Papua New Guinea
Tax Facts and Figures 2002

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This booklet outlines Papua New Guinea’s taxation laws for the fiscal year ended 31 December 2002. It is based on the law as at 1 May 2002.

The information represents a summary of significant features and should be used as a guide only. Further information or assistance may be obtained from either of the offices of PricewaterhouseCoopers listed at the back of this publication.

Changes in tax law and practice are advised to clients and others on request through our specialist “Tax updates”. If you would like to receive these and other publications of PricewaterhouseCoopers, or would like information on our services to business in Papua New Guinea, please contact either of our offices.

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These notes are not intended to be comprehensive. Readers are advised that before acting on any matter arising in these notes, they should discuss the situation with a PricewaterhouseCoopers specialist partner.
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<td>Profits on Leased Assets</td>
<td>30</td>
</tr>
<tr>
<td>Interest</td>
<td>30</td>
</tr>
<tr>
<td>Timber Operations</td>
<td>30</td>
</tr>
</tbody>
</table>
**Allowable Deductions**

Allowable deductions include revenue expenditure incurred in the production of assessable income or in carrying on a business for the purpose of producing assessable income (but see special provisions relating to salary or wages expenses), depreciation, various special allowances and losses of prior years.

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**Liability to Income Tax**

Income tax was first levied in Papua New Guinea in 1959. The power to levy income tax is one given solely to the National Government by the Constitution.

Income tax is imposed on all residents of Papua New Guinea, whether they are companies or individuals. The tax applies to world-wide income. Income tax is also imposed on the Papua New Guinea sourced income of non-residents.

**Residence**

In broad terms, an individual will be treated as a resident of Papua New Guinea in a given year of income if they actually spend, continuously or intermittently, more than six months in the country in that year.

A company will be treated as a resident if it is incorporated in Papua New Guinea or if it has its central management and control in Papua New Guinea, or if it carries on business in Papua New Guinea and has its voting power controlled by shareholders who are residents here. Trust estates have their own strict residence rules.

A Papua New Guinea resident’s taxable income is computed as follows:

<table>
<thead>
<tr>
<th>Gross income from all sources</th>
<th>X</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: exempt income</td>
<td>Y</td>
</tr>
<tr>
<td>Assessable income</td>
<td>X-Y</td>
</tr>
<tr>
<td>Less: allowable deductions</td>
<td>Z</td>
</tr>
<tr>
<td><strong>Taxable income</strong></td>
<td>X-Y-Z</td>
</tr>
</tbody>
</table>

**Gross Income**

Gross income includes income from personal exertion (employment or business), interest, dividends, royalties, allowances and bonuses.

**Exempt Income**

Exempt income includes education allowances, scholarships or bursaries, export sales of qualifying goods (see page 20), certain Papua New Guinea sourced dividend income and certain government pensions.
Taxation of Individuals

Financial Period
The financial period consists of the twelve month period ending 31 December.

Personal Income Tax Rates 2001
The rates for residents are as follows:

<table>
<thead>
<tr>
<th>Taxable income K</th>
<th>Tax there on K</th>
<th>Rates of tax on excess %</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,500</td>
<td>Nil</td>
<td>25</td>
</tr>
<tr>
<td>16,000</td>
<td>2,625</td>
<td>35</td>
</tr>
<tr>
<td>70,000</td>
<td>21,525</td>
<td>40</td>
</tr>
<tr>
<td>95,000</td>
<td>31,525</td>
<td>47</td>
</tr>
</tbody>
</table>

Non-resident rates are:

<table>
<thead>
<tr>
<th>Taxable income K</th>
<th>Tax there on K</th>
<th>Rates of tax on excess %</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,500</td>
<td>Nil</td>
<td>25</td>
</tr>
<tr>
<td>16,000</td>
<td>4,000</td>
<td>35</td>
</tr>
<tr>
<td>70,000</td>
<td>22,900</td>
<td>40</td>
</tr>
<tr>
<td>95,000</td>
<td>32,900</td>
<td>47</td>
</tr>
</tbody>
</table>

Assessable Income
Each individual is assessed separately. There is no joint assessment for husbands and wives.

Taxpayers who have only employment income and are fully taxed at source by virtue of salary or wages tax need not complete an annual income tax return.

Taxpayers with other income such as interest, dividends, rental income, trust distribution or partnership income must disclose this in an annual income tax return.

Exempt Income
Distributions by a Unit Trust, a Property Unit Trust and a Landowner Resources Trust are exempt from income tax.

Advances of Leave or Superannuation
Advances paid from amounts owed in respect of recreation leave, furlough, or superannuation to enable an employee to purchase his or her first home are not taxable at the date of the advance provided the cost of the property is K75,000 or less.

Principal Allowable Deductions
Salary or wage earners receive a 25% rebate for allowable deductions (refer to definition page 2).

Non-salary or wage earners are allowed deductions incurred in earning their assessable income. These deductions may include:
- interest on borrowed funds
- travelling expenses, in limited circumstances
The rebate is the lesser of 25% of the net education expenses incurred (ie after deducting any subsidies or other assistance received) or K750 per dependent student child.

Notwithstanding the existence of this rebate, education allowances paid by an employer to meet the annual fees imposed by a school or college for the purpose of educating a student child of an employee (but not including tertiary education) are tax free. In other words, the rebate only applies where a taxpayer does not receive assistance from his or her employer.

**Private Expenditure**

Expenditure of a private nature such as dental or medical costs are neither deductible nor subject to rebate or credit.

**Salary or Wages Tax**

Salary or wages are widely defined to include, in addition to normal employment related receipts and benefits, any remuneration paid as consultancy fees or fees for professional services, where the remuneration is paid wholly or substantially for personal services performed in Papua New Guinea.

Important features of the salary or wages tax provisions are:

- salary or wages are subject to fortnightly assessment of tax, regardless of the employer’s actual pay period. The tax assessed is a final tax and is determined by reference to standard rate tables
- a salary or wages tax declaration is required to be completed by the employee on commencement of employment or when the employee’s circumstances change
- the employer is responsible for the collection of salary or wages tax and payment thereof to the Internal Revenue Commission. The employer will be held liable where under-deduction of salary or wages tax occurs
- an employee receiving fully taxed salary or wages is generally not required to lodge a tax return unless he or she is in receipt of other assessable income exceeding K100.

**Dependant Rebates**

The allowable dependant rebates for salary or wage earners are built into the tax rate schedule.

