

Profile—The Independent State of Papua New Guinea (Papua New Guinea for short)

I. Jurisdiction Background

The Independent State of Papua New Guinea (Papua New Guinea or “PNG” in short), lies on the eastern half of the island of New Guinea, located between the Coral Sea and the South Pacific Ocean among the islands of Oceania. It is the largest in area and population and has the largest economic aggregate among South Pacific Island countries. Papua New Guinea's capital city is Port Moresby, and its official languages are English, Tok Pisin, and Hiri Motu. It is extremely rich in natural resources, particularly minerals.

II. Organizational Structure

The Internal Revenue Commission (IRC) is the government body responsible for tax collection and administration in PNG. Headed by the Commissioner General, the IRC comprises a Service Wing and a Tax Wing.

Under the Service Wing, there are Office of the Commission and Divisions respectively in charge of legal services, human resources, finance and administration, information and communication technology, tax processing, regional operations, and internal audit and integrity. The Regional Operations under the Service Wing include three regional tax centers and nineteen provincial tax centers within PNG, with the primary function to promote and deliver tax administration guidelines and ensure compliance with tax voluntary compliance requirements. The Tax Wing consists of Divisions in charge of policy and advice, large taxpayer office, small to medium enterprises audit, debt and lodgment enforcement, and case selection and intelligence.

III. Current Tax System

Major components of PNG tax system include income tax on both businesses (CIT) and individuals (PIT) and Goods and Services Tax (GST). There is a new small business taxation regime (SBT) applying to individuals running small business (i.e. sole traders) with a turnover below the prescribed cap, under which, all tax compliance obligations for the business (i.e. GST and PIT) are satisfied by paying the SBT. This regime is intended to encourage the development and increased compliance of small businesses in PNG.

There are also other taxes and duties such as stamp duty, excise tax, land tax and gaming machine tax, etc.

IV. Overview of tax preference policies

PNG provides a variety of tax incentives to encourage the development of businesses and investment. Some key policies are as follows:

◆ **Primary production incentives**

Deductions for certain capital expenditures, including clearing, preparing, or conserving land for agriculture; eradicating pests; providing labors' accommodation; and for the conservation and conveyance of water. Losses incurred in carrying on a primary production business can be carried forward for 20 years. A 20% tax rate is prescribed in respect of 'incentive rate primary production income' derived by a company for up to ten years.

◆ **Double deduction for export market development costs**

Expenditure incurred in the promotion for sale outside PNG of goods manufactured in PNG or tourism promotion is eligible for double deduction.

◆ **Tax credit for infrastructure development by agricultural, mining, petroleum, and gas companies**

A tax credit is available to agricultural, mining, petroleum, gas, and certain tourism companies that incur expenditure on a prescribed infrastructure development.

Other tax incentives available include manufacturers' wage subsidies, immediate deductions for the costs of acquiring and installing solar heating plants, a ten-year tax exemption for qualified new businesses located in prescribed remote areas of PNG, and a specific deduction for environmental protection and clean-up costs.

V. Tax Collection and Administration

Except those administered by customs authorities, the IRC administers and enforces all tax laws. The IRC developed a strategic plan to drive the transformational change in the tax collection and administration. Key measures include exploring collection at source; building data analytics capabilities with initiatives such as developing and implementing data analytics digital tools, taxpayer registration improvement and mapping, business structures and industry benchmarking, and tax file management; fostering voluntary compliance and improving taxpayer services to attract compliance; and reforming the legal framework, ensuring they are simple, modern, coherent, and relevant to administer tax effectively, etc.

VI. Taxpayer Services

The IRC has been committed to improving taxpayer services, particularly through digital tools, as part of the effort to enhance voluntary compliance. Under the taxpayer service improvement project, "myIRC" has been introduced on the website of the IRC as a central location for taxpayers to communicate and make payment with the IRC online.

To enhance taxpayer awareness and support businesses to fulfill tax obligations, the IRC also developed an online Taxpayer Information Kit, providing easy access to basic and comprehensive tax information from various aspects such as business nature, tax registration, tax types, taxpayer rights and obligations, etc.

VII. Tax Legislation Process

Key tax legislations in PNG include the Income Tax Act 1959 and the Goods and Services Tax Act 2003. There are also tax laws on taxes such as Stamp Duties and Gaming. Regulations are also available in addition to tax laws.

Legislative amendments have been made to the tax laws to reflect the continuous evolution and adaptation of the tax legal framework in PNG, aiming to better regulate tax-related matters and keep pace with the changing economic and social circumstances. It is also an important part of the country's tax legalization process. In 2020, PNG's Treasury released for public consultation a rewrite of the Income Tax Act, which is yet to be finalized and passed.

VIII. Future Tax Reform Plan

The IRC has made a strategic plan for the period from 2023 to 2027, aiming to substantially reduce the tax compliance gap and explore revenue-positive reductions in tax rates. Key initiatives include tax law reforms to introduce capital gains tax, implement the Tax Administration Act, and the enactment of the new Income Tax Act; enhancement to the organizational agility through implementation of the new organizational structure of the IRC; improvement of voluntary compliance through better taxpayer services, simplified processes, strengthened audits and investigations; digital transformation; enhancement of data analytics capabilities and more effective collection particularly focusing on GST.

IX. International tax cooperation

The IRC of PNG is affiliated with several international organizations, including The Commonwealth Association of Tax Administrators (CATA), the Pacific Islands Tax Administrators Association (PITAA), and the Study Group for Asia-Pacific Tax Administration and Research (SGATAR). It joined the Global Forum on Transparency and Exchange of Information for Tax Purposes, is a member the OECD/G20 Inclusive Framework on BEPS as well as a Council Member of the Belt and Road Initiative Tax Administration Cooperation Mechanism (BRITACOM). These affiliations allow the IRC to collaborate with other tax authorities in the region and around the world to share best practices, exchange information, and improve tax compliance. Additionally, these affiliations provide opportunities for training and capacity building for the staff of the IRC to enhance their skills and knowledge in tax administration.

PNG has a relatively extensive tax treaty network and has entered tax treaties with more than 10 jurisdictions.

X. Others

None.