International Journal of Science and Research (IJSR)
ISSN (Online): 2319-7064
Index Copernicus Value (2016): 79.57 | Impact Factor (2017): 7.296

Fortnight Salary Tax in Papua New Guinea

Sivanathan Sivaruban

MBA (Aus), B.Com (Spl) (SL), ACMA, CPA PNG, H.N.Dip in Acc, MAAT
Senior Lecturer -International Training Institute, Port Moresby, Papua New Guinea

Abstract: ***This published paper is based on the contextual knowledge on the fortnight salary and wages tax system in Papua New Guinea. The paper outlines salary and wages definition, salary and wages tax system and other provisions such as long service payment with new tax table rate, lump sum payment, leave payment, superannuation, salary packaging and annual leave fares. The proposed recommendations for the fortnight salary tax in PNG are based on the knowledge and experience by the writer, who has been working in PNG for the last 10 years. The current fortnight salary tax system is not really supportive well with the work force of Papua New Guinea. The fortnight salary system in Papua New Guinea is the progressive rate, so the marginal utility for the salary increment will decrease and current marginal rate of tax on the salary and wages is 42 % and it's very high for the developing nation.***

Keywords: Salary and wages, fortnight salary and wage tax, long service payment, superannuation and salary packaging

1. Introduction

Every country has its own salary and wages tax in the world. Some countries follow the monthly salary and wages tax system while other countries have their Fortnight salary tax system. Normally Fortnight Salary and Wages system is based on the two weeks or 10.50 days or 84 Hours but it depends on the requirement of the employer for the number of hour worked or the requirement from contract of employment. In this context, Papua New Guinea's salary tax system is based on the Fortnightly basis than the monthly basis. Normally 'Pay As You Earn' (PAYE) is referred to the salary and wages tax too.

This published paper is focused on how the Fortnight salary and Wages tax system in Papua New Guinea and further recommendations for the present fortnight salary and wages tax for future improvements.

Salary and Wages

Salary or wages is a reward or payment for the employee by the employer for the services rendered. The term salary or the fixed amount of payment normally is used at the office level or fixed amount of payment whereas the wages are based on the number of hour worked. Any benefits or allowances received during the time of employment will be taxed, no except will be applied. Fortnight salary tax is applied for the monetary benefits and non –monetary benefits (Notional benefits) to the employees ascertaining the tax liability for the particular tax period. The Internal Revenue Commission is the tax administration for the tax system in Papua New Guinea. It has published the detailed Fortnight salary and wages tax deductions tables with assessable benefits for the salary and wages tax. The general guideline is also published by the Internal Revenue Commission which can be helpful to compute the individual salary and wages tax liabilities.

Fortnight Salary and Wages

Every employment contract states the Annual salary but some contract of employment may be specific fortnight salary only. Annual salary can be divided by the twenty six to calculate the Fortnight salary or wages, since each year consists of twenty six fortnights. In this scenario, Annual salary or Monthly salary and weekly salary need to be converted into the Fortnight salary in order to calculate the tax liabilities for the particular fortnight period. Please refer to the following detailed schedule (Table 1) to compute the Fortnight salary and wages based on the different scenarios. The following methods of computation are the acceptable methods by the Internal Revenue Commission of Papua New Guinea.

Table:1

Descriptions	Methods -Fortnight Salary and Wages
Annual Salary	$\frac{\text{Annual Salary}}{26}$
Monthly Salary	$\frac{\text{Monthly Salary} \times 14 \text{ Days}}{\text{No. of days in Month}}$
Weekly Salary	Weekly Salary X 2

Group tax or Salary and Wages Tax

Group tax is another term used in Papua New Guinea for the salary and wages tax. Any employee earning more than K409 per fortnight with three dependents will be liable for the salary and wages tax. In other words, any employees' whose earning is more than K10, 634 per year become the tax payer. Once the employees' fortnight tax is deducted for the particular taxable period then it will be remitted to the Internal Revenue Commission on or before the seventh day of the following months. Group tax remittances are done on monthly basis rather than on fortnightly basis as per the Income tax (Salary and Wages Rate) Act 1979. The flat penalty of 20 % will apply to those who fail to remit the group tax on or before the seventh of the following month. In addition to the flat penalty of 20%, the 2% penalty will be accrued every month for non –remittance for the group tax. The Internal Revenue Commission issued heavy penalty for non - remittance on timely manner because most business entities are using the group taxes amount for their cash flow shortage. The PNG Resident is liable for the different rate from the PNG Non – Resident. The PNG resident is a person living more than six months or 183 days in the country. He is considered as a Resident for the tax purposes in the country, whereas those living less than 6 months or 183 days are become non –resident for tax purposes. Once an employee working with any company, he/she needs to fill in the salary and wages declaration form in order to claim the dependents tax rebates for the maximum of the three dependents. The Salary and wages tax is the second large component for the Papua New Guinea tax Revenue stream. All Business organizations are currently using the revised tax table 2012.The house benefits for the upper class have been increased recently in order to increase the tax revenue on salary and wages tax to the Internal Revenue Commission. An employee can apply for the variation in the salary and wages tax to the Internal Revenue Commission to reduce the tax payable. All other benefits are taxed at the marginal rate unless; otherwise the variation in salary and wages tax is obtained from the IRC.

Dependents

The employee can claim for a maximum of three dependents as per the Income tax regulations (Salary and Wages rate) Act 1979. Once the employee starts working in any organization then the employee needs to fill in the tax declaration form in order to claim the dependents tax rebates.

