

Marshall Islands Chamber of Commerce

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Meeting Minutes

Friday, February 20, 2009

Marshall Islands Resort

Meeting called to order by President Hirobo Obeketang at 12:15 P.M. Approximately 50 members and guests were in attendance. The next regular meeting will be on Friday, March 13, 2009, unless changed to accommodate a special program or guest speaker schedule.

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

- Bea Pereda, Bank of Guam

- Gary Phipps, RRE General Manager

- Tax and Revenue Division – Ministry of Finance

- **Chamber President's opening remarks**

Welcome to the first Marshall Islands Chamber of Commerce meeting of the year.

Before we begin our regular program, I would like to take this opportunity to recognize Minister Dennis Momotaro, the NTA Board of Directors, NTA General Manager Tony Muller, and former NTA General Manager Al Fowler.

Beginning about six years ago only one man had a dream of connecting the Marshall Islands with the rest of the world with an underwater fiber optic cable. Al, please accept the gratitude of the Marshall Islands Chamber of Commerce for having had the vision to begin this important project.

As time continued, there were many changes, meeting, negotiations, and just a lot of hard work. Tony, please accept the gratitude of the Marshall Islands Chamber of Commerce for having had the patience and perseverance to stick with this difficult project and see it through.

Even in the eleventh hour there were difficulties. Minister Momotaro and members of the NTA Board of Directors, please accept the gratitude of the Marshall Islands Chamber of

Commerce for completing this important task. Your efforts will be a real legacy for all of the Marshallese people today and tomorrow.

Ladies and gentlemen, congratulations!

Last week we read in the Marshall Islands Journal that our government is facing a tax collection shortfall that will affect all of us. Some of our members are working diligently with their government counterparts on a Tax Commission to address this tax shortfall and also modernize our tax system. We've also received numerous ADB, IMF, and other expert analyses that tell us of the importance of increasing the size of the private sector. In fact, the latest IMF report told us that our country has only two top priorities over the next 12 years. We need to increase our contribution to the Intergenerational Trust Fund. And we need to significantly increase the size of our private sector. The warning is clear. If we are to economically survive past the year 2023, we must accomplish these two things.

In reality, there is only one top priority for our country. If we increase the size of the private sector that will generate sufficient new taxes to give the government the money that it needs to increase the size of the Intergenerational Trust Fund.

Up until now private sector development has been like the weather. Everyone talks about it but no one does anything about it. That needs to change. We all have to work together to achieve our country's top priority. How do we do that?

It isn't enough to modernize taxes. It isn't enough to review and manage the size of government. These things are important, but that will not automatically increase the size of the private sector. We need to change the way that we look at everything in the Marshall Islands. We need to always look through a lens of private sector development. That lens has to always color our view. It must influence how we solve every type of problem. Some people call this taking a holistic approach – treating the whole and not just the parts. What does that mean?

Consider the excellent treatment program for Diabetes that is being run by the Wellness Center. Do they only hand out pills or insulin shots? No. They take a holistic approach to the ravages of Diabetes. They actually teach people how to change their lifestyle to stop the progression of this serious illness.

We have two topics for today. At the end of this session, Roger Cooper will briefly tell us about some exciting things that the Majuro Atoll Waste Company is doing with the schools.

Please allow me to introduce Jerry Kramer. Jerry will introduce all of us to a holistic way to build the private sector through innovative taxation.

- **Jerry Kramer's remarks**

I've attended tax meetings and held discussions on this topic for 40 years. I would now like to present my recommendations. A holistic approach to raising tax revenue would

place an emphasis on further developing the private sector. The efforts of the Tax Commission to date have not addressed this issue. As personal disposable income increases as a result of more private sector jobs new tax revenue will follow. In order to achieve this more of our public Ministries need to become involved – not just the Ministry of Finance. Increasing public sector jobs takes money out of the economy and does not stimulate private sector development.

For the private sector to grow new money must be injected into the local economy. Raising taxes takes money out of the local economy. With new money, new jobs are created. This broadens the tax base. Increasing local capital is a priority. Many taxes can and should be eliminated. And we should increase our collection effort.

How can we accomplish this?

1. There are available U.S. construction funds that are waiting to be spent. We need to reduce the amount of time that it takes to deploy these funds locally. This is new money. This creates more jobs. More jobs will improve the standard of living.

Comment from the floor: The Ministry of Public Works is responsible for construction project management.

2. There are available annual Japan Aid project funds – as much as 30 to 50 million dollars has not been spent. One large water project was held up by one person that claimed land ownership. We should have proceeded with the project and used litigation to defend that effort from any complaint. This would have nearly doubled our fresh water capacity.

