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November 12, 1973

MEMORANDUM TO MR. WILLENS

SUBJECT: Marianas

John Stephan, International Tax Counsel of the Bank of America, has suggested that offshore income (i.e., loans to borrowers outside of the Marianas) should not be subject to Marianas income tax. This sounds like a plausible suggestion. However, it really relates to what I regard as the second phase of our study, i.e., the type of tax structure that should be adopted in the Marianas. Since we have not yet focused on this question in detail, I would suggest a general noncommittal response as per the attached.

JDL
F.D.L.

Attachment

01-05928

DRAFT
November 12, 1973

John S. Stephan, Esq.
International Tax Counsel
Bank of America
Bank Tax Department #3245
Bank of America Center
San Francisco, California 94120

Dear Mr. Stephan:

Thank you for your letter of October 25, 1973 with your thoughts concerning the type of legislative incentive that would encourage a bank to begin or expand branch or subsidiary operations in the Marianas.

We will be giving careful consideration to your suggestion that offshore income (i.e., loans to borrowers outside the Marianas) should not be subject to Marianas income tax and that lenient capitalization requirements should be adopted.

At this time, it is premature to evaluate your tax suggestion, for we have not yet focused on the type of internal tax system that should be adopted in the Marianas. At the moment, we are concentrating our efforts on determining the extent to which the U.S. Internal Revenue Code should be applicable in the Marianas -- a question that must be resolved in the status agreement *between the Marianas and the United States*

When we enter the second phase of our tax study and begin to review the internal tax laws of the Marianas, I hope that we may call on you to discuss your recommendations in some detail.

Sincerely,

HPW

01-25227