



UNITED NATIONS PALESTINE COMMISSION

Note of 3 March 1948 from the Advance Party on the Subject of Fiscal and Allied Problems.

The following Note on fiscal and Allied Problems, dated. 3 March 1948, arrived on 13 March in the first air pouch delivery from the Advance Party.

NOTE ON FISCAL AND ALLIED PROBLEMS

The following notes are based upon discussions I have had with Mr. Stewart, the Financial Secretary and Messrs. Nicklin and Brown, Under Secretaries.

I. BUDGETARY PROBLEMS

Fiscal continuity will evidently depend upon (A) continuity of the administrative setup, and (B) continuity of the flow of taxes and other revenues of the Government.

A. Regarding (A), the Finance Secretary did not see any difficulty in the United Nations Commission appointing a small number of "shadow" officers in various key positions in the economic services in advance of the definitive transfer of power and responsibility to the Commission on 16 May 1948. These officers will be given the opportunity of looking into the working of the departments so as to be able to take over their administration on the termination of the Mandate. The arrangement should not, however, create an impression of divided responsibility nor hamper the work of the present administration.

B. 1. A copy of the Financial Forecast made on 1 March 1948 for the period up to 15 May 1948 is appended. According to the Finance Secretary, there has been no decline in revenue receipts in the last three months. Receipts from Custom and Excise are, however, expected to fall from an average of LP.1.20 million a month hitherto to LP.75 million in March and to LP.50 million in April and subsequent months. Any estimate for April and later months is extremely uncertain, in view of the unpredictable reaction of importers to changing political and economic conditions.

Up to now, difficulties of collection have not affected the receipts from the four sources of revenue, through taxes like the Animal Tax and the Rural Property Tax have been hard to collect. The return from the tax on benzine has been adversely effected by reduced transport activity.

2. According to the financial forecast annexed hereto, the Administration would have a surplus of LP.4.75 million on 15 May 1948, if normal expenditure only is taken into account. Extraordinary expenditures for the period, however, amount to LP.12.52 million, leaving a total deficit of LP.7.77 million. A minimum working balance on 16 May 1948 is, however, indispensable to the continuity of fiscal operations, and the Commission may consider the advisability of requesting the present Administration to leave the ordinary revenue balance untouched, its extraordinary expenditure to that date being treated as a capital liability to be met later on.

3. The receipts from Income Tax in the coming year 1948-49 may be affected by a difficulty which the change of administration may create. For some years it has been the practice of the Palestine Administration to collect the tax on incomes from which deductions are made at the source in any year from the income earned in the year. In theory the sum so collected is held on deposit for the following year. In practice, however, the receipts have been treated as the revenue of the current year. It would be necessary for the United Nations Commission and the Mandatory Power to come to an understanding on the issue in order to safeguard the position in 1948-49 of those income taxpayers in Palestine who have already paid their tax for that year. A copy of the draft note on the subject which the Palestine Administration is shortly forwarding to the Colonial Office would be made available to me. The present attitude of the Administration is not to collect Income tax for the period 1 April 1948 to 15 May 1948.

4. The anticipated fiscal situation after 15 May 1948 may require the announcement of suitable changes in tax rates prior to that date. The Finance Secretary saw no difficulty in considering proposals for such changes emanating from the United Nations Commission prior to 15 May 1948. Each proposal would, however, have to be considered on its own merit.

5. The Finance Secretary saw no need for making advance provision for financial aid to cultivators. Government aid to citrus growers was discontinued last year on account of the improvement of world demand for the fruit.

6. Temporary appropriations to various departments are being made in such a way as to leave scope for easy readjustments that may be necessary later.

