

# Built around you

Entrepreneurial and Private Business  
Newsletter

## Issue 5 - April 2022

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**Welcome to our fifth 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.**

### What are we seeing?

#### Growth and resilience

From our discussions with leaders of PNG family and privately owned businesses we are hearing that doing business at the moment continues to be challenging. Most people were optimistic about business growth prospects for 2022 after two years of COVID-19 uncertainty, delays in reopening Porgera and expected progress on new resource projects. The FMCG sector in particular has started out 2022 strongly.

Those family businesses who have focused on the fundamentals of their business strategy and understanding their market, invested in good people with strong systems and processes, are now well placed to take advantage of the expected medium term growth. However there are number of areas where big challenges remain:

- Supply chains - although supply chain issues started during COVID, reliable sourcing of products and timely shipping has deteriorated sharply, as have the costs of transportation.
- Inflation - the recent spike in fuel prices, combined with supply and logistics issues is likely to lead to a significant increase in inflation during 2022 which could dampen consumer demand and suppress the recent growth in local manufacturing. Some measures to address this are expected in the April sitting of parliament.
- Political issues - the effects of the Russian invasion of Ukraine are hitting global economies, including PNG. Also, the mid-year elections in PNG may cause a short term boom for a few but will delay major investment until after the new government is sworn in and any changes in policy stance are announced.
- Talent - the last two years has put significant strain on our human resources and a re-think of how people want to work in the future. Demand for talented citizen staff has never been greater, putting pressure on staff costs and retention, whilst we are hearing of delays with work permits and employment visas
- Financing/foreign currency - as the costs of imports increase it is getting harder to source the additional foreign currency needed to keep stock levels at their optimum. The Banks continue to de-risk their loan portfolios whilst we have noted an increase in trade receivable days, suggesting that working capital is an issue for many.
- Government reform and regulations - more on reform later in this newsletter, but there is a strong focus from the government and its agencies in maximising revenue collections to finance its budget as well as provide some relief to PNG citizens from the increasing costs of living.



## Environment Social and Governance (ESG)

Leaders of PNG family and privately owned businesses are very good at addressing the Social aspects of ESG; although they are falling further behind their counterparts in other countries when it comes to the Environmental and Governance aspects. However, we have started to see a few areas of change in PNG:

- Financial institutions are starting to request ESG related information from PNG businesses as part of their annual loan review processes and new funding proposals
- Suppliers, customers and other stakeholders are requiring PNG businesses to be compliant with their own ESG practices - for example, understanding the carbon footprint associated with their supply chains
- The increasing importance of KYC procedures, knowing where the source of funds has come from, whether accumulated wealth is supportable and who you are dealing with - a lot more people are being asked to provide up to date identity documents or being questioned about their businesses by their overseas and local suppliers.

## Digital

From our discussions with leaders of PNG family and privately owned businesses we are hearing that the way of doing business has changed - a lot more businesses are using digital platforms, especially with local owners or management working more remotely. However, there are hidden challenges with the adoption of new digital platforms, for example:

- Understanding the real efficiency gains - there can be some great efficiencies achieved through utilising cloud technologies (Xero, GoPayroll as examples), however, the efficiencies need to be considered in light of a few areas:
  - The reliability and cost of the local communications infrastructure
  - The availability of support
  - Training and development of staff on new processes and systems.

- How secure is your information and data - unfortunately we have continued to hear more and more about cyber security issues from our clients with ransomware and phishing attacks. Consider:
  - when was the last time you upgraded your cyber security software?
  - when was the last time you checked to make sure your data recovery process worked?
  - when was the last time you spoke to your teams about the importance of cyber security?

## Future of the family business

The recent pandemic and disruptions to business and family life has caused a rethink for many leaders of PNG family and privately owned businesses. Strategies for the future are being changed or brought forward:

- A lot of the current generation of family business owners have spent time outside PNG and allowed the next generation to take on more of a leadership role within the organisation - these nextgens have proven to be capable leaders, but how will the dynamics change when the current generation return into their businesses on a day to day basis?
- Some owners are bringing forward their management or ownership succession plans, which may include an eventual exit from PNG. Any proposed business sale or residency transition needs to be carefully planned in order to maximize value and mitigate any adverse tax consequences. There are the added challenges of finding a buyer and getting the sale proceeds out of PNG. Any residency transition plan may require more time in PNG than what the family think is necessary, so communication is important.
- There are still a number of family business owners in PNG who are not yet ready to communicate their decisions around the future of their family businesses, or canvass the thoughts of the next generation. It is a difficult subject to approach; however, ignoring the difficulty doesn't make it go away.

