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Papua New Guinea Tax Profile

Produced in conjunction with the KPMG Asia Pacific Tax Centre

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1 Corporate Income Tax

Corporate Income Tax	Income Tax
Tax Rate	The standard resident corporate rate is 30 percent and standard non-resident corporate is 48 percent. Different rates may apply to companies that generate income from mining, petroleum or gas operations.
Residence	A company is considered to be resident in Papua New Guinea if it is incorporated under Papua New Guinea law. Companies incorporated under foreign law are considered to be Papua New Guinea resident if they are carrying on business in Papua New Guinea and are effectively managed and controlled in Papua New Guinea. Resident companies are taxed on their worldwide income. Non-resident companies are taxed only on their Papua New Guinea source income.
Compliance requirements	The tax year runs from January 1 to December 31 each year. Resident companies are required to lodge annual tax returns and non-resident companies are required to lodge a tax return if they derive Papua New Guinea sourced income. Tax returns must be lodged on or before February 28 of the following year. If the returns are lodged through a Papua New Guinea registered tax agent, the return may be lodged on or before April 30 of the following year or a later date if permission is granted by the Commissioner. Assessments are issued to taxpayers following lodgement of their tax return. Tax is generally payable within 30 days of receiving the assessment. In addition, companies pay three equal instalments of provisional tax on April 30, July 31 and October 31 of each year, based on the last assessment issued to the company. There are no provisions allowing for grouping or consolidation of tax returns.

International Withholding Tax Rates

Dividends - Dividends paid to non-residents are subject to withholding tax at 17 percent. Withholding tax is reduced to 10 percent in the case of mining income. Dividends paid out of oil or gas income are exempt from dividend withholding tax. Under application of a tax treaty the rate may be reduced to 15 percent.

Royalties - Royalties paid to a non-resident are subject to withholding tax at 10 percent or 30 percent if paid to an associate. Under application of a tax treaty the rate may be reduced to 10 percent.

Interest - Interest payments to non-residents are subject to withholding tax at 15 percent. Under application of a tax treaty the rate may be reduced to 10 percent.

Certain non-compliant entities - Businesses that make eligible business payments must withhold and remit 10 percent of all such payments to persons or organizations that do not hold a valid "Certificate of Compliance". This tax is applicable to payees in specific industries, including building and construction, road transport, motor vehicle repairs and maintenance and security services.

Non-resident contractors - Non-residents contractors involved in certain contracts have the option of being taxed on their contract income at a deemed taxable income equal to 25 percent of the gross contract proceeds, or the actual taxable income from the respective contract.

Unless the Commissioner-General of Internal Revenue has approved a foreign contractor to be assessed on the actual taxable income from the contract, the payments to the foreign contractor are subject to a 12 percent withholding tax which is a final tax.

Non-resident insurers - Non-resident insurers who do not have a permanent establishment in Papua New Guinea are taxed at 48 percent on 10 percent of gross premiums earned from insuring property or events in Papua New Guinea. Non-resident insurers who are unincorporated associations are taxed at 30 percent on 10 percent of gross premiums earned from insuring property or events in Papua New Guinea. Under application of a tax treaty the income tax rate might be limited.

Management fees - Management fees paid to non-residents are subject to 17 percent withholding tax. Under application of a tax treaty the rate may be reduced to nil.

Non-resident ship owners or charterers - The taxable income of a non-resident ship owner or charterer is calculated as 5 percent of the gross fares or freight for passengers or goods loaded at a Papua New Guinea port. The tax rate is the non-resident corporate rate of 48 percent, or the progressive individual rates, where appropriate. The master of the ship and the agent are both liable for tax. Payment is usually made to customs officials when clearing the ship's departure.

