



Thinking of doing
business in
Micronesia?

Tax and Investment
Profile for Micronesia



To our clients and friends

Investment in Micronesia is one of a series of booklets prepared by Deloitte and designed to provide information on a number of subjects important to those contemplating making investments or doing business in Micronesia.

This booklet is a general guide to the regulatory and tax aspects of investments or business activities within five distinct jurisdictions of Micronesia. It reflects information available at January 31, 2011. If you are contemplating doing business in Micronesia, you should consult with your investment and tax advisors.

Deloitte would be pleased to assist you. For further information, please contact any of our offices, which are listed on the following page of this booklet.

Deloitte & Touche LLP

January 31, 2011



Contact us

Commonwealth of the Northern Mariana Islands

P.O. Box 500308
Saipan, MP 96950-0308
Tel: (670) 322-7337/8
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Federated States of Micronesia

P.O. Box 753
Kolonia, Pohnpei
Federated States of Micronesia 96941
Tel: (691) 320-2781/5206
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Guam

361 S. Marine Corps Dr.
Tamuning, Guam 96913-3911
Tel: (671) 646-3884
Fax: (671) 649-4265/4932

Republic of the Marshall Islands

P.O. Box 1288
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Fax: (692) 625-7388

Republic of Palau

P.O. Box 1016
Koror, Republic of Palau 96940
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Fax: (680) 488-3391

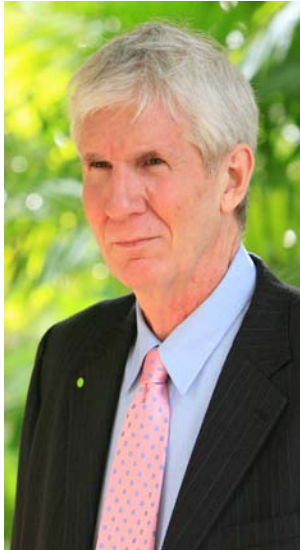




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Jerold Filush, COO



Daniel S. Fitzgerald, CEO



Lee H. Vensel



Michael Johnson

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Tax Services



Joe M. Arnett

Overview

The islands of Micronesia lie scattered across the Western Pacific just above the equator and cover an ocean area as large as the continental United States: 7.8 million square miles. Nature chose to spread the combined land mass of approximately 1,000 square miles over the more than 2,000 beautiful Micronesian islands.

Population and Language

Over 300,000 people live within Micronesia with nearly fifty percent residing on the island of Guam. While nine major distinct languages are spoken, English is the principal business language throughout the islands.

Legal Entities

Micronesia encompasses five distinct legal entities:

- Commonwealth of the Northern Mariana Islands
- Federated States of Micronesia
- Guam
- Republic of the Marshall Islands
- Republic of Palau

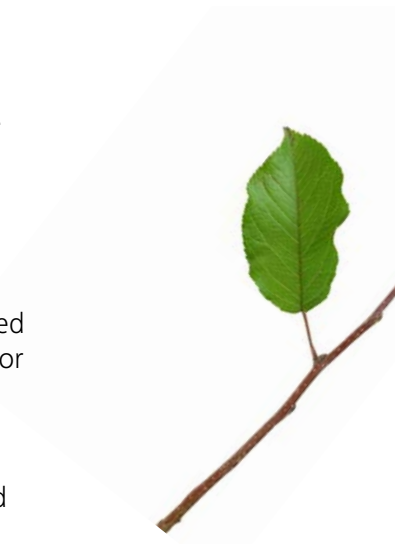
Currency

The United States dollar is the basic currency throughout Micronesia.

A Brief History

The United States was ceded the Territory of Guam in 1898 at the conclusion of the Spanish-American War. Administration was assigned to the United States Navy until 1950 at which point a civilian governor was appointed. The first elected governor took office in 1970.

The remaining islands became a United Nations Trusteeship administered by the United States in 1947. The Trusteeship remained intact until the covenant to establish the Commonwealth of the Northern Mariana Islands was signed in 1976. In 1978, the island governments of Kosrae, Yap, Chuuk, and Pohnpei became the Federated States of Micronesia. The Republic of the Marshall Islands was established in 1979. The Republic of Palau was established on October 1, 1994.





Commonwealth of the Northern Mariana Islands



Banzai Cliff



Flame Tree



Refalawasch Stick Dancers

Commonwealth of the Northern Mariana Islands

Physical Characteristics

The Northern Mariana Islands are composed of 14 islands extending north from Guam in a 685 kilometer chain. The Marianas are "high islands" of volcanic origin capped with limestone. They are, in fact, the southernmost tips of a six-mile high mountain range rising from the deepest part of the Pacific Ocean, the Marianas Trench.

The bulk of the land mass and the population are concentrated on Saipan, Tinian and Rota.

Saipan, the largest and most populated of the islands in the Commonwealth, sits atop a mountain which extends 31,000 feet beneath the surface of the water. With Mount Tapochau, at 1,545 feet above sea level, Saipanese might well argue that they reside on the highest mountain in the world. A protective reef provides areas for water-related sports activity along the western coast. The north, east and south coast lines are primarily cliff-lined with periodic sandy beaches.

Tinian, three miles south of Saipan, is relatively flat and has been used for ranching purposes during the past twenty years. During the latter portion of the Second World War it was developed as a home base for U.S. Air Force B-29 Superfortresses. The runways and roads developed during this period are clearly evident and in use today. The population resides primarily in the village of San Jose which boasts the only port facility.

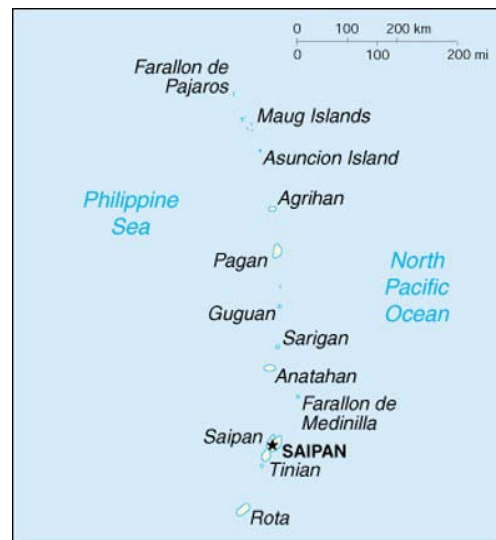
Rota is the southernmost of the Northern Marianas, approximately 35 miles to the north of Guam. A high mesa, approximately 1,000 feet above sea level, it is noted for rich soil and has been the site of agricultural activity for many generations. Farms are interspersed with archeological sites throughout the island. Two villages, Songsong and Sinapalo, are home to the majority of the residents.

Islands to the north of Saipan are home to less than 200 residents. A volcano on Pagan forced the evacuation of its inhabitants in 1981.

History

Native Chamorros were the earliest known settlers of these beautiful islands.

After some incidental Western contact in the 1500s and early 1600s, a Spanish mission headed by Padre Diego Luis de Sanvitores was established in 1668 in Guam and the other Mariana islands. Although the early stage of the Spanish settlement was peaceful, violence soon followed upon the uprising of the native Chamorros. After subduing the Chamorros on Saipan, the survivors were moved to Guam. The Refalawasch, islanders from the low-lying atolls of the Caroline Islands, settled in Saipan around 1815



after a devastating typhoon destroyed all their crops. Permission was granted by the Spanish to Chief Aghurubw to settle in Saipan. Chamorros began to return to Saipan near the end of the 19th century.

The Islands were sold by Spain to Germany in 1899 who, in turn, lost the Islands after World War I. In 1919, Japan took over administration of the Islands under a mandate from the League of Nations. During the next 25 years, sugar and fishing industries were developed.

The Islands became a battleground during World War II. Thereafter, the Northern Mariana Islands were combined with the other Micronesian Islands, with the exception of Guam, to form the Trust Territory of the Pacific Islands. This Trust Territory was assigned by the United Nations to the United States for purposes of administration.

In 1975, the people of the Northern Mariana Islands voted to accept a unique Commonwealth relationship with the United States. The Commonwealth's Covenant establishes political union with the United States while providing for self-government and limiting, in some respects, applicability of federal law.

On December 4, 1976, the CNMI Constitution was signed, and effective January 9, 1978, known today as Commonwealth Day, the Islands became self-governing with the inauguration of its first administration. The CNMI Constitution establishes the basic laws and principles of the government. All legislative mandated laws must conform, compliment and comply with the Constitution.

The 2000 census reflected 69,221 people living in the Northern Mariana Islands. Of the total, 62,392 lived on Saipan, 3,283 on Rota, 3,540 on Tinian, and 6 in the Northern Islands. Foreign workers from Asia (primarily China and the Philippines) were estimated at approximately 38,000, while permanent residents totaled about 31,000 people.

Government

The Commonwealth Government is composed of three separate branches: Executive, Legislative and Judicial.

The Executive branch includes an elected governor and lieutenant governor as well as the operating departments and agencies tasked with administering the laws, rules and regulations of the Commonwealth.

The Legislative branch includes two houses: the Senate and House of Representatives. Members of each house are elected by the voters within the districts which they represent. The Senate includes three members from Saipan, Rota and Tinian for a total of nine members. The House includes eighteen members from Saipan and one each from Rota and Tinian.



Guma Hustisia • Iimwal Aweewe • House of Justice in Susupe

The Judicial branch includes the Commonwealth Supreme Court and the Superior Court. The Superior Court has original jurisdiction in civil actions in law and in equity and overall criminal actions. The Supreme Court has appellate jurisdiction over judgments and orders of the Superior Court. The U.S. Court of Appeals, Ninth Circuit has jurisdiction over appeals from the CNMI Supreme Court on cases involving U.S. Federal issues.

Economic development activities within the Executive branch involve the Department of Commerce, the Department of Labor, the Department of Lands and Natural Resources, the Commonwealth Development Authority as well as the Coastal Resources Management Office.

The Department of Commerce and the Department of Labor administer laws concerning employment and labor, regulate commercial fishing, maritime and agricultural resources, licenses and regulate business engaged in construction and all other business activities not otherwise regulated by any other agency, including banking and insurance. The Department of Commerce is also responsible for collecting and tabulating statistical data for development programs.

