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NUMBER I

ON THE TAXPAYER

FOREWORD

The question as to who is the taxpayer, that is, the one who is required to pay taxes (Steuerpflichtiger) may at first seem easy to answer, for it may be said that "subjects" or "people" is a sufficient answer. Such an answer, however, is inadequate at the present time because taxpayers now actually include aliens as well as corporations, besides people or subjects. Moreover, a State may pay taxes to local bodies, which in turn, pay national taxes to the State. Again, the State may tax itself, while local bodies also pay their own taxes to themselves. Furthermore, it often happens that Sovereigns and public organisations also pay taxes to the State, although ordinarily they are exempt. There is a precedent for a Sovereign's paying taxes, and it is supported by theoretical reasons. Though it may at first appear illogical, the matter is not so simple, so that an inquiry into the subject is both interesting and necessary. That is why I have decided to treat this question in the present article.

I. A GENERAL SURVEY

(1). Definition of "Taxpayer"

I shall first make an examination into the definition of the word "taxpayer."

i. Prevailing views—Hitherto, scholars have limited taxpayers to people, subjects, nationals, or citizens. Each one of these obviously is too narrow a definition, because it does not include corporations, nor foreigners, and loses sight of the fact that taxes are paid in actual practice by Sovereigns, States, local governments and public bodies. Nor are words such as "private persons" or "inhabitants" sufficiently broad to include Sovereigns or public bodies, though they may include foreigners. On the other hand, "inhabitants" cannot include corporations. In order to include these, many definitions have been advanced among which the following are found: single economy, persons, persons or bodies of persons, natural persons or juridical persons. But all of these definitions have the common defect of being inadequate to reveal the real nature of the taxpayer. They hardly define anything at all, so that one may indeed contend that they be left out of consideration all together. Some regard the definition of "taxpayer" as unnecessary, and fail to give any. But others think quite the other way and suggest as supplementary to the foregoing definitions some qualifying phrases such as "dependents of government bodies," or "single economies depending on government bodies" or "single economies as dependent members of government bodies." Although these phrases will contribute towards clarifying the nature of the term under consideration and include those elements which are omitted by the other definitions I have already pointed out, the important fact remains that the word "dependency" does not befit the case in which taxes are paid by States or Sovereigns to local governments. Accordingly, some use the words "people" or "quasi-people," while others explain that, when

government bodies pay taxes they do not do so in their authoritative capacities. The view held by the second obviously is not true because it is too negative. The use of the word "people" or "quasi-people" have come to be adopted after a painstaking research and may be regarded as a step in advance. However, I shall propose another definition which I regard as much better than all others.

ii. My views—I define the taxpayer as a member of a government body or one who stands on an equal footing with such member. Thus, my definition includes all those who occupy an equal position in taxation with the members of government bodies. Although corporations, foreigners, Sovereigns, and government bodies cannot be called members of government organisations, yet in their relation to taxation they all stand on an equal footing. In other respects they may be treated as unequal but this does not affect my definition.

(2). Corporations and Foreigners as Taxpayers

i. Corporations—It is evident that corporations should be also required to pay taxes for they are engaged in business enterprises. Their obligation to pay taxes should be limited to the profits which they derive from their direct business enterprises or from the property which they possess for the management of such enterprises. Corporations should not be required to pay taxes on those elements which are offered by their members, because the members are required to pay separate taxes on them. Nor will this give rise to any social evils. Unless corporations are required to pay taxes on their business enterprises or property, just as in the case of individuals, individuals may form corporations for the purpose of tax evasion. Corporations should be required to pay taxes on another ground, which is a negative one. If they are exempted from taxation, individuals will be placed in a disadvantageous position in their business competition with such corporations. No such consequence,

however, will result from the exemption of those portions which are contributed to by the members of corporations. As to the taxation of the dividends of corporations, it is debatable whether the tax burden should fall on the corporations or on the individuals composing them, or on both. I shall here merely state that the imposition of taxes either on corporations or on the individuals composing them will have the result of preventing the main evil results of the exemption of corporations from taxation.

In considering the general theory of taxation of corporations, it is evident that no question will arise out of taxes or fees which make up part of the incomes of States and local governments. Moreover, so far as those incomes have some public purposes, there are greater grounds for their exemption than that of private corporations. Nor will the imposition of national taxes on local government tax revenues be considered a debatable question, inasmuch as such revenues are secured by local governments in the exercise of the right granted to them by the State. Such incomes must not be taxed. The only debatable question then is over the incomes and property of States and local bodies which are derived from their business enterprises. The same thing can be said of other public bodies.

ii. *Foreigners*—That foreigners are also required to pay taxes is generally recognised to-day. If they possess some tax-objects in their own country, they are obliged to pay taxes on them, even if they live in a foreign country. On the other hand, they will have to pay the tax on their incomes in the country of their actual residence. Thus, foreigners pay taxes at home and in the foreign country in which they happen to reside. This gives rise to international double taxation which requires a separate study for its prevention. In the case of taxes on products or property, foreigners will have to pay them provided they possess taxable products or property in the country where they are doing business. The same thing can be said of other taxes such as the transaction and consumption taxes; they become taxpayers

by virtue of their business transactions and their production of taxable goods.

II. THE STATE AS TAXPAYER

(1). The State as National Taxpayer

i. Some examples—For a State to pay national taxes is comparatively rare. In our own country, the State pays the mining and textile consumption taxes. In the case of the former tax, the State pays it, not because it is engaged in a business enterprise, but because of the general understanding that the tax under consideration is levied on all mining enterprises alike—whether or not they are profit-making in nature. In the case of the latter tax, the government-owned textile factories are required to pay it, because of the necessity of maintaining an equality between the production costs of all factories of similar nature. In the case of the land tax, the land tax law provides that all state-owned lands which are used for government or public purposes are exempt. Under this provision the tax may be levied on the lands which are not used for government or public purposes; but, as a matter of fact, all state-owned lands are exempted from taxation on the supposition that all such lands are used for government or public purposes. The State is also engaged in railway enterprise and in the manufacturing of steel and iron, but no tax is levied on them for the simple reason that they are not regarded as profit-making enterprises. Nor is the State required to pay any tax on its incomes. In Baden, prior to its taxation reform of 1906, the law provided for exemption of taxes for state enterprises having public purposes; this meant that other state enterprises could be taxed by the State itself. In the case of Bavaria, taxes were nominally levied on state-owned lands, houses, and enterprises, but no actual collection was made.

ii. Theories.

(A). Negative reasons and their refutation—It is rather seldom that the State is regarded as a taxpayer. Ordinarily the State is regarded as exempted from taxation for the reasons which follow.

a. The State's exemption from taxation is held as self-evident.

b. It is held by some that there is no reason whatever against such exemption. This view obviously is a too hasty conclusion because there are some reasons against the exemption as I shall hereafter point out. The exemption in fact is not a self-evident truth.

c. Some say that a State possesses property and is engaged in some enterprises because of some public purposes and not because of its desire to make a profit; that, even when it is engaged in some business enterprise, it will refrain from competing with private enterprisers, because its purpose is to serve the public in general; and that, for these reasons, the State must not be required to pay taxes on them. Such is the view adopted in Japan for supporting the exemption of the State for some of its business enterprises; but it is hardly tenable in the face of hard facts. True, governments enterprises such as railways or steel works are not run purely for profit-making purposes as in the case of private enterprises of a similar nature. But it is undeniable that they are carried on with a view to profit-making, and their work and products actually compete with those of private business to a certain extent. Those enterprises exist as distinct economies, and not as the activities of a taxing authority. They in consequence should not be exempted from taxation.

d. Again the argument may be advanced something as follows: even supposing that state enterprises compete with private ones, the incomes therefrom are used for public purposes the same as the tax receipts; and consequently they must be exempted from taxation. This argument may be waived in case there are special reasons for the taxation of state enterprises. Moreover, it may be said that that part

of the state incomes which is paid as tax can be, and is, used for the public benefit just as are other incomes. True, when the taxes are paid by the State its total revenue will be reduced by the amount which is used for the collection of the same taxes; in other words, the self-taxation of the State may be held as an economic waste. However, such a loss may be easily made up by the special benefits which the taxation will create. When, as in the case of our state railways, an enterprise is separated from the general account and its revenue is used, not as the general public expenditure, but only for the railways themselves, it will be found that the foregoing argument in support of the State's exemption is untenable.

e. The argument that the self-taxation of the State is a mere waste may be met by the counter-argument that the system will be justified if there be some special needs for it. Similar special need is illustrated in the case of the sinking fund. The only debatable question then is whether or not there be something that will compensate for the loss involved in the self-taxation of the State. I shall return to this phase later.

f. Again, it may be said that all state revenues regardless of their sources are predetermined as regards their use, so that in their case there is no such thing as a net income, as in the case of private enterprises; and that, for this reason, there is no room to impose taxes on state revenues. This argument will be held as valid if laws predetermine the amounts of money to be used for definite public purposes, but in actual practice there are uses the amounts of which are not specified by laws but are placed at the discretion of administrative officials. In the latter case the foregoing argument cannot be held as tenable. Moreover, the uses of state revenue prescribed by laws are not unchangeable; they may be, and are, changed by some necessity or other which is recognised by the lawmakers. In consequence, we need not attach much importance to the legal prescription of the uses of state revenues.

