

Built around you

Entrepreneurial and Private Business
Newsletter

Issue 4 - January 2022

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Welcome to our fourth edition of the Entrepreneurial & Private Business (EPB) newsletter! The purpose of these newsletters is to keep you informed of current developments impacting private and family businesses operating in PNG.

Budget 2022

This year's Budget theme was headlined "Lighten the burden" with the objective to lighten social hardships on households and the economic burden to business.

As we closed 2021 and barely scratching the surface for the new year, most businesses will feel that their compliance burden, strain on cash flow, workforce stress and the burden of unreliable power, communication and water utilities have increased during 2021, so we can only hope that we do start to see some of that burden lighten over 2022 and beyond.

For the first time the government has set out a detailed 13 year fiscal plan and strategy, predicting consistent 5% growth in real non-mining GDP over the long term.

However, the tax burden on businesses and individuals, including through GST, is forecasted to increase each year by 13% - 15%, significantly above nominal GDP growth in the 7% to 9% range, which does not appear sustainable - they can only spread the net so much wider to capture those who are non-compliant.

Here are some key takeaways from the Budget papers:

1. **Non-mining GDP growth expected to remain at 5%**

The Budget presentation shows historic and forecast levels of non-mining real GDP growth, and after negative growth in 2020, a rebound to 3.9% is expected for 2021, with 3.5% budgeted for 2022 and consistent medium term growth at 5%.

On the other hand, the mining sector is expected to rebound next year due to resumption of Porgera operations and improved production from Ok Tedi, Lihir, and Simberi and, there will be a small contraction in oil and gas sectors.

For 2022, the non-mining growth of 3.5% is expected to come from election related expenditure and the stimulus from the re-opening of Porgera.

However beyond that, the 5% real growth is driven by the economic reform agenda, improvement to road and communication infrastructure through the PIP and Connect PNG projects and development of the agricultural and SME sectors.



2. 2021 Budget outcome and 2022 Budget forecast

The 2021 expenditure has blown out by K680 million, primarily in the capital budget, but also in public sector emoluments at the expense of government services. However, there were savings in debt service costs due to the budgetary support grants and other concessionary aid funding.

On the revenue front, the government dodged a bullet (due to strong commodity prices) as the budgetary impact of the closure of Porgera, other project shutdowns and the COVID related economic downturn could have been disastrous.

The drop in production was largely offset by increases in commodity prices, but even so total tax revenues fell K423 million short of the original budget. The gap was largely made up by the budgetary support grants from Australia. Without that, PNG's economic predicament would be far worse.

3. GST credit refund arrears

As you may know, there are significant arrears of GST credit refunds due to the tougher compliance and audit requirements together with the new Section 65A deductions at source and the Budget papers are not transparent as to whether GST revenue has been accounted for on an accruals basis or a cash basis excluding the outstanding credit refund arrears.

4. Tax revenue forecast

Total tax revenue forecast is expected to increase by 15% however it is not clear how realistic this is.

5. The rest of the world is bouncing back from COVID-19 impacts

Global growth has rebounded strongly in 2021 after the COVID related decline in 2020, with developing economies doing better than the developed economies of America and Europe,

PNG has benefited from the rebound in metal, oil and soft commodity prices, but significant pandemic related risks remain. Global forecasts for 2022 present a conservative rather than optimistic recovery scenario

6. Stronger reserves position

International reserves at the end of June 2021 of K8.6 billion were equivalent to almost nine months total import cover. A further increase is expected to end of 2021 and through 2022 with increased export volumes offset by a softening of commodity prices.

We note that the main reason for the strong reserves position was the budgetary support grants provided by Australia together with external loans from JICA, ADB and World Bank/IMF.

The Kina also remained relatively stable in 2021 (the TWI improved 1.5%).

Overall, reserves therefore appear healthy and sufficient to assist support the Kina through 2022.

7. Increase in employment index

In general, the best indicator of what is happening to business is the employment numbers. Despite positive real GDP growth in all but two of the last eight years, the employment index has seen a consistent decline since June 2013 and has just shown an increase in the last 12 months following the COVID related layoffs in the second quarter of 2020.

This probably explains why manufacturing is showing quite strong job growth over the June 2020 to June 2021 period possibly because there were quite high layoffs in this sector when COVID first struck. It seems that manufacturing employment has just returned to pre-COVID levels rather than showing any real growth.

The expenditure on compensation of government sector employees has once again exceeded the 2021 budget estimates, at K6.0 billion compared to K5.8 billion.

