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INCOME TAX TALKING POINTS

- MSC income tax proposal follows the general discussions held by the joint legal group.

- ~~Generally, have no difficulty with the proposals forwarded as they do follow the U.S. approach now practiced between the U.S. Government and the U.S. territories.~~

- Do want to encourage local development and local self-sufficiency.

- Also want to continue to follow the approach taken by the U.S. with its policies of fiscal responsibility to all the U.S. territories - aim is "consistency".

- Should want to avoid creating a situation that will have an adverse impact on the other territories, especially Guam.

- Believe that we can accommodate many of the MSC internal revenue proposals.

- Need to explore these more fully at the technical level.

- We can say we generally concur with MSC proposals that:

(1) revenue derived from U.S. sources would be subject to U.S. revenue laws.

(2) revenue originating in the Marianas by residents of Marianas who become U.S. citizens under our agreement, will not be subject to U.S. <sup>internal</sup> revenue laws.

(3) U.S. estate and gift tax laws would apply only to property "situated" in the United States.

(4) That section 931 treatment relating to taxation of corporations and citizens in U.S. possessions should be accorded to the Marianas.

(5) that income from U.S. Treasury bonds which were acquired while an individual was a resident of the TTPI should be exempt from tax; however, we do need to study this further so as to prevent abuse of this exemption.

(6) that some formula for tax sharing with the Marianas should be examined

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consistent of course, with the concept that the Marianas should strive toward local self-sufficiency.

(7) that the Marianas undertake to enact local revenue measures to obtain local self-sufficiency.

- There are many technical aspects to each of these that require further joint study and we are prepared to meet with you on these.

- The MSC has noted it has a summary of Internal Revenue Code provisions that it would make available to us - It would be helpful for us to review this summary, especially to help us in the joint technical study.

- There is one cautionary note that we should remember as we examine your proposals and that is that our agreement on these issues must ultimately be approved by the U.S. Congress.