

Garner/Johnson Memo dtd 4/2/71  
Subj: Current Peace Corps/Micronesia Operations

*Skut Juretic*  
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*Micronesia*

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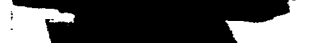
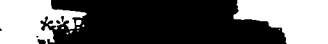
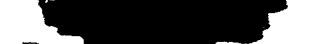
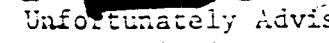
2. Volunteer Services

- a. Want clarification on authority to reclaim special leave travel/allowance payments if Volunteer is ET after return to assignment and before 12 months of extended service is completed. Peggy Smith's reply does not address condition when extended terminates for personal reason within the Volunteer's control after return to job.
- b. Clarification political involvement of Volunteer in Trust Territory affairs, Guam, etc.
- c. Volunteer Self Support is being maximized in Micronesia. What is the direction in other Peace Corps countries?
- d. Host Agency logistic support is also being negotiated

3. Volunteer Taxation

- a. Memorandum of Agreement between ET and Peace Corps dtd 11/16/66 - does not provide for taxation of Peace Corps Volunteers.
  - (1) Specifically states that Peace Corps is responsible for its financial support
- b. Report of Peace Corps National (Micronesia) Advisory Council to Congress of Micronesia (May 1968) - specifically recommended (page 9 - "Proposed Micronesian Income Tax") that Peace Corps Volunteers be exempt from payment of any national (Micronesian) income tax!

Members of the Peace Corps Advisory Council

-  - Palau
-  - Yap
-  - Truk
-  - Ponape
-  - Marshalls

Note: Unfortunately Advisory Council disbanded by their own initiation on July 16, 1968!

- \* Still serving in Congress of Micronesia
- \*\* Still serves as Chairman of the Senate Ways and Means Committee--dealing with Tax Bill and amendments to it!

INFORMATION DELETED UNDER 5 U.S.C. 552 (b) (3),  
THE FREEDOM OF INFORMATION ACT, AS AMENDED IN  
1974 BY PUBLIC LAW 93-502.

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- c. Tax Bill Introduced to Congress of Micronesia (Fourth Congress - First Regular Session - SB No. 4.
- (1) Definition of "employee" in bill might be questioned as it is assumed to apply to Volunteers
  - (2) "Wages" and "Salaries" definition leaves room for an interpretation of the implication of "Volunteer wages" as a per diem.
  - (3) Bill specifically exempted members of the U.S. Armed Forces.
- d. Final Tax Bill, approved by Congress of Micronesia, was signed into Law (Public Law HC-2) by the High Commissioner on March 5, 1971.
- (1) It provides for payments beginning July 1, 1971
  - (2) Does not exclude Volunteers
  - (3) Provides flat 3% payroll deduction regardless of income!
- e. Objectors (those opposed to PCV Tax Payments)
- (1) Peace Corps/Micronesia - (a) seen move to further identify Volunteer as an employee; (b) serious attitudinal programmatical implications; (c) PC/M survey of all other EAP countries reveals not one single instance of local tax against Volunteers (or staff.); (d) Agreement between Peace Corps and R.O.K.G. (9/14/66) in Korea specifically exempts Volunteers and staff from local taxes...same situation in Malaysia (Article 2 - Para 4. in that agreement.); (e) there is a need to resolve the legal question of double taxation along with the attitude of the U.S. Civil Service Commission and Internal Revenue Service (tax credits.)
  - (2) Select Committee - Marianas District - letter to High Commissioner (2/19/71 includes all representatives Municipality of Saipan, District Legislature, District Representative to Congress of Micronesia.)

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- (a) Specifically requests an amendment to Tax Law to exempt Volunteers
- (b) that tax to all others should be graduated according to income.
- (3) District Administrators - at conference on Ponape in February unanimously felt that Peace Corps Volunteers should be exempt.
- (4) Conclusion
  - (a) Tax issue is politically charged
  - (b) Peace Corps can not interfere directly
  - (c) Legal aspects of tax bill must be negotiated between TT (host country) and U.S. government
  - (d) PC has strong in-country allies with TT and COM/effectively do battle for us.
  - (e) PC/M has developed tax-exemption precedents established by all other countries in EAP.
  - (f) Official position - should be negotiated into new Memo of Understanding for continued PC presence in Micronesia...such new agreement negotiation should involve both TT and COM prior to July 1, 1971.
  - (g) PC/M and PC/W should jointly work with respective government agencies concerning legal/mechanical tax credit aspects of implementation by July 1, 1971 if negotiations fail...
  - (h) attractive - \*Lumpsum payment by TT to Congress in-lieu-of Volunteer tax as a "host country support" payment!!!

\*Due no benefits such as post differential payments to PC staff must also be considered in all aspects of negotiation---to include additional compensation for double taxation.

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