

# CEYLON *Today*

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**APRIL, 1959**

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# CEYLON TODAY

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## New Tax Proposals

*THE Finance Minister, the Hon. Stanley de Zoysa, explained the Government's new tax proposals in the House of Representatives on Tuesday, April 7, 1959. We publish below the full text of the speech made by the Minister in moving the second reading of three new Bills the Income Tax (Amendment) Bill, the Personal Tax Bill, and the Estate Duty (Amendment) Bill :—*

"When I introduced the Budget last year, I announced certain fundamental alterations in our scheme of direct taxation. I present now the legislation to give effect to these proposals. I do not think that either the House or the country will complain seriously about the time that has lapsed between the announcement of the proposals and the introduction of the legislation. Such a complete overhaul of the existing tax structure has required much preparation, work and study, and this has been the only reason for the lapse of time between the announcement of the proposals and the presentation of legislation. This lapse of time from a certain point of view has had a desirable effect.

"Honourable Members and the country at large have had the opportunity of examining these proposals fully. The proposals have been meticulously examined and widely criticised. The Government has had the opportunity of considering the various points

of view put forward and the legislation now presented to the House seeks to give effect to certain modifications the Government has thought necessary in the light of these criticisms.

"Certain hardships which may have otherwise been caused have been alleviated and certain concessions have been made. This has been done only in so far as has been possible within the framework of the scheme of taxation that was introduced. There has been a great deal of criticism of the very structure of the scheme of taxation envisaged in my Budget Speech last year. Criticism of this nature has proceeded from a fundamental divergence of philosophy on the very purpose of these taxes. Naturally, the Government has not been able to alter its own basic concept in the light of such criticism. I wish to say that the fundamental principles and the basic structure of the proposed scheme of taxation stands and must stand unaltered.

### More Equitable

"THE scheme of taxation proposed seeks to ensure a more equitable distribution of the tax burden among the different classes of society and the different members of the community. It aims at broadening the base of taxation by removing on the one hand the



restricted definition of "income" which obtained in the system so far followed, and on the other, by legislation for a correct treatment of expenses, which are to be allowed as deduction from profits. It also aims to secure a more equitable differentiation in tax treatment between income from work and income from property.

"As I said in my Budget Speech last year, capacity to pay cannot be adequately measured by taking into consideration only income. A proper system of taxation should not only take into account the income of the person but also various other ways in which money accrues to persons or wealth increases. In order to ensure this, it is necessary, in the first place, to close up all possible avenues of tax evasion and tax avoidance and secondly, to readjust the very structure of taxation in order to secure a more equitable tax treatment, as between income from work and income from property.

"In the field of the taxation of income of individuals, the income, wealth and expenditure of a family will be aggregated, and as regards Income and Expenditure Tax, the tax liability of the family will be determined on the basis of the "quotient" system, which is now familiar to most taxpayers. It should be realised in this context that although the marginal rate of tax on income has been brought down from 85 per cent to 60 per cent, it does not necessarily mean that those individuals who were liable to pay the high marginal rates in the old system will now pay less tax, since the new taxes will apply to these very persons, and the gain to revenue when the taxes are fully operative will be collected from these very persons. What is more the 60 per cent rate will be reckoned on a wider tax-base.

### Self-checking

"THE system proposed is self-checking in character and the taxes interlock in such a manner that the automatic enhancement of the liability to one or more of the taxes may

result, if it is sought to evade another tax that forms part of the system. The ideal method of legislation for such an integrated self-checking system of taxes would have been to include all the taxes belonging to the system in a single comprehensive Personal Tax Act; but the preparation of such an Internal Revenue Tax Act could not have been completed even by now. As it is, I must apologize for the delay in presenting the Bills even in the present form. I am keenly aware of the uncertainty in people's minds that the delay in presenting the legislation to give effect to the Budget proposals in 1958 has caused. But as I said earlier Honourable Members and members of the public will appreciate that legislation to give effect to such a complete overhaul of the existing tax structure required much preparation and I can only offer this as the extenuating circumstance for the delay in presenting the legislation.

"This legislation, therefore, appears before you in the form of three Bills—The Income Tax Amendment Bill, the main feature of which is the inclusion of Capital Gains in income, the Personal Tax Bill, which legislates for the contribution to revenue by persons in respect of their wealth, their personal consumption expenditure and gifts, and the Estate Duty (Amendment) Bill, which makes provision for certain amendments to the Estate Duty Ordinance which are consequent on the introduction of the Gift Tax.

### Capital Gains in Income

"THE first objective, I said, was to close up the avenues of escape from income tax itself. The Income Tax Amendment Bill before the House legislates to this end. The inclusion of capital gains in income, is, I think, by far the most effective step in this direction. Capital gains which take many forms, hitherto escaped income tax since such gains were held to be "things apart" in the philosophy of the tax system so far followed. That these gains enhance a person's taxable capacity in a no different way than income does,



did not animate, much less agitate tax legislators till comparatively recent times. That capital gains provide one of the most fruitful fields for legal evasion of income tax especially by the rich who are in a position to manipulate their affairs in order to convert income gains into capital gains, has now become recognised in many countries, and such gains have been brought into the tax net in many European countries, in India and in the U. S. A. The provisions in our Bill make the net capital accretion to the capital of a taxpayer during his lifetime liable to the tax. This capital accretion or appreciation is computed on change of ownership and taxed only in that event.

"At the point of taxation it is termed "net capital gains" and clause 6 (2) brings such gains into charge. Of course, by "net capital gains" is meant capital gains after allowing for capital losses. The maximum marginal rate of tax in respect of capital gains is set at 45 per cent while the highest marginal rate for income gains is 60 per cent. The ideal position as was originally considered by me before the Budget was to set the maximum marginal rates for capital gains and income gains at the same percentage, but since it was not thought desirable in the context of our tax structure, and before the proposed changes begin to be fully operative, to bring the income tax straightaway down too steeply the income tax rate was set at 60 per cent. The same rate per cent if applied to capital gains may have a certain disincentive effect in view of the broader base on which the tax burden will now fall. Therefore the rate of tax on capital gain is set at 45 per cent. I must add that the Government will give serious consideration in future years to effect the very desirable feature of the equalisation of the maximum marginal rate of tax in respect of both classes of gains.

### Sweep Prizes

"CLAUSE 6 (1) also provides the prizes won at sweeps and lotteries should bear a tax similar to the tax on capital gains with a ceiling marginal rate of 45 per cent.

"I should also mention that income from horse racing hitherto untaxable has been brought within the tax net by Clause 6 (2) of the Bill, with the special provision that any loss claims from such a business can only be allowed against profits from the same business.

"It was proposed in the Budget Speech last year that any tax credit that may arise on account of unabsorbed capital losses at death will be set off against estate-duty. But by virtue of the provisions of Section 6A (7) in Clause 7 of the Bill unabsorbed capital losses at death may be carried back and set off against the statutory income of the deceased for the preceding three years.

"Mainly in order to relieve the small capital gains which may be realised on transactions by peasants and farmers in the country—e.g., from land transactions—it has been provided in Section 6A (6) in Clause 7 that the first Rs. 5,000 of capital gains will not be taxable, if the recipient had no average taxable income for the three years immediately preceding the year in which the gain is realised.

"The provisions of Sections 6B (1) and 6B (2) in Clause 7 secure the exemption of the first Rs. 5,000 of the prizes won at a sweep or lottery by a similar non-taxable person.

### Disallowable Deductions

"ANOTHER important feature of the tax system which has the objective of closing up certain methods of tax-avoidance and which is given effect to in the Bills before you is the disallowance of certain classes of expenses hitherto allowed. Clause 10 of the Bill provides for the total disallowance or for the restricted allowance of all such classes of expenses. The most important class of such expenses is entertainment expenses, which in commercial circles are referred to as expense accounts. These as Hon. Members know, are now mainly paid to or incurred by high grade executives in commercial establishments. In the old system they



qualified for deduction in the hands of the company or business that paid such allowances or expenses, and could not be brought in as income in the hands of the person who received them, owing to the extreme difficulty in separating the amount of such expenses that would normally be spent on legitimate business account, and the balance amount that accrued to the personal benefit of the employee or director. To prevent such abuse it is laid down that Entertainment Expenses and allowances paid to employees whose total salary and allowances exceed Rs. 1,000 per month will be totally disallowed to the establishment that pays them. These will not be regarded as income in the hands of the recipients but will have to be properly accounted for by the recipients for expenditure tax purposes.

#### Travelling Expenses

"THE next class of expenses that could have been abused under the old system were travelling expenses. These in the old system included travel on holiday under the guise of business trips, not only in respect of the employee concerned but in certain instances in respect of the employee and his family. A single business conference abroad made it possible for high grade executives to claim travelling expenses as business expenses. In order to prevent this kind of abuse, it has been laid down that all travelling expenses in respect of the owner, director or partner of a business or of "executive officers", that is those employees whose total salary and allowances exceed Rs. 1,000 per month, will be disallowed. We have not lost sight, however of the fact that there are classes of income earners whose very work involves a considerable amount of travel within the country itself. Both to meet such cases and to allow some margin for legitimate travel expenses in regard to business it has been provided that a sum of Rs. 2,000 per annum will be allowed on this account in respect of each business. Travelling expenses of subordinate employees will, however, be

fully allowed and Clause 10 (ab) (ii) of the Bill provides for this.

"Passages to non-national directors and employees and their families periodically to visit their homes abroad are allowable to the business establishments that pay them and are not taxable in the hands of the recipients.

#### Advertising Expenses

"FINALLY, there are advertising expenses. These expenses cannot always be exactly determined with reference to the production of income of the year concerned. In many instances these expenses add to the permanent value of the business and as such will not be allowable under normal income tax principles. Further, it is possible to include entertainment expenses of certain kinds as advertising expenses. In view of all this, it was proposed in the Budget Speech last year that 50 per cent of advertising expenses will be disallowed. A flat rate of disallowance has to be taken in view of the extreme difficulty of separating the actual allowable expense for the year concerned from the remaining part. Urgent representations have been made that particularly with regard to certain classes of business the percentage of disallowance is too high. It has therefore been decided to reduce the amount disallowed to 25 per cent. A percentage disallowance has to be maintained in principle, and if, when the tax administration applies the relevant provisions of the Bill, it is found that methods of avoiding the disallowance of such expenses are being resorted to, it will then be time for me to consider what measures should be taken to prevent such avoidance of the legitimate tax due.

