

PREFACE

Dr. John R. Tabb, Dean of the School of Business Administration, Old Dominion College, Norfolk, Virginia, was retained by Robert R. Nathan Associates, Inc., to perform the research and analysis involved in this study. He spent more than seven weeks in the Trust Territory in the preparation of the report which is presented in the pages which follow.

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PUBLIC FINANCE IN MICRONESIA

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Prepared For
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Robert R. Nathan Associates, Inc.
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TABLE OF CONTENTS

CHAPTER	PAGE
PREFACE	ii
INTRODUCTION	v
I. SURVEY AND ANALYSIS OF EXISTING PUBLIC FINANCE STRUCTURE	1
General Overview of Organization of Government	1
Trust Territory Government	1
Micronesian Governments	2
Spending Programs Authorized under Public Law 1-6 of the laws of the Congress of Micronesia	3
Municipal Spending	3
District Spending Programs	8
Congress of Micronesia Spending Programs	13
Tax Programs Authorized Under the Laws of the Congress of Micronesia ...	16
Municipal Levels of Government	16
District Legislatures Revenue Programs	22
Collection of Congress of Micronesia Taxes	24
Public Law 1-9, Excise Tax on Motor Vehicle Fuel	25
Public Law 1-10, Export Tax on Copra, Trochus and Scrap Metal	27
Public Law 1-13, Taxes on Imports	29
Summary of Public Finance Activities in Micronesia	30
Municipal Governments	32
District Government	32
Congress of Micronesia	33

04-426265

CHAPTER	PAGE
II. ESTIMATE OF REVENUE NEEDS AND POTENTIAL ...	35
Future Revenue Needs	36
Revenue Potentials	37
Capacity of Micronesian Governments ...	37
Economic Development Prospects	39
Micronesian Revenue Prospects	40
Summary of Public Finance Needs and Prospects in Micronesia	42
III. RECOMMENDATIONS--CONCEPTUAL, PROCEDURAL AND IMPLEMENTING	43
Principles of Public Finance for Micronesia	43
Procedural Recommendations - General	47
Procedural Recommendations - Implementing	50
Trust Territory Government	50
Congress of Micronesia	53
District Legislatures	55
Municipalities	56
APPENDIX A	58
APPENDIX B	67
APPENDIX C	70
APPENDIX D	73
APPENDIX E	77
Table 1. Tax Revenues Made Available to District Legislatures under Public Laws 1-9, 1-10, and 1-13, October 1, 1965 - April 30, 1966	23
Table 2. Tax Revenues Under Laws Passed by Congress of Micronesia, October 1, 1965 - June 30, 1966	31

INTRODUCTION

This report is part of a larger activity in which the Robert R. Nathan Associates firm of economic consultants has been engaged to prepare an economic development program for the Trust Territory of the Pacific Islands. The particular study is an examination of the public finance structure in the Territory. Its specific task is to survey the current situation of tax and spending programs, determine revenue needs and potential, and to make specific recommendations for desirable changes.

No attempt is made to provide widespread historical data on the Micronesian economy or governmental structure. This information is largely available from other sources -- particularly the Trust Territory reports to the United Nations and the Nathan study reports. The point of departure in this report will be that of 1965-1966 and only flash-backs necessary for understanding will be included.

Certain limitations must be noted in consideration of the information presented here. The period of time (7 weeks) allotted for field work, investigation, and analysis of the existing situation was unfortunately much too short to obtain more than an overview. Data, particularly at the district and municipal level, were difficult to obtain and contained several points of inconsistency or inaccuracy. Travel in the Trust Territory and problems of communication present real obstacles to in-depth analysis. Much that is included is opinion -- informed opinion -- but still difficult to document.

Certain assumptions and conclusions, however, are readily apparent and serve as a set of premises on which this study is based. Specifically, they are that the provision of public services in the Trust Territory is, and will be for some time to come, primarily underwritten by direct appropriations and grants from the Congress of the United States. This is in keeping with the spirit of the trust agreement. In the agreement, however, there is the understanding that the development of self-government by Micronesians must be accompanied by the

assumption of increasing degrees of responsibility by Micronesians. This, in turn, means that increased public revenues must be made available to finance the broad structure of public services that Micronesians are interested in having provided. True self-government will only exist in Micronesia when these public services are financed largely by Micronesians. In the meantime a partnership in activities and financing must depend on efficient, well-planned, and equitable tax-spending programs. It is the intent of this study to present recommendations aimed at improving the present structure as well as laying a foundation for future growth.

CHAPTER I

SURVEY AND ANALYSIS OF EXISTING PUBLIC FINANCE STRUCTURE

General Overview of Organization of Government

Trust Territory Government

Under the United Nations trusteeship agreement, authority to administer Micronesia is vested largely in the Office of the High Commissioner. This authority is now mainly executive and administrative authority with legislative activity in the hands of the newly established Congress of Micronesia. The headquarters staff is placed under the supervision of four assistant commissioners for Public Affairs, Community Services, Resources and Development, and Administration. Several offices or departments provide staff services for headquarters and field offices.

Each district in Micronesia is headed by a District Administrator who is primarily responsible, under the supervision of the High Commissioner, for administrative control of the specific district. Departments include Administration, Agriculture, Education, Land and Claims, Medical Services, and Public Works. The District Administrator also serves in an executive capacity with the legislative bodies in the district, and carries executive responsibility in working with municipal governing bodies.

The judicial system works independently of the Office of the High Commissioner and the legislative branches of government. The Chief and Associate Justice are appointed by, and are responsible to, the Secretary of the Interior of the United States. They, in turn, carry out administrative supervision of the High Court, and district and municipal courts.

Almost all of the public services in the Trust Territory are being provided for by expenditures of funds appropriated

04-426269

by the United States Congress. These activities include provision for education, public health, legal and public safety, construction and maintenance of transportation services, communication services, and all administrative services necessary to maintain efficient operations of the communities served. Activities were budgeted under Trust Territory Administration at about \$7,500,000 or less until fiscal year 1963 when the authorization was increased to \$15,000,000. There was a further increase in fiscal 1964 to the present level of \$17,500,000. During fiscal 1966 these funds were spent primarily on education, public health, and construction and maintenance of public buildings and roads.

Approximately twice the current budget level is currently being requested from the U.S. Congress to provide for major increases in construction of capital improvements and increased programming in 1967 and 1968. In addition, approval has been secured for the introduction of several hundred Peace Corps volunteers beginning in 1966. The general intent of this increased scope of activities is to accelerate programs aimed at providing major public services and facilities in the Trust Territory while developing in Micronesians the will and ability to handle more fully their own affairs. At the time of this writing, it is too early to forecast the magnitude of this additional spending, but it is likely that there will be a considerable impact on the Micronesian economy.

Micronesian Governments

The newly formed Congress of Micronesia, the district legislature bodies, and the municipal governments have been charged with certain responsibilities and to the extent that finances are available have conducted some operations in the area of public service.

The Congress of Micronesia met for the first time in 1965 as the officially recognized legislative arm representing all of Micronesia. The body is comprised of 12 members of the Senate (two from each district) and 21 members of the House of Representatives. The Congress has legislative powers extending to all rightful subjects of legislation which are

04-426270

not in conflict with U.S. laws and executive orders constraining this activity. As part of this broad legislative authority the group has the power, subject to the veto of the High Commissioner, to pass tax laws and appropriation measures covering funds available from tax revenues. During 1965 the Congress of Micronesia enacted Public Law 1-6 which specified responsibilities and tax sources reserved for each level of government.

In each of the districts there exists a legislative body primarily responsible for conduct of legislative matters as specified in the charter granted by the High Commissioner. Actions of these district legislatures become district law when approved by the District Administrator and the High Commissioner. Tax laws and appropriations measures may be passed by these groups for provision of such public services as can be financed by funds available through tax revenues.

Most of the municipalities in Micronesia operate with loosely organized governmental structures under the Office of the High Commissioner (through the District Administrator) and conduct such public service operations as can be financed with locally derived tax funds. There is considerable variation in the size and character of these groups, but in general there exists a municipal council and magistrate responsible to the people of that area in conducting municipal government affairs. Whereas the Congress and district legislatures are a relatively new form of activity, these municipalities (formal or informally organized) have been on the Micronesian scene for many years. Accordingly, a closer tie to the people exists, and most Micronesians feel that this is all the government they need.

Spending Programs Authorized under Public Law 1-6 of
the Laws of the Congress of Micronesia

Municipal Spending Programs

The primary responsibilities of municipalities, towns and local governments are specified under Section 3 of Public Law 1-6 of the Congress of Micronesia (See Appendix A). In

04-426271

general, they provide for (1) legislation affecting peace, safety, and public welfare; (2) licensing retail businesses; (3) collection of specific taxes and license fees; (4) construction and maintenance of local roads and docks not the responsibility of other levels of government; (5) all necessary law enforcement; (6) providing services and facilities for the courts; (7) undefined support of public education; and (8) undefined support of public health.

There is a considerable variation in the size and complexity of the various municipalities. They range from the single small village on a remote island to the large and busy municipality which includes all of Saipan and part of the rest of the Marianas' chain of islands. The degree to which they are, in fact, carrying out the responsibilities outlined above will vary considerably with size and degree of political sophistication of the area served.

Sizable operations by municipal governments are limited to those which are district centers or have larger concentrations of population. In most of the other areas public services are mainly restricted to that of law enforcement and control of the few retail businesses which may exist. The following examples of spending programs authorized by municipal ordinance by the larger municipalities illustrate the range and scope of these activities but do not try to generalize on all of the programs of the small and usually loosely formed municipal governments. A further note on interpretation is necessary. Budgeted expenditures (and revenues) are usually quite different from actual spending. Although actual data were not available, almost all municipalities report that limitations on revenue collections led to curtailments in planned spending.

04-426272

Budgeted Expenditures, 1965-66, Kusaie Municipality,
Ponape District

Chief Magistrate Salary	\$ 384
Secretary Salary	324
Secretary Salary	324
Councilmen Salary	1,632
Sanitarian Salary	120
5 Policemen Salary	420
4 Public Works Supervisors	336
3 Village Health Aids	180
Public Works Projects	7,822
Repair Maintenance	682
Building Fund	400
Official Travel	200
Official Supplies	100
Miscellaneous	<u>61</u>
	\$12,985

Budgeted Expenditures, 1965-66, Kolonia Municipality,
Ponape District

Salaries:	
Mayor	\$ 1,200
Treasurer	720
Clerk	540
Public Works Officer	720
Police	90
Councils	216
Office Supplies and Equipment	1,100
Repair and Maintenance	300
Public Works Program	4,800
Miscellaneous	466
Accrued Liabilities:	
Officials Salaries	<u>3,019</u>
	\$13,171

04-426273

Budgeted Expenditures, 1965-66, Koror Municipality,
Palau District

Salaries:	
Magistrate	\$ 2,943
Treasurer	1,705
Tax Collector	1,185
Census Clerk	1,060
Municipal Police	4,565
Other	1,620
Congressmen's Compensation	600
Municipal Council (salaries)	1,620
Office Supplies and Equipment	500
Municipal Projects	3,000
Miscellaneous	<u>640</u>
	\$19,438

Budgeted Expenditures, 1965-66, Moen Municipality,
Truk District

Salaries for Council and Administrators	\$ 5,162
Pay for Village Chiefs	387
Village Secretaries	97
School Site	994
Salaries for School Cooks	2,340
Village School Expense	1,200
Scholarship	1,324
Police and Brig Expense	2,880
Office Supplies	961
Miscellaneous	<u>1,392</u>
	\$16,737

Budgeted Expenditures, 1965-66, Saipan Municipality,
Marianas District

Administration	\$14,351
Internal Affairs	4,586
Finance	3,224
Public Safety	6,600
Agriculture	3,543
Public Works	33,930
Legislature	<u>7,000</u>
	\$73,234

In the above budget a total of \$50,459
of the total was for personal services.

04-426274

While these budgets are presented as illustrative of the type of activities generally being undertaken by municipal forms of government in Micronesia, they also illustrate several of the problems these governments face. For example, in most of these budgets the data show (s) approved budgeted expenditures although in most cases actual spending was somewhat less. This usually resulted from situations in which estimated revenues to support the expenditures were not, in fact, forthcoming to the amount forecasted. In these situations spending was accordingly cut to levels dictated by funds actually available. In most cases the reduced expenditures were in the category of postponable public works projects. Salaries and general overhead costs of government were usually the last to be reduced.

Although costs of personal services seemed to represent unduly high proportions of total expenditures for most municipal governments, there was found a notable reluctance to reduce either the proportion or the actual amounts of these budgeted items. In some of the localities visited during field trips the opinion was expressed that current levels of spending on salaries of municipal officers was inadequate and was being held down to existing levels only because of shortages of revenue.

In almost all municipalities there are projects which are not being undertaken even though there is some responsibility either under the law or in terms of announced policies. While this is often due to lack of funds there is a strong undercurrent of confusion in many of the municipalities as to the extent of municipal responsibility for such things as road maintenance, school buildings maintenance and support, and other forms of public works projects.

