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OLC 75-1842

Honorable James T. Lynn, Director  
Office of Management and Budget  
Washington, D. C. 20503

8 AUG 1975

Dear Mr. Lynn:

I have a copy of Secretary Kissinger's letter to Secretary Simon of 12 July 1975 expressing concern with a provision in proposed legislation pending before the House Ways and Means Committee which would impose Federal Income taxes on certain allowances paid to Federal employees serving overseas. During the 93rd Congress, I wrote to Mr. Roy Ash on 10 December 1974 to express my concern about the adverse impact of a similar proposal on our overseas operations.

I fully endorse the views and recommendations in Secretary Kissinger's letter.

It is understood that the proposed amendment to Section 912 of the Internal Revenue Code, which currently exempts those allowances from Federal Income taxes, is being related to the proposed change in the treatment of income earned abroad by other Americans.

It is my understanding that Americans employed abroad by private enterprise are generally managerial or executive personnel, and that local nationals normally fill clerical and middle management positions. Federal agencies cannot follow this practice and assign many employees overseas in the middle and lower grades. The allowances paid these and other employees are important to assure that those who are directed (in the case of CIA) to serve abroad are not forced to absorb a financial burden in countries with a higher cost-of-living than that of the United States and to assure a standard of living consistent with requirements imposed upon them as representatives of the Federal Government abroad.



I am informed that two proposals are under consideration within the Executive Branch to deal with the overseas allowance question. One is to increase the allowances, and thus appropriations, to offset the taxes to be levied. The other, which deals solely with the housing allowance, would seek to establish a tax base figure equal to the amount an employee would reasonably be expected to pay for housing in the United States.

It is my view that in the long-run such adjustments would be burdensome and expensive to administer and inconsistent with the underlying concept of these allowances. They also could disrupt our efforts to reduce the number of personnel overseas and improve the efficiency of those who remain.

We are, of course, prepared to discuss both principles and procedures in much greater detail if that is necessary to demonstrate that the proposed changes would have a major adverse impact on the efficiency of our operations. I strongly urge the Administration to oppose a major change in the overseas allowance program at this time.

Sincerely,

SIGNED

W. E. Colby  
Director

cc: Secretary of State  
Secretary of the Treasury

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