The Department of Lands and Natural Resources monitors compliance with laws affecting the natural resources, including marine and wildlife. The Department of Public Lands, formerly Marianas Public Lands Authority (MPLA), is responsible for the management of public lands.

The Commonwealth Development Authority (CDA) extends low interest, long term loans to local businesses and residents. They may also guaranty loans made by commercial banks. CDA may also participate in equity financing for projects within the Commonwealth. Furthermore, they have the responsibility for directing the investment of U.S. funds made available under the Covenant.

The Coastal Resources Management Office controls development within 150 feet of the ocean and major citing.

Business Environment



Tourists enjoying the sun at Managaha

The government of the Commonwealth welcomes outside investors. Foreign investment has provided many of the facilities for the major industry, tourism. The majority of visitors come from Japan. Travelers from Korea, China, Australia, Guam and the United States are also finding the clean air and water and tropical climate to their liking. Golf, water sports, shopping and visiting sites of historical relevance (principally WWII related) are among the visitor attractions.

Available Services

Airlines serving the CNMI include:

- Continental Airlines
- Delta Airlines
- Asiana Air Lines
- Cape Air
- Freedom Air

Financial Institutions:

- Bank of Saipan
- Bank of Guam
- Bank of Hawaii
- City Trust Bank
- BankPacific
- First Hawaiian Bank



Francisco C. Ada
Saipan International Airport

Pacific Telecom Inc. (PTI) doing business as IT&E provides international and local telecommunications service to Saipan, Rota and Tinian. The system includes underground fiber optics and cellular phone service. Other providers of cellular service include Docomo Pacific and XConnect.

Numerous freight forwarders provide ocean freight services to and from Saipan from the U.S. mainland, Asia and Guam.

The Commonwealth Health Center on Saipan, a Medicare certified hospital, provides for the acute care needs of the CNMI. This facility includes 86 beds and is served by more than 35 doctors. In addition, two health maintenance organizations and several clinics provide out-patient services.

Concerns and Opportunities

Article XII of the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United State of America, titled "Restrictions of Alienation of Land," provides that real property can be owned only by people of Northern Marianas descent. People who are not of Northern Marianas descent may lease land for up to 55 years.

Casino gambling is permitted on the islands of Tinian and Rota. Five licenses for casino gaming have been designated to Tinian and is issued by the Tinian Casino Gaming Control Commission. Only one casino, the Tinian Dynasty Hotel and Casino, has been developed and is operating, although other investors have plans to build hotel-casinos. In November 2007, Rota passed the Rota Casino Act of 2007 to allow casino gambling on the island and the Rota Casino Gaming Commission was created to oversee casino gambling in Rota.

Starting a New Business

Business is conducted through sole proprietorships, partnerships, corporations, and limited liability companies both foreign and domestic. A corporation must file its Articles and By-Laws with the Registrar of Corporations. An annual business license must also be obtained.

Foreign investors must obtain a Foreign Investment Certificate from the Department of Commerce. These are issued upon a showing of the need for the business, type of employment to be provided, the environmental impact, integrity of the principals, extent to which local resources will be used, impact on infrastructure and nature of any training programs.

In an effort to attract investors and stimulate economic growth and development, the Qualifying Certificate Program offers tax rebates and abatements of up to 100% for a period of up to 25 years to qualified investors. Activities targeted by the Program include golf courses, resort hotels and condominiums, water parks, theme parks, convention centers, dinner theaters, aquariums, franchise restaurants, CNMI based airlines and other related activities, internet related business and/or businesses engaged in internet commerce, manufacturing of high technology products, and projects beneficial to the economic development of the Commonwealth.

Labor

The CNMI's minimum wage is \$5.05 an hour. The federal level of \$7.25 an hour is expected to be reached in \$0.50 increments. Although the first round of 50-cent increase in minimum was set for May 2010, President Obama's signing of the omnibus FY 2010 spending bill on December 16, 2009 pushed back the implementation of the wage hike by four months from May 2010 to September 30, 2010, with subsequent incremental increases to go into effect September 30 of every year.

On November 28, 2009, the immigration laws of the CNMI were replaced by the Immigration and Nationality Act (INA) and other U.S. immigration laws when the federal government took over CNMI immigration pursuant to U.S. Public Law 110-229 or the Consolidated Natural Resources Act. Although U.S. immigration law applies to the CNMI, the CNMI will undergo a transition period with temporary measures ending Dec. 31, 2014, to allow for an orderly transition and give individuals time to identify an appropriate visa classification under the INA.

With federalization of immigration in the CNMI, the Guam-CNMI Visa Waiver Program was created, allowing for admission to Guam or the CNMI not to exceed 45 days for passport holders of the following countries/geographic areas: Australia, Brunei, Hong Kong, Japan, Malaysia, Nauru, New Zealand, Papua New Guinea, Republic of Korea, Singapore, Taiwan, and the United Kingdom.

Taxation

- Income Tax**

The Northern Marianas Territorial Income Tax (NMTIT) is a "mirror" of the U.S. Internal Revenue Code (IRC). The U.S. IRC (and, thus, the NMTIT) tax rates are as follows:

Corporate:

Taxable income			
Over	But not over		Tax rate
\$ 0	\$ 50,000		15%
50,000	75,000		25
75,000	100,000		34
100,000	335,000		39*
335,000	10,000,000		34
10,000,000	15,000,000		35
15,000,000	18,333,333		38
18,333,333	--		35

* A surtax of 5% is imposed on taxable income between \$100,000 and \$335,000. This additional tax operates to phase out the benefits of the graduated rates below 34% for corporations with taxable income in excess of \$100,000. The effect of the surtax is to tax every additional dollar of taxable income in the \$100,000 to \$335,000 range at 39%.

For individuals, proprietors and non-corporate partners, the income tax rates fluctuate depending upon family status with a maximum rate of 35%. The 2010 Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, signed by President Obama on December 17, 2010, extends all individual rates at 10, 15, 25, 28, 33 and 35% for two years, through December 31, 2012.

- Net Income Tax Rebate System**

A rebate of net income tax paid on CNMI source income is an incentive in the CNMI net income system. The amount subject to rebate (rebate base) is generally the tax on CNMI source net income less allowable credits.

All taxpayers are subject to the following rebate:

IF THE REBATE IS:	THE AMOUNT IS:	EXAMPLE:
Not over \$20,000	90% of the rebate base	Rebate base x 90%
\$20,000 - \$100,000	\$18,000 plus 70% of the rebate base over \$20,000	Rebate base - 20,000 x 70% + 18,000
Over \$100,000	\$74,000 plus 50% of the rebate base over \$100,000	Rebate base - 100,000 x 50% + 74,000

- **Earnings Tax**

An earnings tax is imposed on every person that earns income from primarily passive sources for listed types of income sourced in the CNMI. The types of income described as earnings under this section are:

- A gain received from the sale of tangible or intangible personal property by a resident which was realized not in the course of carrying on a business.
- One-half of the gain received from the non-business sale of real property located in the CNMI.
- One-half of the net income received from the non-business leasing of real property located in the CNMI.
- All non-business interest, dividends, rents, royalties, or similar income received by a resident of the CNMI.
- Gross winnings received from any gaming, lottery, raffle, or other gambling activities in the CNMI.

The rate of tax is assessed with reference to the tax schedule for the Wage and Salary Tax (see table on next page).

- **Social Security, Hospital Insurance Tax**

For 2011, the employee tax rate for social security is 4.2%, whereas the employer tax rate for social security remains unchanged at 6.2%. The social security wage base limit also remains unchanged from 2010 at \$106,800. The Medicare tax rate is still at 1.45% each for employees and employers, and with no wage base limit.

Bird Island located in Marpi, Saipan



- **Gross Revenue Tax**

In addition to the income tax, the Northern Marianas have a business gross revenue tax applicable to trade or business activities within the Commonwealth. The annual rates for the Business Gross Revenue Tax (BGRT) are as follows:

<u>If the annual gross revenue is between</u>	<u>The Business Gross Revenue Tax on the total annual gross revenue earned is</u>
\$ -0- to 5,000	No Tax
5,001 to 50,000	1.5%
50,001 to 100,000	2.0%
100,001 to 250,000	2.5%
250,001 to 500,000	3.0%
500,001 to 750,000	4.0%
750,001 and over	5.0%

This rate schedule applies to all trade or business activities except banking, manufacturing, and wholesale activities. The manufacturing and whole sale activities are taxed at 2% of gross income, and banks are taxed at 3% of gross income or 5% of net income.

- **Wage and Salary Tax**

A gross based tax applies to wages and salaries paid for services performed in the CNMI as an employee. The annual tax rates for the wage and salary tax are:

<u>Gross Annual Wages or Earnings</u>	<u>Tax Rate on the Gross Amount</u>
\$ -0- to 1,000	No Tax
1,001 to 5,000	2%
5,001 to 7,000	3%
7,001 to 15,000	4%
15,001 to 22,000	5%
22,001 to 30,000	6%
30,001 to 40,000	7%
40,001 to 50,000	8%
50,001 and over	9%

- **Excise Tax**

A general excise tax is also levied by the CNMI. This tax is paid for the privilege of selling, using, manufacturing, leasing, or renting goods within the CNMI.

