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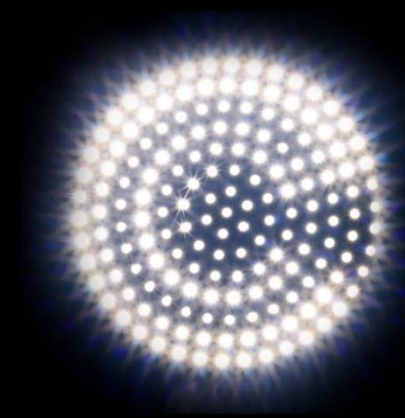
International Tax
Papua New Guinea Highlights 2018



Investment basics:

Currency – Papua New Guinea Kina (PGK)

Foreign exchange control – The Bank of Papua New Guinea imposes restrictions on opening offshore bank accounts, licensing gold exports, licensing foreign exchange dealers and removing cash in excess of PGK 20,000. Repatriation payments can be made in any foreign currency. However, if the remittance exceeds PGK 500,000 or cumulative amounts of PGK 500,000 per fiscal year by a resident taxpayer, a tax clearance certificate must be obtained from the Internal Revenue Commission (IRC) before the remittance is made.

Accounting principles/financial statements – IAS/IFRS. Financial statements must be prepared annually. Certain exemptions apply for branches of foreign companies, depending on the value of their assets and the number of employees and shareholders.

Principal business entities – These are the public and private limited liability company, partnership, sole proprietorship and branch of a foreign corporation.

Corporate taxation:

Residence – A corporation is resident in PNG if it is incorporated in PNG; carries on a business in PNG and its central management and control is in PNG; or carries on business in PNG and its voting power is controlled by shareholders that are resident in PNG.

Basis – Residents are taxed on their worldwide income; nonresidents are taxed only on PNG-source income. Foreign-source income derived by residents is subject to corporation tax in the same way as PNG-source income.

Taxable income – Corporation tax is imposed on a company's profits, which consist of business/trading income. Normal business expenses may be deducted in computing taxable income.

Taxation of dividends – Dividends received by a PNG resident company from another PNG company are included in assessable income; a rebate then is granted to eliminate the tax on the dividend.

Capital gains – There is no capital gains tax in PNG. Capital gains are taxable only if they are realized as part of a profit-making scheme or undertaking, or if they are related to the ordinary business of the taxpayer. A balancing charge may arise on the sale of business assets to recapture depreciation previously claimed.

Losses – Subject to continuity-of-ownership and continuity-of-business tests, tax losses may be carried forward for 20 years, except for losses of primary production ventures, where unlimited carryforward is allowed. The carryback of losses is not permitted. Losses cannot be transferred between group companies.

Rate – The corporate tax rate is 30% for a resident corporation. The rate applicable to a nonresident corporation (including a branch of a foreign company) is 48%, though the application of this is limited by the nonresident contractors withholding tax. The rate on an authorized superannuation fund is 25%.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A tax credit is granted for foreign tax paid on the foreign income of a PNG resident company. The credit is limited to the lesser of the foreign tax paid or the PNG tax payable on such income. There is no provision for the carryforward of foreign tax credits not utilized in a particular year.

Participation exemption – No

Holding company regime – No

Incentives – Depreciation incentives or concessions include the following: a qualifying industrial plant not previously used in PNG is eligible for a flexible rate of depreciation up to 100%, but this deduction may not create a tax loss; eligible new plant or expenses incurred in conserving the use of fuel by that plant may be subject to an additional 20% depreciation in the first year of use; and a 100% deduction is available for the cost of qualifying agricultural equipment.

Withholding tax:

Dividends – Dividends paid to a nonresident company, resident trust estate or an individual (whether resident or nonresident) are subject to a 15% dividend withholding tax unless the rate is reduced under a tax treaty. Dividends paid to authorized or nonresident superannuation funds are exempt.

Interest – Interest paid or credited by a financial institution or resident company across all sectors to a resident or nonresident is subject to a 15% withholding tax, unless the rate is reduced under a tax treaty.

Royalties – Where the payer and the recipient of a royalty are transacting at arm's length, royalty payments made to a nonresident are subject to a withholding tax of 10% on the gross amount. Where the parties are associated, the rate is 30%, unless the rate is reduced under a tax treaty.

Technical service fees – Management and technical service fees paid to a nonresident are subject to a 17% withholding tax unless the rate is reduced under a tax treaty.

Certain service fees paid to a nonresident contractor are subject to a 15% withholding tax unless the rate is reduced under a tax treaty (such nonresident contractors do not have the option of paying income tax based on net income—the 15% withholding tax is a final tax).

Branch remittance tax – No

Other – PNG imposes a 3% or a 4.8% withholding tax on nonresident insurers. The reduced rate applies by virtue of certain tax treaties.

Other taxes on corporations:

Capital duty – No

Payroll tax – The 2% tax levied on annual payroll exceeding PGK 200,000 has been abolished as from 1 January 2018.

Real property tax – No

Social security – Employers with more than 15 fulltime employees are required to make superannuation contributions. The employer contributes 8.4% (as the employer minimum contribution) and deducts 6% (as the employee minimum contribution) from the base salary of its resident employees to authorized superannuation funds.

Stamp duty – Stamp duty is imposed on a variety of written instruments, at rates that range up to 5% for real property transactions, depending on the type of document. Exemptions may apply.

Transfer tax – No

Other – A 10% tax is levied on payments to PNG business entities undertaking certain services where such entities do not have a certificate of compliance issued by the PNG tax authorities.

Additional profits tax applies as well as the company income tax to companies operating in the resources industry. The tax applies only if the resources company receives a return that is above the average rate of return on its investments, being a “resource rent.” The threshold rate applied is 15%, with the additional profits tax set at 30%.