"In the field of taxation of incomes of individuals, the aggregation of the income of the family closes up the loop-hole that existed in the old system, whereby it was open for a wealthy head of a family to dispose of his property by artificially dividing it between members of his family, in order to avoid tax.



## Relief to Single Persons

THE differentiation in tax-treatment between families of varying responsibilities is secured, as I said, earlier by the adoption of the quotient system.

"But it has been recognized that in the social context of this country the strict differentiation between the tax burden of single persons and families with higher responsibilities on the basis of the quotient system alone is somewhat inapt. The Bill proposes, therefore, certain relief from income tax payable by single persons which takes into account the social responsibilities of single persons to their families as they exist in our country today.

"The relief from Income Tax which is provided for in Section 20F (5) in Clause 14 of the Income Tax Amendment Bill takes the form of the provision for an extra tax-free allowance of  $7\frac{1}{2}$  per cent of the total assessable income of a single person irrespective of whether it is earned or not, up to a maximum extra tax-free allowance of Rs. 3,000. While this allowance has been provided, it has been recognised that on the high ranges of income such an allowance would not in equity be due, and, therefore, the relevant Clause—viz., Clause 14 of the I. T. A. Bill is so framed so as to secure that this extra tax-free allowance increases as the income rises, but only up to an income of Rs. 40,000 per annum. Thereafter it falls gradually, finally to disappear at the level of income of Rs. 100,000 per annum.

## Further Measure of Relief

A further measure of relief to single persons is that they are to be regarded as  $1\frac{1}{2}$  units both for purposes of Income Tax and Expenditure Tax. This will have the result of increasing the unit slabs, fixed for purposes of applying the various rates of tax, to one and half times the amounts proposed in the Budget Speech last year.

**"Still another step has been taken in the direction of lightening the tax burden of the**

**single person in raising his Expenditure tax-free allowance from Rs. 11,000 per annum as it stood in the Budget proposals to Rs. 17,000 as embodied in Clause 15 (b) of the Personal Tax Bill.**

"I should like to mention a few of the effects of these reliefs to single persons. A single person will pay less tax in the new system than in the old up to an income of Rs. 13,684 per annum, i.e., on an income of over Rs. 1,000 a month. He will have to earn over Rs. 20,000 per annum to be liable to expenditure tax. As regards a person who earns a higher amount say, a single person with an income of Rs. 2,000 per month, if he spends his full income after taxes, he will have paid Rs. 7,200 income tax and Rs. 966 expenditure tax, making a total of Rs. 8,166 as the budget proposals stood. But now, with the reliefs proposed he will pay Rs. 4,692 income tax and Rs. 218 expenditure tax, making a total of Rs. 4,810. True, since in the old system he would have been called upon to pay Rs. 3,650 only as income tax his present tax is Rs. 1,160 more than in the old system. This increase is less than Rs. 100 a month out of an income of Rs. 2,000 a month which in all the circumstances, I do not think is unduly burdensome on a single person with such a level of income. That even this increase is necessary will be clear if we consider for a moment a married couple's liability on the same income. This will amount to Rs. 3,955 in the system proposed—a sum of Rs. 855 less than the tax on a single person. We have to maintain this measure of differentiation, and indeed we set out to reform the old system precisely for the reason that it contained many anomalies—and once such glaring anomaly was a lack of adequate differentiation in tax treatment between families with responsibility to their children and their dependants and single persons who, although with responsibilities to their relatives, did not have to shoulder as great a burden as heads of families.



"Here, I wish to bring to the notice of the House that the decision to raise the tax-free allowance of a single person from Rs. 11,000 to Rs. 17,000 was made after the original draft Bill was prepared. This and other similar changes made at that stage necessitate certain consequential amendments, and I shall be moving these at the appropriate stage. One such amendment becomes necessary by reason of the position that while the expenditure tax-free allowance for a single person amounts to Rs. 17,000 per annum, the similar allowance for a single person and child or dependant appears to be restricted in the Bill to Rs. 15,000. This was never intended and the provision for this allowance should be Rs. 18,000 per annum.

### Company Taxation

"IN the field of Company taxation, as envisaged in the Budget Speech, a comprehensive rate of non-refundable company tax of 45 per cent in the case of resident Companies, and 51 per cent in the case of non-resident Companies, is to be levied, and this single non-refundable tax replaces the two separate taxes on Companies in the earlier system under which they paid both an Income Tax and a Profits Tax. Further, in pursuance of one of the proposals last year, it is provided in Section 53B (1) (b) that a levy of a refundable tax of 33 1/3 per cent on income distributed as dividends by companies is to be made. Having regard to the average rate of declaration of dividends which applies to Ceylon Companies, I have had this matter examined more closely and find that the proposals as in the Budget Speech last year, result in a slightly heavier tax burden than hitherto, which, if we were following the old system, would have been secured by the increase in the rate of Income Tax and or Profits Tax. What I wish to stress here is the abolition of the dual tax on companies that existed. It was possible under the old system for persons to minimise their liability by splitting their business into small companies each of which then separately

qualified for the exemption from Profits Tax of Rs. 50,000 of their profits per annum. This loop-hole which existed in the old system is closed in the new system by the imposition of a single non-refundable tax, no matter the size of the company. But, we are aware that this comprehensive non-refundable rate of 45 per cent, which includes in effect the old Income Tax and Profits Tax, may become too heavy a burden on small companies, and may not only cripple their expansion and development, but may also lead to their dissolution.

"It is, therefore, necessary to provide for appropriate relief to such companies, but in so doing we must not fall into the error of leaving ajar the door we have closed—viz. the opportunity of avoiding tax by splitting up companies. Clause 20 of the Income Tax Amendment Bill serves this two-fold purpose. The relief provided for a company which qualifies for such relief is the deduction of either half the 45 per cent non-refundable tax on the first Rs. 50,000 of the income of a company, or the deduction of a sum equal to one-third the tax on the amount by which Rs. 150,000 exceeds the taxable income of the company, whichever is less.

"To illustrate the way in which the relief operates consider a company that makes a profit of, say, Rs. 50,000 in a year. This company would not have paid Profits Tax in the old system. On the assumption that it distributes one-third of its profits as dividends it will have in effect to pay a non-refundable tax of 26 per cent in the old system and after paying out the nett dividend to its shareholders, would be left with 41 per cent of its profits for purposes of its reserves, &c. But if this company qualifies for the "small" company relief provided for in the new system, it will only pay a non-refundable tax of 22 1/2 per cent (against 26 per cent it would have paid before) and after declaration of one-third of its profits as dividends

(Continued on page 27)



# When Ceylon Gipsies Marry

S. V. O. SOMANADER

THE gipsies of Ceylon are a jolly people. Nomadic in habit, they laugh away at life and its problems, which crop up in their care-free, al fresco existence, in a manner which will make the civilized man feel ashamed. And, when these happy itinerant folks wed, there is always a big "tamasha" in their remote forest settlement. If you doubt it, do make a visit to a sylvan glade one day, when there is a gipsy wedding on, and have a peep when a gipsy bride is being given away in marriage to a groom of her

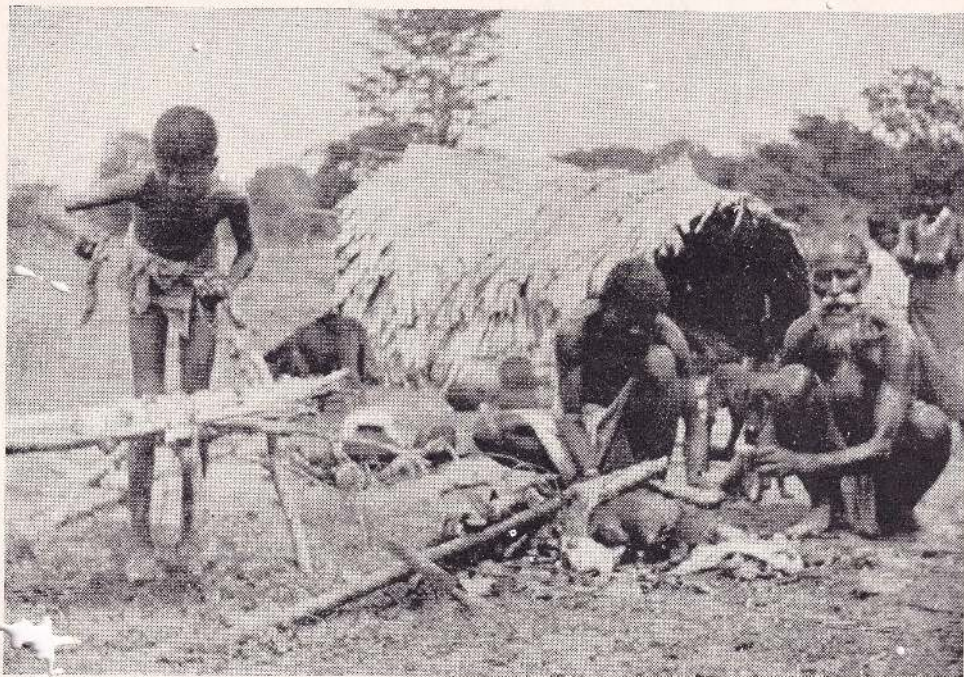
parents' choice. A mere glimpse of the nuptial festivities, all taking place between two parties both camping in talipot shelters within a few yards of each other on the undulating grassy plain, is well worth a visit to the jungle country. For, it provides both variety and novel entertainment to a restful holiday in the wilds, "far from the madding crowd".

Let us now have a look at the happy incidents connected with the "Romany" nuptials :



Here is a trio of gipsy belles, proudly adorned with bead necklaces, nickel armlets and bangles—not to mention the rings on their fingers—making preparations for the big event. Being cousins of the bride-elect, they are pounding the maize into flour for making "cholan-kaly" (maize-porridge) for the tribal feast on the wedding day.





