Basis of Ceylon's Taxation

THE 'public revenue' of a country today is chiefly derived from taxation. The term 'public revenue' is deliberately chosen in this context, to include local government taxes. 'Government revenue' in the generally accepted sense means revenue of the Central Government. But taxes are of two kinds; the Central Government taxes and the Local Government taxes. These together, I call 'public revenue'. I propose to leave the discussion of Local Government taxes to the end of this study.

Central Government Taxes

Taxation is the main source of state finance in Ceylon at the present time. Table I illustrates this :—

TABLE I

(in million rupees)

Year	1949-50		1950-51		1951-52		1952-53	
	Amount	%	*Amount*	%	*Amount*	%	*Amount*	%
Taxation Revenue	536·6	86·1	734·7	87·9	759·8	86·7	713·6	87·2
Other Revenue	86·7	13·9	101·2	12·1	115·6	13·3	104·6	12·8
Total	623·3	100	835·9	100	875·4	100	818·2	100

According to the above Table it is apparent that taxation accounts for more than 85 per cent of our total government revenue. It follows that a careful study of taxation in the field of public finance is of vital and paramount importance.

Ceylon's tax system is a multiple one. Over-complexity, however is avoided by confining it to a small number of substantial taxes. Like those of all other multiple tax systems, the taxes of Ceylon can be broadly divided into two categories; viz. Direct and Indirect taxes. Direct taxes are Income Tax, Profits Tax, Estate Duty and Stamps. The Excess Profits Duty which was in operation till the year of assessment 1947-48 was given up in favour of the Profits Tax, which came into force on the passing of the Profits Tax Act, No. 5 of 1948 on January 29, 1948. This tax applies to all business and other profit-making concerns and any current revenue appearing under Excess Profits Duty is by way of arrears only. Indirect taxes on the other hand are sub-divided into two, Customs duties and Excise duties.

Customs Duties

Customs duties are derived from exports and imports and are known as Export duties and Import duties respectively. Customs duties may be specific or *ad valorem*. Specific duties vary with the weight of goods, while *ad valorem* duties depend on their value. *Ad valorem* duties were first levied on our exports with the passing into law of the Customs (Amendment) Act, No. 27 of 1951 on August 13, 1951. The relevant section reads thus :

'9A (1) Any resolution under section 9 imposing export duty—

(*a*) may impose upon any goods, duty at rates varying in accordance with fluctuations in the f.o.b. value of the goods; and

(*b*) may provide for the estimation from time to time by the Collector of the amount which shall be deemed, for the purpose of the application of the resolution, to be the f.o.b. value of the goods to which it applies'.

The Table II below, indicates the amount and percentage of revenue derived by the Government from each of these taxes.

TABLE II[1]

Government Revenue (in millions)

Year	1949-50		1950-51		1951-52*		1952-53†	
	Amount	%	*Amount*	%	*Amount*	%	*Amount*	%
Direct Taxes	137·0	22·0	157·8	18·9	222·7	25·4	219·9	26·9
(*a*) Income Tax	78·5	12·6	91·9	11·0	222·7	25·4	219·9	26·9
(*b*) Excess Profits Duty	58·5	9·4	65·9	7·9				
Indirect Taxes	399·6	64·1	576·9	69·0	537·1	61·3	493·7	60·3
(*a*) Import Duties	188·3	30·2	245·0	29·3	487·2	55·6	427·9	52·3
(*b*) Export Duties	167·2	26·8	282·5	33·8				
(*c*) Excise Duties	44·1	7·1	49·4	5·9	49·9	5·7	65·8	8
Miscellaneous	86·7	13·9	101·2	12·1	115·6	13·3	104·6	12·8
Total	623·3	100	835·9	100	875·4	100	818·2	100

It is clear from Table II that there was a gradual rise in Government revenue from 1949-50 to 1951-52 and a drop from 1951-52 to 1952-53. Indirect Taxes were mainly responsible for this fluctuation, constituting as they did