Anti-avoidance rules:

Transfer pricing – The transfer pricing rules follow an OECD-based approach and require arm’s length or reasonable commercial value as the basis for determining the value of transactions between related commercial entities. The tax authorities can substitute what they consider an arm’s length value for transactions that took place at inadequate or excessive values.

Thin capitalization – Under the thin capitalization rules, a maximum debt-to-equity ratio of 2:1 applies for most businesses (3:1 for resource companies). Interest in excess of that ratio is disallowed as a deduction to the PNG borrower if the lender is a nonresident entity.

Controlled foreign companies – No

Disclosure requirements – PNG has adopted country-by-country (CbC) reporting under action 13 of the OECD BEPS project. A qualifying parent company of a multinational enterprise group (MNE) located in PNG for tax purposes is required to file an annual country-by-country (CbC) report with the PNG tax authorities if the group has total consolidated group revenue of more than PGK 2.3 billion. Separately, a qualifying subsidiary located in PNG or a PNG branch of a foreign company in an MNE group will have to file a CbC report under certain circumstances.

Other – While not technically a tax requirement, investments by foreign-owned entities in PNG businesses must be approved by the Investment Promotion Authority.

Compliance for corporations:

Tax year – The tax year generally is the calendar year.

The tax authorities may grant permission to adopt an alternative accounting period, but usually do so only when a PNG subsidiary wishes to adopt the same year end as its foreign parent company.

Consolidated returns – Consolidated returns are not permitted; each company is required to file a separate return.

Filing requirements – Payments of the estimated tax liability for the current year are due on 30 April, 31 July and 31 October of each year. The tax liability raised through notification of estimated tax is legally enforceable, but is adjusted when an income tax return is filed in the following year.

Income tax returns are due on 28 February of each year for a 31 December year end, but the deadline may be extended if the return is filed by a registered tax agent.

Penalties – Penalties apply for late filing or late payment of income tax.

Rulings – No

Personal taxation:

Basis – Residents are subject to tax on their worldwide income; nonresidents are subject to tax only on income considered to have a PNG source.

Residence – An individual is resident for income tax purposes if he/she ordinarily lives in PNG. This includes the following: (1) an individual whose domicile is in PNG, unless the tax authorities are satisfied that the individual has established a permanent place of abode outside PNG; (2) an individual who has been in PNG for more than 183 days in the calendar year, unless the tax authorities are satisfied that the individual has a usual place of abode outside PNG and does not intend to take up residence in PNG; and (3) an individual who contributes to a prescribed superannuation fund. A tax treaty may modify a person's residence for tax purposes.

Filing status – A resident individual whose only taxable income consists of fully taxed salary or wages is not required to file an income tax return unless specifically requested by the tax authorities. Individuals who receive more than PGK 100 in income, in addition to a taxed salary, are required to file a return.

Taxable income – All employment income and benefits are taxable in full. Salary or wage income is subject to a separate subset of special rules, including an assessment period of two weeks instead of one year. Profits derived from carrying on a trade or profession generally are taxed in the same way as profits derived by companies. Dividends received from PNG companies are subject to a 15% final withholding tax for resident and nonresident individuals. Interest income and net rental income for resident individuals is taxed at the marginal personal income tax rates.

Capital gains – Capital gains are taxable only if they are realized as part of a profit-making scheme or undertaking, or if they are related to the ordinary business of the taxpayer. A balancing charge may arise on sale of business assets to recapture depreciation previously claimed.

Deductions and allowances – Dependent rebates are available if a salary or wages declaration was filed. An employee can complete a variation declaration form and nominate the qualifying expenses to claim against the allowance; however, a deduction can be taken only with the approval of the tax authorities.

Rates – Personal income tax is calculated at marginal rates, with a top rate of 42% for salaries of PGK 250,000 or more. Salary or wages tax rates are derived from these rates and tax is assessed every two weeks. Concessional rates apply to qualifying payments (long service leave). The rates range from 2% to 15% depending on the years of service.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is imposed on a variety of written instruments in PNG, at rates that go up to 5% for real property transactions, depending on the type of document. Exemptions may apply.

Capital acquisitions tax – No

Real property tax – No, apart from the stamp duty on transfers.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Citizen employees are required to contribute 6% to the authorized superannuation funds, and the employer deducts this amount from the base salary. All employees may make voluntary contributions.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Payments of estimated tax liability for the current year are due on 30 September. The tax liability raised through notification of estimated tax is legally enforceable but is adjusted when an income tax return is filed in the following year. Income tax returns are due on 28 February each year for a 31 December year end, but this deadline may be deferred if the return is filed by a registered tax agent.

Penalties – Penalties apply for the late filing or payment of income tax.

Goods and services tax:

Taxable transactions – Goods and services tax (GST) is imposed on the sale of goods, the provision of services and imports. The GST tax system operates as in most parts of the world, where GST is imposed on taxable supplies made by a registered business and a credit is allowed for GST paid by that business for its inputs.

Rates – The standard rate is 10%. Certain transactions and/or entities are zero-rated or exempt. Larger taxpayers may be eligible for the GST deferral scheme that relieves the situation of import GST otherwise payable but subsequently refundable.

Registration – Residents and nonresidents that make taxable supplies of goods or services exceeding PGK 250,000 in PNG are required to register.

Filing and payment – The GST legislation contains reverse charge provisions, under which GST may be imposed on supplies made to a PNG resident outside PNG.

A GST return and payment must be completed and filed on or before the 21st day of the following month.

Source of tax law: Income Tax Act 1959, Goods and Services Tax Act 2003, the Stamp Duty Act – Chapter 117 1984 and various other acts

Tax treaties: PNG has 10 income tax treaties.

Tax authorities: Internal Revenue Commission

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