Non-salary or wage earners who are resident in Papua New Guinea receive the following rebates for dependants:

<table>
<thead>
<tr>
<th>Dependant Type</th>
<th>Rebate Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>First dependant</td>
<td>15% of gross tax with a maximum of K450 and a minimum of K45</td>
</tr>
<tr>
<td>Second, third and fourth dependants</td>
<td>10% of gross tax with a maximum of K300 and a minimum of K30</td>
</tr>
</tbody>
</table>

A dependant is a person whose separate net income does not exceed K1,040 in the year and who is either:

- a spouse of the taxpayer
- an unmarried child of the taxpayer of less than 16 years of age
- a student receiving full-time education who is over 16, but less than 25, years of age
- a Papua New Guinea resident parent of the taxpayer or the taxpayer’s spouse.

**Education Expenses Rebate**

Where an individual incurs expenses in relation to the education of a dependent child at any primary or high school (within or outside PNG), the individual may claim a tax rebate for the expenses.
**Fringe Benefits**

Benefits provided to employees are taxed at the prescribed values listed below:

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Taxable Value Per Fortnight</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accommodation</strong></td>
<td></td>
</tr>
<tr>
<td>owned by employer</td>
<td>Nil to K180 per fortnight</td>
</tr>
<tr>
<td>rented by employer</td>
<td>depending on area, market</td>
</tr>
<tr>
<td>within PNG</td>
<td>value or market rental per</td>
</tr>
<tr>
<td>provided outside PNG</td>
<td>K180 per fortnight.</td>
</tr>
<tr>
<td>Mess / Barracks</td>
<td>Nil to K45 per fortnight</td>
</tr>
<tr>
<td>depending on area.</td>
<td></td>
</tr>
<tr>
<td>Government Mess / Barracks</td>
<td>Nil to K5 per fortnight</td>
</tr>
<tr>
<td>depending on area.</td>
<td></td>
</tr>
<tr>
<td><strong>Housing Allowance</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The employee will be taxed</td>
</tr>
<tr>
<td></td>
<td>on the excess of housing</td>
</tr>
<tr>
<td></td>
<td>allowance over eligible</td>
</tr>
<tr>
<td></td>
<td>housing expenditure and on</td>
</tr>
<tr>
<td></td>
<td>the prescribed value of the</td>
</tr>
<tr>
<td></td>
<td>housing. A PNG citizen who</td>
</tr>
<tr>
<td></td>
<td>receives an allowance under</td>
</tr>
<tr>
<td></td>
<td>an approved Low Cost</td>
</tr>
<tr>
<td></td>
<td>Housing Scheme is not</td>
</tr>
<tr>
<td></td>
<td>subject to tax on the</td>
</tr>
<tr>
<td></td>
<td>allowance.</td>
</tr>
<tr>
<td><strong>Motor Vehicle</strong></td>
<td>Vehicle and fuel provided</td>
</tr>
<tr>
<td></td>
<td>by employer: K100 per</td>
</tr>
<tr>
<td></td>
<td>fortnight. Vehicle only</td>
</tr>
<tr>
<td></td>
<td>provided: K75 per fortnight.</td>
</tr>
<tr>
<td><strong>Education Expenses</strong></td>
<td>Nil (see comments under</td>
</tr>
<tr>
<td>(except tertiary education)</td>
<td>Education Expenses Rebate</td>
</tr>
<tr>
<td></td>
<td>above).</td>
</tr>
</tbody>
</table>

**Leave Fares**

One annual fare for the employee and his family to the place of recruitment or origin is exempt from tax. Additional leave fares are fully taxable, however additional leave fares for travel within PNG for a person employed solely in, or in connection with most resource projects. Additional leave fares for employees serving in hardship or remote areas may be exempted from tax at the discretion of the IRC.

**Contribution by employer to an approved or overseas superannuation fund**

Nil. However, an employer is not entitled to a tax for contributions made to an overseas fund.

**Meals**

Messing type meals: K30 per fortnight. All other meals are subject to tax on the amount equal to the employer’s cost.

**Public utilities, gas, domestic services, security, club subscriptions**

If paid by the employer on behalf of the employee, not taxable to the employee, however the employer is denied a deduction for the payment.

**Telephone**

Fully taxable to the employee at the employee’s marginal rate of tax. However, the employee can claim a rebate for work related telephone costs.
### Benefit Taxable Value Per Fortnight

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Taxable Value Per Fortnight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entertainment</td>
<td>If business entertainment expenditure is reimbursed to the employee by the employer, the reimbursement of the actual expenditure is not taxable to the employee. However the employer is denied a deduction for the entertaining expenses.</td>
</tr>
<tr>
<td>Cash Allowances</td>
<td>All allowances paid by the employer are fully taxed at the employee’s marginal rate of tax.</td>
</tr>
</tbody>
</table>

**Note:** An employee can apply to the Internal Revenue Commission requesting a variation in the amount of salary or wages tax to be deducted to take into account the expected rebate on work related expenses. This variation must be made in writing together with fully supported documentation for each expenditure.

The following payments to employees, qualify to be taxed at the rate of 2%:

- a distribution from a superannuation fund not exceeding the “prescribed sum” accrued to 31 December 1992, where paid on termination. A distribution of amounts accrued after 31 December 1992 up to the “prescribed sum” will be taxed at 2% in the following three circumstances:
  1. where contributions have been made on behalf of the employee for 15 years
  2. where the distribution is to an employee who is aged 50 years or over or who is subject to enforced early retirement, provided, in either case, contributions have been made for not less than seven years, and
  3. where the distribution is made as a result of the death or disablement of the employee.
- pay-out of long service leave accrued to 31 December 1992, where paid on termination to an employee who has completed a minimum of 6 years of continuous service. The leave entitlement must not exceed 6 months per 15 years of service.

### Social Security Payments

An employer of 20 or more persons must register with the National Provident Fund (“NPF”), unless operating in an exempt industry (currently certain agricultural sectors). Membership is compulsory for Papua New Guinea citizens who work for more than 59 days in any three month period, and voluntary for non-citizens.

Contributions are remitted by the employer at the following rates, as a percentage of gross basic salary (excluding overtime, bonus and commission):

- employee’s 5% minimum, plus voluntary contributions up to 10% maximum
- 7% employer’s contributions which are non refundable.

In certain instances, the employer’s contribution is 9% (which includes a 2% surcharge to make good losses incurred by the NPF).

A new compulsory superannuation regime has been legislated by Parliament. It is expected to come into force during 2002.

### Provisional Tax

Provisional tax is levied on non-salary or wages income to ensure that, as far as possible, all income is taxed in the year in which it is earned.

Every taxpayer who earns in excess of K100 from non-salary or wages sources has a liability to pay provisional tax. Provisional tax is normally calculated as being equal to the income tax assessed for the preceding year but can be varied to a lesser amount if an application is lodged with the IRC prior to the due date for payment. The tax is payable no earlier than 30 September of the year of income.
Taxation of Companies

Financial Period
All taxpayers must lodge their tax returns based on a 31 December year end unless they have approval from the Internal Revenue Commission to adopt a substituted balance date.