Holding rules	Dividends received by resident individuals from Papua New Guinea companies and dividends received by non-resident individuals are subject to dividend withholding tax which is a final tax. Dividends received by a company in Papua New Guinea are taxable but the resident company is entitled to a rebate. The rebate is calculated at the average rate of tax payable by the company of the amount of dividends received minus allowable deductions that directly relate to income from dividends. Foreign dividend income received by a resident individual is fully taxable at marginal tax rates but a credit may be granted for any foreign tax paid. There is no capital gains tax regime in Papua New Guinea. Note that the introduction of a capital gains tax is currently being considered by the Tax review committee that is to report its findings in 2015.
Tax Losses	Tax losses may be carried forward for 20 years (unlimited for primary production losses). Continuity of ownership (50 percent or more) of the company and holding company is required to carry forward losses, otherwise the same business test must be satisfied. Expenses incurred in deriving foreign income are only deductible against that income. Where a company has incurred a loss as a result of its foreign activities, such a loss is available for deduction over the next 20 years against foreign sourced income. Carrying back tax losses is not allowed.
Tax Consolidation / Group relief	There is no tax consolidation regime in Papua New Guinea and losses are not permitted to be offset between group companies.
Transfer of shares	The transfer of shares will generally be taxed (stamp duty) at 1 percent of the value of the shares transferred.
Transfer of assets	The transfer of land and buildings will be taxed at between 2 percent to 5 percent (stamp duty).
CFC rules	There is no CFC regime in Papua New Guinea.

Transfer Pricing	The Commissioner has the power to reconstruct an international transaction for tax purposes in order to apply an arm's length consideration if the consideration for the supply or acquisition of property (or services) under an international transaction is less than / greater than the arm's length consideration. A transfer pricing ruling has been issued by the Internal Revenue Commission and details of transfer pricing methodology and documentation are required to be disclosed in the International Dealings Schedule of income tax returns. There are no safe harbour rules prescribed in the legislation.
Thin Capitalisation	Thin capitalisation rules are applicable from 1 January 2013 for non-resource companies; comparable rules did already apply to resource companies in Papua New Guinea. Foreign Interest on debt in excess of the debt-to-equity ratio of two to one is not allowable. For mining and petroleum companies the amount of interest allowable is restricted to a debt-to-equity ratio of three to one. Financial institutions are currently exempt from thin capitalisation rules.
General Anti-avoidance	Papua New Guinea has general anti-avoidance provisions that allow the tax authority to cancel the effect of any tax benefit that the taxpayer derived from an arrangement if it could be concluded that a person (not necessarily the taxpayer) entered into or carried out the arrangement for the sole or dominant purpose of enabling the taxpayer, or the taxpayer and other persons, to obtain a tax benefit.
Anti-treaty shopping	None
Other specific anti-avoidance rules	Specific anti-avoidance provisions exist to prevent accelerated deductions, excessive costs for depreciation deductions and non-arm's length charges for management expenses.
Rulings	A tax ruling system has recently been introduced which formalises the issue of public Tax Circulars on matters of administrative practice, procedural instruction and interpretation of tax laws. Tax Agents (and other members of the public) are able to submit topics of interest for the possible issue of a public Tax Circular. Topics covered to date include transfer pricing, distinguishing employees versus independent contractors, imposition and remission of penalties and the application of the director penalty regime to Salary or Wages Tax and Goods and Services Tax. There is no formal system in place for private rulings. It is possible to obtain a non-binding opinion from the Commissioner on a particular tax issue and these opinions are not made public. The timeframe for obtaining these types of opinions vary from about 3 months to over 12 months.
Intellectual Property Incentives	None

R&D Incentives

As of 1 January 2014 the additional 50 percent deduction does no longer apply to eligible R&D expenditure. The expenditure incurred on scientific research incurred prior to this date is not being affected.

Other incentives

The Papua New Guinea Government offers very few tax incentives to attract new international investments into the country. However, certain industries or projects have been granted exemptions or concessions, including:

- Fishing
- Exports
- Rural development
- Tourism
- Infrastructure
- New primary production projects / approved extension projects

Hybrid Instruments

The treatment of debt and equity for tax purposes is the same as per the accounting standards.

Hybrid entities

There are special rules applicable to hybrid entities.

Special tax regimes for specific industries or sectors

Specific tax rules apply to certain industries such as mining, oil and gas and superannuation funds.