## Taxation changes

In case you have missed out on our PwC Pulse for February and March 2022, we have highlighted below our summary of the main taxation developments in the last quarter.

### IRC exceeds collection targets

The IRC announced that it exceeded its collection targets. It is clear that GST remains a focus area for the IRC and there are a few things business leaders should be aware of:

- The extension of GST Section 65A deductions at source to most government agencies has stretched the resources of the IRC to deal with the reconciliation issues. Although you may be correctly lodging your GST returns and declaring the Section 65A credits, the GST will continue to show as outstanding and incur automatic penalties until the GST has been paid by the government agency and correctly reconciled and posted to your GST account by the IRC.
- GST refunds or credit offsets are a significant cash flow issue for many businesses. The IRC have tightened their verification processes which has led to lengthy delays in processing GST returns showing a credit position. Their first step is to verify the accuracy of the GST refund by way of a desktop audit. Then they will also check on the status of other outstanding lodgments or payments. Only then will they raise the GST assessment and process the credit or refund the GST based on the taxpayer's instruction (CR1 or CR2 Form).

We would expect the IRC to continue to focus its efforts on collecting revenue into 2022 and beyond as its collection targets increase in line with budget forecasts.

We are also seeing other PNG Government agencies being more active in relation to collection and enforcement activities. A number of our clients have had PNG Customs back duty claims or ICCC inspection visits in relation to price increases. This puts a lot of pressure on PNG family and privately owned businesses who are already under resourced.

### IRC 2022 Strategic Plan released

The IRC Strategic Plan was released early in 2022. This plan is formulated around trying to achieve the increase in their collection target of 15% (GST is an increase of 20%). Some of the expected initiatives include:

- further widening of the Section 65A system for direct collection of GST to POS retailers
- a direct collection at source system for SWT
- digital and technical enhancements to CoCs to reduce fraud
- further internal use of data analytics (and presumably the collection of more data to enable this initiative)
- further criminal prosecutions for tax offences
- new internal organisational design for the IRC.

Commitments to better systems for administration will certainly be welcomed by all taxpayers, as will the efforts at targeting cases of fraud. However, given the very real challenges of implementing complex systems and undertaking major change management programs simultaneously, 2022 will be a challenging year for the IRC and taxpayers.

### MyIRC platform progress

In December 2021, the IRC launched its online platform known as MyIRC. The platform is described as enabling taxpayers to make payments and lodgements online, to instigate enquiries, to look up valid TINs and CoCs etc. The platform also has a feature that allows tax agents to engage through the platform on behalf of their nominated clients. The platform has been launched as a minimal viable product - which means that many of the more advanced features are yet to be made available.

The core of the platform is the requirement for each taxpayer to be registered with a unique email address and to have its identity verified. While this follows a logical path in the context of individual taxpayers, corporate taxpayers, groups of companies and other forms of business may not find the system as natural. As the product does continue to evolve, we would expect that the range of guidance and answers to common challenges will become clearer.

## Dominant industry player levy

As originally introduced, the levy was a fixed fee levy payable by taxpayers that hold more than 40% market share (as determined by the respective regulators) in the banking or telecommunications sectors. The annual levy was set at PGK 95 million for telecommunications and PGK 190 million for the banking sector, being collected in three installments through the year.

In March, the Treasurer tabled a bill with amendments to the levy, which then became effective. The amendments further distinguish the treatment of the two sectors. For the banking sector, the value of the levy remains unchanged - but is now payable in a single installment on 30 September each year.

However, for the telecommunication sector, the levy has been altered to a once off amount of PGK 350 million payable on 30 March 2022. Given the imminent sale of the current dominant player in the telecommunications market, the levy has essentially been recast as an exit tax. However, it continues to be imposed on the PNG operating entity and not directly on a shareholder.

While the levy remains an impost on only two taxpayers in the country, the legislative mechanisms applied to create these additional taxation obligations remain at odds with the aims of tax reforms over recent years and does not appear to meet taxation best practice in terms of equity of application, and a key goal of tax being non-distortive in its application.

## Potential GST changes on the way

At the same Parliamentary session, the Treasurer also announced an intention to temporarily remove GST on selected essential goods for a six month period as a means to dampen inflation. No amending legislation was presented, but the Treasurer's speech listed a range of items from all fuels, feminine hygiene products, rice, cooking oils, tinned fish and other grocery staples.

However during the final sitting in April 2022 the removal of GST was restricted to just fuel, together with a removal of fuel excise duties.



