



June 2020

IRC personnel changes

The IRC has recently announced a series of changes to the senior staffing of the commission. The Commissioner General Mr Sam Koim has indicated that the personnel changes are part of plans to align the senior management of the IRC to the priorities that have been identified for the organisation. He has identified these priorities as tax reform aligned with the actions of the Treasury, continued requirements for improved internal governance and performance of the organisation, and progressing the annual plan to follow through on compliance initiatives.

The result is the appointment of Mr Sam Loi to Acting Commissioner of Tax for three months, the return of Ms Pauline Bre to Commissioner for Services (to head the internal governance and reorganisation priorities) and Mr Elijah Titus to Assistant Commissioner for Legal (to work with Treasury on tax reform). Mr Loi has been the driving force behind the establishment of the Large Taxpayer Office and had headed this section of the IRC before this appointment. He previously led the audit section.

Mr Loi indicated that from the annual plan, he will be particularly focussed on addressing timely filing, payment and processing, following through with the recently announced initiatives on GST withholding, and to commence a targeted compliance program based on data from a range of government agencies.

Income Tax Rewrite in Focus: Taxation of Employees

In a further commentary update to our [February 2020 Special Edition Pulse](#), an area in which the proposed rewritten *Income Tax Act* (the **Proposed Act**) appears to anticipate policy shifts, rather than a mere simplification of the Act is in the area of the taxation of employees.

We note that the rewritten Act does have a proposed commencement date of 1 January 2021, and although a number of submissions have been lodged with Treasury, the potential for further consultation, the release of detailed policy papers and costings of the potential impact on PNG's revenue collection remains uncertain.

Given the lack of published regulations, and the unfinished drafting of the schedules to the rewritten act, it remains difficult to identify precise changes and evaluate the impact on employers and employees. However, there are a number of features in the rewritten act that, were it to be brought into force, would need to be addressed by employers and will require updates of employment arrangements as well as accounting and payroll systems. Again, as with many aspects of the new act, the lack of meaningful transitional provisions would also likely lead to challenges upon implementation.

A number of the issues identified as requiring consideration include:

- Currently the SWT system is fundamentally based on a fortnightly calculation of the tax applicable based on the tax tables that are contained in the schedules to the Income Tax (Salary of Wages Tax) (Rates) Act. This act is proposed to be repealed by the new law. The tables have yet to be replicated in the new law - although the annual tax rates applicable to income derived by resident individuals (i.e. graduated rates from 0%-42%) are unchanged.
- The dependent rebate available under the current act, which reduces the income tax applied to employees who support dependents, has not been replicated in the new act. Therefore, it would appear to increase the level of SWT applied to many employees.
- The new act provides specific guidance as to the derivation of taxable income associated with employee share schemes, which has not previously been provided. Effectively the fair value of the shares allotted is included in employment income, reduced by any employee contribution.
- The concept of termination payments from employers being treated in the same manner as payments from a superannuation fund (introduced from 1 January 2018) has not been replicated in the rewritten act. This amendment was introduced to allow the payment of unused long service leave on termination to be concessional tax as it represented a significant element of savings for retirement for many.
- The concept of personal income tax benefits associated with an approved employee home ownership scheme has not been replicated under the rewritten act. This would appear to be a reversal of a long standing policy action included in the current law.
- The rewritten act now includes a codified provision to counter arrangements to convert an employee arrangement to an independent contractor. This concept is currently addressed in Income Tax Circular 2013/1 and 2016/1, however, it has been included in the act through an eight point test and a failure to meet all conditions would see a contractor arrangement recharacterized as employment.
- Non cash benefits provided by employers to employees continue to be considered as income of the employee. The general rule remains that the taxable value of the benefit is the fair market value of the benefit at the time of receipt. Similarly to the current act, there are a range of benefits that are considered exempt and others that are able to be taxed on a concessional value. Some notable changes from the current system include;
 - The provision of medical insurance by an employer is an exempt benefit (which is an extension to the list of currently exempt benefits)
 - The extension of the school fees exempt benefit to include tertiary fees (for approved institutions - yet to be defined)
 - The motor vehicle benefit is proposed to be equivalent to 10% of the cost to the employer of acquiring the vehicle per annum, rather than the current fixed fortnightly values.
 - The taxable values of housing benefits are yet to be published
- The rewritten act also contains provisions that the concessional treatment of certain benefits is only available when they are applied in a non-discriminatory fashion by employers. In other words, canteen meals and school fee benefits should be provided to all employees on equal terms.

Given the lead time in adapting employment terms and conditions, employers should consider understanding how the rewritten act may impact upon current arrangements.

If you would like to know more about this development or have any other questions, please get in touch with your usual PwC contact.

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