



## Papua New Guinea Tax Alert 4

IRC Tax Ruling on Motor Vehicle Benefit

**We attach the updated IRC tax ruling on motor vehicle benefits, which clarifies the IRC's position on the taxation of the benefit for both employers and employees. The ruling notes it is not legally binding, though also states that taxpayers who act in good faith and adhere to its recommendations will not have to pay penalties. Some key updates as follows:**

- The ruling addresses the definition of a motor vehicle, carefully distinguishing standard vehicles from office buses. Notably, office buses are excluded from the motor vehicle benefit provisions. However, it is essential to recognize that the use of office buses may still be subject to taxation under alternative categories, such as residual benefits. This highlights the need for employers to undertake a thorough review of how different vehicle types are utilized within their organizations to ensure all potential tax implications are considered. The Ruling does state pick-up and drop off services fall outside the scope of a motor-vehicle benefits and will have similar consequences to that under the former Income Tax Act 1959, though that treatment is not clarified and is noted as beyond the scope of this ruling.
- The cost of a motor vehicle is clarified to be the GST inclusive amount if the employer cannot recover the GST in their GST returns (e.g. were treated as an exempt supply to an employee). Where the vehicle is purchase from an associate the fair market value should be used as the cost of the vehicle.
- A potentially significant clarification relates to when a vehicle is taken home over a weekend, but the employee is on call. For instance, if an employee takes a vehicle home on a Friday in order to fulfil work responsibilities over the weekend, travel between home and work during that period is not classified as private use (as referenced in point 56 of the ruling). A logbook must still be kept to determine business verse private use over the weekend. This example serves as a useful reminder of the need for organizations to implement clear and accurate tracking and reporting mechanisms on vehicle use and employee obligations. Any prohibitions on private use that are not enforced will not be effective in determine the motor vehicle benefit values.
- Additionally, the ruling specifies a transitional period for implementation ending 31 March 2026. Where logbooks are commenced but the 12-week logbook period is not completed, the proportion of private use will be the amount in the incomplete logbook, up to the day before the employee is paid.
- A central theme throughout the ruling is the emphasis on compliance, particularly the maintenance of detailed logbooks to record vehicle usage as well enforcement of no private use policies.
- A sample logbook will be released with the final version of the ruling (date not confirmed). Given the transition period ending on 31 March 2026, the IRC implicitly expects that employers will enforce the new requirements immediately.

In summary, the ruling advocates a proactive and diligent approach for employers, including understanding when motor vehicle benefits arise, maintaining comprehensive logbooks, adopting clear and enforced policies on private use, and an end to the transitional period for adoption.

If you have any queries regarding the above please feel free to reach out to us.



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