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THE REFORM OF THE TAX SYSTEM

By SABURO SHIOMI

CHAPTER 1. PREFACE

The question of tax reform has been outstanding since 1935. It was first taken up by the Research Bureau of the Cabinet in 1935. Thereafter during the 70th ordinary session of the Diet, convened in 1937, the late Dr. Baba, Finance Minister of the Hirota Cabinet, attempted a revision of the tax system which ended in failure. Mr. Yuki, Finance Minister of the Hayashi Cabinet, managed to meet the urgent needs of national finance by means of an enactment known as the "temporary tax increment law", which provided for taxation levied on the capital of juridical persons, a special tax on bonds in foreign currencies, a gasoline tax and a tax on the transfer of negotiable instruments; at the same time initiating the temporary grants-in-aid fund amounting to some ¥100,000,000 and designed for the relief of local finance. Mr. Kaya, Finance Minister of the Konoe Cabinet, set up a Tax System Commission in 1937 with a view to effecting a thoroughgoing reform of the tax system, but his programme failed to materialize owing to the outbreak of the "North China Affair", as the Sino-Japanese conflict was called in its initial stage. Mr. Kaya then drafted the North China affair special tax which was adopted by the 71st special session of the Diet.

As the "North China affair" developed into the "China affair", the temporary war expenditure special account was created by the 72nd extraordinary session of the Diet. During the 73rd ordinary session of the Diet of 1938 the China affair special tax was created which took the place

of the earlier North China affair special tax. In the same session of the Diet, the excess profits tax and certain other taxes were revised and the temporary tax adjustment law was enacted. On the occasion of partial reorganization of the Konoe Cabinet, Mr. Ikeda succeeded Mr. Kaya as Finance Minister, but this change of personnel in the Ministry of Finance did not lead to any further alterations in the tax system.

During the 74th ordinary session of the Diet held in 1939, Mr. Ishiwata, Finance Minister of the Hiranuma Cabinet, undertook a revision of the China affair special tax, the excess profits tax and the temporary tax adjustment law. He also announced his intention of reviving the Tax System Commission, which had been inactive since its inauguration in 1937, as a prelude to a general revision of the tax system, on a national scale as well as locally.

The Tax System Commission met almost every week throughout April, May and June following the Diet recess in April, 1939. As a result of discussions in the Commission, which met some eight times in all, the objectives of the projected tax reform were determined on the following lines; (1) to secure a more equitable incidence of the burden of taxation, nationally and locally, (2) to harmonize taxation with the various economic measures, (3) to fashion a system of taxation which would be elastic while ensuring an increase in revenue, and (4) to simplify the tax system as a whole. After August, 1939, the subcommittee of the Commission set about the detailed examination of a plan for the revision of the national taxes, drawn up by the Taxation Bureau of the Finance Department, and a similar proposal for the revision of local taxes, drafted by the Local Affairs Bureau of the Home Office. On the occasion of the resignation of the Hiranuma Cabinet which may be regarded as a sequel to the conclusion of the Russo-German non-aggression pact, General Abe was called upon to form a cabinet and Mr. Aoki was offered the portfolio of Finance. Insofar as tax revision was concerned, however, Mr. Aoki maintained

the policy of his predecessor, Mr. Ishiwata. Following upon a series of subcommittee meetings, which were held some 14 times in all, eight plenary sessions of the Commission were called, and on October 26th, a resumé of the Commission's considered recommendations were drawn up. The tax reform plan thus elaborated was approved at the Cabinet meeting of December 8th, and was subsequently prepared for submission to the 75th session of the Diet. Upon the fall of the Abe Cabinet, Mr. Sakurachi, Finance Minister of the Yonai Cabinet introduced the reform of the tax system in the course of the 75th session of the Diet. Subject to the Diet's approval, this measure of reform will become law as from April 1st, 1940.

The tax revision in contemplation is an epoch-making one and will mark an important stage in the financial history of Japan.

CHAPTER 2. THE REFORM OF NATIONAL TAXATION

1. The extent and method of expansion in taxation

1. The objectives of the tax reform are, as already mentioned, (1) to secure a more equitable incidence of the burden of taxation, nationally and locally, (2) to harmonize taxation with the various economic measures, (3) to fashion a system of taxation which will be elastic, while ensuring an increase in revenue, and (4) to simplify the tax system as a whole. Of these the third may be regarded as the most important objective, namely, the establishment of a tax system which will be elastic, while ensuring an increase in revenue. Needless to say, no provision can be of greater importance to Japan, engaged as she is in a stupendous project of long-term construction, than to secure permanent sources of revenue, and to this end it is necessary to undertake a thoroughgoing reform of the tax system, a reform which will involve an adequate increase in tax revenues. It may not be altogether impossible to secure the necessary

increment for the fiscal year 1940—1941 upon the basis of the present tripartite arrangement consisting of basic taxes, taxes collected under the Temporary Tax Increment Law and taxes imposed in accordance with the China Affair Special Tax Law, but such temporizing methods will surely be found inadequate in the succeeding fiscal year 1941—1942. Fully recognizing the necessity of giving elasticity to the tax system so as to make it capable of meeting the expanding expenditure anticipated in the future, while, at the same time contriving to increase the ordinary revenues for the fiscal year 1940—1941, the present measures of tax reform have been decided upon.

When seeking to effect tax reforms which aim *inter alia* at securing a higher rate of taxation, it might be suggested that the revised tax system should include new taxes on property and the proceeds of sales or at least on one of these categories. The tax reform plan which Dr. Baba drew up during his term of office as Finance Minister, in 1937 provided for such taxes. These two tax categories are not without their merits, but the objective circumstances now prevailing do not warrant the introduction of such levies.

2. The present tax reform plan is designed to revise the tax system on the general basis of the present structure without introducing new levies such as taxes on property and on the proceeds of sales. The taxes now imposed in Japan may be classified as direct and indirect taxes. Needless to say, both direct and indirect taxes must be augmented, if a substantial increase in revenue is to be realized, but as to which of the two should receive the greater attention calls for careful study. A price policy is of special importance to Japan in the present so-called emergency. It is so important, indeed, that the Government, not content with fixing official prices for important commodities, has gone so far as to adopt "emergency measures for the control of prices, etc.", in accordance with which it saw fit to peg prices compulsorily to the level ruling on September 18th, 1939. Not all prices are officially fixed, however. An in-

crease in price is recognized when it is deemed inevitable in consequence of the raising of indirect consumption taxes. It will thus be seen that an increase in excises tends to force up the prices of the commodities concerned, as the increased burden is apt to be shifted on to consumers. A big increase in excises is undesirable, therefore, from the point of view of price policy, because it is calculated to stimulate a rising tendency in prices. It is for this reason that under the contemplated tax reform plan direct taxes are to be raised to a greater extent than indirect taxes.

