



Papua New Guinea  
Tax Alert

Alert #1



## In this Alert, we bring to you updates on the following:

- Salary Packaging – IRC information guide
- Reforms to boost economic growth
- Businesses urged to reform tax regimes to support economic growth IRC Updates
- IRC Updates
- Reminders: Tax & Statutory Compliance

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## IRC information guide on salary packaging

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IRC recently released another guide highlighting the Do's and Don'ts of salary packaging. The intention of the article was to address the general queries concerning salary packaging. Based on this guide the items that can be packaged are:

- Leave Fares
- School Fees
- Housing
  - Housing Allowance Variation (HAV)
  - Rent

The guide reconfirms the limit of only 40% that can be packaged. Where an employee receives a housing allowance, this should be fully taxed unless a HAV approval has been sought from IRC.

The guide states that only citizen employees can salary package for school fees. This is a new statement by the IRC, and one which requires clarification given the Income Tax Act does not make this restriction. Further, in order for employees to salary package for school fees the IRC state:

- The school must be accredited Government registered Education Institute in both PNG and overseas.
- The school fees must be paid directly to the school and the receipt must be in the name of the employer. The latter requirement on receipts can be difficult to obtain in practice, and it unclear why evidence of the employee having paid directly through bank records is not enough
- The employment contract / Employer Policy Document must show that packaging school fees is allowed.

In reference to HAV, citizen employees are eligible to use this to meet their mortgage or rental expenses while the IRC's guide states non-citizen employees can only use this to meet their rental expenses. There are a number of other requirements listed by the IRC, including that an employee who uses the HAV for rental purposes must not be related in any way to the landlord.

With regard to rental the IRC state that citizen employees who do not receive housing allowance may salary package for the rental within the 40% limit. Again, a number of other requirements have been listed in the guide. It is not clear why the guide refers to only citizen employees, given non-citizen employees may also not have a housing allowance and this citizen / non-citizen distinction is not made in the Income Tax Act.

The IRC guide also states the following items cannot be packaged as tax concessions.

- Novated Lease/Financing Lease
- Superannuation
- Repair and Maintenance
- Joint-home owners (e.g. husband and wife)
- Subsidy/Suspensory Loan

The IRC guide states that employers must develop an employer Policy Document on salary packaging policy which must be endorsed by the employer and submitted to IRC for approval. This IRC approval requirement is likely to lead to bottlenecks at the IRC with long delays in obtaining approvals. We question why the IRC would seek to implement this as policy.

The IRC guide raises a number questions and we recommend employers become familiar with the IRC requirements and seek advice where uncertain on application of policy and law.



## Reforms to boost economic growth

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- The Office of the Prime Minister has released a media statement announcing a new tax reform strategy to boost investment, increase consumer spending, and support local industry growth. These reforms will look to be implemented once Papua New Guinea's economy reaches K150 billion, expected in the next three to four years.
- The key tax initiatives being considered include lowering corporate tax to encourage business growth and attract more investment, reducing personal income tax to increase disposable income and boost domestic consumption, and implementing stricter capital outflow regulations to ensure funds remain invested locally. These changes are said to be aimed at creating a business-friendly environment, helping businesses thrive and maintain investment in Papua New Guinea, supporting employment, infrastructure, and industry growth.
- We have been informed by the Department of Treasury that such reforms are good incentives in driving PNG's economic growth, however, it does require detailed analysis to understand the implications in order to formulate appropriate policy changes.
- To further strengthen the economy, the Prime Minister stated the government is focusing on Special Economic Zones (SEZs), such as a tax-free business hub in Manus Province, designed to attract trade, investment, and industrial development. The vision is to make Manus a strategic trade hub, opening new economic opportunities and fostering partnerships with businesses expanding in the Asia-Pacific region.
- Prime Minister Marape urged leading business organizations to collaborate with the government to identify growth opportunities and shape investor-friendly policies. He emphasized import replacement and local manufacturing as priorities, encouraging firms to invest in local production to reduce dependence on imports.
- Finally, the Prime Minister stated the government is committed to reducing bureaucratic barriers to make investment easier and more efficient, encouraging both foreign and domestic businesses to scale their operations in PNG, and developing an industrial and manufacturing base to create jobs and reduce reliance on imports.



## Businesses urged to reform tax regimes to support economic growth

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Prime Minister James Marape, at the Back to Business Breakfast in Port Moresby, has highlighted the need for a tax reform aimed at creating a fair, business-friendly system that fosters economic growth and ensures government sustainability. Addressing the Back to Business Breakfast, he emphasized several key points:

- 1. Regulatory Efficiency:** The Prime Minister underscored the importance of refining regulatory frameworks to streamline processes, reduce bureaucratic red tape, and make compliance simpler for businesses, stating this is critical for fostering a conducive environment for investment.
- 2. Improved Tax Administration:** Enhancing the efficiency of tax collection mechanisms is a priority. By improving tax administration, the government aims to boost revenue without increasing the tax burden on compliant businesses.
- 3. Business Community Input:** Marape called for active participation from the business community to provide insights on how key government institutions can better support business vitality. This collaborative approach seeks to ensure that reforms are practical and beneficial for all stakeholders.
- 4. Corporate Tax Structures Review:** The government is scrutinizing current corporate tax structures, customs, and import duties. They are also evaluating tax incentives for SMEs and priority industries to encourage growth and competitiveness.

Marape reaffirmed the government's commitment to maintaining an open dialogue with business leaders. As Papua New Guinea approaches its 50th independence anniversary, there is a strong focus on creating a transparent, efficient tax system that supports sustainable development and economic prosperity.



## IRC updates

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### IRC system outage

IRC System continues to be out, and they are still encouraging businesses to lodge all tax returns with proof of any tax payment applicable at the ground floor of the IRC Office, Revenue Haus and with the Large Taxpayers Office counters. Taxpayers in outer provinces can lodge the tax returns and pay at the nearest tax centre or office for the respective province.

### 2025 Budget tax changes

We have been advised by Treasury the gazette notice on the Tax Clearance Certificate increase in threshold has been finalised and will be circulated.

### The new income tax act

The Department of Treasury has reaffirmed that the new Income Tax Act is to be tabled in the March 2025 Parliament sitting.

### Reappointment of sam koim as commissioner general for a second term

The Prime Minister has announced during the Back to Business Breakfast the re-appointment of Sam Koim as the Commissioner General for the Internal Revenue Commission.



## Reminders: Tax & Statutory Compliance

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- Salary and Wages Annual Reconciliation – 14th February 2025
- January 2025 Goods & Services (GST) return is due on 21st February 2025

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