

(c) **REGULATIONS ON APPLICATION OF MIRROR SYSTEM.**—The Secretary of the Treasury or his delegate shall prescribe such regulations as may be necessary or appropriate for applying this title for purposes of determining tax liability incurred to the Virgin Islands.

(d) **CLERICAL AMENDMENT.**—The table of sections for such subpart D is amended by inserting after the item relating to section 931 the following new item:

“Sec. 932. Coordination of United States and Virgin Islands income taxes.”

**SEC. 1275. VIRGIN ISLANDS CORPORATIONS ALLOWED POSSESSION TAX CREDIT.**

(a) **POSSESSION TAX CREDIT ALLOWED.**—

(1) **IN GENERAL.**—Paragraph (1) of section 936(d) (defining possession) is amended by striking out “, but does not include the Virgin Islands of the United States” and inserting in lieu thereof “and the Virgin Islands”.

(2) **CONFORMING AMENDMENTS.**—

(A) Section 934 is amended by striking out subsections (e) and (f).

(B) Subsection (e) of section 246 is amended by striking out “or 934(e)(3)”.

(b) **CLARIFICATION OF TREATMENT OF VIRGIN ISLANDS INHABITANTS.**—Subparagraph (B) of section 7651(5) (relating to the Virgin Islands) is amended to read as follows:

“(B) For purposes of this title, section 28(a) of the Revised Organic Act of the Virgin Islands shall be effective as if such section 28(a) had been enacted before the enactment of this title and such section 28(a) shall have no effect on the amount of income tax liability required to be paid by any person to the United States.”

(c) **TECHNICAL AND CONFORMING AMENDMENTS.**—

(1) Section 934 is amended by striking out subsections (b), (c), and (d).

(2)(A) Subsection (a) of section 934 is amended by striking out “or (c) or in section 934A”.

(B) Section 934, as amended by paragraph (1), is amended by inserting after subsection (a) the following new subsection:

“(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 respect to so much of the tax liability referred to in subsection (a) as is attributable to income which is derived from sources outside the United States and which is not effectively connected with the conduct of a trade or business within the United States.