3. The estimates of the national tax revenue for the fiscal year 1939—1940, as classified under direct taxes, indirect taxes and miscellaneous taxes, are shown in the following table (the figures are in units of ¥ 1,000):—

Direct taxes		Indirect taxes		Other taxes	
Income tax	802,686	<i>Sake</i> tax	254,767	Exchange tax	24,981
Land tax	48,234	Aerated beverages tax	7,068	Tax on transfer of negotiable instruments	2,369
Business profits tax	112,968	Sugar excise	127,356	Tonnage dues	2,468
Capital interest tax	42,378	Textile excise	43,222	Stamp revenues	90,681
Juridical persons' capital tax	27,492	Gasoline tax	11,733	Transit tax	9,243
Succession tax	49,401	Customs duties	175,195	Admission tax	8,114
Mining tax	8,808	Monopoly profits	241,030	Special admission tax	105
Special tax on bonds in foreign currencies	2,650	Commodity tax	105,177	Convertible note issue tax	—
Exchange business tax	2,153	Amusement tax	32,966	Building tax	1,614
Excess profits tax	297,313				
Special dividends tax	43,148				
Special tax on public bonds and debentures	2,006				
Total	1,439,243		998,517		139,579
		Grand total	2,577,339		

The income tax is the most important of all direct taxes. It accounts for ¥ 800,000,000 out of the total amount of direct taxation, which is put roughly at ¥ 1,400,000,000. If taxes are to be increased, with special reference to direct

taxation, therefore, the income tax is bound to receive the largest share of attention.

As already noted, the tax revenue for the fiscal year 1939—1940 is estimated at ¥ 2,577,000,000. In the fiscal year 1940—1941 it is anticipated that this figure will expand to some ¥ 3,300,000,000, provided the taxes are increased, as planned, by the addition of an estimated ¥ 730,000,000 of revenue. As it is expected that the revenue from the revised income tax will reach some ¥ 1,500,000,000, this will represent 46 per cent. of the total tax revenue realized under the new tax reform plan. The revision of the income tax thus constitutes the nucleus of the whole plan for the reform of the national taxation, and accordingly a study of the plan for the revision of the income tax will acquaint us with the major feature of the projected tax revision programme.

Two forms of legislation are conceivable in connection with the method of imposing the income tax. One is the type of legislation adopted in Germany and America, which is designed to create a separate tax on the incomes of juridical persons, in addition to taxation imposed on individuals. The other type which is in force in Britain, France and Italy, deals with the tax on the incomes of individuals and the tax on the incomes of juridical persons under one and the same tax law. The Japanese income tax law hitherto provided for both categories, but the reform plan differentiates taxes on the incomes of individuals from taxes on the incomes of juridical persons. It further divides the tax on the incomes of individuals into a classified income tax and a general income tax.

The classified income tax is to be imposed on incomes of all descriptions at proportionate rates, irrespective of the amount of income, while the general income tax is to be imposed on such portions of the total income in excess of a certain stipulated amount, at progressive rates of assessment in accordance with the size of the income concerned. The taxing of the incomes of individuals on this dual basis characterizes the income tax systems of Great Britain (which has

a normal or income tax and a surtax) and France (which has both the impôts cédulaires sur les revenus and the impôt général sur le revenu).

I shall now venture to explain in detail the classified income tax, the general income tax and the juridical persons' tax in the order given.

2. *The classified income tax*

The classified income tax hitherto unknown in the Japanese income tax system is constituted as follows:—

(1) The classified income tax is to be imposed on individuals, whose incomes are classified under the following six categories. As regards incomes from dividends and interest, however, those accruing to juridical persons are to be taxed as well:—

- Incomes from immovable property.
- Incomes from dividends and interest.
- Incomes from general enterprises.
- Incomes from labour services.
- Incomes from forestry enterprises.
- Incomes from retiring allowances.

(2) The objects of taxation.

(a) Incomes from immovable property shall comprise the incomes accruing from land, houses, ships and the lease of rights on immovable property.

(b) Incomes from dividends and interest shall comprise the incomes falling within the categories mentioned below:—

A. Interest on public bonds, debentures or deposits, or profits on loans in trust, received in the districts where the tax law is in operation, and dividends, profits or interest and the allotment of surplus monies received from juridical persons which have their head offices or principal offices in the districts where the tax law is in operation.

B. Interest on non-business loans, and interest on

public bonds, debentures or deposits, profits on the loans in trust, the dividends, profits or interest or the allotment of surplus monies received from juridical persons, which do not fall under category A.

(c) Incomes from enterprises shall comprise the incomes mentioned below :—

A. Incomes from the following businesses, namely retail businesses, money-lending, commodity loan businesses, manufacturing, transportation, warehousing, contracting, printing, publishing, photography, hotels, restaurants, brokerage, agencies, middleman enterprises, wholesale businesses, mining operations, alluvial mining, bath houses, hairdressing, etc.

B. Incomes accruing from free professions incomes accruing from agriculture, stock farming and fishery enterprises and incomes which do not fall under any other category listed.

(d) Incomes from labour service shall comprise salaries, wages, annual allowances, pensions and other allowances of a kindred nature.

(3) Standards of assessment.

(a) Incomes from immovable property shall be the balance after necessary expenditures have been deducted from the receipts.

(b) Of the sums to be distributed on the liquidation of juridical persons, the amount exceeding the paid-up capital shall be regarded as a dividend on profits and taxed separately from other incomes.

(c) Incomes from enterprises shall be the balance after necessary expenditures have been deducted from the receipts.

(d) In assessing the business incomes of individuals, the excess profits tax imposed on the profits for the year concerned shall be deducted.

(e) Incomes from labour service shall be the amount of receipts.

(4) Exemptions and basic deductions.

(a) In the case of incomes from immovable property, an income not exceeding ¥ 250 shall be exempted from taxation.

(b) In the case of incomes from enterprises and from forestry projects, a basic deduction of ¥ 500 shall be allowed.

(c) In the case of incomes from labour service, a basic deduction of ¥ 720 shall be allowed.

(d) In the case of income from retiring allowances, a basic deduction of ¥ 10,000 shall be allowed.

(5) Deductions for maintenance and life insurance premiums.

In the case of incomes from immovable property, from enterprises, from labour service and from forestry operations, an amount equivalent to 8 per cent. of ¥ 150 to be deducted in favour of the taxpayer's wife and for each member of his family depending on him for support, in assessing his tax. This deduction shall not be allowed, however, for persons whose total incomes exceed ¥ 5,000. In the case of these incomes, the amount of life insurance premiums which may be deducted shall not exceed ¥ 200.

(6) Tax rates.

Incomes from immovable property: 10 per cent.

Incomes from dividends and interest: 10 per cent.

Exceptions: 4 per cent. for interest on national bonds and 9 per cent. for interest on local bonds.

Incomes from enterprises:

Incomes from business: 8.5 per cent.

Other incomes: 7.5 per cent.

Exception: 6 per cent. where incomes from enterprises fall short of ¥ 1,000.

Incomes from labour service: 6 per cent.

Incomes from forestry operations shall be taxed at somewhat reduced rates.

Incomes from retiring allowances shall be subject to taxation at the following progressive rates:—

Amounts less than ¥ 20,000 :	6 per cent.
Amounts exceeding ¥ 20,000 :	12 per cent.
Amounts exceeding ¥ 100,000 :	25 per cent.
Amounts exceeding ¥ 500,000 :	40 per cent.

(7) Interest on bank savings deposits, and interest on *sangyo kumiai* (farmers' co-operative societies) savings of which the principal exceeds ¥ 3,000 shall be taxed at 5 per cent.