(B). Affirmative reasons—The following are affirmative reasons.

a. The taxation of state properties and enterprises will enable the government authorities to know the real conditions of those properties and enterprises; will prove a stimulus to those who are charged with the task of administering them; and will help outsiders to pass judgment on the condition of such properties and enterprises. It may be argued that for such purposes, no actual imposition of taxes is necessary and that only a nominal assessment is quite sufficient. It is evident, however, that nominal taxation is not adequate to make those who are in charge of the management of state properties and enterprises feel the real pinch of the taxes which is necessary for the development and improvement of their business management. The management of state properties or enterprises usually lacks the energy and initiative which are necessary for making improvements in business administration, and therefore a system which is likely to stimulate the initiative of the managers will be found useful. What should be noted is the fact that a government enterprise too must make as great a profit as possible, although it is true that the enhancement of the public interest is its first and main purpose. In order to make as great a profit as possible, it is desirable that a government enterprise should be placed on an equal standing with private ones.

b. It is necessary that the question of the taxation of state properties and enterprises should be studied from the standpoint of private enterprises; such a study is necessitated by the industrial policy and welfare of the nation as a whole. The State must enable the people to carry on their business as profitably as possible, and must eradicate all obstacles standing in the way of their successful management. By imposing taxes on its own properties and enterprises, a State will enable private enterprisers to manage successfully their own properties and enterprises of the same nature, as they will be free from the disadvantage

which would inevitably be imposed upon them in case state properties and enterprises are not taxed; in other words, the State will enable private enterprisers to compete with state enterprises. To begin with, state enterprises have several obvious advantages over private ones. The tendency is for the former to overwhelm the latter with their political power as well as with financial power and credit. There is no doubt then that the latter will be placed in still greater difficulty if the former are exempted from taxation. The exemption may be justified in case government properties or enterprises are purely public in character. But as long as they are of a competitive nature, they should be taxed the same as private ones; it is the only way to enable the latter to stand on their own feet against government undertakings.

c. The exemption of state property and enterprises will have serious effect upon the coffers of local governments which will then be forced to depend only on national surtaxes. This will be specially so where there exist such properties and enterprises in large numbers. Moreover, the injustice of an inequality will arise between those communities in which state properties and enterprises exist in large numbers and those in which only a few exist. This difficulty will be all the greater in case local government taxes do not include special taxes but consist solely of percentage additions to the national taxes.

(D). A proposal—Because of the foregoing reasons, a State should tax its own properties and enterprises which are in competition with those of private management. However, at present precedents for this are very rare and many people will regard the self-taxation of the State as equivalent to the transfer of part of its own funds from one corner to another of the national treasury. For these reasons the principle of taxing all state properties and enterprises need not be adopted. This, however, should not be construed that the existing system of taxation should be allowed to be continued unmodified. I suggest that, instead of such a

principle, that of granting money to local governments be adopted. The money to be paid by the State must be equal to the national surtax which would be imposed, had the properties and enterprises been private ones. For the convenience of those who are in charge of state properties and enterprises, the State should also specify the amount of the main national taxes which private owners and enterprises would be required to pay. Lastly, the State must take such an opportunity to advise the management of its properties and enterprises to refrain from competing with private property owners and enterprisers as far as possible.

(2). The State as Local Rate-payer

i. Examples—In Japan the State does not pay any local government rates. Even in the case of national taxes, the payment by the State of national surtaxes is prohibited. In foreign countries, however, there are many examples of a State's paying local government rates. Prussia's law of 1885 provided that the national treasury must pay local government taxes on its incomes from state enterprises such as railways, mining undertakings as well as from state-owned lands and forests. Again, the law of 1893 in that country provided that the lands or buildings owned by the State and which are specified as for government or public uses, are exempted from the local government tax on immovables; and that, when part of such lands or buildings are so specified, that part only is exempted from the same tax. It is clear that the Prussian State had to pay local government taxes for other parts which are not specified by law. All state enterprises except government railways are subject to the local government business tax. The national treasury pays taxes on the income of state railways, mines and other enterprises as well as state lands and forests. Thus the Prussian State paid taxes to local governments on its income even in case of railways, although the business tax thereon was exempted.

ii. Theories.

(A). Negative reasons and their refutation—Let us now see what are the theoretical grounds for the exemption of state properties and enterprises from local government taxes.

a. The contention is made to the effect that since the State is an organisation superior in rank to local governments, it is not right that former should be taxed by the latter; and that such an action will violate the order of ranks, and will infringe upon the dignity of the State itself. It cannot be said, however, that the State is necessarily superior to local organisations in all matters. Every one knows that in civil matters, the State stands on the same footing with individual persons. When, therefore, the State stands as a business competitor of individual enterprisers, the former should be held subject to local taxation. In its relations of ruler to ruled, the State indeed is superior to local governments, but exceptions must be recognised in its private capacities.

b. In the second place, some will argue that, since state enterprises are public in nature and have not profit-making as their objective as in the case of private business, they should be free from local taxation. Similarly, others will say that, inasmuch as government railways are also public enterprises, they must not be subject to taxation by local governments. As a matter of fact, however, all such enterprises are not purely public in nature but possess a business element. Their exemption from local government taxes on such a ground, therefore, is not reasonable.

c. It is contended that, since the incomes from state properties and enterprises are used for the public interest, they should not be made subject to local taxes. But, as I have already pointed out on previous occasions, such an argument is valid only when there are no special reasons for the imposition of such a tax. The mere fact that such incomes are used for public service is no sufficient reason for the exemption. It may be again argued that, the public service performed by the State through the exemption of such enterprises is territorially much more important than

that which is performed by a local government through the taxation of the state enterprises; and that for this reason their exemption is justified. What challenges our attention in this connection is the fact that, whereas the State has many sources of income, a local government has comparatively few and therefore has much greater difficulty in meeting its financial demands.

d. It may be also maintained that, since the location of state properties and enterprises is determined from the standpoint of the general interest of the whole community, the locality in which they are located must be prepared to bear such financial sacrifice. Such an attitude on the part of a local government may be regarded as morally commendable; but the State, on the other hand, certainly cannot let such a local community remain in great financial distress. The State being the patron of moral actions, must not stand idle when one of its component parts is placed in a very disadvantageous position vis à vis others. Furthermore, the sacrifice of particular local communities for the general interest of the whole of which they are parts, is a matter of degree. When the sacrifice is too great, they must not be required to endure it.

e. Again it may be said that the State and local governments are bound to co-operate with each other in fulfilling their common duties, and that for this reason the latter should not tax the properties or enterprises of the former simply because they are located in their jurisdiction. But such relations are not limited to the State and local governments; they are also true between the State and the people, and yet the latter are taxed by the former. For this reason the relationship of co-operation is no valid ground for the exemption of state properties and enterprises from local government taxes.

f. The argument may be advanced that, if the local governments should tax state properties and enterprises, the State would tax the former and the result would be unnecessary labour and complications. But even supposing that

such a reciprocal step be taken by the State, it must be admitted that the taxation of the one would not be the same as that of the other. Unnecessary labor is not a sufficient reason against a reciprocal taxation between the State and local governments.

(B). Affirmative reasons—The following are reasons in favour of taxation by local governments of state properties and enterprises.

a. There is the need of relieving the difficulty which local governments would face in case such right of taxation on their part is not recognised. The exemption of such properties and enterprises from local taxation will become intolerable for local government finance when such exemptions exist in large numbers. It is evident that the location of states properties and enterprises in a particular district would add so much to its expenditure for public works such as the construction and maintenance of highways and bridges, as well as for education, public health and police. The government of such a district would be hard put to it if it were unable to tax state properties and enterprises within its jurisdiction. The same thing will happen if state lands are located in great quantities; if the state as a big land owner is exempted from taxation, the tax burden of the community would have to be distributed among its tenants and small merchants. For this reason, if state lands and buildings constitute a large portion of the business or immovables of a district, its right to tax such lands and buildings must be recognised.

b. Local taxation of state property and enterprises is just. It is a duty of a state as the upholder of justice to compensate the loss which its factories or lands in a particular district have caused to the finances of a local government. When the faculty theory of taxation is adopted instead of the theory of economic interest, it is apparent that the state should pay the taxes in accordance with the faculty manifested by its factories or lands situated in districts under local government.

c. The exemption of state factories and lands would place additional tax burdens upon the private individuals of the locality. They would have to bear on the one hand the expenditure necessitated by the location of such factories and lands, and also bear the state tax burden on the other. In order to avoid such a double tax burden, the right of a local government to tax state properties and enterprises must be recognised.

d. If the foregoing double tax burden is to be borne equally by all the local governments of a nation, no special consideration may be necessary. But as a matter of fact, such is not the case. A burden of a similar nature exists in different degrees in different localities, while it is not borne by others. It is necessary, in order to prevent an injustice like this, that the taxation of state properties and enterprises by local communities be upheld.

e. As was stated in the case of the national taxes, the taxation of state properties and enterprises by local governments is desirable as it will enable their managers to understand their exact economic position in competition with private properties and enterprises of the same nature.

f. Also, as in the case of the national taxes, it is desirable that local government taxes should be imposed on state properties and enterprises, so that private competitors may escape the loss which they would otherwise suffer.

(C). A proposal—Thus it is evident that a State must also pay local government taxes. On the other hand, it may be objected that taxation by a local government is not consonant with the dignity of the State. A system of grants to be made by the State to local governments will meet this difficulty and at the same time will have the effect of preventing the evils which exemption would give rise to. There are such precedents in both Great Britain and Germany. The State's grants of money to local governments should be made not only in the case of taxes such as the land and business taxes, but also the income and similar taxes. As to the method of distributing such grants

of money among different governments, the Prussian system may be regarded as a useful reference.

