

Dual distribution

TAX EQUALIZATION

Report of the Secretary-General

The General Assembly at its second regular session, adopted on 20 November 1947 resolution 160 (II) the operative part of which reads as follows:

"THE GENERAL ASSEMBLY

"RESOLVES:

"1. That Members which have not acceded to the Convention on Privileges and Immunities are requested to take the necessary legislative action to do so in order to exempt their nationals employed by the United Nations from national income taxation;

"2. That the Secretary-General is requested to prepare and submit to the next regular session of the General Assembly a Staff Contributions Plan in accordance with the recommendations of the Advisory Committee (document A/396);

"3. That pending granting tax exemption, Members are requested to grant relief from double taxation to their nationals employed by the United Nations;

"4. That the Secretary-General is invited to omit from all future personnel contracts any clause which binds the Organization to refund national income taxation in the absence of annual authorisation by the General Assembly;

"5. That, in order to achieve equality among staff members, the Secretary-General is authorized to reimburse staff members for national taxes paid on salaries and allowances received from the United Nations during the years 1946, 1947 and 1948, and

"6. That the Secretary-General is requested to submit a report to the next regular session of the General Assembly on the action taken under this resolution."

The report which follows is divided into five parts, each part relating to the relevant paragraph of resolution 160(II).

PART I

Accessions to the Convention on the Privileges and Immunities
of the United Nations

Since the adoption by the General Assembly of resolution 160(II), nine additional countries have acceded to the Convention on the Privileges and Immunities of the United Nations, bringing the total number of accessions to twenty-four as follows:

	<u>Date of Accession</u>
United Kingdom	17 September 1946
Dominican Republic	7 March 1947
Liberia	14 March 1947
Iran	8 May 1947
Honduras	16 May 1947
Panama	27 May 1947
Guatemala	7 July 1947
El Salvador	9 July 1947
Ethiopia	22 July 1947
Haiti	6 August 1947
France	18 August 1947
Norway	18 August 1947
Sweden	28 August 1947
Afghanistan	5 September 1947
Philippines	28 October 1947
Nicaragua	29 November 1947
New Zealand	10 December 1947
Greece	29 December 1947
Poland	8 January 1948
Canada	22 January 1948
Iceland	10 March 1948
Netherlands	19 April 1948
India	13 May 1948
Denmark	10 June 1948

The accession of Canada contained a reservation concerning the application, to Canadian citizens residing or ordinarily resident in Canada, of section 18(b) of the General Convention relating to the exemption from taxation on salaries and emoluments paid by the United Nations to its officials. The accession of New Zealand also contained a reservation on the application, to British subjects domiciled and employed in New Zealand, of section 18(b) of the General Convention.

The texts of these reservations were communicated to all Member

Governments, and, in addition, letters were written to the Governments of Canada and New Zealand recalling particularly the provisions of resolution 160(II) relating to exemption from taxation. No comments on these reservations from any Government have thus far been received by the Secretary-General.

A complete report on accessions to the General Convention on Privileges and Immunities of the United Nations is contained on pages 110-112 of the Annual Report of the Secretary-General (document A/565).*

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Staff Contributions Plan

Annex A contains a draft resolution for a staff assessment (contributions) plan, together with an exposition of the details of this plan. This draft resolution has been prepared in accordance with suggestions made by the Advisory Committee on Administrative and Budgetary Questions in document A/396. The Advisory Committee reviewed these proposals during its 1948 summer session and stated in paragraph 267 of its report (A/598) that these proposals "conformed in general to the guiding principles recommended by the Advisory Committee in its fourth report of 1947 (A/396)".

After consideration of the various alternatives, it is recommended that the staff assessment plan be adopted, to become effective as from 1 January 1949. The adoption of such a plan will not increase the net expenditures for the United Nations during 1949. While it will be necessary to increase the gross amount of the budget to provide for salaries at a gross rate rather than the present net rate, this increase will be offset completely by the increase in casual revenue resulting from the assessment plan.

If the staff assessment plan is not adopted as of 1 January 1949, the other alternatives may well cause an actual increase in the net budget for 1949. The General Assembly will be faced with the following alternatives if the assessment plan is not adopted:

- (a) To continue tax reimbursement for one more year;
- (b) To discontinue tax reimbursement on salaries and emoluments paid after 1948.

* See also the report of the Secretary-General on Privileges and Immunities of the United Nations, document A/626.