(8) Methods of collection.

(a) Incomes from dividends and interest of (A) category, incomes from labour services and incomes from retiring allowances shall be taxed at the source.

(b) All other incomes shall be taxed and collected, as a rule, on the basis of the actual incomes for the previous year.

(c) The amount of tax collected at the source in respect of incomes of juridical persons from dividends and interest shall be duly deducted in assessing the juridical persons' tax.

Although the classified income tax rates are proportional, the rate for incomes from property, that is, incomes from immovable property and from dividends and interest, is fixed at 10 per cent., and the rate for incomes from labour service at 6 per cent., while intermediate rates are to be imposed on incomes from enterprises, which are regarded as incomes accruing from property and labour services combined. That is to say, incomes from business (commercial and industrial incomes) are to be taxed at 8.5 per cent., and other incomes from enterprises at 7.5 per cent. Interest on bank savings deposits and interest on *sangyo kumiai* (farmers' co-operative societies) savings have hitherto been exempt from taxation, but under the new tax system a 5 per cent. tax is to be imposed on them, whenever the principal involved exceeds ¥ 3,000. Reduced rates of 4 per cent. and 9 per cent. respectively are, however, provided for interest on national and local bonds. Just as the standard income tax rates are altered in Great Britain to meet the new financial needs

which arise from time to time, so the rates of the classified income tax under consideration can be revised to meet financial exigencies. This affords elasticity to the tax system.

The basic deductions of ¥ 500 and ¥ 720 respectively are allowed for incomes from enterprises and forestry operations and for incomes from labour services, while deductions for maintenance on behalf of the taxpayer's wife and other members of his family depending on him for support and deductions for life insurance premiums are also provided in taxing incomes from immovable property, enterprises, forestry operations and labour services. Such being the case, although the rates are proportional in form, they are actually more or less progressive.

Whereas, under the earlier income tax law the method of taxing at the source was applied exclusively B-class incomes (that is, interest on public bonds and debentures, interest on bank deposits and profits on loans in trust), and the method of lump-sum or collective taxation was applied to all other incomes as a general rule, under the new tax system, the method of taxing at the source is extended to practically all the incomes from dividends and interest, from labour services and from retiring allowances; collective taxation being confined to incomes from immovable property and from enterprises. As a result, the imposition of local surtaxes on the basis of the classified income tax has become an impossibility. This is one important cause for the development of the new tendency for local finance to depend on the *bunyo-zei—bunyo-kin* (system of grants-in-aid of taxes) system instead of on the surtaxes, as hitherto.

3. *The general income tax*

As already explained, under the new tax system, the classified income tax is to be imposed on incomes of all kinds at proportional rates, so that the larger portion of the people's income may be taxed. In this way, it is intended to impart the character of a people's tax to the income tax,

besides investing it with elasticity. Inasmuch, however, as the equitable incidence of the burden of taxation as between persons of large incomes and those of small incomes cannot be achieved through the imposition of the classified income tax alone, provision is made for the imposition of a general income tax at progressive rates on that portion of large incomes which exceeds a certain specified limit.

The outlines of the general income tax are as follows:—

(1) The general income tax shall be imposed at the following progressive rates on individuals in respect to the portion of their aggregate incomes of all kinds in excess of ¥ 5,000 :

Amounts exceeding ¥ 5,000 :	10 per cent.
Amounts exceeding ¥ 8,000 :	15 per cent.
Amounts exceeding ¥ 12,000 :	20 per cent.
Amounts exceeding ¥ 20,000 :	25 per cent.
Amounts exceeding ¥ 30,000 :	30 per cent.
Amounts exceeding ¥ 50,000 :	35 per cent.
Amounts exceeding ¥ 80,000 :	40 per cent.
Amounts exceeding ¥ 120,000 :	45 per cent.
Amounts exceeding ¥ 200,000 :	50 per cent.
Amounts exceeding ¥ 300,000 :	55 per cent.
Amounts exceeding ¥ 500,000 :	60 per cent.
Amounts exceeding ¥ 800,000 :	65 per cent.

(2) Incomes from interest on public bonds and debentures, incomes from interest on bank deposits and from profits on loans in trust shall be taxed collectively with a 40 per cent. deduction made from the receipts. For the present, however, these incomes may be taxed at 15 per cent. currently instead of at the time of interest payments, if application is made by the tax-payer concerned.

Incomes from interest on bank savings deposits and *sangyo kumiai* (farmers' co-operative societies) savings, the principal of which exceeds ¥ 3,000, shall be similarly treated.

(3) As regards the dividends of profits or interest or the allotment of surplus monies received from juridical

persons, interest on the debt contracted in acquiring these incomes shall be deducted as necessary expenditure.

(4) A 10 per cent. deduction shall be made in respect to incomes from labour services of persons whose total incomes are below ¥ 10,000.

(5) In all kinds of incomes, assessment shall be made, as a general rule, on the basis of the actual incomes for the previous year.

As the general income tax is at progressive rates, it is levied on the aggregate amount of the incomes accruing to individuals from various sources. The methods of imposition are, on the whole, the same as those applied to the earlier C-class income tax, except in the following three respects. Firstly, whereas a 20 per cent. deduction has hitherto been allowed in regard to dividends on shares, regardless of the indebtedness or otherwise of the taxpayer, this deduction is abolished with this proviso that where the taxpayer contracted a debt in acquiring these shares, interest on this debt shall be deducted as necessary expenditure from the income. Secondly, in the case of interest on public bonds and debentures, interest on bank deposits and on profits on loans in trust, to wit, the incomes falling under the category of B-class incomes under the earlier tax law, a 40 per cent. deduction shall be allowed. Since, however, incomes of this kind have hitherto been taxed at the source, some apprehension is entertained lest a sudden change-over to collective taxation should cause much inconvenience, and consequently, as a transitional arrangement, "the way is opened for these incomes to be taxed at the source at the proportional rate of 15 per cent., for the present, if the taxpayer concerned chooses this method of taxation."

Since the progressive rates provided for in the general income tax are meant to be additionally applied to the excess amount, they are graded moderately, though the maximum rate stands as high as 65 per cent. In an extreme case, therefore, an income may be taxable at 75 per cent., viz., 10 per cent. in the classified income tax list plus 65 per

cent. in the general income tax category. When this fact is taken into consideration, it will readily be seen that it is unreasonable to impose a local surtax on these incomes, in addition to the imposts.

*4. The juridical persons' tax and the special
juridical persons' tax*

I have so far dealt with the income as it concerns individuals. In the case of juridical persons, a juridical persons' tax has been separately created chiefly along the lines of the income tax and partly along the lines of the capital tax. The outlines of the juridical persons' tax are as follows:—

(1) In the case of juridical persons, the juridical persons' tax shall be imposed, and the A-class income tax, the juridical persons' business profits tax and the juridical persons' capital tax, which were formerly levied, shall be abolished (the excess income tax to be incorporated in the excess profits tax).

(2) The juridical persons' tax shall be imposed on the income and the capital of the juridical person.

(3) In the assessment of the income of the juridical person, the 'juridical persons' tax shall not be counted as loss.