One of the gipsy "elders", with others assisting him, is cutting up the flesh of the wild boar, speared overnight in the adjoining jungle with the help of the dogs and javelins, in preparation for the nuptial meal. For, in the opinion of the gipsy, what is a wedding feast worth without fresh meat ?



Prior to attending the happy nuptial event, a "quintette" of gipsies, after earning money by snake- charming in the village, is helping itself at the rural tavern, to liberal potations of arrack, for which gipsies have a great weakness. When they get back to camp, they feel that the drink has provided them with the requisite "Dutch courage" for much noise and jollity, without which a gipsy wedding is meaningless.





◀ This is the bridegroom's party escorting the romantic hero of the day (second from right) to the bride's talipottent, some distance away in the same encampment.

Here is the gipsy bride, who, on the evening prior to the great day, is standing before the visitor in front of her tent, and exhibiting to him the queer dowry she offers to her groom to help him to earn his living and to run their new home. It consists, apart from kitchen utensils like mortar, a rattan-basket with a performing cobra in it, a gourd-shaped flute to charm it with, a javelin for her man to hunt, and a country mongrel to assist him in the chase for his quarry—which may be a deer, pig or iguana. Would that our dowry-hunters (doctors, barristers and engineers included) take a leaf out of the gipsy's book.



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◀ The gipsy-bride's father, like the rest of his tribe, reckons his wealth, not in the cash or jewellery he possesses, but in the cattle he owns. And so, sometimes, wealthier fathers-in-law include cattle—such as those seen in the picture taken on a gipsy plain—as dowry. No milk or beef is taken by these people as food, but the animals, which are fat and sleek, are often sold to butchers, or hired to cultivators for manure, to add to the family income.

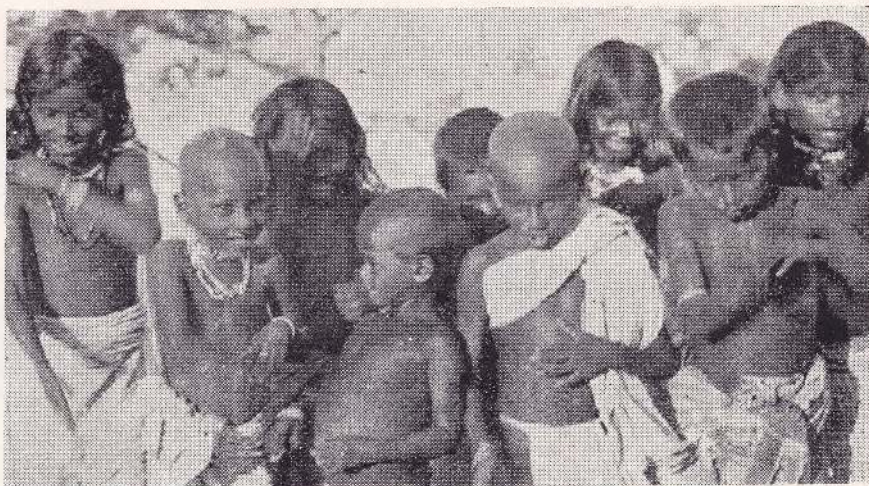


▶ The coy bride, in a striped cotton-saree, and adorned with nose stud, bangles and rings, is standing beside her partner. He, too, is donned in silk turban, checked sarong and shawl, with his neck bedecked, in feminine fashion, with multi-coloured necklaces of beads. The couple were so camera-shy that, in their excitement and nervousness, they have both closed their eyes as the shutter clicked. Or, who knows if they were trying to prove to the onlookers that "love is blind",



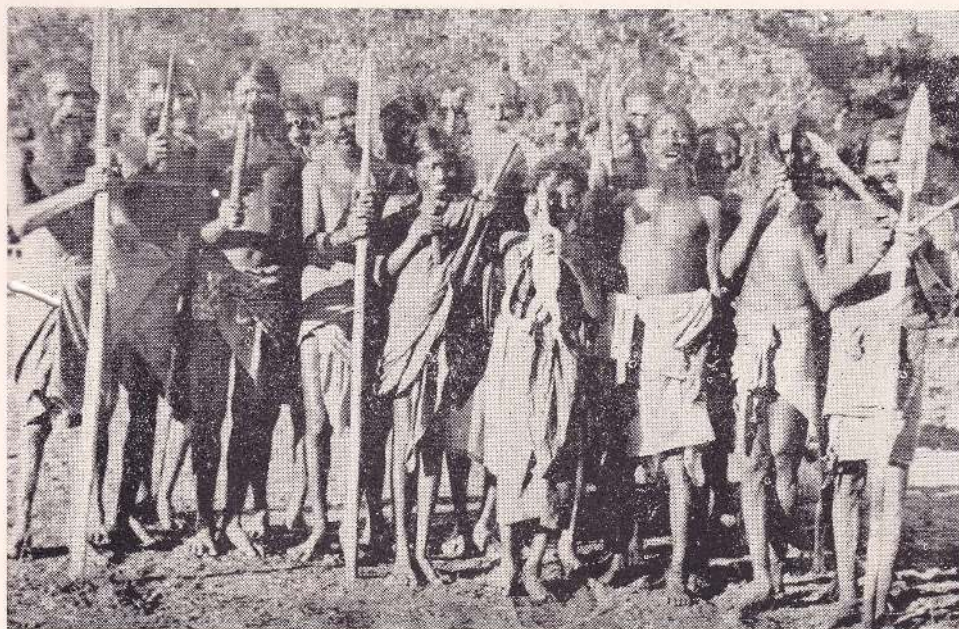


A nuptial event such as this has no life without "noise", or rather the sound of "wedding bells". And so, here is a party of gaily-clad dancers, preparing to trip "on the light fantastic toe", and thus add to the gaiety of the occasion. The beating of the "Tappoo" (a kind of drum made of monkey-skin or goat-skin, and played with sticks held with the fingers of both hands) adds to the din, besides giving rhythm to the dancers' steps.



What is a gipsy wedding-day without providing a great time for the children? They too are served with a drink on such occasions. Here they are, boys and girls, who are only a trifle tipsy, executing a dance with a sing-song, clapping their arms to chest, slapping their thighs, rolling their eyes, and essaying a shrill chorus to contribute to the general hubbub and merriment.





Among the guests present at the wedding were these laughing, shouting men, who have swallowed liberal draughts of additional arrack—to drink, as it were, to the health of the newly-wedded gipsy couple. In their drunken state, putting aside their gay clothes and wearing their simple jungle-kit, they have even brought—for a consideration—their javelins, to prove to the visitor that they are great hunters. Note the lad in the middle, exhibiting an iguana which one of the men had speared overnight for food.



The guests included these smiling women too. They are as proud of their neck-ornaments as they are proud of their nude or semi-nude children. All these females, who have been served with liquor at the wedding, look as though they had thoroughly enjoyed the day, and do not want to “go home till morning”. For they know—and we too must remember—that “weddings don’t come every day”.





While her husband has gone out to the village to earn money by practising the snake-charmer's art, the bride is seen (seated right, with suckling babe) relaxing from her household work by riding on the swing. It is suspended on the branch of a forest tree in the camp-site itself, and her girl friends are helping to move the swing to and fro in the shade during a hot afternoon.





After feeding the baby, mother has gone to the tent (seen behind) to resume her household duties, before father returns home tired after the hunt or snake-performance. And so, here is "grannie"—a very useful person sometimes, despite what people say about mothers-in-law—lulling the baby to rest in the cloth-cradle improvised in the open. It is hung by means of jungle-creepers (which do duty for rope), and it rocks nicely as she sings her own "Hush-a-bye, baby" to put the little one to sleep.



# The Advent of Electricity in Ceylon

WILLIAM PEIRIS

*THE January issue of Ceylon Today carried an article on the development of Hydrel Power in Cylon. In this context, we believe, the article we publish below will prove to be of unusual interest.*

Ceylon first saw electric lighting early in 1895, fifteen years after the electric incandescent lamp became a commercial product, making domestic lighting possible. Since then much progress has been made in the development of electric power, the present government pursuing a vigorously go-ahead policy.

The first building to be equipped with electric lights was the Bristol Hotel, Colombo, a dynamo driven by a gas engine, which was installed in the hotel premises, generating current. Shortly afterwards Messrs. Boustead Bros., who were agents for the United Planters Co., of Ceylon, launched a scheme to supply the Fort of Colombo with electric lights from a central power station located at Galle Buck, entering into contracts to provide current to Queen's House, government departments, private buildings and for lighting streets in the Fort area. The central power station at Galle Buck was equipped with dynamos driven by five sets of gas engines. To supplement the supply from this plant during the lighting period as well as to meet the small demand for current during the day a storage battery was provided. This supply was on the Direct Current System.

Encouraged by the success of this venture, the company launched a big generating scheme in Gas Works Street, Pettah. At the outset, this station was equipped with steam generating sets to produce Direct Current at 550 Volt pressure for operating trams and the single-phase alternating current for lighting. When the load on the station began to grow and extensions became necessary, Diesel-engine generating sets were added. Single-phase alternating current generated in this

power station at 2,200 Volt pressure was transmitted by overhead and underground cables to serve many parts of Colombo. Static transformers at different centres transformed the voltage down from 2,200 to 110 to serve domestic purposes. The Fort area, however, continued to be served with Direct Current at 220 Volt from the tramway supply by means of balancers located in sub-stations in the Fort.

In 1899, trams operated by electricity supplied from the power station at Pettah came into service.

## First Provincial Town

KANDY was the first provincial town to be supplied with electricity, the Colombo Gas Company installing a lighting plant there in 1905. That plant was worked by a steam engine. Subsequently generating sets driven by Diesel engines were added. Later, with the purchase of the scheme by the Kandy Municipality street lighting began and the scheme was extended to the suburbs. Today Kandy obtains its supply of current from the Hydro-electric scheme at Laxapana.

The third town in Ceylon to adopt an electric lighting scheme was Nuwara Eliya, the health resort. Here, electricity was generated by means of water-power in a small power station at Blackpool. Single-phase alternating current at 2,200 Volts was transmitted to different areas by overhead wires and transformed down in these areas to serve consumers at 110 Volts. Subsequently the scheme was remodelled to provide a 3-phase supply at 230 Volts. The present supply of current is from the Hydro-electric scheme.

