



Territory of Guam
Territorio de Guam

OFFICE OF THE GOVERNOR
UPISINAN I MAGA LAHI
AGANA, GUAM 96910 U.S.A.

June 6, 1989

Ready Set

The Honorable Joe T. San Agustin
Speaker, Twentieth Guam Legislature
Post Office Box CB-1
Agana, Guam 96910

J

Dear Mr. Speaker:

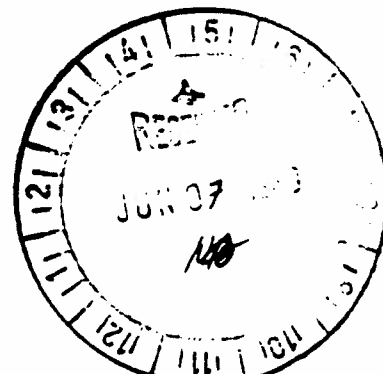
Transmitted herewith is Bill No. 658, which I have signed into law this date as Public Law 20-12.

Sincerely yours.

Joseph F. Ada
JOSEPH F. ADA
Governor

200283

Enclosure



Library

TWENTIETH GUAM LEGISLATURE
1989 (FIRST) Regular Session

CERTIFICATION OF PASSAGE OF AN ACT TO THE GOVERNOR

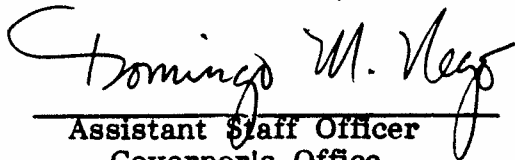
This is to certify that Bill No. 658 (COR), "AN ACT TO AMEND SUBPARAGRAPH (f) OF §28102 OF TITLE 11, GUAM CODE ANNOTATED, TO EXTEND THE SPARE PARTS FOR VESSELS EXEMPTION UNDER THE USE TAX TO AIRPLANE SPARE PARTS," was on the 24th day of May, 1989, duly and regularly passed.


JOE T. SAN AGUSTIN
Speaker

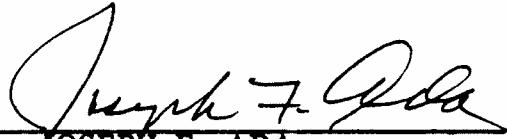
Attested:


PILAR C. LUJAN
Senator and Legislative Secretary

This Act was received by the Governor this 25th day of May, 1989,
at 4:15 o'clock p.m.


Assistant Staff Officer
Governor's Office

APPROVED:


JOSEPH F. ADA
Governor of Guam

Date: June 6, 1989

Public Law No. 20-12

TWENTIETH GUAM LEGISLATURE
1989 (FIRST) Regular Session

Bill No. 658 (COR)

Introduced by:

J. G. Bamba
T. S. Nelson
F. J. A. Quitugua

AN ACT TO AMEND SUBPARAGRAPH (f) OF
§28102 OF TITLE 11, GUAM CODE
ANNOTATED, TO EXTEND THE SPARE
PARTS FOR VESSELS EXEMPTION UNDER
THE USE TAX TO AIRPLANE SPARE PARTS.

1 BE IT ENACTED BY THE PEOPLE OF THE TERRITORY OF GUAM:
2 Section 1. Subparagraph (f) of §28102 of Title 11, Guam Code
3 Annotated, is hereby amended to read:
4 "(f) use of goods imported into Guam by the owner of a vessel or
5 vessels or of an aircraft or aircrafts engaged in interstate or foreign
6 commerce and held for and used only for repair or replacement of said
7 vessels or aircrafts or as ship or aircraft stores for such vessels or
8 aircraft."

Twentieth Guam Legislature

163 Chalan Santo Papa St.
Agana, Guam U.S.A. 96910
(671) 472-3407/8/9/10



Chairman, Committee
on Ways & Means
Vice-Chairman, Committee
on Tourism & Transportation

CARL T. C. GUTIERREZ
Senator

May 23, 1989

Honorable Joe T. San Agustin
Speaker, Twentieth Guam Legislature
163 Chalan Santo Papa
Agana, Guam 96910

Dear Mr. Speaker:


The Committee on Ways & Means to which Bill No. 658 was referred, wishes to report back to the full Legislature with the recommendation to do Pass.

The Committee Voting record is as follows:

TO DO PASS	<u>11</u>
NOT TO PASS	<u>0</u>
TO REPORT OUT ONLY	<u>0</u>

Copies of the Committee Report and other pertinent information are attached for your information.

