



# HOUSING ALLOWANCE VARIATION

The areas mentioned in Table 1 refers to areas located in or within a 15km radius of the boundaries of any of the following towns:

- ◆ **Area 1 :** Goroka, Lae, Madang, Mount Hagen & Port Moresby
- ◆ **Area 2 :** Alotau, Bulolo, Daru, Kainantu, Kavieng, Kerema, Kimbe, Kiunga, Kokopo, Kundiawa, Lorengau, Mendi, Popondetta, Porgera, Rabaul, Tabubil, Vanimo, Wau & Wewak
- ◆ **Area 3 :** Any place within PNG not included in Areas 1 or 2

Employees provided with accommodation outside of PNG by their employer are automatically deemed to reside in area 1.

- ◆ **High Cost Housing :** is any unit of accommodation which would fetch K800,000 or more if sold in the open market **or** for which market rental is more than K3000 per week.
- ◆ **Medium Cost Housing :** is any unit of accommodation which would fetch between K400,000 to K800,000 if sold on the open market **or** for which the market rental is between K1,000 and K3,000 per week.
- ◆ **Low Cost Housing :** is any unit of accommodation which would fetch K400,000 or less if sold on the open market **or** for which the market rental is K1,000 or less per week.

**As in all cases involving taxation we recommend that you CONTACT THE IRC OR ONE OF OUR TAXPAYER EDUCATION & AWARENESS OFFICES AROUND THE COUNTRY OR SEEK PROFESSIONAL ADVICE FROM A REPUTABLE TAX AGENT**



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## HOUSING ALLOWANCE VARIATION

### Location of IRC Offices in Papua New Guinea

For further information about Papua New Guinea's tax system, or Further copies of this document, visit the Internal Revenue Commission's Website: [www.irc.gov.pg](http://www.irc.gov.pg)



This Information Brochure is authorized by  
The Commissioner General  
Internal Revenue Commission  
PO Box 777  
Port Moresby, NCD

Phone : 322-6600  
Fax : 321-3484 or 321-4249  
Website : [www.irc.gov.pg](http://www.irc.gov.pg)



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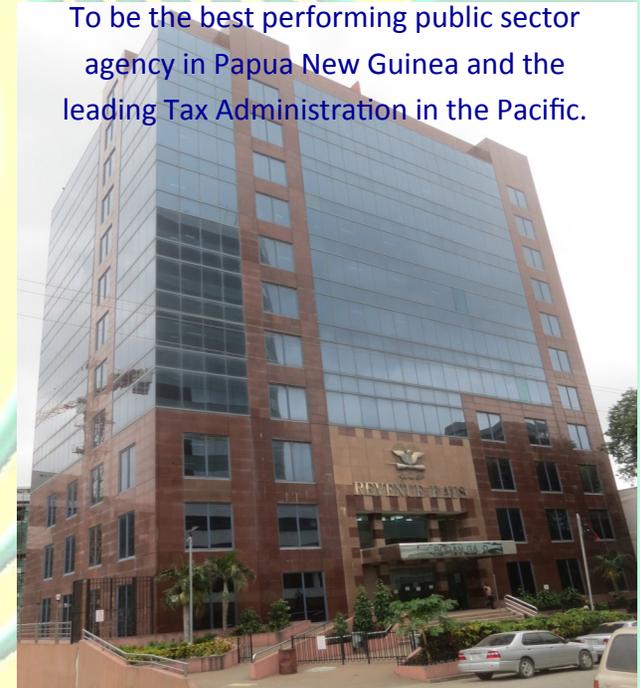
## Housing Allowance Variation

### IRC's Mission:

To efficiently and appropriately collect revenue on behalf of the people of Papua new Guinea to fund Government services and programs that develop our nation.

### IRC's Vision:

To be the best performing public sector agency in Papua New Guinea and the leading Tax Administration in the Pacific.



"Your Partner in Nation Building"

"Your Partner in Nation Building"



# Housing Allowance Variation

◆ Allowances & Benefits are considered part of an employees remuneration, in that instead of them paying for the items, they are provided in cash or kind by the employer.