III. LOCAL GOVERNMENTS AS TAXPAYERS

(1). Local Governments as National-tax Payers

i. Some examples—While it is true that no tax is imposed upon local governments by a State on their revenues from taxes, fees, and grants of money, examples of the fact that they are subject to national taxation is found in foreign countries in abundance. However, no tax is levied on their properties or enterprises which are for public use or public service. In our country, the lands which are held for government uses or public service are exempted from the land tax; while the registration of the realty held for government uses is exempted from the registration tax. These two taxes may be imposed on local governments where the tax-objects are not used either for government or public service. In the case of the income tax, the law specifically exempts all the revenues of local governments. They are also free from the business tax and the capital interest tax. No stamp tax is levied on local governments' certificates or business accounts. They are similarly exempted from the inheritance tax. Thus in very rare cases are local governments taxed by the State. They are exempted from taxation even when they are engaged in such profit-making enterprises as the electric tram service, or electric lighting. And, when taxes are levied on some of their properties or enterprises they are much lighter than those on private property or enterprises of a similar nature.

ii. Theories.

(A). Affirmative reasons—Theoretically it is just that local governments should pay taxes to the State just as do private individuals. They should pay not only the national land and house taxes but the income tax as well. The same income and business taxes that are imposed on private

enterprises should be imposed on the purely profit-making enterprises of local governments. National taxes should also be imposed on all local government monopolies provided they are, by their very nature capable of being carried on by private persons. In such taxation, only the pure business profit, i. e. the gross profit minus the monopolistic income, should be taxed; or some outward standard of taxation may be used.

a. In their business relations with the State, local governments are not regarded as the authoritative bodies, but stand on the same level as private individuals within themselves or within other similar bodies.

b. The possession of property or the management of enterprises by local governments means, in the eyes of a State, a collective possession of property or a collective management of enterprises. It is evident then that local governments should pay taxes to the State in behalf of the large number of people represented by the governments themselves.

c. If the business properties and enterprises of local governments are exempted from the national taxation, a serious injustice in the distribution of the tax burden upon the people in general will ensue; for it is evident that the people of those localities where their local governments have their properties and enterprises in much greater amount than in other parts of the country, pay much lighter taxes than the people of other localities. The seriousness of the injustice involved will be clearer when one takes into consideration the fact that the people of the locality in which local governments possess much property and engage in a great number of enterprises, pay comparatively light rates. Thus, the injustice of taxation involved is double or triple. Such an injustice must be avoided by the State by all means. This is by far the most convincing argument in support of the taxation of local governments by the State.

d. The taxation of the properties and enterprises of local governments by the State is necessary, where there

are private properties and enterprises in competition with the former, in order to prevent such private enterprises from being placed in a disadvantageous position. This, of course, does not apply to monopolistic government enterprises such as electric tram service or electric lighting. The view may be advanced that even in the case of competition with private enterprisers, no consideration for them is needed inasmuch as the government enterprises have public service as their *raison d'être*. Such a view, however, cannot be regarded as sound. The State must scrupulously refrain from jeopardising the business activities of the people.

e. The exemption of local governments from national taxation is likely to result in a wasteful administration of their finances, and to prevent their development and improvement. In other words, being taxed is a stimulus for improving their financial administration. Though this argument is not particularly strong, nevertheless it can be regarded as one of the reasons in favour of the taxation of local governments by the national government. The actual payment of taxes may not be required of them; but their attention should be called to the amount of money which they would be called upon to pay had they been in the place of private enterprisers. Thus a formal taxation may be sufficient, though it may not be so effective as an actual taxation.

(B). Negative reason and ther refutation.

a. There are many arguments against the taxation of local governments by the State. In the first place, it is said by some that taxes may be imposed upon individuals but local governments should not be subject to any taxation. But, as I have pointed out already, even a State should pay taxes, and for this reason such an objection can hardly be regarded as valid. If a State has to pay its taxes to local governments, the latter surely must in turn pay their taxes to the former which is superior to them in the national organisation. The taxes paid by local governments may be

regarded by a State as paid on behalf of a large number of people on their collective property or enterprises.

b. The objection based upon the reciprocal and mutual relations between the State and local governments cannot be regarded as valid for the same reason that I pointed out in the case of the State; and the exemption of local governments is not justified on this ground.

c. Some also object to the reciprocal taxation of the State and local governments on the ground of waste and unnecessary labour. However, since the field of exemption for the one is not the same as for the other, such taxation cannot be regarded as unnecessary. Very rarely is any case found which such taxation is found unnecessary because of the identity in the field of exemption for both.

d. It may be said that the business enterprises of a local government have their public purposes in that particular community.

e. It may also be said that, since the revenues from such enterprises are used for the public service, they should be exempted from taxation by the State. Yet, inasmuch as such public service and expenditure are limited to a particular locality, they can not decide on the question of taxation of the whole nation. On the other hand, it may be contended that such local public service and public expenditure are part of the work of the State so that they are in reality state service and state expenditure discharged by local governments for convenience' sake. Strictly speaking, however, there are two classes of state services and state expenditures: those which are national and those which are local or partial. The latter class should be in harmonious relations with other partial or local types of services and expenditures, and should not encroach upon them. If exemption is made, the injustice mentioned in (c), (A). will necessarily result, jeopardising the interests of other localities and preventing the realisation of their public aims. These things must not be allowed to happen. It may also be said that some of the revenues of local governments are

used not for local but for state purposes, i.e. costs of national education, police, roads, and the relief of the poor; and that for this reason they should be exempted from national taxation. While this is true, the State should not hesitate to tax local governments because the state purposes realised through the actions of local governments are of the same import as those realised by the State itself, and inasmuch as the State has a good reason for taxing local governments. Even when the State attempts to exempt local governments because of such reasons, its action is found highly impracticable, because it is very difficult to distinguish those parts, in local expenditures, which are used for national purposes, from those which are not used for such purposes. On occasion, local governments are given grants of money in return for the execution of state business. In such instances, the exemption of local governments from national taxation because of occasional money grants is neither justifiable nor necessary.

f. Again, it may be said that inasmuch as the uses of all revenues of local governments are determined by law, there is no pure profit as in private business; and that in consequence no taxes should be imposed upon them. But some uses are not determined by law, and even where they are determined by law, no specific sum of money is, as a rule, mentioned, so that they cannot be regarded either as inalterable or inflexible. One cannot go so far as to say that there is no pure profit in the revenues of local governments.

(2). Local Governments as Local-Taxpayer.

i. Taxation by other local governments.

(A). Example—It commonly happens that the tax-objects which one local government possesses in the jurisdiction of other local governments are taxed by the latter, as long as those objects are not of a public nature.

(B). Theories—A local government is justified in taxing

the business properties and enterprises of other local governments which are located under its jurisdiction. The exemption of such properties and enterprises may be advocated on the ground that the object of their revenues is one of public service. But the taxation is just in view of the fact that a local government, in its business relations, stands as an equal of private individuals and not in its capacity as a body having a certain authority. Moreover, such exemption as aforesaid will place the private competitors in a very disadvantageous position; while localities in which such properties and enterprises exist in large numbers would occupy a position highly disadvantageous to other localities not so situated, thereby creating an inequality of tax burdens among the different localities of a nation. Moreover, exemption is likely to cause the owner of such properties or enterprises to miscalculate in their business management; and he is amply compensated by the financial advantage which he gains through his payment of the taxes.

ii. Self-taxation by local governments—Laws do not usually prohibit self-taxation of local governments. They, therefore, could tax themselves if they should so choose. But here the reasons for taxation are not so strong as in other instances, and it may be regarded as unnecessary. This is particularly so in monopolistic enterprises. All this does not mean of course that there are no reason for taxation. On the contrary, there are many reasons in its favour as I shall presently point out.

(A). Negative reasons—

a. The exemption of the tax-objects of a local government by itself cannot be said to be self-evident. There are, indeed, many reasons in favour of their taxation.

b. Self-taxation by a local government may be opposed on the ground that it amounts to transferring funds from one hand to the other and that therefore such a system is uneconomical and meaningless. But when there is some positive reason for taxation such waste must be held as necessary just as in the case of the State.

c. It is pointed out that there is no appreciable difference between the two sets of local revenues—local taxes and revenues from individual economy—and that for this reason there is no real difference for local governments whether they raise the revenue as taxes or as incomes from their individual economies. While all this is true, it is not a reason against the self-taxation of local governments inasmuch as there are positive reasons for such a system of taxation.

d. It is again said that the business enterprises of local governments have public service as their purpose.

e. Self-taxation is also opposed on the ground that revenues from such business enterprises are used for public purposes. Such argument may be found valid of monopolies, but not where government enterprises compete with private ones; nor are all government revenues used for purely public purposes. The fact that such revenues are used for public services cannot be regarded as a reason against self-taxation of local governments, the very revenue of which is also used for public service.

(B). Affirmative reasons—The exemption of the properties and enterprises of local governments from taxation will place private competitors in a disadvantageous position. For this reason such exemption should not be made. Furthermore, the exemption will not benefit the governments themselves as it does not offer any stimulus for more successful business management. Of course this last difficulty may be met by a nominal taxation, while the first difficulty does not occur in monopolistic enterprises. Reasons in favour of the taxation of monopolistic enterprises are very weak, and tax revenues from monopolies should be deducted from the total amount of revenue. Only the ordinary revenues must be taxed, and if they are difficult to determine, then some external standard of taxation may be adopted.

