

1935.

Kenya.

No. 38059/1.

(~~Secret~~)

SUBJECT

C0 533/456

Financial position of the Colony.

Previous

Main file

Subsequent

1 Gov Kenya Secret — 16.3.38 2

Submits proposals for
taxation in 1936 suggests that if
it is agreed that Income Tax should
be introduced it should be examined
at the Governor's Conference.

This admirably drafted despatch (evidently the work of Kenya's new Treasurer) gives logical and coherent shape to the case for introducing income tax as from the beginning of 1936. The Governor and his advisers evidently agree that the Alternative Proposals have received the promised "full and fair trial" and have been found wanting, not only by Govt. in respect of the revenue yield, but also by "a large portion of the population - perhaps even a majority" who now prefer income tax.

(By the 'population' the Governor evidently means the European population. We already know that the Indian community definitely prefers income tax to the alternatives).

There is clearly a *prima facie* case for seriously considering the introduction of income tax in 1936. But the Governor, recognising the importance of uniform action in the three East African territories, has sent copies of this despatch to Uganda, Tanganyika and Colonel Walker and suggests that the Secretary of State may wish to direct an examination by the Governors' Conference.

The Conference meets on April 2nd; it is therefore urgent that an expression of the Secretary of State's wishes on this point should be communicated to all concerned within the next day or two.

I submit a draft telegram as a basis for
possible

I agree

expressed with more force than logic. Admittedly, the different standards of living of Europeans & Indians introduce an element of inequity into the incidence of Income Tax; but this is equally true of the graduated Non-Native Poll Tax, which Sir Harold says works satisfactorily in Tanganyika.

In para. 6 he says that there are a few companies in the T.F. and such as these are required encouragement rather than check. Yet in para. 6 he expresses his intention to co-opt with Kenya - primarily some assistance of I.T. by companies; this can only be done, in practice, by imposing identical taxation in the two territories.

We shall presumably hear before long the result of the discussion at the Governor's Conference, who had the deepest before then. In the meantime?

[Signature]

A note of the existence of this 6/4 report should be made in the T.F. 20th 1944.

Wheel 6/4

Noted on 25/8/34

I send on because there is a good deal of force in Mr. Wade's letter to Sir C. Bottomley. It is quite clear that, as I expected, there will be opposition, and as noisy an opposition as ever, to any kind of income tax in Kenya. The article in the East African Standard is, to be sure, very much mis-conceived, since there is no doubt whatever in the mind of any reasonable person that a decision had been taken to introduce income tax in Kenya, not as a temporary measure, but as a measure designed to enable the European settler to bear his fair share of taxation. The alternatives were alternatives to income tax and to say, as the Standard does, that they were not, is simply uttering a deliberate falsehood. The view taken by the S. of S. was quite clear and quite consistent all the way through, which was that income tax was what he as well as everybody else favoured, but if the people of Kenya can put up workable alternatives, which would raise the necessary revenue, then it will be quite proper to give those alternatives a trial and see what happens, especially if the people of Kenya prefer them.

Well, the alternatives are not working as well as was hoped and the Governor of Kenya is once more coming back on to income tax. What he says, as he does, that he has been approached by bankers, leading commercial men and even by farmers, the difficulty is that this is probably quite true, but the people who did favour income tax are never likely to come out into the open and say so. What is much more likely is that they will continue to tell the Governor and his officials in private that they much prefer income tax, but will remain absolutely quiet in public in the face of a raging, tearing

tearing campaign run by the "East African Standard" and the more politically minded settlers. In the face of this, it is very difficult to know what to do. On the one hand one ought to trust the Governor, but the unhappy history of Kenya goes to shew that whatever Governor there has been there much prefers to shelve the onus on to the S. of S. and face the officials with a bland - "We have been ordered to do it and we are very sorry, but we must". That sort of attitude does not help. At the same time it must be admitted that the policy for years past of ^{dealing} ~~resisting~~ from here with the most petty details of Kenya administration has not been exactly calculated to develop the proper sense of responsibility.

It now appears from Sir Harold MacMichael's despatch that he in Tanganyika is not in favour of income tax and would not even wish to put it on in order to help Kenya. This is not unexpected perhaps, but is a bit annoying. We know that Uganda is quite prepared to start income tax and has been so prepared for years, so the position will be - Uganda ready to have income tax and wanting it, Tanganyika not ready and not wanting it, and Kenya divided between the Government, which thinks it is the sound policy, and the unofficial element, which does not want to pay any tax of any kind.

When Mr. Wade says that there is in Kenya a considerable body of rational citizens, I must own that I am inclined to doubt him. Anyhow, I fully agree that, as he says, they won't be vocal.

11.6.55

S.S. state
7/1

Sir H MacMichael's despatch regarding
my telegram of 30 March

(Sir H MacMichael
to S.S. (L.S.)
15/4

A.V.L.
18/4
15/5

5 Extract from Minutes of Proceedings
of Governor's Conference in April 1955
(Introduction of Income Tax)
6. Acting Governor of Kenya, despatch to S.S. 15/5
(Hodg. comments on Uganda fact as example)

7 Minute regarding Taxation Proposals
for 1956
DESTROYED UNDER STATUTE

Notion held by
S.S. (L.S.)

Note of discussion between
the S.S. & Sir Frank Byng 30/7/55
in transition

It seems clear from N.O.S. that
the income tax proposals were not
to be brought into effect during 1956
and

and in the circumstances it may be
considered desirable to defer
further consideration of the draft
on this file pending the
receipt of Kenya's reactions
to the Estimates Report and
until Sir Joseph Byrne has had
an opportunity to report further.

C. Crosswell
15/8/38.

My recollection of the conversation at
the final interview between S. J. P. &
Sir J. Byrne (subsequent to that recorded
in 8) is that S. J. P. left it to
the Governor's discretion whether or not
to announce, in connection with the
1936 Estimates, that he proposed to
introduce Income Tax in 1937.

In any event, there is no
point in adding to the correspondence
on this file until the 1936 Estimates
battle is over.

I agree. It is possible
that before then Sir J. Byrne will
raise the point in correspondence.
Subject closed, pretty.

W. J. P. 16.8.38

since

Yes
W. J. P.
16.8

W. J. P.

AIR MAIL.

KENYA

No.



GOVERNMENT HOUSE

NAIROBI

KENYA

S E C R E T.

RECEIVED

- 7 JUN 1935

C. O. REGY

30th MAY, 1935.

Sir,

With reference to your Secret telegram No. 84 of the 30th of March, 1935, on the subject of the basis of taxation in this Colony, I have the honour to transmit, for your information, the accompanying copy of a Secret letter dated the 17th of May, 1935, which has been received from the Chief Secretary to the Government of Uganda and contains the comments of the Government of Uganda upon certain of the proposals made in Sir Joseph Byrne's Secret despatch of the 16th of March last.

2. Since it is possible that you may be taking the opportunity of Sir Joseph Byrne's presence in Great Britain of discussing his despatch with him, I have thought it advisable to notify you of the views of the Uganda Government.

3. As regards paragraph 4 of the enclosure, it is necessary to refer to paragraph 11 of Sir Joseph Byrne's despatch in which it is stated that a full re-examination of the provisions and schedules of the Income Tax Bill of 1933 might prove necessary. Schedule B.2. being accepted as a basis for computation purely for the purposes of the despatch.

With regard to paragraph 4(a), the reasons for proposing a basic tax of Shs. 50/- are given in paragraph 8 of Sir Joseph Byrne's despatch, this figure representing the basic poll tax of Shs. 30/- plus Shs. 20/- in lieu of Education Tax. An.....

THE RIGHT HONOURABLE,
MAJOR SIR PHILIP CONLIFFE-LISTER, P.C., G.B.E., M.C., M.P.,
SECRETARY OF STATE FOR THE COLONIES,
DOWNING STREET, LONDON, S.W.1.

An increase to £3 as suggested by the Government of Uganda would involve no alteration of present obligations so far as Europeans are concerned, but Indians would be called upon to pay an additional Shs.10/- per head and Goans and others not liable for Education Tax would be liable for an additional basic tax of Shs.30/-.

The Treasurer's opinion is that a basic tax of £3 could not reasonably be called onerous, particularly as compared with the rates of native hut and poll tax, and I share his views. Paragraph 7 of Sir Joseph Byrne's despatch shows that £3 would be considerably less than the figure proposed in 1933.

Paragraph 4(b) and (c) relate to matters which will require negotiation in due course.

4. As regards paragraph 5(1), I agree that complete uniformity in the matter of stamp duties, trades licences, etc. although desirable is not essential.

With reference to paragraph 5(2), I would observe that Sir Joseph Byrne in paragraph 15 of his despatch indicated that unilateral action is possible and the petrol consumption tax now imposed in Kenya can be increased without involving the Government of Uganda in any change of policy.

5. Copies of this despatch are being sent to the Governments of Uganda and the Tanganyika Territory.

I have the honour to be,

Sir,

Your most obedient,
humble servant,

A. H. Wade

ACTING GOVERNOR.

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ACTING GOVERNOR.

CHIEF SECRETARY'S OFFICE,
P.O. BOX 5,
ENTEBBE, UGANDA.

SECRET.

17th May, 1935.

Sir,

I am directed to refer to Sir Joseph Byrne's Secret despatch of the 16th of March, which accompanied his Private Secretary's Secret Note No. 1935/3 of the same date, on the subject of the early introduction of Income Tax in Kenya, and correlated proposals.

2. This matter was discussed at the recent Conference of East African Governors, when this Government's views were outlined by Sir Bernard Bourdillon. The purpose of this letter is to elaborate that outline.

3. The Government of Uganda is anxious for the early introduction of Income Tax and is prepared to introduce it in the Protectorate if and when that of Kenya takes a similar step. From the revenue point of view, however, the change is not an immediate necessity, and it would be prepared to defer the introduction of the tax until 1937.

4. There are certain details, however, with regard to which this Government is unable to accept the Kenya Government's proposals as to the tax itself.

- (a) It is not prepared to adopt a minimum basic tax or flat rate of less than £3, since, apart from considerations of the additional revenue involved, it holds strong views with regard to the importance of the elimination of semi-pauper immigrants, and considers that any non-native unable to pay a tax of £3 annually must be so classified.

The Honourable the Colonial Secretary,
Colony and Protectorate of Kenya,

NAIROBI.

- (b) It feels bound to insist upon provision for rebates in respect of children at school, subject to the production of school bills up to a generous maximum.
- (c) On account of the higher costs of living in Uganda, it is in favour of rather lower rates of tax (other than the minimum) than those which the Kenya Government suggests.

5. In connection with the collateral issues raised in paragraph 6 of the Kenya despatch, I am to state:-

(1) it is not considered necessary, and it is not, therefore, proposed that stamp duties or trading licences and fees in this Protectorate should correspond with those in Kenya;

(ii) this Government cannot, considering the present state of the Railway's finances, endorse a proposal involving the transfer of railway revenue derived from the transport of petrol to the exchequers of the local Governments, unless it can be shown that the present tariff rate, having due regard to petrol's being a "dangerous commodity", is excessive. It does not indeed, favour any proposal for the taxation of petrol, a commodity which is at present a fundamental necessity for all local development, unless this can be done without raising the cost to the consumer. That there is such a possibility is, however, shown by the fact that the increase in railway rates on petrol brought into

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The Honourable the Colonial Secretary,
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into effect in 1932 was not passed on by
the petrol companies to the consumer.

I have the honour to be,

Sir,

Your obedient servant,

(Signed) E.L. SCOTT.

CHIEF SECRETARY.

XVI OTHER BUSINESS (B)

Kenya Secret

SIR B. BOURDILLON asked whether the other members of the Conference wished to discuss the possible introduction of income tax in view of certain correspondence which had recently passed with the Secretary of State.

MR. WADE said that the Kenya Government was beginning to consider its financial position in 1936 as difficulties were arising over the Trades Licences and certain other of the so-called alternative taxes while the Education Tax was not a satisfactory one. His Government desired to put taxation on a
more.....

more satisfactory basis and considered therefore that income tax should be introduced. It was difficult to tell what views the majority of the unofficials in Kenya held with regard to income tax. He thought that more of the European unofficials were beginning to think that income tax was preferable to the non-native poll tax but public opinion was very difficult to gauge.

SIR H. MACMICHAEL said his views on the question had already been given in a despatch to the Secretary of State, copies of which had been sent to the other Governments.

