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AN ACT

To provide guidance in the interpretation of the Northern Marianas Territorial Income Tax and other local taxes to taxpayers of the Northern Mariana Islands, to provide procedures for the issuance of private letter rulings, to reduce business and tax planning risks, to promote economic development, to stimulate investment, to add a new Section 1707 to Title 4 of the Commonwealth Code, and for other purposes.

BE IT ENACTED BY THE FIFTH NORTHERN MARIANAS COMMONWEALTH LEGISLATURE:

1           Section 1. Short Title. This Act may be cited as the "Letter  
2 Ruling Act of 1986."

3           Section 2. Purpose.

4                   (a) The purpose of this Act is to enact a letter ruling  
5 procedure for the taxpayers of the Northern Mariana Islands  
6 that is similar to the private letter ruling procedure that  
7 is available to the taxpayers of the United States.

8                   (b) The Act will greatly assist taxpayers in their  
9 business and tax planning under the Northern Marianas  
10 Territorial Income Tax and other local taxes. The Act provides  
11 a procedure by which a taxpayer may request a private letter  
12 ruling in advance of a contemplated transaction so that the  
13 taxpayer may have a binding position of the Department of  
14 Finance, Division of Revenue and Taxation. Based on this  
15 binding position, the taxpayer may make sound business  
16 decisions with full knowledge of the tax consequences of those  
17 decisions. By reducing the element of risk in business and  
18 investment decisions in the Commonwealth, the Government will  
19 stimulate the economic growth. It is also anticipated that

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1 additional local taxes will result from enactment of this  
2 bill, because taxpayers may with certainty source the income  
3 from complex transactions in the Northern Mariana Islands.

4 (c) The Legislature finds, while Section 602 of the  
5 Covenant grants the authority to the Government of the  
6 Northern Mariana Islands to rebate collections under the  
7 local territorial income tax (NMITIT) derived from income  
8 from sources within the Northern Mariana Islands, there is  
9 no definitive guidance in the Internal Revenue Code describing  
10 exactly what is Northern Mariana Islands source income. Such  
11 uncertainties are a detriment to the economic development of  
12 the Northern Mariana Islands, and this Act will provide a  
13 procedure by which such uncertainties can be promptly resolved  
14 without placing a taxpayer at great risk.

15 (d) This Act adds a new Section 1707 to Title 4 of the  
16 Commonwealth Code. A previous Section 1707 was enacted in  
17 P.L. 4-24, but it was repealed effective June 1, 1985, by P.L.  
18 4-39.

19 Section 3. Amendment to Title 4 of the Commonwealth Code. Title 4  
20 of the Commonwealth Code is amended to add a new Section 1707 to read as  
21 follows:

22 "Section 1707. Private Letter Ruling Procedures.

23 (a) A ruling is a written statement issued to a  
24 taxpayer or his authorized representative by the  
25 Director of Finance or his designee which interprets

1 and applies the tax laws to a specific set of facts.

2 (b) A request for a ruling by a taxpayer or his  
3 authorized representative should be submitted to the  
4 Chief of the Division of Revenue and Taxation, Department  
5 of Finance. Each request for a ruling shall include:

6 (1) a complete statement of all relevant  
7 facts relating to the transaction, including the  
8 names, addresses, and taxpayer identification  
9 numbers of all interested parties;

10 (2) a complete statement of all of the  
11 relevant laws and regulations relating to the  
12 transaction, including the section numbers and  
13 relevant text that the taxpayer seeks to have  
14 applied to the transaction;

15 (3) a full and precise statement of the  
16 business reasons for the transaction;

17 (4) a detailed description of the transaction, and

18 (5) the text of a proposed ruling to be issued to  
19 the taxpayer by the Director of Finance that interprets  
20 and applies the tax laws to a specific set of facts.

21 (c) A taxpayer may not rely on an advance ruling  
22 issued in connection with another transaction.

23 (d) Since time is of the essence for taxpayers  
24 wishing to finalize transactions and for the Commonwealth  
25 in collecting revenue generated by increased economic

01 activity, the Director of Finance shall finally determine  
02 all ruling requests within sixty (60) days of their  
03 receipt. A final determination shall be the binding  
04 position of the Department of Finance with respect to the  
05 tax treatment of the proposed transaction.

06 (e) The application fee for a letter ruling shall  
07 be \$500.00. Upon payment of the application fee, the  
08 fee shall be credited to a special fund that the Director  
09 or his designee may expend without further appropriation  
10 solely for the purpose of effective administration and  
11 enforcement of the tax laws applicable in the Commonwealth.

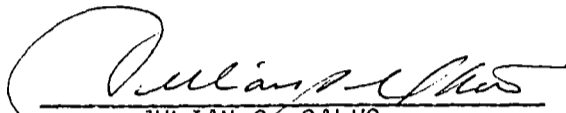
12 (f) Upon the deletion of the names of the taxpayers  
13 and any other personal facts that are not essential to an  
14 understanding of the ruling, the Department of Finance shall  
15 make public any private letter ruling that it issues. All  
16 rulings shall be made public within 15 days of their issuance.

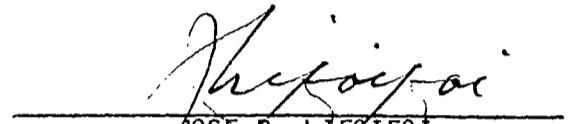
17 Section 4. Severability. If any section or provision of this Act  
18 shall be found to be invalid by any court, it shall be conclusively  
19 presumed that this Act would have been passed by the Legislature without  
20 such invalid section or provision, and the Act as a whole shall not be  
21 declared invalid by reason of the fact that one or more sections or  
22 provisions may be found to be invalid by any court.

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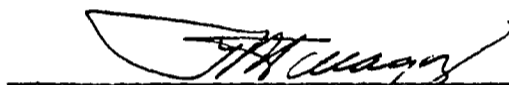
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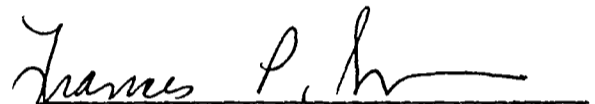
1           Section 5. Effective Date. This Act shall take effect upon its  
2 approval by the Governor, or upon its becoming law without such approval.

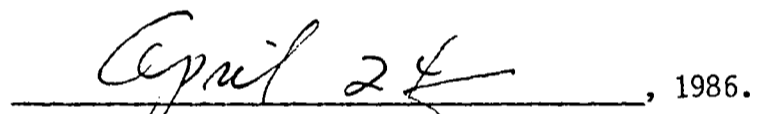
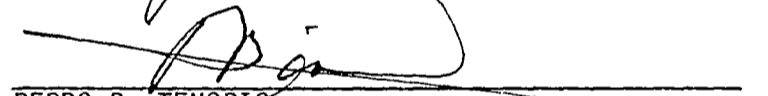
  
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JULIAN S. CALVO  
President of the Senate

  
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JOSE R. LIFOIFOI  
Speaker  
House of Representatives

ATTEST:

  
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MANUEL P. VILLAGOMEZ  
Senate Legislative Secretary

  
\_\_\_\_\_  
FRANCES P. SABLAN  
House Clerk

  
\_\_\_\_\_, 1986.  
  
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PEDRO P. TENORIO  
Governor  
Commonwealth of the Northern Mariana Islands