Company Tax Rates
(Other than mining, petroleum or gas companies)
Company tax rates do not distinguish between public and private companies. The rates are:

<table>
<thead>
<tr>
<th>Category</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident companies generally</td>
<td>25%</td>
</tr>
<tr>
<td>Non-resident companies generally</td>
<td>48%</td>
</tr>
</tbody>
</table>

Resident companies are also liable to pay dividend withholding tax at the rate of 17% bringing the effective rate of tax on distributed profits of resident companies to 37.75%. The dividend withholding tax rate may be reduced under a tax treaty, typically to 15%. Dividend withholding tax is payable on:

- dividends paid by the company
- dividends derived by the company from sources outside Papua New Guinea
- certain deemed dividends.

A resident company paying a dividend out of accumulated dividend income is entitled to a credit for the dividend withholding tax suffered, provided the dividend is on-paid within 7 years.

Calculation of Taxable Income
Whilst there are special rules for certain companies including life assurance companies, non-resident insurers, mining, petroleum and gas companies and shipowners, taxable income generally corresponds to accounting income. However, there are important exceptions, the major areas being:

- depreciation (Internal Revenue Commission specified rates)
- initial year accelerated depreciation (page 20)
- accelerated depreciation for manufacturers (page 20)
- exchange gains and losses (see page 29)
- deduction for employer’s contributions to a superannuation fund are limited to 15% of an employee’s fully taxed salary or wages. The fund must be resident in Papua New Guinea and be approved by the Internal Revenue Commission for this amount to be deductible
- bad debts (must be written off in year)
- borrowing expenses (amortised over a maximum period of five years)
- entertainment expenses non deductible except in specific limited circumstances (see page 28)
- management fees (restricted within certain limits) (see page 28)
- losses of previous years (other than primary production losses) may be carried forward for twenty years – there is no carry-back
- provisions and reserves for future expenditure are not allowable, eg provisions for holiday pay, long service leave and airfares
- double deductions are allowed for certain types of expenditure (see pages 20 and 27).

Exempt Income
This is covered under Specific Income Tax Incentives (see page 20).

Overseas Losses
Losses incurred in deriving income from a source outside Papua New Guinea are not deductible from Papua New Guinea source income. Overseas losses may be carried forward for up to 20 years to be offset only against overseas income.

Absence of Grouping Provisions
Companies are assessed to income tax on an individual basis. There is no provision to group income or offset losses of associated companies.
**Company Amalgamations**

Under the Companies Act 1997, two or more companies may amalgamate. The taxation implications upon amalgamation are summarised below:

- Cancellation of shares upon amalgamation constitutes a deemed disposal by the shareholder immediately prior to amalgamation for a consideration equal to cost or in the case of shares held as trading stock, either cost or market selling value
- No restriction on deductions allowable for bad debts
- Consolidation of accrued income and expenditure
- Trading stock, assets and liabilities to be recorded at original cost in the books of the amalgamated entity
- Consolidation of losses carried forward in the amalgamated entity, subject to the 50% continuity of ownership test
- Transfer of profits will not constitute payment of a dividend.

**Dividend Payments and Deemed Dividends**

“Dividend” is defined in broad terms and includes most payments or distributions by a company to a shareholder in that capacity. A 17% dividend withholding tax (10% for mining companies) applies to most dividend payments, including dividends paid to resident shareholders, however different rates can apply in accordance with the various double tax treaties.

There is generally no tax on the undistributed profits of an operating company, nor any requirement to distribute a proportion of profits. However, a dividend may be deemed to arise where:

- A loan or other benefit is granted by a private company to a shareholder or associated person
- A liquidator makes a distribution from revenue reserves
- An overseas investment is made on cessation or change of business
- A company dormant for three years holds 75% of assets overseas
- Shares are sold as part of a tax avoidance scheme.

**Dividend Rebates**

Resident companies receive a full rebate of income tax on dividend income so that, in effect, no income tax is paid on dividends.

**Notional Tax and Provisional Tax**

Notional tax is being phased out and is to be replaced by provisional tax. Notional tax imposes tax on the prior year; provisional tax imposes tax on the current year. 2002 will be the last year in which notional tax is payable and will be the first year that provisional tax is payable in full.

Notional tax is imposed by assessment issued by the Internal Revenue Commission (the “IRC”). For 2002, the tax will be calculated as 25% of the tax payable on income derived during the year ended 31 December 2000; the tax paid is in respect of the 2001 financial year.

Notional tax is due for payment by 31 March in one lump sum. Alternatively, by election, it may be paid in three equal instalments in March, June and September.

Provisional tax is imposed by assessment issued by the IRC based on the last return lodged. For 2002 and subsequent years, 100% of the estimated tax is payable.

Provisional tax is payable in three equal instalments by 30 April, 31 July and 31 October.

Applications may be made to reduce notional and/or provisional tax assessed if, broadly, the tax due for the year in question is expected to be lower than the notional or provisional tax assessed. A company is not required to increase the amount of provisional tax imposed by the IRC.
Mining, Petroleum and Gas Operations

A single tax regime now covers all 3 industries whilst the distinction between small-scale and large-scale mining operations has been removed.

Income Tax Rates – Mining Companies

The corporate tax rate applicable to resident mining companies is 30% for income derived after 1 January 2001. This is a reduction of 5% for large-scale mining operations but an increase of 5% for small-scale mining operations.

It is understood that the rate for branch (non-resident) operations is to be reduced to 37% although at present this remains at 48%.

Dividend withholding tax at the rate of 10% is payable by resident companies on dividends paid out of mining income.

Interest income earned prior to the commencement of the investment recovery period on Special Mining Lease is not taxed but instead reduces “Allowable Capital Expenditure” relating to that project. Interest income earned by an exploration company is generally not taxed but is instead offset against carry forward exploration expenditure. Where the interest income is exempt (see page 27) then this income is not applied as a reduction of such expenditure.

Income Tax Rates – Petroleum Companies

The rate applicable to petroleum operations is 50% where the project derived assessable income prior to 31 December 2000. The rate applies to both resident and non-resident companies.

The rate applicable to petroleum operations is 45% where the project did not derive any assessable income prior to 31 December 2000. The rate applies to both resident and non-resident companies.

There is no dividend withholding tax on dividends paid out of petroleum income.

Income Tax Rates – Gas Companies

The rate applicable to gas operations is 30%. The rate applies to both resident and non-resident companies.

There is no dividend withholding tax on dividends paid out of gas income.

