

27 September 1973

MEMORANDUM FOR: Acting Director, FBIS

THROUGH : Acting Chief, Operations Group

SUBJECT : Taxation of Okinawa Bureau TCN's

REFERENCE : My lognote of 11 Sept 73; Okinawa Bureau
Cable to Hdqs., 25 Sept 73.

1. Forwarded herewith is a draft copy of a memorandum to USFJ, J-5, concerning the request of the Mayor of Yomitan for payment by our TCN's of local municipal and prefectural residence taxes. These taxes are based on income and, like national income taxes, are withheld. Thus we can assume that if we begin withholding taxes for the Okinawa local governments the national government will require the same. Either they are taxable or they are not.

2. Taking one of our single local employees as an example, this person pays 2.4% in local taxes and 5.4% in national taxes, for a total of 7.8%. This scales down somewhat with dependents (one employee with two dependents pays only 1.6% in local taxes), but of course also increases with greater income, as the taxes are graduated. Not big as U.S. taxes go, but a significant amount nevertheless.

3. When I first wrote my 11 September lognote, and mentioned the possibility that we might want to pay the local tax in the same manner as the Karavas tax, I was not aware that this tax in Okinawa is in reality an "income tax," not a license to work, as it is in Karavas. And, of course, in Cyprus our TCN's are not subject to the Karavas tax because of their overall tax exemption, although we pay it for the locals. In any case, my recommendation is that if it is determined that our TCN's must pay here, they should pay it from their own wages. The tax, incidentally, would be retroactive to 1972 for those on duty 1 January 1973.

4. As I indicate in the draft, I see some contradiction between the SCFA agreement of 1954 and Japanese tax law as indicated in the other attachments. But I am not optimistic that we can get the military to change its mind from the view that our people should pay. Third State Nationals employed by the military have been paying these taxes. The J-5 will no doubt, because of past practice if for no other reason, insist that our third nationals pay. They are not sympathetic to our position. I had originally planned to address the memo to Schmitz, as Political-Military Counselor, but both John Sylvester, Consul-General, and [redacted] feel we should go through channels in view of our USEJ affiliation, and I now agree.

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5. I request that Headquarters expedite consideration of this draft and if possible make corrections to us by wire. I would like to get this underway before the prefectural government makes an issue of it.

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[redacted]
Chief, Okinawa Bureau

Attachment

Draft Memorandum to J-5 w/atts

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MEMORANDUM FOR: Commander, U.S. Forces Japan

ATTENTION : J-5, Mr. C. A. Feissner

SUBJECT : Request from Mayor of Yomitan for
Payment of Municipal and Prefectural In-
habitants Tax

REFERENCE : My telephone conversation with Mr. C. A.
Feissner of 11 Sept 73

1. As you know, this office is in receipt of a letter from Mayor Soko Furugen of Yomitan-son (attached as Annex A) requesting payment by FBIS employees of the Municipal and Prefectural Inhabitants Tax "under the category of Art. 294, Para. 1, Sect. 1," in accordance with "Art. 317, Para. 2" of the Law (copies of which are not available to this office). A verbal conversation with the Mayor's office on 11 September clarified that the employees in question are Third State Nationals who are registered under Special Immigration Status 4-1-16-3. FBIS Japanese employees already pay the taxes; the Mayor's office is not concerned with U.S. employees.

2. Your office has forwarded to this office a copy of a memorandum to the Joint Committee (SOFA), dated 4 October 1954, subject: "Status of Third State Nationals," in which the U.S. side (Para. 6) concurs with the view of the Japanese

Government that Third State employees "be registered with the immigration authorities thus establishing their legal status in Japan." Para. 8 of the same memorandum specifies: "The U.S. likewise has no desire to interfere with the normal functioning of the Japanese Government in its process of taxing Third State Aliens residing in Japan." This memorandum is attached as Annex B.

3. On the other hand, this office has in its files a copy of "Individual Income Taxation in Japan - 1971," issued by Price Waterhouse & Co., Tokyo, dated 28 July 1971, which describes Japanese Income Tax laws, and which, on p. 10, specifies among "types of income that are exempt from taxation" the "salaries, wages, etc. of employees of foreign governments or local public bodies, thereof, on a reciprocal basis." (Attached as Annex C.)

4. If another item in our files is correct, a cabinet order issued under Art. 9, Para. 1, Item (8) 1967 Income Tax Law of Japan, states that personnel on duty with a foreign government will not be taxed when the foreign country does not impose the tax correspondingly on earnings of public service personnel of Japan on duty in said country. (Attached as Annex D.) It is our understanding that the U.S. Internal Revenue Code of 1954 (Sect. 893) (attached as Annex E) provides for such reciprocity. Our files have also indicated

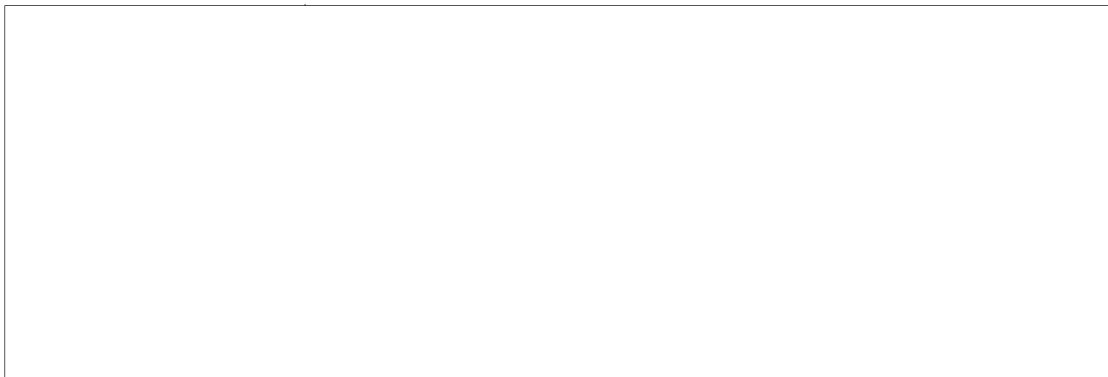
that in November 1968 the U.S. Internal Revenue Service representative in Tokyo expressed the view that under Japanese Law "non-Japanese employees" serving with the U.S. Government are immune from Japanese taxation.

5. This office obviously wants to conform with U.S.-Japanese agreements, to avoid any kind of confrontation with Japanese authorities, and to maintain a "low profile" both in our local relations and with the central government.

Nevertheless, we should probably consider the following points:

a. The 4 October 1954 memorandum specifies that we will not interfere with the "normal functioning" of the Japanese Government in taxing Third State Nationals. But Japanese Tax Law would seem to indicate that at the present time TSN's are not taxable.


b. Although Japanese authorities have never made a request for FBIS Third State Nationals to pay income tax, it would follow that if they pay Municipal and Prefectural taxes they would also be subject to the National Income Tax and this should also be withheld.



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for this as taxation is applied to individuals filing
a return.

6. It is requested that the above be clarified and
resolved before this office initiates withholding and directs
its employees to file returns. If, in light of the points
mentioned above, it is determined that our TSN's are in fact
taxable under Japanese law, we will of course conform and
initiate the withholding of tax.


Chief, Okinawa Bureau, FBIS

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Copies (w/atts) to:

Director, Foreign Broadcast Information Service.

USARBCO, Directorate for Personnel & Administration,
Sukiran Area Civilian Personnel Office, Attn: Mr. Sukosky

Mr. Charles Schmitz, Counselor for Politico-Military Affairs,
U.S. Embassy Tokyo.

Chief, Tokyo Bureau, FBIS

U.S. Consul-General, Naha.