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**UNITED NATIONS PALESTINE COMMISSION**

**Report dated 10 March from the Advance Party  
concerning discussion with Finance and Currency  
Officers.**

**The following report by Mr. Ghosh was received in Advance Party Air Pouch  
Number 2 on 21 March 1948.**

10 March 1948

DISCUSSION WITH MR. NICKLIN, UNDER-SECRETARY, FINANCE,  
AND MR. PETERS, ACCOUNTANT-GENERAL AND CURRENCY OFFICER

(Report by D. Ghosh)

The following further points were discussed with the Finance Department:

1. Minimum cost per month required to carry on the administration at the centre (Jerusalem).

The present administration has been spending about LP.1 million a month to meet its current liabilities at the capital. With a reduction of Government activity in recent months, however, the cash resources required have fallen somewhat. Mr. Peters<sup>2</sup> is of the opinion that the UN Commission would require a minimum cost of half a million pounds in Jerusalem to pay its way as the Successor Government. This would be in addition to sums required at Sub-accountancy offices (50 in all) scattered over the country.

It would be necessary for the Commission to request the present administration of Palestine to leave enough cash at the Central and Sub-accountancy offices on 16 May 1948 to enable the former to discharge its current financial responsibilities, until a sufficient excess of revenues over expenditure have brought in the necessary cash.

[It is necessary at this stage to stress the difference between the revenue balance and the actual cash resources of the Government. The former is arrived at on the basis of total assets and liabilities position of the administration on a certain date, and can be realised in cash only after the advances made by the administration out of its surplus of revenue over expenditure have been realised and its concurrent liabilities met.]

DISCUSSION WITH MR. STEWART AND MR. PETERS

2. It would be necessary to arrive at some kind of arrangement regarding the transfer and safekeeping of Receipt books and financial records of the administration. The Records must, of course, be preserved, but if security conditions are not properly established, it may be advisable to destroy unused receipt books in order to limit the scope for fraudulent operations. This may, however, create temporarily a great difficulty for the Commission after the

<sup>2</sup> Accountant General

transfer of responsibility.

3. A similar difficulty will arise in connection with the Bearer Bonds which have been issued by the Palestine Administration. These are drawn monthly. The present administration thinks that it will not be safe to leave the Bond tickets behind, except in conditions of complete security. If arrangements regarding the safe custody of these tickets are not made in time, the Administration may find it necessary to destroy the tickets. These can, however, be reprinted from records which the Palestine Government propose to transfer to Cyprus (along with other documents needed for the purpose of the liquidation of the present administration). Some arrangements have also to be made regarding the safekeeping of the drums which are used to draw lots.

DISCUSSION WITH MR. PETERS, ACCOUNTANT-GENERAL AND CURRENCY OFFICER

1. As the responsibilities of the Accounts Department of the present Administration would stretch beyond 15 May 1948, the Government proposes to transfer its books and records required for the final settling of accounts and seventy officials, including the Accountant-General, to Cyprus at the end of the Mandate. These seventy officials would comprise those in the key positions of the Accounts Department and in the Accounts Sections of other departments, and may not be available to the future administration of Palestine for a period at least of two months. Among these officers are two, the Chief Accountant and the Chief of the personal staff of the Accounts Department, who are both Jewish citizens of Palestine and would probably be available to the future administration. The Commission may find it advisable to arrive at some understanding with the present administration regarding such officials, i.e. those that are willing to work under the future administration but may be required temporarily by the Colonial Office after termination of the Mandate.

2. The question of a strong room for the safe custody of local resources of the Currency Board was again discussed with the Accountant-General. According to him, strong rooms exist only in three places in Palestine, viz., Jerusalem, Haifa and Tel-Aviv. Those in the first two cities belong to Barclays Bank, while the one at Tel-Aviv is owned by the Anglo-Palestine Bank. The latter one is, however, too small for the storing of the resources of the Currency Board.

3. Printing of Currency Notes and Minting of Coins:

Both these operations are done in the United Kingdom, and during the war years there were difficulties in getting them done quickly. According to Mr. Peters, however, those difficulties have now disappeared. In any event, according to him, the Currency Board has, in Palestine, a sufficient stock of coins, and orders have been placed for an extra quantity of notes to be kept in stock.