The assessed income of the juridical person shall be the balance after the excess profits tax imposed on the profits for the business year concerned has been deducted from the total income.

(4) The amount of loss incurred in the previous three business years shall be counted as loss, in assessing the income for the current business year.

(5) The rates of the juridical persons' tax shall be as follows:—

18 per cent. of the amount of income.

1.5 per mille of the capital.

In the case of a juridical person lacking either head

office or main office in the area where the tax law operates, the rates shall be 28 per cent. of the amount of income.

(6) The juridical persons' tax shall not be levied on that portion of the liquidation income which consists of reserve fund and untaxable income.

(7) The classified income tax on dividends and interest accruing to the juridical person shall be deducted from the amount of tax to be imposed on the income of the juridical person.

What is noteworthy in connection with the juridical persons' tax is the revision made in the method of calculation. According to the revised method of calculation, the juridical persons' tax is not to be counted as loss in assessing the income of the juridical person, while the amount of loss incurred in the previous three business years is to be included in the loss in assessing the income for the current business year. Whereas the latter revision operates to lighten the burden of the juridical person, the former revision is bound to add to this burden. Theoretically speaking, it is correct to exclude income tax in the calculation of loss, as the income is regarded as the gross profit minus the gross loss, and the income tax is a tax which is imposed on this income. But since the income tax has hitherto been included in the loss, the new method of calculation will inevitably lead to a considerable increase in the tax burden of juridical persons throughout the period of transition.

The juridical persons' tax rates are calculated on a two-fold basis, namely, 18 per cent. of the amount of income and 1.5 per mille of the capital.

The second objective of the new tax reform plan is "to harmonize taxation with the various economic measures," among which measures for the expansion of productive power are regarded as of particular importance. Inasmuch as juridical persons have a very important part to play in the execution of the policy for the expansion of productive power, the Finance Department authorities give the following five items as measures to be taken in facilitating such a

programme of expansion :

(1) The tax shall be reduced, in case the juridical person has employed income in reserve for the extension of equipment for production or for the purchase of national bonds.

(2) Reduced rates of the juridical persons' tax shall be imposed on the incomes from enterprises carried on abroad.

(3) Important minerals shall be exempted from the income tax, the juridical persons' tax and the business tax, in the initial year of mining operations and also for the next three years, following the example of exemptions granted at present to the industries for the manufacture of certain essential articles.

(4) The shortening of the term of depreciation allowed for fixed property devoted to wartime industries shall be extended to old plants also.

(5) Industrial companies operated by members of the same family shall be differentiated from the holding companies run by family groups and the rates of taxation levied shall be somewhat reduced.

The special juridical persons' tax of the following content has also been created as an impost on special juridical persons :—

(1) The special juridical persons' tax shall be imposed on special juridical persons such as *sangyo kumiai* (farmers' co-operative societies), the federation of *sangyo kumiai*, commercial associations, the federation of commercial associations, industrial associations, the federation of industrial associations, the central cash office of *sangyo kumiai* and the central cash office of commercial and industrial associations.

(2) The special juridical persons' tax shall be imposed on the surplus funds of special juridical persons (the surplus fund intended for payment as dividend for the volume of business done being excepted). The *sangyo kumiai*, commercial associations and industrial associations whose surplus funds fall short of a certain fixed percentage of

the paid-up contributions shall be exempted from taxation.

(3) The rate of the special juridical persons' tax shall be 6 per cent. of the surplus fund.

5. *The excess profits tax and the succession tax*

Among the revisions of national taxes other than the income tax, the revision of the excess profits tax calls primarily for attention. This tax developed out of the A-class excess profits tax (an impost on the portion exceeding the average profit for the three years 1929, 1930 and 1931), which was created at the time of the Manchurian affair, and the B-class excess profits tax (an impost on the portion exceeding the average profits for the three years 1934, 1935 and 1936), which came into being as a sequel to the China affair, and was later incorporated with it. Under the new tax reform plan, the A-class excess profits tax is abolished, while the B-class excess profits tax is retained. The new excess profits tax is constituted as follows:—

The excess profits tax for juridical persons.

(1) The excess profits tax and the excess income tax shall be synthetically imposed on the juridical person.

(2) The profits of the juridical person to be taxed shall be the amount exceeding the standard rate of profit and the amount exceeding 10 per cent. per annum of the capital (inclusive of the reserve fund).

(3) The profits of the juridical person shall be divided into the following classes and taxed according to the rates indicated below:—

The portion exceeding 10 per cent. per annum of the capital but falling short of the standard rate of profit: 25 per cent.

The portion exceeding the standard rate of profit but falling short of 30 per cent. per annum of the capital: 45 per cent.

The portion exceeding 30 per cent. per annum of the capital: 65 per cent.

In the case of juridical persons whose capital is less than ¥ 100,000, the above-mentioned rates shall be reduced by 10 per cent.

(4) The standard rates of profit for juridical persons shall be the average rates of profit for the three years 1934, 1935 and 1936. Where the average rates of profit are unavailable or where the average rates of profit are below 10 per cent. the standard rate of profit shall be fixed at 10 per cent. per annum. Should the average rates of profit exceed 20 per cent. per annum the standard rate of profit shall be fixed at 20 per cent. per annum.

(5) In assessing the profits of the juridical person, the juridical persons' tax and the excess profits tax shall not be calculated as loss.

The excess profits tax for individuals.

(1) For individuals, the A-class excess profits tax shall be abolished and the portion of the profits in excess of the average profits for the three years 1934, 1935 and 1936 shall be the taxable profits, and an excess profits tax shall be imposed on this portion at the rate of 30 per cent.

(2) For persons who either have no average profits to go by or whose average profits fall short of the amount corresponding to one-third of the profits for the current fiscal year (¥ 7,000 where the amount is less than ¥ 7,000), the amount corresponding to one-third of the profits for the current fiscal year (¥ 7,000 where the amount is less than ¥ 7,000) shall be regarded as their average profit.

(3) The excess profits tax shall not be imposed, if the profits of individuals for the current fiscal year are less than ¥ 10,000.

(4) In assessing the profits of individuals, the excess profits tax shall not be calculated as necessary expenditure.

The excess profits tax for juridical persons is a combination of the juridical persons' excess income tax (A-class B) and the excess profits tax. Since the maximum progressive rate may reach 65 per cent., it may be assumed to constitute a heavy burden on the financial world. However,

this burden may be somewhat alleviated by the regulation according to which the excess profits tax levied on the profits for the year concerned is to be deducted in assessing the business profits of individuals, and the regulation by which the excess profits tax levied on the profits or juridical persons for the year concerned is to be deducted in assessing the juridical persons' tax, so that the general income tax or the juridical persons' tax may be imposed on the balance.

The main points in regard to the succession tax are as follows:—

(1) The total revenue from the succession tax shall be increased by some 30 per cent.

(2) With regard to the A-class succession to the headship of the house in which the value of the property to be inherited is less than ¥50,000, a deduction of ¥1,000 shall be allowed on behalf of each member of the family depending upon the heritor for support.

6. *The sake tax, the sugar excise, the commodity tax and the amusement tax*

Side by side with the revision of the direct national taxes on incomes, excess profits and succession taxes, the following revisions are to be effected upon indirect consumption taxes such as the *sake* tax, the sugar excise, the commodity tax and the amusement tax.

