

Tax facts and figures 2015

Papua New Guinea



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This booklet outlines Papua New Guinea's taxation laws for the fiscal year ending 31 December 2015.

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 in Papua New Guinea listed at the back of this publication.

Changes in tax law and practice are advised to clients and others on request through our regular tax updates included in PNG Pulse . 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.

1

Liability to Income Tax

1 *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.

The Internal Revenue Commission (“IRC”) is responsible for the collection of most of Papua New Guinea’s taxation revenue.

Income tax is imposed on all residents of Papua New Guinea, whether they are companies or individuals. The tax applies to worldwide 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:

<i>Gross income from all sources</i>	X
Less: exempt income	Y
Assessable income	X – Y
Less: allowable deductions	Z
Taxable income	X – Y – Z

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 45), certain Papua New Guinea sourced dividend income and certain government pensions.

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.

2

Taxation of individuals

2 *Taxation of individuals*

Financial period

The financial period, or year of income, consists of the twelve month period ending 31 December.

Personal income tax rates 2014

Income earned by individuals is taxed at marginal rates. The rates which apply to resident individuals differ from those which apply to non-resident individuals. From 1 January 2015 the tax rates for individuals who are residents of PNG are as follows:

Taxable Income K	Tax thereon K	Rates of tax on excess %
10,000	Nil	22
18,000	1,760	30
33,000	6,260	35
70,000	19,210	40
250,000	91,210	42

From 1 January 2015 the tax rates for individuals who are non-residents of PNG are as follows:

Taxable Income K	Tax thereon K	Rates of tax on excess %
Nil	Nil	22
18,000	3,960	30
33,000	8,460	35
70,000	21,410	40
250,000	93,410	42

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

Examples of exempt income in the hands of an individual include:

- dividends received from PNG resident companies (although in most instances such dividends will be subject to dividend withholding tax)
- distributions by a Unit Trust
- distributions by a Property Unit Trust
- distributions by a Landowner Resources Trust
- Income paid by the State to non-resident expert staff appointed under the Commission of Inquiry Act.

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.

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
- gifts of more than K50 paid to a sporting body established in Papua New Guinea and qualifying charitable organisations
- depreciation of income-producing assets such as freehold, leasehold or company title buildings (except those situated outside Papua New Guinea), motor vehicles, machinery and equipment
- rates (i.e. property taxes), advertising and repairs to rental properties.

Losses incurred in deriving income overseas are not deductible from PNG sourced income. Overseas losses may only be carried forward (for a period of 20 years) for deduction against overseas income.

Dependant rebates

The allowable dependant rebates for salary or wage earners are built into the calculations for deduction of salary and wages tax and are the same as for non-salary and wage earners.

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

First dependant	15% of gross tax with a maximum of K450 and a minimum of K45
Second and third dependants	10% of gross tax with a maximum of K300 and a minimum of K30

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 dependant child at any primary or high school (within or outside PNG), the individual may claim a tax rebate for the expenses.

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 dependant 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, incurred by an individual, 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 unless the taxpayer is required to lodge an income tax return and is determined by reference to standard rate tables (see "Personal Income tax rates" above).
- Redundancy payments made pursuant to an approved redundancy scheme are subject to concessional rates of salary or wages tax.

- A salary or wages tax declaration must 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 ("IRC"). 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.
- An employer who fails to remit salary or wages tax in relation to its employees is liable for the unpaid tax together with any additional penalties that may be imposed. Where the employer is a corporate entity, this recovery mechanism is only effective to the extent that the employer is sufficiently solvent to meet the total amount outstanding.
- In the case where a corporate employer fails to remit salary or wages tax in relation to its employees, the directors of such company may be personally liable (jointly and severally) to the extent of the tax owed.