Sincerely,


CARL T.C. GUTIERREZ

Attachments

Twentieth Guam Legislature
Committee on Ways & Means
Voting Sheet

BILL NO: 658

BILL 658: AN ACT TO AMEND SUBPARAGRAPH (1)
OF SECTION 28102 OF TITLE 11, GUAM CODE
ANNOTATED, TO EXTEND THE SPARE PARTS FOR
VESSELS EXEMPTION UNDER THE USE TAX TO
AIRPLANE SPARE PARTS.

	TO PASS	NOT TO PASS	TO REPORT OUT ONLY	TO PLACE IN INACTIVE FILE
<i>Carl T. C. Gutierrez</i> Senator Carl T. C. GUTIERREZ Chairman	✓			
<i>Hermينيا D. Dierking</i> Senator Herminia D. DIERKING Vice-Chairman	✓			
<i>John P. Aguon</i> Senator John P. AGUON Member	✓			
<i>George Bamba</i> Senator George BAMBA Member	—			
<i>Doris Brooks</i> Senator Doris BROOKS Member	✓			
<i>Ernesto Espaldon</i> Senator Ernesto ESPALDON Member	✓			
<i>Marilyn Manibusan</i> Senator Marilyn MANIBUSAN Member	/			
<i>Ted S. Nelson</i> Senator Ted S. NELSON Member	✓			
<i>Don Parkinson</i> Senator Don PARKINSON Member	✓			
<i>Franklin J. A. Quitugua</i> Senator Franklin J. A. QUITUGUA Member	✓			
<i>Martha C. Ruth</i> Senator Martha C. RUTH	✓ 5/23/04			

30
6
5/24/89

TWENTIETH GUAM LEGISLATURE
1989 (FIRST) Regular Session

Bill No. 658

Introduced by:

J. G. Bamba *JGB*
T. S. Nelson *TSN*
F. J.A. Quitugua *FJA*

AN ACT TO AMEND SUBPARAGRAPH (f) OF
§28102 OF TITLE 11, GUAM CODE
ANNOTATED, TO EXTEND THE SPARE
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6 commerce and held for and used only for repair or replacement of said
7 vessels or aircrafts or as ship or aircraft stores for such vessels or
8 aircraft."

COMMITTEE ON WAYS & MEANS
COMMITTEE REPORT
BILL 658

**BILL 658: AN ACT TO AMEND SUBPARAGRAPH (f)
OF SECTION 28102 OF TITLE 11, GUAM CODE
ANNOTATED, TO EXTEND THE SPARE PARTS FOR
VESSELS EXEMPTION UNDER THE USE TAX TO
AIRPLANE SPARE PARTS.**

The Committee on Ways & Means held a public hearing in the Legislative Session Hall on Thursday, May 18, 1989, to receive testimony on Bill 658. The hearing was conducted by Committee Vice-Chair, Senator Herminia D. Dierking and attended by Senators T.S. Nelson, J.G. Bamba, and M.C. Ruth.

BACKGROUND

Recently, the Department of Revenue and Taxation has informed the airlines on Guam that it will begin assessing the Guam Use Tax on all spare parts, engines, and so forth brought in by the airlines for the repair of their own planes. Prior to this notice, airlines have not been taxed on spare parts stored on Guam for airplane maintenance, just as the law specifically excludes the application of this tax on stores and parts for shipping vessels engaged in interstate or foreign commerce.

TESTIMONY

Mr. Daniel H. Purse, Vice President and General Manager of Continental/Air Micronesia, presented oral and written testimony to the Committee (see Attachment A). He noted the economic benefits to the community from the operation of a hub of Continental/Air Micronesia on Guam. The airline presently employes over 800 persons here with an annual payroll in excess of \$15 million. For 21 years they have been able to bring in aircraft parts without being taxed. They are in the process of expanding their maintenance capabilities for their fleet of 11 planes by having available locally all the needed parts to support the planes based on Guam. Availability of these parts will minimize flight delays and/or cancellations due to repair and maintenance of aircraft. He based his support on five basic ideas: (1) past history of non-taxation on these parts; (2) the same exemption is specified by law for shipping vessels; (3) the aircraft are also involved in interstate commerce similar to shipping companies; (4) maintaining an inventory of parts means keeping parts up-to-date and many

of the parts they use have a set shelf-life meaning they could be brought to Guam and never be used or be returned; and (5) the extra maintenance and supply capabilities would be an economic enhancement for the community.

