

STANDING COMMITTEE REPORT NO. 16-136

RE: C.B. NO. 16-148/T&C

SUBJECT: REMOVING GROSS REVENUES TAX EXEMPTION
OF FSM TELECOM

MARCH 28, 2011

The Honorable Isaac V. Figir
Speaker, Sixteenth Congress
Federated States of Micronesia
Sixth Special Session, 2011

Dear Mr. Speaker:

Your Committee on Transportation and Communication (T&C), to which was referred C.B. No. 16-148, entitled:

"A BILL FOR AN ACT TO FURTHER AMEND TITLE 21 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA, AS AMENDED, BY AMENDING SECTION 208 THEREOF FOR THE PURPOSE OF MAKING THE TELECOMMUNICATIONS CORPORATION SUBJECT TO THE GROSS REVENUE TAX, AND FOR OTHER PURPOSES.",

begs leave to report as follows:

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

Your Committee held a hearing in Palikir on March 23, 2011 to hear testimony regarding removing the Gross Revenues Tax (GRT) exemption of FSM Telecommunications Corporation (FSM Telecom). Present at the hearing were representatives from the FSM Department of Transportation, Communication and Infrastructure (TC&I), FSM Department of Finance and Administration (Finance), and FSM Petroleum Corporation (Petrocorp).

Chairman Neth opened the hearing with greetings and thanked the witnesses for attending the hearing. The Secretary of TC&I testified that the Department was in support of the bill and saw no obstacles to imposing GRT upon Telecom.

Members showed concern over the additional administrative costs placed upon Finance due to taxing Telecom. Representatives from

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Finance testified that taxing Telecom would not add substantial burden, but may still necessitate one new position in their audit section. However, representatives from Finance qualified this, stating there is currently need for one new position anyway, and that taxing Telecom itself would not require a new staff person's entire work. Your Committee understands that requesting additional personnel positions is not the responsibility of your Committee on T&C. Your Committee was only trying to gain an estimate of the administrative costs involved with taxing Telecom, in order to determine if bearing these costs were worth the potential increase in tax collection. Your Committee informed Finance of this to ensure there was no confusion.

Members then questioned representatives from TC&I about the loan balance Telecom currently holds. The concern was that the tax burden might inhibit Telecom's ability to service their debt. Representatives from TC&I were familiar with the amount of debt Telecom currently carries. The Department offered no reasons why this loan burden justifies Telecom's GRT exemption. Further more, it was discussed that during past meetings and hearings with Telecom, they had made it clear they were comfortable with and willing and able to bear the burden of the ORT. Chairman Neth closed the hearing by thanking all present for their participation.

CONCLUSION

Your Committee on Transportation and Communication is in accord with the intent and purpose of C.B. No. 16-148 and, upon concurrence of your Committee on Ways and Means, recommends its passage on First reading and that it be placed on the calendar for Second and Final reading.

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Respectfully submitted,

/s/ Dion G. Neth
Dion G. Neth, chairman

Tony O. Otto, vice chairman

/s/ Tiwiter Aritos
Tiwiter Aritos, member

Claude H. Phillip, member

/s/ Peter M. Christian
Peter M. Christian, member

/s/ Joseph J. Urusemal
Joseph J. Urusemal, member

Joe S. Suka, member