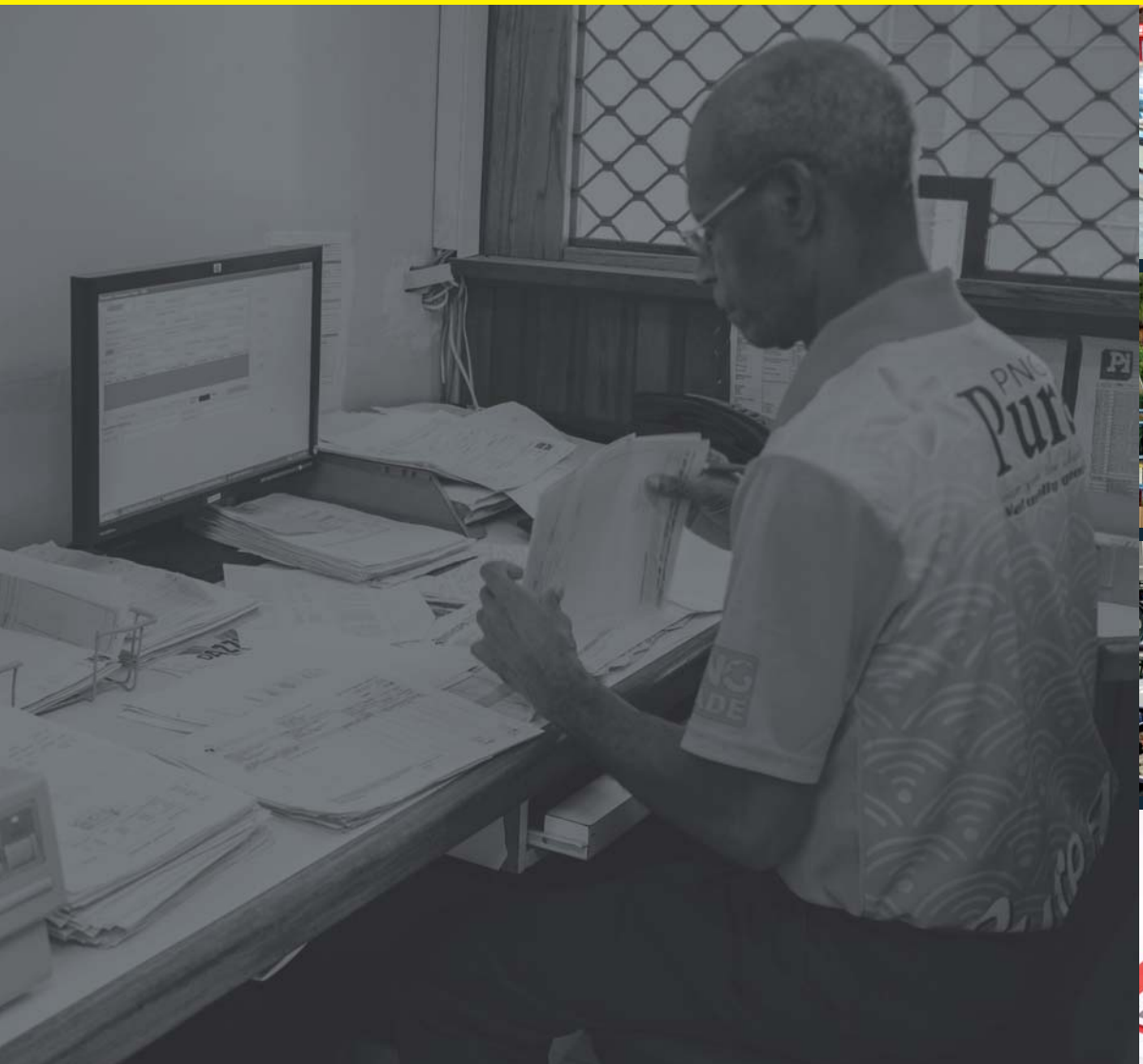
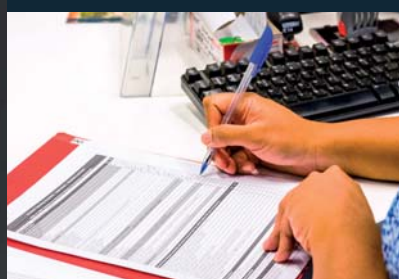
Tax

