



Dipåtamenton Kontribusion yan Adu'aña

DEPARTMENT OF

REVENUE AND TAXATION

GOVERNMENT OF GUAM

Gubetnamenton Guåhan

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**LIMITED EXEMPTION FOR CERTAIN SMALL BUSINESSES
FREQUENTLY ASKED QUESTIONS (FAQS)**

1. What is the Limited Exemption for Certain Small Businesses?

The Limited Exemption for Certain Small Businesses (LECSB) was established to mitigate the impact on small businesses resulting from the COVID-19 pandemic by reducing the GRT rate for a portion of the gross proceeds reported by small businesses who meet the gross annual income limitations.

LECSB was amended by Guam Public Law 36-81 to increase the gross proceeds threshold that is subject to the reduced GRT rate effective on July 1, 2022 and shall apply retroactively to January 1, 2022. This LECSB amendment allows taxpayers to apply a reduced GRT rate of 3% on the first \$500,000 of the aggregate gross proceeds from certain activities in the current year if the aggregate gross annual income from all activities is at least \$50,000, but not over \$500,000 in the prior year (most recent tax year).

From January 1, 2020 through December 31, 2021, the LECSB allowed taxpayers to apply a reduced GRT rate of 3% on the first \$250,000 of the aggregate gross proceeds from certain activities in the current year if the aggregate gross annual income from all activities is at least \$50,000, but not over \$500,000 in the prior year (most recent tax year).

Example 1

John operates a retail store and restaurant on Guam. The gross annual income from John's retail store and restaurant totaled \$300,000 and \$150,000, respectively, for tax year 2021. Since John's aggregate gross annual income from all activities (retail store and restaurant) totaling \$450,000 for tax year 2021 (most recent tax year) is at least \$50,000 and less than \$500,000, John is eligible to claim the LECSB in tax year 2022.

Example 2

Jane operates an auto repair shop and rents real property on Guam. The gross annual income from Jane's auto repair shop and real property rental totaled \$350,000 and \$250,000, respectively, for tax year 2021. Since Jane's aggregate gross annual income from all activities (auto repair shop and real property rental) totaling \$600,000 for tax year 2021 (most recent tax year) exceeds \$500,000, Jane is not eligible to claim the LECSB in tax year 2022.

2. What gross proceeds from activities qualify for the LECSB?

The gross proceeds from activities that qualify small businesses to claim the LECSB are real property rentals, rental others, profession, retailing, service income, commission income, licensed insurance premium and/or farming.

3. What are gross proceeds?

Gross proceeds shall mean gross income or gross receipts received as compensation from any activity without regard to deductions for business expenses, unless specifically stated under Section 26101(g) of Article 1, Chapter 26, Title 11 of the Guam Code Annotated (GCA).

**4. Can I take the LECSB for gross proceeds from income as a Contractor, interest income, or income from amusement?**

No, these particular types of gross proceeds do not qualify for the LECSB.

5. Do I qualify for the LECSB per activity?

No.

Effective January 1, 2022, LECSB only applies to the first \$500,000 of the aggregate gross proceeds for activities from real property rentals, rental others, profession, retailing, service, commission, licensed insurance premium, and/or farming activities per tax year.

From January 1, 2020 to December 31, 2021, LECSB only applies to the first \$250,000 of the aggregate gross proceeds for activities from real property rentals, rental others, profession, retailing, service, commission, licensed insurance premium, and/or farming activities per tax year.

Example 3

John operates a retail store, restaurant and car rental on Guam. The gross annual income from John's businesses are as follows:

	2021	2022
Retail Store	\$175,000	\$225,000
Restaurant	125,000	175,000
Rental Others	<u>100,000</u>	<u>150,000</u>
	<u>\$400,000</u>	<u>\$550,000</u>

Since John's aggregate gross annual income from all activities totaled \$400,00 in tax year 2021 (most recent tax year), he qualifies for LECSB in tax year 2022. John would only qualify for LECSB on the first \$500,000 aggregate gross proceeds from his retail store, restaurant and car rental businesses, which would be subject to the reduced GRT rate of 3%. The remaining gross proceeds of \$50,000 for tax year 2022 would be subject to the 5% GRT rate due to the maximum annual LECSB limitation of \$500,000. Total GRT due for tax year 2022 is calculated as follows:

Retail Store	\$225,000
Restaurant	175,000
Rental Other	<u>150,000</u>
	\$550,000
GRT Rate:	<u>5%</u>
TOTAL	\$ 27,500
Less: LECSB reduction amount (<i>Note</i>)	<u>10,000</u>
TOTAL GRT DUE	<u>\$ 17,500</u>

Note: LECSB reduction amount is calculated as follows: Total LECSB Income for tax year 2022 of \$500,000 multiplied by 2% (5% GRT rate less 3% reduced GRT rate).



