Joint Committee on Taxation
December 18, 1982
JCX-55-82

TAX PROVISIONS OF THE CARIBBEAN BASIN INITIATIVE BILL (H.R. 7397, AS AMENDED, AS PASSED BY THE HOUSE OF REPRESENTATIVES)

I. Rum Excise Tax Payments to Puerto Rico and the Virgin Islands

Present law. The United States imposes an excise tax of $10.50 per proof gallon on all distilled spirits, including rum, maunufactured in or brought into the United States. The excise taxes paid on rum made in Puerto Rico and the U.S. Virgin Islands and brought into the United States are transferred to the Treasury of the island where the rum was made.

Explanation of provision. The bill would require that all excise taxes collected on foreign rum brought into the United States (whether or not from Caribbean countries) would be transferred to the Treasuries of Puerto Rico and the Virgin Islands. The Secretary of the Treasury would prescribe a formula for allocating these taxes between Puerto Rico and the Virgin Islands.

Effective date. The substitute would apply to rum imported into the United States after December 31, 1982.

Revenue effect. It is estimated that this provision would reduce fiscal year receipts by $13 million in 1983, $20 million in 1984, $24 million in 1985, $27 million in 1986, and $33 million in 1987. This estimate does not take into account behavorial change that may result because of enactment of the proposal. Consequently, it should be regarded as a minimum estimate.

II. Caribbean Conventions

Present law. The Internal Revenue Code disallows deductions for business expenses incurred while attending a convention held outside the North American area (the United States, the U.S. possessions, the Trust Territory of the Pacific Islands, Canada and Mexico) unless the taxpayer can show that it was as reasonable to hold the convention outside the North American area as within it. The income tax treaty with Jamaica allows deductions for attending conventions held in Jamaica.

The United States has significant problems obtaining from some Caribbean Basin countries information needed to enforce U.S. tax laws.

Explanation of provision. The bill would allow business expense deductions for attending conventions held in certain

Caribbean countries, but only if the country met the following criteria.

First, the country would have to be a "beneficiary country" as defined in the trade portion (Title I) of the bill. That is, it would have to be among the 28 Caribbean Basin countries listed in section 102(b) of the bill and it would have to be designated by the President as a beneficiary country. In addition, a deduction would be provided for conventions held in Bermuda provided that Bermuda met the other criteria.

Second, the country would have to enter into an executive agreement with the United States providing for the exchange of tax information. The agreement would be negotiated by the Secretary of the Treasury. It would provide, on a reciprocal basis, for information relating to U.S. tax matters to be made available to U.S. tax officials. The agreement would have to apply to both civil and criminal tax matters. It would have to override any local rules requiring secrecy about the ownership of bank accounts or bearer shares. The agreement would impose on the officials of each country a duty not to disclose this information other than to those involved in its tax administration.

Third, no deduction would be available for attending a convention in a country found by the Secretary of the Treasury to discriminate in its tax laws against conventions held in the United States.

<u>Effective date.</u> This provision would apply to conventions beginning after December 31, 1982, but only if an exchange of information agreement were in effect on the day the convention began.

<u>Revenue effect.</u> It is estimated that this provision would reduce fiscal year receipts by less than $5 million per year.