National budget stresses compliance, tax base integrity
Treasury to increase revenue from natural resources
A range of tax credits, deductions and incentives
An outline of the rules for corporate taxation
50% deduction for approved R&D projects expires
Firms with majority foreign holdings must be certified
Resident companies liable for tax on worldwide income





The 2014 budget commits to pursuing inclusive growth for all

Duty to state

A run-down on taxation rules

Papua New Guinea has recorded high levels of economic growth for a number of years, mainly on the back of the PNG liquefied natural gas (LNG) project, which began production in mid-2014. The country's abundance of natural resources has also seen many of the world's largest oil and gas and mining companies enter the market. While the economic signs continue to be positive, a major issue facing the PNG government is delivering quality services to the country and its people, especially in health care and education, as well as quality infrastructure.

THE NATIONAL BUDGET: In the 2014 budget, the government stated its commitment to improving the country's future by making key investments in many sectors of the economy and focusing on inclusive and sustainable growth for all.

With an eye to ensuring that tax revenues are increased, the Treasury Department, with technical assistance from the International Monetary Fund (IMF), will be conducting a review into the mining and petroleum taxation in 2014. The purpose of the review is to determine the appropriateness of the mining and petroleum taxation arrangements compared with similar resource-rich countries. In addition, the government has established its own committee to review the fiscal system and the report prepared by the IMF.

The 2014 budget also proposed a number of medium- to long-term tax-related actions that are designed to lift revenues in the next five years. These measures include:

1. Increased focus on tax compliance: This is needed to improve revenues and includes continuing strong support for the financing of the Internal Revenue Commission (IRC) and the revenue collection sections of PNG Customs services through the budget process. A key part of this effort was the roll-out on July 1, 2013 of the IRC's Standard Integrated Government Taxation Administration System (SIGTAS), a new information management system designed to increase the efficiency of both tax compliance and collection.

2. Review of taxation: A review of PNG's tax system is overdue. Funding is being provided in the 2014 budget for the first stage of the review, which will focus on the appropriateness of current resource tax arrangements.

3. Improve the integrity of the tax base: Improving the integrity of the tax base is needed to reverse the fall in resource revenues. The tax system is severely compromised when concessions are provided to specific projects or taxpayers. For example:

- The use of project agreements to create special tax arrangements for individual projects has encouraged a wide range of investors to seek a growing list of additional tax concessions, even when forms of tax relief are already provided by tax law for investors in the type of business involved;
- Project agreements containing project-specific tax concessions have created an uneven playing field on which businesses must operate;
- The PNG LNG project concessions were granted on a first-mover basis for this particular industry and should not be used as a benchmark for future projects; and
- Often the concessions sought are difficult to cost, but in many cases they can deprive the government of significant amounts of revenue.

The key taxation developments announced in the 2014 national budget included:

- As of January 2014, the additional 50% deduction for expenditure incurred on approved research and development (R&D) projects no longer applies (see R&D section).
- Amendment of the Business Income Withholding Tax System to cover certain industries. Taxpayers in these industries are required to provide a certificate of compliance for contracts exceeding PGK5000 ($203.25) transferred to one payee.

TAX REGIME: PNG's tax regime is based on the Income Tax Act, the Goods and Services Tax Act, the Customs

Act and the Excise Tax Act, and supported by related legislation and regulations. Within the Income Tax Act, a specific set of rules applies to taxpayers operating in the natural resources sector (namely the mining, gas and petroleum segments), while the general provisions of the other laws apply to all other taxpayers as well as to those taxpayers engaged in mining, petroleum or gas operations.

TYPES OF CORPORATE ENTITY: A number of different types of legal entities are available to those looking to do business in PNG. These include incorporating a PNG company (a "subsidiary"), registering as an overseas company in PNG (a "PNG branch"), entering into a partnership agreement, and establishing a trust. The choice of entity is generally based on the commercial goals of the enterprise, legal and regulatory requirements, and the consequences for taxation. Most foreign enterprises operating in PNG do so through a subsidiary or branch.

