

Friday, 7 March 2014

Head of Secretariat
PNG Tax Review
PO Box 1598
Boroko NCD
Papua New Guinea

Re: Free Human Capital Development for Papua New Guinea Nationals - Tax review submission

Dear Sir / Madam

This document is submitted to the Tax Review Committee to request a review of the tax legislation of Papua New Guinea that will benefit the Government of Papua New Guinea through increased tax revenue as well as provide free adult education to the nationals of Papua New Guinea.

Prior to making this submission, RdL completed considerable research into the matter and has spoken with many senior government and department leaders of PNG as well as private tax professionals within PNG.

The research was conducted to ensure compliance issues were being addressed and to also confirm with the government departments that the proposal was a viable option worth considering for tax review. The feedback from all parties has been extremely positive and as such I submit this proposal for your consideration.

1. The Proposal

Registered training providers (through the National Training Council of PNG) could seek donations from corporate organisations across PNG to fund Adult Human Capital Development opportunities to the Nationals of PNG at no cost to the participant.

This proposal is about stimulating corporate investment in Adult Human Capital Development of PNG citizens

The need to invest more in Human Capital Development has never been greater for the country of PNG. The demands of the knowledge economy coupled with the transformational nature of the growth impacting on PNG means frequent changes in skill requirements. Most of the people who will be in the workforce in 2020 are in it today, so it is becoming more urgent to make the best use of the workers we have now and increase their capability.

This is an exciting opportunity for PNG citizen employees who may otherwise not be able to attend one of the leadership development modules on offer.

Genuine training providers pride themselves on creating innovative solutions taking into account all previous country experience and partnering with the community to ensure improved education and knowledge of the participants and assisting them in transferring this newly acquired knowledge into behaviours either in the community or back in the

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workforce. The right modules are designed to improve work place behaviour and assist the individuals and the company to achieve the desired goals.

All trainers that are involved in facilitation must have no less than a TAE41100 qualification and registered with the NTC.

The proposal for review is as follows;

1. Training providers will partner with organisations to seek funding to provide Human Capital Development modules in public forums (by invitation only) for community members and participants who would otherwise be unable to attend such training
1. Training providers will conduct annual development program events (invitation only) for up to 200 people per event in Port Moresby (2), Lae (2), Mt Hagen, Madang and Kokopo (and other locations where viable)
2. The objective of the development program events is to increase the capability of adult PNG citizens and encourage behavioural change that will assist the participant increase their effectiveness not only in the workplace but in the wider community and their family
3. Participants will be selected from high schools, universities, technical colleges and other sources as deemed appropriate
4. The funder will be widely publicised as the financial sponsor of all events and as an investor in the PNG community to increase citizen capability
5. All event bookings and logistics would be managed by the training provider. Applicant and participant details will be closely managed on an electronic data base ensuring there is no duplication but more importantly to enable the training provider to follow up with participants post training to assist the participant with implementation.
6. The sponsor would be promoted as an organisation investing in the future growth and education of the PNG community
7. The sponsor would receive (but not be limited to) the following promotion and media activity for each event to maximise the branding of the sponsor name and its commitment to the PNG community;
 - a. Coverage on www.businessadvantagepng.com website (and associated email alert): editorial coverage, banners, 'announcements', 'events'
 - b. Production of high-quality press release for distribution to local media (PNG newspapers)
 - c. Editorials and advertisements in third-party media such as Post Courier, the National etc, possibly even Paradise magazine
 - d. Targeted email or print communication to relevant companies either in PNG or abroad
 - e. High profile branding on the registration brochure (pdf and hard copy)
 - f. Profiling with 'media partners' for the project, including Port Moresby Chamber of Commerce, Lae Chamber of Commerce, PNG Human Resource Institute
 - g. Promotional banners at the entrance to all venues hosting the events
 - h. Promotional banners within all rooms where facilitation takes place
8. The sponsor would be promoted as the sponsor of the training provider Management Helpline where attendees can call for support and assistance 24/7
9. The training provider will provide one guest motivational speaker at each event. This is likely to come from the sporting arena and may include NRL legends
10. The training provider would provide a detailed strategic plan of each event for review with the sponsor or other legislative bodies as requested
11. The training provider will partner with the sponsor to ensure maximum value out of each event - help leverage the events to "enrich the sponsor corporate brand".
12. The training provider will facilitate events that accommodate all adult learning styles and will include video's, workshops and lecture style facilitation skills

The events will be unlike any other being delivered in Papua New Guinea and focuses heavily on adult education, ensuring behavioural change and branding the sponsor as a true PNG community provider. The behavioural change is encouraged through follow up and the provision of the Management Helpline. The Management Helpline provides participants with professional advice at no fee to the participant. The events will have a solid mix of theory and practical activity to support all learning types.

A review of enterprise training funding (Training Levy) by Richard Johanson ("A review on National Training Funds" - attachment 3) incorporating Asia, South America, and the Pacific including Fiji stated the following.

"The rationale of enterprise training funds, or enterprise incentive schemes, is to increase the productivity and competitiveness of firms by raising the skills of workers. The objective is to increase the incidence of training within firms. The source of financing is enterprise levies, usually on payroll. The modus operandi varies according to type of scheme: (a) cost reimbursement, (b) levy - grant and (c) levy exemption (train, or pay). Beneficiaries tend to be larger enterprises, and within enterprises, those at higher occupational levels. Small firms tend not to benefit proportionately. Enterprise incentive funds are the most common form of levy scheme world-wide. Rigorous evaluation is generally lacking, but in some cases levy schemes have led to an increase in the volume of training within enterprises."

