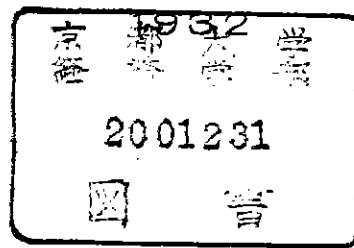


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THE PROBLEM OF ORGANS FOR TAX ASSESSMENT

FOREWORD

The administration of taxation consists of tax assessment and tax collection. The work of tax collection is a simple matter at present: the receipt and payment of cash is performed by the bank, assisted to some extent by the post office; and all that the revenue officials have to do is to make out demand-notes for tax payment each time payment is due and to distribute its copies among the taxpayers or their agents. On the other hand, the preliminary to tax collection, namely, the assessment of taxes, involves procedure of a highly complex nature. The tax object, the base and rate of the tax, should be grasped and the calculation of the amount must be made, and all this is by no means an easy task. True, in some cases, the tax objects are known to the public and all that has to be done is to find their external bases. In such cases, the work of assessment

is an easy task. Frequently, however, tax objects can become known only after the economic condition of taxpayers has been investigated: on occasion, tax bases lie concealed in the inner nooks of the taxpayers' economy and are difficult of perception from outside: some which are capable of being perceived are yet liable to a varying evaluation.

Let us then consider who should most properly deal with the difficult work of tax assessment. One may of course contend that it should be assumed in the case of national taxes by some national organ, and in the case of local taxes, by local officials or a commission; or, in other words, the work of assessment of each tax should be performed by the authority which levies that particular tax.

The matter, however, is not so simple as it first appears to be. For, in actual practice it is found that some national taxes are assessed by local authorities instead of national government officials; while some local taxes are assessed by national government authorities. Moreover, this practice has been steadily increasing in recent years. The problem of the advisability of assessment by a national organ or by a local body will indeed prove an important factor in deciding the location of taxes. All these points of taxation have not received the attention due them, although they are pregnant with significance as well as interest. I wish to take up these points in the present article.

PART I. IS A LOCAL BODY A DESIRABLE ORGAN FOR THE ASSESSMENT OF TAXES?

Let us consider whether National Government authorities or local authorities should be more properly charged with the task of making tax assessments. Such a discussion may centre around the former authorities or the latter authorities, but I shall here start from the latter. Let us consider whether or not local authorities, namely, local officials or local delegates, are a proper organ of tax as-

essment, I shall first show the merits and then the demerits of this system.

(1) ITS MERITS (AND THE RELATIVE DEMERITS OF THE CENTRAL SYSTEM).

(A) *Viewed from justice in taxation.*

(a) The merits based on the knowledge of local authorities.

Local authorities have the advantage of being able to make proper decisions because of their direct knowledge about the real conditions in their respective localities. As local officials are ordinarily residents of their respective localities for many years, they should be well versed in the general conditions of the places as well as the private circumstances of individual taxpayers. On the other hand, the authorities of the National Government are frequently shifted and they rarely stay in one locality for many years, and, in consequence, they are ignorant not only of the general peculiarities of the districts to which they are sent by the National Government, but also of the private circumstances of the taxpayers. This is the chief difference between the two sets of authorities. Whereas the officials of the National Government are liable to have a superficial or partial views of the situation, the local authorities are in a position to pass more appropriate judgment regarding taxation. Local authorities are supposed by some to know best about the real condition of taxpayers' property, although others fail to endorse such a view. However, the general truth of the above-mentioned assertion is unassailable. The matter will be somewhat different in those districts not yet developed where affairs of taxation are comparatively simple and can be grasped even by the officials of the National Government. On the contrary, in the case of districts fully developed and whose affairs are highly complex, it is exceedingly difficult for the officials of the National Govern-

ment to adopt measures befitting the particular and varying conditions of such districts. In a country like Germany where local posts are occupied by men of great ability whose measures are adaptable to new conditions and circumstances, the system of local assessment would be especially superior to that of national assessment, inasmuch as the local authorities could make decisions appropriate for local conditions. The system of local assessment may be said to have a better adaptability to the circumstances of taxation than that of national assessment even in other countries, and thus the former may be said to be more conducive to justice in taxation than is the latter.

