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INCOME TAX ORDINANCE 1941.

REPORT FOR YEAR 1941-42.

The Ordinance came into force on 1st September 1941. Before that date preliminary lists of probable assessees had been prepared from such materials as were available, chiefly various directories, and notices calling for returns were issued early in September. It was subsequently found that these lists were by no means complete and many applications for forms were received late in December, early in January, and even in March. The number of such applications was an indication that the public realized their obligations under section 36(2) of the Ordinance. (That section requires a person who has an assessable income to notify his liability if he has not received the preliminary notice calling for a return).

2. It had not been considered advisable to appoint a full staff at the outset and it was some two months before work really got into full swing. It is feared that the public must have suffered some inconvenience on this account, especially in Tel Aviv, where the work proved far heavier than was anticipated.

3. The results of this year's working are shown below:

| District | No. of assessees | Collections by 31-3-42 | Probable final Demand for 1941-1942 | Remarks |
|----------------|------------------|------------------------|-------------------------------------|--------------------------|
| | | LP. | LP. | Collected from Companies |
| Jerusalem | 1,113 | 50,363 | 58,251 | LP 27,347 |
| Haifa | 1,167 | 44,062 | 56,000 | 22,711 |
| Lydda | 2,174 | 89,427 | 115,000 | 35,286 |
| Galilee | 112 | 922 | 1,081 | |
| Samaria | 95 | 1,229 | 1,469 | 649 |
| Gaza | 62 | 285 | 514 | |
| Govt. Officers | 770 | 6,745 | 7,055 | |
| Total | 5,493 | 193,033 | 239,370 | 85,993 |

Part of the collections from companies have already been set-off on individual assessments. Part may eventually be refundable.

4. The bulk of the year's assessments were completed before the 31st March but there are still cases outstanding at Tel Aviv and Jerusalem and, to a lesser extent, at Haifa. Some of the cases not disposed of relate to returns received very recently while others are concerned with income of non-residents or companies controlled abroad who were unable to supply full materials owing to postal delays.

5. The number of assessees is lower than had been anticipated by statisticians. Two factors account for this:

(a) The effect of section 12 was to eliminate nearly all those whose income was derived from property. When one remembers that a great part of the wealth of Palestine is invested in immovable property and that such property pays income tax only when it is exempted from Urban Property Tax under the provisions of section 8(2) of that Ordinance, it will be appreciated that comparisons between the yield of Income Tax in Palestine and other countries are misleading.

(b) It was found that a very large proportion of potential assesseees had effected life insurance or were contributing to provident funds. The exemption limit for a married man was therefore nearer R. 450 than R. 400.

6. One of the chief objections raised to income tax in the past has been that accounts would not be available and that therefore accurate assessments would be impossible. This forecast has proved to be unfounded. The large majority of assesseees, even in small towns like Tulkarm and Hebron, have accounts and it can be stated with some confidence that when accounts were not produced they were being concealed to escape taxation. It is true that accounts were sometimes not complete partly through the absence of stock accounts, but that is a common occurrence in certain trades all over the world.

7. Another fear was that collection work would be very difficult. That too has proved to be unfounded. There is no tax overdue. This excellent result has been secured partly through the system of progressive penalties and partly through the care taken by assessing officers to remind assesseees of their liabilities.

8. It must be admitted that this year's large receipts are partly due to war conditions and that they do not give a fair picture of the probable yield in normal times. The receipts for 1942-43 especially with the increased rates on higher incomes, should be very substantially larger for in many trades the large profits were made in 1941.

9. This year's revenue was substantially reduced through the operation of the original proviso to section 6. That clause had been inserted to meet the case of a genuine cessation of business through retirement or departure from Palestine. Many assesseees took advantage of it in circumstances which had never been intended and it was found necessary to cancel it in recent amendments.

10. Another cause of reduction in revenue has been the losses incurred in orange groves. It is rather doubtful whether such losses should have been allowed so generally. Under the Ordinance losses can be allowed only on a trade, business, profession or vocation and the mere ownership of a grove does not necessarily involve carrying on the trade of orange grower.

11. The refunds actually given before the 31st March amounted to R. 946. More refunds will be due for 1941-42 and allowing for them it will be reasonable to take the net collections in the year at R. 180,000. The direct cost of collection of this sum, that is excluding rent, stationery, printing, postage, share of Secretariat and salaries of district staff partially engaged on income tax work, is R. 6,044, i.e. 3.3 per cent.

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