While Colombo, Kandy and Nuwara Eliya were thus supplied with electricity, other towns like Galle, Jaffna and Negombo began to clamour for electricity. So did the then small Sanitary Board towns like Avissawella and Gampaha. To meet the demand of these



local bodies, the late Mr. D. J. Wimalasurendra, A.M.I.C.E., M.I.E.E., then a District Engineer in the Public Works Department (subsequently Deputy Director of Government Electrical Undertakings) devised lighting schemes to suit the means of these local bodies. He introduced the 3-phase alternating current system into bigger towns and the inexpensive Direct Current system with a single generator into smaller towns. Both these designs were subsequently standardized to provide electricity for small towns. In 1926, Galle, Wattagama and Matale were lit with electricity, followed by several other small towns.

Twenty-five years ago, Mr. Wimalasurendra, then a member of the State Council of Ceylon, stated that while the provincial towns were thus manifesting a growing "electric-mindedness", Colombo was getting more and more concerned with the urgent necessity for an adequate and cheap supply of electricity for lighting and industrial purposes. To meet the growing demand for electricity, government considered two schemes: one was the early completion of the Aberdeen-Laxapana Hydro-electric scheme and the other, the extensions to the Colombo electricity supply system with a view to building up the requisite load for the Hydro-electric scheme. At that stage, the construction of the Hydro-electric scheme which had been in the hands of the Public Works Department since 1924 was found to be badly bungled, and on the recommendation of a select committee of the Legislative Council further construction of the work ceased in 1927.

In the meantime, continued Mr. Wimalasurendra, government had entered into negotiations with Messrs. Boustead Bros., for the purchase of the Colombo lighting business, and it was finally purchased in 1928. For the purpose of supplementing the supply given with the plant purchased from Bousteads and effecting improvements to and extending the radius as well as the quantity of supply, government decided to add new generating plant and a new distributing system designed on

modern lines and extended throughout the Municipal area. Extensions from this distributing system were also made for serving the coastline up to Negombo on the north and Panadura on the south. Additions made to the generating plant were in the form of two steam turbo-generator sets of two 3,000 kilowatt capacity each with the requisite boilers installed in a power house at Kolonnawa. These additions, alterations and improvements were made to designs by him in consultation with Messrs. Preece, Cardew and Rider of London consulting engineers to Ceylon Government.

"At the time the Colombo supply was taken over it was serving principally a Lighting and Traction load of approximately six million units per annum," stated Mr. Wimalasurendra, adding: "After the addition of new plant it is now capable of serving a Lighting, Traction and Power load of sixteen million units per annum, while the number of units served in 1933 amounted to thirteen million units."

"The principal load carried by Messrs. Boustead's supply system was a lighting load scattered over some portions of the Municipal area of Colombo, and single-phase alternating current was used for the purpose. This form of current though suitable for lighting purposes was not suited for operating motor driven factories, mills and other industrial works. This defect accounted for the absence of an appreciable power load served by this system and the consequent slow growth of the demand for electricity in Colombo in the past. The new generator set as well as the new distribution system were, therefore, designed to supply three-phase alternating current. Since this improved system was brought into operation, the power load has grown rapidly with the result that the demand for current has more than doubled itself within the last four years. By the introduction of the three-phase supply system at this stage the way was also paved for the ready distribution of three-phase current from the Aberdeen-Laxapana scheme when brought into operation."



### Case for Fresh Start

STRESSING the need for a fresh start of the Hydro-electric scheme, its originator, Mr. Wimalasurendra stated as follows in 1934 :

"The Aberdeen-Laxapana scheme works lie where they were placed by some panicky councillors in 1927. All my efforts, both in and out of Council, to get a fresh start made with the installation works have hitherto produced but poor results. It is even felt that the country fails to appreciate fully what the value of even the first stage of this scheme to the country will be when brought into full operation. It will at least save a sum of Rs. 800,000 that will have to be sent out of the country annually for imported fuel to give an equal, though less efficient, service. Looking at its value from another angle, when the demand for electricity grows up, from the 1933 record of thirteen million units, to something like twenty-five to twenty-eight million units per annum, it will pay to supply such a demand from the Hydro-electric scheme. When the demand approaches its full output the price per unit of supply would be lower than what any thermic power station could supply it at. When the combined sources of Aberdeen and Laxapana are developed to give their full output of some two hundred and sixty million units per annum, the estimated cost per unit of supply, distributed to various centres in the island, is one and a quarter cents."

"The value of an output of cheap power of this magnitude in the form of electricity, for the advancement of the social and material prosperity of this country seems to be no concern to them; nor its immense value in giving lucrative employment to the masses both during the period of construction and for ever thereafter, consequent on the establishment of multifarious industries which a cheap and abundant supply of electricity invariably brings into existence. A vast store of raw materials, ranging from agricultural products to many varieties of mineral deposits, await the advent of cheap power for conversion into manufactured

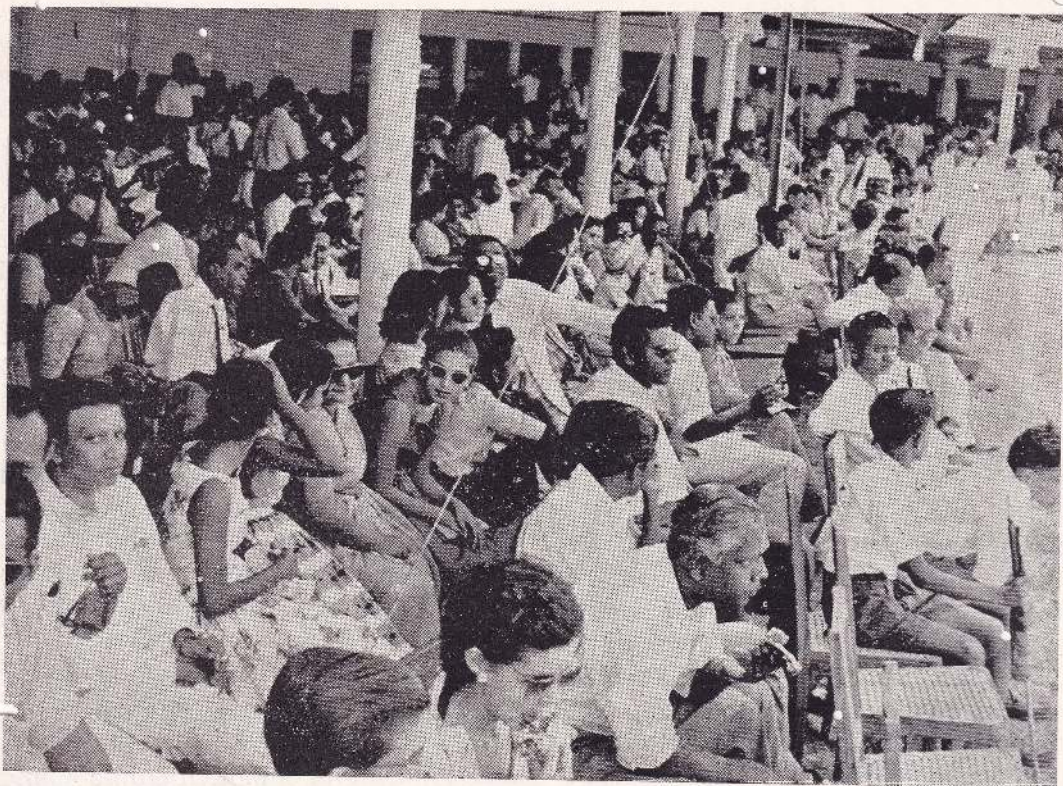
goods of highly marketable value. The only means by which the transport problem in the country can be solved is by the utilisation of cheap electric power for traction as has already been successfully done in other countries similar to ours. In fine, no economic development programme of any value can be established in this country, which is destitute of any fuel for producing power, until its rich sources of water power have been harnessed to produce an abundant supply of cheap electricity."

"Will the country even now realise the immense value of a huge output of cheap power such as the Aberdeen-Laxapana scheme offers for the upliftment of the nation? Will the country make a determined demand that its availability be no longer delayed on any account whatsoever?"

"I have spent many years of my life in initiating as well as working out the details of the Aberdeen-Laxapana scheme and in endeavouring to enlighten public opinion on its incalculable value as a national asset. At the present juncture I wish to lay stress on the fact that on the Government's decision lies the country's way to success. A wise decision regarding the project will open up an era of prosperity unknown in the past. The choice now before the State Council is one between poverty and power."

Although it took about 35 years to complete the first stage of the Hydro-electric scheme Mr. Wimalasurendra lived to see it. Stage IIA of the scheme which took only 4 years to complete was inaugurated in December last by the Prime Minister, Mr. Bandaranaike. Tenders have already been called for the construction of Stage IIB of the scheme. This, when completed, will produce 50,000 kilowatts of power, which is equal to the combined capacity of the generating plant installed under Stages I and IIA. A new power house to be constructed in Colombo is expected to produce another 25,000 kilowatts of power. The development programme covers the harnessing of several other waterfalls.





A section of the large crowd which witnessed the Royal-Thomian match

## School Cricket

*MARCH is the month of "Big" school matches in Ceylon. Nearly a score of them take place throughout the island and are played with great enthusiasm, the public also taking a great interest in them. Owing to exigencies of space we are devoting this article to three matches played in Colombo.*

For the sixth year in succession Ceylon's time-honoured cricket fixture between Royal and St. Thomas' ended in a draw. A record crowd which gathered at the Oval to witness this match saw St. Thomas' winning the toss and hitting up 257 for the loss of six wickets before declaring. Royal began disastrously and at close of play had lost 2 wickets for no runs.

