

# Henry George School of Social Science

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## I S R A E L

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The Israeli tax system in recent years has received about 35% of its public revenue from direct taxation of income, about 16% from taxation of "luxury" items, about 12% from customs duties, about 20% from tobacco, liquor, fuel, and about 1 $\frac{1}{2}$ % from the increase in value of sold land. Direct personal income tax has yielded from 4 million pounds in 1949 to some 60 million or more in 1955. Total taxation in recent consecutive years has risen from 15 million pounds to 35 to 90 to 140 to near 200 million, roughly  $\frac{1}{4}$  of the entire national income. Even with this high proportion of taxation (in comparison to the same proportion in the U.S., which enjoys higher standards of living and higher average income - if this "unfair" comparison will be tolerated!), total expenditure has been as much as double of total revenue. Main causes of this inadequacy have been war and high immigration outlay, which have led to inflationary currency devaluation, increasing the cost of living, decreasing the standard of living (recently arrested).

Official theory behind taxation in Israel is that strong taxation of income is an expression of modernism and democracy. Before the new State was formed, income tax bore mainly on rich immigrants. Since then it has been aimed more at the middle income groups, whose standard of living has thus been kept, by legal controls, at a lower level than their production has warranted, in a paradoxical attempt to achieve at least minimum standards for low income groups.

It is interesting to note past inability of the tax system to meet public expenditure and that other alternatives have been sought, such as increased development and production of natural resources (oil, potash, etc.) and foreign aid. Since money, however, has ceased to be the main incentive to increased production, owing to its decreasing purchasing power, incentives that have been appealed to ("judiciously", and with positive results) are national, civic and religious feelings.

Main objective of the tax system has been to redistribute income from

It has also been found that retail sales taxes or purchases taxes in general place greatest hardships on the poorest people and should be absolutely avoided as far as necessities (food, clothing, shelter, medical care) are concerned. In fact, it is agreed that all necessities should be tax-free. As to indirect taxes, there seems to be slightly less of this than in other countries because total customs duties have been slight as a result of total imports being slight.

Another objective of the direct taxation system has been to avoid discouraging with taxes those who fail in business or incur losses. Only the successful businessman has been taxed.

A tax objective that would surely be an unpleasant surprise to the public has been the absorption of the entire purchasing power of most income earners over the subsistence level in the belief that it has been their purchasing power that has created inflation. Similarly, income has been defined academically for the purpose of taxation as one's ability to consume the nation's products, rather different to present definitions in England and the U.S..

A recent catastrophe of the tax system during inflation was the lowering of the least taxed groups to a level officially beneath that required for subsistence. At the other extreme, the system has also been placing an abnormally large group of people in the top level of 80% taxation of income. This is a far cry from the original maximum of 30% and minimum of 5% under the Mandate Administration in 1941, especially in view of the fact that real purchasing power has fallen by more than 55% since then. Most of the increase was introduced as an Emergency Surtax and maintained as a normal tax after the emergency.

Another example of the ultimate direction in which all income tax points has arisen in the case of married nurses (in urgent national demand when it happened most). They have been unable to continue in their profession because taxes reduced their remuneration to almost nothing in comparison with household expenses needed to supplement their husband's income.

In a country where overtime work has been so needed to increase production, all financial incentive to overtime work was eliminated by putting the steepest tax increases in the income brackets where most overtime was earned.

Despite all this, it has been found that owing to technicalities of definition there have been many ways in which income tax has been locally

any kind. In addition, propertied people have been the only ones who could escape inflation, because during inflation real property (and capital goods) also rise to inflationary values.

When it was found unavoidable that some form of tax relief be given to lower income groups the usual system of deduction-from-income was tried. This was found unsuitable and was replaced by the deduction-from-tax system. However, fixing of the tax deductions was found to be as delicate a matter as fixing income deductions.

It is also interesting to note that after one year in the country immigrants have still not been eligible for minimum tax rates, as a rule.

THE LAND BETTERMENT TAX LAW of 1949 is often referred to as an example of the principles of Henry George. In fact, it is very little so because, although it taxes gains on the sale of land at rates that vary in proportion to the ratio of the profit to the original price, these rates have been as low as zero where the profit exceeds 150% over a period of 10 years and only as high as 40% where the profits exceeded 500% (!) in 2 years (!), instead of the entire yearly 100% of the site value in all cases, as Henry George advocates. It may be noticed above that these rates have varied inversely with the length of time the property was held. In view of the official Israel policy of elimination of land speculation, it regretted by authoritative Israel sources that this Land Betterment Tax is not as high as income tax rates, at least. Also, in the sale of a land-buildings-and-furnishings unit the largest part of the value can be falsely attributed to the furnishings - which have been tax free.

This is not, of course, to ignore the priceless work of the Jewish National Fund or Keren Kayemeth, whose World headquarters has recently moved to a building beside the Henry George world headquarters in New York. This semi-public body has been successful to a certain extent in the elimination of land speculation, but only on its own lands. This amounts to some two-fifths of the arable land of the country. In addition, this body collects only 2-4% of the livable or cultivatable value of its land. While creating tremendous opportunities for adjacent landholders and for the country as a whole, it receives in support merely a small proportion of taxes and direct donations instead of from all landholders in proportion to the increased value it has given to the land they hold whether JNF land or not.

From the practical administration of taxation in Israel there is much to learn chiefly the inability to collect anything even from the rich.

a small proportion of the taxes, especially on overtime pay. Offenders have gone unprosecuted in large numbers and those prosecuted have been receiving only small fines. Although filing has been compulsory for all, many have not been doing so. It has been the custom to apply no penalties for non-filing of returns. In Haifa, <sup>in</sup>two of the few cases that were penalised (involving prosecution and sentence, with all the technicalities and expense of civil court), the penalties were merely 5 pounds each for tax of 1,000 due, after delays of more than one year. From this it can be seen how in Tel Aviv, ~~one~~ out of some 25,000 self-employed only about 5,000 returns were received near the end of the period for 1949-50.

The immensity of the task of collection, even in one of the world's smallest countries, can be realised from the fact that each clerk has been able to mail out less than 100 statements a day because of repeated changes of address. The system has become so enormous that there is now need for mechanisation to address at least 6,500 envelopes an hour to handle returns, reminders, notice of assessment, notice of penalty and to help speed-up and systematise collections. Scholarships and fellowships have been requested for more than 20 tax officials to study in a dozen countries. Not only would a proposed expanded investigation system require extra men and money, but it has even been seriously considered to have "information returns" that should be filled out for all goods and services purchased, one for the payee and one for the tax assessor for checking against a person's tax declaration in the future.

When the new State was formed in 1948, there were three offices of taxes. One in Jerusalem, one in Haifa and one in Tel Aviv. In 1951 there were 17. Today, it is planned to flood the country with tax offices everywhere. In Tel Aviv, some 150,000 returns have been handled in 40 inadequate rooms by 200 employees. Under such conditions, it has often been difficult to find files and anything can happen to figures. For example, in a country of rapidly expanding population, the tax department incorrectly shows less individual owners and employers in 1949-50 than in the previous year.

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You and your friends are invited to the regular monthly Henry George School alumni meeting, Sunday, October 28, at 3 p.m. sharp, in the auditorium, 50 East 69th Street, New York, where there will be a free discussion on