Related business factors

Forms of legal entities typically used for conducting business

A Limited Company is the typical legal entity used in Papua New Guinea for conducting business. It is also common for entities to operate in Papua New Guinea through a branch structure.

Capital requirements for establishing a legal entity

There is no minimum capital requirement for corporation law purposes in Papua New Guinea.

Other local requirements for establishing a legal entity

Papua New Guinea companies that are 50 percent or more owned by foreign investors require certification from the Investment Promotion Authority. Some activities are reserved for Papua New Guinea nationals.

Foreign exchange control rules

Tax clearance is required for remittances exceeding K200,000 in a calendar year other than remittances that are trade related involving the physical movement of goods. The remittance of any funds to a specific number of countries does require a tax clearance certificate. Following liberalization of exchange control rules, the Bank of Papua New Guinea has delegated foreign exchange approval for most transactions to the commercial banks.

2 Income Tax Treaties for the Avoidance of Double Taxation

In Force	Australia	Fiji	New Zealand
	Canada	Korea (Republic of)	Singapore
	China	Malaysia	United Kingdom

Negotiated, not yet in force at time of publication

A treaty with Germany has been negotiated but is not in force at the time of writing. The treaty with Indonesia has been ratified by the Papua New Guinea authorities but has not yet been approved by its Indonesian counterparts. A tax treaty with Thailand is yet to be ratified by both parties.

Source: IBFD

3 Indirect Tax

Indirect Tax	Goods and Services Tax (GST)
Standard Rate	The standard rate of GST is 10 percent. Certain goods and services are exempt or zero-rated.
Further Information	For more detailed indirect tax information across various countries, refer to: KPMG Asia Pacific Indirect Tax Guide

4 Personal Taxation

Income Tax

Income tax

Top Rate

The top personal tax rate for residents and non-residents is 42 percent and applies to taxable income in excess of PGK 250,000. However, the thresholds for progressive tax rates differ between residents and non-residents.

Salary or Wages Tax

A Salary or Wages Tax applies to income earned as salaries or wages being defined in the Income Tax Act 1959. The definition of salary or wages is very wide and includes commissions, bonus, remuneration of any kind or allowances paid in respect of or in relation to the employment of a person but also any remuneration by way of fees or otherwise for professional services or services as an advisor, consultant or manager where such remuneration is paid wholly or substantially for personal services rendered by that person in PNG. It also includes the remuneration of a director of a company by that company.

Salary or wages tax is calculated for each fortnight and is to be remitted to the IRC before the 8th day of the following month.

Social Security

There is no social security tax in Papua New Guinea.

However, all employers with 15 or more employees (either citizens or expatriates) are required to register with an Authorised Superannuation Fund (ASF) in Papua New Guinea. Contributions are 6 percent for the employee and 8.4 percent for the employer of the gross base salary.

Employees who are Papua New Guinea citizens must become members of an ASF as soon as they have been continuously employed for three months or more. Contributions by non-citizen employees are voluntary at the moment, and implementation of provisions that require contributions by non-citizen employees have been deferred pending resolution of related technical issues.

Further information

Link to KPMG's Thinking Beyond Borders

5 Other Taxes

Customs duty	Customs duties are levied on the value (i.e. cost of goods, insurance and freight charges) of a wide range of imported goods. The rates of duty vary depending on the nature of goods. Higher rates apply to some items that include alcoholic beverages, fruit juices, aerated water, tobacco, sugar, canned fish, petroleum products, and certain motor vehicles.
Excise duty	Excise duty is levied on a number of commodities including tobacco, alcoholic beverages, and aerated mineral waters. The rates vary between the products and are based on the value of the goods. The range of products subject to excise duties has increased after the introduction of GST, to replace revenue lost by the reduction or removal of certain custom duties.
Stamp duty	Stamp duty is imposed on documents evidencing the transfer of shares, conveyance of real property, leases, etc. The rate of stamp duty depends on the nature of the documents and transactions (e.g. the stamp duty on the transfer of real property can be as high as five percent).
Property tax	Land tax is imposed by the Provincial Governments. The rate of Land tax in the National Capital District is 1.25 percent of valuation.
Training Levy	A training levy of two percent is assessed on annual payrolls in excess of PGK 200,000. Payroll is defined to include all salaries or wages paid by the employer together with taxable benefits provided, and gratuities and superannuation benefits paid to employees. The levy is reduced by eligible costs incurred in the training of Papua New Guinea citizen employees.
Inheritance / gift tax	There are no inheritance taxes in Papua New Guinea. There is no gift duty in Papua New Guinea but stamp duty at "gift rates" is levied on any document evidencing a gift, or if, in the opinion of the Commissioner, there is inadequate consideration. The maximum duty is five percent.
Other taxes	• Timber export duty • Spice export levy • Gaming machine tax • Debit tax