Fringe benefits

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

Benefit	Taxable value per fortnight
Accommodation owned or rented by employer within PNG	Nil to K700 per fortnight depending on area, market value or market rental per week
Mess / Barracks	Nil to K60 per fortnight depending on area
Government Mess / Barracks	Nil to K7 per fortnight depending on area

Benefit	Taxable value per fortnight
Housing Allowance	The employee will be taxed on the excess of housing allowance over eligible housing expenditure and on the prescribed value of the housing. A PNG citizen who receives an allowance under a Citizen Employee First Time Home Buyer Scheme is not subject to tax on the allowance.
Motor Vehicle	Vehicle and fuel provided by employer: K125 per fortnight. Vehicle only provided: K95 per fortnight
Education Expenses (except tertiary education)	Nil (see comments under Education Expenses Rebate above)
Leave Fares	One annual fare for the employee and his/herfamily to the place of recruitment or origin is exempt from tax. Alternatively, recreational fares and accommodation for travel within PNG to the value of the benefit of one annual leave fare are exempt from tax. Additional leave fares are fully taxable, however additional leave fares for a person employed solely in, or in connection with most resource projects are exempt. 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 authorised or overseas superannuation fund	Nil. However, an employer is not entitled to a tax deduction 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 domestic services, on behalf of the employee, it is not taxable to the employee, however the employer is denied a deduction for the payment.

Benefit	Taxable value per fortnight
Telephone	Fully taxable to the employee at the employee's marginal rate of tax unless business related. In addition, the employee can claim a rebate for work related telephone costs.
Entertainment	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 entertainment expenses.
Cash Allowances	All allowances paid by the employer are to be fully taxed at the employee's marginal rate of tax.

Note: An employee can make a written application to the IRC 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.

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

- a distribution from an authorised 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:
 - a where contributions have been made on behalf of the employee for 15 years
 - b where the distribution is to an employee who is 50 years or older or who is subject to enforced early retirement, provided, in either case, contributions have been made for not less than seven years
 - c where the distribution is made as a result of the death or disablement of the employee.
- a 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 15 or more persons must register with an authorised superannuation fund, unless operating in an exempt industry (currently certain agricultural sectors). Membership is compulsory for Papua New Guinea citizens who are continuously employed for three months, and, is voluntary for non-citizens.

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

- 6.0% – employee contributions
- 8.4% – employer contributions.

Superannuation

Distributions from authorised superannuation funds (other than the employee’s own contributions) are taxed at the employee’s marginal rate unless the distribution to the employee qualifies for concessional taxation. Concessional taxation is based on years of membership of the fund. The taxation of those distributions which are not subject to tax at 2% may still be subject to concessional taxation as set out in the following table:

Years of membership of a fund	Less than 5 years	Not less than 5 years and not greater than 9 years	Not less than 9 years and not greater than 15 years
Rate of tax	Marginal rate	The lesser of 15% or the marginal rate of tax	The lesser of 8% or the marginal rate of tax

Retirement savings accounts

Retirement Savings Accounts (“RSA”) enjoy concessional tax treatment, with the maximum balance for an RSA currently being K250,000.

Where there is a withdrawal from an RSA in excess of the prescribed limits the tax exemption on earnings from the RSA will not be affected. Excess withdrawals are taxed at 30%.

Redundancy scheme

A reduced tax rate may apply to redundancy payments to employees provided the redundancy scheme is an approved redundancy scheme (“ARS”). To qualify as an ARS, a number of conditions need to be satisfied, including the redundancy of at least 30 employees.

The tax charged on redundancy payments under an ARS will be at a rate of 15% up to a prescribed limit and the amount above the limit taxed at the employee’s marginal tax rate. The limit is the lesser of K50,000 and the amount calculated applying the following formula: $K5,000 + (K2,000 \times \text{Years of Service})$

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.

Responsibility for paying salary or wages tax

Employers are responsible for paying the salary or wages tax liabilities of their employees. Failure to do so by the prescribed due date (the 7th day of the month following that in which the salary was paid) will result in penalties being levied.

Company directors are personally liable for failing to ensure their company complies with its salary or wages tax obligations. Directors are liable for a penalty equal to the amount of salary or wages tax that the company ought to have remitted to the IRC.

3

Taxation of companies

3 *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 IRC to adopt a substituted balance date.

