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Senators Hart and Bartlett. How is Puerto Rico different from the tax situation in the Mariana Islands under the Covenant?

ANSWER: The United States has not extended the U.S. income tax to Puerto Rico. The United States income tax of 1936 has, however, been adopted by the Commonwealth of Puerto Rico as a local territorial income tax. Puerto Rico may amend the 1936 income tax and has the authority to issue rabates on taxes collected from local source income. As a local tax, the revenues which Puerto Rico collects are deposited in the local treasury.

The U.S. revenue laws of 1954, as amended, will be applied by the United States under Section 601 of the Covenant to the Northern Mariana Islands. These laws will be enforced as they are enforced in Guam under Section 1421i of Title 48, U.S. Code, which specifically authorizes revenues collected locally to be deposited in the Treasury of Guam and authorizes the Government of Guam to rebate revenues collected from local source income.

Unlike Puerto Rico, the Northern Mariana Islands may not amend the U.S. revenue laws to be extended and may not alter the basic tax structure to be operative in the Northern Mariana Islands.

DEPARTMENT OF STATE A/CDC/MR

REVIEWED BY B. H. BAAS DATE 3/25/87

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Senator Byrd: Will the Marianas pay U.S. income taxes? Can the Marianas rebate all income taxes collected from local sources so as to effectively avoid any taxation?

ANSWER: Residents of the Northern Mariana Islands will pay U.S. income taxes. Under Section 601 of the Covenant, the Northern Mariana Islands will be subject to United States internal revenue laws, and U.S. taxes collected in the Mariana Islands will be deposited in the local treasury. This follows the same approach taken in Guam under Section 142i of Title 48 U.S. Code, which was enacted by the U.S. Congress. The Government of the Northern Mariana Islands will also hold the authority, as is also specifically vested in Guam, to rebate tax revenues but only those derived from sources within the Mariana Islands. However, the Marianas cannot avoid the application of the U.S. income tax laws.

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