The rot continued the next day and with 7 wickets down for 85 runs and with still 72 runs to get to avoid the follow-on, the day

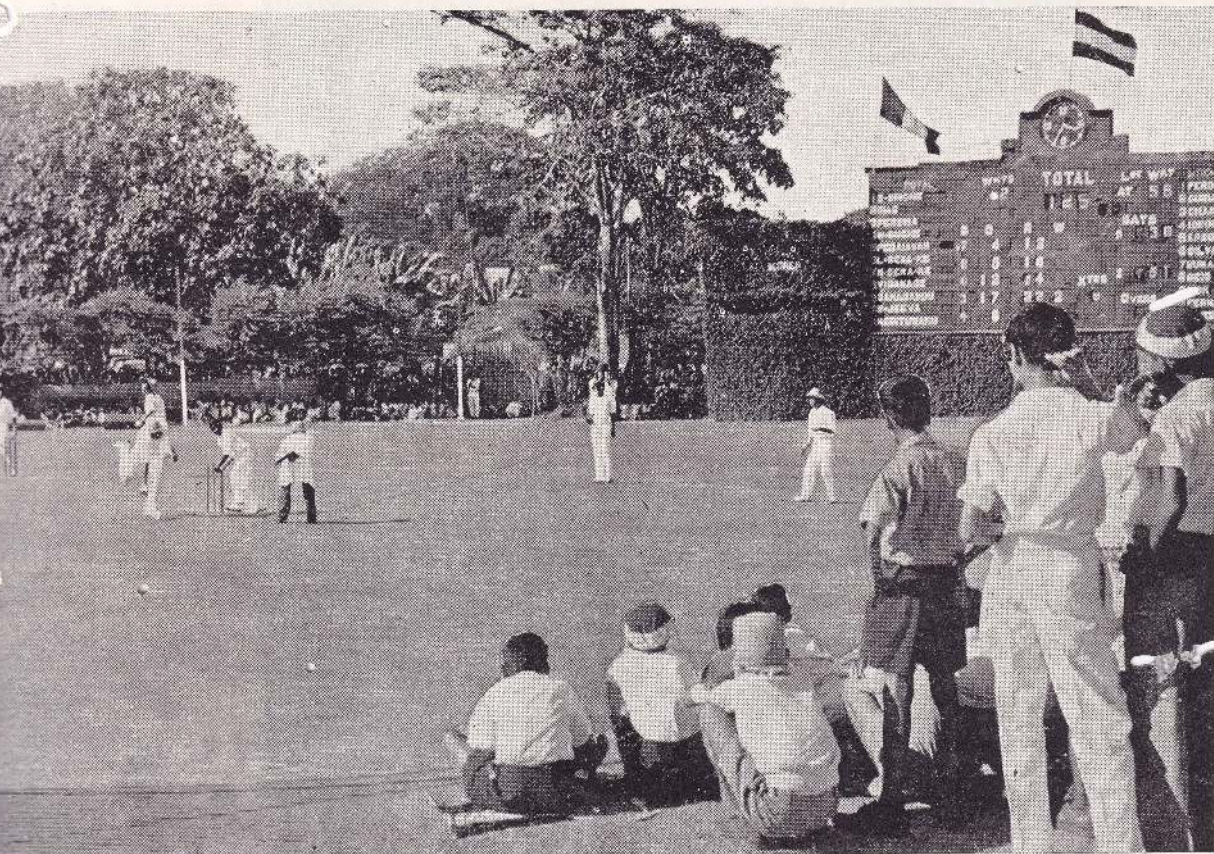
looked dark for Royal. This was the situation when E. L. Pereira came in to bat. With a number of fours and one towering six, Pereira helped Royal to save the follow on. Royal then declared with 88 runs behind and one wicket to fall.

It was now left to St. Thomas' to make a match of this encounter by going for the runs and applying an early closure. This they failed to do. They batted slowly and put up 70 runs before declaring at 5.15 p.m. The match, therefore, ended in a draw.

### St. Josephs-St. Peters

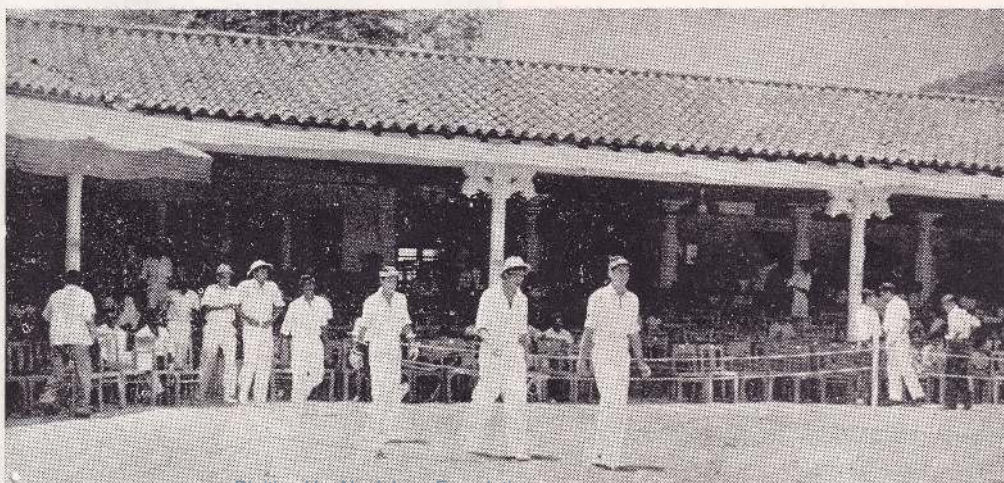
THE 25th encounter between St. Joseph's and St. Peter's played on the Colombo Oval also ended in a draw. Going in first on a perfect batsmen's wicket St. Joseph's could not cope with the pace of Anton Perera and



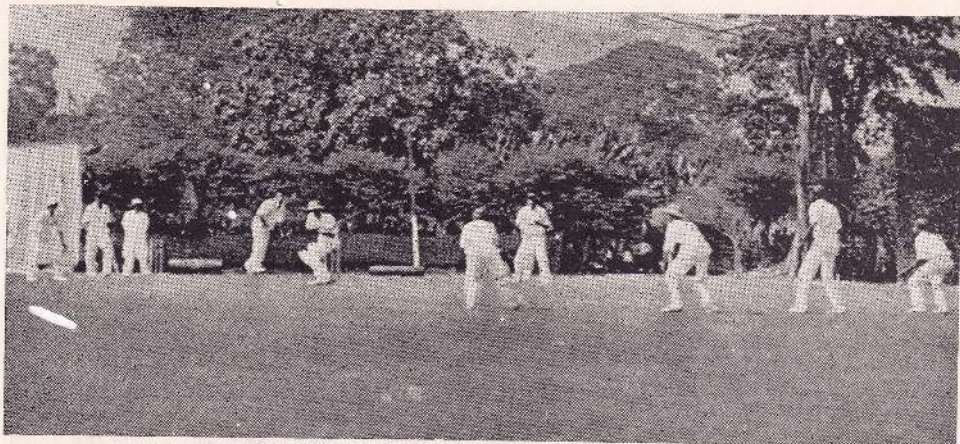


A Thomian batsman just manages to make it as a fielder breaks the wicket at the bowler's end

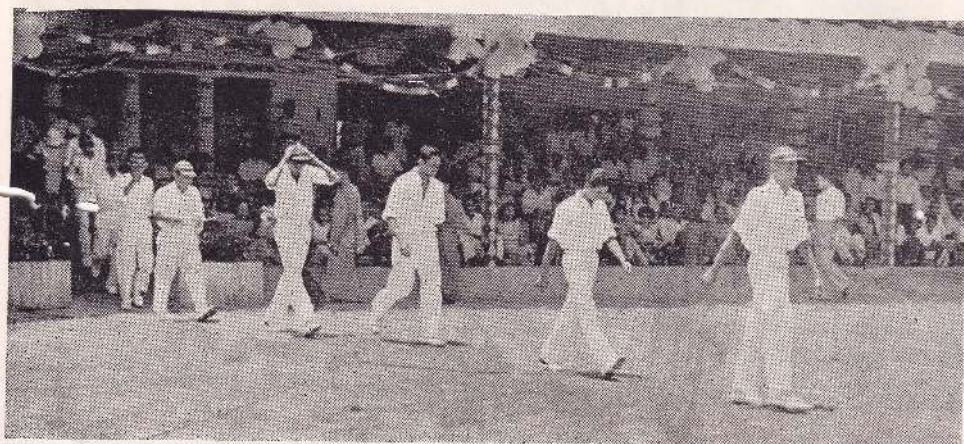
Royal College players take the field on the opening day of the Royal-Thomian match







◀ The Peterite skipper leads his side into the field in the Josephian-Peterite match

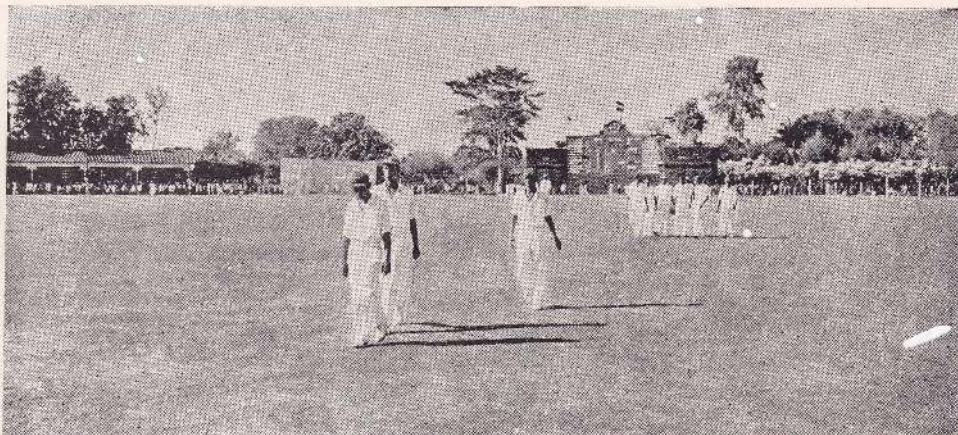


◀ An incident in the Josephian-Peterite match

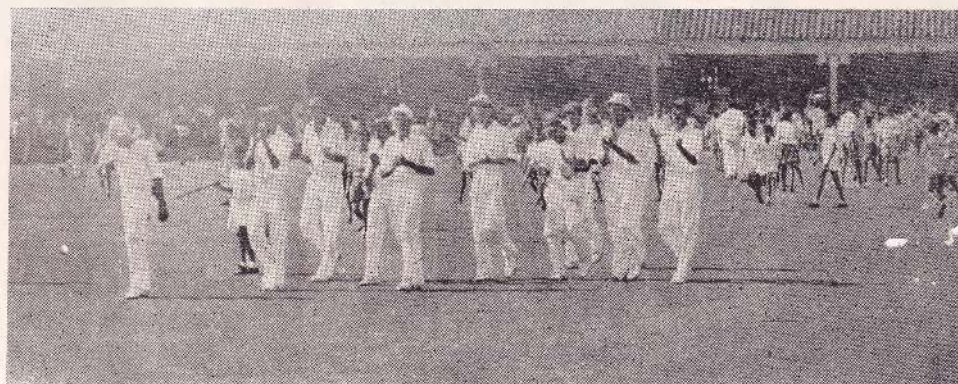


▶ A section of the schoolboy crowd during the Ananda-Nalanda match





► Players coming in for tea during the Ananda-Nalanda match



► Le Mercier of St. Peter's being cheered into the Pavilion for his bowling performance

the spin of Tyrone Le Mercier and were dismissed for 157 runs. St. Peter's fared no better and at close of play had lost 4 wickets for 77 runs.