Taxation changes

There had been the expectation last year that the New Income Tax Act would be introduced during the Budget presentation although implementation was expected to be deferred for a year.

In the end, this was not ready and as a consequence, there were very few other changes.

Market Concentration Levy

The big headline item was the so called “Market Concentration Levy” aimed at participants in the banking and telecommunications sector with more than 40% market share.

The idea of a levy of this nature is not new as this was first floated in the 2019 Budget (a turnover tax on the telecommunications sector) and was repeated again in the 2020 and 2021 budgets as a potential licensing fee or additional profits tax.

There appears to have been very little, and too late, and arbitrary engagement with the affected industries, resulting to a market concentration levy at a fixed value amount on just two entities dominating the banking and telecommunications sectors in the country.

There was little explanation of how the amount of the levies corresponded to the excess profits generated from market dominance, and how they would develop over time to possibly cover other sectors, and did not appear to consider the significant community service obligations provided by these companies in servicing remote areas.

Due to the storm created, it appears that the effectivity of this new levy has subsequently been deferred for another six months (up to 30 June 2022) however this remains unconfirmed as there is no formal amendment issued to date.

Infrastructure tax credit regime

Of importance to the resources and agricultural sector were some changes to the infrastructure tax credit regime, which although the crediting rate has increased to a standard 2% rate for all sectors (up from 0.75% for resources and 1.5% for agriculture), the conditions for approval, monitoring and carry forward of credits have been tightened up.

Increase in excise for anti-social drinks

There is an increase in excise rate for anti-social drinks with greater than 10% alcohol, whilst lowering the bi-annual indexing on commercial alcohol and tobacco products, and a repealing of the 10 toea a litre import tariff on imported refined petroleum products. The import duty on UHT milk was also reduced.

Tax Administration Act

In the 2022 Budget, there were draft changes in various provisions to facilitate the implementation of the Tax Administration Act.

This Act aims to consolidate all the various administrative provisions dealing with lodgments, objections, penalties etc. across all taxes into the one act. Whilst this should make administration more straightforward, there is some concern that it does slightly shift the goal posts in favour of the IRC.

The implementation of the Tax Administration Act is supposed to align with the simplified new Income Tax Act.

Although passed in 2017, the Tax Administration Act has not yet been gazetted hence remains not effective to date.



New Tax Act (update)

In the the third edition of this publication, we highlighted the expected significant changes from current policy and practices once the proposed new simplified Income Tax Act is enacted.

The new Income Tax Act was expected for tabling however it was not presented in the Parliament as part of this budget. There is a draft that was the subject of a “final” consultation in September 2021 but did not reach the stage of legislation. The status of the document is therefore unclear, although presumably further work will be undertaken to complete the drafting and include the transitional provisions and the subsidiary regulations as required before the bill is once again presented. Taxpayers will also hope that this provides a further opportunity for stakeholder engagement during 2022.

This means that there is time for taxpayers to consider the potential impacts of the expected changes including:

- Provisions for the introduction of a Capital Gains Tax
- Changes to tax depreciation and incentive rates of accelerated depreciation
- Taxation of employee benefits
- Treatment of dividends and other distributions
- Taxation on foreign contractors
- Deductibility of management fees

IRC taxation reform

The taxation reform agenda of the IRC is continuing and the Commissioner General took the opportunity to present them at a recent CPA Annual Conference covering the recent activities of the IRC including the 30 reform projects across six pillars in accordance with the IRC’s strategic plans.

SIGTAS to ITAS

The plan to replace SIGTAS is still on its way through the procurement of the new Integrated Tax Administration System (ITAS) in 2022. The IRC has advised that they will issue further communication to stakeholders on how the new system will work

MyIRC online platform

The IRC has officially launched in December 2021 its MyIRC Online Service Platform which aims to streamline the filing and payment process of taxpayers. It is expected that guidelines will be issued on how to use this online platform after the launch.

This latest undertaking shows the IRC’s commitment to utilise more technology and data analytics, including a Gross Margin Scheme (GMS) GST monitoring system for transactions passing through cash registers.

IRC debt swaps

The IRC has announced an intention to work with taxpayers and the government of PNG to offset outstanding tax liabilities against receivables owing from the government of PNG. The first example of this type of arrangement has been reported as being completed to reduce the level of unpaid taxes owed by PNG Power Ltd by K105 million through this offset mechanism. The Commissioner General has indicated that further examples will be facilitated.

