PKF

Papua New Guinea Tax Guide

2013

FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions. This handy reference guide provides clients and professional practitioners with comprehensive tax and business information for over 90 countries throughout the world.

As you will appreciate, the production of the WWTG is a huge team effort and I would like to thank all tax experts within PFK member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

I hope that the combination of the WWTG and assistance from your local PKF member firm will provide you with the advice you need to make the right decisions for your international business.

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PREFACE

The PKF Worldwide Tax Guide 2013 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 1 January 2013, while also noting imminent changes where necessary.

On a country-by-country basis, each summary addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

In addition to the printed version of the WWTG, individual country taxation guides are available in PDF format which can be downloaded from the PKF website at www.pkf.com

PKF INTERNATIONAL LIMITED
MAY 2013

ABOUT PKF INTERNATIONAL LIMITED

PKF International Limited (PKFI) administers the PKF network of legally independent member firms. There are around 300 member firms and correspondents in 440 locations in around 125 countries providing accounting and business advisory services. PKFI member firms employ around 2,270 partners and more than 22,000 staff. PKFI is the 11th largest global accountancy network and its member firms have $2.68 billion aggregate fee income (year end June 2012). The network is a member of the Forum of Firms, an organisation dedicated to consistent and high quality standards of financial reporting and auditing practices worldwide.

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Hotel Consultancy
IT Consultancy

PKF member firms are organised into five geographical regions covering Africa; Latin America; Asia Pacific; Europe, the Middle East & India (EMEI); and North America & the Caribbean. Each region elects representatives to the board of PKF International Limited which administers the network. While the member firms remain separate and independent, international tax, corporate finance, professional standards, audit, hotel consultancy and business development committees work together to improve quality standards, develop initiatives and share knowledge and best practice cross the network.

Please visit www.pkf.com for more information.

STRUCTURE OF COUNTRY DESCRIPTIONS

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LOCAL TAXES
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STOCK/INVENTORY
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LOSSES
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G. EXCHANGE CONTROL

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I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

AT 12 NOON, GREENWICH MEAN TIME, THE STANDARD TIME ELSEWHERE IS:

A

Algeria . . . . 1 pm
Angola . . . . 1 pm
Argentina . . . . 9 am
Australia -
  Melbourne . . . . 10 pm
  Sydney . . . . 10 pm
  Adelaide . . . . 9.30 pm
  Perth . . . . 8 pm
Austria . . . . 1 pm

B

Bahamas . . . . 7 am
Bahrain . . . . 3 pm
Belgium . . . . 1 pm
Belize . . . . 6 am
Bermuda . . . . 8 am
Brazil . . . . 7 am
British Virgin Islands . . . . 8 am

C

Canada -
  Toronto . . . . 7 am
  Winnipeg . . . . 6 am
  Calgary . . . . 5 am
  Vancouver . . . . 4 am
Cayman Islands . . . . 7 am
Chile . . . . 8 am
China - Beijing . . . . 10 pm
Colombia . . . . 7 am
Cyprus . . . . 2 pm
Czech Republic . . . . 1 pm

D

Denmark . . . . 1 pm
Dominican Republic . . . . 7 am

E

Ecuador . . . . 7 am
Egypt . . . . 2 pm
El Salvador . . . . 6 am
Estonia . . . . 2 pm

F

Fiji . . . . 12 midnight
Finland . . . . 2 pm
France . . . . 1 pm

G

Gambia (The) . . . . 12 noon
Germany . . . . 1 pm
Ghana . . . . 12 noon
Greece . . . . 2 pm
Grenada . . . . 8 am
Guatemala . . . . 6 am
Guernsey . . . . 12 noon
Guyana . . . . 7 am

H

Hong Kong . . . . 8 pm
Hungary . . . . 1 pm

I

India . . . . 5.30 pm
Indonesia . . . . 7 pm
Ireland . . . . 12 noon
Isle of Man . . . . 12 noon
Israel . . . . 2 pm
Italy . . . . 1 pm

J

Jamaica . . . . 7 am
Japan . . . . 9 pm
Jordan . . . . 2 pm

K

Kenya . . . . 3 pm

L

Latvia . . . . 2 pm
Lebanon . . . . 2 pm
Luxembourg . . . . 1 pm

M

Malaysia . . . . 8 pm
Malta . . . . 1 pm
Mexico . . . . 6 am
Morocco . . . . 12 noon

N

Namibia . . . . 2 pm
Netherlands (The) . . . . 1 pm
New Zealand . . . . 12 midnight
Nigeria . . . . 1 pm
Norway . . . . 1 pm

