KPMG Kundu

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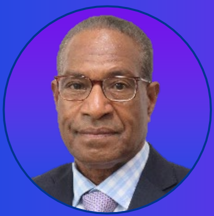
Foreword



In this month's Kundu we focus on two key developments :

IFRS 18 – The new Standard on Financial Statement Presentation.

The new standard will come into effect from 1 January 2027. Early preparation and application is recommended as adoption before the effective date is also permitted.

KPMG's go to First Impressions publication and high level guide on the new standard is a good resource for further information.

IRC Activity

Our Tax Partner presented at a recent seminar and offers commentary on IRC activity. These are important issues to note for tax payers as IRC drives tax compliance

Enjoy the read this month and reach out with any enquiries at kmcentee@kpmg.com.au if you would like to see KPMG cover specific topics in future editions.

IFRS 18 – Improved consistency, comparability and transparency of financial statement presentation.

by Maria Hernandez, Director, Audit & Assurance Services

Investors are demanding more relevant information and transparency in the presentation of companies' financial statements. They want greater comparability between financial statements and more consistency in how particular measures are communicated.

IFRS 18 Presentation and Disclosure in Financial Statements seeks to respond to these demands by requiring a more structured income statement and greater disaggregation of information. IFRS 18 also brings significant changes to how companies present their income statement and what information they need to disclose. It also makes certain 'non-GAAP' measures part of their audited financial statements for the first time.

The key changes are as follows:

1. More structured income statement

- New subtotals including "operating profit"
- Income and expenses classified into three categories – operating and investing, financing
- Main business activities drive the classification of income and expenses

2. Disclosed and audited management performance measures (MPMs)

- MPMs are now disclosed in the financial statements and subject to audit
- MPMs capture some but not all 'non-GAAP' measures
- New disclosures may involve additional effort

3. Greater disaggregation of information

- New disclosures for items labelled as 'other'
- Enhanced guidance on how to group information within the financial statements
- Remains a judgement area

The new standard is effective for annual periods beginning on or after 1 January 2027 (early adoption is permitted) but preparing for its implementation will take time. Companies will need to make new judgements, navigate many new requirements, and oversee changes to systems and processes. When preparing for the implementation of IFRS 18:

- Assess the impacts on your financial statements – including new judgements;

- Communicate the impacts with investors;
- Consider how the new requirements impact financial reporting systems, processes and controls; and
- Monitor any changes in the local reporting landscape.

Overall, the new requirements will help companies to better tell their story. Companies need to focus on the detailed requirements to apply to their specific circumstances.

KPMG's First Impressions publication provides our detailed insights and comprehensive analysis on applying the new standard, together with illustrative examples. Companies can also use this high-level guide.

About the author: Maria is a certified public accountant. She is an audit director with over 12 years of PNG and International experience in providing financial statement audits across various industries.

A marked increase in IRC activity by Karen McEntee, Partner, Business & Tax Advisory Services

I presented at a seminar last week and made observations on the change in IRC's approach since I first started working in PNG in early 2014. In 2014 late lodgements and late payments were commonplace as penalties were not automatically applied for the late lodgement of GST and withholding tax returns. By late 2014/early 2015, with the move to the IRC's SIGTAS system and the imposition of very punitive automatic penalties of up to 20% flat tax and 20% interest p.a. for late filing, there was a positive shift in taxpayer behaviour.

In recent times we have seen a marked increase in IRC activity and in their approach to taxpayer compliance. It remains to be seen what impact this may have on taxpayer behavior going forward. But it is also important to note that taxpayers who use reputable tax agents do so because they wish to be tax compliant and they wish to lodge their taxes correctly. If they wish to do the wrong thing, they go elsewhere.

The following is a snapshot of some of the circulars and communications from the IRC in the past couple of months:

#01 Tin deregistration

Of the 220,000 registered taxpayers in PNG only circa 35,000 have paid taxes or lodged tax returns. IRC propose deregistering inactive TIN registrations and require banks to close the bank accounts of those deregistered. A notice period may be provided to those with inactive TINs to allow them time to bring their tax returns up to date.

#02 Late lodgers

IRC are proposing to take a tougher stance on taxpayers that are late lodging their tax returns.

#03 Tax agents

Early 2023 saw the deregistration of non-compliant tax agents. There is also increased monitoring in recent months by IRC of the percentages of tax returns lodged each month by tax agents. Tax agents have targets that IRC expect them to meet - however, due to delays in the completion of financial audits these targets are not always attainable.

#04 Lawyers

IRC recently issued a circular stating they would be targeting law firms. Action has been taken to review the bank accounts of law firms to verify income streams. In addition, IRC are concerned that same lawyers act as directors on non-compliant companies.

#05 Mining companies

IRC issued a recent circular outlining their concern that some mining companies may not have been paying dividends to shareholders and therefore not returning dividend withholding tax to IRC over the 10 year period reviewed. There may well be legitimate reasons for this but as this is one of a number of circulars in recent years it highlights IRCs focus on mining companies in particular

#06 GST fraud

IRC recently reported that they have identified alleged GST fraud involving the fabrication of invoices between related parties. As anyone seeking a GST refund knows, IRC are performing audits on every GST return lodged. Taxpayers should have valid GST invoices to support all reported transactions and expect cross-checking.

#07 Cross checking – Jan 10

IRC performed a cross check against tax records on the 71 businesses that reported being affected by the 10 January unrest. Only 36 had paid taxes in the previous 3 years. IRC identified alleged discrepancies between loss of earnings reported and the actual tax returns lodged.

#08 Cross checking – with immigration records

IRC identified visa violations and tax evasion through cross checking against ICA records. It was reported that employees with a visa for one company was in fact working for multiple companies, employers were evading PNG taxes by signing a foreign and a PNG contract with employees and/or paying a low wage for PNG work.

It is clear that IRC attitudes to taxpayer late lodgements and non compliance has changed in the past ten years with much of that change in the past couple of years. It remains to be seen what the future holds but as this is PNG prepare for the unexpected.

About the author: Karen is the only Big 4 Firm Tax Partner living full-time in PNG. She brings substantial experience having worked in PNG for the last 10 years and with over 10 more years in International tax experience.

Our social media presence

As usual, you may access our regular multi-disciplined thought leadership pieces, newsletters, and updates on our KPMG PNG LinkedIn page. Also, connect via our webpage www.kpmg.com.pg and Facebook https://www.facebook.com/pngkpmg/

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