

AN ACT

To further amend title 54 of the Code of the Federated States of Micronesia, as amended, by further amending section 312 relating to paid-in capital; section 313 relating to the applicability of the Income Tax Regime for FSM Corporations in the Corporate Income Tax Act of 2004; section 351 relating to annual returns, and for other purposes.

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

1 Section 1. Section 312 of title 54 of the Code of the
2 Federated States of Micronesia, as enacted by Public Law No. 13-
3 71, is hereby amended to read as follows:

4 "Section 312. Definitions.

5 (1) 'Control Group' for purposes of this chapter shall
6 mean a corporation and its 80% or greater owned
7 subsidiaries, its parent companies that own directly or
8 indirectly 80% or more of the corporation, and the 80%
9 or greater owned subsidiaries of such parent companies.

10 (2) 'Major Corporation' means any corporation that is
11 subject to taxation under this chapter, specifically,
12 any corporation that is not exempt from taxation by
13 Section 313 of this chapter.

14 (3) 'Secretary' means the Secretary of the Department
15 of Finance and Administration.

16 (4) 'Taxable Year' shall mean the fiscal year of the
17 major corporation as reported to the Secretary under
18 Section 314 of this chapter.

19 (5) 'Paid-in Capital' for purposes of this chapter

1 shall mean the total amount of consideration contributed
2 to the company for the issuance of shares."

3 Section 2. Section 313 of title 54 of the Code of the
4 Federated States of Micronesia, as enacted by Public Law No. 13-
5 71, is hereby amended to read as follows:

6 "Section 313. Applicability of this Chapter.

7 (1) Taxes imposed under this chapter shall apply to
8 corporations incorporated in the Federated States of
9 Micronesia if:

10 (a) the corporation's shareholder
11 paid-in capital as of the beginning of its fiscal year
12 is \$1,000,000 or more; or

13 (b) the shareholder paid-in capital of the
14 corporation's control group is \$10,000,000 or more

15 (2) Notwithstanding subsection (1) of this section,
16 tax imposed under this chapter shall not apply to
17 corporations incorporated in the Federated States of
18 Micronesia if:

19 (a) the corporation is principally engaged in
20 business in the Federated States of Micronesia as a bank
21 as such term is defined in 29 FSMC Section 102(1); or

22 (b) the corporation was formed under the laws of
23 the Federated States of Micronesia prior to January 1,
24 2005."

25 Section 3. Section 351 of Chapter 3 of title 54 of the Code
26 of the Federated States of Micronesia , as enacted by Public Law

1 No. 13-71, is hereby amended to read as follows:

2 "Section 351. Filing of annual returns. Every major
3 corporation shall prepare and file with the Secretary an
4 annual income tax return on a form approved by the
5 Secretary, which annual income tax return shall be
6 signed by the major corporation's authorized
7 representative. This form shall be filed with the
8 Secretary, together with a copy of the major
9 corporation's financial statements in a form acceptable
10 to the Secretary, by the last day of the sixth month
11 period following the last day of the major corporation's
12 taxable year. A major corporation must submit the most
13 recent audited financial statement of any corporation
14 that owns more than 50% of that major corporation.
15 Audited financial statements are not required from
16 individual owners of a major corporation or from
17 corporations that own 50% or less of a major
18 corporation."

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24 Section 4. This act shall become law upon approval by the
25 President of the Federated States of Micronesia or upon its
26 becoming law without such approval.

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April 30, 2007

/s/ Joseph J. Urusemal
Joseph J. Urusemal
President
Federated States of Micronesia