If the alternative of continuing tax reimbursement for the year is adopted and should the United States of America during the year accede to the Convention on Privileges and Immunities without reservation with respect to exemption from taxation for its nationals, there might be no additional expenditure in 1949, although it would be wise to provide funds for tax reimbursement should such exemption not be granted, or granted only for part of a year. If, however, the United States should during 1949 grant relief from double taxation by means of a tax offset provision, the United Nations would not be able to benefit by this action in 1949 if the tax assessment plan were not in effect. Under this circumstance, the United Nations would assume a further tax reimbursement liability of \$900,000 during 1949. This additional liability would not be incurred if the tax assessment plan were in effect as from 1 January 1949.

If, on the other hand, the General Assembly should decide to discontinue tax reimbursement as from the end of 1948, all United States nationals stationed at headquarters, except those with contracts issued prior to November 1947 and containing a tax refund provision, together with certain staff members from other countries which have not provided the desired exemption, would be faced with a substantial reduction in net income, the amount ranging from 10 per cent to thirty-five or forty per cent of present income.

It should also be pointed out that, if the staff assessment plan were adopted as from 1 January 1949 with no provision made for reimbursement of national income taxes which might be levied in addition to the United Nations assessment, the situation within the Secretariat would be the same as if the General Assembly were to discontinue tax reimbursement without the adoption of a staff assessment plan.

It is, therefore, recommended that the General Assembly adopt the staff assessment plan as set forth in the draft resolution in Annex A, which plan should take effect as from 1 January 1949 and should include authorization to reimburse staff members for national income taxes, should such taxes be levied in addition to the United Nations assessment.

The suggestion of the Advisory Committee, that the Fifth Committee may wish to refer the staff assessment plan to a small committee of experts on tax questions before making a final decision, is endorsed.

PART 3

Relief from double taxation

The Secretary-General has not been informed of legislation approved by any Member of the United Nations which would grant relief from double

taxation should a staff assessment plan be adopted by the United Nations as an alternative to accession to the Convention on Privileges and Immunities without reservation on the tax immunity provision. Special legislation to grant relief from such double taxation was considered by the United States Congress during 1948, as well as legislation dealing with the accession of the United States to the Convention on Privileges and Immunities. However, the United States Congress adjourned without taking final action either on the General Convention or on alternative legislation to grant relief from double taxation.

PART 4

Elimination of contractual obligations to refund national income taxes paid by staff members

In accordance with General Assembly resolution 160(II), the Secretary-General has omitted from any personnel contracts issued after the date of this resolution, any clause which binds the organization to refund national income taxation in the absence of annual authorization by the General Assembly.

PART 5

Obligations and expenditures relating to reimbursement of Staff Members for national taxes paid on salaries and allowances

The programme for reimbursement of national income taxation has, in the meantime, been continued under the authorization of the General Assembly in respect of the years 1946, 1947 and 1948. A detailed explanation of the obligations and payments in respect of tax reimbursement has been set forth as Appendix E in the second report of 1948 of the Advisory Committee on Administrative and Budgetary Questions (document A/598). The following table summarizes the estimated liability of the United Nations for tax reimbursement in respect of salaries and emoluments paid to staff members in 1946, 1947 and 1948, together with the actual and estimated expenditures for tax reimbursement for each year:

	<u>1946</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>Total</u>
Estimated tax liability	\$350,000.00	\$900,000.00	\$900,000.00	\$ -	\$2,150,000.00
Expenditures for tax reimbursement	73,131.41	673,084.71	900,000.00*	500,000*	2,146,216.12

It will be seen from the above table that no estimate has been submitted

in the budget for 1949 to cover tax reimbursement on salaries and emoluments paid to staff members during 1949. The item of \$500,000 in the budget for 1949 relates solely to the estimated costs of liquidating obligations for tax reimbursement in respect of salaries and allowances paid in 1946, 1947 and 1948. Reimbursement of 1948 taxes cannot be completed until 1949 since final tax returns will not be filed in most instances until March 1949.

ANNEX A

Draft resolution

THE GENERAL ASSEMBLY RESOLVES:

1. That, beginning 1 January 1949, all salaries, wages and cost-of-living adjustments (or differentials) paid by the United Nations, except payments to consultants and temporary employees specifically exempted from the assessment in the terms of employment, shall be subject to an assessment at the rates and under the terms set forth below;
2. That all other payments to staff members shall be exempt from this assessment;
3. That salaries paid at a net rate shall be converted to a gross rate disregarding dependents and using the assessment rates in the following paragraph;
4. That the assessment shall be calculated according to the following rates:

On the first \$4,000 of assessable income . .	15 per cent		
" " next \$2,000 " " " . .	20 " "		
" " " \$2,000 " " " . .	25 " "		
" " " \$2,000 " " " . .	30 " "		
" " " \$2,000 " " " . .	35 " "		
" " " \$3,000 " " " . .	40 " "		
On all remaining assessable income	50 " "		

