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THE BUSINESS PROFITS TAX AND ITS IMPACT ON THE ECONOMY OF THE SUDAN

by

Muhammad Hassan Hafiz

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PREFACE

The institutional, sociological, technological, and political framework within which economic policy must be formulated and undertaken in under-developed economies is quite different from that of advanced ones. Taxation policy is no exception. The capital needs of developing countries makes the raising of the propensity to save as well as of inducement to invest, a necessary part of taxation policy. If progress is to occur the tax structure must allow more incentives for risk taking and innovation.

The present Business Tax Law was enacted in 1930. However, while perhaps no other tax measure has had a more profound effect on existing practices and policies, no adequate study has ever been made of this experience. It is the purpose of this study to fill this gap at least partially.

The method employed in this study is essentially non-statistical in character. It is based primarily on the analysis of the Business Profits Tax Ordinance of 1930, its basic approach being a theoretical study of the role of business taxation in the economic development of the Sudan. The analysis, hopefully, will permit certain generalizations that can be of use to future analysts.

I wish to thank Professor Isam Ashour for suggesting the topic for me. I wish, also, to thank Professor John Cordell, for his kind interest and exchange of views which clarified my ideas. It is to be noted, that most of the materials utilized in the preparation of this work were collected at the American University Main Library, the John F. Kennedy Cultural Center, the British Council and the United Nations Library, all in Beirut. I am grateful for the courtesy and consideration shown in these libraries; and I am also grateful to the Sudanese Cultural Attaché, Mr. Abdel Rahman El Sheikh who most ungrudgingly placed at my disposal many of the materials that I required. For any errors or shortcomings that remain I have only myself to blame.

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CHAPTER I

INTRODUCTION

Problems and issues.--Professor Higgins defines under-developed countries as, "... those with per capita incomes less than one quarter those of the United States - or roughly less than \$500 per year."[1] The choice of this definition of an under-developed country is, of course, arbitrary. It can be justified in terms of policy, but it is harder to defend in terms of pure analysis. For our purposes, however, this definition will be accepted despite its limitations. The Sudan with a per capita income of L.S. 30 or roughly \$82 ranks, therefore as one of the most under-developed countries of the world.

Examination of statistics and descriptive information pertaining to the Sudan reveal that there is a correlation between national poverty and other features of the country's economic and social organization. The most important characteristics of the Sudanese economy are: (a) a low national income and consequently a low standard of living and low levels of saving and investment, (b) almost complete dependence on one crop i.e. cotton, (c) primitive tribal societies in the South, the East and the West which

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[1] Benjamin Higgins, Economic Development (New York: W.W. Norton and Co., Inc., 1959), p. 6.

contain a large proportion of idle manpower, (d) lack of full use of the known natural resources, (e) heavy reliance on imports of consumer and capital goods, and (f) a general shortage of technical ability, organizational and managerial skills.[1]

In the early stages of economic development of the United States and the United Kingdom, their fiscal structure favoured the act of accumulation of capital and discriminated against the act of consumption.[2] The economic development of these countries was brought about largely, by the efforts of dynamic private enterprise. To enable them to plough back their increasing income into investment, the structure of taxation was made highly regressive, and the fiscal structure tended to redistribute national income in favour of the investors and savers.[3] Thus taxation in England in 1818 hardly touched the saving power of the wealthy, and as a result, savings were available for investment.[4]

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[1] The Ten Year Plan of Economic and Social Development 1961-62/1970-71, the Economic Planning Secretariat, Ministry of Finance and Economics (Khartoum: Government Printing Press, 1962), p. 5.

[2] Ram Niranjan Tripathy, Public Finance in Under-Developed Countries (Calcutta: The World Press Private Ltd., 1964), p. 96.

[3] Ibid.

[4] Ibid.

But in developing countries such as the Sudan, as the public sector is obliged to play an increasingly important role in accelerating the process of development, it may not be reasonable to finance development depending entirely on regressive taxes. Income and wealth are concentrated in the hands of a small proportion of the population, and the process of economic development itself may intensify this concentration. Some of this concentration emanates from non-entrepreneurial sources such as rent and interests. Persons in possession of such fortunes are rather inclined to channel their spending into high level consumption rather than productive investment.

Purpose of Study.--The tax policy in a developing country, if it is to allow the expansion of the public sector without retarding investment in the private sector must tax non-entrepreneurial incomes effectively. Although no figures are available, we can still say that the corporate sector in the Sudan is relatively low. Small producers, traders and real estate owners predominate in the economy. Consequently the leakage of revenue is bound to be very large due to the ease of tax avoidance and evasion. Nevertheless, high marginal rates of business taxation tend to blunt incentives. Therefore a relative increase in indirect taxes might encourage the growth of the economy.

With such issues in mind, the purpose here is to discuss tax legislation, and its effect on equity among taxpayers, incentives, saving and investment, and hence the economic development of the country. We will evaluate the Business Profits Tax in the Sudan, since it is the major tax instrument of the Central Government. And we shall actually discover that this tax is quite non-neutral in some of its basic aspects.

It is the contention of this thesis that marginal business tax rates are relatively high and that they may have adverse effects on the economy of the country both from a macro and micro standpoint. Thus we will consider the economic effects of the tax on investment, capital formation, economic growth, corporate policy and expansion of business enterprises.

We will present a general description of the economy of the Sudan in chapter two. Chapter three is left for the critical analysis of tax legislation; chapter four will be devoted to a discussion of the economic impact of high tax rates on the Sudanese economy; and, chapter five will contain our conclusions.

Method and Materials.--This work, is not intended to be a fiscal exercise in economic growth. Its purpose is to present a theoretical study of the role of business taxation in the economic development of the Sudan. The basic reference is the Tax Law. The Business Profits Tax Ordinance will be analyzed in terms of contemporary fiscal theories.

The subject of business taxation is in an unsettled state, theoretically as well as politically. There is no broad consensus among tax authorities concerning how business should be taxed, as there is in connection with personal income taxation. The underlying theory of business taxation is still in dispute. Economists have not agreed whether a system of business taxation should be based upon the principle of benefits received or ability to pay. There is even greater uncertainty concerning how either of these two principles could be most satisfactorily realized.

The nature of business enterprise is in the process of changing markedly, and general understanding concerning the social and economic implications of the change is hazy. As business changes, the method of taxing it will also change. The process of experimentation will no doubt continue until some reasonably satisfactory system is evolved. The direction this evolution will follow is impossible to predict. Actually there is not only a lack of consensus among economists concerning whether business taxes should be based on the benefits received or the ability to pay principles; neither is there general agreement as to what constitutes taxpaying ability on the part of a corporation; or whether indeed a corporation could be said to possess such "ability" at all, in the general accepted sense of the term.

However, we have arbitrarily adopted the ability to pay principle as a frame of reference for our analysis in chapter three. Many articles on business taxation were used; and many books on public finance, written particularly on the post-war period, were consulted. Available statistics and material on the Sudanese economy, regarding national income, labour force, and the Ten Year Plan were compiled and analysed. All theoretical fiscal ideas were combined into one whole, and in view of the Sudanese economy, certain general conclusions were reached. These generalized conclusions regarding the fiscal structure, gave us the liberty to foreward some tentative suggestions regarding the business tax policy in the Sudan, and recommendations for a complete review of the Tax Law.

Limitations.--To conclude this chapter, it is to be noted that there were some limitations to this work, throughout the course of study. First, there are not enough statistics on the private sector in the Sudan. This basic limitation made this work appear rather a priori in nature. Second, there is a significant lack of descriptive information on the tax system and tax policy of the Sudan. Thus complete dependence on analysis of the Law prevails throughout the thesis.

CHAPTER II

THE ECONOMY OF THE SUDAN

Geography and Demographic Features

Location and Topography.--The Sudan with an area of nearly a million square miles[1] is bounded on the north by the United Arab Republic, on the east by the Red Sea and Ethiopia, on the west by Chad and the Central African Republic, and on the south by Kenya, Uganda, and Congo. The Sudan consists of a plain, isolated on the north side by a desert, through which the Nile has provided a means of communication, and isolated on the east by the elevated tract bounding the Red Sea in the form of an escarpment facing east-north-east.[2]

The Sudan plain is divided into fairly distinct zones: (1) the north area, mainly desert covered by thin and rocky soil, (2) the weatern "quoz", an area of undulating dune sands, merging northward into the desert zone, (3) the clay plain which occupies a wedged shaped area widening eastwards between the quoz country of Southern Darfur and the ironstone country of Western Equatoria.[3] This plain

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[1] The Sudan Record of Progress 1898-1947 (Khartoum: Government Press, 1947), p. 7.

[2] Sudan Almanac 1965-66, An Official Handbook (Khartoum: Government Press, 1965), p. 49.

[3] Darfur is a province in Western Sudan; Equatoria is one of the three Southern provinces: The Sudan consists of nine provinces in all.

flanks the Nuba mountains, and extends across the Southern and Central Sudan lapping against the foothills of the southern and eastern boundaries.

Population.--Ethnographically the people of the Sudan are a joint product of the Hamite and Negro races. The early peoples of the Nubia appear to have been of Hamitic stocks and those of the Blue Nile of Negroid type.[1] Today the main tribal divisions in the Sudan comprise: (1) the Hadendwa, Bishariin and Bani Amer of the Red Sea hills; (2) the Nubian tribes of the northern Nile Valley; (3) a central mass of "Arab" tribes occupying the whole central belt of the Sudan, e.g. Kababish, Kawahla, the Ja'aliim, and the various Baggara (cattle owning tribes); (4) remains of earlier peoples such as the Nuba, Fur and Ingessana. The common language of the whole northern Sudan is Arabic, of which there are considerable local dialect variations.[2]

The southern Sudan (south of about latitude 10^{o}) is inhabited by negroid people speaking a large number of separate languages and dialects. There are many tribes in the South--more than 150--sometimes in very small units. Generally speaking, the population scatter, during the dry sea-

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[1] Sudan Almanac 1965-66, op. cit., p. 44.

[2] Ibid.

son, wherever there is water and grazing, and in the rainy season they return - for cultivation purposes - to their tuklus which are so scattered that they can hardly make up a village in the proper sense of the word.[1] A certain type of distorted "Arabic" is used as lingua franca among these different people.

The population of the Sudan at the time of the first population census (1955-66) was 10,263,000.[2] For purposes of statistical analysis, the Sudan was classified into four regions. Population and area data for each of these four regions appear in appendix B-1. As for density, there are four people per square kilometre. Thus the Sudan is a very sparsely populated country. But it is to be noted that the distribution of population over different provinces is very uneven. Thus while the Blue Nile Province accounts for more than one fifth of the total population of the country, each of six provinces contains less than one tenth.

The annual rate of population increase for the whole Sudan is estimated to be 2.8 per cent. Since there is no reason to expect this rate to drop suddenly, a considerable

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[1]R.A. Henin, "Modes of Living in Sudan", The Population of Sudan, Report on Sixth Annual Conference held in the University of Khartoum 16th and 17th January, 1959, p. 57.

[2]C.H. Harvie and J.G. Kleve, The National Income of the Sudan 1955-56 (Khartoum: Department of Statistics, 1959), p. 2.

growth of the nation must be expected.[1] Population estimates for the years 1966 and 1996 are shown in table 1.

Labour Force.--The proportion of the total population economically active is not normally subject to rapid changes,[2] so that the 1955-56 census figures and percentages may be expected to be useful today. Of the Sudan total population (10,262,500) 37 per cent (3,798,900) are economically active. In respect to the working force, 46.2 per cent are active, leaving an inactive balance of 53.8 per cent. The Sudan's labour force is overwhelmingly male. Out of the total labour force, 90.6 per cent are male and only 9.4 per cent are female. Moreover, the male section of the labour force amounts to 82.5 per cent of the total number of males of working age while the female section accounts for no more than 8.9 per cent of the total number of females in the same age group. But these figures understimate the female contribution to economic activity for, many of the females primarily engaged in household contribute substantially, to productive activity on a seasonal or part time basis.[3] However, one must not forget the contribution of females to the social well-being

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[1] J.H.E.M. Van Den, "Population of Sudan in 1966 and 1996," The Population of the Sudan, op. cit., p. 75.

[2] S.D. Fawzi, "Labour force of Sudan," The Population of Sudan, op. cit., p. 41.

[3] S.D. Fawzi, op. cit., p. 42.

TABLE 1

ESTIMATES OF POPULATION IN THOUSANDS
FOR THE YEARS 1966 AND 1996

Year	Estimates		
	"Low"	"Medium"	"High"
1966	13,518	14,047	14,567
1996	21,998	34,244	46,490

Notes:

It is generally acknowledged that mortality follows a definite pattern. The opposite is true of fertility where it is impossible in most cases to find a definite trend movement. Therefore reasonable assumptions were made about fertility and three future levels of crude birth rates, "high", "medium", and "low", were assumed, each of these leading with the expected mortality to a "high", "low", or "medium" estimates of future population.

