

**Marshall Islands Chamber of Commerce**

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**Meeting Minutes**

Friday, October 10, 2008

Marshall Islands Resort

Meeting called to order by President Hirobo Obeketang at 12:15 P.M. Approximately 35 members and guests were in attendance. The next regular meeting will be on Friday, November 14, 2008.

- **Minutes** – approved electronically prior to the meeting
- **Treasurer’s report** - None
- **Guests**

- US Ambassador Clyde Bishop and Embassy staff

- Carson McNeill, Revenue Administration and Policy Advisor, Pacific Financial Technical Assistance Centre

- Bruce Bilimon, Commission Secretary and Assistant Secretary for Customs, Treasury, Tax and Revenue Division – Ministry of Finance

- **Chamber President’s opening remarks**

Welcome to the October regular meeting of the Marshall Islands Chamber of Commerce. Today’s program focuses on one of the most important aspects of modern life – taxes. Everyone has an opinion on taxes. The business community has strong opinions regarding taxes.

Today is our opportunity to meet the members of an appointed Tax Commission that is charged with the responsibility to suggest tax law changes to the Cabinet for anticipated introduction by the Minister of Finance in the January Parliament session. We will hear about what the Tax Commission is doing. And we will have ample opportunity to express our ideas about taxes.

There are two major issues involving taxes in the Marshall Islands – sufficient revenue collection to support necessary government activities and effective tax law enforcement. This means that to accomplish one does not make the other issue go away. Both issues have to be dealt with in a manner that we can all accept. Both are important.

As a Chamber of Commerce, we have definite opinions regarding tax law enforcement. Frankly, tax law enforcement has been a failure in the past. We want to see this change. We believe that fair and impartial tax law enforcement presents a so-called “level playing field” on which business operates. We can and should express this viewpoint today, but let’s not allow our passion on the subject to eclipse the very real need to collect sufficient public revenue. We need to hear about the present and projected shortfall in tax revenue. We need to offer our positive suggestions regarding how the tax base can be broadened so that each of us only pays a tax that is required. As President of the Chamber of Commerce, I urge all of us to focus clearly on sufficient revenue collection and effective tax law enforcement. Both of these things are broken. Both of them need to be fixed.

I recommend that the Tax Commission adhere to ten recognized principles of sound tax policy:

Transparency is a must  
Be neutral  
Maintain a broad base  
Keep it simple  
Stability matters  
No retroactivity  
Keep tax burdens low  
Don’t inhibit trade  
Ensure an open process  
National and local taxes matter

- **Tax and Revenue Reform and Modernization Commission – presentation by Bruce Bilimon**

Presentation Outline:

- I. Purpose
- II. Mandate
- III. Rationale – Why Reform?
- IV. Objectives
- V. Principles
- VI. Membership Profile
- VII. Current Activities
- VIII. Enforcement

Mandate

- July 11, 2008 the Cabinet endorsed the Tax and Revenue Reform and Modernization Commission.
- Inclusive of Private and Public Reps.
- To make recommendations to the Cabinet on a Tax Regime.
- 1 year term

Presentation Purpose:

As a blank page, it shows that the commission, at this stage, is seeking inputs, comments, ideas. Therefore, the purpose of this presentation is to seek your input, to seek partnership and to seek your expertise, experience and knowledge to add value to our work.

### Why Reform?

- Current Tax Regime (may) not be practical to current circumstances and realities – Need for a comprehensive review.
- ADB & IMF Article IV – Cited the need for a reform process.
- GDP imbalance Private Sector vis-à-vis Public Sector.
- Declining external grants & increasing debt services - Post Compact, Kwajalein Impact.
- Strengthening of Tax Administration and Enforcement.
- Fiscal Sustainability
- Promote Sustainable Private Sector Growth

### Tax Reform Objectives

- 1) To deliver to the Government a proposal for consideration to reform current tax system and structure that are appropriate and suitable for the purpose of meeting the current and future financial needs of the Republic of the Marshall Islands and a tax and revenue design conducive to current realities and circumstances;
- 2) To deliver to the Government a proposal for consideration to strengthen the capabilities and effectiveness of the revenue collecting administration, sufficient to implement the revenue and tax reforms and improve the level of (voluntary) compliance of RMI Tax Payers.
- 3) To take the role and responsibility of governing and oversight of the design to ensure effective implementation of these changes needed to enhance a sustainable revenue stream to the Government.