3. 30 to 40 million in U.S. funded construction projects have been delayed because of a recently passed law. All that it would take is to change one sentence in that law to free up these funds. Any donor funds used for public purposes should not result in private land ownership until that public purpose has ended.

4. There is a U.S. Government document of over 66,000 pages that lists available grants of which we may qualify. We need to hire an experienced grant writer and pay him/her well to mine this source of new money for our economy.

5. Tourism takes nothing out of this country, and it brings in new money. The Marshall Islands Visitors Authority is treated as an expense. In other countries these organizations are treated as an investment. Tourism enhances a country's culture. Tourism creates jobs. We still have a chance regarding resumed Japan Airlines' charter flights. Traditional leaders, elected officials, local businesses, NGOs, and even school children should focus on this clean and productive source of capital.

6. We are one of the preferred places in the Pacific for yachts to visit. We can attract a significantly larger number of yachts if we remove some administrative barriers to their entry – specifically Customs and Immigration. Non-American yacht owners need to be able to stay for the entire length of the Typhoon season in the South Pacific. It is a simple

matter to allow them to stay for up to six months. Yachts bring more money into the economy.

7. We need to develop significant sources of new revenue. We need to get more money into each individual's hands. This creates jobs. People are happier when they have a job. Every public employee that is moved to private employment produces a positive impact on the local economy. The private sector is productive. The public sector is not.

8. We need to have access to the present tax yields, that is, how much money is presently collected from each type of tax. Looking at that and the present tax rates we can fix the tax system. The present tax system is broken. We need to replace it.

9. There are problems with the import tax. Smuggling gives an unfair competitive advantage to those who violate our tax laws. Cigarettes and alcohol can be easily purchased locally at a price that is so close to the landed cost if taxes were paid as to suggest that these items were smuggled. We need to eliminate the import tax.

10. The gross receipts tax is negatively regressive. This discourages local production and favors imported items. Basically it is enforced when a taxpayer presents his gross income and then asserts that he then owes a certain amount of tax. There is too much room for a misstatement of gross income.

11. Although it has become easier to form a corporation, we should make it even easier. We want to encourage corporations. Under the law the government has the right to examine the books of corporations. There is no present requirement for non-corporations to keep financial records. Without these records it is not possible to effectively enforce the gross receipts tax. We need to eliminate the gross receipts tax.

12. We need to continue to tax salaries and wages. But there should be as few as two income tiers – not the five tiers that the Tax Commission appears to be recommending. Everyone should contribute according to what he earns. There should not be any exemption from salary and wage tax. It is a common misconception that our salary and wage taxes are less than the U.S. This is not true. A taxpayer in the U.S. has many deductions that he may claim to lower his taxes. There are no deductions here. If we have too many tiers of progressively higher salary and wage taxation we discourage employee excellence. Good employee performance leads to promotion, more salary, and then a significantly higher tax burden.

13. Our Social Security Administration is doing an outstanding job. We need to provide retirement payments for our elderly. We see the Social Security fund coming under constant attack by those that want to get a larger share. With the exception of indigent older people, this can be easily prevented by changing the method of payout where contributors get a percentage of only what they have paid. Then if someone wants or gets more, he is only getting more of his own payments and not someone else's.

14. Our tax laws have been amended one or more times literally every year since 1989. Is this continuity? We need to write better tax laws that don't have to be changed so often.

15. The Tax Commission has proposed a new apartment tax. But many apartments are rented to employees that receive a housing allowance. To raise the cost of rent would result in the housing allowances being raised that would, in many cases, take more money out of the local economy. This is not productive. People who build apartments do so by taking advantage of long term financing. Taxing the rental income stream casts a doubt on a previously taken long term business plan. This is inequitable. Would the same number of apartments have been constructed had the owner known that there would be a future apartment tax?

16. The Tax Commission has proposed that so-called “tax holiday” provisions be changed to require a foreign investment of five million dollars or ½ million dollars in annual local wages paid. How many foreign investors have received a tax holiday? What if there is only one? If we don’t have many foreign investors then, perhaps, the presently required one million dollar investment or \$150,000 in annual local wages paid is too high. We need to be very careful to not discourage however many foreign investors we have at present by making this kind of a change.

17. Although this would not be an issue if my proposal to eliminate import taxes is accepted, imported vehicles should be taxed as a percentage of cost and not at a flat rate.

Comment from the floor: The present system was enacted following an incident where an importer brought in a large number of vehicles from Hong Kong with a declared cost of less than \$200 each to evade the then percentage of vehicle cost import tax.

