GUINN ACCOUNTANTS

PNG 2025 INCOME TAX ACT

WHAT YOU NEED TO KNOW: KEY UPDATES & IMPLICATIONS

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Introduction

Papua New Guinea (PNG) has enacted the Income Tax Act (ITA) 2025, representing the most significant overhaul of its tax legislation in over 60 years. Effective from 1 January 2026, the new Act replaces the 1959 legislation with a modernised framework designed to simplify compliance, align with international standards, and better reflect PNG's evolving economic landscape.

Key features of the new Act include:
- Simplification and consolidation of tax provisions, reducing the number of legislative sections from 369 to 165 and streamlining language by over 80%
- Introduction of Capital Gains Tax (CGT) for the first time in PNG
- Refined rules for employment income, including clearer treatment of non-cash benefits and salary packaging.
- Enhanced provisions for group taxation, employment income, international transactions and allowing loss transfers between resident group companies.
- Updated deadlines for tax return lodgement and payment, with transitional rules to support business continuity.

As the implementation date approaches, while supporting regulations are still pending, businesses and individuals are encouraged to seek professional advice to ensure readiness and compliance under the new regime.

Corporate Taxation

Simplified Rules for Depreciation

Fixed assets are grouped into five classes with prescribed straight-line and diminishing value rates.

Class	Asset Type	Straight Line	Diminishing method
1	Motor vehicles; buses and minibuses with a seating capacity of less than 30 passengers; goods vehicles with a load capacity of less than 7 tonnes; computers and data handling equipment; software; construction and earthmoving equipment	25%	40%
2	Plant and equipment; Buses with a seating capacity of 30 or more passengers; goods vehicles designed to carry or pull loads of 7 or more tonnes; specialised trucks; tractors; trailers and trailer-mounted containers; and plant and machinery used in manufacturing, mining, forestry, or farming operations	20%	30%
3	Vessels, barges, tugs, and similar water transportation equipment; aircraft; office furniture, fixtures, and equipment; and any depreciable asset not included in another Category (other than a business intangible)	12.5%	20%
4	Buildings & improvements	5%	NA
5	Business intangibles (e.g., patents, copyrights)	Refer below	NA

a) Preliminary expenditure - 25%
b) Business intangible with a useful life of more than 10 years, other than a business intangible referred to in paragraph (a) or (c) - 10%
c) For any other business intangible - 100% divided by the useful life of the intangible

Depreciation *continued......*

Businesses now have the option to pool assets in Classes 1 to 3, such as vehicles, equipment, and office furniture, into a single depreciation pool. This simplifies recordkeeping by allowing a uniform rate to be applied across the group using the diminishing value method. Pooling must be applied consistently and cannot be reversed or partially adopted.

For assets not pooled, the default method remains straight-line depreciation. In both cases, depreciation begins when the asset is first used or installed and ready for use. When assets are disposed of, pooled assets are adjusted against the pool balance, while individually tracked assets require a balancing adjustment to reflect any gain or loss.

Accelerated depreciation is generally no longer available, though manufacturing plant and machinery may qualify for a 20% initial allowance. In addition, assets costing K1,000 or less and solar-powered water heaters can be fully deducted in the year of acquisition.

Importantly, buildings under construction are not eligible for depreciation until officially certified complete.

These changes aim to reduce complexity and offer businesses greater flexibility in managing their fixed assets.

Charitable Donations

Tax deductions for charitable donations are now limited to contributions made to specific approved entities.

These include recognised charitable organisations, amateur sporting bodies, government emergency appeal funds, the Central Fund, registered political parties, and candidates for political office.

For non-cash donations, such as property, the asset must have been held for no more than 12 months prior to the donation.

The deductible value is determined as the lower of the asset's original cost or its fair market value at the time of donation.

While donations to the Central Fund are fully deductible without limit, all other donations combined are subject to a cap of 10% of the taxpayer's assessable income.

These rules aim to ensure transparency and consistency in how charitable contributions are treated for tax purposes.

Thin Capitalisation

The new ITA introduces a clearer and more robust thin capitalisation rules aimed at limiting excessive interest deductions by foreign-controlled resident companies. These rules are designed to prevent base erosion and profit shifting through excessive related-party debt.

A company is considered thinly capitalised when its financing is heavily weighted toward debt rather than equity, specifically, when its average debt-to-equity ratio exceeds 2:1. Under the new framework, if this threshold is breached, a portion of the company's interest expense may be disallowed for tax purposes.