Most actual project-oriented spending performed in or for local communities is done with Trust Territory funds or with grants-in-aid from district legislatures. As a result, most municipalities have little direct control over major items such as construction and educational programs taking place in their areas. This tendency to rely on district legislatures or the staff of the district administrator to provide major public services leads to frustration when spending is not consistent with local priorities and felt needs. In many, many situations the opinion was expressed

04-426275

that spending decisions were made by levels of government not sufficiently informed or sympathetic to local needs. Although most local government budgets reflected the same condition, there is a strong feeling in most localities that the citizenry is receiving very little in actual public services for the tax monies being collected and spent by higher levels of government.

Municipal officials generally seem to favor strong municipal government conducting a broad range of public service activities according to local priorities. Actual conditions generally vary from this due to lack of revenues and the tendency for decisions to be made by district-oriented officials in Trust Territory administration and/or district and Congress of Micronesia legislatures who seemed to be more oriented to centralized decision making.

Spending activities in most of the municipalities suffer from lack of planning, lack of coordination with district levels of government, lack of adequate fiscal controls and records and, of course, lack of revenues. The level of sophistication in administration in all but the larger units seems to be a positive handicap to efficiency in operations. In these larger units planning and conduct of public service activities is handicapped mainly by lack of revenues sufficient to conduct programs which are needed and in some cases legally the responsibility of the municipality. Most district center municipalities, for example, have activities and problems of a greater degree because of the variety and scope of activities which gravitate to the district center. They may not have, however, the additional revenues to meet the additional responsibilities.

District Spending Programs

The primary responsibilities of the district governments are specified under Section 2 of Public Law 1-6 of the Congress of Micronesia (See Appendix A). These generally are: (1) liquor control, (2) land law, (3) inheritance law, (4) domestic relations, (5) construction and maintenance of docks and secondary roads connecting two or more municipalities, (6) licensing of wholesale businesses, (7) collections of specified taxes and authorization of other municipal taxes, (8) undefined support of public education, and (9) undefined

04-426276

support of public health. While the District Administrator is the district arm of the High Commissioner, he also acts as executive to the district legislative bodies. A considerable shift in spending functions occurred with the organization of the Congress of Micronesia as many functions (and tax revenues to support them) that were previously conducted by the district government were shifted to the Congress. The Congress, however, relies on district government to be the point of entry for Congressional programs, e.g., tax collection. The following data are presented as a summary of Micronesian spending activities in the districts. The data are for illustrative purposes, and it should be noted that most district legislatures have varied their spending programs considerably from year to year. Most are now talking about greater use of the grant-in-aid concept in achieving goals at the municipal level. Again, budgeted expenditures are not necessarily actual expenditures.

04- 426277

Budgeted Expenditures, Truk District Legislature, 1965-66

Legislative Office Staff	\$ 6,835
Legislators	7,452
Office Supplies	400
Miscellaneous	300
Recreation	3,000
Miscellaneous and Blood (donations)	800
TB Patient Transportation	100
Entertainment	2,000
Standing Committees	1,000
Student High Ranking Award	100
Magistrates Salaries	1,800
Broadcasting Station	5,000
Low-cost Housing	15,000
Legislators Allowance	1,100
Scholarship Fund	15,000
Airport Building	3,000
Truk Congressmen Entertainment	1,000
Magistrates allowance	500
Women's Club House	5,000
Items proposed but vetoed by Trust Territory officials:	
Student Stipends	\$5,000
Municipal grant-in-aid	5,000
Municipal Police	7,500
	<u>17,500</u>
	\$95,887

Budgeted Expenditures, Palau Legislature, 1965-66

Legislators Personal Services	\$11,820
Salaries and Wages--Other Officials	6,901
Equipment and Supplies	900
Refreshment Fund	500
Legislators Transportation	100
Presidential Special Fund	100
Janitor	686
Community Center Building Repairs & Activities	1,500
Palau Museum	<u>428</u>
	\$22,935

04-426278

Budgeted Expenditures, Marshall Islands Congress,
Calendar 1965

Meeting Fund	\$ 19,000
Office Salaries	10,500
Administrative Equipment and Expense	1,200
Entertainment Fund	1,500
Travel Expense	1,500
President's Special Fund	100
Economic Development Fund	12,000
Scholarship Fund	20,000
Revolving Fund	10,000
Health Aid Salaries	6,000
Medical Emergency Fund	6,000
Outer Dispensaries Fund	5,000
Jaluit-Namorik Municipal Salaries	2,500
Medical Equipment Procurement Fund	8,000
WSEO Operators Salaries	1,100
Plus Obligations Payable:	
Economic Development Fund	13,652
WSEO Operators Salaries	552
Medical Emergency Fund	3,085
Revolving Fund	959
Miro Recreational Fund	1,190
Congress Building Fund	<u>9,000</u>
	\$132,848

Budgeted Expenditures, Marianas District Legislature, 1965-66

Legislative Expenses	\$17,962
Staff Salaries	5,150
Election Expenses	600
Office Supplies and Equipment	4,478
Radio Station Equipment	2,000
Contingency Fund	1,574
Agricultural Loan Emergency Fund	3,000
Grants-in-Aid	5,960
Public Works	<u>6,500</u>
	\$47,224

04- 426279

Budgeted Expenditures, Ponape District Legislature, 1965-66

Salaries:

Legislators	\$13,200
District Treasurer	3,132
Legislative Clerk	1,785
Additional Employees	1,200

Allowances:

Legislators Travel and Per Diem	1,167
Celebration for 1965 UN Day	2,000
Aid Fund for District Sanitation Dept.	1,500
Refreshment Fund	750
A Fund to subsidize the Construction of the Ponape Women Assn. Work House	1,000
Payment for Trochus Inspectors & Gasoline	1,330
Construction & Maintenance of Reef Markers	10,000
Office Supplies	100

Funds:

Scholarship	2,685
Contingency	2,000
Broadcasting Station	<u>5,139</u>
	\$46,988

Budgeted Expenditures, Yap Congress, 1965-66

Yap Islands Congress	\$ 7,360
Yap Islands Council	13,066
Treasurer's Office	5,908
Agriculture	5,912
Public Health Aids	1,572
Department of Education	9,574
Community Offices	8,215
Yap Municipal Government Building	20,000
Roads and Canals	12,500
Yap Islands Housing Authority	10,000
Miscellaneous	<u>900</u>
	\$95,007

04-426280

Any evaluation of spending programs by district legislatures and financed by district tax revenues must first start with the considerable differences existing between districts in the scope and magnitude of operations. The amount of revenues available, the differences in population density, and the level of economic activity all require different reactions in spending programs. Also there seem to be differences of philosophy between the districts as to the extent to which district projects should be undertaken through grants-in-aid vs. direct action. Some districts have strong public works programs -- others very little; some spend mostly on aid to municipalities, others mainly on district-wide projects; some spend the entire amount of revenues, others retain balances in building and contingency funds.

In all cases, however, there appears to be a disproportionate amount allocated to support of the legislators themselves. Salaries, per diem, and entertainment expenses often amount to 25-30 percent of the total budget and are allocated before staff personal services and project-oriented programs are financed. If revenues realized limit expenditures, this proportion is even greater.

Some attempt has been made to finance public housing, and most districts are involved in financing road and harbor construction or maintenance. These activities are worked out with the District Administrator whereby equipment, staff and some financial support are merged with funds provided by the legislature. In many cases this leads to, or causes, greater misunderstanding of the role of the district legislatures vs. that of the district office of the Trust Territory Government.

In most of the districts, projects are more clearly thought out than at the municipal level; there generally appears to be more adequate record keeping and control of funds; and the existence of greater administrative skills leads to greater efficiency in the spending process. This probably is due to the close relationship existing between the district legislature and the staff of the District Administrator's office. Many of the district legislators live in the district center or even work for the district administration.

Congress of Micronesia Spending Program

The primary responsibilities of the Government of the Trust Territory are specified under Public Law 1-6 of the

04-42628i

Laws of the Congress of Micronesia (See Appendix A). These generally include:

1. Problems of Territory-wide concern including relations with the U.S. and other governments.
2. Construction and maintenance of primary roads and harbors.
3. Control of corporations, financial organizations, and public utilities.
4. Control of business activities by non-citizens.
5. Control of licensing of import-export types of businesses.
6. Making grants to districts and municipalities.
7. Exclusive control of import, export, and income taxes.
8. Support of judicial activities.
9. Undefined support of public education and health.
10. Law enforcement as specified in the Code of the Trust Territory.

Executive Order 2882 issued by the Secretary of the Interior in 1964 and amended in 1965, in outlining the legislative role of the newly formed Congress of Micronesia, specified that: "Money bills enacted by the Congress of Micronesia shall not provide for the appropriation of funds in excess of such amounts as are available from the revenues raised pursuant to the tax laws and other revenue laws of the Trust Territory." This has been interpreted to mean only those funds which have been raised as a result of tax laws passed by the Congress (and to exclude operational or commercial-type revenues of operations of the Trust Territory Government) will be available for appropriation by the Congress.

The Congress met for the first time in July 1965 and was to consider a budget for FY 1966 and FY 1967. Public Law 1-11 was passed which authorized expenditures during FY 1966

04-426282

of \$146,562 to meet the costs of the Congress during that year. This was financed in part by a U.S. Congress appropriation of \$50,000 with the remainder coming from locally derived tax revenues. At that same session Public Law 1-12 was passed authorizing an expenditure of \$145,000 to cover the operational costs of the Congress for FY 1967. Although discussions were held in both houses, no formal appropriation bill was passed to provide for expenditures on any other items during FY 1967.

As a result of the problems inherent in the formation of the new legislative body, there has been no expenditure of tax revenues by the Congress of Micronesia on measures beyond that of supporting the legislative activities of the group itself. At the time this report is being written, the Congress is in session and is considering the disposition of revenues expected to be available in the FY 1968. Estimated revenues available will support the activities of Congress, and it is estimated that with existing tax sources there will be approximately \$115,000 remaining to finance other activities and/or to provide grants to the district or municipal governments.

In the meantime, Congressional spending has included compensation to the members of Congress, salaries of staff members including a Legislative Counsel, travel allowances and operations and maintenance of the group during their sessions and for such interim meetings as are deemed necessary. Revenues from existing tax sources are not anticipated to be large enough during FY 1967 and FY 1968 to provide for increases in these legislative costs except at the expense of aid to district or municipal public services. There appears to be strong sentiment that the Congress should fund spending programs in the districts that revenue limitations which currently preclude such activities need to be dealt with.

04-426283

Tax Programs Authorized Under the Laws of the
Congress of Micronesia

Municipal Levels of Government

Public Law 1-6 of the Laws of the Congress of Micronesia authorizes municipalities, towns and local governments to levy taxes on property, head (per capita) taxes and such excise taxes as the district may authorize. Other revenues are available through collection of license fees levied in the control of retail businesses within the municipality. In the larger municipalities a certain amount of commercial revenue is raised. Some of the larger municipalities (particularly Saipan) collected export and import taxes prior to Congress of Micronesia restrictions. They now face the need of either finding additional major sources of revenue or shifting spending programs to other levels of government.

There is a very wide range of tax practices being followed by the municipalities. Although most do collect license fees, they range considerably in amount as type and size of retail businesses vary from area to area. Such license fees include a general business license fee, driver's license, bicycle license, firearms license, dog license, cock-fight licenses, and others.

The head tax is the most nearly universal municipal tax throughout Micronesia. It varies in amount from as little as \$1.00 to as much as \$10.00 per year (usually \$2-\$3) and is generally levied on males 18 years of age or older. In some municipalities the tax may be paid in cash or through the donation of a specified amount of labor on community projects. The tax is generally not popular with the taxpayers or tax collectors and has been poorly enforced. In some municipalities as little as 25-30 percent of the amount due is in fact collected. Tax collectors frequently mentioned that those not paying the tax were often those most able to afford the payment. It appears to be deep-rooted in custom, however, and these communities with little economic activity or other developed sources of revenue seem content to retain this tax measure.

Although local governments are authorized by law to collect levies on property, most do not in fact. Taxes on land have been generally thought to be impossible to enforce

04-426284

in view of absence of clear title to individually held land. Much of the land in the Territory is, of course, held in the name of the clan or other large groups of individuals or is in the public domain.

In at least two districts, however, municipal taxes are levied on houses, and in most of the larger communities items of personal property such as boats, vehicles, coconut trees, dogs, and monkeys are taxed. Rate structures vary considerably and usually are based on some measure other than value.

Excise taxes generally do not exist in most of the localities in Micronesia. The only sizable exception to this generalization is the category of amusement taxes levied on amusements (such as theaters) and gaming (such as cock-fights, bingo and Bato). Many of the localities are currently considering these forms of revenue, but as yet few measures have been submitted to the district governments for approval.

The degree of efficiency with which taxes are collected varies a good deal between localities, but in general leaves much to be desired. In the smaller communities license fees comprise the largest form of revenue and are generally collected. Taxes (such as the head tax) are difficult to collect by municipal officials who have little enforcement powers under the law, and face social problems in collection from individuals who occupy prominent positions or who are often relatives. Public Law 1-6 of the Congress of Micronesia states that no municipal ordinance may provide for any penalty greater than \$25.00 or 30 days imprisonment. Even these small penalties are not in fact used in enforcing tax collection. Patterns for non-compliance are often set by community leaders, in some cases the legislators themselves. The heavy reliance on license fees for purposes of revenue often leads to reluctance to enforce licensing controls for fear of loss of revenue. The end result of these revenue measures at the municipal level is that almost all municipalities feel that they are badly in need of more revenues to carry on even existing programs and responsibilities. At the same time there seems to be a reluctance to increase present tax rates or pursue tax collections more vigorously.