18. Some government employees should be paid very well. This is especially true for Revenue and Taxation. A high salary would be an incentive for a person to not want to lose a good job as would be jeopardized by taking a bribe. This would result in more taxes being collected.

19. A Value Added Tax or VAT tax has been proposed for a number of years. Under such a scheme businesses become collectors and payers of taxes. And there are many accounting requirements at each level of a business process. We should adopt a modified form of a VAT tax that will allow us to eliminate the gross receipts tax and the import tax. Our modification would specify that only the final sale be taxed, and there would be no business collecting or added accounting. This would be a consumption tax or a tax on goods or services sold. It is very simple and easy to enforce. There is an untaxed import declaration and a mandatory record of each sale. There should be one tax rate for all goods and services. We would need to examine the presently unavailable tax yields in order to properly state what the rate should be. Specifically, the law would require that all merchants have a cash register that issues numbered receipts with a file copy. Notices would be posted that there is a reward for any information furnished by a shopper that reports not receiving a receipt. It is even possible to have a “lock box” into which the cash register copy is fed for which only Customs and Taxation has a key.

Comment from the floor: Even with a perfect tax system, if there is insufficient enforcement then the honest people are penalized while the dishonest are rewarded.

20. There should be a single modified VAT or goods and services tax. The national government should collect all taxes and appropriately share tax revenue with local governments.

21. Some of the present tax laws have unintended consequences. For example, there is a law that confines the importation of alcohol to only those that have a license. But this law also stipulates that people may only bring in a maximum of two bottles of alcohol or 1 ½ cartons of cigarettes tax free. The law goes on to imply that if a person brings in more than this quantity that he can be punished with a fine up to \$10,000 or two years in jail. Clearly, people that bring in a larger quantity of these items for their own consumption should only have to pay the import tax and not face a felony conviction.

22. In the history of man, workers have enjoyed drinking beer at the end of a hard week's work. This has led to contentment for the working man. To tax beer is to deny our workers one of the few simple pleasures of life to which he may aspire. We should not have a high tax on beer.

- **Roger Cooper's remarks**

The Majuro Atoll Waste Company has begun some very successful projects. About two weeks ago we began collecting residential waste once a week here in town all the way to the end of Rita. We've experienced 80% compliance which is excellent. Already that area is looking much better. We've taken six damaged large dumpsters out of circulation. We're almost ready to begin more scrap metal and plastic bottle recycling. We expect that we will inject about two million dollars into the local economy as a result of these efforts.

We have a new program that is called "I Recycle." There is a group of Guam businesses that include Matson, Coca-Cola, and Anheuser Busch. They will be our partners to help the schools here learn and profit from recycling aluminum cans. We will furnish recycling bins for each school both inside and outside. It is estimated that it will cost \$60,000 for these special bins. Our goal is to raise \$20,000 of this cost from local businesses that want to adopt a school. Each week we will collect the cans, weigh them, and record the name of the school from which these cans originated. When we have enough to fill a container we will ship them free on Matson. We then will receive payment and credit each school according to how many cans a particular school contributed. The schools may then propose worthwhile projects that we will fund from the money on account for each school.

- **Chamber President's final comments**

I would like to acknowledge and welcome the members and guests from Customs and Taxation that are in attendance today.

Today's program is not the end of the Chamber's efforts to bring about a meaningful modernization of taxes that will contribute to a significant development of the private sector. This topic will be our primary focus for this last of my two years as Chamber President.

Two months ago we mailed a Chamber questionnaire to each of our members. If you haven't yet responded with your ideas or suggestions, please take the time to do so. We want your input. One of our goals is increase Chamber membership.

Now is a good time to pay your 2009 Chamber dues.

- **New business**

Visiting Yachts need to be able to stay at least six months. And slightly better facilities are needed.

A U.S. Navy ship will arrive this summer on a six-nation medical mission such as providing dental services. It will be here for a total of twelve days with that time split between Kwajalein and in Majuro. It is a 600 foot vessel with approximately 800 crew and other passengers. There will be some multinationals aboard. From March 3rd to 7th an advance party will be here. If you have any suggestions for projects that this mission could accomplish direct your inquiries to Tom Maus at the U.S. Embassy. MIVA has been asked to update its visitors guide in electronic form that will be sent to the ship before it arrives. If you want to include your business's services in this guide contact MIVA. There is a possibility that the ship may provide some project materials.

The Tax Commission needs more business input such as has been provided today.

Meeting adjourned at 1:30 PM.

Minutes prepared by:

Jim McLean