FOUR WAYS LOGGING COMPANIES DEFRAUD PNG

Most logging companies operating in Papua New Guinea are guilty of entrenched tax evasion, egregious transfer pricing, and deceptive behaviour, says the Internal Revenue Commission.[1] The IRC is currently auditing 20 logging companies and expects to lay criminal charges. The losses to PNG amount to hundreds of millions of Kina and continue to grow.

#1. TRANSFER PRICING

Logging companies falsely under-declare the value of the logs they export. Rather than selling direct to an overseas buyer, the logging company sells the logs to a related company, often registered in an offshore tax haven, for an artificially low price. That company then on-sells the logs to the real buyer for a much higher price. The logging company avoids paying export taxes and royalties in PNG on the price difference and artificially lowers its income to avoid corporate taxes too.

#2. CORPORATE TAXES

Logging companies claim they rarely ever make any profits and therefore avoid paying any corporate taxes.[2] They falsely under-declare their incomes and exaggerate their costs, by trading with sister companies with the same ownership. It is illogical for a business to keep making a loss year after year, but the logging companies keep operating, some for decades.

#3. PAYROLL TAXES

Despite claiming to employ thousands of workers, logging companies pay very little payroll tax. The IRC says the amount of group salary and wages tax paid by the logging industry is "very minuscule" compared to the labour-intensive nature of their operations and the export income they earn.

#4. GOODS & SERVICES TAX (GST)

While they happily evade paying other taxes, logging companies use their exporter status to claim large GST refunds. As the export of logs is zero-rated, the companies can claim a refund from the IRC for all the GST they pay on their inputs. This means PNG is actually paying the logging companies rather than collecting tax revenue from them.

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[1] https://actnowpng.org/blog/blog-entry-irc-adds-more-financial-crimes-logging-companies%E2%80%99-charge-sheet
[2] https://www.oaklandinstitute.org/great-timber-heist-continued-papua-new-guinea