COMPANIES ACT REQUIREMENTS: Where a company incorporated outside PNG commences to carry on business in PNG it is required within one month of commencement to register as an overseas company under the Companies Act. For the purposes of the Companies Act the term "carrying on business" is given an extended meaning but otherwise has its ordinary meaning. As a general proposition, an overseas company that enters into a contract for work to be done in PNG and undertakes work in the country for a period of more than 30 days would be regarded as carrying on business in PNG for the purposes of the Companies Act.

INVESTMENT PROMOTION ACT: Companies with foreign shareholdings of 50% or more (held or controlled by non-citizens of PNG) are required to be certified by the Investment Promotion Authority (IPA) before they can carry on business in PNG.

The meaning of carrying on business for the purposes of the Investment Promotion Act, so far as is relevant, is identical to the meaning of carrying on business for the purposes of the Companies Act. It follows that this requirement applies whether an overseas company intends to carry on business in PNG through a subsidiary or through a branch.

RESIDENCE RULES FOR CORPORATE TAX: A company is deemed a resident for corporate income tax (CIT) purposes if it meets either the incorporation test or the management and control test.

- **Incorporation test:** A company incorporated in PNG is automatically regarded as a PNG tax resident. However, the law of another country and a relevant double taxation agreement (DTA) may result in a company also being treated as a resident in another country.
- **Management and control test:** A company is a PNG tax resident if it is managed and controlled in PNG, regardless of where it is incorporated. Generally, a company is managed and controlled in PNG if key decisions affecting the company are made at directors' meetings held in PNG. This includes a company incorporated outside PNG that trades in PNG and has its voting power controlled by resident shareholders.

A company is a tax resident if it is managed and controlled in PNG, regardless of where it is incorporated

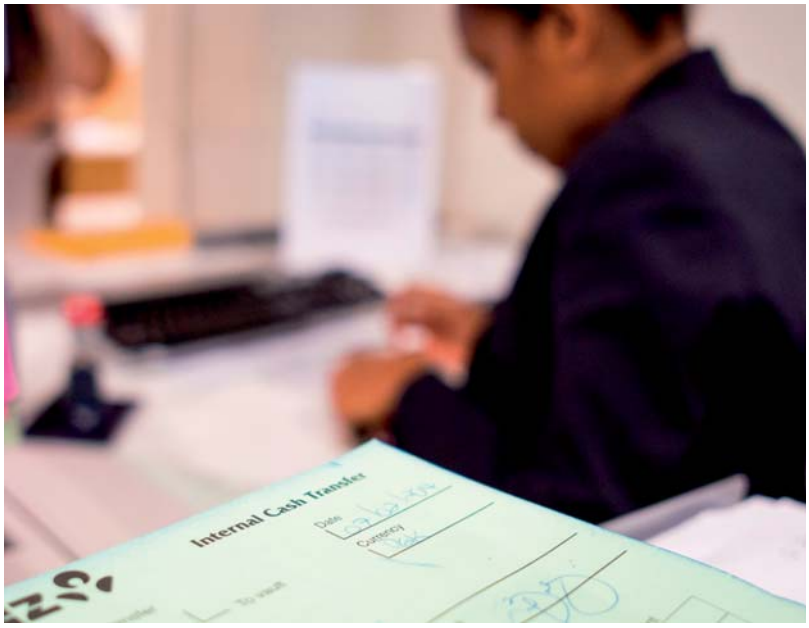
PERMANENT ESTABLISHMENT: The concept of permanent establishment (PE) has limited significance in PNG's domestic taxation law and is defined to mean a place at or through which a person carries on any business. Under domestic taxation law, PNG will seek to tax the income of a non-resident that is sourced in PNG whether or not that income is derived at or through a PE in PNG.

Where PNG has entered into a DTA, the concept of PE becomes more important, as it will then be one of the factors determining PNG's taxing rights over income sourced in PNG, particularly with respect to the business profits of a non-resident company. In general terms, PNG's DTAs:

- Define a PE to be a fixed place at or through which the business of an enterprise is wholly or partly carried on; and
- Deem a PE to exist in various circumstances, including those relating to the presence of substantial equipment in PNG and the time spent by personnel of an enterprise furnishing services in PNG.

CORPORATE TAXATION: PNG resident companies are liable for income tax on their worldwide income. Companies that are not resident in PNG are only required to remit tax on income sourced in PNG. A non-resident's PNG-sourced passive income, including dividends, interest and royalties, is generally only subject to withholding tax (WHT). Generally, the payer of the dividend, interest or royalty must withhold the relevant amount of the tax and remit this to PNG's IRC.