1. *The sake tax.*

(1) All tax laws regarding liquors (the *sake*-manufacturing tax law, the alcoholic and spiritous beverages tax law, the beer tax law and the provisions of the China affair special tax law in reference to the commodity tax on liquors) shall be unified into a single tax law.

(2) The amount of brewage and the amount shipped from breweries shall be taxed.

(3) A equitable incidence of tax burden shall be ensured as between liquors of different kinds; the total tax revenue to be increased by some 30 per cent.

2. The aerated beverages tax.

The total revenue from the tax on all aerated beverages except *tama-ramune* (crystallized lemonade) shall be increased by some 30 per cent.

3. The sugar excise.

(1) The criterion for fixing tax rates shall be changed from shades of colour to the methods used in manufacture.

(2) The total tax revenue shall be increased by some 20 per cent.

4. The textile excise.

The tax rate shall be increased to 10 per cent. (the present rate being 9 per cent.) and the scope of exemption shall be adjusted.

5. The gasoline tax.

The tax rate shall be raised by 8 sen per gallon.

6. The transit tax.

(1) The tax shall be extended to third-class passenger fares for journeys by rail or by ship covering a distance of less than 50 kilometres, provided they exceed 40 kilometres.

(2) The tax rates shall be raised to some extent (from three to ten sen for third-class passengers).

(3) The express train charges shall be taxed at 10 per cent.

7. The admission tax and the special admission tax.

(1) The exemption limit for admission fees for theatres, cinema halls, etc. shall be lowered to 19 sen (the present exemption limit being 23 sen), while the rates for admission fees over ¥1.00 shall be increased to some extent.

(2) The rates for admission fees for dance halls and golf links shall be increased to some extent.

(3) The exemption limit in the special admission tax shall be lowered to 19 sen (the present exemption point being 23 sen).

8. The commodity tax.

(1) The commodity tax shall be newly imposed on

the following articles:—

Ivory ware, *shippo* (cloisonné) ware, amber ware, confectionaries in case the prices exceed the stipulated level, pets, potted plants, soap for toilet use, green tea, tooth-pastes and tooth-washes.

(2) The tax rates for commodities falling under the categories of A-class, Section 1, and B-class, Section 1, shall be raised to 20 per cent. (the present tax rate being 15 per cent.).

(3) The tax rate for *ame* (rice-jelly) shall be raised by 50 sen per 100 *kin*.

9. The amusement tax.

(1) The tax rate for tips for *geisha* shall be raised to 30 per cent. (the present rate being 20 per cent.) and the rate for tips to other employees and on other charges shall be raised to 15 per cent. (the present rate being 10 per cent.).

(2) The exemption limit shall be lowered to ¥3 (the present exemption limit being ¥5). No exemption limit shall be provided for charges accompanied by tips for *geisha* and for the charges at cafés.

Concerning the *sake* tax, the multifarious imposts to which liquors have hitherto been subject are to be coordinated and the revenue from this source shall be increased by 30 per cent.

As regards the commodity tax, the scope of application shall be extended, though not to such an extent as to render it virtually a tax on the proceeds of sales. The revision is confined to the increase of rates for commodities of a pronouncedly luxurious character.

7. *The land tax, the house tax and the business tax*

In conclusion let us consider the land tax, the house tax and the business tax. The land tax is to be left as it is, the business profits tax is to be renamed the business

tax, and the house tax, which has hitherto been a prefectural tax, is to be converted into a national tax. Thus, all three profits taxes—the land tax, the house tax and the business tax—are to be transformed into national taxes. The details of these taxes are as follows:—

(1) The standards of assessment are:—

(a) The land tax. Assessment shall be made on the basis of the rental value of land under the present Land Tax Law.

(b) The house tax. Assessment shall be made on the basis of the rental value of houses to be fixed as the result of an official inquiry, which is to be freshly conducted.

(c) The business tax. Assessment shall be made on the basis of incomes examined in connection with the imposition of the classified income tax on enterprise income in the case of incomes for individuals, and on the basis of incomes investigated in connection with the imposition of the juridical persons' tax in the case of incomes of juridical persons.

(2) The tax rates shall be fixed as follows:—

(a) The land tax: 2 per cent.

(b) The house tax: 1.75 per cent.

(c) The business tax: 1.50 per cent.

(3) The revenue from these taxes shall be granted to the prefectures in which they have been collected.

Opinion has long been divided as to whether the land and the business taxes should be transferred to local treasuries with a view to making the three profits taxes local taxes or whether, on the other hand the house tax should be transferred to the national treasury, so as to render all three profits taxes national taxes. Now, the decision has finally been reached to impose these levies in the form of national taxes, as it is agreed that it is advisable for these taxes to be collected by the State at the rates fixed by the government. It was at the same time decided to return the revenues from these taxes to the prefectures in which they had

been collected, instead of using them for purposes of State finance. In this way, a controversy which has been carried on for some years has been amicably settled.

CHAPTER 3. THE REFORM OF LOCAL TAXES

1. The necessity for the reform of local taxation

Generally speaking, there has been no interflow as between national finance and local finance—barring the subsidies granted for specific purposes—, for in the tax system of Japan, the national taxes are designed to provide the wherewithal to administer national finance while the local taxes are expected to provide the sources of revenue needed for local finance. It was not until the State subsidy for compulsory education—a quasi-grant-in-aid for local finance—was created that any ties were forged as between the national and local finances. These ties were rendered closer when a grant-in-aid, pure and simple, was subsequently created in the shape of the temporary grants-in-aid for the relief of local finance, whereupon the question of promoting harmony as between national and local taxes soon began to attract a great deal of attention. The abolition, under the new tax reform plan, of the local surtax hitherto levied on the income tax—the most important direct national tax—has rendered the reform of the local tax system imperative.

A feature which deserves special attention in connection with the reform of the local tax system is the creation of the new system for the distribution of tax revenues for the benefit of local finance. This new system serves as an important link connecting the national and local taxes, between which there has hitherto been little or no connection. Other points worthy of note may be mentioned such as the surtaxes on land, the house and the business taxes, the independent prefectural taxes, and the municipal, town and village surtaxes on these prefectural taxes, and the independent municipal, town or village taxes. The municipal, town and village householder's taxes have been created with a view

to fostering among the inhabitants of cities, towns and villages the attitude of cooperation in sharing the burden of taxation. In extending the scope of the works tax and the system of beneficiaries' shares in the cost of undertakings, it may also be noted that the intention is to facilitate the lauding of local enterprises of a positive nature. Lastly, it is planned to revise incidence of the burden of taxation as between the national and local finance through the adjustment of subsidies. I shall now proceed to explain the above-mentioned points in the order given.

