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A Critical Analysis on Fortnight Salary Tax in Papua New Guinea

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Abstract:
This paper is based on the contextual knowledge on the fortnight salary and wages tax system in Papua New Guinea. The paper outlines the salary and wages definition, fortnight salary and wages tax system, details on the calculations of salary and wages tax under different circumstances and other provisions such as long service payment with the new tax table rate, lump sum payment, leave payment, superannuation, salary packaging, lower housing scheme and annual leave fares. The proposed recommendations on the fortnight salary tax in PNG is based on the knowledge and experience of the researcher, who has been working in PNG for the last 12 years. The current fortnight salary tax system is not really supportive to the workforce in Papua New Guinea. The fortnight salary system rate in Papua New Guinea is still progressing. The marginal utility for the salary increment will decrease while the current marginal rate of tax on the salary and wages remains very high on 42 % for a developing economy in the world.

Keywords: Papua New Guinea**,** Salary and wages, fortnight salary and wages tax, long service payment, superannuation and salary packaging

1. Introduction

Papua New Guinea is a country in Oceania that is north of Australia and shares the border on land with Indonesia on the west side. It is the second largest island country in the world located on the southwestern part of the Pacific Ocean. The eastern part of the island of New Guinea is made up of many islands lying towards its Melanesian neighboring countries in the Pacific Ocean. Papua New Guinea's economy is driven by the mining and resource sector.

Every country in the world has its own salary and wages tax. 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. It also depends on the requirements of the employer on the numbers of hours to work for or on the requirement from the contract of employment. In this context, Papua New Guinea's salary tax system is based on the Fortnightly basis rather than on the monthly practice. Normally 'Pay As You Earn' (PAYE) is referred to as the salary and wages tax too.

In this article, it is focusing on how the Fortnight salary and Wages tax system in Papua New Guinea function, with the detailed calculations in different circumstances and recommendations for the present fortnight salary and wages tax for future improvements.

2. Literature Review

According to PNG Tax Review Report 2013-2015, the Final Report states that, for developing countries the taxation for personal income is not the most important means of raising revenue. In this context, PNG is an oddity in that personal income taxation, contributing 8 percent of nominal GDP in 2014, which is higher than most other countries in the region. Salary and wages tax is a new emerging research topic in Papua New Guinea thus not much research has been done on it. Its emphasis is more on interaction between the economic growth and tax system.

The Final Report of PNG Tax Review Report 2013 -2015 further states that PNG has more tax bands and higher marginal tax rates compared to other developing economies in the region. However, its tax-free threshold is significantly higher per capita than other countries in the pacific region.
According to Starting a Business in PNG -2019 –Deloitte Report states that the personal income tax, including salaries and wages tax collections remains a key focus of the Internal Revenue Commission of PNG, who aim to ensure that all remuneration and related benefits paid to employees are accurately taxed.
This Critical Analysis on Fortnight Salary Tax in Papua New Guinea is vital for the employees to understand the practical aspects of salary and wages tax application on the fortnight salary and wages. This study can further help future researchers research on the same subject. This is the second article publication on Critical Analysis on Fortnight Salary Tax in Papua New Guinea.

3. Objectives of this Study

1. Understanding the conversion of fortnight salary and wages
2. Compute the fortnight salary and wages tax in the different tables A, B and C
3. Calculation on the annual leave, backdated payment and long service payment
4. Analysis of the fortnight salary tax application in the different case studies
5. Understanding practical issues on the fortnight salary and wages tax

4. Data Collection and Analysis

This article is based completely on the secondary research. The author has referred to journals, books, website search, newspaper, articles and the other source on this study. The author has been working in Papua New Guinea for last 12 years. His knowledge and experience on the subject matters are widely used to write this article and no formal research has been conducted for this study

5.Findings:

The fortnight salary and wages tax is a more complex subject for the students and employees as they are facing a big challenge to understand it. The author has explained the fortnight salary and wages tax in a logical simple manner. The main findings of this article are to have an understanding on the concept of fortnight salary wages tax, the methods of conversion, the computation on the long services payment and the annual leave payment.

6. Salary and Wages

Salary or Wages are any is a mode of reward or payment to the employees by the employer for the services rendered. The term salary or the fixed amount of payment is normally used at the office level. Whereas, the wages are based on the number of hours worked for the period of a month or week. Any benefits or allowances received during the employment will be taxed. The Fortnightly salary tax is applied as 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 (IRC) of Papua New Guinea is the tax administrator for the tax system in Papua New Guinea. It has published detailed Fortnight salary and wages tax deduction table with assessable benefits. The general guideline is also published by the Internal Revenue Commission which can be helpful to compute individual’s salary and wages tax liabilities.