IV. SOVEREIGNS AS TAXPAYERS

(1). Sovereigns As National-Taxpayers

i. Some examples—There are theories for and against the taxation of sovereigns. In taxation there is a principle of generality which maintains that no person who has the faculty to pay can escape taxation. But often sovereigns are exempted from such a principle. Such exemption is recognised not only in connection with the Imperial household funds (The Civil List) given by the State, but also as regards the private property of the Sovereign. Formerly exemption was clearly recognised in Prussia from all direct taxes. In Japan no direct taxes are imposed on the Sovereign. There is no question of exemption about the business tax; no income tax is levied though no specific mention is made by law; and the exemption is extended to the dividends which the Sovereign receives from corporations. Exemption is made in the land tax for the Sovereign as well as all the members of the Imperial Family, except in certain contingencies in the latter case. No customs duties are levied on the goods imported for the Sovereign. Thus, sovereigns are usually exempted from all direct taxes, although it is impossible for them to escape the tax burden to which all persons are liable from the indirect taxes. However, there are cases in which sovereigns pay direct taxes. In some German states sovereigns were exempted only from such direct taxes as were specially mentioned by law. In Great Britain and Italy, the sovereigns voluntarily pay the income tax.

ii. Theories.

(A). Negative reasons and their refutation—The following are the reasons in support of the exemption of sovereigns from taxation.

a. The exemption of sovereigns from taxation is regarded as self-evident, but this will not be so regarded by all, especially when there is no sufficient explanation given.

This self-evident theory may take the form that the exemption of sovereigns is self evident because they are not subjects who have the duty to submit to taxation. While the premises are true, the fact remains that those who pay taxes include foreigners and local governments as well as subjects, and in consequence there are no reasons for the exemption of sovereigns from the duty of tax-payment. Some of those who uphold such an exemption for sovereigns believe that the latter may pay taxes to local governments; if this be so, it certainly is highly absurd. We cannot see why sovereigns must not pay taxes to the State in a similar capacity.

b. Those who favour the exemption under consideration base their reason on some historic fact or on custom. But we need not uphold all customs or precedents; we are entitled to disregard some of them if we have good reasons for so doing.

c. It is again said that such exemption is necessary for the nation to show their respect for the sovereign, and that taxation must be regarded as evidencing a lack of respect to him. However, there are those who contend that such a lack of respect on the part of a nation is justified on the ground that it is necessary for the good of the whole community. Such a view does not seem proper in a country like Japan where it is believed that the nation's respect for the sovereign is consonant with the interests of the whole community. On the other hand, the imposition of taxes on the sovereign may take a form which does not come into a conflict with the nation's respect towards him. Instead of ordering the sovereign to pay taxes, the officials in charge of the treasury of the Imperial Household may be required to make necessary financial reports and pay taxes as ordinary individuals. Moreover, conceptions concerning taxation have greatly changed in recent years. Formerly, exemption from taxation was regarded as a great honour, but to-day it is regarded as a dishonour, and those who pay taxes take pride in so doing; such a change in the conception of taxa-

tion is required by the present age. For this reason, non-payment by the officials in charge of the treasury of the Imperial Household is not an honourable thing for the sovereign; nor is it the right way of the nation to show its respect for the sovereign. Of course, if such taxation on the sovereign be made the occasion of an irresponsible debate in the Diet, a sort of lack of respect for the sovereign will ensue. But, if the grants of money to the Tax Bureau are made by the sovereign after the officials have carefully prepared the whole plan, not only will such lack of respect be avoided, but the sacredness and dignity of the sovereign will be also appreciated by the people. The sovereign will also set a good example for the people by such an action, and the latter's love for the Imperial House will be augmented.

d. It may also be said that the exemption of the sovereign from taxation is natural because of the desire of the people to extend exemption to their ruler. This idea is especially strong in this country. The sentiment of the people is naturally against the imposition of taxes upon their sovereign, and it does not seem proper to change our tax system so as to require the sovereign to pay taxes. It is more desirable to let the officials of the Imperial Household make the grants of money to the governments concerned. I may add, however, that in foreign countries the sentiments of the various peoples are in favour of the regular imposition of taxes upon sovereigns.

e. Again, the exemption of the sovereign from taxation may be advanced on the ground that taxation will impair his dignity. On the other hand, the view may be maintained that taxation and dignity are not incompatible and that the former will increase the latter. But the formal taxation in a country like Japan may cause a serious misunderstanding, and thereby impair the dignity of the Imperial Household. The difficulty, however, could be avoided if the officials in charge of the financial management of the Imperial Household make grants of money to the governmental departments concerned.

f. Some oppose the payment of taxes by the sovereign on the ground that, since the sovereign is the state or at least its incarnation, his payment of taxes would be tantamount to self-taxation. But the self-taxation of the state is admitted as correct both in theory and in practice. Moreover, the identity of the sovereign and the state cannot be regarded as an unrefutable truth. On the other hand, it is more proper to regard him as the organ of the State and his private property as his individual property and not as that of a state organ. Such a view, however, may be considered as improper in Japan. If the sovereign in Japan is to be identified with the State, then the self-taxation of the State will be realised, provided the officials of the Imperial Household pay taxes. On the other hand, the idea may be advanced that since the sovereign is a divine or super-human personality, the imposition of taxes upon him is unthinkable. Even admitting such a view to be true, the officials of the Imperial Household may be required to pay taxes on the property of the Imperial Household in their character as civilians in charge of the management of that property. Of course the word "taxes" may be avoided, and equivalent monetary grants made instead. Even if the identity of the sovereign and the State be accepted, taxation of those officials in charge of the Imperial household properties on the values of the beforementioned properties, is just and right.

g. There is another view to the effect that, since the ruler is the dispenser of the sovereign rights of the state, he cannot be bound by law to pay taxes. But as I have already explained, aside from his sovereign capacity, the ruler possesses property in his private capacity. Moreover, the treasury officials of the Imperial Household could be required to pay taxes on the private property of the sovereign or make monetary grants in place of the taxes.

h. It may be said that the exemption of the sovereign from taxation is a corollary of his sovereignty, and no specific act is necessary for it. But, since his irresponsibility is specified in the Constitution as regards criminal cases, the

fact that no mention is made about his duty to pay taxes may be regarded as his recognition of the possibility of taxation, at the time of the drafting of the Constitution. Nor can the fact that he has been exempted from taxation be a sufficient reason for the continuance of the practice, inasmuch as the self-taxation of the state is a reality. The existing custom of exemption can be abolished either by the State or by the sovereign through some legal methods.

i. It may be contended that the sovereign protects the people but is never himself protected by the people and therefore should not be required to pay taxes. But the premises of this argument are not true, and therefore the conclusion cannot be true.

j. Some may point to the insufficiency of the civil list in the general budget and on that ground justify the exemption of the sovereign from taxation. This argument cannot be valid where the civil list contains a sufficiency. Moreover, if the civil list does not contain a sufficient amount, it should be increased through the ordinary channels instead of trying to make up the deficit through the exemption of taxes. The incomes of the Imperial Household should be increased from the proper sources, while it should not hesitate to share the rightful expenses of the community. But in this country the form of taxes should by all means be avoided.

k. Another view is that the civil list in the general budget presupposes its exemption from taxation, that the specified property of the Imperial Household is historically regarded as a substitute for the civil list, that exemption of the sovereign's property is made as a sort of compensation for his offering his property to the state, and that for these reasons the custom of exemption should be upheld. But such historical grounds do not exist in all countries, and where they do not exist the foregoing argument cannot be held as valid. Moreover, all such customs change with the lapse of time, and therefore cannot be regarded as unmovable.

1. Of course no one will oppose the exemption of the specified property of the sovereign such as the Imperial castle which is used for a state purpose. The civil list, too, must be placed outside the possibility of taxation as it is a necessary state expenditure.

(B). Affirmative reasons

a. The first reason in favour of the taxation of the sovereign is the financial need of the local governments under whose jurisdiction the properties of the sovereign are located. If national taxation be imposed, they would derive an income from the percentage additions to the national taxes which may be imposed upon such properties. Exemption, moreover, would give rise to an injustice because of the difference in the amounts and values of such property in different localities. It is desirable that the sovereign should be taxed just like any other individual citizen, though in our country at least the name of "taxes" should by all means be avoided.

b. Secondly it may be said that exemption would prove detrimental to the public finances of the State, though this reason is not a strong one. The expenditure of the sovereign as a state organ includes, beside the civil list, that which corresponds to the taxes the sovereign might pay, and therefore the amount of the exempted taxes may be regarded as a state expense also.

c. Thirdly, exemption would place individual competitors in a disadvantageous position. This does not apply to all forms of the sovereign's property, but at any rate it is true of some.

d. In the fourth place, from the standpoint of the financial management of the sovereign's property, taxation is desirable.

e. Moreover, if all property of the sovereign is exempted those who are in close attendance on him may unlawfully profit by the system.

f. Exemption does not make a good impression upon the minds of those who are modern in their thoughts and

ideas. Japan cannot be regarded as an exception to this general rule. Our officials who are in charge of the duty under consideration should give their thought to this matter.

g. Exemption, as is explained in (e) and (f) will be likely to encourage tax evasion on the part of the people. On the other hand, taxation or grants would make taxation much more popular. The fact that the sovereign also pays taxes will have a desirable effect upon the idea of civic duty of the people as a whole. Of course, if the Imperial Household suffers from financial stringency because of taxation, the amount of the civil list should be sufficiently increased. On the other hand, it is desirable that the Imperial Household should voluntarily give grants in lieu of tax payments.

h. Lastly, it may be said that when the sovereign derives some income from the possession of some property, he does not do so in his capacity as ruler or as a state organ, but in his character as a civilian. In consequence, the taxation of that income may be justified on that ground only, or grants in substitution for taxes may be made.

