

STANDING COMMITTEE REPORT NO. 17-03

RE: C.B. NO. 17-01/T&C

SUBJECT: REMOVING GROSS REVENUES TAX EXEMPTION  
OF FSM TELECOMMUNICATIONS CORPORATION

MAY 26, 2011

The Honorable Isaac V. Figir  
Speaker, Seventeenth Congress  
Federated States of Micronesia  
First Regular Session, 2011

Dear Mr. Speaker:

Your Committee on Transportation and Communication (T&C), to which was jointly referred C.B. No. 17-01, entitled:

"A BILL FOR AN ACT TO FURTHER AMEND SECTION 208 OF TITLE 21 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA, AS AMENDED, BY PUBLIC LAW NO. 11-26, 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.

This report is based on the report of the Committee of Transportation and Communication of the Sixteenth Congress (SCR No. 16-136), which is reiterated herein as part of this report. The Committee on Transportation and Communication of the Sixteenth Congress 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), the FSM Department of Finance and Administration (Finance), and the FSM Petroleum Corporation (Petrocorp).

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The Secretary of TC&I testified that the Department was in support of the bill and saw no obstacles to imposing the GRT upon Telecom.

Members showed concern over the additional administrative costs placed upon Finance due to taxing Telecom. Representatives from Finance testified that taxing Telecom would not add a 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. The Committee understands that requesting additional personnel positions is not the responsibility of your Committee on Transportation and Communication. The Committee was only trying to gain an estimate of the administrative costs involved with taxing Telecom in order to determine if bearing these costs was worth the potential increase in tax collection. The 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 GRT.

**CONCLUSION**

Your Committee on Transportation and Communication is in accord with the intent and purpose of C.B. No. 17-01 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/ Peter M. Christian  
Peter M. Christian, chairman

/s/ Isaac V. Figir  
Isaac V. Figir, member

/s/ Florencio S. Harper  
Florencio Singkoro Harper, member

/s/ Berney Martin  
Berney Martin, member

/s/ Roger S. Mori  
Roger S. Mori, member

/s/ Bonsiano F. Nethon  
Bonsiano F. Nethon, member

/s/ Paliknoa K. Welly  
Paliknoa K. Welly, member

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