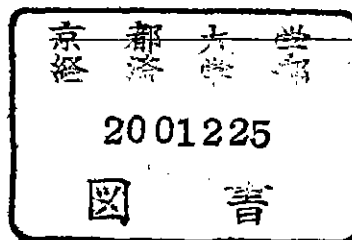


Kyoto University Economic Review

MEMOIRS OF
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IN
THE IMPERIAL UNIVERSITY OF KYOTO

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PROPOSAL FOR A PERSONAL TAX ON LUXURY CONSUMPTION

1. INTRODUCTION

In recent years the nations of the world have been attempting to reform their tax systems and have succeeded in improving chiefly their direct taxes. Although consumption taxes are important since they occupy the major portion of governmental revenues, they have not yet been converted into a system. Should the proper readjustment be made, such a systematization, of course, will be possible; however, indications are that it is possible only to a certain extent and that a complete system seems wellnigh impossible.

For example, if we leave out all consumption taxes on daily necessities and form a system only of those on luxuries classified according to their nature or grades, with a view to discourage luxurious consumption, we may have a system which shall satisfy our sense of fairness to some extent. But then, as those taxes are diverse and of varied nature, it is easy to conceive of an injustice arising from their burdens.

If we intend to levy consumption taxes, those on luxuries in particular, according to their nature, we must regard man as the centre of the whole problem and should establish a lump-sum tax on his entire luxury expenditure. Should such a personal tax be deemed insufficient to secure justice in tax burdens, it may be adopted in addition to the old consumption taxes which have gradually developed during the course of human history, which, however, must undergo the proper alteration if we are to continue to adopt them. Although some difficulties may stand in the way of

establishing or carrying into effect such a tax plan, there is no doubt that it is highly desirable, at least in principle.

I have, therefore, made a proposal for such a plan in two articles, one of which was published in 1916¹⁾ and the other in 1917,²⁾ both in Japanese. I have subsequently discovered that Mombert of Germany, had also proposed a similar plan which he calls the "consumption income tax". The book in which he set forth his tax plan was published in the same year in which I published my first article, namely, 1916; but I was unable at that time to get access to his book chiefly on account of the European War which practically cut off communications between Germany and Japan. And thus two similar proposals were made almost simultaneously.

However, his and my views differ in many respects, and for this reason I have decided to present mine in the English language, and to point out not only their merits but their defects as well. The writer will appreciate any criticism that may be made on his plan and hopes that the suggestion put forth in this work may be of some value to the lawmakers.

At the outset I wish to remove possible misunderstanding. Some may say that my plan is an old one scarcely worth trying, while others may regard it as Utopian which can be carried out only in the dim distant future. Neither of these views is correct, inasmuch as what I propose is not the old consumption tax on specific objects, and further, because of the high practicability of the plan. I am firmly convinced that such a personal consumption tax on luxuries will be adopted in the near future. Its appearance, I am inclined to believe, will follow the line of development in which numerous taxes on products evolve into a lump-sum income tax. Who would have anticipated, before this in-

¹⁾ *Essays* in commemoration of the 25th anniversary of Dr. Kanai's professorship. (金井教授在職二十五年記念最近社會政策)

²⁾ *The Economic Review* of Kyoto Imperial University Economic Society (經濟論叢) Vol. IV, No. 6.

come tax was evolved, that such a complicated tax system would one day occupy the most important position in the tax systems of nations? At present one is accustomed to conceive of a consumption tax only in the form of a tax on specific objects, but it may not be in the far distant future that a lump-sum consumption tax becomes a thing of actuality.

2. THE PROPOSED PLAN

Under my plan the consumer is to be required to make a declaration regarding his disbursements. When he makes a report on his income to the revenue office, he is to make another report in which all of his expenditures including his new investments. This report is later to be examined by government officials who shall determine which items included in the report are to be classed as "luxuries."

In determining luxurious items, the officials should base their judgment not on the applicant's estimates of his income and of the investment of the coming year, but on those of the year just preceding the one for which the official assessment of his tax is to be made. On the other hand, the legal designation of the so-called minimum of subsistence or the amount which is absolutely necessary for one's living in a given condition, shall be made.