(b) Merits based on the efficiency of local authorities :

The system of local assessment has some merits which are based upon the efficiency of local authorities. As local officials often come into contact with the people of the district and are affected by elections, they try to further the interests of the people and are liberal towards them; whereas the officials of the National Government hide themselves in the innermost rooms of the government office, as it were, away from the common life of the people and are thus peculiarly exposed to the temptation of being bureaucratic and oppressive to the people. Thus, the officials of the National Government are more liable to commit unjust acts than are those of local governments. This is said to be the reason for the American people's preference of taxation by local authorities and their rejection of taxation by Federal authorities. Indeed, what is said of a bureaucracy is more or less true of all government officials whether national or local. However, it is more intolerable in the case of the former than of the latter.

(B) *Viewed from the point of view of public finance.*

(a) Consideration from the standpoint of national and local finance. The system of local assessment involves a less expenditure than that of national assessment and this

certainly is a big advantage. True, the National Government can hire higher professional officials at comparatively low wages because of the allurements of high ranks and decorations; however, the local government can secure the services of honorary officials at nominal salaries or for no rewards.

The administration of tax affairs does not require many highly professional officials, for it can be carried out by a comparatively small staff of lower officials for whom ranks and decorations have no attraction. Thus, local governments need not pay so much as does the National Government; on the whole the former can have the same efficiency as the latter at a smaller expenditure.

(b) Consideration from the stand point of the finance of local governments. Local governments will feel their responsibility regarding the decision and defraying of expenses to a greater degree when they administer their special local tax for local purposes, than when it is levied in the form of the additional charge on a State tax or when they are given a part of the revenue of the National Government; and, in consequence, they would try to cut down the expenditure as far as possible. In the case of the additional charge on a State tax or the state-administered locally-shared tax, the temptation for an excessive expenditure is peculiarly great, because its collection is specially easy and money is often turned in more than is actually necessary. In the case of special local taxes, local governments will surely have sources of revenue for themselves and can be at ease financially, but if some revenue is given them by the National Government, as in the case of the state-administered locally-shared tax, there will be the danger of the amount being reduced, to the great financial embarrassment of local governments. In view of the above consideration, it is highly advantageous for local governments to administer both nominally and actually their own taxes for their own purposes.

(C) *Consideration from the political stand point.* Local

autonomy in the administration of taxation is highly conducive to local self-government. It is desirable from the standpoint of political education inasmuch as it will cultivate individual citizens' sense of civic responsibility. On the contrary, the national administration of local tax affairs will inevitably restrict the self-government of a locality and would be thus against the spirit of local autonomy. One may dismiss the problem as being unimportant, saying that local communities can adequately enjoy the life of self-government so long as they have administrative autonomy firmly in their hands. However, it must be admitted that participation by the National Government in the tax affairs of local communities will be the beginning of its interference in the political autonomy of the local people: and therefore is undesirable, if local self-government is to be held as important. On the whole, local self-government is regarded as necessary for all civilized countries, its merits outweighing its demerits: and it surely should be maintained. Let us consider some of its merits. In the first place, local communities such as cities, towns and villages, are the natural social units of individuals and are nearest to them. Government based on these units is more natural than the State to which individuals bear relations that are artificial rather than natural. To preserve and promote their natural unity based on their local life would be conducive to the development of the State which otherwise will remain somewhat artificial. The natural unit of local life should be perpetuated so that it may prove the foundation of the social organisation of men. Secondly, local self-government is not simply a natural social unit: through it men receive political discipline. In other words, local self-government is useful as the means and instrument of political education. Thirdly, suppose no local self-government is recognised and administration throughout a country is carried out by its National Government, participated in by the delegates of different localities. It may at first appear that the general interests of the whole country can be promoted and an ideal

government would be established. Such, however, will not be actually the case. Such a system of government will inevitably result in injustice for urban districts, because the rural districts will be represented by an overwhelming majority of delegates. The delegates representing farm districts will overwhelm the will of those representing cities and towns through their sheer numerical superiority. It is highly desirable that each locality should be able to dispose of its own affairs according to its own judgment and from its own particular standpoint.

(D) *Consideration from the economic standpoint.* The system of the local administration of taxes will stimulate officials to take a greater interest in the economic, financial and industrial affairs of the community. In deciding on the rates of taxes and in carrying out tax affairs, the officials will see to it that whatever they do shall promote the progress of local industries and the general economic life of the community. The officials of the National Government may be able to know what are the general interests of the country as a whole, but cannot know the details of local affairs. Each locality can more advantageously deal with its own economic problems than leave their disposition with the National Government. Local economic autonomy will be also conducive to the general economic progress of the whole country, though it is not without its own inherent demerits.

