

COMPACT OF FREE ASSOCIATION

Proposed Compact

Interior Committee Reported Resolution

Possible Substitute

Section 242 Extends insular possessions' tariff treatment to Freely Associated States (FAS) thru General Headnote 3(a).

Section 252 Allows FAS to tax U.S. persons on income earned in or products consumed in FAS.

Section 253 (a) Exempts FAS citizens domiciled in FAS from U.S. tax on U.S. source passive income.

(b) Exempts FAS citizens domiciled in FAS from U.S. estate, gift, and generation-skipping taxes.

Section 254 (a) FAS may tax income that residents receive from sources outside FAS.

(b) Resident of FAS is exempt from U.S. tax if income is taxed by FAS. (Resident is any person physically present in FAS for 183 days during a taxable year.)

Section 255 Provisions of Code that applied to possessions as of January 1, 1980, would be applied to FAS for 2 years after the Compact becomes effective. Then, the U.S. promises to give to FAS benefits "substantively equivalent" to the 1980 possessions rules.

Effective Date: Income earned and transactions occurring on or after October 1, 1985

Extends tariff treatment accorded to CBI beneficiary countries to FAS.

No change.

(a) No change.

(b) No change.

(a) No change.

(b) Override this provision.

Business investment incentives of Code that applied to possessions as of January 1, 1985, would apply to FAS. If Congress changes the incentives, they would still apply to FAS for 2 years, pending negotiation to give to FAS benefits "substantially equivalent" to the 1985 possessions rules.

No lesser incentives shall be applicable to U.S. Virgin Islands, Guam, American Samoa, Northern Mariana Islands and Puerto Rico for 15 years.

Income earned and transactions occurring on or after October 1, 1985

Treat as foreign country eligible for benefits under generalized system of preferences.

No change.

(a) Override this provision (i.e., U.S. can tax any U.S. source passive income)

(b) Override this provision for U.S. persons (i.e., U.S. can impose transfer taxes on worldwide assets of U.S. citizens and domiciliaries.)

(a) No change.

(b) Override this provision. Consistent with possessions treatment, there is no exclusion for foreign earned income (sec. 911).

Business investment incentives of Code that apply to possessions as they change from time to time would apply to FAS, but FAS and U.S. would have to agree to exchange tax information of the kind listed in the CBI Act by January 1, 1987. To the extent that incentives are reduced in the future, authorize appropriations to FAS.

Income earned and transactions occurring on or after October 1, 1985