The officials should subtract from the total amount of the applicant's income or disbursements this minimum and also his new investments and what is left should be regarded as the amount of his luxury expenditure. The writer is in favour of imposing a progressive tax upon this expenditure. The legal minimum of subsistence needs not be the same for all. The number of the applicant's family or of those whom he has to support, for instance, should be taken into consideration. However, it seems wise not to regard the difference in social standing as a qualifying factor.

The applicant's new investments should never include those on unproductive property or his enjoyment, but only

those on productive property. There is no occasion for dispute in the case of bank deposits, loans, securities, lands, forests, factories, machineries, shops, or merchandises, all of which are productive property. But some houses or furnitures are unproductive if used for one's self and accordingly should not included in the item of investment. On the other hand, they can be regarded as productive at least in his private economy, if they are rented to others, and therefore should be included in the investment. In case a house or furniture which had been rented is used by the owner, the fact should be taken into consideration in determining the amount of his investment and the money should be included in his luxury expenditure for the year during which he used the house or the furniture. This requirement is necessary in order to prevent the possible tax evasion. On the other hand, a house or furniture is rented after being used for the owner's own service, its value should be included in his investment for the year during which the house or the furniture is rented.

In case the amount of the investment should exceed the amount of taxable objects, based on other various considerations in a given condition, convenience in taxation demands that such an excess be not counted. Furniture which is not owned either by a furniture store keeper or by a furniture hire store keeper, should be regarded as unproductive property, while the proceeds from a sale of productive property should be included in the income of the year in which the sale takes place. However, should the money be used in purchasing other productive property, the whole thing is cancelled.

Mombert's consumption income tax plan should impose a progressive tax upon a man's income after deducting from it the amount of increase in his property during a given year and also the minimum of subsistence for the members of his family.

3. MERITS OF THE PROPOSED PLAN

The proposed plan has many merits which are powerful, though it is not without its own defects. This becomes clear when one studies its intrinsic as well as extrinsic value.

(1) Its Intrinsic Value.

A. From the standpoint of the faculty theory :

The amount of a man's luxury consumption is a good index of his ability to pay taxes. A man's ability to pay is best evidenced by the total amount of his luxurious expenditure, but not by his mere separate consumption of luxuries nor by specific objects ; and this tax proposes to deal with his total expenditure on luxuries.

B. From the standpoint of the systematization of taxes :

1. The old heterogeneous consumption taxes should be readjusted and converted into a system, but there can be no interrelation if we merely arrange them in a certain order. This interrelation can be brought about only by establishing an independent all-embracing consumption tax which shall prove a good supplement to the defective old taxes. Just as what is now known as the income tax was gradually developed in order to make up the defects of the old heterogeneous taxes on products and to establish interrelation between them,—and just as it incorporated in itself the old taxes after existing side by side with them, finally emerging as a complete unified tax—so a personal consumption tax may exist side by side with the old consumption taxes and then afterwards annex them to itself, finally being converted into an independent lump-sum tax.

2. In the countries where a property increment-value tax exists (as in Germany, for instance) there is a tendency to place spendthrifts in an advantageous position and thrifty

persons in a disadvantageous one. But this will largely be eliminated in a country which adopts what is proposed herein.

C. From the standpoint of production, social, and educational policies :

As the proposed tax will discourage wastful and luxurious expenditure, it is desirable from the standpoint of economic, social, and educational policies of a nation.

D. From the standpoint of government revenue :

The enforcement of the proposed tax will incur very little expense provided a country that adopts the tax as other taxes such as the income, property, and property increment-value taxes. Moreover, revenue from this tax will be comparatively large. It also has, by its very nature, very high elasticity of revenue.

(2) *Comparison with Other Taxes.*

A. Comparison with the existing consumption taxes :

1. From the standpoint of the principle of justice with special reference to faculty :

(a). The proposed tax has an exemption point and progressive percentage. A lump-sum consumption tax will have such an exemption point and progressive percentage as can never be expected in the case of the other conventional consumption taxes; and yet it is evident that those qualities are essential to assure that consumers pay taxes according to his ability to pay. This is then by far the greatest merit of the proposed plan and its importance becomes more evident when one takes into consideration the fact that such important qualities as progressive as well as regressive percentage.

