



The President
Palikir, Pohnpei
Federated States of Micronesia

PRESIDENTIAL COMM. NO. 16-315
FSM CONGRESS

November 12, 2010

The Honorable Isaac V. Figir
Speaker
16th FSM Congress
Palikir, Pohnpei State, FM 96941

Dear Speaker Figir:

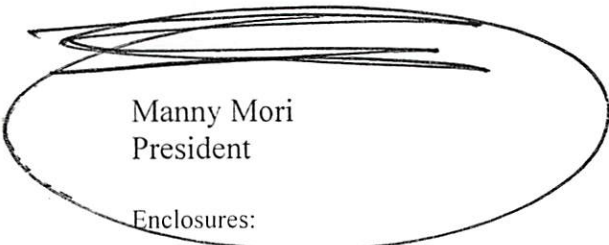
I hereby transmit the following Congressional Act which I have signed to become Public Law No.16-52, pursuant to section 22, title IX, of the FSM Constitution:

Congressional Act No. 16-54, "AN ACT TO FURTHER AMEND CHAPTER 3 OF TITLE 54 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA, AS AMENDED, BY FURTHER AMENDING SECTION 312, AS AMENDED BY PUBLIC LAW NO. 14-110, SECTION 313, AS AMENDED BY PUBLIC LAWS NOS. 14-110 AND 16-19, SECTION 321, AS AMENDED BY PUBLIC LAW NO. 16-36, SECTION 322, SECTION 331, SECTION 342, SECTION 351, AS AMENDED BY PUBLIC LAW NO. 14-110, SECTION 352, AND SECTION 370, AND BY ENACTING NEW SECTIONS 371, 372, 373, 374, 375, 376, 378, TO MAKE PROCEDURAL CHANGES TO THE CORPORATE TAX IN ORDER TO MAKE IT MORE ATTRACTIVE TO POTENTIAL TAXPAYERS, AND FOR OTHER PURPOSES."

I take this opportunity to thank you and your colleagues in Congress for the immediate action taken on this matter. It is hoped that this legislation brings meaningful progress and improvement to FSM major corporate industry.

With warm personal regards, I remain,

Sincerely,



Manny Mori
President

Enclosures:

xc: Chief Justice, FSM Supreme Court
Secretary, Department of Justice
Director, Office of SBOC
Legislative Counsel, CFSM
Library, CFSM
PIO, FSM





Office of the Chief Clerk

CONGRESS OF THE FEDERATED STATES OF MICRONESIA

P.O. Box PS 3
Palikir, Sokchs
Pohnpei State, FM 96941
Tel: (691) 320-2324 / 2338
Fax: (691) 320-5122

PRESIDENTIAL COMM. NO. 16-315
FSM CONGRESS



October 15, 2010

His Excellency Manny Mori
President
Federated States of Micronesia
Palikir, Pohnpei FM 96941

Dear President Mori:

I have the honor to transmit herewith Congressional Act No. 16-54, "AN ACT TO FURTHER AMEND CHAPTER 3 OF TITLE 54 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA, AS AMENDED, BY FURTHER AMENDING SECTION 312, AS AMENDED BY PUBLIC LAW NO. 14-110, SECTION 313, AS AMENDED BY PUBLIC LAWS NOS. 14-110 AND 16-19, SECTION 321, AS AMENDED BY PUBLIC LAW NO. 16-36, SECTION 322, SECTION 331, SECTION 342, SECTION 351, AS AMENDED BY PUBLIC LAW NO. 14-110, SECTION 352, AND SECTION 370, AND BY ENACTING NEW SECTIONS 371, 372, 373, 374, 375, 376, 377, 378, TO MAKE PROCEDURAL CHANGES TO THE CORPORATE TAX IN ORDER TO MAKE IT MORE ATTRACTIVE TO POTENTIAL TAXPAYERS, AND FOR OTHER PURPOSES.", which was passed by the Sixteenth Congress of the Federated States of Micronesia, Fifth Regular Session, 2010, by a two-thirds vote of all the State delegations as required and as duly certified.