Advance Payment Tax

Mining, petroleum and gas companies are required to estimate their tax liability by 31 March of each year and submit this to the IRC. Tax on this estimate is then payable in three instalments on 30 April, 31 July and 31 October (with re-estimates being made at the time of the 2nd and 3rd instalments where appropriate). Although not covered by the legislation, companies with substituted accounting periods generally submit their estimate within 3 months of their financial year end and pay their instalments at the end of 4, 7 and 10 months after their year end.

Additional Profits Tax

Mining, petroleum and gas companies are required to pay additional profits tax (“APT”) where the rate of return exceeds a designated rate.

Broadly, projects earning an internal rate of return in excess of 15% will pay APT at 20%. Projects earning in excess of 20% will pay APT at 25% and will be allowed a deduction in this calculation for APT paid under the first tier.

The rate of APT is the same for both resident and non-resident companies.

Deductions for Mining, Petroleum and Gas Operations

Special provisions apply to determine allowable deductions for exploration expenditure (“AEE”) and development or capital expenditure (“ACE”).

Mining Levy

A mining levy is payable by mining operations holding a mining development licence at 31 December 2000. The levy is based on a complex formula applied to each affected mining project individually.

The levy is to be reduced by 25% per annum commencing in 2002.
Taxation of Other Entities

Partnerships
A partnership is defined to include any association of persons in receipt of income jointly. The members of a partnership include their individual share of the profit or loss of the partnership in their own tax returns. The partnership itself is not subject to tax, although it is required to file a tax return.

Joint Ventures
Unincorporated joint ventures are permitted to carry on mining and petroleum operations and the respective joint venture partners are assessed on their individual share of income on a project basis.

Joint venture operators of a resource project are required to submit a “consolidated financial statement” for the joint venture as a whole, within two months of the end of the year of income. This consolidated financial statement must list details of all expenditure incurred during the year. Further, each joint venture partner will be required to reconcile their tax return to the consolidated financial statement.

The joint venture itself is not subject to tax and is not required to file an income tax return.

Trusts
A trustee of a resident trust estate is taxed on the net income of the trust estate at the rate of 28%.

The beneficiaries of a trust estate are also subject to income tax on their entitlement to the net income. This is notwithstanding the liability of the trustee, although a measure of relief for tax paid by the trustee is allowed.

Unit Trusts
A unit trust is taxed as a normal trust (see above) unless it satisfies the following requirements:
- 95% of the units are able to be redeemed or sold back to the trust
- it is resident in Papua New Guinea
- it acts only as an investment vehicle
- it has a widely spread portfolio style of investments with no more than 10% of its investments being in any one company or debtor (other than the Papua New Guinea Government)
- it complies with conditions prescribed in the Regulations concerning number of unit holders, dispersal of ownership of units and public trading in units.

Qualifying unit trusts are taxed at the rate of 30%. Distributions of income to unit holders are exempt from income tax.

Property Unit Trusts
Property Unit Trusts are taxed at the rate of 30% on the net income of the trust. The tax is payable by the trustee. Distributions to beneficiaries are exempt from income tax. A Property Unit Trust must satisfy similar requirements to those imposed on Unit Trusts if it is to be taxed as a (Property) Unit Trust.

Landowner Resources Trusts
Where interests in various natural resources projects are held in trust for landowners a trust may be approved by the Minister for Finance as a Landowner Resources Trust. Net income derived by the Landowner Resources Trust is taxed at the rate of 25%. The tax is payable by the trustee.

All distributions of income and capital by a Landowner Resources Trust to its beneficiaries are exempt from income tax in the hands of the beneficiaries.

A Landowner Resources Trust deriving assessable income from mining, petroleum and gas operations may also be liable to additional profits tax.

Superannuation Funds
A superannuation fund is resident if it is established or managed in Papua New Guinea.

The assessable income of a resident superannuation fund is subject to tax at the rate of 25%.
Dividends paid to a superannuation fund qualify for dividend rebates (see page 14) and are exempt from dividend withholding tax if the fund is an approved fund.

Where an employer’s contributions to a superannuation fund exceed 15% of an employee’s fully taxed salary or wages, the excess contribution is included as assessable income of the superannuation fund.

**Specific Income Tax Incentives – Industry incentives**

**Manufacturers**

**Accelerated Depreciation for Manufacturers**

Industrial plant not previously used in Papua New Guinea is eligible for accelerated depreciation of up to 100% of cost. The claim for accelerated depreciation cannot take the company into a tax loss (but can be carried forward and claimed in a subsequent year).

To qualify, the plant must have an effective life for tax purposes exceeding five years and must be used by the taxpayer or any other person (e.g., a lessee) in a manufacturing process.

Expenditure on new buildings for the housing of industrial plant, or for the storing of raw materials or finished products also qualifies for the 100% accelerated depreciation.

An accelerated depreciation deduction of 20% of the cost of most other new items of plant and equipment (with a life exceeding five years) used by a manufacturer is available.

**Double Deduction for Export Market Development Costs**

Expenditure on export market development for goods manufactured in Papua New Guinea qualifies for a double deduction. Qualifying expenditure includes overseas publicity and advertising, market research, tender preparation, samples, trade fair expenses, overseas sales office expenses and certain travel costs.

The tax saving resulting from the allowance of the deduction may not exceed 75% of the expenditure actually incurred.

**Export Incentives for Manufacturers**

Taxpayers who export certain qualifying goods manufactured by them in Papua New Guinea are entitled to an income tax exemption of 100% of export sales made prior to the last day of the 3rd year following
The exemption also applies to any new manufactured products approved by the Internal Revenue Commission.

**Wages Subsidy for Manufacturers**

Companies manufacturing new products may receive a taxable wages subsidy payment for up to five years. The subsidy is based on a percentage of the relevant minimum wage for each full time citizen employee as follows:

<table>
<thead>
<tr>
<th>Year of Subsidy</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>First year of subsidy</td>
<td>40%</td>
</tr>
<tr>
<td>Second year of subsidy</td>
<td>30%</td>
</tr>
<tr>
<td>Third year of subsidy</td>
<td>20%</td>
</tr>
<tr>
<td>Fourth year of subsidy</td>
<td>15%</td>
</tr>
<tr>
<td>Fifth year of subsidy</td>
<td>10%</td>
</tr>
</tbody>
</table>

To qualify, the company must obtain a New Product Manufacturing Certificate from the Internal Revenue Commission. The subsidy is not available for products which receive tariff protection, or quota protection without import parity pricing.

**Agriculture, Fishing and Tourism**

**Accelerated Depreciation**

Expenditure on new plant or articles:

- used directly for the purposes of agricultural production
- used solely for commercial fishing activities of residents
- boats and ships (and ancillary equipment) used solely as dive boats or used by a person carrying on a business as an accredited scuba diving/snorkelling tour operator.

