# Kyoto University
# Economic Review

MEMOIRS OF
THE DEPARTMENT OF ECONOMICS
IN
THE IMPERIAL UNIVERSITY OF KYOTO

VOLUME VII



PUBLISHED BY THE DEPARTMENT
OF ECONOMICS IN
THE IMPERIAL UNIVERSITY OF KYOTO

# INCOME TAX RATES IN JAPAN

## 1. FOREWORD

The readjustment of our tax system is one of the most important problems confronting contemporary Japan; it is on the same level in point of importance with two other national problems, namely, the readjustment of our administrative system and that of our national finance. Nor should such a readjustment of our tax system be obstructed by consideration for individual taxes; what is needed is a thorough-going reform in the whole system of taxation. In order to carry out such an aim, it would be necessary to make an inquiry into our income tax method which forms the pivotal point of our tax system. Thus, we have to deal with the problem of revising the income tax law as a first step towards the proper readjustment of our whole tax system.

As the income tax occupies the key position in the tax system of the nation, various problems have clustered around that tax. It would be prerequisite, for instance, to decide on the meaning of the object of that tax, namely, income. But when this question is settled, there still remains another problem equally important—I refor to the question of the process by which the proper amounts of the tax should be fixed. In other words, we must consider the problem of fixing the rates of the income tax, and our inquiry should cover the broad field of the science of finance. It is the purpose of this paper to consider the revision of our tax system with special reference to the rates of the income tax.

I shall first consider what effect our income tax law, which embodies the two principles of taxation—the stoppage-at-source and the lump sum—has had on the income tax rates in the actual practice of taxation. I shall then take up the rates for Class C income. Finally, I shall point out that the rates should be decided with a view to the local surtax and the fluctuation of prices.

## 2. THE STOPPAGE-AT-SOURCE AND THE LUMP SUM PRINCIPLES

If one should compare Articles 14, 21, 22, and 23 of the income tax law now in force, he will find that the law embodies the two principles of taxation, namely, the stoppage-at-source and the lump sum. In principle, the lump sum theory is adopted and all forms of income are brought together and the tax there on is imposed on the individuals earning the totals. Persons earning an income of more than 1,200 yen per year must pay a tax whose excess progressive rate is any where between 0.8 per cent and 36 per cent. However, there are several instances of exception to the stoppage-at-source principle.

The first instance is found in the case of interest on government bonds, debentures and bank deposits, and profits from loans and trust funds. National government bonds are exempted from the income tax, but local government bonds are subject to a four per cent tax and the interest on debentures and a five per cent tax is levied on bank deposits, the profits from loans, and trust funds. All of these progressive rates are based upon the stoppage-at-source principle.

The second instance of exception under consideration is found with regard to the dividend and other profits which individuals receive from corporations, the dividend of stock companies being the representative of such cases. The corporate income is placed under Section I of Class A and is subject to 5 per cent proportionate tax under the stoppage-at-source principle. When this corporate income is paid out to individuals, 60 per cent of it is added to their revenue and a progressive tax is levied on the lump sum, that is on the aggregate income from all sources.

