

(B) who, on his return of income tax to the Virgin Islands, reports income from all sources and identifies the source of each item shown on such return, and

(C) who fully pays his tax liability referred to in section 934(a) to the Virgin Islands with respect to such income,

for purposes of calculating income tax liability to the United States, gross income shall not include any amount included in gross income on such return, and allocable deductions and credits shall not be taken into account.

**(d) Special rule for joint returns**

In the case of a joint return, this section shall be applied on the basis of the residence of the spouse who has the greater adjusted gross income (determined without regard to community property laws) for the taxable year.

**(e) Special rule for applying section to tax imposed in Virgin Islands**

In applying this section for purposes of determining income tax liability incurred to the Virgin Islands, the provisions of this section shall not be affected by the provisions of Federal law referred to in section 934(a).

(Added Pub. L. 99-514, title XII, §1274(a), Oct. 22, 1986, 100 Stat. 2596; amended Pub. L. 100-647, title I, §1012(w)(1)-(3), Nov. 10, 1988, 102 Stat. 3530; Pub. L. 108-357, title VIII, §908(c)(2), Oct. 22, 2004, 118 Stat. 1656.)

PRIOR PROVISIONS

A prior section 932, acts Aug. 16, 1954, ch. 736, 68A Stat. 292; Nov. 13, 1966, Pub. L. 89-809, title I, §103(m), 80 Stat. 1554; Oct. 31, 1972, Pub. L. 92-606, §1(f)(2), (3), 86 Stat. 1497; Apr. 7, 1986, Pub. L. 99-272, title XII, §12103(a), 100 Stat. 285, related to income taxation of citizens of possessions of the United States, prior to repeal by Pub. L. 99-514, title XII, §1272(d)(1), Oct. 22, 1986, 100 Stat. 2594.

AMENDMENTS

2004—Subsecs. (a)(1)(A)(i), (c)(1)(A), (4)(A). Pub. L. 108-357 substituted “during the entire taxable year” for “at the close of the taxable year”.

1988—Subsec. (c)(2). Pub. L. 100-647, §1012(w)(3), substituted “an income tax return” for “his income tax return”.

Subsec. (c)(4). Pub. L. 100-647, §1012(w)(2), amended par. (4) generally. Prior to amendment, par. (4) read as follows: “In the case of an individual who is a bona fide resident of the Virgin Islands at the close of the taxable year and who, on his return of income tax to the Virgin Islands, reports income from all sources and identifies the source of each item shown on such return, for purposes of calculating income tax liability to the United States gross income shall not include any amount included in gross income on such return.”

Subsec. (e). Pub. L. 100-647, §1012(w)(1), substituted current heading for “Section not to apply to tax imposed in Virgin Islands” and amended text generally. Prior to amendment, text read as follows: “This section shall not apply for purposes of determining income tax liability incurred to the Virgin Islands.”

EFFECTIVE DATE OF 2004 AMENDMENT

Amendment by Pub. L. 108-357 applicable to taxable years ending after Oct. 22, 2004, see section 908(d)(1) of Pub. L. 108-357, set out as an Effective Date note under section 937 of this title.

EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by Pub. L. 100-647 effective, except as otherwise provided, as if included in the provision of

the Tax Reform Act of 1986, Pub. L. 99-514, to which such amendment relates, see section 1019(a) of Pub. L. 100-647, set out as a note under section 1 of this title.

EFFECTIVE DATE

Enactment of section 932 and repeal of prior section 932 applicable to taxable years beginning after Dec. 31, 1986, with certain exceptions and qualifications, see section 1277 of Pub. L. 99-514, set out as an Effective Date of 1986 Amendment note under section 931 of this title.

REGULATIONS

Pub. L. 99-514, title XII, §1274(c), Oct. 22, 1986, 100 Stat. 2598, as amended by Pub. L. 100-647, title I, §1012(w)(4), Nov. 10, 1988, 102 Stat. 3530, provided that: “The Secretary of the Treasury or his delegate shall prescribe such regulations as may be necessary or appropriate for applying the Internal Revenue Code of 1986 [this title] for purposes of determining tax liability incurred to the Virgin Islands.”