04-426285

The following budgeted revenues of several of the larger municipalities are presented to illustrate the variety and magnitude of tax sources being used but have the usual limitation of being an overstatement of funds actually available.

The following table shows the estimated revenues for the year 1960 for several municipalities. The figures are in thousands of dollars and are based on the best available information at the time of preparation of the budget.

The total revenues for the year 1960 are estimated to be \$1,000,000. The major sources of revenue are property taxes, sales taxes, and income taxes. Other sources include license fees, interest on bonds, and grants from the State.

The following table shows the estimated revenues for the year 1960 for several municipalities. The figures are in thousands of dollars and are based on the best available information at the time of preparation of the budget.

Budgeted Revenues, Kusaie Municipality, Ponape District,
1965-66

Wholesale License	\$ 350
Retail Store License	260
Restaurant	140
Beer License	75
Land Transportation	37
Fish Market	15
Boat License	37
Head Tax	1,080
Copra Tax	1,075
Mangrove Tax	300
Registration Fees	200
Dog Tax	100
Firearm Permits	25
Drivers' Licenses	35
Saw Mill License	10
Public Works Tax	
(value of contributed labor)	<u>9,246</u>
	\$12,985

Budgeted Revenues, Kolonia Town, Ponape District, 1965-66

Public Works Improvement Tax	\$ 1,500
Public Works Improvement Tax (labor)	3,300
Business License Fees	1,430
Vehicle Registration	751
Delinquent Tax	5,939
Miscellaneous	<u>250</u>
	\$13,170

04-426287

Budgeted Revenues, Koror Municipality, Palau District,
1965-66

Head Taxes	\$ 5,570
Motor Vehicle	2,034
Watercraft	336
Firearms	237
Dog and Monkey Tax	90
Business License Fees	5,300
Vehicle Registration Fees	2,635
Drivers' License Fees	300
Building Permit Fees	12
Butchers' Certificate Fees	75
Party Permit Fees	120
Firearms Registration Fees	475
Municipal Land Tax Rental	24
Delinquent Taxes	771
Unexpended Balance	<u>1,400</u>
	\$19,379

Budgeted Revenues, Moen Municipality, Truk District,
1965-66

Head Tax	\$ 2,000
Store Licenses	2,100
Copra Tax	1,000
Restaurant License	270
Fishing License	360
Bakery License	200
Taxi License	600
Beer License	400
Bingo License	500
Registration Fees	2,000
Interest on Investment	1,713
Other Licenses	735
Investments and Cash on Hand	<u>5,860</u>
	\$17,738

CA-426288

Budgeted Revenues, Saipan Municipality, Marianas District,
1965-66-67

	<u>1965-66</u>	<u>1967</u>
Copra Tax	\$ 2,541	None*
Scrap Metal Export	564	None*
Import Tax	9,501	None*
Gasoline	5,529	None*
Movie	2,000	\$ 1,600
Soft Drinks	1,908	None*
Tobacco	5,619	None*
Vehicle Registration & Inspection	5,250	6,400
Driver's License	415	465
Firearms Registration	300	400
Cicycle Registration	100	50
Dog License	100	200
Interest Income	3,000	1,200
Building Rental	480	505
Hospital Charges	500	100
Head Tax	200	50
Health Tax	200	50
Miscellaneous, Administration	200	50
Market Commissions	1,000	700
Business License	6,000	7,000
Cock Fight License	500	500
Bato Game License	250	250
Bingo License	1,000	1,000
Utility Income	11,000	2,000
Trash Hauling Charges	500	300
Electrical and Plumbing Services	200	150
Gasoline Hauling Charges	1,600	1,200
Transportation and Equipment Rental	3,000	4,000
Miscellaneous	<u>600</u>	<u>600</u>
	\$64,057	\$28,770

*Pre-empted by Congress of Micronesia Public Law 1-6.

04-426298

District Legislatures Revenue Programs

Public Law 1-6 of the Laws of the Congress of Micronesia provides the authority for district legislatures to collect license fees from wholesalers, levy taxes on alcoholic beverages (if not on the basis of imports) and to impose sales taxes. Most of the districts do have wholesale license fee schedules; most have an alcoholic beverage control program in which license fees and taxes are levied on the sale of beer and whiskey. Most do not have a general sales tax as provided for in the law but receive major revenues from their share of the taxes collected under the provisions of Congress of Micronesia tax laws.

04-426299

Table 1. Tax Revenues Made Available to District Legislatures under Public Laws 1-9, 1-10, and 1-13, October 1, 1965-April 30, 1966

	Motor Vehicle Scrap Metal			
	Fuel Tax	Export Tax	Import Tax	Totals
Marianas	\$11,352.78	\$ 3,914.69	\$ 23,551.58	\$ 38,819.05
Palau	3,719.48	---	11,378.47	15,097.95
Yap	939.16	---	20,302.79	21,241.95
Truk	3,130.63	---	35,259.13	38,389.76
Ponape	1,797.00	---	23,383.07	25,180.07
Marshalls	31.80	---	21,897.37	21,929.17
Totals	\$20,970.85	\$ 3,914.69	\$135,772.41	\$160,657.95

The Yap Islands Congress recently enacted a sales tax on all alcoholic beverages at the rate of \$.03 per eleven fluid ounces on all beer and malt beverages and \$2.00 per gallon on all distilled alcoholic beverages sold in the Yap Islands. Since 1961 the Marshall Islands Congress has been (and in 1966 still was) collecting a salary tax of one percent on gross salaries paid to all indigenous permanent residents of the Marshall Islands who were employed on a salary basis. Certain individuals were exempted; provisions were made for withholding at the source. The collection of this tax is reported to have ceased during the summer of 1966. District legislatures are currently discussing imposition of new taxes on sales but as yet no widespread action has been taken. Most groups reportedly were awaiting clarification of the intent of PL 1-6 in its reference to "excise taxes", "sales taxes", and "taxes on imports and exports".

Collection of Congress of Micronesia Taxes

Public Laws 1-9, 1-10, and 1-13 provide for the return to district legislators of part of the funds collected in the name of the Congress of Micronesia (see Appendices B, C,D). This generally provides for 80 percent of the motor vehicle fuel tax revenues, and 50 percent of the import and export tax revenues to be made available to district legislatures to finance district activities. Most of the district legislatures had similar tax laws prior to their assumption by the Congress and it is generally concluded that this sharing arrangement was necessary to provide for a continuation of public service programs at the district level. The tax laws applicable to motor vehicle fuels and imports did not take effect until October 1, 1965, and the new tax law applicable to exports provided for taxes on export of scrap metal to be effective October 1, 1965, and taxes on export of copra and trochus to become effective July 1, 1966. During the year 1965-66 copra was taxed under previous tax measures in Section 1145(b) of the Code of the Trust Territory but the funds were not made available for appropriation by the Congress of Micronesia.

Public Law 1-6 of the Congress of Micronesia provides in Section 2(b) that "there shall be on the staff of the District Administrator, a District Treasurer, appointed by the district legislature.... He shall receive a salary for his services from the appropriated district funds." (Appendix A). The District Treasurer's duties are specified as:

04-426301

1. Receive, maintain, and disburse funds under the authority of the district legislature and under the direction and supervision of the District Administrator.

2. Keep complete and accurate records of all funds received, maintained, and disbursed by him in such a manner as prescribed by the District Administrator (such records shall be open to inspection and audit by the district legislature, District Administrator and the territorial government) .

3. Submit an annual report to the District Administrator and the district legislature of all funds received and disbursed by him during each fiscal year.

4. Act as collection and fiscal agent for the territorial government as required by law.

Presumably, the District Treasurer is primarily responsible for the collection of taxes which are levied by the Congress (but collected at the district level) as well as those levied by the district legislatures. In most districts this is not the case and taxes are collected by a member of the staff of the District Administrator. This is undoubtedly the result of a regulation issued by the Budget and Finance Office of the Trust Territory Headquarters in which interpretation of Secretarial Order 2882 led to an announcement that the District Administrator, not the District Treasurer, was responsible for the collection of taxes. Though in most cases there is cooperation between the district legislatures and the district staff, the resulting confusion has hindered the process of collecting taxes.

Public Law 1-9, Excise Tax on Motor Vehicle Fuel

Public Law 1-9, passed in the first session of the Congress of Micronesia, provides for a levy on the use, distribution and/or sale of motor vehicle fuel (see Appendix B). Gross collections under the measure totaled \$35,129.40 during the period October 1, 1965 (when the law took effect) through June 30, 1966. Refunds (under a provision whereby users other than land vehicles using highways may collect refunds on taxes paid) totaled \$3,563.71

04-426302

The remaining revenues were shared between the districts and the Congress of Micronesia on the established 80-20 percent pattern.

Tax collectors reported that the established procedures for collecting the tax were simple enough so that collection should not be a serious problem. All of the fuel is made available from Trust Territory Government sources and the tax is due when turned over from government storage. In the Marshall Islands this was not always followed and the only uncollected taxes due under PL 1-9 were in this district.

Some problems were indicated in the interpretation of the intent of the law. It was reported in some districts that the provision for rebates to boat owners and others eligible was not made in the early stages of enforcement and that there was still some confusion or lack of understanding as to the availability of the rebate procedure. The tax is levied on the distributors and is in turn passed on to the consumers. Only the ultimate consumer may apply for the rebate. Since users eligible for the rebate may find the tax to be small (\$.05 per gallon), they may decide that the effort in collecting the small sums involved to be disproportionate to the rewards. It is likely that only large users feel any burden and apply for the rebates.

The law specifies that the purpose of the tax is to provide a portion of the funds to pay the cost of maintaining the system of public streets, roads and highways, and that district legislatures shall appropriate these funds only for this purpose. It does not specify that the 20 percent going to the Congress shall be spent in the same manner.

It is likely that this constraint on the legislatures' use of funds is unduly restrictive at this time. The sums involved are minor in most of the districts and probably lose their identity in actual spending programs on public streets and roads conducted by Trust Territory Government. The principle is valid but for some time to come is too constraining for district legislatures since revenues are disproportionate to spending on public highways. If, however, the principle is sound enough to warrant retention, it would seem logical that the funds available to the Congress should also be constrained or restricted to spending on public roads.

04-426303

No penalty provisions are provided in the statute. This need not be a serious deficiency if the fuel is not turned over to distributors until taxes have been collected. If this practice is not strictly followed, however, the absence of penalties would handicap collections.

Public Law 1-10, Export Tax on Copra, Trochus and Scrap Metal

Public Law 1-10 provides for the collection of levies on specified exports (Appendix C). The new tax on copra and trochus was not to take effect until July 1966 and no data or experiences were available at the time of this report. The tax on scrap metal (25 percent ad valorem on non-ferrous, 5 percent on ferrous, and 10 percent on lead and lead-covered cable) was to have been collected during the period October 1, 1965-June 30, 1966. Reports from district centers other than the Marianas were not available. Total collections in the Marianas were \$8,801 of which 50 percent was returned to the district as provided for in the law. With declining scrap and trochus exports, the tax is, or soon will be, mainly a tax on copra and is not felt by the taxpayer except in a lower price for the things he sells.

The main problem in collection reported was due to the problem of understanding the procedures to be followed. Section 4 of the law states "that all exporters shall report such exports to the District Administrator, or his representative, and pay the tax." The law does not state when the tax must be paid, i.e., does it need to be paid at the time it is exported or can the exporter wait until the metal has been sold (in Japan) and the value established as the sale price. There is strong feeling in most of the districts that it would be a hardship on exporters if they were to be required to pay the tax prior to receipt of funds from the sale of the scrap. One further problem was noted in that the schedule of levies is different for different types of metal though the exporter frequently does not separate the shipment into these categories.

The office of the Attorney General of the Trust Territory Headquarters issued an interpretation in which he stated that "the tax must be upon the value in the hands of the exporter, and that the tax is upon the value at the time of acquisition

04-426304

by the exporter." Although this is a reasonable ruling, it has led to confusion and some sense of injustice since the ultimate value is determined by the sale price. In the Marianas the tax collector is following the practice of not issuing an export license for a shipment of scrap until the exporter has paid all his taxes due for previous shipments. This lagging does provide for greater compliance and accuracy in computing the tax but has the obvious problem of possible loss of revenue from a final shipment.

Section (2) of Public Law 1-10 provides for a tax on export of copra and trochus to become effective July 1, 1966. Since taxes on these items were collected under Trust Territory Code laws in force prior to the new law, some insight is available as to the problems likely to be encountered.

Trochus shell exports have steadily been declining and this tax is not expected to account for much tax revenue in the future. Copra exports, however, have been sizable and quite stable for several years. Approximately \$2,500,000 was exported in 1965-66 and accounted for the largest single source of non-governmental income to the citizens of Micronesia. The tax under the law in effect during 1965-66 provided for a levy of 15 percent ad valorem and brought in \$194,829 during the period July 1, 1965, through May 31, 1966. It is expected that the new levy will raise about \$170,000 in gross collections during 1966 and 1967. This will account for about 20 percent of the revenues available to the Congress of Micronesia and will return sizable amounts of revenue to the districts.