1. TABLE II = Source—Administration Reports—1951-52 and Statistical Abstract 1952.
*Provisional.
†Estimate.

more than 60 per cent of our revenue, and they varied with the volume and price of our imports and exports which experienced extreme fluctuations during the years 1950 to 1952. Table III will illustrate this :—

TABLE III[2]
(in millions)

Year	*Exports*	*Imports*
1950	1563	1167
1951	1904	1559
1952	1502	1702

Export duties increased in the years 1950-51 and 1951-52 with the increase in value of our exports. But with the break of the Korean boom in April 1951 export price-index fell by 21 per cent in the year 1952 while the import index rose only by 9 per cent. This resulted in a net fall in our customs revenue. Excise duties however increased in the year 1952-53. This was no doubt due to the large revenue derived from arrack. It is estimated that in the year 1952-53 the consumption of arrack was about 1,217,000 gallons and the corresponding revenue to the government aggregated over Rs. 45,000,000. Income Tax showed a gradual upward trend in the first three years under consideration. This was chiefly due to the larger incomes earned by Ceylon's export and commercial enterprises during the boom. Another important factor that was responsible for the high export incomes during these years was the food subsidy bill, which increased the profit margins of producers and thus enabled the Government to tax away a considerable proportion of those profits by way of income tax. The following Table will compare the increase in food subsidies with the increase in export duties during the years 1949 to 1952 :—

TABLE IV
(in millions)

Year	1949-50	1950-51	1951-52
Subsidies	35·8	133	245
Export Duties	167·2	282·5	351·6*

2. Source—Central Bank Reports.
*Estimate.

Excise Duties

Excise duties are derived mainly from arrack, toddy and tobacco. 'Tapping of trees for fermented toddy for distilling and tavern supplies or on special permits for medicinal purposes was allowed free of any tax or other charge all over the Island, but a tax or duty which is really in the nature of a licence fee was charged in the case of trees licensed for domestic consumption and sale in the island of Eluvaithivu and Udayar's divisions of Cheddaikuruchchi, Kollakuruchchi and Pallavarayankaddchi of the Maniager's division of Punakari and Tunukkai in Jaffna district '[3] a tax or fee of -/50 cents per coconut tree tapped for vinegar manufacture was levied by the order of Government on the Colonial Secretary's endorsement, No. 138 (14441/24) of June 13, 1924. A tax which may be more appropriately called a fee of -/50 cents per coconut tree and Re. 1·35 per kitul tapped for supply of toddy to an estate canteen was levied under a *Gazette* notification (No. 7995 of August, 1933) and a duty of -/50 cents in Eluvaithivu and Rs. 3·00 in the three Udayar's divisions of Punakari-Tunukkai was levied per palmyrah tapped for domestic consumption and sale. (Excise Notifications Nos. 220 and 268). All these were made uniform by the Tree tax which came into force on 1st January, 1937, in the whole of the Jaffna district. According to the law

(*a*) toddy tapped must be sold at the foot of the tree

(*b*) one licensee cannot buy another's toddy and sell it and

(*c*) tapping and sale are prohibited near schools, places of worship, markets and public roads. According to the *Daily News*, January 11, 1954 there are about 25,000 tappers in Jaffna and 200,000 depend on incomes derived from tapping.

Tobacco tax was introduced by the Tobacco Tax Act, No. 27 of 1953. According to this Act, a tax of Rs. 4·00 per pound shall be levied on all Ceylon tobacco leaf which is intended to be used in the manufacture of cigarettes or pipe tobacco. The Act also prohibits any person from manufacture of cigarettes and/or pipe tobacco till the tax has been duly paid. Reference may be made to sections 2, 3(1), (2) and (3) of the above Act.

Total Excise duties constitute only about 7 per cent of Government revenue and as it was pointed out earlier arrack brings in more than three-fourths of such revenue.