Cyber attack hits PNG

There was an attack on the Department of Finance’s Integrated Financial Management System (IFMS) in October which also caused a delay in the presentation of the 2022 Budget for at least a week.

The report* shows that the attackers demanded Bitcoin in ransom however the office of the Treasurer said that the finance department did not pay any ransom to any hackers or third party. The system has been fully restored however the access of government departments and agencies to IFMS will be a “through a controlled temporary arrangement”.

We cannot stress enough that the cyber threats facing private businesses are no different from any other type of organisation, and the targets are not limited to more advanced economies.

As mentioned in our last publication, the recent research in the PwC Global CEO Survey 2021 indicated almost half (47%) of respondents from privately-owned businesses rated cyber attacks as the top threat to their organisation’s growth.

In this case what are you doing about it to prevent these attacks from happening to your organisation?

**Source:*

<https://www.bloomberg.com/news/articles/2021-10-27/papua-new-guinea-s-finance-department-hit-with-ransomware-attack>

Year end planning

In the last virtual Family Business Hour event held on 9 December 2021, we highlighted some important matters which aim to assist taxpayers in managing its year-end on a tax perspective (not an exhaustive list).

1. Deadlines for year-end submissions are met otherwise available benefits may be lost
2. Tax benefits that may expire at the end of the year are identified and utilised (e.g. tax loss carried forward)
3. Legitimate tax deductions can be properly claimed in the 2021 year (such as accelerated depreciation)
4. Expected amendments from the 2022 National Budget to be effective 1 January 2022

If you missed attending this event and would like to have a chat regarding what might this impact your businesses, please feel free to reach out to your EPB teams in Port Moresby and Lae (see contact details on next page).

We hope to see you in our next Family Business Hour.

2022 filing deadlines

As most businesses shut down until the first week of January, it is important to note the upcoming filing deadlines during the first half of the new year, including:

- December 2021 compliance
 - Monthly SWT (due on 7 January 2022)
 - Monthly GST and other withholding tax remittances (due on 21 January 2022)
- 2021 Annual reconciliations
 - SWT Form S6 and S1 14 February 2022
 - DWT Form D2 28 February 2022
 - FCWT Form D2 28 February 2022
 - MFWT Form M2 28 February 2022
 - IWT Form I2 28 February 2022
 - RWT Form R2 28 February 2022
 - BIPT Form P8 15 March 2022

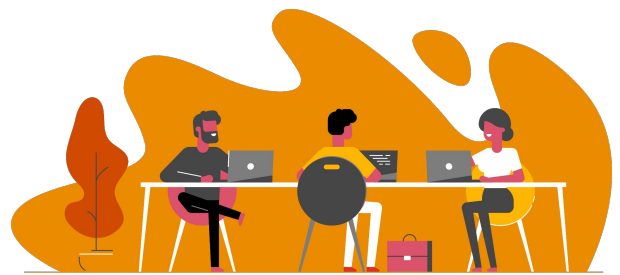
Filing deadlines (cont...)

- 2021 income tax returns

Taxable returns	30 June 2022
Non-taxable returns	31 July 2022

Under a tax agent lodgement program, taxpayers can have their income tax returns lodged for an extended filing deadline with additional six months post year end to lodge their returns.

If the business has outstanding tax returns (e.g. income tax return for 2020 has yet to be lodged), it will no longer be able to enjoy the extension and will be required to file their next tax return by either 28 February or 30 April. The final filing deadlines will be confirmed once the Tax Agent Bulletin for 2022 is issued in early 2022.



Let's Chat

Have you been accessing our regular Let's Chat articles on social media? If you have a topic that you would like us to cover then please let us know.

If you have missed them, they can be found [here](#). Here are the topics:

1. Building Value
2. Succeeding Through Succession
3. Succession or Sale - The Once in a Generation Opportunity
4. Business Reporting - Are You Receiving the Information You Really Need?
5. Moving to Cloud Accounting
6. The Way Forward for SMEs in PNG - Stabilise and Strategise
7. Reset Your Costs and Reset Your Family Business for Growth After the COVID-19 Crisis
8. Making the ESG Agenda work for you

We're here to listen

Ready to help

We would like to hear from you

At PwC, we get that your decisions aren't always about business. We are here to support you in achieving growth today, whilst helping you shape your legacy for the future. Our EPB teams in Port Moresby and Lae are wholly focused on providing advisory, accounting and tax services to private and family businesses.

Please do not hesitate to contact us if you have questions, queries, or comments on our events or any changes that have an impact on your business.

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