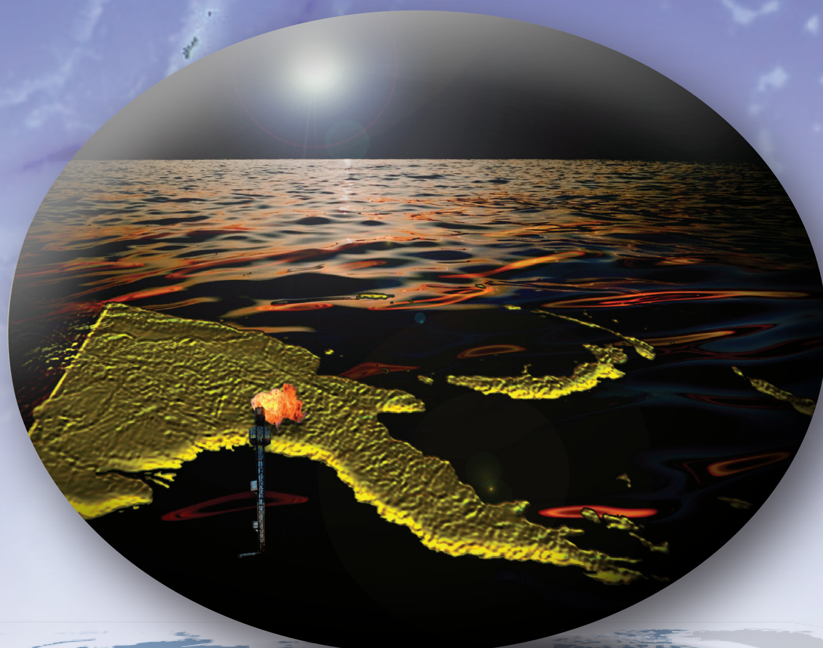
APEC Papua New Guinea



Invest in Papua New Guinea

Compiled and Edited by
Frank Senge Kolma

Taxation

Disclaimer: The material in this section is supplied curtesy of the Internal Revenue Commission. It is intended only as a guide and as at time of publication this information was accurate. The IRC and its officers are not liable for any damage resulting from the reliance or use of this material other than as a guide. The publisher is likewise not to be held liable. Any specific queries should be addressed to the Policy & Advice of the Legal Services Dvisions of the IRC.

PNG's Tax Regime

PNG boasts a mature and relatively well defined tax regime. The tax laws are administered by the Internal Revenue Commission (IRC) and customs law by PNG Customs Services Commission (CSC).

Taxation of companies

- **Tax year**
  The fiscal year applied to the corporate income tax is a calendar year running from 1st January to 31st December unless companies have obtained approval from the IRC to adopt a substituted financial period.
- **Filing date**
  28th February in the following year (except companies with a substituted financial period)
- **Tax rates**

	Resident companies	Non-resident companies
General	30%	48%
Mining	30%	40%
Petroleum*	45% 4	5%
Gas	30%	30%

** 50% for companies derived income in prior to 31 December 2000*

- **Tax payment system**
  * Provisional tax payment for non-resource companies
  Tax is imposed based on the last return lodged and payable in three instalments on 30 April, 31 July

and 31 October (tax adjustment may occur after the assessment is issued by the IRC).

* Advance tax payment only for mining/petroleum/gas companies
  Tax is imposed on the estimated profit of current year and payable in three instalments on 30 April, 31 July and 31 October.

Taxation of individual

* Tax year: a calendar year
* Filing date: 28th February of following year
* Tax rates:

Income (kina)	Residents	Non-residents
0 -	0%	22%
10,000 –	22%	
18,000 –	30%	
33,000 –	35%	
70,000 –	40%	
250,000 –	42%	

* Salary and wage:
  Salary or wages received by an employee have tax withheld on a fortnightly basis by the employer, and the tax is calculated on a progressive mode taking into account various factors such as number of family dependant on you. IRC provides "Salary or Wages Tax Calculator" on the website, which is available for download. Individual taxpayers who earn only salary or wage income are not required to lodge annual tax return.