Source: The Population of Sudan, Report on the sixth annual conference held in the University of Khartoum, January, 1958, p. 77.

as they perform their household duties. As in other countries, the services of housewives are excluded from Sudanese gross national product figures.

Industrial distribution of the labour force.--The three customary industrial groups are used: (a) the primary producers, or those concerned with the exploitation of natural resources - particularly agriculture; (b) the secondary producers or those concerned with the transformation or products, principally industry; and (c) the tertiary producers or those concerned with public and private services, business, trade, transport and the like. The bulk of the labour force consists of primary producers. Thus, there remains a small balance of secondary and tertiary activities.

The distribution percentages differ, however, as between the sexes. Thus, of all males in the labour force, 87.1 per cent are primary, 2.9 per cent are secondary, and 10 per cent are tertiary producers; the corresponding percentages for females are 83.6, 7.0, and 9.4 respectively.

Economic Planning

The Development Programmes.--The first efforts of economic planning in the Sudan are embodied in the different development programmes: the 1946-1951 and 1951-1956 programmes, the 1957-1962 New Schemes and what were called the

Independent Budgets for major schemes. These programmes were, in essence, nothing more than a collection of capital works of various types put together without any defined target or underlying plan for coordination. These efforts failed to take into consideration many characteristics of the national economy, its resource needs, its major problems, and the private sector was almost ignored. Furthermore, no attempt was made to foresee clearly the effects of the programmes as a whole on the economy. It was, among other things, the realization of these defects that necessitated the Ten Year Plan of Economic and Social Development.

The Ten Year Plan.--The general objectives of the Ten Year Plan were formulated as follows: (1) An appreciable increase in real income per capita, (2) the broadening of the structure of the Sudan Economy from changes in the composition of national production and exports, (3) strengthening of the country's balance of payments through export promotion and import substitution, (4) creation of sufficient opportunities for productive employment, (5) improvement of social conditions and services such as education and health, and (6) the maintenance of a relatively stable price level.[1]

After careful analysis, the investment required for the whole plan was estimated, for the public sector and

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[1] The Ten Year Plan of Economic and Social Development 1961-62/1970-71, the Economic Planning Secretariat, Ministry of Finance and Economics (Khartoum: Government Printing Press, 1962), p. 40.

private sectors together, at over L.S. 512 million for the ten year period. It was expected that the public sector would be responsible for L.S. 337 million, the balance to be schouldered by the private sector.[1]

The first objective of the plan demanded an appreciable increase in real income per capita. At present, the level of the total national income amounts to some L.S. 350 million or L.S. 30 per head. The planned investment will make it possible to reach a national income of about L.S. 360 million in the last year of the plan which implies an annual growth rate of 5.2 per cent. As a consequence of high rate of population growth the annual increase of national income per capita will be only 2.4 per cent. At this rate the per capita income will be L.S. 37 by 1971.[2] It is hoped that if the economy proceeds at this rate, the Sudan would be able to quadruple the national income, and double the income per capita in a generation.

The second objective of the plan calls for a broadening of the structure of the Sudanese economy. The most striking projected change is a decrease in the share of the agricultural sector in the gross domestic product from 57 per

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[1] Ibid., p. 62.

[2] Ibid., p. 7.

cent in 1960-61 to only 51 per cent in 1970-71, and a corresponding increase in the share of the industrial sector from 9 to 17 per cent. This relative shift from agriculture to industry is especially remarkable when we consider that the heavy investments in agriculture will lead to a substantial expansion in farm production.

The third objective aims at strengthening the balance of payments through an increase in the quantity and quality of exports and through import substitution. Exports will not only increase but will also show more diversification, mainly by diminishing the role of cotton and increasing shipments of oil seeds and other exports.

The fourth objective demands the creation of sufficient opportunities for productive employment. It has been estimated that the total planned investment will create about 600,000 job in the "modern" sector. Actually, the whole economy has been divided for statistical purposes into a traditional and modern sectors. The modern sector is identified by its use of the newer techniques and investment goods.[1] The traditional sector continues with old techniques and local productive equipment. To go back to our employment figure, the number of 600,000 new jobs lies substantially above the national growth

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[1] The Ten Year Plan of Economic and Social Development 1961-62/1970-71, op. cit., p. 13.

of the population already engaged in the "modern" sector. It is therefore probable that a considerable shift of labour from the traditional sector into the modern part of the economy will have to take place.[1]

Gross Domestic Product of the Sudan

Gross Domestic Product in Total.--This section will be devoted to dealing with domestic product and its uses in the period from 1961 to 1964. The tables, however, will continue to show time series from 1955-56. For statistical reasons the gross domestic product is divided into that accruing from the traditional sector and that accruing from the modern sector.[2]

In 1961-62, the first year of the Ten Year Plan, the gross domestic product grew by 14.3 per cent compared with a projected rate of 7.8 per cent. In 1962-63, the second year of the Plan, the actual growth rate was 0.6 per cent compared to a projected rate of 1.4 per cent. In 1963-64 the growth of the gross domestic product was approximately .7 while the projected rate was 4.3 per cent. However, if we look at the first three years (late 1961 through early 1964) of the Plan we find that the average annual growth of

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[1] A Public Lecture on "The Ten Year Plan" delivered by Sayed A.R. Mirghani (under the sponsorship of University Extra-Mural Studies Board) at the University of Khartoum on the 27th November, 1962.

[2] See table 2.

the gross domestic product was 5.0 per cent, compared to a projected rate of 4.5 per cent.

However, we have to keep in mind that the levels projected in the plan are trend figures, from which substantial short-run deviations are likely to occur due to the fact that the Sudanese economy is heavily dependent on its agricultural sector.[1] The exceptional increase of gross domestic product in the first year of the Plan was mainly due to a particularly favourable cotton yield, while the absence of growth in the third year was due to the poor cotton crop.[2]

From 1960-61 to 1963-64 the per capita gross domestic production increased from L.S. 29.70 to L.S. 31.60, or approximately 6 per cent. The projected rate was 5 per cent. In 1960-61, it grew from L.S. 29.70 to L.S. 33.00, or more than 10 per cent. In the following year it proved to be impossible to maintain this rate and a decrease from L.S. 33.0 to L.S. 32.30 occured. The decrease was entirely due to the fall in agricultural production which exceeded the increased production in other sectors of the economy.[3]

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[1]Republic of the Sudan, <u>1965-66 Development Budget</u>, 1st July 1965 to 30th June 1966, p. 7.

[2]Government of the Sudan, <u>Economic Survey</u>, Ministry of Finance and Economics, Khartoum, 1964, p. 14.

[3]*Ibid.*, p. 15.

The Composition of Gross Domestic Product.--Table 3 shows the percentage distribution of gross domestic product by main economic sectors. From what has been mentioned earlier it should be clear that the very steep drop in the contribution of the agricultural sector since 1961-62 is to a large extent incidental and does not mean a sudden change in the structure of the Sudan economy.[1] A small part of the drop no doubt reflects the policy of the Plan to reduce the share of the agricultural sector in the gross domestic product.

The share of the industrial sector increased from 8 per cent in 1961-62 to 11 per cent in 1963-64. A considerable part of the increase was due to the construction of engineering projects such as dams, bridges, roads and the like.[2] Though the growth of the manufacturing industry has been less than was anticipated in the Ten Year Plan, a marked increase in production has been achieved because of the establishment of new units, as well as the healthy growth of existing industries.

However, in comparing the actual figures of gross domestic product with the projected Plan figures, we find

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[1] Ibid.

[2] Ibid., p. 16.

TABLE 2

THE GROSS DOMESTIC PRODUCT AND THE
INCREASE IN POPULATION
1955/56 - 1963/64

Gross Domestic Product and Population	56/57	57/58	58/59	59/60	60/61	61/62	62/63	63/64
1. G. D. P. Factor cost at current prices (L.S. mln.)								
a) Traditional	164.4	170.0	174.2	180.9	187.2	193.3	199.7	206.3
b) Modern	148.2	137.9	144.3	165.2	167.6	211.3	207.4	203.6
Total	312.6	307.9	318.5	346.1	353.8	404.6	407.1	409.9
2. Population mln.	10.657	10.958	11.267	11.585	11.928	12.264	12.610	12.965
G. D. P. per head	29.30	28.10	28.30	29.70	29.70	33.00	32.30	31.60
G.D.P. at constant 1961/62 prices	319.1	312.2	325.0	350.6	354.7	404.6	405.0	N.A.

Source: Ministry of Finance and Economics, Khartoum, Economic Survey: 1964, p. 13.

that the 1963-64 gross domestic product for example, was L.S. 409.9 million, which is in line with the L.S. 407 million projected in the Ten Year Plan. However this projected level was based on the average cotton yield while the actual yield in 1963-64 was far below the average for recent years. The fact that the gross domestic product projected in the Plan for 1963-64 was attained in spite of the poor cotton crop reflects the underlying structural growth of the Sudan economy. This growth is shown in table 4, which gives a breakdown of the total gross domestic product between the agricultural sector and the other sectors of the economy.

Capital Formation

Value of total investment.--Table 5 indicates that the total gross fixed capital formation continued to increase steadily between 1956-57 and 1963-64. A steep rise, however, started in 1961-62. The percentage increase of total investments was in 1961-62 about 35 per cent higher than in 1960-61. But the figures for 1962-63 indicate that the rising trend in investment became less steep.

In these years i.e. 1961-62, 1962-63 and 1963-64, investments comprised some 15 to 17 per cent of total gross domestic product. This would seem high especially when it is recalled that the 'traditional' part of the economy is still very large. Based on the output of the modern part of

TABLE 3

THE PERCENTAGE DISTRIBUTION OF GROSS DOMESTIC PRODUCT BY MAIN ECONOMIC SECTORS

	1955/56	1961/62	1962/63	1963/64
a) Agriculture, livestock, forestry, fishing	61 %	60 %	55 %	51 %
b) Transport & Distribution banking	14 %	15 %	17 %	18 %
c) Industrial sector, mining, public utilities, building and civil engineering	7 %	8 %	10 %	11 %
d) Crafts, domestic and miscellaneous service, ownership of buildings	12 %	10 %	10 %	11 %
e) Administration and social services	6 %	7 %	8 %	9 %
Whole economy	100 %	100 %	100 %	100 %

Source: Ministry of Finance and Economics, Khartoum, Economic Survey: 1964, p. 15.

TABLE 4

BREAKDOWN OF TOTAL GROSS DOMESTIC PRODUCT BETWEEN AGRICULTURAL AND OTHER

L.S. millions

	1960-61	61-62	62-63	63-64
Total Gross Domestic Product	357.2	404.6	407.1	409.9
Agricultural Sector . . .	202.9	239.8	223.8	212.2
Other Sectors	154.3	164.8	183.3	197.7

Source: Republic of the Sudan, 1965-66 Development Budget 1st. July 1965 to 30th. June 1966, p. 7.

the economy alone--which is about 50 per cent of total production--the investments measured up to about 113 in 1961-62, and 1962-63.[1] Comparing the actual investments figures with the figures from the Ten Year Plan we find that the actual investment figures were L.S. 60.3 millions in 1961-62 and 66.0 millions in 1962-63, while the projected plan estimates were L.S. 48.3 millions and 60.7 millions respectively. Thus in both years the actual investment value surpassed the plan level and the differential was especially large in 1961-62.

Variation in components.--However, while the total investment value in 1962-63 was above the figure for 1961-62, some of its components actually declined in 1962-63. This refers in the first place to private investment which was in 1962-63 markedly lower than in 1961-62. This implies, of course, that public investment continued to increase in 1962-63. In the years 1957-58 to 1960-61 the level of public investment was between L.S. 25 and L.S. 30 millions; in 1961-62 it went up sharply to L.S. 40 millions, and reached L.S. 52.2 millions in 1962-63. These amounts are also high in comparison to the projected plan level which stood at L.S. 30 millions and L.S. 45 millions in 1961-62 and 1962-63.

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[1] C.H. Harvie and J.G. Kleve, op. cit., p. 15.

In the second place, investment in equipment declined in absolute terms in 1962-63. Thus while the total value of gross fixed capital formation did not go down the share of capital equipment in the total was lower in 1962-63 than in 1961-62.

Financing the Private Sector

The per capita income in the Sudan is about L.S. 31.60 per annum for the whole population.[1] It is obvious, that this income is hardly adequate to meet the bare necessities of the individual. Thus the marginal propensity to save must be extremely low. An objection to this argument is that we have been considering only a national average, and in actuality there are individuals whose incomes are well above the national average. Therefore, even a society with very low incomes can probably generate some modest aggregate savings and investment.

Furthermore, in all countries there are specialized institutions whose specific function is the mobilization of savings and making them readily available for borrowing by entrepreneurs. Attention will now be directed toward these institutions in the Sudan.

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[1]See table 2.