(C). A proposal—It may be proposed that barring those special forms of property, such as the Imperial palace, or the civil list, the treasury officials of the Imperial Household may be required to pay taxes on all other property of the Imperial Household. However, as has been already pointed out, where the exemption of taxation of the sovereign has been customary on the ground of special reverence on the part of the people, as in the case of our own country, the regular imposition of taxes should be avoided. On the other hand, the failure of the treasury officials of the Imperial Household to pay taxes will result in encouraging unlawful actions on the part of malcontents, and thereby aggravate the prevailing social unrest; and also in view of other reasons in favour of taxation, it is highly desirable that a substitute for the taxes should be granted to the government.

(2). Sovereigns as Local-Taxpayers

i. Examples—Sovereigns are often exempted, as in the case of Japan, from local taxation. Formerly, the sovereign in Germany paid taxes in principle, and were exempted as special exceptions. In our country too, the custom of the Imperial Household giving grants to local governments has been established in recent years.

ii. Theories—It may be said that, since local taxation is a corollary of the taxing right of the state, local governments can impose taxes on the sovereign inasmuch as a similar right is exercised by the state itself. Again, all reasons mentioned in the case of state taxations except (f) of (A) and (b) of (B), can also be applied in the case of local taxation, in favour of the taxation of the sovereign. Yet, as in the case of the national taxes, the formal imposition of taxes upon the sovereign in our own country does not seem proper because of sentimental reasons. Therefore, the donation of grants of money in lieu of taxes is highly desirable.

V. PUBLIC BODIES AS TAXPAYERS

1. Examples—

(A). Example of the direct exemption of taxes—Exemption of taxes are generally made in favour of public bodies. Public bodies are exempted from the income tax in Germany, and in both Great Britain and the United States, a similar exemption is made with certain limitations. In Japan, public bodies are exempted not only from such national taxes as the income tax, the capital interest tax, and the land tax (though exceptionally), and also from the local house tax and household tax. In the case of the registration tax, either exemption or reduction is allowed for public bodies. In the case of the consumption taxes, public bodies ordinarily bear the tax burden in the end, but exemption

is made in the case of some customs duties on the articles which are to be used by public bodies.

(B). Examples of the indirect exemption of taxes—Not only directly as has been pointed out above, but also indirectly is exemption made in the taxes for public bodies. Deductions are made from the income of individuals who have contributed funds to public bodies. In Japan this is not practised in the case of the income tax but in the United States it is practised within certain limits. In the case of our registration tax and stamp tax, provisions are made for the reduction and exemption of the taxes where the business is transacted between individual and public bodies. In the case of the inheritance tax, deductions are made for those sums of money contributed to, or inherited by, public bodies.

2. Theories—We shall now see what are the reasons for exemption.

(A). Reasons for the exemption of taxes on public bodies.

a. The first reason for exemption is that public bodies are important bodies which are intended to supplement the work of government bodies such as the state and local governments. By a public body is understood one which has as its *raison d'être* the advancement of public interest rather than the interest of those who contribute towards its maintenance; it is a body which works for the enhancement of the culture and happiness of society in general, and has as its aim the development of such things as learning, art, religions, education, charity, public health, etc. Public bodies carry on such works either because government bodies do not carry them on at all or do not carry them on sufficiently, for such works can certainly be carried on by government bodies. Since the former (public bodies) carry on such works of public nature in order to render assistance to the latter (government bodies) the first are as important as the second, and should, therefore, be exempted from taxation. So long as exemption of government bodies is recognised, that of public bodies must also be recognised.

b. The second reason in favour of the exemption of public bodies is that it is financially better for the state to exempt them than to collect taxes from them. It is evident that if what is carried on by a public body in a particular place and time is necessary and beneficial to the public, the state will have to take up the task by itself if there be no public body to do so. And, in order to carry out such a task, the state will be compelled to derive a revenue therefor from taxes or other similar sources. Now, it is evident that the amount of such taxes will be much greater than that which would be imposed upon the public body. What the State should do, therefore, is to let such a public body carry on its public work freely by exempting it from the payment of taxes, so that the State will not need to collect additional taxes for the maintenance of such public service. The exemption of a public body, in short, is based upon the fact that the work which the public body is carrying on is that which the State would have had to carry on by itself with funds derived from taxation, did not the public body relieve it. The State, therefore, is going too far if it should tax such a public body. It may again be said that, if the taxation of public bodies should check their development, the finances of the state would suffer a loss; it is more profitable for the state to exempt public bodies. On the other hand, it is evident that, if taxation does not check the development of public bodies, it would be better for the state to tax them. In actual practices, however, taxation by the state of public bodies will seriously affect their development; nor is it possible for the state to impose very high tax rates, so that the state will lose more than it will gain by taxation.

c. The third reason in favour of the exemption of public bodies is that there are occasions on which they can perform public services better than government bodies. It may be contended that, if government bodies can perform public services better than ordinary public bodies, the former should be entrusted with the task of all public services. In actual practice, however, it has been found that it is better to let

public bodies take charge of at least part of the public services. This is the *raison d'être* of public bodies and one of the main justifications for their exemption from taxation. True, some public services can be carried out only by a government. It often happens, however, in the case of education, charity and social enterprises, private individuals who are fired with humanitarian enthusiasm can do better than bureaucratic officials of the government. Moreover, people pay unwillingly if the money is in the form of a tax, but quite willingly if it is to be spent in a private enterprise in which they themselves participate. It follows then that public bodies must be allowed to function to a considerable extent; in many cases they are more efficient than the government, and they have good reasons for their exemption from taxation.

(B). Limitation on Exemption of Public Bodies.

a. Limitation on the extent of exemption—Exemption of public bodies should not be construed as the exemption of all public bodies whatever their nature. There are public bodies whose public element is so weak that no exemption of taxes can be made. Moreover, there are occasions on which taxation rather than exemption of some public bodies is more desirable chiefly because of the possibility of abuse of such exemption. The first example is found in the case of some of our private schools. While such schools have the capability of serving the public even better than government schools, the fact remains that they are too frequently used for profit-making and prove detrimental to the public good even more than other ordinary profit-making enterprises. It is better that such schools should not be exempted from taxation. They do not contribute a bit towards the advancement of education as their methods are inadequate and their object of school management is not one of public service. However, there is the difficulty of distinguishing the good from the bad private schools; such differentiation often proves unjust and arbitrary. What the lawmakers must do, therefore, is to decide whether private schools in general

are entitled to exemption. If the majority of them are so entitled, the lawmakers may decide in favour of enacting a law making such exemption. After the adoption of such legislation, the authorities should see to it that private schools do not become anti-public in their management.

An example of the second case is found in temples and churches. Their exemption may be easily abused. Individuals for instance may own a considerable quantity of property in the name of a church. It is also possible that the churches and priests may control the politics of the country with their vast property to the detriment of the whole nation. Moreover, the poor management of such property may result detrimentally to the nation politically as well financially. It would be very difficult for the government to control churches with immense holdings of property, and would be compelled to do away with any exemptions and impose heavy taxes upon them. On the other hand, the view may be advanced to the effect that those individuals who carry on their enterprises for the good of the public ought to enjoy exemption even though they may be profit-making. But such a view is obviously too radical to be adopted. Moreover, if exemption of taxation is made to so great an extent, the state might be unable to secure the money necessary for its efficient administration. Furthermore, although such individuals serve the public interest, they primarily secure private profits for themselves; nor are they carrying on any work which might be as well carried on by a government body. For these reasons their exemption from taxation is unthinkable.

b. Limitation on the kinds of property and incomes exempted—When exemption is made for some public bodies, it is not necessarily right that all of their property and incomes should be exempted. Exemption should be limited to a certain kind or class of property or income. As has been noted, some of the enterprises of government bodies are also subject to taxation if they are of profit-making nature, and such a measure is justified both in theory and

in practice. If this be so, it is obvious that exemption should not be made in the case of public bodies on their profit-making enterprises. It seems fitting and proper that exemption should be made only on the financial shares of the members of such bodies or their contributions. It must be noted that such funds most probably have already been taxed while yet in the possession of their former owners. Even when they have not been taxed, it seems proper that they should be exempted after they have been given to public bodies inasmuch as they are used *pro bono publico*. Nor will their exemption be used as a pretext for tax evasion by some individuals as in the case of the business property of public bodies.

c. Limitation on the degree of exemption—Although public bodies, as has been pointed out above, should enjoy exemption just as do government bodies because of their service to the public, there is much anxiety lest the favour lead to abuses. Some individuals may gain private profits by utilising such a favour. Even when only good comes from public bodies, there is the possibility of their becoming obstacles in the way of the execution of the tasks of government bodies. It is evident at any rate that the degrees of public service both sets of organisations can render are not identical. It is desirable therefore that exemption should be made differently in two cases. If possible, an ideal system would be to examine the degree of public service rendered by each organisation. If this be impossible, a lower rate of exemption in general should be made in the case of public bodies as compared with government bodies.

VI. CORPORATIONS AS TAXPAYERS

(1). General Question

It goes without saying that corporations may be taxpayers. There are, however, some taxes of which corporations cannot be taxpayers, and other taxes of which corporations

tions alone can be taxpayers. Again, it happens that corporations and the individuals composing them are taxed at the same time. In the third category, double taxation may be avoided by taxing one of the two, i. e. corporations or individuals; yet there are occasions when both are taxed on the same tax-object, the result being double taxation.

i. Taxes paid only by individuals—In our country only individuals are to pay the following taxes: inheritance tax, hunting license, tonnage tax, and part of the registration tax (on individuals' qualifications). The reasons for such taxation are found in the nature of the taxes as well as of the taxpayers.

ii. Taxes paid only by corporations—In our country only corporations pay the bank note issuance tax, the bourse tax, and part of the registration tax (only when corporations are concerned) because only corporations are concerned with those taxes.

iii. Tax paid by individuals as well as corporations.