Tax Clearances

Individuals leaving the country do not require tax clearance. However, amounts of money exceeding K50,000 per person, per year, can be remitted only after a tax clearance certificate has been obtained, certifying that no taxes are outstanding and all tax requirements to date have been met. In most cases, two weeks notice should be given. If money is being sent to a tax haven country, all amounts of money, irrespective of size, require tax clearance.

Adult residents of Papua New Guinea may remit up to the foreign currency equivalent of K500,000 each calendar year for any purpose, subject to taxation clearance. Certain categories of transactions do not count towards the remittance allowance. These include, for example, payments which are trade related involving the physical movement of goods.

Withholding and other taxes

Taxes other than income taxes can be found below. Currently PNG has no capital gains, death (probate) or gift taxes.

Withholding taxes		Other taxes	
Dividend withholding tax Non-resource Petroleum/gas Mining	17% 0% 10%	Goods and services tax (GST)	10%
		Training levy[*1]	2% of total payroll
		Business payments tax[*2]	10%
Interest withholding tax	15%	Stamp duty[*3]	2-5%
Royalty withholding tax	10%	Additional Profit Tax[*4]	2%
Foreign contractors tax	12%	Super-annuation[*5]	25%
Management fee withholding tax	17%	Trusts[*5]	30%

1. **Training levy:**
   May apply to a company without providing staff trainings.
2. **Business payments tax:**
   Tax deducted from business payments made to persons/organizations registered as Paying Authorities without holding the Certificate of Compliance.
3. **Stamp duty:**
   It is payable on the transfer, agreement for sale, declaration of trust over, or grant of certain property. The amount of duty payable depends on the type of property and its value (a minimum amount is set for certain items other than the rate shown).
4. **Additional Profit Tax:**
   Only applicable to LNG projects (abolished APT for resource companies)
5. **Superannuation /trusts:**
   Income tax imposed to authorized superannuation funds or trusts.

Customs/excise tariff

Tax	Rate	Conditions	Law
Import GST	10%	GST is applicable to imported goods.	Goods and Service Tax Act
Import duties	12.5% to 35%	80% of goods are duty free.	Schedule No.1 Customs Tariff Act
Export duties	5%	Applied to logs, gold, crocodile skin and sandal wood	Schedule No. 2 Customs Tariff Act
Import excise	10 % to 120%	Tax on luxurious goods depending on the item	Excise Tariff Act
Local excise	fluctuate	Rates fluctuate bi-annually for Alcohol, Tabaco, cigarettes 6 toea per litre for petroleum	Customs Excise Act

** Currently PNG has no capital gain, death (probate) or gift taxes.*

Investment Incentives

Successive governments have introduced and maintained a significant range of measures designed to facilitate legitimate domestic and foreign investment. The summary of its scheme is introduced in the following sections. For detailed information, "A Guide to the Taxation Incentives for Business & Investment in PNG", is available on the IRC website (*www.irc.gov.pg*).

At the end of 2012, Prime Minister O'Neill announced a wide-ranging review of the resources tax regime. While promising no immediate changes or drastic or radical changes to existing laws, he signaled that his government wanted to achieve fair and equitable distribution of benefits to all stakeholders.

Tax incentive for all

Tax incentives that will be applicable to all investors are summarized below.