## Table I.

**Showing Comparative Percentages under Three Systems of Income Taxation.**

| Income (yen) | Class C income rates (%) (Lump sum) | Rates on dividend (%) (Stoppage-at-source and lump sum) | Rates on interest on debentures and bank deposits (%) (Stoppage-at-source) | Rates on interest on local government bonds (%) (Stoppage-at-source) |
|---|---|---|---|---|
| 1,000 | — | 5.0 | 5.0 | 4.0 |
| 1,200 | 0.8 | 5.0 | 5.0 | 4.0 |
| 1,500 | 1.0 | 5.0 | 5.0 | 4.0 |
| 2,000 | 1.5 | 5.0 | 5.0 | 4.0 |
| 2,105 | 1.7 | 5.5 | 5.0 | 4.0 |
| 2,632 | 2.1 | 5.6 | 5.0 | 4.0 |
| 3,000 | 2.4 | 5.7 | 5.0 | 4.0 |
| 3,509 | 2.7 | 5.9 | 5.0 | 4.0 |
| 5,000 | 3.4 | 6.3 | 5.0 | 4.0 |
| 5.263 | 3.6 | 6.3 | 5.0 | 4.0 |
| 7,000 | 4.3 | 6.7 | 5.0 | 4.0 |
| 8.772 | 5.0 | 6.9 | 5.0 | 4.0 |
| 10,000 | 5.4 | 7.2 | 5.0 | 4.0 |
| 12,281 | 6.2 | 7.4 | 5.0 | 4.0 |
| 15,000 | 6.8 | 7.8 | 5.0 | 4.0 |
| 17,544 | 7.4 | 8.1 | 5.0 | 4.0 |
| 20,000 | 7.8 | 8.4 | 5.0 | 4.0 |
| 26,315 | 9.1 | 8.9 | 5.0 | 4.0 |
| 30,000 | 9.6 | 9.2 | 5.0 | 4.0 |
| 35,087 | 10.3 | 9.5 | 5.0 | 4.0 |
| 50,000 | 11.5 | 10.3 | 5.0 | 4.0 |
| 52,631 | 12.0 | 10.4 | 5.0 | 4.0 |
| 70,000 | 13.2 | 11.2 | 5.0 | 4.0 |
| 87,719 | 14.4 | 11.7 | 5.0 | 4.0 |
| 100,000 | 15.0 | 12.1 | 5.0 | 4.0 |
| 122,807 | 16.1 | 12.5 | 5.0 | 4.0 |
| 175,438 | 17.6 | 13.5 | 5.0 | 4.0 |
| 200,000 | 18.0 | 14.0 | 5.0 | 4.0 |
| 350,877 | 20.1 | 15.3 | 5.0 | 4.0 |
| 500,000 | 21.0 | 16.1 | 5.0 | 4.0 |
| 877,193 | 22.7 | 17.0 | 5.0 | 4.0 |
| 1,000,000 | 23.0 | 17.2 | 5.0 | 4.0 |
| 1,754,385 | 24.7 | 18.1 | 5.0 | 4.0 |
| 2,000,000 | 25.0 | 18.4 | 5.0 | 4.0 |
| 3,000,000 | 26.7 | 19.1 | 5.0 | 4.0 |
| 3.508,771 | 27.6 | 19.2 | 5.0 | 4.0 |
| 4,000,000 | 28.2 | 19.6 | 5.0 | 4.0 |

Data 1 gives the comparative percentages of the following three income taxes:

1. The income coming under Class C and on which a progressive tax is levied according to the lump sum principle.

2. The income coming under Class B and on which a proportionate tax is levied according to the stoppage-at-source principle.

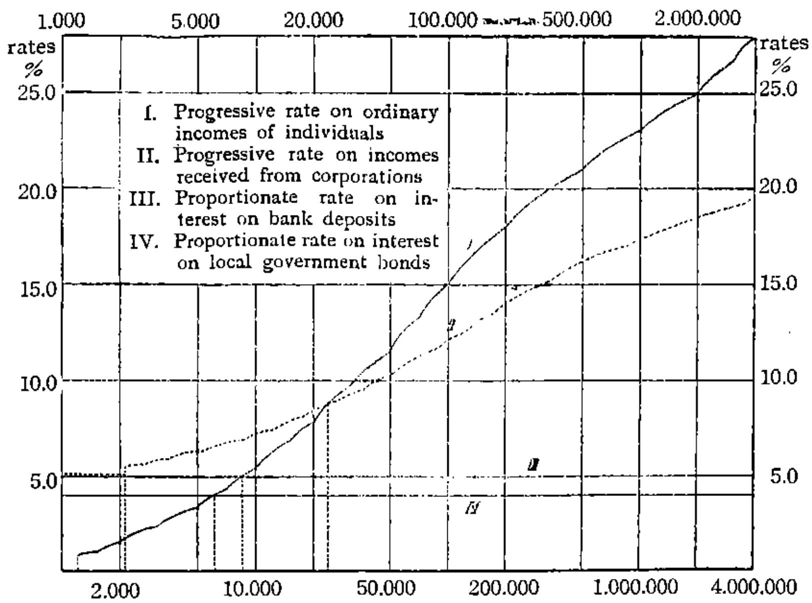
3. The corporate income on which a five per cent proportionate tax is levied according to the stoppage-at-source principle, and 60 per cent of which is taxed progressively according to the lump sum principle, after having been added to the revenue of the individuals owning the stock or share.

