

Association of Superannuation Funds of PNG Inc.
P O Box 5791
BOROKO
National Capital District

Attention: Chris Hagan

11 October 2004

Our Ref: Admin\PB:AB:lnib

Dear Sir

Re: SUPERANNUATION FOR EXPATRIATES

We refer to the email dated 27 September 2004 from Rod Mitchell requesting for our comments on the proposed amendments to the provisions of the Superannuation Act applicable to non-citizen employees.

Our comments are as follows:

We agree with the analysis on the expatriate superannuation contribution and the proposed amendments

- ⇒ Agree that Section 10 (2) of the Superannuation Act 2000 should be repealed and replaced with a new section to make contributions by non-citizens to approved superannuation funds voluntary an election that the non-citizen would have to make at the time of signing the contract.
- ⇒ Agree that the Superannuation Act should be amended to include non-citizen contributors at par with citizen employees on withdrawal of benefits.
- ⇒ Agree that the Superannuation Act be amended to allow non-citizen contributors to withdraw benefits if remaining unemployed for three months. (However the issue is can a non-citizen remain in the country without a job/work permit for three months?)

We further recommend that:

- ⇒ Voluntary contribution to approved superannuation funds for citizens and non-citizens be rewarded by way of tax incentives on salary and wages tax.
- ⇒ Income Tax and Bank of Papua New Guinea approval procedures to be relaxed and if possible withdrawn for repatriation of superannuation benefits.
- ⇒ The current threshold of the deductibility of employer contribution to an approved superannuation fund of 15% should be increased to at least 20% to benefit the expatriates (and also citizen contributors) who have long term plans to stay in PNG. This would enable the withdrawals to be taxed at a concessionary rate subject to fulfilling other conditions.

Current scenario

- ⇒ Expatriates contribute to a superannuation of their choice normally outside PNG.
- ⇒ Contributions to an offshore fund either form part of a remuneration package or are made from after tax salary.
- ⇒ Employers contributing to offshore funds on behalf of an expatriate employee cannot claim the contribution as a deductible expense for tax purposes.

- ⇒ Superannuation Regulation provides for compulsory contributions by expatriates to an approved superannuation fund in PNG after June 2007.
- ⇒ An expatriate may apply for exemption from mandatory contributions with the Central bank where the employee contributes to superannuation in a foreign country.
- ⇒ Expatriates who have contributed to an approved superannuation fund may withdraw benefits accrued up to 31 May 2002 immediately on departure.
- ⇒ The Superannuation Act 2000 provides that a non-citizen would have to wait for twelve months from departure to withdraw the benefits accrued after 31 May 2002.

Concerns

- ⇒ Contribution to an approved superannuation fund in PNG is exposed to currency risks.
- ⇒ The twelve-month waiting period brings in a lot of uncertainties for expatriates departing the country.
- ⇒ Many expatriates will not be willing to contribute to two superannuation funds (country of domicile and in PNG) unless significant personal tax rebates are available in PNG.
- ⇒ Cost of employing expatriates may increase and passed on to PNG consumers, unless the employer contribution results in a realignment of the salary package.

Prognosis

- ⇒ Expatriate contribution to approved superannuation funds should be made voluntary, an election the employee will have to make at the time of signing the contract so that employer contribution may be packaged accordingly.
- ⇒ The current threshold of the deductibility of employer contribution to an approved superannuation fund of 15% should be increased to at least 20% to benefit the expatriates (and also citizen contributors) who have long term plans to stay in PNG. This would enable the withdrawals to be taxed at a concessionary rate subject to fulfilling other conditions.
- ⇒ Expatriates should be at par with citizen employees in respect of the conditions applicable for withdrawal of benefits.
- ⇒ Superannuation Act should be amended to allow a non-citizen to withdraw benefits at the time of departing PNG.
- ⇒ Income Tax and Bank of Papua New Guinea approval procedures to be relaxed and if possible withdrawn for repatriation of superannuation benefits.

In view of the above, we concur with your proposal to amend the Superannuation Act. Should you need any assistance or further advice in regards to your proposal please contact Arun Basu, Manager or Lutz Heim, Partner at 308 7000.

Yours sincerely

DELOITTE TOUCHE TOHMATSU



PAUL BARBER
Managing Partner