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April 30, 1974

MEMORANDUM FOR MR. WILLENS

SUBJECT: Marianas -- Taxes

The Joint Communique of December 19, 1973 accepts the principle that the future Government of the Marianas would have exclusive power to enact, amend or repeal its internal revenue laws. This principle is now being eroded. Congressman Burton believes the Internal Revenue Code should be imposed in the Marianas as a territorial income tax (the "mirror image" system). The April 1974 U.S. working draft of Section 403 of the Status Agreement suggests that the Internal Revenue Code would become applicable as a territorial tax after ten years.

I continue to believe that the disadvantages of adopting the Internal Revenue Code as a territorial tax outweigh the advantages, but I think the most important principle is that the Marianas have authority to enact, amend or repeal its own tax laws. Accordingly, consideration might be given to a compromise following the Puerto Rican precedent whereby the Internal Revenue Code is adopted as a territorial tax but with the exclusive power of the Marianas to amend or repeal it.

For your use, I am attaching a brief paper dealing with the defects in the mirror image tax system.

F.D.L.

Attachment

04-30-74