



United States Department of the Interior

OFFICE OF THE SOLICITOR
WASHINGTON, D.C. 20240

03
4

65294.4290

November 27, 1973

Memorandum

To : Ambassador Franklin Haydn Williams
Personal Representative of the President
on Micronesian Status Negotiations

From : C. Brewster Chapman, Jr.
Assistant Solicitor, Territories
Division of General Law

Subject: Taxation - Marianas

Attached is a November 1, 1973, discussion paper dealing with the question of taxation in the Mariana Islands. The paper was prepared by Howard P. Willens and basically constitutes a proposal for a scheme of income taxes for the Commonwealth of the Marianas.

In essence it proposes:

1. Local and foreign source income of natives of the Mariana Islands be exempted from Federal income taxes. Their U.S. source income, however, would be taxable.
2. All other income would be taxed under applicable Federal law; but the taxes from these sources would be paid over to the local treasury.
3. The Marianas legislature would be given the power to enact its own local income tax laws.
4. Certain Federal tax incentives would be provided to encourage U.S. businesses in the Marianas.

DISCUSSION:

The paper postulates, in broad terms, a taxing policy for the Marianas which is not inconsistent with U.S. tax policy in its other territories. For example, American Samoans are exempt from Federal taxes on their local source income. Federal income taxes paid by

401620

taxpayers on Guam and the Virgin Islands are covered into the local treasuries as local income taxes. Puerto Rico is authorized to enact local income tax laws. Accordingly, though the proposal is somewhat of a conglomerate, it does not appear to be unreasonable or without precedent.

The paper has received technical review by Federal income tax experts who, except for the caveats noted below, do not believe there would be any great problem in drafting legislation to implement the proposal. It is recognized, of course, that there will be a great deal of technical expertise required in the ultimate implementation.

CAVEATS:

1. Any authority to enact local income tax laws should be conditioned upon the requirement that such taxes be non-discriminatory and even-handed.
2. The authority to enact local income tax laws shall not include the power to levy taxes on the United States or its instrumentalities.
3. The income of servicemen shall not be deemed for the purpose of taxation to include quarters and food allowances, combat pay, bonus pay and the like.