Since copra is exported by the Copra Stabilization Board (through an agent), the problems of enforcement should not be serious. The agent buys copra at the district centers at a price fixed by the Board. The value for imposition of the tax is determined at that time and is payable by the agent at or to the district center. District treasurers will have only one individual to deal with and responsibility can be easily fixed. Penalty provisions in the law provide for a fine of \$100 or twice the value of the exported goods. In the case of scrap and trochus exporters, this is probably adequate and in the case of the copra exported, the problem should not arise.

04-426305

Public Law 1-13, Taxes on Imports

The largest source of revenue to the Congress of Micronesia, and a major source of revenues to be returned to the districts, are those raised on items imported into the Trust Territory for resale (Appendix D). The schedule calls for specific levies on cigarettes, tobacco, cosmetics, etc., soft drinks, beer and alcoholic beverages, and other items. Milk, rice, sugar, flour, canned fish and meats, shortening and cooking oils, prepared baby foods, drugs, construction materials, fertilizers, seeds, farm equipment, fishing gear, livestock, poultry, and books and educational materials are specifically exempted.

Gross collections under this measure amounted to \$390,888 during the period October 1, 1965 through June 30, 1966 though a substantial amount was as yet uncollected. Levies on cigarettes and alcoholic beverages account for the bulk of the revenue collected under this measure. Under the law 50 percent of the collection was returned to the districts of origin and 50 percent was available to the Congress of Micronesia. The recent estimates by the Territory Department of Budget and Finance was that this source would raise a total of \$460,000 in FY 1967 and \$500,000 in FY 1968, though experience to date indicates that this may be somewhat conservative. Under the existing laws, however, this is scheduled to be the major source of revenue for the Congress. It has been the largest single source of locally derived revenues and appears to be well established in the thinking of government officials and taxpayers.

Section 1(e) of the law provides that "all taxes not paid within 60 days following the receipt of the goods and commodities by the importer shall be subject to a penalty of six percent interest per annum. Provided, that if non-payment continues, the delinquent shall also be liable to additional penalties as may be provided by the law."

In at least one district goods are not released to the importer until the tax has been computed and paid but this was not generally the case. Since prevailing interest rates on loans are higher than six percent in Trust Territory, this penalty is not a serious deterrent to noncompliance. In many cases the 60-day period was taken as a privilege before payment

04-426306

was considered. Then often the six percent penalty was not enforced or not enforced immediately. Finally, in some cases, the tax was not paid for several months (some of the import taxes due under previously existing district laws have never been paid). Several responsible officials were heard to say, "why pay the taxes if others don't and get away with it." In some situations individuals reported as not paying their taxes were members of official legislative bodies and considered community leaders. Table 2 presents the magnitude of this problem of non-collection of taxes due under Public Law 1-13.

There was some discussion among tax collectors about the problem of establishing the ad valorem figure to be used in computing the tax. In some instances invoice values did not separate transportation charges from the cost of the goods. In most cases the tax was then computed on the total figure as reported on the invoice. If importers could get suppliers to quote transportation separately, the tax was usually computed on the value of the goods being shipped.

Some concern was expressed as to the wording of Section 1 (a,8) in which oil and petroleum lubricants are exempted. This was probably on the assumption that they would be taxed under Public Law 1-9, but this law does not establish the point. As a result, different practices are being followed by different importers and tax collectors. Some tax the item, some do not.

Summary of Public Finance Activities in Micronesia

There have been a large variety of taxes levied by various levels of Micronesian governments for some time. Most Micronesians seem to have accepted the inevitability of tax payments even though they have not been primarily responsible for the support of public services under the Germans, Japanese, or Americans. The earlier payments to chiefs have largely been replaced by tax levies and license fees to support law and order measures throughout the Territory. Although there is a wide variance, there is a rather low level of sophistication in tax measures and spending programs. This is in keeping with the degree of economic and political development, but it appears unlikely that development of either feature will provide for a situation in the near future which will allow the major responsibility for public services to be shifted solely to Micronesians. There is, however, a strong desire on the part of most Micronesian leaders to begin -- even if in a small way. There is considerable confusion as to what, when, and how this start should be made.

04-426307

Table 2. Tax Revenues Under Laws Passed by Congress of Micronesia, October 1, 1965-June 30, 1966

District	PL 1-9		PL 1-10		PL 1-13		TOTAL		Collection Rate
	Collected	Uncollected	Collected	Uncollected	Collected	Uncollected	Collected	Uncollected	
Marianas	19,210	-----	8,801	5,000	75,703	26,600	103,714	31,600	77%
Marshalls	1,141	6,548	NA	-----	50,670	23,777	51,811	30,325	63%
Palau	6,084	-----	NA	8,031	27,269	16,350	33,353	24,381	58%
Ponape	2,312	-----	NA	300	55,765	17,067	58,077	17,367	77%
Truk	4,828	13	NA	-----	90,349	10,302	95,177	10,315	90%
Yap	1,551	-----	NA	-----	47,205	21,086	48,756	21,086	70%
Total	35,126	6,561	8,801	13,331	346,961	115,184	390,888	135,074	74%

Municipal Governments. There seems to be a strong feeling on the part of most Micronesians that the municipal level of government is the most acceptable and desirable unit to perform most public services. This reaction against centralization probably results from the considerable differences which exist within and between districts and the feeling of loyalty to their own government officials. There is also a strong tendency to think of government in terms of projects--not just support of legislative bodies. In all but the most developed municipalities, however, there is an admitted lack of administrative structure and skills which would be necessary to fund or execute major tax-spending programs. There is much that can be done under existing laws to provide municipal revenues under the property tax and additional excise taxes, but this is not a likely development for some time to come. Generally then, municipal governments are closest to the people; there is a strong desire to see public services provided. Theoretically the tax sources are physically and legally available but generally not workable at this time.

District Government. Although the district legislatures are the legislative arms of district government, there has not been much separation between the district administrative staff and the district legislatures. Tax and spending programs have been primarily the responsibility of the district staff and legislative groups have exercised little direct influence. This seems to be changing as legislative competence has increased, and revenues available to the district legislatures have increased. Still, legislative influence at the district level needs to be strengthened. The district level of government seems to perform a most useful service in coordinating and interpreting local needs to district headquarters staffs. Revenues to support district spending projects are becoming increasingly available but to date have not been used as efficiently as desirable. Support of the legislature itself (with personal services payments, building and office expenses) has left little available for project spending in most districts. There does seem to be a willingness to use grants-in-aid or to assume responsibility in aiding municipalities to provide public services if increased revenues are available. Since the district is the point of entry for territorial government spending and tax collection by the Congress of Micronesia, it would appear logical to have strong and well developed legislative bodies working closely with the executive arm of the administrative staff.

04-426309

The district legislatures have not developed their revenues to the degree possible under the law but until there is a more clear understanding of the role to be played, this does not call for action. The first order of priority in coming to grips with the public finance aspects of district government is to determine the respective roles of district legislative and executive government and to put this in perspective with territorial legislative and executive government. Then increased funding by district legislative bodies can lead to more meaningful programming of public services.

Congress of Micronesia. The Congress has reserved for itself the most productive sources of tax revenue. It has assumed major degrees of responsibility in working with territorial government. This responsibility, however, is vaguely understood and execution is restricted by lack of operating funds. To date revenue available to the Congress has been absorbed in major amounts to support the Congress itself. Estimates of future revenues and future expenses indicate that this tendency is likely to be continued unless one of two things happen. Either the Congress must find additional revenues or it must restrain spending. Additional revenues can be gained within the existing structure by increased efficiency in collection and/or changes in the rate structure. There is strong feeling in the Congress that it must find revenues with which it can execute spending projects which will convince constituents that the Congress is a worthwhile idea and necessary to development of Micronesia. There is a considerable amount of natural ability among members in the Congress and increasing sophistication is quite apparent in their deliberations. Natural leaders have appeared and seem to be quite willing to exercise the degree of statesmanship necessary to control less responsible members. They seem to be handicapped more on lack of clear-cut goals than in the ability to think through tax and spending activities.

Several issues kept reappearing in discussions with Congressmen. These deal with the need for more revenue and a desire to have increased authority over Trust Territory spending programs. Proposals were made that (a) U.S. funds budgeted by the U.S. Congress be made available to Congress of Micronesia for appropriation, (b) so-called "commercial revenues" of Trust Territory Government be made available to Congress of Micronesia for appropriation, and (c) income taxes paid by U.S. citizens should be made available to Congress of Micronesia.

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These ideas are not seriously held by most of the responsible leaders in the Congress since they realize the inherent legal difficulties and the lack of legislative sophistication on the part of the Congress of Micronesia. They do, however, point up the desire of the Congress to have a greater say in affairs affecting them. They also point up the likelihood of serious political problems as their desire for self-government outstrips their ability to finance such self-government.

04-426311

CHAPTER II

ESTIMATE OF REVENUE NEEDS AND POTENTIAL

The current public finance situation as mentioned in the previous chapter outlines the approaches and achievements that have resulted from a slow and steady evolution of spending by both Trust Territory and Micronesian governments. The future, however, seems likely to see an acceleration of Micronesian activities as increasing self-government is sought and achieved. The ability of Micronesians to develop well thought out programs of public service and their ability to finance these programs with local funds is very much a key issue in the growth of the area.

Although progress has been made in raising the level of spending on public services, the current level of adequacy is not high by most standards. The highway network is limited in scope and quality. Dock and harbor facilities are limited and in some districts a positive handicap of movement of goods. Schools and medical facilities are limited in all except district centers to minimal service. Public utilities are limited or non-existent. The need for increased funding of operational expenses of even existing facilities has been noted in all recent Trust Territory budget requests. It is unlikely that estimates of the need for spending to improve the current situation would lead to one-time spending programs, since improved maintenance of even existing capital improvements would require substantial increases in spending on a regular basis.

Finally, of course almost all spending that is taking place is provided by grants from the U.S. The enlarged capital improvements budget currently being considered by the U.S. Congress can be taken as a measure of the magnitude of the need for increased spending on public services. Expenditures of \$32-35 million have been requested for the next two years. This increased spending would approximately double current budgets and provide for substantial increases in programs as well as capital improvements. Spending of this magnitude is clearly beyond the present tax gathering ability of Micronesian levels of government.

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Future Revenue Needs

Although the population of Micronesia is not large (though growing), there are several forces which would point up the need for provision of increases in public services. Foremost of these is the increasing awareness by Micronesians of their situation compared to other areas. As the proportion of the population attaining at least high school education increases there will be an obvious demand for increased education at all levels. Increased familiarity with the "outside world" will lead to increased demands for transportation and communication facilities. Increased levels of income will lead to increased demand for better housing, better utility services, better streets and highways, and better medical services.

Finally the growing sophistication in Micronesian levels of government will demand an increasing role in providing public services to be assumed by the Micronesian government. As these legislative groups grow in their ability to deal with major problems facing Micronesia they will be faced with the problem of finding public funds to finance their increased role. It would appear unlikely that the U.S. Government would ever simply turn over sums of money to Micronesians for their use in providing public services. Accordingly, their ability to assume self-government will depend on their ability to assume a greater share of the costs of providing public services. It follows then that there is a growing need for tax revenues available to Micronesian levels of government. This need, however, should not be thought of as any specific magnitude but rather as a process. This process of encouraging an increased role for Micronesian government can be justified from several different viewpoints:

- 1) From a standpoint of healthy political development, Micronesian governments want more influence on the government of their people so as to encourage appreciative ties with their constituents. At the same time these constituents need to be shown that benefits from tax revenues do accrue to taxpayers and that their governments are worthwhile activities.
- 2) For development of awareness of responsibility. The people of Micronesia are experiencing rapid increases in income and in availability of all kinds

04-426313

of public services. They need to begin to develop an awareness of the costs involved in these public services -- the price of independence and self determination.

- 3) To provide for justice in share of burdens. The current tax burden is not high for most Micronesians, either as a proportion of national income or on an individual basis. Many people in the world whose real level of income is below that of many Micronesians pay far more taxes in support of their government. This is not to say that all Micronesians bear a light load but rather that many do.
- 4) To provide for better public services. Irrespective of the much greater magnitude of Trust Territory Government expenditures, marginal spending which can be financed with local taxes can be concentrated and controlled for greatest efficiency. Also programs with highest local priority can have real psychological and political impact.

Estimates of actual needs for public revenues, accordingly, depend on the degree to which these goals are achieved. It is impossible to specifically forecast the amount of funds necessary to 1) promote healthy political development 2) develop awareness of the cost of public services 3) provide for increased equity in tax burdens and 4) provide better services. It seems logical, however, that the amounts spent should be graduated and correlated with the ability to perform the functions efficiently. It cannot be stressed too much that care and planning in choice and execution projects should precede taxing and spending activities.

Revenue Potentials

Capacity of Micronesian Governments

It has already been pointed out that the current pattern of provision of public services in Micronesia is predominantly that of the expenditures of the United States. This is true in both magnitude and variety and will probably remain so for some time. Micronesian governments, however, are developing an increasing sophistication and awareness of the needs for such

04-426314

services. The obvious state of mind is for Micronesians themselves to want to take on an increasingly important role in the decision-making that affects their welfare. This is expressed at all levels of government and with some degree of enthusiasm. Several problems, however, are quite apparent and will lead to a much slower assumption of duties by Micronesians than they probably would choose if they had the ability to plan and execute their own destiny with their own resources.