### Adopted Principles

Transparency and Certainty	Effective & Efficient Administration
Fairness & Equity	Simplicity
Fiscal Sustainability	Broad Based

Pro-Private Sector	Foreign Direct Investment
International Trade Focus	Keep Tax Burden Low
Neutrality	Consideration of Local Government Taxes

## Membership

### *Tax Review Commission Composition*

- 1) Mr. Carlos Domnick – Chair
- 2) Mr. Ben Chutaro – Vice Chair
- 3) Mr. Carl Hacker – Member
- 4) Mr. Phil Marshall – Member
- 5) Mr. Ben Graham – Member
- 6) Mr. Joseph Batol - Member
- 7) Mrs. Saane K. Aho – Member
- 8) Mr. Hermai Makroro (Proxy Jim McLean) –Member
- 9) Mr. Bruce Bilimon - Secretary

## Activities – Action Timeline

### PHASE I:

Engage and consult with business and the community. (October – November 2008)

### PHASE II:

Consolidate input from business and the community (December - January 2009)

### PHASE III:

1. Develop Recommendations
2. Determine provisional options and discuss with the Minister of Finance
3. Take the final recommendations to public for further consultation and input – a more targeted consultation – REPORT TO MINISTER OF FINANCE

## What have we done to strengthen Enforcement?

### 1. Tax Auditing

Fiscal Year 2007	Fiscal Year 2008
18 Business Audited with FY 2008 net tax revenues of \$697,638.	Audited 13 businesses with combined net tax revenue of \$656,735.

## Part VIII – Procedure:

-- Section 125: (1) Upon Failure to File, Secretary of Finance may notify such person business or employer of such failure.

- July 2007 legalized Notices:
  1. Notice of Demand to Pay Tax.
  2. Notice of Assessment and Pay Tax
  3. Notice of Demand to file and pay tax (30 days) – *doing business w/o filing.*

4. Notice of Assessment and pay tax (10 days). *Still not complying.*
5. Notice of Assessment and pay tax (10 days). *Still not complying.*
6. Notice of Lien ( 30 days).

## Business Survey 2008

### *Methodology:*

- Internal strategic meetings.
- Target Small and New Stores (Moms and Pops).
- Rita to Laura
- 5 – Week Engagement.

## Preliminary Findings

-- 501 businesses surveyed.

- 1) When asked if MISSA Registered?  
--- 413 MISSA Registered – rest indicated none or blank entry.
- 2) When asked if Filing with RMI Tax Office?  
--- about 190 indicated have filed.  
--- about 38 indicated not or never filed.  
--- about 273 with none or blank entry.

## Conclusion

- To sustain as a Country, collective action and robust cooperation and consultation among all stakeholders (Private, Public Sectors) is imperatively important, otherwise, without the right structural framework derived from collective efforts, sustainability is not certain. In our view, this is our opportunity to set the right course of ours and our children's FUTURE!

- **Questions and comments from the floor**

When a small business gets a MALGOV business license, they have to show evidence of having registered for Social Security and national taxes.

Your work is a good start at identifying the extent of the problem.

Taxpayer comments can be submitted to anyone on the Tax Commission. This is an opportunity for citizens and businesses to comment. The Tax Commission needs your input.

The recent parliamentary bill to increase teacher salaries by raising “sin taxes” was not presented to the Tax Commission for review.

