

PAPUA NEW GUINEA

RECENT DEVELOPMENTS

The Minister for Treasury and Finance, the Honourable Patrick Pruaitch, MP, handed down the 2008 National Budget on 20 November 2007. This article summarises some of the key taxation changes announced or confirmed by the Minister.

Corporate Tax Rates

There has been no change to the general corporate income tax rate of 30%. The rate of income tax for non-resident companies, other than those engaged in mining, petroleum or gas operations, remains at 48%.

Personal Tax Rates

Personal tax rates have been reduced with effect from 1 January 2008 and the rates from this date onwards are set out below. The tax-free threshold for residents has increased from PGK6,600 to PGK7,000 and the lowest marginal rate has decreased from 25% to 22%.

From 1 January 2008, the rates for residents are as follows:

Taxable income (PGK)	Tax thereon (PGK)	Rates of tax on excess (%)
7,000	Nil	22
18,000	2,420	30
33,000	6,920	35
70,000	19,870	40
250,000	91,870	42

From 1 January 2008, the rates for non-residents are as follows:

Taxable income (PGK)	Tax thereon (PGK)	Rates of tax on excess (%)
Nil	Nil	22
18,000	3,960	30
33,000	8,460	35
70,000	21,410	40
250,000	93,410	42



Policy on Tax Concessions

In addressing the policy on tax concessions, the following was noted in the budget papers:

“The tax system is compromised when concessions are given to specific projects or taxpayers. 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 tax concessions.

To enhance the integrity of the tax system, concessions provided to projects need to be confined to those available for the relevant industry in the existing law. This would ensure neutral and equitable treatment of projects in each sector, and transparency in tax policy. The assurance of equitable treatment for all investors would encourage further overall investment in the economy.”

Tourism Incentives

The 2006 and 2007 Budgets included income tax amendments targeted at benefiting the tourism industry.

In 2006, the definition of “eligible property” was amended to include plant used by hotels or other short-stay accommodation facilities. This enabled tourism plant to qualify for initial year depreciation of 20% of the cost of the property. For installed tourism plant ready for use on or after 1 January 2007, the rate of initial year depreciation has been increased to 55%. An amendment has been made to extend this accelerated depreciation to restaurants.

General Amendments

A number of minor amendments will be made to the Income Tax Act and Income Tax Regulations including amendments to:

1. Ensure the collection of revenue is not impeded by the absence of a Commissioner General of Internal Revenue;
2. Allow the Commissioner General to facilitate an exchange program with other jurisdictions;
3. Remove incorrect references to Value Added Tax and the Organic Law on the Integrity of Political Parties and Candidates; and
4. Add Abau, Aitape and Lake Kapiago districts to the list of districts for the purposes of the application of the Rural Development Incentive.

In addition, the Rationalisation of the Public Service Act is being amended to extend the expiry date for the imposition of a concessional rate of tax on redundancy payments to public servants to 31 December 2008.

Taxation Developments and Amendments – Mining, Petroleum And Gas

As in prior years there have been a number of amendments relating to the mining, petroleum and gas industries. The 2008 Budget contains several amendments which impact these industries. The changes are:

1. A technical amendment to Section 155E (2)(a) to change the reference from Section 155G to Section 155L.
2. Section 155E(6) of the Income Tax Act limits the amount of the deduction which can be claimed for allowable capital expenditure (ACE) to the amount of income remaining after deducting all other deductions. In other words the deduction cannot create a tax loss. However, there were no rules for determining the order in which the deduction for long-life ACE and short-life ACE should be claimed. The Income Tax Act has been amended so that the order of deduction is long-life ACE first and if fully utilised a deduction for short-life ACE may then be claimed. Where there is insufficient income for claiming the deduction, the excess is deemed to be ACE incurred in the next year of income. This amendment follows representations made by PricewaterhouseCoopers and representatives of the resource industry.
3. An amendment has been made to the Income Tax Dividend (Withholding) Tax and Interest (Withholding) Tax Rates Act to clarify the rates of tax payable by non-resident companies deriving income from resource projects. This amendment is a result of representations made by PricewaterhouseCoopers and representatives of the resource industry.