O

Oman . . . . 4 pm

P

Panama . . . . 7 am
Papua New Guinea . . . . 10 pm
Peru . . . . 7 am
Philippines . . . . 8 pm
Poland . . . . 1 pm
Portugal . . . . 1 pm

Q

Qatar . . . . 8 am

R

Romania . . . . 2 pm

Russia -

Moscow . . . . .3 pm
St Petersburg. . . . . .3 pm

S

Singapore . . . . .7 pm
Slovak Republic . . . . .1 pm
Slovenia . . . . .1 pm
South Africa. . . . . .2 pm
Spain . . . . .1 pm
Sweden. . . . . .1 pm
Switzerland . . . . .1 pm

T

Taiwan .8 pm
Thailand . . . . .8 pm
Tunisia . . . . 12 noon
Turkey. .2 pm
Turks and Caicos Islands . . . . . . .7 am

U

Uganda .3 pm
Ukraine .2 pm
United Arab Emirates . . . . .4 pm
United Kingdom . . . .(GMT) 12 noon
United States of America -

New York City. . . . . .7 am
Washington, D.C. . . . . .7 am
Chicago. . . . . .6 am
Houston. . . . . .6 am
Denver . . . . .5 am
Los Angeles. . . . . .4 am
San Francisco . . . . .4 am

Uruguay . . . . .9 am

V

Venezuela . . . . .8 am

Z

Zimbabwe . . . . .2 pm

PAPUA NEW GUINEA

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A. TAXES PAYABLE

TAXES AND LEVIES

COMPANY TAX

Company tax is payable by Papua New Guinea (PNG) resident companies on non-exempt income derived from all sources. Non-resident companies are required to pay tax on income sourced in PNG.

Resident companies are those that are incorporated in PNG, or carry on business in PNG and either have central management and control in PNG or voting power controlled by shareholders who are PNG residents.

The resident company tax rate is 30% for most companies. The tax year usually runs from 1 January to 31 December although alternative fiscal years arepermitted. The tax rate for most non-resident companies is 48%.

A provisional tax system results in the estimated tax liability of a company being paid during the year of income. The payments of provisional tax are due in three equal installments on 30 April, 31 July and 31 October.

FOREIGN CONTRACTORS TAX

A foreign contractor who derives income from an approved prescribed contract is liable to pay tax on that income. Tax would be assessed at the foreign company tax rate of 48% on 25% of gross income in PNG, which is effectively 12% of gross income.

CAPITAL GAINS TAX

There is no capital gains tax in PNG. However, where a capital asset was bought for the sole purpose of resale or as part of a profit-making scheme, any profits or gains are included with other taxable company income.

BRANCH PROFITS TAX

Where a branch of a foreign company operates in PNG, the profits of the branch are subject to PNG corporate tax at the rate of 48%.

SALES TAX/GOODS AND SERVICE TAX (GST)

There is no sales tax per se in PNG although there is excise duty payable by manufacturers on sales of certain products such as alcohol and tobacco. A consumption tax called GST is charged at a rate of 10% on most goods and services in PNG, the major exceptions being certain financial services, residential dwellings (depending on the circumstances), educational and health services, exported products and services, goods and services to foreign aid providers, supply of unprocessed oil from a field in PNG, travel and tourists' pre-purchased travel and accommodation within PNG, and supplies to certain projects.

FRINGE BENEFITS TAX (FBT)

There is no tax payable by the company on fringe benefits. Instead, any benefits provided to employees are included in their personal income at notional values and are subject to tax.

STAMP DUTY

This is imposed on transfer of shares, transfer of properties and partnership agreements.

OTHER TAXES

These include customs, excise duties, training levy and timber export tax.

B. DETERMINATION OF TAXABLE INCOME

The taxable income of a company is determined by ascertaining assessable income less allowable deductions. Generally, expenditure and/or losses are deductible provided they are incurred in gaining or producing assessable income. Items of a capital or domestic nature are non-deductible.

Rates of depreciation for assessment purposes under the Income Tax Act are determined by the Commissioner General of Internal Revenue.

The deductions for depreciation are allowable in addition to repairs and maintenance on assets concerned. The two most common methods used are prime cost and diminishing value method. Respective indicative rates are: construction 3% and 4½%, plant and equipment 10% and 15%, motor vehicles 20% and 30%, and furniture and fittings 7½% and 11¼%.

STOCK/INVENTORY

Trading stock on hand at the beginning and end of each income year must be taken into account in determining assessable income. The closing value adopted becomes the opening value at the beginning of the following year. The taxpayer has the once only option to value stock at cost, market value, or replacement value. Valuation methods include FIFO and average cost.

INTEREST DEDUCTIONS

Interest is deductible where it is incurred in gaining or producing assessable income.

