

SECRET

27th May, 1943.

Chief Secretary.
-----Income Tax - General Report for 1942-43.

Detailed figures for the financial year 1942-43 are given in the attached schedules A and B which have been compiled from returns furnished to me by Assessing Officers. Total collections amounted to LP 904,953 as compared with LP 193,033 during 1941-42. The total demand, including the uncollected balance of LP 57,518 brought forward from 1941-42, amounted to LP 1,142,905, of which LP 237,952 did not fall due prior to 1-4-43 and will be collected during the current financial year. It is estimated that an additional LP 60,000 to LP 70,000 of tax due in respect of the year of assessment 1942-43 will be assessed and collected during the first months of the financial year 1943-44, which will thus benefit to the extent of about LP 300,000 deriving from the preceding year.

2. It is not suggested that the amount of tax assessed represents an optimum as compared with actual earnings. But having regard to the fact that the period under review is but the second year of existence of income tax, the results may be considered as exceeding reasonable expectations. It may be recalled that in the draft estimates for 1942-43 the yield of tax was put at LP 450,000.

3. Refunds amounted to LP 11,603 as compared with LP 901 during 1941-42.

liable to tax

4. The number of assesseees/increased to 12,932 as compared with 5,943 during 1941-42, while the total number of returns dealt with amounted to 22,079 as compared with 14,167 during the first year. As pointed out in my interim report dated 15th October, 1942, assessment work did not get properly under way until July owing to delay in the delivery of printed forms and other retarding factors. In spite of the utmost efforts made by Assessing Officers and their staffs, this initial delay could not be made good before the end of the financial year. In certain offices, where the District Commissioner was the Assessing Officer, the work was seriously hindered by the calls of other administrative duties on the officer in charge of the work of assessment. Generally, owing to the growing volume of work and the numerical inadequacy of the staffs, the principal offices were obliged to work long hours under great pressure. In the later months of the year the accumulation of work, particularly in Tel Aviv, became so great that I was obliged to call for further efforts in order to ensure that the 1942-43 assessments still uncompleted at 31st March, 1943, should not constitute a burden which would delay the commencement of the work of assessment for 1943-44. This instruction necessarily involved the lowering of the standard of enquiry into the returns submitted, with consequent loss of revenue.

5. It is desirable that the full year's work of assessment should be completed within the year, otherwise arrears will be continuous and increasing. Furthermore there can be little doubt that there must be hundreds, perhaps thousands, of incomes which are escaping tax owing to the Department being insufficiently equipped to cope with the work. Expansion both of staff and office accommodation is therefore imperative

and proposals to meet these needs have been approved in principle by Government. The separation of the Income Tax Department from the District Administration which has been approved as from 1st April, 1943, should expedite and facilitate the work of the Department as a whole.

6. Good progress has been made in getting traders and others to keep proper records of their transactions and, where the circumstances justify it, to have their returns prepared by professional accountants. But there were still a fairly large number of cases, mostly in Arab areas and among Jews of the 'old Yishuv', where there was a noticeable tendency to attempt to evade liability to tax by fraudulent means. Returns were made in an irresponsible manner; incomes were grossly understated or undeclared; and supporting accounts were not produced either because assesses had not kept any or were reluctant to produce them. In such cases rough and ready methods had to be adopted and assessment work reduced itself to a matter of bargaining, usually involving protracted investigations and repeated interviews. For this reason a not inconsiderable number of important Arab assessments were still uncompleted by the end of the year. Before leaving this matter it should be stated that, having regard to the fact that income tax has been but recently introduced in Palestine, it was decided, as a matter of policy, not to take any action under sections 66 and 67 of the Ordinance which provide for penalties for the making of incorrect returns and fraudulent acts. But it is not intended to treat such cases with the same leniency in 1943-44 and future years.

7. In the light of the preceding paragraph special importance attaches to the new section 17B included in the amendments to the Ordinance enacted on 30th March, 1943. This section which comes into operation on 1st April, 1944, with effect on 1943-44 incomes, provides that the deductions allowable under section 11 and the allowance under section 14 shall not be made unless proper accounts, to the satisfaction of the Assessing Officer, are kept.

8. With the exception of the cases mentioned in paragraph 6 assessment work proceeded smoothly. 20 cases went to appeal, in most instances on points of law; 13 cases were settled by compromise, 2 appeals were dismissed, 3 are still pending and in two important cases the Court upheld us in matters of principle. As anticipated, our application of the amended section 6 of the Ordinance where the same income had been assessed in the previous year under the proviso to section 6, was challenged but we won in Court (Osherovitz case).

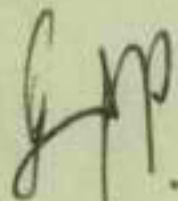
9. Collections were satisfactory and at 31st March 1943 there were practically no arrears of tax due. Penalties for failure to pay on due date were imposed in a number of cases but they reflected carelessness on the part of the assesses rather than inability to pay.

10. The cost of the department (not including refunds) amounted to L.R. 10,138 for 1942-43, equal to 1.1% of collections less refunds, as compared with L.R. 5,985 equal to 3.1% for 1941-42.

11. It is anticipated that the work of the year of assessment 1942-43 will be terminated by 30th June, 1943,

and a statistical report, with notes, will be submitted as soon as practicable after that date.

12. In my opinion it is no exaggeration to describe this report as the story of a hastily organized, insufficiently experienced, and inadequately manned department struggling to cope with an ever increasing volume of exacting work, much of it of a highly technical nature. The achievement of the Department during the year 1942-43, as revealed in this report, can, I think, be left to speak for itself. But I would be guilty of a breach of duty if I did not bring to the notice of Government the industry, devotion to duty and team work displayed throughout the year by all ranks of the income tax staff. In the final months of the year when, as already stated, I was obliged to ask for increased efforts from already overburdened officers, my call was answered willingly and cheerfully.



COMMISSIONER OF
INCOME TAX.