TABLE 5

FINANCING OF GROSS FIXED INVESTMENT

L.S. Millions

	56/57	57/58	58/59	59/60	60/61	61/62	62/63	63/64
Gross fixed Investment								
Central & Local Government . . .	8.7	14.1	13.9	14.8	15.4	26.3	37.6	43.8
Government Entities with separate budgets . .	3.9	7.2	9.0	8.1	10.6	13.8	13.5	15.1
Private	10.2	16.0	10.8	13.1	17.8	20.2	14.9	15.9
Total gross fixed investment in modern sector .	22.8	37.3	33.7	36.0	43.8	60.3	66.0	74.8
Sources of Finance								
Saving of central and local Government	10.5	3.9	19.9	22.7	14.8	17.8	19.6	23.1
Saving of Government entities with separate budget	-3.9	8.1	2.4	11.3	-2.5	4.5	16.0	5.7
Private savings discrepancies & non allocated .	12.2	13.7	13.9	7.7	24.5	13.5	19.5	14.6
External Sources.	4.0	11.6	-2.5	-5.7	+7.0	24.5	10.4	31.4
Total Sources.	22.8	37.3	33.7	36.0	43.8	60.3	66.0	74.8

Source: Ministry of Finance and Economics, Khartoum, Economic Survey 1964, p. 18.

TABLE 6

GROSS FIXED CAPITAL FORMATION CLASSIFIED BY TYPE
OF CAPITAL GOOD, 1955/56 - 1962/63

TYPE OF CAPITAL GOOD	1955/56	1956/57	1957/58	1958/59	1959/60	1960/61	1961/62	1962/63
Building and civil engineering	68	73	66	67	61	58	51	64
Equipment	32	27	34	33	39	42	49	36
Total	100	100	100	100	100	100	100	100

Source: Department of Statistics, Khartoum, National Income of Sudan in 1961/62 (with preliminary estimates for 1962/63, p. 45.

Post Office Savings Banks.--The Post Office Saving Banks are the most common saving institutions in the Sudan. The volume of savings deposited in these banks has been increasing steadily over the years. Totals have risen from L.S. 1.4 millions in 1951 to 3.58 millions in 1960. These deposits exceed by far the time and savings deposits at commercial banks. While time and savings deposits at all commercial banks stood at L.S. 1.677 millions by the end of 1959, the total post office saving deposits were L.S. 3.4 millions.[1] This may be due to the fact that the rate of interest paid on Post Office Savings accounts is higher than the rate of interest paid by the commercial banks for similar forms of savings. The rate of interest paid on post office savings accounts stands at three per cent per annum;[2] besides there are no restrictions on withdrawals by depositors. On the other hand the commercial banks offer 2.5 per cent per annum interest on savings account, and for time accounts they pay only 1.5 per cent per annum for funds deposited for a minimum period of six months. The rate is 2 per cent for accounts deposited for one year or more. A further factor that favours post office saving banks, is that their facilities

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[1]Mekkawi Mustafa, "Finance and Capital Formation in the Private Sector in the Sudan," Proceedings, Public Administration and Economic Development, Third Round Table, March 21-24, 1961, p. 87.

[2]Sudan Almanac 1965-66, op. cit., p. 227.

being widely spread over the whole country. They are able, therefore, to tap savings of people in areas where commercial banks do not exist.

Commercial Banks.--There are seven commercial banks operating in the Sudan at present, six of which are branches of foreign banks. The seventh, which started operation only in 1960, is the only bank in the country whose capital is subscribed out of national funds. These banks are essentially urban in their operations as nearly all their branches are in the large cities. Thus there are many areas in the Sudan where commercial banking facilities are non-existent.

The main business performed by these banks is financing of foreign trade. The credit extended is primarily to big firms and a select number of merchants,[1] on the pledge of stocks. As most of these merchants are highly secured, the banks take minimal risks in this form of lending. The commercial banks are reluctant to extend loans to either agricultural or industrial finance. Neither have these commercial banks been active in their role as long-term mobilizers of savings in the country. This fact is easily shown by the excessively high proportion of demand and current accounts in their deposits.

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[1]Mekkawi Mustafa, Op. cit., p. 88.

Position of Banks in New Conditions of Economic Development.--There are some limitations to the adaptability of these banks to the new conditions. One limitation arises from the fact that since there is such a great demand for credit facilities in the country and banks have concentrated in the cities the commercial banks have been able to pick and choose their customers. Thus banks have fostered a few trusted and selected customers to the exclusion of others who might be equally solvent and productive. It is obvious, however, that as the economy expands new businessmen who are not personally known to the banks are liable to emerge, financially sound but unable to obtain accomodation. Another limitation arises from the fact that a majority of these banks are branches of expatriate banks having head offices in countries much more economically advanced than the Sudan. These branches may sometimes find that policies formulated at the head office are difficult to apply in the Sudan.[1]

Thus it appears that the traditions followed in the commercial banking system in the Sudan at present require a certain amount of adjustment. This adjustment is necessary to enable these banks to extend their services in a wider field resulting from economic growth.

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[1] *Ibid.*, p. 91.

TABLE 7

PRIVATE DEMAND DEPOSITS
CONTRASTED TO TOTAL
PRIVATE DEPOSITS

L.S. Millions

Date	Private Demand Deposits	Total Private Deposits
Dec. 1956	9.502	10.097
Dec. 1957	10.944	11.495
Dec. 1958	13.263	14.246
Dec. 1959	13.517	15.194

Source: Proceedings of the Public Administration and Economic Development Third Round Table, March 21-24, 1961; sponsored by the Institute of Public Administration, Khartoum; p. 89.

Avenues of Investment.--It is most probable, although no figures to show this are available, that commerce and trade (including import, export, wholesale and retail distribution) represent the major field of attraction for private capital in the Sudan.[1] They are highly profitable and would generate a quick turnover of capital employed. For the most part no highly specialized labour and investment skills are required in some branches of this type of economic activity. Still, since 1957 a spectacular increase in investment by the private sector in industry has actually occured, and this may represent a significant shift of capital from agriculture and commerce to industry. This tendency has been stimulated by government policy for the encouragement of industry. Thus in 1956 the "Approved Enterprise Concession Act" was introduced. This act was passed "... to encourage and assist certain industrial and similar enterprises in the Sudan."[1]

Actually, it was only in 1962 that the Industrial Bank of the Sudan has been established. Before 1962, there were no specialized institutions for the provision of long-term private industrial finance. The only form of accomodation available to industry was the provision by some of the commercial banks of a limited amount of credit to some industrial establishments; and these funds were for working

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[1]The Republic of the Sudan, Government Policy (Khartoum: Ministry of Commerce, Industry and Supply, 1956), p. 5.

capital only. Thus the vigorous upsurge of industrial activity which has been taking place in the country during the last decade has been financed either entirely from private funds, or by obtaining long-term credit from outside the country.

The commercial banks are prepared to lend only on a short-term and possibly medium term basis. Normally however, commercial banks in all parts of the world, are unwilling to make advances for fixed capital purposes. Orthodox theory holds that banks should not make extensive loans except in operations which promise to liquidate themselves automatically within a short period of time.[1] This type of finance is not suited for the establishment of industry. Furthermore commercial banks in the Sudan lend at high interest rates. Even for short-term loans required by industry for working capital, the banks charge as high as 7 per cent per annum. "No industrial establishment will borrow at such a rate of interest unless it is absolutely starved for capital and some of our industries are."[2] Thus the government intervened and helped to establish the Industrial Bank of Sudan, for the purposes of fulfilling the country's expectations.

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[1] Harold L. Reed, Principles of Corporation Finance (Boston: Houghton Mifflin Company, 1925), p. 126.

[2] Mekkawi Mustafa, op. cit., p. 96.

CHAPTER III

THE BUSINESS PROFITS TAX ORDINANCE: ANALYSIS AND EVALUATION

Background

History.--Few episodes of the Sudanese tax history have been more significant than the Business Profits Tax. Enacted in 1926, it was effectively repealed in 1930 after a brief but eventual life of only four years. Since it has been enacted, no adequate analytical study has been ever made of this experience.

Analysis of revenue.--An analysis of the annual revenues of the Sudan government reveals how heavily the government relies on indirect taxes. The classification between direct and indirect taxes need not detain us long. A direct tax is really paid by the person on whom it is legally imposed, while an indirect tax, is imposed one person, but paid partly or wholly by another. According to Hugh Dalton an indirect tax is conceived as one which can be shifted or passed on; a direct tax as one which can not.[1] However, Dalton's distinction is not always clear in particular cases. An income tax is generally regarded as a

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[1] Hugh Dalton, Principles of Public Finance (4th ed. rev.; London: Routledge and Keganpaul Ltd., 1961), p. 24.

direct tax.[1] Taxes on commodities and transactions are generally regarded as indirect.[2]

It is often supposed to be a sign of financial virtue to keep a balance between direct and indirect taxation. This notion is bound up with ideas about the proper distribution of the burden of taxation between persons, and with the belief that direct taxes are paid by the rich, and indirect by the poor.

Total direct taxation for the fiscal year 1958-59 amounted to L.S. 1,933,709 of which the Business Profits Tax yielded L.S. 1,525,546, or almost 80 per cent. On the other hand indirect taxation such as consumption duties, excise taxes, import duties, sugar monopoly and others brought in L.S. 25,731,153. Government fees and fines totalled L.S. 13,317,115. Thus from the total revenue of the year 1958-59 the direct Business Profits tax brought L.S. 1.5 million, or roughly 3.5 per cent, while the total direct taxation reached about 4.5 per cent and total indirect taxation reached 62 per cent.[3]

The Sudan is not unique as far as this phenomenon is concerned. Consumption taxes have long been the major

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[1] Ibid.

[2] Ibid.

[3] Final Accounts, Ministry of Finance and Economics, Republic of the Sudan, 1960.

source of revenue in under-developed countries.[1] In these countries a much greater proportion of the national income is diverted into consumption compared with advanced countries. This disposal of the national income suggests that the tax policy in a developing economy has to be geared effectively to the objective of mobilizing resources from current consumption; and as such consumption taxes are bound to play an important part for the mobilization of development finance from the public sector in an under-developed economy.[2]

Indirect taxes are more effective in reducing current consumption and releasing resources for the public sector.[3] Indirect taxes are easy to pay, relatively mild in their effect on incentives, and relatively easy to administer. But they are irrational in design, unfair and capricious in their incidence.[4] Furthermore, indirect taxes conceal from the citizen the fact that he is contributing. The result is that the government to him becomes remote. In

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[1] A.F. Abdel Meguid, "Taxation and Economic Development in the Sudan," Proceedings, Public Administration and Economic Development, Third Round Table, March 21-24, 1961, p. 110.

[2] Ram Niranjan Tripathy, Public Finance in Under-Developed Countries (Calcutta: The World Press Private Ltd., 1964), p. 99.

[3] Ibid.

[4] H.M. Groves, Financing Government (Henry Holt and Co., Inc., 1958), pp. 251-256.

addition to the loss of tax consciousness among tax payers, great dependence on indirect taxation promotes unequal distribution of tax burden. An excise tax, for example, cannot take proper account of the differences in income, wealth and family circumstances.

It is likely that present rates of taxation, which amount only to 8.2 per cent of the Sudanese gross national product, are inadequate for proper support of the government's plan for economic development. The comparable figure in Tanganyika is 10.7 per cent,[1] in U.A.R. between 1954 and 1956 is 21.06 per cent, in Ghana between 1952 and 1958 is 12.21 per cent, and in Venezuela between 1954 and 1958 is 18.91 per cent.[2] It would seem logical to obtain the funds necessary for growth programmes by means of introducing a personal income tax, closing loopholes in the present tax laws and even by expanding the indirect taxes considered above.

The Business Profits Tax Ordinance Evaluated

The purpose in this section is to discuss the tax legislation and consider how the tax system can affect the taxpayers' incentives to save, invest and to work. It is

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[1]C. Harvie and J.G. Kleve, The National Income of the Sudan 1955-56 (Khartoum: Department of Statistics, 1959), p. 94.

[2]Richard Bird and Oliver Oldman, ed., Readings On Taxation in Developing Countries (Baltimore: The Johns Hopkins Press, 1964), p. 53.

the contention of this thesis that the Business Profits Tax Ordinance lacks neutrality in some of its basic aspects. By neutrality is meant impartiality in the treatment of tax payers and hence justice in taxation can be achieved. Impartiality does not require identical treatment for every one. It is unjust to treat 'X' and 'Z' alike when their relevant circumstances are different; and it is likewise unjust to treat them differently when their circumstances are the same. Thus in our analysis we are assuming the validity of the "ability to pay" principle as we have already noted in chapter one. "It is equitable that people in the same economic position should be treated in the same way for purposes of taxation."[1] Non-neutrality taxation affects the incentive to work, save, and invest and influences the allocation of limited resources.[2] This will be elaborated

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[1]Hugh Dalton, op. cit., p. 60.