III. CURRENCY PROBLEMS (CONFIDENTIAL)

An important issue in relation to the location of the Currency Reserve in Palestine has to be tackled shortly by the Commission in collaboration with the Mandatory Power. At present Barclays Bank, which acts as the depositories of the Currency Funds in Palestine on behalf of the Currency Board, has its strong room in Jerusalem. The Bank is, however, considering for security reasons transferring its resources to Haifa, where it also has a strong room. Two problems may arise in relation to the location of the local funds of the Currency Board: (a) Barclays Bank may decline to continue to act as the depository for the Currency Board, and even if Barclays Bank agrees to continue in its present role, Haifa may not be easily accessible to the Arab State and to Arab population in general, and the question of having two agents, the Anglo-Palestine and the Ottoman Bank, with their strong room located in the two States, may have to be considered soon. Alternatively, the local funds of the Currency Board may be located in Cyprus.

Currency and allied problems would soon be taken up in detail with the Currency Officer.

III. MUNICIPAL FINANCE OF JERUSALEM

At a Press Conference on 3 March 1948, Mr. R. E. Graves, the Chairman of the Jerusalem Municipal Commission said that since November 1947 the financial situation of the City had deteriorated seriously. Estimated revenue had dropped by over LP.100,000, including Property Rate LP.28,000, Business Tax LP.20,000, Water Rate LP.50,000 and, receipts from Municipal Slaughter Houses LP.4,500. On the other hand, the cost of water supply and cost of living allowances had increased. "This meant," according to Mr. Graves, "that after utilization of all the municipality's assets an amount of LP.65,000 is required to cover expenditure up to the end of the present financial year on 31 March. The Government had rejected the request for a grant-in-aid for next year."

(Palestine Post, 4 March 1948)

FINANCIAL FORECAST MADE 1 MARCH 1948

	LP	
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Revenue balance at 31.1.48	5,800,000*	
Add estimated revenue up to 31.3.48	3,000,000	8,800,000
Add estimated revenue 1.4.48-15.5.48	<u>1,500,000</u>	
TOTAL		
Deduct the following:-		
Normal expenditure up to 31.3.48	3,300,000	<u>3,300,000</u>
Liabilities to be met before 31.3.48 (i.e column (3) of enclosure "A")	5,433,000	(5,500,000 (with LP 1,900,000 already quoted for Cyprus Camps))
Estimated expenditure 1.4.48-15.5.48 (exclusive of liabilities listed in enclosure "A")	2,250,000	
Liabilities to be met from 1.4.48-15.5.48 (see column (4) of enclosure "A")	<u>5,117,000</u>	16,100,000
Deficit		5,800,000
Add liabilities falling due after 15.5.48 (see column (5) of enclosure "A")	1,966,000	
TOTAL DEFICIT	<u>7,766,000</u>	

* includes L3,000,000 Special Reserve

LIABILITIES

Revised Schedule estimated stages at which expenditure is expected. to fall due

(1)	(2) TOTAL LIABILITY NOT MET BY 31.1.48	(3) TOTAL LIABILITY NOT MET BY 31.1.48	(4) EXPECTED TO FALL DUE FOR SETTLEMENT BETWEEN 31.3.48 AND 15.5.48	(5) EXPECTED TO FALL DUE FOR SETTLEMENT AFTER 15.5.48
1. Cyprus Camps	4,550,000	2,500,000	2,050,000	Nil
2. Compensation for requisitioned buildings	500,000	200,000	300,000	Nil
3. Famine relief	275,000	275,000	Nil	Nil
4. Arrears due to Supreme Moslem Council	300,000	300,000	Nil	Nil
5. "Operation Polly"	220,000	120,000	100,000	Nil
6. Regrading 1st. Division salaries	250,000	250,000	Nil	Nil
7. Regrading 2nd Division salaries (Manipulative grades)	208,000	163,000	45,000	Nil
8. Railway rolling stock (ex W.D.)	564,000	564,000	Nil	Nil
9. Refund to banks of unguaranteed citrus advances	120,000	Nil	120,000	Nil
10. On A/C additional compensatory allowances from 1.10.47-31.3.48	65,000	65,000	Nil	Nil
11. Government Trading Account (additional cost of subsidy up to 31.3.48)	400,000	400,000	Nil	Nil
12. Abolition Benefits (other than T.J. F. F.)				
(a) Non-recurrent	2,885,000	Nil	1,902,000	983,000
(b) Recurrent (for 12 months)	822,000	Nil	Nil	822,000
13. Abolition Benefits (T.J. J. F.)				
(a) Non-recurrent	416,000	416,000	Nil	Nil
(b) Recurrent	11,400	Nil	Nil	11,400
14. Evacuation costs	350,000	100,000	100,000	150,000
Carried forward	11,936,400	5,353,000	4,617,000	1,966,400

