A BILL FOR AN ACT

To further amend title 54 of the Code of the Federated States of Micronesia, as amended, by amending section 141 thereof to create a limited exemption from the tax on gross revenues for businesses involving significant investment from outside the Federated States of Micronesia, and for other purposes.

BE IT ENACTED BY THE CONGRESS OF THE FEDERATED STATES OF MICRONESIA:

1. Section 1. Purpose. The purpose of this Act is to encourage foreign investment in the Federated States of Micronesia. In order to meet the needs of a growing population, the National Government of the Federated States of Micronesia is committed to fostering an environment in which new businesses will be established, existing businesses will grow and prosper, and adequate employment opportunities will be created for the citizens of the FSM. It is unlikely that the nation’s objectives will be met if economic activity in the nation is limited to that which can be supported by indigenous resources. Therefore, it is in the best interests of the FSM and its people that incentives be provided for foreign individuals and enterprises to invest and do business in the FSM.

Investment in the FSM can be made more attractive to foreign parties by reducing the tax burden imposed on new businesses with substantial foreign ownership. Exemption of such businesses from the gross revenue tax, for a period of time, will help to offset the start-up costs that can erode the profitability of a new business. This Act establishes the availability of such an
exemption for qualifying businesses. It is the intention that this exemption will be granted only to businesses that both bring to the FSM substantial new foreign investment and have a significant potential for contributing to growth of the nation’s economy. It is not the intention of this Act to provide foreign businesses with a competitive advantage over locally-owned enterprises. The Act should be applied with due consideration for the interests of local businesses and for the public interest in the viability of such businesses.

Section 2. Section 141 of title 54 of the Code of the Federated States of Micronesia, as amended, is hereby further amended to read as follows:

"Section 141. Tax on gross revenues; Exemption.

(1) There shall be assessed, levied, collected, and paid a tax of $80 per year upon that portion of the amount of gross revenues earned by every business subject to the provisions of this chapter which does not exceed $10,000 per year.

(2) There shall be assessed, levied, collected, and paid a tax of three percent per year upon that portion of the amount of gross revenues earned by every business subject to the provisions of this chapter which is in excess of $10,000 per year.

(3) Businesses which earn gross revenues of not more than $2,000 per year are exempt from taxation under this section. The deduction shall be claimed by the business
by filing for a refund under the provisions of sections 122 and 123 of this chapter.

(4) There is hereby established an exemption from the gross revenues tax for eligible businesses involving significant foreign investment. No business shall be eligible for an exemption under this subsection, except during its first five years of doing business in the Federated States of Micronesia. No business shall be eligible for an exemption under this subsection unless persons or enterprises having residences and principal places of business outside the Federated States of Micronesia own a 30 percent or greater ownership interest and have contributed 30 percent or more of the capital used in the business. The President or his designee shall have the authority to negotiate with potentially-eligible businesses and enter into exemption agreements consistent with the requirements of this subsection, which agreements shall be subject to the approval of Congress by resolution. The exemption provided for in the agreement may be for the full amount of the tax that would otherwise be imposed or for a part thereof, and may be for five years or for a lesser period. The exemption agreement may provide that the exemption is wholly or partially subject to the business’ meeting conditions specified in the agreement. In determining whether to
enter into an exemption agreement with a business and in
determining the extent and duration of any such
exemption, the President or his designee shall take into
consideration the following factors:

(i) the nature and extent of foreign
ownership and investment in the business;

(ii) the number of citizens of the
Federated States of Micronesia that will be employed by
the business;

(iii) the amount of revenue the business is
likely to generate from sources outside the Federated
States of Micronesia;

(iv) the potential contribution of the
business to the growth of the nation’s economy;

(v) whether the granting of a tax
exemption to the business would give it an advantage
over other companies with which it would compete in the
Federated States of Micronesia; and

(i) such other factors as may effect the public
interest.

For the purpose of section 805 of this title,
every business that operates in more than one State of
the Federated States of Micronesia shall file a separate
tax return for revenue collected in each State."

Section 2. This act shall become law upon approval by the President of the Federated States of Micronesia or upon its becoming law without such approval.

Date: 5/12/05

Introduced by: /s/ Isaac V. Figir
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