

Trust Territory

NOV 4 1966

Mr. John Pinetich
Peace Corps Director
Trust Territory of the Pacific Islands
Saipan

Dear John:

On June 21, 1966, this office drafted a letter from the Director to High Commissioner Herwood, a copy of which is attached, based upon the standard Peace Corps program agreement covering the usual subjects such as tax exemptions and customs regulations, with appropriate modifications because of the unique status of the Trust Territory. Soon thereafter, a copy of this letter was given to the Department of Interior for their comments.

On August 3, 1966, Deputy Assistant Secretary of Interior Robert E. Vaughan wrote Ross Fritchard, indicating the Department's opposition to tax exemptions for Volunteers in the Territory. On August 16, 1966, I wrote Mr. Vaughan, setting out the Peace Corps' position in favor of such exemptions. A considerable correspondence ensued, with neither party changing its positions. Copies of the relevant letters are attached.

Interior's basic position is that tax exemptions for Volunteers would place them in a "special or privileged category," and that such status is inconsistent with the tax-paying status of other Americans in the Territory. Interior also emphasizes that the sums involved are insignificant, since the principal tax applicable to the Volunteers is a municipal head tax which varies from \$1 to \$13.50 per annum in the various taxing jurisdictions. Our position is basically that there is an adequate basis for distinguishing Peace Corps Volunteers from other Americans in the Territory, and that it is unfair to ask them to pay Territory taxes from their subsistence-level living allowances. We have also pointed out that, in addition to the head tax, the Territory has excise taxes, health taxes and personal property taxes which might apply to Volunteers. Admittedly such taxes are small at the present time, but this is no assurance that they, and possible new taxes such

as income tax, might not become burdensome in the future. In addition, the use of the Volunteer's living allowance for payment of taxes would be contrary to the intent of Congress since Peace Corps funds were not appropriated to assist the Government of the Trust Territory and its subdivisions in the performance of their general governmental functions.

You should note that our arguments have been based on payment of taxes and customs duties by Volunteers, whereas actually the proposed letter of agreement covers Peace Corps staff members and contractors' representatives as well. We have such exemptions for staff, and usually for COR's, in most of the countries where the Peace Corps serves. However, we readily admit that the Trust Territory is unlike a foreign country and there is no real reason to treat Peace Corps staff or COR's in any way different from Department of Interior staff.

On October 19, 1966, Kevin Delany, EAP; Jerry Fullmer, GC; and I met at the Department of Interior with Mr. Vaughan; Director of the Office of Territories Ruth Van Cleve, and George R. Milner, Deputy Assistant Director of Territories for American Samoa and the Trust Territory, to attempt to come to some agreement on this matter. Despite a lengthy discussion, no progress was made. The Interior officials made it clear that they are worried that "their" Congressional Committees are somewhat hostile toward Peace Corps involvement in the Territory and that they would view the tax exemption as "appeasement" of the Peace Corps.

I need your advice regarding the next step to take. The original agreement provided for ratification by the Congress of Micronesia. This ratification, which we had hoped would occur last August, would, I believe, take away the power of a local jurisdiction to assess taxes against a Volunteer or staff member. Now, since the Congress does not meet again until the summer of 1967, any specific exemptions would have to be sought in the legislatures or councils of the taxing jurisdictions.

I think that the solution has to be worked out with the concurrence of Commissioner Norwood. If you think wise, you should discuss with him just what should be done if a Volunteer is asked by a Micronesian official to pay a head tax. The payment should not be made from the Volunteer's living allowance nor will we agree to deduct the tax from the Volunteer's readjustment allowance. Perhaps the Commissioner will agree to ask the local official to waive the tax if he has power to do so. Perhaps the Interior Department, which does have funds for Trust Territory governmental functions, will pay the tax for the Volunteer, although here in Washington Mrs. Van Cleve did not consider that a possibility.

I am enclosing a copy of the relevant portions of a study prepared for the Department of Interior on Trust Territory taxes. It would be helpful if you reviewed the situation to determine which taxes and duties you believe may be applicable to Volunteers, Peace Corps staff, and contractors' representatives. I will await your discussions with Norwood, if you think it appropriate, and your advice on whether or not, with Department of Interior approval, to seek exemptions from local taxes in district legislatures and municipal councils. I would be inclined to limit any exemption request to Volunteers, leaving Peace Corps staff, and others paid full salaries, in the same position as other Americans in the Trust Territory.

Sincerely yours,

Eric Stevenson
General Counsel

Enclosures

cc:
EAP
GC files
GC R
JAF chron
ES chron

Clearance:
EAP-KDelany

KDelany

ES

GC:JAFullmer/cda:10/28/66:ESTevenson/cf:11/3/66

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