Company tax rates

(other than on income from mining, petroleum or gas projects)

Company tax rates do not distinguish between public and private companies. The rates are:

Resident companies generally	30%
Non-resident companies generally	48%

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 41.9%. 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 projects and shipowners, taxable income generally corresponds to accounting income. However, there are important exceptions, the major areas being:

- depreciation (IRC specified rates)
- initial year accelerated depreciation
- accelerated depreciation for manufacturers
- exchange gains and losses (must be realised and either be on revenue account or relate to foreign currency debt)
- the deduction for employer's contributions to a superannuation fund is limited to 15% of an employee's fully taxed salary or wages. The fund must be resident in Papua New Guinea and be authorised by the Bank of Papua New Guinea for this amount to be deductible
- bad debts (must be written off in a year)
- borrowing expenses (amortised over a maximum period of five years)
- entertainment expenses are non-deductible except in limited circumstances
- interest expense is deductible subject to thin capitalisation rules
- management fees (restricted within certain limits)
- 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

Exempt income

This is covered under Industry Incentives (see page 45).

Losses

Taxpayers may offset trading losses (other than primary production losses and resource project losses) against all income received in the same accounting period, or carry forward trading losses for offset against future trading profits for a period of 20 years. Taxpayers may not carry back losses against prior years' profits. The carry-forward of losses is subject to a 50% or more continuity of shareholding and a continuity of business test where there is a breach of the ownership test.

Overseas losses

Losses incurred in deriving income from a source outside Papua New Guinea are not deductible from Papua New Guinea source income. In practice overseas losses may be carried forward for up to twenty 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 exploration costs and capital development costs incurred by resource companies
- consolidation of accrued income and expenditure, trading stock, assets (other than depreciable assets) and liabilities to be recorded at original cost in the books of the amalgamated entity

- depreciable assets to be recorded at the written down value 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
- no restriction on transfer of credits in respect of prescribed infrastructure developments.

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. Dividend withholding tax at the rate of 17% (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 (see Chapter 15).

Dividends derived by resident individuals and resident trust estates which have been subject to dividend withholding tax are exempt from further taxation. This means dividend withholding tax is a final tax for resident individuals and resident trust estates.

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.

Provisional tax

Corporate income tax is collected under a provisional tax system. Under this system, tax is paid in respect of a company's current year profits (ie payments made in 2015 are in respect of the year ending 31 December 2015). Provisional tax is imposed by assessment issued by the IRC based on the last return lodged.

In the event that no tax was payable on the prior year return, the Commissioner General has the right to estimate the amount of tax that he believes should be paid.

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

Applications may be made to reduce provisional tax assessed if the tax due for the year in question is expected to be lower than the provisional tax assessed. Applications to vary the provisional tax liability must be lodged with the IRC on or before 31 October in the relevant year.

Where estimated provisional tax is less than 75% of the income ultimately assessed, additional tax may be levied. The additional tax is calculated at a flat rate of 20%, based on the difference between the estimate lodged and the provisional tax originally determined, or the actual tax payable, whichever is lesser. The Commissioner General has the discretion to remit additional tax. A company is not required to increase the amount of provisional tax imposed by the IRC.

4

*Mining, petroleum
and gas operations*

4 Mining, petroleum and gas operations

A single tax regime covers all 3 industries. Resource projects are assessed on a project basis such that losses from one project cannot be claimed against other income derived in respect of another project.

Income tax rates – Mining companies

The corporate tax rate applicable to resident mining companies is 30%.

The tax rate applicable to branch (non-resident) mining operations is 40%.

Dividend withholding tax at the rate of 10% is payable by resident companies carrying on mining operations.

Interest income earned prior to the commencement of commercial operations is not taxed but instead reduces “Allowable Capital Expenditure” relating to that project. Interest and other 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 then this income is not applied to reduce exploration 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 resident and non-resident companies.

The rate applicable to incentive rate petroleum operations is 30%. The rate applies to 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 resident and non-resident companies.

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

Gas companies versus Petroleum companies

As the tax rates for gas and petroleum companies differ, it is important to note the point at which a petroleum project converts into a gas project for tax purposes. Under the oil and gas regulations, a project with a gas to oil sold ratio not exceeding 5,000 cubic feet of gas per stock tank barrels of oil sold is a petroleum project. However once this threshold is exceeded and the project is subject to a gas agreement, the project will become a designated gas project and is subject to the tax provisions specific to gas projects.

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).

Additional profits tax

Additional profits tax (“APT”) does not apply to mining and petroleum projects. However, it does apply to Designated Gas Projects. Broadly, APT is imposed on the basis of cash flow. APT potentially applies to a Designated Gas Project in the year in which the accumulated value of “net cash receipts” becomes positive.

Notional tax

The notional tax rules apply to non-mining income of a company which has an interest in a resource development licence but does not derive any income from mining operations.