Income Tax

Income tax may be on resident income or non-resident income. According to the Income Tax Ordinance, Resident tax is defined as 'tax on residents in Ceylon for income received by them either in Ceylon or income from outside due and receivable in Ceylon', while Non-resident tax is 'tax on income derived from Ceylon, due to non-residents or foreigners'. Table V will show the classification of taxes on the above basis :—

3. Administration Report of the Excise Commissioner, 1935.

TABLE V[4]

	Residents		Non-Residents		Resident Companies		Non-Resident Companies	
	1950-51	1951-52	1950-51	1951-52	1950-51	1951-52	1950-51	1951-52
Gross Income	440,976,260	526,660,680	23,131,767	25,627,914	85,408,102	132,357,475	93,545,695	128,024,504
Total Tax	47,079,119	68,822,167	5,054,865	6,191,799	22,527,484	37,925,797	27,031,651	39,228,409

4. Source—Administration Reports of Commissioner of Income Tax years 1951 and 1952.

The Income Tax Ordinance nowhere defines what income is. But it enumerates sources from which income is derived. According to the Income Tax Ordinance, Chapter II, Art. 6, they can be summarized as follows :—

1. Profits from trade, business, profession or vocation.
2. Profits from any employment.
3. House and property.
4. Rent-free quarters.
5. Dividends, interest and discounts.
6. Annuities.
7. Rents, Royalties and Premiums.
8. Any other source other than casual or of non-recurring nature.

The eighth, has been obviously mentioned to make amends for the lack of a definition of income. Income derived from gambling is not estimated for income tax purposes. Money won at the races is excluded from tax liability ; so is income from ' raffles ' and sweeps. Lack of a proper definition of income may give rise to certain difficulties. In fact such difficulties have arisen in Britain, with regard to free residence and free maintenance. An agent for the Bank of Scotland was provided with free residence in a portion of the bank's premises. He occupied that portion as a custodian of the whole premises and for the purpose of transacting bank business after ordinary banking hours. One of the conditions of his appointment was that he should not vacate the premises even temporarily without the consent of the bank and in the event of his removal from office he would quit the premises forthwith. It was held by the Court of Exchequer that the annual value of the residential portion of his house formed part of his income. But this decision was unanimously reversed by the House of Lords which held, ' It is certainly true that the occupation of a house rent-free is not income. Of course the possession of a house which may be used for purposes of profit, is property and taxable as such. But the bald dry proposition that the mere fact of occupying a house which house as property is already taxed is not income in any sense, could hardly be disputed ' (Lord Halsbury). ' His position does not differ in any respect from that of a caretaker or other servant, the nature of whose employment requires that he shall live in his master's dwelling house or business premises instead of occupying a separate residence of his own ' (Lord Watson). On the authority of the above judgment,[5] it was held that the value of free maintenance provided for a priest at a communal presbytery was not assessable as part of his income, and further it is regarded that the provision of free clothing for an employee stands on the same footing as the provision of free meals or free residence, though a monetary allowance given to an employee in order

5. Tennant, V.: Smith—(1892) A.C. 150, 154-6 ; Tax Cas., 158, 163-7.

that he may provide himself with clothes suitable for his duties is undoubtedly income.

Computation of Tax Liability

Before estimating the tax liability of an individual, his income from all sources must be ascertained. This total income is known as Statutory Income. All statutory incomes of Rupees 4800 and above are liable to tax. From the statutory income the tax-payer is allowed to deduct certain fixed annual charges incurred by him. They are annuities, ground rent and royalties.[6] Statutory income minus such charges, if any, is defined as Assessable Income. Further he is given certain allowances free from tax, i.e. (i) Earned Income Relief, (ii) Personal Allowance, (iii) Wife's Allowance, (iv) Children's Allowance and (v) Dependant's Allowance.

(i) *Earned Income Relief :* One-fifth of the earned income (income earned from trade, business, profession, vocation or any other employment) is free from tax. In case of agriculture, this is reduced to one-tenth. But the maximum in any case is Rupees 4000.

(ii) *Personal Allowance :* A fixed sum of Rs. 2000 is allowed as personal expenses.