2. *The system of grants-in-aid*

The system of grants-in-aid for the distribution of taxation not only serves to put local finance on a secure basis but tends to eliminate inequalities as between the various local government finances. The idea underlying this system was already noticeably in the State subsidy for compulsory education, and it found still more vigorous expression in the temporary grants-in-aid for the relief of local finance. Inasmuch, however, as such grants-in-aid are temporary by nature, the need has been felt for providing more permanent sources of revenue for local finance. It was in such circumstances that the new grants-in-aid system for tax distribution was conceived with the object of stabilizing local finance. It is constituted as follows:—

The taxes for distribution as a source of grants-in-aid (*chiho bunyo-zei*) shall consist of the following:—

- (1) Taxes for transfer grants (*kanpu-zei*):
 - (a) The kinds of taxes: Land, house and business taxes.
 - (b) The public bodies among which these taxes shall be distributed: All prefectures.
 - (c) The method of distribution: The taxes shall be returned to the prefectures in which they have been collected.
- (2) Taxes for allocated grants (*haifu-zei*):

(a) The kinds of taxes: Specified portions of income, juridical persons', amusement and admission taxes.

(b) The public bodies among which these taxes shall be distributed: Prefectures, cities, towns and villages.

(c) The method of distribution: The object of distribution is to enable the local public bodies to meet their respective financial needs with the revenue of allocated grants plus the incomes from their independent sources of revenue. Consequently, the standards of distribution shall be the following factors indicative of financial capacity and financial needs:

A. The tax-bearing capacity in terms of the land tax, the house tax and the business tax shall be one criterion as it constitutes one important factor illustrative of financial capacity, and the distribution shall be made in inverse proportion to this capacity.

B. The size of population shall be the other criterion as it is one important factor indicative of the extent of financial needs, and the distribution shall be made in direct proportion to this factor.

As a transitional measure to preclude violent changes which might arise in the finances of public bodies due to the present reform, the amount of decline in revenue, caused by the tax reform itself, shall also be taken into consideration for the time being in fixing the amount of distribution, and the distribution shall be made in direct proportion to this decline.

(3) The basic rules relative to the distribution of taxes among the local public bodies shall be laid down by law. Furthermore, a Committee consisting for the most part of members of both Houses of the Diet shall be set up to ensure that these are distributed equitably.

(4) Appropriate methods shall be devised to ensure the distribution of taxes in the manner best calculated to meet the local financial needs at different periods in the fiscal year.

The taxes for transfer grants (*kanpu-zei*), which constitute one group of taxes for distribution, shall consist of land, house and business taxes, and these taxes are to be turned over to the prefectures in which they have been collected by the State as national taxes.

The taxes for allocated grants (*haifu-zei*), which constitute the other group of taxes for distribution, comprise 16.55 per cent. of the classified income tax, the general income tax and the juridical persons' tax and 50 per cent. of the amusement tax and the admission tax, amounting in all to some ¥ 350,000,000. The standard of distribution in regard to the taxes for allocated grants is twofold, namely, the financial capacity and the financial needs of the public bodies concerned. As to the former, it is to be calculated on the basis of the average amount per item of the objects of taxation for the three profits taxes, and the distribution is to be made in inverse proportion to this financial capacity. In the latter case, the size of population is to constitute the standard and the distribution is to be made in direct proportion to the financial needs worked out by this standard. The methods by which the taxes are distributed in accordance with financial capacity are practically the same as those adopted in distributing the temporary grants-in-aid for the relief of local finance, and amount to some ¥ 148,000,000. Because the classified income tax, under the new national tax reform plan, is principally levied at the source, the imposition of local surtaxes becomes impossible, and this is one important reason for increasing the amount for distribution. There is consequently need for finding means by which these taxes can be distributed to all cities, towns and villages so as to meet their respective financial needs. The important consideration is the manner of adjusting the portion to be distributed among local public bodies and the portion which is to be distributed exclusively among certain special local objectives.

3. *The surtaxes on national taxes.*

Prefectures, cities, towns and villages may impose the following surtaxes on taxes assessed on land, houses, businesses, mine properties and alluvial-mining lots:—

(1) The kinds of surtaxes to be imposed on national taxes by prefectures, cities, towns and villages shall be as follows:—

Surtax on land tax.

Surtax on house tax.

Surtax on business tax.

Surtax on mining properties tax.

(2) A certain degree of elasticity shall be allowed in the rates of the surtaxes to be imposed on land, house and business taxes so as to ensure elasticity to the finances of local public bodies.

(3) The rates of surtaxes actually imposed on land, the houses and business taxes shall be uniform on principle.

(4) The surtax on the land tax.

(a) The rate of the prefectural land surtax shall be 100 per cent. and that of the municipal, town or village land surtax shall be 200 per cent. of the land tax.

(b) The land surtax shall be imposed even on small lots of farm land, where the rental value is assessed at less than ¥ 200, though such lots are exempt from the land tax.

(5) The surtax on the house tax.

The rate of the prefectural house surtax shall be 100 per cent. and that of the municipal, town or village house surtax shall be 200 per cent. of the house tax.

(6) The surtax on the business tax.

The rate of the prefectural business surtax shall be 100 per cent. and that of the municipal, town or village business surtax shall be 200 per cent. of the business tax.

(7) The restrictive limit of the prefectural, municipal, town or village mining properties surtax shall be 10 per

cent. of the mining properties tax.

Among the surtaxes on national taxes, those to be imposed on the land, the house and the business taxes deserve special attention. Inasmuch as the prefectures can impose surtaxes equivalent in amount to the principal national taxes, besides obtaining the cession of these national taxes in the form of taxes for distribution, they actually receive double the amount of these national taxes. The cities, towns and villages also realize double the amount of these three national taxes in the form of the surtaxes upon them. Thus, the revenues of the prefectures and those of the cities, towns and villages are equal. The following table shows the ratios of the revenues accruing to the prefectures and to the cities, towns and villages from these sources:—

	Revenues accruing to prefectures			Revenues accruing to cities, towns and villages	Total
	<i>Kanpu-zei</i>	Surtaxes	Total		
Land tax (Rental value of land)	2	2	4	4	8
House tax (Rental value of house)	1.75	1.75	3.50	3.50	7
Business tax (Net profits)	1.50	1.50	3	3	6

Due account must be taken of the following two points, however. In the first place, the above-mentioned rates of surtax on these three national taxes do not necessarily denote the maximum rate, for the way is left open for taxation beyond this limit. It is, indeed, just possible that these rates may prove to be a minimum. It is, no doubt, a welcome desideratum, from the point of view of giving elasticity to prefectural, municipal, town and village finances, that this margin should be left for the imposition of surtaxes beyond the stipulated limit. When it is remembered, however, that the rates of the income tax have been raised to a very considerable degree and that there is also a possibility

that these new rates will be still further raised, the margin left for divergences arising as between local tax rates deserves careful attention in considering the total tax burden of the nation. Although differing in form, national and local taxes weigh on the taxpayer in the same manner, so that they must be considered together in the study of the national tax burden. Otherwise, the primary objective of the tax reform may be defeated.

Secondly we must consider whether it is right to divide the revenues from these three national taxes among the prefectures, cities, towns and villages in equal proportions. It becomes particularly necessary to determine with care whether it is correct to apply the same method of distribution to the six great cities and to the prefectures in which they are located and to all other cities, towns and villages and their respective prefectures.

