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THE REFORM OF THE LOCAL TAX SYSTEM (II)

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CHAPTER 4. NATIONAL SURTAXES AND KANPUZEI (RETROCESSION TAX)

(1) Prefectures and cities, towns and villages can impose a land, house, business and mining lot surtax in the form of national surtaxes.

It is so laid down that the rates of the mining lots surtax should not exceed 10 per cent. of the principal tax. In the present chapter, attention will be confined to the surtaxes on the other three national taxes, which are of greater importance than the mining lot surtax.

As a matter of principle, the rates of the land, house and business surtaxes, as imposed by the prefectures and the cities, towns and villages, are to be the same in the same prefectures or cities, towns and villages, but non-uniform rates are allowed where they are specially required for the purpose of ensuring a fair incidence of the burden. It may also be mentioned that although farms, the rental value of which is under ¥200, are exempted from the national land tax, they are liable to the prefectural, city, town or village land surtax.

(2) The rates for land, house and business surtaxes as prefectural imposts are, as a matter of principle, confined within 100 per cent. of their respective national taxes. Where they are imposed in excess of these limits, the permission of the Home Minister and the Finance Minister is required.

The rates can be increased to the maximum limit of 120 per cent. of their respective national taxes, however, (1) when it is necessary to do so to provide the funds required

for redeeming loans, principal and interest, raised for financing emergency disaster relief work, for relieving the effects of disasters, for the prevention of epidemics and for sharing in the cost of works under State management, (2) where expenditure is needed for emergency relief works for remedying the effects of disasters or disaster restoration works, and (3) where expenditure is required for the prevention of epidemics. The permission of the Home Minister and the Finance Minister is necessary where the rates to be imposed exceed 120 per cent.

(3) The rate of the land, house and business surtaxes as municipal, town and village taxes are confined within 200 per cent. of their respective national taxes, and it is so provided that permission of the local Governors concerned should be obtained in imposing rates in excess of 200 per cent.

The rates, however, may be increased up to 240 per cent:— (1) where funds are required for repaying the debts, principal and interest, contracted for building or repairing primary schools, for disaster emergency relief works, for disaster restoration works, for the prevention of epidemics and for sharing in the cost of works under State management; (2) where expenditure is needed for emergency works to be undertaken for the relief of disasters or for disaster restoration works; and (3) where expenditure is needed for the prevention of epidemics. The permission of the local Governor concerned must be obtained if the rates to be imposed exceed 240 per cent.

(4) It will thus be seen that the more important surtaxes imposed either by prefectures or by cities, towns or villages on national taxes are the land, house and business surtaxes. Moreover, the national land, house and business taxes are to be distributed, in the form of *kanpuzei* (retrocession tax), among the prefectures in which they are collected. Such being the case, these national taxes and local surtaxes must be considered in conjunction, both from the point of view of tax-payers and from that of the local

public bodies concerned.

The retrocession tax which is distributed each fiscal year consists of the land, house and business taxes to be collected in the same fiscal year, and it is distributed among the prefectures in which they are to be collected. In the case of the land and house taxes, which are real taxes, pure and simple, it is easy to fix the districts within which they should be distributed; but in the case of the business tax, which partakes largely of the nature of a personal tax, it is necessary for the tax offices concerned to fix the districts in which the business tax is imposed on those who carry on their business with offices in several prefectures. The business surtax as a prefectural levy is imposed in accordance with the decision thus reached. In imposing the business surtax by cities, towns and villages, on those who carry on their business with offices in several cities, towns or villages, either in the same prefecture, or in several different prefectures, the decisions of the local Governor concerned is observed. The necessity of defining the districts with respect to their imposition is one reason why the three profit taxes of land, house and business taxes have been made national taxes instead of local taxes.