(iii) *Wife's Allowance :* A man married legally and whose wife is living is given a further sum of Rs. 1500 as an allowance free from tax.

(iv) *Children's Allowance :* Children under eighteen years of age are recognized for this allowance. They should be neither employed nor recipient of any assessable income exceeding one thousand rupees for the year preceding the year of assessment. In respect of children over eighteen but under twenty-one years in age, the father is given this allowance, provided they are pursuing a higher education. University education or technical education or professional education is deemed to be valid in this instance. It should be understood that children here do not include adopted or illegitimate children. This allowance has an upper limit of Rupees 4500.

(v) *Dependants' Allowance :* The tax-payer is entitled to this allowance only if the dependants are living with him and are maintained by him. He is allowed to claim Rs. 500/- in respect of each dependant whose assessable income for the year preceding the year of assessment does not exceed Rs. 250/-. The dependant allowance is ceiled by a maximum of Rs. 1500 and the sum of Children's Allowance and Dependants' Allowance is further limited up to Rs. 4500.

6. The Income Tax Ordinance, Ch. V. 13 (i).

Taxable Income

When all the above allowances are deducted from the Assessable Income we derive the Taxable Income, i.e. income on which tax is levied. The latter is subject to a tax-liability on the following graduated scale :—

SCALE I

First	6000	at 10 per cent
Next	6000	,, 20 per cent
,,	6000	,, 25 per cent
,,	6000	,, 30 per cent
,,	6000	,, 35 per cent
,,	10000	,, 40 per cent
,,	10000	,, 50 per cent
,,	20000	,, 60 per cent
,,	20000	,, 70 per cent
,,	30000	,, 80 per cent
Over	30000	,, 85 per cent

The above scale was introduced in the Budget of 1953-54 to replace the existing scale which is listed below :—

SCALE II

First	6000	at 9 per cent
Next	10000	,, 19 per cent
,,	20000	,, 24 per cent
,,	50000	,, 43 per cent
,,	100000	,, 68 per cent
Over	100000	,, 76 per cent

The above scale is in addition to the unit rate (i.e. 1 per cent) which is imposed on those Statutory Incomes of Rs. 4800 and above, which reduced to their taxable levels would either give no tax at all, or the tax estimated would be less than 1 per cent of the Statutory Income. According to the Scale II only those whose taxable incomes are over and above Rs. 186,000 used to pay 76 per cent on the amounts over that figure while the Scale I, subjects everyone whose taxable income is above Rs. 120,000, to a liability of 85 per cent tax. The new scale was introduced as a financial measure in the 1953-54 Expenditure and Revenue proposals to reduce the budget deficit.[7] The World Bank Mission commented on the Scale II as follows :—

'Though the graduated scale is fairly progressive, the actual tax liabilities are very low. Even incomes of Rs. 100,000 of which there are only about

7. The World Bank Mission Report, Part II, pp. 30 et seq.

200[8] in the country pay an average rate of only 37·6 per cent. The comparatively low level of the actual rates charged on incomes ranging from Rs. 5000 to Rs. 50000 indicates that lower and middle class groups are carrying a surprisingly small share of the financial burden '.

This is well illustrated in the Table VI.

TABLE VI

Married man with two children (under 18), income all earned (in rupees).

Income	5000	7500	10000	20000	50000	100,000
Allowances	7000	7500	8000	10000	10000	10,000
Taxable Income	Nil	Nil	2000	10000	40000	90,000
Tax Liability	*50	*75	180	1300	8960	37,585
Average per cent	1%	1%	1·8%	6·5%	17·9%	37·6%

There is scope for disagreement with the World Bank Mission that the lower groups should bear any more of the burden. The burden should really fall more heavily on the middle and upper classes. The Minister of Finance says with regard to the new scale of taxation that he proposed in his last budget speech (Scale I) 'It will be noted that the additional burden is cast more especially on people whose income is over Rs. 25,000. Incomes up to Rs. 25,000 have been dealt with very leniently and in fact between 20,000 to 24,000, there is a reduction of liability as compared with the year 1952-53'. His speech is not clear as to whether he was referring to the old scale inclusive of the two 10 per cent temporary surcharges that were levied or exclusive of them. If it was inclusive, then, the liability has been reduced by the proposed new scale; or else the liability has increased as shown below.

