

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.

Taxation of superannuation in Papua New Guinea by Louwrens Erasmus, Associate Director, Tax

The Internal Revenue Commission (IRC) recently issued a public notice clarifying the tax treatment of contributions made by employers and employees to Authorised Superannuation Funds (ASFs) in PNG and the tax treatment on distribution by the ASF.

As a general observation we note that an employer of 15 or more persons must register with an ASF unless they operate in an exempt industry (currently certain agricultural sectors). While membership is voluntary for non-citizens it is compulsory for PNG citizens who are continuously employed for three months.

The IRC stated that a concessional tax treatment applies but only where the superannuation fund is registered with the Bank of Papua New Guinea as an ASF. Currently the four ASFs in PNG are:

- Nambawan Super;
- NASFUND;
- Aon; and
- Defence Force Retirement Benefits Fund (Comrade Trustee Service Limited).

The IRC addressed the taxation of the following:

1. Employee contributions
2. Employer contributions
3. Interest accumulated on funds and distributed to members.

Employee contributions

Employee superannuation contributions equal to 6% of an employee's 'pay' are deducted from the employee's net/after tax salary. As these have already been subjected to tax, they are not taxed again when these employee contributions are paid out to the member by the ASF. Voluntary additional contributions savings are treated in the same way.



Employer contributions

Employer contributions are not taxed at the time they are paid to an ASF as these are seen as capital arising from the property of the employer rather than income of the employee. However, they are subject to tax when the ASF make a distribution to the member.

Treatment of interest and distribution to members

An ASF is taxed on the profits realised from investment of its members' contributions at the rate of 25% which is lower than the corporate tax rate of 30%.

When a distribution is made by an ASF to a member the employer contribution and interest component of the distribution is subject to a concessional tax rate based on the number of years the member has contributed to the fund as follows:

Length of service	Tax rate
Less than 5 years	Marginal tax rate
Not less than 5 years and not greater than 9 years	The lesser of 15% or the marginal rate of tax
Not less than 9 years and not greater than 15 years	The lesser of 8% or the marginal rate of tax
More than 15 years	2%

While the IRC notice did not mention it, there is also a 2% rate applicable where the distribution is:

- to an employee who is 50 years or older or who is subject to enforced early retirement, provided contributions have been made for not less than seven years or
- made as a result of the death or permanent disablement of the employee

In summary there is no change to the existing rules, rather the IRC have just clarified the position.

As a general note, in the case of terminations, members must have been unemployed before a payout will be made, for example, if under 55 years of age a citizen employee must wait three months for a partial payout or one year for a full payout. Expatriates must wait a year for payout from an ASF.

Realising potential through data analytics

Data & Analytics (D&A) allows businesses to combine data from various sources, in a manner which enables the business to make informed decisions and outperform peers. D&A is not just about collecting data but about combining it smartly.

Many companies overlook a significant opportunity to enhance decision making and improve performance through information that is captured in their enterprise resource planning (ERP) systems.

These systems collect and store vast amounts of data derived from running important business functions, such as managing payroll, paying suppliers, invoicing customers, preparing the financials, paying taxes, and so on. The data contains extremely valuable insights that companies are often unable to tap due to complexity or lack of skills. The technique of data analytics is the key to unlocking this additional value. By deploying advanced technology and statistical methodologies to collect, integrate, analyse, and present the data, companies can gain powerful insights into important elements of a business and the way in which it operates. These insights can yield significantly better bottom-line performance, thereby strengthening a company's competitive advantage.

Data analytics can help companies in a range of different operational areas. It can, for example, enhance data quality and system integrity, uncover fraud and other irregularities, improve supply chain and inventory management, standardise and develop system use, and enable the benchmarking of key information. Data analytic capabilities can also be embedded in continuous auditing/ continuous monitoring (CA/CM) solutions. CA/CM is used, for example, to keep track of credit limits, changes in sales trends, the timely delivery of orders, the number of credit notes raised, or occurrences of breaches in process controls. The key areas where companies can benefit from data analytics include:

- Processing very large data sets efficiently and consistently
- Identifying a lack of harmony between processes and transactional data
- Incorporating predictive analytics based on historical trends

D&A, at its core, is a new way of solving problems with insights and innovation. Data sources are exploding and businesses need to turn data into insights and value. Our D&A strategy focuses on understanding the overall data landscape and getting to the heart of a businesses' problems so as to help solve your most pressing growth, risk and cost concerns.

We are currently working with a number of clients in Papua New Guinea to deliver D&A tailored to their specific needs and to this market. If you would like a free demonstration please let us know.

Place of abode and tax residence

Last year we reported on the Australian tax residence case of Harding. This case is of possible interest to Australians living in Papua New Guinea. The taxpayer was an Australian citizen living and working in the Middle East for more than six years. He accepted that he was an Australian-domiciled person and on that basis, he could only cease Australian tax residence if he had ceased to reside in Australia under ordinary concepts, and had also established a permanent place of abode outside Australia. This is similar to one of the PNG tax residence tests for PNG domiciled individuals. During this period, Mr. Harding stayed in a number of fully furnished apartments within the one apartment complex in Bahrain.

The judge had found that the taxpayer had ceased to reside in Australia under ordinary concepts but had not established a permanent place of abode in Bahrain. In forming this view the judge placed emphasis on the taxpayer's occupancy of a series of apartments in Bahrain, rather than just one on an ongoing basis and included factors such as having purchased his own television and linen, but not having to pay for utilities.

The full bench of the Federal Court of Australia recently overturned this decision taking a broader interpretation of the word "place" to include the town or country being the "place" he was living. This more holistic approach to the concept of a "place of abode" is welcome and makes room for appropriate recognition of the variety of accommodation circumstances that may exist for expatriates working in different parts of the world.

Audit committee institute

We will be holding our Audit Committee Institute meeting again in late June. This is a quarterly roundtable for audit committee members offering valuable insights and tips from our experts. New attendees are welcome so please contact Zanie Theron (ztheron@kpmg.com.au) if you would like to attend.

Capital gains tax and SME consultation

As mentioned last month the consultation process for the new proposed capital gains tax and small and medium enterprise regimes are taking place in May and June. The NCDC consultation will be held on 12 June. We should have more to report on this in the next issue.

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