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August 23, 1974

MEMORANDUM TO MR. WILLENS

SUBJECT: Marianas Tax System

The position of Congressman Burton is that the U.S. Internal Revenue Code should be imposed in the Marianas either as a territorial tax as in Guam or by direct application as if the Marianas were a state, without any power on the part of the Marianas to amend such law. At our August 8, 1974 meeting with the U.S. negotiators, it was agreed that we would attempt to draft a compromise proposal whereby the Marianas would adopt the Internal Revenue Code as a territorial tax but with certain powers of amendment.

Recommendation

I would propose as a compromise that (1) the Marianas adopt the Internal Revenue Code as a territorial tax (2) with the power of the Marianas legislature to amend the tax (3) subject to a congressional veto for the first ten years of the application of the tax.

Outline of Alternatives

The following three alternatives should be considered, although I have a clear preference for the first alternative.

(1) Follow the Puerto Rican model of adopting the Internal Revenue Code as a territorial tax with the Marianas legislature having the right to amend the territorial tax in its sole discretion. The power to amend could be restricted

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