

Construction Services
New GRT rules
For
Principal Contractors
And
Sub-contractors

Public Law 30-230

(Effective March 1, 2011)

Introduction

Bill No. 491-30 (COR) seeks to change the administration and collection of the Business Privilege Tax (BPT) on prime and sub contractors in the construction industry. The following legislation does **NOT** represent any new tax on contractors. Rather, the following change seeks to streamline the reporting and collection of GRT from the construction industry.

Purpose

The following are the objectives of the change:

- Ease administration and enforcement of BPT by the Department of Revenue and Taxation (DRT) on contractors
- Minimize leakage on BPT revenues related to increased military construction to the Government of Guam
- Shift the payment of BPT from smaller contracting firms to larger contracting firms who have access to financial resources
- Foster and promote development of sub-contractors

Who is affected?

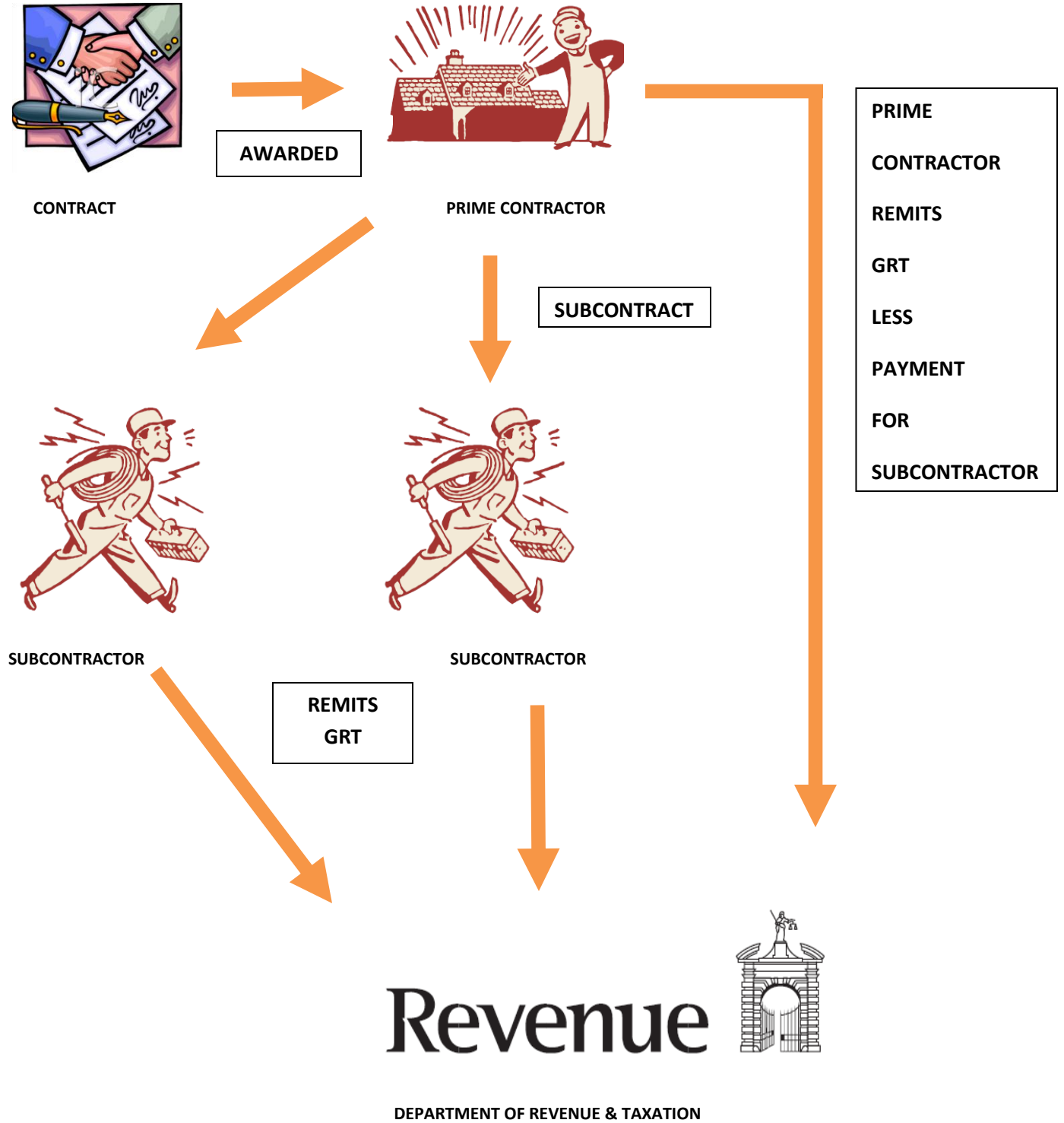
The following change affects all contractors as defined in 11GCA Ch. 26 § 26101 (b).