Taxation Developments and Amendments – Goods & Services Tax

The Internal Revenue Commission (IRC) is concerned with the number of fraudulent claims being made for goods & services tax (GST) refunds. As a result of this concern the GST legislation has been amended to regulate the activities of tax agents. These include a requirement for a written authority to act for a particular taxpayer and a provision to make the agent personally liable in the same way as the principal. In addition, substantial penalties have been introduced for persons who are unauthorised agents, who make false declarations or who influences an officer or the IRC in the performance of their duty.

A minor technical amendment clarifying the start date as 1 January 2007 of provisions introduced in the 2007 Budget with respect to the zero rating of supplies of certain travel and accommodation services has been made.

Taxation Developments and Amendments – Stamp Duties

There were several significant amendments to the Stamp Duties Act which have been introduced as part of the Government's continuing commitment to reduce impediments to doing business and investment:

1. To abolish stamp duty on loan agreements from 1 January 2008 and in respect of other documents. This means stamp duty will not apply to the following:
 - (1) Agreement or contracts for loans;
 - (2) Loan securities, mortgages and foreign securities;
 - (3) Hire and credit purchase agreements;
 - (4) Credit arrangements; and
 - (5) Bills of lading.
2. To abolish stamp duty on Certificates of Incorporation from 1 January 2008.
3. To abolish stamp duty on insurance contracts from 1 April 2008. The reason for the deferred start date is to allow the insurance industry sufficient time to adjust their computer and billing systems for the change.
4. To abolish bank account debits tax from 1 April 2008. The reason for the deferred start date is to allow the banking and finance industry sufficient time to adjust their computer and billing systems for the change.

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5. Division 10A which deals with the acquisition of interests in land owning private corporations, referred to as “land-rich provisions”, has been amended so that the amount of duty on the acquisition of an interest in a private corporation which holds an interest in a resource development licence or resource exploration licence is the same as the duty payable on a direct transfer of assets. Under the existing law a direct transfer of an exploration licence and related information will attract stamp duty of PGK20,000. However, the rate of duty on the indirect transfer is 5% of the unencumbered value of the resource exploration licence. This amendment is a direct result of representations made by PricewaterhouseCoopers and representatives of the resource industry.

Taxation Developments and Amendments – Customs, Excise and Indirect Taxes

Excise Duty - Alcohol and Tobacco

There are currently three rates of excise duty on beer based on the alcohol content. These are a “low strength” rate, a “standard” rate and a “high strength” rate. The lowest rate applies to beer with an alcohol content of not more than 2.5% alcohol by volume. This low rate has not resulted in the production of “low strength” beer. However, a trial of “mid strength” beer has recently commenced.

The Government supports the production of lower strength beers. However, the existing structure does not cover “mid strength” beer which is taxed at the “standard” rate. To encourage the production of “mid strength” beer, the thresholds for the application of the beer excise will be restructured and a new concessional rate for “mid strength” beer will be introduced. This will apply to beer with an alcohol content of more than 2.5% but not more than 3.5%.

There have been no changes to the excise duty on tobacco products. However, the temporary concessional rate for roll your own tobacco has been extended for two years until 31 December 2009.

Excise Tariff Rates

In the 2007 Budget, a special excise rate of 30 toea per litre was announced for pre-mixed gasoline oil fuel. It was intended that this change would apply from 1 January 2007 for a trial period of one year. However, as the reform was not implemented until June 2007 there is insufficient data to make an assessment of this measure. Consequently, the measure has been extended until the end of 2008 so that an assessment can be made in time for the 2009 Budget.

Excise Act

Amendments are being made to the Excise Act to:

1. Impose a penalty for late payment of excise duty; and
2. Broaden the definition of excise prosecution to include all offences under the Excise Act and remove current restrictions on the procedures for prosecutions.

Customs Tariff Act

Schedule 1 of the Customs Tariff Act has been repealed and replaced with a new set of tariff classifications that reflects updated international standards.

In addition, to reflect the fact that bottle tops are no longer manufactured in PNG, the tariff for bottle tops has been reduced from 25% to nil. The customs tariff categories for beer imports have also been adjusted to align with the new structure for beer excise.