Note: The percentage for the last named item was computed as follows: First, I took the five per cent which is the rate for the ordinary income coming under Class A. Secondlv, I took 60 per cent of 95 per cent of the total income which comes under Class C and which is taxed progressively after having been added to the shareholder's income. Then I added up these two taxes and divided them by the total income, and their quotient has been adopted as the percentage in the data.

Viewed from the standpoint of the essential nature of the income tax, it may be said that a progressive lump sum tax should be levied on all forms of income as is done in the case of income coming under Class C. Actually, however, we have an abnormal system under which the interest of national government bonds is exempted, a proportionate tax is levied on local government bonds and bank deposits according to the stoppage-at-source principle, and corporate income is subject to proportionate taxation according to the stoppage-at-source principle and to progressive taxation according to the lumpsum principle. Nor can one say that this abnormal tax system has been beneficial to stockholders and capitalists without exception. As Data I indicates, the lump sum taxation will be beneficial to a person whose annual income from local government bonds is less than 6,000 yen; the same will be true of a person whose sole income from interest on bank deposits is less than 8,000 yen. In the case of dividend, those receiving less than 24,000 yen per year will be better off under the lump sum taxation than under either of the other two forms. The economic advantages and disadvantages of different incomes is shown in Diagram I.

Diagram I.

Showing Comparative Rates of Various Incomes




In preparing Diagram I, 1 adopted a semi-logarithmic scale. The base line representing incomes was made into a logarithmic scale, while the perpendicular line representing tax rates, into an ordinary scale.

The diagram shows that the adoption of the stoppage-at-source principle both singly and together with the other principle has proved beneficial to the earners of big incomes and detrimental to those of small income.

Although the thorough-going application of the lump sum principle is unquestionably desirable from a theoretical ground, it has been argued that the lump sum taxation of corporate income and bank deposits is practically impossible. However, it must be noted that in the inheritance tax, such incomes are taxed according to the lump sum principle, so that the argument for the impracticability of the lump sum taxation of such incomes hardly holds water.

The following two points are important in the revision of our tax system, if the unity of the tax rates is to be respected.

First, conceding that the ideal system of taxing incomes coming under Class A and Class B cannot be adopted, at least the interest on national government bonds should be taxed. The abolition of this extraterritoriality, as it were, in our tax scheme is highly desirable.

Secondly, it is ideal to tax corporate dividend up to 100 per cent in the hands of individuals, instead of to the extent of only 60 per cent, as is done at present. But if such an ideal system is found impossible of adoption, the lump sum taxation of 60 per cent should be kept up, and under no circumstances should a return to the stoppage-at-source taxation be permitted.

My conclusion may not be trough-going, but it is at least totally at variance with the views entertained by our chambers of commerce for some years back. It is my firm and sincere conviction that the revision of our income tax law will be made along the lines here suggested.

## 3. RATES OF TAX ON INCOMES COMING UNDER CLASS C IN THE INCOME TAX LAW

Although our income tax law contains, as has already been pointed out, the abnormal element of the stoppage-at-source system, the fact remains that the centre of its gravity rests on the incomes coming under Class C which are taxed progressively aocording to the lump sum principle. In making a study of the rates of the income tax, it is imperative to consider the progression in the taxation of incomes coming under Class C. There are two forms of progression, namely, real progression and pseudoprogression.

I shall take them up in the order given.

(1) Real progression is of the following two kinds: direct progression and indirect progression. Direct progression may be subdivided as follows: the whole progression, excess progression and progression by formula. Our income tax first adopted a crude whole progression, but in 1913 an excess-amount progression supplemented by a direct progression of deduction was adopted. This revision was followed by the adoption of a pure form of excess-amount progression in 1920.

This system has continued to this day after a minor revision had been made therein. Table II shows the different results of the three following systems: the whole-amount progression adopted in 1899, the excess-amount progression embodying an indirect progression adopted in 1913, and the pure excessamount progression adopted in 1926.

I made Diagram II in order to bring out more vividly what is contained in Table II.

