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STATE OFFICIALS AND TAXATION

FOREWORD

By "State officials" in this article I do not mean those officials in charge of the assessment of taxes, but officials in general as taxpayers. I wish to discuss in this article the position of State officials in their capacity of taxpayers.

PART I
SHOULD STATE OFFICIALS BE TAXED?

In some countries, a privileged class, including the whole or a part of the officials, used to be exempted from taxes. France was the first country to abolish this privilege. Germany reduced the scope of the same privilege, and recently has given it up. Nor do we find any such a privilege in Japan, except in special cases such as the exemption of the salaries and allowances of soldiers who are engaged in war. It is highly debatable whether State officials should be exempted from taxes simply because they are State officials. There are many reasons, *pro* and *con*,

which I wish to examine in this paper.

(I) **Negative reasons**—There are the following two main reasons against the taxation of State officials.

(A) *Fundamental negative reason.* The basic reason for the exemption is the postulate that State officials belong to a ruling class and thus are not themselves part of the governed class. Inasmuch as taxes are collected from the governed for the expenses of governance, and State officials are not part of the governed, they are in a position to collect, but not to pay, taxes. Therefore, they should not be required to pay taxes. The privileges enjoyed by what amounted to a ruling class in Japan prior to the Imperial Restoration was probably based on such a notion of the position of State officials. The privileged class in France before the French Revolution did not pay taxes because they were the ruling class. If no State taxes are to be levied on State officials because belong to the ruling class, it follows that they should not be made to share the financial burden appertaining to local affairs, which are to be regarded as an essential though subsidiary part of State affairs.

(B) *Negative reason based on convenience.* It is asserted that convenience demands that none of the principal taxes should be imposed on State officials. This argument is advanced something as follows: If the State imposes taxes on its officials, it will be paying them salaries, on one hand, and taking part of those salaries back in the form of taxes, on the other. Inasmuch as the salaries of State officials should be net in amouut and only sufficient to be the just reward of their services and for their livelihood, if they are made to pay taxes, their salaries must be greater than when no taxes are imposed. In other words, if the officials are exempted, their salaries can be reduced in amount, because the result will be the same in both cases. Thus, if the officials are exempted from State taxes and their salaries are reduced, the expenses and labour involved in the collection of taxes could be dispensed with. Such a system will prove more practical.

(II) **Affirmative reasons**—There are reasons for the taxation of State officials which I shall examine as follows.

(A) *Fundamental affirmative reason.* State officials are not real rulers although they appear to belong to the ruling class, because the real ruler is the State. They are the organs of the State but do not constitute the rulership, for they are all part of the governed, just as are the common people in this respect. When the State attempts to extend the rights of the people, elevate their culture and enhance their welfare, State officials also receive the benefits of such activities as part of the people, and they are, therefore, an integral part of the object of governance. They differ from the common people in that they assist the State in the actual work of administration. Although in this way they are the assistants of the ruler, they themselves do not constitute the rulership. Nor do they escape the position of the governed. State officials are engaged in the work of promoting the rights of the people in the capacity of, say, judges or other organs of the State, but as subjects their rights are protected by both themselves and other State officials. Moreover, they receive the benefits of the various activities of the State such as hygienic or educational administration. They cannot remain officials only; for they are at the same time part of the people, nationals and subjects. Even in their capacity of State officials, they are not rulers. They are organs or assistants of the State, and for their work in such a capacity they receive salaries. They receive salaries not because they are the rulers but because they are assistants of the ruler. On the other hand, in their capacity of an integral part of the people, or nationals, they should share the burden of State administration just as other nationals do, and they should be required to pay State taxes. Taxation, as the people's obligation to the State, cannot be waived simply because they are State officials. The taxation of State officials is moreover necessary in order to impress upon them the fact that they are a part of the people. In the matter of local taxes, State officials have a greater reason

for paying these inasmuch as State officials do not administer local affairs but receive the benefits of local administration in the same way as do other local people. Thus, a State official should pay local taxes as one of local people.

(B) *Refutation of the negative argument based on convenience.* One may plausibly contend that if the salaries of State officials are reduced by the same amount that they would otherwise be taxed, the result would be the same and the trouble of tax assessment and collection could be dispensed with. However, there are differences between the two cases in actual practice.

