



# Papua New Guinea Tax Profile

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# 1 Corporate Income Tax

## 1.1 General Information

### Tax Rate

Corporate income tax applies to the company's taxable income, which is the total of assessable income minus allowable deductions.

The standard resident corporate rate is 30% and standard non-resident corporate rate is 48%.

### Residence

A company is considered to be tax 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 or its voting power is controlled by shareholders who are residents of Papua New Guinea.

### Basis of Taxation

Resident companies are taxed on their worldwide income. Non-resident companies are taxed only on their Papua New Guinea source income.

### Tax Losses

Tax losses may be carried forward for 20 years (unlimited for primary production losses and resource project losses). Continuity of ownership (50% or more) of the company and ultimate holding company is required to utilize 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, this loss is not deductible from Papua New Guinea source income. In practice, overseas losses are available for deduction for up to 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 subject to stamp duty at 1% of the value of the shares transferred. However, stamp duty of between 2% to 5% can apply for certain acquisitions of shares in landholding private companies.

### Transfer of Assets

The transfer of land and buildings will be subject to stamp duty at between 2% to 5% stamp duty.

### Capital Duty (Non-Tax Planning)

Not applicable

### CFC Rules

There is no CFC regime in Papua New Guinea.

### Thin Capitalization

Foreign interest on debt in excess of the debt-to-equity ratio of two to one is not allowable for non-resource companies. 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 capitalization rules.

### Interest Deductibility Restrictions

Interest is deductible subject to the thin capitalization rules.

### Amalgamations of Companies

Two or more companies may amalgamate under the Companies Act 1997. The tax implications on amalgamation include; depreciable assets may be recorded at their tax written down value on the amalgamated entity, losses may be carried across to the amalgamated entity subject to the continuity of ownership test, accrued income and expenditure and trading stock, other assets and liabilities are recorded at original cost in the books of the amalgamated entity, consolidation of exploration costs and capital development costs by resource companies and there is no restriction on deductions allowable for bad debts. It may also be possible to obtain an exemption from stamp duty, where applicable, if advance approval is obtained from the tax authority.

### 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

Although there are no specific anti-treaty shopping rules refer above to general anti-avoidance rules.

### Other Specific Anti-avoidance Rules

Specific anti-avoidance provisions exist to prevent accelerated deductions, excessive costs for depreciation deductions, excessive management fee expenses, and excessive lease payments to non-residents for the lease of equipment.

### Rulings

A tax ruling system has been introduced which formalizes 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.

### 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.



## 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% or more owned by foreign investors or controlled by foreign investors other than by shareholding require certification from the Investment Promotion Authority. Some activities are reserved for Papua New Guinea citizens.

## 1.2 Determination of taxable income and deductible expenses

### 1.2.1 *Income*

#### General

Companies are taxable on assessable income less allowable deductions. Generally, company expenses will be deductible for tax purposes where they are necessarily incurred in carrying on a business for the purpose of earning assessable income, and are not capital in nature.

Special rules apply for certain companies including mining petroleum and gas projects, ship-owners, foreign contractors, life assurance companies and non-resident insurers. Exemptions apply in certain cases (e.g. religious or scientific institutions, approved charitable bodies, savings, and loans societies etc.).

#### Branch Income

Foreign companies carrying on business in Papua New Guinea will most likely be subject to foreign contractor withholding tax of 15% of gross receipts rather than being taxed on branch taxable profits. This is a final tax that applies to certain prescribed contracts. If a branch is alternatively required to lodge an income tax return and pay tax of 48% on its branch profits, it will be subject to tax on the assessable income less allowable deductions attributable to the branch activities.

#### Capital Gains

There is currently no capital gains tax regime in Papua New Guinea. Note that the Tax Review Committee has recommended that capital gains tax be introduced in Papua New Guinea. This is currently being considered by the Papua New Guinea Government together with various other recommendations.

