



Built around you

Entrepreneurial and Private Business Newsletter

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Issue 7 - March 2023

Welcome to our seventh edition of the Entrepreneurial and 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.

What are we seeing?

It has been a while since our last Newsletter in October 2022 and hasn't a lot happened. Here are a few highlights that we think you should take note of:

- In November 2022 the Papua New Guinea (PNG) Government handed down its largest National Budget in PNG's history.
- In December 2022 the Investment Promotion Authority (IPA) started doing its data migration exercise to transition data from its old system to its new system.
- In January 2023 the Internal Revenue Commission (IRC) issued revised salary or wages tax (SWT) tables to reflect the increase in the tax-free threshold for resident taxpayers (more than one version until they got it right) and also issued a public notice on goods and services tax (GST) refund (CR2 Form) and offset (CR1 Form) requests.

- In January 2023 PwC held a powering private session on the five issues we think private business leaders need to focus on in 2023.

We are pleased to provide you with an update on these highlights together with our usual updates in this newsletter. Of course if there is anything you would like us to include in future newsletters then please contact us.

National Budget 2023

The 2023 National Budget was handed down in parliament on 30 November 2022. The theme of this year's budget is "Implementing the Vision" where the 2023 Budget strategy is to be guided by the 13 year plan announced in the 2022 Budget for budget repair and reconstruction. The aim of this plan was to reach a surplus by 2027 and, if desired, present an option to pay off the whole debt stock by 2034. The 13-year plan was intended to ensure PNG remains on a sustainable debt path and to support use of funds to reduce the

deficit as well as invest in new infrastructure and expanding public services in health, education and crucially law and order. Importantly, the plan is based on the conservative but internationally accepted practice of not including any new resource projects until they have reached the Final Investment Decision. The 2023 National Budget was guided by the Five (5) National Goals and Directive Principles, the National Strategy of Responsible Sustainable Development (StaRS), and PNG's commitment to the 17 United Nations Sustainable Development Goals (SDGs) that are captured in the development principles defined by Vision 2050, and Development Strategic Plan 2030, and woven into the prescriptions of Medium Term Development Plans (MTDPs) II and III.

The 2023 Budget continued to be built around the following 10 principles:

- spend the money we have more wisely;
- raise the revenues more fairly;
- finance the debt more cheaply;
- leverage friendly international support more intelligently;
- focus on growth in the agriculture, forestry and fishing sector, SMEs and the informal economy;
- distribute resource benefits more equitably;
- stimulate non-resource growth back to at least 5.0 per cent annually;
- comprehensive Government SOE reform program for cheaper energy, internet and water;
- getting foreign exchange flowing more freely; and
- create at least 10,000 jobs annually.

Some takeaways from the 2023 Budget:

- The Budget outlines four core objectives to support the development strategy; strong economy, connecting PNG, going rural and good governance.
- The Budget predicts that the economy will grow by 4.5% in 2023, with non-resource growth expected to be 4.8% and resource growth at 2%. Budget papers suggest that the growth will be led by the mining and quarrying sector, including the reopening of the Porgera gold mine.
- Majority of government spending will go to the Public Investment Program. Key projects

include developing roads to integrate with areas of production and economic activity. The Budget also allocates significant funding to increase law and order, health and education.

- The commercial banks will bear the brunt with a 45% corporate tax rate from 1 January 2023. In other measures, the tax-free threshold for individuals will be temporarily increased to K20,000, while the temporary GST exemption on fuel will end on 31 December, and the fuel excise exemption will end on 30 June 2023.
- Inflation is high at 6.6% in 2022 and is expected to moderate to 5.7% in 2023 and to 5.2% in the medium term.
- The overall debt has worsened from 50.2% in 2022 to 52.3% in 2023, it is expected to ease gradually to 46.8% in 2027.

So what do we think?

