

AUG 16 1966

Honorable Robert E. Vaughan
Deputy Assistant Secretary
Public Land Management
Department of the Interior
Washington, D. C. 20240

Dear Mr. Vaughan:

I have been asked to reply to your letter of August 3, 1966, to Ross Pritchard, Regional Director for the Far East. In your absence on vacation I have discussed this matter further with Mrs. Ruth Van Cleve, Director of the Office of Territories, and I am sending her a copy of this letter.

I am in complete agreement with your thought that Volunteers serving in the Territory should be subject to the same laws which govern the lives of the people of the islands. That Volunteers should be subject to local law is one of the keystones of the Peace Corps' philosophy in its operation around the world. No diplomatic immunity is requested for Volunteers in foreign countries, and the Volunteers are expected to observe in full the laws of the host country. The same will be true in the Trust Territory.

Your letter questions the desirability of "special tax exemption" for Peace Corps Volunteers in the Trust Territory. I would like to state briefly the reasons why I believe that Volunteers should not be compelled to pay taxes to support the Trust Territory Government and its subdivisions.

Peace Corps Volunteers cannot be lumped generally with "Americans" in the Territory. Under section 5(a) of the Peace Corps Act, it is specifically stated, with several exceptions not pertinent to this matter, that Volunteers are not to be "deemed officers or employees ... of ... the United States for any purpose." Rather, they are men and women who have chosen to sacrifice at least two years from the pursuit of their careers to help the peoples of countries and areas abroad meet their needs for trained manpower. In return for this service, Volunteers receive a living allowance intended to provide only a

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subsistence standard of living, and a readjustment allowance at a rate of \$75 a month, payable upon the Volunteer's return to the United States. The readjustment allowance and part of the living allowance are already subject to United States income tax. In view of these factors, it is my opinion that it is basically unfair to demand that Volunteers shoulder the additional financial burden of paying taxes to support the activities of the Trust Territory Government and its subdivisions.

If the financial burden of the taxes were to be removed from the individual Volunteers and placed upon the Peace Corps by an increase in the living allowance sufficient to cover the taxes, the payment of taxes would still be undesirable. The Peace Corps is going to the Trust Territory to help the people of the Territory, in the words of section 2(a) of the Peace Corps Act, in "meeting their needs for trained manpower." Congress assuredly does not intend that the Peace Corps utilize its appropriated funds to assist the Government of the Trust Territory and its subdivisions in the performance of their general governmental functions.

It is not sufficient to say that Trust Territory tax law does not, at the present time, discriminate against United States citizens. It is the imposition of these taxes against Volunteers that is objectionable. Neither is it sufficient if it is said that, at present, Trust Territory taxes would have a negligible effect on Volunteers. As you know, Secretary of the Interior Order No. 2876 of January 30, 1964, 29 F.R. 1855 (February 7, 1964) places both the executive and legislative authority of the Government of the Trust Territory in the hands of the High Commissioner. Order No. 2882 of September 28, 1964, 29 F.R. 13613 et seq. (October 3, 1964) redelegated the High Commissioner's legislative authority to the Congress of Micronesia, with certain exceptions. The important fact is that the Commissioner and the Congress between them have full powers of taxation. That this power has not been widely exercised at present does not mean it will not be exercised in the future.

When Ross Pritchard delivered the draft letter from Jack Vaughn, Director of the Peace Corps, to High Commissioner William Norwood, it was his intention that the letter be signed in July and submitted to the Congress of Micronesia for ratification prior to its adjournment on August 12. It is now too late to obtain a ratification this year. Therefore, the Peace Corps requests that, pending action by the Congress of Micronesia, the operations of the Peace Corps in the Trust Territory be governed by the provisions of the letter which Mr. Pritchard delivered to you in draft. Would you advise me whether or not this is acceptable to the High Commissioner?

Mrs. Van Cleve informs me that a consultant to the Department of the Interior is preparing a report on the existence of taxes of all kinds within the Trust Territory. She has promised to send me a copy of this report. I would also appreciate receiving a report on the nature of customs duties which might be applicable to Peace Corps personnel. When this material is received, we can review the matter and determine whether or not any change should be made regarding tax and customs exemptions.

I will be happy to discuss this matter further with you at any time.

Sincerely,

Eric Stevenson
General Counsel

cc:
Mrs. Ruth Van Cleve
Director
Office of Territories

cc:
FE
GC files
GC R
ES chron
JAF chron

Clearance:
GC-AFessaye (in draft)
FE-RPritchard FE
OD-JVaughn mv

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