#### Dividend Income

Dividends between PNG resident companies are not subject to dividend withholding tax. There is no minimum equity percentage holding for this treatment to apply. Dividends paid to resident individuals, resident trust estates and non-residents are subject to 15% dividend withholding tax.

#### Interest Income

Interest income received from a foreign currency deposit account, which has been approved by the Bank of Papua New Guinea, is exempt from tax, as is interest income from long term bonds issued prior to 16 November 2004.

### 1.2.2 *Expenses*

#### General

Taxable income generally corresponds to accounting income with certain exceptions some of which are listed below.

#### Minimum Taxation Requirements for the Deductibility of Losses

If a company has a 'carried forward' tax loss, the loss can be deducted from the net taxable income of a later income year subject to certain conditions.

If a taxpayer in this position has also earned income that is exempt (i.e. that is deemed to be non-taxable under a particular provision) the tax loss will be deducted from this amount first, with any remaining loss then being deducted against net taxable income.

There is no ability to carry back tax losses to an earlier income year.

## Capital Losses

Papua New Guinea does not have a capital gains tax. Capital expenses are non-deductible for income tax purposes.

## Carry Forward

Income tax losses may be carried forward for 20 years (unlimited for primary production losses and resource project losses). Continuity of ownership (50% or more) of the company and ultimate holding company is required to utilize losses, otherwise the same business test must be satisfied.

As there is no capital gains tax capital losses cannot be carried forward.

## Carry Back

It is not possible to carry back income tax losses.

As there is no capital gains tax capital losses cannot be carried forward.

## Bad Debts

Bad debts are generally only deductible where they are written off and were previously included in assessable income or are in respect of money lent in the ordinary course of business e.g. a bank.

## Depreciation/Capital allowance

Tax depreciation is allowed based on rates specified by the tax authority. Accelerated tax depreciation may be available in certain cases for certain industries such as manufacturing, construction, tourism, agriculture, telecommunications etc.

## Double Deductions

The most common double deduction is for wages paid for bona fide apprentices or wages for full time training officers.

## Interest Expenses

Subject to previous comments in relation to thin capitalization, interest expenses are generally deductible if they are incurred in carrying on a business for producing assessable income.

## Inventories

For the purpose of calculating the cost of goods sold, the valuation of inventories at the end of each fiscal year must be made in accordance with one of the approved methods specified by the tax authority.

## Other Significant Items

### *Exchange gains/losses*

Must be realized (i.e. physical conversion to or from PGK) and either on revenue account or relate to foreign currency debt

### *Borrowing expenses*

Amortized over the lower of the life of the loan or five years.

### *Management fees*

May be limited to the greater of 2% of assessable income or 2% of allowable deductions (excluding management fees) in certain instances.

## 1.3 Tax Compliance

### 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 (other than companies subject to foreign contractor withholding tax at source).

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.

There are no provisions allowing for grouping or consolidation of tax returns.

### Mandatory Electronic Filing

Tax returns can be lodged in paper form or by email. Personal or company cheques will no longer be accepted. Tax payments must be made by bank draft/cheque, electronic fund transfer, or internet banking.

### Requirement to Prepare Tax Computation / Return in Functional Currency

Tax returns must be prepared in PGK.

### Documents to File with Tax Return

The tax return specifies certain documents that should be lodged where applicable including audited financial statements, a copy of any management agreement in place, and copies of certain lodged withholding tax annual reconciliations. As Papua New Guinea has a full assessment system, the taxpayer may also wish to lodge certain other documents that may assist with the assessment of the tax return.

### Language to File Return, Computation and Supporting Documentation(s)

Tax returns and all supporting documents should be in the English language. An application for approval may be made to retain records in a language other than English.

### Filing Extension Availability and Details

Taxpayers on tax agent lodgment listings may available of extended deadlines e.g. December returns may be filed up to the following June, rather than the following February if on a tax agent lodgment listing.

### Payment of Estimated Tax

Companies pay three equal instalments of provisional tax on April 30, July 31, and October 31 of each year. This tax is estimated by the IRC based on the last assessment issued to the company or other information to hand.