Where the above paper highlights the fact that Training Levy funding creates opportunity for large firms and higher performing employees, this proposal submission is to create balance and opportunity for all levels of employees across all sizes or organisation.

2. The Funding

Corporates would make donations (the Sponsor) to the training provider to facilitate and conduct Human Capital Development programs to PNG nationals at no cost to the participants.

In return for their donation, the sponsor would seek training levy and double deduction opportunities under the PNG tax legislation. This currently does not exist for third party donations.

The Sponsor would seek training levy deductions for the following invoices provided by the training provider;

1. The training provider to invoice the sponsor for all out of pocket expenses
2. The training provider to invoice the sponsor an agreed fee for each participant attending the annual events
3. The training provider to invoice the sponsor an agreed management fee
4. The training provider would invoice the sponsor for accommodation for participants (where no other option is available)
5. The training provider would invoice the sponsor for all advertising and marketing expenses

3. Advantages to the PNG Government

Currently large organisations who are unable to spend their entire training levy are writing out cheques to training institutes within PNG and there is no benefit to the nationals of PNG nor is there any gain to the Government of PNG through tax income.

Under this proposal, the training provider receives the donations from the sponsor and must invest the funds in adult Human Capital Development within PNG for the benefit of PNG Nationals. This transaction must take place by a PNG registered training provider or by an offshore training provider on the proviso that the Government of PNG receives withholding tax on the total sum payable.

Should this proposal be accepted by the Tax Review Committee there will be an increase in tax revenue for the Government of PNG through the tax income of all donations made by third parties to training providers. There would also be an increase in tax collection from the investment in local training materials, venues, airfares etc.

Research conducted would indicate that the Government of PNG could increase tax revenue in excess of 18,000,000 kina (based on average tax rate of 30%) should this tax review proposal be accepted.

Although these figures may not appear to be significant, the growth in this market would lead to significantly increased tax revenue for the Government of PNG.

The most significant benefit to the Government and Nationals of PNG is the growth in leadership capability across the community at no cost to the Government of PNG.

Should this proposal be accepted, free education programs would be provided to the people of PNG without any investment by the Government of PNG – this is in line with the current Government's plan of increasing educational levels of the nationals of PNG at no cost to the participants.

4. Disadvantages of the proposal

As this is a tax review paper, we have investigated possible shortcomings of this proposal.

As it stands we see two possible concerns the Government may have.

1. Where a Company does not spend the full 2% of their salaries and wages training levy, they would be liable to pay the balance to the government as a tax or pay the balance to a university or registered training institute to use in training.
2. Where the Company does not fully spend their training levy, they are not training and thus the training levy is not fulfilling the planned outcome of the training levy itself. If the training levy is not being used there is no training happening.

The upside is an increase in income tax revenue from the training providers which is a higher tax rate but there is no loss of revenue to the Government of PNG.

There is no doubt issues of audit and control but this would fall under the responsibility of the NTC.

3. Specific tax concession

Under currently tax legislation, in order for a company to obtain a training levy deduction, there must be a relationship between the company and the person receiving the training (the Employee). Where there is no direct relationship, the company is unable to claim a training levy deduction.

This proposal is asking the Tax Review Committee to consider the following;

1. The company (Sponsor) makes donations to a third party training provider
2. The third party training provider conducts Adult Human Capital Development Programs with the donated funds to people other than direct employees of the sponsor
3. The third party training provider invests the funds in training materials, training venues, travel for participants, advertising of the event and other associated costs
4. The sponsor seeks a training levy deduction for all invoices provided to the third party training provider for the Adult Human Capital Development donation

4. Other Country Success

There has been extensive studies conducted globally on this very topic. Research conducted states that where there is suitable tax concessions then organisations are more inclined to invest in Human Capital Development. The research also indicates that the investment tends to be in the younger workforce as this is where the long term benefits to the companies and the country lie.

A recent paper (March 2009) titled “Lessons from Other Countries Regarding Incentives for Employer-Sponsored Training” was compiled by the Canadian Policy Research Networks – See hyper link attached Appendix 1

A very recent paper (July 2013 - attachment 2) states that co funding of training is critical. It also states that under most countries tax legislation, co funding of training leads to companies investing in their high performing team members rather than achieving balance at all levels of the company. The lower grade jobs in the Company receive little or no co funding where the high achievers are receiving near full benefit.

The proposal submitted above would eliminate this issue and ensure a balance in co funding and Human Capital Development across skill levels within an organisation.

Yours sincerely

Robert de Loryn

Attachments

Attachment 1

Lessons from Other Countries Regarding Incentives for Employer-Sponsored Training – CPRN Research Paper - March 2009
Canadian Policy Research Networks

http://www.cprn.org/documents/51134_EN.pdf

Attachment 2

International Evidence Review on Co-funding for Training – July 2013. - BIS Research paper No. 116
UK Department for Business Innovation and skills

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210881/bis-13-1014-international-evidence-review-on-co-funding-for-training.pdf

Attachment 3

A Review of national training funds 2009
The World Bank – Social protection and labour

<http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Labor-Market-DP/0922.pdf>

Attachment 4

Understanding training levies – Evidence report 47 – July 2012
UK Commission for employment and skills

<http://www.ukces.org.uk/assets/ukces/docs/publications/evidence-report-47-understanding-levies.pdf>