

Memorandum for Cabinet by the
Hon. Minister of Trade, Industry and Agriculture
regarding the extension of Income Tax Holiday in respect of
expansion projects under the Aids to Industries Ordinance

In terms of the Aids to Industries Ordinance, 1959 exemption from income tax on the profits or part of the profits made by an industrial undertaking may be granted by the Governor General for a period not exceeding ten years from production day.

2. A number of firms so aided have expanded once, twice and three times in some cases - and for every expanded project applications for new tax holidays and other benefits were forthcoming. After very strong representations the Ministry of Overseas Development reluctantly agreed that grant/loan benefits be extended - to such expansions and this principle has been in application for some time. The Aids to Industries Board consistently with this policy recommended certain expansion profits for tax exemption on the basis that as expansion projects were eligible for the same assistance as original projects and for this reason were deemed to be a separate project from the original one, it was not considered appropriate to discriminate between grants, etc., and tax benefits.

3. Attempts were made to work out with the Inland Revenue Department a suitable formula for the computation of exempt tax in respect of such expansions. Although the Ministry of Trade, Industry and Agriculture considered that it was not impossible to find such a formula, admittedly it had proved difficult to reach agreement with the Commissioner of Inland Revenue. In fact a formula for expansion profits of firms previously unexempt has been agreed and is functioning very well, but no progress could be made on previously exempt projects. Further attempts at seeking a compromise were only abandoned after the Crown Advocate General had ruled that under the current legislation no tax concessions could be given beyond the maximum period of ten years. The Aids to Industries Board was not happy with this ruling especially as it came at a time when fiscal and financial incentives to industry in the United Kingdom and Ireland were stepped up. The Board, however, endeavoured to work things out within the existing framework and expansion profits were recommended for exemption only for the balance of the period remaining under the original ten year concession.

4. Earlier this year difficulties were being met following firm stands taken by a number of expanding companies foremost among which was Malta Rubber Ltd.

5. Malta Rubber Ltd. was set up in 1961 and went in for the first expansion programme in 1964. Since then, this company has had a further expansion plan approved for assistance. They were allowed all the existing benefits including the ten year tax holiday. The Company has now come out with an even larger programme affording the possibility of eventual employment to 750 persons. The Board was however categorically told that they were not prepared to carry out these expansion projects unless the tax concession extension is granted.

6. Following the stand taken by the Revenue Department on the advice of the Legal Officer, the necessary tax exemption orders for the approved expansion projects were not issued and their Chairman, Sir George Dowty therefore sought an interview with the Minister of Finance, Customs and Port and the Minister of Trade, Industry and Agriculture. In the course of the meeting both Ministers told Sir George Dowty that every action will be taken to allow them to enjoy this benefit as they agreed with Sir George Dowty's stand that an expansion project should qualify for all the aids including income tax exemption for ten years. The Minister of Finance, Customs and Port also agreed to grant exemption under section 8(2) of the Income Tax Ordinance pending consideration as whether the Aids to Industries Ordinance should not be amended to provide for such cases.

7. Another director of the Dowty Group, Sir William Mills Thomas, recently called on His Excellency the Governor General and expressed gross frustration in view of the time which is being taken for the issue of the necessary exemption order and for the enactment of the necessary amending legislation.

8. No progress has so far been made because of certain objections raised by the Inland Revenue on legal, technical, revenue and other considerations. There is of course force in the arguments brought forward by the Department, but there is greater force in the counter argument that there will be no new jobs or additional revenue from this type of development if expansion projects were to be discouraged through denying tax concessions.

9. In the considered view of the Minister of Trade, Industry and Agriculture it will seriously prejudice our industrialization drive if we were to deny income tax exemptions to expansion projects beyond the original statutory period of ten years at a time when Government is intensifying its efforts in order to encourage the existing industrial set up to expand its activities. The acceptance of the stand taken by Inland Revenue would be tantamount to accepting the pump priming principle advocated by the British Authorities and which Government so strongly resisted.

10. Hon. Ministers are therefore asked to approve that expansion projects should be allowed the full tax benefits of ten years and to direct that early action be taken to introduce the necessary amendment to the Aids to Industries Ordinance.

17th October 1967.