SIR B. BOURDILLON said that he considered income tax ought to be brought into force in Uganda in the future for many reasons, so that, inter alia, companies and pensioners who derived incomes from Uganda should contribute to the revenues of that country. There would be obviously initial difficulties in the levying of income tax and for that reason he thought a start should be made at an early date; he would welcome an opportunity to introduce it from, say, January 1937 but he was ready to do it in 1936 if Kenya wished to do so.

BY AIR MAIL.

TANGANYIKA TERRITORY.

12 4
GOVERNMENT HOUSE,
DAR ES SALAAM.

S E C R E T.

RECEIVED

- 4 APR 1935

C. O. REGY

26 March, 1935.

Sir,

3-2059/1/17
I have the honour to address you upon the proposal, put forward in the Governor of Kenya's secret despatch of the 16th of March, 1935, for the imposition of Income Tax in that Colony in 1936.

2. Sir Joseph Byrne concludes by saying (paragraph 19) "It is generally agreed that if Income Tax is imposed it must be operated in the three territories", and adds that, should you deem the proposal worthy of consideration, you may possibly direct examination by the Governors' Conference.

3. I would first of all say that, in my view and that of my advisers, the imposition of Income Tax in Kenya is not conditioned by its simultaneous acceptance by this Territory and that, while appreciating the advantages of Income Tax as a system, the rates now suggested by Kenya would be too high to justify its imposition here, if an identity, or even similarity, of rates is postulated. In other words, this Territory would be prepared to consider the adoption of Income Tax provided a more suitable time were chosen for its initiation and the rates were fixed at a scale suited to the circumstances of that time. If the tax were

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SECRETARY OF STATE FOR THE COLONIES,

DOWNING STREET,

LONDON.

imposed in 1936 in Tanganyika, it would only be at a very low rate, for an increase in the total burden of taxation would not be justified - except to the extent that new sources of revenue required to be tapped - and would, indeed, have the immediate effect of damping the incipient tide of prosperity at the very moment when the utmost care and caution are required to prevent such a result.

4. So far as this Territory is concerned I regard Income Tax as a possible future alternative to the Non-Native Poll Tax but not to any other item of our fiscal system. At the same time there can be no reasonable doubt that if Kenya abolish Trades Licences we should immediately be faced with a demand for a similar concession in spite of the fact that these licences have all along formed part of our normal system of taxation. If, in return, we tried to obtain similar amounts from Income Tax, it is very doubtful whether we should be successful, for the machinery required to operate the more complicated instrument and prevent evasion and inequity does not at present exist. To provide it would, of course, mean more expenditure (and a higher rate of tax in compensation), since such new sources of revenue as may exist are not considerable. There are few rich men in this Territory and few companies operating or paying dividends from here, and such as there may be require encouragement rather than check.

5. I would add that the absence of discrimination in rate between Europeans and Asians, which is admittedly unavoidable, would lead to inequality in

respect of the incidence of the tax, for an Indian with an income of £300 - £400 a year may, as a general rule, be regarded as well-to-do while the same could certainly not be said to apply to the European. This difficulty is inherent in the system of Income Tax, and if Income Tax is ever to be imposed in this Territory it will have to be met. One obvious method of meeting it would have to be by the grant of comparatively heavy rebates on account of insurances (the 5% suggested in paragraph 13 of the Kenya despatch is much too low) and money spent on passages and the cost of keeping a family in England in cases where such was demonstrably unavoidable (a consideration which is less operative in Kenya owing to the better climate). But the existence of these rebates would seriously reduce the revenue advantages of the tax and add force to the argument contained in the previous paragraph.

6. Thus, while the difficulties and dangers are obvious, the advantages in Tanganyika would be extremely speculative. I would also stress the point that the conditions here in respect of the need for Income Tax are dissimilar to those in Kenya. Kenya is burdened with certain problems which do not arise here. These are stated in Sir Joseph Byrne's despatch and I would touch upon the chief of them in turn.

- (a) The "alternative taxes" in Kenya have, I understand, proved a failure. Here the corresponding taxes (I except, of course, the Package Tax which has disappeared already) have not. Our trades licensing system is simple, old-established and reasonably equitable in its incidence and various adjustments designed to make it more equitable are now under consideration.

The Non-Native Poll Tax also works satisfactorily here. The dissatisfaction which has been voiced in Kenya (Kenya despatch paragraph 2(b)) at these taxes has not been in evidence in Tanganyika; and I have no desire to provoke here the use of arguments, drawn from the imposition of an Income Tax, for a reduction of the burden of taxation as a whole.

Neither in the case of the Trades Licences nor of the Non-Native Poll Tax is the term "temporary taxation" (Kenya despatch paragraph 3) applicable here in the sense that it is in Kenya.

- (b) The difficulty arising in Kenya (Kenya despatches paragraphs 7 to 10) in respect of the Education Tax does not arise here since education has since the 1st of April, 1952, been financed from General Revenue. Consequently we do not stand to gain from Income Tax any "solution to a long outstanding difficulty".
- (c) As regards the levy on official salaries while granting that if officials had to pay more under Income Tax than they do at present under the Non-Native Poll Tax, the case for a reduction of the levy would be proportionately strengthened, I cannot regard the case for the imposition of an Income Tax as strengthened or weakened by the existence of the levy or the need to reduce it. I must take this opportunity to dissent from the view expressed in paragraph 16 of the Kenya despatch that a restoration of the levy should be dependent upon a surplus in the treasury as distinct from a balance.
- (d) In Kenya "by elimination of the Education Taxes and the Non-Native Graduated Poll Tax and by simplification of the Trades Licensing Ordinance, the work now undertaken by the Central Registry Office would be materially reduced, thus liberating staff for the operation of an Income Tax measure" (Kenya despatch paragraph 17). For reasons which will be apparent from what I have written above these savings could not be effected in Tanganyika, and without them it would be difficult, if not impossible, to operate an Income Tax with efficiency and smoothness.

7. I am compelled therefore to urge that,

whether Income Tax is imposed in Kenya in 1936 or not, any question of its imposition in Tanganyika should be deferred until there are sources of revenue available which are sufficient to justify the dislocation and expense which are its inevitable concomitants. Tanganyika is at last definitely emerging from the stagnation of the last few years and I am expressing more than a hope when I say that I consider that by the end of 1935 our finances will be on a sound basis. Any important change in taxation would upset the stability which is so important a factor at this juncture. In other words we do not want to change horses while crossing the stream.

8. I am sending copies of this despatch to the Governor of Uganda and the Acting Governor of Kenya and the Secretary of the Governors' Conference. I would add that I took the opportunity of Sir Joseph Byrne passing through here on the 22nd of March to explain to him the general lines of argument set out above, as affecting this Territory. I understood from him that his reason for desiring simultaneous operation of an Income Tax in the three East African territories related only to the possibility that commercial firms operating in more than one of these might otherwise evade paying what was due from them under the Kenya law. I do not, however, anticipate any difficulty in safeguarding the position in this respect and would willingly co-operate to this end.

I have the honour to be,
Sir,
Your most obedient,
humble servant,

Harold MacMichael
GOVERNOR.

SECRET & PERSONAL.

17 3
GOVERNMENT HOUSE,
KENYA,
EAST AFRICA

28th March, 1955.

My dear Bottomley,

I enclose today's leading article from the East African Standard, from which you will see that so far as politics are concerned we cannot anticipate much peace.

In his Secret Air Mail Despatch of 16th March, Sir Joseph Byrne said of the possibility that an income tax might have to be imposed as from 1st January, 1956:- "I take full responsibility for stating that, although there will be organised opposition, a large portion of the population - perhaps indeed a majority - is now prepared to accept this form of taxation in preference to the Alternative Measures." This leading article is the beginning of the new campaign of organised opposition.

I believe it to be perfectly true that the majority of the European population are to an increasing extent realising that Income Tax would be preferable to the "alternatives" and I believe that the

East.....

East African Standard and the Elected Members are beginning to appreciate this change of attitude. They are therefore concentrating their attack not on Income Tax but on any taxation additional to that which existed in 1952 whether this additional taxation takes the form of the alternatives or of Income Tax.

There is of course a considerable body of rational citizens who accept the fact that with the increased consumption of local produce this Government can no longer rely to the extent which it formerly did on Customs Duty for its revenue and they are therefore prepared to submit to Income Tax as the logical solution. They are not however vocal.

The East African Standard represents the more clamant section of the population and its influence appears greater than it really is, because as you know there is no opposition daily press of standing, although Gouldrey in his "Kenya Weekly News" has consistently favoured Income Tax rather than the Alternatives. I expect, however, the East African Standard will have the support.....

support of all the European Elected Members.

The political atmosphere, as I see it, discloses a feeling of nervousness on the part of the Elected Members and men like Claude Anderson (now Chairman of the East African Standard). Any even slight improvement in the trade position, such as is apparent today, tends to show that their attitude in the past year has been largely one of pure defeatism. They appear to hope that by a further violent attack on the Government's fiscal policy, whatever that policy may be, they can advance the claim (reiterated again at the recent Arusha Conference) that the European community in Kenya, Tanganyika and Uganda should control the administration of a United British East Africa.

Sir Joseph told me that the Editor of the East African Standard had frankly admitted to him a few days before his departure on leave that a campaign against Income Tax was to be staged. This article is the Editor's.....

Editor's exordium.

I feel that you will wish to be kept advised
of the progress of the performance.

Yours sincerely,

Arnold

Sir W.C. Bottomley. K.C.M.G., C.B., O.B.E.
The Colonial Office.
LONDON, S.W.1.

WEDNESDAY, MARCH 27, 1963

THE ALTERNATIVE TAXES

Secretary of State's
"Miscellaneous"

The present Secretary of State for the Colonies has a most unhappy knack of irritating the people of Kenya. In the House of Commons ten days ago, he was asked questions regarding the Kenya Budget and he was able to give an answer which to the uninitiated House was very enlightening. Instead of an unimpaired deficit of £50,000 for 1963, Sir Philip Cunliffe-Lister informed the House of East Africa that Kenya had registered a surplus of nearly 90,000. The Hon. P. E. Quinn then asked whether the taxes impossibly imposed for 1963 had to have had to be re-considered to enable him (the Secretary of State) to get that result. Instead of answering himself with a simple answer in the affirmative, Sir Philip Cunliffe-Lister said that the question was "based on a complete misconception." He informed the Member for P. F. Muth, who must have been grateful for the information that taxes are constantly imposed in connection with the Budget, and then added the provocative words: "but there has never been any suggestion that the taxes imposed a year ago to balance the budget would be withdrawn at the end of that year." So far as the people of Kenya are concerned, the "misconception," if there is any, is on the part of the Secretary of State and of the Government of Kenya, on whose despatch on the financial position he is no doubt relying for his information. It has been made abundantly clear that the emergency alternative taxes, and in particular the Non-Native Graduated Poll Tax, were applied (as was the Civil Service Levy) as temporary measures to enable the Government to balance the Budget. The real problem was not Income Tax (which was merely the official solution) but the country's pressing financial problem. The people of Kenya agreed as a sacrifice to suggest an alternative way out of the difficulty. It was accepted by the Secretary of State who laid down the important constitutional principle that all things being equal, the taxpayers were entitled to choose the methods of taxation

they preferred. The Government of Kenya has tried to maintain that the alternatives were alternative to Income Tax. Nothing is further from the truth. They were alternatives to bankruptcy or drastic reduction of Government expenditure in order that it might be made quite clear, both to the Secretary of State and to the Government that the imposition was temporary and only intended to meet an emergency situation, the new measures were qualified by a clause deliberately inserted in the Ordinances terminating their application at the end of 1964. When the Budget was introduced last year, the Governor in his provocative speech tried unsuccessfully to maintain that these measures of taxation were not temporary and he expressed surprise that a few months before the Leader of the Elected Members had warned Government that the country would demand their removal from the 1966 Budget. The Elected Members challenged his interpretation of the position at once, pointed out that the bargain made with the country was on the basis of temporary and emergency help to see the Government through a crisis and invited Ministers by the Attorney General of the time to draw that to the mind of the man who headed the legislation on behalf of Government, the Ordinance were of a temporary nature because that was "in consonance with the policy of the Colony which has inspired this legislation." Nothing could be clearer or more in accord with the declared wishes of the country. If further proof is needed, it is provided by the Secretary of State himself in the considered statement on taxation policy dated June 7, 1963 when he announced the "alternatives." He said in the first sentence: "The necessary... of taking adequate and immediate steps to restore the financial position in Kenya is universally accepted. It is also generally and rightly accepted that this position must be met by a combination of economy and taxation.... But when every step has been taken, which is practicable, to ensure economical administration in every field it is clear that the finances of the Colony cannot be restored without resort to fresh taxation.... In the present case I appreciate that the alternative proposals have been put forward as a genuine effort to aid Government by constructive suggestions." It emerges quite clearly from that document, despite the juxtaposition in the Secretary of State's mind