**Table II.**

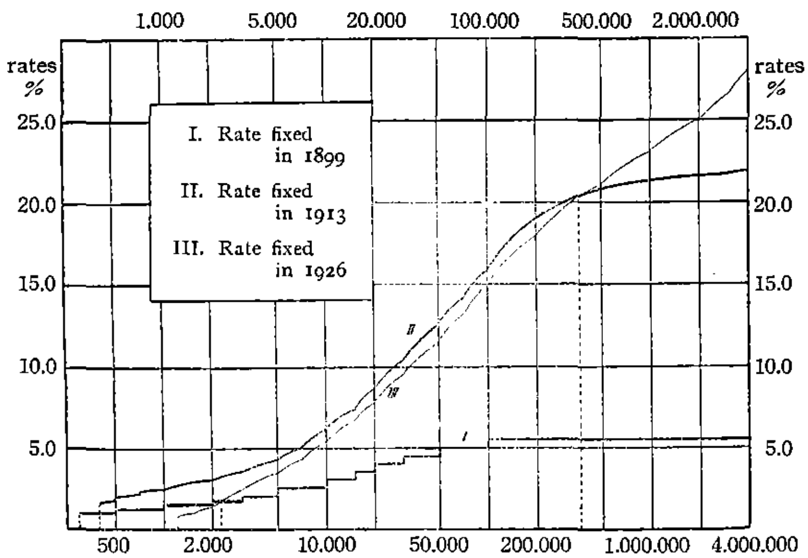
Showing Comparative Rates on Class C Incomes

| Annual income (yen) | Rate fixed in 1899 | Rate fixed in 1913 | Rate fixed in 1926 |
|---|---|---|---|
| 300 | 1.0 | — | — |
| 400 | 1.0 | 1.6 | — |
| 500 | 1.2 | 1.8 | — |
| 501 | 1.2 | 2.0 | — |
| 700 | 1.2 | 2.1 | — |
| 701 | 1.2 | 2.3 | — |
| 1,000 | 1.5 | 2.4 | — |
| 1,001 | 1.5 | 2.5 | — |
| 1,200 | 1.5 | 2.7 | — |
| 1,500 | 1.5 | 2.8 | 1.0 |
| 2,000 | 1.7 | 3.0 | 1.5 |
| 3,000 | 2.0 | 3.5 | 2.4 |
| 5,000 | 2.5 | 4.3 | 3.4 |
| 7,000 | 2.5 | 5.1 | 4.3 |

| | | | |
|---|---|---|---|
| 10,000 | 3.0 | 6.1 | 5.4 |
| 15,000 | 3.5 | 7.4 | 6.8 |
| 20,000 | 4.0 | 8.6 | 7.8 |
| 30,000 | 4.5 | 10.4 | 9.6 |
| 50,000 | 5.0 | 12.6 | 11.5 |
| 70,000 | 5.0 | 14.2 | 13.2 |
| 100,000 | 5.5 | 15.9 | 15.0 |
| 200,000 | 5.5 | 19.0 | 18.0 |
| 500,000 | 5.5 | 20.8 | 21.0 |
| 1,000,000 | 5.5 | 21.4 | 23.0 |
| 2,000,000 | 5.5 | 21.7 | 25.0 |
| 3,000,000 | 5.5 | 21.8 | 26.7 |
| 4,000,000 | 5.5 | 21.9 | 28.2 |

Diagram II.

Showing Comparative Rates on Class C Incomes




The diagram will show what a great unfairness resulted from the revision of 1899. This unfairness was partly remedied by the revision of 1913 but it still persists in the case of incomes below 1,000 yen.

Although the diagram shows many zigzags in the curve representing the income tax rates now in force, thereby showing a defect of the system, much of its former unfairness has happily been removed. It is highly regrettable that the zigzags in the base line representing income merely indicate the product of the legislators' whims and fancies and do not show any regular or irregular degression.

It is also regrettable that there is no rhythm in the curve representing the tax rates. The German Bureau of Statistics, in its attempt at adjusting the income tax in the light of the living conditions of the German people, has recently adopted the following graduated income schedule of regular degression—with an increase of 20 per cent in each grade—thereby breaking away from the traditional German system.

| | |
|---|---|
| Unter | 2,500 M. |
| 2,500 . . . . . . . . . . . . | 2,999 M. |
| 3,000 . . . . . . . . . . . . | 3,599 M. |
| 3,600 . . . . . . . . . . . . | 4,299 M. |
| 4,300 . . . . . . . . . . . . | 5,099 M. |
| 5,100 . . . . . . . . . . . . | 6,099 M. |
| 6,100 . . . . . . . . . . . . | 7,299 M. |
| 7,300 . . . . . . . . . . . . | x M. |

(2) Progression is applied to the income after the following items have been deducted therefrom: insurance premia, the maximum amount of which being 200 yen, ten or twenty per cent in case of earned income, and 100 yen for every person depending on the taxpayer for support. The following points in the application of progression should be noted: whereas all insurance premia under 200 yen are deducted regardless of the nature of one's income, no deduction is made in the case of those whose annual income exceeds the 12,000 yen limit, and deduction for dependent persons is also limited to those whose annual income is below the 3,000 yen mark. Thus, the principle of progression is not applied with thoroughness.