### Interim Tax Returns

Not applicable

### Payment of Tax

Assessments are issued to taxpayers following lodgment of their tax return. Income tax is generally payable within 30 days of receiving the assessment.

### Penalties for Non-Compliance

The standard late lodgment penalties for income tax could be equal to 100% of the tax.



## Penalties and/or Interest for Underpayment of Taxes

Late payment penalties for income tax and provisional tax can be 20% per annum.

## Statute of Limitation

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.

## 1.4 Financial Statements/Accounting

### Details of Local Accountant Requirements

Although there is no formal adoption process, industry practice is to adopt International Financial Reporting Standards.

All Papua New Guinea registered companies are required to lodge annual reports with the Registrar of Companies including financial statements. Foreign controlled companies are required to lodge audited financial statements with the annual returns. A Papua New Guinea branch of a foreign company may apply for exemption to lodge branch audited financial statements. Where exemption is granted, the audited financial statements of the foreign company need to be lodged instead.

Foreign controlled companies and branches of foreign companies carrying on business in Papua New Guinea are also required to register and lodge bi-annual reports with the Investment Promotion Authority.

#### *Documentation to be Presented with the Financial Statements*

Directors' report, company formation information and an auditor's report must also be presented.

Where, in complying with generally accepted accounting practice, the financial statements do not give a true and fair view of the matters to which they relate, the directors of the company shall add such information and explanations as will give a true and fair view of those matters.

#### *Financial Statements language*

English language applies

### Fiscal Year

For IFRS any fiscal year end date may apply. However, there are rules and requirements around changing the fiscal year.

### Periodicity of Local Books to be Closed

Papua New Guinea listed (POMSOX) companies and designated financial institutions as defined by the Bank of Papua New Guinea are required to close their books and get an audit opinion issued by 31 March. Reporting entities, these are private companies that meet the criteria for an annual external audit, are required to close their books and get an audit opinion issued by 31 May. Non-reporting entities, these are private companies with no audit requirement, are required to close their books and lodge annual return by 30 June. The foregoing assume a 31 December annual reporting period.

### Retention Period for Statutory Financial Statements / Working papers

The company shall keep accounting records for the current accounting period and for the last ten completed accounting periods of the company.

### Requirements to Retain Physical Copies Locally/Electronically Stored Data to Reside on In-country Server

A company may keep the accounting records at its registered office or at some other place. Where the accounting records are not kept at the registered office the company is required to inform the Registrar of Companies where these records are held. If these records are not held in Papua New Guinea the company shall ensure that accounts and returns, for the operations of the company that disclose with reasonable accuracy the financial position of the company, at intervals not exceeding six months and will enable the preparation of the company's financial statements and any group financial statements, are sent to, and kept at, a place in the country.

### Requirements to Prepare Financial Statements in Local Currency

Financial statements must be prepared in PGK

## What GAAP must the Financial Statements be Prepared Under?

Financial statements and group financial statements must comply with generally accepted accounting practice only where those statements comply with applicable financial reporting standards; and in relation to matters for which no provision is made in applicable financial reporting standards and that are not subject to any applicable rule of law, accounting policies that are appropriate to the circumstances of the reporting company; and have authoritative support within the accounting profession in Papua New Guinea. The standards are found in IFRS.

## Prescribed Format and Details for Financial Statements

The format and details must be in line with IFRS.

## Filing Due Date

The Registrar of Companies allocates a filing month to companies based on the date of incorporation. However, a company can nominate to have this filing month changed.

## Filing Format of Financial Statements

The filing format must be in line with IFRS.

## Filing Extension Availability and Details

A company may apply for an extension to file audited financial statements with the Registrar of Companies.

## Penalties for Non-Compliance

The penalty for not filing an Annual Return with the Registrar of Companies (“ROC”), which is an arm of the PNG Investment Promotion Authority (“IPA”), by the end of the filing month, is currently a flat PGK 1,000 late lodgment fee.