TABLE VII

(Taxable income under consideration is Rs. 24000).

Old Scale	*Tax*	*Old Scale With 2, 10% Surcharges*	*Tax*	*New Scale*	*Tax*
First 6000- 9%	540	First 6000- 10·89%	653·40	First 6000- 10%	600
Next 10000- 19%	1900	Next 10000- 22·99%	2299·00	Next 6000- 20%	1200
,, 8000- 24%	1920	,, 8000- 29·04%	2323·20	,, 6000- 25%	1500
—	—	—	—	,, 6000- 30%	1800
TOTAL 24000-18·16%	4360	TOTAL 24000- 21·98%	5275·60	TOTAL 24000- 21·25%	5100

8. According to the Administration Reports of the Commissioner of Income Tax, etc., this figure is much under-estimated.

*Unit Rate.

Rates of tax for non-residents and Hindu undivided families as obtained in 1951-52, are as follows :—

SCALE III

Non-Residents

On first	18000	18 per cent
next	10000	19 per cent
,,	20000	24 per cent
,,	50000	43 per cent
,,	100000	68 per cent
over	100000	76 per cent

SCALE IV

Hindu Undivided Families

On first	50000	24 per cent
next	50000	28½ per cent
,,	50000	41 per cent
,,	50000	49 per cent
,,	50000	58 per cent
,,	100000	66 per cent
over	100000	74 per cent

Business profits are taxed at following rates :—

	Before '53 March	*After '53 March*
Resident Companies	30 per cent	34 per cent
Non-resident Companies	36 per cent	40 per cent

The following rates apply to various other institutions listed against them :—

Body of Persons, Executors, Trustees	22½ per cent
Mutual Life Insurance Companies	15 per cent
Governments (other than Ceylon or U.K.)	36 per cent

Here we note that insurance companies share only a very small proportion of the tax burden. This may be explained as an inducement for more insurance business in Ceylon.

Excess Profits Duty

Excess Profits Duty was introduced to Ceylon for the first time in October 1941 and it applied to business. In 1942, it was extended to agriculture and plumbago mining.

Profits Tax

Business for Profits Tax purposes include (1) any trade or gainful undertaking of any nature or description whatsoever; (2) in the case of a registered company of which the functions consist wholly or mainly in the holding of immovable property or investments, the holding of such property or investments; and (3) the practice or pursuit or conduct of any profession, vocation, art, craft or skilled occupation of any description, with a view to earning remuneration, fee or pecuniary reward.

In arriving at a total profit for Profit Tax purposes the profits, from all liable sources reduced by losses if any, are aggregated. A rate of 25 per cent is levied on the surplus of profits over either Rs. 50000 or 6 per cent of the capital employed in the business whichever is higher. This Profits Tax is in addition to the Income Tax though it is allowed as a charge against profits for income tax purposes.

Estate Duty

Estate Duty Ordinance was amended by the Estate Duty (Amendment) Act, No. 3 of 1948, whereby gifts made not more than five years before date of death were brought into liability where the date of death was April 1, 1947, or subsequently.

The direct taxes from these various sources along with their respective amounts in arrears are shown in Table VIII.

TABLE VIII[9]

Years '51 and '52.