Micronesian government is most sophisticated at the Congress of Micronesia level. The men serving in the Congress are among the most outstanding individuals in the entire area. They almost all work for Trust Territory Government in some capacity and have seen the working of American programming and budgeting. Although their deliberations at times appear naive and full of self-interest, their positions, once taken, are usually sound. Among their midst are some very astute "statesmen" and the Congress can be expected to grow into a sound legislative body. At the same time, however, the group is mostly young and inexperienced beyond their immediate occupational specialty. Their decision-making ability is good in areas where they have competence but these areas are naturally, though unfortunately, limited. For the time being, they have a tendency to accept quite readily the advice and counsel (or direction) of the administrative staff of the Trust Territory Government.

If this analysis is sound, it indicates that this group, though the most capable in all of Micronesia, is still in the "learning stage" and, though they are mostly impatient to start true self-government, it is likely that they recognize the need to go and grow slowly. They should be counted on to give sound advice and interpret the wishes of the people of Micronesia. A cooperative effort between the two governments, however, must continue for some time to come.

Expertise and experience in the district legislatures and municipal governments is usually even more limited than that of the Congress. Although many individuals in these levels of government have been involved in such activities for some time -- some 20-30 years -- the complexity and magnitude of problems involved in a Micronesia which is rapidly becoming modernized call for a level of sophistication and knowledge not generally found. These leaders have a keen insight into the problems

with which their people are concerned and they know most about how this thinking can be influenced. They lack, however, the knowledge of how to deal with solutions in a society which is dominated by American professional personnel and funds. These limitations on the capacity of Micronesians to assume self-government should not be thought of as limiting for all time but rather as a restriction which must be dealt with prior to assumption of major tax or spending responsibilities.

Economic Development Prospects

The Robert R. Nathan Associates firm, which is currently developing a program to guide economic growth in Micronesia, has not yet reached a stage in its investigation whereby a clear projection of the probable economic future of the area is available for the purposes of this report. Certain features, however, appear to be dominant influences.

The government is currently the major source of money income in Micronesia. This impact will be even greater in the next few years, but will ultimately diminish and cannot be counted on to provide the basis for an economically viable society. Major sources of income arising in the private sector are from agriculture (primarily copra production), fishing, and satellite occupations. Copra production could undoubtedly be expanded considerably over its current level if improved incentives, management practices, and marketing facilities were available. Resources from the sea are largely an unknown item at this time, but it is generally considered that they could provide a substantial industry for the area. Considerable attention is being given to the possibility of developing tourism in the area. There are many natural advantages in the area on which such a development could build but there is currently an almost complete lack of facilities and transportation to support such a growth. A serious impediment to growth of any kind is the shortage of skilled labor, managerial skills, and capital. There is an apparent shortage of natural resources other than those of the sea and the limited agricultural ability.

The most significant feature currently on the economic horizon is the very great impact which will result from the introduction of several hundred Peace Corps Volunteers over the next two or three years and the expanded capital improvement

program requested by Trust Territory government. If the program does develop as it has been proposed, the amount of increased money flow and supporting economic activities will multiply the current economic base many-fold. The increase in operations expenditures will also provide new and enlarged income opportunities for Micronesians throughout the entire territory. Increased earnings through salaries will have a multiplier effect throughout the entire private sector, though there is a strong likelihood that the increased prosperity will not be equally shared.

A problem which will develop as the broad impact of the increased spending takes place will be that of the tendency for increased demand for public services. Also, there will very likely be an increased demand for imported goods, more and better housing, improved transportation, etc. Since the program proposed does not envision a continuing effort the economy can face the danger of being built up to a level which cannot be sustained after the major injections of U.S. funds have been discontinued. Hopefully, the temporary increase in U.S. spending can provide the stimulus and means by which long run growth and development of the private sector can be accelerated.

The conclusion, however, would appear to be that government spending will generate a substantial amount of growth and development over the next few years, but there is no clear pattern of the nature of the Micronesian economy over the long run. It would follow then, that there is likely to be a substantial increase in incomes (which can be taxed) but that long run income opportunities (and tax revenues) are very uncertain at this time.

Micronesian Revenue Prospects

The very magnitude of the need for public services and the limited ability of the Micronesian economy to provide incomes sufficient to fund (through public revenues) these services makes very difficult any quantitative measurement of the likely future of public finance in Micronesia. One can certainly say that increased tax revenues will become available as the U.S. spending pumps more money into the economy. The timing and character of these expenditures, however, is not known at this time. Certainly existing tax programs (particularly on imports) will bear on spending by Americans and Micronesians alike. Present or higher rate structures on such items as cigarettes, alcoholic beverages, and canned foods will

04-426317

show immediate returns available for spending by the Congress of Micronesia. This means that district governments will also share the greater tax revenues. Unless the municipalities do, in fact, enact some form of excise tax it is very unlikely that their revenue will increase to any marked degree.

Under Public Law 1-13 the tax rates on imported goods can be raised substantially with little effect on the basic needs of families in Micronesia. Liquor, beer, and cigarettes currently yield the greatest revenues under this law, but are still inexpensive by worldwide comparison. Locally grown foodstuffs would enjoy a certain amount of protection if imported foods were taxed more heavily.

Export taxes are not expected to increase substantially until some means is found to increase copra production. One of the most severe handicaps at this time is the difficulty the grower faces in getting copra to market with inadequate transportation networks of roads and/or harbors. This problem should be eased as the large capital spending program gets underway but surely this is not going to bring substantial changes in the near future.

New taxes, if imposed, can be expected to yield increased revenues available to the level of government imposing them. There seems to be greatest willingness by the Congress to impose new taxes. If these new taxes are gradually assumed (and with relatively low rate structures) the absolute amount of tax revenues will increase the ability of Micronesian government to fund spending programs. Certainly budgets two-three times current levels are within the realm of reason for the next few years. Further increases will depend largely on political decisions not apparent at this time.

04- 426318

Summary of Public Finance Needs and Prospects
in Micronesia

It would appear from the previous brief analysis that the needs for public revenues are very great if adequate public services are to be a serious objective. Also, current and likely future economic prospects are very uncertain. Further, it is unlikely that the private sector would be able to develop taxable incomes in amounts sufficiently large to provide public revenues in amounts adequate to fund needed projects.

One would conclude, then, that the U.S. government must, in keeping with the spirit of the trust agreement, provide the majority of public services for some time to come. Micronesian government, particularly the Congress of Micronesia, can be depended on to play a larger role through their own financial resources and sound counsel to Trust Territory government activity. Micronesian government, however, can play but a minor absolute role in the financing of public services. It is very important that the role they do play be well conceived and well executed and properly reorganized.

04-426319

CHAPTER III

RECOMMENDATIONS -- CONCEPTUAL, PROCEDURAL AND IMPLEMENTING

The discussions and deliberations of any legislative group must fit within a broad framework of policy and operational philosophies. In Micronesia there are many cross-currents of ideas being espoused, debated, and formed. Within a short period of time practices and strongly expressed ideas can easily become guiding policies for actions for years to come. If these policies are sound and well understood, all deliberation is eased. If they are confused, random, and inconsistent, the functioning of even the most well conceived and organized legislative groups will be considerably handicapped. It is the intent of this section of the report to suggest a background of principles on which specific policies may be developed and implemented. These principles are for the most part logical and obvious. At the same time they need to be accepted and kept in the forefront if they are to be useful.

Principles of Public Finance for Micronesia

1. It is obvious that the primary responsibility for provision of public services to Micronesians must rest with the United States for some time to come. The basic charge of the trusteeship agreement does not state a particular time or condition at which point the major responsibility shifts from the U.S. to Micronesians but political independence and true self-government by Micronesia must await a considerable amount of strengthening of the economic base and an improvement of legislative and administrative skills. The very magnitude of the expenditures, which are and will be required, precludes local financing in more than a small supplementary role. Although there is some thought among Micronesians that it would be desirable to have legislative appropriation authority over funds coming through U.S. channels, it is very doubtful that this would or should ever take place. It follows that U.S. funding will be accompanied by U.S. administrative controls.

of 426320

2. As Micronesian capabilities for self-government improve, it is in keeping with the spirit of the trust agreement to allow greater Micronesian participation in the operation of government. As this move to increase self-government proceeds, an increasing amount of public services must be financed and controlled by Micronesians. Only a gradual transition from American to Micronesian control and financing will be possible or desirable but the path should be clearly identified and sought by Micronesia. The gradual assumption of duties by Micronesians, trained and competent, can staff programs in this transition period but major Micronesian funds must ultimately be available in increasing degree.

3. For the time being the tax and spending programs which do exist in Micronesian levels of government should be considered as establishing the proper legal and procedural beginnings aimed at developing responsibility and experience in government officials and an understanding that public services must be paid for ultimately by the citizens receiving these services. This means that taxes should be developed, and spending programs carried out, with the view of having maximum educational impact on Micronesians. This, of course, is a transitory position but in view of the magnitude of budgets required and the ability of the Micronesian economy to support public services, the prime guiding principles should not stress the size of the funds raised and expended but rather the appropriateness and efficiency in providing a sound base on which to expand.

4. In the past most Micronesian tax revenues have been obscured in the process of being merged with, or masked by, the magnitude of expenditures from U. S. grants to the Trust Territory Government. As a result it is difficult for Micronesian taxpayers to measure or see the results of their tax programs. In the future Micronesian levels of government should assume specific and definitive roles of responsibility. These responsibilities should be clearly visible activities having broad impact on all Micronesians. Cooperative undertakings with the Trust Territory Government are acceptable, and even necessary in some situations, but clear divisions of responsibility and performance should be stressed.

5. Micronesian levels of government should not accept or seize responsibility for spending programs unless and

04-426321

until a source of funds can be identified and reserved to finance them. Careful planning and coordination of efforts with territorial government will be required so that staff services available can aid Micronesian governments in identifying, planning, financing, and conducting (through appropriate executive bodies) operations that are practical, feasible, and capable of being financed.

6. Taxes are raised to finance expenditure programs -- not projects found to spend revenues. There must be a constant process of investigation, appraisal, and reflection on desirability of spending programs before attention is turned to means of raising revenues. There are many, many ways to levy taxes but none should be used until and unless there is a clear cut need and ability to finance a particular project or set of programs.

7. Tax laws should be carefully written and clearly interpreted in a body of regulations so as to provide maximum administrative ease and efficiency in collection. To do otherwise is to defeat the purposes of the tax program, i.e. to demonstrate to Micronesians the cost of providing for public services and to provide experience to Micronesian legislative groups. If a law is passed but not enforced, the cost is great.

8. The more sophisticated taxes should be reserved for higher levels of government where there is a greater likelihood of finding administrative competence. In reverse, this also means that lower levels of government should use simple and easily enforced tax measures to raise revenues necessary to their operations.

9. Micronesian legislative bodies should avoid passing a proliferation of tax laws as more revenues are needed. Much can be done by broadening coverages or by changing the rate structure of existing laws. If a well-conceived tax program is in operation, whereby all citizens are given the opportunity to share costs of public services, the imposition of new taxes disproportionately increases the cost of collection. All taxes are eventually paid by the same broad categories of people (those with wealth and income) and the point of collection is not as important as the ultimate tax burden.

04-426322

10. Taxes for purposes of control (such as license fees) should not be thought of as prime revenue sources. Funds can be raised in this manner but the main reason for levying the charge should be the desirability of control measures. Business license fees, as are most business taxes, are obviously passed on to consumers in the form of higher prices. If levels of government depend heavily on taxes levied for control, there is a strong likelihood that real control will not be exercised.

11. Every tax system should have some form of direct taxes so that every citizen may have direct and visible contact with government and pay an observable share of the costs of public services. This generally means taxes on income or wealth, e.g. income tax, wage taxes, property taxes, and per capita taxes.

12. The tax system should be designed so as to avoid putting undue tax burdens on those individuals or enterprises who seem to have the most income or wealth since this will stifle the capital accumulation necessary to promote the maximum economic development of Micronesia. Ultimately investments in business and public capital improvements must come from incomes and savings of Micronesians. These pools of available funds should not be excluded from bearing part of the costs of services they enjoy, but they must not be confiscated through unduly heavy tax burdens.

13. Tax and spending programs will be the "voice of government" to most Micronesians and will be an evidence of the ability of Micronesians to assume self-government. Great care should be taken, advice and counsel sought, and hasty action avoided in planning public finance activities. It is important that Micronesian government function well from the Congress down through the districts and municipalities. Micronesian legislators must set examples through their own conduct and responsible relations with Micronesians and Americans.

14. Ultimately tax revenues must come from Micronesians. Responsible government should not be tempted by the apparently easy and lucrative approach of taxing outsiders to provide services for Micronesians. These measures are not easy to initiate, will yield less than commonly assumed, and would most likely create considerable problems in long-run growth.

04-426323

15. Legislators should never assume that responsibility ends once action is taken. Constant review and reassessment of the results of each act and regulation will always be necessary.

Procedural Recommendations - General

1. Public Laws 1-6, 1-9, 1-10, and 1-13 provide for adequate revenue sources for the stage of political development now existing at the various levels of government. New kinds of taxes do not need to be imposed during the 1966 session. This should not be interpreted as stating that there is no need for additional revenues but rather that the present kinds of taxes are adequate and should not be expanded until the present sources are more nearly perfected. Changes in rate structures should be used as the main technique of raising additional revenues.