TAX LOSSES

Tax losses may be carried forward for 20 years provided there is at least 51% continuity of ownership or no substantial change in the nature of the business. Loss carry-back and inter-group company transfers are not permitted. Primary production losses may be carried forward without limitation.

FOREIGN SOURCED INCOME

Resident corporations are taxed on their worldwide income in PNG. However, income derived by a resident company from a treaty country may not be taxed in PNG, subject to the treaty provisions.

INCENTIVES

- Flexible depreciation for manufacturers where industrial plant not previously used in PNG is eligible for increased depreciation of up to 100% of cost.
- 100% initial depreciation for agriculture and fishing industries. Expenditure on new plant or articles used in agricultural production, commercial fishing activities, boats, ships and ancillary equipment fitted to boats, and ships to be used solely as dive boats or for scuba diving or by snorkeling tour operators qualify for a 100% initial depreciation deduction.
- Manufacturers who manufacture new products are entitled to a wages subsidy payment for up to five years, based on a percentage of relevant minimum wage of each full time citizen employee.
- Initial year accelerated depreciation is available on the capital cost of certain new assets, converting existing oil-fired plant to non oil-fired plant or for improving the efficiency of fuel-using plants.
- For petroleum, mining and gas operators, special provisions apply to determine deductions allowable for exploration and development costs.
- In primary production, outright deductions are allowed for certain capital expenditure including clearing and conserving land for agriculture.
- In the tourism industry, accelerated depreciation is allowed for certain eligible assets. A 20% concessional company tax rate is available for 15 years subject to certain conditions.
- Qualifying new businesses set up in specific rural areas are exempt from income tax on their net income from carrying on rural development industry for 10 years after the date of commencement of business.

Other tax concessions available (conditions apply):

- Research and Development incentives
- A higher accelerated and flexible depreciation
- Double deductions on certain allowable expenditure
- Infrastructure tax credits
- Export sales exemption for income derived from exports of prescribed goods.

C. FOREIGN TAX RELIEF

A credit is allowed for tax paid on foreign income against tax payable in PNG but limited to the tax payable in PNG on such income.

D. THIN CAPITALISATION RULES

There is an extension of thin capitalisation rules (interest deduction limitation) to non–extractive industries except for approved finance institutions. These entities will be able to claim deduct ions on foreign interest, where their non-arm's length debts exceed 200% of equity. The ratio of debt to equity for non-resource companies will be 2:1 while the existing thin capitalization ratio of 3:1 will remain for resource companies. However, these rules will not affect interest deductions on domestic debt.

E. RELATED PARTY TRANSACTIONS

PNG has deemed dividend provisions and transfer pricing rules which give the Internal Revenue Commission the power to impose arm's-length (market) prices on transactions.

F. WITHHOLDING TAXES

Non-resident withholding tax is deducted from certain types of payments made to non-residents including interest, dividends, management fees, professional fees and royalties.

Interest, dividends and, in some cases, business withholding taxes are also applicable to payments to residents.

G. EXCHANGE CONTROL

Generally, Authorised Dealers (being commercial bankers) are licensed to transfer funds in and out of PNG subject to certain conditions. However, payments of K200,000 or more per annum require a tax clearance from the Internal Revenue Commission.

H. PERSONAL TAX

Income tax is payable by PNG residents on their worldwide income. Non-resident individuals pay tax on PNG-sourced income only. Residence is determined with reference to domicile, place of fixed abode and length of time in PNG.

Resident person means a person who resides in PNG and includes a person:
i) whose domicile is in PNG, unless his permanent place of abode is outside PNG
ii) who is in PNG for more than 183 days in the year of income, unless his permanent place of abode is outside of PNG and he does not intend to take up residence in PNG; or
iii) who is a contributor to a prescribed superannuation fund.

Income tax is payable on assessable income less allowable deductions. Assessable income includes employment income, business income, rents, interest and dividends.

Deductions are allowable for expenditure incurred in earning assessable income (self-employed income/business profits) with limited deductions against employment income. Limited personal allowances are also available.

Employment-related earnings are subject to tax deductions at source. Self-employed individuals and those with non-salary/wage income are required to pay provisional tax based on the previous year's tax liability.

For residents:			For non-residents:		
Taxable income (K)	**Tax thereon (K)**	**Rates of Tax on excess (%)**	**Taxable income (K)**	**Tax thereon (K)**	**Rates of Tax on excess (%)**
10,000	Nil	22	Nil	Nil	22
18,000	1,760	30	18,000	3,960	30
33,000	6,260	35	33,000	8,460	35
70,000	19,210	40	70,000	21,410	40
250,000	91,210	42	250,000	93,410	42

Note: Dependent deductions from tax payable allowed per scale for up to three dependents.

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