PNG's CIT is levied on companies on a flat rate basis. It is the operations of a company, rather than its taxable income level, that dictate the rate applied to its taxable income. Generally, trading profits and other income (except income that is specifically exempt) of resident companies in PNG are assessed tax at a rate of 30%, whereas non-resident companies that carry on operations in PNG are assessed tax at a rate of 48%.



Income derived from operations in PNG is liable for CIT according to the source of income

However, there are different tax rates for income derived from mining, petroleum and gas operations undertaken in the country.

Trading profits and other income from operations in PNG are liable for CIT at varying rates according to the source of income (see table):

1. Taxable income: Taxable income is defined as the sum of assessable income minus allowable deductions. In practice, profits are calculated for tax purposes by reference to the profits reported in the financial accounts. Accounts must be prepared in accordance with PNG accounting principles, which follow the International Financial Reporting Standards (IFRS).

2. Dividend income: Dividends are included in the assessable income of a resident company shareholder unless otherwise exempt from CIT.

- **Inter-company dividends**: Dividends received by a resident company from other companies, whether resident or non-resident, while being assessable to tax, are generally subject to a full tax rebate and are effectively received tax-free. However, where a company has losses on other activities or losses carried over from earlier years, those losses are applied against dividend income before the calculation of the dividend rebate.
- **Stock dividends:** In most cases, the payment of a dividend by way of the issue of shares is subject to the same taxation treatment as the payment of a dividend by way of cash or the distribution of other property. However, dividends paid by the issue of shares wholly and exclusively out of profits arising from the sale or revaluation of assets not acquired for the purpose of resale at a profit are exempt from income tax and dividends WHT.

3. Interest income: Unless exempt under specific provisions, any interest paid or credited by a financial institution, the central bank or a company to a person who is resident in PNG is included in income, and the institution or person paying the interest in the account is liable to withhold and pay tax upon the amount.

4. Exchange gains: Generally, foreign exchange gains realised and derived from debts made on or after November 11, 1986 and denominated in a currency other than the PNG kina are included in assessable income. Realised foreign exchange gains on revenue items are also included in assessable income.

5. Foreign income: PNG resident companies are liable for CIT on their income from all sources, including income that is derived from foreign sources. However, a foreign tax credit may be available to offset foreign tax paid against the tax payable in PNG (see tax credits and incentives section).

There are no provisions in PNG that permit the deferral of the taxation of income derived outside PNG. Subject to the operation of a DTA, foreign-sourced income derived by a resident of PNG is subject to tax in PNG in the year in which it is derived whether or not that income is repatriated to PNG.

6. Deductions: General deduction provisions provide that all losses and expenditures, to the extent that they are incurred in gaining or producing the assessable income or are necessarily incurred in carrying on a business for the purpose of gaining or producing that income, are allowable deductions.

However, the general deduction provisions do not allow a deduction to the extent that a loss or expenditure is an outgoing of capital, or of a capital, private, or domestic nature, or incurred in relation to the gaining or production of exempt income.

7. Exchange losses: Generally, foreign exchange losses realised and derived from debts made on or after November 11, 1986 and denominated in a currency other than the PNG kina are an allowable deduction. Realised foreign exchange losses on revenue items are also allowable deductions.

INTEREST EXPENSES – THIN CAPITALISATION: A deduction is generally available for interest incurred on an arm's-length basis, subject to meeting the general principles and conditions for deductibility. Where interest is incurred in connection with the construction or acquisition of an item of plant or a capital asset, that interest is not immediately deductible. Rather, such interest is deemed to form part of the cost of that asset itself. In the case of plant, this interest will

CIT rate by source of income

	CIT rate (%)
Income other than income from mining, petroleum, or gas operations:	
Resident company	30
Non-resident company	48
Income from petroleum operations: *	
Existing projects	50
New projects	45
Incentive rate projects	30
Income from mining operations:	
Resident company	30
Non-resident company	40
Income from gas operations *	30

* The same rates of CIT apply to income from the petroleum operations listed above or gas operations derived by a resident or non-resident company.

then form part of the base from which future depreciation deductions may be claimed.

