

The need for tax reform has been recognized by the leadership of Palau and various efforts had been undertaken over the years, beginning in 1991 with a study performed by the Office of Tax Administration Advisory Services of the U.S. Internal Revenue Service, followed by the 1992 Audit Report of Billings and Collections of the Republic of Palau's Gross Revenue Tax and most recently, the 1998 comprehensive Report of the Tax Review Advisory Committee (TRAC) established through Executive Order No. 159.

Early this year (2007), the Task Force was established pursuant to a House Joint Resolution to review and examine current tax bills and laws including proposed amendments to the Republic's tax structure; and to provide a report of its recommendations for amendments to the current tax laws to the leadership of the Palau Congress(OEK) within 90 days after its first meeting.

The Task Force comprised of ten (10) members, of which six (6) were appointed by the President of the Republic of Palau, two (2) members appointed by the President of the Senate, and the remaining two (2) members appointed by the Speaker of the House of Delegates, representing both private and public sector.

Based on consultations with various community groups, it became evident that the primary focus of the Task Force should be on additional revenue generation in the short term and tax reform over the long term. Utilizing the previous studies as references and guides to formulate its' report, the Task Force included the following concepts in its final report:

- 1) To provide a fair tax system to all residents;
- 2) To stimulate the development of new businesses, particularly local businesses;
- 3) To provide a clear, simple and transparent system to stimulate foreign investment in value added industries;
- 4) To make Palau more competitive in the international marketplace;
- 5) To stimulate development of current businesses;
- 6) To encourage the building of a normal marketplace in Palau;
- 7) To stimulate development of jobs for Palauans;
- 8) To assist with the development of a modern, effective revenue and customs office, with an emphasis on taxpayer needs; and
- 9) To counter tax evasion, which is currently stifling development in Palau.

The recommendations of the Task Force should be considered in the context of an interim system for the development of a new Tax System through a two-stage tax reform process.

### TAX AND REVENUE MEASURES:

- The Task Force reviewed and provided recommendations on the following current taxes and fees presently in effect in the Republic:
  1. Business Gross Revenue Tax

---

<sup>1</sup> The views expressed in this paper are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank (ADB) or its Board of Directors or the governments they represent. ADB makes no representation concerning and does not guarantee the source originality, accuracy, completeness, or reliability of any statement, information, data, finding, advice, opinion, or views presented.

2. General Import Tax
3. Hotel Occupancy Tax
4. Departure Tax
5. Foreign Labor Fees
6. Water and Sewer Charges
7. Road Use Tax
8. Fish Export Tax
9. Fuel Excise Tax
10. Business License
11. Foreign Water Vessel Tax

- The Task Force also considered and provided recommendations on the following new taxes and fees for enactment in the Republic:

1. Vehicle Rental Tax
2. National Government Lottery
3. Excise Tax on Plastic Bags and ‘Bulky’ Waste
4. Impact Fees
5. Entry Fee
6. Remittance Tax
7. Bar Tax
8. Real Estate Sales and Lease Tax

- ADMINISTRATIVE AUTHORITY AND ENFORCEMENT

The revisions to the administration of the tax system are intricately tied to revisions in the Republic’s tax policies and it was evident that tax collection policies were vague and inadequate and that in order for the Republic to efficiently collect taxes, changes to tax policies and procedures need to be made.

The Task Force joined other previous reports in recommending to the combined leadership the enactment of the complete set of laws as proposed relating to administration of taxes to provide adequate collection powers, administration flexibility and protection of taxpayers. The provisions proposed include a range of suitable offense provisions with sanctions and administrative penalties to deter non-compliance.

Current Status on the proposed tax reforms:

1. None has been implemented, with the exception of one (1) newly enacted law known as “Cash Register Act”, which was part of the recommendation to enhance the enforcement and administrative section of the tax system.
2. All had been introduced in both houses, and still await enactment from both houses and President’s approval and signature, before implementation.