All other late filings with the IPA currently incur a late fee of PGK 200.

The late fees are in addition to the regular filing fees payable for the various lodgments.

## 1.5 Incentives

### Intellectual Property Incentives

None

### R&D Incentives

None.

### Special Tax Regimes for Specific Industries or Sectors

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

### 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:

- Manufacturing
- Fishing
- Tourism
- Exports
- Agriculture
- Infrastructure projects for mining, petroleum and gas projects, for primary production and tourism projects
- Rural development

## 1.6 International Taxation

### Double Taxation Relief

Papua New Guinea has Double Tax Treaties in force with Australia, Canada, China, Fiji, Indonesia, Korea (Rep), Malaysia, New Zealand, Singapore and the UK, which may provide an exemption from, or a reduction in the domestic rates, in certain circumstances.

### Foreign-Exchange Controls

Tax clearance is required for remittances exceeding PGK 500,000 in a calendar year other than remittances that are trade related involving the physical movement of goods. The remittance of any funds to certain specific 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.

### International Withholding Tax Rates

**Dividends** - Dividends paid to non-residents are subject to withholding tax at 15%. This is a final tax for non-residents.

**Royalties** - Royalties paid to a non-resident who is not an 'associated person' is subject to withholding tax at the lesser of:

- 48% of the net royalty i.e. gross royalty less applicable expenses; or,
- 10% of the gross royalty or 30% if paid to an associate.

Royalties paid to a non-resident 'associated person' is subject to withholding tax of 30% of gross payments. The definition of an associated person is broad and includes companies under common control, relatives, partners, and related trust interests.

Under application of a tax treaty, the rate may be reduced.

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

**Non-resident contractors** - Non-resident contractors involved in certain prescribed contracts (e.g. construction, installation, leasing machinery/vessels/aircraft, professional services, consultancy services etc.) are subject to a 15% withholding tax at source on gross receipts. This 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% on 10% of gross premiums earned from insuring property or events in Papua New Guinea. Non-resident insurers who are unincorporated associations are taxed at 30% on 10% 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/technical fees** – Management/technical fees paid to non-residents are subject to 17% 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% 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%, 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.

## Withholding Tax Rates under the Income Tax Treaties

### Papua New Guinea – Treaty Withholding Rates Table

	Dividends		Interest	Royalties
	Individuals, companies	Qualifying companies		
	(%)	(%)	(%)	(%)
<b>Domestic Rates</b>				
<b>Companies:</b>	0/15 <sup>(Note 1)</sup>	0 <sup>(Note 1)</sup>	0/15 <sup>(Note 2)</sup>	10/30 <sup>(Note 3)</sup>
<b>Individuals:</b>	N/A	N/A	15	10/30 <sup>(Note 3)</sup>
<b>Treaty Rates</b>				
<b>Australia</b>	15	15	10	10
<b>Canada</b>	15	15	10	10
<b>China (People's Rep.)</b>	15	15	10	10
<b>Fiji</b>	15	15	10	15
<b>Indonesia</b>	15	15	10	10
<b>Korea (Rep.)</b>	15	15	10	10
<b>Malaysia</b>	15	15	15	10
<b>New Zealand</b>	15	15	10	10
<b>Singapore</b>	15	15	10	10
<b>United Kingdom</b>	15	15	10	10

#### Notes:

- Dividends between Papua New Guinea resident companies are not subject to dividend withholding tax. There is no minimum shareholding requirement.
- Interest withholding tax does not apply when interest is paid or credited to a licensed financial institution in Papua New Guinea, the Bank of Papua New Guinea or the State or the interest income is otherwise exempt to the recipient (e.g. interest derived from certain long term bonds, interest derived by a person who is exempt from tax or interest derived from an onshore foreign currency account).
- Royalties paid to non-resident associates may be subject to 30% while non-resident non-associates may be subject to 10% withholding tax.
- Where the domestic rate is less than the double tax treaty rate above, the domestic rate will apply.
- The rates outlined above for technical fees assume all services are rendered overseas and the recipient does not have a permanent establishment in Papua New Guinea.
- Please note, the maximum rates of withholding under each treaty have been included in the table, however in certain cases an alternative rate, or nil rate, may apply depending on whether certain criteria are met. In this regard, the table should be used as a guide and not relied upon in isolation.