7. Fortnight Salary and Wages

Every employment contract states the Annual salary but some contracts of employment may be specific with fortnight salary too. The Annual salary can be divided by the twenty-six fortnights to calculate the Fortnight salary or wages, since each year consists of twenty-six fortnights. In this scenario, Annual salary or monthly and weekly salary needs to be converted into the fortnight salary in order to calculate the tax liabilities for a particular fortnight period.

Table 1**:-**shows a detailed schedule to compute the fortnight salary and wages based on different circumstances. The following methods of computation are acceptable procedures by the Internal Revenue Commission in Papua New Guinea.

Table 1

Descriptions	**Methods -Fortnight Salary and Wages**
Annual Salary	Annual Salary 26
Monthly Salary	Monthly Salary X 14 Days No. of days in Month
Weekly Salary	Weekly Salary X 2

Case Study: 1 Mr. John received his annual salary of K40, 000/- with three dependents. Compute net tax payable on his salary and wage.

Step;1 Annual salary converted into Fortnight salary divided by 26 (Since 26 FNT per year)

K40,000/ 26 FNT is K1,538.46

Step 2: Using Salary and wages tax table 2019 and Table C –Method 1 and Row 2

Fortnight Salary and Wages K1,538.46

Less Salary and wages tax payable K1,276.00 Tax K 213.46

Balance salary and wages tax K262.46 X.35 toea K91.86

Gross tax payable K305.32

Less Three dependents tax rebate K40.38

Net tax payable on FNT Salary K1,538.46 K264.94

Therefore, Net salary and wages K1,538.46 -264.94 = K1,273.52

Case study 2 Mr. Tau is currently earning a weekly salary of K426 with two dependents. Compute tax payable on the fortnight salary and wages.

The converted weekly salary to fortnight salary and wages (Weekly salary X 2)

K426 X 2 = K852 for the Fortnight salary and using the tax table 2019 B

Table Band column -2 of the Salary and wages tax table FNT Salary K852 - K64.49/-

Net Salary and Wages = K852 –K 64.49 = K787.51

Case study 3: Ms. Mary has been receiving in the month of January a salary of K2,250 with one dependent Compute tax on her fortnight salary and wages

The converted monthly salary to fortnight salary and wages = Monthly salaryX14
No of days in month of January

= K2,250/ 31 X 14 =K1,016.13

Fortnight Salary K1,016.13 –Table C and Row 1	K1,016.13	
	K950 Tax	K115.46
Balance tax payable	K66.13 X .30 toea	K19.84
Gross tax payable on FNT Salary K1,016.13		K135.30
Less: A dependents tax Rebate		K17.31
Net tax payable on Salary and wages		K117.99

Net fortnight salary and wages K1,016.13 -117.99 =K898.14

8. Group tax or Salary and Wages Tax or Withholding Tax on Salary and Wages Tax(SWT)

Group tax is another term used in Papua New Guinea for the salary and wages tax. Any employee earning more than K506 per fortnight with three dependents will be liable for the salary and wages tax. In other words, any other employees whose earnings are more than K13, 156 per year become the tax payer. Once the employees' fortnight tax is deducted for the particular taxable period, it will then be remitted to the Internal Revenue Commission on or before the seventh day of the following month. Group tax remittances are done on the monthly basis rather than on the 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 day of the following month. In addition to the flat penalty of 20%, another 20% penalty will be accrued on every year (calculated on a daily basis from the date the amount became payable) for non –remittance for the group tax. The Internal Revenue Commission imposes heavy penalty for non - remittance on timely manner because most business entities are using the group taxes amount for their cash flow shortages. A PNG Resident is liable for a different rate from a PNG Non – Resident. A PNG resident is a person living in the country for more than six months or 183 days.

She/he is considered as a Resident for tax purposes in the country whereas those living less than 6 months or 183 days become a non –resident for tax purposes only. Once an employee starts to work with a 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 three dependents. The Salary and wages tax are the second largest component for Papua New Guinea's tax Revenue stream. All Business organizations are currently using the revised tax table 2019.The accommodation benefits for the upper class have been increased recently in order to increase the tax revenue on the salary and wages tax to the Internal Revenue Commission of Papua New Guinea. The employee can apply for variation in the salary and wages tax to Internal Revenue Commission to reduce the tax payable. All other benefits are taxed at the marginal rate unless; if the variation in the salary and wages tax is obtained from the IRC.

Case study 4

XYZ Ltd has group tax amounting to K25, 000/- for the month of January 2019.The Company has failed to remittance group tax on time. However, XYZ Ltd has remitted on April 01, 2019. Compute tax penalty for the above payment.

The Company has failed to pay the group tax on February 7, 2019 so that 20% flat penalty is applicable, followed by the 20% per annum, calculated on a daily basis from the date the amount became payable.