6. Does the \$500,000 maximum gross annual income apply per activity?

No, the \$500,000 maximum gross annual income applies to the aggregate of the gross annual income from all activities for the most recent completed tax year, which includes the gross annual income from those activities that do not qualify for LECSB such as wholesaling, contracting, interest, amusement and other income.

Example 4

Jane operates wholesale business, retail store, and rents real property on Guam. The gross annual income from Jane's businesses are as follows:

	2020	2021	2022
Wholesale	\$275,000	\$225,000	\$200,000
Retail Store	150,000	125,000	150,000
Rental Real Property	<u>100,000</u>	<u>75,000</u>	<u>100,000</u>
	<u>\$525,000</u>	<u>\$425,000</u>	<u>\$450,000</u>

For tax year 2021, since Jane's aggregate gross annual income from all business activities totaled \$525,000 in tax year 2020 (most recent tax year) and exceeds the \$500,000 maximum gross annual income limitation, she does not qualify for LECSB in tax year 2021.

For tax year 2022, since Jane's aggregate gross annual income from all business activities totaled \$425,000 in tax year 2021 (most recent tax year) and does not exceed the \$500,000 maximum gross annual income limitation, she qualifies for LECSB in tax year 2022. The LECSB will only apply to the gross proceeds from her retail store and rental real property businesses in tax year 2022.

7. Do I qualify for LECSB next year if I make over \$500,000 this year?

No, you only qualify based on your aggregate gross annual income from all activities for the most recent completed tax year. For example, your aggregate gross annual income from all activities in tax year 2021 will determine if you qualify for the LECSB in tax year 2022. See Example 4 in FAQ no. 6.

8. If I do not qualify for LECSB this year, would I no longer qualify for future years?

No, you may still qualify for LECSB if you meet the threshold requirements. LECSB applies annually and shall commence on the first day of the new tax year, based on the gross annual income from all activities of a person during the prior tax year. See Example 4 in FAQ no. 6.

9. If this is my first year of doing business, would I qualify for LECSB?

No. You would be entitled to the existing exemptions under the Dave Santos Act, but would not qualify for LECSB because your gross annual income prior to your first year of doing business would be \$0.

10. As a doctor, dentist or other service professional, would I qualify for LECSB?

Yes, as service income. Service income includes, but is not limited to, legal, medical, dental, accounting, consulting and engineering fees, commissions on real estate sales or property management, fees charged by barbershops, beauty parlors, shoe shining parlors, dry cleaning and laundry establishments, and automobile, appliance, electronics and computer repair shops. Service income does not include gross proceeds of a contractor as defined under Section 26101(b) of Article 1, Chapter 26, Title 11 of the GCA.



11. If I cancel my business license before the year ends, would I have to pro-rate the exemptions?

No.

12. Would I qualify for LECSB even if I only have a temporary license?

Yes.

13. I have multiple business licenses. Do I file a GRT for each license?

Please see Section 26110(f) & (g) of Chapter 26, Title 11 of the GCA.

14. Do I have to file GRT returns every month or can I file a return in January to cover the prior year's income if I use the exemptions and do not owe GRT for the whole year?

You must file monthly returns.

15. What is the process to claim LECSB?

Complete Worksheet A, *Enhanced Limited Exemption for Certain Small Businesses*, on the Form GRT-1, *Monthly Gross Receipts, Use and Occupancy Tax Return*, to determine whether you qualify for the reduced tax rate under LECSB.

All taxpayers are required to file their GRT returns electronically at <https://www.guamtax.com> beginning with tax period February 2021. For more information, see DRT's [Business Privilege Tax Returns Online Filing Instructions and Guidance](#).

16. If I don't claim LECSB in a particular month, can I claim it in the following month?

No.

Effective January 1, 2022, LECSB only applies to the first \$500,000 of the aggregate gross proceeds earned or received from real property rentals, rental others, profession, retailing, service, commission, licensed insurance premium, and/or farming activities per tax year. For example, a taxpayer's aggregate gross proceeds from LECSB activities totaled \$475,000 as of March 2022. In April 2022, the taxpayer's gross proceeds from LECSB activities totaled \$25,000, which he did not apply the reduced GRT rate allowed under LECSB. The taxpayer must apply the 3% GRT rate on the \$25,000 gross proceeds from LECSB activities in May 2022 and cannot claim LECSB in the subsequent returns for the remaining tax year.

From January 1, 2020 to December 31, 2021, LECSB only applies to the first \$250,000 of the aggregate gross proceeds earned or received from real property rentals, rental others, profession, retailing, service, commission, licensed insurance premium, and/or farming activities per tax year.

17. What if I already filed my GRT return for the months of January 2022 through April 2022?

You must file an amended GRT return to claim LECSB, if you qualify. Amended GRT returns must be filed electronically at <https://www.guamtax.com>.

For any questions regarding LECSB, you can contact (671) 635-1835/1836 or visit DRT's Business Privilege Tax Branch.