

STANDING COMMITTEE REPORT NO. 18-247

RE: C.B. NO. 18-237/R&D

SUBJECT: AMENDMENTS TO CORPORATE TAX

NOVEMBER 24, 2014

The Honorable Dohsis Halbert  
Speaker, Eighteenth Congress  
Federated States of Micronesia  
Fifth Special Session, 2014

Dear Mr. Speaker:

Your Committee on Resources and Development, to which was jointly assigned C.B. No. 18-237, entitled:

"A BILL FOR AN ACT TO AMEND SECTIONS 312, 313, 314, 322, 331, AND 352 OF TITLE 54 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA, AS ENACTED BY PUBLIC LAW NO. 13-171, AND AS AMENDED BY PUBLIC LAWS NOS. 14-110, 16-19, 16-52, AND 17-73, TO INCLUDE MAJOR FSM BRANCHES, AND FOR OTHER PURPOSES."

begs leave to report as follows:

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

The purpose of the bill is to amend the provisions under title 54 of the FSM Code to recognize Major FSM Branches under the captive insurance tax scheme. In the proposed bill, the characteristics of a FSM Major Branch include: not principally engaged in business in the Federated States of Micronesia as a bank, authorized by law to issue stock, organized under laws other than the laws of the Federated States of Micronesia for a purpose or purposes for which a corporation may be organized under the laws of the Federated States of Micronesia, which has a permanent establishment in the Federated State of Micronesia and whose paid-in-capital as of the beginning of its fiscal year is

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\$1,000,000 or more.

The bill defines *Permanent Establishment* as "a fixed place of business through which the business of an enterprise is wholly or partly carried on". A Major FSM Branch is not engaging in business in the Federated States of Micronesia if it only holds, buys, sells, transfers or otherwise transacts with overseas assets. For a FSM Major Branch to do or carry on business in the Federated States of Micronesia, it has to meet the requirements under section 314(2) of title 54.

A Major FSM Branch that does not have a previous fiscal year to determine its Tax Deposit because it newly created a Permanent Establishment in the FSM shall be exempt from the payment of Tax Deposit and any filing requirement pertaining to the Tax Deposit. Also, a Major FSM Branch can request a reduction or waiver on its Tax Deposit subject to the approval by the Secretary of Finance and Administration, however, such approval must not be unreasonably withheld.

If this bill becomes law, a Major FSM Branch will earn income from offshore transactions and pay the corporate tax to the National Government on the income generated from offshore transactions. The definition of *Overseas assets* is "assets or property located outside of the Federated States of Micronesia".

Your Committee on Resources and Development is in accord with the intent and purpose of C.B. No. 18-213 and upon concurrence with the Committee on Ways and Means recommends its passage on First Reading, and that it be placed on the calendar for Second and Final reading in the form attached hereto as C.B. No. 18-237.

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Respectfully submitted,

/s/ David W. Panuelo  
David W. Panuelo, chairman

Victor Gouland, vice chairman

/s/ Tiwiter Aritos  
Tiwiter Aritos, member

/s/ Berney Martin  
Berney Martin, member

Joseph J. Urusemal, member

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

Paliknoa K. Welly, member