Under the notional tax system, corporate income tax is payable a year in arrears. This is usually estimated by uplifting by 5% the taxable income reported in the last tax return lodged. Tax on this estimate is then payable in three instalments on 31 March, 30 June and 30 September (with an option to vary and pay the tax in full at the time of the first instalment).

Deductions for mining, petroleum and gas operations

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

Expenditure incurred during the exploration phase of a project (ie. under an exploration licence) is categorised as exploration expenditure (“EE”). EE incurred up to 20 years prior to the issue of a development licence qualifies as AEE. Exploration expenditure, including capital expenditure, incurred after the issue of a development licence is categorised as ACE.

Capital expenditure incurred after a development licence has been issued is categorised as ACE.

The amount of the deduction for AEE is limited to the amount of income remaining after deducting all other deductions, other than the deduction for ACE. In other words, the AEE deduction cannot be used to create a tax loss.

The amount of the deduction for ACE is limited to the amount of income remaining after deducting all other deductions. In other words the ACE deduction cannot be used to create a tax loss.

Exploration expenditure incurred by an entity within a wholly owned group of companies may be pooled and deducted against the income of a producing project in which a member of that wholly owned group of

companies has an interest. A double income tax deduction is potentially available for minerals exploration expenditure, however that is not available to hydrocarbon exploration expenditure.

Provisions introduced from 1 January 2012 provide specific deductions for rehabilitation costs incurred in connection with a resource project. Those provisions also provide a mechanism for the transfer of rehabilitation expenditure sourced tax losses to be deducted against the income of another resource project.

5

Taxation of other entities

5 *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 30%.

The beneficiaries of a trust estate are also subject to income tax on their entitlement to the net income.

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 (“PUT”) 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 PUT must satisfy similar requirements to those imposed on Unit Trusts if it is to be taxed as a PUT. A PUT may also invest in property located outside Papua New Guinea..

Landowner resources trusts

Where interests in various natural resources projects are held in trust for landowners a trust may be approved by the Minister of Finance to be 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.

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

Superannuation Funds

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

The taxable income of an authorised and resident superannuation fund is subject to tax at the rate of 25%.

Dividends paid to a superannuation fund qualify for the dividend rebate (see page 20) and are exempt from dividend withholding tax if the fund is an authorised 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.

6

Manufacturing industry incentives

6 *Manufacturing industry incentives*

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 (eg 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 5 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 date export sales were first made. For the following 3 years, the excess of export sales over average export sales of the previous three years is exempt.

There is no tax deduction available for expenses incurred in deriving this exempt income (i.e. it is the profits from export sales that are exempt).

The manufacturing export incentive was abolished from 1 January 2015 except in respect of goods which qualified for the incentive prior to 1 January 2015.

Goods which qualify for the exemption include:

- Activated carbon
- Artefacts
- Beverages ready for consumption
- Biscuits
- Canned fruit and vegetables
- Canned, loined 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
- Foam products
- Founded and manufactured metal products
- 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

- Fabricated steel Fibreglass products Fishing nets
- Flexible packaging materials
- Flour
- Glass products
- Hand tools
- Industrial and medical gases
- Instant coffee
- Instant full cream milk
- Instant noodles Jewellery
- 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

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 5 years. The subsidy is based on a percentage of the relevant minimum wage for each full time citizen employee as follows:

1 st year of subsidy	40%	4 th year of subsidy	15%
2 nd year of subsidy	30%	5 th year of subsidy	10%
3 rd year of subsidy	20%		

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

7

*Agriculture, fishing
and tourism*

7 *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 5 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.

An initial year depreciation deduction of 55% can be claimed in respect of plant acquired by hotels, other short-stay accommodation facilities and restaurants.

Primary production

Outright deductions are allowed for certain capital expenditure including clearing or preparing or conserving land for agriculture, the eradication of pests, certain labourers' accommodation and for the conservation and conveyance of water.

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

Major new primary production projects with a minimum investment of K1 million undertaken by a company which commenced in the period 1 January 2004 to 31 December 2011 have a tax rate of 20% from the

date of commencement of construction to the end of the tenth full tax year after the commencement.