The stock should, however, be considered sufficient only in relation to normal conditions, and extra provisions may have to be made to meet possible runs for cash in the uncertain conditions that may come to exist temporarily on the termination of the Mandate. Any large-scale breakdown of intercourse between different parts of the country will also increase the total demand for cash.

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Note on Income Tax deductions at source.

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The Government has had under consideration the situation which will, in view of the break in continuity of administration in Palestine on the 15th of May and having regard to the uncertain future, arise in connection with the amounts which have been deducted at source in respect of Income Tax during the financial year 1947/48 and those which would, under normal conditions, fall due for deduction in the coming financial year.

2. The Palestine Income Tax Ordinance (recently revised and re-enacted as No. 13 of 1947) provides that the tax in any one financial year is assessed upon the earnings of the previous financial year (vide section 6 (1)) although the amounts collected by deductions at source are in practice brought to account as revenue during the year in which they are actually paid.

3. Deductions at source from current earnings are made in respect of the following three categories:-

- (a) Debenture interest paid by a Company (section 31 (7) of the Ordinance);
- (b) Mortgage interest and other income payable to non-residents (section 42 of the Ordinance);
- (c) Income from employment and pensions etc. (Section 48(1) of the Ordinance).

These deductions are therefore made on current earnings and are in fact payments on deposit in respect of tax liability for the following year, it being thus assumed that the Ordinance will remain in force and that the following year will in fact be a "year of assessment". Were this not so, the Government would be under obligation, unless special legislation were to be enacted in any other sense, to refund such deductions.

3. A situation now arises in which the possibility of 1948/49 becoming a year of assessment may be assessed by virtue of expectation that the present law will still be in force on the 1st of April and remain in force at least until the 15th of May; though it is most unlikely that it will remain in force after 1st October

1948. On the other hand, not only can it not be assumed that there will be a "year of assessment" in 1949/50, but it must be assumed that the projected constitutional changes will by then have become at least in part effective and that new fiscal legislation will be in force - possibly on a different basis in each of three separate partition states. The pay-as-you-go system can only be justified while there is reasonable certainty as to the future. There are thus two problems to be decided:-

- (a) how to dispose of the amounts collected during 1947/48 in advance against a projected 1948/49 assessment; and
- (b) whether to continue in force those sections of the Ordinance and the Income Tax (Deduction from Emoluments) Rules, 1944, which would make it obligatory to continue deductions at source during the period 1st April to 15th May, 1948.

4. Regarding (a) above, there appears to be a clear obligation to safeguard the interests of those who have made these payments against a potential situation in which the tax for 1948/49 is not in fact assessed and collected, and where income from other sources is not therefore subjected to this tax. It has been suggested that these interests can be properly safeguarded only if the amounts concerned are placed on deposit; but before taking any action in this respect, and in order not to hamper unnecessarily such continuity of administration as may be contemplated, this Government has suggested to the Secretary of State that the United Nations Commission should first be asked to indicate what steps they might wish to take regarding continuance or otherwise of the Income Tax in its present form; and also that assurances they propose to give that, in the event of the tax due in respect of 1948/49 not being collected in accordance with the Ordinance, these advance payments will be refunded to those concerned to enable them to meet alternative tax liabilities, and thus to ensure that they are not placed at a disadvantage in relation to the rest of the community.

5. Should the Commission decide that they are unable to safeguard the position of those from whom tax has been deducted, the possibility of making refunds will be considered.

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6. Regarding deductions which would in the normal course of events be made as from the 1st of April, 1948, against potential tax liability in 1949/50 (see (b) of para. 3 above), it is proposed, in view of the assumption referred to in the second sentence of paragraph 3, to amend sections 31, 42 and 48 of the Income Tax Ordinance in order to discontinue the requirement of deductions at source with effect from the 1st of April next. This would not of course mean that the income concerned would not be chargeable with tax when (and if) the time comes, but it would mean that, in relation to their uncertain future obligations, all potential tax-payers would be placed on an equal footing.

7. It has been suggested that the United Nations Commission should be informed of the situation and of the decision in the preceding paragraph, and asked for an early indication of their views as in paragraph 4. The Secretary of State has been informed that this matter has been brought to the notice of the United Nations Secretariat staff in Palestine.

8.3.48.