Following more than 2 years of the Global pandemic, spillovers from the Russia-Ukraine crisis, inflationary pressures and interest rate rises and disruptions to supply chain operations we don't see anything in this Budget that will help businesses resolve these issues in 2023 and most of the risks appear on the downside. We expect some key supply chain trends to continue:

- High freight prices and space availability
- Material scarcity
- Difficult demand forecasting
- Inflation

Managing your business's response to these can be a critical opportunity in the year ahead. And although there is no single solution to supply chain planning, combining a few different techniques can provide good outcomes:

- Liquidity - Having flexible access to capital. Cash on hand can mean the difference between meeting demand and going out of stock.
- Diversified sourcing - By developing multiple supplier relationships, it's easier to become more flexible and adjust to a constantly changing market.
- Improving demand forecasting - The best way to improve forecasting is by using automation to predict demand. With automated inventory alerts, forecasting tools and adequate liquidity, businesses are able to make better decisions based on predicted product demand or

historical sales. Prioritising forecasting can streamline inventory counts and reduce excess overhead fees.

We are seeing continued pressure on the IRC and PNG Customs to collect more revenues and both agencies are very vocal about their successes. Whilst tax revenues are expected to increase as economic conditions improve, there will not be many businesses that record growth in taxable income of 20% in 2022 and beyond. Therefore to meet their revenue targets we anticipate that the IRC and PNG Customs will increase collection related activities. You may have already seen the public releases by the IRC that they have commenced a comprehensive tax audit into two major mining companies operating in PNG. What hasn't been as actively reported is that the IRC also stepped up their SME tax audit activities in Lae and Kimbe before the end of 2022. This is similar to the audits and reviews performed by PNG Customs and other Government agencies.

Finally we are concerned about the readiness of PNG and the PNG Government departments for the next major resource project. The key areas that need to be addressed to help family businesses in PNG, include:

- Skilled labour shortages;
- Foreign currency issues;
- Continued disruptions/additional costs to business due to failures of key infrastructure in PNG;
- Delays faced with routine requests being made to key PNG Government departments; and
- Increased compliance costs due to inefficiencies in key authorities.

These are just some of the areas, however, most of you are well aware of the ongoing business issues. As a result we recommend that family business leaders are actively engaged with their business advisers and local industry groups to help make doing business in PNG more simple, efficient and effective.

IPA activities

The IPA launched their new Online Registry System at the beginning of December and all companies are required to re-register on the system before the end of November 2023. This also includes re-registration under the foreign entity provisions where applicable. Unfortunately, the migration process is still a work in progress with no confirmed date for when the migration will be completed.

The IPA strongly recommends that entities wait until the migration process has been completed before attempting re-registration as any information would need to be entered manually which may result in a duplicated record.

An entity will not be able to undertake any filings with the IPA until the re-registration process has been completed. The IPA has also agreed to waive any late filing fees.

However, this delay in IPA data migration is having other business implications. For example, the PNG Immigration and Citizenship Authority (ICA) are requiring entities to be re-registered before processing applications for PNG Work Permits and Employment Visas. As a consequence we are now assisting companies to manually re-register. Company certificates and extracts are also required for other purposes, such as opening bank accounts or IRC requests.



IRC activities

The IRC issued their updated SWT tables effective from 1 January 2023 to reflect the temporary increase to the tax free threshold for employees from K17,500 to K20,000. This change is only for a 12 month period and is scheduled to end 31 December 2023.

Unfortunately, the initial SWT tables released contained a number of errors and caused uncertainty for both taxpayers and the payroll software suppliers before being corrected. We have been hearing from a number of clients that different payroll providers have taken different approaches to making adjustments to their payroll software. It is important to note that the SWT tables or rates published in the National Gazette are the correct rates to apply (as this is the law) and any variance between those rates and the ones applied in payroll software may mean that there is an error. It is important that your payroll calculations and employment arrangements are reviewed on a regular

basis to reduce the risk of errors being made.

The IRC has also issued a Public Notice in January 2023 to advise that there is a significant caseload of GST Credit Offsets (CR1) and Refunds (CR2) requests. This only confirmed what most businesses already knew - long delays in having GST returns and credit transfer or refund forms processed due to the tightened credit validation processes. The Notice advises that to assist the IRC in reducing the current caseload, taxpayers and tax agents are requested to comply with the following requirements:

- When lodging requests, provide the sales and supplier listing in accordance with the public notice issued in September 2022;
- Provide any additional information as requested in a timely manner;
- Allow the officers time to conduct the verification of the requests;
- Requests on the status of the case are to be limited to a four-weekly interval;
- Do not send copies of the CR1 and CR2 forms, unless requested, and;
- Understand that it will initially take time for your request to be allocated and actioned.