Qualifies for the 100% accelerated depreciation deduction.

An accelerated depreciation deduction of 20% of the cost of most other new items of plant and equipment (with a life exceeding five years) used for the purposes of agricultural production is also available. This allows an accelerated deduction for items of plant or articles which are not used directly in agricultural production.

**Goods which qualify for the exemption include:**

- Activated carbon
- Artefacts
- Beverages ready for consumption
- Biscuits
- Canned fruit and vegetables
- Canned, joined and smoked fish
- Cement and concrete products
- Ceramics
- Chopsticks
- Cigarettes
- Clothing and manufactured textiles
- Confectionery
- Dairy products
- Dry cell batteries
- Electrical appliances
- Essential oils, oleoresins
- Fabricated steel
- Fibreglass products
- Fishing nets
- Flexible packaging materials
- Flour
- Foam products
- Founded and manufactured metal products
- Glass products
- Hand tools
- Industrial and medical gases
- Instant coffee
- Instant full cream milk
- Instant noodles
- Jewellery
- Livestock feeds
- Matches
- Motor vehicles
- Non-dairy creamer
- Paint
- Paper products
- Plastic products
- Powdered cocoa beverages
- Powdered coconut milk
- Processed and canned meat products
- Processed ginger
- Refined petroleum
- Rubber products
- Sawn timber, mouldings, plywood and laminated products
- Ship and boat building and repairing
- Soaps
- Treated and processed crocodile skins
- Wood pulp
- Wooden furniture components and doors
Primary Production

Outright deductions are allowed for certain capital expenditure including clearing or preparing or conserving land for agriculture, the eradication of pests, labourers’ accommodation (for labourers earning less than K35 per week) and for the conservation and conveyance of water.

Losses incurred in carrying on a primary production business can be carried forward indefinitely.

See also Infrastructure Credits below.

Investment In Primary Production

A primary production company which has incurred primary production development expenditure (defined to include the cost of assets used for agricultural production) may surrender its available deduction in favour of its shareholders. The amount surrendered to each shareholder is in proportion to the respective amounts of their paid up capital (paid on or after 1 January 1987). The total deduction available to a shareholder may not exceed the total amount paid on their shares. A shareholder may waive their entitlement if they so wish.

Infrastructure Credits

Prescribed Infrastructure Development Credits

A tax credit is available (from 1 January 1992) to taxpayers engaged in mining, petroleum or gas operations and (from 1 January 2001) to taxpayers engaged in primary production. The credit operates by deeming relevant eligible expenditure to be tax paid by the particular taxpayer.

The maximum amount of credit that can be claimed is limited to the lesser of the amount of tax payable or 0.75% (previously 2%) of the assessable income for the year. If a taxpayer’s expenditure in a particular year exceeds this limit, the excess can be carried forward for a period of two years.

A prescribed infrastructure development includes a school, aid post, hospital, road and other capital asset as well as maintenance of these assets (where these are owned by the State). Any project must be approved, beforehand, by the Department responsible for national planning matters and all subsequent expenditure must be certified by both the Department and the Internal Revenue Commission as having been incurred. Capital projects that are required to be built under a resource agreement are ineligible for the credit.

Bank Community Service Obligations

A licensed bank is entitled to a tax credit for specified expenditure incurred on developing banking facilities outside areas that are deemed to be already adequately supplied with banking facilities. The credits range from K350,000 for developing a branch to K500 for the provision of an Electronic Funds Transfer Point of Sale (EFTPOS) service in an area outside an area adequately or moderately supplied with banking facilities. Credits of K175,000 for each branch and K100,000 for each sub-branch are available where these are provided in an area that is moderately supplied with banking services.

The Regulations to the Income Tax Act list those areas which are deemed to be adequately or moderately supplied with banking services.
Regional Incentives

**Rural Development Incentive**

Qualifying new businesses started in specified rural development areas (listed below) are exempt from income tax on their net income from carrying on a rural development industry for 10 years after the year of commencement of business.

Losses arising from these exempt activities are deductible against taxable income from other activities.

Businesses involved in the exploitation of non-renewable resources (mainly mining, petroleum and gas companies) are specifically excluded from the exemption.

<table>
<thead>
<tr>
<th>District</th>
<th>Province</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amanab</td>
<td>West Sepik</td>
</tr>
<tr>
<td>Ambunti</td>
<td>East Sepik</td>
</tr>
<tr>
<td>Angoram</td>
<td>East Sepik</td>
</tr>
<tr>
<td>Bogia</td>
<td>Madang</td>
</tr>
<tr>
<td>Finschhafen</td>
<td>Morobe</td>
</tr>
<tr>
<td>Goilala</td>
<td>Central</td>
</tr>
<tr>
<td>Gumine</td>
<td>Simbu</td>
</tr>
<tr>
<td>Henganofi</td>
<td>Eastern Highlands</td>
</tr>
<tr>
<td>Ialibu</td>
<td>Southern Highlands</td>
</tr>
<tr>
<td>Jimi</td>
<td>Western Highlands</td>
</tr>
<tr>
<td>Kabwum</td>
<td>Morobe</td>
</tr>
<tr>
<td>Kagua</td>
<td>Southern Highlands</td>
</tr>
<tr>
<td>Kainapit</td>
<td>Morobe</td>
</tr>
<tr>
<td>Kaintiba</td>
<td>Gulf</td>
</tr>
<tr>
<td>Kandep</td>
<td>Enga</td>
</tr>
<tr>
<td>Kandrian</td>
<td>West New Britain</td>
</tr>
<tr>
<td>Karimui</td>
<td>Simbu</td>
</tr>
<tr>
<td>Kikori</td>
<td>Gulf</td>
</tr>
<tr>
<td>Koroba</td>
<td>Southern Highlands</td>
</tr>
<tr>
<td>Lagaip</td>
<td>Enga</td>
</tr>
<tr>
<td>Lake Murray</td>
<td>Western</td>
</tr>
<tr>
<td>Losua</td>
<td>Milne Bay</td>
</tr>
<tr>
<td>Lufa</td>
<td>Eastern Highlands</td>
</tr>
</tbody>
</table>

**Lihir Incentive**

The Lihir incentive expired on 31 December 2000.

**Bougainville Incentive**

Certain income derived by businesses based in the Bougainville province is exempt from income tax. The period of exemption is from 21 April 1993 to 31 December 2003. The exemption does not apply to salary or wages tax, dividend withholding tax, foreign contractors tax, non-resident insurers tax, overseas shipping tax, management fee withholding tax and prescribed royalty payments.