The rates are as follows:

<u>Taxable items</u>	<u>Rate of taxation</u>
Soft drinks and nonalcoholic beverages	\$0.005 per fl. oz.
Beer and malt beverages	\$0.0167 per fl. oz.
Distilled alcoholic beverages	\$0.12 per fl. oz.
Wine and sake	\$0.03 per fl. oz.
Foodstuffs	1% ad valorem
Goods, commodities, resources, or merchandise manufactured or grown entirely from sources within the CNMI	1% ad valorem
Perfumery	23% ad valorem
Hygiene and toiletries	1% ad valorem
Prescription drugs and medicines	1% ad valorem
Cosmetics	17.25% ad valorem
Leather goods, jewelry, precious metals	5.75% ad valorem
Construction equipment and materials	3% ad valorem
Cigarettes	\$0.50 for every 20 cigarettes
Other tobacco products	50% of invoice price
Liquid fuel	\$0.15 per gallon
Passenger vehicles valued over \$30,000	5.75% ad valorem
Passenger vehicles valued under \$30,000	5% ad valorem
Boats and yachts valued over \$500,000	5.75% ad valorem
All other property	5% ad valorem

- **Additional Tax Incentive – Qualifying Certificate Program**

The Commonwealth Development provide tax rebates for income tax, Business Gross Revenue Tax (BGRT), excise tax, and the CNMI developers tax of up to 100% for a period up to 25 years to qualified investors through its Qualifying Certificate (QC) program. QCs can be issued for a broad range of investments that are determined to be beneficial to the economic development of the CNMI, such as resort hotels, golf courses, convention/cultural centers, CNMI based airlines, high technology product manufacturers/processors, franchise restaurants, dinner theatres, theme/water parks, aquariums, special events, and internet related business/commerce.

Useful Addresses

- **Office of the Governor**
Capitol Hill
Saipan, MP 96950
Telephone: (670) 664-2200
Facsimile: (670) 664-2211
Website: <http://gov.mp>
- **Department of Commerce**
Capitol Hill
Saipan, MP 96950
Telephone: (670) 664-3000
Facsimile: (670) 664-3067
Website: <http://commerce.gov.mp>
- **Division of Revenue and Taxation**
Dandan
Saipan, MP 96950
Telephone: (670) 664-1000
Facsimile: (670) 664-1015
- **U.S. Immigration & Customs Enforcement**
Telephone: (670) 233-0788
- **Marianas Visitors Authority**
P.O. BOX 500861
Saipan, MP 96950
Telephone: (670) 664-3200/3201
Facsimile: (670) 664-3237
Website: <http://www.mymarianas.com>
- **Saipan Chamber of Commerce**
P. O. Box 500806
CK, Saipan, MP 96950
Telephone: (670) 233-7150
Facsimile: (670) 233-7151
Website: <http://www.saipanchamber.com>



Deloitte.

Federated States of Micronesia

Pohnpei Waterfall



Ruins of Nan Madol

Yap Stone Money

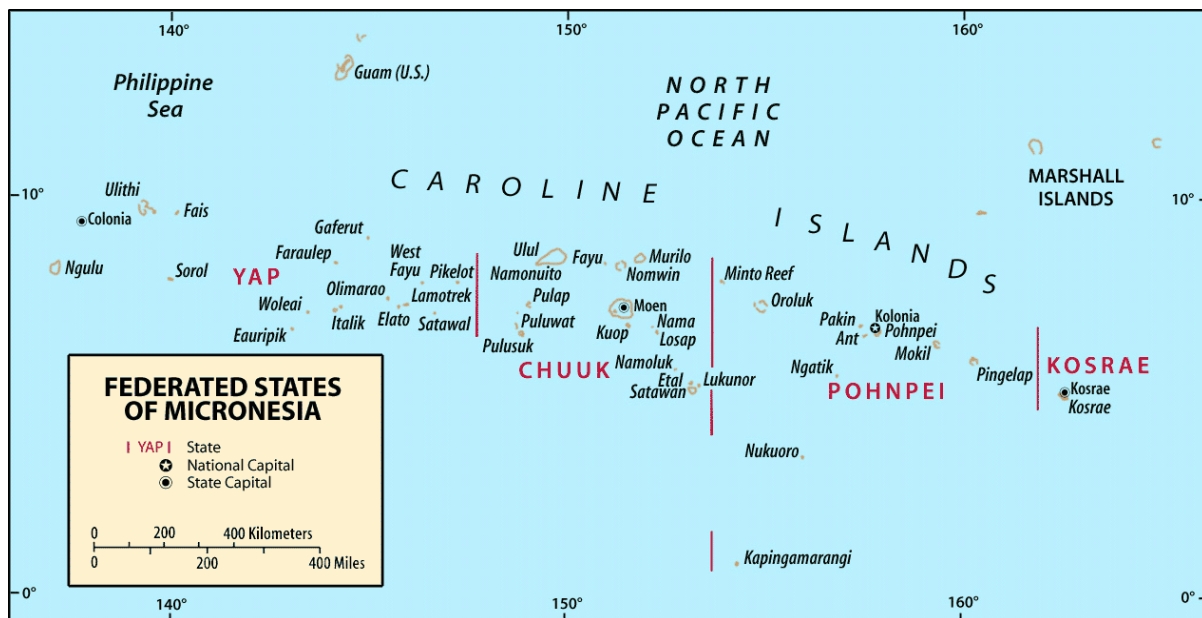


Federated States of Micronesia

Physical Characteristics

The FSM consists of approximately 600 islands, atolls and islets divided into four states: Kosrae, Pohnpei and Chuuk in the eastern Caroline Islands and Yap in the western Carolines. They are spread over an area of more than a million square miles (2.8 million square kilometers) extending from the equator to approximately 14 degrees north latitude.

The climate is warm and humid. Pohnpei boasts one of the highest average rainfalls on earth.



History

Ruins on some of the islands indicate early settlement and possible contact with Chinese civilization. While Spaniards visited the islands in the sixteenth century, they did not colonize them until the late 19th century. They were sold to Germany in 1899 and ultimately placed under Japanese mandate following World War I.

In 1946 the islands were placed under the trusteeship of the United Nations to be administered by the United States as part of the Trust Territory of the Pacific Islands.

In 1979 a new constitution was adopted with the people voting for an independent status, freely associated with the United States.

Government

The government consists of a president and vice-president elected by a unicameral congress made up of one at-large senator from each State, with four year terms and district senators with two-year terms, elected on the basis of population. Each of the four State governments has a popularly elected governor and a unicameral legislature, except for Chuuk State which has a bicameral legislature.

Business Environment

Agriculture and fishing have been the dominant economic activities. However, there exists a desire to build a more vibrant tourism industry.

Foreign investment is welcomed by both state and local governments. Foreign investment permits may be required from both the state and local governments depending on the economic sector category. Applications must be submitted to and approved by the FSM Foreign Investment Board and the applicable state Department of Commerce and Industry. Business is conducted primarily in corporate form.

To incorporate a business in the FSM, the following information must be submitted to the Registrar of Corporations, Palikir, FSM:

- Proposed name of corporation
- Principal office or place of business
- Proposed duration of the corporation
- Purposes
- Powers
- Capitalization
- Names of incorporators
- Number of directors (not less than three) and proposed officers
- Names of officers and directors to serve until first election
- Provisions for management, if any
- Provisions for voting members
- Provisions for shareholding, if any
- Disposition of financial surplus
- Provisions for liquidation
- Provisions for amendment of articles of incorporation
- Articles of incorporation and bylaws

Labor

Non-U.S. citizens working in the FSM must have valid entry permits and expatriate worker authorizations. Anyone wishing to remain for longer than 30 days must obtain prior approval from the FSM Immigration Service.

Taxation

- **FSM Corporate Income Tax**

On January 2005, the Federated States of Micronesia (FSM) enacted the "Corporate Income Tax Act of 2004." The Act imposed a 25.5% income tax on the taxable income of major corporations for each taxable year. The Act has since then been amended and imposes an income tax rate of 21%. As defined under the Act, a major corporation is any corporation that is not exempt from taxation.

Corporations exempt from income tax are corporations incorporated in the FSM and which satisfy any of the following:

1. The corporation's equity at the start of its fiscal year is less than \$1,000,000
2. The corporation's control group's equity is less than \$10,000,000
3. The corporation is principally engaged in business as a bank in the FSM
4. The corporation was incorporated in the FSM prior to January 1, 2005.

- **FSM Captive Insurance Law**

The Federated States of Micronesia established its captive insurance law on November 2, 2006. There is a \$500 nonrefundable processing fee for the application of a captive insurance license and a \$500 annual renewal fee thereafter. The license will expire on March 31 of each year.

A paid-in capital of not less than \$100,000 is required for an insurance company to be registered as a Class 1 Captive and issued a captive insurance license in the FSM. A Class 1 Captive is one that insures the risks of its parents and affiliated companies or associations. For a Class 2 Captive, the minimum capital required is the greater of \$100,000 or 20% of the net premium income; or 5% of the value of loss reserves. A Class 2 Captive is one that, in addition to insuring the risks of its parents and affiliated companies, also insures the risks of third-party businesses. The minimum capital requirement has to be maintained or failure to do so may result in the revocation or suspension of the license.

Within six months after the close of its fiscal year, a captive insurance company is required to submit audited financial statements and a report of its financial condition verified by oath by two of its executive officers.

- **Gross Revenue Business Tax**

The gross revenue tax applies to receipts from sales of tangible personal property and services. The tax is \$80 on the first \$10,000 of annual gross revenue and 3% of amounts over \$10,000. Businesses with gross revenue of less than \$2,000 are exempt from this tax.

Entities with gross revenue from business activities both within and without the Federated States of Micronesia may file for an apportionment on a form prescribed by the Secretary and the tax will be levied only on the revenue derived from within the FSM.

- **Gross Wage and Salary Tax**

The gross wage and salary tax is applicable to all remuneration attributable to an individual for personal services performed as an employee. The tax is 6% of the first \$11,000 of annual wages and 10% of amounts over \$11,000.

Employees whose gross annual wages and salaries are less than \$5,000 shall be allowed a deduction of \$1,000 per year from amounts subject to this tax.

- **Social Security Tax**

With respect to employees, businesses are also required to make quarterly social security contributions on "covered earnings." Covered earnings are defined as the compensation paid to employees up to \$12,000 per year.

From the employee's wages, the employer is to withhold and pay to the Social Security Administration 6% of covered earnings. From the employer's revenues, the employer is to contribute to the Social Security Administration for the benefit of the employee another 6% of covered earnings.