4. The independent prefectural taxes and the prefectural surtaxes

The prefectures may impose the following taxes as independent taxation, besides levying the above-mentioned surtaxes on the national taxes:—

(1) The items of independent prefectural taxation shall be as follows, and a portion of the present miscellaneous tax shall be transferred to municipal, town and village treasuries (the designation "miscellaneous tax" being abolished).

Acreage tax.

Ship tax.

Motor-car tax.

Electric pole tax.

Real property acquisition tax.

Fishery rights tax.

Hunting tax.

Geisha tax.

Prefectures shall be forbidden to create taxes other than those mentioned above.

(2) The independent prefectural taxes shall be of the same nature as those hitherto imposed, except as regards to the following :—

(a) The acreage tax shall be imposed on land otherwise exempt from taxation, on the basis of the assessed rental value, in the same way as the land surtax is levied.

(b) The ship tax shall be imposed exclusively on vessels of over 20 tons burden.

(c) Some reductions may be considered in respect to the motor-car tax.

(d) The fishery rights tax shall be imposed either directly on fishery rights or on the acquisition of fishery rights.

(3) The special land tax shall be abolished.

(4) The house tax shall be imposed as a prefectural tax as hitherto for the fiscal years 1940—1941 and 1941—1942 only.

Cities, towns and villages can impose surtaxes not only on national taxes but on prefectural taxes. The surtaxes to be imposed on prefectural taxes are as follows :—

(1) The items of municipal, town and village surtaxes on prefectural taxes shall be as follows :—

Surtax on the acreage tax.

Surtax on the ship tax.

Surtax on the motor-car tax.

Surtax on the electric pole tax.

Surtax on the real property acquisition tax.

Surtax on the fishery rights tax.

Surtax on the hunting tax.

Surtax on the *geisha* tax.

(2) The rate of the surtax on prefectural taxes shall be 100 per cent. of the principal taxes, with some margin of elasticity allowed.

(3) The rates of surtaxes actually fixed shall be uniform for all taxes, as a general rule.

(4) Cities, towns and villages shall be allowed to

impose a surtax on the house tax as hitherto, for the fiscal years 1940—1941 and 1941—1942 exclusively.

5. The independent municipal, town and village taxes

Cities, towns and villages shall have the following proprietary taxes as their sources of revenue, in addition to the surtaxes which they are entitled to impose on national and prefectural taxes:—

(1) The items of independent municipal, town and village taxation shall be as follows:—

Householder's tax.

Boat tax.

Bicycle tax.

Cart tax.

Safe tax.

Electric fan tax.

Butchery tax.

Dog tax.

Other miscellaneous taxes.

(2) Cities, towns and villages shall be allowed to impose such taxes as are mentioned in the list of independent prefectural taxes, provided the prefectures concerned have not already imposed them.

(3) In addition to the taxes comprised in the foregoing two categories, cities, towns and villages shall be allowed to impose taxes of their own devising, subject to the approval of the competent Minister.

(4) The specified independent municipal, town and village taxes shall be imposed in the same way as the miscellaneous tax has hitherto been imposed, with the following exceptions:—

(a) The householder's tax shall be substantially as follows:—

Persons liable to this tax (citizens who, due to poverty, are recipients of public or private relief allow-

ances are exempted from taxation) are as indicated below :

A. Persons who keep house or persons who, if not keeping house, are earning an independent livelihood.

B. Persons who have a business office or a residence.

C. Juridical persons who have business offices.

The method of imposition :

A. The date of collection shall be made uniform throughout the country.

B. The methods to be adopted shall be as simple as possible in view of the conditions prevailing in the cities, towns and villages concerned.

Restrictions on the amount to be imposed :

A. The average maximum amount per head shall be fixed at ¥8 in cities with a population of over 700,000, at ¥6 in other cities and at ¥4 in towns and villages.

B. The highest amount which may be imposed shall be fixed at ¥2,000 in cities with a population of over 700,000 and at ¥1,000 in all other localities.

(b) The boat tax shall be imposed on vessels of less than 20 tons burden.

(c) The bicycle tax may be reduced to some extent.

One noteworthy fact in regard to the independent municipal, town and village taxes is that the *kosuwari* (household rate), which has hitherto been the subject of much criticism, has been abolished and a householder's tax, which is analogous in nature to a membership fee, has been created instead, with a view to fostering among the people a spirit of cooperation in sharing the burden of the national taxation.

The householder's tax is wider in its scope of application than the previous *kosuwari*, for it is equally applicable to absentee landowners and juridical persons. On the other hand, it is restrictive in that the average amount per head

is fixed at ¥ 8 in the six great cities, ¥ 6 in all other cities and ¥ 4 in towns and villages and that the maximum impost leviable is fixed at ¥ 2,000 in the six great cities and at ¥ 1,000 in all other localities. Special care must be taken in the enforcement of the householder's tax in the six great cities, however, for in these cities the *kosuwari* (household rate) has not hitherto been imposed, because of the frequency of removals among the urban population; the income surtax and the excess rates of the house tax being imposed instead.

6. *The systematization of the works tax and the beneficiaries' contributions to the cost of undertakings*

The fixing in this way of the rates of the householder's tax and of the taxes for distribution, together with the business, land and house taxes, necessarily seriously inconveniences local public bodies which may desire to launch new undertakings of various kinds, even at the cost of higher taxation. In order to relieve the situation, therefore, it has been decided to inaugurate the works tax and consonantly a system by which beneficiaries share in the costs of undertakings.

(1) The works tax shall be adjusted and extended, viz., (a) the town planning special tax shall be adjusted and extended chiefly for the benefit of urban districts, and (b) the imposition of the works tax shall be allowed to facilitate the execution of co-operative undertakings, chiefly for the benefit of agricultural communities.

(2) A system by which beneficiaries shall share in the cost of undertakings shall be instituted to the same end.

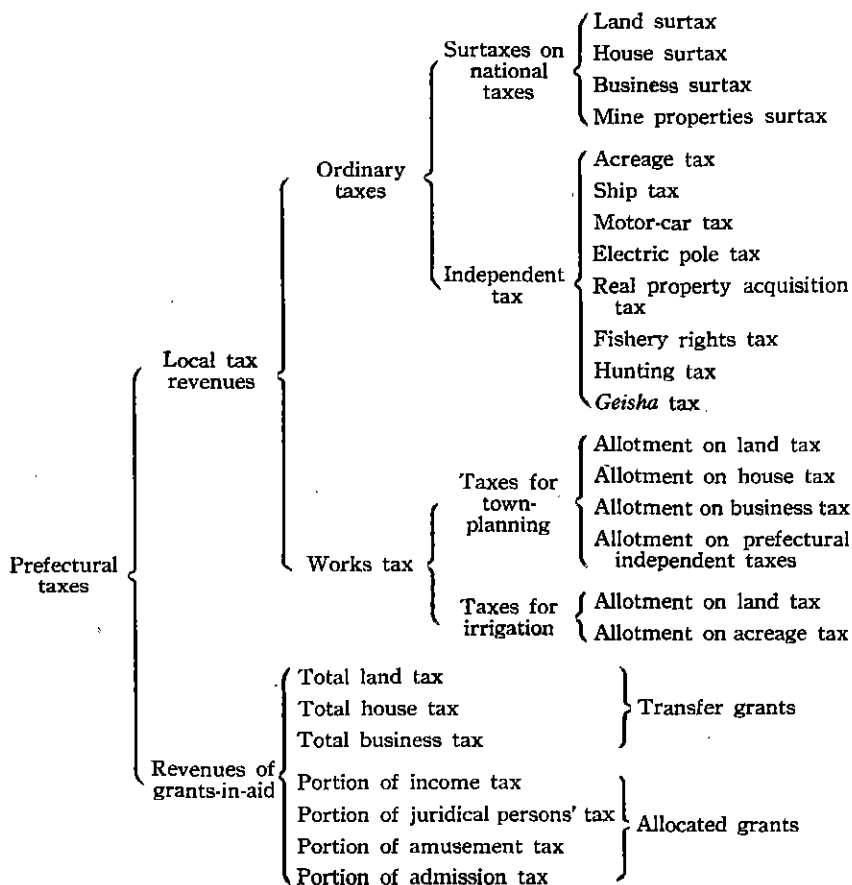
The following three items are mentioned for consideration in connection with adjusting and extending the works tax to prefectures, cities, towns and villages:—