#### Other Agreements

Not applicable



### **Income Tax Treaties for the Avoidance of Double Taxation (Negotiated, not yet in force at time of publication)**

A treaty with Germany has been negotiated but we understand it has not yet been ratified by Germany. A tax treaty with Thailand is yet to be ratified by Papua New Guinea.

### **Agreements for the Exchange of Information**

While it is reported that Papua New Guinea is in the process of signing up to the Multilateral Convention for Mutual Administrative Assistance, Multilateral Legal Instrument and other Tax

Information Exchange Agreements the tax authority has stated that the existing bilateral tax conventions provide the legal authority for the exchange of tax information with existing treaty partners.

### **Indirect Offshore Disposal Rules**

Not applicable.

## 2 Transfer Pricing

### Requirements

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 harbor rules prescribed in the legislation.

IRC state in guidelines that it is in the taxpayer's best interest to document how transfer prices have been determined, since adequate documentation is the best way to demonstrate that transfer prices are consistent with the arm's length principle. They also stated that that the transfer pricing methodology should represent an arm's length price for the Papua New Guinea operations, commensurate with its economic contribution and risks and not simply focus on and favor the other side.

### Country-by-Country Reporting

The CBC reporting rules target Papua New Guinea resident enterprises that are part of a multinational enterprise (MNE) group. The monetary revenue threshold below which the rules do not apply is PGK 203 billion for the consolidated group.

The new regime requires the Papua New Guinea entities that must lodge a CBC Report to do so within 12 months of the end of the MNE group's annual reporting period. All Papua New Guinea resident entities that are the ultimate parent entity of an MNE group must file a CBC Report. In addition, any Papua New Guinea resident entities that are a constituent member of an MNE group may also need to file if any of the following criteria apply, namely:

- The ultimate parent entity of the MNE group is not obliged to file a CBC report in its home tax jurisdiction, or
- If the ultimate parent is resident in a tax jurisdiction that does not have a binding CBC report automatic exchange agreement in force with Papua New Guinea, or
- Where the ultimate global parent's tax jurisdiction has suspended or consistently failed to honor its CBC automatic exchange agreement with Papua New Guinea.

A Papua New Guinea resident constituent entity may further avoid the reporting requirement itself if the MNE group has appointed a Surrogate Parent entity, in place of the ultimate global parent, and the tax authority is essentially satisfied that it will receive automatic exchange of the CBC report from the home tax jurisdiction of that Surrogate Parent entity.

The CBC Report itself has two distinct detailed requirements:

- One is identification of each constituent entity within the MNE group globally, its location tax jurisdiction and nature of each entity's business activities.
- The second is aggregate detail on the gross revenues, profit outcomes, tax paid or payable, capital employed, retained earnings, workforce size and tangible assets for each tax jurisdiction in which the MNE group operates.

The legislation binds the tax authority to only use the CBC Report information for transfer pricing risk assessment purposes, for identifying other BEPS related risks or for appropriate economic and statistical analysis. It also stipulates that transfer pricing adjustments by the tax authority will not be based on the CBC report.



### **Master and Local Files Reporting**

The country-by-country report shall be filed in a form identical to and applying the definitions and instructions contained in the standard template set out at Annex III of Chapter V of the OECD Transfer Pricing Guidelines as modified from time to time and Annex III of title of the final report on BEPS Action 13.

### **Common Reporting Standard**

Not applicable

# 3 Indirect Tax

## Indirect Tax

Goods and Services Tax (GST)

### Standard Rate

The standard rate of GST is 10%.

