



JOINT COMMITTEE ON TAXATION

July 16, 2004

JCX-49-04

**DESCRIPTION OF H.R. 982, A BILL “TO CLARIFY THE TAX
TREATMENT OF BONDS AND OTHER OBLIGATIONS ISSUED
BY THE GOVERNMENT OF AMERICAN SAMOA”**

Introduction

The Senate Committee on Finance has scheduled a markup of H.R. 982,¹ a bill “To Clarify the Tax Treatment of Bonds and Other Obligations Issued by the Government of American Samoa,” on July 20, 2004. This document,² prepared by the staff of the Joint Committee on Taxation, provides a description of H.R. 982.

Present Law

The interest on obligations issued by American Samoa is generally exempt from Federal income tax.³ This is consistent with the treatment of interest on obligations issued by other possessions of the United States. Federal law does not, however, provide for an exemption from State, local, and territorial taxes for the interest paid on all obligations issued by American Samoa.⁴ Rather, present law only provides an exemption from State, local, and territorial taxes for certain industrial development bonds issued by American Samoa.⁵ In contrast, Congress has provided statutory exemptions from State, local, and territorial taxes for all obligations issued by

¹ This bill passed the House of Representatives on November 4, 2003.

² This document may be cited as follows: Joint Committee on Taxation, *Description of H.R. 982, a Bill “To Clarify the Tax Treatment of Bonds and Other Obligations Issued by the Government of American Samoa,”* (JCX-49-04), July 16, 2004.

³ 26 U.S.C. sec. 103(c).

⁴ 48 U.S.C. sec. 1670.

⁵ 48 U.S.C. sec. 1670(b). The power of Congress to make rules and regulations respecting “the Territory or other Property belonging to the United States” is generally derived from Article IV, section 3, clause 2 of the Constitution.

Guam,⁶ the Virgin Islands,⁷ Puerto Rico,⁸ and the Northern Mariana Islands,⁹ in addition to the exemption from Federal income tax.

Description of Proposal

The proposal provides that the interest on any obligation issued by the Government of American Samoa is exempt from State, local, and territorial taxes. This exemption does not apply to gift, estate, inheritance, legacy, succession, or other wealth transfer taxes.

Effective Date

The proposal applies to obligations issued after the date of enactment.

⁶ “All bonds issued by the government of Guam or by its authority shall be exempt . . . from taxation by the Government of the United States or by the government of Guam, or by any State or Territory or any political subdivision thereof, or by the District of Columbia.” 48 U.S.C. sec. 1423a.

⁷ Bonds issued by the government of the Virgin Islands are “exempt from taxation . . . by any State, Territory, or possession or by any political subdivision of any State, Territory, or possession, or by the District of Columbia.” 48 U.S.C. sec. 1403.

⁸ “All bonds issued by the Government of Puerto Rico, or by its authority, shall be exempt from taxation by the Government of the United States, or by the Government of Puerto Rico or of any political or municipal subdivision thereof, or by any State, Territory, or possession, or by any county, municipality, or other municipal subdivision of any State, Territory, or possession of the United States, or by the District of Columbia.” 48 U.S.C. sec. 745.

⁹ Bonds issued by the Northern Mariana Islands are “exempt, as to principal and interest, from taxation by the United States, or by any State, territory or possession of the United States, or any political subdivision of any of them.” 48 U.S.C. sec. 1801 note.