of Income Tax and the "Alternatives," that the reason why the taxation issue was raised in Kenya at all was the urgent necessity for restoration of the Colony's finances. That was the position accepted by the taxpayers but as they believed, and still believe, that economy in overhead costs is the only alternative to an impossible burden of new taxation, they agreed to help on the clearly stated condition that the burden would only be of sufficient duration to enable Government to balance the Budget by economy aided by the improvement in the general position which was hopefully expected. Now the Government of Kenya, and the Secretary of State, is attempting to agree on the addition to the concept of the series of emergency measures which the assembly themselves proposed to meet a passing emergency! Not having been able to impose Income Tax on top of all the rest, the Government hopes to avoid further economy, to keep its own position of privileged and protected security intact and still to score a taxation triumph by forcing the alternatives on the people as a permanent additional burden. The country knows why the Elected Members held their hands and did not urge Government by expulsive words months ago. It is a general knowledge that when the Select Committee expressed its estimate of expenditure by £100,000 and the Elected Members will consider that the case has been made out for taxation relief. But that is not Government's view. Having got new taxes, the Government wants to keep them by fair means or foul and is prepared to break every sort of understanding with the country to do so. All that need be said now is that the position has not been altered in the least by what Sir Philip Cunliffe-Lister has just said in the House of Commons. What matters is not his pronouncements but the will and desire of the public in the Colony and Government may be warned now that the Budget fight of 1964 will be nothing in the fierceness of its intensity and determination to what will assuredly occur at the end of this year if the emergency taxes are not removed and if any attempt is made to replace them by any other imposition. The Colony is in no state of mind to be bluffed or hoodwinked on the taxation issue. There is only one desire—early relief by a return to the old system which served so well before the depression began.

C.D.
R 1 APR
B 1

Letter No 84

Your secret despatch 16 March

20 Coors & Seal
1:30 pm
20/3/35

Tel.

Immediate
Governor
Nairobi

Budget estimated to balance on existing taxation. Mining Development should try to improve this position next year. I foresee great difficulties in changing basis of taxation unless there is clearly expressed ~~my~~ ^{my} only ~~meant~~ ^{meant} for change. ~~I do not see~~

~~I feel it wd. be unwise to comment upon necessary cases if I am convinced~~

politicizing
& secret

I do not object to discussion at Governors Conference provided this is not of this nature place asking more must be said in any communication (if an upsurge at all necessary) than that ~~from~~ Conference reviewed workings of existing taxation ~~concern~~ to the Ministers. Please refer to Gov Legation

AIR MAIL

KENYA

No.

SECRET



GOVERNMENT HOUSE
NAIROBI
KENYA

RECEIVED

26 MAR 1935

16th March, 1935.

Sir,

C. O. REGY

I have the honour to approach you on the subject of the 1935 Budget, particularly as regards the measures required to provide the necessary revenue. It may be thought that I am prematurely raising this issue but I submit that if any radical alteration in our system of taxation is required, the sooner we explore the position the better.

2. In doing so it would be desirable to take into consideration the following general factors:-

- (a) I think it is now admitted that the taxes introduced as alternatives to Income Tax have not proved a success, more particularly so far as incidence is concerned. In this connection I would invite attention to the address I made on opening Legislative Council on the 20th November, 1934 (copy enclosed). I may add that I have been approached by bankers, leading commercial men, and even by farmers who are becoming increasingly restive over the present haphazard system and who openly advocate the introduction of Income Tax.

(b).....

MAJOR THE RT. HON. SIR PHILIP CUNLIFFE-LISTER, P.C., G.B.E., M.C., M.P.
SECRETARY OF STATE FOR THE COLONIES,
COLONIAL OFFICE,
DOWNING STREET, S.W.1.

(b) The present policy of European Elected Members, as I understand it, is not only to oppose Income Tax but also to oppose the continuation of the Alternative Taxes. They even go further and will press for a reduction of taxation other than alternative taxation. I need hardly say that if their demands were acceded to it would be quite impossible to accumulate an effective reserve and probably impossible even to balance the Budget.

(a) It is possible that you may think fit to sanction the withdrawal of the levy on the salaries of Railway servants: a despatch on this subject has been sent to you by me as High Commissioner. The levy on Government servants has already been withdrawn in Uganda and Zanzibar and it would be highly desirable to give at least some relief to the officials of the Kenya Government: in the event of Income Tax being introduced such relief is, I consider, imperative.

3. Two courses appear to be open: one is to continue the existing method of taxation and the second is to introduce Income Tax with effect from the 1st January, 1936. I have already indicated my objections to the first course but apart from them the very real difficulties of administration, which are inherent in any form of temporary taxation would continue to be a cause of anxiety.

4. As regards the second course I take full responsibility for stating that, although there will be organised opposition,.....

opposition, a large portion of the population - perhaps indeed a majority - is now prepared to accept this form of taxation in preference to the alternative measures.

5. The net yield accruing in the year 1934 from taxes imposed as alternatives when the Income Tax was abandoned was approximately £53,413 as shown in the following table:-

(a)	Non-Native Graduated Poll Tax Year 1934 (vide Appendices D and E.....)	£62,579	
	Arrears.....	£ 5,622	£68,201.
(b)	Trades and Professional Licences 1934 (vide Appendix J).....	£33,003	
	Arrears.....	£ 114	£33,117.
(c)	Package Tax (now repealed)		£ 8,995.
(d)	Stamp Duty Amendment (say)		<u>£ 7,500.</u>
			<u>£17,813.</u>
	<u>Less Old Non-Native Poll Tax (say)</u>	<u>£35,000</u>	
	Old Trades Licences (say)	<u>£19,400</u>	<u>£ 54,400.</u>
			<u>NET INCREASE.....</u>
			<u>£ 53,413.</u>

6. If Income Tax is adopted I suggest that the following measures should be taken with the object of redistributing the burden of taxation of the Non-native races:-

- (a) that the Income Tax Bill as amended in Select Committee and Committee of the whole Council be generally followed subject to the following modifications:-
 - (1) that, subject to (2) below, the Income Tax Bill should provide for a minimum basic tax of 30/- (the present basic Non-Native Poll Tax figure) in lieu of £3 as provided in the 1933 Income Tax Bill;
 - (2) that the Education Poll Taxes should be repealed and the flat rate under the Income Tax Bill should be raised on this account from 30/- to 50/- for Europeans and Asians alike (the present Education Taxes are 30/- for Europeans and 20/- for Indians;....

for Indians; Goans and certain other races are exempt from payment of this Tax). Particulars with regard to the incidence of this tax are given in Appendices F, G, H and I;

- (3) that the rate of payment for companies should be 2/6d. in the pound as in Trinidad and Ceylon.
- (b) that the schedule to the Trades Licensing Ordinance should be scaled down so as to reduce the yield estimated to accrue in 1935 under the 1934 Ordinance from £50,000 to about £25,000 per annum. Particulars of collections in 1934 are given in Appendix J;
- (c) that the Railway Administration should be approached with a view to a reduction in the rate charged for the carriage of petrol and that when such reduction takes place a simultaneous increase in the Consumption Tax on petrol should be made;
- (d) that the amendments to the Stamp Ordinance which are generally accepted as equitable should stand;
- (e) that the levy on official salaries should be reduced by at least a half.

7. So far as suggestion (a) is concerned, a major objection to the Income Tax proposals of 1933 was the imposition of a basic tax of £3 additional to the Education Tax of 30/- or 20/- imposed in this Colony on Europeans and Indians respectively, as in a large number of instances (vide Appendix A), more particularly among the Indian petty trading and artisan classes, payment of a minimum yearly tax of 80/- is, I now consider, impracticable. To remedy this defect in the Bill it is suggested that the basic figure should be reduced to 50/- representing the present basic Poll Tax of 30/- and a figure of 20/- in lieu of Education Tax.

8. Fixation of the basic figure of 50/- with elimination of the Education Taxes which are not operative in the other territories might prove more acceptable to neighbouring Governments than the original proposals as it would represent a reduction of 10/- per head in proposed taxation of the less.....

less affluent sections of the community. It would certainly be welcomed by the European taxpayers of Kenya who are at present called upon to pay a minimum sum of 50/- per head.

9. I attach considerable importance to the repeal of the Education Tax Ordinance as I am convinced that such a step would prove advantageous from many points of view. In this connection attention is invited to the following passage which occurs in Lord Moyne's Report (paragraph 53):-

"It was agreed in 1927 with the Elected Members of Legislative Council that the cost of European and Indian education, with the exception of administrative charges and loan charges for the provision of schools, should be paid for out of special revenue. The necessary revenue was provided by the imposition of Education Poll Taxes and the Wines and Spirits Consumption Tax..... The distinction between the expenditure to be covered by these special contributions and that left on Colonial charge (namely loan expenditure, central administrative charges and cost of housing and pensions) seems to be drawn on no clear principle. I see no useful purpose in continuing this arbitrary arrangement and retaining a separate racial account which does not in practice balance. The present taxation on which the arrangement was framed should remain in force, but the Non-Native Poll Tax and Education Taxes might now with advantage be merged, the European continuing to pay a total of 50/- and the Indian 50/-."

10. It is clear that Education is finally a responsibility of Government which cannot be made to depend on a fluctuating income and that the theoretical earmarking of certain items of Revenue for services of this nature is open to many grave objections. For these reasons I am very strongly of the opinion that advantage of this opportunity should be taken to merge these special taxes in the general fiscal structure of the Colony as has already been done in the case of the Wines and Spirits Consumption Tax. As, however, the continued imposition of a Non-Native Poll Tax concurrently with the

imposition.....

imposition of an Income Tax would appear to be inconsistent, assimilation of both taxes in the Income Tax measure would seem to offer a simple and effective solution to a long outstanding difficulty.

11. As regards other details of the 1933 Income Tax proposals a full re-examination of the provisions and schedules may prove necessary, but, for the purposes of this despatch I have accepted Schedule B2 as a basis for computation. I have also assumed that Income Tax will be chargeable on the estimated annual value of quarters, etc. granted in respect of employment, e.g., the value of housing or house allowances to Government officers, bank and Company officials, etc., and that the rate of tax chargeable on dividends of Companies, etc. will be 2/6d. in the pound as I understand is the case in Trinidad and Ceylon.

12. When the Income Tax Bill of 1933 was under consideration the estimated yield, based on very incomplete particulars, was:-

Poll Tax (incorporated in the Bill as a basic tax @ £3. 0. 0. per head	<u>257,000.</u>
Income Tax B2 scheme of Income Tax Adviser's memorandum of 25. 3. 1933.	<u>270,000.</u>
	<u>227,000.</u>
Less Non-Native Poll Tax.	<u>2 35,000.</u>
NET INCREASE.....	<u>2 92,000.</u>

13. Under the new proposals the estimated yield based on actual declared incomes in 1934 but assuming (a) that incomes are subject to a ten per cent deduction for earned incomes (with a maximum deduction of £200), (b) that each taxpayer is married with one child and (c) that a five per cent deduction is allowed for insurance, would be approximately as follows:-

Basic Tax of 30/- plus 20/- - 50/- allowing £5,589 for remissions and exemptions.	£ 53,000.
Income Tax Schedules (vide Appendix A)	£44,000
Pensioners (say)	£ 2,000
Additional in respect of Taxation of Quarters, etc., (say)	£ 5,000
Companies at 2/6d. per £ (say)	£20,000 75,000.
Carry over (say)	<u>£ 500.</u>
	£127,500.
<u>Less</u> Non-Native Poll Tax (receipts in 1934)	£68,201
Education Taxes - do -	<u>£22,632 90,833.</u>
	<u>NET INCREASE.....£ 36,567.</u>

As, however, this total is calculated on a full deduction of levy on official salaries, makes no allowance for penalties and is related to a particularly bad year so far as the general level of incomes is concerned, the estimate given above is extremely conservative.