Sincerely yours,

Liwiana Ramon Ioanis
Chief Clerk, Congress of the
Federated States of Micronesia

Enclosures



PRESIDENTIAL COMM. NO. 16-315
FSM CONGRESS

SIXTEENTH CONGRESS OF THE
FEDERATED STATES OF MICRONESIA
FIFTH REGULAR SESSION
SEPTEMBER 13 – OCTOBER 6, 2010

PUBLIC LAW No. 16-527

An Act

TO FURTHER AMEND CHAPTER 3 OF TITLE 54 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA, AS AMENDED, BY FURTHER AMENDING SECTION 312, AS AMENDED BY PUBLIC LAW NO. 14-110, SECTION 313, AS AMENDED BY PUBLIC LAWS NOS. 14-110 AND 16-19, SECTION 321, AS AMENDED BY PUBLIC LAW NO. 16-36, SECTION 322, SECTION 331, SECTION 342, SECTION 351, AS AMENDED BY PUBLIC LAW NO. 14-110, SECTION 352, AND SECTION 370, AND BY ENACTING NEW SECTIONS 371, 372, 373, 374, 375, 376, 377, 378, TO MAKE PROCEDURAL CHANGES TO THE CORPORATE TAX IN ORDER TO MAKE IT MORE ATTRACTIVE TO POTENTIAL TAXPAYERS, AND FOR OTHER PURPOSES.

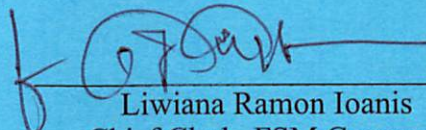
INTRODUCED BY: SENATOR JOE N. SUKA

DATE: SEPTEMBER 24, 2010

REFERRED TO: RESOURCES AND DEVELOPMENT
SEPTEMBER 29, 2010

FIRST READING: SEPTEMBER 29, 2010

SECOND READING: SEPTEMBER 30, 2010


Liwiana Ramon Ioanis
Chief Clerk, FSM Congress



Office of the Vice Speaker

CONGRESS OF THE FEDERATED STATES OF MICRONESIA

P.O. Box PS 3

Palikir, Sokehs

Pohnpei State, FM 96941

Tel: (691) 320-2324/2325/2326/2327/2337/2338/2707

Telex: 729-6809 Fax: (691) 320-5122

PRESIDENTIAL COMM. NO. 16-315
FSM CONGRESS

ACT NO. 16-54

(CONGRESSIONAL BILL NO. 16-140)

We hereby certify that on September 30 the foregoing act passed Second and Final Reading of the Sixteenth Congress of the Federated States of Micronesia, Fifth Regular Session, 2010, by a two-thirds vote of all the State delegations as required under article IX, section 20, of the Constitution of the Federated States of Micronesia.

A handwritten signature in black ink, appearing to read "Isaac V. Figir".

Isaac V. Figir
Speaker
Congress of the
Federated States of Micronesia

A handwritten signature in black ink, appearing to read "Liwiana Ramon Ioanis".

Liwiana Ramon Ioanis
Chief Clerk
Congress of the
Federated States of Micronesia

PUBLIC LAW No. 16-52

AN ACT

To further amend chapter 3 of title 54 of the Code of the Federated States of Micronesia, as amended, by further amending section 312, as amended by Public Law No. 14-110, section 313, as amended by Public Laws Nos. 14-110 and 16-19, section 321, as amended by Public Law No. 16-36, section 322, section 331, section 342, section 351, as amended by Public Law No. 14-110, section 352, and section 370, and by enacting new sections 371, 372, 373, 374, 375, 376, 377, 378, to make procedural changes to the corporate tax in order to make it more attractive to potential taxpayers, and for other purposes.

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

1 Section 1. Section 312 of title 54 of the FSM Code, as
2 enacted by Public Law No. 13-71 and amended by Public Law No.
3 14-110, is hereby further amended to read as follows:

4 "Section 312. Definitions.

5 (1) 'Control group' of a corporation for purposes of
6 this chapter shall mean a group of corporations
7 comprising of:

8 (a) the corporation,

9 (b) other corporations in which the corporation
10 owns directly or indirectly 80% or more of the shares,

11 (c) other corporations that own directly or
12 indirectly 80% or more of the shares of the corporation,
13 and,

14 (d) corporations other than the corporation
15 described in paragraph (a) of this section or
16 corporations described in paragraph (b) of this section,
17 or corporations where 80% or more shares are owned

PUBLIC LAW NO. 16-52

1 directly or indirectly by the corporations described in
2 paragraph (c) of this section.

3 (2) 'Major Corporation' means any corporation not
4 principally engaged in business in the Federated States
5 of Micronesia as a bank (as such term is defined in
6 title 29 of the Code of the Federated States of
7 Micronesia, section 102(1)), formed on or after January
8 1, 2005, and,

9 (a) whose shareholders equity or paid-in capital
10 as of the beginning of its fiscal year is \$1,000,000 or
11 more; or

12 (b) the aggregate amount of the shareholders
13 equity or paid-in capital of the control group is
14 \$10,000,000 or more; or

15 (c) that is a captive insurance company licensed
16 pursuant to title 37 of the Code of the Federated States
17 of Micronesia regardless of the amount of
18 capitalization.