Mr. Joe Bamba was present to give oral testimony on behalf of the Department of Revenue and Taxation. The Department is opposed to the Bill, estimating that they would have collected \$9,000 in Use Tax on these items so far this year had it been assessed, which he characterized as a 'loss'. The Use Tax revenues to the Government of Guam varies by month from \$37,000 to \$90,000, on reported amounts, according to Mr. Bamba.

Senator Nelson asked for a clarifying statement that the Use Tax in general is not often enforced. Mr. Bamba admitted that to be true. However, he went on to indicate that the Department is now entering the automation phase and will be better able to enforce the Use Tax provisions. In the past, some forms have not been complete, making it difficult to sent notices. Senator Nelson stressed that he did not consider the non-assessment of the tax as a 'loss' but as 'not gaining' since the tax has not been imposed in the past. It is not a true loss and it is offset by the economic benefit to the community of having smooth service. He asked Mr. Bamba if payment of Use Tax would be an offset as a business deduction on income tax and tried to get agreement on the wisdom of the bill. Mr. Bamba simply stated that as a tax man, he was opposed to any tax exemption.

Senator Bamba said he has requested reports and noted that each year the Department of Revenue and Taxation estimated that they lost \$1 million in non-enforcement of the Use Tax. The amount involved in granting the airlines this exemption is negligible. He expressed support for the measure, saying that the same rule should apply to airlines as to shippers and that the territory's tax policy should be used to stimulate economic growth.

Senator Ruth asked Mr. Purse about the arrival of parts. He informed her that they come in by sea and by air, that Continental/Air Micronesia is getting additional warehouse space which will make them more responsive to repair demands and will create more jobs. He also noted that it is difficult to assess the value of used, reconditioned parts which will be included in the inventory. When she questioned Mr. Bamba about the similarity of the case of the shipping vessels, he recommended that the Legislature consider the repeal of the exemption for the shippers, instead of including the airlines in the exemption.

With no further testimony or questions, Senator Dierking thanked both men and the Senators present from participating and concluded the hearing.

ANALYSIS

Parts brought to the island by shippers, both sea and air, which are intended for the maintenance and repair of their own vessels should be

treated the same in regards to assessment of the Use Tax. The revenue to be gained by imposition of the tax would be offset by other tax deductions and would be a disincentive for expansion of maintenance capabilities on the island.

RECOMMENDATION

The Committee on Ways & Means recommends that the Twentieth Guam Legislature pass Bill 658.

The logo for Continental Air Micronesia features a stylized globe icon to the left of the text. The text is arranged in two lines: "CONTINENTAL" on the top line and "AIR MICRONESIA" on the bottom line. The globe icon consists of a circle with horizontal lines, and the text is in a bold, sans-serif font.

CONTINENTAL AIR MICRONESIA

VICE-PRESIDENT DANIEL H. PURSE
GENERAL MANAGER- MICRONESIA

P.O. BOX 8778-G
TAMUNING, GUAM 96911
TELEPHONE: 646-0215
FACSIMILE: (671) 646-6821

May 16, 1989

Senator Carl T.C. Gutierrez
Twentieth Guam Legislature
163 Chalan Santo Papa Street
Agana, Guam 96910

Dear Mr. Chairman:

On behalf of Continental/Air Micronesia, I want to express our appreciation for being allowed the opportunity to appear before the committee on Ways and Means regarding Bill No. 658. As I am sure you realize this is a very important issue not only to Continental/Air Micronesia but also any carrier which might be considering expansion in Guam.

The record is clear as to our intentions and past actions of developing Guam as a major hub in the Western Pacific. We now have over 800 employees in our operation and have a payroll of over 15.0 million per year. In addition, in calendar year 1989, we will be directly responsible for transporting 340,000 tourists to our island which brings me to why we are supporting this Bill and why I am here with you today.

As many of you know, Continental/Air Micronesia has been a partner in the economic growth of both Guam and Micronesia for the past 21 years. We have long articulated our desire to develop a major hub in Guam allowing Guam residents the advantage of direct air links to all major destination which surround our area of the Pacific.

In order for us to do this, it is imperative that with the flight increases we also build a major maintenance operation at the Guam International Airport. This build up will naturally result in increased employment for our local citizens and a larger source of revenue for the local economy.