The ultimate goal of the IRC is to reduce the turnaround time to under 60 days. Unfortunately there is little information provided in the Public Notice as to when the improvement to GST credits and GST refunds will be made or when the ultimate goal will be achieved. This issue is compounded by the fact that the IRC's section 65A GST scheme is also not working properly at the moment as we have a number of clients advising that they are having GST liabilities chased, and GST penalties imposed, due to either the non-compliance of PNG Government departments or slow or erroneous processing by the IRC.

As a result of these issues it is our view that a focus on tax compliance by PNG family business leaders is needed. The delays and costs associated with not having good processes or procedures in place and not being followed by your teams can become overwhelming. There may be light at the end of this tunnel once the myIRC system is fully functional to allow direct online lodgment, but this also appears to be facing delays.



5 issues private business leaders need to focus on in 2023

On 18 January 2023 the global PwC family business team hosted our first Powering Private session for 2023 which was on the five issues private business leaders need to focus on in 2023. It was one of the best sessions we have attended in the past 12 months... but we would say that. The key takeaways are summarised below.

A sobering statistic in the 26th PwC [CEO Survey](#) is that approximately four out of 10 CEOs predicted that their business would not be trading in 10 years from now if they continued on their current path.

To survive and thrive businesses need to address both the effects of the short term polycrisis and the impact that the long term Megatrends will have on their future. This requires business leaders to think and act differently, and so 2023 must be a year of true creativity. A year for adapting and reinventing, during which they'll have to combine the entrepreneurial spirit with speed, foresight and responsiveness to position themselves for future success.

In our view, private businesses will be in the forefront

of this change. Why? One reason is that they're agile by nature and can move faster than listed companies. Another is that they have the latitude to take risks without having to report to public shareholders. A third is their vast experience of reinventing themselves in response to changing market conditions – something many family businesses have done multiple times. Last but not least, the entrepreneurial spirit at the heart of private businesses gives them an edge in times of disruption and flux.



On a practical level, we believe that these five key areas are where private businesses should focus in 2023 and beyond.

1. Environmental, Social and Governance (ESG)

All businesses know they need to act on ESG issues. Now the time has come for real change – going beyond good intentions to create a practical plan that achieves tangible results.

Key questions include:

- Can we articulate in a 60 second elevator pitch how we are incorporating ESG into our business?
- Short term: How are we communicating our values and strategy? A key differentiator for many private and family businesses is the values upon which they are founded and operate. Have we considered if our strategy is still fit for purpose in a world dominated by the Megatrends and ESG, and if it needs to be adapted.
- Long term: How are we factoring in the impact of ESG on our business and its future valuation?

2. Supply chain

According to PwC's CEO Survey 2023, 44% of private business CEOs are adjusting their supply chains which is lower than listed company CEOs. Considering the growing geopolitical tensions between the West and countries such as China and Russia, now is the time to reflect on the vulnerability of supply chains.

Key questions include:

- How well positioned are we for a less globalised world with more localised supply chains?
- Short term: Have we developed scenarios for overcoming our dependence on suppliers and customers in certain countries?
- Long term: What opportunities will open up for new sourcing strategies such as onshoring and nearshoring?

3. Technology

In the past, private and family businesses sometimes struggled with digital transformation. But now they're making great strides, often energised by their 'digital native' NextGens.

Key questions include:

- Do we need to be more involved with our business-critical IT and cyber agenda rather than leaving it to our internal experts?
- Short term: How are we aligning our technology investments with the threats to resilience?
- Long term: Is our strategy fit for purpose in a platform-driven economy?



4. Workforce of the future

Private businesses gain a competitive edge from their employee relationships founded on shared values and mutual trust. But even the strongest bonds must be nurtured especially given the effects of the pandemic and technology on people's roles and working patterns.