What is the change?

Statutorily, the change shifts the levy and payment of the Business Privilege Tax (BPT) from the sub-contractors to the prime contractor. Administratively, the change shifts the reporting of the exemption on Section B on line 9 & 10 in GRT 1 from the prime contractor to the sub-contractor.

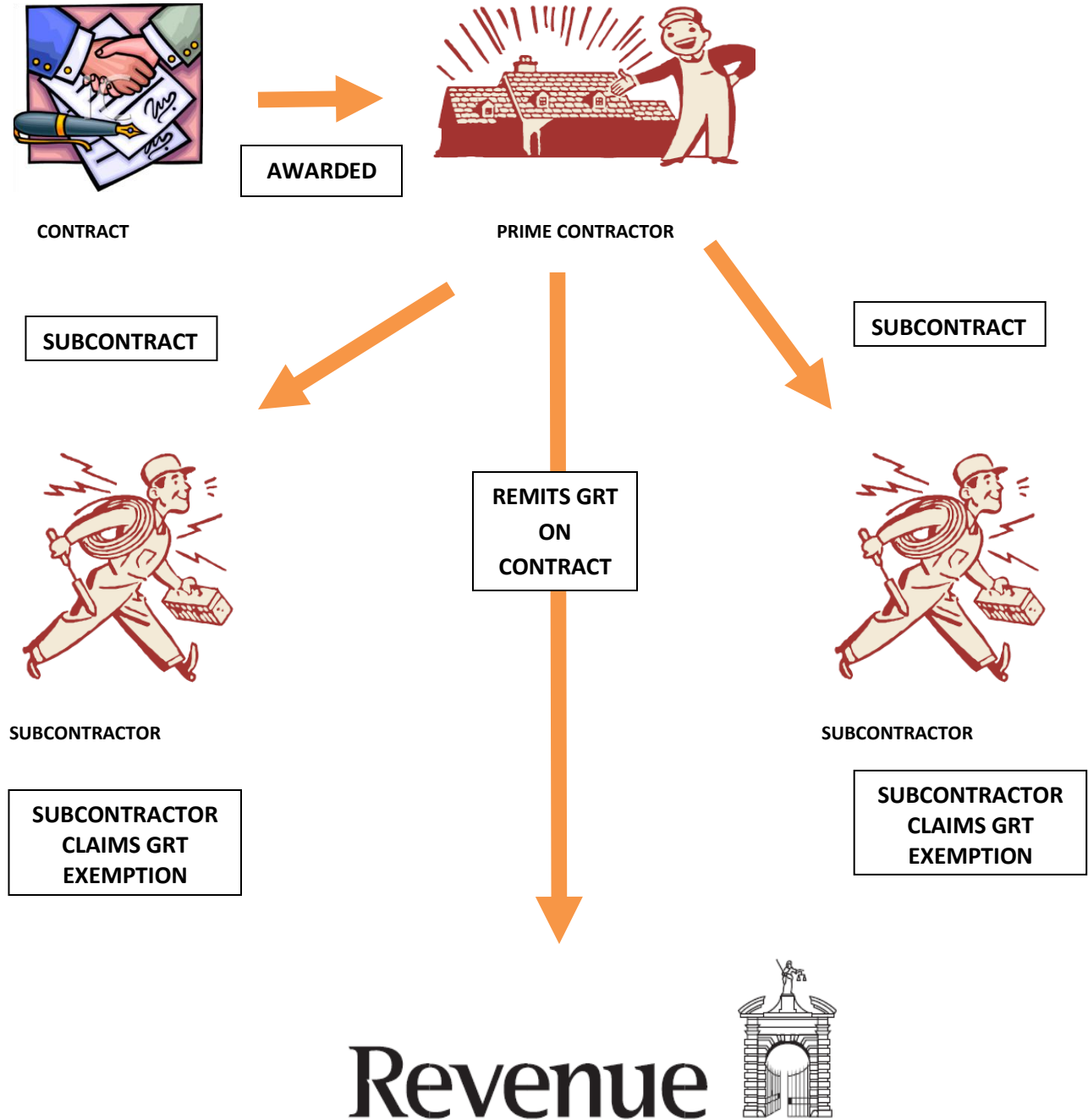
System before change

Exhibit #1



System after change

Exhibit #2



DEPARTMENT OF REVENUE & TAXATION

Illustrative Example-System Prior Change

Company A-Prime

Company A, the prime contractor, has just been awarded \$10,000,000 by NAVFAC for the construction of training facility for canines. The company reports on a cash basis. Based on the contract value, the Government of Guam is anticipated to collect \$400,000 of BPT on the contract.

For the current month, they have received payment of \$400,000 related to the initial ground work of the facility. Company A has no other source of income for the month. The following illustration demonstrates the reporting of the BPT for Company A.

Company A would record the full value of the payment received as taxable less amount to be remitted to the subcontractors. Based on the income received, Company A would remit BPT of \$14,000 as noted in Fig. 5.

Company A records full value of payment less amount due to subcontractor of \$350,000 on Form GRT-1. Exemption would be claimed on GRT-E.

BUSINESS ACTIVITY OR KIND OF TAX	(A) GROSS RECEIPT VALUE	(B) EXEMPTION OR DEDUCTION	(C) TAXABLE AMOUNT
PART 1: GROSS RECEIPTS TAX @ 4% (0.04)			
(Attach Schedule GRT-E)			
1. WHOLESALING			
2. RETAILING			
3. SERVICE			
4. RENTAL REAL PROP.			
5. RENTAL OTHERS			
6. PROFESSION			
7. COMMISSION			
8. INSURANCE PREMIUM			
9. CONTRACTING (LOCAL)	4 0 0 0 0 0 0 0	5 0 0 0 0 0 0	3 5 0 0 0 0 0