[2]Non-neutrality is a term which can have different interpretations. A regressive tax may be non-neutral, but it may be of use in certain circumstances. For example, in the early stages of economic development of the United States and the United Kingdon, their fiscal structure as a whole favoured the act of accumulation of capital and discriminated against the act of consumption. The structure of their taxation was as a whole regressive. Thus non-neutrality is not always undesirable from the standpoint of economic growth. However, all the sections of the Law considered in this chapter were non-neutral, in the sense that their non-neutrality could be deterimental to the Sudanese economy.

when considering certain articles in the Tax Law. Now, let us consider how the Business Profits Tax is imposed.

Meaning of Business.--It is stated that:

> ... every trader shall pay a yearly tax called the "Business Profits Tax," at the rate set forth in schedule 11 on the profits of his business as assessed for each year and whether such profits are received within the Sudan or abroad.[1]

The term business is defined in Section 3 as:

> ... any business or profession carried on whether permanently or temporarily for gain and includes any work executed or undertaking carried out in the Sudan for gain.[2]

The distinctive factor in this definition is that the undertaking should be with the intent of gain, and need not be a continuous nor a permanent process. Any business is subject to the Business Profits Tax if it were on a temporary basis and non-repetitive.

However, income arising from investment in constructing houses and buildings is not taxed in the Sudan because it is held that such an undertaking is not "business."[3]

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[1]The Laws of the Sudan, The Traders Licence and Taxation of Business Profits Ordinance, 1930, Section 7, sub-section (i), p. 50.

[2]*Ibid.*, p. 47.

[3]Adly F. Abdel Meguid, "Taxation and Economic Development in the Sudan," *Proceedings*, *op. cit.*, p. 122.

The Ordinance, therefore taxes the income of the entrepreneur but the rent accruing to the owner of a building is not taxed. The consequences are unfortunate for the economy generally. Capital owners are encouraged to invest their capital in this type of undertaking instead of the industrial or agricultural projects, badly needed for the economic growth of the Sudan. This problem has received attention from those responsible for setting up the Ten Year Plan of Economic and Social Development in the Sudan. It is stated that, "The bulk of private investment has gone into buildings (mainly houses) while smaller ... shares have gone into agriculture and industry."[1]

The Ordinance penalizes those who contribute to productive and risky enterprises while preferential treatment is given to those businessmen who invest in houses, apartments and elaborate commercial buildings. Landlords receive a high return on their undertaking with minimal risks involved because there is an increasing demand for such buildings particularly in Khartoum. Thus an example of Myrdal's "backwash

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[1]The Republic of the Sudan, The Ten Year Plan of Economic and Social Development, 1961-62/1970-71; the Economic Planning Secretariat, Ministry of Finance and Economics (Khartoum: Government Printing Press, 1962), p. 17.

effect" is apparent[1] in the Sudan conditions. Capital movements have certain effects in increasing inequality between regions.[2] In the centres of expansion increased demand for certain commodities or services will spur investments in such fields. "In other regions the lack of new expansionary momentum has the implication that the demand for capital for investment remains relatively weak, even compared to the supply of savings which will be low as incomes are low and tending to fall."[3]

Tax Exemptions.--Another example of non-neutrality in the law are the classifications stating who are subject and who are exempt from the tax. Section 9. (1) (a) states that no tax would be levied on the profits of any agricultural undertaking, the water of which is supplied by 'Shaduf', 'Sagia', 'Matara', or 'natural flooding and rainfall'.[4] A plausible interpretation for this section may favour the farmers since the profits arising from the use of Shaduf, Matara, Sagia,

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[1]Gunnar Myrdal, Economic Theory and Under-Developed Regions (London: Gerald Duckworth and Co., Ltd., 1957), p. 27.

[2]Ibid., p. 28.

[3]Ibid.

[4]The Shaduf, Matara, and Sagia are different types of primitive equipment used by many of the Sudanese farmers for irrigating the land. The Shaduf and Matara are propelled by man, while the Sagia is propelled by cows or bulls.

rainfall and such primitive methods of irrigation are assumed to be small. This assumption is unrealistic. Actually a farmer using such methods may realize greater profits than a farmer using water supplied by modern devices. Assume that we have two farmers, 'A' and 'B', cultivating each an equal piece of land and earning the same amount of profits. Under the law 'A' is exempt from the Business Profits Tax because his land is supplied by water from 'Shaduf' or rainfall; while 'B', whose ability to pay is equal to that of 'A', is subject to the tax. 'B' happens to cultivate a piece of land watered by modern irrigation systems. Here we have an unjustifiable discrimination between 'A' and 'B,' based on irrelevant criteria.

According to basic principles of public finance, tax discrimination must be based upon a relevant difference between 'A' and 'B'. A relevant difference is one that pertains to the relation of each of these farmers to society. Therefore their tax liability should be based more logically on a difference in their incomes rather than on the method of irrigation. This policy may indeed induce farmers to use primitive irrigation devices just to avoid the tax. This would cause an adverse impact on the national economy from an efficiency and productivity standpoint.

The Business Profits Ordinance also exempts from taxation "pump schemes" that grow fruits, vegetables and food crop for human consumption or fodder.[1] The purpose of this section may be to encourage the production of fruits, vegetables and food crops for human consumption and fodder. Thus the law gives an indirect subsidy to the producers of fruits, vegetables and food crops, and penalizes the producers of raw materials for industrial consumption such as jute and cotton. Ordinarily developing countries need to produce additional agricultural products for human consumption to meet the growing needs of big and growing cities. However, many farmers often leave the field in response to higher wages paid by the private enterprise. Hence an ever-increasing productivity in the agricultural sector is needed. The expansion of agricultural productivity has the advantage of releasing people from land for employment in industry.[2] It provides food for the growing population which is a characteristic of the industrialization process, and by reducing food import requirements it relieves the pressure on the balance of payments.[3] These are issues to be born in mind in trying to avoid serious problems in price structure and the balance of payments. However, the government may encourage the production of crops

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[1]The Laws of the Sudan, op. cit., Section 9 (1)(ii) and (iii), p. 52.

[2]Ram Niranjan Tripathy, Public Finance in Under-Developed Countries (Calcutta: The World Press Private Ltd, 1964), p. 103.

[3]Ibid.

through manipulation of the price mechanism. Also, the government could encourage and help farmers by providing technical advice, better seeds, better irrigation and drainage system. This would seem better than giving an indirect subsidy through taxation. Otherwise equity is violated, and the kinds of crops grown by farmers, rather than the amounts of profits earned by them, would determine whether a farmer is liable to the tax or not. Adam Smith states that individuals should contribute toward the support of the government, "... in proportion to their respective abilities, that is in proportion to the revenue which they respectively enjoy under the protection of the state."[1]

In addition to these inequities there are certain other economic effects involved. Such an exemption scheme may affect the relative outputs of both taxed and untaxed products, and consequently the allocation of resources.

Section 9 (1)(iii) of the Business Profits Tax Ordinance exempts from taxation all irrigation systems licensed for pumps under four inches. This discriminates against large farmers, and favours small scale agricultural production. The Sudan is a large country with an abundance of cultivable land and sufficient water resources. Large scale agricultural schemes should be encouraged in order that economies of scale may be achieved.

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[1] Adam Smith, Canons of Taxation in View Points On Public Finance, ed. Harold M. Groves (New York: Henry Holt and Co., 1948), p. 5.

However, a more serious defect in this section of the Ordinance is that it allows considerable loss of revenue for the government. Suppose we have two farmers, 'X' and 'Z', both cultivating equal parcels of land of 150 acres each. To avoid the Business Profits Tax, 'X' has divided his land into two segments, one segment irrigated by a four inch pump while the other segment is irrigated by a 'Shaduf'. Farmer 'Z,' on the other hand is irrigating his land by a pump of 7 inches capacity. Under the Law, 'Z' will be subject to the tax while 'X' is not, though both of the two farmers have equal ability to pay, other things equal. This is another case of discrimination based upon apparently non-relevant differences. Obviously, such discrimination may discourage large scale agricultural production and the use of modern irrigation systems.

Tax Assessment made outside Sudan.--Another example regarding the application of the tax and hence its economic effect is found in Section 20 sub-section (1) of the Ordinance. Almost the entire section is quoted below:

> The Minister of Finance may on the application of any trader liable to the business profits tax who is also liable in any country other than Sudan to any tax, the assessment of which involves the assessment of the profits of his business in the Sudan ... direct that, if such trader produces a certificate in such form as the Minister of Finance may prescribe showing the sum at which such profits have been assessed in any year for the purpose of such foreign tax, the assessment board shall assess the profits of such trader for that year at the sum shown in the certificate aforesaid.[1]

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[1]The Laws of the Sudan, op. cit., p. 56.

This means that the Law permits other countries, e.g. foreign tax officers, to assess the tax for the Sudanese tax assessors. This would seem out of place in the tax code of the Sudan; which is trying to raise more funds for economic development. Misallocation of resources probably arises from this section of the code, because traders whose business activities are confined to the Sudan may be deprived of any chance for under-assessment of their profits which may be granted to traders who are liable for taxes in other countries.[1]

Deduction of interest charges.--Another loophole in the Business Profits Tax Ordinance appears in Section 17 sub-section (1)(f) of the "Business Profits Regulations."[2] It states that in calculating tax assessment, interest charges on borrowed capital shall not be admitted as expenditure or otherwise deducted unless, the borrower proves that, "... such interest has been paid to a trader who is himself liable to the Business Profits Tax and that such interest has been included in the taxable profits of the lender."[3] Interest payment has been considered by Professor Due in these words:

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[1]This may refer in the first place to some British companies that have branches of business in the Sudan. To avoid tax liability these companies may resort to the under-assessment of their business profits earned in the Sudan.

[2]The Business Profits Regulations' is a supplement made to the Business Profits Tax Ordinance.

[3]The Laws of the Sudan, op. cit., p. 69.

> Interest payments in a sense reduce tax-paying ability because they are mandatory once the obligations are incurred. But most persons incur the interest payment voluntarily.[1] (emphasis supplied).

As mentioned in chapter two, many small reliable producers may not be able to secure bank credit. This is because the few commercial banks find themselves in the happy position of selecting and choosing their customers. Their traditional customers are therefore big merchants and firms only. Also if we consider the fact that private money lending is prohibited by law in the Sudan, and that small producers are desperately in need of capital funds, then it may be logical for these small firms to resort to secret money lenders or usurers, who charge high rates of interest.[2] Thus small producers or merchants borrow at high rates of interest, and are unable to claim these as operational costs for tax purposes since, usurers do not issue certificates showing the amount of interest they receive. Non-neutrality arises because small firms are faced with higher cost of production, limited capital funds and inconvenient terms for acquiring such funds. Furthermore, big firms usually have the privilege of incurring the interest payment 'voluntarily,' as Professor Due would say. Under such a law, the small Sudanese producers may never be able to stand on their own feet, and make

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[1] John F. Due, Government Finance (3rd. ed.; Illinois: Richard D. Irwin, Inc., 1963), p. 147.

[2] These Sudanese usurers charge as high as 12 to 15 per cent annually. The usual bank rate is 7 per cent.

their proper contribution to the country's development.

Treatment of Depreciation charges.--Section 17 subsection 3 of the 'Business Profits Regulations"[1] also states that 'reasonable' charges for depreciation of stock, plant and machinery employed may be considered for the purpose of reducing tax liability. The term reasonable is rather vague in tax literature. Such a term may give a wide scope for tax avoidance through unreasonably high statements of depreciation especially by big producers. Professor Due states that, "... the business deduction which gives rise to the greatest amount of controversy is that of depreciation."[2] But the correct practice is that firms should be "... permitted to deduct an annual depreciation charge, designed over the life of the equipment to allow the recovery of the dollar sum invested in the equipment tax-free."[3] Thus the major problems relating to depreciation center around the question of the allocation of the total capital sum over the life of the equipment. In the 'Business Profits Tax Ordinance,' there is no clear indication of how these depreciation charges could

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[1]The Laws of the Sudan, op. cit., p. 69.

[2]John F. Due, op. cit., p. 145.

[3]Ibid.

be allocated over the years.[1]

The tax legislators made no provision for the fact that the system of calculating depreciation is highly important to a growing concern. In order to give tax concessions as incentives for the promotion of investment a number of techniques may be adopted. One recommendation: "... accelerated depreciation allowances may be given to companies on new buildings, plant and machinery."[2] Such allowances, "... permit the more rapid recapture of productive investment and have the effect of giving the investor an interest-free loan from the government."[3] So long as the firm continues to invest in additional capital its tax liability declines over the period in which growth continues. However, complete freedom to allocate depreciation each year may result in deliberate tax avoidance, since a pound of deduction represents more tax saving to a firm in one year than in the other. Vague terms like 'reasonable' also provide fertile ground for deliberate tax avoidance by firms that have the ability to induce unreasonable assessment through corruptive devices and the like.