Year	1950-51 *Rs. Cts.*	1951-52 *Rs. Cts.*
INCOME TAX		
Revenue	91,922,265·47	145,756,444·55
Arrears	13,839,838·78	17,683,398·59
EXCESS PROFITS DUTY		
Revenue	11,152,182·50	4,972,009·34
Arrears	72,672,510·04	62,495,372·10
PROFITS TAX		
Revenue	27,423,457·39	52,935,171·86
Arrears	— —	10,223,960·71
ESTATE DUTY		
Revenue	4,235,480·61	5,856,116·74
Arrears	2,266,893·50	1,437,192·43
STAMPS		
Revenue	12,955,064·66	12,003,583·73

9. Source—Administration Reports of Commissioner of Income Tax, etc.

The above Table further reveals the increasing indebtedness of our people. Arrears are mounting up and the uncleared files increase in numbers yearly. Unsettled files in October, 1951, were about 70000 (World Bank Mission Report, Part II).

A well-ordered system of taxation should satisfy certain fundamental tests, namely the principles of justice, productiveness, economy and simplicity. Under justice we consider, people's ability to pay; under simplicity, clarity of methods and convenience of time of payment. People's ability to pay is open to serious doubt when we study the arrears of income tax during the past few years. Under productiveness it is held that a tax system should in no way reduce incentive to production. The Government has taken stock of this fact in passing the Income Tax (Amendment) Act, No. 36 of 1951. It refers to Government Sponsored corporations and New Industrial Undertakings, in this manner.

Government Sponsored Corporations

'All the profits of such a corporation and the dividends payable to shareholders will be exempt from tax for the first three years after the commencement of business of the corporation.

New Industrial Undertakings

The profits of new industrial undertakings as described in the Act up to a maximum of 5 per cent and dividends attributable to such profits are exempt from tax for the first three years from the time of commencement of the business. In both cases the exemption applies only if the commencement is within three years from April 1, 1951'. New Industrial Undertakings according to the Act should employ more than 25 persons and use electricity or mechanically transmitted energy.

Besides these exemptions applicable to new undertakings all sorts of agricultural and industrial enterprises are allowed (in addition to the usual depreciation allowances) to make an initial deduction of 33 1/3 per cent on new buildings used for the housing of employees and 10 per cent on business buildings and 15 per cent on machinery provided such buildings or machinery are installed before March, 1954.

The World Bank Mission recommends that the exemptions granted above should extend beyond three years and in the case of private undertakings exemptions granted should be more than 5 per cent. The Mission is also of opinion that reinvested earnings for productive purposes should be exempt from tax.

The Philippines went a step farther than Ceylon in granting a four-year tax exemption to her new industries. 'In order to set up industrial production, the Philippines Government has exempted new and necessary industries from taxation for four years, and the incentive has been very strong. From 1945 to beginning of this year about 45 million pesos (Rs. 130 million) have been invested in new private industries. Among the new products manufactured are (*a*) chemicals, drugs and medicines, (*b*) textiles of cotton and rayon, (*c*) plastic and rubber products, (*d*) pianos, bicycles, radios, gramophones, (*e*) metal zippers and toilet goods, (*f*) paper and sacking, (*g*) steel products, (*h*) electric light bulbs and glass products. The Government Rehabilitation and Finance Corporation which grants loans for industrial activities has been responsible for a great deal of the acceleration of the island's industrialization. The rate of this industrialization has resulted in more factories being established in the last five years than in the whole of the Philippines' previous history '—*Ceylon Daily News*. The above results would only prove that a productive tax system is of dire necessity to under-developed countries. But this does not mean productivity should be achieved at the expense of economy. For economy of a tax system should be well studied before it is introduced. Taxation, it has already been mentioned, is the chief source of public revenue. In the result a tax system should be such as to bring in sufficient revenue to the exchequer. Not only should it collect sufficient revenue but the cost of collection should be as low as possible. As far as the cost of collection goes, Ceylon is well above most of the other countries. In 1950-51, the cost of collection was only 1,826,330 rupees (1·2 per cent) and in 1951-52—2,151,218 rupees (·97 per cent). But as far as the revenue collecting capacity of our tax system is concerned, it does not look so bright.

