



# Kapi & Clarke

## Chartered Accountants

- Auditors
- Business advisers
- Liquidators
- Tax agents

A: P O Box 2238 Lae

E: [jc@kapiandclarke.com.pg](mailto:jc@kapiandclarke.com.pg)

F: 472-7908

T: 472-7910

W: [kapiandclarke.com](http://kapiandclarke.com)

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1. GST should be recoverable on staff accommodation. In PNG this is a valid business expense and tax on benefits should be increased to compensate. Many companies are not aware of this provision anyway and therefore unless identified in audit the IRC is losing this revenue.
2. Notwithstanding the recent tax circulars on Foreign Contracts and Employment Contracts there are still many small companies either PNG or foreign registered employing one person which are providing services to one company in PNG. These schemes are essentially to avoid paying group tax. The overseas often companies fail to register for group tax and GST. Local companies are established by expats to provide management or skilled labour services to other companies in PNG and often the owners of those companies can leave the country without having accounted for GST or Group tax. While I understand the IRC intends to audit these areas, I would recommend the following legislative changes to prevent this happening.
  - a) Deductions for labour hire and management services with unrelated parties within PNG which exceed K100,000 in a tax year should only be tax deductible if the company lodges the contract and a copy of the IPA extract for the company providing the services with the company tax return. Companies should be warned that if they enter in to a contract owned by an individual who is trying to avoid group tax that the payments could be assessed on the paying company at 42% or the deduction disallowed at the discretion of the IRC.
  - b) When contractors lodge Foreign Contracts for determination the IRC should automatically send out a request for an overseas ownership extract and a request for the subcontractor to register for GST and Group Tax for all contracts exceeding double tax treaty monthly limits. Failure to respond within 60 days results in the IRC increasing the deduction instruction to the contractor to 48%.
3. Introduction of group relief for tax losses and carry back of losses for two years.
4. Payment of interest on income tax and GST refunds in line with other jurisdictions.
5. Scrapping the training levy as it achieves nothing. Companies have to train as it's in their interest to localise positions.
6. Allow a double tax deduction for attendee's fees for approved training courses extending the apprentice deduction.
7. Tag all stamp duty transaction to the company's income tax account or individual's personal tax account to ensure that all property transactions are reflected in the company's or individual tax returns.
8. Increase the rate of GST on all non-exempt and zero rated items to 15% excluding groceries.
9. Lift the tax free threshold to K20,000 thereby eliminating a lot of tedious tax calculations for low paid workers.

10. Change the legislation so year of tax is the same as the year of income. This confusing system of dating all assessments a year ahead is something which relates back to Notional Tax and should be changed.

11. I set out below a comment from Krishnan Muthappan, the owner of Markham Farming Company Limited, a client of my firm.

*"We are Copra crushing and Plantation Company that exports its products finds it very difficult to manage GST filing and refund collection. We have more than Kina 800,000 outstanding for more than six months. This amount is completely unnecessary blocking of our working capital. Besides so much of paper work for filing GST returns. Almost 10% of the accountants time is used for following up on GST refunds"*

***"The company has opened a large scale copra processing plant on Bougainville with was opened by the Agriculture Minister"***

*"Secondly Bougainville Investment, we are the first and only large scale agriculture investor, and we should be exempt from Income tax. It involves significant risks; high insurance premiums (insurance companies consider as war zone), operating difficulties and cost of operation should be considered for giving INCOME TAX AND GST EXEMPTIONS on INPUTS"*

*"Markham Farming Company employs direct more than 1,000 employees who should be given lower tax rates".*

The agriculture sector has now been hit by the Bank of PNG fixing the exchange rate.

John Clarke  
**PARTNER**  
**6.6.14**