RE: P.C. No. 18-372/W&M

SUBJECT: IMPLEMENTATION OF THE FEDERATED STATES

OF MICRONESIA UNIFIED REVENUE AUTHORITY

ACT OF 2010

OCTOBER 03, 2014

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

Dear Mr. Speaker:

Your Committee on Ways & Means held oversight on September 30, 2014 to address Presidential Communication number 18-372, which informs Congress that beginning October 1, 2014, the implementation of the Public Law No. 16-75 (Federated States of Micronesia Unified Revenue Authority Act of 2010) will begin.

The following witnesses were requested to attend:

- 1. The Vice President of The Federated States of Micronesia
- 2. Representative, the Office of the President
- 3. Representative, the Department of Finance & Administration
- 4. Representative, the Department of Justice
- 5. Representatives, Custom and Tax
- 6. Representative, Tax Reform (Project Manager)

Your committee welcomed and thanked the distinguished Congressmen, representatives, and staff. The floor was yielded to the Secretary of Finance and Administration who gave a brief opening statement then yielded to the representative from the Custom and Tax to further explain the Presidential Communication.

The representative from Tax Reform (hereafter Project Manager) stated that starting tomorrow the Tax and Custom Authority would begin its transition to the Unified Revenue Authority (URA). He stated that the process will take time to complete but by January

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1, 2015 the URA will be fully operational. He stated that the URA may only implement those parts of the URA law that were not invalidated by the Sunset Clause, which set on the Revenue Administration Act (RAA).

Your committee asked if the URA could still be implemented regardless of the RAA failure?

The Project Manager stated that they could begin implementation and collect national taxes. He stated that the URA Act gives the agency authority to act and not the failed RAA. He admitted that there are some provisions of the URA, which will not be implemented as a result of the failure of all the States to adopt the RAA.

Your committee asked several questions directed to the attorneys for Customs and Tax and the Department of Justice regarding the Constitutionality of implementing the URA. Your committee was concerned with the ability to collect taxes uniformly under a two-tax system.

The Attorney General stated that they have issued a legal opinion (April 17, 2013), which stated that implementing the URA was not in violation of the Constitution of the Federated States of Micronesia. She stated that their position has not changed.

The Project Manager once again stated that they were not implementing the sections of the URA, which never came about due to the failure of the RAA. He further clarified the process of transitioning, stating that there will be three phases to the process the last of which will be completed by January 1, 2015.

Your committee asked for a copy of the plans for the transition and the Project Manager agreed to supply them.

Your committee then pointed out that Presidential Communication No. 18-372, read as if the steering committee and not Congress were pushing forward the tax reform movement. Your committee asked again if the Sunset Clause has set, how does tax reform move on?

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The Vice President stated the status of the URA was not entirely dependent on the RAA. He noted that the URA was a separate law, which should be implemented regardless of the failure of the RAA. He stated that the Executive Branch is doing, as it must, which is implementing the laws that Congress pass.

Your committee gave several examples of the current failure of current tax collection schemes, which are failing in the State of Chuuk. Your committee asked for reassurances that these failures would be addressed under the URA an asked for explanations of how that would happen.

The Vice President and the Project Manager addressed this issue. They stated that there is no way to guarantee that all the wrongs will be corrected but that the URA will have a responsibility to improve. They stated the use of improved technology should help to address some of these issues.

Your committee asked how the URA will be funded and who will be employed in the agency?

The Project Manager stated that the current employees from Custom and Tax will be given the opportunity to transition but they will all be evaluated and trained again. He stated that the head of the URA will be determined by the Board of the URA which will be comprised of members from all four States and the National Government. He further stated that the URA will use the funding appropriated by for the CTA in FY 15 in addition to the FY 14 supplemental.

Respectfully submitted,

/s/ Isaac V. Figir

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Isaac V. Figir, chairman Peter M. Christian, member

/s/ Tony H. Otto /s/ Yosiwo P. George
Tony H. Otto, member Yosiwo P. George, member

_____/s/ Wesley W. Simina

David W. Panuelo, member Wesley W. Simina, member

/s/ Joseph J. Urusemal
Joseph J. Urusemal, member