

Year end matters from an Owner's Perspective

Presentation by **Michael Collins**
December 2023



Agenda

1. What are year end matters about?
2. Reminders

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- The purpose is to cover specific matters that can be considered prior to year end.
- Avoids the “should have, would have, could have” later in the next financial year.
- Year end matters covers managing compliance, tax cash flows, financing, tax losses and managing shareholder expectations.
- Timely and proper consideration of year-end matters will ensure :
 - Deadlines for year-end submissions are met. Else, available benefits may be lost.
 - Tax benefits that may expire at the end of the year are identified and utilised (eg tax loss carried forward).
 - Legitimate tax deductions can be properly claimed in the applicable year (such as accelerated depreciation).

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Reminders

Reminders

Compliance

Tax compliance

Upcoming deadlines in the year end shut down

- SWT remittance (due on 7 January 2024)
- GST returns and other withholding tax remittances (due on 21 January 2024)
- Annual reconciliations due in January, February and March 2024

Income tax return for 2022

If the income tax returns for the years 2022 or earlier are pending, the business would not be able to enjoy the benefit of extended filing deadline of 6 months (under a tax agent lodgement program) and will be required to file the income tax return for 2023 by 29 February 2024.

Management fee withholding tax (MFWT)

The IRC had issued a public notice wherein it views that MFWT shall apply to management fees paid (which broadly includes fees paid for services performed outside PNG) to treaty countries except China and South Korea effective from 1 October 2021.

This view is not currently administered by the IRC in practice, but thoughts should be given to the structuring of such arrangements with non-residents.

Reminders

Compliance

Management fees

A separate year end submission to the IRC is not required for fees that exceed the 2% limit, rather the submission is made with the tax return.

The application of the 2% deduction limit should be considered before year end.

Penalties

The current IRC administration has strengthened its collection efforts which include a renewed focus on compliance driven from SIGTAS. This includes IRC issuing letters alleging outstanding liabilities and lodgements.

To plan ahead, we recommend that taxpayers obtain a consolidated statement of accounts and the detailed statements of account from the IRC on a regular basis and review their tax accounts before year end.

Transfer pricing

In case of transfer pricing reviews, the IRC requires supporting documents to support the inter-business transfers made and to ensure that taxpayer follow the transfer pricing rules in PNG which are mainly based on OECD guidelines. Taxpayers with international related party dealings should consider applicability of these rules including assessing the arm's length conditions and identifying and prioritising transactions that need documentation to be put in place before the due date to file the income tax return for 2023.

Reminders

Tax cash flows

Obsolete stock and assets

Trading stock valuations for tax purposes should be reviewed and consideration given to scrapping obsolete items.

A tax deduction may be available for scrapped items.

Insurance premiums

Consider paying annual insurance premiums before 31 December to claim a deduction in full this year.

Superannuation contributions

Should not exceed 15% of the taxable remuneration of employees. The excess is non-deductible.

Superannuation contributions need to be paid before 31 December to claim a deduction in full this year.

Provisions and accruals

Consider where adjustments are needed for provisions and accruals to ensure the balances are correct before 31 December.

Tax fixed asset registers

Review tax fixed asset registers in relation to:

- depreciation rates (i.e. effective life and method) and tax depreciable cost and assets to be scrapped by year end;
- in some cases there are concessions that allow accelerated deductions in specified circumstances

Reminders

Financing

FX gains and losses

Are only assessable or deductible when realised so your FX position needs to be monitored and managed

Thin capitalisation

The business's position should be monitored on a regular basis to avoid the business being denied a tax deduction for interest paid to non-residents. Interest on debt in excess of a prescribed debt equity ratio (2:1 ratio) is non-deductible to the extent the interest is paid to a non-resident (including unrelated parties).

Bad debts

Ensure that debts that have genuinely gone bad are written off before 31 December to obtain a tax deduction this year (also don't forget to account for the GST associated with this adjustment).

Reminders

Shareholder expectations

Dividends

Dividends paid to non-resident shareholders, resident shareholders and resident trust estates are subject to DWT at the rate of 15%. The DWT payable is due every 21st of the month following the transaction.

Shareholder loans

Characterisation of non-commercial loans and potentially other payments made to shareholders of a private business or their associates as dividends.

To limit your exposure to these deemed dividend rules ensure that any advances to shareholders are documented on commercial terms.

Other obligations

Keep in mind the obligations associated with stamp duty and upcoming applications for tax clearance that will be needed in early 2024.

Reminders

Tax losses

Businesses with prior year losses should document whether they meet the Continuity of Ownership Test (COT), or if the COT is failed, can rely on the Same Business Test (SBT) to ensure losses can be carried forward for the maximum period of seven (7) years.

Failure of COT and SBT will result in tax losses being denied as a future deduction. This is important in terms of assessing deferred tax assets in line with the business's forecasts due to the ongoing impacts of covid to the business.

Thank you

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