- **Import Taxes**

Goods imported into the Federated States of Micronesia for resale are subject to an import tax at the following rates:

<u>Taxable items</u>	<u>Rate of taxation</u>
Cigarettes	\$0.025 per cigarette
Tobacco, other than cigarettes	50% ad valorem
Perfumery, cosmetics, and toiletries	25% ad valorem
Soft drinks and nonalcoholic beverages	25% ad valorem
Beer and malt beverages	\$0.25 per 12 fl. oz.
Distilled alcoholic beverages	\$12 per gallon
Wine	30% ad valorem
Foodstuffs for human consumption	3% ad valorem
Gasoline and diesel fuel	\$0.05 per gallon

State Taxes

- **Chuuk State**

A \$15 departure fee is assessed to each passenger departing from the Chuuk International Airport.

A sales tax is also imposed on the first sale of all tangible items, except gasoline, diesel fuel, unprocessed and unpackaged items, as follows:

Tobacco	25% of sales price
Cigarettes	\$0.25 per every 20 cigarettes
All other items	3% of sales price

In addition, an alcoholic beverage tax is imposed at the following rates:

Beer and malt beverages	\$0.30 per 12 fl. oz. container
Distilled beverages	\$9 per gallon
Wine	\$2 per gallon

Further, fees for liquor licenses are as follows:

Wholesale license	\$300 per annum
Retail (restaurant, club, bar or other)	\$500 per annum

A motor vehicle rental tax of 13% is imposed.

A room occupancy tax of 10% is assessed to the occupants of hotels, motels and apartments, including cruise or tour ships when operating in the State of Chuuk.

A lessor/landlord pays a 10% tax upon renting or leasing of land, buildings or housing units.

The State imposes an annual tax of \$500 on possession of each poker machine.



Chuuk's world renown wreck diving

- **Kosrae State**

The State imposes a utilization fee of \$15 upon all departing passengers at the Kosrae International Airport.

A sales tax is imposed upon the following items at the designated rates:

Beer	\$0.25 per glass container of 12 fl. oz., \$0.15 per all other container of 12 fl. oz, plus \$0.02 per each additional oz.
Boat	3% of retail price
Cigars	\$0.05 per cigar
Cigarettes	\$0.15 per pack of 20 cigarettes plus \$0.025 per additional 5 cigarettes
Equipment or Appliance	5% of retail price
Food	1% of retail price
Jewelry	20% of retail price
Liquor	\$1 per 26 fl. oz plus \$0.05 per each additional fl. oz.
Motor vehicles	5% of retail price
Outboard motors	3% of retail price
Soda	\$0.02 per 12 fl. oz plus \$0.01 per each additional oz.
Tobacco products	\$0.10 per oz.
Wine	\$0.50 per 26 fl. oz plus \$0.04 per each additional fl. oz.
General merchandise	2% of retail price

- **Pohnpei State**

The State imposes a utilization fee of \$10 upon all departing passengers at the Pohnpei International Airport.

A sales tax is imposed upon the following items at the designated rates:

Beer and malt beverages	\$0.10 per 12 fl. oz. and \$0.01 per each additional oz.
Distilled beverages	\$4 per gallon
Wine	\$2 per gallon
Cigarettes	\$0.005 per cigarette
Cigars	\$0.03 per cigar
Motor vehicles	7% of retail price
Vehicle parts	5% of retail price
Outboard motors, parts, accessories	3% of retail price
General merchandise (except food)	1% of commercial sales price

For items with costs in excess of \$500, which have avoided the sales tax listed above, a consumption tax is imposed. The tax is computed on alcohol, tobacco, motor vehicles, outboard motors, parts and accessories and general merchandise at the same rates as the sales tax. Construction contracts and real estate leases, together with merchandise incorporated therein, are specifically subject to the consumption tax provisions. Gasoline and diesel fuels are specifically exempted therefrom.

A hotel occupancy tax of 5% is imposed in Pohnpei.

Tariffs and fee schedules have been established for government-owned and operated housing, utilities, and medical facilities.

Motor vehicle registration fees are assessed at nominal rates. Licenses are also available for the sale of alcoholic beverages.

Traditional Yapese dance



- **Yap State**

An excise tax is imposed on various items at the following rates:

Most meats, vegetables, prepared foodstuffs, minerals, chemicals, plastics, leathers, wood and wood products, paper and paper products, textiles, footwear, stone products, cement, ceramics, glassware, precious and semi-precious stones and metals, base metals, electrical machinery and parts, transportation other than motor vehicles, optical and other precision instruments, clocks, watches, arms, ammunition, miscellaneous manufactured articles, works of art, and antiques	1% ad valorem
Beer and malt beverages	\$0.25 per 12 fl. oz., \$0.30 per container of more than 12 fl. oz.
Distilled alcoholic beverages	\$6 per gallon
Wine	\$3 per gallon

Soft drinks	\$0.10 per 12 fl. oz. \$0.15 per container of more than 12 fl. oz.
Cigarettes	\$0.20 per 20 cigarettes
Cigars	\$0.02 per cigar
Other tobacco products	\$0.04 per oz.
Gasoline and diesel fuel	\$0.05 per gallon
Home appliances	5% ad valorem
Televisions, phonographs, stereos and tape recorders	10% ad valorem

Other taxes include:

Hotel occupancy tax	10% of occupancy rate
Motor vehicle rental tax	10% of rental rate



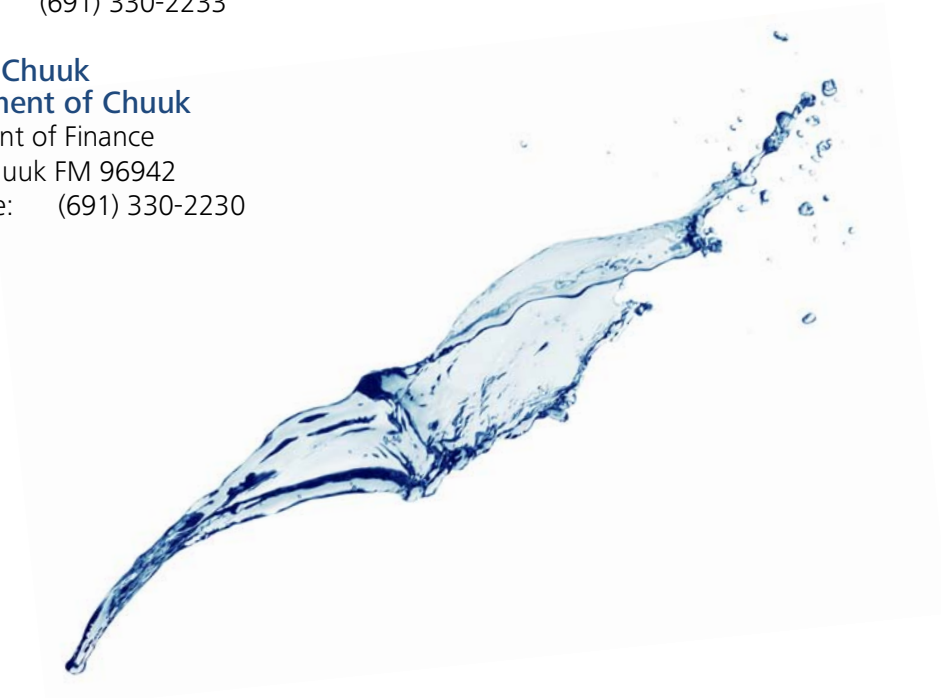
Sakau (called Kava in other parts of the Pacific) is a traditional Pohnpei drink made from pounding the roots of the pepper plant upon a basaltic sakau stone.



Useful Addresses

- **Federated States of Micronesia
National Government
Office of the President**
P. O. Box 34
Palikir, Pohnpei FM 96941
Telephone: (691) 320-2548
Facsimile: (691) 320-2785
Website: <http://www.fsmpio.fm>
- **Department of Finance
Office of Commissioner
Division of Revenue**
P. O. Box PS54
Palikir, Pohnpei FM 96941
Telephone: (691) 320-5509
Facsimile: (691) 320-5715
- **Micronesia Registration Advisors, Inc. (FSM Captive Insurance)**
P.O. Box 902
Kolonias, Pohnpei, FM 96941
Telephone: (691) 320-1830
Website: <http://www.mra.fm>
- **State of Kosrae
Office of the Governor**
P. O. Box 187
Tofol, Kosrae, FM 96944
Telephone: (691) 370-3002
Facsimile: (691) 370-3162
- **State of Kosrae
Government of Kosrae**
Department of Revenue and Treasury
Tofol, Kosrae FSM 96944
Telephone: (691) 370-3004
- **State of Pohnpei
Office of the Governor**
Kolonias, Pohnpei FM 96941
Telephone: (691) 320-2235
Facsimile: (691) 320-2505
Website: <http://www.pohnpeimet.fm>

- **State of Pohnpei**
Government of Pohnpei
Department of Treasury
Kolonia, Pohnpei FM 96941
Telephone: (691) 320-2243
- **State of Yap**
Office of the Governor
P. O. Box 39 Department of Finance
Colonia, Yap FM 96943
Telephone: (691) 350-2108
Facsimile: (691) 350-4113
- **State of Yap**
Government of Yap
Colonia, Yap FSM 96943
Telephone: (691) 350-2107
- **State of Chuuk**
Office of the Governor
P. O. BOX 189
Weno, Chuuk FM 96942
Telephone: (691) 330-2234
Facsimile: (691) 330-2233
- **State of Chuuk**
Government of Chuuk
Department of Finance
Weno, Chuuk FM 96942
Telephone: (691) 330-2230



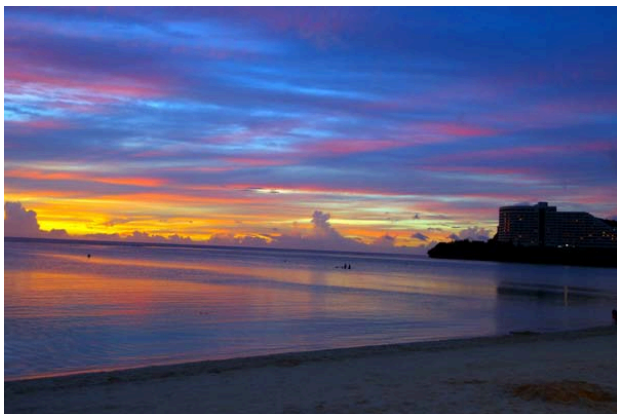
Deloitte.