Group tax or Salary and Wages Withheld tax	K25, 000
20% Flat Penalty K25, 000 X 20/100	K5, 000
20% Penalty for year K30, 000 X 20/100 * **53/365	K871.23
(K25,000+K5,000)	
Gross tax payable including penalty	K30, 871.23/-

** February 2019 - Year 28 -7 = 22 days and March 31 days, Therefore, Total numbers of days is 53 days.

9. 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 an employment in any organization, the employee has to fill the tax declaration form in order to claim the dependents tax rebates.
The following persons can be dependents

1. Spouse of the employees
2. Students who are receiving a full-time study at the tertiary institution from age 16 to 18.
3. An invalid relative (on provision for medical certificate)
4. The parent of the tax payers
5. An unmarried child under 16 years of age including natural child.

Any dependent having an income, exceeding K40 per fortnight and K1040 per years and involved in subsistence farming are not qualified to claim dependents. The same dependent cannot claim twice at different employments. Most of employees' do not fully understand the dependent tax rebates so they are not fully utilizing the benefits of it. The first dependent is qualified for K450 and second and third dependents are qualified K300 each so the total of three dependents tax rebate is K1050 per annum.

10. Annual Leave Payment

The employees are qualified for annual leave payment once they have completed one year of service with the particular company. The annual leave payment is based on their employment of contract and the normal employment practice is where the annual leave payment is for three weeks. The annual leave payment should be based on fortnight salary exclusive of any allowances. The annual leave payment tax should be based on the fortnight salary and wages tax. The annual leave is split into fortnight basis so that fortnight salary and wages tax can be applied in an easier manner without any complexity and also the tax amount will be reduced.

Case study 5

Mr. James has received K1,375 which is for 3 weeks annual leave pay and his normal fortnight salary. He has three dependents. Compute Total tax payable.

Total numbers of weeks including his normal fortnight = 5 weeks (3 weeks leave pay and fortnight)

5 weeks equally to 2 ½ fortnight salary and wages.

Calculate fortnight salary and wages K1, 375/ 2.50 Fortnight.

Therefore, Fortnight salary and wages K550.00

Table A on Salary and Wages tax - 2019 Column - 4, K 8.80 per fortnight.

Total Gross tax payable on the total annual leave with his fortnight salary K8.80 X2.50 Fortnight

Gross tax payable with three dependents K22.00.

Net fortnight salary and wages with annual leave payment K1, 375 -22.00 =K1, 353.00

11. 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 for 15 years exactly is entitled for a six-month salary 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 tax payment in line with the superannuation payment since January 01, 2018. The pro rata long services will be applied to those who are working for more than three years. The long service payment is computed based on the last basic fortnight salary exclusive 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 retired employee has good amount of savings after retirement from the long-term employment (Table:2).

Case Study 6

Ms. Sentha has been working for XYZ Company for the last four years and she has earned K750 per fortnight with three dependents. She has received three weeks accrued annual leave.

Compute: Tax Computation on long service payment and annual leave.

The marginal tax rate will apply, if any long service payment is less or equal to five years.

The following tax application method will apply on long service payment

$$\text{Long Service Payment} = \text{Numbers of years worked} \times \frac{13}{15} \times \text{Fortnight Salary}$$

$$= 4 \text{ years} \times \frac{13}{15} \times 750.00 = K2,600.00$$

Annual Leave payment for three weeks is equal to 1 ½ fortnight.

Annual leave payment = K750.00 x 1.50 Fortnight = K1, 125.00

Total resignation sum of payment

Long service payment for four years	K2, 600.00
Annual Recreation Leave	K1, 125.00
Grant total	K 3, 725.00

Total resignation payment divided by twenty-six fortnight = $\frac{K3,725}{26}$ =K 143.27

Total resignation payment per fortnight	K143.27
Add: Normal Fortnight salary	K750.00
Total	K893.27

Tax payable on K893.27 with three dependents (Table B) K 64.08 (Please refer to column 1 and column 4).

Tax payable on K893.27	K64.08
Less Normal Fortnight Salary Tax on K750.00 (Table A with three dependents)	K37.40
Net tax payable on total resignation payment With Annual leave payment	K26.68

Gross tax payable on long service payment and annual leave payment K26.68X 26 = K693.68/-

Total resignation payment	K3, 725.00
Less: Gross Tax payment	K693.68
Net Final pay	K 3, 031.32

12. Lump sum back dated payment

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

Case study 7

Mr. Simon Martin is employee with two dependents who earns a fortnightly gross salary of K1, 200/- . At the end of June his total fortnight salary is K2, 500 representing his normal fortnight salary plus a backdated salary increase as of the beginning of January. Compute tax payable on this sum.

Fortnight salary and wages K1, 200/-and salary increase amounting to K1, 300/- .