PNG's thin capitalisation rules apply to PNG companies across all industries with a debt-to-equity ratio of 3:1 for taxpayers in the natural resource sector (namely mining, oil and gas) and a ratio of 2:1 for all other taxpayers. The thin capitalisation rules do not apply to licensed financial institutions or to interest paid under domestic debt. If the ratio is breached, a proportion of the interest on foreign debt will be denied as a tax deduction.

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

NET OPERATING LOSSES: Domestic trading losses may be offset against all income received in the same accounting period or carried forward and offset against future trading profits. The limitation period on the carrying forward of losses is generally 20 years. Losses may not be carried back against prior years' profits. Primary production losses and resource project losses may be carried forward without a time limitation, although, again, they may not be carried back (see tax credits and incentives section).

The deduction of losses is subject to a 50% or more continuity of shareholding and control test, or a continuity of business test where there is a breach of the ownership test.

Foreign losses incurred by a resident taxpayer from a source outside PNG (other than in relation to export market development) are not deductible against assessable income derived within PNG. In practice, overseas losses can be carried forward and offset against overseas income for up to 20 years.

PAYMENTS TO FOREIGN AFFILIATES (MANAGEMENT FEES): The deduction available to a taxpayer for management fees paid to an associated person is limited to the greater of:

- 2% of the assessable income derived from PNG sources by the taxpayer; or
- 2% of the total allowable deductions, excluding management fees incurred by the taxpayer in PNG.

The limitation applies to both resident and non-resident taxpayers. Special rules apply to mining, petroleum and gas companies. These limits may not apply where the recipient of the management fee is resident in a country with which PNG has a DTA or where it can be demonstrated that the management fee arrangements do not have the purposes or effect of avoiding or altering the income tax payable in PNG.

WITHHOLDING TAXES: As with most jurisdictions around the world, withholding taxes comprise an important part of PNG's tax revenue collection regime. Details of PNG's major withholding taxes are provided below.

Dividend (withholding) tax: Dividends, including those paid to residents, are generally subject to a 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,

Taxation applies to individuals, with no joint assessment for spouses

which are exempt from income tax and dividend withholding tax. Dividends paid to any of the country's superannuation funds are exempt from the withholding tax.

Interest (withholding) tax: Where interest is paid or credited by any person to a non-resident or to a resident, a 15% withholding tax must be deducted. The withholding tax acts as a final tax for non-residents and the rate may be reduced where the recipient is a resident of a country with which PNG has a DTA. 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.

Royalty (withholding) tax: Tax is imposed on royalties and similar payments made to non-residents who do not have a permanent establishment in PNG. 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; and
- 10% of the gross royalty.

Royalty payments to a non-resident "associated person" are liable for a withholding tax of 30% of gross payments (subject to any DTA), with no option to adopt the net income basis. The definition of "associated person" is detailed and widely drawn. Broadly, it encompasses relatives, partners, companies under effective common control, and related trust interests.

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

Management fee (withholding) tax: 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. The tax must be remitted to the IRC within 21 days after the month in which such fees are paid or credited.

Foreign contractors withholding tax (FCWT): There are specific provisions included within the Income Tax Act

PNG has concluded double tax agreements with several countries

which deal with the taxation of non-residents, other than individuals, who carry out certain contract activities in the country. Such non-residents are referred to as "foreign contractors".

The contract activities include undertaking installation and construction projects or providing professional and consultancy services in PNG, and equipment lease and charter payments.

Income derived from these contacts is 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.

If the IRC is satisfied as to the actual net profit, then it will, on application by the foreign contractor allow the foreign contractor to be taxed on the basis of the taxable income determined under normal principles. Where the foreign contractor is 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 PNG income) may not exceed the lesser of:

- 5% of the gross income from the contract; or
- 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 must ensure that satisfactory arrangements have been made to pay the foreign contractor's withholding tax before making any payment to the foreign contractor. A foreign contractor tax file number application must be lodged with the IRC at the same time.

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.

NON-RESIDENT INSURER'S TAX: Premiums paid to non-resident insurers in respect of insurance contracts on property situated in PNG or insured events that can only occur in PNG are subject to tax in PNG. The tax is calculated on a deemed taxable income equal to 10% of the gross premium, which is taxed at the non-resident tax rates of 48% (companies) or 30% (unincorporated associations). Tax treaties may limit the rate of tax applied.