For the past 21 years, we have brought in from the mainland all the needed aircraft parts required to support the fleet of equipment based in Guam. These items run the full gambit from spare aircraft engines to small items such as nuts and bolts. For the past 21 years, we have not been taxed on these items. Now, as we put in place the largest expansion undertaken to date, we have been told that we must pay taxes on these items.

Many years ago, prior to the development of airline service to our island, the Legislature realized that because of the necessity for shipping companies to call at the Port of Guam, an exemption was written into law to allow for an exemption from taxation on the parts required to support the shipping industry. We are asking for this same exemption.

Senator Carl T.C. Gutierrez
May 16, 1989
Page Two

In connection with our desire to establish Guam as a hub, we have substantially increased the number of aircraft operating out of the Territory from seven (7) to eleven (11). In this connection, we would like to also maintain a maintenance hub within the Territory of Guam. This would mean we would have to inventory a large number of spare parts here on the island which would be utilized on aircraft operating out of here. These parts are used on aircraft involved in interstate commerce similar to the shipping companies.

At the current time, the laws are disincentive for us to maintain a large inventory of parts within the Territory. Our inability to maintain parts here would adversely affect our ability to efficiently respond to maintenance needs since parts would be maintained in Honolulu and we would have to fly them out here when we needed them. This could result in substantial delays which affect our ability to adequately serve both the local and tourist market. Furthermore, we are in a unique position of having to maintain levels of spare parts that may or may not even be used here. It is possible for us to bring a part onto the island today and six (6) months from now return it to Los Angeles because the shelf life on that item expired or a check is required after so many months of shelf life. We do not feel that we should be penalized because we must maintain spare equipment which realistically provide the consumer with a quicker response time when mechanical interruptions develop.

Also, by maintaining an inventory of spare parts, we would be in addition contributing to the community by having extra maintenance and supply capabilities here rather than in Hawaii.

In summary, we totally support the Legislature's efforts to correct this deficiency in the law. We feel this Amendment will in the long term provide more jobs and the local island residents a more efficient air carrier.

Sincerely,



DANIEL H. PURSE
V.P. & General Manager

/tab

Bill No. 658 Date Received 5-9-89
Mandatory Bill Yes No Date Reviewed 5-17-89

Department/Agency Affected: Revenue and Taxation

Department/Agency Head: Joaquin Blaz

Total Fiscal Year Appropriation: \$6,300,713

Bill Title (concise): AN ACT TO AMEND SUBPARAGRAPH (E) OF §280102 OF TITLE 11, GUAM CODE ANNOTATED, TO EXTEND THE SPARE PARTS FOR VESSELS EXEMPTION UNDER THE USE TAX TO AIRPLANE SPARE PARTS.

Change in Law: _____

Bill Attempts to: Increase Program Funding
 Decrease Program Funding
 Reallocate Present Program Funding

Bill is for: Operations
 Capital Improvement
 Other

FINANCIAL/PROGRAM IMPACT

PROGRAM CATEGORIES	Minimum Estimated Required Funds (For Five Years)		
	GENERAL FUND	FEDERAL	OTHER
Gov't Wide Support	See Comments		
GRAND TOTAL			

ESTIMATED MULTI-YEAR FUND REQUIREMENTS

SOURCES	1st	2nd	3rd	4th	5th
General Fund					
Federal Fund					
Other Fund					
GRAND TOTAL					

ESTIMATED MULTI-YEAR REALIZED REVENUES

SOURCES	1st	2nd	3rd	4th	5th
General Fund					
Federal Fund					
Other Fund					
GRAND TOTAL					

Paul D. Leon Guerrero
Paul D. Leon Guerrero
PROGRAM ANALYST

Date Review Terminated: 5/17/89

Michael J. Reidy
MICHAEL J. REIDY
DIRECTOR

COMMENTS ON BILL NO. 658

Bill No. 658 would extend use tax exemption for spare parts brought on island to include aircraft. Data received from Revenue and Taxation indicate, up to the month of April, a total of \$9,000 have been collected in used tax that the bill would exempt.


MICHAEL J. REIDY

Introduced

MAY 23 '89

TWENTIETH GUAM LEGISLATURE
1989 (FIRST) Regular Session

Bill No. 658(cor)

Introduced by:

J. G. Bamba *JB*
T. S. Nelson *TN*
F. J.A. Quitugua *FJA*

AN ACT TO AMEND SUBPARAGRAPH (f) OF
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