(1) The negative argument would hold water if salaries were the only income of State officials. As a matter of fact, they have income from other sources as well. Moreover, it often happens that even when their salaries are their sole income, the members of their families living with them have their own income. Under the lump-sum progressive income taxation, all these incomes should be taxed on their whole amount. Such a lump-sum taxation is regarded as fair. Now, if no tax is levied on the salaries of State officials, the progressive tax would be levied on their income minus their salaries. This would be obviously unjust. The result will be different between such a system of taxation and the tax system under which no exemption is made as regards the salaries of State officials. In the former system, the amount of salaries is to be reduced by the amount of the tax that would otherwise be levied, while in the latter case the progressive tax is to be levied on the entire income of State officials including their salaries. Thus, State officials should be taxed on their salaries even though a certain amount of expense is involved in such a system of taxation.

(2) Now let us suppose, for argument's sake, the State officials' incomes are limited to their government salaries and that neither they nor the members of their families have any income from other sources. Under this supposition it may appear that the imposition of a schedule tax on their salaries (instead of a lump-sum tax) will have the same

result as the exemption from the tax involved by the reduction of their salaries by the same amount as the tax. But this uniformity of result is only apparent and not real. The two may be the same at some given point of time, but their balance will be broken by incidents such as the revision of the income tax law or of the law relating to the salaries of State officials, and discrepancies will arise between the two sets of systems. The balance made at some time may be broken at other times.

(3) Moreover the phenomenon of shifting taxation will give rise to differences between the two systems. State officials may shift their tax burdens as do ordinary taxpayers, so that they would be better off when they are required to pay the tax and their salaries are left intact than when no tax is levied and their salaries are reduced by the same amount as the tax. Moreover, there are some positive reasons for the imposition of income tax on State officials. Thus, the argument against taxation on the ground of inconvenience falls to the ground.

(C) *Other reasons.* The exemption of State officials from income tax may at first appear as a privilege, but in reality it is likely to impair their authority in the eyes of the people rather than increase it. Thus, State officials should not be exempted from income tax.

PART II
METHODS OF TAXING THE SALARIES OF STATE OFFICIALS

Having decided in favour of the taxation of the salaries of State officials, our next problem is regarding the methods of taxation. This problem consists of (1) the methods of reaching the tax object and (2) the tax rates.

(I) **There are the following two methods of reaching the tax object**; the stoppage-at-source system and collection from the individual recipients of income. Supposing the tax is collected from recipients, the next problem is whether the schedule tax or the lump-sum tax should be adopted.

(A) *Stoppage-at-source system or collection from recipients.*

(a) Reasons in favour of the stoppage-at-source taxation. Inasmuch as the salaries of State officials are paid out of the State Treasury, the simplest and the least expensive method is to deduct the amount at the time of payment. This method is practised in the collection of British income tax.

(b) Reasons in favour of collection from recipients of income.

(i) The stoppage-at-source system will be good enough if the schedule tax system is adopted in the taxation of income. However, the stoppage-at-source system will be found unsatisfactory so long as the ideal of income taxation is to tax progressively, according to one's ability to pay, the entire sum of one's income as well as that of one's family. If lump-sum taxation is deemed necessary to assure justice in taxation, income tax must be collected from recipients of income.

(ii) There are no technical reasons for the taxation of the salaries of State officials at the source, because it is easy enough to collect the tax direct from recipients of income. In the case of Class 2 income under our income tax law, namely, bonds and debentures, etc., the stoppage-at-source system is most convenient. This is especially so for the taxation of income from unregistered bonds and debentures, and the collection of the tax from recipients of such income is practically impossible. But such a techinical difficulty is absent in the taxation of salaries of State officials, since in this case the names and location of recipients are clearly known to the Government, and the tax can be collected with ease. The stoppage-at-source system, though it is a convenient method of collecting the tax, is not needed here. Moreover, it is desirable from the standpoint of justice in taxation that a lump-sum tax should be collected from recipients of such income.