The rule applies to non-financial institutions and includes all interest-bearing obligations, excluding short-term payables outstanding for less than 120 days. For resource companies, the ratio now explicitly applies to both domestic and foreign debt.

However, an exception exists where the debt is deemed commercially reasonable (arm's length), and the foreign lender is protected under a non-discrimination clause in a tax treaty with PNG.

Companies that are thinly capitalised should carefully review their financing arrangements to ensure compliance and avoid unexpected disallowances. Proactive assessment of debt levels and documentation of arm's length terms are essential under the new regime.

Non-Profit Bodies

The previous framework, built on Sections 24, 25, 25A, and 27 of the old ITA, provided foundational support for charitable and public-serving organisations.

The new legislation consolidates and modernises these provisions. It retains the core principles of supporting charitable and public-benefit entities but expands eligibility to include a broader range of organisations, such as those involved in trade unions and other prescribed purposes.

Importantly, the exemption framework now applies to both irrevocable trusts and companies, with tailored conditions for each legal structure.

Administrative processes have also been clarified. Entities must now formally apply for exemption, with defined procedures for approval, renewal, and revocation.

Non-Profit Bodies *continued...*

Income accumulation is permitted under certain conditions, and there is a stronger emphasis on compliance, including mandatory notification if an entity ceases to meet exemption criteria.

In summary, the new framework offers greater inclusivity, transparency, and accountability. Organisations previously exempt under Sections 24, 25, 25A, or 27 should review their governance and operational structures to ensure alignment with the updated requirements and prepare for reapplication where necessary. This transition presents an opportunity to strengthen the role of non-profit entities in PNG's development while benefiting from continued tax relief.

Intra-Group Asset Transfers

The ITA 2025 clarifies the treatment of asset transfers between group companies, making it easier for corporate groups to restructure and reallocate depreciable assets without triggering immediate tax consequences. To qualify, both entities must be resident companies with at least 95% common ownership, and the transferred assets must be used in the receiving company's business operations.

These provisions also extend to permanent establishments of foreign companies, provided the assets are located in PNG. This inclusion allows foreign entities operating through PNG branches to benefit from the same intra-group transfer rules.

Transferred assets retain their original tax written-down value and depreciation history. The receiving company continues depreciation based on the asset's original cost and accumulated depreciation, ensuring continuity and tax neutrality.

To prevent misuse, transfers must be genuine commercial transactions—not structured primarily for tax avoidance. Proper documentation and disclosure in tax filings are required, and the Internal Revenue Commission (IRC) may scrutinise arrangements that lack commercial substance.

Overall, these rules offer greater flexibility for corporate groups while reinforcing compliance and transparency in asset management.

Foreign Currency Exchange Gains and Losses

The ITA 2025 provides clearer guidance on how foreign exchange gains and losses are to be reported and taxed. All amounts must be reported in PNG Kina (PGK), with conversions from foreign currency based on the Bank of PNG exchange rate applicable on the date the amount is recognised for tax purposes. Use of average exchange rates for the year is permitted only with written approval from the Commissioner General.

For tax recognition, foreign exchange gains or losses must arise from business transactions that generate assessable income, be attributable to currency fluctuations, and relate to items on the revenue account—not the capital account.

Net foreign exchange gains are included in assessable income for both resident taxpayers and non-residents operating through a permanent establishment (PE) in PNG. The net gain is calculated by offsetting total realised gains against total realised losses, with non-residents only accounting for gains and losses tied to their PNG PE.

Tax Losses and Group Relief

The Income Tax Act 2025 clarifies and strengthens the rules around tax losses, offering businesses greater flexibility in managing their tax positions. Companies may carry forward tax losses for up to seven years if they maintain ownership continuity, or if ownership changes by 50% or more, they must continue the same business and avoid new ventures to retain this benefit. If unused within that period, the losses expire. To support compliance, any change in beneficial ownership exceeding 50% must be reported to the IRC within 15 days.

In a major reform, the Act introduces group relief for tax losses. Resident companies with at least 95% common ownership may transfer losses within the group, allowing more efficient use of tax attributes. Transfers are limited to the recipient company's taxable income for the year, and each entity remains separately assessed—tax consolidation is not permitted.

This change aligns PNG's tax framework with international standards and is especially beneficial for corporate groups with multiple entities. It enables better utilisation of losses while maintaining transparency and compliance under local tax laws.