Let us first consider the deduction of earned income:

This deduction is limited to those whose annual income is below 12,000 yen, and all incomes below this mark are divided into two parts with 6,000 yen as the dividing line. A deduction of 20 per cent is made on incomes below 6,000 yen: and those above this mark are given a deduction of either 20 per cent or 10 per cent.

Table III indicates the interrelation between progression and the income tax rates.

### Table III.

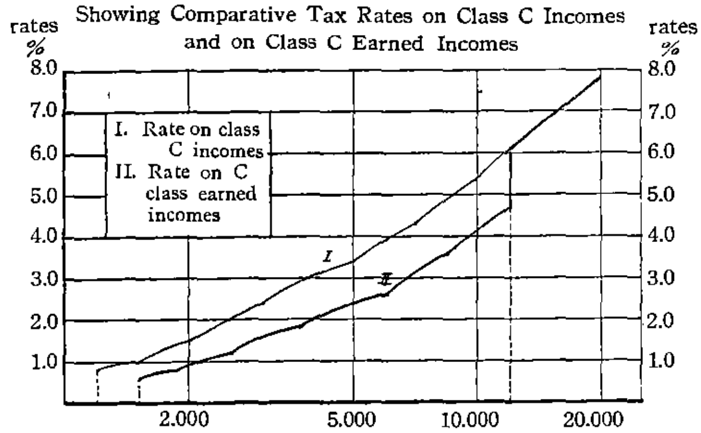
**Showing Comparative Tax Rates on Class C Incomes and on Class C Earned Incomes**

| Income (In Yen) | Class C income tax rates (%) | Class C earned income tax rates |
|---|---|---|
| 1,200 | 0.8 | — |
| 1,500 | 1.0 | 0.6 |
| 1,875 | 1.4 | 0.8 |
| 2,000 | 1.5 | 0.9 |
| 2,500 | 2.0 | 1.2 |
| 3,000 | 2.4 | 1.6 |
| 3,750 | 2.9 | 1.8 |
| 5,000 | 3.4 | 2.4 |
| 6,000 | 3.9 | 2.6 |
| 6,222 | 4.0 | 2.7 |
| 7,000 | 4.3 | 3.1 |
| 8,444 | 4.9 | 3.6 |
| 10,000 | 5.4 | 4.1 |
| 11,772 | 6.0 | 4.6 |
| 12,000 | 6.1 | 4.7 |
| 12,000 | 6.1 | 6.1 |
| 15,000 | 6.8 | 6.8 |
| 20,000 | 7.8 | 7.8 |

In order to simplify the problem under consideration, I have taken in Table III the following two sets of taxpayers: persons whose entire incomes are earned incomes and those whose incomes are derived exclusively from other sources, and made a comparative study of their respective tax burdens. What appears strange in Table III is the fact that, whereas a person whose annual income is 12,000 yen, pays an income tax of 4.7 per cent, one whose annual income is 12,000 yen pays an income tax of 6.1 per cent. The difference of only one yen in the annual income of persons causes such a big increase in the tax rate: this is obviously highly undesirable from the standpoint of the theory of taxation. This obvious unfairness is more vividly elucidated in Diagram III.

Diagram III.

Showing Comparative Tax Rates on Class C Incomes and on Class C Earned Incomes




Our lawmakers went to extremes when they revised the income tax in 1913 adopting the sytem of a ten-per cent deduction in all earned incomes regardless of differences in their amounts. But they also went to extremes when they arbitrarily fixed the maximum of deduction at 12,000 yen, thereby forbiding deduction in the case of all incomes beyond that limit. As a result of this revision, it has become possible for person's net income to increase because of a decrease in the amount of his salary, for he will have to pay much less after his salary has been reduced. This apparent injustice could be eliminated by the following method: All incomes of more than 12,000 yen a year should be divided into two parts, namely, 12,000 yen inclusive of earned income and the remainder of the total income; a deduction of ten or twenty per cent should be made on the first portion and the resultant should be added to the other portion so as to form the object of taxation.

