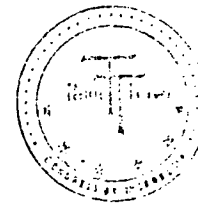


Congress of Micronesia

SENATE

Saipan, Marianas Islands  
96950



Committee on  
Ways and Means

Batley Otter  
Chairman

Tosiwo Nakayama  
Amata Kabua  
Edward Pangelinan  
Lazarus Salli  
Kafel Moonfell

STANDING COM. FILE NO. 2

JANUARY 18, 1971

RE: S. B. No. 4

The Honorable Amata Kabua  
President of the Senate  
Fourth Congress of Micronesia  
First Regular Session, 1971

Dear Mr. President:

Your Committee on Ways and Means to which was referred S.B. No. 4,  
ENTITLED:

S. B. No. 4. "A BILL FOR AN ACT TO LEVY TAXES ON SALARIES, WAGES,  
AND GROSS REVENUES OF BUSINESS AND TO PRESCRIBE THE  
PROCEDURES FOR PAYING AND COLLECTING; TO PROVIDE  
PENALTIES THEREFOR, AND FOR OTHER PURPOSES."

begs leave to report as follows:

The purpose of S. B. No. 4 is to impose and collect taxes on wages and salaries attributable to personal services performed by employees within the Trust Territory and on gross revenues of businesses operating within the Trust Territory.

Your Committee feels that there is an urgent need for an increase in the local revenues which are required to support Micronesia. Failure to pass a bill which will increase Micronesia's financial responsibility for their government would be ineffectual and in conflict with the greater responsibilities being sought in other areas. Self-determination and self-government are naturally the result of assuming the burdens and responsibilities which accompany them.

Your Committee has one major substantive amendment to S. B. No. 4. It changed the rate of taxation on wages and salaries from a graduated rate to a flat rate of 3 per cent. This change was made when it became apparent that a graduated tax would be extremely difficult to administer at this time. A graduated tax would cost about five times as much as a flat rate tax to administer. Furthermore, it would take more than

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one year before the Administration could be prepared to start collecting a graduated tax. The Administration can be prepared to start collecting a flat rate tax within six months.

It is estimated that with a flat 3 percent tax on wages and salaries and a one percent tax on gross revenues the Congress of Micronesia would realize revenues of \$2,120,000 per year.

All amendments to S. B. No. 4 other than the change in the tax rate mentioned above were of a technical or administrative nature and are noted below.

Your Committee has made the following amendments to S. B. No. 4:

1. Page 1, preamble, line 1, add the letter "s" to the word "revenue" and add the letters "es" to the word "business".
2. Page 1, line 10, delete the words "district, district" and insert in lieu thereof the words "any district government, any district".
3. Page 1, line 11, insert the word "any" between the words "or" and "municipality".
4. Page 2, lines 1 through 19, delete in its entirety and insert in lieu thereof the words "employee. Wages and salaries shall not include the following:
  - (1) Wages and salaries received from the United States by members of the Military or Naval Forces of the United States or the Armed Forces of the United States.
  - (2) Reasonable per diem and travel allowances which shall not exceed any comparable Trust Territory Government rates.
  - (3) Rental value of a home or rental allowance (to the extent used by him to rent or to provide a home) furnished to a minister of the gospel.
  - (4) Any payment on account of sickness or accident disability or medical or hospitalization expenses other than wages or salaries or any part thereof, made by an employer to or on behalf of an employee.
  - (5) Any payment made to or on behalf of an employee or to his beneficiary from a trust or annuity.

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- (6) Remuneration paid in any medium other than cash to an employee for service not in the ordinary course of the employer's trade or business or for domestic service in a private home of an employer.
  - (7) Remuneration paid for casual or intermittent labor not performed in the ordinary course of the employer's trade or business when such employment does not exceed employment for more than one week in each calendar month.
  - (8) Any payment made to an employee while he is a fulltime, bona fide student at an accredited educational institution within the Trust Territory.
6. Page 3, lines 1 through 4, delete in its entirety and insert in lieu thereof the words "herein. Gross revenue shall not include the following:
    - (1) Refunds, rebates and returns.
    - (2) Monies held in a fiduciary capacity.
    - (3) Income in the form of wages and salaries which are taxed under other provisions of this act.
  7. Page 3, line 10, delete the word "." between the words "Director" and "Unincorporated" and insert in lieu thereof the words ", however, and the qualities of an employee under this section shall not be considered as a business."
  8. Page 3, line 12, insert a new subsection to read as follows:  
"(d) 'Military or Naval Forces of the United States' and 'Armed Forces of the United States' means all regular and reserve components of the uniformed services which are subject to the jurisdiction of the Secretary of the Army, Navy or Air Force, and also includes the Coast Guard."
  9. Page 3, line 15, delete the words "that portion of the amount of".
  10. Page 3, line 16, delete the words ", which does not exceed the total sum of" and insert in lieu thereof the word ".".
  11. Page 3, lines 17 through 19, delete in its entirety.

