

STATINTL

[Redacted]

21 February 1951

Office of General Counsel

"Dependency" Allowances

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1. This will confirm my recommendations in the last of a series of conversations regarding payment of the so-called "dependency" allowance to overseas employees of [Redacted]. This allowance is in effect a separation allowance paid to overseas employees for the increased cost of maintaining a separate household for their dependents in the United States. A problem arises in the payment of U. S. Federal income taxes. The allowance is not taxable as income to an employee of the United States Government. The people in question are most probably precluded from claiming this exemption because of their intervening [Redacted]

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2. While it appeared preferable to make such payments directly to the family bank accounts of the individuals without channeling such expenses through the [Redacted] it is my understanding that the practice of making direct payment to the employee has already become so firmly established that a sudden departure at this time would not seem justified. This is bolstered by the fact that a public audit of the [Redacted] has recently been completed. If, as a matter of cover policy, direct payments from CIA cannot be made to the families of the individuals, it is suggested that the legal counsel employed by [Redacted] explore the possibility of obtaining a tax exemption for the individual as a private rather than a Government employee. We believe there is some precedence for this where U. S. citizens are employed overseas under fluctuating and excessive costs of living. If the exemption is not permissible, then the employee should be reimbursed for the additional out-of-pocket U. S. tax liability for the separation allowance as an [Redacted]. Such reimbursement would, of course, be made by direct payment from CIA, and the amount received would not be taxable income to the individual.

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cc: Subject ✓
Chrono

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