(B) *Schedule tax or lump-sum tax.*

(a) Reasons in favour of the schedule tax. The imposi-

tion of a schedule tax on the salaries of State officials is necessary in times of emergency but not in normal times. Special taxes applying to State officials should be created in times of emergency. If we are passing a time of emergency at present, such taxes should be created and the special contribution of States officials should be exacted. Such taxes should be established apart from ordinary taxes. In fact, they should be, in the strict sense of the word, special taxes. When in times of crisis the National Treasury suffers a reduction of revenue, the Government may effect the reduction of the salaries of State officials. It is said that State officials get minimum living salaries, and that if their salaries are reduced, they will starve. However, it is a matter of general knowledge that there is flexibility about standards of living and that consequently they may be lowered to some extent in case of dire need. Supposing that the exigencies of the National Treasury demand the reduction of the salaries of State officials, the question arises as to whether their salaries should be reduced or they shoud be required to pay a special tax. If the amount is the same for the two cases, I should favour the imposition of a special tax, since this will give a better mental satisfaction to the officials. They will feel proud of the honour done them in affording them the privilege of making a special contribution for the relief of the State. On the other hand, they will take it as a sort of humiliation if their salaries are cut. Such a reduction of their remuneration would appear to be a kind of punishment or mistreatment by the State. In the first place, taxes are paid by people who feel their moral obligation to share the financial burdens of the State, and State officials are no exception to this general rule. And, if they pay a special emergency tax of their own, they will have the delight and satisfaction of feeling that they are serving the State to a greater extent than ordinary subjects. It is desirable that such a tax should be a schedule tax rather than a lump-sum tax.

(b) Reasons in favour of the lump-sum tax. Except

such a special and temporary tax, taxes on the income of State officials can be most naturally and justly levied if they are levied in the form of a personal lump-sum tax. Such a lump-sum tax will encounter the least technical difficulty.

(II) **The rate or degree of the tax.** All agree that the salaries of State officials are an earned income but it is debatable whether they are to be treated as being on the same level as other earned incomes and whether, supposing them to be different, they should be treated as involving a greater or a smaller ability to pay. In our Japanese tax system, the salaries of State officials are considered as being just the same as earned incomes in general. But opinions will differ on this point. There are two phases to this question: reasons may be found for a heavier taxation of the salaries under consideration, as well as for a lighter taxation of the same salaries. Whether the one or the other view is adopted will affect the nature of the tax imposed. One obvious method will be to regard the salaries as being the same as other earned incomes, since there are reasons for each of the two views. For my part, I believe that State officials should willingly shoulder a heavier tax burden. In the first place, the officials should show an example to others regarding the obligation of the subject to pay taxes; secondly, they should be more grateful to the State than other people. I shall explain more fully later why I hold the view that State officials should assume a heavier tax burden.

(A) *Reasons for the lighter taxation of State officials.*

(a) The fact that the salaries of State officials are comparatively low. State officials receive salaries which are lower than those of local officials or employees of commercial firms, because of the honour and the security of their positions. In consequence, unless they are allowed to pay a lighter tax, their means of living will be jeopardised. One may justify such a compensation of the economic disadvantage of State officials. However, while it is true that State officials are placed in a more disadvantageous position than

other wage earners as regards their income, this disadvantage is made up for by the honour they receive and by the security of their positions. It would seem, therefore, that no compensation by means of a lighter tax is necessary. Supposing that a progressive tax is levied, as is usually the case, one may say that a rate one grade higher than the one which normally corresponds to an official's income should be adopted, because there is good reason why the salaries of State officials are lower than those of other people. Supposing, therefore, that a State official's salary amounting to ¥1,000 is equal in actual value to ¥1,500 drawn as salary by an ordinary subject, the same rate of pregressive tax should be levied on both. This means that a proportionately higher rate of tax may be levied on State officials. Thus, there is no reason why a lighter tax should be leived on State officials.

(b) It is difficult to conceal the salaries of State officials. The disadvantage of State offiicials, as compared with ordinary salaried men, in respect of paying income tax consists in the fact that the exact amount of their salaries is known to the revenue office and that there is consequently no way of concealing it. As a matter of fact, the salaries of private individuals are concealed to a great extent, as is also the case with business and property income. One may therefore plausibly urge a system of allowance in favour of the salaries of State officials. Such a system is adopted by Italy; allowance is made for the salaries and pensions of the Italian State officials by the income tax law of that country. But I, for one, cannot favour such allowance. To begin with, it is not just that private individuals conceal the amount of their salaries when reporting them to the revenue office. Therefore, such an unjust practice should not be made a basis of tax assessment. It should not be presupposed by a tax system. Nor can we say that all private individuals conceal the real amount of their salaries or other income when reporting the same to the revenue office. Some at least report the amount truthfully. No one, indeed, can say

that State officials are more honest than private individuals.