Treatment of Partners.--Another loophole in the law appears in Section 21 of the Business Profits Tax "Regula-

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[1]However, in some cases the allocation of depreciation by year is not very significant since the method of allocation will affect merely the tax payment in particular years but not the total over a period of time. This is true with a firm, "... which is not expanding and has stable earnings from year to year, provided tax rates are also stable." The only difference in this case is the interest benefit from delaying tax payment. For further analysis, see, Ram Niranjan Tripathy, op. cit., p. 95.

[2]Ram Niranjan Tripathy, op. cit., p. 95.

[3]Ibid.

tions." It states that partnerships whose partners are not identical shall be assessed separately.

> Thus if A carries on trade by himself and also in partnership with B and in partnerships with C, A shall be assessed for the business carried on by him, and the partnership of A and B and of A and C shall each be assessed separately.[1]

But Section 7 sub-section (5) of the Business Profits Tax Ordinance reads as follows:

> A trader other than a company shall only be liable for business profits tax if his <u>aggregate</u> net profits from all <u>businesses taken</u> together exceed the tax free minimum specified in Schedule 11.[2] (emphasis supplied).

and Section 8 sub-section (1) of the Ordinance states:

> ... every Sudan trader shall be assessed for business profits tax on the <u>whole</u> of his net profits whether or <u>not any</u> proportion of such profits arises from activities exercised outside the Sudan, and in case of companies, irrespective of the nationality ....[3] (emphasis supplied).

There seems to be a vivid contradictions between Sections 7 and 8 of the 'Business Profits Tax Ordinance', and Section 21 of the 'Business Profits Tax Regulations.' Section 21 of the "Regulations' designates that a trader shall be assessed for the business carried on by himself

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[1]The Laws of the Sudan, <u>op. cit</u>., p. 71.

[2]<u>Ibid</u>., p. 51

[3]<u>Ibid</u>.

while at the same time if the same trader is carrying on a trade in partnership with another, the business of the partnership shall be assessed separately. Thus business incomes derived from partnerships are not added to the trader's profits from business carried on by himself as may be understood from the above mentioned Section 7, sub-section (5) and Section 8, sub-section (1) of the Ordinance. The actual result of the conflict in laws often has been for the assessors to ignore Sections 7 and 8, while observing Section 21,[1] thus depriving the government of revenue.

The structure of the Business Profits Tax rates is progressive.[2] One could not reconcile, therefore, the fact that the legislator in Section 8 combines the whole profits of a Sudanese trader arising in and outside the Sudan and yet fails to combine the profits of a Sudanese trader arising from associations with different partners, although all arise from activities exercised in the Sudan. One can not see why the profits arising from outside and inside the Sudan to a businessman should be taxed in the aggregate and progressively, while business incomes arising exclusively within the Sudan to another businessman with various partners, are assessed separately. The tax legislator may have forgotten

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[1]Adly F. Abdel Meguid, op. cit., p. 126.

[2]The Laws of the Sudan, op. cit., p. 63.

that a large portion of the business incomes arising outside the Sudan to a Sudanese businessman, could have been the outcome of different partnerships in different countries.

The legislator when laying progressive rates should aim at certain economic and social goals. This paradox between the 'Ordinance' and 'Regulations' leaves the door wide open for tax avoidance. Any businessman could enter into different partnerships and avoid the high brackets of the Business Profits Tax. He can simply divide his economic activity rather than combine. Another effect of the system is to encourage partnerships at the expense of corporate growth and individual entrepreneurs. From an ethical and equity point of view it creates undue discrimination among taxpayers. And instead of discrimination based upon real differences, we encounter discrimination based on a difference in the economic powers of the taxpayers. Only taxpayers who are fairly well to-do have the entrepreneurial and economic power to take advantages of such shortcomings in the law.

Tax avoidance is a game with high stakes, and in failing, the player is not sent to prison as in the case of evasion. Any one can play but, it is a big business and only rich taxpayers have the resources with which to play.[1]

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[1]Professor Paul states that, "... avoidance is essentially a sophisticated high bracket game, while evasion is a crude method of tax dodging practiced in all economic states." For elaboration see, R.E. Paul, Taxation for Prosperity (1st. ed.; New York: Bobbs-Merril Co., 1947), p. 285.

To avoid the tax one needs to know the tax law and how to interpret its provisions. This kind of knowledge is usually available to the high bracket groups from highly expert lawyers and accountants. Middle class entrepreneurs however, seldom have the power to diversify their activities, and would be unable to benefit from legal counsel even if they could afford it.

Problems of Double Taxation.--Yet, another criticism can be applied to Section 17 of the 'Business Profits Tax Ordinance'. This Section runs in complete disagreement with Section 21 of the 'Business Profits Tax Regulations'. It states that in the case of partnership or a company the assessment shall be made upon the profits of the business as a whole and, "... not the shares of the profits accruing to each member of the partnership or shareholder in the company separately."[1] Thus if both Sections - 17 and 21 - are actually applied a clear case of double taxation occurs. A partnership would then pay the Business Profits Tax on its total net income and the partners individually would also pay a tax on the dividends that they receive on that same income. If all incomes were taxed twice at comparable rates,

[1]The Laws of the Sudan, op. cit., p. 55.

no single taxpayer could reasonably complain against injustice, though he might reasonably complain of the intensity of the double tax burden. But to impose a tax on partnerships' income before distribution, and then to impose an individual income tax at the same rates upon the revenue received by each partner, is to practice gross discrimination against such incomes. For profits derived from other forms of business organization are subject to no separate tax after distribution. Indeed, personal income taxation has not yet been introduced in the Sudan.

The basic flow in any system of double taxation is expressed in the following: "... multiplicity of taxes on the same object or person by the same or different governments adds enormously to the complication of the tax system and to the problems of preserving equity in the system."[1]

Strangely enough Section 17 sub-section (6) of the Business Profits Tax Regulations states that where a company receives profits from another company which has already paid Business Profits Tax in respect of the same profits, the "... tax thus paid may be deducted from the gross tax due from the company by which such taxed profits are received."[2]

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[1]Encyclopedia Americana, "Double Taxation", V. 9, p. 275.

[2]The Laws of the Sudan, op. cit., p. 70.

Thus while this section provides an indication that the legislators desired to avoid "double taxation," Section 21 of the 'Regulations' completely ignores this issue.

Conclusion.-- It seems plausible to conclude that the Business Profit Tax Ordinance of 1930 is replete with loopholes and contradictions which leave the door open for tax avoidance, double taxation, undue discrimination and non-neutrality of an undesirable nature. However, "discrimination is the essence of tax wisdom, but it sheds its curse only when it is proved to rest on genuine differences, the recognition of which is required by the public interest."[1]

If we could succeed in plugging all loopholes and eliminate undue discrimination, then the Sudan government's revenue would increase and we would be able to achieve greater equity in the application of the tax law - the thing which is really conducive to a faster and steadier rate of growth.

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[1]H.M. Groves, op. cit., p. 13.

CHAPTER IV

THE IMPACT OF HIGH SCALES OF BUSINESS TAXATION ON THE ECONOMY OF THE SUDAN

Background.--The Sudanese business tax rate structure varies from time to time as revenue needs change:

> The Business Profits Tax shall be payable on such dates and in such instalments (if any) as the Minister of Finance with the consent of the Governor General may fix from time to time by order published in the Gazette and different dates or instalments may be so fixed for different classes of traders and in different parts of the Sudan.[1]

The business profits tax rate structure is also, progressive in nature. Progression in taxation means that method of adjusting the tax rates, "... whereby the rates become greater as the size of the tax base increases."[2]

However as of July 1, 1965, the tax rates applying to all taxable profits are as follows:

On first L.S. 500	12 per cent
On next L.S. 500	15 per cent
On next L.S. 4000	20 per cent
On next L.S. 5000	25 per cent
On next L.S. 10000	35 per cent

[1] The Laws of the Sudan, The Traders Licence and Taxation of Business Profits Ordinance, 1930, Part IV, Section 33, P. 60.

[2] Harley M. Lutz, Criticism of Progressive Taxation in View Points on Public Finance, H.M. Groves ed. (New York: Henry Holt and Co., 1947), p. 26.

On remainder 40 per cent

Tax free minimum for traders - not companies - L.S. 150.[1]

There is no commonly accepted standard by which to distinguish a good progressive tax rate scale from a bad one. That is, there is no way of deciding upon the particular scale of rates and the particular size of income brackets to which these rates apply, in order to achieve the most equitable situation. But still we can say that the Sudanese Business Profits Tax rates are high in view of the poor economy of the Sudan. For comparison it is to be noted that as of January 1, 1963, the basic average rate applied to taxable business profits in the United States is 30 per cent; and the maximum rate is slightly less than 52 per cent.[2]

The high rate of business taxation in the Sudan has been noted in an official government report. It states that, "... the Business Profits Tax runs as high as 40 per cent on profits over L.S. 30,000,"[3] and also states that

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[1] Sudan Almanac 1965-66, An Official Handbook (Khartoum: Government Press, 1966), p. 102.

[2] J.F. Due, Government Finance (3rd. ed.; Homewood Illinois: Richard D. Irwin Inc., 1963), p. 213.

[3] C.H. Harvie, and S.G. Kleve, The National Income of the Sudan 1955-56 (Khartoum: Department of Statistics, 1956).

such rates may be too high, and may act as, "... a damper on enterprise and deterrent to investment in Sudan."[1] The tax rates today are even more steep than in 1956 when the report of Harvie and Kleve was written.[2]

High tax rates may cause adverse effects on the Sudanese economy both from a macro and micro economic standpoint. The economic effects of high business taxes on the economy of the Sudan is the primary concern of this chapter. Particular reference will be made to the corporate sector. But before launching into this analysis, it may be appropriate to consider the concept of shifting and incidence of business taxes.

Shifting and incidence.--The final burden of a tax may rest on the person making the payment, or it may be transferred to someone else. "The process of readjustment is known as shifting, and the ultimate resting place of the tax is the incidence."[3] It is accepted by many writers that the business taxes and particularly the corporation income tax cannot be shifted. It is believed that a tax which takes a constant

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[1] Ibid.

[2] In 1962 "an increase took place in the rates applicable to the high bracket of income ..." See Sudan Almanac 1965-66, op. cit., p. 116.

[3] M. Slade Kendrick, Public Finance (Boston: Houghton Mifflin Company, 1951), p. 558.

percentage of net income of a firm would not affect the optimum level of output or prices, since the output level would continue to be the same with or without a tax. In other words, "... neither marginal revenue nor marginal cost are affected by the tax, and price and output adjustments are not advantageous."[1] The basic assumption is that price and output were set at the point of maximum profit before any business tax is imposed; and that the price and output, "... which yield the maximum profit before the tax will yield the maximum profit after the tax."[2] The tax, does not change the output that will yield the greatest profit to a firm operating with a given amount of plant and equipment in either a monopolistic or competitive market.[3] Somewhat in contrast Professor Goode admits the possibility of shifting but says that "... the shifting process is likely to be slow and incomplete."[4] Professor Buchanan more or less states the same opinion. Little of the corporation income tax, he says, "... is shifted to consumer either in the short

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[1]J.F. Due, op. cit., p. 215.

[2]Harold M. Somers, Public Finance and National Income (Philadelphia: The Blakiston Co., 1949), p. 209.

[3]Richard Goode, The Corporation Income Tax (New York: John Wiley and Sons Inc., 1951), p. 71.

[4]Ibid.

run or long run."[1] To him, "The tax must rest to a considerable extent on the owners of the corporate enterprises."[2]

When we inquire into the incidence of a tax we usually mean "... by whom is the tax finally paid? And when we speak of effects, we have in mind something beyond the incidence - whether the conduct of the payer finds the equilibrium of the business modified because of the tax."[3]

In order to simplify our analysis of the impact of high business taxation on the Sudanese economy we will assume that the business tax is not shifted. According to some authorities we are not departing too far from reality by making this assumption

Impact of High Tax Rates on Investment

Impact on gross investment.--Due to the lack of statistics, the following discussion will be severely limited in respect to quantitative measures. However, we can be reasonably sure that the principal components of private in-

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[1] James M. Buchanan, The Public Finances (Homewood Illinois: Richard D. Irwin, Inc., 1960), p. 306.

[2] Ibid.

[3] Sir Josiah Stamp, The Fundamental Principles of Taxation (London: Macmillan and Co., Ltd., 1921), p. 130.

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vestment are: (1) additions to producers plant and equipment; (2) net change in producer's inventories; (3) residential construction; and (4) net change in claims against foreigners.[1] The total of these items is gross private investment as defined for more industrialized states. There is no apparent reason why the same definition is not suitable for gross private investment in the Sudan. Subtraction of current depreciation on plant and equipment and residences yields net private investment.