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Brought forward	11,936,400	5,353,000	4,617,000	1,966,400
15. Contribution to International Red Cross	30,000	30,000	Nil	Nil
16. Dilapidations (Government hirings)	200,000	50,000	150,000	Nil
17. Reconditioning of King David Hotel (including cost of reconstruction South Wing)	350,000	Nil	350,000	Nil
TOTALS	12,516,400	5,433,000	5,117,000	1,966,000

Notes on Items in List of LiabilitiesReference (1)

An estimate of LP.675,000 on account of additional numbers since approximately 1.1.48 has now been included. However, this is a very rough estimate, since no further figures have yet been received. It will further be observed, that no attempt has been made to estimate any charges which will fall due and have to be settled after 15.5.48. Regarding payment of charges, see High Commissioner's Secret Priority No. 31 of 24.1.48.

Reference (12) and (13)

The division of costs falling due as between the three stages indicated has been based on an assumption that all non-recurrent charges payable to non-expatriates will be

paid before termination of the Mandate and that such payments to expatriates will not be paid until after termination of the Mandate; in practice there will no doubt be a certain overlap in each case, but these overlaps may well cancel one another out. It is also 'assumed' that all recurrent charges (i.e. pensions) will be met during the period after 15.5.48. However, since these include pension commitments for convenience part of the charges will in fact be met before termination of the Mandate.

Reference (15)

See Secretary of State's telegram of 20.2.48 to UEDL New York Brief No 52 repeated to High Commissioner 648.

Reference (16)

This item is a revised estimate of its (a) and (b) of sub-section (ii) of section B of the Notes attached to Enclosure "B" sent under cover of Mr. Stewart's letter to Mr. Gutch No. CS 809/5 of 20.1.48. Even at this stage it is impossible to calculate with accuracy what liabilities are likely to fall due for settlement before termination of the Mandate. The figures now shown should, however, prove to be an overestimate.

Reference (17)

This new item was previously included in part in each of the following three items:

- (a) Compensation for requisitioned buildings;
- (b) Dilapidation (see (a) and (b) of (ii) of B of Note: referred to under "Reference (16)" above.
- (c) of (ii) of B of Notes referred to under "Reference (16)" above.

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Additional Notes

It will be observed that two items ("Lydda Airport Improvements", and "Kenya Detainees") have now been omitted from the previous schedule of liabilities. Neither of these liabilities is expected to fall due during the remainder of this financial year and any amount likely to fall due during the period 1.4.48-15.5.48 will be provided for in the Estimate at present in preparation.

Head	Item	Tax, etc.	LP	Collected by
I	1	Import Duties	10,500,000	Director of Customs and Excise
II	3	Broadcasting	100,000	Postmaster-General
	11	Road Transport	310,000	Inspector-General of Police
	16	Animal. Tax	200,000	Director of Customs and Excise
	18	Income Tax	2,500,000	Commissioner of Income Tax
	19	Rural Property Tax	475,000	District Commissioners
	21	Urban Property Tax*	700,000	District Commissioners
	22	Company Profits Tax	500,000	Commissioner of Income Tax
	23	Steep Duties	350,000	(various)
	24-25	Excise	2,288,000	Director of Customs and Excise
III	3	Court Fees	140,000	Courts
	22	Registration of Companies and Partnerships	100,000	Administrator-General
	24	Registration of Land	900,000	Director of Land Registration
IV		Posts and Telegraphs	1,885,000	Postmaster-General

*May be transferred to Local Authorities