching businesses should review their contract and payment arrangements to determine whether MFWT applies and if so, where the withholding tax cost may fall. We recommend tax advice is sought in this regard.

Name of the country in which the recipient is tax resident	Whether MFWT is applicable	Rate applicable
Non-treaty		
Non-resident	Yes	17%
Treaty		
Canada	Yes	17%
Australia	Yes	17%
Singapore	Yes	17%
New Zealand	Yes	17%
China	No	-
South Korea	No	-
UK	Yes	10%
Malaysia	Yes	10%
Indonesia	Yes	10%
Fiji	Yes	15%

Where MFWT applies it must be returned to IRC by the 21st of the following month. Penalties of 20% per annum apply for non-compliance.

It is always recommended that tax advice is obtained when entering into contracts with, and when making payments to, foreign contractors or foreign consultants as withholding tax is a tricky area with potential exposures to MFWT, foreign contractor withholding tax or salary or wages tax. It is important these costs are built into the contract negotiations and that the taxes are paid on time as penalties will otherwise apply.

Going digital, faster

by Charles Judd, Director, Advisory Services

Pre-COVID-19, private and public organisations were on a journey towards a digital business model, traveling at varying speeds. The scale and breadth of the pandemic has forced a dramatic acceleration, both in the speed of change and the required investment in digital transformation.

Quarantine, social distancing and remote working have tested the ability to meet customers and the public where they are, via digital channels. Some have thrived but others have struggled. It is the evolution of customer needs, attitudes and values that will most disrupt how businesses compete. Without a strong digital commerce capability, it is hard to compete.

As organisations across all sectors, private and public, consider their future shape, they should be aware of the huge opportunities that digital transformation can bring. Many organisations are held back by a

fragmented digital infrastructure and lack of alignment between front, middle and back office functions. This hinders their efforts to offer a seamless customer experience — hence the need to become a digitally connected enterprise, oriented around the customer. For a read of the full KPMG survey into the impact of Covid-19 on digital transformation, go to [Going digital, Faster.](#) The top five takeaways on things you should consider right now include:

1. Digital acceleration

- If you are not digitally transforming at pace, the chances are you will be left behind. Converge digital with broader strategy, to swiftly adopt new technologies and flexible, modular – in some cases virtual – organizational structures.

2. Customer

- Put your customers first – at the heart of strategy. Become insight-driven – know your customers at a deep and profound level. Practice customer foresight – to anticipate customer needs and become organized around the customer and able to meet the customer wherever they are.

3. Operations/supply chain

- Invest in real-time, predictive models, rethink the roles of each player in the supply chain, and introduce a more collaborative relationship with suppliers, to increase innovation and flexibility.

4. Ways of working

- Focus on the capabilities you need in a future connected enterprise, and plan how to access these resources via permanent, gig economy or other partnerships, while investing in upskilling – especially in digital skills. Rethink the balance between physical and virtual assets and human resources, embracing automation.

5. Resilience

- Consider the technologies that can get you closer to the customer, and help you manage a constant, heightened risk environment, particularly cyber security, governance and ethics. Your technology investments should be aligned with your wider strategic goal of customer centricity.

Treasury consultations impacting banking and telco industries

As foreshadowed in previous National Budgets, Treasury were to hold consultations with stakeholders to discuss a possible bank levy and telecommunications levy. The consultation process on the proposed bank levy took place between Treasury and the four main banks this week. Treasury also separately met with BPNG. It is clear that a number of items need to be worked through including the nature and rate of the levy, what and who it would apply to and whether it would only apply to the banks or include other financial institutions as well. One of the reasons put forward for a bank levy was due to the risk banks pose for an economy – bank levies were introduced in some countries following the global financial crisis and put towards a fund to assist in future crises. However, PNG is a different context and banks do not pose a risk to the PNG economy in the same way they may overseas.

We understand Treasury also met with NICTA as a preliminary to their intended discussions with the telecommunications industry next week.

Given the banking and telecommunications industry are already amongst the top tax contributors in PNG it would be important that these industries are not unduly carrying more than their fair share of the tax burden, that the introduction of any new tax is well thought through and that there are appropriate systems in place for collection. Given the National Budget date is fast approaching the timelines for effective consultation and implementation are tight.

IRC moving online

We mentioned in our last issue that a new online IRC platform was on the way. In the meantime, a media release has been issued providing further details - the new online platform, to be called myIRC, will enable tax returns and payments to be made online for the first time. It should become live in late 2021 with further additional offerings to be added next year. The platform is expected to improve data protection, tax account reconciliation, internal efficiencies and customer support. We welcome any advances which will improve the taxpayer experience.

Section 65A GST new phase

IRC announced the addition of a further 30 Provincial Governments and Public Health Authorities added to the list of entities required to operate Section 65A GST deductions. This brings the total to c. 70 government and state-owned entities. Under Section 65A, the GST charged is withheld by the payer and paid directly to IRC while the supplier includes a credit in its GST return for the Section 65A amount deducted. The remittance to IRC has been integrated with the Integrated Financial Management System and should occur automatically. However, there are delays on the taxpayer side in getting a credit for the Section 65A GST deducted from their payment.

Work permits and visas – closures

Similar to other years the Department of Labour and the Immigration Citizenship Authority (ICA) stop accepting applications by a certain date before Christmas. For new and renewal work permit applications the deadline for submission will be by Friday 19 November. Therefore, it is critical that any new or renewal applications are submitted before this deadline. We are yet to receive details of the ICA deadline for applications.

Due to Covid the PNG Immigration and Citizenship Authority has suspended counter services at the Central Government Office effective 25 October 2021 for an indefinite period. Officers are still working behind the scenes and communication can be done via email and phone.

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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