

REF: 2. L.S. / 1.1

# NEW TAXATION PROPOSALS

## WAR CONTRIBUTION

### COMMITTEE PRESENTS ITS REPORTS

#### PROPERTY BUSINESS AND SALARY ALLOWANCES

#### ALTERNATIVE SCHEME

The War Revenue Committee, appointed by Government to devise means of raising money to help meet the Imperial war costs has completed its report of an alternative scheme to Income Tax.

This scheme calls for taxes on property, on salaries and analogous incomes and on corporation and professional and business profits in the Colony, assessed on bases and at rates calculated to impose very broadly the same degree of sacrifice on the several classes of persons affected. Such a combination of taxes, says the report, would constitute a partial income tax, freed from many complications owing to the limitation of its scope and approximation to individual ability to pay.

It is proposed that the Corporations Profits Tax be 10 per cent; business profits up to \$10,000 per annum be exempt, tax on excess over \$10,000 up to \$100,000 be 5 per cent, and on excess over \$100,000 be 10 per cent; the tax on the first \$5,000 of taxable income, after deduction of personal and family allowances, be chargeable at 4 per cent, and thereafter a 10 per cent. rate to apply; and the property tax to be 5 per cent. on the net annual value of all land and buildings in the Colony.

The Committee's report states:

The Committee was originally appointed to examine and advise on the detailed provisions of a draft Income Tax Bill, based on the Ceylon Income Tax Ordinance of 1932, which had been prepared by Government after His Excellency the Governor's announcement in the Legislative Council on October 12, 1939, that Government proposed to raise new revenue for war purposes by means of an Income Tax. Later, in view of the opposition to Government's proposal which was voiced by the Unofficial Members at the meetings of the Legislative Council on November 9 and 16, 1939, and because it was felt that the principle of an Income Tax for this Colony and the possibility of raising additional revenue by alternative means were matters which should properly come within the purview of the Committee, the terms of reference were extended. The full terms of reference then became:

(1) To examine the draft Income Tax Bill and advise on the detailed provisions which would be desirable in such a measure if it were adopted, *having regard to the special circumstances of this Colony;* and

(2) to advise whether the best method of raising additional revenue for war purposes would be such an Income Tax or, alternatively, any other measure or measures of taxation of which the incidence would be on substantially the same classes of the community as an Income Tax and which could not be passed on to the poorer classes.

#### Claims to Relief

Early in our deliberations it became apparent that to impose an Income Tax on the profits, wherever made, of companies in this Colony would be unsatisfactory in that many shareholders of local companies reside in Great Britain or the Dominions and relief could be claimed by such shareholders in respect of Hongkong Income Tax from their assessments to United Kingdom or Dominion Income Tax. The revenue which it is proposed to raise is for the purpose of a contribution by the Colony to the Imperial war effort and obviously such a purpose could not be fulfilled if part of this revenue were, in fact, to be contributed by the United Kingdom or Dominion Exchequers in the form of such relief to shareholders in respect of profits not earned from transac-