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Papua New Guinea

Tax Alert 5

IRC guidance, clarifications, and taxpayer implications

Update: Extension of transitional period and IRC "good faith" compliance position

Based on the IRC publication dated 2 April 2026, the transitional period for the implementation of the Income Tax Act 2025 (ITA 2025) and the Tax Administration Act 2017 has been formally extended to 30 June 2026.

In that publication, the IRC has stated that:

- taxpayers are expected to act in good faith; and
- taxpayers should make every reasonable effort to comply with the new legislation during the transitional period; and
- where taxpayers are genuinely attempting to comply, they will not be unfairly penalised.

This Tax Alert further summarises guidance and clarification provided by the IRC in response to taxpayer queries and highlights the potential implications for taxpayers. The key points are outlined below.

Employee Benefit:

Medical Insurance:

The Income Tax Act 2025 (ITA 2025) provides that payments made by an employer on behalf of, or reimbursements to, an employee in respect of medical insurance are exempt from tax, provided the benefit is made available to all non--casual employees on equal terms.

The IRC has now responded to a request for clarification stating that "equal terms" refers to non--discriminatory access within each employment category. Accordingly, employers may offer different levels of medical insurance coverage across distinct employee tiers (for example, executives, managers, and general staff), provided that all employees within a particular tier are entitled to the same level of benefit. Casual employees may be excluded.

The medical insurance benefit must be available to full--time, part--time, and fixed--term employees within each applicable tier. The IRC noted that the underlying policy intent is to prevent the selective or preferential provision of benefits to specific individuals.

Discounted Interest Loan Benefit:

Staff loans provided at interest rates below the prevailing market lending rate are treated as a taxable benefit to the extent that the interest charged is less than the market lending rate.

The IRC has again responded to a request for clarification stating that the taxable value of the benefit is the difference between the actual interest charged and the applicable market lending rate. This calculation is performed for each pay period during which the loan remains outstanding. As salary and wages tax is assessed on a fortnightly basis, the taxable value of a concessional interest loan is likewise assessed on a fortnightly basis.

The IRC has further advised that temporary salary advances that are repaid within a few fortnights and provided without interest are not regarded as loans where they are short--term and non--recurring in nature. In addition, where an advance is treated as a loan, it may qualify as an exempt benefit under the exclusion for low value and infrequent benefits. The IRC has, however, not specified what few fortnights would mean (e.g. is there a hard three or four fortnight repayment period required). Further, the prescribed value for low value benefit exemption stated above is PGK 250.

The IRC has also noted that employers are required to maintain appropriate documentation supporting the benchmark market lending rate applied. For these purposes, the "market lending rate" for a fortnight is defined in clause 4(4) of Schedule 2 as the finalised average commercial bank lending rate published by the Bank of Papua New Guinea (BPNG) for the most recent month preceding the relevant fortnight. This rate is published in Table 6.1 of the BPNG's Quarterly Economic Summary

Private and Domestic Expenses:

The IRC has advised that the cost of an employee benefit should not be both non-deductible to the employer and taxable to the employee as that results in double taxation of the benefit and that only business-related or professional body memberships are allowable and non-taxable.

The IRC noted the non-deductibility of domestic or private expenditure applies only to expenditure that is private or domestic in nature from the perspective of the payer of the expenditure. In the case of an employer, this applies to expenditure that relates to the employer's own personal or domestic (household) circumstances.

A benefit provided by an employer to an employee as part of their remuneration package would ordinarily be deductible to the employer as an ordinary business expense (cost of employing the employee). It would be non-deductible if there is a specific non-deductible rule applicable to the particular benefit.

The employee is taxed on the value of a private expenditure benefit under Schedule 2, Clause 7 of the ITA2025. This means that the value of the benefit is taxed at the employee's marginal rate in the same way as cash salary and wages.

The IRC said it may issue further guidance categorising private, mixed, and business--related benefits.

Motor Vehicle Benefit

As discussed in a prior tax alert, the value of a motor vehicle benefit subject to tax may be reduced to the extent that the vehicle is used for business purposes. At the time our previous alert was released, the IRC had not yet issued a logbook template. This template has now been released.

Attached is the IRC's sample logbook, together with their step--by--step guide outlining the records that must be maintained to ensure that the business--use portion of the motor vehicle benefit is not taxed in the hands of the employee.

Transitional rules for salary packaging arrangements

The IRC has issued a guidance note on salary packaging arrangements. Under the repealed ITA1959, salary packaging arrangements were administrated by IRC practice and internal guidance, including the long--standing 40/60 rule.