10. CONTRACTING (US)			

Fig. 1 Form GRT 1 of Prime Contractor before change

Company B-Sub-contractor-System Prior Change

Company A decides to subcontract \$2,000,000 of the canine facility project to Company B, who specializes in the construction of kennels. Company B receives a payment of \$50,000 related to the value of the contract for the preliminary performed for the current month.

Company B like Company A also reports on a cash basis. Total income for Company B for the month is \$100,000. Of which, \$50,000 is derived from the canine contract. Company B would report the payment received for the canine facility project.

Company B records \$100,000 on Form GRT 1 and pays 4% BPT on \$100,000.

BUSINESS ACTIVITY OR KIND OF TAX	(A) GROSS RECEIPT VALUE	(B) EXEMPTION OR DEDUCTION	(C) TAXABLE AMOUNT
PART 1: GROSS RECEIPTS TAX @ 4% (0.04)			
<i>(Attach Schedule GRT-E)</i>			
1. WHOLESALING			
2. RETAILING			
3. SERVICE			
4. RENTAL REAL PROP.			
5. RENTAL OTHERS			
6. PROFESSION			
7. COMMISSION			
8. INSURANCE PREMIUM			
9. CONTRACTING (LOCAL)	1 0 0 0 0 0 0 0 0	0 0 0	1 0 0 0 0 0 0 0 0
10. CONTRACTING (US)			

Fig. 2 Form GRT-1 of Sub Contractor before change

Illustrative Example-System After Change

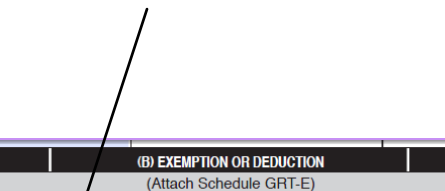
Company A-Prime

Company A, the prime contractor, has just been awarded \$10,000,000 by NAVFAC for the construction of training facility for canines. The company reports on a cash basis. Based on the contract value, the Government of Guam is anticipated to collect \$400,000 of BPT on the contract.

For the current month, they have received payment of \$400,000 related to the initial ground work of the facility. Company A has no other source of income for the month. The following illustration demonstrates the reporting of the BPT for Company A.

