

AN ACT

To further amend title 54 of the Code of the Federated States of Micronesia, as amended, by further amending section 805, as amended by Public Laws Nos. 7-41 and 9-139, to provide that the States shall receive seventy percent of certain taxes collected and to modify the definition of net taxes, and for other purposes.

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

Section 1. Section 805 of title 54 of the Code of the Federated States of Micronesia, as amended by Public Laws Nos. 7-41 and 9-139, is hereby further amended to read as follows:

"Section 805. Distribution of revenues.

(1) The treasurer of the Federated States of Micronesia shall pay eighty percent of the net taxes collected pursuant to section 221(9) of this title and the following shares of all other net taxes collected pursuant to sections 121, 141, and 221 of this title into the treasury of the State government to which the taxes are attributable for appropriation by the State legislature:

(a) fifty percent without restriction;

and

(b) twenty percent, which shall be dedicated by the recipient State to capital account uses related to education and health, including sanitation.

(2) 'Net taxes' as used in subsection (1) of this section means gross collections of taxes, penalties, interest, or other related charges less refunds.

(3) 'Capital account use' shall be as defined in article II, section 3(f) of the Fiscal Procedures Agreement, referred to in section 339 of title 55.

(4) Prior to payment of any funds to a State pursuant to paragraph (b) of subsection (1) of this section, the State and the Secretary of Finance shall have entered into a memorandum of understanding (MOU) that provides that the State shall account for the funds separately and according to generally accepted accounting principles and that the State shall periodically report on the use of the funds to the Secretary of Finance and to the Congress of the Federated States of Micronesia.

(5) Periodically, or at the request of the Secretary of Finance, the Public Auditor shall inspect and audit transactions, accounts, books, and other financial records relating to the use of funds paid to a State pursuant to paragraph (b) of subsection (1) of this section for compliance with the restrictions contained therein. In the event that an audit discloses a violation of a restriction or the MOU, the Secretary may direct withholding from future payments to the State the amount for which the State was found in violation of a restriction, or that amount which is not verifiable because of noncompliance with the MOU.

(6) The revenue office in each State may administer the taxes of the State in which it is located, but those duties shall not interfere with the administration of taxes imposed by the laws of

the Federated States of Micronesia. All costs in excess of those funded by appropriations of the Congress of the Federated States of Micronesia required for the administration of State taxes shall be borne entirely by the State."

Section 2. This act shall take effect on the first day of the fiscal year following its becoming law.

Section 3. This act shall become law upon approval by the President of the Federated States of Micronesia or upon its becoming law without such approval.

December 24, 1997

/s/ Jacob Nena
Jacob Nena
President
Federated States of Micronesia