



UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF TERRITORIES

FILE COPY
Surname:

Hon. William H. Norwood
High Commissioner of the Trust Territory
of the Pacific Islands
Saipan, Mariana Islands

AUG 23 1966

Dear Mr. Norwood:

You will remember when last you were in Washington discussing in a very general way the question of tax and customs duty exemptions for Peace Corps Volunteers and staff. I enclose for your information copies of the pertinent documents to date: the Peace Corps' proposed letter to you (undated, and made available to us informally for comment); Mr. Vaughan's letter of August 3 on the subject; the response of August 16 from the General Counsel of the Peace Corps; and Mr. Vaughan's recent acknowledgement.

We continue to feel strongly that the exemptions sought should not be granted, chiefly for the philosophical reason set out in Mr. Vaughan's letter. It does seem to us inconsistent for the Peace Corps to seek to have its Volunteers and staff "subject to the same laws which govern the lives of the people of the islands" (paragraph 2 of the August 16 letter), while at the same time objecting to their being "compelled to pay taxes to support the Trust Territory Government and its subdivisions" (paragraph 3). We do propose, however, to consider the matter further, in light of the Tabb report (which the Nathan people tell us will be available in Washington about September 1) and of your comments on the matter, which we look forward to having.

Let us suggest a number of considerations and questions, set forth at random and numbered only to facilitate your response (and not because they are presented in any logical order).

1. In addition to the basic objection cited in Mr. Vaughan's letter, we also are greatly in doubt as to whether the proposed Norwood-Jack Vaughn agreement is not an unfortunate device for modifying revenue laws. Although it would doubtless be within the authority of the Congress of Micronesia to amend the Trust Territory's revenue laws, at the Territorial, District, and municipal levels, by ratifying the agreement, it seems to us bad practice, likely to give rise to total uncertainty as to who has what liability.

2. We are not at all sure what construction to place upon the pertinent language of the proposed agreement, nor have we been able to

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obtain such guidance informally as to what the words mean. We presume that excise taxes and import taxes would not be within the scope of the agreement (i.e., an exemption would not be expected), on the ground that such taxes are "included in the price of...supplies", but we have not been able to confirm this construction. We would like to know from you whether we are right in supposing that excise taxes and import taxes, as well as sales taxes (if any have been imposed) and alcoholic beverage taxes, are "included in the price" at the time of retail sale. It was suggested that an exemption from the motor vehicle fuel tax might be sought, but I presume that that tax is also "included in the price" and thus would not be the subject of an exemption under the agreement. As you will have inferred, our problem here arises in part from the extreme difficulties of administration that we should suppose would arise if an exemption from any of the foregoing taxes were to be granted.

3. What about head taxes? Would a Volunteer be required (without an exemption agreement) to pay them? Are they more than a few dollars a year?

4. We judge that the possibility of an income tax is the chief source of concern to the Peace Corps. On the basis of our experience with territorial income taxes in Guam, Samoa, and the Virgin Islands, we believe it likely that any income tax that might be adopted in the Trust Territory will contain credit provisions which will avoid double taxation. Could we say that, in addition to our policy objections to any income tax law which is discriminatory, an income tax law which purports to tax Americans and Micronesians at different rates would probably violate the due process and equal protection clauses of the Trust Territory's Bill of Rights?

5. Are we correct in supposing that items brought with Volunteers and staff, such as clothing and personal effects, would not be subject to any import taxes? We presume this to be the case, but would be glad to have your confirmation.

6. On balance, would you concur with the view that, given the existing Trust Territory revenue laws (and assuming no exemption agreement), the taxes and duties paid by Peace Corps Volunteers and staff (except those added to the price of items purchased at retail) would be negligible?

7. Note the last paragraph of page 2 of Mr. Stevenson's letter of August 16, in which he asks whether you would be willing to have "the operations of the Peace Corps in the Trust Territory...governed by

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the provisions of the letter, pending ratification by the Congress of Micronesia. We presume that you would not, but we would like to have your view on the matter.

We shall look forward to hearing from you.

Sincerely yours,

(Sgd.) Mrs. Ruth G. Van Cleve

Mrs. Ruth G. Van Cleve
Director

Enclosures

cc: Mr. Milner

VanCleve:emw
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