Guam



Tumon Bay

Andersen Air Force Base



Tumon Bay Sunset

Guam

Physical Characteristics

Guam is the largest and southernmost island of the Marianas archipelago and the westernmost possession of the United States. It is approximately 3,800 miles west of Honolulu, 1,500 miles south of Tokyo, and a similar distance east of Manila.

The 212 square miles (549 square kilometers) of land is situated on an island about 30 miles long and 4 to 9 miles wide. The southern part of Guam is volcanic hills which reach an altitude of 1,300 feet. The north and central sections are limestone plateaus with steep cliffs that drop to a narrow coastline.

Guam is home to over 180,000 residents. The indigenous people are called Chamorros and make up approximately 37% of the population.

Guam's climate is tropical with an average high temperature of 86 degrees Fahrenheit (30 degrees Celcius) and a low of 76 (24 degrees Celcius). Average humidity varies between 72% and 86%. The average yearly rainfall is about 96 inches (2,180 milliliter).



History

The ancient Chamorros came to Guam from southeast Asia approximately 3,500 years ago. The landing of Ferdinand Magellan in 1521 opened the "Spanish era" on the Island. Spanish troops and Jesuit priests followed in 1668. For the next 200 years, the Island served as a provisioning stop for ships. At the conclusion of the Spanish-American War in 1898, Guam was ceded to the United States.

Guam was administered by the U.S. Navy from 1898 until 1941 when it was surrendered to Japan at the outset of the Second World War. It was retaken by the United States in July 1944 and assigned a U.S. Navy governor. In 1950 U.S. President Harry S. Truman signed the Organic Act of Guam, granting Chamorros U.S. citizenship and transferring control of Guam to the U.S. Department of the Interior. This Act also made Guam an Unincorporated Territory of the United States.

Government

Guam's government is similar to that of a U.S. state. A governor and lieutenant governor are elected as a team every four years and may serve two consecutive terms. The Territory also elects, on a biannual basis, a non-voting delegate to the U.S. House of Representatives. A one-house legislature is composed of fifteen senators elected every two years on an at-large basis. There are no limitations on the

number of terms for the congressional delegate or senators. Judges to the Superior Court of Guam are appointed by the governor and confirmed by the legislature.

Guam is also the site of a U.S. District Court.

In addition to the executive, legislative and judicial branches of government, the people of Guam also elect mayors who represent village areas.

With the exception of the right to vote in presidential elections, residents of Guam enjoy virtually all the rights and privileges granted to any other U.S. citizens. Guam does not have a constitution. The relationship with the United States is set forth, primarily, in the Organic Act of Guam.

The government controls all utilities on the island. In addition to political appointments of all senior officers within the utilities, the Public Utilities Commission is responsible for the control on rates. An elected Consolidated Commission on Utilities oversees the operations of Guam Waterworks and Guam Power Authority.

The largest single department within the executive branch of the government of Guam is the Guam Public School System. It is overseen by an appointed school board and director. Student enrollment in the public schools approximates 32,000. There is also a strong private school presence to accommodate approximately 6,000 additional students.

The University of Guam (UOG) is an open-admissions, semester-based, U.S. land-grant public institution that provides post-secondary education to about 3,000 students. UOG offers 15 masters degree programs, 34 bachelor degree programs, and one associate degree program in nursing. It is composed of the College of Liberal Arts and Social Sciences, the College of Natural and Applied Sciences, the School of Business and Public Administration, the School of Education, and the School of Nursing and Health Sciences.



Jesus S. and Eugenia A. Leon Guerrero School of Business,
University of Guam

The Guam Community College (GCC) provides vocational and technical training at the secondary and post-secondary levels.

The Guam Memorial Hospital is a government-operated medical facility that provides the medical needs of the public through a 158 acute care bed facility. The facility is staffed with over 160 physicians and other specialized medical personnel covering over thirty-five specialties and subspecialties. In addition, numerous medical clinics provide out-patient services.

The local government employs approximately 19% of the available workforce and operates with an annual budget in excess of \$435 million.

Business Environment

Guam is primarily a service-based economy with the hospitality industry providing the bulk of non-government income. Total tourism-generated revenue approximates \$1 billion per annum. Japan provides approximately 80% of all tourists to Guam. Close proximity, the strength of the Yen, and a clean, tropical environment are important factors for Japanese visitors. Golfing and ocean-related activities are major attractions.

Equally important roles in the development of Guam's economy have been construction, financial services, wholesaling and retailing activities. The potential for growth also exists in fisheries, agriculture, and aqua culture, all directed towards import substitution.

Guam's status as a duty-free port enables tariff- and quota-free entry of materials if imported for manufacturing finished products on island. In addition, the trade benefits offered by Headnote 3(a) of the Tariff Schedules of the United States (TSUS) and the Generalized System of Preferences (GSP), give products made in Guam an advantage over those of the more industrialized neighboring countries, for entry to the United States.

The Government of Guam, through the Guam Economic Development Authority, is authorized by law to allow tax rebates to qualified investors. Qualifying certificates for tax incentives are granted on the basis of investment commitment as well as the potential for creating new employment and expanding the base of the island's industry. These incentives are aimed primarily at manufacturers, commercial fishing companies, agricultural, aqua culture, mariculture, and tourism development entities.

Qualified individuals and companies may be granted a maximum of 75% income tax rebates for periods of up to 20 years; 100% abatement on real property tax up to 10 years; 75% rebate on corporate dividend tax up to five years; abatement of gross receipts tax on lease income to a tax-exempt business for up to 10 years; abatement of gross receipts tax on income from the sale of alcoholic beverages and petroleum products manufactured in Guam for up to 10 years; and abatement of premiums collected by a captive insurance company for up to 10 years.

Available Services

• Airlines

Airlines serving Guam include:

- Continental Airlines
- Delta Airlines
- Japan Airlines
- Korean Airlines
- Philippine Airlines
- China Airlines
- Asia Pacific Airlines
- Jin Air
- Freedom Air



A.B. Won Pat Guam International Airport

Direct flights are available to Hawaii, Japan, Korea, Philippines, Hong Kong, Australia, CNMI, Chuuk, Palau, and Fiji with connections to virtually all Pacific Rim destinations. Several of the airlines listed on the previous page, as well as other charter airlines provide air freight service to multiple destinations on a regular basis. An executive jet charter service is also based in Guam.

- **Financial Institutions**

Banking and financial facilities on Guam provide various services such as letters of credit, collections, money transfers, foreign exchange, bank drafts, automated tellers, import and export financing, money markets, real estate appraisals, commercial and residential real estate loans, off-shore lending, and complete personal and business banking services. The services are provided through the following entities:

- Bank of Guam
- ANZ Guam
- Bank of Hawaii
- BankPacific
- Citibank
- First Hawaiian Bank
- Allied Bank
- First Commercial Bank
- Metrobank
- Oceanic Bank
- Community First Guam Federal Credit Union
- Coast 360 Federal Credit Union
- Marianas Financial Corporation
- Personal Finance Center
- Wells Fargo Financial
- Pacific Islands Development Bank
- Pentagon Federal Credit Union
- Navy Federal Credit Union

- **Telecommunications**

Guam is the telecommunication hub of the western pacific. All transpacific undersea cables pass through Guam to and from Asia. All manners of the latest communication facilities are available in Guam. There are five wireless telecommunication operators on Guam.

Long distance telephone services are offered for private and business lines for communicating to all parts of the world. Telephone signals are also sent via microwave through satellite circuits.

International telecommunication services include IDD (international direct dialing), operator assistance services (collect, person-to-person, international directory assistance), facsimile and internet connections.

Telegram services include cable registration, money order service, filing via telex terminal and public office (OTC). Delivery of incoming traffic is via telex terminals, telephone, mail and messenger.

- **Ocean Freight Services**

Shipping line companies such as Matson and Horizon Lines provide freight services weekly from the West Coast of the United States. In addition, numerous other lines provide direct and transshipment services to and from various Pacific Rim ports.

United States Military Presence

The United States Navy and Air Force maintain bases on the island. It is home to more than 12,000 military members and their families. Annual expenditures to maintain this presence is approximately \$908 million. Preferential treatment is afforded by the military to local vendors for purchases. Taxes paid by U.S. military personnel stationed on the island are covered over to the Treasurer of Guam.

As part of the U.S. Department of Defense's military realignment plan, about 8,000 U.S. Marines and 9,000 dependents from Okinawa, Japan are expected to transfer to Guam. The U.S. and Japan reached an accord in 2006 for the transfer of U.S. troops to Guam. It is estimated the military relocation will cost \$10.3 billion, of which Japan's Defense Agency will shoulder \$5.7 billion. In addition, a \$5 billion budget has also been allotted by the U.S. Department of Defense for infrastructure projects over the next decade. The Navy and Air Force are also expanding its facilities and personnel in Guam while the Army is in the process of standing up a fully functional missile defense system. The military buildup time lines and projections are expected to shift due to delays caused by Japan in finalizing the relocation of the Futenma Air Station in Okinawa Prefecture, which is a critical component of the realignment plan. However, the Joint Guam Program Office (JGPO), established in August 2006 to facilitate and manage the relocation of Marines as well as other military force enhancements on Guam, has stated the U.S. military is on track to award hundreds of millions of dollars in contracts for military construction projects on Guam.

Starting a New Business

- **General**

There are many laws, rules and regulations governing business activities. Guam has adopted the provisions of the Uniform Commercial Code. Most of the laws and procedures encountered in transacting business on Guam are similar to those in the United States.

- **Registration**

All corporations, limited liability companies, partnerships, joint ventures and associations must register with the Business License Branch of the Department of Revenue and Taxation. Registration must be done prior to the issuance of any business license. All trade or DBA's (doing business as) names to be used in conjunction with a business must be registered with the same branch.

- **Business License**

All businesses must have a license, whether a corporation, partnership, limited liability company, sole proprietor, etc. Application forms must be picked up at the Business License Branch of the Department of Revenue and Taxation, where the applicant will be advised of the required clearances

depending on the type of license to be obtained. Fees vary with the type of license. Licenses expire and are renewable on June 30 of each year.