The budget deficit for the year 1952 was Rs. 314 million and this continued in the year 1953 too. One way of correcting this deficit is by means of higher taxation. The Honourable Minister of Finance made certain proposals in his budget speech of 1953-54, to some of which have been already referred. He estimates an additional revenue of only 24 million rupees by those measures. This figure seems to be a gross under-estimate on the part of the Minister. He asserts in his speech, ' if we appropriate in full any excess income after allowing the tax-payer a maximum of Rs. 75,000 per year for his use, the additional revenue derived thereby would be only Rs. 5½ million. The total number of individual tax-payers in this class is only 204. According to the Table IX the number of individuals whose incomes were above 75000 rupees were 546 residents and 48 non-residents. Their total income was Rs. 81,539,135. The total income they could be allowed at the rate of Rs. 75000 per head was Rs. 44,550,000. The surplus the Government could appropriate on the basis suggested by the Minister would have been Rs. 36,989,135. Surely this figure could not have fallen to Rs. 5½ million within two years, nor could the number of people decrease from 594 to 204. Nevertheless it is true, that our tax system is not flexible enough to collect that amount of revenue necessary to eliminate the budget deficit.

TABLE IX[10]

	Residents				Non-Residents				Resident Companies				Non-Resident Companies			
	Number		Income		Number		Income		Number		Income		Number		Income	
	1950 1951	1951 1952	1950 1951	1951 1952	1950 1951	1951 1952			1950 1951	1951 1952	1950 1951	1951 1952	1950 1951	1951 1952	1950 1951	1951 1952
- 30000	710	875	19,411,207	23,433,275	33	36	934,919	981,263	21	20	586,233	576,524	11	11	212,855	299,962
- 40000	784	879	27,067,529	32,294,848	28	60	1,091,636	2,283,368	32	31	1,132,800	1,120,890	16	18	567,141	640,887
- 50000	419	546	18,940,943	24,455,495	19	23	853,215	1,057,001	36	21	1,649,081	992,224	14	18	648,368	830,873
- 75000	441	579	26,723,881	34,747,469	47	41	2,951,720	2,708,159	64	61	3,951,174	3,895,085	31	30	1,920,582	1,763,897
- 100000	149	230	12,900,488	20,161,827	12	27	1,022,908	2,324,843	39	43	3,434,454	3,825,192	33	18	2,932,524	1,610,268
- 150000	117	183	14,218,137	22,614,932	10	12	1,204,174	1,488,233	47	59	6,133,757	7,651,149	33	14	4,186,218	3,080,314
- 200000	35	64	5,898,241	11,380,384	3	6	512,845	1,031,415	28	39	5,022,005	6,783,025	14	20	2,433,455	3,409,528
- 300000	25	47	6,023,913	11,008,798	2	2	497,387	485,485	40	53	9,653,159	13,486,092	19	25	4,619,386	6,080,640
- 400000	6	10	2,051,343	3,531,143	1	—	335,434	—	20	27	6,586,344	9,601,999	12	18	4,183,941	6,155,834
- 500000	2	5	891,784	2,396,962	1	—	459,928	—	14	21	6,475,559	9,661,878	7	9	3,027,394	4,076,044
- 750000	2	5	1,181,108	2,925,853	—	1	—	550,108	6	36	3,244,181	21,811,259	15	17	9,196,888	10,583,224
-1000000	—	2	—	1,639,100	—	—	—	—	8	15	6,834,277	12,398,594	15	13	13,217,914	11,213,494
-Over	—	—	—	—	—	—	—	—	15	21	25,862,432	34,994,487	16	19	25,932,855	42,578,820

o. Source—Administration Reports of Commissioner of Income Tax, etc., 1951 and 1952.

Table X shows income classified by reference to various sources. The greatest percentage of income is derived from Trade though in numbers, employment occupies the first place. One noteworthy feature is that in the year 1951-52 though the number of people engaged in Agriculture is only 4439 as compared with 24879 engaged in Employment income derived from Agriculture is higher than that obtained from employment. This indicates the essential agrarian economy of our country.