## Companies Act changes

There have been some recent amendments to the Companies Act that facilitate increased automation of the Registrar of Companies and tighten provisions around KYC and AML.

The key amendment includes:

- automatic deregistration of companies that are more than 6 months late with filing of annual returns
- more straightforward reinstatement process for deregistered companies
- mandatory re-registration of local and overseas companies within one year of commencement of amendments to ensure accuracy of IPA data
- inclusion of provision relating to anti-money laundering and anti-terrorism
- collection of information relating to beneficial ownership of shares
- extended Registrar's power to inspect companies subject to Securities Commission Act 2015 and Capital Markets Act 2015

We will keep you updated on the impact of these amendments in the coming weeks.

## Don't miss your deadlines

### 2022 Provisional tax notice

#### Companies:

- first provisional tax notice - 30 Apr 2022
- second provisional tax notice - 31 Jul 2022
- third provisional tax notice - 31 Oct 2022

#### Individuals, Estates and Trusts

- Individuals - 30 Sep 2022
- Estates - 30 Sep 2022
- Trusts - 30 Sep 2022

### Income Tax Return lodgements (tax agent program)

- taxable entities - 30 Jun 2022
- non-taxable entities - 31 Jul 2022

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 2022
- DWT Form D2 - 28 Feb 2022
- FCWT Form F2 - 28 Feb 2022
- MFWT Form M2 - 28 Feb 2022
- IWT Form I2 - 28 Feb 2022
- RWT Form R2 - 28 Feb 2022
- BIPT Form P8 - 15 Mar 2022

## EPB events and publications

We have been very busy in EPB over the past few months in relation to completing a number of events and a publication.

On 5 April 2022, Michael Collins hosted a PwC EBP Family Business Hour breakfast event in Kokopo. Michael spoke about what we are seeing in the market at the moment as well as results from our recent PwC NextGen Survey Report for 2022.

On 13 April 2022, Stephen Beach and Michael Collins hosted a PwC EPB Family Business Hour cocktail event in Lae. Stephen spoke about what we are seeing in the market at the moment and Michael shared insights from our PwC NextGen Survey Report for 2022.

Thank you to those who attended our events in Kokopo and Lae.

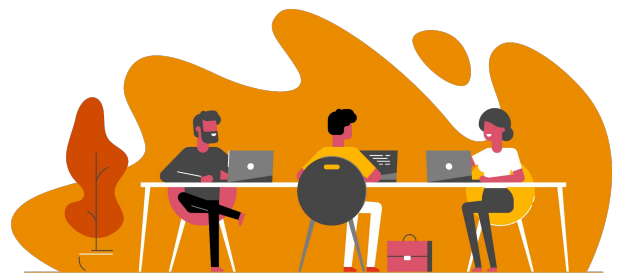
We have also issued our 9th Let's Chat article on Family Governance entitled "Improving family dynamics through stronger family dynamics".

## 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
9. Improving family dynamics through stronger family governance



## NextGen Survey

Our PwC NextGen Survey report was released on 29 March 2022. Thank you to all the PNG NextGens who participated this year (we had a 350% increase in participants from two years ago). Key areas from the report include:

- NextGen priority: The growth imperative for family businesses
- Time to act on ESG
- Educating future leaders
- Securing the family's future
- Succession plans
- Bridging the family gender gap
- Future wealth management
- How to challenge the status quo: Become the leader your family and business need

If you would like to read a copy of our report please click this link -

<https://www.pwc.com/gx/en/next-gen-survey/downloads/pwc-next-gen-survey-2022.pdf>

# We're here to listen

# Ready to help

## One more thing ...

The final sitting of Parliament before the upcoming elections in PNG last week did see a flurry of activity, including amendments relating to GST and excise duties on fuel, tax changes to facilitate the restart of Porgera and amendments to the Investment Promotion Act. We are yet to receive the Bills that were tabled and passed, but there will be changes that impact all of us. Refer to our PwC PNG Pulse for latest news -

<https://www.pwc.com/pg/en/publications/png-pulse-keeping-you-informed/png-pulse-april-2022.html>.

Of course, we are happy to discuss these changes with you and their impacts on your family and business planning, so please contact us to organise a time to discuss.

## 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.

## Contacts

Jonathan Seeto  
[jonathan.seeto@pwc.com](mailto:jonathan.seeto@pwc.com)

Stephen Beach  
[stephen.beach@pwc.com](mailto:stephen.beach@pwc.com)

Michael Collins  
[michael.j.collins@pwc.com](mailto:michael.j.collins@pwc.com)

[www.pwc.com/pg](http://www.pwc.com/pg)