Injustice is also seen in thc present system of deduction for dependent persons, because the privilege is limited to recipients of incomes below 3,000 yen. This point is shown by Table IV.

## Table IV.

**Showing Comparative Effects of Deductions for Dependent Persons on Class C Income Rates**

| Income (yen) | Rate on taxpayer having no dependent persons | Rate of taxpayer having one dependent person | Rate of taxpayer having two dependent persons | Rate of taxpayer having three dependent persons |
|---|---|---|---|---|
| 1,300 | 0.9 | 0.7 | — | — |
| 1,400 | 1.0 | 0.8 | 0.7 | — |
| 1,500 | 1.0 | 0.9 | 0.8 | 0.6 |
| 1,600 | 1.2 | 1.0 | 0.9 | 0.7 |
| 1,700 | 1.3 | 1.1 | 0.9 | 0.8 |
| 1,800 | 1.4 | 1.2 | 1.0 | 0.9 |
| 2,000 | 1.5 | 1.4 | 1.2 | 1.1 |
| 2,100 | 1.6 | 1.5 | 1.3 | 1.2 |
| 2,200 | 1.8 | 1.6 | 1.4 | 1.3 |
| 2,300 | 1.8 | 1.7 | 1.5 | 1.3 |
| 3,000 | 2.4 | 2.2 | 2.1 | 2.0 |
| 3,001 | 2.4 | 2.4 | 2.4 | 2.4 |
| 5,000 | 3.4 | 3.4 | 3.4 | 3.4 |
| 7,000 | 4.3 | 4.3 | 4.3 | 4.3 |

An inquiry into taxpayers having three dependents each shows that the person whose income is 3,000 yen per year must pay a tax of 2 per cent, while the person whose annual income is 3,000 yen must shoulder a tax burden of 2.4 per cent. Thus, the system of deduction for dependent persons has the same defect as seen in that for earned incomes. Deductions for dependent persons should be made alike for all families just as in the case of insurance premia. The failure to discriminate between married and unmarried taxpayers and the absence of age qualifications in the deduction for dependent persons should receive proper attention in the revision of the income tax now in force.

### 4. THE ELEMENTS OF TIME AND PLACE IN THE FLUCTUATION OF TAX RATES

Some persons advocate that the minimum rate for Class

C incomes should be further reduced and that the maximum rate for the same income should be further raised, in order to improve the income tax system. On the other hand, there are others who favour a revision precisely in the opposite direction. In order to solve this problem, one should consider the elements of time and place in the fluctuation of the income tax rates.

(1) In comparing the different rates of the income tax, it is necessary to consider the existence and nature of local surtaxes. This comprises the question of the element of time in the fluctuation of the tax rates. There is no such a question where national taxation and local taxation are absolutely independent of each other, or in a community where the so-called Trennungssystem prevails.

However, this element of place constitutes an important and complicated problem where there exists the so-called Mischsystem. The latter system is sub-divided into the following: the so-called Steuruberweisungen under which a uniform income tax is first collected by the National government and part of the money is given to local governments; and the so-called Steurzuschlage under which the income tax is levied by the national government and surtaxes are levied by local governments. Our country enforces this latter system. In making a regional study of the income tax burden inclusive of the national and local burdens, it will be found that the heaviest tax is levied in Kagoshima Prefecture and the lightest tax in Osaka Prefecture. The averages of local surtaxes for every one yen of the national income tax are as follows: the prefectural surtax, 35.8 sen: municipal surtax, 14 sen; and the town and village surtax, 7.6 sen.

A Brief Account of Lccal Finances for the Fiscal Year 1930 published by the Bureau of Internal Affairs in the Home Office.

| | Heavy burden | | | Light burden | | | Average burden | | |
|---|---|---|---|---|---|---|---|---|---|
| | Prefectural tax | Municipal, town and village tax | Total | Prefectural tax | Municipal, town and village tax | Total | Prefectural tax | Municipal, town and village tax | Total |
| Percentage of local income surtax for citizens | **40.3** | **16.0** | **56.3** | 10.6 | 21.0 | 31.6 | 35.8 | 14.0 | 49.8 |
| Percentage of local income surtax for people of towns and villages | 42.7 | 10.0 | 52.7 | **24.0** | **6.3** | **30.3** | 35.8 | 7.6 | 43.4 |

Table V and Diagram V indicate the national income tax, prefectural surtaxes and municipal and town and village surtaxes of the city of Kagoshima and Osaka Prefecture exclusive of the city of Osaka.