A 150% deduction is available for expenditure on services provided free of charge to smallholder growers including the provision of advice and training and technical assistance in relation to their primary production to assist growers with production, processing, packaging and marketing problems. To qualify, the expenditure must be incurred under an Approved Agricultural Production Extension Services Plan.

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. 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.

Investment in Tourism

Income derived by a taxpayer from a new large scale tourism facility or a substantially improved tourist accommodation facility where construction commenced between 1 January 2007 and 31 December 2011 will have a tax rate of 20% for the first year in which such income is derived and for a maximum of 14 years thereafter.

Other conditions the taxpayer must satisfy to qualify include the requirement for expenditure on a hotel, motel, ship, inn or other short term accommodation in Papua New Guinea that provides 100 or more rooms for accommodation to be US\$7 million or more and registration with the IRC.

A double deduction is also available in respect of tourism staff training costs.

See also infrastructure credits in Chapter 8.

Double deduction for export market development costs

The double deduction for expenditure incurred on export market development expenditure is also available in respect of outgoings incurred primarily for the purpose of seeking opportunities, or creating and increasing demand for the development of tourism within PNG.

8

Infrastructure credits

8 *Infrastructure credits*

Prescribed infrastructure development credits

A tax credit is available to taxpayers engaged in mining, petroleum or gas operations, taxpayers engaged in primary production and taxpayers engaged in tourism. 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 actually spent and:

- in the case of taxpayers engaged in tourism the amount of tax payable or 1.5% of the assessable income for the year
- in the case of taxpayers engaged in primary production the amount of tax payable or 1.5% of the assessable income for the year
- in the case of taxpayers engaged in mining, petroleum or gas operations the amount of tax payable or 0.75% of the assessable income for the year.

If a taxpayer's expenditure in a particular year is less than these limits, the excess can be carried forward for a period of two years.

A prescribed infrastructure development for resource projects and primary producers includes schools, aid posts, hospitals, roads and other capital asset as well as maintenance of these assets (where these are owned by the State). Any projects 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 IRC as having been incurred. Capital projects that are required to be built under a resource agreement are ineligible for the credit. For the tourism industry, the infrastructure tax credit scheme only extends to those who qualify as large scale tourism investors.

Highlands highway credits

The special Highlands Highway infrastructure tax credit scheme of up to 1.25% of assessable income was reinstated from 1 January 2012 and allows a tax credit for expenditure incurred on “emergency repairs” to the Highlands Highway.

This credit has a similar application and operates in addition to the prescribed infrastructure development credits described above.

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. This tax credit scheme has application to 31 December 2017.

9

Regional incentives

9 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.

Province	District
Central	Abau, Goilala
East New Britain	Pomio
East Sepik	Aitape, Ambunti, Angoram, Maprik
Eastern Highlands	Henganofi, Lufa, Okapa, Wonenara
Enga	Kandep, Lagaip, Wabag, Wapenamanda
Gulf	Kaintiba, Kikori
Madang	Bogia, Rai Coast, Ramu
Milne Bay	Lostuia, Rabaraba
Morobe	Finschhafen, Kabwum, Kaiapit, Menyamya, Mumeng
Simbu	Gumine, Karimui
Southern Highlands	Ialibu, Kagua, Koroba, Nipa, Pangia, Tari
West New Britain	Kandrian, Lake Kopiago
West Sepik	Amanab, Lumi, Nuku, Telefomin,
Western	Lake Murray
Western Highlands	Jimi, Tambul



10

Other incentives

10 Other incentives

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.

A double deduction is also available for expenditure incurred for payments of tourism staff training costs.

Solar heating

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

Exemption of certain interest income

Interest income received from a "long term bond" issued prior to 16 November 2004 is exempt from income tax. A "long term bond" is an approved fixed interest security issued by the Papua New Guinea Government, or a 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 is exempt from income tax.

11

*Special deductions
and restrictions*

11 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

Management and technical 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:

- 2% of the assessable income derived from PNG sources by the taxpayer

and B is:

- 2% of the total allowable deductions (excluding the management fees).

The restriction does not apply where the payment was made to a non-associated person or is not for the purpose of or does not have the effect of tax avoidance.

The restriction on deductibility applies to payments by both residents and non-residents.

Special rules apply to management and technical fees payable in respect of mining, petroleum and gas operations.