- **Annual Report**

All corporations and limited liability companies, whether domestic or foreign, must file an annual report by September 1st of each year. The annual report is an update of the corporation's name, address, directors, officers, shares outstanding, and shareholders. Filing fee is \$100.

- **Corporations**

The Civil Code of Guam governs all corporations, whether profit or non-profit, stock or non-stock. There are two basic categories of corporations authorized to transact business on Guam: 1) Domestic and 2) Foreign.

Domestic corporations are those formed in Guam by the voluntary association of three or more persons in the manner prescribed, for any lawful purpose. Articles of Incorporation must be filed with the Business License Branch setting forth the name, purpose, place of the principal office in Guam, term not to exceed 50 years, names and residences of incorporators, the number of its directors (not less than 3 nor more than 7), amount of capital stock, etc. The Articles must be accompanied by the statement of the Treasurer showing that at least 20% of the entire capital stock has been subscribed and at least 25% of that subscription has been paid to him. The secretary or treasurer of a domestic corporation must be a resident of Guam.

All non-Guam corporations are considered foreign. A foreign corporation must obtain a foreign corporation license and a certificate of authority before being permitted to transact business on Guam. An officer of the corporation must file an application including the name, purpose, location of home office, capital stock, registered agent on Guam, accompanied with a certified copy of the Articles of Incorporation, Certificate of Good Standing (usually prepared by the Secretary of State), and a letter of acceptance of appointment from the registered agent. Filing fee is \$100.

Specific Business Activities

Certain laws, rules, and procedures have been established for specific professions, businesses and trades. Standards are established by various boards, administrators, commissions, etc. as provided by various sections of the Government Code of Guam for each of the following:

- Attorneys
- Banking and Savings and Loan
- Certified Public Accountancy
- Contractors
- Cosmetology
- Engineers, Architects and Land Surveyors
- Healing Arts
- Insurance
- Real Estate
- Securities

Labor

Employed individuals number in excess of 60,000 and the unemployment rate is about 9.3%. Approximately 45,000 people are employed in the private sector, while the Federal Government employs approximately 3,800 people while those employed with the Government of Guam number approximately 11,500.

Minimum hourly wage is \$7.25. All U.S. labor laws, including the Fair Labor Standards Act, apply on Guam.

Due to the lack of skilled labor in the construction and support industries, it has been necessary to invite foreign workers to the Island. The Governor is vested with the authority to issue temporary labor certifications if, after testing the local market, it is found that qualified local residents are not available and that employment of non-immigrant aliens will not adversely affect the wages and working conditions of local workers who are similarly employed on Guam. Temporary labor certifications are issued by the Guam Department of Labor for a period of not more than one year. Extensions may be granted for a period not to exceed three consecutive years.

Immigration

As a U.S. Territory, Guam is subject to U.S. Immigration Laws. As of November 28, 2009, the Guam-CNMI Visa Waiver Program replaced the Guam Visa Waiver Program. This program allows admission to Guam or the CNMI not to exceed 45 days to passport holders of certain countries/geographic areas.

Countries/geographic areas covered by the Guam-CNMI Visa Waiver Program include Australia, Brunei, Hong Kong, Japan, Malaysia, Nauru, New Zealand, Papua New Guinea, Republic of Korea, Singapore, Taiwan, and the United Kingdom.

Taxation

- **Income Tax**

The Guam Territorial Income Tax (GTIT) mirrors the U.S. Internal Revenue Code. Guam corporations are subject to income tax on their worldwide income. Corporate income tax rates are as follows:

Corporate:

	<u>Taxable income</u>		
	<u>Over</u>	<u>But not over</u>	<u>Tax rate</u>
\$	0	\$ 50,000	15%
	50,000	75,000	25
	75,000	100,000	34
	100,000	335,000	39*
	335,000	10,000,000	34
	10,000,000	15,000,000	35
	15,000,000	18,333,333	38
	18,333,333	--	35

* A surtax of 5% is imposed on taxable income between \$100,000 and \$335,000. This additional tax operates to phase out the benefits of the graduated rates below 34% for corporations with taxable income in excess of \$100,000. The effect of the surtax is to tax every additional dollar of taxable income in the \$100,000 to \$335,000 range at 39%.

Individual income is taxed at variable rates which range from 10% to 35% depending on the amount of income and family status. The 2010 Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, signed by President Obama on December 17, 2010, extends all individual rates at 10, 15, 25, 28, 33 and 35% for two years, through December 31, 2012.

- **Tax Incentives**

The Guam Economic Development and Commerce Authority (GEDCA) provide income tax rebates of up to 100%, and local tax abatements to qualified investors through its Qualifying Certificate (QC) program. QC's can be issued for a broad range of investments that are determined to be "beneficial, desirable, and necessary to the economic development of Guam."

Guam has also adopted favorable U.S. Tax Treaty rates for income tax purposes. These rates reduce the overall Guam tax burden on the capital invested into Guam by foreign persons. The reduced rates apply to dividend and interest payments made from Guam sources to foreign persons.

- **Social Security, Hospital Insurance Tax**

For 2011, the employee tax rate for social security is 4.2%, whereas the employer tax rate for social security remains unchanged at 6.2%. The social security wage base limit also remains unchanged from 2010 at \$106,800. The Medicare tax rate is still at 1.45% each for employees and employers, and with no wage base limit.

- **Gross Receipts Tax**

All business entities, except banks and wholesalers, that conduct business on Guam are subject to a 4% gross receipts tax. Banks are taxed at the same rate on annual net income. Wholesalers are exempted from this tax.

- **Use Tax**

All personal property imported into Guam for use or consumption by the importer is subject to a 4% tax on the landed cost.

- **Real Property Tax**

Real property is assessed a tax on 35% of appraised value. The tax is equal to 0.25% of the assessed value of land and 1% of the assessed value of buildings.

- **Hotel Occupancy Tax**

An excise tax of 11% is applied to hotel rooms, lodging houses and other transit facilities.

- **Other Taxes**

Additional taxes apply as follows:

Amusement Tax\$25.00 for each pinball machine, \$250.00 for each multiple-coin pinball machine, \$25.00 plus \$15.00 for each coin slot in excess of one for coin-activated music producing machines, \$50.00 for children's rides.

Recreation Facilities Tax.....\$10.00 for each individual bowling alley, \$100.00 for each nine holes or fraction thereof for golf courses, \$100.00 for each golf driving range or miniature golf course, \$5.00 for each pool or billiard table, \$100.00 for each skating rink, dance hall, or shooting range.

Liquid Fuel Tax\$0.10 per gallon for diesel fuel, \$0.04 per gallon for aviation fuel and \$0.11 per gallon for all other fuels. Discounts apply to certain off-road use.

Alcoholic Beverage Tax.....\$18.00 per gallon of distilled beverage, \$4.95 per gallon of vinous beverage and \$0.07 per each 12 fluid ounces of malted fermented beverage.

Tobacco Tax.....\$5.00 for each 100 cigarettes, \$0.20 per mini cigar, \$0.22 per standard cigar, \$0.25 per large cigar, and \$3.50 per pound for all other tobacco products.

- **Electronic Filing and Payment**

The Guam Department of Revenue and Taxation's official website, www.guamtax.com, offers various online services for Guam taxpayers. Commercial entities can file Gross Receipts Tax (GRT), Guam payroll filings online, as well as renew business licenses and submit vehicle inspection and insurance policy reports through the website. Visitors of the website can also view various service fees, forms and publications, public notices, tax laws and regulations, and a tax calendar listing the various tax deadlines for the year. Information of the various divisions within the Department of Revenue and Taxation can also be found on the website.

Guam taxpayers are also able to make electronic payments to the Treasurer of Guam through www.guampay.com, the Government of Guam's online payment system. Through this website, taxpayers can make payments for GRT, tipping fees, and income taxes including individual and corporate estimated tax payments. Although some payments (i.e., tipping fees, individual and corporate estimated tax) can be made immediately after registration, most payments, such as payments for GRT, income taxes, and real property tax, require users to acquire a Personal Identification Number (PIN). To obtain a PIN, a PIN request form must be completed and submitted to the PIN Enrollment Administrator at the Department of Revenue and Taxation.

Useful Addresses

- **Office of the Governor**
P. O. Box 2950
Hagatna, Guam 96932
Telephone: (671) 472-8931
Facsimile: (671) 477-4826
Website: <http://guamgovernor.net>
- **Guam Economic Development Authority**
ITC Building, Suite 511
590 South Marine Corps Drive
Tamuning, Guam 96913
Telephone: (671) 647-4332
Facsimile: (671) 649-4146
Website: <http://www.investguam.com>
- **Department of Revenue and Taxation**
P. O. Box 23607
Guam Main Facility, Guam 96921
Telephone: (671) 635-1817
Facsimile: (671) 635-2643
Website: <https://www.guamtax.com>
- **Guam Visitors Bureau**
401 Pale San Vitores Road
Tumon, Guam 96913
Telephone: (671) 646-5278
Facsimile: (671) 646-8861
Website: <http://www.visitguam.org>
- **Guam Chamber of Commerce**
173 Aspinall Avenue, Suite 101, Ada Plaza Center,
Hagatna, Guam 96910
Telephone: (671) 472-6311
Facsimile: (671) 472-6202
Website: <http://www.guamchamber.com.gu>
- **Guam Contractors License Board**
542 North Marine Corps Drive Suite A
Tamuning, Guam 96913
Telephone: (671) 646-7262
Facsimile: (671) 649-2210
Website: <http://clb.guam.gov>



Deloitte.

Republic of the Marshall Islands

Majuro Atoll



Annual Canoe Race

Marshallese Crafts



Republic of the Marshall Islands

Physical Characteristics

The 29 atolls and 5 islands of the Republic are spread over an area of 800,000 square miles or 2 million square kilometers. The atolls and islands are divided into two groups: the SE Ratak Chain and the NW Ralik Chain. Total land area is approximately 181 square kilometers. The population is approximately 65,000. Majuro, located 2,000 miles southwest of Honolulu, is the site of the Republic of the Marshall Islands government.

The business centers are located on Majuro and Kwajalein.

