



# I Mina'trentai Unu Na Liheslaturan Guåhan

Senator Vicente (ben) Cabrera Pangelinan (D)

February 22, 2011

Robert O. Work  
*Under Secretary of the Navy*  
U.S. Department of the Navy  
2000 Navy Pentagon  
Washington, D.C. 20350-2000

Dear Secretary Work,

In our meeting at the Guam Legislature on January 20, 2011, it is very clear that you are eager to find ways to make the military buildup acceptable to the people of Guam.

Of great concern to me is the ability to collect taxes due on military projects awarded to multi-national corporations and smaller business not located in Guam. Prime contractors are required by law to remit four percent (4%) Gross Receipts Tax for all construction activity performed on the island. The magnitude of buildup related business activity on Guam exceeds our capacity to manage tax collections and enforcement of that activity. Much like the need to upgrade utilities for the buildup, our government service agencies are being forced to grow, more specifically, the Guam Department of Revenue and Taxation (DRT) needs qualified personnel to monitor the increased Military Construction (MILCON) activity. The people of Guam should not have pay for these additional services resulting from the buildup.

Last October during a visit to the Hill, I met with Senator Daniel Inouye, Congresswoman Madeleine Bordallo, and representatives of Senator Daniel Akaka to discuss the inclusion of an amendment to the FY 2012 National Defense Authorization Act to allow Guam to utilize the Federal Payment Levy Program in order to increase compliance of payment of local taxes related to military construction. I would like to request that the Department of Defense also advocate for Guam's inclusion in this program to assist in closing leakage from mainland corporations who either willfully or mistakenly do not pay taxes. For your convenience I have included an issue brief on the matter.

Should Congress not include the amendments in the issue brief, I am requesting that you instruct Naval Facilities Engineering Command (NAVFAC) to require four percent (4%) of all MILCON Contracts awarded in support of military activity on Guam to be escrowed and drawn down by DRT based on progress payments made to awardees. This process will assist the DRT in capturing necessary tax revenues to support and minimize the host community burden of this huge military expansion on Guam.

Chairman  
Committee on Appropriations,  
Taxation, Public Debt, Banking,  
Insurance, Retirement, and  
Land

Vice Chairman  
Committee on Education

Member  
Committee on Rules,  
Federal, Foreign &  
Micronesian Affairs and  
Human & Natural  
Resources

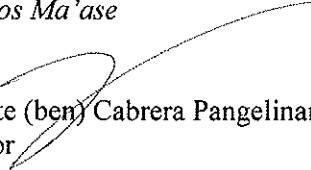
Member  
Committee on  
Municipal Affairs,  
Tourism, Housing, and  
Recreation

Member  
Committee on the Guam  
Military Buildup and  
Homeland Security

Member  
Committee on Health and  
Human Services, Senior  
Citizens, Economic  
Development, and Election  
Reform

Thank you for your continued support and efforts to ensure that Guam is availed of the tools and resources necessary to make the military expansion mutually beneficial.

*Si Yu'os Ma'ase*

  
Vicente (ben) Cabrera Pangelinan  
Senator

cc: Senator Daniel Inouye  
Senator Daniel Akaka  
Congresswoman Madeleine Z. Bordallo  
Congressman Gregorio Kilili Camacho Sablan  
Anthony Babauta, Assistant Secretary of the Interior for Insular Areas  
Dee Robinson, Internal Revenue Service Program Manager, U.S. Territories  
Governor of Guam  
All Senators  
Director, Guam Department of Revenue and Taxation

OFFICE OF FINANCE AND BUDGET  
31<sup>ST</sup> GUAM LEGISLATURE  
324 WEST SOLEDAD AVENUE  
HAGÁTÑA GU 96910  
(671) 473-4236/7 (OFFICE)  
(671) 473-4238 (FAX)  
<http://senbenp.com/ofb.html>

**“Issue Brief: Tax Collection  
Compliance Challenges and the  
Guam Military Realignment of  
Marines from Okinawa”**

---

Fiscal Year 2011

2/21/2011

**Issue Brief: Tax Collection Compliance Challenges and the Guam Military  
Realignment of Marines from Okinawa  
Guam  
September 2010**

**Executive Summary**

The Guam Military Realignment of Marines from Okinawa presents many challenges to the Government of Guam because of the anticipated the construction boom and rapid population growth. Expected construction costs for facility and infrastructure development requirements relating to the realignment are approximately \$10.27 billion.<sup>1</sup> The success of the Realignment depends partly on strengthening Guam's ability to properly plan and fund activity that is paramount to her success as a host community for the Department of Defense's (DoD) strategic Asia-Pacific reorganization.

The anticipated unprecedented growth in Guam's economy between 2011 and 2016 presents the opportunity for Guam to significantly increase local tax collections provided existing barriers are removed that allow for high levels of tax leakage.

The Director of the Department of Revenue and Taxation concerns include<sup>2</sup>:

- 1) **Gross Receipts Tax collection from subcontractors is high risk for non-compliance.** A significant number of Federal contracts awarded on Guam are subcontracted. The local Gross Receipts Tax of 4% is levied on all construction activity except for receipts paid to subcontractors by a prime or another subcontractor. Tracking subcontractors who transact business solely on U.S. military installations is difficult especially if the companies are located in the United States or another country.
- 2) **Guam's manual processes, antiquated systems and inability to hire and retain qualified tax enforcement officers results in large annual losses of tax revenue.**<sup>3</sup> Manual collection monitoring systems, lack of criminal investigation personnel and lack of legal support undermines the effectiveness in generating viable cases for assignment of tax levies or prosecution by the Attorney General's office.

---

<sup>1</sup> Interagency Coordination Group of Inspector General For Guam Realignment Annual Report, February 1, 2010.

<sup>2</sup> [http://mvguam.com/index.php?option=com\\_content&view=article&id=10938%3Adrt-targeting-taxes-from-military-contracts&Itemid=61](http://mvguam.com/index.php?option=com_content&view=article&id=10938%3Adrt-targeting-taxes-from-military-contracts&Itemid=61), **DRT targeting taxes from military contracts**

<sup>3</sup> U.S. Department of Interior Office of the Inspector General, Tax Collection Activities-Government of Guam, Revitalized Tax Collection and Enforcement Effort Needed.

### **Policy Consideration**

The following language is presented for amendment consideration to the National Defense Authorization Act for Fiscal Year 2011 to assist Guam in order to increase tax collection compliance with minimal additional expenditures:

- (a) The Secretary of Defense shall maintain and update an Internet site accessible by the Guam Department of Revenue and Taxation that contains all contract payment information, to include contract number, amount of contract, amount of payment and date of payment, to military contractors for construction, service or supply contracts issued by or for the operations and support of defense and other federal installations and activities on Guam not less than 15 days after making any payment to the contractor.
  
- (b) The Federal Payment Levy Program shall extend to the payment of local taxes by military contractors and suppliers for construction, service or supply contracts issued by or for the operations and support of defense and other federal installations and activities on Guam.

Each provision suggested above directly addresses the two major barriers to collecting Gross Receipts Taxes on military construction, service or supply contracts. Provision (a) provides timely payment information made to military contractors doing business on Guam related projects which can then be used to determine subcontractor liability. Provision (b) provides a vehicle to the Government of Guam to collect overdue local taxes without having to re-create the Levy process or go through extensive administrative measures to capture over due tax liability.