

AN ACT

To invest in a skilled Palauan citizen workforce by mandating the creation of a vocational certification program at the Palau Community College and creating a tax incentive for businesses to hire the said vocationally certified students, and for other related purposes.

THE PEOPLE OF PALAU REPRESENTED IN THE OLBIIIL ERA KELULAU DO ENACT AS FOLLOWS:

1 **Section 1. Short Title. This Act shall be known as and may be cited as, “The**
2 **Skilled Palauan Workforce Investment Act.”**

3 **Section 2. Presidential Statement of Introduction.**

4 **Pursuant to Article VIII, Section 12: “The President may introduce measures in the**
5 **Olbiil Era Kelulau.” Currently, foreign workers dominate certain sectors of the local**
6 **economy, mainly in the skilled labor industries. Palauan citizens continue to be an**
7 **underutilized resource within their own country. Certain policies must be pursued in order**
8 **to reverse that trend. This bill is designed to mandate the Palau Community College to**
9 **create a vocational certification program in which an emphasis is placed upon building**
10 **technical skills that will translate directly towards employment in the area trained. It is**
11 **the intent of this bill that the vocational certification program will develop Palauan citizens**
12 **for employment in the areas of the economy that demand technical skills.**

13 **It will be essential to this program that the Palau Community College work with the**
14 **business community to ensure that the certification is not just a piece of paper, but is**
15 **actually something of value that the business community can rely upon with a reasonable**
16 **degree of certainty that the individual in possession of the certificate actually possesses the**
17 **skills that are on the certificate.**

18 **In addition, the bill makes an amendment to the tax code so that businesses who**
19 **hire Palauan citizens with a vocational certificate may double the amount of salary claimed**
20 **to be deducted before the Gross Revenue Tax is applied to the business. As a result, if a**
21 **business were to employ a Palauan citizen at five thousand dollars per quarter**
22 **(\$5,000/quarter), then the business could claim ten thousand dollars per quarter**
23 **(\$10,000/quarter) to be deducted from the Gross Revenue to be taxed. This will provide**

1 an incentive for businesses to hire Palauan citizens and to hire Palauan citizens at higher
2 wages. The tax incentive is designed to sunset fifteen (15) years after it goes into effect in
3 order to evaluate its effectiveness and whether it continues to be necessary to promote the
4 hiring of Palauan citizens.

5 **Section 3. Legislative Findings.** The Olbiil Era Kelulau acknowledges that there
6 is a need to increase the number of citizens in skilled labor industries. The Olbiil Era
7 Kelulau also finds that because the Palau Community College (“PCC”) already has
8 vocational programs, and already has various certifications to meet the different student
9 needs, the pressing issue is the need to increase citizens’ interest in the skilled labor
10 industries. And the key to increase citizens’ interest in this field is to provide some
11 assurance that upon graduation or certification, attractive job opportunities and
12 employment will be available to them. The Olbiil Era Kelulau further finds that a tax
13 incentive would be the most appropriate mechanism to encourage employers in the skilled
14 labor industries to hire certified Palauan citizens; and in turn, more citizens will be
15 encouraged to enter this field of work. Therefore, it would be most appropriate to create
16 this tax incentive and mandate PCC to establish a certification program specific to the tax
17 break created by this Act. The Olbiil Era Kelulau also finds that since the Republic of
18 Palau is a member to the United Nations Convention on the Rights of Persons with
19 Disabilities; the tax incentives created by this Act shall be equally available for employers
20 that hire persons with disabilities.

21 **Section 4. Amendment.** Section 301 of Title 22 of the Palau National Code is hereby
22 amended to state as follows:

23 “§ 301. Established as a public corporation; purposes.

24 In accordance with any pertinent treaty, the College of Micronesia, its Executive
25 Director and Board of Regents, is hereby established and maintained as a public
26 corporation under the style of the College of Micronesia, comprised of the present Palau
27 Community College, formerly known as Micronesian Occupational College, and such
28 other schools as may be established by the Governing Board or as otherwise designated by
29 law.

1 Palau Community College:

2 (a) . . .

3 . . .

4 (h) shall develop a strong vocational skills program with a focus on developing
5 professional technical skills for automobile mechanics, boat mechanics, the construction
6 industry, and any other industry in which technical skills and expertise is essential to
7 success. In conjunction with the relevant private industries, the Palau Community College
8 shall develop a vocational skills certification program, through which a certificate is issued
9 to graduates of the program that can be reasonably relied upon by the private industry as
10 proof of a certain level of competence that the private industry can rely upon in hiring
11 Palau Community College vocation certified graduates. PCC shall undertake all
12 reasonable efforts to ensure that only qualified students who actually possess the relevant
13 technical skills are certified through the program.”

14 Section 5. Amendment. Title 40 of the Palau National Code is hereby amended as
15 follows:

16 “§ 1201. Imposition of tax on retail and wholesale businesses.

17 Except as otherwise provided by law, every person engaging in the retail or
18 wholesale business shall be assessed and levied and shall pay a tax of four percent (4%) of
19 the gross revenues of the business; provided that the entire amount paid in salaries to
20 citizens who are residents of the Republic shall be subtracted from the gross revenues
21 before assessing the tax under this section.

22 . . .

23 § 1204. Imposition of tax on other businesses.

24 Except as otherwise provided by law, every person engaging in any business, trade,
25 activity, or calling not specifically included in this chapter shall be assessed and
26 levied and shall pay a tax of four percent (4%) of the gross revenues of the business,
27 activity or calling; provided that the entire amount paid in salaries to citizen
28 employees who are residents of the Republic shall be subtracted from the gross
29 revenues before assessing the tax under this section.”

1 **Section 6. Skilled Labor Gross Revenue Tax Relief.** There is hereby established a
2 fifteen (15) year temporary gross revenue tax benefit to encourage Palau’s skilled labor
3 industries to employ more Palauan citizens as follows:

4 **(a) Amount of Tax Relief:**

5 (1) From January 1, 2015 until December 31, 2024, an employer may
6 subtract an amount that is double the salary of citizen employees of the employer
7 who possess vocational certificates from Palau Community College before assessing
8 the taxes levied under Sections 1201 and 1204 of Title 40 of the Palau National
9 Code.

10 (2) From January 1, 2025 to December 31, 2025, an employer may subtract
11 an amount that is 175% the salary of citizen employees of the employer who possess
12 vocational certificates from Palau Community College before assessing the taxes
13 levied under Sections 1201 and 1204 of Title 40 of the Palau National Code.

14 (3) From January 1, 2026 to December 31, 2026, an employer may subtract
15 an amount that is 150% the salary of citizen employees of the employer who possess
16 vocational certificates from Palau Community College before assessing the taxes
17 levied under Sections 1201 and 1204 of Title 40 of the Palau National Code.

18 (4) From January 1, 2027 to December 31, 2029, an employer may subtract
19 an amount that is 125% the salary of citizen employees of the employer who possess
20 vocational certificates from Palau Community College before assessing the taxes
21 levied under Sections 1201 and 1204 of Title 40 of the Palau National Code.

22 **(b) If an employer chooses to claim the Skilled Labor Gross Revenue Tax Relief**
23 **under this Act, then the subtraction of citizen employee salaries in Sections 1201 and 1204**
24 **of Title 40 of the Palau National Code shall not apply.**

25 **Section 7. Effective Date.**

26 **This Act shall take effect on upon its approval by the President of the Republic of**
27 **Palau, or upon its becoming law without such approval.**

PASSED: April 18, 2014

Approved this 24th day of April, 2014

/s/
Tommy E. Remengesau, Jr.
President of the Republic of Palau