5. That the following credits for dependency shall be deductible from the assessment, if claimed in writing by a staff member and supported by evidence satisfactory to the Secretary-General:
 - (a) A credit of \$200 for (1) a staff member who has dependent children and/or a dependent spouse, a dependent spouse being considered as one not regularly employed and who does not have an income from other sources in excess of \$600 a year, or (2) a staff member who contributes more than \$1,200 annually to dependent relatives;
 - (b) A credit of \$100 for a staff member with a partially dependent spouse, a partially dependent spouse being defined as one who has an income from other sources of more than \$600 but less than \$1,200, or a staff member who contributes more than \$600 annually but less than \$1,200 to the support of dependent relatives;
 - (c) The maximum credit which will be granted for dependency will be \$200 per annum;

- .. That the contributions by the staff member and the United Nations to the Staff Pension Scheme or the Provident Fund shall continue to be made at the net salary rates in existence for each grade and step before conversion to gross rates provided in paragraph 3 above;
7. That the amount of the assessment shall be calculated according to the income paid for each salary period with no refunds for partial year employment and no year-end adjustments because of increases or decreases in assessable income during the year;
8. That all funds collected under this assessment be treated as casual revenue to the United Nations;
9. That Members which have not acceded to the Convention on Privileges and Immunities are requested to take the necessary legislative action to do so in order to exempt their nationals employed by the United Nations from national income taxation;
10. That, pending granting tax exemption, Members are requested to grant relief from double taxation under this plan to their nationals employed by the United Nations;
11. That, in order to achieve equality among staff members, the Secretary-General is authorized to reimburse staff members for national taxes paid on salaries and allowances received from the United Nations during the year 1949 and to withdraw funds from the Working Capital Fund up to a maximum of \$400,000* during 1949 if the need arises.

Detailed exposition of draft resolution

In document A/396, the Advisory Committee made the following suggestions for the guidance of the Secretary-General in preparing the staff assessment plan:

- "(a) Internal taxation should apply only to salaries and cost-of-living allowance (if any) and to any pensionable allowances which may be in payment. It should not apply to allowances which are intended to compensate for specific expenses - for example, travel expenses, installation grants or allowances.
- (b) A simple scheme of personal exemptions (for example, for dependents) should be evolved, but no other exemptions should be allowed.
- (c) The scale of taxation should be graduated so that its incidence would weigh more heavily on the higher than the lower salary levels.

* An additional \$500,000 might be required in 1950 to complete obligations through 1949.

/(d) Tax

(d) Tax rates should be determined by specific resolution of the General Assembly.

(e) Revenue derived from the tax scheme should be applied as an appropriation-in-aid of the budget."

Suggestion (a) "Internal taxation should apply only to salaries and cost of living allowance (if any) and to any pensionable allowances which may be in payment . . ."

Since no pensionable allowances are paid by the United Nations, the draft resolution relates only to base salaries and the cost of living allowance. The present rates of pay for all staff members, except hourly paid staff at headquarters, have been reduced by an amount roughly equivalent to the income tax which was paid by United States citizens without dependents in 1946. For example, when the Fifth Committee at the first part of the first session of the General Assembly considered the question of salaries and allowances, it had before it a paper prepared by the Advisory Group of Experts containing proposals for the basic salaries and representation allowances for the posts of Assistant Secretary-General and Director. These proposals were as follows:

<u>Title of Position</u>	<u>Salary, Gross</u>	<u>Salary, Net</u>	<u>Allowances</u>
Assistant Secretary-General	\$20,000	\$13,800	\$11,500
Director	\$15,000	\$11,170	\$ 7,000

The proposals of the Advisory Group of Experts were submitted to a sub-committee of the Fifth Committee on 21 January 1946 and, on 22 January 1946, the sub-committee proposed to the Fifth Committee the following recommendations:

"1. An Assistant Secretary-General should receive a net salary of \$13,000 together with an allowance of \$7,500 to \$11,500 at the Secretary-General's discretion.

"2. A top-ranking director should receive a net salary of \$11,000 together with an allowance of \$3,000 to \$6,000 at the Secretary-General's discretion."

On being put to a vote, the sub-committee's recommendations were approved unanimously, three representatives abstaining.

Further, during the first part of its first session the General Assembly adopted the Staff Regulations, regulation 16 of which provides:

"Pending the adoption of a permanent classification plan, the salaries of the members of the staff other than Assistant Secretaries-General and Directors shall be determined by the Secretary-General within a range between the salary adopted by the General Assembly for the post of Director and the best salaries and wages paid for stenographic, clerical and manual work at the seat of the United Nations."

