

STANDING COMMITTEE REPORT NO. 14-58

RE: C.R. NO. 14-25

SUBJECT: TAX REFORM TASK FORCE RESOLUTION

SEPTEMBER 26, 2005

The Honorable Peter M. Christian
Speaker, Fourteenth Congress
Federated States of Micronesia
Second Regular Session, 2005

Dear Mr. Speaker:

Your Committee on Ways and Means, to which was referred C.R. No. 14-25, entitled:

"A RESOLUTION ENDORSING TAX REFORM FOR THE FEDERATED STATES OF MICRONESIA AS PROPOSED BY THE TAX REFORM TASK FORCE.",

begs leave to report as follows:

The intent and purpose of the resolution are expressed in its title.

To begin, the committee would like to thank the Tax Reform Task Force and especially its chairman, the Honorable Vice-President Redley Killion, for the hard and excellent work that they have done to date. Your committee has reviewed the Task Force's Report, has seen their presentation at a Public Hearing on September 21, 2005 and was duly impressed by the high quality of both.

Your committee agrees with the Task Force that there is a strong need to change the FSM's current tax regime. The current tax regime does not facilitate the economic growth of our private sector and, while simple, it is difficult to enforce because it does not consider a business' cash flow. The current tax regime also falls short of generating the necessary revenues to maintain the current level of government services in light of the \$800,000 per annum step-downs in Compact funding beginning in 2007.

Your committee endorses the Task Force's five-part tax reform plan and the establishment of an Executive Steering Committee. The five-part consists of: (1) eliminating the GRT and state sales taxes; (2) exempting lower incomes from the wages and salaries tax; (3) introducing a value-added tax and a lump sum tax for small businesses; (4) introducing a net profit tax for businesses, including an allowance for accelerated depreciation for capital improvements; and (5) creating a single independent tax authority to administer the new

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tax regime. Your committee stresses that the Task Force/Executive Steering Committee should always keep the unique circumstances of the Federated States of Micronesia at the front of its mind when seeking and implementing technical assistance. Your committee also acknowledges that the plan will take three to five years to be realized but asks the Task Force for guidance on which parts of the plan can be implemented today and to provide Congress with direction on how it can facilitate the implementation process. Your committee also requests the Task Force's input on the many tax reform initiatives currently before the committee, so that any immediate tax improvements can be incorporated with the Task Force's recommendations into a unified and cohesive tax reform.

Lastly, the committee would like to commend Mr. Larry Adams, a representative of the private sector on the Task Force, for his hard work and intelligent and frank comments. The committee hopes that Mr. Adams can continue to be involved with the Task Force/Executive Steering Committee and that his participation will further encourage the government and the private sector to act as partners in future initiatives to improve our economy.

Your Committee on Ways and Means is in accord with the intent and purpose of C.R. No. 14-25 and recommends that it be placed on the Calendar for adoption.

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Respectfully submitted,

Isaac V. Figir, chairman

Roosevelt D. Kansou, vice
chairman

Manny Mori, member

Dohsis Halbert, member

Simiram Sipenuk, member

Peter M. Christian, member

Claude H. Phillip, member