Exchange gains and losses

Realised exchange gains arising from foreign currency debts incurred or borrowings are assessable. Realised business related exchange losses on such debts or borrowings are deductible. Unrealised gains are not assessable and unrealised 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 to a trust for special law and order projects in Papua New Guinea.

- A 150% deduction is available for donations of K500,000 or more made prior to 31 December 2015 in respect of the 2015 Pacific Games to the PNG Sports Federation & Olympic Committee, the Pacific Games (2015) Authority or PNG 2015 Pacific Games Limited.

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 and thin capitalisation rules

Interest on debt in excess of a prescribed debt equity ratio is non-deductible to the extent the interest is paid to a non-resident (including unrelated parties).

For resource companies the debt to equity ratio is 3:1 while all other tax payers (except financial institutions) are subject to a 2:1 ratio.

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.

Environmental protection and clean-up costs

Specific deduction provisions allow a deduction for environmental protection and clean-up costs. Those provisions also include a deduction for the costs incurred in preparing an environmental impact study over the lesser period of 10 years or the life of the project being studied.

12

*Compliance
reporting system*

12 Compliance reporting system

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

The industries affected include:

- Building and construction
- Joinery and cabinet making
- Motor vehicle repairs
- Road transport
- Security

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 they make an eligible payment of K5,000 or more in relation to one contract in the year of income in relation to one payee.

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

13

*Lodgement of
Income Tax Returns,
Assessments,
Payment of Tax and
Penalties*

13 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.

Liability to lodge an income tax return	<p>Any individual whose gross non salary or wages income exceeds K100.</p> <p>Any individual who runs a business or is engaged in a profession and whose gross income exceeds K100.</p> <p>All companies.</p> <p>All partnerships, trusts and superannuation funds.</p>
Lodgement (final date without penalty) when lodged by a registered tax agent	<ul style="list-style-type: none"> • 6 months after the end of the year of income for non-resource company taxpayers in a tax payable position • 8 months after the end of the year of income for resource company taxpayers in a tax payable position; • 10 months after the end of the year income for all taxpayers in a non-tax payable position.
Otherwise	2 months after the end of year of income.
Penalties for non-lodgement of returns	The penalties for non-lodgement of income tax returns on the set due dates range from K500 up to K5,000 or 100% of the tax liability with an additional fine of K50 for each day the return is not lodged.
Issue of assessment by IRC	Usually within 5 to 6 months of lodgement of the return.
Payment of tax	<p>Not less than 30 days after the date of assessment.</p> <p>For individuals, if provisional tax is imposed in the assessment the tax will not usually be payable before 30 September following the end of the year of income.</p>
Objection (protest)	Within 60 days of service of notice of assessment.
Reference to Review Tribunal or National Court	Within 60 days of service of notice of disallowance of objection.

14

*Payments to non-
residents*

14 *Payments to non-residents*

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 and dividends paid out of petroleum or gas income which are exempt from income tax and dividend withholding tax. The rate of dividend withholding tax may be reduced under the terms of a double tax treaty (see chapter 15).

Dividends paid to non-resident superannuation funds are exempt from the withholding tax.

Interest

Where interest is paid or credited by any person to a non-resident, interest withholding tax must be deducted at the rate of 15% . The withholding tax is a final tax for non-residents. The rate of interest withholding tax may be reduced under the terms of a double tax treaty (see chapter 15).

The withholding tax does not apply to interest paid to a non-resident lender by companies engaged in mining, petroleum or gas operations in PNG.

Royalties

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

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

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

- 48% of the net royalty, i.e., gross royalty, less applicable expenses
- 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 rate of royalty withholding tax may be reduced under the terms of a double tax treaty (see chapter 15).

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 and technical fees paid to non-residents. The withholding tax only applies to the amount allowable as a tax deduction. Management fees paid to some jurisdictions may be exempt from management fee withholding tax under the terms of a double tax treaty (see chapter 15).

The tax must be remitted to the IRC 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 foreign contractor withholding tax on a deemed taxable income equal to 25% of the gross contract income which is taxed at the rate of 48%. This equates to a withholding tax of 12% of gross income. Individuals will generally be considered as employees and be subject to salary and wages tax.