19 (3) 'Secretary' means the Secretary of the Department
20 of Finance and Administration.

21 (4) 'Taxable Year' shall mean the fiscal year of the
22 major corporation as reported to the Secretary under
23 section 314 of this chapter.

24 (5) 'Paid-in Capital' for purposes of this chapter
25 shall mean the total amount of consideration contributed

PUBLIC LAW No. 16-52

1 to the company for the issuance of shares."

2 Section 2. Section 313 of title 54 of the FSM Code, as
3 enacted by Public Law No. 14-110 and amended by Public Law No.
4 16-19, is hereby further amended to read as follows:

5 "Section 313. Applicability of this chapter. Taxes
6 imposed under this chapter shall apply to all major
7 corporations incorporated in the Federated States of
8 Micronesia as defined in section 312.

9 Section 3. Section 321 of title 54 of the FSM Code, as
10 enacted by Public Law No. 13-71 and amended by Public Law No.
11 16-36, is hereby further amended to read as follows:

12 "Section 321. Tax imposed. A tax at the rate of
13 twenty-one percent (21 percent) is hereby imposed for
14 each taxable year on the taxable income of every major
15 corporation. For all major corporations' taxable year
16 ending on or before March 30, 2011, 25.5% tax rate shall
17 apply to the entire taxable year. For all major
18 corporations' taxable year ending on or after March 31,
19 2011, 21% tax rate shall apply to the entire taxable
20 year."

21 Section 4. Section 322 of title 54 of the FSM Code, as
22 enacted by Public Law No. 13-71, is hereby amended to read as
23 follows:

24 "Section 322. Taxable income defined. The taxable
25 income of a major corporation equals its income, before

PUBLIC LAW No. 16-52

1 income taxes, earned in the taxable year as determined
2 under International Financial Reporting Standard
3 (hereinafter, 'IFRS') or Generally Accepted Accounting
4 Principles (hereinafter, 'GAAP'), as IFRS or GAAP, as
5 the case may be, is regularly utilized to calculate
6 taxable income in the major corporation's principal
7 shareholder's, if a corporation, place of incorporation
8 or, if an individual, country of primary residence."

9 Section 5. Section 331 of title 54 of the FSM Code, as
10 enacted by Public Law No. 13-71, is hereby amended to read as
11 follows:

12 "Section 331. Non-refundable credit for payment of
13 foreign taxes.

14 (1) In the case of a major corporation, any income
15 taxes paid or accrued on taxable income during the
16 taxable year to a foreign country shall be allowed as a
17 credit against the amount of tax imposed by section 321.

18 (2) In the case of a dividend received by a major
19 corporation, a credit shall also be allowed against the
20 amount of tax imposed by section 321 in an appropriate
21 amount to reflect any income taxes the major corporation
22 can demonstrate have been paid with respect to such
23 dividend to any foreign country or countries.

24 (3) In no case shall a major corporation, in any
25 taxable year, be entitled to credits which, in the

PUBLIC LAW No. 16-52

1 aggregate, exceed the amount of the tax imposed, for
2 that taxable year, under the provisions of section 321
3 of this chapter.

4 (4) No foreign tax credit shall be permitted to
5 create a refund or credit for overpayment of tax; but
6 any amount of foreign tax not creditable by reason of
7 this provision may be carried forward as a creditable
8 foreign tax to each succeeding year until fully utilized
9 subject to the same restrictions in the succeeding
10 years. In no event, however, shall any such foreign tax
11 credit be carried forward more than seven (7) years."

12 Section 6. Section 342 of title 54 of the FSM Code, as
13 enacted by Public Law No. 13-71, is hereby amended to read as
14 follows:

15 "Section 342. Method of accounting. The taxable income of a
16 major corporation shall be computed under the method of
17 accounting which the major corporation regularly computes its
18 income. To the extent permitted by IFRS or GAAP, as
19 applicable, a major corporation may compute its taxable
20 income under any of the following methods of accounting:

21 (1) the cash receipts and disbursements method;

22 (2) an accrual method;

23 (3) any combination of the foregoing methods or any
24 other method selected by the major corporation. To the
25 extent permitted by IFRS or GAAP, as applicable, a major

PUBLIC LAW NO. 16-52

1 corporation using any one of the above methods may, at
2 its option, convert to another one of the above methods,
3 provided that such a conversion may not be done more
4 than once during any sixty (60) month period without the
5 advance written consent of the Secretary."