Company A would record the full value of the payment received as taxable. Based on the income received, Company A would remit BPT of \$16,000 as noted in Fig. 5.

Company A records full value of payment of \$400,000 on Form GRT-1. No exemption was claimed for subcontractors.



BUSINESS ACTIVITY OR KIND OF TAX	(A) GROSS RECEIPT VALUE	(B) EXEMPTION OR DEDUCTION	(C) TAXABLE AMOUNT
PART 1: GROSS RECEIPTS TAX @ 4% (0.04)			
<i>(Attach Schedule GRT-E)</i>			
1. WHOLESALING			
2. RETAILING			
3. SERVICE			
4. RENTAL REAL PROP.			
5. RENTAL OTHERS			
6. PROFESSION			
7. COMMISSION			
8. INSURANCE PREMIUM			
9. CONTRACTING (LOCAL)	4 0 0 0 0 0 0 0	0 0 0	4 0 0 0 0 0 0 0
10. CONTRACTING (US)			
11. INTEREST			

Fig. 3 Form GRT 1 of Prime Contractor after change

Company B-Sub-contractor-System After Change

Company A decides to subcontract \$2,000,000 of the canine facility project to Company B, who specializes in the construction of kennels. Company B receives a payment of \$50,000 related to the value of the contract for the preliminary performed for the current month.

Company B like Company A also reports on a cash basis. Total income for Company B for the month is \$100,000. Of which, \$50,000 is derived from the canine contract. Company B would claim an exemption on payment received for the canine facility project.

Company B records \$50,000 exemption on Form GRT 1 and pays 4% BPT on the \$50,000.

BUSINESS ACTIVITY OR KIND OF TAX	(A) GROSS RECEIPT VALUE	(B) EXEMPTION OR DEDUCTION (Attach Schedule GRT-E)	(C) TAXABLE AMOUNT
PART 1: GROSS RECEIPTS TAX @ 4% (0.04)			
1. WHOLESALING			
2. RETAILING			
3. SERVICE			
4. RENTAL REAL PROP.			
5. RENTAL OTHERS			
6. PROFESSION			
7. COMMISSION			
8. INSURANCE PREMIUM			
9. CONTRACTING (LOCAL)	1 0 0 0 0 0 0 0	5 0 0 0 0 0 0 0	5 0 0 0 0 0 0 0
10. CONTRACTING (US)			
11. INTEREST			

Fig. 4 Form GRT-1 of Sub Contractor after change

Concurrently, Subcontractor B would report the exemption on GRT E to be attached for Form GRT-1.

Prior to Change-Company A GRT Form		
Company		Income
A-Prime		400,000
Less: B-Sub Income		(50,000)
Net Income		350,000
Tax @ 4%	[1]	14,000

After Change-Company A GRT Form		
Company		Income
A-Prime		400,000
Tax @ 4%	[3]	16,000

Prior to Change-Company B GRT Form		
Company		Income
B-Sub Income		50,000
Tax @ 4%	[2]	2,000

After Change-Company B GRT Form		
Company		Income
B-Sub Income		50,000
Less: B-Sub Income		(50,000)
Net Income		-
Tax @ 4%	[4]	-

Total GRT Paid to GovGuam [1]+[2] 16,000

Total GRT Paid to GovGuam [3]+[4] 16,000

Fig. 5- GRT Calculation on Progress Payment on Canine Project

Commencement

The new system will become effective upon passage of the law or the effective date stipulated in the law. It will not apply to any contracts issued before that date or that should have been issued before that date. Bill No. 491-30 (COR) was signed into law on December 30, 2010 under Public Law No. 30-230 and is effective March 1, 2011.

Records

Both principal contractors and sub-contractors should ensure that their records and accounting systems can deal with the new system.

Further Information

- **Informational Handouts** are available at the **Business Privilege Tax Branch**, Department of Revenue and Taxation as well as at the **Guam Contractors License Board**.
- The **Informational Handout** can also be downloaded at www.GuamTax.com.

Gross Receipts Tax (GRT) forms are available online at Guam.Tax.com which include the provisions set forth under Public Law 30-230.

For more information please contact the Business Privilege Branch at (671) 635-1835 or 635-1879 or the Guam Contractors License Board at (671) 649-2212,