Certain goods and services are exempt or zero-rated.

### Further information

For more detailed indirect tax information, refer to:

[KPMG's 2017 Asia Pacific Indirect Tax Country Guide](#)

# 4 Personal Taxation

## Top Rate

### *Individual income tax*

The top personal tax rate for residents and non-residents is 42% 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

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 Papua New Guinea. 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 by the employer to the tax authority before the 7th day of the following month. Substantial penalties of 20% flat tax plus 20% interest per annum can apply for late payment.

## 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 Authorized Superannuation Fund (ASF) in Papua New Guinea. Contributions are 6% for the employee and 8.4% 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.

## International Social Security Agreements

Not applicable.

## Visa Requirements

All expatriate employees are required to hold a valid work permit in order to legally work in Papua New Guinea. Work permits are valid for periods of between one and five years. It is also possible to apply for short term work permits that are valid for six months.

A separate employment visa must then be obtained prior to commencing employment in Papua New Guinea.

Consultants or specialists may enter Papua New Guinea on a multiple entry business visa for activities other than employment. Upon arrival, the application may stay for sixty days with the option to apply for an extension of up to thirty days.

## Further Information

For more detailed personal taxation information, refer to:

[KPMG's Thinking Beyond Borders](#)

# 5 Other Taxes

## 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 5%).

## Property Taxes

Land tax is imposed by the Provincial Governments. The rate of Land tax in the National Capital District is 1.25% of valuation.

## Business Income Payments Tax

Businesses that make eligible business payments must withhold and remit 10% 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.

## Training Levy

Training levy has been abolished with effect from 1 January 2018.

## Inheritance Tax

There are no inheritance taxes in Papua New Guinea.

## Gift Duty

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 5%.

## Other taxes

- Timber export duty
- Spice export levy
- Gaming machine tax

# 6 Trade & Customs

## 6.1 Customs

### 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.

### Excise Duty

Excise duty is levied on a number of commodities including cigarettes, alcoholic beverages, fuel, and certain motor vehicles. 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.

## 6.2 Free Trade Agreements (FTA)

### In Force

- Agreement on Trade and Commercial Relations between the Government of Australia and the Government of Papua New Guinea
- Melanesia Spearhead Group (MSG) – Members:
 

Fiji	Papua New Guinea	Solomon Islands	Vanuatu
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- South Pacific Regional Trade and Economic Cooperation Agreement
 

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

### Concluded/Signed (pending domestic ratification)

Not applicable

## In Negotiation

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

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

Internal Revenue Commission (IRC)

Link to [IRC](#)

## Tax Audit Activity

The tax authority adopts an “assess first, audit later” (“AFAL”) approach under which assessments or statements of loss are issued to taxpayers based on the return submitted.

The tax authority has limited resources to conduct audits and income tax audits are not common. However, activity by the tax authority has increased in the past year or so with audits on specific matters such as transfer pricing and certain withholding taxes. The tax authority is also performing industry wide audits with the current focus being on the banking sector. Returns are generally selected for tax audit by the tax authority primarily based on industry, for example, mining, or finance. 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.

The format of the income tax return has been designed 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 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 has historically been a largely manual approach involving detailed consideration of invoices and key documents. Although recent industry focused audits have seen a more high-level approach applied and some salary or wages tax audits have involved the data matching of tax authority records with Papua New Guinea Immigration.

## Appeals

Assessments are issued to taxpayers following lodgment of their tax return. If a taxpayer disagrees with an assessment, the taxpayer has 60 days from the date the assessment was issued to object to the assessment. Following an unsuccessful objection, the taxpayer may within 60 days appeal to the Review Tribunal or the National Court. Differing costs and evidentiary rules generally govern the choice of forum to appeal.

## Tax Governance

There are no specific schemes that encourage good governance.

## Current Topics for Focus by Tax Authorities

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

- Business income payments tax
- Group tax (employee withholding), especially individual foreign contractors
- Banking industry



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