2. Existing revenue laws need badly to be improved. Attention should be given immediately to providing a more clear statement of the meaning and intent of the law, and to improving both the legal and procedural basis for enforcement. It is important for Micronesian levels of government to make sure that existing laws and procedures work well before taking action on additional public finance duties. Public Law 1-6 needs a more clear statement of the responsibilities of the Trust Territory administration, Congress of Micronesia, the district legislatures and staff, and the municipal governments. The Trust Territory Government must take the initiative in this matter since the very magnitude of their operations as well as the nature of their responsibility indicates that they will assume the bulk of the responsibility for the provision of public services with Micronesian tax revenues acting as supplements to the extent possible. Public Law 1-6 also needs a more clear statement of the relative roles and responsibilities of the legislative and executive branches of government. The major emphasis here need not be placed on amending the law (since regulations can be issued which interpret the general statement), but the clarification through amendments or regulations is urgently and immediately needed.

04-426324

3. Existing tax laws of all levels of government need stronger penalty provisions for noncompliance. These penalties need to bear some relation to the size of the tax being collected, the problems of enforcing the penalties, the problems of the individuals paying the taxes and the availability of the courts to enforce the penalties. It should be the role of the executive (not legislative) groups to bring these situations to court and in most cases even the municipal governments will have to depend on district staff to help enforce the laws. At the same time legislative surveillance of executive activities should be maintained. A firm but stern attitude toward payment of all taxes due is a necessary part of any tax system. It is absolutely imperative as Micronesian governments develop and assume more responsibility.

4. A careful examination needs to be conducted by Trust Territory officials of the provisions of existing district and municipal tax legislation to find and eliminate tax laws that are clearly unconstitutional or in conflict with the laws of the Congress of Micronesia.

5. Actions need to be taken by higher levels of government to provide municipal governments with advice and guidance in developing local revenues. The presently authorized property, head and excise taxes generally provide an adequate municipal tax base. But these local taxes need to be carefully developed. The head tax, if retained, should be collected when due. In most areas property taxes will need to be restricted for the time being to levies on such things as personal property, houses, coconut trees, motor vehicles, and the like. Title to land is not usually sufficiently clear to establish ownership for assessment and tax collection purposes. Ultimately this need be dealt with so that the property tax may become the prime source of municipal revenue. Excise taxes should be levied so as to provide broad coverage on selected items such as luxuries and/or foodstuffs competing with locally grown items.

6. As municipalities develop additional revenues, they must receive guidance and some control in the proper use of tax revenues. Many of the smaller municipalities do not have the degree of sophisticated administration to clearly think through priorities for spending programs, to control activities undertaken, to work skillfully with district administrative forces, and to provide record keeping for adequate accountability. This needs to be developed, but help is needed from other levels of government.

04-426325

7. District legislatures should continue to receive the majority of their revenues through the sharing of tax revenues received by the Congress of Micronesia. Taxes authorized by the district legislatures should be limited to existing sources, and rates should be maintained at low levels. This recommendation is not suggested to minimize the role of district legislatures in influencing the use of tax revenues gained by other levels of government. If major revenues available to the districts are obtained by the sharing of taxes collected under Congress of Micronesia laws and if control over municipal spending is exercised, the district legislatures will play a major role in the public finance activities of the area.

8. District legislative spending programs should be carefully coordinated by district legislatures and district staff members. They should be largely limited to either grants-in-aid to municipalities with accompanying controls, or direct expenditures in local areas having problems which affect the entire district. District spending should tightly restrict amounts of funds spent for legislative activities themselves and emphasize projects needed in the district.

9. Spending by the Congress of Micronesia should consist mainly of grants-in-aid to district or municipal levels of government with appropriate controls attached to insure achievement of goals and proper accountability. These programs must always be demonstrably in the best interest of all of Micronesia and should be visible with broad impact. Spending on support of the Congress of Micronesia legislative activities needs to be tightly controlled so that available revenues are not absorbed before programs can be instituted. This discipline needs to be assumed by the Congress for political as well as economic reasons and is an item of high priority.

10. The concept of matching funds (part U.S., part Micronesian) appears on the surface to be an attractive technique in demonstrating cooperation in the provision of public services. This is not recommended, however, since it is considered absolutely necessary that Micronesian tax revenues retain their identity. Merged funds would not make this identity clear in the minds of Micronesian taxpayers and surely would lead to loss of control by Micronesian governments.

11. The Congress of Micronesia should eventually eliminate taxes based on specified exports. But Public Law 1-9 currently provides a major source of revenue, the tax is easily enforced and can be thought of as payment for subsidized transportation

and marketing programs. The tax should be maintained in its present form until additional tax sources are instituted and means are found by which the individuals currently being taxed under these measures can be allowed to share in the costs of government.

12. The Congress of Micronesia should set up appropriate committee structures to plan a system of direct taxes which will touch (even if slightly) the greatest number of citizens of Micronesia. This system should take the form of a payroll tax on gross wages complemented by a gross receipts tax on businesses. The former can be collected through withholding programs but the latter should provide for returns to be filed which will outline the nature of the source of income. These taxes should be instituted at low levels, e.g. 2 percent on wages and 1 percent on gross business receipts. The low levels at early stages will encourage compliance while experience is being gained in collection procedures. Simple structures without exemptions and deductions will allow administrative ease. If properly instituted, and thoroughly enforced, these taxes will involve most of the money economy and provide a groundwork for an income tax of broader scope in later years. An income tax, though ultimately desirable, would be premature at this time. After experience is gained with the gross receipts and wages tax an income tax should be designed as the major source of revenue for the Congress of Micronesia.

Procedural Recommendations - Implementing

Trust Territory Government should:

1. Discuss and approve the recommendations in concept at the department head and district administrator level. This is particularly important in helping Micronesian levels of government to choose priority projects and allow for identification of Micronesian activities. The initiative must be taken by Trust Territory Government but it should be in consultation with Micronesian legislative groups so that goals and operational objectives are jointly arrived at.
2. Political Affairs Department and the revenue officers at both headquarters and district levels should work

04-426327

with appropriate legislative committees during the time between sessions on both the philosophy and operational aspects of tax legislation, collection procedures, improved budget control, and choice of spending programs.

3. Work with the Congress of Micronesia legislative counsel and the legal structure of courts and the Attorney General's office in developing a penalty structure within the law which will be adequate to enforce collection of taxes. There will need to be considerable educational efforts at the district and local levels among both taxpayers and tax collectors.
4. Training programs need to be developed which will give district and municipal tax collectors (and key legislators) insight and tools for effective operations.
5. At both territorial and district level, revenue officers need to provide both executive and legislative groups with monthly statements of revenue collections and projections of expected revenues compared to planned expenditures.
6. Provide staffing and budget support for a thorough examination of existing district and municipal tax and spending laws and ordinances. These need study from the viewpoint of both legality and impact on socio-economic development in the areas which they cover.
7. Territory Headquarters needs two professional individuals at the headquarters level. One should be a professional political economist with public finance knowledge who should keep an overall view of tax and spending programs as they affect the efficiency of resource use and development. The other should be essentially the head tax collector and procedural advisor to all levels of government. The latter individual should work closely with the Congress of Micronesia and district legislatures and the tax collectors and revenue officers at the district level. Both of these positions should be essentially staff positions with no line level of authority. Their

04-426328

counsel and advice should be made available throughout the Territory and they must necessarily spend a good deal of time in the districts. These two types of specialists are considered to be absolutely necessary if the educational and technical counsel needed by Micronesian levels of government is to be available on a continuing basis to guide intelligent public finance decisions and activities.

8. Full support by the executive branch needs to be given to the individuals charged with responsibility for collecting and controlling public revenues. This is particularly important in areas where social customs or peculiarities in political situations make it difficult to collect from certain individuals or groups.
9. District administrators should have professional guidance from the legal, economic, and political standpoints before they sign tax or spending laws.
10. Issuance of rules and regulations which interpret the laws or set out procedures for enforcing the law should be written by the office of the Attorney General (rather than Budget & Finance) and should have widespread consideration by other affected offices prior to issuance.
11. The Department of Budget & Finance should issue instructions and guidance in setting up more uniform budget regulations and records for district and municipal legislative and executive arms of government. This will likely require considerable time to be spent in the districts in training necessary to improved budgetary controls.
12. Increased efforts need to be made in providing for regular audit of all district and municipal records and activities. There needs to be particular effort on making the audits regular -- rather than occasional -- and to see that suggested changes are in fact carried out. Irregularities need to be reported to the office of the Attorney General.

04- 426329

13. Attention needs to be given to a continuing educational program for the Congress of Micronesia so that levels of sophistication can be raised in the conduct of affairs of the Congress as well as in the enactment of laws for Micronesians. Efforts will have to be made to influence strict budget control, and some greater degree of parsimony in the support of their own activities.
14. Attention needs to be given to the instruction and guidance of businessmen in the area to improve record keeping systems and management control. This will be necessary for public finance purposes but it will also increase the efficiency of the businesses and the growth of the private economy as well.

Congress of Micronesia should:

1. (Entire body, not just appropriate committees) understand, consider, and as consistent with their objectives, approve the recommendations of this report. The natural desire to go faster and bigger must be held in check so that action that is taken is well conceived and meaningful. It is very important that Micronesian legislative activities be unselfish and dedicated to the long run welfare of all of Micronesia. Hasty or ill-conceived action in tax and spending matters can be avoided if all members understand and approve of the need to proceed only as rapidly as they can proceed soundly.
2. Amend Public Laws 1-6, 1-9, 1-10, and 1-13 to provide for a more clear statement of the responsibilities of Micronesian legislative groups as compared to each other and to territorial government, to improve the wording of tax laws for greater clarity, and to provide adequate penalty provisions in the tax laws.
3. Appoint a joint committee of the Congress to work on identification of programs or projects appropriate for Micronesian financing. These projects should be of such a scope and magnitude that there is some assurance that they can be completed in the near future and that they can be observed as Micronesian efforts and accomplishments. Priorities should be assigned and care should be taken that the projects are for the good of all of Micronesia rather than one district or group. The committee should avail itself of the advice of headquarters and

04-426330

district staff members but should avoid simply assuming someone else's problems.

4. Assign appropriate committees the responsibility of working up recommendations, including appropriate legislation, for future action in the area of the proposed taxes on wages and gross business receipts. This committee should work carefully with the office of the Attorney General, Economic Development, and Budget and Finance. It should be able to report with proposed tax legislation, estimates of likely revenues, and a general statement explaining the likely impact on Micronesians. Staff help from revenue officers and others will be necessary but should be available to the committee. Care must be taken to be sure that the proposal provides a situation that is clearly workable - easy to administer and with appropriate penalty measures to insure enforcement.
5. Appoint an appropriate committee to work with Trust Territory officials in examining district and municipal revenue ordinances or laws. It is important that this committee have representation from each of the districts so that interpretations of the background situation and special conditions may be made known to the whole committee.
6. Set up a mechanism for determining grass roots problems which may call for grants-in-aid to the municipalities and districts. This mechanism should provide for channeling of information upwards which represents the official consensus of elected legislative groups and responsible citizens.
7. Establish controls which should be attached to grants-in-aid or other spending projects in local areas. These should include such things as a statement of intent to fund only such projects as are definitive in scope, well thought through and presented, capable of being examined and audited for completion as proposed and which are high on an established priority list developed in the areas.
8. Broaden the function of the office of the legislative counsel so that he may provide the Congress with staff in other than legal matters. He should, for example,

04- 426331

act in liaison with the departments in Trust Territory administration in providing statistics on revenues being collected, spending programs underway and such other activities as Congress may want to follow between sessions. This could be accomplished best by appointing the counsel as executive secretary to the Congress so as to provide a broad range of liaison services financed by and for the Congress of Micronesia, and responsible only to the Congress.

9. Carry the message back to the districts and municipalities on the importance of making Micronesian self-government work. This is, in effect, a selling job but an important one. It can be aided by setting an example in the conduct of the Congress and individual Congressmen.

District Legislatures should:

1. Seek agreement with municipalities and district staff on specific responsibilities which should be assumed by each group. This should lead to a set of goals and projects which are clearly understood and capable of being planned. A close relationship must exist between the municipalities (where everyone lives, where the needs are seen, and where projects are performed) and the districts (which have superior financial strength, greater likelihood of administrative skills and close liaison with the executive operations of the district administrator).
2. See that district treasurers do, in fact, collect taxes due. The office of district treasurer should, however, be transferred to the office and staff of the district administrator. This is essentially an executive function and should be absorbed into the budget of the executive arm. This still, however, would not rid the district legislatures of a "watch-dog" function and they should pursue this activity assiduously.
3. Set up a mechanism whereby effective controls can be connected with such grants to insure choice of high-priority projects, accountability of funds, and control of spending through line item budget control.