History

The islands were discovered by the Spanish in 1526 but remained essentially uncolonized until the late 19th century. It was a German protectorate from 1885 to 1914, when the islands fell to Japan. In 1920, the archipelago was mandated to Japan. In February 1944, American forces took Majuro, the first pre-war Japanese possession captured in World War II. The islands remained under American control for the duration of the war. The Marshall Islands became self-governing in 1979.

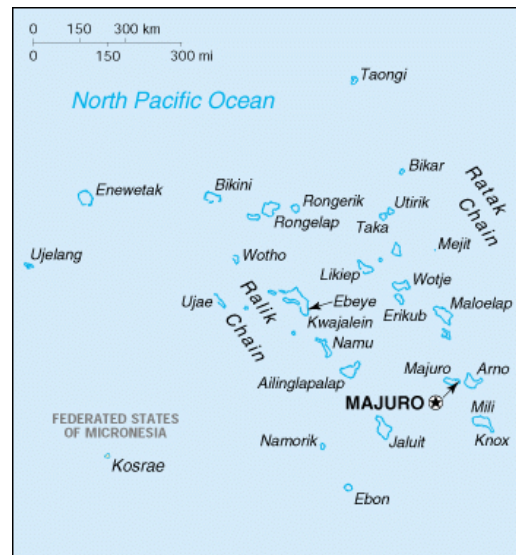
Government

From 1946 to 1978 the Marshall Islands were a part of the Trust Territories of the Pacific Islands administered by the United States. With the passage of its own constitution, the Marshall Islands became self-governing in 1979. A popularly elected 33-member legislature chose the country's first president. A local court system was also established.

Business Environment

The business centers include merchandisers, financial institutions, limited tourist facilities, and government support services. There is a copra mill on Majuro which is the only copra factory in the north Pacific.

All levels of foreign investment require approval by the Registrar of Foreign Investment in the Office of the Attorney General. While no specific investment incentives are offered, the Marshall Islands remain a low tax jurisdiction. Further, it has negotiated preferred trade status with the United States and certain other industrial countries.



Taxation

The Republic imposes no income taxes. However, the following taxes do apply:

- **Business Gross Revenue Tax (BGRT)**

The BGRT is assessed against the gross revenues of all businesses operating within the Republic. The tax is assessed at the rate of \$80 for the first \$10,000 of annual gross revenue and 3% on amounts over \$10,000. Gross revenue is very broadly defined within the code to include virtually all receipts except (1) refunds, rebates and returns; (2) monies held in a fiduciary capacity; and (3) income in form of wages and salaries which are taxed under other provisions of the law.

Should a business derive its gross revenue from activities both within and outside the Republic, the gross revenue in its entirety will be presumed to have been derived from sources within the Republic unless the business seeks an apportionment of the tax through the filing of a prescribed form with the Secretary of Finance.



Marshall Islands dolphins

- **Tax on Income from Immovable Property**

A tax of 3% is assessed on all gross income from immovable property leased, exclusive of buildings and other improvements on land. This tax is collected from the lessee of such property who, in turn, is permitted to withhold the tax from rental payments made to the lessor.

- **Wage and Salary Tax**

A tax of 8% applies to the first \$10,400 of wages and salaries earned by other than U.S contractor personnel, with the rate increasing to 12% on amounts in excess of \$10,400. Every employee earning less than \$5,200 is allowed an exemption of \$1,560 per year from wages and salaries subject to this tax.

As to U.S. contractor personnel, a 5% tax is imposed on all wages and salaries. Wages and salaries received by U.S. citizens, nationals or permanent resident aliens who do not qualify as U.S. contractor personnel are taxed as per the preceding paragraph unless they are otherwise entitled to tax benefits under the Status of Forces agreement between the Republic and the U.S.

- **Non-Resident Income Tax**

A 10 % tax is assessed on the gross income earned by non-residents for services provided to any client in the Marshall Islands.

- **Non-Resident Workers Fee**

An employer of a non-resident worker (defined to be a non-U.S. citizen or a non-Micronesian) is subject to a fee of \$250 per worker per quarter. The fee is due on the last day of March, June, September and December each year.

- **Social Security Tax**

With respect to employees, businesses are also required to make quarterly social security contributions on "covered earnings." Covered earnings are defined as the compensation paid to employees up to \$5,000 per quarter.

From the employee's wages, the employer is to withhold and pay to the Social Security Administration 7% of covered earnings. From the employer's revenues, the employer is to contribute to the Social Security Administration for the benefit of the employee another 7% of covered earnings.

- **Health Insurance**

Businesses are required to make quarterly health insurance contributions on covered earnings.

Covered earnings for health insurance is defined the same as for social security contributions.

From the employee's wages, the employer is to withhold and pay to the Social Security Administration 3.5% of covered earnings.

From the employer's revenues, the employer is to pay to the Social Security Administration for the benefit of the employee another 3.5% of covered earnings.

- **Import Tariff**

Goods imported into the Marshall Islands for resale are taxed as follows:

<u>Taxable items</u>	<u>Rate of taxation</u>
Carbonated non-alcoholic beverages	\$0.01666 per fl. oz.
Non-carbonated and artificially flavored beverages	10%
Tobacco, cigarettes	\$1.00 per pack of 20 rolls
Other tobacco (Copenhagen)	\$2.75 per 34.2 grams or 1.2 oz
Beer	\$0.50 per can or 12 fl. oz.
Spirits	\$12 per gallon
Wine	\$2.75 per gallon
Mixed drinks	26%
Cigars	151%
Food stuff	5%
Gasoline	0.25 cents per gallon
Jet A-1	0.08 cents per gallon
Diesel	0.08 cents per gallon

Public Transport	5%
Motor vehicles (whose values can be determined in Kelley Blue Book)	15% of value stated in Kelley Blue Book or of accompanying invoice, whichever is higher, provided that in no case shall the duty assessed be less than \$1,500
Motor vehicles (whose value cannot be determined in Kelley Blue Book):	
New Motor Vehicles	\$2,500
Used Motor Vehicles	\$1,500

Certain exemptions apply for all equipment, furniture, fixtures, materials, and supplies imported for the establishment, operation or maintenance of the following industries shall be exempt from import duties so long as they are used for such purposes:

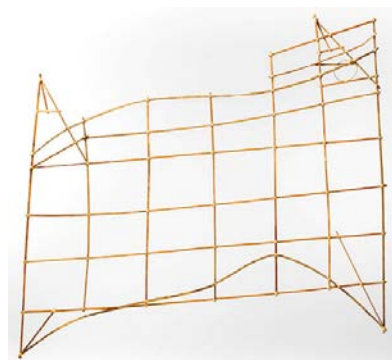
- Manufacturing
- Hotel and Tourism
- Fishing
- Other Industries as designated by the Cabinet

• **Tax Incentives**

Any new enterprise established to carry on (a) off-shore or deep sea fishing; (b) manufacturing for export or for both export and local use; (c) agriculture; and (d) hotel and resort facilities with a minimum investment of \$1,000,000 and/or which provides employment and pays wages equal to or greater than \$150,000 per annum to Marshallese citizens will be exempt from the aforescribed gross revenue tax for a period of five years commencing with the start of business.

Non-resident (i.e., offshore) domestic corporations are statutorily exempted from taxation on income and assets if they do not conduct business in the Marshall Islands. Companies can incorporate through International Registries, Inc., a privately owned administrator of ship registry, to achieve status as a non-resident Marshall Islands company. The Marshall Islands' favorable maritime and business corporate laws have helped propel the Marshall Islands ship registry to become the third largest open registry in the world.

Marshallese navigational stick chart



Useful Addresses

- **Office of the President and Cabinet**
P.O. Box 2
Majuro, Marshall Islands 96960
Telephone: (692) 625-3445/3660
Facsimile: (692) 625-4021/3649
Email: pressoff@ntamar.net
Website: <http://www.rmigovernment.org>
- **Division of Revenue and Taxation**
P.O. Box 29
Majuro, Marshall Islands 96960
Telephone: (692) 625-5867/5722
Facsimile: (692) 625-5730
Email: taxationrmi@ntamar.net
- **Ministry of Resources and Development**
P.O. Box 1727
Majuro, Marshall Islands 96960
Telephone: (692) 625-3206/4020
Facsimile: (692) 625-7471
Email: rndsec@ntamar.net
Website: <http://www.rmirnd.net>
- **Marshall Islands Chamber of Commerce**
P.O. Box 1226
Majuro, Marshall Islands 96960
Email: commerce@ntamar.net
Website: <http://www.marshallislandschamber.net>
- **Marshall Islands Visitors Authority**
P.O. Box 5
Majuro, Marshall Islands 96960
Telephone: (692) 625-6482
Facsimile: (692) 625-6771
Website: <http://www.visitmarshallislands.com>
- **International Registries, Inc.**
Website: <http://www.register-iri.com>



Deloitte.

Republic of Palau



The Rock Islands

Palauan Storyboard



Ongeim'l Tketau
(Jellyfish Lake)

Republic of Palau

Physical Characteristics

The more than 200 islands of Palau are at the western edge of the Micronesia archipelago, 700 miles west of Guam, north of New Guinea, and east of the Philippines. The volcanic and limestone islands stretch over a distance of approximately 400 miles north to south. All but three of the islands are within a huge protective barrier reef. The entire land mass of Palau is approximately 170 square miles.

Close proximity to the equator provides for a maritime/tropical climate. The annual mean temperature of the Republic is approximately 82 degrees, with a diurnal change in temperature of approximately 10 degrees. Rainfall approximates 150 inches per year.

Nine of the islands are permanently inhabited. The total population is estimated to be 20,800. The majority of the population is centered in the Republic's state of Koror, where the population is estimated to be 15,000. Ngerulmud in Melkeok State is the Republic's capital.



History

The indigenous people apparently welcomed the first outsiders, British sailors, during the eighteenth century. Spain is the first known outsider to exert authority over the islands, a right "confirmed" by Pope Leo XIII in 1885. Apparently, impact was limited to introduction of the alphabet and Christianity.

