

be effectively connected with the conduct of a trade or business in such a possession or the United States for the 3-year period ending with the close of the taxable year of such corporation (or for such part of such period as the corporation or any predecessor has been in existence), and

“(C) no substantial part of the income of such corporation is used (directly or indirectly) to satisfy obligations to persons who are not bona fide residents of such a possession or the United States.”

(2) **TECHNICAL AMENDMENTS.**—

(A) Subsection (b) of section 881 is amended by redesignating paragraph (3) as paragraph (2) and by striking out paragraph (4).

(B) Subsection (c) of section 1442 is amended to read as follows:

“(c) **EXCEPTION FOR CERTAIN POSSESSIONS CORPORATIONS.**—For purposes of this section, the term ‘foreign corporation’ does not include a corporation created or organized in Guam, American Samoa, the Northern Mariana Islands, or the Virgin Islands or under the law of any such possession if the requirements of subparagraphs (A), (B), and (C) of section 881(b)(1) are met with respect to such corporation.”

PART II—TREATMENT OF THE VIRGIN ISLANDS

SEC. 1274. COORDINATION OF UNITED STATES AND VIRGIN ISLANDS INCOME TAXES.

(a) **IN GENERAL.**—Subpart D of part III of subchapter N of chapter 1 is amended by inserting after section 931 the following new section:

“SEC. 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 at the close of the 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.**—