If the IRC is satisfied as to the actual net profit, the foreign contractor may elect to be taxed on the basis of the taxable income determined 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 PNG contracting entity must provide the IRC with a copy of a relevant contract within 14 days of its signing and is required to self assess the amount of tax to withhold. Where tax is withheld from the foreign contractor the deductions are to be remitted to the IRC within 21 days after the end of the month in which the payment was made.

Where the foreign contractor is a resident of a jurisdiction which has a double tax treaty with PNG (see chapter 15 for details) the income derived by the foreign contractor may be exempt from PNG tax.

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 30% (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 K200,000 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 K200,000 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 IRC 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.

Over the last few years the Bank of Papua New Guinea has introduced significant changes to the exchange control regulations to liberalise the exchange control regime. Under the revised rules authority to grant exchange control approval for remittance of funds outside PNG has been delegated to the trading banks. In this regard the trading banks can approve the remittance 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. In addition, Bank of Papua New Guinea approval is not required for most foreign investment proposals.

Transfer pricing

Where transactions involving non-residents are held not to be at arm's length, the IRC may impose an arm's length consideration for income tax purposes and determine the source of any income arising from such transactions.

Corporate taxpayers (including companies, superannuation funds, associates and unit trusts) that have transactions or dealings with international related parties that exceed K100,000 in an income year, or have aggregated loan balances with international related parties in excess of K2,000,000 at any time during an income year, are required to prepare and lodge an International Dealings Schedule ("IDS") with their income tax return for that year of income. The IDS requires disclosures to be made of the nature of the transactions with international related parties, the underlying transfer pricing methodologies followed to determine transfer prices and the nature of documentation supporting those pricing methodologies.

15

Double tax treaties

15 Double tax treaties

Double tax treaties have been entered into with Australia, New Zealand, Canada, China, Fiji, Germany, Korea, Malaysia, Singapore, Indonesia and the United Kingdom. We understand that Germany has not yet ratified the treaty.

Rates of tax imposed on payments to non-residents and the liability of non-residents to PNG tax may be affected by a double tax treaty and these rates are summarised below. PNG domestic legislation provides an exemption from withholding tax for interest and dividends in certain circumstances. The higher rates quoted are the maximum rates allowable under the treaties, however the domestic exemption may still apply in some circumstances.

PNG has negotiated a double taxation treaty with Thailand which has not yet been ratified in PNG.

Foreign Contractor Withholding Tax

The application of a double tax treaty may result in a foreign contractor operating in PNG being exempt from PNG tax if the foreign contractor does not have a permanent establishment in PNG (see Chapter 14 for background).

Management Fee Withholding Tax

Some of PNG's double tax treaties also operate to exempt the application of management fee withholding taxes chargeable on management fees paid to certain jurisdictions such as Australia and Singapore.

Recipient	Interest (1)	Dividends (2)	Royalties (3)	Technical fees
	%	%	%	%
Non-treaty				
Resident	0/15	0/10/17	0/5	0
Non-resident corporations and individuals	0/15	0/10/17	10/30	17
Treaty				
Australia	10	17	10	0
Canada	10	17	10	0
New Zealand	10	17	10	0
China	10	15	10	0
Fiji	10	17	15	15
Germany	10	15	10	10
Indonesia	10	15	10	10
Korea Republic	10	15	10	0
Malaysia	15	15	10	10
Singapore	10	15	10	0
United Kingdom	10	17	10	10

Notes on the above withholding tax rates

- 1 There is no withholding tax on interest when:
 - interest is paid or credited to a licensed financial institution in Papua New Guinea, the Bank of Papua New Guinea, or the State
 - interest is paid or credited by a resource company to a non-resident lender

- the interest income is otherwise exempt income in the hands of the recipient (including interest derived from an onshore foreign currency account, interest derived from a “long term bond” or interest derived by a person whose income is exempt from tax).
- 2 The rate of withholding tax on dividends paid by mining companies is 10%. Dividends paid to a resident or a non-resident out of income from petroleum or gas operations are exempt from income tax and are not subject to withholding tax. There are also some other specific exemptions from withholding tax on dividends.
 - 3 A royalty paid to a non-resident associate of the payee will suffer a 30% withholding tax, where the non-resident is not an associate of the payee the withholding tax rate will 10% (or 48% of the taxable income derived from the royalty if the non-resident chooses to lodge an income tax return in PNG).