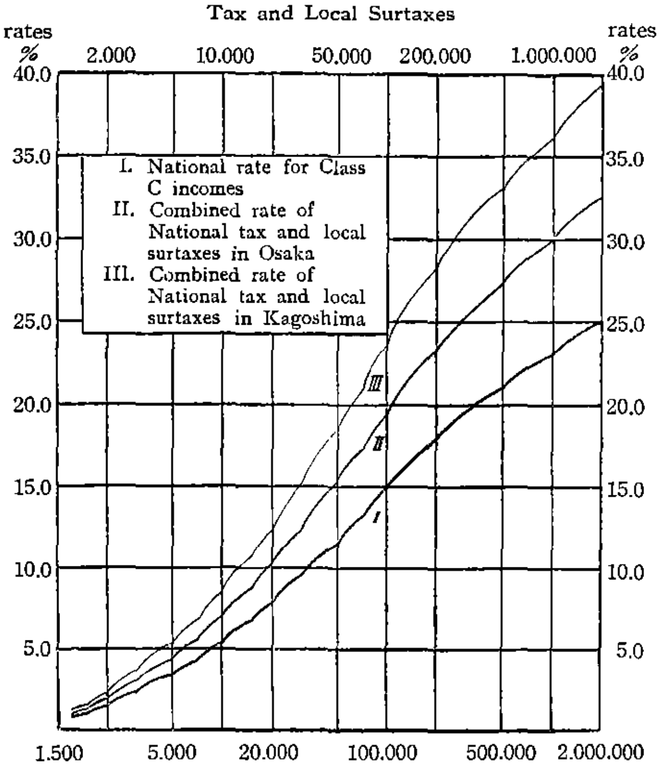
## Table V.

**Showing comparative Burdens of the national Income Tax and Local Surtaxes**

| Amount of income (yen) | Tax rate (%) | National income tax plus local surtaxes | |
|---|---|---|---|
| | | Kagoshima (Surtax, 56.3%) | Osaka Prefecture (Surtax, 30.3%) |
| 1,200 | 0.8 | 1.3 | 1.0 |
| 1,500 | 1.0 | 1.6 | 1.4 |
| 2,000 | 1.5 | 2.4 | 2.0 |
| 3,000 | 2.4 | 3.7 | 3.1 |
| 5,000 | 3.4 | 5.4 | 4.4 |
| 7,000 | 4.3 | 6.7 | 5.6 |
| 10,000 | 5.4 | 8.4 | 7.0 |
| 15,000 | 6.8 | 10.6 | 8.8 |
| 20,000 | 7.8 | 12.2 | 10.2 |
| 30,000 | 9.6 | 15.0 | 12.4 |
| 50,000 | 11.5 | 18.4 | 15.3 |
| 70,000 | 13.2 | 20.7 | 17.2 |
| 100,000 | 15.0 | 23.4 | 19.5 |
| 200,000 | 18.0 | 28.1 | 23.4 |
| 500,000 | 21.0 | 32.8 | 27.3 |
| 1,000,000 | 23.0 | 35.9 | 30.0 |
| 2,000,000 | 25.0 | 39.1 | 32.6 |
| 3,000.000 | 26.7 | 41.7 | 34.7 |
| 4,000,000 | 28.2 | 44.1 | 36.8 |

Diagram V.

Showing Comparative Burdens of the National Income Tax and Local Surtaxes




In comparing the progressive taxation of income in a foreign country with our own system, one should clearly know whether or not there is an inter-relationship between national taxation and local taxation, and where there exists such inter-relationship, whether the system is Steuruberweisungen or Steuerzuschlage. Our own present system is costly to the rationality of the tax rates in as much as local surtaxes varying in amount in different localities are levied side by side with the national income tax. A fundamental revision of the present inter-relationship between national taxation and local taxation is highly desirable.

(2) Of the various elements of time in the fluctuation

of the income tax rates, the more important items are the fluctuation of financial demand and that of the prices of commodities. Gunther has tried to fix the exemption point of income taxation on the nature of financial demand. I shall try to deal with the fluctuation of commodity prices as being responsible for that of the income tax rates, in considering the problem of the exemption point.