Allowance & Benefits

◆ The Commissioner General prescribes rates on certain benefits or allowances provided by employers to employees in respect of accommodation.

◆ Where the employee is paid an allowance in lieu of providing accommodation, the allowance is initially assessable in full. However, when the employer utilizes the allowance to rent or buy a house, the prescribed value of accommodation and the excess of any housing allowance over housing expenditure (the unspent housing allowance) is to be treated as salary or wages of employees and taxed unless a variation has been obtained from the Commissioner General.

## Prescribed Values of Accommodation

TYPE OF HOUSING	AREA 1	AREA 2	AREA 3
High Cost	K700	K500	NIL
Medium Cost	K400	K300	NIL
Low Cost	K160	K150	NIL
Mess/Barracks Accommodation	K60	K50	NIL
Government Mess/Barracks	K700	K7	NIL
Approved Low Cost Housing Scheme	NIL	NIL	NIL

## Who can file a Housing Allowance Variation Application?

The Housing Allowance Variation application is a specific form which needs to be filled by all employees who **use their housing allowance to rent or purchase a house**. The form is available from the IRC.

- If an employee utilizes the housing allowance to pay for accommodation such an employee can file a variation application. So instead of the full amount of housing allowance being brought to tax, the housing allowance should be taxed as set out below.

## Housing Allowance used to Pay Rent

### Situation 1 : If housing allowance

### exceeds the amount of actual rent

then the prescribed value of accommodation PLUS the excess amount over rent expenses will be added to the fortnightly salary or wages.



Eg. An employee receives K2,000 as housing allowance. He pays K1,800 as rental for accommodation. He lives in Area 2 (Alotau) in a low cost house. He will therefore be taxed on the excess amount over rent paid., i.e. K200 plus the prescribed value of that accommodation which is K150. So K350 will be added to salary or wages income for tax purposes.

### Situation 2 : If the housing allowance is less than the actual rent

paid, then only the prescribed value of accommodation will be included in the fortnightly salary or wages and taxed.

## Housing Allowance used to Purchase a Home

- **Expenses which are allowable** for offset against the allowance are those which are associated with the house itself, such as interest on housing loans, rates, insurance, repairs and depreciation.
- The **expenses which are not allowable** are those associated in the house such as electricity expenses, domestic servants, gardeners, security staff, travelling expenses to and from the property, telephone/fax/TV, repair or replacement of household items, depreciation of household items (not being fittings).
- **Only the interest paid on housing loan is deductible.** The payment of installments in total cannot be claimed, as a certain part of such loan repayments also goes towards payment of the principal amount which is not deductible.



- **Rates, taxes and insurance** are deductible but only the insurance of the house itself is deductible and not insurance for the contents of the house i.e. insurance against burglary etc.
- Expenses on **repairs and body corporate fees** are deductible. Improvements and extensions are not allowable as these are capital expenses. Body corporate fees are only associated with owners of flats or units.
- Depreciation is deductible but only on the building itself and not on furniture, appliances etc.
- The other deductible expense is borrowing expenses (other than interest), such as legal fees, and stamp duties.

## Housing Allowance Variation Application

- The employee is required to complete a **new form each year** (preferably each January). If this is not done, the allowance should be fully taxed as additional salary or wages, after the following 28th of February.
- The employee is also **obliged to lodge an income tax return each year**. If this not done, then allowance should be fully taxed as additional salary or wages.
- The full amount of housing allowance paid (as well as any other allowances paid) should be shown on the employee's statement of earnings.
- The amount of the housing benefit should be shown on the statement of earnings.
- Where a **variation is obtained**, the employee is taxed on the prescribed value of accommodation and the amount (if any) of the housing allowance that exceeds the actual accommodation costs.
- Persons who are paid housing allowances under a Low Cost Housing Scheme **do not need to lodge a housing variation nor an income tax return**.
- **Low Cost Housing Schemes must first be approved by the Policy and Advice Division, 9th Floor, Revenue Haus.**

