Internal Revenue Commission

2017 BUDGET CHANGES
Taxpayer Awareness, Kokopo

23 June 2017

Outline

1. Key Changes

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4. Other Changes

1. Key Changes – Effective 1 Jan 2017

➢ **Standardised Corporate Income Tax Rates – Resource Companies**

- Standard resident CIT rate of 30% applies to all companies in the resource industry
- Policy intent to provide certainty to investors in the resource industry by ensuring a level playing field for all

Resource companies	***Old CIT Rate***	***New CIT Rate***
New Petroleum Project	***45%***	***30%***
Incentive Rate Petroleum Projects	***30%***	***30%***
Other Petroleum Project	***50%***	***30%***
Gas Operations	***30%***	***30%***
Resident Mining Companies	***30%***	***30%***
Non-Resident Mining Companies	***40%***	***30%***

➢ Dividend Withholding Tax (DWT)

- Intent to simplify administration
- Liability only with (i) resident individuals (ii) resident trust estates (iii) non-residents
- DWT is a final tax in the hands of the above 3 groups of taxpayers
- Inter-company dividend payments are no longer subject to DWT
- New DWT rate 15% across all sectors
- Exception - resource projects subject to fiscal stability clauses.

Paying Company	*Old DWT rate*	*New DWT rate*
Non-Resource Company	***17%***	***15%***
Petroleum/Gas Companies	***exempt***	***15%***
Mining Companies	***10%***	***15%***
Offshore Dividend Received by Resident Companies	***17%***	***N/A***

Employee Housing Benefits - Salary and Wages Tax

- High Cost Housing category capped at K5,000 per week rental
- Introduction of 2 additional categories of **Up Market Cost Housing** and **Very High Cost**

Type of Housing	*Value of taxable benefit per fortnight*		
	Area 1	*Area 2*	*Area 3*
Very High Cost house or flat	*K2500.00*	*K1500.00*	*K0.00*
Up-Market Cost house or flat	*K1500.00*	*K1000.00*	*K0.00*
High cost house or flat	*K700.00*	*K500.00*	*K0.00*
Medium cost house or flat	*K400.00*	*K300.00*	*K0.00*
Low cost house or flat	*K160.00*	*K150.00*	*K0.00*
Mess/barracks	*K60.00*	*K50.00*	*K0.00*
Government mess/barracks	*K7.00*	*K7.00*	*K0.00*
Employees in an approved citizen employee first time home buyer scheme	*K0.00*	*K0.00*	*K0.00*

➢Employee Housing Benefits - Salary and Wages Tax

- *High Cost Housing – market rental between K3, 000.00 and K5, 000.00 per week*
- *Up-Market Cost Housing – market rental between K5, 000.00 and K7, 000.00 per week*
- *Very High Cost housing – market rental of K7, 000.00 per week or more*

- The prescribed fortnightly values remain unchanged in the Low, Medium and the lower end of the High Cost Housing categories.

- Kokopo, Alotau and Kimbe elevated from Area 2 to Area 1 and Buka, Arawa, Lihir and Rabaul have been added to the Area 2 list.

Additional Profits Tax

- Previously applied only to gas projects
- Additional profits tax (APT) now extended to all existing and new mining and petroleum projects
- There is now a single accumulation rate of 15% and a single APT rate of 30%
- The only exception is for projects subject to fiscal stability agreements with the State who continue to be subject to the two tiered accumulation rates of 17.5% and 20% with APT rates of 7.5% and 10% respectively

Repeal of Interest Income Exemption

- Interest income derived by a non-resident lenders from a company engaged in mining, petroleum or gas operations in PNG is now subject to IWT (Section 35(2)(e))
- Exception – resource projects subject to fiscal stability agreements with the State

Repeal of Dividend Income Exemption

- Dividend income paid directly or indirectly out of income that was assessable income from petroleum and gas operations, is now subject to DWT (Section 42(3))
- Exception – resource projects subject to fiscal stability agreements with the State

