

EXPLANATORY MEMORANDUM

OIL & GAS (2018 BUDGET)(AMENDMENT) BILL 2017

The bill proposes an amendment to change the taxation treatment of royalty for being a tax offset to an allowable deduction in the oil and gas sector.

Royalty is a levy prescribed under the Oil & Gas Act and Mining Act paid to the state on behalf of the affected landowners. Royalties in the Oil and Gas is applied at 2 per cent of wellhead value of all petroleum produced from a license area. In addition, a 2 percent 2 per cent development levy is charged under the Oil and Gas Act and is calculated on the same basis as the royalty. The development levy is paid by the oil and gas companies to the local level and provincial government.

Section 161 of the ITA prescribes the taxation treatment of royalty and development levy in relation to Oil and Gas Act, where royalty is treated as a tax paid in advance and therefore a tax-offset while the development levy is treated as a deduction for purposes of calculating corporate income tax.



INDEPENDENT STATE OF PAPUA NEW GUINEA

No: of 2017.

Oil & Gas (2018 Budget)(Amendment) Bill 2017

ARRANGEMENT OF CLAUSES

Royalty (Amendment of Section 159).



INDEPENDENT STATE OF PAPUA NEW GUINEA

A BILL

for

AN ACT

entitled

Oil and Gas (2018 Budget) (Amendment) Act 2017,

Being an Act to amend the *Oil and Gas Act 1998*,

MADE by the National Parliament and deemed to come into operation on 1 January 2018.

ROYALTY (AMENDMENT OF SECTION 159).

Section 159 of the Principal Act is amended by repealing and replacing Subsection (4) as follows:-

- “(4) Notwithstanding the provisions of the Income Tax Act 1959, where, in a financial year, in relation to the same licence area, a person has paid—
- (a) royalty under this section; and
 - (b) development levy under Section 160,

the royalty paid by that person under this section shall be an allowable deduction from its assessable income from petroleum operations derived from the petroleum project to which the royalty relates.”.