**Volcano Affected Area Incentive**

The Volcano Affected Area Incentive expired on 31 December 2000.
Other Incentives

Solar Heating
Expenditure on the acquisition and installation of solar heating plant for use in deriving income is allowable as an outright deduction.

Staff Training Costs
Employers are allowed a double deduction for the salaries or wages of:
- registered apprentices
- indigenous citizens attending a full-time course at a Government training institute or a prescribed tertiary institution
- training officers engaged full-time in training activities and who are not engaged directly in deriving the employer’s income.

The tax saving from these deductions is limited to 75% of actual expenditure incurred.

Exemption of Certain Interest Income
Interest income received from a “long term bond” is exempt from income tax. A “long term bond” is an approved fixed interest security issued by the Papua New Guinea Government, or resident corporation or society, with a maturity date of not less than five years after issue.

Interest income received from a foreign currency deposit which has been approved by the Bank of Papua New Guinea (the central bank) is exempt from income tax.

Special Deductions and Restrictions

Entertainment
With few exceptions, deductions are not allowable to the taxpayer for expenses incurred in providing entertainment by way of food, drink or recreation (including associated travel and accommodation).

The exceptions, where entertainment expenses may be deductible, include:
- entertainment provided by a taxpayer who is in the business of providing entertainment for payment (eg hoteliers)
- entertainment provided for the purposes of promoting or advertising a business or its goods or services to the general public
- entertainment provided in an “in-house dining facility”
- entertainment provided at a seminar
- provision of food or drink to an employee pursuant to an industrial instrument or award relating to overtime
- gratuitous entertainment to members of the public who are sick, disabled, poor or otherwise disadvantaged.

Management Fees
Certain management fees paid to associates by taxpayers operating in Papua New Guinea are tax deductible only to the extent of the greater of A or B, where A is the lesser of:
- 10% of the assessable income derived from the relevant part of the business
- the same proportion of the worldwide expenses as the proportion of the relevant Papua New Guinea sourced income bears to the worldwide income.

and B is:
- 15% of the total allowable deductions attributable to the relevant part of the business (excluding the management fees).
The relevant part of the business is that part of the
taxpayer’s business to which the management fees relate.
The restriction does not apply where the payment was
made to a non-associated person or is not for the
purpose or has the effect of tax avoidance.
The restriction on deductibility applies to payments by
both residents and non-residents.
Special rules apply to mining, petroleum and gas
operations.

**Exchange Gains and Losses**

Realised exchange gains arising from foreign currency
debts incurred or borrowings made on or after 11
November 1986 are assessable. Realised business related
exchange losses on such debts or borrowings are
deductible. Unrealized gains are not assessable and
unrealized losses are not deductible.

**Gifts and Charitable Donations**

The following donations are specifically deductible:

Gifts of more than K50 of money, or property purchased
by a company within the 12 months preceding the
making of the gift, to a qualifying charitable body.

Monetary gifts with a value of more than K50 made
by a company to sporting bodies established in Papua
New Guinea.

Gifts of money, or property purchased by a taxpayer in
the 12 months immediately preceding the making of the
gift to the Foundation for Law, Order and Justice.

A double deduction is allowed for gifts of money of
more than K1,500, or property, made by a company after
1 November 1996 to a trust for special law and order
projects in Papua New Guinea.

**Preliminary Expenditure in Connection with Assets**

Expenditure including interest, incurred in constructing or
acquiring an asset, is generally not deductible to the extent
that it was incurred prior to the date on which assessable
income is derived or the asset is first used for producing
assessable income whichever is the later. This expenditure
must be capitalised and is deemed to form part of the cost
of the asset for the purposes of calculating depreciation.

**Profits on Leased Assets**

Where a leased asset has been acquired and
subsequently disposed of for a consideration exceeding
the cost of acquisition, the profit is assessable, to the
extent the proceeds exceed the total amount of
deductions previously allowed as lease payments plus
any residual value payment made on expiry of the lease.

**Interest**

Thin capitalisation rules apply only to mining, petroleum
and gas operations. However, as a general rule,
Exchange Control Regulations administered by the Bank
of Papua New Guinea limit the amount of offshore
borrowings that can be made by all businesses operating
in PNG; these, therefore, in effect cap the amount of
interest that is deductible.

**Timber Operations**

Capital expenditure in connection with timber
operations on access roads, port facilities, housing and
welfare facilities, and structural improvements may be
amortised over the lesser of the period of use of the
relevant assets or 15 years.
## Compliance Reporting System

Local contractors in certain industries are covered by the Business Income Withholding Tax regime.

The industries affected are:

- Advertising
- Architecture
- Building and Construction
- Cleaning & Maintenance
- Consultancy
- Engineering
- Entertainment
- Joinery and Cabinet Making
- Motor Vehicle Repairs
- Road Transport
- Security
- Surveying

The system also applies to non-work arrangements, such as hire or lease of equipment or other arrangements by which assessable income is derived.

Businesses affected are required to have a Certificate of Compliance and to produce it when entering into contracts with their customers. Payers are required to file an annual income reporting statement where either they make an eligible payment of K500 or more in relation to one contract, or eligible payments for several contracts exceed K3,000 in the year of income in relation to one payee.

The payer is required to deduct 10% withholding tax if the payee does not produce a Certificate of Compliance.

## Lodgement of Income Tax Returns, Assessments and Payment of Tax

The lodgement of returns of income and the procedures for assessment, objection, dispute, and payment are by the following rules:

<table>
<thead>
<tr>
<th>Liability to lodge an income tax return</th>
<th>Any individual whose gross non salary or wages income exceeds K100.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Any individual who runs a business or is engaged in a profession and whose gross income exceeds K100.</td>
</tr>
<tr>
<td></td>
<td>All companies.</td>
</tr>
<tr>
<td></td>
<td>All partnerships, trusts and superannuation funds.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lodgement (final date without penalty) when lodged by a registered tax agent</th>
<th>Usually 7 months after the end of the year of income.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Otherwise</td>
<td>2 months after the end of the year of income.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Issue of assessment by Internal Revenue Commission</th>
<th>Usually within 5 to 6 months of lodgement of the return.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of tax</td>
<td>Not less than 30 days after the date of assessment.</td>
</tr>
<tr>
<td></td>
<td>For individuals, if provisional tax is imposed in the assessment the tax will not usually be payable before the 30 September following the end of the year of income.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Objection (protest)</th>
<th>Within 60 days of service of notice of assessment.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference to Review Tribunal or National Court</td>
<td>Within 60 days of service of notice of disallowance of objection.</td>
</tr>
</tbody>
</table>
Double Tax Treaties

Double tax treaties have been entered into with Australia, Canada, China, Fiji, Korea, Malaysia, Singapore and the United Kingdom.

