

of the Internal Revenue Code of 1986 by reason of the amendment to section 881 of such Code by section 1273(b)(1) of this Act shall apply to taxable years beginning after December 31, 1986.”

**EFFECTIVE DATE OF 1984 AMENDMENT**

Amendment by Pub. L. 98-369 applicable to taxable years beginning after Dec. 31, 1983, see section 711(c)(2)(A)(v) of Pub. L. 98-369, set out as a note under section 165 of this title.

**EFFECTIVE DATE OF 1977 AMENDMENT**

Amendment by Pub. L. 95-30 applicable to taxable years beginning after Dec. 31, 1976, see section 106(a) of Pub. L. 95-30, set out as a note under section 1 of this title.

**EFFECTIVE DATE OF 1976 AMENDMENT**

Amendment by section 1051(c) of Pub. L. 94-455 applicable with respect to taxable years beginning after Dec. 31, 1975, with certain exceptions, see section 1051(i) of Pub. L. 94-455, set out as a note under section 27 of this title.

Amendment by section 1901(a)(117) of Pub. L. 94-455 applicable with respect to taxable years beginning after Dec. 31, 1976, see section 1901(d) of Pub. L. 94-455, set out as a note under section 2 of this title.

**EFFECTIVE DATE OF 1972 AMENDMENT**

Pub. L. 92-606, § 2, Oct. 31, 1972, 86 Stat. 1497, provided in part that: “The amendments made by section 1 [enacting sections 935 and 6688 of this title, amending this section, sections 932, 7654, and 7701 of this title, and section 1421i of Title 48, Territories and Insular Possessions, and enacting provisions set out as notes under sections 881 and 1442 of this title] (other than section 1(e)) [amending sections 881 and 1442 of this title] shall apply with respect to taxable years beginning after December 31, 1972.”

**EFFECTIVE DATE OF 1971 AMENDMENT**

Amendment by Pub. L. 92-178 applicable with respect to taxable years ending after Dec. 31, 1971, except that a corporation may not be a DISC for any taxable year beginning before Jan. 1, 1972, see section 507 of Pub. L. 92-178, set out as an Effective Date note under section 991 of this title.

**EFFECTIVE DATE OF 1966 AMENDMENT**

Pub. L. 89-809, title I, §107(b), Nov. 13, 1966, 80 Stat. 1571, provided that: “The amendment made by this section [amending this section] shall apply with respect to taxable years beginning after December 31, 1966.”

**AUTHORITY OF GUAM, AMERICAN SAMOA, AND THE NORTHERN MARIANA ISLANDS TO ENACT REVENUE LAWS**

Pub. L. 99-514, title XII, §1271, Oct. 22, 1986, 100 Stat. 2591, provided that:

“(a) **IN GENERAL.**—Except as provided in subsection (b), nothing in the laws of the United States shall prevent Guam, American Samoa, or the Northern Mariana Islands from enacting tax laws (which shall apply in lieu of the mirror system) with respect to income—

“(1) from sources within, or effectively connected with the conduct of a trade or business within, any such possession, or

“(2) received or accrued by any resident of such possession.

“(b) **AGREEMENTS TO ALLEVIATE CERTAIN PROBLEMS RELATING TO TAX ADMINISTRATION.**—Subsection (a) shall apply to Guam, American Samoa, or the Northern Mariana Islands only if (and so long as) an implementing agreement is in effect between the United States and such possession with respect to—

“(1) the elimination of double taxation involving taxation by such possession and taxation by the United States,

“(2) the establishment of rules under which the evasion or avoidance of United States income tax shall not be permitted or facilitated by such possession,

“(3) the exchange of information between such possession and the United States for purposes of tax administration, and

“(4) the resolution of other problems arising in connection with the administration of the tax laws of such possession or the United States.

Any such implementing agreement shall be executed on behalf of the United States by the Secretary of the Treasury after consultation with the Secretary of the Interior.

“(c) **REVENUES NOT TO DECREASE.**—The total amount of the revenue received by any possession referred to in subsection (a) pursuant to its tax laws during the implementation year and each of the 4 fiscal years thereafter shall not be less than the revenue (adjusted for inflation) which was received by such possession pursuant to tax laws for its last fiscal year before the implementation year.

“(d) **NONDISCRIMINATORY TREATMENT REQUIRED.**—Nothing in any tax law of a possession referred to in subsection (a) may discriminate against any United States person or any resident (corporate or otherwise) of any other possession.

