



UNITED STATES DEPARTMENT OF INTERIOR
TRUST TERRITORY OF THE PACIFIC ISLANDS
OFFICE OF THE HIGH COMMISSIONER
SAIPAN, MARIANA ISLANDS

COMMERCIAL
CABLE ADDRESS
HICOTT SAIPAN

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September 1, 1966

Mrs. Ruth G. Van Cleve
Director, Office of Territories
Department of Interior
Washington, D. C. 20240

Dear Mrs. Van Cleve:

I am pleased to have an opportunity to express my views on the proposed letter of understanding submitted by the Peace Corps and to comment on your numbered questions as requested in your August 23, 1966, letter.

Except for generalizations such as providing for "no less favorable treatment" and future "arrangements" as may be required which are acceptable and require no comment, the Peace Corps' proposal seems to be directed primarily to the subject of tax exemption. The concept of special treatment for the Peace Corps and its supervisory staff is not only politically repugnant but also is contrary to the spirit and purpose of that program as we understand it.

From our standpoint the entire concept of the demand for more favorable treatment, as distinguished from "no less favorable treatment" is objectionable. The harm such treatment would do to the public image of the United States in the eyes of Trust Territory residents would offset the good the Peace Corps program might be expected to accomplish. In short, it would amount to an imposition of one of the evils of colonialism which the Department of the Interior through its Trust Territory Government has continuously worked to avoid. It immediately destroys the concept of "we" and subjects the people here to the invidious distinction between "they" and "us."

Since these views have been given to the Peace Corps in Mr. Vaughan's letter to Mr. Pritchard, it is unnecessary to dwell on them at length. However, as a further thought, we note with interest the insight into the Congressional mind revealed by General Counsel Stevenson. His understanding of the "general governmental functions" in the Trust Territory and the mission of the Peace Corps, both of which are financed by Congress, seems to be at variance with ours.

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With respect to the specifics of tax exemptions for Peace Corps staff and volunteers there is at present only one significant tax imposed in the Trust Territory which would come under the exemption sought for the Peace Corps personnel. This is perhaps best indicated by an examination of the taxes which remain operative today listed in the 1965 report to the United Nations.

The tax exemption, as distinguished from license fee, available to the Peace Corps is the municipal "head tax" levied in most communities of the Territory. The extent of the "burden" thus imposed is best illustrated by the report for the Mariana Islands District. The three municipalities impose an annual \$2.00 or \$3.00 head tax upon the more than 8,000 residents (including U. S. citizens) and of that population, the report shows, 29 persons paid \$32.00 during 1965. The highest levy is \$13.40 per year in the Marshall Islands District ranging downward to \$1.15 per year.

As recently as July 15, 1966, the Attorney General advised the District Administrator, Palau, and the Koror Magistrate that the Koror municipal head tax is collectible from all male residents including U. S. citizens who are U. S. Weather Bureau employees, Page Communication employees, Van Camp Sea Food Company employees and Trust Territory employees as well as all other male "foreigners" residing in the municipality. It would be difficult to explain to the Koror Magistrate why it is proper for the U. S. citizens employed by the U. S. Weather Bureau to pay the annual head tax but U. S. citizens with the Peace Corps are to be exempt. When the Koror official asks by what authority we exempt the Peace Corps people from the local ordinance in view of the taxing authority granted by the Congress of Micronesia in Public Law 1-6 we wonder what kind of acceptable answer could be given him.

As we construe the proposed tax exemption it would be applicable unless the levy was "included in the price." In effect, it appears the Peace Corps does not want its staff or volunteers to pay the fees which are collected from all persons, regardless of citizenship, for a driver's license (.50 cents), motor vehicle registration and license, dog licenses, firearm taxes and movie taxes ranging from one to five cents per ticket. There are no other applicable exactions if we interpret the agreement correctly because gasoline, liquor and business license fees are all "included in the price."

II
189
4-430531

It is noted that in the 1965 United Nations report certain taxes, such as income and municipal sales taxes, are listed but which became invalid by enactment of Public Law 1-6.