The rate of the national land tax is fixed at two per cent. of the rental value of the land involved; that of national house tax at 1.75 per cent. of the rental value of the houses and that of the national business tax at 1.50 per cent. of the profits of the business. Consequently, the shares allotted to prefectures and cities, towns and villages are as follows:—

	Rates in ordinary cases (%)				
	Prefectures			Municipal, town & village surtax	Total
	<i>Kanpuzei</i>	Surtaxes	Total		
Land tax	2	2	4	4	8
House tax	1.75	1.75	3.5	3.5	7
Business tax	1.5	1.5	3	3	6

	Rates in provisory cases (%)				
	Prefectures			Municipal, town & village surtax	Total
	<i>Kanpuzei</i>	Surtaxes	Total		
Land tax	2	2.4	4.4	4.8	9.2
House tax	1.75	2.1	3.85	4.2	8.05
Business tax	1.5	1.8	3.3	3.6	6.9

The rate in ordinary cases is eight per cent. of the rental value of land, in the case of the land tax, seven per cent. of the rental value of houses, in the case of the house tax, and six per cent. of business profits, in the case of the business tax, and these three profit taxes are to be divided in to equal proportions between prefectures and cities, towns and villages. The rates can, of course, be made higher with the approval of the Home Minister and the Finance or the local Governor concerned.

The rate in provisory cases is 9.2 per cent., in the case of the land tax, 8.05 per cent., in the case of the house tax, and 6.9 per cent., in the case of the business tax. If higher rates are to be imposed, the permission of the Home Minister and the Finance Minister or the local Governor concerned is required.

In short, the true meaning of surtaxes on national taxes cannot be properly understood unless it is studied in conjunction with the *kanpuzei* (retrocession tax). It must further be noted that the rates referred to do not represent the maximum, for imposition in excess of these limits is possible. This arrangement is, of course, necessary from the point of view of giving elasticity to local finance, but it nevertheless calls for re-examination, if viewed from the standpoint of promoting local equilibrium in the burden of taxation.

(5) Lastly, the national house tax and the national business tax claim attention. In lieu of the old profit tax, which was abolished, the new Business Tax Law (Law No. 33, promulgated on March 29th, 1940) was enacted, in which the Exchange Business Tax, the Mining Production Tax and

the Local Business Tax have been incorporated. Regarding the house tax, the House Tax Law (Law No. 108, promulgated on July 13th, 1940) was newly enacted, under which the prefectural house tax was converted into a national tax. In view, however, of the necessity of investigating the rental value of houses, which constitutes the standard of assessment, a period of preparation is provided, so that the actual conversion of the house tax into a national tax will not take place until 1942. Such being the case, of the surtaxes on national taxes, the land surtax involves changes in the rate of taxation only, but the business surtax and the house surtax have come into being as new systems.

CHAPTER 5. PREFECTURAL INDEPENDENT TAXES, PREFECTURAL SURTAXES AND MUNICIPAL, TOWN AND VILLAGE INDEPENDENT TAXES

(1) Prefectural taxes which can be levied as independent taxes are confined to the acreage (arable land area) tax, the shipping tax, the motorcar tax, the electric pole tax, the tax on the acquisition of immovable property, fishery right tax, the hunting tax and the *geisha* tax. Formerly, prefectural independent taxes numbered four, viz. a special land tax, a house tax, a business and a miscellaneous tax; but as what was formerly collected as the special land tax, the house tax and the business tax were converted into national surtaxes, the miscellaneous tax was left the only independent tax of prefectures. This miscellaneous tax was adjusted and the above-mentioned eight taxes have been created as prefectural independent taxes. All other items of the miscellaneous tax have been transferred to municipal, town and village treasuries.

The arable land area tax was formerly imposed, as a special tax of cities, towns and villages, on all lands, no matter whether they were subject to the national land tax or not, but now, as a result of the tax revision, it is levied on lands on which the national land tax is either remitted

or reduced. That is to say, it is imposed on the owners of such lands at rates worked out on the basis of the appraised rental value.

The shipping tax is imposed on ships with a total tonnage of over 20 tons by the prefectures in which these ships have their main places of anchorage.

The motorcar tax is imposed on the owners of motorcars by the prefectures in which their main garages are located.