(A). Taxes paid by either individuals or corporations—Such taxes are normal or partial income taxes, taxes on products, consumption taxes, and transaction taxes, so far as not included in those mentioned in (i) and (ii). In these taxes, only tax-objects are seen and taxpayers are not as it were, and the taxes are imposed wherever there are tax-objects, no distinction being made whether the taxpayers are individuals or corporations. Suppose they are imposed on corporations, the individuals composing such corporations will not be taxed, and in consequence there will be no double taxation.

(B). Taxes paid by both corporations and individuals—Those taxes which give rise to double taxation between individuals and corporations are limited to such personal taxes as the income and property taxes. These taxes can be imposed only on individuals on their enterprises in corporations; they can also be imposed upon corporations alone. At the same time, it is possible to impose them on both alike, resulting in double taxation. It is also possible to tax

both without any reduction to either of them. It is also possible to adopt a partial exemption. I shall take up this question of double taxation presently.

(2). Double Taxation of Corporations and
Individuals

i. Examples—Only natural persons are taxed in the case of the personal taxes (such as the general income tax or the super income tax) of the principal countries of the world. But in both Germany and Switzerland, the income tax (a corporation tax) and the property tax are imposed on individuals as well as on corporations, thereby resulting in double taxation. In the case of the income tax in this country, corporations are required to pay in full, while individuals deriving income from the same corporations are required to pay for their income minus four tenths of the total amount. I shall next take up theories concerning the double taxation in the income tax.

ii. Theories.

(A). Arguments against double taxation and their refutation.

a. From the nature of income and the income tax.

(i). Arguments—To begin with, the income tax is levied with natural persons or individuals as the basis; it is a lump sum tax which takes all receipts personally; it is this personal nature of the tax that distinguishes it from all other taxes. This nature is disregarded when corporations are required to pay the income tax. Moreover, an income presupposes a person's means to be consumed; this truly characterises the incomes of natural persons, but not those of corporations. Corporations may gain incomes, but such incomes do not possess the real nature of incomes; they become so only when they have come to be possessed by some individuals. Such incomes, when viewed by corporations, are something which must be shifted to individuals; when viewed by individuals, they are a sort of objective

product and investment income. As far as individuals are concerned, the corporations in which they are interested, are just like the bonds and debentures or lands or houses in which they have invested. If individuals are taxed but once when they have invested in these bonds, lands and houses, they should be justified in expecting a similar taxation when they have invested in some corporations. For this reason, all that should be done is to add a man's share of the corporation dividends to his other incomes and the income tax should be levied on the lump sum. If the tax is levied on the corporations because of convenience, that should be sufficient and no other tax should be levied on the same income. A man's income from such corporations should not be included in his incomes for which he pays a separate tax.

(ii). Refutation—The foregoing arguments may sound convincing. It is an ideal in taxation which should be duly respected. We must admit that the income tax is primarily based upon natural persons, that the tax has a special significance only when all incomes are massed in a lump sum, and that the real significance of income is realised only when it is considered in relation with consumption. But in actual practice, legislation cannot live up to ideals with any great amount of success. Necessities and conveniences do not allow the lawmakers to pay exclusive attention to the incomes for men's consumption. They must tax the income which is invested. Unless this be done, there will be much tax evasion. The income tax having the individual as its centre may be an ideal system. But where corporations exist in great numbers, it is but natural that they should be treated on the same level as individuals. Of course it is highly desirable that consideration be paid to the relations between corporations and individuals and the independent nature of the former. If these are not taken into consideration, the system of taxation will be inadequate, for such things as legislations concerning corporations and the special interests of individuals having connections with

corporations will be regarded as being left out of the system. Viewed from technique and convenience in taxation, the system of individual taxation will not be able to reach the reserve income of corporations; not only that but the income which goes out of the country will also escape taxation. However, taxing corporations alone is not sufficient inasmuch as the imposition of a lump-sum progressive income tax on individuals will be impossible under such a system. We must be contented with the taxation of corporations and individuals in actual practice because of the foregoing reasons.

b. From the faculty theory and tax technique.

(i). Arguments—When the incomes of corporations and the dividends of individuals correspond to each other they are the same tax-object and the taxation of both corporations and individuals should be regarded as an unjustifiable double taxation—a case of taxation which is too heavy when other similar incomes are taken into consideration from the viewpoint of the faculty of taxpayers. It may be said that double taxation is justified where those corporations which are taxed in such cases are those engaged in profit-making enterprises of some sort, and which have a greater faculty than individuals because they have the weapon of a consolidated capital and enjoy the special protection of the law. On the other hand, there are individuals who have greater capital and consequently have a greater faculty to pay than corporations. Moreover, some corporations are composed of those who have very small capital. When these things are taken into consideration one should hesitate to impose a double tax on all corporations, simply because they are corporations. When a double tax is imposed, so far as it is levied on corporations, the income tax would cease to be a personal tax; it would rather become a real tax or a tax on products; and it would be impossible to make it a progressive tax intended to reach the whole faculty of individuals.

(ii). Refutation—It is true that the incomes of corporations and the dividends of individuals correspond to each

other, they are the same tax-object, and those individuals who are taxed would be placed in a disadvantageous position when it is remembered that they could have invested otherwise. But as I have already pointed out, there is the necessity of treating corporations and individuals as independent personalities in constructing a system of taxation. Moreover, while admitting that a corporation is a particular business method of individuals and that the taxation on a corporation means in the last analysis the taxation on individuals, the fact remains that a corporation enables individuals, by expanding their faculty, to do what they as individuals are unable to do; and for this reason a heavier tax on such a corporation than in the case of mere individuals is highly justifiable. As to the argument that the double taxation of corporations is not just because there are individuals who have greater economic power than corporations, I would say that such individuals are most likely required to pay a heavy progressible tax, which at times is heavier than the sum of the taxes on both a corporation and the individuals composing it. (I am inclined to believe that the sum of the average rate of taxes for small corporations and the progressive tax rates for individuals having small faculty is not very great). Even supposing that there are instances in which the statement does not hold true, the difference would not be very great in view of the fact that the progressive rates of taxes for individuals are very high nowadays. In such instances the individuals who are taxed for their dividends should be prepared to shoulder such a burden because they have received benefits by using the corporation system. Again, it may be said that the double taxes on corporations are especially burdensome to those small shareholders of corporations compared with their more powerful fellow shareholders. But those small shareholders are deriving profits through the organised corporation, and therefore such a sacrifice on their part must be expected. Although their incomes are not exempted when the corporation is taxed, a very light rate of tax is usually imposed on the lump

sum of their incomes; sometimes such a lump sum is below the exemption point and therefore they are altogether exempted from the income tax. It is regrettable that the personal nature of the income tax is lost through the taxation of corporations, but such a thing cannot be avoided in actual practice. A similar thing is seen also in the case of the taxes on the interests of government bonds and debentures. In Japan, whereas real taxes are levied on the sources of the interests of bonds and debentures, in the case of the real taxation of corporations, a personal tax on the lump sum of incomes is also levied, making the system more near to the ideal.

c. From national economy.

(i). Arguments—To begin with, business corporations are indispensable under the existing system of economy. Large scale enterprises can be carried on by the accumulation of capital by corporations, and there are many enterprises which can be carried on only through corporations. And, since corporations have made the economic development of modern society possible and will be more utilised in the future, it is not just that those who are connected with them should be taxed more than once on their incomes therefrom, for such a tax system will certainly jeopardise the future economic progress of society. Moreover, there is the possibility of export of capital from one country to another because of the system of double taxation; capital will flow from the country having such a system to a country having no such a system, the result being an economic detriment for the first.

(ii). Refutation—Although corporations occupy an important position in the existing system of economy and their development is desirable from the standpoint of the progress of economy in general, the fact remains that they are accompanied by various evils which must not escape our attention. Certainly their development cannot be regarded as the object of all our economic endeavours. Moreover, the proper enterprises of corporations will prosper despite taxes levied on them, so that it is wrong to place too great

an emphasis on the obstructive effects of taxation upon the development of corporations. Such effects should not cause much anxiety to any one. Such taxation should be borne inasmuch as there are some weighty reason for it, despite its having some evil results. While it is true that double taxation will have the effect of driving corporations to the countries where no such tax system exists, we should not have much fear about it in our country which has very little international contact in this respect. Moreover, many foreign countries have similar double taxation systems, and even when a single tax on corporations is levied, it is so heavy that we need not worry about the possible disastrous effects of a double tax saystem in our own country.

(B). Arguments in favour of double taxation of corporations and individuals.

I have pointed out arguments against a double taxation of corporations and individuals and criticised them. I have thereby made it clear that the double taxation of corporations and individuals is justified. But I shall now cite positive reasons in its favour.

a. From the nature of income—What should be first noted is the fact that corporations and individuals are different persons, the former receiving the special protection of law, and at times competing with individuals in the economic market. It is proper to regard the profits of corporations as different from the dividends of individuals. Both should be regarded as the separate incomes of separate persons. The taxation of the same tax-object in this case cannot be regarded as double taxation; it is rather a compound of single taxes. Nor can the investment in corporations be regarded as the same as other investments in such things as lands, houses, bonds, debentures and the like, although all such investments are objective products for the investor. While lands and houses are real, impersonal objects of investments, corporations possess personalities as their concomitant conveniences and privileges. For this reason, it is right that the latter are and should be treated specially.