Incentives	Conditions	Law
200% deduction for training expenditure (including salary)	Full time training of PNG citizen staff at a Government training institution or a prescribed tertiary place of education.	Section 72A, Income Tax Act
150% deduction for R&D expenditure1	Expenses incurred in accordance with an R&D plan approved by a committee chaired by IRC.	Section 95, Income Tax Act
10-year tax holiday for rural development	New active business set up in specially designated under-developed areas that are not dependent on the exploitation of natural resources (resource companies are excluded from the exemption).	Section 45 I-M, Income Tax Act 6AA Income Tax Regulation
Accelerated depreciation	Using a diminishing value method, the percentage rate of depreciation can optionally be accelerated to 1.5 times.	Income Tax Act Income Tax Regulation
	An extra 20% for expenditures on new capital plants or articles acquired in the year of income.	
	30% for expenditures on new non oil- fired plants (not powered by imported petroleum products or LNG).	
	An extra 20% for expenditure on existing plant for the purpose of fuel conservation.	
	Depreciation methods can be switched to maximize amounts depreciated.	
Exemption from dividend withholding tax	Profits distributed from gas and petroleum operators.	Section 42(3) Income Tax Act
10% reduced rate applied to dividend withholding tax	Profits distributed by mining operators.	Ditto
Exclusion of dividend withholding tax	An individual (resident/non-resident), non-resident person including a company, and a resident trust.	S189D Income Tax Act
Allowable deduction for capital expenditure relating to solar heating	Expenditure incurred for the cost, including installation, of plant or equipment for the use in heating solar power.	Section 68A Income Tax Act
Tax deduction for gifts	Gift to accredited political parties (s.69), sporting bodies (s.69A) and prescribed charitable bodies (s.69E).	Sections 69, Section 69A and Section 69E Income Tax Act

This incentive is not available to all but most of sectors prescribed in the Income Tax Regulations

Tax incentive for specific sectors

Tax incentives other than those applied to investors of all sectors are also available to investors in specific sectors. Additional tax incentives may be granted to resource projects, and it is advisable to obtain full length and most updated information from the IRC.

Incentive	Sector	Conditions	Law
Wage subsidy for new manufactured products (Subsidy is phased out in 5 years by 40%, 30%, 20%, 15%, 10%)	Manufacturing	The product first has to be agreed to list as a "new manufacture product" by the Commissioner General.	Industrial Development (Wage Subsidy) Act 1984
Exemption of income from sale of exports for 4 years (cease on 31 Dec.2014)	Manufacturing	Qualified goods prescribed under the Income Tax Regulation (Regulation 10A)	Section 45A-H Income Tax Act
200% deduction for export market development expenditure	Manufacturing Tourism	The tax saving from the double deduction cannot exceed 75% of the actual costs incurred.	Section 72C Income Tax Act
Infrastructure tax credit Up to 1.5% of assessable income (up to only 0.75% for resource companies)	Resource1 companies Primary producers Large-scale hotels	The tax credit allowable cannot exceed tax payable in any one year. Expenditures on infrastructure projects approved by the Department of National Planning & Monitoring.	Section 219C Income Tax Act Income Tax Regulation 10F
100% deduction for certain agricultural development expenses	Agriculture	Expenditure prescribed in the Income Tax Act in the year of income.	Section 97 Income Tax Act
Pass through tax deductions to shareholders	Agriculture	100% deduction for agricultural development expenses and depreciation of agriculture plant and equipment. A declaration must be made to the Commissioner General.	Section 97A Income Tax Act
150% deduction for agriculture extension services	Agriculture	Expenditure on extension services undertaken under a plan approved by a committee chaired by the Department of Agriculture & Livestock.	Section 97B Income Tax Act
Indefinite carry forward of losses	Primary producers Resource companies	Companies in general are subject to a 20 year limitation.	Section 101 Income Tax Act
1.25% credit for "emergency repairs" of Highland Highways	Resource companies	Expenditure for emergency repairs to the Highlands Highway from Lae to Koroba and Togoba Junction to Wabag. May applied to all eligible tax payers.	Sec 219C (6) Income Tax Act (new subsection)
Additional income tax deduction on exploration expenditure	Resource companies	Period of 20 years pursuant to the issue of a Resource Development License (additional to the normal business deductions).	Section 155A & S155C Tax Income Act
Interest withholding tax concession	Resource companies	Exemption to non-resident lenders. Section 35(2)	Income Tax Act
Exemption of income tax / salary & wage tax on certain travel benefits	Resource companies	Companies: one annual leave fare between employment place and place of origin/recruitment. Employees: domestic fares in PNG & international fares	Section 40AA Income Tax Act
10. Employment Stamp duties concession	Resource companies	Various concessions are available on transfer of mining information, of exploration licenses and of development licenses.	Stamp Duties Act, Schedule
Tax Credits in respect of Banks Community Service obligations	Banks	Expenditure on providing extended and new banking facilities or services in non-urban areas.	Section 219D Income Tax Act
Accelerated depreciation	Agriculture production Fishing Tourism	100% for expenditure on new plans or articles either used directly for agricultural production or for fishing by residents engaged in commercial fishing. 100% for boats or ships and ancillary equipment used as dive boats by accredited scuba diving / snorkeling operators.	Section 73-78 Income Tax Act
	Manufacturing	100% for expenditure on industrial plants used in manufacturing process with an effective life of more than 5 years.	Section 155F Income Tax Act
	Tourism	An extra 55% for new capital plants /articles acquired by hotel, other shortstay accommodation facilities and restaurants.	Section 73-78 Income Tax Act