The electric pole tax is imposed on the owners of electric poles by the prefectures in which such poles are erected.

The tax on the acquisition of immovable property is imposed on persons who have acquired immovable property, by the prefectures in which the said property exists.

The fishery right tax is imposed optionally, either on persons who possess fishery rights, or on persons who have newly acquired these rights, by the prefectures in which they have their fishing grounds.

The hunting tax is imposed on persons who take out hunting licences by the prefectures within whose jurisdiction they live.

The *geisha* tax is imposed on *geisha* or the like by the prefectures in which they live.

Where prefectures have adopted as independent taxes all or some of the above-mentioned taxes, viz. the arable land area tax, the shipping tax, the motor-car tax, the electric pole tax, the tax on the acquisition of immovable property, the fishery right tax, the hunting tax and the *geisha* tax; cities, towns or villages may levy surtaxes on these prefectural taxes. These surtaxes on prefectural taxes are practically the same as the surtaxes on miscellaneous taxes hitherto imposed. This revision was effected in consequence of the division of the old miscellaneous tax into a number of independent taxes. Except for the surtax on the arable land area tax, all these surtaxes are to be imposed at the same rates within the same cities, towns or villages. As

regards the rates of the surtax on the arable land area tax, care is taken to see that a balance is maintained with the prefectural land surtax.

(2) Municipal, town and village taxes consist, as a rule, of the citizen's tax, the ship tax, the bicycle tax, the cart tax, the safe tax, the electric fan tax, the butchery tax and the dog tax, but there are two exceptions. One is that where prefectures do not impose any one of the arable land area tax, the shipping tax, the motorcar tax, the electric pole tax, the tax on the acquisition of immovable property, the fishery right tax, the hunting tax and the *geisha* tax; cities, towns or villages can tax it as their independent tax. The other is that cities, towns or villages can create other independent taxes besides those already mentioned, provided that the permission of the Home Minister and the Finance Minister is duly obtained for it. In short, whereas prefectural independent taxes are restricted, municipal, town and village independent taxes cover a fairly extensive field.

What deserves special attention among the municipal, town and village independent taxes is the citizen tax. The household rate (*kosuwari*) has hitherto constituted the main independent tax, but in the current fiscal year, the citizen's tax has supplanted the household rate. The revenue from the citizen's tax is only ¥67,061,413 (in the Budget for the fiscal year 1940-1941, while the revenue from the household rate was put at ¥176,761,905 in the Budget for the fiscal year 1939-1940. Although there is thus no comparison between the two in point of the accruing income, they are alike in that both are calculated to foster among the local people the spirit of sharing in the burden of taxation.

The citizen's tax is levied both on individuals and on juridical persons. It is collected not only from individuals who lead an independent life in the cities or from those who own buildings or landed property in them. Persons who are so poor that they live on public or private relief funds or who depend on others for support are exempted from this tax. Juridical persons who are taxable are limited to

those who have their offices or business places in the cities, towns or villages concerned.

Thus, this tax is imposed not only on citizens who lead an independent life but on absentee landowners and juridical persons as well. Limitations are set on the amount of the tax to be collected. The guiding principle is that the burden should not be heavier than, say, a membership fee. That is to say, in big cities (with a population of over 700,000) the maximum amount leviable on a taxpayer is fixed at ¥2,000, that in other cities (with a population of less than 700,000) at ¥1,500 and in towns and villages at ¥1,000. Restrictions are also placed on the total amount of the tax to be collected. It is so ruled that the total amount should not exceed the figure obtainable by multiplying ¥8, ¥6 and ¥4 by the number of their respective taxpayers in big cities, in other cities and in towns and villages.

The ideals inspiring the drafters of the plan are obvious, but it is to be feared that if local finance becomes straitened it may be found difficult to keep the citizen's tax to the present level and the tax may gradually attain the same enormous figure as the erstwhile household rate. This is especially so in the case of cities, towns and villages whose populations are subject to constant fluctuations, like the six big cities where the household rate had already been replaced by higher rates of the house tax and the income surtax. It is doubtful whether in such cities, towns and villages the citizen tax system will work smoothly.