Key questions include:

- Would I honestly recommend working in our private business to family and friends?
- Short term: Are we addressing **the immediate needs and expectations of our people** across aspects like pay, hybrid working, culture, training & development, and providing work that's meaningful and purposeful?
- Long term: Do we have a clear plan for ownership/leadership succession and the future of the business?

5. Never let a crisis go to waste

Our final point runs through all of the above and that's to never let a crisis go to waste. It also encapsulates this idea of thinking both short and long term. To survive and thrive in the face of multiple disruptions, private businesses may need to consider radical changes to aspects ranging from who owns the business to who takes executive decisions to how it's funded.

Key questions include:

- Am I still the best entrepreneur or leader to head up our private business?
- Short term: How effectively are we managing our cash flow and costs – and how alert are we to emerging weaknesses in our supply chain and customer base?
- Long term: Are we considering new funding or ownership opportunities, such as the journey to family equity or private equity investment?

5 issues private businesses should focus on in 2023



Never let a crisis go to waste

Don't miss your deadlines

2023 Provisional tax notice

Companies:

- first provisional tax notice - 30 Apr 2023
- second provisional tax notice - 31 Jul 2023
- third provisional tax notice - 31 Oct 2023

Individuals, Estates and Trusts

- Individuals - 30 Sep 2023
- Estates - 30 Sep 2023
- Trusts - 30 Sep 2023

Income Tax Return lodgements (tax agent program)

- taxable entities - 30 Aug 2023
- non-taxable entities - 31 Sep 2023

For substituted accounting period entities, the provisional tax due dates are four months, seven months and ten months after the preceding balance date, whilst the tax return lodgement date is four months after balance date for taxable entities.

2022 Annual reconciliations

- SWT Form S6 and S1 - 14 Feb 2023
- DWT Form D2 - 28 Feb 2023
- FCWT Form F2 - 28 Feb 2023
- MFWT Form M2 - 28 Feb 2023
- IWT Form I2 - 28 Feb 2023
- RWT Form R2 - 28 Feb 2023
- BIPT Form P8 - 15 Mar 2023

EPB events

Powering Private

Our second Powering Private event happened on 9 February 2023 on the topic of ESG. Our presenters discussed why and how private businesses should prioritise ESG in 2023. There was a lot of discussion around the risks and opportunities for private businesses around ESG and then pivoted to discuss the ESG journey.

A key takeaway from us was that PNG family businesses should not ignore ESG. To help you get started we have set out the four profiles of ESG maturity and ambition below.

While it's important to consider where your organization currently sits in terms of these ESG profiles, it's also crucial to think carefully and strategically about your ESG ambitions and goals.

<p>Minimalist</p> <p><i>My organization is just getting started, and we don't know where to begin.</i></p> 	<p>Pragmatist</p> <p><i>I'm skeptical of the cost and value of some of this, but my organization is facing increased pressure from regulators, investors, customers and employees about disclosing more.</i></p> 	<p>Strategist</p> <p><i>We've been a leader in ESG reporting for a while and we're pretty advanced—what's net-new that we need to pay attention to?</i></p> 	<p>Trailblazer</p> <p><i>We're entirely driven by purpose and sustainability—they're integrated into everything we do. Are there any improvements we can make?</i></p> 
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2023 Family Business Survey - It's time to report

We are delighted to invite you to our live webcast on 21 March from 11pm to mark the launch of PwC's 11th Global Family Business Survey. The report reveals the current thinking—and future outlook—of more than 2,000 family business leaders across 82 territories, including our largest participation to date from Papua New Guinea.

Family businesses have long benefited from a trust bonus over their non-family counterparts. But in today's world, the equation to earning - and keeping - trust has changed and family businesses need to keep up.

Want an exclusive preview of this year's survey findings? [Register now](#) for the 60-minute session where you'll hear from our Global Family Business Leader, Peter Englisch, together with prominent family business owners and leaders. They will discuss the key findings from this year's survey and share their views on the new formula of trust and next steps to ensure family businesses secure their legacy.



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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