

FMM 03.32 Taxation

32.1 Authority and Prescribed Requirements

- Income Tax Act 2025
- Goods and Services Tax (GST) Act
- Superannuation (General Provisions) Act 2000
- Income Tax (Salary or Wages Tax) Regulation

32.2 Standards and Supporting Documentation

- Public entities must comply with tax guidance, circulars, and practice statements issued by the Internal Revenue Commission (IRC).
- Non-exempt entities, including those formed under the Companies Act 1997 must lodge income tax returns.

32.3 Minimum Responsibilities

Department of Finance is to maintain taxation rules within the IFMS for PNG tax law.

Departmental Heads

- Ensure compliance with tax laws, including the accurate deduction and remittance of taxes and superannuation.
- Monitor tax obligations for non-exempt income and liaise with the IRC as needed.
- Remit to the IRC Section 65A GST withholding amounts.

Payroll Officers

- Deduct and remit salary and wage taxes, including allowances and benefits, in compliance with IRC regulations.
- Calculate and remit employer and employee superannuation contributions.

Procurement and Finance Officer

- Identify GST-registered suppliers for Section 65A withholding obligations.
- Deduct and remit GST withholding tax to the IRC in accordance with legislation.

32.4 Mandated Policy

- 1. Tax expense incurred is recognised when paid from the entity bank account and tax revenue is recognised when receipted into the entity bank account.**
- 2. Income of agencies for public services are exempt from income tax under Section 24 of the Income Tax Act but public entities must comply with other tax obligations.**
- 3. All income of a Provincial Government or of a Local-level Government received pursuant to the Organic Law on Provincial Governments and Local-level Governments is exempt from income tax, except income received from a commercial enterprise conducted by a Provincial Government or a Local-level Government.**
- 4. Agencies are required to fully comply with all tax obligations, including the deduction and remittance of withholding taxes, salary and wage taxes, and GST.**
- 5. All expense transactions entered into the IFMS (or approved finance system) must be assigned a tax code. For each expenditure in IFMS, there is an option to tick a GST box. That automatically deducts the GST and is mapped to a liability code.**
- 6. Agencies are required to comply with Section 65A GST Withholding if nominated by the IRC as a withholding entity. When this is required, the full cost of the services is recognised as an expense but the payment made to the supplier is exclusive of GST. The agency is required to remit the GST withheld portion directly to the IRC. The reconciliation and payment of remittances is tracked using Form 6 which is lodged to the IRC on a monthly basis. IFMS (as is most modern finance systems) will calculate the remittance amount.**

32.5 Non-Mandatory Guidance

Always check payments are in compliance with the IRC - the invoice is a GST compliant tax invoice and the bank account that the payment is made is the same name as what is on the tax invoice.

32.5.1 Application of GST on non-tax revenue and other charges of agencies

GST is not applied to fees and charges for agencies and is not applied to tax revenue. Under the GST Act Section 10 –

- *(7) Subject to Subsection (8), charges for permits or licences issued by public authorities or local authorities and fines or penalties levied by such authorities shall not give rise to a supply of goods and services.*
- *(8) For the purposes of this Act, provincial road-users tax paid under Section 86 of the Organic Law on Provincial Governments and Local-level Governments is deemed to be a consideration for a supply of services in the course or furtherance of a taxable activity carried on by the relevant Province.*
- *(9) For the purposes of this Act, a local authority is deemed to supply goods and services to a person consisting of sewerage, garbage and night soil collection and any other matter prescribed in regulations when any amount of rates is payable by that person to that local authority in respect of such goods and services.*

32.5.2 Requirement to submit income tax returns

The Income Tax Act does not specifically exclude agencies, but under Section 223, the Commissioner General has the right to issue National Gazette notice on who/class of persons that are required to submit and this is issued annually.

Under the National Gazette notice a person who has income (other than exempt income) is required to submit a tax return. A public and statutory body including National Departments only have exempt income and therefore are not required

to submit a tax return. PG-LLG are only required to submit for enterprises if they have commercial income more than K2.00.

32.5.3 Tax Obligations for Public Entities

| Tax Type | Definition and Scope | Treatment |
|------------------------------|---|---|
| GST Section 65A Withholding | Requires public entities – who are declared - to withhold GST at the rate of from payments to registered suppliers and remit it to the IRC, completing Form 6. | Verify GST registration of suppliers. Deduct and remit withholding tax within the prescribed timeframe. Maintain records of all withheld amounts. |
| Salary and Wages Tax | Applies to employee salaries, wages, and fringe benefits, including housing and motor vehicle allowances. This is applicable not just to Alesco Payroll but all contracted and casual | Deduct tax at source based on employee tax codes. Ensure correct reporting of allowances and benefits. Remit deductions monthly to the IRC. |
| Superannuation | Mandatory contributions to employee superannuation funds as required under the Superannuation (General Provisions) Act. | Deduct employee contributions and add employer contributions. Remit total contributions to the approved superannuation fund by the due date. |
| Housing and Vehicle Benefits | Taxation of employer-provided housing and motor vehicle allowances as part of taxable income. | Calculate taxable value based on IRC guidance. Deduct appropriate taxes at source. Include in employee year-end tax summaries. |

| | |
|----------------------------|---------------------|
| Further Information | frcd@finance.gov.pg |
| Version | 1.0 |
| Date Issued | 30 June 2025 |