Withholding Tax Rates

Category	Description	Rate
Business income payment	Payments for specified business services eg security, construction, transport by road of goods, motor vehicle repairs	10%
Foreign contractors withholding tax	Payment to non-resident providing prescribed services in PNG with no permanent establishment (PE)	15%*
Insurance premiums	Payment to non-resident for insurance premium	3%*
Dividends - standard	Paid to individuals, partnership, or trust or non-residents	15%
Entertainment	Payment to non-resident entertainer	10%*
Interest	Payment to residents and non-residents	15%*
International transportation tax	Payment to non-residents that carry passengers, livestock, mail, merchandise or goods that are embarked or loaded in PNG and destined for places outside PNG	2.4%*
Prescribed product payments	Payments for agriculture and similar prescribed products	5%
Resource royalties	Prescribed royalties to customary landowners for resource, timber or fishing	5%
Royalties – non resident	Paid to an associate	30%
	Paid to non-associate	10%*
Technical fees paid to non-resident w/o PE	Payments for administrative, management, technical, professional and consultancy services	15%*

****Payments made to non-residents are subject to the withholding tax rates specified under applicable Double Taxation Agreements (DTAs)***

Management Fees

The treatment of management fees has been simplified by consolidating them under a broader category known as “technical fees.” This category now includes payments for administrative, management, technical, professional, and consultancy services, offering clearer classification and consistency in tax reporting.

For payments made to non-residents without a PE in PNG, a 15% non-resident withholding tax applies to the gross amount—reduced from the previous rate of 17%. Where the non-resident operates through a PE in PNG, the payment is taxed under normal business income provisions, and withholding tax does not apply.

The Act also introduces the concept of “recharged technical fees,” which targets indirect service arrangements. If a non-resident associate initially pays for services and then passes the cost to a PNG entity, the associate is treated as the service provider, and the recharged amount is taxed as a technical fee.

Importantly, the previous 2% cap on the deductibility of management fees has been removed. However, all deductions must still meet transfer pricing requirements, meaning fees must be charged at arm’s length to be allowable.

Expanded Royalty Definition

The ITA 2025 broadens the definition of royalties to reflect modern business practices. Royalties now include payments for intellectual property rights, digital media and broadcasting, software and technology, know-how and technical knowledge, and ancillary services. Notably, equipment leasing—previously treated as lease payments—is now classified as a royalty when it involves the use of industrial, commercial, or scientific equipment.

Foreign Contractor Taxation

The Act introduces clearer rules around foreign contractor's withholding tax and PEs. Non-residents providing prescribed services without a PE in PNG are subject to a 15% withholding tax on gross revenue. In contrast, foreign contractors operating through a PE are taxed at 30% on net taxable profits and are not subject to withholding tax.

The definition of a PE has been expanded to include various forms of business presence:

- **Fixed Place of Business PE**: Includes offices, factories, warehouses, mine sites, etc.
- **Agency PE**: Where a dependent agent habitually exercises authority to conclude contracts.
- **Construction PE**: A building site, construction, or installation project (including supervisory activities), including connected activities performed by an associate, that continue for more than 90 days within a 12-month period.
- **Consulting Services PE**: Provision of services through employees or personnel for more than 183 days within a 12-month period.
- **Substantial Equipment PE**: Use of substantial machinery or equipment for more than 90 days in any 12-month period.
- **Treaty-Based PE**: Any presence or activity that qualifies as a PE under a tax treaty will also be treated as a PE under the new Act.

Foreign contractors with a PE must register for corporate tax, lodge annual income tax returns, and pay tax of 30% on profits attributable to the PE. Additionally, a 15% tax applies to repatriated profits, payable alongside tax return.

Tax Treaties and Legislative Exceptions

PNG's network of DTAs remains unchanged under the new legislation. In cases of conflict between a DTA and the ITA, treaty provisions generally take precedence. However, the new Act introduces two key exceptions: DTAs cannot override PNG's transfer pricing rules, and Part 8 of the Act—which governs tax returns, assessments, withholding, and collection—remains fully enforceable regardless of treaty terms.

Transfer Pricing Documentation

Businesses engaged in cross-border transactions face enhanced documentation requirements under a new three-tiered framework. This includes:

Local File	Master File	Country-by-Country Report
Detailing the PNG entity's intercompany transactions, functional analyses, and comparability studies.	Providing a high-level overview of the multinational group's global operations and transfer pricing policies.	CbCR is required for multinational groups with annual consolidated revenue exceeding PGK 2.1 billion, disclosing key financial and tax data by jurisdiction.