CHAPTER 6. "OBJECT" (SPECIAL) TAXES AND BENEFICIARIES' SHARE IN THE COST OF WORKS

(1) Under the old system, local taxes consisted of ordinary taxes almost exclusively, the town planning tax being the only "object" or special tax. Under the new tax reform plan, however, the "object" taxes have been adjusted and extended so that they are now given a footing of equality

with ordinary taxes.

The prefectural "object" taxes consist of the town planning tax and the irrigation tax. The revenue from the town planning tax is to be used for the execution of works under the Town Planning Law and this tax consists of the land rate (25 per cent. or less of the land tax), the house-rate (25 per cent. or less of the house tax), the business-rate (25 per cent. or less of the business tax) and the prefectural independent rate (13 per cent. or less of prefectural independent taxes). The irrigation tax is imposed on lands which derive special benefits from water utilization works, according to the degree of the benefits derivable, in order to provide the expenditure necessary for the execution of such works. It is made up of the land-rate and the acreage rate.

The "object" taxes of cities, towns and villages consist of the town planning tax, the water utilization and land service tax and the joint enterprise tax. The town planning tax, as a municipal, town or village tax, is composed of the land-rate (68 per cent. or less of the land tax), the house-rate (68 per cent. or less of the house tax), the business-rate (68 per cent. or less of the business tax), the prefectural independent rate (34 per cent. or less of the prefectural independent taxes) and the municipal, town and village independent rate (34 per cent. or less of the municipal, town and village independent taxes, though this rate is not leviable on the citizen tax). With the permission of the Home Minister and the Finance Minister, however, new items can be chosen for taxation. The water utilization and land service tax comprises the land-rate and the acreage rate which are imposed on the lands which derive special benefits from water utilization works or works undertaken to promote the interests of land, according to the extent of benefits derived, in order to provide the wherewithal for the execution of such enterprises.

In this way, the "object" taxes, either as prefectural or as municipal, town and village taxes, have been systema-

tized.

(2) Article 39 of the Road Law and Article 6, Paragraph 2, of the Town Planning Law provide for the sharing by beneficiaries in the cost of public works. A detailed stipulation in this regard is also found in Article 9 of the Ordinance for the enforcement of the Town Planning Law. Article 39 of the Road Law says:—

The controller of the road construction work can make persons who may derive much benefit from such work bear part of the cost of the work according to the extent of the benefit which they derive.

This provision clearly indicates the basis on which the system for beneficiaries to bear part of the cost of road construction works is founded. The Town Planning Law carries a more detailed provision. Article 6, Paragraph 2, of this Law says:—

If the competent Minister deems it necessary, he can, in accordance with the provisions of the Imperial Ordinance concerned, make persons who derive considerable benefits from the town planning work bear either the whole or part of the expenditure of such work, according to the extent of the benefits which they derive.

Article 9 of the Ordinance for the enforcement of the Town Planning Law enumerates the cases where beneficiaries are made to share in the cost of the work as follows:—

1. Where there are persons who derive much benefit because establishments put up under the town planning scheme operate to serve the purpose of other structures as well or because they can make use of these establishments.

2. Where there are persons whom the Home Minister has named as ones who derive much benefit from town planning works.

The following will be named by the Home Minister as ones who derive much benefit from town planning works:—

1. The owners of taxable lands within the areas

designated by the Home Minister in the neighbourhood of the engineering works concerned in cases where roads, esplanades or parks have been newly laid out or expanded, where road surfaces have been improved or where light railways have been laid or equipment for riparian and canal improvement or for tidal prevention has been provided or improved under the town planning scheme. Pledgees will be named instead, however, where such lands are mortgaged, while superficiaries, emphyteuticaries and leaseholders respectively will be designated where these lands are the objects of superficies, emphyteusis and leases for terms longer than ten years.