Payments to Non-Residents

Rates of tax imposed on payments to non-residents and the liability of non-residents to PNG tax may be affected by the various double tax treaties which PNG has entered into.

Dividends

Dividends, including those paid to residents, are generally subject to 17% dividend withholding tax, except dividends paid by mining companies which attract a 10% withholding tax.

Dividends paid to non-resident superannuation funds are exempt from the withholding tax. Dividends paid from income from petroleum or gas operations are exempt.

Interest

Where interest is paid or credited by any person to a non-resident, 15% withholding tax must be deducted. The withholding tax is a final tax for non-residents.

The withholding tax does not apply to interest paid to overseas non-resident financial institutions by companies engaged in mining and petroleum operations in PNG.

Royalties

Tax is imposed on royalties and similar payments made to non-residents who do not have permanent establishments in Papua New Guinea.

The tax must be withheld by the payer on behalf of the payee and remitted to the Internal Revenue Commission.

The tax payable on royalties to a party who is not an “associated person” is the lesser of:

- 48% of the net royalty, ie gross royalty, less applicable expenses, or
- 10% of the gross royalty.

Royalty payments to a non-resident “associated person” are liable to a withholding tax of 30% of gross payments (subject to any double taxation agreement), with no option to adopt the net income basis.

The definition of “associated person” is detailed and widely drawn. Broadly, it encompasses relatives, partners, companies under effective common control, and related trust interests.

There is also a 5% withholding tax on mining, petroleum, timber and fishing royalties to landowners.

Management Fees

A 17% withholding tax applies to management fees paid to non-residents. The withholding tax only applies to the amount allowable as a tax deduction. The tax must be remitted to the Internal Revenue Commission within 21 days after the month in which the management fees are paid or credited.

Foreign Contractors

All non-resident contractors, other than individuals deriving salary or wages income, undertaking installation and construction projects or providing professional and consultancy services in Papua New Guinea, and equipment lease and charter payments to non-residents are subject to a foreign contractor withholding tax on a deemed taxable income equal to 25% of the gross contract income which is taxed at the non-resident corporate rate of 48%. This equates to a tax of 12%. If the Internal Revenue Commission is satisfied as to the actual net profit, the foreign contractor may elect to be taxed on the basis of the taxable income as computed under normal principles. Where the foreign contractor elects to be taxed on the actual taxable income, the amount which is deductible for general administration and management expenses (other than expenses relating directly to the derivation of the Papua New Guinea income) may not exceed the lesser of:

- 5% of the gross income from the contract
- the same proportion of the worldwide general administration and management expenses as the gross income from the contract bears to the worldwide income.
The Papua New Guinea contracting entity must provide the Internal Revenue Commission with a copy of a relevant contract within 14 days of its signing and ensure that satisfactory arrangements have been made to pay the foreign contractor’s withholding tax before making any payment to the foreign contractor.

Where tax is withheld from the foreign contractor the deductions are to be remitted to the Internal Revenue Commission within 21 days after the end of the month in which the payment was made.

**Leases to Non-Resident Associates**

Lease payments made to a non-resident associate for the lease of equipment may not be fully deductible. The deduction is limited to an amount equivalent to the depreciation on a diminishing value basis or, at the option of the taxpayer, prime cost basis, and an amount for interest on a notional loan at commercial rates had the resident taxpayer purchased that asset.

**Non-Resident Insurers**

All non-resident insurers who undertake insurance contracts where the insured property is situated in Papua New Guinea or the insured event can happen only in Papua New Guinea are subject to tax. The tax is calculated on a deemed taxable income equal to 10% of the total amount of premiums, which is taxed at the non-resident tax rates of 48% (companies) or 25% (unincorporated associations).

**Overseas Shipping**

Income derived by overseas shippers or charterers carrying passengers, livestock, mail or goods out of Papua New Guinea is taxable in Papua New Guinea.

The tax is calculated on a deemed taxable income equal to 5% of the gross income which is taxed at the non-resident rate of 48% in the case of companies.

The withholding tax is not payable if the home country of the ship owner would not impose tax, in similar circumstances, on PNG-owned ships.

**Tax Clearance and Foreign Exchange Procedures**

Any person (including a company) wishing to remit a sum or sums exceeding K50,000 per annum from Papua New Guinea to any country must generally obtain a tax clearance certificate before the authorised dealers (ie the relevant trading banks) will grant approval for the remittance. Exceptions to this rule are transfers of funds which are trade related involving the physical movement of goods.

In dealings with scheduled countries (see below) any remittance of funds from Papua New Guinea must be cleared, even where sums do not exceed K50,000 per annum.

The scheduled countries are: Bahamas, Bermuda, Solomon Islands, British Channel Islands, British Virgin Islands, Gibraltar, Grenada, Hong Kong, The Isle of Man, Liberia, Liechtenstein, Luxembourg, Nauru, Netherlands Antilles, Norfolk Island, Panama, Switzerland, Tonga and Vanuatu.

Generally, tax clearance certificates can be readily obtained, provided the Internal Revenue Commission does not believe a tax liability will be avoided or evaded if a clearance is given and provided all filing and other compliance obligations are up to date.

Central Bank (Bank of Papua New Guinea) approval is also generally required to transfer funds offshore. However, authorised dealers can approve the remittance of up to K500,000 per annum for payments such as the transfer of surplus funds, dividends, management fees, royalty payments, sundry payments such as school fees, travel allowances and consultants’ fees. Once total remittances have exceeded K500,000 per annum, exchange control approval must be obtained from the Bank of Papua New Guinea.

**Transfer Pricing**

Where transactions involving non-residents are held not to be at arm’s length, the Internal Revenue Commission may impose an arm’s length consideration for income tax purposes and determine the source of any income arising from such transactions.
Value Added Tax

Rate of VAT
Value added tax is imposed at the rate of 10% and applies to the majority of goods and services supplied in PNG as well as to most imported goods and services.

Registration
Any person who carries on an activity, continuously or regularly, involving the supply of goods or services to another person for a consideration, is required to register if those supplies (not being exempt supplies) exceed K100,000 in any 12 month period.

Specified groups of companies may elect to be registered as one entity. Equally a company may separately register its various branches or divisions.

Output VAT (VAT on sales)
There are three categories of sales:

1. Standard Sales
This applies to the majority of goods and services sold by a registered entity. Input tax relating to these sales is fully creditable against output VAT (subject to a few exceptions).

