

Built around you

Entrepreneurial and Private Business
Newsletter

Issue 3 - November 2021

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Welcome to our third edition for 2021 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.

Business resilience

As we move towards the end of the 2021 year, the health situation and business conditions arising from the COVID pandemic are becoming more challenging. We saw through 2020 and the first half of 2021 that private and family businesses were generally resilient and responsive to these new challenges and business had adapted well to the Niupela Pasin guidelines.

Private businesses have been at the forefront of keeping the economy moving - assisting their staff and household relatives to get vaccinated, and in providing support to the local community. However, it is likely that things will get tougher before they improve.

Businesses that are already stretched are seeing the impact of prolonged staff absences and it is increasingly difficult to attract new talent.

With health systems now close to breaking point and restricted operations from key government agencies, such as the Department of Immigration and the Internal Revenue Commission, business is becoming more difficult. So now is the true test for how resilient and responsive your business really is. Here are some suggestions for increasing your resilience and ability to adapt, survive, and ultimately thrive.

1. Reinforce your values and purpose

For a family business, values are the connective tissue - the source of your success, commitment and longevity - but when survival is at stake and these values are challenged, cultivating them may not feel like a priority... it should. Now more than ever, it's vital to stay united as a family and embrace and live your values. You need to send a clear message to your employees, customers, suppliers, financiers and other business partners that your family is backing the business.

Communicate strongly and clearly so that your stakeholders understand the actions being taken and your commitment to survive and thrive. This is important because it will reinforce your values and help build trust and confidence.

1. Revisit your financial resilience

Most family business have been able to survive through 2020 and 2021 to date without having to inject additional family wealth into the business. However, after displaying a high level of flexibility through most of 2020, we are finding that many financial institutions are now

taking a much tougher position with their customers and are expecting or demanding the owners do more to reduce the lender's exposures. Private business owners should be reassessing their asset portfolios, return on capital and existing debt arrangements to improve the capital base and ensure sufficient liquidity to weather a prolonged downturn.

3. Operational resilience

Review your supply chain, production capacity, and service delivery mechanisms to ensure they can respond to changing demand, as well as remain stable in the face of operational disruption and stress, whilst maintaining quality.

3. Organisational resilience

Private businesses have focused on keeping their people and stakeholders safe while keeping their doors open and, where necessary, reducing hours and pay rates rather than cutting total staff numbers. However extended absences, remote working, and loss of key staff have put tremendous stress on teams.

Employers should foster a diverse workforce in which everyone feels included and can perform at their best. Focus on recruiting the best people and developing and upskilling your teams and having clear, consistent, and equitable HR policies.

3. Strengthen your technology

Invest in strengthening your IT systems in order to ensure your business continuity, protect your data, and have access to better quality data. Consider cloud solutions that reduce reliance on internal expertise and local support. Improve the digital skills of your people and look to how digitalisation could improve your internal and customer-facing processes.

3. Stress test your business model

Is your business plan still fit for purpose? Does it consider the changing business environment, consumer demands and expectations, and shifts in technology and competition?

Revisit your SWOT analysis - disruption creates new opportunities as well as threats.



7. Effective governance

Strong and clear governance, both family and corporate, is of critical importance at any time. It's even more vital during a crisis when the trust, transparency, and clear expectations it creates, can be a real differentiator. Have clear and open communication within the family and business management and be ready to seek external expertise if you're uncertain. An advisory board can add valuable challenge, insight, and connections to your business.

This may also be the time to turn to your next generation to play a larger role. With flexible working and digital solutions becoming a new normal, now is the time to leverage the digital savvy of the younger family members as this can make the difference between falling behind and staying ahead.

IRC updates

New Tax Act

The proposed new simplified Income Tax Act is now expected to be tabled in the 2022 National Budget this November but with a one year implementation delay to 1 January 2023. An updated draft of the proposed new tax act was released for comment in September 2021. Whilst there had been some modifications in response to submissions made on the initial draft bill circulated in early 2020, there remain a number of significant changes from current policy and practise, including, amongst others;

- 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

GST Section 65A next phase roll out

From October 2021, the IRC has further extended the use of Section 65A notices with government entities and departments using the Integrated Financial Management System (IFMS). This system automates the remittance of GST on payment of a supplier from a relevant entity or department. The second phase of the roll out has included 15 Provincial Governments and 15 Public Health Authorities in addition to the nearly 40 entities already on board.