2. Superficiaries, emphyteuticaries and leaseholders where the lands within the areas mentioned in the foregoing item are untaxable ones which are for neither public nor common use.

Since the Road Law and the Town Planning Law were promulgated in this country, the system of making beneficiaries bear part of the cost of public works has gradually found wider application among big cities.

Although the Road Law and the Town Planning Law contained provisions for beneficiaries sharing in the cost of public works, there had been no such clear provision in the regulations governing the prefectural, municipal, town and village systems until they were revised in 1940 under the local finance reform plan. It was laid down in Article 111 of the Prefectural System Regulations that "prefectures can, in accordance with the provisions of the Imperial Ordinance concerned, collect from persons who derive special benefits from water utilization works and other works calculated to advance the interests of lands their share in the cost of these works." Article 22 of the Municipal System Regulations also provides: "*Buntankin* (money contributed to share in the cost) is collected, in accordance with the provisions of the connected Imperial Ordinance, from persons who stand to derive special benefits either from the property or public works which tend to benefit several persons or

part of the city concerned or from works which are beneficial to several persons or part of the city." Article 102 of the Town and Village System Regulations was similarly revised too. Thus, due provision was made in the systems governing the administration of municipalities, towns and villages for the collection from beneficiaries their contributions to the cost of public works.

(3) The adjustment and extension of "object" (special) taxes and *buntankin* payable by beneficiaries may be hailed as a welcome revision in that it tends to help the positive activity of prefectures, cities, towns and villages. One thing which cannot be lost sight of in this connection is, however, that one important objective of the reform of the local tax system is to secure a fair incidence of local burden of taxation. Under the revision plan, taxation beyond the stipulated limits is recognized in national surtaxes and, furthermore, "object" taxes and *buntankin* are leviable, so that there is a fear of the above-mentioned ideal of securing a fair incidence of local burden of taxation being defeated unless the revised tax system is operated properly.

CHAPTER 7. THE STATE SUBSIDY FOR THE COMPULSORY EDUCATION EXPENDITURE AND THE JOINT DEFRAYAL OF THE POLICE EXPENDITURE

I have so far discussed the reform of the local tax system itself, but taxes are not the sole source of revenue for local public bodies, for they have incomes from State subsidies also, which have close bearings on local expenditure. As the more important of these subsidies may be mentioned the State subsidy towards the expenditure for compulsory education and the contribution by the national treasury of part of the police expenditure. These subsidies must necessarily come in for due attention in the reform of the local tax system.

(1) The education expenditure forms an important item

of municipal, town and village expenditure. Specially in the case of towns and villages, no small portion of their expenditure is defrayed to pay the salaries of the teachers of national schools. Payment of the salaries of teachers in national schools, which bears the nature of State administration expenditure, out of the national treasury naturally operates to reform local finance. The amount of the State subsidy granted for municipalities, towns and villages by way of sharing in the cost of pay for the teachers of national schools amounted to ¥10,000,000 in 1918, which increased in 1923 to ¥40,000,000, in 1926 to ¥70,000,000, in 1932 to ¥75,000,000, and in 1935 to ¥85,000,000. The contents of the Law of the State Subsidy for the Municipal, Town and Village Compulsory Educational Expenditure (Law No. 20, promulgated in March, 1923), on which this particular subsidy is based, deserve attention. Under this Law, the State subsidy is to be distributed, as a matter of principle, in proportion to the number of teachers and children of these primary schools, but provision is at the same time made for higher rates of subsidy for cities, towns and villages which are in financial difficulties. This subsidy thus partakes of the nature of quasi-grant-in-aid. Under the State Subsidy Law newly promulgated, two revisions have been made. One is that it has been so arranged that the salaries for national school teachers, which have hitherto been paid by municipalities, towns and villages, should be the charge on prefectures, and the other is that the amount of the State subsidy which has hitherto been fixed at ¥85,000,000 has been altered to half the amount of pay for primary school teachers. The subsidy has thus been robbed of its nature of quasi-grant-in-aid and been converted into an educational subsidy, pure and simple. This revision has been urged either from the point of view of elimination of the arrears in the payment of salaries for teachers in some districts or from that of improving the treatment of teachers. This subsidy was estimated at ¥92,461,631 in the ordinary expenditure estimates of the Education Department for the

fiscal year 1940-1941, while it is estimated at ¥94,314,486 in the Budget for the current fiscal year.