Resource here implies to mining, petroleum and gas sectors.

Double Taxation Treaties

The PNG government has concluded nine bilateral tax treaties called "Double Tax Agreements (DTAs)". These generally allocate taxing rights over specific types of income derived by residents of the two respective treaty partner countries.

		Dividends %	Interest %	Royalties %
Non-treaty	Resident	17 (0, 10)	15 (0)	5 (0)
	Non-Resident	17 (0, 10)	15 (0)	30 (10)
Treaty	Australia	17	10	10
	Canada	17	10	10
	China	15	10	10
	Fiji	17	10	15
	Germany	15	10	10
	Korea	15	10	10
	Malaysia	15	15	10
	Singapore	15	10	10
	UK	17	10	10
	New Zealand	15	10	10
	Indonesia	15	10	10

The DTAs with two more countries, namely Indonesia and New Zealand, have been signed and are yet to be ratified.

Bilateral Investment Agreements

The Investment Promotion Act contains investment guarantees for certified foreign investors. Similar types of guarantees may be available to some investors under bilateral agreements for the promotion and protection of investment. PNG has signed and/or entered into such agreements with following countries.

Partner country	Date of signature	Date of entry into force
Australia	3 Sep. 1990	20 Oct. 1991
China	12 Apr. 1991	12 Feb. 1993
Germany	12 Nov. 1980	3 Nov. 1983
Japan	26 Apr. 2011	17 Jan. 2014
Malaysia	27 Oct. 1992	-
UK	14 May 1981	22 Dec. 1981

Foreign Exchange Control

In December 2004, foreign exchange controls were progressively liberalised in PNG to seek exemptions from the Bank of PNG (Central Bank) approval for a range of transactions. However the Bank of Papua New Guinea still has control over the following areas:

* The opening of offshore foreign accounts (including offshore kina accounts);
* Licensing of gold exporters;
* Licensing of foreign exchange dealers; and
* Removal from PNG of physical cash in excess of PGK20,000 or foreign currency equivalent.

GST Incentives			
Zero Rating of Exports Exported goods are not subject to Goods & Services Tax (GST). Exporters receive a full refund of GST paid on all inputs to production of exported goods or services.	Exports		Section 19 of Goods & Services Tax Act
Zero Rating of Goods Supplied to Resource Companies. Goods or services, other than cars, supplied to a resource company for use in resource operations are zero-rated for GST.	Petroleum, Oil & Gas & Mining	Applies to registered holders of mining, petroleum or gas tenements and that the Goods must use for the resource operations.	Section 7 (f) & 21(1)(d) of Goods & Services Tax Act
Other Zero Rated Goods	Selected		Section 21(1) and Division 6 of Goods & Services Tax Act


Revenue House

Taxation incentives for petroleum, oil and gas and mining operations

There is a standard corporate income tax rate for all resource projects as follows:

Type of project	Rate of tax
New Petroleum Project	30%
Incentive Rate Petroleum Projects	30%
Other Petroleum Project	30%
Gas Operations	30%
Resident Mining Companies	30%
Non-Resident Mining Companies	30%

Royalty and Development Levy (both calculated at 2% of well value of petroleum) is also payable by petroleum and gas companies.

The total of royalty and development levy paid by a petroleum or designated gas project in a year of income shall be an allowable deduction in respect of that year of income.

Any tax credit from the payment of royalty and development levies prior to 1 January 2018 may be carried to the next succeeding year of income until fully utilized.