Repeal of Double Deduction for Exploration Expenditure

- The double deduction for exploration expenditure for mining companies in has been repealed(Section 156E)
- Consistent with policy intent of streamlining the treatment for all resources companies

Foreign Contractors

- FCWT rate is now a flat 15% applying directly on gross contract receipts
- Exception – resource projects subject to fiscal stability agreements with the State
- The deemed profit margin method where 25% of the gross income is deemed as the taxable income on top of which the non-resident rate of 48% is applied, has been done away with
- The ascertainment of FCWT is no longer an “assessment” - as such, the formal objection rights do not arise
- The option/election to lodge returns no longer applies

➢ Introduction of Country By Country (CBC) Reporting Regime

- CBC Report to be filed by all PNG resident enterprises that are part of a multinational enterprise (MNE) group or are the ultimate parent entity of an MNE group
- Monetary revenue threshold of K2.3 billion for the group
- CBC Report to be lodged within 12 months of the end of the MNE group's annual reporting period.
- The CBC Report itself has two distinct detailed requirements:

✓ One is identification of each constituent entity within the MNE group globally, its location tax jurisdiction wise and nature of each entity's business activities.

✓ The second is aggregate detail on the gross revenues, profit outcomes, tax paid or payable, capital employed, retained earnings, workforce size and tangible assets for each tax jurisdiction in which the MNE group operates

- CBC Report information to be used only for transfer pricing risk assessment purposes, for identifying other BEPS related risks or for appropriate economic and statistical analysis
- Transfer pricing adjustments by the IRC not to be based on the CBC report

2. Transitional Issues

➢ Dividend Withholding Tax (DWT)

- Companies with existing DWT credits stemming from dividends derived prior to 1 January 2017 may still claim a DWT refund provided all accurate records are kept and substantiated.
- Sunset clause in s.189E allowing for this

➢ Fiscal Stability Issue – LNG Project

- Tax treatment of LNG Project and LNG Project participants to remain unchanged
- General savings provision in s.155 intended to have this effect – policy intent
- Income Tax Rates Act already preserves the treatment of taxpayers subject to fiscal stability clauses

Transitional Issues

- **Foreign Contractors Withholding Tax (FCWT)**

- Those foreign entities that have existing approvals to lodge returns from the Commissioner General, will only be allowed to lodge their returns for the 2016 year of income. There will be no more lodgements of returns for ensuing years.
- Income accrued from 2016 but FCWT to be paid in 2017 due to accruals accounting basis to be subject to the old FCWT rate – to avoid potential double taxation
- Existing prescribed contracts to be subject to the new 15% rate for all payments made after 1 Jan 2017
- DTA non-discrimination argument regarding lodgement to be treated on a case-by-case basis

3. Unintended Consequences

- **Restriction on the Application of the Dividend Rebate**
  - Removal of sunset clause
  - Dividend rebate to continue to apply to ensure companies paying dividends are not taxed twice on the dividend income
- **Removal of the DWT exemption to authorised superannuation funds**
  - ASF's to be exempted from DWT
  - ASF's to continue to be treated as companies for tax purposes
  - In light of the changes to the DWT regime, ASF's should effectively be immune from DWT obligations

- Policy intent of the Government that the dividend rebate remain and that ASF's continue to be exempted from DWT.
- Matters being addressed with Treasury to be corrected at the earliest opportunity with application from 1 January 2017 as intended.
- IRC to administer the law in respect of the above matters according to the policy intent of the Government so that relevant taxpayers are not affected.

4. Other Changes – Effective 1 Jan 2017

➢ **Repeal of Stamp Duty on Betting Books**

- There is no longer any stamp duty applicable on betting books. This is consistent with the changes to the book-makers turnover tax regime where betting shops are no longer required to obtain betting books from the IRC.

➢ **Bookmakers Turn Over Tax**

- The book-makers turnover tax rate has been increased from 4% to 15%. It is now a monthly tax due by the 21st of each month

➢ **Gaming Tax**

- The betting tax imposed under the ***Gaming Control Act*** has increased from 46% to 55% of the gross profits made by gaming machine operators.

End