

Column 15 – Salary Sacrificing in PNG

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Salary sacrificing also known as salary packaging is the inclusion of employee benefits (fringe benefits) in an employee remuneration package in exchange for giving up part of the monetary salary. Such arrangements are entered into most commonly if there is tax or other benefit to be derived by the employer or employee from the arrangement.

Under PNG's income tax law, the full value of most benefits provided by an employer to their employee are counted towards the employee's income – meaning there is no tax benefit. However, there are some exceptions. If certain non-salary benefits are provided (for example housing, motor vehicles and meals) then only a prescribed amount (lower than the real value) is included. Other benefits, such as the payment of school fees for an employee's children, are exempt entirely. Queries on how these provisions currently work should be directed to the IRC.

The Review has received a number of submissions from interested Papua New Guineans on salary sacrificing. Submissions have varied – with some calling for salary sacrificing to be expanded, others seeking greater clarification on when it can be used, and others raising concerns about its lack of fairness.

Certainly, ensuring equality is a real issue when considering salary sacrificing. Someone who works for an employer that is prepared to package their salary will be better off than someone who does not. In addition, an employer that cannot or does not offer to package an individual's salary may find it harder to compete for workers in the market against those employers that do provide benefits.

As a general principle, the tax system should try and encourage equity, ensuring that people on the same incomes are treated the same. It should also try and not to distort the market, favouring one business over another.

However, the Review has received numerous submissions from Papua New Guineans concerned about the tax burden that salary and wage earners are under. Salary sacrificing can be seen as a way of delivering more benefits to an employee at a lower cost to the employer, in effect reducing the employee's overall tax burden.

But if the real issue is the overall burden on salary and wage earners, there may be better ways of reducing this burden for everyone. For example, reducing income tax rates or increasing the tax free thresholds. These are issues that the Review will be looking at.

The Review is interested in hearing about your experience with salary sacrificing. If you want to have your say contact the Tax Review on info@taxreview.gov.pg, (675) 325 5977 or visit the website www.taxreview.gov.pg.