Thinking beyond borders: Management of extended business travelers - Papua New Guinea

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KPMG

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Key message

A person's tax liability in Papua New Guinea (PNG) is determined by residence status for taxation purposes and the source of income derived by the individual. Only resident individuals are entitled to credits for foreign tax paid.

1 Key message

Extended business travelers are likely to be taxed on employment income relating to work performed in PNG. Residents are taxed on worldwide income whereas non-residents are generally taxed on PNG-sourced income only.

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Income tax

2 Income Tax

2.1 Liability for income tax

A person's liability for PNG tax is determined by residency status. A person can be a resident or a non-resident for PNG tax purposes. A resident of PNG generally refers to an individual who is domiciled in PNG or who has been in PNG continuously or intermittently for more than 6 months in any year of income. A non-resident of PNG is one who is domiciled outside PNG and who does not stay in PNG for more than 6 months. The general rule is that a person who is a resident of PNG is assessable on their worldwide income. Non-residents are generally assessable on income derived directly or indirectly from sources in PNG.

2.2 Definition of source

Employment income is generally treated as PNG-sourced compensation where the individual performs the services while physically located in PNG.

2.3 Tax trigger points

Earnings for any work performed in PNG are normally taxable in PNG. Unless the individual qualifies for relief under the dependent personal services article of an applicable double tax treaty, the number of days worked in PNG is not relevant.

2.4 Types of taxable income

For extended business travelers, the types of PNG income that are generally taxed are employment income and PNG-sourced income such as interest or rent. In addition to cash income and allowances, employees are taxed on the prescribed values of accommodation and motor vehicles.

2.5 Tax rates

Net taxable income is taxed at graduated rates ranging up to 42 percent on incomes above 250,000 Papua New Guinea kina (PGK). The tax rates for non-residents are the same as those for residents, with the exception that non-residents do not benefit from the tax-free threshold applicable to income up to PGK20,000.

03

Social Security

3 Social Security

3.1 Liability for social security

Superannuation is a mechanism requiring individuals to save money for retirement. It is prescribed that employers make a minimum contribution of 8.4 percent of the employee's salary (capped at 15 percent of the salary) into an authorized superannuation fund. The minimum contribution by employees is 6 percent of their salary- this is deducted from net after tax pay. Superannuation contributions are not mandatory for expatriates.

04

Compliance obligations

4 Compliance obligations

4.1 Employee compliance obligations

Tax returns are due by 28 February following the tax year-end, which is 31 December. Where a tax agent is used, there is an automatic extension. Tax returns must be filed by non-residents who derive any PNG-sourced income (other than PNG salary or wages income and PNG dividend or interest income, which are subject to a final withholding tax).

4.2 Employer reporting and withholding requirements

Withholdings from employment income are covered under the salary and wages tax system. If an individual is taxable on employment income, the employer has a salary and wages tax withholding requirement.

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Immigration

5 Immigration

5.1 Work permit/visa requirements

A work permit and visa must be applied for before the individual enters PNG to work.

06

Other issues

6 Other issues

6.1 Double taxation treaties

PNG has entered into double tax treaties to prevent double taxation and allow cooperation between PNG and overseas tax authorities in enforcing their respective tax laws. There is relief in the double tax treaties by which residents of other countries/jurisdictions would not be subject to salary and wages tax in PNG under certain conditions.

6.2 Permanent establishment implications

There is the potential that a permanent establishment could be created for the employer as a result of extended business travel, but this would be dependent on the type of services performed and whether or not the home country/jurisdictions of the employee has a double tax treaty with PNG.

6.3 Indirect taxes

Goods and services tax (GST) is levied at 10 percent on taxable supplies of most goods and services. GST registration is required if annual turnover is in excess of PGK250,000.

6.4 Transfer pricing

A transfer pricing implication could arise to the extent that the employee is being paid by an entity in one jurisdiction but performing services for the benefit of the entity in another jurisdiction, in other words, a cross-border benefit is being provided. This would also be dependent on the nature and complexity of the services performed.

6.5 Local data privacy requirements

PNG currently does not have data privacy laws.

6.6 Exchange control

PNG has foreign exchange control laws that, among other measures, require approval from the exchange control authority for the opening and operation by residents of a bank account outside PNG, and the transfer or physical removal of cash in excess of PGK20,000 (or a foreign currency equivalent). A tax clearance certificate is required from the Internal Revenue Commission to repatriate amounts exceeding PGK1,500,000 in any calendar year. This can be obtained if the employee's tax affairs are up-to-date.

6.7 Non-deductible costs for assignees

A non-deductible cost to an employer in relation to assignees includes contributions by an employer to a non-PNG pension fund.

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