AUTHORITY TO IMPOSE NONDISCRIMINATORY LOCAL INCOME TAXES

Pub. L. 99-514, title XII, §1274(b), Oct. 22, 1986, 100 Stat. 2597, provided that: “Nothing in any provision of Federal law shall prevent the Virgin Islands from imposing on any person nondiscriminatory local income taxes. Any taxes so imposed shall be treated in the same manner as State and local income taxes under section 164 of the Internal Revenue Code of 1954 [now 1986] and shall not be treated as taxes to which section 901 of such Code applies.”

**§ 933. Income from sources within Puerto Rico**

The following items shall not be included in gross income and shall be exempt from taxation under this subtitle:

**(1) Resident of Puerto Rico for entire taxable year**

In the case of an individual who is a bona fide resident of Puerto Rico during the entire taxable year, income derived from sources within Puerto Rico (except amounts received for services performed as an employee of the United States or any agency thereof); but such individual shall not be allowed as a deduction from his gross income any deductions (other than the deduction under section 151, relating to personal exemptions), or any credit, properly allocable to or chargeable against amounts excluded from gross income under this paragraph.

**(2) Taxable year of change of residence from Puerto Rico**

In the case of an individual citizen of the United States who has been a bona fide resident of Puerto Rico for a period of at least 2 years before the date on which he changes his residence from Puerto Rico, income derived from sources therein (except amounts received for services performed as an employee of the United States or any agency thereof) which is attributable to that part of such period of Puerto Rican residence before such date; but such individual shall not be allowed as a deduction from his gross income any deductions (other than the deduction for personal exemptions under section 151), or any credit, properly allocable to or chargeable against amounts excluded from gross income under this paragraph.

(Aug. 16, 1954, ch. 736, 68A Stat. 293; Pub. L. 99-514, title XII, §1272(d)(3), Oct. 22, 1986, 100 Stat. 2594.)

#### AMENDMENTS

1986—Pub. L. 99-514 inserted “, or any credit,” in pars. (1) and (2).

#### EFFECTIVE DATE OF 1986 AMENDMENT

Amendment by Pub. L. 99-514 applicable to taxable years beginning after Dec. 31, 1986, with certain exceptions and qualifications, see section 1277 of Pub. L. 99-514, set out as a note under section 931 of this title.

### § 934. Limitation on reduction in income tax liability incurred to the Virgin Islands

#### (a) General rule

Tax liability incurred to the Virgin Islands pursuant to this subtitle, as made applicable in the Virgin Islands by the Act entitled “An Act making appropriations for the naval service for the fiscal year ending June 30, 1922, and for other purposes”, approved July 12, 1921 (48 U.S.C. 1397), or pursuant to section 28(a) of the Revised Organic Act of the Virgin Islands, approved July 22, 1954 (48 U.S.C. 1642), shall not be reduced or remitted in any way, directly or indirectly, whether by grant, subsidy, or other similar payment, by any law enacted in the Virgin Islands, except to the extent provided in subsection (b).

#### (b) Reductions permitted with respect to certain income

##### (1) In general

Except as provided in paragraph (2), subsection (a) shall not apply with respect to so much of the tax liability referred to in subsection (a) as is attributable to income derived from sources within the Virgin Islands or income effectively connected with the conduct of a trade or business within the Virgin Islands.

##### (2) Exception for liability paid by citizens or residents of the United States

Paragraph (1) shall not apply to any liability payable to the Virgin Islands under section 932(b).

##### (3) Special rule for non-United States income of certain foreign corporations

###### (A) In general

In the case of a qualified foreign corporation, subsection (a) shall not apply with respect to so much of the tax liability referred to in subsection (a) as is attributable to income which is derived from sources outside the United States and which is not effectively connected with the conduct of a trade or business within the United States.

###### (B) Qualified foreign corporation

For purposes of subparagraph (A), the term “qualified foreign corporation” means any foreign corporation if less than 10 percent of—

- (i) the total voting power of the stock of such corporation, and
- (ii) the total value of the stock of such corporation, is owned or treated as owned (within the meaning of section 958) by 1 or more United States persons.

