



OFFICE OF THE FSM NATIONAL PUBLIC AUDITOR

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Audit on Division of Customs & Tax Administration - - Improvement is Needed in Assessing and Collecting the Taxes Due From Some Independent Contractors

The Office of the National Public Auditor (ONPA) announces the release of Audit Report No. 2017-01, *Division of Customs & Tax Administration: "Improvement is Needed in Assessing and Collecting the Taxes Due From Some Independent Contractors"*. A digital copy of the audit is available for public review online at www.fsmopa.fm and printed copies are available at the ONPA office in Palikir, Pohnpei.

We conducted the audit on Independent Contracts due to concerns we received that some independent contractors from the National Government were not paying their taxes on their earnings as required by law. Therefore, the objective of the audit was to determine whether the Division of Customs and Tax Administration collected the taxes due from Independent Contractors in accordance with applicable tax laws and regulations.

Based on our audit, we concluded that the Division of Customs and Tax Administration did not collect taxes due from some independent contractors as required by law.

Our first finding was that not all the independent contractors paid the taxes due on their gross revenues. We tested 84 out of 104 independent contractors that existed in 2013, 2014 and 2015. We found that 70% of the independent contractors did not pay their taxes on their gross revenues. We also found that the Division of Customs and Tax Administration was not aware of the non-payments.

Our second finding was that payments to independent contractors with employee status were not subjected to salary withholding tax as required by law. For instance, we found at least 10 contractors who had an employer-employee relationship. These contractors should have been subjected to salaries withholding tax at 6% instead of the tax on revenue at 3%. We found that the Division of Customs & Tax Administration did not withhold income taxes for salaries and wages paid to employee/contractors who were using the independent contract agreement forms.

At least \$22,062 of uncollected taxes from independent contractors was not collected and hence a loss to the General Fund.

Various factors contributed to the failure to collect taxes from contractors' revenue are:

- Lack of internal policies and guidelines to manage independent contractors
- Majority of the independent contracts were not routed to Customs and Tax Administration for proper tax assessment
- Inconsistent use of contract forms

Click here [FSMOPA/AUDIT](#) to access the full report.

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