In 1899 Germany gained control and attempted to industrialize the islands. They, in turn, were replaced by the Japanese in 1914, who worked to develop agriculture and fisheries industries. Japan also established schools and upgraded medical facilities. Paved roads were built. Electricity, water, and sewer systems were established.

The United Nations trusteeship mandate assigned administration to the United States in 1946. A formal constitution was adopted by the people of Palau in 1981. After several plebiscites, the people voted to enter into a Compact of Free Association with the United States. The compact is a treaty that provides the United States with military access to the islands in exchange for approximately \$630 million in capital improvement grants and government operation subsidies over a fifteen year period, and free immigration to the United States by Palauan citizens. The Compact took effect October 1, 1994, thereby making the Republic of Palau an independent country.

Government

The Republic includes a National and sixteen State governments. The first elected chief executive (President) and National Congress (Olbiil Era Kelulau) were elected in late 1981. The Constitution also provided for a Supreme Court and a National Court.

In addition to the Constitutionally established government, there exists a traditional Council of Chiefs from each of the Republic's sixteen states. The Council advises the President on traditional laws and customs.

Business Environment

The most significant incentives to doing business in Palau include its magnificent physical beauty and low taxes. Foreign investment is encouraged, particularly in areas of infrastructure improvement, tourism and export industries. While Palauan citizens are allowed to conduct business in substantially all industries, approval from the Foreign Investment Board is required for foreign individuals or corporations to do business in Palau. Certain industries, most importantly wholesale, retail, land and water transportation, diving, water sports, and restaurants attached to resorts and bakeries must be operated by domestic Palauan corporations.

While copra and fish exports have been important industries, tourism is a growing element of the total economic activity of the islands. Phosphates and bauxite are mined within the Republic.



Bai (traditional men's meeting house)

There are no exchange controls or currency restrictions.

Business is conducted primarily through corporations. However, proprietorships and joint ventures are welcomed. A corporation must file Articles of Incorporation and By-Laws with the Registrar of Corporations, located in the Attorney General's office for approval. Upon approval by the registrar, the President executes the application.

Labor

The size of the population places some limits on prospective economic activity. All non-Palauan citizens must have a valid passport upon entry. Tourist visas are allowed for a period of up to 90 days. Work visas must be obtained by application through the Ministry of Natural Resources, Environment & Tourism, Bureau of Labor and Human Resource.

In order to promote employment of Palauan citizens, a \$500 annual fee is charged to foreign corporations for each foreign worker employed. Workers in Palau are subject to the Palau Social Security System. Every employee and employer in Palau must pay a tax of 6% (12% in total) on the first \$5,000 in wages earned in a calendar quarter. In the case of a proprietorship or partnership, the owners are

separately subject to the tax. The assumed salary is imputed at a rate twice that of the highest paid employee, to a limit of \$5,000 per quarter.

Taxation

Taxation authority rest primarily with the National government of the Republic. The sixteen States do have a limited ability to impose local taxes. As a rule the States are not allowed to impose a tax on items which are taxed at the National government level. State taxes are generally minimal with the State of Koror imposing the widest variety of local taxes. A list of taxes and license fees imposed by the State of Koror is provided under the section "State of Koror Taxes."

There are no income taxes in Palau. The primary taxes imposed by the National government are as follows:

- **Gross Receipts Tax**

A tax of 4% is assessed against the gross revenues of all business establishments in the Republic. The total salary and wages paid to Palauan citizens may be subtracted from gross revenues before assessing the tax. The tax is paid quarterly, due 30 days after the end of the quarter.

In the instance of financial institutions, this tax is to be paid at the rate of 4% of net income.

- **Wage and Salary Tax**

Every employee in Palau must pay a tax of 6% on the first \$8,000 in annual wages and 12% on amounts over \$8,000.

- **Social Security Tax**

Employees are required to make quarterly social security contributions at a rate of 6% of the first \$5,000 gross income/wages earned in a quarter. Employers are required to match the employee contribution of 6%. The combined employee and employer social security contribution of 12% must be paid and filed with a Quarterly Tax Report one full month after the end of each calendar quarter.

- **Health Insurance**

On May 7, 2010, the National Healthcare Financing Act was signed into law. The framework of Palau's first national healthcare financing system, called Healthcare Fund (HCF), consists of two parts: Medical Savings Account and National Health Insurance.

Effective October 2010, employees are required to contribute 2.5% of employee's wages while employers are required to match the employee's contribution of 2.5%. Of the combined 5% contribution, 2.25% is allocated to the employee's medical savings account (MSA), 2.25% allocated towards the pooled National Health Insurance, and up to 0.5% allocated for administrative expenses. The Healthcare Fund tax of 5% is paid and filed with the Quarterly Tax Report, the same form used to pay the social security tax.

- **Hotel Room Tax**

A tax of 10% of the room charge is assessed against guests of hotels, lodging houses or similar facilities.

- **Other Taxes**

Import taxes are imposed as follows:

<u>Taxable items</u>	<u>Rate of taxation</u>
Cigarettes	\$2.00 per every 20 cigarettes
Tobacco products, other than cigarettes	150% ad valorem
Perfumery, cosmetics and toiletries	25% ad valorem
Carbonated soft drinks	\$0.10 per 12 fl. oz.
Beer	\$0.03 per fl. oz.
Liquor	\$0.30 per fl. oz
Wine	\$0.20 per fl. oz
Wine coolers or cooking wine with recognized alcohol content	\$0.05 per fl. oz.
Bottled water except bottled distilled water	25% ad valorem
All other imported products except foodstuff, medicine and medical supplies	3% ad valorem
Vehicles or vehicles chassis	5% ad valorem plus \$250

Coin activated amusement machines which simulate card games (i.e., poker, black jack, etc.) are assessed an annual fee of \$500. All other coin-activated amusement devices pay a \$200 annual fee.

A departure tax of \$10 is assessed to Palau passport holders at time of departure from the Republic. All other passport holders are assessed a \$20 departure tax.

Road use taxes of \$50 for vehicles less than 2,000 pounds, \$75 for vehicles between 2,000 and 4,000 pounds, and \$150 for vehicles more than 4,000 pounds are assessed per annum against all motor vehicles.

Every water vessel entering the territorial water of the Republic is assessed a tax of \$50. If such vessel is present for more than one year, an annual tax of \$250 is assessed. Fishing vessels are subject to regulation by the Palau Maritime Authority. Commercial fishing within the territorial waters of Palau requires approval by this agency

- **Licenses**

Any person engaging in business within the Republic is obliged to obtain a license and pay an annual fee as follows:

Wholesalers	\$300
Professionals	\$300
Importers	\$200
Massage parlor operators	\$500
Solicitor	\$600
Other	\$ 50

State of Koror Taxes

- **Other Taxes**

Personal property taxes are imposed as follows:

Trucks, buses, motor vehicles and construction equipment capable of traversing on public roads road are taxed based on gross weight at the following rates:

	Noncommercial	Commercial
a) Under 2,000 pounds	\$ 12.50	\$22.50
b) 2,000 to 2,999 pounds	\$15.00	\$25.00
c) 3,000 to 5,999 pounds	\$20.00	\$30.00
d) 6,000 to 7,999 pounds	\$40.00	\$40.00
e) 8,000 to 9,999	\$45.00	\$45.00
f) 10,000 to 11,999	\$50.00	\$50.00
g) 12,000 to 13,999	\$50.00	\$50.00
h) 14,000 to 15,999	\$60.00	\$60.00
i) 16,000 to 17,999	\$70.00	\$70.00
j) 18,000 to 19,999	\$75.00	\$75.00
k) 10 but less than 15 tons	\$100.00	\$100.00
l) 15 but less than 20 tons	\$125.00	\$125.00
m) 20 but less than 25 tons	\$150.00	\$150.00
n) 25 but less than 30 tons	\$200.00	\$200.00
o) 30 but less than 40 tons	\$225.00	\$225.00
p) 40 but less than 50 tons	\$275.00	\$275.00
q) 50 but less than 60 tons	\$325.00	\$325.00
r) 60 but less than 70 tons	\$400.00	\$400.00
s) 70 but less than 80 tons	\$475.00	\$475.00
t) 80 tons and over	\$575.00	\$575.00

Motor boats are taxed based on length at the following rates:

a) Under 18 feet	\$ 2.00
b) 18 feet to 23 feet	\$ 5.00
c) Longer than 23 feet but not over 40 feet	\$10.00
d) 40 feet to less than 75 feet	\$25.00

- **Licenses**

The following business license fees apply:

Retail store Class A (sells alcoholic beverages in original container), movie theatre, building contractor, furniture manufacturer, boat building and repair shop association or corporation	\$50
Scrap metal collecting business	\$50
Retail store Class B (does not sell alcoholic beverages in original container) and non-associated or non-incorporated boat building or repair shop	\$50
Retail store Class C (exclusive retail business, i.e., fish markets), fuel stand, saw mill, auto repair shop, taxicab, bus service, ferry boat, restaurant, bar, gift shop, diving service, printing shop	\$50
Soft drink stand, ice cream shop, food market, craft shop, amusement hall, trucking business	\$50
Alcoholic beverage wholesaler and retailer, tailor shop, non-Koror resident commercial fisherman, machine shop, cement blocks manufacturing shop	\$50

Close-up of giant clam



Useful Addresses

- **Office of the President**

P. O. Box 6051
Palau, PW 96940
Telephone: (680) 767-2828
Facsimile: (680) 767-2424
Website: <http://www.palaugov.net/palaugov/Executive/thePRES/thePresident.htm>

- **Foreign Investment Board**

P.O. Box 1733
Koror, Republic of Palau 96940
Telephone: (680) 488-1135
Facsimile: (680) 488-3722
Email: fibpalau@palaunet.com

- **Bureau of Revenue, Customs & Tax**

P. O. Box 6069
Koror, Republic of Palau 96940
Telephone: (680) 488-2465
Facsimile: (680) 488-3844
Website: <http://www.palaugov.net/BRCT/BRCT.htm>

- **Republic of Palau Social Security Administration**

P.O. Box 679
Koror, Republic of Palau 96940
Telephone: (680) 488-2457/1823
Facsimile: (680) 488-1470
E-mail: administration@ropssa.org





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