The exemption point in our income tax law has steadily risen during the past 50 years, due chiefly to the rise of commodity prices, the following being the different exemption points at different times: 300 yen in 1888: 400 yen in 1123; 500 yen in 1918; 800 yen in 1920 and 1,200 yen in 1926. The purchasing power of our currency has been greatly reduced since the close of the European War and this is reflected by the fact that our exemption point has become trebled since that time, it being increased from 400 yen to 1,200 yen. In actual practice, moreover, the exemption point is placed at a still higher point, because of the various deductions made under the income tax law now in force. Take the case of a taxpayer having two children under the age of 18 and who pays an insurance premium of 200 yen per year. His exemption point will rise as high as 2,000 yen. However, the rise of prices has now reached the bottom and the present tendency is towards the lowering of prices to the pre-war levels, as the following index number of wholesale quotations of prices in Tokyo indicates:

| Time | Index Number | Time | Index Number |
|---|---|---|---|
| July, 1914 | 100.0 | July, 1923 | 209.5 |
| 1915 | 101.6 | 1924 | 217.3 |
| 1916 | 122.9 | 1925 | 212.2 |
| 1917 | 154.7 | 1926 | 188.2 |
| 1918 | 202.6 | 1927 | 178.6 |
| 1919 | 248.2 | 1928 | 179.8 |
| 1920 | 272.8 | 1929 | 174.8 |
| 1921 | 210.8 | 1930 | 143.9 |
| 1922 | 206.0 | 1931 | 119.8 |

If the exemption point and the income tax rate are based primarily on the absolute numbers of income, then there will be no need of revising them according to the fluctuation of prices. On the other hand, it is undeniable that the minimum of living expenses is the starting point of the exemption point and the progressive tax rates are adopted in order to tax middle-size incomes lightly and large-size incomes heavily. In consequence, the fluctuation of the purchasing power of money forms the deciding factor of the change of the exemption point as well as of the income tax rates. Both the exemption point and the tax rates should be raised or lowered, as the case may be, according to changes in the ideas of different forms of incomes which are traced to the fluctuation of prices. Our exemption point was raised and the progressive tax rates were lowered at the time when the five-rin (half-sen) ceased to circulate.

It is high time that the exemption point was lowered and the progressive rates raised, now that these same small coins are wanted by the public.

## 5. THE PROPOSED REVISION OF THE INCOME TAX LAW

The present movement for the revision of the income tax law originated in the attempt of the chambers of commerce for reverting to the stoppage-at-source principle, but the progress of the movement seems to have been made in the direction just the opposite of what was intended by the chambers of commerce.

Considered from the viewpoint of tax rates, the stoppage-at-source principle regards proportionate taxes as the central point, while the lump sum principle makes the application of progressive rates possible. It should be noted also that the essence of the general income tax is realized through the application of progressive rates. So long as the general income tax is adopted, the lump sum principle of progressive taxation should be applied thoroughly, and the stoppage-at-source- principle of proportionate taxation should never be allowed to make its re-appearance. This is one of the two fundamental points in the proposed revision of the income tax law, the other point being the taxation of the interest on national government bonds.

Much improvement has been made by several revisions since 1899 on the tax rates of Class C income but there is some room for further improvement As to real progression, there is a great element of arbitrariness in the regression of income and in the progression of tax rates. As regards the pseudoprogression, we have seen abrupt increases in the deductions for earned incomes and dependent persons. Consideration for these points is urgently necessary.

Lastly, the differences in the rates of the local surtaxes in different localities have made the burden of the income tax unjust. This evil will not be eliminated unless the national and local taxes are revised fundamentally. The exemption point and tax rates are apt to be changed when prices go down. This may be natural for politicians who must court the good-will of the populace; but it is highly unfortunate when viewed from the broader standpoint of national interests, and a proper adjustment must be made regarding this matter.

Injustice arising from the elements of time and place must be given due attention in the revision of the income tax law.

Needless to state, the revision of the income tax rates is not all that is required of the revision of the income tax law; however, the former is the most important part of latter. Hitherto, the problem of the income tax rates has been treated as a matter of secondary importance; but it must be regarded as the pivotal point in the present readjustment of the tax system.

SABURO SHIOMI