04- 426332

4. Provide advice and counsel on tax and spending matters under consideration by municipalities. This should include objective advice on drafting of ordinances, choice of tax measures, establishment of priorities and form of spending projects, and liaison efforts with district and headquarters staff. Every attempt should be made to establish a working relationship with municipalities whereby each party is a partner working towards a common goal rather than competing against each other for power, prestige, and money.
5. Provide special assistance in the form of grants and common efforts to municipalities which are district centers. These areas have special problems but generally do not have the financial strength to meet the increased demands for public services.
6. Develop stronger systems of committees so that true division of labor can be developed in the undertaking of district legislative projects. There is too much of a tendency to let too few people do too much of the work. Committees should meet regularly so that sessions of the entire legislature can be action (rather than study) meetings. Scheduling of legislative sessions should be more closely aligned with the meeting of the Congress and the beginning of U.S. Government fiscal years so as to allow improved interchange of information and suggestions for change.

Municipalities should:

1. Carefully examine projects and programs which need to be started or expanded in their particular area. Priorities should then be established and schedules for completion should be estimated. After consideration of sources of revenue available through municipal revenues, an approach should be made to the district administrator and the district legislature to determine the availability of funds to complement local revenues. These requests should be accompanied by a willingness to submit to certain controls and regulated procedures which will be tied to the provision of funds. In the process as

much attention as possible should be given to identifying or segregating spending which can be financed by Micronesian tax revenues as part of a total program which may ultimately be funded by Trust Territory Government, Congress of Micronesia, the particular district legislature, and, finally, the municipality concerned.

2. Proceed immediately to improve budgetary control systems and overall record keeping. While these need not be sophisticated, they do need to be complete and rigidly adhered to.
3. Collect all taxes due.
4. Work with district land management officers and other staff to develop a system of real estate taxes which can be levied on individually-held land or against a clan for clan-held land. In the meantime broader attention should be given to taxes on personal property. These property taxes should become the basic source of tax revenue but should be approached slowly and soundly so as to win acceptance by taxpayers.
5. Seek authority to extend the amount of fines that may be levied for noncompliance with tax laws and then increase the maximum possible fine to the point where it presents a real deterrent to noncompliance.
6. Until such time as substantial revenues are available through property taxes, primary emphasis must be placed on the levy of excise taxes on a rather broad base. Considerable care and thought needs to be directed to the choice of items to be taxed so that tax burdens are broadly shared but that undue penalties do not accrue to special groups. Luxury taxes (alcohol, cigarettes, imported foodstuffs, etc.) should receive primary attention.

04-426334

APPENDIX CONTENTS

	<u>Page</u>
Appendix A. PUBLIC LAW NO. 1-6	58
"To delineate the primary powers and responsibilities of the Trust Territory Government, District Governments, and Municipal and local Governments, and for other purposes."	
Appendix B. PUBLIC LAW NO. 1-9	67
"Providing for the levy of an excise tax on the use, distribution or sale of motor vehicle fuel, and for other purposes."	
Appendix C. PUBLIC LAW NO. 1-10	70
"Providing for the levy of an export tax on copra, trochus shell, and scrap metal, and for other purposes."	
Appendix D. PUBLIC LAW NO. 1-13	73
"Providing for taxes on Imports into the Trust Territory of the Pacific Islands, and for other purposes."	
Appendix E. Estimate of Tax Revenues of the Congress of Micronesia for Fiscal Years 1967 and 1968	79

Appendix A

CONGRESS OF
MICRONESIA

PUBLIC LAW NO. 1-6
/A. B. No. 23/A. D. 2/

GENERAL SESSION
1965

A N A C T

- 1 - to delineate the primary powers and responsibilities of the
2 - Trust Territory Government, District Governments, and Muni-
3 - cipal and local Governments, and for other purposes.
- 4 - BE IT ENACTED BY THE CONGRESS OF MICRONESIA:
- 5 - Section 1. Government of the Trust Territory: Primary
6 - Responsibilities and Powers. The Government of the Trust
7 - Territory, herein referred to as the territorial government,
8 - through the High Commissioner and the Congress of Micronesia,
9 - subject to applicable Departmental Orders, shall have primary
10 - responsibility for the following:
- 11 - (a) Problems of territory-wide concern including, but
12 - not limited to, requests for action by the United States
13 - Congress and activities involving relations with any other
14 - government or government agency outside the Trust Territory.
- 15 - (b) Construction and maintenance of primary roads and
16 - harbor facilities used extensively for activities serving the
17 - whole or a major part of a district - especially those at
18 - district centers - including acquiring or providing for ade-
19 - quate space for public utilities and set-back from such roads

04-426336

1 - and docks and control of such harbors, if deemed advisable.
2 - Those roads and harbors to be considered as primary are to
3 - be so designated by the territorial government.

4 - (c) Control of banking, organization of business
5 - corporations, business associations, credit unions and
6 - cooperatives, insurance, sale of securities, and public util-
7 - ities, including the exclusive licensing of such activities.
8 - Persons and companies engaged in these activities shall be
9 - subject to local general taxation, but not subject to any
10 - local licensing requirements or payment of license fees for
11 - these activities other than to the territorial government.

12 - (d) Control of the establishment and operation of and
13 - investment in businesses and corporations by non-citizens
14 - of the Trust Territory.

15 - (e) Establishment and control of the terms and conditions
16 - under which importing and exporting licenses shall be issued.

17 (f) Making of grants to districts and municipalities.

18 - (g) Exclusive control of import, export, and income
19 - taxes including any so-called excise taxes which are actually
20 - collected on the basis of imports.

21 - (h) Support of all judicial activities in the Trust
22 - Territory, except for assistance from municipalities as
23 - provided in Section 3(a)(6) below.

04-426337

1 - (i) Support of public education to the extent as may
2 - be required by law.

3 - (j) Support of public health to the extent as may be
4 - required by law.

5 - (k) Law enforcement as set forth in the Code of the
6 - Trust Territory.

7 - Section 2. District Governments: Primary Responsi-
8 - bilities and Powers.

9 - (a) District governments may be formed by charter
10 - granted by the territorial government. The jurisdiction
11 - of such government, or governments, will extend to the whole
12 - of an administrative district, as defined by Section 39 of
13 - the Trust Territory Code. Unless and until such a district
14 - government is chartered in a district, its government shall
15 - consist of its chartered legislature, the District Adminis-
16 - trator, and their respective employees as provided below.

17 - (b) Chief Executive Officer. In each district in
18 - which there is or shall be a chartered district-wide legis-
19 - lative body the District Administrator, in addition to his
20 - duties as representative of the High Commissioner, shall
21 - be the chief executive officer of the district government
22 - and as such shall be responsible for the execution of all
23 - district laws. He shall annually present to the district

04-426338

1 - legislature a proposed budget and such other recommendations
2 - as he deems best for the welfare of the district. Such
3 - budget shall be based upon the revenues anticipated as a
4 - result of district legislation and such grants or subsidies
5 - as may be allocated by the territorial government and shall
6 - cover all recommended appropriations by the district legis-
7 - lature.

8 - (c) Responsibilities. Subject to all territory-wide
9 - laws, the district governments (and in the case of Yap, the
10 - the Yap Islands Congress in cooperation with the District
11 - Administrator, unless and until a district-wide legislature
12 - for the Yap District is established) shall be primarily
13 - responsible for:

14 - (1) Liquor control, including the right to collect
15 - wholesale liquor license fees and to impose taxes on alcoholic
16 - beverages, provided that neither of these shall be based on
17 - imports or volume or value of imports.

18 - (2) Land Law.

19 - (3) Inheritance Law.

20 - (4) Domestic relations.

21 - (5) The construction and maintenance of secondary roads
22 - connecting two or more municipalities, and docks used exten-
23 - sively for travel between two or more municipalities,

1 - including acquiring or providing for adequate space for
2 - public utilities and set-back from such roads and docks and
3 - control of harbors in which such docks are located. These
4 - roads and docks that are to be considered as "secondary"
5 - are to be designated by the district legislature (in the
6 - case of Yap those that are to be considered as secondary
7 - within the Yap Islands proper by the Yap Islands Congress,
8 - and outside the Yap Islands proper by the District Adminis-
9 - trator), subject to the approval of the High Commissioner.

10 - (6) Exclusive issuance of licenses for wholesale
11 - businesses, other than banking, insurance, sale of securities,
12 - and public utilities, including the exclusive right to collect
13 - fees for such licenses, provided these are not based on imports
14 - or the volume or value of imports, except as provided in
15 - Section 1(c) herein and Section 1102 of the Code of the Trust
16 - Territory.

17 - (7) The imposition and collection of sales taxes, and
18 - the authorizing of municipalities to impose and collect
19 - excise taxes on any items other than foodstuffs.

20 - (8) Support of public education as may be required by
21 - law.

22 - (9) Support of public health as may be required by law.

23 - (d) Treasurer. There shall be on the staff of the

04-426340

1 - District Administrator and District Treasurer appointed by
 2 - the district legislature for a term specified by the legis-
 3 - lature, subjected however to removal for cause at any time

4 - by the District Administrator. The District Treasurer shall
 5 - receive a salary for his services from the appropriated
 6 - district funds on a salaried basis and under such conditions as
 7 - the district legislature shall provide.

8 - The District Treasurer shall:
 9 - (1) Receive, maintain, and disburse funds under
 10 - the authority of the district legislature and under the
 11 - direction and supervision of the District Administrator.

12 - (2) Keep complete and accurate records of all funds
 13 - received, maintained and disbursed by him in such manner
 14 - as prescribed by the District Administrator. (Such records
 15 - shall be open to inspection and audit by the district legis-
 16 - lature, District Administrator, and the territorial govern-

17 - ment.)
 18 - (3) Submit an annual report to the District Adminis-
 19 - trator and the District Legislature of all funds received
 20 - and disbursed by him during each fiscal year.

21 - (4) Act as collection and fiscal agent for the
 22 - territorial government as may be required by law.

lawful to the territorial government or district laws.

1 - (e) Disqualification for membership in District
2 - Legislatures. In all elections held after December 31, 1968,
3 - the following shall be ineligible to be candidates for member-
4 - ship in any district legislature:

5 - (1) All judges

6 - (2) All members of the Insular Constabulary

7 - (3) All employees of either the Trust Territory or

8 - District Administration thereof, who hold positions as

9 - assistant department heads or higher.

10 - Section 3. Municipalities, Towns, and Local Governments

11 - Functioning Under a Traditional Form of Organization: Primary

12 - Responsibilities and Powers.

13 - (a) Subject to all territory-wide laws and all district
14 - laws of their respective districts, municipalities shall be
15 - primarily responsible for:

16 - (1) Legislation affecting particularly the peace,
17 - safety, and public welfare of their own inhabitants, without
18 - special or discriminatory effect on those from outside the
19 - municipality who are licensed by either the district or the
20 - Trust Territory.

21 - (2) Licensing and collecting license fees of retail
22 - businesses within the municipality, subject, however, to all
23 - applicable territorial government or district laws.

04-426342

1 - (3) The imposition and collection of head taxes, prop-
2 - erty taxes on any items other than foodstuffs, and such
3 - excise taxes as the district may authorize; provided, however,
4 - that none of these shall be based on imports, or the value or
5 - volume of imports.

6 - (4) The construction and maintenance of public roads
7 - and docks which have not been designated as either primary
8 - or secondary, including acquiring or providing for adequate
9 - space for public utilities and set-back from such roads and
10 - docks and control of harbors in which such docks are located,
11 - if deemed advisable.

12 - (5) All necessary law enforcement not otherwise
13 - provided for.

14 - (6) Making available to the courts a suitable municipal
15 - building for court sittings away from established courthouses;
16 - providing incidental clerical assistant for such sittings,
17 - including all sittings of the Community Court in their
18 - municipality, to the extent this may be done without serious
19 - detriment to municipal business; and providing a bailiff for
20 - all Community Court sittings and such occasional sittings of
21 - the High Court or the District Court as may be held for short
22 - periods in their municipality away from established courthouses.

23 - (7) Support of public education as may be required by law.

04-426343

1 - (8) Support of public health as may be required
2 - by law.

3 - (b) No municipal ordinance shall provide for any
4 - penalty greater than twenty-five dollars (\$25.00) fine or
5 - thirty (30) days imprisonment or both; nor shall any munici-
6 - pality legislate on any of the subjects specified in Sections
7 - 1 and 2 as the primary responsibility of the territorial
8 - government or the district governments.

9 - (c) Effective July 1, 1966, any municipal charter
10 - inconsistent herewith is hereby amended to accord with this
11 - section.

12 - Section 4. Section 43 of the Code of the Trust Territory
13 - is hereby repealed, and Section 44 is hereby revised to the
14 - extent necessary to conform with the provisions of this Act.

15 - Section 5. This Act shall take effect upon approval
16 - by the High Commissioner.

Speaker, The General Assembly

Attest:
Legislative Secretary

Approved August 23, 1965

Sgd: M. W. Goding
High Commissioner

04- 426344

Appendix B

CONGRESS OF
MICRONESIA

PUBLIC LAW NO. 1-9
A. B. No. 22/

GENERAL SESSION
1965

A N A C T

1 - providing for the levy of an excise tax on the use, distri-
2 - bution or sale of motor vehicle fuel, and for other purposes.

3 - BE IT ENACTED BY THE CONGRESS OF MICRONESIA:

4 - Section 1. (a) For the purpose of providing a portion
5 - of the funds to pay the cost of constructing and maintaining
6 - the system of public streets, roads, and highways, an excise
7 - tax is hereby levied upon the use, distribution or sale

8 - within the Trust Territory of all motor vehicle fuel, at the
9 - rate of five (5) cents per gallon so used, distributed or sold.