Capital Gains Tax

The introduction of a CGT regime under the new ITA, effective from 1 January 2026 marks a significant development in PNG's tax landscape, specifically for those holding or transacting in resource-related assets.

Scope	CGT applies at a flat rate of 15% on gains from the disposal of certain "taxable assets," including resource rights, related information, and interests in entities deriving value from such assets.
Cost Base Election	For assets acquired before 1 January 2026, taxpayers may elect to use either the historical cost or the market value as at 01/01/2026.
No indexation	There is no inflation adjustment, which may result in taxation on nominal gains.
Reporting	CGT is transaction-based and must be reported separately from the annual income tax return. The seller is responsible for lodging the CGT return, which aligns with stamp duty procedures, and payment is due by the 21st of the following month or by the due date for stamping.
Indirect Transfer	A change in beneficial ownership of 10% or more in a licensee of a resource right will trigger CGT obligations, with the licensee acting as agent for compliance.

Monthly Withholding Tax Obligations

A withholding agent, typically an employer, financial institution, or business making payments, is responsible for deducting tax from certain payments (e.g. salaries, interest, fees) and must:

- Issue a Withholding Tax Certificate to the recipient of the payment.
- Ensure the certificate is in the approved format.
- Clearly state:
  - The gross amount paid.
  - The amount of tax withheld.

This certificate must be provided on or before the due date for remitting the withheld tax to the IRC.

Annual Tax Filing Deadline

- Corporate tax returns prepared by registered tax agents – due within 9 months following the end of the tax year.
- Corporate Taxpayers Not Using Registered Tax Agents - due within 6 months after the tax year-end.
- Other Taxpayers (Individuals, Partnerships, Trusts) - must be submitted within 3 months after the close of the tax year.
- Non-Residents Operating Through a PE in PNG have an additional reporting obligation. Their tax return must include details of repatriated profits for the year to ensure that income attributable to PNG is appropriately taxed.

Employment Taxation

The ITA 2025 introduces clearer and more structured provisions for employment-related taxation, expands the definition of employment income, and introduces a structured approach to valuing non-cash benefits.

Salary Sacrifice Packaging

One notable change is the formal inclusion of the salary sacrifice cap: previously governed by regulation, the 40% limit on salary packaging is now embedded in the Act. Employers must ensure that all arrangements comply with a formal salary packaging policy and obtain prior written approval from the Commissioner General. Any implementation, modification, or termination of such arrangements must be reported to the IRC within 14 days.

Motor Vehicle Benefit

The valuation of motor vehicle benefits has also been updated. The taxable value is now 10% of the vehicle's cost or lease value—including private-use running and maintenance costs—spread over 26 fortnights. This amount can be reduced by employee contributions and business usage. For vehicles over 10 years old, the value is reduced to two-thirds.

Employee Share Schemes

Taxation is deferred until the employee receives an actual economic benefit—typically when shares are acquired. At that point, the market value minus any amount paid is included in employment income.

Other Benefit Rules

Other exemptions remain conditional. Medical insurance is tax-exempt only if offered equally to all non-casual employees. Meals and refreshments are exempt when provided on the employer's premises, operated exclusively for employees, and accessible to all non-casual staff.

Additional benefit rules include:
- Discounted interest: taxable at the difference between market and actual rates.
- Discounted goods/services: valued at 75% of the normal selling price.
- Debt waivers: fully taxable at the value forgiven.

Employment Income Exemption

The Act also clarifies exemptions for foreign employment income. PNG residents are exempt if the income is taxed in the country of employment.

Non-resident employees may qualify for exemption if:
- Present in PNG for no more than 90 days in a calendar year
- The income is taxed abroad
- The payment is made by a non-resident entity not operating through a PNG permanent establishment.

Annual Compliance Due Date

Employers must now submit their annual withholding tax statement by 31 March, extending the previous deadline of 14 February.

It is important to note that the implementation of these provisions is subject to detailed regulations and administrative guidance from the IRC, which have not yet been finalised. Employers should monitor updates and are encouraged to seek professional advice to ensure compliance once regulations are issued.

Contact us

Phone
+675 321 0110

Email
info@guinn.com.pg

Website
www.guinn.com.pg

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