

09th February 2021

CIRCULAR No. 04/2021

Dear Member,

MANAGEMENT FEE WITHHOLDING TAX REVOKED

We inform that the Management Fee Withholding Tax that the IRC recently announced and to be effective from February 2021 has today been revoked and replaced with the attached Tax Public Notice. Also attached is a copy of the previous Notice released by Internal Revenue Commission (IRC) for your information.

Yours sincerely



Florence L. Willie
Executive Director



Internal Revenue Commission

REVOCATION AND REPLACEMENT OF IRC TAX PUBLIC NOTICE STATED TO BE EFFECTIVE ON 1ST FEBRUARY 2021

RE: ADMINISTRATION OF MANAGEMENT FEE WITHHOLDING TAX WHERE PAPUA NEW GUINEA (PNG) HAS A DOUBLE TAX AGREEMENT (DTA)

The Tax Public Notice titled “ADMINISTRATION OF MANAGEMENT FEE WITHHOLDING TAX WHERE PAPUA NEW GUINEA (PNG) HAS A DOUBLE TAX AGREEMENT (DTA)” stated to be effective on 1st February 2021 is hereby revoked in its entirety and replaced with effect from 1st February 2021 by this Tax Public Notice which confirms whether management fee withholding tax applies in respect of countries with which PNG has DTAs, and if so, the correct rates.

The table below shows the correct tax rate to be applied as per the DTAs

Name of the Country, where the recipient is Resident	Whether Management fee Withholding tax be deducted	If yes, at what rate it is to be deducted
Non-Treaty		
Non-Resident	Yes	17%
Treaty		
Canada	NO	-
Australia	NO	-
Singapore	NO	-
New Zealand	NO	-
China	NO	-
Germany	NO	-
South Korea	NO	-
UK	YES	10%
Malaysia	YES	10%
Indonesia	YES	10%
Fiji	YES	15%

Dated this day of February 2021.

Authorized by

Sam Koim, OBE
Commissioner General

Tax Public Notice



ADMINISTRATION OF MANAGEMENT FEE WITHHOLDING TAX WHERE PAPUA NEW GUINEA (PNG) HAS A DOUBLE TAX AGREEMENT (DTA)

Management Fee Withholding Tax (MFWT) is imposed on non-resident entities who receive payments made either by a resident of PNG or by non-resident companies with a permanent establishment in PNG for tax purposes, of taxable management fees.

“Taxable management fee” means that part of a management fee that is an allowable deduction after the application of Section 68AD or Section 155M of the Income Tax Act 1959 (as amended) (ITA), as the case may be.

Where a DTA with PNG contains specific provisions which provide for management fees or technical fees, IRC will automatically apply the limits imposed by sections 68AD and 155M of the ITA, as the case may be, and allow the excess only after the transaction is proven to be at arm’s length by the taxpayer, consistent with the Associated Enterprises articles in the treaty.

The arm’s length principle is provided for in most of PNG’s DTAs, under either the Business Profits or Associated Enterprises articles. Where that is the case, the excess amount of management fees will not necessarily be limited under section 68AD and 155M. MFWT will only apply to the amount allowable as a deduction. However, it will be up to the taxpayer, who claims the application of a treaty to prove to the satisfaction of the Commissioner General in each case that the amounts claimed do legitimately reflect an arm’s length amount.

Any management fees paid by a resident to a non-resident for management services performed outside PNG is subject to MFWT at the rate of 17% of the gross taxable management fees. This rate is reduced if the non-resident is a resident of a country with which PNG has a DTA.

We have realized that a number of PNG’s DTAs have been misinterpreted by exempting the application of MFWT chargeable on management fees paid to certain jurisdictions.

We have now reviewed this position to have the correct tax rate applied on management fees paid to residents of certain jurisdictions where PNG has a DTA with. This notice supersedes any previous advice etc. issued by the IRC on this subject.

The table below shows the correct tax rate to be applied as per the treaties

Name of the Country, where the recipient is Resident	Whether Management fee Withholding tax be deducted	If yes, at what rate it is to be deducted
Non-Treaty		
Non-Resident	Yes	17%
Treaty		
Canada	YES	17%
Australia	YES	17%
Singapore	YES	17%
New Zealand	YES	17%
China	NO	-
Germany	NO	-
South Korea	NO	-
UK	YES	10%
Malaysia	YES	10%
Indonesia	YES	10%
Fiji	YES	15%

Effective 01 February 2021, all management fees paid to non-residents will be taxed at the applicable withholding tax rates as shown in table above.

Authorized by

Sam Koim, OBE
Commissioner Genral