Although net investment is a better measure of growth of capital stock, gross investment is, "... a more useful concept in studying income flows ..."[2] Gross investment will receive primary attention in this discussion. Foreign investment has been excluded because it seems to be governed by influences rather different from those that determine domestic investment, and beyond the scope of this study.

High business profits tax rates may reduce investment because of their effect upon anticipated returns or availability of funds. This reduction in anticipated returns may restrict the amount of funds that outsiders are

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[1]Richard Goode, op. cit., p. 113.

[2]Ibid.

willing to invest directly or to extend as a loan to companies requiring capital. Clearly, it will also reduce the amount of funds available from internal resources. It appears that, although the legislators of the 'Business Profits Tax Ordinance' intended to allow recovery of capital unhampered by oppressive taxation, the tax may delay or prevent full recovery.

There is substantial agreement that the supplier of capital must be rewarded for his risks and his surrender of liquidity. It is reasonable to suppose that the more risky the project appears to be, the greater must be the expected return in order to induce investment. Obviously, high tax rates may reduce profits and encroach on the return that otherwise would be available for the assumption of risk. Current tax policies of the Sudanese government, in effect, increase that risk and offer nothing in return that would mitigate the hazards for the supplier of capital.

In addition to a reward for risk taking, the anticipated return on investment must ordinarily include a premium for parting with liquidity. Investment usually involves the conversion of cash--by definition the only perfectly liquid asset--into less liquid form. Except at a time when considerable inflation is anticipated, most holders of cash will be willing to convert into less liquid assets only in anticipation of some premium. This premium required to overcome a preference for liquidity is, of course, called interest.

Keynes identifies those motives for liquidity preference as the transactions, precautionary and the speculative.[1] Investments differ widely in liquidity. Many high grade bonds are only slightly less liquid than cash. Inventories and accounts receivable are much more liquid than land and buildings. Machinery and equipment may be more liquid than land and buildings. A long-term commitment involves a greater loss of liquidity than a short-term commitment. It is therefore, plausible to suppose that, other things being equal, the greater the loss of liquidity the larger must be the anticipated premium to induce investment.

Many economists have placed great stress on the importance of the rate of interest as a determinent of the value of investment. This opinion however, has been challenged by other economists, and "... contradicted by the testing of business."[2] Hicks observed: "Interest is too

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[1] J.M. Keynes, The General Theory of Employment, Interest and Money (New York: Harcourt, Brace and Co., 1936), pp. 195-199.

[2] Richard Goode, op. cit., p. 125.

weak for it to have much influence on the near future; risk is too strong to enable interest to have much influence on the far future."[1] Nevertheless the "... interest factor may be important in long-term investment of a conclusive nature."[2] However, high taxes may encroach to some extent on the anticipated premium necessary to induce the conversion of cash into less liquid assets. High taxes may thus play a major role in retarding investment expenditure badly needed for the economic growth of the Sudan.

Investment figures for the Sudan reveal that while total investment in 1962-63 was above the figure for 1961-62, some of its components actually declined. In the first place, the private sector was substantially lower in 1962-63 than in 1961-62. However, in 1961-62 an increase took place in the rates applicable to the high brackets of income.[3] It is plausible to conclude that the increase in tax rates in 1961-62 has caused this adverse impact on private investment in the following year, ceteris paribus.

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[1] J.R. Hicks, Value and Capital (2nd. ed.; London: Oxford University Press, 1946), p. 226.

[2] Richard Goode, op. cit., p. 125.

[3] Sudan Almanac, 1965-66, op. cit., p. 116.

Impact on Long-term Capital Formation.--Assuming that aggregate demand is sufficient to insure high levels of employment, the significance of high business tax rates for capital formation can be approached best by considering its effects on the consumption - saving ratio. Since the tax can not be shifted, the business profits tax possibly cuts the percentage of national income saved more than most other taxes.[1] This is because that the tax is absorbed in part in undistributed profits and this directly reduces saving. Accordingly, the potential rate of capital formation may be reduced more sharply than by other taxes which impinge more directly upon consumption. Thus, high business tax rates may therefore be charged with restricting the rate of capital formation, as well as aggravating unemployment by reducing capital formation below the potential level.

Economic development depends, however, not only upon the rate of capital formation, but also upon the nature of investments undertaken. Growth requires the introduction of new methods and the development of new products. These may come from long-established firms, but they often are developed primarily by newcomers - that is, newly established firms.[2] But it is this group of firms that is

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[1]J.F. Due, op. cit., p. 227.

[2]Ibid.

particularly affected by the tax because of their need for expansion from retained earnings as we will see later in this chapter.

At this point we can conclude that one of the most serious charges that can be advanced against high income taxation generally is that it retards new developments.[1]

Impact on Economic Growth

Most of the business tax burden - primarily the corporation tax burden - rest with the company stockholders.[2] Ultimately, the effects of the tax are reflected in the response of individual savers to a decreasing marginal rate of return on investment throughout the economy. If individuals are led by this reduced return on their savings to save less out of current income and spend more on current consumption, high tax rates would be a factor in retarding growth which depends so largely on the rate of real capital formation in an under-developed economy such as the Sudan's. Black puts it in a simplified form by saying that the person upon whom the burden falls may find it

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[1]Duncan Black, The Incidence of Income Taxes (London: Macmillan and Co. Ltd., 1959), p. 145.

[2]James M. Buchanan, op. cit., p. 306.

difficult to contract his expenditure below his customary level. "He will tend to postpone the day when he must reduce his standard of living ...", and "... will prefer to meet his tax payment by a reduction in his rate of saving."[1] Such a situation has serious consequences in an under-developed economy where the per capita income is extremely low, and where the marginal propensity to consume is undoubtedly very high.

However, in a modern economy much saving is done by corporations. As a result, a large part of investment in new plant and equipment is made out of retained earnings (that is, corporate savings). Presumably if the corporation is led to limit its expansion out of retained earnings because of high business taxes, the earnings which would have otherwise been invested would now be paid out as dividends. But whether or not equity shareholders desire additional dividends depends on the opportunities for alternative uses of these funds.

New firms, as we will see later, are particularly hampered by high tax rates because they are often in greater need of retaining earnings for expansion than the well-established firms. Since these firms may be the ones most

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[1] Duncan Black, op. cit., p. 182.

likely to develop new products and new techniques, their success provides extra stimulus toward economic development. Any restriction upon their growth protects older firms against additional competition. Therefore, high business tax rates may help to perpetuate monopolistic positions. Even with established firms, high tax rates may discourage especially venturesome undertakings because of the penalty placed upon uncertain rewards.

Throughout the above discussion, government expenditures are taken as given. This implies that there is a slight connection between the amount of revenue raised from the Business Profits Tax and the amount spent by the government. Public expenditures are assumed to be determined by political and social forces that operate independently of the amount of revenue secured from the Business Profits Tax. It is also assumed that the entire impact and incidence of the tax rests on corporate profits and that no part of it is shifted to consumers, wage earners or other groups.

Impact on Corporate Policy

Impact on Corporate investment.--Business Taxation impairs investment incentives with the progressiveness of the tax rate structure and with the degree to which the offset of losses is reduced.[1] The Business Profits Tax in the Sudan has high progressive rates as noted earlier.

But a provision for offset of losses is included, provided that no such loss shall be carried forward for a period longer than five years from the year in which it has been incurred. For sheer comparison it is to be noted that three year carry-back and five year carry-forward of losses are permitted in the United States.[2] This rule is of particular value to those enterprises with sharply fluctuating earnings. Great Britain and some commonwealth countries allow unlimited carry-forward privileges.[3]

However, the principal impact of the business tax on corporate investment undoubtedly comes from the significant reduction which it brings in the ability of the companies to finance their purchases of capital assets.[4] The money needed to acquire new plant and equipment or additional inventories may come from three sources: (a) deduction from

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[1] E.R. Rolph and G.F. Break, Public Finance (New York: The Ronald Press Co., 1961), p. 224.

[2] Ibid.

[3] Ibid.

[4] Ibid.

gross receipts to cover current depreciation and depletion allowances: (b) retained corporate profits; and (c) the sale of securities - bonds, preferred on common stock - to outside financial investors.[1]

The Business Profits Tax does not of course, affect the first source of corporate funds. But as mentioned previously, it may reduce retained earnings substantially. High business tax rates on corporate income may also affect the terms on which outside capital may be obtained through the issue of common or preferred stock. New stock issue is usually more attractive if investors are optimistic about the size of future earnings and dividends. High business tax rates on corporations tend to reduce the level of stock prices because high business tax rates would mean lower dividends and lower retained earnings.[2] Lower retained earnings, in turn, may restrict corporate growth and thus reduce the prospects for capital gains on the outstanding stock.[3] Because of lower dividends as well as impaired prospects for capital gains, investment in corporate stock becomes less attractive and the Sudanese investors may shift funds into

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[1] Ibid.

[2] Ibid., p. 225.

[3] Ibid., p. 213.

those areas where monetary rewards have not been lowered by business taxation. Resources may even shift from the corporate sector to non-corporate sectors.[1] Thus the Sudanese high business tax rates may impair investment incentives, reduce the level of retained corporate profits and impair the ability of corporations to acquire capital through the sale of more shares of stock. All these work toward a reduction of the capital investment so badly needed for the economic growth of the Sudan.

Debt versus Equity Financing.--High tax rates on corporate income may cause corporations to alter the methods of financing. One of the most important effects lies in the incentive provided to the corporations to finance expansion through borrowing rather than through raising equity capital.[2] The Sudanese Business Profits Tax is imposed on the net income of businesses, called net profit; and this profit or income is defined in the way that accountants define profits.[3]

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[1]Symptoms of this tendency have already been analyzed in chapter three.

[2]Corporations and non-corporate big business establishments are encouraged to finance expansion through borrowing by some gaps in the Business Tax Ordinance, already considered in chapter three. Particular reference should be made to the analysis regarding Section (17), sub-section (1) (f) of the Business Profits Regulations.

[3]The Laws of the Sudan, op. cit., p. 69 (Section 17).

Actual expenses are deducted from gross profits, and allowance is made for interest charges paid out on loans. Allowance is also made for depreciation of capital equipment.

However, in many cases a corporation will face a choice between two methods of financing an expansion from external sources. Since the Business Profits Tax allows interest payments to be deducted from gross income before computing the tax liability and does not allow any deductions for payments to stockholders, the business units may find it advantageous to secure the additional external capital by borrowing.

The financial structure of the firm with a significant volume of bonds outstanding becomes more vulnerable to reductions in gross income compared with that of the firm that relies on sale of stock. The bondholder continues to have a primary legal claim against the income and assets of the company even if the market situation is extremely poor. The common stockholder, on the other hand, is a residual claimant. Sudanese economists have observed that, "... the structure of the Sudan's economy is such that it is natural that its gross domestic product will show substantial fluctuations from year to year."[1] Obviously, the

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[1]Government of the Sudan, Economic Survey, Ministry of Finance and Economics, Khartoum, 1963, p. 17.

profit performance of any firm may be impaired during declines in the gross national product, and the firm that is in debt is especially vulnerable during a downswing. Taking this fact into consideration then, the "... flexibility of the economy in responding to fluctuations in business conditions is to some extent reduced by this distortion of the financial structure of corporations."[1] More than that, we can say that high taxes, by stimulating the growth of debt, may thereby accentuate economic instability since overreliance on debt financing tends to make the corporation much more susceptible to the threats of bankruptcy and liquidation during times of economic stress.[2] Debt financing actually endangers the solvency of businesses in depression periods, and also discourages the more enterprising types of investment that are usually made through stock financing.[3] This economic instability itself, may further be accentuated by considering how a small group of Sudanese investors forming a corporation would gain by issuing bonds to themselves,

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[1] James M. Buchanan, op. cit., p. 302.

[2] Ibid.

[3] William Withers, Public Finance (New York: American Book Co., 1948), p. 161.

taking a large part of their return from the company in the form of interest rather than dividends.

Impact of high tax rates on formation and expansion of new business units.--The managers of small establishments, in deciding whether to attempt new developments frequently have to choose between two alternatives: (a) an expansion which offers potentialities of high profits, prestige and future growth but presents grave risks, or (b) continued operation as a small moderately successful company.[1]

However, it is of great social importance that newly established business units undertake new developments. The technological mutations which spring from them have a profound bearing on the rate of economic evolution and the level of employment and national income.[2] Any penny spent on developing new products may be responsible for a hundred spent in producing these related products in subsequent years.

As we have seen before, with high tax rates the government shares in the profits resulting from such expansion, but the company bears the entire loss. However, al-

[1] J.K. Butters and J. Lintner, Effect of Federal Taxes on Growing Enterprises (Boston: Harvard University, Graduate School of Business Administration, 1945), p. 27

[2] J.F. Due, op. cit., p. 227.

though the expectation of profit is merely one of many motives leading a management to make an investment, once anticipated profits fall below a certain level, new ventures will not be undertaken, even though they may be attractive from other points of view.[1]

High taxes, however, would make the owners of business enterprises, "... more liable to limit their enterprise especially in the more speculative branches of their activity. The reward for risk constitutes an important element in most industrial profits, though the percentage naturally varies according to the character of business."[2] And if high tax rates reduce expected profits below this level in a large number of cases, a substantial volume of employment and investment may be lost.

