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August 9, 1974

MEMORANDUM TO MARIANAS FILE

On August 8, 1974 Willens, Helfer and I met with representatives of the U.S. negotiating team. Mr. Wilson began the meeting by summarizing a recent conversation with Congressman Burton in which the following basic points were raised:

1. Burton felt strongly that the Internal Revenue Code should be applicable in the Marianas as it may be amended from time to time without any authority of the Marianas legislature to change it.

(a) Burton would prefer that the Internal Revenue Code be adopted as a territorial tax in the same manner as Guam, i.e., U.S. income tax liability would be discharged by paying the amount directly to the Marianas under the identical Marianas tax code.

(b) Burton apparently would accept as an alternative that the Internal Revenue Code be made directly applicable in the Marianas as if it were part of the United States, with any amounts collected rebated to the Marianas.

2. Burton recognizes that adopting the Internal Revenue Code in haec verba may result in the exemption of a large number of Marianas taxpayers with low levels of income. For example, a family of four in the United States is exempt from tax on \$4,300 of income because of a low-

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income allowance of \$1,300 and personal exemptions of \$750 for each family member. Burton's response is that if the system does not produce enough revenue, the Marianas would be free to adopt an additional tax, just like a state may adopt a state income tax in addition to the federal income tax.

3. Burton's response to the complexity of the Internal Revenue Code is that the Marianas citizenry simply must be educated in the use of our system. He suggests, for example, that IRS could send representatives to teach Marianas citizens how to fill out a return. He also noted that Guam apparently had no real difficulty in adjusting to the Internal Revenue Code.

Willens stated that the Marianas obviously desire residual authority over their domestic tax system. He asked Wilson if he had any compromise proposals to suggest. Wilson suggested that perhaps the Marianas should be required to adopt the Internal Revenue Code upon termination and should be permitted to make amendments to such Code as long as it remains a "comparable tax." However, he pointed out that Burton would approve of the Marianas increasing the tax but never decreasing the tax because of his concern that the Marianas might become a tax haven for wealthy individuals and for corporations, thus injuring the economy of Guam.

Willens stated that we would attempt to draft several compromise proposals. These proposals might include

the following:

(1) Use the Puerto Rican model; start with the Internal Revenue Code but allow amendments subject to congressional approval.

(2) Start with the Internal Revenue Code but allow amendments within certain prescribed areas or subject to the general requirement of a "comparable system."

(3) Impose the Internal Revenue Code in the Marianas as in a state and permit the Marianas to have authority over their local tax system.

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NOTE: Check Marcuse's point that Guam prior to 1958 had a different system.