Whilst this scheme has increased the GST inflows to the IRC, there remain significant issues for affected taxpayers in obtaining Section 65A GST credits against their account on a timely basis, and therefore GST accounts of affected taxpayers now show unpaid liabilities and penalties owing to the IRC. The requirement for the IRC to verify the deposit of the GST amount before permitting a credit leaves suppliers reporting their GST on an accruals basis in a structurally difficult position.

Changes for Management Fee Withholding Tax

The IRC has announced that effective 1 October, there is a significant change in their interpretation and administration of the taxation of “management fees” payable to non-resident entities who are resident of a country with who PNG has a Tax Treaty.

In particular, the notice has indicated that the IRC expects a 17% withholding tax to be applied to payments of “management fees” made to residents of Australia, New Zealand, Singapore and Canada. Previously, payments of “management fees” to these countries were shielded from having the withholding tax imposed.

This has widespread application as it covers both “management fees” typically payable to associated entities and other technical fees paid for services provided overseas by unrelated entities. The impact of this change in interpretation is expected to be significant, and will have flow-on effects with respect to areas such as tax clearance and commercial arrangements.

Whilst PwC has lodged a submission with the IRC on behalf of our clients that challenges this new

interpretation, and requesting it be revoked, we recommend that taxpayers consider the new interpretation in order to determine their individual response and treatment of management and technical fee payments to residents of impacted countries made after 1 October 2021.

IRC notice re mandatory valuations for all stamp duty applications

The IRC has recently issued a public notice in relation to obtaining market valuations of property involved in dutiable transactions. Stamp Duty is applied to a range of transactions, ranging from the transfer of marketable securities, to the execution of a lease, through to the transfer of an interest in real estate. The Stamp Duties Act contains a general requirement that the value used to determine duty should be market value and the base case is that the consideration determined between the parties should be market value.

Where parties are dealing with each other at arm's length, the value at which a transaction is completed will generally be accepted as market value. However, where the transaction involves related parties the IRC would normally require an independent valuation.

The public notice indicates that effective from 1 October 2021, all applications for stamp duty for transfer of real property, and acquisition of interests in landholding corporations will be subject to mandatory valuations.

It appears the intention of the notice is to require taxpayers undertaking a real estate transaction, irrespective of whether they are related parties or acting at arm's length, to obtain a valuation from an IRC approved valuer. This position appears to dismiss the notion that parties acting at arm's length will do so at market value.

There remain a number of uncertainties and unanswered questions from the public notice, which we hope will be addressed by the IRC in the near future, including:

- When will the list of approved valuers be released

- Will the IRC allocate valuers to transactions after the application is submitted - or can taxpayers engage one of the listed valuers in advance
- Does this requirement apply to all dutiable transactions, or only to the transfer of real estate
- Does the requirement apply equally to third party and related party transactions.

Residency

Income tax is imposed on the worldwide income of residents of PNG, whether they are companies or individuals. Income tax is also imposed on the PNG sourced income of non-residents.

A company will be treated as a resident if it is incorporated in PNG or if it has its central management and control in PNG; or if it carries on business in PNG and has its voting power controlled by shareholders who are residents here. Trust estates have their own residence rules.

In broad terms, an individual will be treated as a resident of PNG in a given year of income if they actually spend, continuously or intermittently, more than 6 months in the country in that year.

Most non-citizen individuals who have an employment contract in PNG are likely to become a PNG tax resident under the above provision, although certain FIFO employees and individuals resident in countries who have a Tax Treaty with PNG may also retain their home jurisdiction tax residency or be subject to the residency tiebreaker provisions of the Tax Treaty. Being a PNG tax resident may trigger a requirement to lodge an income tax return declaring your worldwide income and paying tax in PNG.

Residency key areas to remember:

- Residence and source concepts are central to determining scope of PNG income tax
- Getting this wrong may have dramatic consequences for the employee and employer
- Carefully review employment agreements – particularly for FIFO employees
- Remember that other countries also have residency and source concepts relating to the taxation of income. Extended time spent outside PNG may have significant implications.

Cyber Security

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.

The reality is that the cyber threats facing private businesses are no different from any other type of organisation. Cyber criminals are essentially opportunistic and will look to attack wherever they see vulnerabilities. However, private businesses have some distinctive characteristics that create specific cyber security risks which need to be addressed.