Continuing the next day the Peterites struggled on to get 161 for 9 before declaring at 2.30 p.m. A result to this match now seemed remote. However, a shock awaited the Josephians. Anton Perera bowling with pace and fire ran through the earlier Josephian batsmen. Raja de Silva, however, stopped the rot with a well compiled 45 runs and at 4.45 p.m. St. Joseph's declared at 111 for 7.

The Peterites found it impossible to get the 108 runs for victory in the 45 minutes of play left.

### Ananda-Nalanda

THE Oval 'hoodoo' of draws in the big matches could not be broken in the next

big encounter, the 'Battle of the Maroons' between Ananda and Nalanda.

However some bright cricket was witnessed in this match. Batting first Nalanda scored 250 runs for 5 wickets in even time. Sarath Silva and Y. Amaradasa batted well to score 74 and 83 respectively. Ananda replied with 219 for 9 thanks to M. Fernando who got 67 and N. Ekanayake who scored 57 runs.

Nalanda's second innings, saw an excellent knock of 64 by Sarath Silva. Nalanda declared at 111 for 3.

Ananda had 75 minutes in which to make 143 runs for victory. Their openers, M. Fernando and G. Molligoda, started off well, putting up 54 runs for the first wicket. But with their dismissal a rot set in and at close of play Ananda were fighting hard to stave off defeat,





The Prime Minister , Mr. S. W. R. D. Bandaranaike, addressing the meeting inaugurating the Ceylon Council of World Affairs at the University of Ceylon, Colombo

## Foreign Affairs

A meeting to inaugurate the Ceylon Institute of World Affairs was held at the University of Ceylon, Colombo on March 31.

Speaking at the meeting the Prime Minister, Mr. S. W. R. D. Bandaranaike, said that world affairs concerned all of us very closely and what happened in Berlin or Suez was almost as important to Ceylon as it might be to Europe, America or Russia.

Events in Asia affected us more closely and it was most desirable that fuller information about Asian problems of international significance, such as the present crisis in Tibet should be secured. The available sources of information on the Tibetan situation, were inadequate. The Government had to rely mainly on the envoy in Delhi, and on the Ambassadors in Colombo, of the countries involved in the question. This position applied to similar developments in other foreign countries.

### Interest in World Affairs

THE Prime Minister said that the institute that was being set up could by its discussions

create a live interest in world affairs, and still more important, it could impart reasonably accurate information on international problems.

The idea of establishing an institute of this nature was not altogether new as it had been mooted from time to time. It was quite opportune, he said, that the idea had been resuscitated by a group of University lecturers, and that a serious attempt was being made to set up this institute on the lines of bodies such as Chatham House in London, the Council of World Affairs in Delhi and a similar institute in Karachi, all of which rendered valuable service. These bodies had imposing offices and very full libraries. It was important for the new institute to find suitable quarters.

On behalf of the Government the Premier said he would do his best to provide the new institute with suitable offices in a suitable place. He emphasised the need for a good library, as in Ceylon people lacked easily available up-to-date material on world affairs.

Mr. Bandaranaike said he hoped that the institute would not fail by the way, adding



that its non-partisan character was of particular importance as all those interested in world affairs, irrespective of political sympathies, should find a place in it and all subjects of interest should be discussed freely and objectively. He commended the venture, and promised to give it any assistance required and expressed the hope that every-one would co-operate to make the venture a success.

The draft constitution of the institute was adopted and the following office bearers were elected :—

Patron : Mr. S. W. R. D. Bandaranaike.

Vice-Patrons : Ven. Welivitiya Soratha Nayaka Thero, Ven. Kiriwathuduwe Pragnasara Nayaka Thero, Sir Nicholas Attygalle, Mr. Dudley Senanayake, Dr. N. M. Perera, Mr. S. J. V. Chelvanayakam, Sir Edwin Wijeratne, Senator A. M. A. Azeez, Mr. Pieter Keuneman.

President : Mr. Wilmot A. Perera.

Joint Secretaries : Dr. A. J. Wilson, Mr. S. U. Kodikara.

Hony. Treasurer : Mr. D. W. Rajapathirana.

Executive Committee : Messrs. T. B. Subasinghe, Nirmal Peiris, Badurdin Mahmud,

Mr. Vijayaragharan, the Acting High Commissioner for India in Ceylon making a presentation of films to the President of the Arts Council of Ceylon, Mrs. L. Senaratne



An exhibition of Ceylon handicraft was opened at the Moscow Museum of Oriental Cultures in February. The picture shows H. E. the Ambassador for Ceylon, Dr. G. P. Malalasekera, and Mr. N. Daniloo, Deputy Minister of Culture, inspecting the exhibits

Nimal Karunatileke, Senator Doric de Souza, Mr. C. E. L. Wickremesinghe, Senator Justin Kotelawala, Prof. T. Nadarajah, Brigadier Anton Muttucumaru, Mr. J. A. L. Cooray, Sir Kanthiah Vaithianathan, Sir Arthur Ranasinghe, Mr. C. X. Martyn, Mr. C. E. P. Jayasuriya and Mr. Shirley Amerasinghe.

### Wheat Flour from U. S.

THE Ceylon Government has agreed to purchase rice and wheat flour from the United States for 40 million rupees most of which subsequently will be made available to Ceylon for economic and business development in this country. The Agreement was signed at the Ministry of Finance by the Hon. Stanley de Zoysa, Minister of Finance, and Mr. Lampton Berry, Ambassador of the United States.

Under the Agreement, the United States will sell Ceylon 20,000 tons of rice and 50,000





H. E. Sir Dallas Brooks the Governor of Victoria admires the display of Ceylon products at the Ceylon Stand at the International Trade Fair in Melbourne

tons of wheat flour, costing approximately Rs. 40 million. After the actual sale, the rupees will be used here by Ceylon and the United States, primarily for economic development projects and business expansion. Delivery of the foodstuffs is being accelerated and loading of rice into ships at U. S. ports will start this month.

Over Rs. 22.4 million of the Rs. 40 million to be accumulated from the sale of the foodstuffs will be made available by the U. S. to the Government of Ceylon for projects which promote economic development. Of this Rs. 22.4 million, Rs. 16.3 million will be provided in the form of a 30-year low interest loan, and Rs. 6.1 million will be given as a grant. The loan will be applied mainly to

capital development schemes such as irrigation, while the grant portion will be used principally for non-income producing projects in such matters as health and education.

### Private Investment

ABOUT Rs. 10.5 million will be utilised to promote private Ceylon and United States investments in the country through loans from the U. S. Export-Import Bank.

This is the third purchase by the Government of Ceylon of food commodities from the United States Government during the past two years. With the Agreement today, the aggregate foreign exchange saving to Ceylon is Rs. 81.4 million,



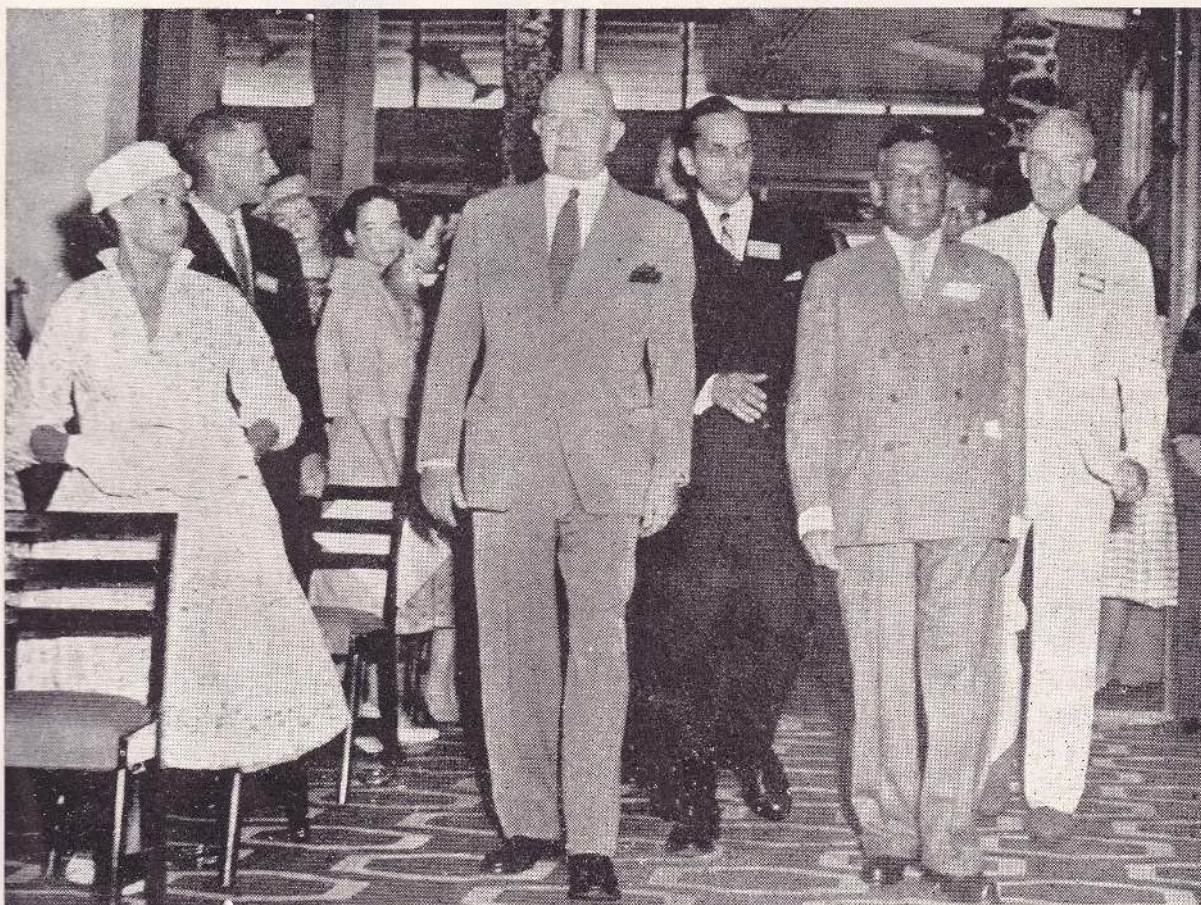
In 1957 Ceylon purchased 20,000 tons of wheat flour from the United States at a cost of about Rs. 11.4 million of which the entire amount was returned to the Government of Ceylon in the form of a grant. In 1958 the Government purchased 25,000 tons of rice and 20,000 tons of wheat flour at a cost of about Rs. 30 million. Of this amount, approximately Rs. 10.4 million is being made available to the Government of Ceylon on a 30-year loan basis and over Rs. 4 million as grant. In addition, over Rs. 7 million derived from the 1958 sale is available for loans to private investors.