14. If Income Tax is imposed it is only reasonable that the taxes which may be regarded as true alternatives to Income Tax should be abandoned. The Package Tax Ordinance has already been repealed and it is suggested that the Trades Licensing Ordinance should be so amended as to reduce the yield from this source to a figure approximating to the sum which might reasonably have been expected to accrue if alternatives to Income Tax had not been adopted.

15. The proposal with regard to Petrol is made with the object of stabilising the Revenue position of the Colony until such time as the yield from Income Tax is disclosed; by this means the necessary safeguarding of revenue not subject to violent fluctuations will be secured. If the Railway rate is reduced.....

reduced by one class it is understood that a saving to the public of the territories in the neighbourhood of £50,000 would result and by imposing an additional Consumption Tax of, say, 15 cents per gallon an increase in Colonial Revenue of at least £20,000 would accrue. Details of this proposed adjustment would require full examination before adoption but the general result would be an increase in the price of petrol at the Coast (now approximately Shs. 1/90 per gallon) and a decrease in the price of petrol beyond Nairobi (the price at Kisumu is now Shs. 2/90), the aim being to keep the price at Nairobi at a figure not exceeding the present price of Shs. 2/50 per gallon. Consumers in Uganda would reap an immediate benefit and the Government of that territory would be left free in the matter of imposition of a Consumption Tax.

16. I should have preferred to recommend a complete abolition of the levy on official salaries but in view of the existing state of the Colony's finances, I am reluctantly compelled to the conclusion that as a first step one half only of the levy should be restored. Under this scheme after reduction of the levy by half, a balance of £11,250 to provide for a margin of error in estimation remains, whereas the amount required completely to eliminate the levy would be a further £23,250. I believe these Estimates to be framed on conservative lines and am very hopeful that the budgetary position generally will improve during the course of the year. At the same time the drain on the Colony's finances during the past six years has been considerable and until balances are restored by a substantial excess of revenue over expenditure I do not feel justified in recommending complete restoration of the levy. Appendix B

gives.....

gives comparative details of the effect of these proposals on officials.

17. The question of cost of administering an Income Tax Ordinance is one which would require further investigation before a final estimate could be given, but it is not anticipated that additional expenditure of more than £2,000 per annum would be necessary. By elimination of the Education Taxes and the Non-Native Graduated Poll Tax and by simplification of the Trades Licensing Ordinance, the work now undertaken by the Central Revenue Office would be materially reduced, thus liberating staff for the operation of an Income Tax measure. The additional expenditure would be necessary in order to place the Central Revenue Office on a permanent footing and would allow for the provision of a moderately paid Income Tax official with home experience who would be required to supervise the collection of Income Tax in Kenya.

18. Comparison from year to year is complicated by errors in estimation and changes in circumstances. In the following table these have been balanced as far as possible by adopting the following basic estimates throughout:-

Old Non-Native Poll Tax.....	£ 35,000.
Graduated Non-Native Poll Tax.....	£ 56,000.
Education Taxes.....	£ 20,000.
Levy at basic rate of 5%.....	£ 46,500.
Old Trades Licences.....	£ 19,400.
Cost of administering Graduated Poll Tax, etc.	£ 5,500.
Cost of administering Income Tax.....	£ 7,500.

	Basic 1932	Income Tax Proposals 1933	Alternative Taxes - Full Year	1935 Alternat- ive Taxes	Present Proposals
	£	£	£	£	£
Poll Tax	35,000	-	56,000	56,000	-
Education Taxes	20,000	20,000	20,000	20,000	-
Income Tax - Poll Schedules	-	57,000	-	-	53,000
Levy on Salaries	-	70,000	-	-	74,500
Trades etc. Licences	56,000	46,500	46,500	46,500	23,250
Adml. Stamp Duties	19,400	19,400	33,000	50,000	25,000
Adml. Petrol Tax	-	-	7,500	7,500	7,500
Package Tax	-	-	9,000	-	20,000
	130,400	212,900	182,000	190,000	203,250

	<u>Basic 1932.</u>	<u>Income Tax Proposals. 1933.</u>	<u>Alternative Taxes Full Year</u>	<u>1935 Alternative Taxes.</u>	<u>Present Propos- als.</u>
	£	£	£	£	£
B/F	130,400	212,900	182,000	190,000	203,250
Less cost of administer- ing Poll Tax	-	-	5,500	5,500	-
Income Tax	-	7,500	-	-	7,500
Net revenue	£130,400	£205,400	£176,500	£184,500	£195,750
Increase on Basic Revenue		£ 75,000	£ 46,100	£ 54,100	£ 55,350

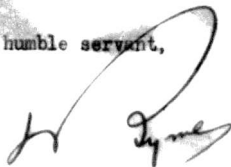
19. It is generally agreed that if Income Tax is imposed it must be operated in the three territories.

I have therefore sent a copy of this Despatch to the Governors of Tanganyika Territory and Uganda and to the Secretary of the Governors' Conference as should you deem the proposals worthy of consideration you may possibly direct examination by that Conference.

I have the honour to be,

Sir,

Your most obedient, humble servant,



BRIGADIER-GENERAL.
GOVERNOR.

Hon. Members of Council,

Before coming to the main subject of my address this morning, namely, the Budget proposals for 1935, it would perhaps be convenient if I first referred to other matters of general interest.

I received the Report of the Economic Development Committee early this month. It is now in the hands of the Government Printer and will be issued for publication as soon as possible. It is a most instructive report and when you have read it you will, I know, agree with me that your thanks are due to Mr. Sandford, the Chairman, to the members of the Committee and to Mr. Liverage, the Secretary. They have had a difficult task as the terms of reference ranged over a very wide field. When it has been published I rely upon your co-operation to give full consideration to its recommendations and to see what effect can be given to them. I do not propose at this stage to refer in detail to the recommendations made, but I may mention that, as was to be expected, some of the proposals contemplate increased expenditure from public funds. In particular the Committee has recommended an increase in staff with a view to the stimulation of production in the Native Reserves.

I will now briefly refer to the Agricultural position. Owing to recent rains, the outlook has improved considerably. The condition of the coffee trees in the main coffee areas has improved and the yield should be increased accordingly. Recent rains have also been very beneficial to later-sown cereal crops and good yields should be obtained in many areas.....

areas. Cereal prices have declined somewhat during the past few weeks, and former hopes of good prices have not been maintained. The London price of coffee remains at a low figure and the market is quiet and demand poor.

The policy with regard to native agriculture is definitely laid down and varies from area to area according to such factors as altitude, rainfall, fertility of the soil and characteristics and density of population.

Each Province is divided into a number of natural zones, based on these factors and the potentialities of each zone have been surveyed for estimation of volume of foodstuffs and cash crops capable of being produced; the results of these surveys form permanent records on which the policy in each zone is based.

At the same time all practicable steps are taken to increase the production of the suitable crops within the potentialities of the zone.

The value of the work of increased production has been masked during the last few years by the depredations of locusts and drought as well as by the withholding of produce from markets by natives owing to the exceptionally low prices. Results will be revealed with a return to normal seasons and more so with a recovery in prices. Already in 1934, the surplus maize and beans in the Nyanza and Central Province Reserves is higher than during any previous year, and the improvement in quality is marked. In respect of purely export products which have not suffered from locust destruction, the production of wattle bark has doubled, and of cotton twilled, within the last three years.

Legislation exists prohibiting the purchase by, or sale to, traders of inferior produce. Inspection services

exist.....

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exist to ensure that the law is observed and as a result, during the last three years the improvement in the quality of produce has been rapid. It has been estimated that in respect of maize and wattle bark alone this enhanced quality has increased the money return to native growers by £25,000. Other cash products which show improvement are cotton, beans, ground-nuts and simsim.

It has been possible to apply the principles of organised marketing to cotton, cashew nuts and wattle bark; the first two by means of protection which has the effect of exclusive licences, and in the case of wattle bark by the employment of an agent to purchase bark at fair market value, without any protection against competition.

Formerly cotton areas were confined to districts adjoining the Lake and the Coast. Recently, development of cotton in the lower parts of the Central Province has been undertaken and it is expected that the development will shortly justify the erection of ginneries at Kitui, Embu and possibly Meru.

The organisation of a cashew nut industry at the Coast was commenced in 1931. Since then some hundred thousands of trees have been planted and machinery imported for the preparation of the nuts ^{and} for packing for export. This industry is very promising and the trees appear to provide a certain cash return to the natives each year.

Improved varieties of tobacco were introduced in 1931 and trials have proved successful. Present production in Central Kavirondo is already such that it is hoped that a tobacco manufacturing company of standing may be induced both to render assistance in the matter of proper leaf preparation and to purchase.....

miles of the Piccadilly Circus - Butere road. A road will also be required to enable heavy material and plant to be conveyed to mines in Area No. 5 and Lolgorien from a pier to be constructed by the Kenya and Uganda Railways and Harbours Administration at Muhoru Bay. As the nature of the country and the soil are better than in the Kakamega area, and the rainfall is smaller, the Central Roads and Traffic Board considers that a much smaller sum will be adequate for the requirements of this road for the present. This sum would be used principally for the construction of bridges and drifts of permanent type, and the alignment selected would be suitable for the construction of an all weather carriageway should this become necessary in the future.

An equally difficult problem is that of adequate communications between Lumbwa and Kericho. Here again the soil and climate are of such a character that only a solidly constructed road would be satisfactory for the conveyance of heavy traffic. This traffic is largely in connection with the tea industry at Kericho which has been developing rapidly during the last few years. Although the Economic Development Committee has recommended that this road should be maintained from revenue, the Central Roads and Traffic Board, on the other hand, has advised that a substantial sum will be required to construct it properly. The provision of funds to finance this important work has been receiving our earnest attention.

Throughout most of the Colony the rainfall has been light, and most of the roads have remained passable. On the Coast and in Suk-Turkana, however, heavy rains caused serious damage, and traffic was interfered with by washaways. The road from Mombasa to Malindi is carrying lorries in increasing numbers.....

numbers, and in consequence it is difficult to maintain the road in a suitable state of repair. It is proposed to increase the allotment for maintenance of this road, the required sum being found from savings on certain roads up country, the allotments of which can be proportionately reduced.

Progress has been well maintained by the contractor on the new Law Courts in Nairobi, and it is hoped that this work will be finished in April next year.

The proposals for the inauguration of the European Local Civil Service, contained in Sessional Paper No. 1 of 1934, and endorsed by this House, have been approved in general terms by the Secretary of State, although correspondence is still proceeding on certain matters of detail. It is intended that the Service shall come into being with effect from the 1st January, 1935, but, for reasons given in the Memorandum, it is not reflected in Draft Estimates, save that provision is included for the Provident Fund.

The Report of the Civil Service Board on the proposed terms and conditions for an Asian Local Civil Service will be laid on the table, and its adoption, subject to one minor amendment, will be moved during the course of the present session.

As regards Railways and Harbours, the General Manager, when introducing his budget, will give the House full details regarding the present financial position and prospects for next year. It will only be necessary for me, therefore, to deal with this matter in very general terms.

It may be stated that the present position is satisfactory. Railway Revenue at the end of October was some £73,506 in excess of amount collected during the same period last year, while Expenditure has been kept down below the

estimate.....

estimate. It is anticipated, therefore, that the final position will be at least as good as last year.

That earnings have been so consistent at a time such as the present is a matter for satisfaction. This position, is, of course, largely due to the continuation during the year of the protection afforded to the Railway against wasteful road competition and to the excellent cotton and coffee crops that have been exported from the neighbouring territories of Uganda and Tanganyika, and illustrates once more the economic inter-dependence of these three territories and the value of the closest co-operations between them.

While the earnings as disclosed by the figures available at the end of October give cause for quiet confidence, the main reason for the sound position of the Administration is, of course, the fact that costs have been kept at a very low figure. As explained by the General Manager in his Report for the year 1933, he aims at keeping working costs, exclusive of Depreciation, in the neighbourhood of fifty per cent of the total earnings and by this means to build up a Reserve which, it is hoped, will avoid any repetition of the recent crisis. The building up of this Reserve is in my view of great importance.

