

P-1st Reading
4/11/26 BIFM
RS

A BILL FOR AN ACT

To amend Chapter 12 of Title 40 of the Palau National Code to exempt long-term residential rental accommodations from the Palau Goods and Services Tax; and for other related purposes.

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

1 **Section 1. Legislative Findings.** The Olbiil Era Kelulau finds that housing is a basic
2 necessity essential to family stability, public health, social welfare, and workforce
3 participation, and is not a discretionary consumer good. The Palau Goods and Services Tax
4 (PGST) is a consumption-based tax intended primarily to apply to discretionary spending
5 and commercial transactions. The imposition of PGST on long-term residential rent directly
6 increases the cost of living and disproportionately burdens low and moderate-income
7 households, resulting in a regressive tax impact. Residential rental markets are generally
8 price inelastic, such that taxes imposed on rent are passed directly to tenants in the form of
9 higher housing cost.

10 Taxing long-term residential rent discourages investment in rental housing,
11 constrains housing supply, and places upward pressure on rents. Furthermore, the Olbiil Era
12 Kelulau finds that many jurisdictions with goods and services or value-added taxes exempt
13 long-term residential rental accommodation while continuing to tax short-term lodging and
14 tourism related accommodations.

15 The purpose of this Act is to clarify that long-term residential rental accommodation
16 is not a taxable supply under the Palau Goods and Services Tax, to reduce housing cost
17 pressures, and to promote economic stability and fairness while preserving PGST revenues
18 from commercial and tourism activities.

19 **Section 2. Amendment.** Section 1202 of Title 40 of the Palau National Code is
20 hereby amended as follows:

21 “...
22 (38) "residential rental accommodation" means the leasing, letting, or renting of a
23 building or structure for periods of at least thirty consecutive days as a dwelling unit for
24 long-term residential occupancy by an individual or household. For purposes of this

1 definition, "dwelling unit" includes houses, apartments, condominiums, and similar
2 residential premises. "Dwelling unit" does not include hotels, motels, guesthouses, boarding
3 houses, or other accommodations provided for commercial, transient, or tourism purposes.
4 Furthermore, a dwelling unit shall not be considered "residential rental accommodation" if
5 it is part of or adjoined to a hotel, motel, guesthouse, or similar commercial establishment
6 or if it is held out, marketed, or managed as part of such an establishment, regardless of the
7 length of the rental period. For the purpose of this exemption, a dwelling unit is considered
8 the tenant's ordinary place of residence only when it is used primarily for residential purposes
9 and is not held out by the landlord to the public primarily as visitor or transient
10 accommodation.

11 ~~(38)~~(39) "resident telecommunications supplier" means a supplier of
12 telecommunications services that is incorporated, formed, or organized in the Republic.

13 ~~(39)~~(40) "services" means anything that is not goods or money.

14 ~~(40)~~(41) "supplier," in relation to a supply, means the person or persons who made
15 the supply.

16 ~~(41)~~(42) "supply" means a supply of goods, a supply of services, or a supply of
17 imported services.

18 ~~(42)~~(43) "supply of goods" means a sale, exchange, or other transfer of the right to
19 dispose of goods as owner and includes an installment sale agreement.

20 ~~(43)~~(44) "supply of imported services" has the meaning in Section 1205.

21 ~~(44)~~(45) "supply of services" means anything provided to, or performed for, a person
22 that is not a supply of goods or money, including the provision of utilities and the
23 grant, assignment, or surrender of any right.

24 ~~(45)~~(46) "taxable import" means an import of goods, other than an exempt import.

25 ~~(46)~~(47) "taxable supply" means a supply of goods or services, other than an exempt
26 supply, made in the Republic by a person in the course or furtherance of a business conducted
27 by the person, and includes anything treated as a taxable supply for the purposes of this
28 chapter.

1 (47)(48) “telecommunications services” means the transmission, emission, or
2 reception of signals, writing, images, sounds, or information of any kind by wire,
3 radio, optical, cable, or other electromagnetic systems, and includes:

4 (A) the related transfer or assignment of the right to use capacity for
5 such transmission, emission, or reception; or

6 (B) the provision of access to global or local information networks but
7 does not include the supply of the underlying writing, images, sounds, or
8 information.

9 (48)(49) “zero-rated supply” means a supply specified in Section 1212.

10 ...”

11 **Section 3. Amendment.** Section 1211 of Title 40 of the Palau National Code is
12 amended as follows:

13 “§ 1213. Exempt supplies.

14 (a) The following ~~supply supplies~~, if not a zero-rated supply, ~~is an~~ are exempt ~~supply~~
15 supplies:

16 (1) a supply of financial services;

17 (2) a supply of residential rental accommodation as defined in § 1202.

18 (b) If a lease, license, or other arrangement is structured or characterized as a
19 residential rental accommodation primarily to avoid the Palau Goods and Services Tax but
20 in substance the arrangement provides short-term, commercial, or tourism-related
21 accommodation, or does not otherwise constitute the tenant's ordinary place of residence,
22 the Bureau of Revenue and Taxation shall treat the supply as a taxable supply subject to the
23 Palau Goods and Services Tax. In making this determination, the Bureau shall look to the
24 substance of the transaction over its form, and may consider factors including, but not limited
25 to, the manner in which the accommodation is marketed, the nature of the services provided
26 (such as daily cleaning service, concierge service, or food service), and whether the tenant's
27 use of the unit is as the tenant's principal or ordinary place of residence. Any determination
28 under this section must be consistent with applicable law and the Bureau of Revenue and

1 Taxation's published guidance. A determination under this subsection may be reviewed in
2 accordance with existing administrative appeal procedures."

3 **Section 4. Applicability to other taxes.** Nothing in this Act may be construed to
4 exempt a person engaged in the business of leasing or renting residential rental
5 accommodation from liability under the gross revenue tax provided for in 40 PNC § 1298 of
6 this title or from the business profits tax provided for in 40 PNC § 1421. Nothing in this Act
7 may be construed to impose, relieve, or otherwise affect any tax liability other than liability
8 arising under the Palau Goods and Services Tax provided for in Title 40, Chapter 12,
9 Subchapter II.

10 **Section 5. Effective date—applicability.**

11 (a) This Act shall take effect upon its approval by the President of the Republic of
12 Palau, or upon becoming law without such approval, except as otherwise provided by law.

13 (b) This Act applies to taxable periods beginning on or after the first of the month
14 following the effective date of this Act.

Date: 01 Apr 2012

Introduced by:

Senator Mark U. Rudimch

Senator Stevenson J. Kuartei

Senator Kerai Mariur

Senator Lentcer Basilius

Senator TJ Inurur Kemengesai

Senator Siegfried Bai Nakamura

Senator Brian Melairei