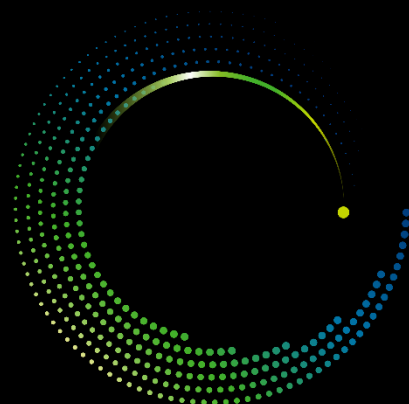


International Tax Papua New Guinea Highlights 2023

Updated January 2023



Recent developments

For the latest tax developments relating to Papua New Guinea (PNG), see [Deloitte tax@hand](#).

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 withdrawing cash in excess of PGK 20,000. Repatriation payments can be made in any foreign currency. However, if the cumulative total of remittances exceeds PGK 500,000 per fiscal year, 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 and audited annually. Certain audit 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. Investments by foreign-owned entities in PNG businesses must be approved by the Investment Promotion Authority.

Corporate taxation

Rates	
Corporate income tax rate	30%
Branch tax rate	48%
Capital gains tax rate	Taxable as income if related to profit-making scheme/undertaking or taxpayer's ordinary business

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 a 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. Branches are taxed in the same way as subsidiaries.

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.

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% (although the application of this is limited by a withholding tax on foreign contractors (see "Other" under "Withholding tax," below) and the income to which it applies will not be subject to corporation tax). The income tax rate on an authorized superannuation fund is 25%.

As from 1 January 2023, the rate of corporation tax for commercial banks is 45%.

Surtax: There is no surtax.

Alternative minimum tax: There is no alternative minimum tax.

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

Capital gains: There is no capital gains tax in PNG. Capital gains are taxable as income 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. A 15% capital gains tax applying to real property and resource licenses (i.e., licenses for gas, petroleum, or mining operations) has been proposed with a potential implementation date of 1 January 2024.

Losses: Subject to continuity-of-ownership and continuity-of-business tests, tax losses generally may be carried forward for seven years. Losses of resource companies (i.e., companies with gas, mining, or petroleum operations) and primary production (e.g., agricultural and fishing) ventures may be carried forward for 20 years. The carryback of losses is not permitted. Losses cannot be transferred between group companies.

Foreign tax relief: A tax credit is granted for foreign tax paid on the foreign income of a PNG resident. 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: There is no participation exemption.

Holding company regime: There is no holding company regime.

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;
- An 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.

Other: See "Other" under "Withholding tax," below, for withholding tax on foreign contractors.

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 and payment: Provisional payments of estimated tax are due on 30 April, 31 July, and 31 October of each year. Payments of estimated tax for companies with a substituted balance date are due as follows:

- First installment: 120 days after the end of the preceding year;
- Second installment: 210 days after the end of the preceding year; and
- Third installment: 300 days after the end of the preceding year.

The final tax liability is determined 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; in other cases, income tax returns are due two months after the balance date. The deadline may be extended if the return is filed by a registered tax agent.

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

Rulings: Taxpayers may not request rulings.

Individual taxation

From 1 January 2023 through 31 December 2023, the tax free threshold is temporarily increased to PGK 20,000 for resident taxpayers.

Rates		
Individual income tax rate	Taxable income (PGK)	Rate
	Up to 20,000	0%
	20,001–33,000	30%
	33,001–70,000	35%
	70,001–250,000	40%
	Over 250,000	42%
Capital gains tax rate	Taxable as income if related to profit-making scheme/undertaking or taxpayer's ordinary business	

Residence: Individuals are resident for income tax purposes if they ordinarily live in PNG. This includes: (i) 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; (ii) 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 (iii) an individual who contributes to a prescribed superannuation fund. A tax treaty may modify a person's residence for tax purposes.

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

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 are taxed at the marginal individual income tax rates.

An SBT regime applies to sole traders. This provides a simplified tax system and, in some cases, more favorable income tax rates than the marginal tax rates otherwise imposed on net income. The taxpayer must make an election to participate in the regime, but later may elect out and pay income tax according to the general rules. The SBT regime does not apply to: (i) taxpayers who are (or are required to be) registered for goods and services tax (GST); (ii) individuals who were previously liable to income tax (subject to exceptions); and (iii) professional service providers. The rate is a flat PGK 250 if annual turnover is less than PGK 60,000; otherwise, the rate is PGK 62.50 plus 2% of turnover for the quarter that turnover is above PGK 15,000 (payable on a quarterly basis), but this applies only up to PGK 250,000.

