



# INTERNAL REVENUE COMMISSION

## OFFICE OF THE COMMISSIONER GENERAL

### MEDIA RELEASE: CLARIFICATION ON PAY CUT AND TAXATION MATTERS

I would like to take this time to sincerely apologize for the loss of lives and properties during these regrettable and avoidable incidents of yesterday and today.

The majority of the chaos resulted from opportunists, misinformation, and political propaganda. Despite releasing two statements yesterday clarifying the facts, many chose to believe alternative facts rather than my official statements. I urge everyone to carefully read this statement fully and between the lines and comprehend the actual facts before indulging in hyperbole and reacting impulsively. Here are the Facts.

#### WHAT WAS THE CAUSE OF PUBLIC SERVANTS PAY CUT ON PAY 1/2024?

**FACT 1:** As confirmed by the Finance Department that administers the Alesco Payroll, the Alesco system was not reconfigured on time to make K20,000 tax free threshold permanent hence it reverted to K17,500 on 1 January 2024, thereby resulting in a reduction in the net pay. That was identified and resolved hence will be fixed for Pay 2/2024.

**FACT 2:** We also confirmed that the dependants' rebates that were removed by Parliament last Budget, were yet to be factored into the Alesco system hence it was UNLIKELY this has caused the pay deduction on Pay 1/2024.

**FACT 3:** I released the first statement based on advice from Department of Finance and Department of Personal Management that it was a system configuration issue and nothing to do with tax increase. I was hoping that that was sufficient to contain the situation and inform the disciplined forces to return to work immediately.

#### DID THE GOVERNMENT INCREASE ANY TAX?

**FACT 4:** Apart from the removal of dependants' rebates, which is yet to come into effect, the government has not raised any tax rates in Personal Income Tax and Goods and Services Taxes that would affect the average people and the working class in Papua New Guinea.

#### DID THE GOVERNMENT OFFER TAX RELIEFS TO CUSHION THE EFFECTS OF INFLATION?

**FACT 5:** In response to the challenges posed by the Covid-19 pandemic and to ease the impact of rising prices, the government decided to raise the tax-free threshold. Initially set at K12,500, it was increased to K17,500 and later made permanent at K20,000. The following examples illustrate the positive effects of this measure:

##### **Example 1: Providing Relief for Lower Incomes**

Imagine someone earning K20,000 when the tax-free threshold was K12,500. Under the previous system, they would have paid K1,650 in taxes per year, or K63.46 per fortnight. However, thanks to the intervention, this individual no longer has to pay any taxes at all. Many Papua New Guineans, particularly those with lower incomes, benefit significantly from this change.

##### **Example 2: Benefits for Higher Incomes**

Even if someone earns above the K20,000 threshold, they still enjoy the relief. For instance, someone earning K35,000 annually would have previously paid K6,250 in taxes (equivalent to K240.38 per fortnight). With the new threshold, they now pay K4,600 per year (or K176.92 per fortnight), saving K1,650 annually (or K63.46 per fortnight). This adjustment extends the benefits of tax relief to a broader range of earners, demonstrating the government's effort to support citizens during challenging economic times.

**FACT 6:** As a result of the K20,000 tax free threshold, the Government is forgoing (costing) about K300 million to offer the relief to our working class.

#### WHY WAS THE DEPENDANTS' REBATE REMOVAL PROPOSED?

**FACT 7:** The 2015 Tax Review Committee recommended that once the tax-free threshold was increased to K20,000, the dependency rebates should be removed. So, our IRC and Treasury Technical Teams advised and hence anticipated that the dependants' rebates removal would have minimal impact on the taxpayers hence this was proposed.

**FACT 8:** The dependants rebates removal was anticipated to have minimal net impact in circumstances where the Tax-Free threshold was made permanent at K20,000 instead of a temporary relief measure and that a 3% CPI adjustment of public service salary was approved to be implemented in 2024. We are yet to assess the full impact of the removal of the dependants' rebate because it yet to be implemented.

#### HAS THE DEPENDANTS' REBATES BEEN EFFECTED?

**FACT 9:** The amendment for the removal of the dependants' rebate was passed in last year's budget but that law has not been gazetted and hence HAS NOT COME INTO EFFECT. There is therefore no obligation on any employer to give effect to this until the law comes into effect.

Again, we reiterate that what has started this protest and chaos was not a result of effecting the dependants rebate removal but a failure to reconfigure the Alesco system. Department of Finance is now working to reconfigure the tax-free threshold to K20,000 and reimburse the salaries lost on Pay 1 of 2024.

#### WHAT HAPPENED ON 10 JANUARY 2024 AND ONGOING?

What happened yesterday is regrettable. If only the public servants who have started the protest had sought the clarifications using the established industrial processes, then the clarification would have been provided and so much damage and loss would have been avoided. The irreparable damage and losses suffered yesterday and continuing is grossly disproportionate to the purported loss being complained of, let alone this was a fixable loss.

#### CONDEMNING LOOTING AND RAMPAGING

I firmly CONDEMN the looting and rampaging carried out by individuals who exploited the lack of law enforcement presence. Many, if not all, of these wrongdoers are not contributing Salary Wage Taxpayers, providing them no reasonable grounds for their actions. Such behavior is unacceptable, and every sensible Papua New Guinean should reject and condemn these actions, regardless of political views or allegiances. There's no excuse for these deeds, and I feel profoundly embarrassed to identify as a proud Papua New Guinean.

#### CONCLUSION

The statements released yesterday and today aim to correct misinformation and present the real FACTS. Proper channels for seeking clarifications and addressing industrial matters exist, and adherence to these processes could have prevented much of the damage and loss. Moving forward, let us prioritize factual information and constructive dialogue to maintain stability and address concerns.

I extend my sincere apologies once again for the loss of lives and properties caused by opportunistic actions. Let's join together in prayer for peace and commit to responsible commentary.

The nation we are harming is the same nation we inhabit and will continue to live in; hence it is important for all of us to act responsibly.

Authorised for Release,

**Sam Koim, OBE**  
Commissioner General