2. Zero-Rated Sales
Some goods and services will be subject to a zero rate of VAT. These include:
- exported goods and services
- consumable goods for consumption outside PNG (eg aircraft and ship supplies)
- the supply of prescription drugs, medical prostheses and prescription lenses
- the supply of goods and services, other than cars, to a mining or petroleum company.

Input tax relating to these sales is fully deductible against output VAT (subject to a few exceptions).

3. Exempt sales
There is a fairly small category of exempt sales. These include:
- the supply of financial services
- the supply of educational services
- the supply of medical services
- the supply of housing or a motor vehicle to an employee as part of an employment contract.

In contrast to zero-rated sales, a registered entity making exempt sales is not entitled to any deduction for input taxes. Where an entity makes both exempt and taxable sales, the deduction for input taxes has to be apportioned.

Input VAT (VAT on purchases)
VAT is imposed on virtually all goods and services (with the exception of those treated as zero-rated or exempt sales (see above)). There are three broad categories:

1. Imported Goods
VAT is imposed on the CIF value of the goods including, where applicable, any customs duty and excise. The VAT is collected by the Customs Office.

2. Imported Services
Where services are performed outside Papua New Guinea for the use or benefit within Papua New Guinea of a person resident in Papua New Guinea, for example, the provision of management fees, the recipient of the services is required to impose and remit the VAT to the Internal Revenue Commission.

The VAT paid in this way is also eligible as an input credit, so the majority of businesses are unaffected by this requirement; only businesses making exempt sales are ineligible to claim an input credit.

3. Locally purchased goods and services
VAT is charged by the supplier, where the supplier is registered for VAT purposes.
**Accounting for VAT**

As a rule VAT must be accounted for on an accruals basis. However, registered entities whose turnover did not exceed K500,000 in the proceeding 12 months (or whose turnover is not likely to exceed K500,000 in the next 12 months) may account for VAT on a payments basis.

VAT on the sale of goods and services must be recognised at the earlier of when the invoice is issued or when payment is received. Separate rules apply to the sale of goods and services on hire purchase, lay-by or over a period of time. In these instances, VAT is generally accounted for on a pro-rata basis.

VAT on the purchase of goods and services can only be recognised at the time of receiving an invoice, except where the invoice covers a range of periodic payments in which case the VAT is pro-rated. To be able to claim the input credit the purchaser must have a valid “tax invoice” relating to the purchase. The format of the tax invoice is specifically covered by the VAT legislation.

One important exception for which there is no input deduction (apart from those relating to exempt sales) is the purchase or hire of a motor vehicle designed to carry less than 1 tonne or fewer than 9 passengers. There is no input credit available on these transactions, unless the purchaser is in the business of buying and selling, or renting, motor vehicles.

**Agriculture and Second-Hand Goods**

Special rules apply where a registered entity purchases primary produce produced by the vendor in PNG or second-hand goods and the producer is not registered for VAT.

In these circumstances, the purchaser of primary produce is generally able to claim an input credit for a prescribed percentage of the amount paid. The purchaser of second-hand goods can claim an input credit for the “tax fraction” (currently 1/11th) of the amount paid.

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**Other Taxes**

**Interest Withholding Tax**

Interest withholding tax of 15% must be deducted from any interest paid by a financial institution, the Central Bank or a company to a person resident in PNG. Withholding tax deducted is creditable against tax ultimately payable by the recipient on that income.

**Training Levy**

All businesses whose annual payroll exceeds K200,000 are subject to a 2% training levy, calculated on the taxable salary/wages, including benefits, of all personnel. The levy is assessed on an annual basis.

The amount of the levy payable is reduced by qualifying training expenses incurred in the training of citizen employees.

**Customs Duties**

Customs duties are imposed on the C.I.F. value of imports at varying rates. With the introduction of VAT, the majority of manufacturing inputs attract no duty. Duty is now primarily imposed on items which are produced locally in PNG. Rates of duty are, in general, to be decreased by 5 percentage points on 31 December 2002 and again on 31 December 2005.

Some examples of customs rates are as follows:

<table>
<thead>
<tr>
<th>Goods</th>
<th>Customs duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edible vegetables</td>
<td>50%</td>
</tr>
<tr>
<td>Beer</td>
<td>50%</td>
</tr>
<tr>
<td>Soap</td>
<td>35%</td>
</tr>
<tr>
<td>Baths, showers</td>
<td>25%</td>
</tr>
<tr>
<td>Most articles of wood</td>
<td>25%</td>
</tr>
<tr>
<td>Plywood</td>
<td>85%</td>
</tr>
<tr>
<td>Clothing</td>
<td>35%</td>
</tr>
</tbody>
</table>
Stamp Duty

The National Government imposes duties on documents evidencing certain transactions. The following are the maximum rates of duty on various transactions:

<table>
<thead>
<tr>
<th>Value K</th>
<th>Percentage of Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conveyances of real property (including shares in certain landholding corporations)</td>
<td>in excess of K100,000</td>
</tr>
<tr>
<td>Transfers or assignments of leases of land including mining or petroleum leases</td>
<td>in excess of K100,000</td>
</tr>
<tr>
<td>Lease documents (lease for a definite term – based on total rental for period of lease)</td>
<td></td>
</tr>
<tr>
<td>General insurance policies</td>
<td></td>
</tr>
<tr>
<td>Share and stock transfers</td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td></td>
</tr>
<tr>
<td>Transfers or assignments of mineral and petroleum exploration licences and on transfer of mining or petroleum information</td>
<td>Duty levied K5,000</td>
</tr>
</tbody>
</table>

Subject to certain conditions, stamp duty on the transfer of real property as the result of a company amalgamation is restricted to K500 per transaction up to a maximum of K10,000 per amalgamation.

Gift Duty

There is no gift duty as such. However, the Stamp Duties Act may levy stamp duty on documents if there is a gift or if consideration is inadequate. The maximum duty is 5% of value.
Probate Duty

There is no probate duty.

Land Tax

The power to levy land tax is vested exclusively with the Provincial Governments. In the Papua New Guinea context, land tax is difficult to implement and faces major geographical and social problems.

Capital Gains Tax

There is no general capital gains tax in Papua New Guinea. However, profits arising on the sale of property acquired for the purpose of resale at a profit, or from the carrying out of a profit-making scheme, are fully taxable as ordinary income.

Gaming Machine Tax

A tax at the rate of 60% is payable by the operator on the “taxable gross profit” of a site.

The Gaming Machine Act apportions revenue to the various participants in the following proportions:

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permit Holder</td>
<td>55%</td>
</tr>
<tr>
<td>Machine Operator</td>
<td>10%</td>
</tr>
<tr>
<td>Government</td>
<td>20%</td>
</tr>
<tr>
<td>Gaming Board</td>
<td>15%</td>
</tr>
</tbody>
</table>