(b). Again, the proposed personal tax can be arranged according to the nature of luxury consumption. In the case of the other luxury consumption taxes, the best that can be

done is to specify certain objects, or to determine their value and levy taxes on those, the value of which exceeds the determined value. However, it must be noted that some objects become "luxuries" if used for a certain purpose while they are not regarded so if consumed for other purposes. For example, although a motor car is regarded as a luxury for many people, it is not so for physicians; intoxicating liquor is usually harmful to most people, but it is used as medicine for some persons. Those things are not taken into consideration by the old consumption taxes. But where a lump-sum consumption tax is adopted necessary "luxuries" can be exempted. Furthermore, the conception of luxuries depend on the quantities of goods consumed as well as their qualities, so that the consumption of small quantity of valuable goods is less luxurious than that of a large number of cheaper goods. For instance, the possession of one valuable suit of clothes is less luxurious than to have many less valuable ones. This truth is absolutely overlooked by the existing consumption taxes. Moreover, the old taxes do not take account of the amount of expenses involved in the possession of some objects. For example, the up-keep expense of an automobile is usually neglected; but a lump-sum tax can take that into consideration.

(c). The proposed tax can make allowance in the case of some taxpayers whose "luxury" consumption is entitled to such consideration because of its very nature, but it is impossible for the existing consumption taxes to do so.

(d). Under the proposed tax, no injustice will arise from the use of substitutes of luxuries which is inevitable under the old taxes. Under the old system consumers are led to use those substitutes of luxuries, so that it is impossible to get the desired revenue from the luxury taxes. But, since a lump-sum tax will be imposed upon the total amount of luxury expenditure, the consumption of substitutes will also come in under the category, and consequently evasion of the tax will be impossible.

(e). The proposed tax will never cause over-burden for the poor. Under the old system, the goods which are consumed by the poor classes are often included in the list of luxuries, because of the fact that taxes upon the articles which are used by the rich alone will not net a large government revenue. Moreover, as it is impossible to select a single object to tax, many objects are actually taxed, the result being over-burden upon the shoulders of the poor. But under the proposed system the possibility of deriving a comparatively large amount of revenue from the comparatively well-to-do classes is great indeed, thus avoiding an over-tax of the poor people.

(f). Under the proposed tax all taxes on use, as long as they come under the category of luxury, will be included, and thus the plan will prove much superior to the old taxes under which luxury use is often omitted from taxation.

(g). Again, under the plan, improvement in the process of production will give rise to no injustice. Since taxes on industries are determined at a time, some producers who make improvement in the process of their industries afterward will be placed in a position much advantageous over other producers who make no such improvement.

2. From the economic standpoint:

(a). Its effects on production.

(1). No unequal bad effect will result from the tax. It is clear that the conventional consumption taxes deal great blows to the industries to which the specified objects belong, and, as the taxes are usually imposed upon producers, the latter will be placed in a position much disadvantageous to those of other producers. Furthermore, as those taxes are levied on products whose prices are above a certain point, superior industries will also be placed in a disadvantageous position over inferior ones. Under a lump-sum tax, effects upon all industries will be fair and equal, as far as luxuries are concerned.

(2). The proposed tax will not deal any great blow on either production or export business. As has been

already pointed out, the old consumption taxes are bound to hit industries, but when objects upon which those taxes are levied are important materials of production or important export goods, their baneful effects will be only too apparent. The tax systems of nations usually include some provisions for mitigating those effects by giving allowance to certain products or materials, but with little success. Those effects continue to prove a great impediment upon production and export business. This can only be avoided under a lump-sum tax, which even will give an impetus to foreign export.

(b). Its effects upon consumers will be beneficial.