*TABLE X[11]

1951 and 1952

	Number 1950 1951	*Number* 1951 1952	*Income* 1950 1951	*Income* 1951 1952
Agriculture	3224	4439	126,162,868	229,391,901
Trade	16579	14473	239,244,239	264,343,486
Profession	989	1616	15,679,518	24,715,102
Employment	28507	24879	212,278,434	227,304,442
Investment	3258	3189	28,748,652	34,829,506
Miscellaneous	409	115	4,363,441	2,435,236
TOTAL	52966	48711	626,477,152	783,019,673

Local Government Taxation

There are four types of local government bodies namely Municipal Councils, Urban Councils, Town Councils and Village Committees. There are seven Municipal Councils namely Colombo, Kandy, Galle, Jaffna, Kurunegala, Nuwara Eliya and Negombo. The last four of these were formerly Urban Councils. Jaffna, Kurunegala and Nuwara Eliya were granted Municipal status from January 1, 1949, and Negombo from January 1, 1950. In January, 1951, there were 36 Urban Councils. Sanitary Boards which were functioning till December 31, 1946 were either converted into Urban Councils, Town Councils or Village Committees. Town Councils Ordinance No. 3 of 1946 gave birth to these new local bodies with effect from January 1, 1947. Total number of Town Councils was 36 in 1951.

There are 400 Village Committees in the island. They are corporate bodies with perpetual succession and power to hold property, the taxation of land and the conversion of certain small towns administered under the Small Towns Sanitary Ordinance, into the Village Committee jurisdiction.

11. Source—Administration Report of Commissioner of Income Tax.

*Without including additional assessments.

Total current revenue of all types of local governments recently stood at an annual level of about Rs. 35 million including recurrent government subsidies. This is about 5 per cent of central government revenue. Table I shows that the total revenue of the Central Government varied between 600 and 900 million rupees within the last five years.

Total revenue of Municipalities in the year 1949 was 21 million rupees of which tax revenue aggregated 384,000. The tax revenue thus forms only 1·8 per cent of the total revenue, and this is in striking contrast to about 85 per cent of central Government revenue which is derived from taxation.

Total revenue of Urban Councils in 1951 was 12,968,000 rupees of which tax revenue constituted about 25 per cent. aggregating 3,348,000 rupees. On the other hand, total revenue of 400 Village Committees was surprisingly low. It was only 3 million and 85 of these had less than rupees 2000 a year each.

Property Rate Tax and *Acreage Tax* are the most important. In small villages and towns it is 6 per cent, in larger towns and communities, it varies from 10 per cent to 15 per cent and the maximum in Colombo is 30 per cent. The Acreage Tax is imposed on cultivated land at a maximum rate of half a rupee per acre. All land 5 acres and more in extent is liable to this tax. All lands under paddy or chena cultivation are exempt. This exemption may be to encourage growing of more food. There was a recent suggestion to bring even uncultivated land under this tax liability. In 1946 another tax namely Entertainment Tax was introduced on the passing of the Entertainment Tax Ordinance.

The World Bank Mission recommends that local bodies should have more revenue and the Mission suggests that the Government aid should be increased. The following table shows the aid given by the Government to the local bodies since 1948.

TABLE XI[12]

Amount	*Purpose*
7,000,000	Slum clearance and 1528 houses
15,920,000	2250 working class houses
7,500,000	Water supply
6,349,528	Extension to water supply
1,276,250	Drainage
9,000,000	Village works
2,550,000	Village wells
253,000	Village Sanitary Services
1,200,000	Maternity and Child Welfare
2,667,271	Block Grants
2,729,322	In lieu of abolished local revenue.

12. Source—*Ceylon Year Book*, 1951.

The above grants advanced by the Central Government are hardly adequate to meet the needs of these various bodies. Much relief was not obtained from the Committee which was appointed in 1948 to look into their needs. It should be the grave concern of the present Government to appoint a Commission with two main terms of reference, firstly to undertake a deep study of the specific needs of these bodies and secondly to recommend various methods by which their ' finance ' may be improved.

A. D. V. DE S. INDRARATNA