6 Section 7. Section 351 title 54 of the FSM Code, as enacted
7 by Public Law No. 13-71 and amended by Public Law No. 14-110, is
8 hereby further amended to read as follows:

9 "Section 351. Filing of annual returns. Every major
10 corporation shall prepare and file with the Secretary an
11 annual income tax return on a form approved by the
12 Secretary, which annual income tax return shall be signed
13 by the major corporation's authorized representative.
14 This form shall be filed with the Secretary, together
15 with a copy of the major corporation's financial
16 statements and any other required information or
17 documents as prescribed by the Secretary in regulations,
18 in a form acceptable to the Secretary, by the last day of
19 the sixth month period following the last day of the
20 major corporation's taxable year."

21 Section 8. Section 352 of title 54 of the FSM Code is hereby
22 further amended to read as follows:

23 "Section 352. Payment of tax due. Taxes shall be paid
24 as follows:

25 All major corporations shall, for their fiscal year

PUBLIC LAW No. 16-52

1 starting on or after April 1, 2010 pay fifty percent
2 (50%) of the tax it paid for the income of previous
3 fiscal year to the FSM by the end of the eighth (8th)
4 month of the current fiscal year. If a major
5 corporation does not have a previous fiscal year to
6 determine its fifty percent tax payment because it is
7 newly formed or is redomesticating in the FSM, the major
8 corporation shall make a payment of fifty percent (50%)
9 of their estimated tax liability of the current fiscal
10 year at the end of the 8th month of the current fiscal
11 year. The remaining fifty percent (50%) it paid for the
12 previous fiscal year or of the estimated tax liability
13 of the current fiscal year, as the case may be, shall be
14 paid by the last business day of the second month period
15 following the last day of the major corporation's fiscal
16 year. Any additional tax due as shown on the annual
17 income tax return of the major corporation shall be paid
18 by the last business day of the sixth month period
19 following the last day of the major corporation's fiscal
20 year. If the additional tax due as indicated on the
21 annual income tax return filed by a newly formed
22 corporation or a redomesticated corporation is more than
23 ten percent (10%) of the estimated tax amount paid, the
24 major corporation shall also pay interest, compounded
25 monthly and not in advance, on the additional tax due at

PUBLIC LAW No. 16-52

1 the rate of two thirds of one percent per month, or
2 fraction of a month, from the date the estimated tax
3 amount was due to the date the additional tax is paid."

4 Section 9. Section 370 of title 54 of the FSM Code, as
5 amended, is hereby further amended to read as follows:

6 "Section 370. Regulations.

7 (1) The Secretary shall, subject to approval of the
8 President of the Federated States of Micronesia,
9 prescribe and have printed reasonable regulations for
10 the enforcement of this chapter and such regulations
11 shall have the force and effect of law if they are not
12 in conflict with the express provisions of this chapter
13 or other laws of the Federated States of Micronesia.

14 (2) Such regulations shall also provide for the
15 making of returns concerning any taxes imposed by this
16 chapter, and the payment thereof, in any situations not
17 specifically covered by this chapter."

18 Section 10. Chapter 3, title 54, of the FSM Code, as
19 amended, is hereby further amended by inserting a new section 371
20 to read as follows:

21 "Section 371. Tax returns – information required.

22 (1) The Secretary shall prescribe the forms of all
23 returns required to be furnished under the provisions of
24 this chapter or provide for other methods of filing
25 returns and may provide in such forms for the giving of

PUBLIC LAW NO. 16-52

1 such information as he may deem necessary or advisable.

2 (2) All information required by the form of any
3 return must be included in the return by the person,
4 employer, company, or business responsible for making
5 the return.

6 (3) No return shall be complete unless and until it
7 is signed by or for the employer, business or other
8 person liable to make the return, or by someone
9 authorized to do so in behalf of such employer,
10 business, or other person. Every return shall be signed
11 by a natural person.

12 (4) The Secretary may require that, if any person or
13 persons actually prepare or sign a return for another
14 employer, business, or other person, a form stating such
15 facts and authorizing such person to sign such return be
16 signed by the person so preparing or signing the return,
17 and the employer, business, or other person in whose
18 name the return is filed.

19 (5) The Secretary may by regulations define the
20 classes of persons to whom this provision shall apply.

21 (6) Any other provision of law to the contrary
22 notwithstanding, no oath shall be required upon any tax
23 return.

24 (7) Revenue shall be identified by the State or
25 States in which it is earned."

PUBLIC LAW No. 16-52

1 Section 11. Chapter 3, title 54, of the FSM Code, as
2 amended, is hereby further amended by inserting a new section 372
3 to read as follows:

4 "Section 372. Records, inspection and audit.

