

UNITED STATES POSITION PAPER  
CONCERNING APPLICATION OF  
INTERNAL REVENUE CODE

Northern Mariana Islands Taxation

The present income taxation of U. S. possessions is complex, confusing, and uncertain. The rules should be clarified, simplified, and applied uniformly.

The clearest, most workable system is the one Congress recently worked out for Guam. This system should be extended to the Virgin Islands and the Marianas, with one system for the United States and all three possessions. This would eliminate problems between the United States and these three possessions. It would also eliminate problems between these possessions themselves. It is particularly desirable for the Marianas and Guam to have the same system because of their geographic proximity.

The Marianas has urged the adoption of a unique system which would give maximum local autonomy, and has suggested that the Puerto Rican system be used as a model. However, the Puerto Rican system has even less flexibility than the Guam system because

- The United States taxes all non-Puerto Rican income of Puerto Rican residents but does not tax non-Guam income of Guam residents. Consequently, as a practical matter, Puerto Rico can't tax non-Puerto Rican income of Puerto Rican residents (except for small amounts not exceeding the United States exemptions) and can't reduce the tax on such income.
- On the other hand, Guam can reduce tax at will by its rebate system and can increase tax at will by imposing additional taxes.

The system proposed by the Marianas would result in dual filing and double tax (e.g., Section 904 - Limitation on Foreign Tax Credit, Section 172 - Net Operating Loss Deduction, and Section 1301 - Income Averaging). In addition, the system relies on Section 931 as applied to individuals, and there is a significant danger that this will be repealed.

As a practical matter, it seems unlikely that Congress would accept a unique system for the Marianas. It would be far preferable to approach Congress with a workable system which all parties could accept without amendment.