Gross tax payable on fortnight salary K1, 200		
Tax payable (Table C)	K950	K115.38

Remaining tax payable	K250 X .30	<u>K75.00</u>
Gross tax payable	K190.38	
Less Two dependents tax rebate	K28.85	

Net tax payable on fortnight salary	<u>K161.53</u>	

Salary increase of K1, 300/- needs to be backdated from January to June which is 6 months and that is equal to 13 fortnight salary.

Fortnightly salary K1,300/ 13 Fortnight =	K 100.00	
Normal Fortnight Salary	K1, 200.00	

Gross pay with backdated payment per Fortnight	K1, 300.00	
Tax payable	K950	K115.38

Remaining tax payable	350 X.30	K105.00
Gross tax payable	K220.38	
Less Two dependents tax rebate	K28.85	

Net tax payable on FNT Salary and the backdate	K191.53	
Net tax payable on fortnight salary	K161.53	

Extra tax payable on backdated salary increase	K30.00	

Therefore, Extra Gross tax payable on backdated salary K30 X 13 = K390.00

Gross fortnight salary with backdated payment		K2, 500.00
Less: Net tax payable on FNT Salary	K161.53	
Extra tax on backdated salary	K390.00	
	-------------	K551.53
Net Fortnight salary and wages with backdate		K1, 948.47

13. Superannuation Fund

As part of the mandatory requirement, the company when employing more than 10 employees, it is a requirement to contribute to the approved superannuation funds. The employees are qualified for superannuation contribution for the three months continuous service with a company. The following are the break- up percentage of the superannuation contribution (table 3) based on the basic salary of the employee.

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. If an employer's contribution exceeds 15% then there would be no deductions as per the amended Income tax Regulations 1959 . Once the superannuation contribution is deducted for the particular fortnight, it is then remitted to Superannuation within 14 days as per the amended superannuation Act 2000. Failure to remit within stipulated period, the Company becomes 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 the interest income from the superannuation fund but employee contribution will not be taxed again since it has been taxed at the first place.

14. Salary Packaging

Salary Packaging means; how we can balance between the salary and wages tax without paying high tax to the Internal Revenue Commission of Papua New Guinea as this practice accepted by the IRC for 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 is taxable. Most Papua New Guineans are used to the term Salary sacrifice than salary packaging.

15. Annual Air Fare

The annual air fare is directly paid to the travelling agent and under any circumstances, the employee cannot receive cash for the air fare., Also there should be an enforceable agreement between the company and the travel agent to agree not to do refund to employees. If employees receive air tickets, as cash benefit then Marginal tax rate will be applied.

16. Recommendations

The following suggestions can be considered for the future improvement 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 dependents tax rebates need to change in line with Inflation rate and other social and economic factors.
2) The threshold for the Income tax needs to increase from the present to K15, 000 because most of the Papua New Guineans are living well below the minimum income level.
3) The present salary and wages tax rate are based on developed countries model but needs to be adjusted to that of a developing nation.
4) The low-cost houses have indicated that notional benefit needs to be removed or the rental per week ranges need to be increase rather than having the state marketing rental at K1, 000 per week or less.
5) The superannuation payment for employees working less than five years and the long services payment is taxed at the marginal rate, however, it is advised to decrease tax rate percentage rather than the marginal rate of tax.
6) The salary and wages tax system should be more flexible than a rigid system
7) The bottom or lowest marginal rate of tax needs to be reduced (at present the lowest marginal rate of tax is 22%)

17. Conclusion

The tax is one of the main revenues to any government and at the same time the government is formed by the tax payers, therefore the tax system should balance on both sides. This article is written after critically analyzing the salary and wages tax in Papua New Guinea based on my experience for the last 12 years as a corporate tax lecturer at the International Training Institute. The author also deals with the staff in regard to heavy tax on their remuneration. The author has managed to outline the basic term on the 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, superannuation, salary packaging and annual leave fares. The government of Papua New Guinea is collecting around 75% on tax revenue from salary and wages tax alone from the total revenue to the nation and it’s a very alarming percentage for such a developing nation. The government of Papua New Guinea is very reluctant to change the existing salary and wages tax rates since it generates more tax revenue compared to other taxes. A developing country’s revenue should come from the indirect tax rather than direct tax. Therefore, it’s highly recommended that tax revenue for Papua New Guinea should be more from the indirect tax in line with global trends. The government of Papua New Guinea can change the tax system from direct tax to indirect tax by imposing tax on consumption so that the double tax effect will reduce.

Salary and wage tax are always encouraging for the savings culture to the workforces, so that the tax system need to provide more benefit to the employee and the country, because Papua New Guinea’s Economic growth depends on domestic savings. This article is based on the contextual knowledge of the subject with no formal research. This article is purely knowledgeable and conceptualization.

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