PwC held a cyber attack webinar for our global EPB clients on Tuesday, 5 October, with two fascinating guest speakers - Former FBI Assistant Director and current PwC Partner John Boles, and Dr Stefan Sigg, Chief Product Officer, Software AG.

The event topic was "Are you and your business ready for a cyber attack?". They identified five areas that private businesses should address now to make themselves more cyber secure.

- Educate family members on the importance of online security.
- Make cyber security an embedded part of the business culture.
- Implement a mobile device management tool.
- Control access to all company data: both virtual and physical.
- Have a plan – and know who you're going to call.

The overall message? Today, digital and physical security are becoming indivisible and virtually every aspect of work and life is exposed to the all-seeing gaze of the internet, and thereby to cybercriminals. When they come knocking, private businesses need to be ready.





Why private business should embrace digitalisation

PwC's Family Business Survey highlighted digital capabilities as a clear competitive advantage is being able to be flexible and agile in responding to changes in business risks. Here are compelling reasons to improve your digital agility:

1. Digital transformation and **agility** go hand in hand. The right technology and processes allow owners to obtain real-time insights into the business, identify trends, and make informed decisions to propel their organisation forward.
2. Now more than ever, the external market is demanding that businesses engage digitally. Those that can respond to demand will not only retain their existing customers, but also open themselves up to new and larger markets in PNG and overseas.
3. Digital transformation allows family businesses to refine back-office operations and, in the process, **achieve efficiencies and save money**.
4. Digital transformation enables family businesses to generate accurate, quality reports that stakeholders can rely upon to understand what KPIs are being measured, how frequently, and how management is responding.
5. A growing body of evidence shows that people are increasingly making career choices based on the opportunities to upskill and keep pace with emerging technology.
6. Family businesses that have not lifted their digital capabilities can be a soft and lucrative target for **cyber criminals and other threat actors**.

So private businesses should tap into their entrepreneurial spirit, keep an open mind on the cost/benefit trade off, and involve their NextGen's in driving their digital strategy.

Are you ready for the ESG revolution?

Many family businesses have spent decades earning trust among their stakeholders. Some have even spent centuries doing so, but in 2021, trust is a precious and increasingly rare commodity. If family businesses fail to comprehensively focus on environmental, social and governance (ESG) issues and opportunities, they could undo years of good work, lose stakeholder trust, and erode value.

Family businesses have no choice but to accelerate their public commitment to ESG. Those that fail to act will miss the substantial benefits associated with ESG. As Haldor Topsoe Holding Chairman Jakob Haldor said, "If you don't embed sustainability in everything you do, you will find yourself out of business, whatever sector you are in. It's just a matter of when."

When managed well, ESG is a chance to differentiate, to discover new opportunities, and to deliver impact for stakeholders. It can also unearth cost savings said Martina Crowley, PwC Private Clients Business Leader.

Here are some of the steps that Family Businesses can take on ESG:

- Embed ESG in your operating model.
- Seek help in measuring ESG metrics.
- Communicate clearly and transparently.
- Involve younger generations.

2021 NextGen Survey is now live!

Our NextGen Club members should all have received an invitation to participate in our 2021 PwC Global NextGen Survey which went live on 30 September 2021.

The theme of this year's survey is "Solving the Challenges of Tomorrow Needs, New Thinking, and New Perspectives".

The questionnaire is desktop and mobile friendly and takes about 10 minutes to complete. If you are interested to take part in the survey and have not received a link, please reach out to us.

National Budget 2022

Finally a note that the 2022 Budget will be tabled in Parliament this month, which we expect to include the introduction of the new Income Tax Act.

Whilst PwC will be doing our normal Budget Breakfast with the Treasurer (as a webinar) on the morning after the Budget is handed down, the EPB team are planning to do a separate Family Business Hour to highlight the most important changes and year-end planning opportunities for our private and family business clients.

Don't miss your deadlines

Income Tax Return lodgements (tax agent program)

- Taxable entities 31 August 2021
- Non-taxable entities 30 September 2021

For substituted accounting period entities, the provisional tax due dates are 120 days, 210 days, and 300 days after the preceding balance date, whilst the tax return lodgement date is 4 months after balance date for taxable entities.

2022 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



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

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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