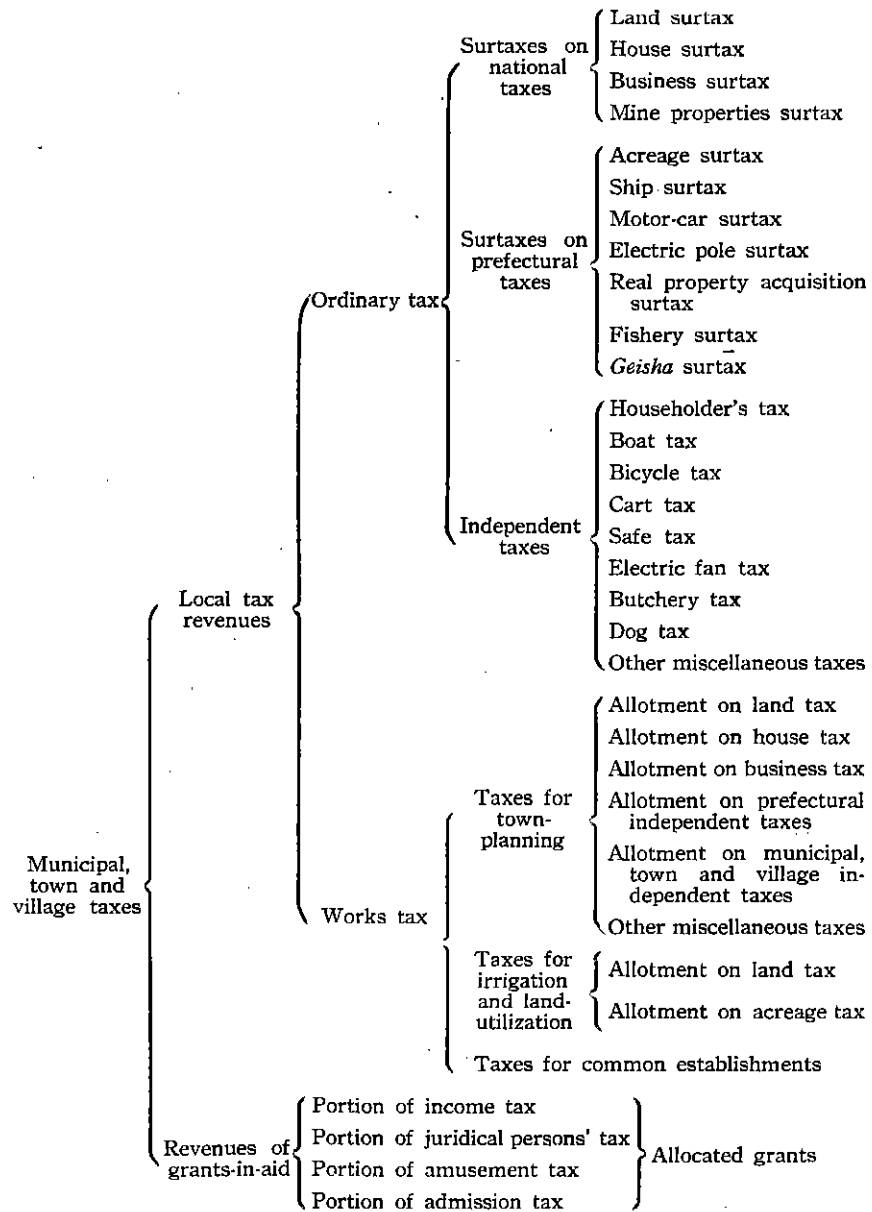
(1) In regard to the town planning special tax, part of the prefectural taxes shall be transferred to cities, towns

and villages, and care shall be taken to equalize the rates to be imposed.

(2) The imposition of the *chiso-wari* (allotment on land tax) and the *tanbetsu-wari* (allotment on acreage tax) shall be permitted in order to provide the wherewithal for the promotion of irrigation and other works designed to increase the productivity of the land.

(3) Opportunity shall be provided for cities, towns and villages to create new taxes in order to finance co-operative workshops and storehouses and other types of co-operative enterprise.





As regards the system by which beneficiaries shall share in the cost of undertakings, the principle is laid down that

all beneficiaries shall contribute their share not only to building costs but to maintenance costs as well. If the works tax and the system by which beneficiaries share in the cost of undertakings are conceived rationally and operated successfully, sufficient margin will be afforded for the development of municipal finance.

The various prefectural and municipal, town and village taxes may be arranged in tabular form, as shown on pages 67—68.

7. The State subsidy for compulsory education and police expenditures which are borne jointly by the national and local treasuries

The State subsidies form a link connecting the national finance with local finance, but such subsidies have not been systemized in this country, because they have been brought into being as specific expedients in order to meet special needs which have arisen from time to time. Herein lies the chief necessity of adjusting them. In the present general reform of the tax system, the State subsidy for compulsory education, which is typical of all subsidies, and the system for the joint disbursement of the police expenditures by national and local treasuries are to be revised as follows:—

(1) The salaries for primary school teachers shall be paid out of the prefectural treasuries and the State subsidy for compulsory education shall be distributed uniformly.

(2) The rates at which police expenditures are disbursed jointly shall be harmonized.

The State subsidy for compulsory education is distributed more liberally to towns and villages than to cities. Furthermore, it is distributed more liberally to the poorer cities, towns and villages than to those which enjoy ordinary prosperity. It thus happens that whereas the subsidy granted to certain cities enjoying ordinary prosperity may represent approximately 20 per cent. of the pay-roll for primary school teachers, some of the poorer towns and villages may receive

as much as 100 per cent. of such pay-rolls. Under the new plan, the subsidy is to be granted to prefectures at a uniform rate of approximately 50 per cent. of the pay-roll. In this way, the State subsidy for compulsory education is to be divested of the nature of a grant-in-aid. It appears, however, that the six great cities are opposed, from an educational point of view, to the plan which provides for the payment of primary school teachers' salaries out of the prefectural treasuries.

The burden of the police expenditures falls with exceptional weight on the Tokyo and Osaka urban prefectures, and it is now proposed to coordinate these disbursements on a uniform basis.