OVERSEAS SHIPPER TAX: Income derived by overseas shippers or charterers carrying passengers, livestock, mail or goods out of PNG is taxable in PNG. The tax is calculated on a deemed taxable income equal to 5% of the gross income, which is taxable at the non-resident rate of 48% in the case of companies.

The IRC may exempt the overseas shipper from such tax if the shipper's home country itself exempts PNG shippers from a similar tax.

DOUBLE TAX AGREEMENTS: PNG has concluded DTAs with Australia, Canada, China, Fiji, Germany, Indonesia, Korea, Malaysia, Singapore and the UK. However, as of August 2014 Germany had not yet ratified its agreement with PNG. Furthermore, PNG has negotiated but not yet ratified DTAs with both Thailand and New Zealand (see table on this page).

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

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) which have transactions or dealings with international related parties that exceed PGK100,000 ($40,650) in an income year, or have aggregated loan balances with

Double tax agreements by recipient, 2014

	Interest (%)	Dividends (%)	Royalities (%)	Technical fees (%)
Non treaty				
Resident	0/15	0/10/17	0/5	0/10
Non-resident corporations	0/15	0/10/17	10/30	17
Treaty				
Australia	10	17	10	0
Canada	10	17	10	0
China	10	15	10	0
Fiji	10	17	15	15
Germany	10	15	10	10
Korea Republic	10	15	10	0
Malaysia	15	15	10	10
Singapore	10	15	10	0
UK	10	17	10	10

Source: PwC

international related parties in excess of PGK2m ($813,000) 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.

BUSINESS INCOME WITHHOLDING TAX: Payers who make an "eligible payment" of PGK5000 ($2032.50) or more in relation to one contract are required to register with the IRC as a paying authority and attend to the obligations imposed on it under the act.

Broadly, eligible payments are payments for services including construction, road transportation, motor vehicle repairs, joinery services, hiring or leasing of equipment, and security services.

Where a business income payee enters into a contract with a paying authority to perform work or becomes entitled to receive a business income payment and does not produce a certificate of compliance, a 10% business income withholding tax is required to be deducted by the paying authority based on the gross payment. The withholding tax deducted must be remitted to the IRC within 14 days after the end of the month in which the tax was deducted.

TAX CREDITS AND INCENTIVES:

Foreign tax credit: A foreign tax credit may be available to offset foreign tax paid against PNG tax payable. The foreign tax credit is limited to either the foreign tax paid or the average PNG tax payable on that foreign income, whichever is less. There is no mechanism to carry forward excess foreign tax credits for utilisation in a subsequent year.

R&D deduction: A 100% tax deduction is available for approved expenditures on R&D. The deduction is available to all sectors and segments of the PNG economy. Broadly, R&D expenditures are defined as systematic, investigative, and experimental activities that


Large-scale tourist operations receive a preferential 20% tax rate


Certain staff training costs are eligible for a double deduction

involve innovation or a high degree of technical risk carried out for the purpose of acquiring new knowledge, or creating new or improved materials, products, devices, processes or services. To qualify, the expenditure must be incurred in accordance with an approved R&D expenditure plan.

Incentive rate for large-scale tourist accommodation facilities: A 20% tax rate applies to income derived by a taxpayer from the operation of a large-scale tourist accommodation facility or a substantially improved large-scale tourist accommodation facility. The rate applies for 14 years after the end of the year of income in which the taxpayer first derives income from the facility. This incentive only applies to facilities where construction commenced between January 1, 2007 and December 31, 2011.

Double deduction for staff training costs: Certain staff training costs, including the cost of full-time training officers and tourism training, are eligible for a double deduction. The total tax saving is limited to 75% of the expenditure incurred.

Double deduction for export market development costs: Expenditures incurred in the promotion for sale outside PNG of goods manufactured in the country or incurred in the promotion of tourism are eligible for double deduction. The total tax saving cannot exceed 75% of the expenditure incurred.