It is a cause of satisfaction to me personally to feel that the drastic steps taken by the Management during the past three years to achieve economical working, which received the support of the two Advisory Councils, and my support as High Commissioner, have in the end proved so efficacious.

The success of these measures has, too, been a cause of satisfaction to the Government of Kenya and, no doubt, to the Government of Uganda, as the anxiety caused by the possibility of the.....

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of the Railway and Harbour Administration failing to fulfil their obligations to the Government is now completely removed.

Among the Bills which will be submitted for the consideration of hon. members, during the sitting, will be a Bill to amend the Licensing Ordinance; a Bill to provide for a Provident Fund in respect of the Asian Local Civil Service, similar to that which this Council has passed in respect of the European Local Civil Service; a Bill to consolidate and amend the law relating to the sale and control of liquor, which follows the recommendations of the Committee whose report was recently adopted by this House; and a Bill to define in more precise terms the expression "Native", a matter which, as hon. Members know, has proved contentious in the past.

I now come to the general financial position, but before touching on next year's Budget and prospects I will put before you the 1934 position as I see it.

This time last year I was able to announce that the deficit of £175,000 originally budgeted for in respect of 1933 could probably be reduced to £85,000. When the final figures were made up after the close of the year, the actual deficit was only £45,000. As you are aware, it is impossible accurately to assess a deficit or surplus until the accounts are finally closed. Revised estimates of revenue, however carefully prepared, must contain an element of guess work owing to the fact that it is impossible to prejudge Departmental savings, and revised estimates of expenditure cannot be regarded as firm figures. Comparing the estimated position with the actual position at the end of each year, the balance, due principally.....

principally to unanticipated Departmental savings, was greater than that estimated by £51,000 in 1931, and by £110,000 in 1932 and by £39,000 in 1933. What Departmental savings will amount to in 1934 I am unable to say, but in the revised estimates for the year they have been assessed at a tentative figure of £15,000, to which must be added a sum of £26,000 already earmarked by Heads of Departments. Naturally the continued varying of Expenditure Estimates tends to make them less each year. However, the fact that there will be Departmental savings should be borne in mind in connection with the figures which I will lay before you.

Now, if you refer to the 1934 Estimates which were presented at the sitting which commenced on the 28th November last year, you will see that we budgeted for a surplus of £4,449 (raised to £10,932 in Select Committee) which was not unsatisfactory considering that there had been a deficit in round figures of £170,000 in 1929, of £200,000 in 1930, of £150,000 in 1931, of £110,000 in 1932 and of £46,000 in 1933.

On the Revenue side the Estimates were considered by all to be sound and framed on conservative lines.

On the Expenditure side the estimated surplus had only been achieved by adhering rigidly to a policy of stringent economy, the net result being that, on a fair basis of comparison, the Estimates, as finally sanctioned, provided for a total expenditure of £10,247 less than the figure recommended as a basis of expenditure by the Expenditure Advisory Committee. I would ask that this be noted especially by those who state that Government has made no effort to reduce our annual commitments to accord with the changed conditions arising out of the world-wide depression. The Expenditure Advisory Committee, composed of
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of three officials and three unofficials, in whom the country had every reason to have confidence, were by their terms of reference asked to reduce the Government machine to a state of only reasonable efficiency and to ascertain the reductions which would have to be made to stabilize this position during the period of the following four years. Their labourious task was most thoroughly performed; they held 102 meetings between the 9th July, 1932, and the 19th February, 1933, and not only did they examine numerous witnesses, but they invited the public to submit to them memoranda for their consideration.

If hon. Members will refer to 'Hansard' they will see that this 1934 Budget received a kindly reception. The Noble Lord the Leader of the European Elected Members was good enough to say that Government had made an honest attempt to meet the requirements of the situation. The hon. Member for Nairobi South (Captain H. E. Schwartz) went even further and I beg leave to read to you an opening paragraph of his speech:

"Your Excellency, the Noble Lord said at the beginning of his speech, and I agree with what he said, that this Budget could be looked upon as an honest and genuine attempt by Government to meet the situation in which the Colony finds itself. I should like, if I may, to refer in support of that contention to the motion which was moved on the 9th of May in this House by myself with the consensus of Elected Members:

'That this Council request Government in the preparation of the draft Estimates for 1934 to implement the recommendation contained in Paragraph 461 of the Report of the Expenditure Advisory Committee and to reduce the expenditure on reducible items to £1,500,000.'

"The figure.....

"The figure actually appearing in this estimate of
"reducible items chargeable to that figure is £1,541,000.
"From that latter has to be taken approximately £9,400
"in respect of the continuation of the combined Finger
"Print and Registration Department, which has been recommend-
"ed for total abolition, and a further sum of £5,500 caused
"by the introduction of the Central Revenue Department,
"totalling in round figures £15,000, thereby reducing the
"amount appearing in this Budget to £26,000 only more than
"the £1,500,000 referred to in my motion. That figure is
"a little under 2 per cent of what we requested Government
"to bear in mind during the course of the Budget prepara-
"tion. I would remind Your Excellency and hon. Members
"that that figure of £1,500,000 was calculated on the
"basis of the recommendation of the minority report of the
"Expenditure Advisory Committee signed by the Noble Lord
"and Major Savendish-Bantink, which recommended a further
"general cut of 5 per cent on the recommendations of the
"main committee. I think that to reduce our expenditure
"to within 2 per cent of the recommendation of the minority
"report of the Expenditure Advisory Committee and the
"present of this Council in May is an achievement for which
"we are really very full credit."

Having brought these facts to the recollection of
hon. Members, I will endeavour to show how far the hopes we so
confidently held in November last year have been realised, and in
what direction we have been disappointed. In analysing the position
I submit, we should carefully distinguish between purely temporary
local misfortunes, such as drought, locusts - and their attendant
evil, famine - and those which we in common with the rest of the
world.....

world, have to bear owing to the depression. We cannot be expected to make undue allowances year by year in respect of temporary misfortunes, for surely under the ordinary law of averages we must be allowed to contemplate a time when we shall get some relief from locusts and drought which have so sadly affected our calculations during the past few years.

As regards the world-wide depression which continues to be by far the most formidable obstacle to a return to healthy development and prosperity, full account of this paramount factor must naturally be taken when framing our Budgets. It must be assumed that the Expenditure Advisory Committee also did so when they put forward their four-year plan.

The revised Estimates of revenue for 1934 stand at a figure of £2,157,595 showing a fall of £41,376 as compared with the original estimates. Substantial shortfalls are expected from Customs and from Native Hut and Poll Tax which have been partially compensated by increases in other items. With reference to Customs, the estimate has been reduced from £225,000 to £220,000 in the light of actual returns over the first seven months of the year. Under Native Hut and Poll Tax there is an estimated shortfall of £25,000 which is due in part to adverse conditions in the Coast Province and the Masai District where drought and locusts have caused famine and distress, and where relief by way of remission and reduction of taxation has been imperative. The position in other native areas is still somewhat obscure owing to the lateness of the seasons, but information at present available is to the effect that the total amount collected by the end of the year is unlikely to exceed £230,000 as compared with the original estimate of £271,000.

The anticipated.....

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The revised Estimates of revenue for 1934 stand at a figure of £3,157,595 showing a fall of £41,376 as compared with the original estimates. Substantial shortfalls are expected from Customs and from Native Hut and Poll Tax which have been partially compensated by increases in other items. With reference to Customs, the estimate has been reduced from £335,000 to £293,000 in the light of actual returns over the first seven months of the year. Under Native Hut and Poll Tax there is an estimated shortfall of £62,000 which is due in part to adverse conditions in the Coast Province and the Masai District where drought and locusts have caused famine and distress, and where relief by way of remission and reduction of taxation has been imperative. The position in other native areas is still somewhat obscure owing to the lateness of the seasons, but information at present available is to the effect that the total amount collected by the end of the year is unlikely to exceed £293,000 as compared with the original estimate of £271,000.

The anticipated.....

The anticipated shortfall in Customs revenue must be attributed in main part to adverse local conditions and to the low prices ruling overseas for many of the Colony's principal exports.

Returns covering the first nine months of the year show that the value of domestic produce exported from Kenya dropped from £1,778,000 in 1933 - which was itself by no means a good year - to £1,480,000 in 1934. This heavy fall of £298,000 is to a considerable extent accounted for/a decline in yields of various crops, particularly coffee and maize, due to adverse local conditions the most important of which was drought.

On the Expenditure side, the revised estimates of expenditure, after taking into account savings estimated to amount to £41,000, total £3,815,000. This figure exceeds by £24,000 the original expenditure estimate.

Comparison of the revised estimates of expenditure with the revised estimated of revenue for 1934 therefore discloses an estimated deficit of about £54,000 after making some, but probably not full, allowance for Departmental saving.

Nevertheless, a deficit for the sixth year in succession must be anticipated, and this deficit must be attributed not only to a shortfall in revenue, but also to certain emergency expenditure which has proved entirely unavoidable. Substantial supplementary expenditure has been voted by the House in connection with Famine Relief, the locust campaign, pensions and gratuities, writing off bad debts incurred in connection with the Agricultural Advances Scheme and other items.

Turning to the 1935 Estimates which will be laid on the table this morning, I must first refer to certain public speeches and to allusions in the Press to the effect that the Government is gambling on the prospects of the gold mining and other.....

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other industries. Although I have great faith in the future of Kenya, I have consistently ste my face against any such gambling.

The Government policy is and has been to keep expenditure down to a figure which will just support a reasonably efficient machine - that is, down to a level which formed the basis of the recommendations of the Expenditure Advisory Committee. In my judgment it would be equally wrong at the present time to gamble the other way and to mutilate the machine to such an extent that development and progress would be retarded. Those who have closely studied the Report of the Expenditure Advisory Committee will, I am sure, realize that any substantial economies beyond those recommended must entail the curtailment or elimination of essential services which, judging by the continued requests I am receiving from the unofficial community for further expenditure, would be resented by the country at large. The following is what the Expenditure Advisory Committee had to say on this point:

"It must at the same time be evident to all who have the interests of the Colony at heart that it would be a counsel of despair that evils produced by several years of expenditure beyond our means, originating in a cataclysmic depression, must be counteracted by the sudden destruction of services on which the whole organization of the Colony depends".

Hon. Members will observe from the draft Estimates that a small surplus of ~~25,000~~ is provided for. The gross estimate of Expenditure is ~~23,237,811~~, being an increase of ~~250,770~~ over the sanctioned Estimates for 1934. There is, however, an increase in the estimated reimbursements and cross entries, and nett expenditure shows an increase of ~~267,467~~ over last year's figures.

At an.....

At an early stage in the preparation of the Budget it became apparent that very substantial increases in what I may term fixed charges were inevitable if the Colony was not to become a defaulter. There is a nett increase of £37,495 in respect of Pensions and Gratuities, due partly to the fact that in 1934 we had underestimated our requirements, and partly because it is now necessary to make provision for the two Provident Funds which are being started in connection with the European and Asian Local Civil Services. As hon. Members knew, the whole object of these Provident Funds is to reduce expenditure on Pensions in the future, but unfortunately they postulate an increase at the moment. Again, provision for Sinking Fund Contributions in respect of the 1930 Loan was made in respect of only half of this year, whereas provision for a whole year, entailing a gross increase of £17,000 has to be made in 1935. The total nett increase on account of these fixed charges amounts to £37,965.

This entirely unavoidable increase rendered the preparation of the Expenditure Estimates a matter of the utmost difficulty. They have been thoroughly examined, item by item, and wherever a reduction has proved at all possible, that reduction has been made. The result is that, leaving out fixed charges, and despite the necessity of providing for normal increments and for certain other unavoidable increases, as for instance in the Police Vote, we have been able to effect a further nett reduction in nett expenditure of £10,408, and are £15,338 below the comparable Expenditure Advisory Committee figure.

I have already.....

I have already quoted from the speech of the hon. Member for Nairobi South in which he referred with satisfaction to the fact that expenditure on reducible items was a little under 2 per cent over the figure of £1,500,000 calculated in accordance with the recommendations of the Minority Note to the Expenditure Advisory Committee's Report, and Paragraph 12 of the Memorandum on the Estimates shows that the corresponding figure for 1935 is, despite the increases to which I have referred, within a fraction over one per cent of the Minority Note figure proposed by the two representatives of the European Elected Members. These figures speak for themselves and call for no dressing on my part.