It will enable them to make a voluntary limit on their consumption which in consequence will be easy for them to bear. Under the existing system a government or legislators arbitrarily select certain objects such as wine or tobacco upon which luxury taxes are levied; in consequence such taxes become over-burdensome on the consumers of those articles, whose personal taste and liking are disregarded and interfered with. It is needless to state that such dire result should be avoided as much as possible. On the contrary, a lump-sum tax will allow consumers to be voluntary in their use of goods and to diffuse their luxury consumption among many different articles, and thus they will be much better off than under the present system.

(c). The proposed plan will not cause prices to go up. The existing taxes have a tendency to directly raise the prices of commodities taxed and indirectly those of other commodities. But, since the proposed tax will discourage luxury consumption, it will not only have no such effect, but will even tend to lower prices in general.

3. From the standpoint of tax incidence.

(a). Consumers' tax incidence.

(1). Under the proposed tax, consumers will be enabled to bear tax burden openly and within their knowledge. Under the present system, which are levied indirectly, consumers usually bear tax incidence on luxuries without their

knowing it which certainly is not desirable from the standpoint of an ideal tax system.

(2). Under the proposed system, revenues will be collected no more than actually needed by the government treasury. Under the present tax, business people often take advantage of the system in order to secure heavier profits, and in consequence consumers must bear tax incidence much heavier than required by the government revenue. This fiscal injustice will never occur under the proposed tax.

(b). The proposed plan will relieve business people of their burden to supervise the enforcement of the luxury taxes. Under the present system not only are they forced to execute this burden but the paying of the taxes itself is a great trouble for them. Moreover, there is the danger that they cannot shift the tax burden to consumers which means that business people must bear the tax incidence by themselves alone. There will be no such injustice because there will be no intermediary persons between the revenue collectors and the taxpayers.

4. From the standpoint of taxation technique. As the proposed tax system is simple the expense of its execution will be comparatively small, although this assertion is subject to some qualifications which will be referred to later. This is in a sharp contradistinction to the fact that the old system which deals with many objects is highly complicated and involves a large amount of expense in its execution.

B. Comparison with the income tax.

The income tax may result in an impediment upon the development of production inasmuch as the tax is levied on those incomes which are regarded as the essential elements of production; this can be avoided under the contemplated tax. Moreover, the tax plan advocated herein will greatly mitigate the evil which is bound to exist in the production of a country which adopts the property increment-value tax in addition to the income tax.

4. THE DEFECTS OF A PERSONAL LUXURY TAX

The following defects of the proposed personal tax should be particularly noted:

1. It is a matter of fact that the burdens of indirect taxes are not immediately felt by taxpayers while a direct tax such as advocated by the writer has the disadvantage in that its burden is felt directly and heavily by those who are called upon to pay. Such difficulty is inevitable in all direct taxes and therein lies one weakness of the proposed tax compared with the existing indirect ones.

2. From the standpoint of taxation technique.

- A. Difficulty in its legislation.

In order to assure an equality of burden, the proposed tax should legally determine rates, progressive percentage, and exemption point. Although this will be possible there will be danger of lawmakers' arbitrarily fixing them. However, such danger is common to all taxes.

- B. Administrative difficulties.

There will be much difficulty of catching objects which are to come under the tax. The plan calls forth official investigation of taxpayers' disbursements which will be of great difficulty indeed. Of course the income tax, the property tax, and the property increment-value tax can be referred to in determining taxable objects, but this may not be sufficient; and where those taxes do not exist the task will be a mighty hard one. But by far the most difficult task will be to catch those who use for luxury purposes the proceeds from the sale of property in which they invested in previous years.

5. CONCLUDING REMARKS

As has been already pointed out the adoption of a personal or lump-sum luxury tax is necessary for the com-

pletion of the existing consumption taxes. Moreover, as such a tax has many advantages, I am inclined to believe that its adoption will be realized in the near future. Although some difficulties are to be expected chiefly from its technical phases, since it has its intrinsic value as well as comparative value especially with reference to the equality of burden, economic and social policies, tax incidence, revenue, and in some extent taxation technique, a way should be found to get round those difficulties so that the plan may be realized.

MASAO KAMBE