Rates: Individual income tax is calculated at marginal rates, with a top rate of 42% for income over PGK 250,000. Salary or wage tax rates are derived from these rates, and tax is assessed every two weeks. Reduced rates apply to certain qualifying payments (e.g., retirement and superannuation payments) with the rates ranging from 2% to 15% depending on years of service.

Capital gains: There is no capital gains tax in PNG. Capital gains are taxable as income 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.

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.

Foreign tax relief: A tax credit is granted for foreign tax paid on the foreign income of a PNG resident. 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.

Compliance for individuals

Tax year: The tax year is the calendar year.

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 (other than salaries, wages, or dividend income) are required to file a return.

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 late payment of income tax.

Rulings: Taxpayers may not request rulings.

Withholding tax

Rates				
Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%	15%	15%	15%
Interest	15%	15%	15%	15%
Royalties	0%	0%	10%/30%	10%/30%
Fees for technical services	0%	0%	17%	Applicable salary or wage tax rate

Dividends: Dividends paid to a nonresident company, the estate of a resident trust, or an individual (whether resident or nonresident) are subject to a 15% withholding tax, unless the rate is reduced under an applicable tax treaty in the case of nonresidents. Dividends paid to authorized or nonresident superannuation funds are exempt. Dividends paid to a resident company are not subject to withholding tax.

Interest: Interest paid or credited by a financial institution or a resident company to a resident or nonresident is subject to a 15% withholding tax, unless the rate is reduced under an applicable tax treaty in the case of nonresidents.

Royalties: Where the transaction is 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 an applicable tax treaty. Royalties paid to residents are not subject to withholding tax.

Fees for technical services: Management and technical service fees paid to a nonresident company are subject to a 17% withholding tax, unless reduced under an applicable tax treaty. Such fees paid to a nonresident individual are liable to tax at the applicable salary or wage tax rate, unless reduced under an applicable tax treaty. Technical service fees paid to residents are not subject to withholding tax.

Other: Foreign contractor withholding tax (FCWT) must be withheld at a rate of 15% for a payment to a nonresident contractor in respect of a prescribed contract, unless the rate is reduced under an applicable tax treaty. The definition of prescribed contract is very wide and includes payments in respect of professional services or services as an adviser, consultant, or manager, and payments in respect of the use of property (e.g., rents). This is a final tax for foreign contractors.

Branch remittance tax: There is no branch remittance tax.

Anti-avoidance rules

Transfer pricing: The transfer pricing rules follow an OECD-based approach and require arm's length terms 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.

Interest deduction limitations: Under the thin capitalization rules, a maximum debt-to-equity ratio of 2:1 applies for most businesses. Interest in excess of that ratio is disallowed as a deduction to the PNG borrower if the lender is a nonresident entity. In the case of resource companies, the ratio is 2:1; however, this restriction applies to all interest, including that paid to a resident.

Controlled foreign companies: There are no controlled foreign company rules.

Hybrids: There are no anti-hybrid rules.

Economic substance requirements: There are no economic substance requirements.

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

Exit tax: There is no exit tax. However, a tax clearance certificate is required to deregister or liquidate a company.

General anti-avoidance rule: There are general anti-avoidance rules that seek to protect the tax base. Arrangements made with a view to eliminating or reducing a tax liability can be deemed to be void.

Goods and services tax

Rates	
Standard rate	10%
Reduced rate	0%

Taxable transactions: GST is imposed on the sale of goods, the provision of services, and imports. The GST 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. The GST legislation contains reverse-charge provisions under which GST may be imposed on supplies made to a PNG resident outside PNG.

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

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals.

Social security contributions: Employers with more than 15 full-time employees are required to make superannuation contributions in respect of their citizen employees. The employer pays 8.4% (as the employer minimum contribution) and 6% (as the employee minimum contribution) of the employee's base salary. Employees also may make voluntary contributions.

Payroll tax: There is no payroll tax.

Capital duty: There is no capital duty.

Real property tax: There is no real property tax.

Transfer tax: There is no transfer tax.

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.

Net wealth/worth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: There is no inheritance tax or estate tax.

Other

Noncompliance levy

A 10% withholding 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.

Resource industry profits tax

A 30% additional profits tax applies (in addition to the corporate income tax) to companies operating in the resources industry. The tax applies only if the resources company receives a rate of return that is above the average rate of return on its investments (i.e., a “resource rent”); the threshold rate applied is 15%.

Tax treaties: PNG has concluded 10 tax treaties. PNG signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) on 23 January 2019.

Tax authorities: Internal Revenue Commission

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