Hon. Members will see that no provision is made for any payment into the Native Betterment Fund. Lord Moyne recommended that that Fund should be started, and that into it should be paid half the average receipts from Native Hut and Poll Tax over the previous period of six years, and from it should be met certain expenditure on Native Services. That recommendation has been specifically approved by the Secretary of State. Examination of the proposal, however, showed that there were a number of practical difficulties inherent in Lord Moyne's scheme and consequently in 1933 a Select Committee of this House was appointed to examine how effect could best be given to his recommendations. That Committee reported, and the Report was laid on the table, but owing to the financial position of the Colony inauguration of the Fund was, with the approval of the Secretary of State, postponed until 1935. On account of our continued financial difficulties, and for no other reason, the Secretary of State has, at my request, agreed that the setting up of the Fund should be further postponed till 1936.

Before commenting.....

Before commenting on the Revenue Estimates, I consider it desirable to examine the effect of the withdrawal of the Income Tax Bill in 1933, and the substitution thereof of what are called the Alternative Taxes. I do so because of the necessity of including some of these taxes in the draft revenue estimates now before you. To refresh your memories, I should like to give you a short narrative of the events which led up to the adoption of these Alternatives.

In the early part of 1933, after the Report of the Expenditure Advisory Committee had been issued, responsible and thinking men in the Colony realised, from the figures shown in Paragraph 445 of the Report, that additional taxation was necessary if our Budget was every to be balanced. The paramount importance of balanced Budgets was generally accepted. Nothing, in so far as I am aware, has happened between then and now to justify any change in such sane views. Customs duties could not be relied upon to fill the gap, as apart from the violent fluctuations in yield to which this form of taxation is inherently liable, a system of relatively high duties coupled with the full acceptance of the principle of protection for internal production must inevitably cause a diminution in the flow of revenue from this source.

The Government, having reviewed all the circumstances, decided to accept Lord Moyne's advice and introduce Income Tax, a measure calculated to bring in, in a full year, from £120,000 to £130,000. We considered that it was an equitable means of raising this revenue as it would not have increased the obligations of those without chargeable incomes and those with chargeable.....

chargeable incomes would only pay in accordance with their capacity. Various reliefs were in addition included, especially those in regard to families: considerable sums would also accrue from absentees - including pensioners - receiving money from Kenya, and from the growing number of Companies. The system of relief from double taxation would prevent undue hardship, the ultimate result being a deflection into the proper channels - that is, the Kenya Government coffers - of revenue accruing from the taxation of incomes derived in Kenya but spent outside the Colony. This object cannot be achieved by any form of Poll Tax, which, by its nature, must be dependent on residence, but must be applied by some form of imposition which relates the tax to the income and not to the poll. We believed, and I still believe, that a very considerable number of people in this Colony are not paying their fair share of taxation and I am satisfied that this state of affairs must continue until some change in our fiscal system is made.

The imposition of Income Tax would, we hoped, not only have provided the additional revenue which was needed to balance the Budget, but would also have enabled the Government to review other forms of petty or irksome taxation, of which in my opinion none is so irksome as the existing high tax on petrol which hits the poor man but nevertheless has continually to the motor transport in connection with his business. However, at that time the country appeared to view Income Tax with displeasure and an impasse seemed likely to occur.

Towards the end of February the Nairobi Chamber of Commerce courageously stepped into the breach and put forward proposals.....

proposals for raising an equivalent or greater amount of revenue in what they thought would be a more acceptable form.

On the 9th March I informed the Noble Lord the Leader of the European Elected Members that I intended to ask the Secretary of State to withhold advising His Majesty to assent to the Income Tax Bill until the Alternatives I have just referred to were considered. The Noble Lord expressed to me his relief and pleasure on hearing of this possibility of reaching a satisfactory settlement of the controversy which was causing unrest in the country - a settlement which he trusted would be in accordance with the wishes of the people provided they came forward with a genuine desire to assist Government in achieving balanced Budgets.

I then appointed a representative Committee to examine the proposals of the Nairobi Chamber of Commerce and on the 13th April I received their Report recording the opinion that after examining thirty-one suggestions they advised that the following alternative means of raising revenue were worthy of consideration: in each case the approximate yield in a full year was given.

<u>Alternatives.</u>	<u>Approximate Yield in a full year.</u>
Tax on the Registration of Companies.	£11,600
Trade Licences.	£92,000 (Additional to the £20,000 already received under the existing Licensing Ordinance).
Stamp Duties on Bills of Exchange and Promissory Notes.	£ 7,000.
Package Tax.	£17,500.
Landing Tax on Passengers.	£ 9,500.
Graduated Non-Native Poll Tax.	£30,000.
making a total of £172,000, a very satisfactory figure.	

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On reading the Report I found it hard to believe, from data in my possession, that so large an additional sum as £92,000 could be raised from Trade Licences and I referred the matter back to the Committee. As a result, the figure for Trades Licences was reduced from £92,000 to £31,000. It should be noted that Trade Licences for many years formed part of our permanent taxation - the Committee's proposals merely increased the yield.

The final result of the deliberations of the Alternative Revenue Proposals Committee was that the original total of £172,000 was reduced to £111,000 which was still a satisfactory figure and one comparable with the amount expected from Income Tax.

On the 25th April I received a letter from the Acting Chairman of the European Elected Members Organisation which I will read to you:-

"Your Excellency,

"I am desired by Elected Members to inform you and to ask you to be kind enough to inform the Secretary of State that, after a full and careful consideration of the Report of the 'Alternative Proposals' Committee, they are unanimously of opinion that the proposals set out on Page 43 of that Report will be infinitely less unacceptable to the Colony generally than the imposition of an Income Tax.

"Without dealing with these proposals in detail Elected Members consider that the incidence of such proposals will fall on those least able to bear them and that there is very much less chance of such incidence
"being

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 "being passed on than would be the case if Income Tax
 "were imposed.

"The Commercial and Professional Community,
 "who are prepared to accept the new proposed taxation
 "in order to bridge what they confidently believe to
 "be a temporary gulf, would quite clearly be less dis-
 "posed to pass the burden on to the consumer than would
 "be the case if they were forced to submit to taxation
 "to which they are opposed and to which they have not
 "consented.

"Moreover, the Alternative Proposals will not
 "inflict a further burden on the impoverished farmer
 "who would be severely handicapped if the present pro-
 "posal to double the Poll Tax becomes law, for, although
 "extra taxation of Shs. 30/- per annum may not sound a
 "big sum, it is, nevertheless, a sum quite beyond the
 "capacity of many to pay.

"Elected Members understand that the figure
 "given by the Committee of £92,000 as being likely to
 "be derived from increased Trades Licences may be found
 "to be a very much over-estimated one, but, even presum-
 "ing that this figure is reduced to £25,000, still the
 "gross amount derivable from the sum of the alternatives
 "suggested is at least equal to the amount estimated to
 "be produced by Income Tax and the nett amount is con-
 "siderably more since the cost of collection will be
 "negligible.

"I am requested to impress upon Your Excell-
 "ency and the Secretary of State that it is not, in the
 "opinion of Elected Members, unreasonable to suggest
 "that people who have to pay the extra tax required
 "should have the right to pay it in the manner most
 "acceptable.....

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"acceptable to them, provided that the incidence is,
 "as in the present case, equitable and that the sum to
 "be raised is equivalent to that contemplated by
 "Government under the proposed Income Tax Bill.

"As Your Excellency is aware, certain Elected
 "Members hold the view that the financial position of
 "the Colony and its people is such that no further tax-
 "ation is possible or can be justified and I have been
 "pleased to make it clear that, by subscribing to the
 "terms of this letter, such members in no way withdraw
 "from the position and still maintain that, if the
 "Budget is to be balanced, it must be by further drastic
 "reduction of expenditure and not by the imposition of
 "fresh taxation.

"As the Honourable Member for Plateau South
 "is no longer a member of this Organisation, he must not
 "be taken as in any way bound by the terms of this letter.

*(Signed) H. E. SCHWARTZ.
 Acting Chairman,
 ELECTED MEMBERS ORGANIZATION".

On the 29th April I forwarded a copy of this letter to the
 Secretary of State together with the Report of the Committee.

As the record of the debates on the Income Tax Bill
 which took place in Council between the 31st March and the
 12th April had already been sent to him, he thus had before
 him a complete picture of the problem upon which he had ex-
 pressed himself willing to decide. Hon. Members will thus
 see that a very genuine effort had been made to find a way
 out of the difficulty which had arisen.

The decision of the Secretary of State was conveyed
 in a despatch dated the 7th June, 1933, which was included in
 a "Sessional Paper" laid on the table of this House. I propose
 only to.....

only to refer to certain passages of the despatch which read as follows:-

"The necessity of taking adequate and immediate steps to restore the financial position in Kenya is universally accepted. It is also generally and rightly accepted that this position must be met by a combination of economy and taxation. Both subjects have engaged and are engaging the earnest attention of yourself, your officers, and the Legislative Council. Great economies have already been made, and I appreciate the constant consideration which is being given to this side of the question. But when every step has been taken, which is practicable, to ensure economical administration in every field, it is clear that the finances of the Colony cannot be restored without resort to fresh taxation. You have referred for my consideration and decision what further measures of taxation can best be taken.

"I appreciate that the alternative proposals have been put forward as a genuine effort to aid Government by constructive suggestions. I am also impressed by the fact that there is a prima facie case for supposing that they will produce a total of new revenue falling not far short of the anticipated yield of income tax. It has been estimated that income tax may produce £130,000 in a full year, while the yield expected from the alternative proposals varies from £111,000 to £94,000 in a completed financial year.

"In all the circumstances which I have reviewed I think it right that a full and fair trial should be given to the alternative measures, which I have reason to believe will be more acceptable to the taxpayers.

"If expectations.....

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"If expectations are fulfilled and the
 "alternatives produce adequate revenue and prove
 "generally acceptable in operation, their intro-
 "duction will have been justified, and the needs
 "of the financial situation will have been met.
 "If, on the other hand, these hopes are falsified
 "by events, and if it is found in practice that
 "the alternative taxes do not yield an adequate
 "revenue, or are felt by the majority of taxpayers
 "to be less acceptable than an income tax, then
 "these alternatives will have failed in their
 "purpose. But in that event they will have
 "failed after a full trial of their adequacy and
 "convenience as a substitute for a system of Income
 "Tax".

As I read the despatch, the alternatives were to be given a full and fair trial; they were not alternative to nothing, but alternative to Income Tax. No specified period of trial was indicated but, as is the case with the levy on official salaries, certain implementing ordinances were only made operative for a year and would have to be re-enacted before the close of the year if still required.

Now it never occurred to me nor, I feel sure, has it occurred to the Secretary of State, that the alternatives could be abandoned without the introduction of Income Tax or other measures designed to provide sufficient revenue to meet requirements. I therefore listened with some surprise to a statement made in this House on the 10th May this year by the Noble Lord the Leader of the European Elected Members,
 which.....

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which I will read:-

"I have been asked by European Elected Members to take this opportunity of speaking on this motion, as it seems the only opportunity possible of making their position quite clear to Government with regard to what is generally known as 'alternative taxes'.

"As will be remembered, five alternative taxes were originally proposed by the Committee and accepted by Government, namely: Non-Native Graduated Poll Tax, Package Tax, Landing or Exit Tax, Tax on Formation of Companies, Licensing Tax. Of these, the Landing or Exit Tax has never been put into force, and need not be further considered. The Companies Tax was never intended to be a temporary measure, and will presumably remain on the Statute Book in its present form. The Licensing Ordinance was also not introduced as a temporary measure, but there was a quite definite understanding that a committee should be appointed during the course of this year to report on its workings in the light of experience, and to suggest such amendments as would make it more scientific and equitable, and we have heard this morning that Government will appoint a committee to deal with this Ordinance.

"With regard to the other two taxes, i.e., Graduated Poll Tax and Package Tax, it was made abundantly clear by Members on this side of the House that they accepted these taxes on behalf of the Colony on the distinct understanding that they should operate for a period of two years only, in order to give Government a reasonable opportunity of balancing the Budget, and would then be

"withdrawn,.....

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"withdrawn, and this understanding was accepted by
 "Government, which is shown by the fact that the Bills
 "themselves provide for their demise at the end of 1934.