Somewhat confusingly, the IRC has stated in the guidance note that salary packaging policies had to be approved by the Commissioner General, as an administrative practice, under the ITA1959. The guidance note then states that approved salary packaging arrangements, based on the ITA1959, may continue to apply under the ITA2025 unless there are significant changes to the arrangements, in which case new approval under the ITA2025 must be made. Where the salary packaging policy does not comply with the ITA2025 requirements, new approval must be submitted before 1 January 2027.

What the transitional arrangements are for the majority of employers who did not have a salary packaging policy previously approved by the IRC under the ITA1959 is not clarified in the guidance note. The guidance note does state that if an employer provides salary packaged benefits without an approved salary packaging policy, the employer may be responsible for the under deducted SWT.

While noting the IRC's position in the guidance note, the legislative requirement for IRC approval of a salary packaging policy was introduced under the ITA 2025, together with supporting (draft) Regulations. Unfortunately, taxpayers attempting to lodge salary packaging policies for pre-approval in the lead up to 1 January 2026 were advised by the IRC that such applications would not be accepted and processed until the ITA2025 was in force. Taxpayers seeking to lodge policies for approval since 1 January 2026 have also been told approval is on hold until the ITA2025 Regulations are finalised. We have been advised by the IRC that salary packaging policies may now be accepted by the IRC for review, but that these policies may need to be refreshed and resubmitted depending on the requirements of the ITA2025 Regulations one finalised.

In the absence of the IRC fully addressing the transitional rules for employers without a salary packaging policy approved before the introduction of the ITA2025, taxpayers are left to rely on the IRC's general transitional period guidance and act in good faith to comply with the ITA2025. This includes preparation of a compliant salary packaging policy under the ITA2025 requirements for IRC approval.

Withholding Tax

Business Income Payments Withholding Tax

The IRC has clarified that the existing Certificates of Compliance (COC's) will continue to apply during the transition period. Regulation 42 provides for a one-year transition period applicable on election by the taxpayer.

Further, the IRC has stated ITA2025 transitional rules allow existing CoC's issued under the ITA1959 to remain valid until their expiry. Renewals will be issued under the ITA2025.

Foreign Contractor Withholding tax (FCWT) – Transitional Rules

The IRC has advised that prescribed contracts that began before 1 January 2026 remain under FCWT rules until completion and invoices issued before that date but paid after will still fall under the old regime. However, new contracts commencing in 2026 will be under the ITA2025. While not specified by the IRC, our understanding for now is this is for long-term construction and engineering contracts and finance leases only, given these contracts have specific transitional rules. The final Regulations, once released, may provide further clarity on this point.

The IRC has stated that entities with substituted accounting periods apply FCWT to 31 December 2025 only, though it was not clarified what happens in the interim period until their first year commences under the ITA2025.

Royalty vs Technical Fees

Where there is uncertainty regarding the applicable withholding tax treatment, the tax character of a payment is determined by its dominant character.

Payments made for the use of intellectual property, know--how, software, or equipment are treated as royalties. In contrast, payments for the provision of technical or consultancy services are classified as technical fees. However, where services provided are ancillary or incidental to the use or benefit of a royalty, such services are also treated as a royalty. In this case the IRC has clarified that ancillary services that fall within the meaning of a royalty, do not fall within the definition of a technical fee (the two are mutually exclusive).

Repatriated Profits

Repatriated profits are subject to tax on an annual basis through the corporate income tax (CIT) return. The IRC has clarified that notwithstanding this a Tax Clearance Certificate (TCC) must be obtained prior to the remittance of profits offshore and that the IRC may issue conditional TCCs based on provisional assessments, pending the final lodgement and assessment of the relevant CIT return.

Capital Gains Tax

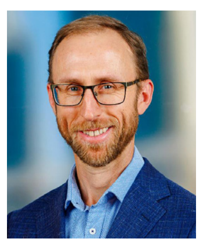
Non-Resident Minority Shareholders

The indirect transfer of a resource right of 10% or more in beneficial ownership of the membership interests in a licensee gives rise to obligations on the licensee to notify the IRC and act as an agent for paying capital gains tax (CGT) that may become due. The IRC has clarified that a change in beneficial owner(s) of less than 10% membership interest will still attract CGT where a gain is made and CGT will be applied where circumstances allow. We note further clarification on compliance with CGT is required in such cases.

If you have any questions, please reach out to the leadership contacts below.

For more details please contact your key Deloitte contacts or any of the following:

Leadership contacts



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