Although corporations have some qualities similar to those possessed by other ordinary objects of investment, they are of such a nature as require special treatment.

b. From the nature of the income tax—Although the income tax is a personal tax which is levied on the lump sum of all incomes, it is both natural and necessary that such a tax should be imposed upon a system of artificial persons called "corporations," especially in view of the fact that they are greatly developed and extensively adopted. It is also desirable that corporations should be treated somewhat differently from natural persons. While considering the fact that they are related to a group of individuals who are interested, they should be treated somewhat impersonally, and the income tax should be levied, not according to some progressive rate, but according to some intermediate proportional rate. Such a proportional rate may be explained from the standpoint that it is a system which is aimed at the sources of incomes for the benefit of individuals just as in the case of second class incomes in this country.

c. From the faculty principle—So far as the revenue of corporations and the dividends of individuals are separate incomes, the taxation on both does not result in an unjustly heavy tax or a tax which is not based upon the faculty of taxpayers. Even supposing that the incomes of corporations are to be regarded as the same as other incomes, it must be admitted that there must be a special reason for individuals to invest in these special artificial systems, instead of in other objects such as lands, houses, etc. It is this special advantage which individuals secure through their investments in corporations that justifies a heavier tax on the income derived from them, inasmuch as this advantage may be considered as a greater faculty on the part of those who manipulate these artificial persons; and provided proper precautionary measures are taken against untoward consequences, a double tax in this case may be regarded as permissible. It is evident then that the greater the corporations, the more advantageous they are and the higher will

be their faculty ; and that, for this reason, a progressive rate may be adopted in accordance with the varying size of corporations. The progressive rates of corporation income taxes may be thus explained to a certain extent from this standpoint.

d. From national economy—The double taxation of the incomes of corporations will prove detrimental to national economy inasmuch as it will result in checking their natural development which will be possible under the system of a single taxation. While this is true enough, there are many factors counteracting this disadvantage. In the first place, it must be admitted that the development of corporations is accompanied by various evils. Moreover, some enterprises are required to be incorporated so far as they are profitable, and in reality corporation enterprises have some superior advantages so that persons would use them despite their additional tax burden. Moreover, the corporation tax is often shifted in the form of a real burden on shares and certificates from one owner to another in purchase and sale transactions, so that the tax ceases to be a special financial burden for the persons concerned. Of course, this fact is not a positive reason in support of the double taxation under consideration, but it is a fact counterbalancing the evil results of the tax system.

e. From social policy—The expansion of the power of capital through the development of corporations will inevitably place smaller individual enterprisers at a disadvantage in business competition. The double taxation of corporations and individuals may result in checking the development of corporations, but it will prove beneficial to the middle class policy which is aimed at the protection of the smaller individual enterprisers. Thus the taxation under consideration has a merit which will amply make up for the shortcoming in national economy which has just been noted.

f. From taxation technique—

(i) Reasons in favour of the double taxation of corporations and individuals—If corporations alone are to be taxed

and no tax is levied on the dividends which individuals receive from them, then it would be impossible to tax individuals on their entire incomes according to their faculty. In such cases the tax rates will be proportionate and intermediate rates, and will be against the progressive rates as far as the burdens of individuals are concerned. Under such a system those whose incomes are of great amounts will have to pay taxes which are too light for their incomes, while those whose incomes are small will have to pay taxes which are out of proportions to their incomes. If a progressive rate of tax is levied on corporations, the burdens on the individuals composing the corporations will be unjustly distributed, inasmuch as it is possible that the income of those individuals composing a corporation deriving big profits may be small, while that of those composing a corporation deriving small profits may be big. This is liable to happen in the case of the double taxation of corporations and individuals, of course; but in such a case the progressive lump sum tax will mitigate the injustice under consideration. On the other hand, the taxation of individuals alone will give rise to dire consequences. Under such a system of taxation, the ease of reaching the sources of incomes will be largely lost and will result in encouraging tax evasion. It would be difficult to reach unregistered shares and also registered shares which frequently change hands. Such a system will not be able to catch the income which is not distributed as dividends but is retained by a corporation or the income which is carried out of the country. For these reasons, the double taxation of corporations and individuals seems to be necessary.

(ii). Some defects of the double taxation of corporations and individuals—From the standpoint of tax technique, it must be noted that there are some defects in the double taxation under consideration. The taxation of corporations will prove too burdensome for individuals as they may be regarded in actual practice as their own tax burden. Moreover, too great check on the development of a corpora-

tion should be carefully avoided. However, a system of abatement for either corporations or individuals will involve much difficulty; for instance, if the abatement is to be made in percentage according to the amount of the capital, the big corporations which derive great profits will enjoy greater abatement over smaller ones. This does not seem just, though some may contend that such injustice should be borne because of the fact that those corporations whose incomes are small are enjoying comparatively greater allowances. The fact remains, however, that such a system of abatement does not take into consideration the difference in the circumstances for possessing shares and getting dividends. The uniformity of abatement is one objectionable point. Such a difficulty, however, seems unavoidable in the problem under consideration.

VII. INDIVIDUALS AS TAXPAYERS

1. General Survey

(i). Individuals or natural persons are by far the most common taxpayers. It must not be supposed, however, that they pay taxes always as individuals. On the contrary, they often do so only in form and in reality they do so as the heads or representatives of households or families, which are groups of individuals. Personal taxes such as the income, property, and household taxes are often levied not on the incomes, property and houses of individuals but on those of families. This fact is often disregarded but should be as well taken into consideration.

(ii). The foregoing fact becomes an issue in the case of personal taxes but not in the case of real taxes such as the consumption taxes, the transaction tax, or the tax on products. Why? Because, since in the case of personal taxes all the economic conditions of individuals must be carefully studied in order to get the right idea about their total faculty, the mere consideration of the independent con-

dition of individuals as natural persons is never sufficient. In fact individuals quite generally have families and lead family lives so that their whole faculty can be known only by studying all positive and negative powers which affect his faculty. The balance of the incomes and expenditures of the members of the family must be taken as the faculty of the head of the family, and not his individual faculty only. He represents this balance and not his own income. As far as personal taxes are concerned, the household economy should be taken as the unit of faculty in the assessment of taxes. On the other hand, in the case of real taxes, tax-objects only are taken into consideration and persons are disregarded; the taxes are determined objectively, and neither the circumstances of individuals nor the family economy is taken into consideration. Taxes are based entirely upon the faculty represented by the tax-object alone, the personal circumstances of individuals being totally disregarded. In the case of real taxes, therefore, it makes no difference in tax burden whether taxpayers are simple individuals or the heads of families. Occasionally, however, personal circumstances and family economy are taken into consideration even in the case of real taxes, but they are regarded as secondary and are not the characteristic of this class of tax. As the income tax is the most dominant form of personal taxes, I shall next treat this tax in considering individuals as taxpayers.

2. The Family Basis of Taxation in the Income Tax

(i). Examples—On the positive side of the income tax in Japan, all the incomes of a family residing together, or those of two or more of the family members residing together but separately from the head of the household, are added together respectively and a progressive rate is adopted. However, one cannot say that the payer of the income tax in Japan is the collective family; because at least in form

the individual is the taxpayer. On the negative side of the income tax also, the addition of all the incomes of the family members, as has been noted above, is regarded as the basis for the calculation of the exemption point, of the abatements of earned incomes as well as of those for the dependents of the head of a family. Deductions are also made of the life insurance premia on the condition that the beneficiary of the insurance money is a family member or his heir. By head of a household or its members are understood those so described on the register, and they are not regarded as economic facts. In England married couples are given special consideration in fixing the exemption point which is different from that for bachelors, and in the deduction of insurance premia. The incomes of married couples living together are added together and deductions are made for their dependents. The extent of these deductions are much wider than those in other countries. In Germany, the incomes of wives and children under age are added together to that of the heads of households, but deductions and abatements also are made. In France, the incomes of all the members of a household are added together to that of the head of the household but a separate tax may be levied on wives living in separation from their husbands as well as for the household members having their own incomes. On the other hand, deductions are made on household dependents, and the bachelors' tax and the barren tax are adopted. In the United States the taxpayer may or may not add together the incomes of the members of his household, except those of minors in which case the adding is required by law. In the same country a greater exemption point is allowed to married couples over bachelors. Formerly Saxony had an income tax system which did not include the taxation of family members.

(ii). Theories.

(A). Merits (affirmative reasons).

a. From justice in taxation—The income tax should be levied upon a person according to his entire faculty to pay,

and if he has a family his entire ability can be found only after considering the quantities and qualities of the incomes of all members of his household. The taking of these incomes separately will be meaningless. Although the aggregation of family incomes is necessary for all abatements and reductions, it is especially so in the adoption of a progressive rate, for the reasons already noted. Consideration for one's dependents in the case of taxation on household economy can be made only through a somewhat defective method of abatement when viewed from the standpoint of taxation technique.

b. From the standpoint of morals—The domestic life—the family relations around a married couple and children in particular—should be the object of special consideration in taxation. And it is desirable that the income tax should take into consideration all the family receipts. This is especially desirable in Japan where the house is given a special legal significance by the register.

(B). The defects of the system (negative reasons), and remedies—As has just been considered the system has some merits, but it is not free from defects which I shall point out presently.

a. From the standpoint of justice in taxation.

i. Cases of injustice unavoidable in taxation technique.

(a). When all family members live together but lead separate economies—

1. As has been stated, in Japan the incomes of the family members living with the head of the household or those of two or more of members who are living together but separately from him, are taken together respectively before the assessment of the income tax is made. The fact that some persons live together cannot be taken as evidence of their communistic economy. On the contrary, it is possible that they lead separate economies either in entirety or in part. It is unjust, therefore, to tax one person on such varied incomes. If all the family members live together with the head of the household, then such a method of taxation may be justified, but in the case of two or more members who are living

together but separate from the head of the household, the method is entirely unjustifiable, as they may lead an independent living.