"Elected Members wish to make it quite clear to
 "Government that they have not retreated from the position
 "they took up last year, and that they hold that these
 "two Bills must automatically cease to operate as from
 "the end of 1934, and that in place of the present Gradua-
 "ted Poll Tax Ordinance the former Poll Tax Ordinance,
 "which was repealed by the present Ordinance, should again
 "be brought into force.

"Elected Members have thought it only right that
 "their attitude should be made known to Government at the
 "earliest possible moment, and in order that Government
 "should be aware of it when framing the Budget for 1935".

I cannot find anything in the despatch from the Secretary of
 State or in the debates in this House that would warrant the
 supposition on which the Noble Lord's statement is based. On
 the contrary, my hon. friend the present Colonial Secretary,
 in replying on the 11th August, 1935, to a motion tabled by
 the hon. Member for Trans-Nzoia, stated definitely that:-

"It is quite impossible for me to commit the Government
 "at the end of 1934 to any definite line of action".

and later in his speech he said:-

"I cannot be expected to give a guarantee that the Non-
 "Native Poll Tax will die for ever at the end of 1934
 "and that nothing whatever will be substituted for it".

Let us now.....

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"I cannot be expected to give a guarantee that the Non-
 "Native Poll Tax will die for ever at the end of 1934
 "and that nothing whatever will be substituted for it".

Let us now.....

Let us now see what light the experience of the last fifteen months throws upon the Alternative Taxes and whether they have fulfilled their essential purpose, namely, to yield revenue comparable to that expected from Income Tax. In a passage which I have quoted from the Secretary of State's despatch of the 7th of June reference was made to a yield from the alternative proposals estimated at from £11,000 to £94,000 in a full year as compared with an anticipated yield of £130,000 from Income Tax, and I think it is fair to assume that in coming to his decision on this matter, he anticipated that the yield from the alternative proposals would not fall short of £94,000 per annum.

When the alternative revenue measures were before the Legislative Council in the form of Bills, certain changes were made in the proposals examined by the Alternative Revenue Proposals Committee, the most important of which were the abandonment of the Landing Tax Bill, and the reduction from 1 per cent to half per cent in the stamp duty on the registered capital of Companies, while the addition of the Package Tax by neighbouring Territories in the Customs Union, with distribution of proceeds, led to a reduction in the revenue estimated by the Committee from that source. The net result of these changes was that the gross revenue anticipated from these alternative revenue proposals fell to £80,000 in a full year.

This figure was £14,000 per annum less than the minimum estimate of the yield from the alternative proposals which was before the Secretary of State when he decided that these proposals should be given a full and fair trial. But I do not wish to labour this point because I am in full agreement.....

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agreement with the decision not to proceed with the Landin Tax and with the other changes introduced in these revenue Bills. My Government acquiesced in the introduction of taxation measures calculated to yield £80,000 only in a full year and in their being given a full and fair trial in substitution for Income Tax, not because we felt that the alternative proposals provided either a scientific or a suitable alternative to Income Tax, but because the Secretary of State's decision was based on the understanding that the alternatives were more acceptable to the taxpayers, and though the estimated annual yield had fallen to £80,000 we felt that the achievement of that addition to the revenues by consent of the taxpayers was preferable to the introduction of a measure, calculated to give a higher yield, which we were led to understand was contrary to the declared wishes of a large number of taxpayers.

The figure of £80,000, however, included an additional yield from trade and professional licences estimated at £33,000 in a full year, and after the new Ordinance had been in operation for three months, it became apparent that this figure was still too high. In the Estimates for 1934 the anticipated yield was placed at £20,000 and in the revised Estimates for 1934 it has been further reduced to £13,000. As a consequence, the estimated yield from all the alternative revenue measures in 1934 stands at a figure of approximately £60,000.

As compared with the estimates put forward with the alternative proposals, I think it will be agreed that this is a.....

this is a disappointing result, and it is a result which readily leads to the conclusion that, after full and fair trial, the alternative revenue measures have failed in their purpose, and it is not unreasonable to assume that they have failed because they were inappropriate and unsuitable and not because, as I have seen is suggested, of laxity of collection or because the taxable capacity of the Colony is exhausted. One further factor must also be taken into account. One of the alternative proposals was a tax on imported packages. This took the form of a charge on each package imported into the Customs Union and legislation similar to that introduced in Kenya was introduced in Tanganyika and Uganda. The tax is unscientific and has been found vexatious in practice. The neighbouring Territories have refused to continue it after the 31st December this year and we have no alternative but to follow suit, for if we alone retain a tax of this nature it must do permanent harm to our entrepot trade. This tax, therefore, will not be imposed after the end of this year and the yield from the alternative revenue measures falls a further £9,000 to £10,000 per annum in consequence.

As against this, the enquiry recently carried out under the chairmanship of my hon. friend the Treasurer into the working of the Licensing Ordinance will, I hope, not only result in the adoption by this Council of a Licensing Ordinance better suited to the circumstances of trade in this Colony and in providing a law more free from ambiguity and doubt, but will also give a greater yield to revenue.

In the speech to which I have already referred the Noble Lord stated that European Elected Members held

that the.....

that the Graduated Poll Tax and the Package Tax should automatically cease as from the end of 1934. The Package Tax will, as I have said, be discontinued at the end of this year because in such a matter as this Kenya cannot act alone without detriment to her own interests, but in regard to the Graduated Poll Tax I would repeat that this form of taxation was accepted as one of a number of alternatives to Income Tax; it was not an alternative to nothing, and the revenue from it is still necessary. I am, at a loss, therefore, to understand the attitude underlying the statement he made.

It may be that the European Elected Members have at the back of their minds some scheme under which further substantial economies can be made, thus eliminating the need for this extra revenue. If they have any such scheme I would beg of them to submit it to me in full detail. I will promise to place it before the Standing Finance Committee and to lay the Report of that Committee before the House. Personally, I cannot envisage economies of any magnitude except from the drastic cutting down of essential services which, in my judgment, as well as in that of the Expenditure Advisory Committee, would harm the country.

The Revenue Estimates provide for a net increase of £29,335 over the sanctioned Estimate for 1934. I shall refer briefly to the more important differences as compared with this year.

In the first place, there is a net increase of £5,800 under Customs and Excise. Some extra revenue will be obtained from the recent revision of the tariff and the deferred benefit following the revision that was undertaken during.....

during 1933.

The increase under Licences, Duties and Taxes is largely accounted for by the proposed amendment to the Licensing Ordinance, to which I have already referred, and the increase under "Petrol Tax", the estimate in respect of which is based on actual receipts during the first eight months of 1934, and by the increase of £5,000 under Stamp Duties, the revenue from which has this year been underestimated.

The increase under "Fees and payments for Public Services" is almost entirely due to Graduated Fees on Agricultural Produce, in respect of which the Director of Agriculture anticipates an increase.

Again, we expect increased revenue from the Post Office, due in part to the new stamp issues, and consequent sales to dealers. A reduction of £7,000 on account of Land Stand Premia is envisaged. This reduction is due to arrangements for unavoidable serotaria which have been concluded between the Commissioner of Lands and various landholders.

Taking the Revenue Estimates as a whole, I see no reason to fear that they will not be realised; indeed, I trust that, with the increased trade which must be brought about by mining and other developments, they will be materially exceeded. But, as I have said before, the Government is not gambling in this regard.

Finally, I desire to say that the more I consider the present financial situation and the Colony's fiscal system, the more I am forced to the conclusion that any system of taxation which attempts to support the Revenue by imposing undue and vexatious burdens on certain sections of the.....

the resident community, and at the same time with a full appreciation of all the circumstances, fails to call upon absentees and others deriving their incomes in whole or in part from Kenya to bear their proper share in the expenses of Government, is and must be inequitable and fundamentally unsound. I therefore believe that if we are ever to afford relief to the sorely pressed agriculturalist and others from certain of the taxes now in force, we should take immediate steps to place the fiscal system of the Colony on a more scientific basis which will have proper regard not only to the yield from taxation but also, and more particularly, to the incidence of that taxation. In this way an equitable distribution of the burden will be possible and those who, under the present system, are unduly harassed, will be afforded the relief which is their due. I propose, therefore, to acquaint the Secretary of State with the present position which I regard as most unsatisfactory, but, before doing so, I would welcome any expressions of opinion which, in the course of the debate on the Estimates, hon. Members may wish to make on this very important subject.

Hon. Members of Council, in conclusion and in opening the Session of Council, I most earnestly trust that with the help of Almighty God its deliberations may lead to the further peace, prosperity and welfare of the Colony of Kenya.

21

SUMMARY.

- (A) Yield under Income Tax.
 - (B) Comparisons (Officials.)
 - (C) " (Non-Officials.)
 - (D) M.N.P.T. 1954: Asians, etc.
 - (E) " " Europeans.
 - (F) Education Tax: 1954 "
 - (G) " " 1955 "
 - (H) " " 1954 Asian.
 - (I) " " 1955 "
 - (J) Licensing Ordinance: 1955.
-

52

A

POLL TAX - SH. 50/-

I -	350	@	1/-
351 -	700	@	1/50
701 -	1500	@	2/-
1501 -	3000	@	2/50
3001 -	5000	@	3/-
5001 -		@	3/50

THE TAXPAYER IS REPRESENTED AS BEING MARIED WITH ONE CHILD. 5% HAS BEEN ALLOWED FOR INSURANCE.

EARNINGS £	FREQUENCY	TAX PER CAPITA	TOTAL TAX £
100	13,411	50/-	6,705.50
150	4,754	50/-	2,377.00
250	2,228	50/-	1,114.00
350	1,067	57/50	612.15
450	871	142/50	1,241.50
550	605	227/50	1,377.25
650	263	312/50	822.75
750	178	421/25	750.50
850	120	548/75	657.60
950	90	676/25	608.40
1,050	57	805/75	458.25
1,150	49	950/-	465.50
1,250	56	1,120/-	627.20
1,350	15	1,290/-	193.50
1,450	52	1,460/-	759.20
1,750	38	1,970/-	748.60
2,250	14	2,968/75	415.52
3,750	9	4,156/25	374.04
5,250	2	5,843/75	772.40
5,750	5	6,592/50	329.60
4,500	3	8,805/-	264.15
5,500	5	11,805/-	590.25
	<u>23849</u>		<u>£103,592</u>

LIABILITIES UNDER PRESENT ENACTMENTS

LIABILITIES UNDER NEW PROPOSALS

Salary	Age	Levy	Basic Poll Tax	G.P.T.	Educ. Tax	Total Liabilities	Nett Income	Levy	Basic Poll Tax	Income Tax	Total Liabilities	Nett Income
						\$	\$	\$	\$	\$	\$	\$
100 -	30	95	30	-	30	155	122-5	47-50	50	-	97-50	125-2-50
200 -	30	190	30	10	30	260	217	95	50	-	145	222-15-
300 -	50	285	50	30	30	375	331-5	142-50	50	-	192-50	540-7-50
400 -	60	380	50	50	30	490	435-10	190	50	91-50	531-50	443-8-50
500 -	72	475	50	70	30	605	541-15	237-50	50	104-51	471-51	548-8-19
600 -	75	570	50	110	30	740	638	285	50	269-50	604-50	644-15-50
700 -	90	697-50	50	150	30	907-50	744-12-50	348-75	50	396	794-75	750-5-25
800 -	108	840	50	190	30	1090	855-10	420	50	541-20	1011-20	857-8-30
900 -	126	983-50	50	250	30	1322-50	969-17-50	491-25	50	687	1228-25	964-11-75
1000 -	150	1125	50	370	30	1465	1077-5	562-50	50	843-75	1456-25	1077-5-75
1100 -	150	1290	50	510	30	1660	1187	645	50	1006	1700	1165-
1200 -	150	1480	50	550	30	1890	1265-10	740	50	1166	1956	1252-4-
1300 -	150	1670	50	590	30	2120	1344	855	50	1326-50	2211-50	1352-9-50
1400 -	150	1860	50	430	30	2350	1432-10	950	50	1487	2467	1426-15-
1500 -	150	2050	50	450	30	2540	1523	1025	50	1647-50	2722-50	1515-17-50
1600 -	150	2240	50	470	30	2770	1611-10	1120	50	1808	2978	1601-2-
1700 -	150	2430	50	970	30	3460	1677	1215	50	1968-50	3233-50	1688-6-80
1800 -	150	2620	50	970	30	3650	1767-10	1310	50	2129	3489	1775-11-
1900 -	150	2810	50	970	30	3840	1858	1405	50	2289-50	3754-50	1862-5-50
2000 -	150	3000	50	970	30	4030	1948-10	1500	50	2449-75	4019-75	1947-16-25
2100 -	150	3190	50	970	30	4220	2039	1595	50	2719-57	4284-57	2031-15-65
2200 -	150	3380	50	1470	30	4910	2104-10	1690	50	2945	4665	2115-15-
2300 -	150	3570	50	1470	30	5100	2195	1785	50	3170-52	5005-52	2199-14-38
2400 -	150	3760	50	1470	30	5290	2285-10	1880	50	3396-25	5326-25	2285-13-75
2500 -	150	3950	50	1470	30	5480	2376	1975	50	3621-87	5646-87	2367-13-13

LEVY COMPUTED AFTER DEDUCTION OF W. AND C. CONTRIBUTION.

