



PNG Pulse

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Changes for Management Fee Withholding Tax

The IRC has announced that effective 1 October, there is a significant change in their interpretation and administration of the taxation of management fees payable to non-resident entities.

The announcement has been made through a public notice and essentially raises the same issue as the IRC notice that was issued and then withdrawn in February 2021.

The IRC states their position that management fees payable to most of the countries with which PNG has double tax agreements will be subject to withholding tax to the extent the payment represents a taxable management fee. The taxable management fee means that part of a management fee that represents an allowable deduction for the PNG resident payor.

As noted in February, of particular importance are the treaties with Australia, New Zealand, Singapore and Canada. For these countries, the IRC expects that withholding tax of 17% will be imposed. For management fees payable to the UK, Malaysia, and Indonesia, a management fee withholding tax of 10% is imposed, while 15% applies to Fiji. The IRC's view of the interpretation of the application of the double tax agreements with China and South Korea is that management fee withholding tax does not apply to payments to these jurisdictions.

The impact of this change in interpretation is expected to be significant and to have flow on effects with respect to areas such as tax clearance. We recommend that taxpayers consider the new interpretation, including the technical merits of previous and current IRC positions in order to determine their response.

If you want to know how this will affect your business, get in touch with your PwC tax adviser.

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