

TWENTY-THIRD NORTHERN MARIANAS COMMONWEALTH
LEGISLATURE
IN THE HOUSE OF REPRESENTATIVES

Regular Session, 2024

H. B. 23- 103

A BILL FOR AN ACT

To amend 4 CMC § 1305 to exempt services and the sale or exchange of securities and other similar assets from gross revenue tax; to amend 4 CMC § 1708 to allow rebates for exempted activities; and for other purposes.

**BE IT ENACTED BY THE 23RD NORTHERN MARIANAS
COMMONWEALTH LEGISLATURE:**

1 **Section 1. Findings and Purpose.** The Legislature finds that the current
2 CNMI tax code presents impediments to the attraction and retention of individuals
3 and businesses participating in the global digital economy and global financial
4 markets. However, minor changes to business gross revenue tax (BGRT)
5 exemptions can remove these impediments and foster rapid growth of these
6 industries in the Commonwealth, which could result in a significant increase in tax
7 revenues.

8 The Legislature further finds that manufacturers and producers of physical
9 goods that are produced in the CNMI and sold to customers outside of CNMI are
10 currently exempt from BGRT. In the global digital economy, a large percentage of
11 businesses do not sell physical goods, but instead sell services. Such services

1 include, but are not limited to, remote education, customer service, human
2 resources, consulting, and subscriptions or memberships to websites. A CNMI-
3 based business selling export services provides the same economic benefit as a
4 business selling exported physical goods. Accordingly, allowing such businesses to
5 utilize tax benefits available in the CNMI will manifestly increase CNMI's
6 attractiveness as a domicile and tax residence for businesses and individuals
7 engaged in the digital economy.

8 In addition, the Legislature finds that the current BGRT scheme makes it
9 unviable for many financial businesses to domicile in CNMI. Many financial
10 businesses execute trades of securities and other similar assets that generate capital
11 gains or losses and have resultant annual income tax liabilities. As currently
12 codified, all funds received from the trade or sale of such assets are subject to the
13 BGRT, regardless of whether such sales or trades result in a loss for the business.
14 This means that it is virtually impossible for businesses that engage in these
15 activities to domicile in the CNMI. Exempting the sale or exchange of securities
16 and other similar assets from BGRT would allow the CNMI to attract financial
17 companies and the CNMI would benefit from the capital gains taxes paid by these
18 businesses under the NMTIT. The US Securities Brokerage Market size is
19 estimated at \$196.99 billion in 2024, and is expected to reach \$242.33 billion by
20 2029, growing at a compound annual growth rate of 4.23% during the forecast
21 period from 2024 through 2029. Capturing even a fraction of this market would

1 yield substantial revenues for CNMI. This would create an entirely new revenue
2 source from a market that currently does not exist in the CNMI.

3 Moreover, the CNMI would also receive additional tax revenues by way of
4 income, wage and salary, and earnings taxes paid by the owners and employees of
5 the companies that domicile here as a result of these tax benefits.

6 Therefore, the purpose of this Act is to amend 4 CMC § 1305 to exempt
7 export services and the sale or exchange of securities and other similar assets from
8 gross revenue tax; to amend 4 CMC § 1708 to allow rebates for exempted activities;
9 and for other purposes.

10 **Section 2. Amendment.** 4 CMC § 1305 (a) is hereby amended to read as
11 follows:

12 “Notwithstanding any other provision, 4 CMC §§ 1301(a), 1302 and 1303
13 shall not apply to the gross revenue:

14 (a) Derived from the revenue generated by the export of goods, services,
15 resources, food, fish or agricultural products produced or manufactured in the
16 Commonwealth and exported by the manufacturer or producer regardless of
17 whether or not the manufacturer or producer is deemed the ‘seller’ of such goods,
18 services, resources, fish or agricultural products.”

19 **Section 3. Amendment.** 4 CMC § 1305 is hereby amended to add a new
20 subsection (j) to read as follows:

21 (j) Derived from the sale or trade of securities and other similar assets.

1 **Section 4. Amendment.** 4 CMC § 1708 (d) is hereby repealed and re-
2 enacted to read as follows:

3 “(d) Limitations.

4 (1) Notwithstanding subsection (a) of this section,

5 (i) A person is not entitled to any rebate offset with respect to any
6 accumulated earnings tax paid by the person pursuant to Section 531 of the NMTIT.

7 (ii) A person, who has any income from sources within the Commonwealth
8 that is not subject to any taxes under chapter 2 [4 CMC §§ 1201 seq.] or 3 [4 CMC
9 §§ 1301 et seq.] of this division, shall not be entitled to any rebate offset under this
10 section with respect to the tax on such income. This subsection shall not apply to
11 income:

12 (A) Exempted from the definition of earnings under 4 CMC § 1202(b)(6).

13 (B) Exempted from the gross revenues tax under 4 CMC § 1305(a), or (d),
14 or j.

15 (C) Taxed under article 2 of chapter 4 of this division [4 CMC §§ 1421 et
16 seq.].

17 (D) From the sale of private land to the Commonwealth Government for
18 public purpose.

19 (2) Notwithstanding subsection (d)(1)(ii) of this section, a person, who has
20 any income from sources within the Commonwealth that is not subject to any taxes
21 under chapter 2 [4 CMC §§ 1201 et seq.] or 3 [4 CMC §§ 1301 et seq.] of this

1 division, may elect to have that income taxed as if it were subject to the applicable
2 tax under chapter 2 or 3 of this division. If a person so elects and pays the applicable
3 tax, such person shall be entitled to the rebate allowed under subsection (a) of this
4 section. A person shall make the election in a manner and on a form prescribed by
5 the secretary. This subsection shall not apply to income:

6 (A) Exempted from the definition of earnings under 4 CMC § 1103(f)(8).

7 (B) Exempted from the definition of earnings under 4 CMC § 1202(b)(6).

8 (C) Exempted from the gross revenue tax under 4 CMC § 4 CMC § 1305(a),
9 or (d), or j.

10 (D) Taxed under article 2 of chapter 4 of this division [4 CMC §§ 1421 et
11 seq.].”

12 **Section 5. Severability.** If any provisions of this Act or the application of
13 any such provision to any person or circumstance should be held invalid by a court
14 of competent jurisdiction, the remainder of this Act or the application of its
15 provisions to persons or circumstances other than those to which it is held invalid
16 shall not be affected thereby.

17 **Section 6. Savings Clause.** This Act and any repealer contained herein
18 shall not be construed as affecting any existing right acquired under contract or
19 acquired under statutes repealed or under any rule, regulation, or order adopted
20 under the statutes. Repealers contained in this Act shall not affect any proceeding
21 instituted under or pursuant to prior law. The enactment of the Act shall not have

1 the effect of terminating, or in any way modifying, any liability, civil or criminal,
2 which shall already be in existence on the date this Act becomes effective.

3 **Section 7. Effective Date.** This Act shall take effect upon its approval by
4 the Governor, or its becoming law without such approval.

Prefiled: 3/22/2024

Date: _____

Introduced by: _____

Rep. Manny Gregory T. Castro

Reviewed for Legal Sufficiency by:

Joseph D. Jay
House Legal Counsel