### National Theatre for Colombo

THE Soviet Cultural team, which arrived in Ceylon to report on the organisation of a National Theatre in Colombo has recommended the establishment of a musical and dramatic theatre in this country where music, dance, drama and singing can be continued.

The Ministry of Local Government and Cultural Affairs in Ceylon obtained the assistance of the Soviet team under the Ceylon-Soviet Cultural Co-operation Convention signed on 15th January, 1958. The

The Governor-General of Australia Sir William Slim entering the Conference Hall to open the Fifteenth Session of ECAFE held in Queensland on March 9. With him are the Executive Secretary of ECAFE, Mr. C. V. Narasimham, Mr. P. H. William Silva, Ceylon Minister of Industries and Fisheries and Mr. R. G. Casey, Australian Minister for External Affairs







The Government of Ceylon recently signed an agreement with Maschinenfabrik Augsburg—Nurnburg of Germany for the purchase of 25 diesel power coaches. The funds for this purchase were provided by the United States Government. The ceremony in progress at the Ministry of Transport and Works

Soviet delegation headed by Mr. Goucharov, of the Ministry of Culture, U. S. S. R. and Director of the State Institute for Designing Theatres, included Prof. Ashrafi, People's Artist of the U. S. S. R. and Mrs. Messerer, Honoured Artiste of the R. S. F. S. R. The team studied educational processes at the College of Fine Arts, Colombo, and visited cultural institutions throughout the island. The team, in its report, has stated that the necessary basis for organisation of a theatre was the unification of all creative forces of the country. With the combination of these

elements artists personnel of the theatre should be well trained at the College of Fine Arts.

#### **Mr. Hulugalle Honoured**

HIS Holiness Pope John XXIII has conferred the honour of Knight Grand Cross of the Order of St. Silvester on Mr. H. A. J. Hulugalle, Ambassador of Ceylon in Italy.

Mr. Hulugalle represented Ceylon as special envoy at the Coronation of His Holiness.



## NEW TAX PROPOSALS

*(Continued from page 6)*

will be left with 41 per cent (instead of 41 per cent in the old system) of its profits for purposes of reserves, &c.

"Another example of a "small" company that will qualify for the relief will not be out of place. Take a company that makes a profit of Rs. 100,000 a year. In the old system, if its profits tax standard was Rs. 50,000 it would have paid Rs. 15,000 as profits tax and Rs. 33,150 as income tax. If it pays one-third of its profits as dividend, after paying the nett dividend to the shareholders it will be left with Rs. 31,517 for purpose of reserves, &c. If this company qualifies for "small" companies relief in the new system it will pay a non-refundable tax of Rs. 37,500, and after paying one-third of its profits Rs. 33,333 as dividends it will have paid out Rs. 70,833 in income tax as well as in dividends. Therefore it will be left with Rs. 29,167 for purposes of reserves, &c.

**Another Feature**

"ANOTHER feature of my proposals last year was the abolition of the commencement and cessation provisions. This proposal was made to close the possible avenues for tax avoidance by businesses who could chose dates of "commencement" and "cessation" in order to vary their tax liability. Examples of such occasions will be dates of amalgamation, reconstruction, and liquidation of businesses. Further, the existence of these sections caused innumerable administrative and legal difficulties to the Tax Department with the result that the simplest of assessments, especially in the case of the application of those sections to individuals, had to be held up on account of the complications caused by them. Therefore, Clause 11 provides that as from 1st April, 1958, the invariable preceding year

basis will be applied to the assessment of all types of persons and incomes and in all circumstances. But many representations have been made to the Government in regard to the manner in which the abolition of these provisions is to be carried out and how it will affect employees and professional men, especially those whose date of retirement from active work was imminent. It is certainly agreed that the abrupt abolition of these sections in such cases would cause a measure of hardship.

**"To alleviate such cases of hardship it is laid down in Clause 12 of the Income Tax (Amendment) Bill that as regards employees and professional men who commenced before 1st April, 1958, that the cessation provisions as they exist now would apply on their retirement with the condition that the tax relief on the application of these provisions would be diminished by 5 per cent each year commencing from the year 1959-60.**

"As regards individuals who commenced after 1st April, 1951, but before 1st April, 1958, this provision may not be of such advantage since if their retirement takes places a number of years later, say, 15 years, then the relief they would be entitled to would only be 25 per cent. of the full relief due. Therefore, in their cases it is provided that could opt to have the tax on the doubly assessed income which would have been levied on the application of the commencement provisions, credited against their tax liability if they so wish; such option to be exercised before 1st April, 1960. If they do so opt, then they will not qualify for the application of the cessation provisions when they retire.

"A great deal of the criticisms of my proposals was inspired by the realisation which must have come upon certain persons that they could no longer pretend to groan



under the burden of taxation of paying 85 per cent. on perhaps 25 per cent. of their income. They might take heart, however, from the fact that because not merely the entirety of their taxable income but also their wealth is being brought into charge, the marginal rate of Income Tax itself has been reduced to 60 per cent, as announced in my Budget Speech last year. This reduction in Income Tax involves its necessary complement of the Personal Taxes.

"The Bill before the House entitled 'The Personal Tax Bill' makes the necessary legislative provision for tax contributions by persons in respect of their wealth, their personal consumption expenditure and gifts. These contributions may, for convenience, be termed the Wealth Tax, the Expenditure Tax and the Gift Tax.

### Wealth Tax

"AS regards the first, i.e., Wealth Tax, certain exemption limits and a rate schedule were proposed in the Budget Speech last year. But I have further considered this matter. The main forms in which wealth is held in our country and the special conditions that affect the predominantly agricultural economy of our country, have led to the exemption limit which was set at Rs. 100,000 in my proposals last year being raised to Rs. 200,000, and further, the taxable slabs have been broadened to lighten the Tax. Schedule I of the Personal Tax Bill sets out the rates proposed.

"To illustrate the effect of the reduction in the rates, a family with an aggregate wealth of Rs. 1,000,000 will have paid Rs. 7,000 per annum as Wealth Tax on the basis of the rate schedule proposed in the Budget Speech, but would now pay Rs. 4,000 per annum. If the Wealth of the family were, say, Rs. 3,000,000 the Wealth Tax liability will now amount to Rs. 34,000, while it would have been reckoned at Rs. 47,000 on the basis of proposals made last year.

### Tax Incidence

"A very real difficulty that has been brought to the Government's notice of which Hon. Members will be quite aware is the tax incidence under the system proposed on a person who owns certain types of property. A considerable portion of the income of our taxpayers is derived from agricultural products which are sometimes subject to violent price fluctuations. When this fact is taken in conjunction with the fact that the land itself which produces the income will be subject to Wealth Tax and the assessments for the purposes of Wealth Tax will depend not on the price of the produce but on the value of the property which does not "move" so easily as the price of the produce, it will be quite clear that special provision to restrict the tax-burden on such property is called for.

"For example, take the case of a mid-country tea estate the produce of which in the context of our economy might realize prices which register wide variations from year to year, and where even losses may be a regular feature for a period of years. Obviously, it will be inequitable to levy taxes including the Wealth Tax without regard to the level of income. To meet such a situation Clause 24 of the Income Tax (Amendment) Bill and Clause 3 (4) of the Personal Tax Bill provide that the total Income Tax and Wealth Tax that is payable by a person for any one year should not exceed 80 per cent. of his income for that year. It will be seen then that in a year of loss the mid-country tea estate which I referred to earlier, especially if it forms the sole source of income of the taxpayer, would not be liable to Wealth Tax quite apart from its being free from Income Tax.

### Expenditure Tax

"AS regards Expenditure Tax, this is a tax on excessive expenditure, there being a generous tax-free allowance granted by reference to each family according to its



responsibilities. This tax-free allowance is additional to exemptions provided for necessitous expenditure. I have indicated in the Budget Speech 1958 certain classes of expenditure that would fall within this group, but this question has had further study and certain variations and additions have been made to the list of necessitous expenditure. Clause 12 of the Personal Tax Bill enumerates all such items of exempted expenditure. Bonuses, gratuities and pensions to ex-employees or their dependants up to a maximum of Rs. 3,000 per annum are regarded as necessitous expenditure.