2. In order to eliminate this unjust, investigation must be made whether all members are leading a common economy or to what extent they are leading such an economy; and the incomes of those who lead such a collective economy only should be added together. In other words, such a collective economy for all members may be supposed, and changes made only when evidence to the contrary are produced. This method, however, will be accompanied by some difficulty. The existing income tax law in consequence involves some measure of injustice which, however, seems unavoidable. Moreover, in actuality one who cannot bear such a tax burden because of some family members will make a legal separation of the members so that he would not be held responsible for their taxes because of his relations with them. This will lessen the injustice under consideration to a great extent.

(b). In the case of family members living separately but leading the same economy.

1. Strictly speaking, it is possible that some family members live separately and yet use all their incomes in common either in entirety or in part. The possibility of such a case is additional evidence of the injustice of the existing income tax law in Japan.

2. Such injustice may be removed when each member makes a report of his separate economy to the authorities who should assume that all members lead a common economy. Such a system, however, will be too complicated to be practicable, so that the existing system will continue to be enforced. Moreover, in actuality the number of family members who are leading a common economy is on a steady decrease so that such cases may as well be disregarded.

(c). In case of tax evasion.

1. Attempts may be made with easiness to escape from the tax burden by living separately from the head or

the other members of the household or setting up a separate house for one's own (to have a separate house in the register). By such manipulation the one who leads a common economy with the head of the house may escape the heavy tax burden which otherwise will be imposed.

2. In order to prevent such tax evasion, the method mentioned in the previous section (namely, the separate taxation upon the evidence of separate economy on the part of some family members) may be adopted. This method may be effective in preventing the tax evasion of those who belong to the same family register. But it is unjust to suppose those having separate houses in the government register have a common economy with each other. It is impossible to prevent the tax evasion under consideration. Even in the case of the first class of family members, the prevention of tax evasion will be accompanied with some difficulty.

(d). Regulations of abatement by age.

1. In Japan those who are under 18 years of age and those who are above 60 years of age are entitled to abatement. But the result of this system is very different from what would happen if their faculty to pay is made the basis of abatement. As to the minimum age of 18, it is too low for the people of urban districts especially those of the middle and higher classes, and too high for those of rural districts.

2. A better system undoubtedly is to consider the circumstances of each person instead of taking age as the basis of abatement, but as in the case of previous remedies, is too complicated from the standpoint of tax technique to be practicable. If the system is made conditional i. e., those under 18 and above 60 who are not engaged in business, it would be less objectionable. But such a change is also impracticable and moreover may result in encouraging people to be idle. The age regulation, for these reasons, is necessary.

ii. Injustice that can be removed from the standpoint of taxation technique.

(a). The effects of matrimonial formalities upon the tax.

1. When one's wife gets an income by working or from her own property, the couple will occupy a disadvantageous position as regards the exemption point, the progressive taxation, abatement for earned income as well as for dependents, in case the couple are legally married. On the other hand, if they are informally married—if the wife is the so-called "informal" wife—the couple will occupy an advantageous position as regards these points. Obviously, such a difference in tax burden is unjust.

2. The remedy for such injustice is to tax an "informal" wife just the same as a legal wife, but this will involve some difficulty. In the case of the wife who earns money by working, a special abatement should be made, as her occupation will result in an increase in the domestic expenditure. Such an abatement will somewhat check the tax evasion we have already noted.

(b). Inequality of tax burden in the case a couple earn a living and in case only the husband earns money.

1. In the first case, the total of the family income will be greater than in the second case, but the daily absence of the wife will result in an increase in the domestic expenditure; and just the reverse will happen in the second case. It is unjust to treat the two cases in the same way and to levy a progressive rate on the first because its income is larger than that of the second.

2. In order to meet such injustice, either a certain reduction may be made on the wife's income or when it is below a certain amount, it may be altogether excluded from tax assessment.

iii. Outward injustice.

(a). It does not seem just that persons' tax burdens should be determined whether they live together or apart from each other, when the amount of their income is the same, because of the application of a progressive rate in case of their living together.

(b). Such a result is unavoidable as long as the system of progressive rates is recognised and so far as persons have

a common economy by living together, because they will possess a great faculty when they live together than when they live apart from each other.

b. From the standpoint of social policy.

i. Although the incomes of the members of a family add to the total income of that family, it must not be forgotten that in many cases the members of a family such as wife or children are compelled to work because of the poverty of the family. In consequence, it may be said that taxing the total income of such families would be against the social policy of a nation.

ii. This argument may be met by a counter-argument which is as follows: In our country at least, there is a provision by which those under 18 and above 60 are entitled to abatement to a certain extent, and thereby the injustice under consideration is somewhat mitigated. Moreover, the injustice may be further lessened by a provision by which a certain amount of the wife's earned income is deducted or is excluded from the computation of the family income, when it is under a certain amount.

c. From the standpoint of morals.

i. About wives.

(a). As has been pointed out the principle of combining all the family incomes for taxation would result in encouraging illegal marriage as the income of a legally married wife only will be added to that of the husband, while no such step is taken against the income of the so-called informal wife. The principle in fact "punishes" legal marriage and thereby has a demoralising effect upon morals.

(b). The remedy for such evil results would be to tax informal wives just the same as legal wives. It will be practical although accompanied by some difficulty. Moreover, as has been already pointed out, the earned income of legal wives should be entitled to abatement. While the separate taxation of the property of wives may result in encouraging tax evasion, and should not be adopted, earned incomes of wives may be separated from those of their husbands for

the purpose of separate taxation. This will greatly mitigate the evils under consideration.

ii. About other family members.

(a). Two things are essential in the Japanese system of taxing all the incomes of family members: first, persons should belong to the same "house" (in the Japanese legal sense); and secondly, they should live together in the same family. Because of this, some would evade taxation by becoming independent of their "house" by setting up branch houses of their own, or by living apart from the head or other members of their "house" in case they belong to the same "house." Thus, although the system of taxation under consideration is based upon reverence for the family system, it tends to break up the same system. This must be regarded as undesirable if the "house," or family or collective living are important for the existence of the state.

(b). The remedy for this evil result would be to take the incomes of all the relatives who live in the same family as belonging to the same economy unless indications otherwise are made, and to regard all the members of the same "house" as possessing a common economy, despite the fact that they live separately from one another.

CONCLUSION

(1). Taxpayers are members of government bodies or those who are on the same footing as such members. To be more specific, taxpayers include individuals and corporations and nationals as well as foreigners. While sovereigns, states, local governments, and public bodies, are usually exempted from taxation, it is not seldom that they pay taxes.

(2). Though not frequently, states pay taxes. From the theoretical standpoint, strong reasons exist in favour of the taxation of state property and enterprises with business significance. But since some sentimental reasons also exist against a state's paying taxes to local governments, and further because of the argument against the self-taxation of

the state, a state should make grants to local governments as a substitute for the taxes; while the state should endeavor to improve the financial management of its property and enterprises by considering what it would have to shoulder in case it had to pay taxes for such property and enterprises.

(3). The taxation of local governments is more frequently found than that of states. Local governments should pay taxes to other local governments on their property and enterprises just as do individuals. They may not need to tax themselves for their own property and enterprises existing under their own jurisdiction, but there are some reasons for their self-taxation. They should also pay national taxes on their business property and enterprises. Their monopolistic incomes from their monopolistic enterprises should be deducted and some external standards should be adopted in assessing the taxes.

(4). The exemption of sovereigns from taxation is a common fact, but it by no means an unchangeable phenomenon, and indeed there are some reasons in favour of their taxation. However, a strong protest against it will come in this country from the standpoint of national morality and sentiment. But the total exemption will give rise to various evils so that the best practical scheme seems to require the treasury of the Imperial House to make grants to the State and local governments in lieu of the regular taxes. Such a system will prove satisfactory except in a very few exceptional cases.

(5). Exemption or abatement for public bodies is generally recognised. And although there exist some reasons for this in view of the nature of public bodies, there is the necessity of placing proper limitations on the extent of public bodies, the kinds of property and incomes, and the degree of tax reduction.

(6). Corporations are required to pay taxes like individuals. But some taxes are paid by individuals alone, and others are paid by corporations alone while still others are paid by both. In the case of the last named, real taxes

ordinarily do not give rise to double taxation. So long as corporations pay them, the individuals composing the corporations will not be required to do the same. In the case of personal taxes, the income tax in particular, it may happen that corporations pay the tax on their incomes while individuals receiving dividends from the corporations also pay the same tax on their income. The two sets of incomes may be regarded as different and thereby double taxation may be denied. On the other hand, so far as the two sets of incomes correspond to each other, the system may be said to be double taxation on the same tax-object. Such double taxation may be regarded as permissible from the standpoint of taxation technique, especially because the system is accompanied by some remedial measures. Viewed from national economy, it is regrettable inasmuch as it tends to check the development of corporations. This, however, is more than offset by its beneficial effects upon social policy. This double taxation also can be justified from the faculty principle because of the special faculty of corporations (in the sense that corporations can give something that individuals cannot give). Taxing of corporations on their incomes may be held as a violation of the principle that the income tax is levied with natural persons as the centre. However, this should be borne under the circumstances which have arisen owing to the development of corporations.

(7). Individuals sometimes pay taxes on behalf of themselves. This is true in many of the real taxes. But in personal taxes, especially in the income tax, individuals rather pay the taxes on behalf of their families. The taxation of the combined incomes of the family may be said to be justifiable, but it has some defects which must in the future be eliminated through the proper improvement of the system.

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