

SEP 30 1966

Mr. Robert E. Vaughan  
Deputy Assistant Secretary  
Public Land Management  
U. S. Department of Interior  
Washington, D. C. 20240

Dear Mr. Vaughan:

Mrs. Ruth Van Cleve, in a September 20, 1966 letter to me, enclosed a copy of the Nathan Associates, Inc. study on "Public Finance in Micronesia." I found this report to be of great interest.

Mrs. Van Cleve's letter concluded by suggesting that the Peace Corps not pursue the matter of Trust Territory taxation of Volunteers any further. This view seems to be based upon the grounds that the Territory taxes are almost negligible, and that exemption from the taxes will stamp the Volunteers as a privileged group.

However, I do not believe that the first ground takes into account the fact that the Trust Territory Government and its subdivisions together enjoy a complete taxing power which is subject to an increased use at a later date. It also fails to recognize that, as stated at page 30 of the study, "There have been a large variety of taxes levied by various levels of Micronesian governments for some time." Among the taxes mentioned in the study which might be applicable to Volunteers are head taxes, excise taxes, dog taxes, health taxes, and salary taxes. The disparity described in the study with respect to local taxation might well create difficulties among the Volunteers who might be accorded different tax treatment in different municipalities. This might also create administrative difficulties if the Peace Corps were to attempt to absorb the taxes through the Volunteers' living allowances. Also, as I mentioned in my letter of August 16, 1966, I am sure that Congress did not intend that the Peace Corps utilize its appropriated funds to absorb taxes which assist the Government of the Trust Territory and its subdivisions in the performance of their general governmental functions.

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With respect to the second ground, tax exemptions, in my view, will not stamp the Volunteers as a privileged group for the reasons set forth in my August 16 letter of Peace Corps experience in 46 foreign countries seems to be a desirable precedent to follow in an agreement between the Director and the High Commissioner, and I can assure you that in no country have the Volunteers been looked upon by anyone as privileged because they are exempted from taxation.

In view of the scheduled arrival of the Volunteers in the Territory in November, I would suggest that we get together to discuss this matter further at your earliest convenience.

Very truly yours,

Eric Stevenson  
General Counsel

cc: Mrs. Ruth Van Cleve  
Director  
Office of Territories  
U. S. Department of Interior  
Washington, D. C. 20240

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