EXECUTIVE SUMMARY
Department of Revenue and Taxation Gross Receipts Tax Exemptions
OPA Report No. 17-08, December 2017

The Government of Guam (GovGuam) has 46 different categories of allowable gross receipts tax (GRT) exemptions that reduce a taxpayer's GRT liability. For fiscal year (FY) 2014 through FY 2016, these allowable GRT exemptions totaled $5.3 billion (B) reducing GRT revenues by $210.7 million (M), or an average of $70.2M per year. See Table 1 below for details.

Table 1: Comparison With or Without GRT Exemptions

FISCAL YEAR	GROSS RECEIPTS [A]	EXEMPTIONS [B]	TAXABLE AMOUNT [C] = (A– B)	TAX DUE (W/ EXEMPTIONS) [D] = (C x 4%)	TAX DUE (W/OUT EXEMPTIONS) [E] = (A x 4%)	VARIANCE [F] =(D-E)
2014	$7,634,998,786	$1,849,693,616	$5,785,305,171	$231,412,106	$305,399,951	($73,987,845)
2015	7,283,499,071	1,677,942,606	5,605,556,756	224,222,170	291,339,963	(67,117,793)
2016	7,647,251,845	1,739,968,515	5,907,283,329	236,291,233	305,890,074	(69,598,841)
TOTAL	**$22,565,749,702**	**$5,267,604,737**	**$17,298,145,256**	**$691,925,509**	**$902,629,988**	**($210,704,479)**
AVERAGE	$7,521,916,567	$1,755,868,246	$5,766,048,419	$230,641,836	$300,876,663	($70,234,826)

We were unable to determine the effect on revenues for FY 2012 and FY 2013. Despite the impact on revenues, there is limited review or oversight of tax exemptions by the Department of Revenue and Taxation (DRT). There is also no official reporting of tax expenditures (such as tax exemptions, deductions, credits, or exclusions) to allow policymakers to ascertain the cost-benefit of such preferential tax provisions as called by best practices.

Unreliable FY 2012 and FY 2013 GRT and Exemptions Data
In OPA Report No. 13-01, we found that reliable GRT and exemptions information was unavailable because tax processing was backlogged for calendar years 2011 and 2012. Our scope for this audit was from October 1, 2011 to September 30, 2016 (FY 2012 to 2016). However, we found $158.2M in missing exemption details and duplicated GRT information for FY 2012. FY 2013 had $11.8M in missing exemption details. As a result, data for FY 2012 and 2013 is unreliable; therefore, we could not quantify GRT exemptions and determine its financial impact on GovGuam revenue.

GRT Exemptions Reduced Taxes Due by an Average of $70.2M per Year
From FY 2014 through 2016, allowable GRT exemptions reduced gross receipts by an average of $1.8B per year. As a result, the average taxable amount of gross receipts was $5.8B versus $7.5B. Given that the tax rate is 4 percent, GovGuam had foregone potential revenues of $210.7M from FY 2014 through 2016, or an average of $70.2M per year.

Based on our analysis of the FY 2014 through 2016 data, over 800 taxpayers claimed 25 GRT exemptions amounting to $5.3B. The following were the top three exemptions claimed: wholesale ($2.7B), off-island sales ($521.8M), and subcontractor receipts ($473.7M). The least three exemptions were Base Operation and Support Contractor ($597,145), Rental Income ($1.0M), and

Insurance Payouts ($2.4M). Given the impact of these exemptions, policymakers may want to measure achievement of social and economic goals and determine the effectiveness of such exemptions.

Exemptions Impact on Actual GRT Revenues Unknown

DRT maintains GRT filing information while the Department of Administration (DOA) maintains GRT payments. Due to the lack of reconciliation between DRT and DOA's systems, we could not ascertain the impact of exemptions on actual revenues as reported in the financial audits. DRT also cannot easily ascertain the amount of taxes owed per taxpayer.

Table 2: GRT Due Versus GRT Paid

FISCAL YEAR	DRT GRT DUE [A]	DOA GRT PAID [B]	VARIANCE [C] = (A– B)
2014	$231,412,106	$238,249,400	$(6,837,294)
2015	224,222,170	226,592,159	(2,369,989)
2016	236,291,233	238,304,786	(2,013,553)
TOTAL	**$691,925,509**	**$703,146,345**	**$(11,220,836)**

Limited Oversight and Monitoring

DRT conducted limited analysis or review of FY 2012 through 2016 GRT data. In addition to the exemption disparities in the FY 2012 and 2013 GRT data, we found missing exemption codes for $11.1M claimed GRT exemptions in FY 2014 through 2016 (amounting to $5.3M, $2.4M, and $3.7M, respectively).

Based on DRT's Power 7 system, we also found that the decline in gross receipts of $351.5M from $7.6B in FY 2014 to $7.3B in FY 2015 was inconsistent with the Gross Domestic Product estimated increases of $5.5B in CY 2014 to $5.7B in CY 2015 released by the Bureau of Economic Analysis.

Lack of Tax Expenditure Reporting in Accordance with Best Practices

According to DRT, there is no requirement to report GRT data to the Legislature. Based on best practices by the National Conference of State Legislatures, policymakers should review tax expenditure reports, which include exemptions, deductions, credits, exclusions, or other deviations from the normal tax structure in order to determine whether tax expenditures should be continued, modified, or eliminated.

Conclusion and Recommendation

From FY 2014 through 2016, GRT revenues (net of exemptions) made up an average of 33% of Guam's tax revenue, as such, there is a need for strong oversight and review over GRT, including exemptions. While accurate, informative and transparent tax expenditure reports is a critical first step to be implemented, data must be reviewed and evaluated to allow for better public policymaking. We recommend DRT management and BPT branch staff analyze GRT data and resolve system errors, regularly review GRT data and investigate any irregularities, and work with policymakers to carryout best practices of tax expenditure reviews, budgets and reports.

Doris Flores Brooks, CPA, CGFM
Public Auditor