

An international expansion is often a strategic move for companies, allowing them to capitalize on new markets and scale up their entity. Reaching across new borders, however, also comes with some challenges. For many companies, these obstacles include dealing with a different set of employment laws, taxation requirements, and cultural norms.

When you work with Globalization Partners, you'll experience the benefits of our global PEO services. Our Employer of Record model allows for streamlined hiring and employee management while reducing your legal risks. We'll manage every detail of your global expansion in Micronesia, including hiring your employees through our in-country subsidiary. Then, we'll continue to offer hands-on support by onboarding your employees, managing your payroll, administering benefits, and ensuring every detail remains legally compliant.

Through our services, you can start rolling out your new overseas company right away while enjoying full confidence every step of the way.

Doing Business in Micronesia

The Federated States of Micronesia (FSM) — more commonly known simply as Micronesia — is a collection of more than 600 islands in the western Pacific Ocean. Micronesia consists of four states, all governed by one central government. The country's economic activity primarily revolves around fishing, subsistence agriculture, and manufactured goods. The islands have also experienced bountiful tourism to boost the global domestic product (GDP), thanks to its stunning island location and beautiful coral reefs.

Over the last few decades, the country has focused on fostering a competitive and attractive investment climate for companies looking to start subsidiaries abroad. As a member of the Pacific Islands Forum, the islands participate in a free trade zone designed to attract vital commerce and exchange. The area's openness to international companies and ample natural resources make it an ideal place to launch your overseas venture.

Employment Contracts

Micronesia's labor laws have different contract requirements for public and private employees. Generally, however, contracts must be written in English and include information such as:

- The employee's full legal name.
- The nature of the position, including the length of its term and any required tasks.
- The salary and working hours.
- The termination requirements.
- A statement verifying that you, the employer, plan to meet the state's minimum wage requirements.

Working Hours

National law sets a standard eight hours of work a day, with a five-day workweek and two-day weekend. This 40-hour workweek is standard practice throughout the country. You must provide premium pay for overtime work.

You are also required to provide and maintain a safe workplace, but there are no set standards for occupational safety and health. It is largely left to your discretion to ensure you're creating a safe place for your employees to work.

Vacation and Sick Leave

Employees typically take a two-day weekend for every five-day workweek. Saturday and Sunday are generally considered the two nonworking days of the week, but this differs depending on your industry and specific job requirements.

The country's national laws grant paid leaves of absence to employees for vacation, illness, training, education, or any reason in the best interest of public service. Various regulations stipulate employees' eligibility for the leave, the method and rate of pay, and the duration of the leave. You must stipulate the terms of any paid vacation or sick leave that can be accrued in a worker's employment contract.

Maternity Leave

You must provide paid maternity leave of up to six weeks each calendar year for female employees. Maternity leave also includes several stipulations:

- It must be used for the birth of the employee's child.
- Paid maternity leave is not considered the same as accrued annual or sick leave.
- Unused maternity leave expires by the end of each calendar year and does not accumulate for future use.
- You have the right to request that your employee provide medical certification documenting the pregnancy and expected delivery date.

Holidays

The country celebrates various national and international holidays throughout the year. These celebrations are considered public holidays, so employees are generally entitled to the day off from work. These holidays include:

- New Year's Day.
- Liberation Day.
- United Nations Day.
- Independence Day.
- Veterans Day.
- Christmas Day.

Depending on the Micronesian state you're located in, you will celebrate a different Constitution Day during the year. These are considered local holidays rather than public holidays and will only be celebrated in your state.

Taxation

The federal government institutes a corporate income tax of 21% for all nonexempt major corporations. The country's personal income tax rate is 10%, which you are required to withhold from your employees' gross wages and salaries.

You are also required to withhold and pay 7.5% of covered earnings to the Social Security Administration (SSA) from employees' wages. In this case, covered earnings refer to compensation paid to employees up to \$7,000 per quarter. You are further required to contribute another 7.5% from your quarterly revenues directly to their SSA benefits.

Insurance

Medical and public health services are highly subsidized by the state government in each of the country's four states. This includes providing access to any of the country's public hospitals or health centers for just a small fee. Residents can also choose to visit a private facility if they wish but will need to pay out of pocket or through their medical insurance.

Because of the comprehensive and affordable public health care system, you are not required to provide medical insurance to employees. However, you may want to offer an insurance package as part of your additional benefits offerings.

Bonuses and Additional Benefits

While you must provide employees with compensation meeting the minimum wage, you're not obligated to provide bonuses and additional benefits. However, giving financial bonuses of approximately 5% of an employee's annual salary is often expected. These monetary bonuses may come in one or more formats, including:

- Performance-based bonuses.
- Company performance bonuses.
- Goal completion bonuses.
- Holiday or annual bonuses.

It is fairly common, but not required, to also offer additional benefits in the form of housing stipends, travel expense coverage, or complimentary food. Incorporating these kinds of benefits and bonuses into your employment contracts can help foster a positive work environment where your employees feel satisfied and valued. Further, it can help you boost

your reputation in-country as an attractive and competitive employer.

Expand Business to Micronesia With Help From Globalization Partners

Globalization Partners eliminates the obstacles standing between your company and a successful launch into new waters. As your Micronesia Employer of Record, we can ensure a risk-free and rapid expansion. Trust our seasoned legal and HR team to manage every detail of your expansion, from tax law compliance to hiring excellent local talent.

[Reach out to our team](#) today to discover more about our services.