/In accordance

In accordance with this regulation, the Secretary-General, on the basis of a factual survey of the New York area, ascertained the best salaries and wages paid for stenographic, clerical and manual work at the seat of the United Nations and reduced these salaries and wages by an amount roughly equivalent to the United States income tax paid on such salaries by citizens without dependents. Having thus determined the lower end of the salary scale, the Secretary-General established a range of salaries for other staff members up to the salary adopted by the General Assembly for the post of Director. It will be seen that, by this process, all net salaries paid by the United Nations have been reduced from gross to net by an amount roughly equivalent to the United States income taxes on such salaries in 1946. Consequently within the range of salaries originally approved by the General Assembly, all staff members have in fact received no larger net income than if the General Assembly had originally adopted gross salaries subject to an assessment by the United Nations. Having gone through this process of reducing salaries by an estimated amount of taxes which might have been levied, it is now necessary, if the same level of salaries originally approved by the General Assembly is to be observed, to increase the present net salaries by an amount equivalent to the estimated assessment to be levied on these salaries by the United Nations. Accordingly, paragraph 3 of the draft resolution provides that all salaries and cost-of-living allowances or differentials now paid by the United Nations on a net basis shall be converted to a gross basis on the assumption that staff members are without dependents. The effect of this provision will be that the gross rates for personnel of the United Nations at the upper end of the salary scale will be equivalent to the gross rates originally proposed by the Advisory Group of Experts, namely, top-ranking Director at \$15,000 and Assistant Secretary-General at \$20,000, while the gross rates at the lower end of the scale will be roughly equivalent to the gross rates of the best salaries and wages paid for stenographic, clerical and manual work at the seat of the United Nations in May 1946. The effect of this provision will be to increase the gross amount of the budget by approximately \$2,750,000, which will be offset by casual revenue of approximately \$2,750,000.

The cost-of-living allowance at headquarters, which now differentiates between staff members with and without dependents, will, under this provision, become a flat amount which will be paid to all eligible staff members without regard to their dependency status. The differentials in net income between staff members with and without dependents previously reflected in the cost-of-living allowance will now be reflected by a scheme of personal exemptions from tax based on dependency which will be discussed below.

In areas away from the headquarters where cost-of-living differences are met by a plus or minus differential in the base salary, the differential will continue to be observed. The gross salary rates will be subject to the same differentials and the assessable income received by a staff member will be the net amount after the differential rate, either plus or minus as compared with Headquarters, has been applied.

The Advisory Committee had suggested that the United Nations assessment should not apply to allowances which are intended to compensate for specific expenses. Therefore, it is proposed that all allowances, including the representation allowance and excepting only the cost-of-living allowance, will not be subject to the assessment plan.

Suggestion (b) "A simple scheme of personal exemptions (for example, for dependents) should be evolved, but no other exemptions should be allowed."

The draft resolution provides for a dependency credit under certain circumstances. This dependency credit might be broken into three general categories:

1. The head of a family would be entitled to a credit of \$200;
2. A staff member with partial dependency, a credit of \$100, and
3. A staff member without major dependents, no exemption.

The provision of a credit against the assessment for dependency rather than a deduction in assessable income by reason of a dependency was adopted so that the amount for such dependency would be the same for all staff members regardless of income. If, on the other hand, a deduction from assessable income were used, the effect would be to give staff members with higher salaries a larger credit for dependents than lower paid staff by reason of the higher tax rates in the upper brackets. No dependency has been made for children as distinct from the head of a family, in view of the fact that the United Nations has provided for a children's allowance.

Suggestion (c) "The scale of taxation should be graduated so that its incidence would weigh more heavily on the higher than the lower salary levels."

It will be apparent from the assessment rates provided that the scale has been graduated so that its incidence would weigh more heavily on the higher rather than the lower salary levels. Under this scheme of assessment, a staff member receiving a gross salary of \$15,000 will pay an assessment to the United Nations larger by \$500 if he is single and by \$1,200 if he is married than would a United States citizen receiving the same gross salary. The amount of the increase of the United Nations assessment over current United States tax rates diminishes until in the lower salary brackets there is no appreciable difference. The proposed assessment rates are somewhat lower than the present income tax rates in

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Canada and are substantially below the current income tax rates in the United Kingdom, Australia and New Zealand, with which countries direct comparisons have been made.

Suggestion (d) "Tax rates should be determined by specific resolution of the General Assembly."

This proposal is incorporated in the draft resolution.

Suggestion (e) "Revenue derived from the tax scheme should be applied as an appropriation-in-aid of the budget."

This provision has been incorporated in the draft resolution in the provision whereby receipts from the staff assessment plan will be treated as casual revenue.