LIABILITIES UNDER PRESENT ENACTMENTS

LIABILITIES UNDER NEW PROPOSALS

Income	Basic Poll Tax	G.P.T.	Educ. Tax	Total Liabilities	Nett Income after payment of Liabilities	Basic Poll Tax	Income Tax	Total Liabilities	Nett Income after payment of Liabilities
£	Sh	Sh	Sh	Sh	£	Sh	Sh	Sh	£
100	30	-	30	60	97	50	-	50	97-10
200	30	10	30	70	196-10	50	-	50	197-10
300	30	30	30	90	295-10	50	-	50	297-10
400	30	50	30	110	394-10	50	50	100	395
500	30	70	30	130	493-10	50	155	185	490-15
600	30	110	30	170	591-10	50	220	270	586-10
700	30	150	30	210	689-10	50	307-50	357-50	682- 2-50
800	30	190	30	250	787-10	50	455	485	775-15
900	30	230	30	290	885-10	50	562-50	612-50	869- 7-50
1000	30	270	30	330	983-10	50	690	740	963
1100	30	310	30	370	1081-10	50	817-50	867-50	1056-12-50
1200	30	350	30	410	1179-10	50	985	1035	1148- 5
1300	30	390	30	450	1277-10	50	1155	1205	1259-15
1400	30	430	30	490	1375-10	50	1325	1375	1351- 5
1500	30	470	30	530	1473-10	50	1495	1545	1422-15
1600	30	510	30	570	1571-10	50	1665	1715	1514- 5
1700	30	550	30	610	1669-10	50	1835	1885	1605-15
1800	30	590	30	650	1767-10	50	2005	2055	1697- 5
1900	30	630	30	690	1865-10	50	2175	2225	1788-15
2000	30	670	30	730	1963-10	50	2345	2395	1880- 5
2100	30	710	30	770	2061-10	50	2515	2565	1969- 7- 50
2200	30	750	30	810	2159-10	50	2685	2735	2057-10
2300	30	790	30	850	2257-10	50	2855	2905	2145-12-50
2400	30	830	30	890	2355-10	50	3025	3075	2233-15
2500	30	870	30	930	2453-10	50	3195	3245	2321-17-50
2600	30	910	30	970	2551-10	50	3365	3415	2410
2700	30	950	30	1010	2649-10	50	3535	3585	2498- 2-50
2800	30	990	30	1050	2747-10	50	3705	3755	2586- 5
2900	30	1030	30	1090	2845-10	50	3875	3925	2674- 7-50
3000	30	1070	30	1130	2943-10	50	4045	4095	2762-10
3100	30	1110	30	1170	3041-10	50	4215	4265	2850-12-50
3200	30	1150	30	1210	3139-10	50	4385	4435	2938-15
3300	30	1190	30	1250	3237-10	50	4555	4605	3026-17-50
3400	30	1230	30	1290	3335-10	50	4725	4775	3115
3500	30	1270	30	1330	3433-10	50	4895	4945	3203- 2-50
4000	30	1670	30	1730	3848-10	50	7255	7305	3634-15
5000	30	2670	30	2730	4798-10	50	10255	10305	4484-15

NON-NATIVE POLL TAX 1954.

65

Number of persons assessed

to Tax and the aggregate

amounts of Tax paid

classified as follows :-

	INDIANS.				EXT.	GOANS.				EXT.	ARABS & SOMALIS.				TOTAL NOS.	TOTAL £.						
	Paid 50/- & over Nos. £		Paid under 50/- Nos. £			Paid 50/- & over Nos. £		Paid under 50/- Nos. £			Paid 50/- & over Nos. £		Paid under 50/- Nos. £									
a) Kenya Government Servants (including "common" services)	987	1961	5	2/10	5	585	1061	2	1/10	-	92	175	22	22	-	55	80	1	1	-	1450	5272
b) Kenya & Uganda Railway Servants.	865	1859	7	6/10	3	180	588	3	2/10	-	1	2	-	-	-	5	16	-	-	-	1064	2274
c) Farmers & Planters	65	96	2	1	1	1	2	-	-	-	75	177	185	129	25	2	5	-	-	-	502	410
d) Employees of (c)	5	14	1	-/15	1	1	2	-	-	1	-	-	1	-/10	4	-	-	-	-	-	14	18
e) Professional Men	63	350	-	-	-	11	57	-	-	-	2	5	-	-	-	4	22	-	-	-	80	452
f) Commercial Men	5218	6453	80	61	137	156	258	3	2	7	874	1219	244	251	50	80	156	10	8	5	4926	8648
g) Employees	5354	9154	165	122	541	898	1678	25	20	28	454	701	256	227	61	162	350	15	11	51	7786	12285
h) Others	40	86	10	9	52	14	21	1	1	5	59	66	25	22	23	9	14	1	-/10	5	201	194
TOTALS. NOS. £.	10475	19905	266	202/5	518	1628	5447	35	27	41	1657	2588	661	652	182	505	601	25	20/10	59	15710	£ 27171

NON - NATIVE POLL TAX 1934.EUROPEANS.

Number of persons assessed to Tax and the aggregate amounts of Tax paid classified as follows:-

	Paid 30/- & over.		Under 30/-		Exemptions.	Totals.	
	Number	Amount.	Number	Amount.	Number	Number	Amount.
(a) Kenya Government Servants (including "common" services.	1125.	7354.	2.	35/-	-	1125.	7356.
(b) Kenya & Uganda Railway servants.	387.	2206.	0.	50/-	7.	394.	2208.
(c) Farmers & Planters.	1589.	4686.	6.	103/-	41.	1636.	4690.
(d) " " (Employees)	739.	2248.	2.	34/-	11.	752.	2250.
(e) Professional Men.	524.	3011.	1.	20/-	2.	527.	3012.
(f) Commercial Men.	540.	4398.	-	-	10.	550.	4398.
(g) Employees.	2881.	9399.	19.	315/-	37.	2937.	9415.
(h) Others.	376.	2079.	-	-	21.	397.	2079.
	7558.	£ 55580.	33.	£ 28.	129.	7700.	£ 55408.

EDUCATION TAX - 1934.

EUROPEANS.

NUMBER OF PERSONS ASSESSED TO TAX AND
THE AGGREGATE AMOUNTS OF TAX PAID CLASSIFIED AS
FOLLOWS :-

	Paid 20/- and over.		Under 20/-		Exemptions.		TOTALS.	
	Number.	Amount.	Number.	Amount.	Number.	Amount.	Number.	Amount.
(a) Kenya Government Servants (including "Common Services").	980	1505	28	21	5	-	1013	1526
(b) Kenya and Uganda Railway Servants.	393	607	3	2	24	-	420	609
(c) Farmers and Planters.	1323	1989	28	21	34	-	1385	2010
(d) Farmers and Planters. (Employees).	922	1410	20	15	22	-	965	1425
(e) Professional Men.	500	756	29	22	1	-	530	778
(f) Commercial Men.	462	711	3	2	6	-	473	713
(g) Employees.	1986	3049	52	39	51	-	2089	3088
(h) Others.	122	222	8	6	12	-	152	228
TOTALS:	6699	10256	171	126	157	-	7027	10382

EDUCATION TAX - 1933.

EUROPEANS.

NUMBER OF PERSONS ASSESSED TO TAX AND
THE AGGREGATE AMOUNTS OF TAX PAID CLASSIFIED AS
FOLLOWS :-

	Paid 20/- and over.		Under 20/-		Exemptions.		TOTALS.	
	Number.	Amount.	Number.	Amount.	Number.	Amount.	Number.	Amount.
(a) Kenya Government Servants (including "Common Services").	998	1515	7	5	4	-	1009	1520
(b) Kenya and Uganda Railway Servants.	390	600	5	3	19	-	414	603
(c) Farmers and Planters.	1368	2057	14	10	37	-	1419	2067
(d) Farmers and Planters Employees.	927	1396	11	8	23	-	961	1404
(e) Professional Men.	480	728	6	4	3	-	489	732
(f) Commercial Men.	466	708	5	4	9	-	480	712
(g) Employees.	1989	3039	29	28	66	-	2084	3061
(h) Others.	162	232	-	-	10	-	162	232
TOTALS.	6776	10,875	77	56	171	-	7018	10,831

EDUCATION TAX - 1934.ASTANS.

69

H

NUMBER OF PERSONS ASSESSED TO TAX AND
THE AGGREGATE AMOUNTS OF TAX PAID CLASSIFIED AS
FOLLOWS :-

	Paid 20/- & over.		Under 20/-		Exemptions.		TOTALS.	
	Number.	Amount.	Number.	Amount.	Number.	Amount	Number.	Amount.
	£	£	£	£			£	£
(a) Kenya Government Servants (including "Common Services").	720	732	7	3	6	-	733	735
(b) Kenya and Uganda Railway Servants.	1032	1038	10	5	8	-	1050	1043
(c) Farmers and Planters.	70	71	3	1	4	-	77	72
(d) Farmers and Planters (Employees).	16	16	-	-	2	-	18	16
(e) Professional Men.	56	87	4	2	-	-	60	89
(f) Commercial Men.	3090	3142	99	50	266	-	3455	3192
(g) Employees.	5579	5690	245	123	606	-	6430	5813
(h) Others.	159	164	15	7	92	-	266	171
TOTALS:	10722	10910	383	191	964	-	12089	£11101

EDUCATION TAX. 1933.

ASIAN.

70
1

Number of persons assessed to Tax and the aggregate amounts of Tax paid classified as follows:-

	Paid 20/- & over.		Under 20/-.		Exemptions.		Total.	
	Number.	Amount.	Number.	Amount.	Number.	Amount.	Number.	Amount.
a) Kenya Government Servants (Including "common services")	758.	746.	11.	6.	16.	-	765.	750.
b) Kenya & Uganda Railway Servants.	1049.	1066.	16.	7.	19.	-	1081.	1072.
(c) Farmers & Planters.	86.	66.	1.	1.	6.	-	78.	67.
(d) " " (Employees)	16.	17.	-	-	2.	-	18.	17.
(e) Professional Men.	50.	52.	2.	1.	1.	-	53.	53.
(f) Commercial Men.	3065.	3156.	84.	42.	368.	-	3517.	3180.
(g) Employees.	5004.	5119.	329.	114.	1021.	-	6245.	5253.
(h) Others.	201.	211.	14.	7.	117.	-	332.	218.
	10186.	10415.	555.	177.	1558.	-	12091.	10690.

LICENSING ORDINANCE - 1933.

EXTRACT FROM REVENUE OFFICE RECORDS.

REVENUE AT 31ST DECEMBER, 1934.

SECTION 7 (I) .

		No. of Licences. £.		No. of Licences. £.	
A.	Sh. 800/-				
A.	300			168	4850
B.	500	314	8867	92	1916
C.	450			54	721
D.	30			507	11104
D.	4000	4726	16713	4219	5609
E.	500			3	600
E.	1000	16	966	15	356
F.	300			9	425
G.	500			5	75
H.	500			8	174
I.	4000			6	180
J.	200			5	850
	200			11	105
	100			32	320
	200	90	1100	6	30
	500			25	345
K.	4000			16	400
K.	500			1	800
L.	15			3	75
M.	300			28	175
N.	300			1.	15
O.	300			1	30
P.	100			70	807
Q.	100			391	1592
	100			187	2229
				642	325
				53	13
				93	204

6651 £. 55003

TOTAL NUMBER OF LICENCES. 6651.

TOTAL REVENUE: £55003.