Long Service Payment

Any employee who is working for more than three years in continual service to the same employer is qualified for the long service payment. An employee who works exactly 15 years is entitled six month salaries or 13 fortnight salary as a long services payment. According to the Income tax (Salary and Wages Rate) 1979, it states that long service is liable for the marginal tax of 42% before December 31, 2017. The Government of Papua New Guinea has revised the long service payment in line with the superannuation payment from January 01, 2018. The pro rata long services will be applied to those who are working more than three years. The long service payment computed is based on the last fortnight basic salary not any form of other allowances.

Table: 2

Less than 5 years	Not less than 5 years and not greater than 9 years	Not less than 9 years not greater than 15 years	More than 15 years
Marginal Rate of Tax	The lesser of 15% or Marginal Rate of Tax	The lesser of 8 % or the marginal Rate of Tax	2 %

The Government of Papua New Guinea has changed the above percentage reduction to make sure that the retirement employee has good amount of savings after retirement from the long term employment (Table:2).

Lump sum back dated payment

Sometimes employees are receiving the salary increments or Bonus from the back dated payment so that salary increments or Bonus need to be spread over the twenty six fortnights in order to avoid paying heavily tax on the salary increments. In practical context, any lump sum back dated payment will be considered as a deferred salary in order to avoid the heavy tax on the lump sum back dated payment.

Annual Leave Payment

Every employee is entitled for the recreation leave each year for one and half fortnight salary. The Annual leave salary tax is calculated based on the fortnight salary and wages tax table. The calculation for the annual leave payment is based on the basic salary and not in form of any allowances.

Superannuation Fund

As part of the mandatory requirement, the company when employing more than 10 employees, it is requirement to contribute to the approved superannuation funds. The following were the break- up percentage of the superannuation contribution (Table: 3) based on the basic salary of the employees.

Table: 3

Contributions	Percentage
Employer Contribution	8.40%
Employees Contribution	6.00%

The employer contribution can be increased from 8.40% to 15 % for the employees and any employer contribution exceeds 15% is non –allowable deductions as per the Income tax Regulations 1959 as amended. Once the superannuation contribution is deducted for the particular fortnight then it is remitted to superannuation fund within 14 days as per the superannuation Act 2000 and amended. The failure to remit within stipulated period, the company will be liable to pay K200, 000 as a penalty imposed by the Bank of Papua New Guinea. The tax rate for the superannuation payment is based on table 2 above. The tax imposed on the employer contribution and interest income from the superannuation fund and employee contribute is no longer liable to any tax since it has been taxed at the first place.

Salary Packaging

Salary Packaging means; how we can balance in between salary and wages tax without paying tax to the Internal Revenue Commission of Papua New Guinea as this practice is accepted by the IRC as long as formal approval is obtained. The Golden rule for the salary packaging is ‘60 - 40’ which is the acceptable method for school fees, superannuation and housing rental can be treated as 40 % of the annual salary so the employee will not be liable for the salary and wages tax. The remaining 60% of the annual salary became liable to salary and wages tax. Most Papua New Guineans are used to the term salary sacrifice than salary packaging.

Annual Air Fare

The annual air fare is directly paid to the travel agent and under any circumstance, the employee cannot receive any cash for the air fare, and also they should be enforceable agreement between the company and the travel agent which states that no refund should be made to the employees. If employees receive air ticket as cash benefit, then Marginal tax rate will be applied.

2. Recommendations

The following suggestions can be considered for the future improvements on the salary and wages tax in Papua New Guinea.

1) Dependents tax Rebates amount has remained unchanged since the year 2007.It is becoming unrealistic so the dependents tax rebates need to be changed in line with Inflation rate and other social and economic factors.
2) The threshold for the Income tax need to increase from the present to K10,000 because most of the Papua

New Guineans are living well below the minimum income level.

3) The present salary and wages tax rate is based on developed country model but need to be changed that of a developing nation.
4) The low cost houses indicated notional benefit needs to be removed or the rental per week ranges need to be created rather than the state marketing rental which is K1, 000 per week or less.
5) The superannuation payment for employees working less than five years and long services payment is taxed at the marginal rate of tax; however, it should be decreased tax rate percentage rather than marginal rate of tax.
6) The school tax rebates has the maximum of K750 per child but this figure needs to be changed so it can be in line with current school fees on the private run primary and secondary schools.

3. Conclusion

The tax is the main revenue to any government and the same time government is formed by the tax payers, therefore the tax system needs to balance between both sides. I published this paper on the salary and wages tax in Papua New Guinea based on my experience for the last 10 as a corporate tax lecturer at the International Training Institute. I have also dealt with my staff in regarding to the heavy tax on their remuneration. I have managed to outline the basic term on salary and wages definition, salary and wages tax system, and other provisions such as long service payment with new tax table rate, lump sum payment, leave payment, superannuation, salary packaging and annual leave fares.

The salary and wage tax is always encouraged for the savings culture to the workforce so that tax system needs to provide more benefit to the employees. This published paper is based on the contextual knowledge on the subject and no formal research was done. This published paper is purely knowledgeable and conceptualization.

References

[1] A Guide to PNG taxation by Edgar O Neil 2005.
[2] Corporate Tax (2017), International Training institute, Port Moresby.
[3] Salary and Wages tax deduction tax table 2012 , Internal Revenue Commission, Port Moresby
[4] Source taxes Guide (2004) Internal Revenue Commission, Port Moresby