State officials make reports of their income honestly, not so much because of their wish to be honest as because of the very nature of the circumstances under which they are compeled to be so, so that their action cannot be regarded as praiseworthy. If they desire to make a greater contribution towards the happiness and welfare of the State they serve, they should be prepared to shoulder the financial burdens of the State to a greater degree than ordinary people. They should really be ashamed of bearing a lesser burden than others. They should at least be treated in the same way as others as regards this honest reporting of income, and should not be permitted to enjoy a more favoured treatment than others, who are equally honest in reporting. If State officials are allowed to pay a lighter tax simply because they are honest in reporting, the practice will put a premium on honesty and all taxpayers will be driven to make false reports, because they will naturally resent this discrimination.

(c) State officials are restricted in earning income from sources other than their official positions. Being subject to the strict civil service regulations, State officials cannot have private sources of income without permission by their superintendent. They are supposed, on the other hand, to devote their entire time and energy towards the execution of their official duties. Thus, they have no energy left for any private business or work on their part. Even when they have leisure, they must not use it for their private work. On the other hand, there are no such restrictions on the activities of non-official workers, who are left free to engage in private work at will. Thus, it is proposed that discrimination should be made between the two sets of workers and that State officials be given a special consideration in the taxation of their salaries. In reality, however, there is no extensive difference betweeh the two. State officials could have private sources of income only if they secured permission of their superior. But private employees are not entirely

free to engage in side work, and, if they should go too far in this direction, they will most probably be discharged. It is clear then that there exists no real difference between the positions of State officials and private employees in respect to basis of living. At any rate, whatever difference obtains is not a sufficient ground for any differentiation of tax burden.

(d) The salaries of State officials are fixed and cannot follow and adapt themselves to changes in the economic world. The salaries of employees usually rise as time passes. This is true also in the case of State officials. This rise in the main corresponds to changes in one's domestic circumstances. The fact remains, however, that the salaries of State officials tend to remain stationary because the law governing their salaries is fixed and is difficult of revision. It remains by untouched cyclic changes in the economic world, and is modified only after economic changes of a serious nature. Moreover, the adaptation of their salaries to economic changes takes much time, since it takes time to revise the law regarding official salaries. Such a revision, furthermore, usually is not sufficient to meet the economic changes demanding it, and the degree of adaptability is very low. Thus, when prices are on an upward trend, and the value of money on a downward tendency, State officials will encounter great financial difficulty, as they have to live on their original salaries. They will be placed in special distress, just when other people are in a prosperous condition. One may therefore justify some special consideration for State officials. However, this is only one side of the picture. They will be better off when prices fall and the value of money rises. Thus, the disadvantage they suffer at certain times is made up by the advantage they enjoy at other times. Thus, there is no reason why they should be given special consideration in the taxation of their income in normal times.

(e) The mental repression and servitude of State officials. In addition to tangible factors mentioned above, there are mental and moral restrictions placed on them. If they have

honour and dignity as officials, they must preserve their good reputation; they must be especially loyal and sincere in their every-day conduct. They must not strike even when others may do so. They cannot be free and unrestrained as ordinary people. They are not free and daring in action as farmers or merchants. The officials of municipalities and the employees of corporations are far freer than State officials, although they are all salaried men. It is thus asserted that this matter should be taken into consideration and State officials be allowed to bear a lighter tax burden. However, this psychological restraint is not very great—at least not great enough to call for allowance in taxation. Moreover, such psychological restraint is taken into consideration when the salaries of State officials are fixed.

(B) *Reasons for the heavy taxation of State officials.*

(a) Their special position which guarantees the security, continuity and certainty of their income. Although minor differences exist between judicial and administrative officials, and between civil officials and military officers as regards their salaries, when taken as a whole, their positions are secure and their salaries are certain. Unless they commit some great offence, their positions are secure. All officials, State, local and municipal, enjoy the certainty and continuity of their income to a greater degree than do private salaried individuals. But State officials far surpass all other officials in this respect. Because of this special security, State officials have a lesser need of providing for the future than have those whose positions are not so secure. If this is so, a heavier tax may be imposed on State officials than on non-officials. But on the other hand, much may be said against such a proposal. In the first place, changes in the general conditions of society have reduced the differences between State officials and private salaried men and other non-official workers for whom some security of position has been achieved. Secondly, whatever be the difference that exists between the two is made up for by the fact that State officials receive, by comparison, smaller salaries. Thus, a system

of heavier taxation of State officials is not justified.