The "heads I share, tails you bear" tax treatment accorded to small companies may drastically reduce the profit expectancy of risky investment under consideration by such firms. High tax rates would not only lower the net return to the investors if the adventure were successful but they may also cut down the probability of a successful outcome.[3] A company's capital resources may be so limited

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[1]J.K. Butters and J. Lintner, op. cit., p. 33.

[2]H.A. Silverman, Taxation, Its Incidence and Effects (London: Macmillan and Co., Ltd., 1951), p. 178.

[3]J.K. Butters and J. Lintner, op. cit., p. 35.

that any serious hitch in a new development would spell failure. Yet it is common experience in experimental work that several dead-end streets must be investigated before the proper road is discovered. Another company with greater capital resources may afford the luxury of several mistakes in the development of the same product and still achieve profits in the long run. Ultimate success after a series of failures is less likely for the smaller firm. The Sudanese high business tax rates, therefore, by reducing the probability of success, and by reducing the percentage return to a business if a development is successful may exert a strong repressive effect on the expansion of small firms. It is plausible to say that the higher the tax rates, the more powerful the repressive effect. In this way the present scales of business tax are inimical to business enterprise and expansion in the Sudan.

High tax rates would, therefore, directly reduce the intensity of competition which established companies would face from small but rapidly growing competitors. Monopolies may be encouraged, the thing which is not recommended for a developing country like the Sudan where the national income is low. This low national income should be fairly distributed to face the threats of famines, diseases and illiteracy. Monopoly, it is often argued, intensifies inequality.

CHAPTER V

SUMMARY AND CONCLUSIONS

Summary.--The Sudan with a per capita income of about $84 only ranks as one of the most under-developed countries in the world. The economic structure of the Sudan is apparently typical for a country passing the earlier stages of economic development. A large part of the national product is still produced in the traditional sector, that is without the help of modern techniques and capital equipment. Modern methods of production are spreading rapidly, however, notably in export industries, building, transport and public services. It is estimated that almost half of the nation's total production and income is produced by modern methods and equipment. The Ten Year Plan, furthermore foresees a further increase and spread of modern methods.

A conspicuous aspect of the economic structure is its imbalance. Outstanding in this respect are the predominant role of agriculture in total economic activity and the heavy reliance of the economy on the export of one cash crop only (cotton). Thus, agriculture accounted for 57 per cent of the total gross domestic product in 1960-61 and it employed some 86 per cent of the total labour force. The share of the industrial sector in total national production is still small. In 1960-61 this share was 2 per cent, with public utilities and mineral production included.[1]

The marginal propensities to consume in underdeveloped countries are understandably high.[2] Little remains for saving after meeting the pressing demands of sheer subsistence in the lower income strata.[3] Thus like any other developing countries, the ratio of net private savings to national income in the Sudan is low. Even worse, a considerable part of the meagre savings is diverted into real estate and inventory speculation and the holding of precious metals.

The Sudan like other developing countries is caught in the vicious circle of extreme poverty, high marginal propensities to consume, low savings, low rates of capital formation and low incomes. However, to face the threats and bottlenecks of under-development, a comprehensive and well-balanced economic plan based on the most up-to-date and

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[1] The Ten Year Plan of Economic and Social Development 1961-62/1970-71, the Economic Planning Secretariat, Ministry of Finance and Economics (Khartoum: Government Printing Press, 1962), p. 12.

[2] W.W. Heller, Fiscal Policies in Under-developed Countries, in Readings on Taxation in Under-developed Countries, R. Bird and O. Oldman ed. (Baltimore, Maryland: The John Hopkins Press, 1964), p. 4.

[3] Ibid., p. 5.

most sound economic principles had to be formulated.[1]

The Ten Year Plan has aimed at an appreciable increase in real income per capita. It has aimed also at diversification of the Sudan economy, toward a considerable increase of exports, a rise in output of import substitutes and further improvement of social conditions.

The purpose of this thesis was to discuss tax legislation and administration and their effect on equity among taxpayers, saving and investment incentives and, hence, the economic development of the Sudan. The marginal business tax rates were considered to be too high; that they would have adverse effects on the economy of the country both from a macro and micro economic standpoint.

The survey of the Sudanese economy in chapter 1 was, thus, followed, by an analysis of the Business Profits Tax Ordinance. The tax law was analyzed in terms of basic economic and fiscal theories. Economic growth was the standard chosen for the purpose of evaluating the Ordinance.

The term "business" as defined in the law was shown to be limited and narrow. Ordinarily "business" would comprehend all productive activity directed toward obtaining an

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[1]<u>The Ten Year Plan of Economic and Social Development 1961-62/1970-71</u>, <u>op. cit</u>., p. 3.

income through market transactions.[1] A business entity may be a corporation, a partnership, a proprietorship, or some other form of business organization. Thus a tax upon all business activity or upon all forms of business organization would have wide application.

When we speak of business taxes we may have reference to the several methods of taxation related to special types of business enterprise as when we treat of taxation of banks, or taxation of manufacturing. In such cases, we have in mind all the taxes collected from the business comprising a particular category of enterprise, and involving the total tax burden upon the members of that industrial group.[2] We may also mean by business taxes the taxes collected from any business entities as distinct from taxes collected from natural persons. Business taxes in this sense would comprise all taxes paid by business no matter what their nature or type, even though applicable to natural persons as well as

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[1] Alfred G. Bukler, The Theory of Business Taxation in Taxation and Business Concentration, Symposium conducted by the Tax Institute June 15-16, 1950 (New York: Tax Institute Incorporated 1952), p. 231.

[2] Kossuth M. Williamson, What is Business and What are Business Taxes? in How Shall Business be Taxed, Symposium conducted by the Tax Policy League December 28-29, 1936; (New York: Tax Policy League Incorporated, 1937), p. 4.

business entities. This interpretation of the term "business tax" may be useful for the tax code of the Sudan.

The Business Profits Tax Law seems to be ambiguous in its statement regarding those who are subject and those who are exempt from the tax. Certain flaws in the law may encourage tax avoidance while others result in double taxation. The tax legislators, amazingly, have made it possible for foreign tax officers to determine the tax rates for Sudanese tax assessors. They also used vague terms such as "reasonable depreciation charges." The tax legislators apparently could not recognize that such terms add to the complexity and ambiguity of the tax structure. Finally, the legislators introduced basic contradictions and paradoxical statements in respect to partnerships.

Taking all these shortcomings into consideration, one may therefore suggest that the Tax Ordinance needs to be reconsidered. Economic growth should be based on consistent economic planning. Thus the business tax policy in the Sudan needs to be consistent with the objectives of the various development plans. Otherwise economic planning for growth is deficient and incomplete.

The Business Profits Tax rate structure is progressive in nature; and albeit there is no standard to distinguish a good progressive rate scale from a bad one, the government report that the business tax rates are too high for a poor country is probably correct.

High tax rates were shown to have unfavourable impact on the economy of the country both from a macro and micro standpoint. High taxes may adversely affect the country's gross domestic investments and long-term capital formation. They may reduce savings significantly.

We have also considered that high business tax rates may have some unfavourable impact on corporate policy; particularly on corporate investment, and on debt versus equity financing. It has been argued that high tax rates on corporate income may exert some effects on the behaviour of corporations to alter the methods of financing. It has been shown that the law provides incentives to the corporations to finance expansion through borrowing rather than through raising equity capital.

Finally, we have considered how high tax rates may have adverse impact on the formation and expansion of new businesses. High taxes may reduce the profit expectancy of a major expansion undertaken by a small company both by reducing the probability of success and by decreasing the percentage return to the business if the development is successful.

High taxes may also reduce the competition which existing firms would face from probable new entries. Monopolies may thus be encouraged. One of the worst consequences of monopoly is that it may restrict business expansion.[1] Lack of new enterprise and stagnation of investment process results in unused capacity and unemployment.

Fiscal analysis and tentative suggestions.--Given the present states of the Sudanese economy, taxes, in general should, penalize the diversion of savings in land, buildings, and similar investments held for speculative gain or prestige purposes rather than productive use. Among the tax instruments that may be recommended for use to this end are taxes on idle land, progressive taxes on real estate holdings and either special capital gains taxes or the inclusion of capital gains in part or in full as taxable income.

To encourage the private enterprise and help the development of activities which are in the public interest, and to create conditions which attract foreign capital to the Sudan, the introduction of Business Tax Concessions becomes a necessity. Tax concessions may be introduced for desirable investment activities. On the other hand, penalty taxes may be placed on undesirable activities. In India, for example, very extensive income tax concessions are granted for certain types

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[1] William Withers, Public Finance (New York: American Book Co., 1948), p. 171.

of economic activity. Thus new industrial undertakings are exempt from income tax payments in an amount equal to a maximum of six per cent of their invested capital. This exemption can be extended for five years. In India, also, accelerated depreciation on new buildings, plant, and equipment reduces tax liability.[1]

In advanced capitalist countries, various exemptions are always provided in the tax laws. Relief for the promotion of individual savings are provided for in various ways - for example, life insurance allowances. There is no reason that provisions for similar relief should not be introduced for an under-developed economy like the Sudan. Tax reliefs usually are permanent features of the tax system.[2] It is not the retention of business profits that is important, rather, it is the expansion of investment out of retained profits. It follows that the Sudanese tax system should incorporate fiscal devices that would encourage the utilization of retained profits for the expansion of investment. Such a policy suggests among other things that profits distributed among shareholders may be taxed at discriminately higher tax rates.

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[1]Walter W. Heller, op. cit., p. 12.

[2]Ram Niranjan Tripathy, Public Finance in Under-developed Countries (Calcutta: The World Press Private Ltd., 1964), p. 125.

Since there is no personal income tax in the Sudan yet, one should be introduced. Actually, it has been suggested by Professor Adley Abdel Meguid that one way to adjust the relation between direct and indirect taxes in the Sudan is to introduce personal income taxation.[1] We will consider this point later on in this chapter.

However in order to encourage the ploughing back of retained profits into investment such devices as initial and investment allowances may be incorporated in the taxation of Business Profits. There is a temptation, however, in the Sudan to tax business profits at a very high rate especially because most of the big business enterprises belong to foreigners; and also because politically and administratively they are easy to tax. But if the Sudan desires a high rate of economic development tax reliefs for retention of business profits into investment become essential, because high taxation of profits, "... will lead to little incentive for private enterprise in those countries where entrepreneurship is scarce."[2]

To the extent that high rates of taxation are levied on non-entrepreneurial speculative incomes, they may tend to

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[1] Adly F. Abdel Meguid, "Taxation and Economic Development in the Sudan," Proceedings, Public Administration and Economic Development, Third Round Table, March 21-24, 1961, p. 111.

[2] Ram Niranjan Tripathy, op. cit., p. 118.

mobilize resources which otherwise would be squandered on luxury consumption and investment in real estate. As a result, savings which might have been wasted may thus be directed into useful and productive channels of investment. Practically we have already argued that high tax rates on profits may tend to dampen the inducement to invest by reducing the net return from capital investment and consequently the rate of investment in the private sector may tend to fall.[1] However, if the Sudan government takes upon itself the entire responsibility for the planning and execution of investment projects, it may not attach any importance to the adverse effects of the progressive income and profit taxation on enterprise and risk taking. But if the private sector has to play a productive role in raising the level of investment in productive channels, then, a policy of progressive taxation of business profits must take into account the impact made on the behaviour of the private sector's investment. A high rate of business profits taxation would be justified on the kind of enterprise which the Sudan government does not want to encourage from the point of view of interest of the community.

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[1]See table 4.

Dynamic entrepreneurship is quite scarce in the Sudan, and stiff tax rates which may be convenient from the political and the administrative points of view may not be desirable if the government wants to encourage enterprise. Thus, among the structural improvements and incentive devices that may be suggested for use in the Sudan are the following:

1) The allowance of extensive carry-overs of net business losses in one year as offsets against net business gains in other years. This would reduce or remove the deterrent to investment that otherwise results from lack of opportunity to deduct business outlays in full from income subject to taxation.

2) Accelerated depreciation, permitting the more rapid recapture of invested funds. This device has the effect of giving the investor an interest-free loan from the government.

3) Preferential rates for reinvested business profits, or alternatively, additional taxes on profits declared as dividends. This measure recognizes such profits as a prime source of investment funds and seeks to discourage their dissipation in consumption, or their losses by transfer abroad.

4) Introduction of personal income taxation.

