

OFFICE OF MICRONESIAN STATUS NEGOTIATIONS

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Memorandum of Conversation

Participants:

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§601. Mr. Bissell reviewed the October 4, 1974 Marianas memorandum on taxation in the Commonwealth and had the following views:

1. Treasury would prefer a more simple uncomplicated approach for the application of the Internal Revenue Code to the Marianas.
2. The MPSC approach would pose immediate problems with the tax system in Guam. Hopefully, there would be close inter-relations between the two, i.e., workers and corporations doing business in both territories; problems would arise from the interrelation of two different tax systems in areas of deductions, filing, refunds, temporary workers, non-U.S. citizens, etc..
3. Treasury is studying the Virgin Islands income tax situation. It appears that 1972 Internal Revenue Code amendments that corrected the tax problems for Guam did not address the tax problems in the Virgin Islands. Treasury has a proposal that would affect the Virgin Islands and Guam in that both territories would be treated as a part of the United States for purposes of determining residence for payment of taxes; regardless of whether a person had lived in the United States, the Virgin Islands or Guam during the tax year and had income tax withheld in any of those places, he would file his income tax with the place of residence on the last day of the tax year. And tax rebates would be adjusted by Treasury regardless of which tax were withheld. This scheme is not yet finalized but discussions are under way.
4. Guam does not have the power to amend the IRC directly but can effect an amendment by rebating any portion of the tax revenues collected as the legislature determines. Thus, Guam legislature can if it desires, rebate all tax revenues to attract foreign industry or raise the ceiling on personal deductions but refunding larger amounts to local tax payers.

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Marianas -
income tax

5. Treasury notes that Puerto Rico has adopted the 1936 Internal Revenue Code and has the power to make amendments thereto; American Samoa has a mirror image of the 1954 IRC and has the power to make local amendments thereto; Guam and the Virgin Islands have a mirror image of the 1954 IRC but do not have the power to make local amendments there-
to.

§703. This proposal relates to how the income tax revenues of Federal employees are handled. Federal workers on Guam are not subject to the Guam mirror image tax but are required to pay U.S. income tax to the U.S. Treasury on their incomes. All revenues collected from Federal workers by the Treasury Department are then returned to Guam as if by Congressional appropriation. This scheme was not affected by the 1972 Guam tax amendments.