(b) Pensions and allowances. Earned income is supposed to be entitled to a deduction as being able to bear tax burden to a lesser degree than property income. It is earned by persons for whose death, illness and old age provision must be made. But among wage earners, State officials occupy a position which is vastly different from that of others. They are entitled to pensions and other forms of aid. They also receive a fixed sum of money when retire. Thus, they are well provided ıor against the risks to cover which other salaried men must save part of their salaries, and are thus much better off than others. One may therefore urge a heavier taxation of their income or their exclusion from a system of lighter taxation provided for earned income. On the other hand, it should be noted that much the same system of security is now provided for both public and private salaried men and that it is being extended to other wage earners, so that the differences between State officials and non-official workers have been greatly reduced. Thus, no discrimination should be made between them. If we are to be more exact, such a discrimination should be made rather between wage earners having such a system of future security and those having no such a system. Such a system of discrimination will be oppossed by those who lay stress on the fact that the security under consideration invariably affects the salaries of the workers concerned and that those entitled to such a future security receive smaller salaries than those who are not benefited by such a system.

(c) Honour. State officials enjoy greater honour than do public or private workers. They are in a position to be decorated or their court rank is advanced more easily than in the case of others. Even the officials of the *hanninkan* rank are decorated or attain a certain rank, merely if they have served for a number of years. True, some municipal officials are entitled to the same privilege, but in reality they encounter much difficulty in this respect. Private

workers have almost no hope of receiving decorations or court rank. Moreover, State officials are accorded a greater degree of respect in society than are others. Thus, they can bear their comparatively low salaries and their psychological disability. If their honour is assessed at a great amount, a heavier taxation of their salaries may be considered justifiable. But the common-sense view is likely to regard their honour as being evened up by their comparatively low salaries and mental servitude, so that no special consideration should be given to the question of honour in the taxation of their salaries.

(d) State officials do not work hard. It may be stated, as a general principle, that physical labour is more strenuous than mental labour. Now, it is undeniable that State officials do not work as hard as private employees. While the exact comparison of their efficiency with that of private employees is difficult to express definite terms, the fact remains that the efficiency of State officials is very low. This being so, one may say that they are paid salaries much higher than those paid to private employees, and that therefore they should be taxed more heavily than non-official workers. However, it is almost impossible to indicate comparative efficiency in figures and to decide on such a basis whether State officials are paid higher or lower than other employees. The argument put forth here may be taken into consideration for reference purposes, but it should not be regarded as important.

(e) State officials have an intense sense of obiligation and a spirit of self-sacrifice. State officials should be willing to make all sorts of sacrifice as servants of the State and should have an intense sense of obligation. All State officials actually have such a sense of obligation and are willing to show a spirit of self-sacrifice. Even supposing that some of them are lacking in such a sense of obligation, once they are awakened to reality, it can be discerned in their attitude and conduct. They should be willing to serve the State more intensely than ordinary people, and, when serving the

State directly, they should be as wholehearted as soldiers themselves. The common people are obliged to engage in military service and even to sacrifice their lives for the good of the State, being content with the meagre provision given by the State. Similar sacrifice is required of State officials. They should be greateful for the salaries they receive as the special gift of the State. They should realize that their position is much better than that of soldiers. When they have this realization, they will not have any dissatisfaction over their small salaries; on the contrary, they will be grateful for the benefits they receive from the State. When this appreciation of their position on the part of State officials is taken into consideration, they should justly be taxed more heavily than other workers. In consequence, whatever special consideration has been given to their income may as well be abolished altogether.

CONCLUSION

To summarise: Although some favour the exemption from taxation of the salaries of State officials as their privilege, they should be taxed the same as are the salaries of the people in general, since State officials constitute an integral part of the governed. Moreover, their exemption is prejudicial to the general interests of taxation. In times of national emergency, a schedule tax of special nature may be levied on State officials, but in normal times a greater justice in taxation can be secured if their salaries are taxed in a lump sum together with other incomes. Nor will there be any necessity for taxing such salaries at the source. On the supposition that these salaries are to be taxed in a lump sum, arguments may be advanced for either heavier taxation or lighter taxation than that levied upon ordinary people. But none of these argument can form the basis of any tax system. The argument based on the sense of obligation on the part of State officials may be considered an exception, and it may be made the basis of a heavier taxation

of the officials. At any rate, this particular argument will certainly favour either the abolition or modification of a lighter taxation of the salaries of State officials as earned incomes.

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