Income taxation is a device for promoting equity in the tax structure and "... this principle especially commends itself to under-developed countries with democratic policical institutions."[1] Progressive income taxes are identified with the ability of the taxpayer to pay. In other words, high income groups pay a higher percentage of their income in taxes than lower income groups. This is not the case with consumption and custom duties.

Some under-developed countries, for example Viet-Nam, resorted to income tax as early as 1938. A tax rate of one to five per cent is imposed on salaries, pensions and other fixed types of payments to individuals; similar levies are assessed on commercial, agricultural and professional earnings. Besides these taxes there is a general income tax applying progressive rates to all incomes. About ten per cent of the central government revenue is collected from income tax.[2]

Fairness in taxation is important for the promotion of production and economic progress. A fair tax system is important in achieving good public morale, and may be conducive to higher productivity. Thus emphasis on income taxation is supported by consideration both of economic growth and equity. The Sudan, like most under-developed countries, is dependent on indirect taxes such as import duties for the

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[1]Ram Niranjan Tripathy, op. cit., p. 117.

[2]M.C. Taylor, The Taxation of Income in Viet-Nam (Michigan: Michigan State University, 1959), p. 3.

overwhelming proportion of its revenue. Taxes of this type are usually considered to be regressive. On the other hand, income taxes more than any other tax are identified with equity or the distribution of tax burden according to the ability to pay principle.[1] Stress on the ability to pay would mean more equitable distribution of national income, and hence more justice in taxation.

A progressive income tax has particular attractions as a fiscal instrument in under-developed economies. It incorporates an element of built-in-flexibility in the tax structure and, as such, it is a very suitable weapon for mobilizing the expanding output resulting from the process of economic development for capital formation by the public sector.[2]

From the foregoing discussion, it is apparent that the business tax policy in the Sudan may face a dilemma in its role as an instrument of capital formation. On the one hand, high levels of taxation are necessary to finance that part of the development process which falls in the government

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[1]Professor Silverman states that as long as economic conditions are primitive, the social obligations of the members of the clan or the state are conceived to be equal. "But as the social conscience develops, more stress is laid on other elements of the ability to pay." However, one should accept this view with a certain degree of caution, since social conscience can not be quantified or anticipated. For further discussion on Silverman's view, consult, H.A. Silverman, Taxation its Incidence and Effects (London: Macmillan and Co., Ltd., 1931), p. 17.

[2]Ram Niranjan Tripathy, op. cit., p. 117.

sphere. On the other hand, the lower the tax rates, the greater would be the inducement to the private sector to take risks associated with development. The dilemma is worsened by the fact that those taxes which are most effective in capturing a large share of the gains from economic development are the ones most likely to offset the returns from private investment. For, it is the taxes which vary directly and rise progressively with the size of income that are most effective in absorbing the gains from development. Yet, these are precisely the ones which are likely to affect marginal efforts and risk taking. Thus to suggest lowering the rates of the Business Profits Tax may be an inadequate solution. One way out of this dilemma may be to combine high rates of taxation with preferential treatment for categories of desired development - and penalty taxes or rates on undesirable economic activities. To implement such a policy requires careful economic analysis and planning, skilful structuring of taxes, avoidance of political favouritism and competent tax administration.

However, in addition to the tax exemption provided by depreciation and depletion allowances, other fiscal benefits granted to the new enterprises may be of great help in the Sudan. These benefits, besides having the purpose of alleviating difficulties which are inherent in the initial stage of an enterprise, also tend to attract new enterprise to the country. One possibility is income tax exemptions during the first years of activity. Another proposed benefit, is the continual carry-over of losses. These exemptions constitute an immediate loss of revenue to the Sudan government, which may be offset by the stimulating effect obtained in the field of foreign and domestic investment.

Aside from these deliberate benefits, tax laws of under-developed countries often contain technical provisions of rudimentary character which may lead to favourable treatment of corporations. Thus, in Haiti, under the law of September 8, 1948, enterprises are allowed to put aside every year ten per cent of the taxable income against possible losses; this means, in effect a ten per cent reduction of net taxable income of all enterprises in any circumstances.[1]

To conclude this chapter, it is to be noted that public finance has to play a positive and dynamic role for the promotion and acceleration of economic development in under-developed countries such as the Sudan. Such a role of fiscal policy as an instrument of economic development implies the rejection of what Professor Higgins calls "gradualism" as an approach to development policy, and in its place a policy of "big push" through government intervention in the decision

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[1]United Nations Fiscal Commission, Special Features of Corporate Taxation in Under-developed Countries in Readings on Taxation in Developing Countries, op. cit., p. 203.

making process.[1] Public finance for promoting the economic development of under-developed countries may have four important dimensions:

a) To promote and accelerate the growth of productive investment, both in the public and the private sectors.

b) To maximize the value of real and financial resources for the investment plan of the public sector keeping in view an expanding demand for real and financial resources of the private sector; and in this way to promote the growth of savings in the economy.

c) To promote the maintenance of a reasonable measure of economic stability in keeping with the maximum rate of growth of the economy.

d) To achieve a more equitable distribution of the growing national output.

The present Business Profits Tax Ordinance would not help to achieve these goals of fiscal policy. This Ordinance which was established in the colonial era needs complete rewriting.

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[1] Benjamin Higgins, Economic Development (New York: W.W. Norton and Co., Inc., 1959), pp. 447-450.

When a poor and backward nation becomes politically independent, it will find out that political independence does not mean that it is automatically on the road to economic development. It will still be up against cumulative social processes that perpetuate stagnation or regression. The natural play of forces in the market will be working all the time to increase internal and international inequalities as long as its general level of development is low.[1] However fiscal policy, like other governmental policy, derives its meaning and direction from the aspirations and goals of the society within which it operates, of the people whom it serves. The aspirations of the peoples of under-developed countries are clear: economic betterment and stability to provide the material foundation on which human dignity and political freedom can grow.

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[1]G. Myrdal, Economic Theory and Under-Developed Countries (London: Gerald Duckworth and Co., Ltd., 1957), p. 61.

In the financial year 1963-64 the Public Sector sustained a deficit of approximately 36 million pounds which to the extent of 15.6 million pounds was financed from drawings on foreign loans. The remaining balance was financed by a decrease in the cash position of the public sector. For the year 1964-65 no actual figures are yet available. However, it was anticipated that the public sector would sustain a deficit of at least 21 million pounds which to the extent of approximately 12 million pounds would be financed from drawings on foreign loans and the remaining balance by a further decrease in the cash position of the public sector. Actually the detoriation in the cash position of the Public Sector during 1964-65 amounted to no less than 21.9 million pounds which shows that the deficit of the public sector was greater than originally anticipated. It is interesting to note that although the detoriation in the cash position of the Public Sector was in 1964-65 of the same magnitude as in 1963-64 and the overall deficit only slightly lower investment expenditure in 1964-65 was certainly conciderably lower than in 1963-64 which indicates that on current account the financial position of the public sector was still less favourable in 1964-65 than in 1963-64.

In the financial year 1963-64 the Central Government revenue continued to show an uprising trend, as it is

APPENDIX B-1

POPULATION AND AREA DATA FOR THE FOUR REGIONS IN SUDAN

Region	Population	Area in square miles
A	2,319,000	323,962
B	2,070,000	54,903
C	3,091,000	338,724
D	2,783,000	250,321

Source: The Republic of the Sudan, The National Income of the Sudan.1955-56, Department of Statistics, Khartoum, p. 2.

APPENDIX B-2

AREA AND OUTPUT OF MAIN CROPS

	COTTON		DURA		DUKHN		GROUNDNUTS		SESAME		MAIZE		WHEAT	
Average	Area	Out-put	Area	Out-put	Area	Out-put	Area	Out-put	Area	Out-put	Area	Out-put	Area	Out-put
55/56	602	1765	1890	655	1302	304	141	35	385	91	33	17	31	19
56/57	736	2861	2492	1067	1269	321	460	146	793	153	41	20	30	18
57/58	701	1061	2607	1139	1006	262	449	129	563	141	64	45	31	20
58/59	854	2663	3252	1372	1004	297	464	189	747	154	106	42	33	23
59/60	908	2592	3251	1313	788	280	461	186	991	179	109	40	39	25
60/61	906	2400	3067	1051	932	226	470	192	694	127	93	31	39	26
61/62	1133	4360	3516	1434	759	205	472	149	981	232	40	7	41	29
62/63	1066	3364	3520	1245	1058	302	707	239	903	156	68	20	52	

Area in 000's feddans.

Output in 000's tons for cotton in 000's kantars

Source: Government of the Sudan, Economic Survey, Ministry of Finance and Economics, Khartoum, 1963, p. 76.

APPENDIX B-3

GROSS DOMESTIC PRODUCT (OUTPUT METHOD). 1955/56 - 1962/63
CURRENT PRICES

ECONOMIC SECTOR	1955/56	1956/57	1957/58	1958/59	1959/60	1960/61	1961/62
1. Agriculture	105,567	127,509	95,289	115,378	123,466	123,285	154,681
2. Livestock	32,280	32,735	33,883	34,368	36,266	37,344	38,700
3. Forestry Products	28,283	29,290	30,659	31,395	33,249	34,089	34,103
4. Fishing & Marine Products	6,478	6,672	6,872	7,078	7,290	7,508	7,772
5. Transport and Distribution	37,580	37,339	49,874	38,087	48,827	47,984	58,050
6. Minerals	225	234	250	254	256	261	216
7. Manufacturing	2,762	3,200	3,700	4,300	4,977	5,734	6,638
8. Public Utilities	1,035	1,160	1,285	1,410	1,574	1,718	2,008
9. Craft Industries	9,766	10,060	10,360	10,670	10,990	11,320	11,700
10. Building and Construction	16,235	17,747	22,078	21,392	21,095	22,933	20,460
11. Banks	1,349	1,349	1,890	2,020	1,640	2,534	2,864
12. Non-Government Education	645	722	986	1,086	1,245	1,526	1,781
13. Domestic Service	1,500	1,545	1,591	1,639	1,688	1,739	11,800
14. Miscellaneous Service	15,142	15,658	16,149	16,750	17,330	17,930	17,607
15. Government	17,157	18,800	24,000	23,300	26,593	27,965	29,900
16. Ownership of Building	8,201	8,626	8,974	9,338	9,593	9,981	10,358
17. Total	284,205	312,666	307,880	318,465	346,079	353,831	398,638

Source: Government of the Sudan, Economic Survey, Ministry of Finance and Economics, Khartoum, 1963, p. 71.

APPENDIX B-4

LABOUR FORCE DIVIDED BY INDUSTRIAL GROUP

(Percentages)

	Primary Producers	Secondary Producers	Tertiary Producers
Males and Females	86.7	3.3	10.0
Males (5 and over)	87.1	2.9	10.0
Males (5 to under puberty)	96.5	.9	2.6
Males (over puberty)	84.7	3.4	11.9
Females (5 and over)	83.6	7.0	9.4
Females (5 to under puberty)	84.7	4.9	10.4
Females (over puberty)	83.3	7.5	9.1

Source: Philosophical Society of the Sudan, The Population of the Sudan, Report on the Sixth Annual Conference, held in the University of Khartoum, 16th. and 17th. January, 1958, p. 45.

APPENDIX C-1

The following table shows the financial position of the Central Government, Public Entities and Provincial Councils, which as a whole constitute approximately the Public Sector of the Economy.

PUBLIC SECTOR EXPENDITURE AND FINANCING

(in L.S. Mln.)

	1962/63	1963/64	1964/65
1. Expenditure	124.6	133.5	111.0
Current	76.7	78.5	75.0
Central Government	58.5	59.1	60.0
Provincial Councils	12.4	14.1	15.0
Changes in Stock of Govt.	5.8	5.3	N.A.
Capital	47.9	55.0	36.0
Central Government	33.6	39.7	25.0
Public Entities	8.2	8.5	5.0
Expenditure Financed by External non cash aid	6.1	6.8	6.0
2. Domestic Revenue	107.0	94.7	90.0
Central Government	74.4	77.0	71.0
Provincial Councils	18.4	12.6	13.0
Operational Surplus of Public Entities	14.2	5.1	6.0
3. Deficit (1-2)	17.6	38.8	21.0
4. Financing of Deficit.	21.9	36.0	33.9
External Financing (gross)	16.2	15.8	12.0
Detoriation in Cash Position of Public Sector	5.7	20.2	21.9
5. Discrepancy (3-4)	- 4.3	+ 2.8	- 12.9

Source: Government of the Sudan, Economic Survey, Ministry of Finance and Economics, Khartoum, 1964, p. 49.

higher than the 1962-63 revenue by L.S. 2.6 million. Thus it was possible to realize a surplus of L.S. 17.9 million, although the current expenditure was slightly greater than that of 1962-63 by L.S. 0.6 million. On the other hand, investment against the Development Budget increased from L.S. 33.6 million in 1962-63 to L.S. 39.7 million in 1963-64 and resulted in an overall deficit of 21.8 million in 1963-64, which was L.S. 4.1 million more.

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