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Marianas

Subject: Tax Compromise

The following is a brief outline of my initial thoughts on a possible compromise position.

I. Marianas Territorial Tax

A. Puerto Rican model - adopt present IRC as Marianas territorial tax but give Marianas legislature the power to amend, alter, modify or repeal.

1. Alternatives regarding Marianas right to amend.

a. No right to amend for specified number of years.

b. Right to amend, but amendment subject to some form of veto by U.S.

B. Effective Date of Territorial Tax

1. Use effective date of Status Agreement.

a. If IRC is going to be adopted as territorial tax, the sooner the better.

b. Don't see any technical problems in this early effective date, but problem should continue to be studied.

2. Alternative - effective as of Termination.

C. Technical Problems.

1. There are always technical problems in deciding what provisions should not apply in the mirror-image Code. I am working on this aspect of the problem.

II. Applicability of U.S. IRC to Marianas.

A. Until Marianas citizens become U.S. citizens at Termination, the U.S. IRC will continue to apply as it does today, i.e., basically only taxes Marianas citizens on U.S. source income.

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- B. Should consider whether some provisions of U.S. Code be modified on effective date of Status Agreement rather than on Termination.
 - 1. Should Marianas be treated as possession under IRC as of effective date of Status Agreement or upon Termination?