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AUDIT: INEFFICIENCIES, ANOMALIES LEAD TO \$40.2M IN LOST PROPERTY TAXES FOR GOVGUAM 1

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Department of Revenue and Taxation Director Marie M. Benito on Wednesday says nearly \$300,000 has been collected as a result of the tax amnesty program but this does not necessarily represent 10 percent down payment for some \$3 million in outstanding taxes because some could be outstanding taxes. Pacific Daily News

Guam lost about \$40.2 million in property tax revenue over five years because of inefficiencies in tax assessment, collection and other processes, including an inability to identify the owners of 6,684 properties worth about \$1 billion, according to an audit by the Office of Public Accountability.

Taxes for some condominiums and town homes also were not assessed because the government, for six years, failed to correct a computer problem that identified those properties, the audit states.

According to the governor's office, more than \$20 million of the reported \$40.2 million lost revenue is due to tax exemptions and tax credits mandated by law, and that almost \$20 million is still collectible.

"In fact...\$23.1 million of the \$40.1 million are tax exemptions and tax credits mandated by law. The remaining \$18.8 million are still collectible through programs like the tax amnesty... This audit ignores issues such as bankruptcies, probate, or cases in litigation that may have prohibited prompt payment of taxes. Additionally, some of these tax cases take years to litigate," according to the governor's spokeswoman Oyaol Ngirairikl.

The audit also notes other anomalies such as tax exemptions given to 392 "government properties" which actually are owned by private individuals, businesses and financial institutions, the audit states.

There was no explanation why these privately-owned properties can be classified as government properties, Public Auditor Doris Brooks said in the report released late Wednesday night.

Speaker Benjamin Cruz on Thursday said the audit shows that "government is failing at its most basic level."

"When the Legislature gives DRT staff the resources it needs to do the job and more than 40 of its vital positions remain vacant nine months later, I'm beginning to think this kind of ineptitude is intentional," Cruz said when sought for comment on the report.

The governor's office stated that some of these vacant spots are for technical, high in demand positions, and that the government has to compete with the private sector to hire suitable candidates.

"While Guam has the lowest effective tax rates among the United States, GovGuam also had unrealized revenues from property taxes due to inefficiencies in their system and assessment and collected processes," the public auditor wrote.

Rev and Tax, in response to the public auditor, disagreed with several findings and stated that the department has been effective in administering Guam's real property tax laws.

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The Department of Land Management agreed with the public auditor's findings and recommendations.

A computer system designed to automatically generate a property identification number, or PIN, for multi-family dwellings such as condominium units and town homes, has been broken since January 2012.

PINs are necessary to add a property into the tax assessment roll so that the property can be assessed and billed.

"There was a lack of aggressive follow up by [Rev and Tax] and [Land Management] to correct this fatal flaw in the system that has been known since 2012," the public auditor wrote.

The last contract for the system maintenance expired in January 2013.

"Until the issue of creating PINs is resolved, tax assessment rolls will be incomplete and inaccurate and GovGuam will continue to lose property tax revenues," the public auditor wrote.

The public auditor recommends that Rev and Tax and Land Management settle the PIN issue with the system provider and aggressively collect and enforce remedies provided by law for delinquent property taxes. \$8.5 million in average annual losses

GovGuam had unrealized revenues of \$40.2 million in real property taxes for tax years 2012 through 2016, or an average of \$8.5 million per year.

These unrealized revenues for five years include \$18.8 million in uncollected or delinquent property taxes, properties that were not assessed or whose owners are not identified, and unpaid escaped assessments.

They also include Chamorro Land Trust Commission-leased properties that were not assessed or billed, untaxed condominium units, and questionable decline in taxable values of hotel properties.

GovGuam also had unrealized revenues totaling \$21.3 million from exemptions, credits and abatements, which are granted by existing laws.

No taxes assessed, delinquent list

The public auditor recommends that Rev and Tax, Land Management and the Department of Public Works ensure that real property information interfaces and adhere to an agreement that defines responsibilities and provides for sharing real property information each agency collects.

The Legislature is also urged to review credits, exemptions and abatements as even more revenues are foregone due to these, the public auditor said.

For example, over 5,000 homes are not assessed any tax and 25,000 homeowners pay less than \$100.

The audit also says so-called John Doe properties started to appear in the tax assessment rolls after the mass re-appraisals in 2014.

"Without knowing the names of the property owners and due to the system, DRT is unable to collect taxes from these properties," the public auditor said.

Unpaid property taxes totaled \$17.2 million as of Sept. 30, 2017 based on Rev and Tax report. The public auditor said this is lower than the "delinquent list" which has \$14.3 million and involved 11,737 taxpayers, inclusive of land trust and John Doe properties.

For the top 50 delinquent taxpayers alone, unpaid property taxes amounted to \$6.7 million or 47 percent of the total delinquent amount. Some of them were consistently delinquent for three to five years.

One taxpayer provided a copy of a billing of 38 cents in delinquent taxes from 1991, the public auditor said.

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But the public auditor could not locate the taxpayer's property on the delinquent list provided by Rev and Tax nor any of the tax assessment rolls from 2012 to 2016.

Sen. Mike San Nicolas and other senators have been balking at GovGuam's decisions to raise taxes yet it is failing to collect outstanding taxes. He said honest taxpayers should not be burdened with government inefficiencies.

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