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## U.S. TAX RELATIONSHIPS WITH THE U.S. TERRITORIES

### I. Puerto Rico

Adopted the '39 U.S. income tax code as a local tax; Puerto Rico holds the power to amend that code.

U.S. has a more liberal rule for U.S. citizens living in Puerto Rico than in other U.S. territories or possessions.

Treated as a foreign country for purposes of U.S. tax credits on income taxes paid to Puerto Rico.

A U.S. citizen residing in Puerto Rico files 2 tax returns: (1) in filing a U.S. income tax does not report any local source income but does report U.S. source and "other" foreign source income; (2) in filing a Puerto Rican income tax return, reports all worldwide income but credits the Puerto Rican tax with all taxes owed the U.S. (to effectively pay taxes only on Puerto Rican source income and on all U.S. source income below $2,500).

Puerto Ricans residing in Puerto Rico who do not leave Puerto Rico are taxed by the U.S. on their worldwide income; Puerto Rico then gives a tax credit on their local Puerto Rican income tax for all U.S. taxes paid.

~~U.S. citizens (non-Puerto Ricans):~~

~~Files a Puerto Rican income tax on Puerto Rican source income and on all income from U.S. sources below $2,500 (e.g., on all world-wide income and local source income).~~

~~Does not file a U.S. income return on Puerto Rican income, but only from U.S. source and "other Foreign" source income (e.g., Germany over $2,500).~~

06-416356

II. American Samoa

Voluntarily adopted the U.S. income tax as a local tax with the legislature retaining the power to amend the code.

The Samoan tax is levied on all local source income and on all U.S. source income.

Because the extended family system raises the number of personal exemptions local revenues were at first very low, but this was corrected by enacting a local 1% tax on all income below a set level (around $2,500).

Samoa (and the Canal Zone) falls in the 80% rule under §931 of IRC (if 80% of the income is from American Samoa then no taxes are paid to the U.S.).

U.S. citizens residing in Samoa files 2 income taxes; pays U.S. taxes on all U.S. source income. However, of 80% of all revenue is from local source, then no U.S. tax is paid. U.S. citizen also pays Samoan tax on all income, but is credited for all taxes paid to the U.S.

U.S. citizen living in U.S. with Samoan income also files 2 taxes; U.S. and Samoan. Samoan tax would be credited for all taxes to U.S. on Samoan income.

III. Guam

The U.S. income tax was imposed by the U.S. Congress under the Organic Act as a territorial tax.

The Guam tax is applied as a mirror image of the U.S. income tax cade.

Guam is now empowered to amend the tax but may give tax rebates to individuals and industry for taxes paid (regardless of the source of income).

Guam is treated as a part of the U.S. tax jurisdiction in that the U.S. citizen files his return with the place of residence (U.S. or Guam); taxes paid go into the Treasury of residence and no allocations or adjustments are made between Guam and the U.S. treasuries except on taxes paid on incomes over $50,000, of which $5,000 is not from the source where the tax return is filed (e.g., tax filed in U.S. but $5,000 of income is from Guam).

IV. Virgin Islands

The U.S. income tax was imposed by the U.S. Congress under the VI Organic Act as a local territorial tax.

The IVI income tax is a morror image of the US IR Code.

The VI is not empowered to amend the "territorial" tax, but may give tax rebates to industry and individuals for taxes paid on local source income; the VI desires to adopt the Guam approach for rebates which permits tax rebates to industries and individuals who pay taxes to non-Guam tax authorities on income earned outside Guam.

Pre '54, Virgin Islands tax provisions were more liberal and resulted in a tax haven (U.S. retirees were moving to Virgin Islands and being given tax credited on their local tax return for all taxes paid to the U.S. even for income earned from U.S. (and non-VI) sources; as a consequence of this tax treatment, the U.S. Congress revised the IRC laws applied to the VI and removed this power.

The return procedure is split: (1) if a VI or U.S. citizen resides in the U.S., he files a U.S. tax return on U.S. source income and a VI tax return on VI source income; the U.S. then gives a tax credit for taxes paid to the VI. However, because the VI has a 30% tax deduction rule, some taxes are lost to the [illegible] (2) if a VI or U.S. citizen resides in the VI, he files only 1 tax return and includes both U.S. and VI source income but rebates are permitted by the VI only as to local source income.