10 - (b) The District Administrator, or his authorized repre-
11 - sentative, shall compute and collect the tax prior to such use,
12 - distribution or sale, or at the time of sale or delivery from
13 - government storage or distribution facilities, and shall
14 - deposit all sums so collected into the treasury of the Trust
15 - Territory in accordance with rules and regulations established
16 - by the Director of Budget and Finance of the Trust Territory
17 - with the approval of the High Commissioner.

18 - (c) The Treasurer of the Trust Territory shall pay into
19 - the treasury of the district government of the district wherein

04-426345

1 - the taxes were collected four (4) cents of each five (5)
2 - cents so collected. Revenue collected under this section
3 - and paid into the treasury of the district government shall
4 - be appropriated by the district legislature only for the
5 - construction and maintenance of public streets, roads, and
6 - highways and, if it deems advisable, as grants-in-aid to
7 - municipal governments for the construction and maintenance
8 - of municipal streets or roads: provided, that unless and
9 - until a Yap District Legislature is established, taxes so
10 - collected in the Yap Islands and paid into the treasury of
11 - the district government shall be expended for the purposes
12 - specified above as authorized and appropriated by the Yap
13 - Islands Congress; provided, further, that taxes so collected
14 - in the Yap District outside the Yap Islands and paid into the
15 - treasury of the district government shall be expended as
16 - provided by the District Administrator.

17 - (d) One (1) cent of each five (5) cents collected here-
18 - under shall be available for appropriation by the Congress
19 - of Micronesia.

20 - Section 2. The power to levy and collect taxes on motor
21 - vehicle fuel is reserved to the Government of the Trust
22 - Territory.

A- 426346

1 Section 3. This Act shall take effect on October 1, 1965.

Approved August 25, 1965

Speaker, The General Assembly

Sgd: M. W. Goding
High Commissioner

Attest:

Legislative Secretary

4- 426347

Appendix C

CONGRESS OF
MICRONESIA

PUBLIC LAW NO. 1-10
D. B. No. 21/

GENERAL SESSION
1965

A N A C T

- 1 - Providing for the levy of an export tax on copra, trochus
2 - shell, and scrap metal, and for other purposes.
- 3 - BE IT ENACTED BY THE CONGRESS OF MICRONESIA:
- 4 - Section 1. Section 1145(b) of the Code of the Trust
5 - Territory, establishing a processing tax of fifteen percent
6 - (15%) on all articles manufactured or processed in the Trust
7 - Territory, with certain exceptions, is repealed, effective
8 - July 1, 1966. —
- 9 - Section 2. An export tax of ten percent (10%) is hereby
10 - levied on all copra and trochus shell produced in and exported
11 - from the Trust Territory. This section shall take effect on
12 - July 1, 1966.
- 13 - Section 3. The following export taxes are hereby levied
14 - on all scrap metal exported from the Trust Territory.
- 15 - (1) Non-ferrous - twenty-five percent (25%) ad valorem.
16 - (2) Ferrous - five percent (5%) ad valorem.
17 - (3) Lead, and lead covered cable - ten percent (10%)
18 - ad valorem.
- 19 - This section shall take effect on October 1, 1965.

JA-426348

1 - Section 4. (a) All exporters of copra, trochus shell
2 - or scrap metal shall report all such exports to the District
3 - Administrator, or his representative, and pay the export tax
4 - provided above.

5 - (b) The District Administrator, or his representative,
6 - shall deposit such taxes into the treasury of the Trust
7 - Territory in accordance with rules and regulations established
8 - by the Director of Budget and Finance of the Trust Territory
9 - with the approval of the High Commissioner.

10 - (c) The Treasurer of the Trust Territory shall pay
11 - fifty percent (50%) of the taxes collected hereunder into the
12 - treasury of the district government of the district wherein
13 - the taxes were collected for appropriation by the district
14 - legislature; Provided, that unless and until a Yap District
15 - Legislature is established, taxes collected in the Yap Islands
16 - and deposited in the treasury of the district government shall
17 - be expended as authorized and appropriated by the Yap Islands
18 - Congress; Provided, further, that taxes collected in the Yap
19 - District outside the Yap Islands and deposited in the treasury
20 - of the district government shall be expended as provided by
21 - the District Administrator.

22 - (d) Any person required to furnish any records or supply
23 - any information for the purpose of computation, assessment or

04-426349

- 1 - collection of any tax imposed or authorized by the foregoing
2 - sections, who fails to furnish such records or supply such
3 - information at the time or times required, shall upon con-
4 - viction thereof, be liable to a penalty of not more than
5 - \$100.00, or twice the value of the article or articles
6 - exported, whichever is the larger, or imprisonment for not
7 - more than thirty (30) days, or both.
- 8 - Section 5. Sections 772 and 1146 of the Code of the
9 - Trust Territory are hereby repealed.
- 10 - Section 6. This Act shall take effect upon approval by
11 - the High Commissioner.

President, The House of Delegates

Approved August 25, 1965

Sgd: M. W. Goding
High Commissioner

04-426350

Appendix D

CONGRESS OF
MICRONESIA

PUBLIC LAW NO. 1-13
D. B. No. 18/ A. D. 1/

GENERAL SESSION
1965

A N A C T

1 - Providing for taxes on imports into the Trust Territory of
2 - the Pacific Islands, and for other purposes.

3 - BE IT ENACTED BY THE CONGRESS OF MICRONESIA:

4 - Section 1. (a) The following import taxes are hereby
5 - levied on products specified herein manufactured outside the
6 - Trust Territory and imported into the Trust Territory for
7 - resale:

8 - (1) Cigarettes - Seven (7) cents per every twenty
9 - cigarettes.

10 - (2) Tobacco, other than cigarettes - Fifty percent
11 - (50%) ad valorem.

12 - (3) Perfumery, cosmetics and toiletries, including
13 - cologne and other toilet waters, articles of perfumery,
14 - whether in sachets or otherwise, and all preparations used
15 - as applications to the hair or skin, lipsticks, pomades,
16 - powders and other toilet preparations not having medicinal
17 - properties - Twenty-five percent (25%) ad valorem.

18 - (4) Soft drinks and non-alcoholic beverages - at the
19 - rate of two (2) cents on each twelve (12) fluid ounces or
20 - fractional part thereof.

04-426351

- 1 - (5) Beer and malt beverages - at the rate of three (3)
2 - cents per can or bottle of twelve (12) fluid ounces or
3 - fractional part thereof.
- 4 - (6) Distilled alcoholic beverages - at the rate of
5 - six dollars (\$6.00) per wine gallon.
- 6 - (7) Wine - at the rate of One Dollar and Fifty Cents
7 - (\$1.50) per wine gallon.
- 8 - (8) All other imported products, except those specified
9 - above and gasoline, oil and petroleum lubricants, foodstuffs
10 - for human consumption, drugs, construction materials, fertil-
11 - izers, seeds, farm equipment, fishing gear, livestock, poultry,
12 - books and educational materials - Five percent (5%) ad valorem.
13 - Foodstuffs except milk, rice, sugar, flour, canned fish, canned
14 - meats, shortening and cooking oils, and prepared baby foods -
15 - One percent (1%) ad valorem.
- 16 - (b) The taxes imposed by this section shall be collected
17 - and deposited in the treasury of the Trust Territory by the
18 - District Administrator, or his representative, in accordance
19 - with rules and regulations established by the Director of
20 - Budget and Finance of the Trust Territory with the approval
21 - of the High Commissioner.
- 22 - (c) The Treasurer of the Trust Territory shall pay
23 - fifty percent (50%) of the taxes collected hereunder into

04-426352

1 - the treasury of the district government of the district
2 - wherein the taxes were collected for appropriation by the
3 - district legislature: Provided, that unless and until a
4 - Yap District Legislature is established, taxes collected in
5 - the Yap Islands and deposited in the treasury of the district
6 - government shall be expended as authorized and appropriated
7 - by the Yap Islands Congress; Provided, further, that taxes
8 - collected in the Yap District outside the Yap Islands and
9 - deposited in the treasury of the district government shall
10 - be expended as provided by the District Administrator.

11 - (d) Of the fifty percent share of the Trust Territory
12 - as provided in (c) above, only collections made before July 1,
13 - 1967, in excess of the amount included in the budget approved
14 - by the Congress of the United States for Fiscal Year 1966 shall
15 - be available for appropriation by the Congress of Micronesia.
16 - This subsection shall expire on July 1, 1967.

17 - (e) All taxes not paid within sixty (60) days following
18 - the receipt of goods and commodities by the importer shall be
19 - subject to a penalty of six percent (6%) interest per annum;
20 - Provided, that if nonpayment continued, the delinquent shall
21 - also be liable to any additional penalties as may be provided
22 - by law.

23 - (f) Any commodities subject to the provision of this

- 1 - Act which are not received by the importer may be exempted
- 2 - upon certification of non-receipt by the agent of the carrier.
- 3 - Section 2. Section 1143 and subsection (a) of Section
- 4 - 1145 of the Code of the Trust Territory are hereby repealed.
- 5 - Section 3. This Act shall take effect on October 1, 1965.

Sgd: Tosiwo Nakayama
President, the House of Delegates

Approved September 3, 1965

Sgd: M. W. Goding
High Commissioner

04-426354

TRUST TERRITORY OF THE PACIFIC ISLANDS
Office of the High Commissioner
Saipan, Mariana Islands 96950

July 15, 1966

Honorable Tosiwo Nakayama
President of the Senate
and
Honorable Bethwel Henry
Speaker of the House of Representatives
Congress of Micronesia
Capitol Hill, Saipan, Mariana Islands

Gentlemen:

As a result of our continuing analysis of the Trust Territory-wide F. Y. 1968 Preliminary Budget, I am attaching a listing of estimated revenues totaling \$370,000 expected to be realized under existing tax and revenue laws of the Trust Territory. The Operation and Maintenance Program Schedule attached to my letter of July 13, 1966 listed the \$370,000 in lump sum. It is my recommendation that these revenues be budgeted for the following purposes:

Congress of Micronesia Expenses	\$255,000
District Public Works	<u>115,000</u>
Estimated Total	\$370,000

The attached detail of the \$255,000 is taken from recommendations furnished this office by the Legislative Counsel during review of requirements for F. Y. 1967.

In connection with the F. Y. 1966 Trust Territory Budget as reprogrammed in January 1966, there is attached a copy of a letter of January 20, 1966 from the Department of Interior to the United States and that letter's enclosure.

Sincerely yours,

Robert K. Shoecraft
Acting Deputy High Commissioner

Attachments (3)

- cc: All Members of Congress w/attachments (3)
- All Assistant Commissioners w/attachments (2)
- Attorney General w/attachments (2)
- All District Administrators w/attachments (2)
- All Department Heads w/attachments (2)
- Legislative Counsel w/attachments (3)
- HiCom Office w/attachments (3)
- Interior r.f.

04- 426355

TRUST TERRITORY OF THE PACIFIC ISLANDS 7-15-66
High Commissioner's Recommendations to Congress of Micronesia
For Appropriation of Estimated F.Y. 1968 Revenues

CONGRESS OF MICRONESIA EXPENSES:

I. Personal Services:

A. U. S. (Incl. 2 Part-Time)	\$ 30,375
B. Micronesian (Incl. 10 Part-Time)	<u>31,160</u>
Sub-Total:	\$ 61,535

II. All Other:

A. Purchases	13,500
B. Other (Per Diem included)	<u>135,864</u>
Sub-Total:	149,364

III. Added End Use Costs:

A. Educational Allowance	1,200
B. Recruitment	2,300
C. Air & Sea Freight	4,800
D. Air & Sea Travel (Fares only)	26,886
E. Public Works Charges for Congress of Micronesia	<u>8,915</u>
Sub-Total	44,101

Total Congress of Micronesia Expenses \$255,000

DISTRICT PUBLIC WORKS 115,000

GRAND TOTAL: \$370,000

24-426356

APPENDIX E

ESTIMATE OF TAX REVENUES OF THE CONGRESS OF MICRONESIA FOR FISCAL YEARS 1967 AND 1968

TITLE	1/		Net	
	Gross Estimate	Less: Share to Dist. Legis.	Gross Estimate	Less: Share to Dist. Legis.
Import Taxes				
(Public Law No. 1-13)	\$460,000	\$230,000	\$230,000	\$250,000
Motor Vehicle Fuel-Excise Tax				
(Public Law No. 1-9)	45,000	36,000	9,000	10,000
Copra-Export Tax				
(Public Law No. 1-10)	170,000	85,000	85,000	85,000
Trochus Shell-Export Tax				
(Public Law No. 1-10)	2,000	1,000	1,000	1,000
Scrap Metal-Export Tax				
(Public Law No. 1-10)	14,000	7,000	7,000	7,000
Licenses and Permits				
(TT Code Secs 691,834,850)	5,000	-	5,000	6,000
Fines, Forfeits, and Penalties				
(TT Code Secs 175,258,882,883)	4,000	-	4,000	5,000
Court Fees				
(TT Code Sec 264)	5,000	-	5,000	6,000
T O T A L S	\$705,000	\$359,000	\$346,000	\$370,000

1/ Not broken down by items. Data not available at time this table prepared.