Tax credit for infrastructure development: A tax credit is available to agricultural, mining, petroleum, gas and certain tourism companies that incur expenditure on a prescribed infrastructure development. In the case of taxpayers engaged in mining, petroleum and gas operations, the credit is limited to 0.75% of the assessable income or the amount of tax payable for the year (in respect of that mining, petroleum, or gas project), whichever is less. Excess expenditure over the 0.75% or tax payable may be included in the following year's tax credit claim.

Unutilised credits can generally only be carried forward for two years. In the case of taxpayers engaged

The trustee of a resident trust estate is taxed on the net income of the trust estate at a rate of 30%

in agricultural production, the credit is limited to 1.5% of the assessable income or the amount of tax payable for the year, whichever is less.

A prescribed infrastructure development includes a school, aid post, hospital road and other capital assets that have been approved as such by the Department of National Planning and the IRC. It cannot be an expenditure required under the Mining Act or the Oil and Gas Act.

A 1.25% tax credit scheme also exists in respect of expenditure incurred in connection with the emergency repair of the Highlands Highway.

Agricultural production extension services deduction: A 150% deduction is available for expenditure on services provided free of charge to smallholder growers, including the provision of advice, training, and technical assistance in relation to primary production and delivered for the purpose of assisting growers with production, processing, packaging and marketing issues.

OTHER TAX INCENTIVES IN PNG: Other tax incentives available in PNG include:

- Primary production – 100% deduction for most capital expenditure on primary production;
- Exemption of income derived from the export of certain manufactured goods;
- Immediate deduction for the costs of acquiring and installing solar heating plants;
- A 10-year tax exemption for qualifying new business located in prescribed remote areas of PNG; and
- A specific deduction for environmental protection and clean-up costs.

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. Furthermore, 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 and on actual distribution.

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 PNG. The taxable income of a resident superannuation fund is subject to tax at the rate of 25%. Dividends paid to a superannuation fund qualify for the dividend rebate 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.

INDIVIDUAL TAXATION: PNG taxation applies to individuals. However, the scope and tax rates that apply depend on the resident status of the individual and the source from which the income is derived. For individuals who are residents of PNG, PNG tax applies to their worldwide income at marginal tax rates.

For non-residents, however, only PNG source income is subject to PNG tax, at different tax rates to those which apply to residents.

In broad terms, an individual will be treated as a resident of PNG in a given year of income if they spend,

Tax rates for resident individuals, 2014

Taxable income (PGK)	Tax thereon	Rates of tax on excess (%)
10,000	0	22
18,000	1760	30
33,000	6260	35
70,000	19,210	40
250.000	91,210	42

Source: PwC

continuously or intermittently, more than six months in the country in that year.

Assessable income: Each resident 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 the salary or wages tax do not need to 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.

Benefits provided to employees: Certain benefits provided to employees are taxed in the hands of the employees at "prescribed values". These benefits include accommodation, housing allowance, motor vehicle, education expenses, leave fares, meals, telephone, cash allowances and contributions by employer to an approved or overseas superannuation fund. Other fringe benefits such as the provision of entertainment, club subscriptions, domestic electricity and domestic services are not deductible to the employer for income tax purposes.

OTHER TAXES:

Goods and services tax (GST): Broadly, PNG's GST is imposed at the rate of 10% on the supply of most goods and services in PNG. The GST Act which came into force in 2003 defines the term "supply" as including all forms of supply, such as the sale, transfer, hire or lease of goods, and the provision of services. A supply for GST purposes falls into one of the following three categories:

- Taxable supply – which attracts GST at the rate of 10%;
- Zero-rated supply – which attracts GST at the rate of 0%; or
- Exempt supply, which is not subject to GST.

Where a taxable or zero-rated supply is made, a registered person is entitled to a credit for the input tax paid on goods or services used in making the supply. Where an exempt supply is made, GST is not charged in respect of that supply. However, no entitlement exists to allow a recovery of any input tax that is paid on goods or services used in making the supply.

Businesses having an annual turnover of PGK250,000 ($101,625) or more are required to register for GST, while businesses with annual income of less than PGK250,000 ($101,625) can register voluntarily. Persons or companies that are not registered are not permitted to charge GST.

Training Levy: All businesses whose annual payroll exceeds PGK200,000 ($81,300) are subject to a 2% training levy, which is 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 the amount of qualifying training expenses incurred in the training of citizen employees.