5 All persons, employees, and businesses required to make
6 and file returns under this chapter shall keep and
7 maintain accurate records, and the records may be
8 inspected and audited at any reasonable time by the
9 Secretary for the purpose of administering the
10 provisions of this chapter."

11 Section 12. Chapter 3, title 54, of the FSM Code, as
12 amended, is hereby further amended by inserting a new section 373
13 to read as follows:

14 "Section 373. Tax assessment on failure to file or pay.

15 (1) Upon the failure of any person, business, or
16 employer to make and file a return required by this
17 chapter within the time and in the manner and form
18 prescribed, or upon failure to pay any amount due, the
19 Secretary may notify such person, business, or employer
20 of such failure and demand that a return be made and
21 filed and the tax paid as required by this chapter.

22 (2) If such person, business, or employer upon notice
23 and demand by the Secretary fails or refuses within 30
24 days after receipt of said notice and demand to make and
25 file a return and pay the tax required by this chapter,

PUBLIC LAW No. 16-52

1 the Secretary may make a return for such person,
2 business, or employer from any information and records
3 obtainable, may file a notice of lien pursuant to the
4 Secured Transactions Act, and may levy and assess the
5 appropriate amount of tax.

6 (3) Such assessment shall be presumed to be correct
7 unless and until it is proved incorrect by the person,
8 business, or employer disputing the amount of the
9 assessment.

10 (4) In no event, however, shall any tax assessment,
11 demand for filing a return, or demand for payment be
12 made after seven years (7) of such time for filing a
13 return or for payment of taxes in the manner and form
14 prescribed."

15 Section 13. Chapter 3, title 54, of the FSM Code, as
16 amended, is hereby further amended by inserting a new section 374
17 to read as follows:

18 "Section 374. Lien on property.

19 All taxes imposed or authorized under this chapter shall
20 be a lien upon any property of the person or business
21 obligated to pay said taxes and may be collected by levy
22 upon such property in the same manner as the levy of an
23 execution."

24 Section 14. Chapter 3, title 54, of the FSM Code, as
25 amended, is hereby further amended by inserting a new section 375

PUBLIC LAW No. 16-52

1 payment, there shall be collected, in addition to such
2 tax and any penalties assessed, interest on the unpaid
3 balance of the tax principal at the rate of six percent
4 per annum from its due date until the date it is paid."

5 Section 16. Chapter 3, title 54, of the FSM Code, as
6 amended, is hereby further amended by inserting a new section 377
7 to read as follows:

8 "Section 377. Judicial review.

9 (1) If a decision of the Secretary is adverse to the
10 taxpayer, in whole or in part, the taxpayer shall have
11 the right within one year from the date of such decision
12 to institute an action for review, irrespective of the
13 amount, in a Court of competent jurisdiction in the
14 Federated States of Micronesia. Such action shall be
15 commenced by filing a petition setting forth assignments
16 of all errors alleged to have been committed by the
17 Secretary in his determination of the assessment, the
18 facts relied upon to sustain such assignments of errors,
19 and a prayer for appropriate relief. The Secretary or
20 his successor in office shall be the defendant in such
21 proceedings.

22 (2) When the decision of the Court or an appeal
23 therefrom becomes final, the Secretary shall, upon
24 presentation of a certified copy of the decree, make
25 such adjustments as are necessary to correct, amend, or

PUBLIC LAW No. 16-52

1 abate the assessment, and to determine whether any
2 additional amount should be assessed.

3 (3) Where the assessment is paid, in whole or in
4 part, after the filing of the petition, the Court shall
5 not thereby be deprived of jurisdiction."

6 Section 17. Chapter 3, title 54, of the FSM Code, as
7 amended, is hereby further amended by inserting a new section 378
8 to read as follows:

9 "Section 378. Summons.

10 (1) For the purposes described under sections 372 and
11 804 of this title, the Secretary shall be authorized to
12 summon the person or persons liable for tax under this
13 title to appear before the Secretary or his designee and
14 at such appearance to produce such documents and to give
15 such testimony as specified in the summons.

16 (2) The provisions of subsection (1) of this section
17 shall also apply to any officer or employee or agent of
18 such person or persons described in subsection (1) of
19 this section, or any third party having possession,
20 custody, or care of books of accounts relating to the
21 business of the person or persons liable for tax under
22 this title."

PUBLIC LAW NO. 16-52

Section 18. This act shall become law upon approval by the President of the Federated States of Micronesia or upon its becoming law without such approval.

11/12, 2010

Manny Mori
President
Federated States of Micronesia