



## MEDIA RELEASE

### MEDIA RESPONSE re LOGGING REPORT

In response to media enquiries IRC wishes to point out that it is unable to comment publicly on the affairs of specific taxpayers due to the secrecy provisions imposed on IRC under the Income Tax Act (1959). However, the IRC monitors the logging industry, along with numerous other industries, based on specific industry risk profiles.

Some of the risk indicators which might warrant further attention are as follows:

- Entities that continually return losses;
- Entities funded by foreign shareholders or other entities without any evidence of any commercial terms of borrowing or return on investment;
- Use of off shore marketing hubs;
- Complex structuring and /or the use of tax havens or where normal tracing rules as to ownership or flow of funds leads to jurisdictions which will not disclose such information.
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IRC has had legislation to deal with transfer pricing since 1983 (Division 15 of the Income Tax Act), and has worked to develop institutional capacity over a number of years. However, it has been difficult to apply these laws due to complexities arising from issues such as unavailability of competitive pricing data, and utilisation of offshore tax havens and marketing hubs (obscuring relationships between companies).

In recent years, to address this, the IRC commenced implementation of a more robust transfer pricing regime in PNG as follows:

Phase I – Introduction & Public Awareness;

Phase II – Data Collection & Risk Assessment and

Phase III – Audits/Advance Pricing Agreements.

The release of Taxation Circular No 2 by IRC in 2011 provided guidelines for the first time on the procedures and processes taxpayers involved in international dealings should have in place to demonstrate that dealings with associated enterprises are arm's length (i.e. not unduly favourable). In addition there is a new requirement that all companies with international related party dealings must lodge a yearly International Dealings Schedule (IDS) that sets out the quantum of the dealings, the transfer pricing method used, and records maintained to support the use of that pricing.

The Data Collection & Risk Assessment Phase for the new transfer pricing regime confirmed the logging sector as a high risk sector and flagged international related party transactions as a particular high risk issue. It should be noted that 'high risk' does not necessarily mean 'non-compliant'; there may in some cases be valid reasons for their reported situation.

The IRC is undertaking a coordinated effort, within its powers and resources, to ensure compliance with the tax laws.



## INTERNAL REVENUE COMMISSION



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PNG has now an extensive network of double tax agreements, including with a number of countries in the Asia-Pacific region. In addition, it is currently in the process of becoming an active member of the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes. This should improve PNG's ability to source information that will be of use in understanding the validity of sales pricing adopted by logging companies but more so on tax evasion/fraud including money laundering from cross-border transactions. This information may also be of use to other government authorities in PNG that are responsible for regulating the export of logs from PNG.

Furthermore, the IRC is also looking to engage in joint action with taxation authorities of other regional jurisdictions involved in logging, to better establish a value chain for entities involved in the industry.

However, to the extent that non-compliance may exist in the logging sector, IRC cannot tackle it alone. To be successful, all relevant agencies in PNG must work together.

#### Authorised by

**Betty Palaso, OBE**  
**Commissioner-General**

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