“(e) **ENFORCEMENT.**—

“(1) **IN GENERAL.**—If the Secretary of the Treasury (after consultation with the Secretary of the Interior) determines that any possession has failed to comply with subsection (c) or (d), the Secretary of the Treasury shall so notify the Governor of such possession in writing. If such possession does not comply with subsection (c) or (d) (as the case may be) within 90 days of such notification, the Secretary of the Treasury shall notify the Congress of such non-compliance. Unless the Congress by law provides otherwise, the mirror system of taxation shall be reinstated in such possession and shall be in full force and effect for taxable years beginning after such notification to the Congress.

“(2) **SPECIAL RULE FOR REVENUE REQUIREMENTS.**—If the failure to comply with subsection (c) is for good cause and does not jeopardize the fiscal integrity of the possession, the Secretary may waive the requirements of subsection (c) for such period as he determines appropriate.

“(f) **DEFINITIONS AND SPECIAL RULES.**—

“(1) **IMPLEMENTATION YEAR.**—For purposes of this section, the term ‘implementation year’ means the 1st fiscal year of the possession in which the tax laws authorized by subsection (a) take effect.

“(2) **MIRROR SYSTEM.**—For purposes of this section, the mirror system of taxation consists of the provisions of law (in effect on the day before the date of the enactment of this Act [Oct. 22, 1986]) which make the provisions of the income tax laws of the United States (as in effect from time to time) in effect in a possession of the United States.

“(3) **SPECIAL RULE FOR NORTHERN MARIANA ISLANDS.**—Notwithstanding the provisions of the last clause of section 601(a) of Public Law 94-241 [48 U.S.C. 1801 note], the Commonwealth of the Northern Mariana Islands may elect to continue its mirror system of taxation without regard to whether Guam enacts tax laws under the authority provided in subsection (a).”

**§ 932. Coordination of United States and Virgin Islands income taxes**

**(a) Treatment of United States residents**

**(1) Application of subsection**

This subsection shall apply to an individual for the taxable year if—

(A) such individual—

(i) is a citizen or resident of the United States (other than a bona fide resident of the Virgin Islands during the entire taxable year), and

(ii) has income derived from sources within the Virgin Islands, or effectively

connected with the conduct of a trade or business within such possession, for the taxable year, or

(B) such individual files a joint return for the taxable year with an individual described in subparagraph (A).

**(2) Filing requirement**

Each individual to whom this subsection applies for the taxable year shall file his income tax return for the taxable year with both the United States and the Virgin Islands.

**(3) Extent of income tax liability**

In the case of an individual to whom this subsection applies in a taxable year for purposes of so much of this title (other than this section and section 7654) as relates to the taxes imposed by this chapter, the United States shall be treated as including the Virgin Islands.

**(b) Portion of United States tax liability payable to the Virgin Islands**

**(1) In general**

Each individual to whom subsection (a) applies for the taxable year shall pay the applicable percentage of the taxes imposed by this chapter for such taxable year (determined without regard to paragraph (3)) to the Virgin Islands.

**(2) Applicable percentage**

**(A) In general**

For purposes of paragraph (1), the term “applicable percentage” means the percentage which Virgin Islands adjusted gross income bears to adjusted gross income.

**(B) Virgin Islands adjusted gross income**

For purposes of subparagraph (A), the term “Virgin Islands adjusted gross income” means adjusted gross income determined by taking into account only income derived from sources within the Virgin Islands and deductions properly apportioned or allocable thereto.

**(3) Amounts paid allowed as credit**

There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the taxes required to be paid to the Virgin Islands under paragraph (1) which are so paid.

**(c) Treatment of Virgin Islands residents**

**(1) Application of subsection**

This subsection shall apply to an individual for the taxable year if—

(A) such individual is a bona fide resident of the Virgin Islands during the entire taxable year, or

(B) such individual files a joint return for the taxable year with an individual described in subparagraph (A).

**(2) Filing requirement**

Each individual to whom this subsection applies for the taxable year shall file an income tax return for the taxable year with the Virgin Islands.

**(3) Extent of income tax liability**

In the case of an individual to whom this subsection applies in a taxable year for pur-

poses of so much of this title (other than this section and section 7654) as relates to the taxes imposed by this chapter, the Virgin Islands shall be treated as including the United States.

**(4) Residents of the Virgin Islands**

In the case of an individual—

(A) who is a bona fide resident of the Virgin Islands during the entire taxable year,

(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.)

**Editorial Notes**

**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 im-

posed 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.”

#### Statutory Notes and Related Subsidiaries

##### 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 resi-

dent 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.)

#### Editorial Notes

##### AMENDMENTS

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

#### Statutory Notes and Related Subsidiaries

##### 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 re-