#### (4) Determination of income source, etc.

The determination as to whether income is derived from sources within the United States or is effectively connected with the conduct of a trade or business within the United States shall be made under regulations prescribed by the Secretary.

(Added Pub. L. 86-779, §4(a)(1), Sept. 14, 1960, 74 Stat. 998; amended Pub. L. 94-455, title XIX, §§1901(a)(118), 1906(b)(13)(A), Oct. 4, 1976, 90 Stat. 1784, 1834; Pub. L. 97-248, title II, §213(b), Sept. 3, 1982, 96 Stat. 463; Pub. L. 97-455, §1(c), Jan. 12, 1983, 96 Stat. 2498; Pub. L. 98-369, div. A, title VIII, §801(d)(7), July 18, 1984, 98 Stat. 996; Pub. L. 99-514, title XII, §1275(a)(2)(A), (c)(1), (2), title XVIII, §1876(f)(2), Oct. 22, 1986, 100 Stat. 2598, 2900; Pub. L. 108-357, title VIII, §908(c)(3), Oct. 22, 2004, 118 Stat. 1656.)

#### AMENDMENTS

2004—Subsec. (b)(4). Pub. L. 108-357 struck out “the Virgin Islands or” before “the United States” in two places.

1986—Subsec. (a). Pub. L. 99-514, §1275(c)(2)(A), struck out “or (c) or in section 934A” after “subsection (b)”.

Subsec. (b). Pub. L. 99-514, §1275(c)(1), (2)(B), added subsec. (b) and struck out former subsec. (b) which excepted from subsec. (a) domestic or Virgin Islands corporations to the extent they derived income from sources without the United States under certain conditions.

Subsec. (c). Pub. L. 99-514, §1275(c)(1), struck out subsec. (c) which provided an exception to subsec. (a) of this section for individual citizens of the United States residing in the Virgin Islands to the extent their income is derived from sources within the Virgin Islands.

Subsec. (d). Pub. L. 99-514, §1275(c)(1), struck out subsec. (d) which related to requirement to supply information.

Subsec. (e). Pub. L. 99-514, §1275(a)(2)(A), struck out subsec. (e) which provided for tax treatment of intangible property income of certain domestic corporations.

Subsec. (f). Pub. L. 99-514, §1275(a)(2)(A), struck out subsec. (f) which provided a transitional rule for applying subsec. (b)(2) of this section with respect to taxable years beginning after Dec. 31, 1982, and before Jan. 1, 1985.

Pub. L. 99-514, §1876(f)(2), struck out subsec. (f) which provided that subsec. (a) of this section not apply in the case of a Virgin Islands corporation which is a FSC.

1984—Subsec. (f). Pub. L. 98-369 added subsec. (f) relating to FSC.

1983—Subsec. (a). Pub. L. 97-455 inserted “or in section 934A” after “subsection (b) or (c)”.

1982—Subsec. (b)(2). Pub. L. 97-248, §213(b)(1), substituted “65 percent” for “50 percent”.

Subsec. (e). Pub. L. 97-248, §213(b)(2), added subsec. (e).

Subsec. (f). Pub. L. 97-248, §213(b)(2), added a temporary subsec. (f) which provided that in applying subsec. (b)(2) with respect to taxable years beginning after December 31, 1982, and before January 1, 1985, “55 percent” shall be substituted for “65 percent” for taxable years beginning in calendar year 1983 and “60 percent” shall be substituted for “65 percent” for taxable years beginning in calendar year 1984.

1976—Subsec. (b). Pub. L. 94-455, §1901(a)(118), struck out “For the purposes of this subsection, all amounts received by such corporation within the United States, whether derived from sources within or without the United States, shall be considered as being derived from sources within the United States”.

Subsec. (d). Pub. L. 94-455, §1906(b)(13)(A), struck out “or his delegate” after “Secretary” in two places.

#### EFFECTIVE DATE OF 2004 AMENDMENT

Amendment by Pub. L. 108-357 applicable to taxable years ending after Oct. 22, 2004, see section 908(d)(1) of