For non-Marshallese businesses, if you don't file taxes your taxes your foreign investment permit should be revoked. For Marshallese businesses, you should be convicted of a felony so that you can't travel through or to the US.

It would be helpful to have an Internet Website on which a non-anonymous discussion thread can be joined to help us collaborate with each other on the subject of taxes.

It has been difficult to request copies of tax forms from the tax office by mail. They don't respond. And it has been difficult to get receipts for taxes paid from the tax office.

Small businesses will have their gross receipts considered as income subject to Social Security taxation at the rate of 21%. This is discriminatory against small businesses.

If a sole proprietorship becomes a corporation then they will not have their gross receipts considered as Social Security taxable wages.

An email discussion thread would be helpful on this subject.

The Public Sector will receive a copy of the Tax Commission's final recommendations.

- **New Business**

Jerry Kramer briefly profiled recent Parliamentary resolutions, proposed bills, and passed bills to the Chamber membership. Many of these have already been reported in the Marshall Islands Journal. For example, many laws enabling historically dormant government funds will be repealed. The pending but not passed bills related to amending the Public Lands law regarding ownership beyond the shoreline; additional pay for teachers; and required seatbelts. The passed bills relate to exempting MEC on imported fuel sales tax and eliminating the import tax on essential foods.

Neal Skinner discussed energy related issues. There will be an Energy Fair followed by a seminar on October 21<sup>st</sup>. The fair will begin at 10 AM and continue to 2 PM. Tents, tables, and chairs are needed. If you have anything to demonstrate come to the fair and show it. It will be held at the weather station. Last Tuesday we could have begun power rationing were MEC unable to pay for a fuel shipment. Are our businesses ready for this possibility? CMI will be installing a "grid tie" power system where the excess electricity that they produce will go back into the power grid for credit. Biodiesel is another kind of fuel. EZ-Price and RRE are experimenting with this. There is a biodiesel producer in Fiji. It takes about 30 coconuts to produce one gallon of biodiesel fuel.

Jerry Kramer explained that biodiesel fuel begins with filter coconut oil and then goes through a process called transesterification. One of the benefits of biodiesel over coconut oil is that it will not solidify at low temperatures. Typically that is not a problem in the Marshall Islands. Approximately 90% of the diesel engines in Majuro can burn coconut oil. Tobolar is experimenting with biodiesel with blends of 20% kerosene and 80% filtered coconut oil. Coconut oil now costs about \$4 a gallon. PII sells diesel fuel at a lower price than MEC.

There is no law in the Marshall Islands to prevent individuals from creating their own electricity. There is such a law in Kiribatti.

MEC pays about \$15 more for a barrel of diesel than the world spot oil price out of Singapore.

Don Hess informed Chamber members of the latest developments at the Solid Waste Corporation. They received a \$250,000 grant from the US Department of Transportation. This will allow them to purchase two trucks and many small residential trash bins that will be distributed from Rita to the Airport. There appears to be progress with MALGOV. There will be no garbage pickup cost for residential customers. The seawall is still a problem. They are beginning to have trouble with landowners claiming that they own the sand that the Solid Waste Corporation is dredging to cover the dump. The incinerator to burn medical waste is waiting for additional parts.

Carlos Domnick reported that there appeared to be overall support at a recent hearing on a bill to control the export of scrap metal.

Hirobo Obeketang reported that a JAL tourist flight arrived this morning at approximately 6:00 AM. It took about 35 minutes for the 120 passengers to clear Customs and Immigration. These tourists are staying at the Long Island Hotel, Marshall Islands Resort, and RRE. Two more JAL flights are scheduled close to the end of the year that will bring in 200 tourists each.

Hirobo Obeketang spoke for the Marshall Islands Chamber of Commerce in extending condolences to the people of Bikini on the recent loss of their mayor. His body will be returned to Majuro tonight.

Meeting adjourned at 1:15 PM.

Minutes prepared by:

Jim McLean