**"Donations to approved charities, insurance premia in respect of life insurance, fire insurance, health insurance, accident insurance and disability insurance are to be exempted. The spirit of these proposals is to encourage thrift, and to discourage wasteful and unproductive expenditure."**

"I must make it clear that contributions to provident funds of employees are not specifically exempted for the reason that they are not expenditure for Expenditure Tax purposes, and therefore automatically qualify for exemption without the need for any special provision. In regard to medical expenses, what was proposed in the Budget Speech was the allowance of a sum of Rs. 3,000 per annum to each family, but the Bill provides for the full allowance of all medical expenses incurred by a family on cost of drugs, nursing-home expenses, doctor's bills, payments to nurses and attendants, without limit. But I should point out here that passage expenses for medical treatment abroad will not qualify for exemption as this might lead to abuse; nevertheless it should be borne in mind that such passage expenses could always be spread over five years as proposed in the Bills. Election expenses incurred by candidates seeking election to this House, where such expenses are authorized by law are also to be regarded as necessitous expenditure qualifying for exemption."

## Education

"WITH regard to education of children abroad such expenses incurred by non-nationals will be tax-free. In the case of nationals a tax-free expenditure of Rs. 8,000 per annum is provided for."

"Here, I wish to state that it was always intended that the tax-free expenditure of Rs. 8,000 per annum in respect of education of such a child proposed by me in the last year's Budget should leave unchanged the position that such child will still be eligible for reckoning as half a unit in the family quotient. Since there might be as to the actual effect of the clauses of the Bill (Clauses 12 (2), 15 and 17) as now drafted, I proposed to move an amendment to clarify this position at the relevant stage."

"There have been amendments to the rates of Expenditure Tax from the rates proposed in the Budget Speech last, year. The rates as they appear in the Bill are somewhat lower than those originally proposed. Schedule II of the Bill sets out these rates. Since, the intention to levy an expenditure tax was announced in the middle of last year by which time much expenditure may already have been incurred by Tax Payers without any knowledge of the possible imposition of the tax. Clause 1 (a) now provides that for the first expenditure tax year, viz., 1959-60, during which the expenditure of the preceding year would come in for assessment, the liability to the tax will be limited to half the liability on the full expenditure. It is also provided in Clause 10 (1) (b) that a person who has ceased to be resident in Ceylon before 31st March, 1959, will not be liable to Expenditure Tax for the year 1959-60."

## Gift Tax

"THE House will bear in mind that it was our intention to have a full integrated and self-checking system of taxation. The proposals I have just outlined will be



incomplete in themselves, if we leave open another avenue of escape which existed in the old system, viz:—the possibility of avoiding Estate Duty by gifts *inter vivos* made well in time in order to exclude such gifts from the liability to the duty at death. The Gift Tax, therefore, brings into Estate Duty all property that is owned by a man in his lifetime, which he freely gifted or left behind for his heirs to enjoy.

“Again, in view of the announcement of this tax in July last year, it has been provided that it would only apply to gifts made after 17th July, 1958.

“As regards gifts on marriage in view of certain social habits obtaining in our country, the specific exemption of such gifts to a tax payer's dependant on his or her marriage, up to a limit of Rs. 10,000 has been provided for in Clause 21 (1) (c) of the Personal Tax Bill.

“The amendments to the Estate Duty Ordinance proposd in the Estate Duty (Amendment) Bill before the House result from the introduction of Gift Tax.

### Estate Duty

“THE Estate Duty rates proposed in the Estate Duty (Amendment) Bill have been cast into a slab-rate system. They generally provide for the same incidence of duty as was effective under the old rates, but have been adjusted in order to remove certain anomalies in the incidence of this Duty, in certain ranges of value of Estates around Rs. 2½ millions to Rs. 3 millions, which existed in the old system; and the Gift Tax rates in Schedule III of the Personal Tax Bill, which are calculated on net gifts, are worked out to tie up with the Estate Duty rates.

“To illustrate how the Gift Tax and the Estate Duty operate, take the case of a person who leaves an estate of Rs. 500,000 at his death. His estate duty will amount to

Rs. 65,150. Assuming that he had gifted Rs. 250,000 during his lifetime and left the balance of his estate to his heirs at death, then the Gift Tax will amount to about Rs. 29,240. The estate duty on the estate left at death would be Rs. 65,150 less Rs. 29,240 i.e., Rs. 35,910. The incidence of the duty in either case is the same.

### Charitable Institutions

“THERE is special treatment for tax purposes as regards religious and charitable institutions. Firstly in respect of all taxable wealth of such institutions the Wealth Tax rate has been fixed at the low flat rate of ½ per cent. Approved charities have received further special treatment in respect of the whole complex of the taxes. Donations to such charities, within certain limits, are allowed for income tax purposes, and are free of Expenditure Tax, Gift Tax and Estate Duty.

### Tax Incentives for Developments

“IT has also been said that these taxes will kill enterprise and will have a disincentive effect on the economic advancement of this country and on capital formation. Certainly the taxes are hard on individuals who do not put the country's requirements before their personal requirements. For example, the Expenditure Tax will fall most heavily upon any person who spends extravagantly and who does not use his wealth in adequately productive enterprises for the benefit of the community.

“But it should be realized here that together with the prevention of wasteful spending and the grant of generous tax concessions to encourage development of business there is here a two-fold incentive to development—the one a negative aspect which is provided by the deterrent effect of the Expenditure Tax on wasteful



expenditure, and the other a positive aspect which is provided by the grant of incentives to development.

### Incentives

"THESE incentives take the form of a once-and-for-all depreciation on plant, machinery and industrial buildings and a further additional outright allowance of a development subsidy of 20 per cent of cost in respect of new assets which are acquired in order to commence, improve or extend a business. This development subsidy is enhanced to 40 per cent if the concern is an approved Project under section 44C of the Income Tax Ordinance. The extent of this concessions could be gauged from the following example. If the capital invested in a new venture of this type even if it were not an approved project, were say, Rs. 500,000, and the plant and machinery, quite apart from industrial buildings cost say, Rs. 200,000, then the owner would be entitled to deduct from his profits a sum of Rs. 120,000 on account of the once-and-for-all depreciation and Rs. 40,000 on account of the development subsidy so that he can make a profit of Rs. 160,000 which means that until he has recouped 32 per cent of his investment as profits he will be tax-free. If the once-and-for-all depreciation exceeds the profits made, then the difference can be carried forward indefinitely in a manner similar to a loss till it is wiped out by subsequent years' profits.

"In this connection I intend to extend the provisions of Section 7A and 7B of the Income Tax Ordinance whereby exemption from tax is provided in respect of profits of Government sponsored corporations and approved industries for a further period of 5 years, i.e. up to 31st March, 1964. This extension, together with the provision for the once-and-for-all development subsidy, gives ample scope for the enterprising taxpayer who seeks to venture out into new fields of production which, while bringing him adequate returns, will also benefit his country,

### Administration of Taxes

"IT will be appreciated that this closely knit system of taxes requires the highest degree of administrative efficiency. In order to achieve this, firstly, certain powers have been given to the Tax Department in the Bills before the House.

"Clause 22 provides for the extension of the periods within which an additional assessment can be made in the normal case 3 years to 6 years.

"Clause 22 also extends the time limit within which an assessment or an additional assessment in the event of fraud or wilful evasion could be made, which stood at ten years in the old Income Tax Ordinance. Therefore it is now possible for the tax administration to make an assessment or an additional assessment at any time in the case of a taxpayer who has either fraudulently or otherwise wilfully evaded tax.

"By Clause 27 power has been given to the Commissioner of Income Tax to order the search of any premises or to order the seizure of any articles contained therein which, in his opinion, will help in the assessment and collection of any of the taxes.

"Against this order to safeguard the rights of the taxpayer, it is provided that the Commissioner should record his reasons in writing in a case where he orders the search of any premises and or the seizure of any articles contained therein.

### Extended

"THE period within which a taxpayer may appeal against an assessment has also been extended from 21 days to 30 days. Clause 23 of the Income Tax Amendment Bill provides for this.

"Another very important aspect of the taxes is the re-organisation of the Tax Department itself. Hon. Members will remember that in the Budget Speech last



year, I proposed the reorganisation and re-constitution of the Department responsible for the administration of the taxes into a Board of Inland Revenue. But after further consideration it has been decided for the present to endeavour to administer these taxes by a Department of Island Revenue. Whether the constitution of a Board of Inland Revenue would be essential in the light of the experience to be gained in the administration of the taxes will come up for consideration later.

"Action has been taken in order to strengthen the Department at all levels, and already various tax officers from abroad, from the United Kingdom, New Zealand and other countries, who will work for a period of about three years have arrived and are arriving to take their places in the re-organised administration. Although, at the present, the idea of constituting the Department into a Board of Inland Revenue is not before us, nevertheless, in the proposed re-organisation adequate recognition should be given to the fact that the Department responsible for the administration of the taxes has risen in status and the personnel that man it will be called upon to shoulder a much greater responsibility. I mention this not only in the context of the added responsibility that will be thrown on officers of the Department, but also for the no less serious situation in which the Department is placed by the constant wastage of trained staff officers—some of the most able among them, who find the emoluments and prospects in the Department far below their deserts, and

who are continuing to leave the Department for more lucrative positions especially in the private sector.

### Socialist Measure

"AS I have said, this scheme of taxes has been subject to criticism from persons of the most divergent points of view. The case-hardened capitalist cries aloud that he is ruined. Some Hon. Members opposite will cry louder that such capitalists have not been ruined sufficiently, speedily and effectively. I say unabashed that it is not our intention to ruin completely and forever any section of the people. However, it is inevitable that any measures designed to bring about a socialist re-distribution of wealth by democratic means must necessarily invite the criticism of those who disagree on the one hand with the end and on the other hand with the means. Those who do not believe in a more equitable re-distribution of wealth will attack us for our purpose. Those who believe that such an end can be brought about only by revolution and confiscation of property will criticise our methods. So long as there is a mixed economy with a proper place for the private sector, the private sector must not merely be allowed to survive. It must be encouraged to fullest activity in its legitimate sphere. At the same time there must be an equitable distribution of wealth and re-adjustment of income levels.

**"It is my firm conviction that the proposed legislation serves this two-fold purpose effectively and efficiently and without causing intolerable hardship."**

### CEYLON'S EXTERNAL ASSETS UP

CEYLON'S external assets, according to the Bulletin of the Central Bank, increased by Rs. 8.3 million last month. The assets which were at a level of Rs. 855.3 million at the end of February rose to Rs. 863.9 million at the end of March, after the decline of Rs. 27.7 million in January.