Tax rates for non-resident individuals, 2014

Taxable income (PGK)	Tax thereon	Rates of tax on excess (%)
0	0	22
18,000	3960	30
33,000	8460	35
70,000	21,410	40
250,000	93,410	42

Source: PwC

A GST of 10% is imposed on the sale, transfer, hire or lease of goods, and on the provision of services

Customs duties: Customs duties are imposed on the cost, insurance and freight (CIF) 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 deferred 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 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.

Stamp duties: Stamp duty applies at varying rates on documents and certain transactions. Of particular note is duty charged on the conveyance of real property, which rises to a maximum of 5% where the value of the real property being transferred exceeds PGK100,000 ($40,650). The duty is payable by the purchaser, and a 5% duty on the unencumbered value of land may also be payable where there is a transfer of shares in certain landholding companies.

Other dutiable transactions include share transfers (including some share buy-backs), subject to a rate of 1%. Leases of goods are also subject to stamp duty at a rate up to 1% of the rentals payable, depending on the term of the lease in question. Stamp duty is payable on documents executed outside PNG that relate to property or matters done or to be done in PNG.

OBG would like to thank *PwC* for their contribution to THE REPORT Papua New Guinea 2014

Jonathan Seeto

Building efficiency

Jonathan Seeto, Territory Senior Partner, PwC, on the current tax review and its potential contribution to the economy

PwC supports the tax review initiative implemented by the government, which is designed to take stock of Papua New Guinea's fiscal regime to ensure, among other aims, that it supports the development goals of the country. It must also support competitiveness and efficiency, and be relevant to PNG's situation now and into the future. Above all, it must be fair.

PNG tax laws and systems have evolved over time, with very little change over several decades, yet social, demographic, economic and other circumstances continue to prevent the country from developing at an accelerated pace. It is thus very timely that we challenge the relevance of our fiscal regime to be responsive to these changes. It is healthy to reflect on how well the government is positioned to meet the demands of the future and the tax review will offer new insights on how to deal with these changes.

While some sectors may be apprehensive about the outcomes and impact, this should be seen as a great opportunity for taxpayers, including businesses, to shape the future they want for business in PNG.

PwC is taking the lead to ensure it is at the forefront of consultations with the Tax Review Committee (TRC), industry participants and other stakeholders. Through this engagement we can ensure the debate leads to positive opportunities for reforms that are conducive to continue investment and good business, but also to the betterment of PNG society as a whole.

While there are gaps in the tax legislation that should be addressed, on the whole the PNG tax system does not need to be significantly overhauled, and I think this is quickly becoming the TRC's perspective.

The TRC has advised that it will publish a number of issues papers, as well as invite industry consultation on specific taxes and the impact on other sectors in the coming months. However, one area that the committee has already sought consultation on is the taxation of the mining and petroleum sector. Given the significance of this sector to PNG's fiscal health, any review should be weighed against the contribution to the economy, the tax as well as the non-tax contributions made by sector participants, and the future ability to attract foreign direct investment to further develop this area. Given the dynamics of these factors to the overall welfare of the PNG fiscal balance, any changes proposed need to be well considered.

Another area of focus for the TRC is the review of the tax administration systems and processes, with a view to streamlining and improving collections, stopping revenue leakage and administration. If one change were to be made, then improvements in this area should be the priority. The positive impact to government revenues would be considerable from this one area of change alone, without the need to make extensive alterations to tax legislation.

Another reason for reflection is that, as PNG becomes more integrated with the global community and, more particularly, the Asia-Pacific region, the country needs to be more competitive. Our fiscal regime does have a tremendous impact on our ability to compete for skills, capital and other resources, and therefore ensuring a focus on this is important to our collective development and future success.

Getting the right balance is a significant challenge. Everyone has a view about tax, and, in this case, we have observed various sectoral views already. What is important is that any reform should involve broad consultation, be properly modelled to assess its economic efficiency if implemented, and be responsive to demographic changes. Likewise it should impact on our labour market, society and overall living standards, and our competitiveness in the region and globally.

As a final point, as technology continues to change the way businesses operate in our market, the government too should be looking at how it can leverage technology to improve how taxes are processed. For instance, as more and more transactions are conducted electronically, there is increased opportunity for broad-based taxes to be applied as a mechanism for ensuring taxes are being better captured and at an earlier stage.