(2) The police expenditure forms an important item of prefectural expenditure. Inasmuch as the police expenditure partakes largely of the nature of State affairs expenses, prefectures get a State subsidy for it. This system for the national treasury to share in the police expenditure is traceable to the *Dajokan* (Government) Order, issued in February, 1881, which was revised by Imperial Ordinance in August, 1888. Under this ruling, the national treasury was to bear 60 per cent., in the case of Tokyo prefecture, 35 per cent., in the case of Osaka prefecture, and one-sixth, in the case of all other prefectures, of the police expenditure and the expenses involved in the construction and repairs of police offices. In consequence of the revision just effected, the rate for the prefectures other than Tokyo and Osaka has been raised from one-sixth to 35 per cent. That is to say, the new rates are 60 per cent. for Tokyo prefecture and 35 for all other prefectures. In the ordinary expenditure estimates of the Home Office for the fiscal year 1940-1941, the State subsidy for the police expenditure was put at ¥38,202,487, which shows an increase of ¥12,437,249 compared with the previous fiscal year. In the Budget for the current fiscal year, it is estimated at ¥38,575,084.

CHAPTER 8. ADDITIONAL REMARKS

In the revenue of local finance in the fiscal year 1939-1940, the total income from local taxes amounted to ¥725,967,319, while the temporary grants-in-aid for local finance totalled ¥148,000,000. The ratio was 17 per cent. for the subsidies against 83 per cent. for local taxes. On the other hand, the revenue from the revised taxes for usual years is put at ¥537,000,000 for independent taxes and surtaxes and ¥442,000,000 for distribution taxes—the ratio of 55 per cent. for the former against 45 per cent. for the latter. The fact that the ratio of independent taxes and surtaxes in the

form of direct taxation has declined and that of distribution taxes in the form of indirect taxation has increased is enough to indicate the idea underlying the present reform of the local tax system.

The present reform covers the entire field of local finance. It is usual that the actuality falls short of what was planned, and this is the case with local tax reforms more than with national tax reforms. No matter how excellent the plan, it is impossible to expect it to give satisfaction alike to 12,000 prefectures, cities, towns and villages. There is no reason to object to the local tax law and the local distribution tax law in principle, but it remains to be seen how they will work in practice. They will possibly have to undergo modifications in many respects in the light of the results of their actual operation. The local tax reform plan must be studied with even greater care than is shown in the study of national tax reform plans, if the ideal of its drafters is to be realized.

The question of transferring the land tax and the business profit tax to local treasuries, the problem of the national treasury bearing the entire compulsory education expenditure and the issue of grants-in-aid for the adjustment of local finance had long been outstanding in regard to the reform of national and local taxes. Now, the house tax has been transferred to the national treasury, the system of local distribution taxes has been established and it has been so arranged that the salaries for national school teachers should be paid out of the prefectural treasuries with the rate of the State subsidy for the compulsory education expenditure fixed. Besides, the adjustment of the miscellaneous tax and the abolition of the household rate (*kosuwari*) have been effected through the establishment of the local independent tax system—by the adoption of the citizen's tax system especially. It is further to be noted that the adjustment of "object" taxes will impart a new life to the local tax system. It must not be forgotten, however, that these problems are closely related to the local government system.

The problem for the reform of the local government system, which is now claiming the attention of the authorities concerned, has been given a definite line of approach, insofar as the matter of local finance is concerned, by the reform of the local tax system.

In short, the local tax reform is a problem which should not be considered as an issue independent of other problems. It must be dealt with as a problem forming one important branch of the reform of the local government system, the reform of local finance and the reform of the national tax system.