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12. Page 3, line 22, delete the words "not over \$10,000,".
13. Page 3, line 23, delete to its entirety.
14. Page 3, line 24, delete the words "tion of any wages and salaries over \$10,000".
15. Page 4, line 9, delete the word "of".
16. Page 4, line 10, delete the words "each month," and insert in lieu thereof the words "at the close of each quarter, to wit: on or before April 20, July 20, October 20 and January 20,".
17. Page 4, line 11, delete the word "month" and insert in lieu thereof the words "three months,".
18. Page 4, line 22, delete the words "grant permission to employers having a payroll".
19. Page 4, lines 23 through 25, delete in its entirety and insert in lieu thereof the words "require no frequent returns and payments as he in his discretion finds it advisable, but in no case shall an employer be required to file returns and payments more frequently than monthly."
20. Page 5, line 1, delete the words "July 20, October 20, and January 20; or the" and insert in lieu thereof the word "The".
21. Page 7, line 3, delete the words "is each month with," and insert in lieu thereof the word "and".
22. Page 7, line 4 and 5, delete the words "is at the time present" and insert in lieu thereof the words "at which he is present at the time for payment".
23. Page 7, line 14, insert the words "(a) of this act" between the words "and" and "and".
24. Page 7, line 16, delete the word "month" and insert in lieu thereof the words "three months,".
25. Page 7, line 22, delete the words "quarterly or".
26. Page 8, lines 14 and 15, delete the words "January 31 of each year (excluding 1972)," and insert in lieu thereof the words "the

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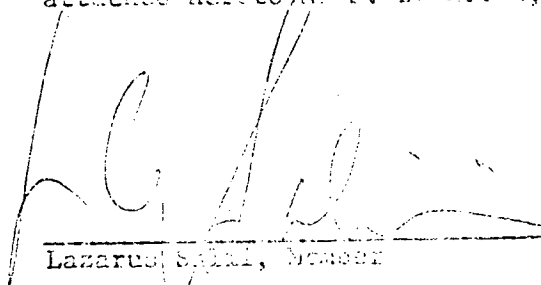
RE: S. B. No. 4

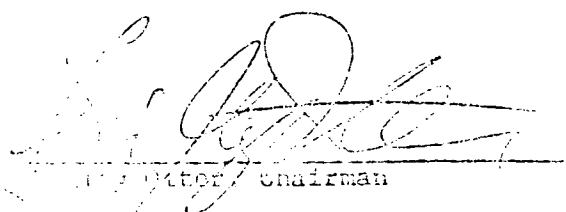
twentieth day after the close of each quarter, to wit: on or before April 20, July 20, October 20, and January 20,".

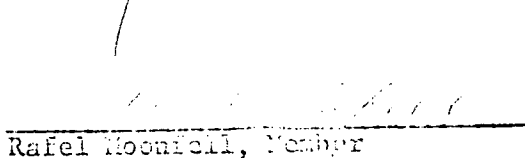
- 27. Page 8, line 15, delete the word "compute" and insert in lieu thereof the word "pay".
- 28. Page 8, line 16, delete the words "year (excluding 1971)," and insert in lieu thereof the words "three months,".
- 29. Page 8, line 17, delete the words "and shall pay the amount so computed".
- 30. Page 8, line 20, delete the words "January 31 of each year (excluding 1972)," and insert in lieu thereof the words "the date provided for payment of tax under this subsection,".
- 31. Page 8, line 23, delete the words "year (excluding 1971)," and insert in lieu thereof the words "three months,".
- 32. Page 15, line 19, delete the word "June" and insert in lieu thereof the word "July".

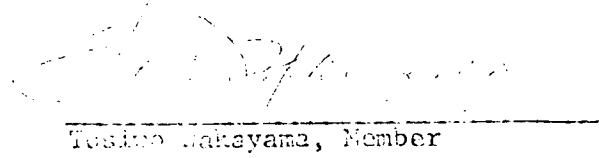
Your Committee is in accord with the intent and purpose of S. B. No. 4, and recommends its passage on Second and Final Reading in its amended form attached hereto as S. B. No. 4, S. D. 1.

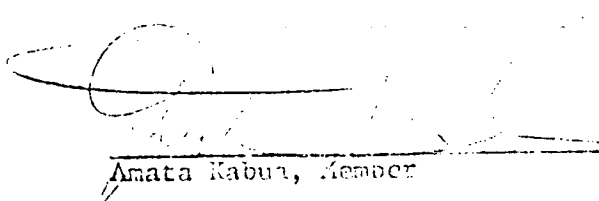
Respectfully submitted,

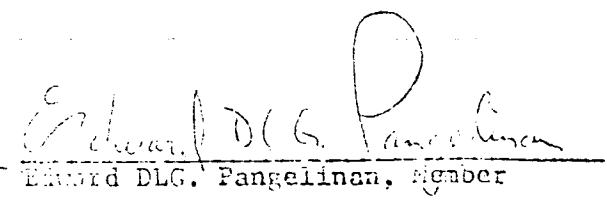
  
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 Lazarus S. Siki, Member

  
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 Victor, Chairman

  
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 Rafael Mounicil, Member

  
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 Tesoro Nakayama, Member

  
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 Amata Kabua, Member

  
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 Edward DLG. Pangalanan, Member

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