6 Free Trade Agreements

In force	Australia		
	Melanesian Spearhead Group (MSG) – members:		
	Fiji	Papua New Guinea	Solomon Islands
	Vanuatu		
	South Pacific Regional Trade and Economic Cooperation Agreement – members:		
	Australia	Cook Islands	Fiji
	Kiribati	Marshall Islands	Micronesia
	Nauru	New Zealand	Niue
	Papua New Guinea	Solomon Islands	Tonga
	Tuvalu	Vanuatu	Western Samoa
	European Union - Interim Partnership Agreement with Papua New Guinea ratified by the European Parliament in January 2011 and by Papua New Guinea in May 2011.		
	Source: *WTO and European Commission*		

In negotiation

Pacific Agreement on Closer Economic Relations (PACER Plus) – members:

Australia	Cook Islands	Fiji
Kiribati	Marshall Islands	Micronesia
Nauru	New Zealand	Niue
Palau	Papua New Guinea	Samoa
Solomon Islands	Tonga	Tuvalu
Vanuatu		

Source: *WTO*

European Union (EU) - The EU is currently negotiating a comprehensive Economic Partnership Agreement with all fourteen countries in the Pacific region (Cook Islands, Fiji, Kiribati, the Marshall Islands, Micronesia, Nauru, Palau, Papua New Guinea, Samoa, the Solomon Islands, Tonga, Tuvalu and Vanuatu). The comprehensive agreement would cover trade in goods, trade in services, development cooperation and trade-related issues like food health and safety issues, technical barriers to trade, agriculture, sustainable development and competition.

Source: *European Commission*

7 Tax Authority

Tax Authorities

Internal Revenue Commission

Link to Internal Revenue Commission

Tax audit activity

The tax authority has limited resources to conduct audits and income tax audits are not common. Returns are selected for tax audit by the tax authority primarily based on industry, for example, mining. A tax audit may be opened into any tax return filed.

A typical tax audit commences with a letter requesting provision of supplementary analysis or information. Taxpayers are advised to contact their tax advisor immediately when a tax audit commences or any correspondence is received from the tax authority.

Key focus areas for the tax authority in tax audits conducted in recent years have included:

- GST refunds
- Group tax (employee withholding), especially individual foreign contractors

The tax authority recently redesigned the format of income tax returns to enable benchmarking between taxpayers by industry classification. We expect that this will lead to audits of taxpayers where the reported results are significantly different to industry averages. The new tax return forms also require disclosure of international dealings and this data is expected to result in transfer pricing reviews.

The tax authority's approach to tax audits is largely a manual approach including detailed consideration of invoices and key documents. The tax authority is transitioning to using more sophisticated tools to identify taxpayers for audit.

Appeals

Assessments are issued to taxpayers following lodgement of their tax return. If a taxpayer disagrees with an assessment, the taxpayer has 60 days time from the date the assessment was issued to object to the assessment.

Where a full and true disclosure has not been made the Commissioner may amend an assessment at any time in cases involving tax evasion or avoidance, or in other cases the assessment may be amended within six years of the tax becoming due and payable. Where a full and true disclosure has been made the time period for amending an assessment is three years. Salary and wage assessments may be amended up to six years after the assessment.

Tax governance There are no specific schemes that encourage good governance.

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