16

*Goods and
services tax*

16 Goods and services tax

Rate of GST

Goods and Services Tax (“GST”) 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 K250,000 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 GST (GST 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 GST (subject to a few exceptions).

2. Zero-rated sales

Some goods and services will be subject to a zero rate of GST. 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, petroleum or gas company
- the supply of unprocessed crude oil from sources in PNG is zero rated for GST purposes
- the supply of accommodation and travel within PNG to a person who purchases the supply while they are outside PNG is zero rated for GST purposes.

Input tax relating to these sales is fully deductible against output GST (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 GST (GST on purchases)

GST 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

GST is imposed on the CIF value of the goods including, where applicable, any customs duty and excise. The GST 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, the recipient of the services is required to impose and remit the GST to the IRC.

The GST 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

GST is charged by the supplier, where the supplier is registered for GST purposes.

Accounting for GST

As a rule, GST must be accounted for on an accruals basis. However, registered entities whose turnover did not exceed K1,250,000 in the preceding 12 months or whose turnover is not likely to exceed K1,250,000 in the next 12 months) may account for GST on a payments basis.

GST 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, GST is generally accounted for on a pro-rata basis.

GST 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 GST 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 GST 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 GST.

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” (ie 1/11th) of the amount paid.

Goods & Service Tax – Director Liability

From 1 January 2015 the GST Act contains provisions which hold company directors personally liable for failing to ensure their company complies with its GST obligations. Directors are liable for a penalty equal to the amount of GST that the company ought to have remitted to the IRC.

17

Other taxes

17 Other taxes

Interest withholding tax

Interest withholding tax of 15% must be deducted from any interest paid by a financial institution, the Bank of Papua New Guinea (Central Bank) or a company to a person resident in PNG.

Withholding tax deducted is creditable against tax ultimately payable by a resident recipient on that income.

Training levy

All businesses whose annual payroll exceeds K200,000 are subject to a 2% training levy, calculated on the sum of 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 GST, the majority of manufacturing inputs attract no duty. Duty is now primarily imposed on items which are produced locally in PNG.

Duty can be waived where goods are to be imported and re-exported within 12 months (or some other period as approved by the Collector of Customs) subject to the approval of the Collector of Customs. A bond must usually be provided.

Excise duties

Excise, at varying rates, is imposed on certain locally manufactured and imported goods (primarily alcohol, tobacco and fuel products) as well as on goods deemed to be “luxury” items.

Timber export duty

An export tax on logs (excluding plantation logs and sawn timber) is applied at a flat rate of K8 per cubic metre (previously applied at a varying rate according to the FOB price of the logs). Export duty on logs is based on US\$ values.

Spice levies

The Spice Industry Act, 1989 imposes a spice export levy which may be reduced or suspended by the Spice Industry Board. A spice stabilisation fund levy may also be imposed by the Spice Industry Board.

Stamp duty

The National Government imposes duties on documents evidencing certain transactions, including the transfer of real property located in PNG, the transfer of shares in certain landholding corporations and the leasing of office space or heavy equipment by a non-resident. Documents executed outside of PNG may still be subject to stamp duty if the document relates to property or things to be done in PNG.

The following are the maximum rates of duty on various transactions:

	Value K	Percentage of Value
Conveyances of real property (including shares in certain landholding corporations)	In excess of K140,000	5%
Transfers or assignments of leases of land other than mining and petroleum leases	In excess of K140,000	5%
Transfers of mining and petroleum leases		2%
Lease documents		
Lease for a definite term of less than 5 years		0.4%
Lease for a definite term of 5 years or more		1%

	Value K	Percentage of Value
(duty based on total rental for period leases)		
Share and stock transfers		1%
Transfers or assignments of mineral and petroleum exploration licences and on transfer of mining or petroleum information		2% or K20,000

Subject to certain conditions, the transfer of land or other dutiable property as the result of a company amalgamation is exempt from full rates of duty. The amount of stamp duty is restricted to K600 per transaction up to a maximum of K12,500 per amalgamation.

Stamp Duty relief

An exemption from stamp duty is available where the dutiable property is transferred between a PNG group companies (ie. a PNG company and its wholly owned subsidiary). This relief is only available upon application to the IRC prior to the transaction being made.

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

The Gaming Control Act provides for the imposition of a Gaming Machine Tax that is payable by the operator on the “taxable gross profit” of a site.

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