Carry forward of losses

Taxpayers involved in mining petroleum and gas operations can carry forward tax losses indefinitely. Other companies are subject to a 20 year limitation.

Pooling of exploration expenditure

Mining, Petroleum & Gas Companies can elect at the end of each year of income to bring in exploration expenditure incurred outside of the project operation during that same year of income and claim this expenditure as a deduction against the project income. Amount allowed as a tax deduction should not exceed the lesser of 25% of the un-deducted pool balance or such amount that would reduce income tax payable by 10%. Election must be made at the end of the year of income in which the expenditure was incurred.

Fiscal Stability Provisions

The fiscal stability provision allows the State to enter with the resource companies in an agreement which guarantees the fiscal stability of the project in respect of duplicable taxes, duties, fees and other fiscal imposts and the rates at which such taxes, duties, fees and other fiscal imposts will be charged and the manner in which liability in respect thereof will be calculated in the event of a change in the applicable law after the effective date of the agreement.

Fiscal Stability Provisions for gas, mining & petroleum

The fiscal stability provision allows the State to enter with the resource companies in an agreement which guarantees the fiscal stability of the project in respect of duplicable taxes, duties, fees and other fiscal imposts and the rates at which such taxes, duties, fees and other fiscal imposts will be charged and the manner in which liability in respect thereof will be calculated in the event of a change in the applicable law after the effective date of the agreement.

Mining and petroleum companies have the option of applying for fiscal stability for the original financing period or twenty years whichever is the lesser. Gas companies can apply for a period of time necessary to produce a volume or quantity of resource as defined in the relevant gas agreement to be a foundation volume or quantity for that long- term gas project. Where such a provision applies, a 2 percent premium applies to the income profit tax rates.

Exemption from Income Tax/Salaries and Wages Tax of Certain Travel Benefits

In addition to the exemption of one annual leave fare from places of employment to the place of origin or recruitment, employees of resource companies are entitled to:

1)- Exemption on their domestic fares within Papua New Guinea and,

2)-Additional Exemption on their international fares.

Stamp Duties Concession for Intra-Company Transfers

Additional exemption on international fares is granted if the hardship and remoteness of the employment location from urban centres can be demonstrated.

Stamp Duty Concession on Transfer of Mining Information

The stamp duty on the transfer of mining information for both exploration and development licenses has been limited to K10, 000.00 this was designed to encourage mining, petroleum and gas exploration.

Stamp Duties Concession on Transfer of Exploration Licenses

If an exploration license is transferred for the historical cost of obtaining the mining information, total stamp duties to be paid will be:

1) A K10,000.00 incentive rate for the mining information transfer.
2) An incentive rate of K10,000 for the transfer of the license.

Or a total of K20,000.00.

If an exploration license is transferred for more than the historical cost of obtaining the mining information, total stamp duties to be paid will be:

1) A K10,000.00 incentive rate for the mining information transfer.
2) An incentive charge of 2 percent applied on the excess between the price charged and the historical cost (instead of 5 percent previously).

Stamp Duties Concession on Transfer of Development Licenses

If a development license is transferred, total stamp duties to be paid will be:

(1)- A K 10, 000.00 incentive rate for the mining information transfer.

(2)- An incentive rate of 2 percent of license value instead of the 5 percent usually charged on transfers of real property valued at over K 140,000.00.

Stamp Duties Concession for Intra-Company Transfers

Transfers resulting from company reorganization or what is known as "intra-group" transfers attract a concessional stamp duty that is limited to K600.00 per transaction up to a maximum of K12, 500.00

- The parent company must own at least 95% of the subsidiary for at least three years prior to the date of the application for exemption.

- At least 20% of the issued capital or voting rights of the ultimate parent company has to have held a minimum of 20% of the issued capital or voting rights for at least three years prior to the date of the application for exemption.

- The conveyance must not have the purpose or effect of avoiding or delaying the payment of any tax under the Income Tax Act 1959.

- The companies must operate as an intra- group operation for a period of 5 years, otherwise the full stamp duty and penalties will apply.