

## DIERCT TAXES

### ***Tax Incentives***

PNG offers a number of attractive tax incentives which new and existing investors may wish to take advantage of.

### **Accelerated Depreciation**

New industrial plant is eligible for increased depreciation up to 100% of cost. The taxpayer may elect the amount to be claimed in any year, but not so as to create a loss.

To qualify, the plant must have a life exceeding five years, and can be used by the taxpayer or any other person.

Expenditure on plant, or buildings for storing raw materials for finished products, also qualifies.

In the case of accelerated depreciation for agriculture and fisheries, expenditure on new plant or article used in agricultural production or commercial fishing activities can be written off 100% in the first year.

Ships to be used solely as dive boats or for scuba diving/snorkelling tour operations also qualify for a 100% in the first year.

### **Initial Year Accelerated Depreciation**

Initial year accelerated depreciation allows the capital cost of certain new assets to be written down at a faster rate than would otherwise be possible.

Type of Plant	Rate in addition to normal depreciation
New Plant (other than resident property with a cost exceeding K100,000) with a life exceeding five years used in Papua New Guinea in manufacturing, construction, transport, storage, communication or agriculture production.	20%
Modification of plant for the purpose of conserving fuel input.	20%
Expenditure on converting oil-fired plant to non oil-fired plant.	30%
Expenditure on acquiring new non oil-fired plant.	30%

New oil fired, plant is excluded from the accelerated depreciation provisions, except for new ships and aircraft.

### **Export Sales Exemption**

This incentive allows 100% of the net income derived from export sales of a wide variety of goods for three years to be treated as exempt income. (The list is specified in the Income Tax Act.) Between year's four and seven, any export income that is in excess of the average of the prior years can be treated as exempt.

### **Double Deduction for Export Market Development Costs**

The Scheme applies to expenditure on export market development for goods manufactured in Papua New Guinea. These expenditures qualify for double deduction, provided the tax saving is less than 75% of the cost of the expenditure:

ie. the Government is in effect subsidising up to 75% of the cost of this form of expenditure.

The types of expenditure which qualify, include overseas publicity and advertising, market research, tender preparation, samples, trade fair expense, overseas sales and office expenses.

### **Rural Development Incentive**

This scheme was designed to allow income tax exemption on the net income of new businesses set up in specifically designated under developed areas that are not dependent on the exploitation of nature resources.

It provides for exemption to businesses in a rural development industry for up to 10 years after the first year of commencement of business.

Losses arising from the newly exempt activities are deductible against taxable income from other activities.

### **East New Britain and Bougainville Restoration Tax Holidays**

Certain income derived from businesses based in East New Britain and Bougainville Provinces are exempt from income tax.

The period of exemption is from 21 April 1993 to 31 December 2000 for East New Britain. The period of incentive for Bougainville was extended in the 1999 budget to 2003.

The exemption does not apply to salary or wage tax, dividend (withholding tax) foreign contractors' tax, non-resident insurers tax, overseas shipping tax, management fee withholding tax and prescribed royalty payments.

### **Double Deduction for Staff Training Costs**

Employers can claim a double deduction for the salary and wages paid to registered apprentices and employees attending full time professional training courses at a Government training institute or a prescribed place of tertiary education.