The other exemption sought in agreement is for "private organizations performing functions hereunder under contract with the Peace Corps." What "private organizations" might be involved and what function they would perform we do not know, but if they engaged in business they would be subject to the prevalent business license fees. We are reasonably certain Mobil Oil Company of Micronesia, Inc., which is paying substantial wholesale business license taxes in the districts as well as a five cent per gallon tax "upon the use, distribution or sale" of gasoline would not agree that another company under contract to supply gasoline to Peace Corps official and private vehicles in the Trust Territory should be excused from the same exactions merely because of the opinion Congress did not intend to assist the Trust Territory Government through Peace Corps appropriations.

There are additional reasons why we oppose the requested tax exemptions. But perhaps we have sufficiently illustrated our beliefs.

As to your specific questions:

1. We agree with your interpretation and add that we do not have the authority to change existing law. Only the Secretary of the Interior or the Congress of Micronesia could make the Peace Corps proposal operative. On this point, we consider out of sequence your No. 7.
7. To do as suggested by Mr. Stevenson would be to knowingly agree to the breach of every applicable revenue statute in the Trust Territory. Such action by the head of government is unthinkable. I am sure Mr. Stevenson does not understand the division of governmental functions in the Trust Territory as otherwise he would not have made the request.
2. Import taxes, liquor and gasoline excises all are "included in the price." There are no sales taxes although their imposition, except on food, are within the authority of District Legislatures.
3. Most head taxes, when there is any effort to enforce them, are not only nominal but also are subject to being paid by work.

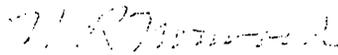
II
185

4. We agree with your conclusion that unless an income tax was uniformly imposed it would contravene Section 4 of the Trust Territory Code, and would thereby be invalid under Secretarial Order 2382. Veto by the High Commissioner and ultimately by the Secretary of the Interior also is available as to any unacceptable tax law.

5. Import taxes are levied only upon manufactured items brought to the Trust Territory for resale. (Public Law 1-3 Sec. 1.) No duty or tax is imposed on items brought in for personal use. Nor are any immigration fees imposed. Even a visitor's entry permit is issued without charge.

6. Any taxes imposed, as illustrated above, would indeed be negligible. We agree with Mr. Vaughan the exemption question is more academic than real and for this very reason we oppose "more favorable treatment" in principle rather than its economic effect on governmental revenue.

Sincerely yours,



W. R. Norwood
High Commissioner

P. S. Please see attached sheet.

11
1966

P. S. The foregoing response to your letter of August 23rd regarding the possible impact of taxes and fees on Peace Corps Volunteers for the Trust Territory represents the joint review and composite opinion of the Attorney General, Assistant Commissioner for Administration, Director of Budget and Finance, Assistant Commissioner for Community Services, and myself.

May I express the supplementary personal opinion that this issue is a mole hill which seems to me to have assumed mountainous proportions in the thinking of Mr. Stevenson. After reviewing all of the possible implications, I cannot see any need whatever to formalize special exemptions for Peace Corps Volunteers under existing conditions.

As far as the future is concerned, we may in time recommend or the Congress of Micronesia or the District may enact some additional tax legislation (we have not yet seen the Tabb Report). Even if this happens, it is the opinion of the Attorney General and the Director of Budget and Finance that the subsistence allowance for Peace Corps Volunteers would not be construed as taxable income nor would the separation allowance at the completion of their service here be construed as taxable income.

There is one additional arrangement which I am quite sure could be made to provide partial relief to the Peace Corps and that would be to give the Peace Corps the benefit of the Government rate on gasoline and other petroleum products for program purposes. I am thinking here that at the District Centers where we may have some central supply and storage facilities, the Peace Corps could make arrangements to obtain their gasoline, oil and other lubricants at the same rate that we charge the various operating departments. Individual Peace Corps Volunteers who may wish to buy motorcycles or cars for their personal use would probably be expected to obtain their gas at the regular retail rate. Details of that arrangement could be worked out.

With the foregoing addendum, I hope that we have satisfactorily answered your questions.

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II
197

4- 430534