

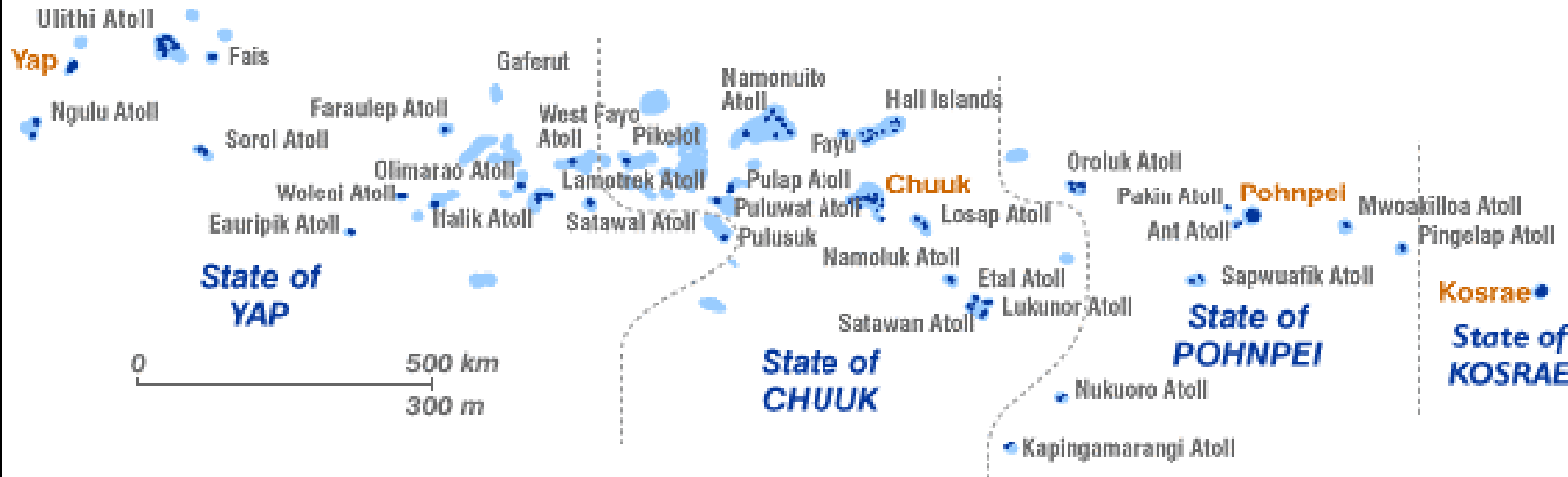
# **FSM: Tax, Trade & Other Business Incentives**



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## Federated States of Micronesia



- **607 islands**
- **270.8 sq miles of land**
- **EEZ over 1 mil. sq. mi.**
- **Population of 110,000**
- **Employment 13,230**
- **GDP \$212 million**
- **GDP per capita \$1,951**
- **Imports \$118 million**
- **Merch. exports \$4 million**
- **Currency U.S. Dollar**



## **Federated States of Micronesia**



**Chuuk State**



**Kosrae State**



**Pohnpei State**



**Yap State**

# Priority Sectors

- **Agriculture**  
(agro-processing, adds value to products)
- **Fisheries (canneries & aquaculture)**



# Priority Sectors (continued)

- **Services - (tourism, telecoms, transport, fin, energy, distribution)**
- **Manufacturing - (apparel, beer, agro-process, coconut, pepper)**





# Import Taxes

<u>Products</u>	<u>% of Total Imports</u>	<u>Import Duty</u>
<b>Tobacco</b>	<b>0.1</b>	<b>50%</b>
<b>Cigarettes with tobacco</b>	<b>1.5</b>	<b>\$25/THS</b>
<b>Wines and other beverages</b>	<b>0.2</b>	<b>30%</b>
<b>Alcohol and wines</b>	<b>0.24</b>	<b>\$12 per Gal</b>
<b>Beer made from malt</b>	<b>2.4</b>	<b>\$0.7045 per L</b>
<b>Fish &amp; luxury products</b>	<b>4.1</b>	<b>25%</b>
<b>Industrial products &amp; electr.</b>	<b>50.6</b>	<b>4%</b>
<b>Food products</b>	<b>27.2</b>	<b>3%</b>
<b>Fuel</b>	<b>13.6</b>	<b>\$0.05 per Gal</b>

# The FSM Tax Regimes

- Import Tax**
  - 3% to 50% on CIS
  - Avg Customs duty 7%
- GRT (Gross Rev)**
  - \$80 on 1<sup>st</sup> \$10,000, 3% on excess
  - Co's with <\$2,000 rev, get refund
- Wages & Salaries**
  - 6% on 1<sup>st</sup> \$11,000, 10% thereafter
  - Rebate of \$1000, if income <\$5k
- Social Security**
  - Employer & Employee pay 6% ea
  - Maximum tax \$5,000 per quarter
- Tax Reform**
  - Introduce VAT & Excise tax
  - Eliminate Import, GRT, Sales tax



# Trade Incentives

- **Signatory to PICTA: 7 million people.**
- **Duty free access in:**

**Australia and New Zealand (SPARTECA/PACER)  
European Union (Cotonou) + EPA**

**FSM tuna has 20.5% or 24% mkt adv over Asia**

**Labour costs are 6-8% of cost of a case of Tuna**

**FSM 10-20% cheaper, as it costs about \$100- 120 a ton to deliver the Tuna to distant plants**

**FSM has Tuna which is 60% cost of a case**

**EC offered duty free, quota free & agreed to improve rules of origin for Tuna under EPA**

**U.S. (Compact)**

**FSM tuna has 12% market adv over Asia**



# Other Incentives

- **Red tape reduced**
- **Land lease up to 99 years**
- **Lodge applications with National/State govt**
- **No application fee at national govt**
- **Processing takes only 5-45 days**
- **Subsidized utilities (water & electricity)**
- **Financial instruments:**

**US Compact grants**

**European Union: - Centre for Development of Enterprises, the European Investment Bank, Pro-invest, trade.com facility, EU/ACP Microfinance Framework**

**Japan: the Okinawa Partnership funding**

**China: Exim bank**

**FSM: 2 commercial banks which are FDIC insured and FSMDB which offers concessional loans**



# Investment Opportunities

- **Infrastructure services**
- **Agriculture**
- **Fisheries**
- **Light manufacturing**
- **Tourism**



# **FSM: the Delaware of the Pacific**

**FSM is following the good examples set by:**

- **Marshall Islands: which has become one of the top ship registries in the world.**
- **Delaware: which has become the most business friendly corporate registry for US companies.**
- **Bermuda: which has become the #1 captive insurance regime in the world (pop 60k).**

**The FSM intends to become the most cost effective and Japanese friendly “corporate registry”, serving overseas investors & captive insurers.**

# **Advantages for Japanese Investors**

- 1. Favorable (25.5%) Income Tax regime**
- 2. Free corporate formations and no annual fees**
- 3. No Director is required to reside in FSM**
- 4. Board meetings are allowed by phone**
- 5. No Capital would flow thru a bank in FSM**
- 6. Income tax forms follow Japanese Int'l GAAP**
- 7. Full credits are granted for foreign taxes paid**
- 8. FSM has no withholding taxes of any type**
- 9. FSM has no capital duty or stamp duty**
- 10. Unlike S'pore, FSM will keep Japanese co's**

**Thank you**

**Kamagar**

**Kinisou**

**Kalangan**

**Kulo**