(E) *Consideration from social policy and other stand points.* If the administration of taxation is carried out by the officials of localities instead of those of the National Government, the social and other demands of the particular locality could be met more satisfactorily than under the other system, because more adequate attention can be paid to the requirements of the people.

(2) ITS DEMERITS (AND THE MERITS OF THE STATE OFFICIALS).

(A) *Viewed from tax technique and justice in taxation*

We have seen the merits of the local administration of taxation. This system has its demerits as well as merits. Its shortcomings are often overlooked because of a great craving attached to local autonomy. This is certainly something that should be avoided. Both its merits and demerits must be carefully and impartially taken into consideration. Its first demerit is involved in tax technique. Some tax objects can be reached only by State revenue officials with perfect satisfaction or with something approaching such satisfaction, because of their very nature, and can never be reached by local revenue officials. For example, local officials can never reach taxes such as the income tax, the corporation tax, the property tax, the inheritance tax, and the railway tax, because the income or property or objects belonging to corporations or individuals on whom these taxes are levied extend all over the country instead of being localised in some districts, and at times are liable to be shifted from one place to another. In the case of such taxes, only the State can adequately deal with them. Although it should be admitted that in the case of the property of individuals, local officials have a better knowledge about it than do State officials, the fact remains that in an age like the present property is distributed widely over extensive localities so that there are many things of which local officials have no adequate knowledge. The State assessment in such cases would be more in harmony with the principle of justice in taxation than assessment by local governments. This is particularly so with the stamp tax which is representative of transaction taxes and which extends over many districts. The same is true of ordinary consumption taxes, especially when the consumption of the objects taxed is nation-wide. There is no difference of opinion about the State administration of customs duties.

The *octroi* is usually levied by local governments, but it is comparatively unimportant inasmuch as its *raison d'être* is hardly justified. As to real taxes, they are supposed to be local taxes and can be most appropriately administered by local authorities. This is true in the case of the taxes on land and houses, but not in the case of the tax on business which is often widely distributed, instead of being confined to some particular district, and thus is difficult of local differentiation: all of which facts make the local administration of such a tax highly difficult. The tax on use and the tax on real estate transactions are supposed to be fitting for local administration, but the taxes on vehicles and ships are subject to easy legal evasion, if they are administered by local governments, inasmuch as vehicles and ships are movables and can be moved from one place to another with comparative facility; they can more appropriately be administered uniformly by the State. In short, there are many taxes which can be better and more justly administered by the State than by local governments by reason of tax technique.

(B) *Viewed from justice in taxation.*

(a) We have already seen the injustice involved in the local administration of taxes because of the nature of the objects taxed and of tax technique.

(b) Some of the injustice involved in the local administration of taxation is based upon the nature of the officials. Justice secured by the State administration of taxation is of the following two kinds.

(i) That based on the State officials' virtues. The State officials and other State authorities assume the dignified attitude of considering the general interests of the whole country instead of some local districts only. As their personal contact is extremely limited, they are less inclined to be partial and unfair than are local officials. Moreover, they are subject to the strict regulations governing the execution of their duties and this helps them to be fair and

just. On the other hand, local officials are open to various temptations; they are eager to place their own particular locality in a more advantageous position than others; are inclined to personal favouritism because of their knowledge of the people of the locality; and are tempted to flatter the voters. The result of all this is unfairness. Moreover, the spirit of partizanship, the economic struggle among different classes, feuds among neighboring inhabitants conspire to make the local administration of taxation bristling with dangers.

(ii) That based on the knowledge of the State officials. There is also a notable difference between State officials and local officials. The intelligence and moral discipline of State officials are more profound than those of local officials, so that the former can be depended upon in their judgment to a greater degree than local officials. This is the State officials' merit that must not escape attention. However, it must be noted that if the State officials excel in intelligence over the local authorities, the latter at least show a superiority in the matter of practical knowledge, so that it is difficult to balance the one against the other.

(C) *Viewed from the financial standpoint.* We have already seen that the expenditure for tax administration by local authorities is likely to be smaller in relative amount than that by State authorities. However, this is not always so. Often local administration is less strictly subject to supervision and restriction than is National administration, the result being that local officials are tempted to make a shameful alliance with local assembly men or others who are in the position to exercise supervision over the officials, and this is necessarily accompanied by wastefulness in government expenditure. We have an example of all this in our country. Wasteful government expenditure is more frequently seen in local governments than in the Central Government. This is due chiefly to the imperfection of our local self-government and may be eliminated in the future when local political life has been developed. At any rate

one should take account of the existing wasteful expenditure in our local bodies.

(D) *Viewed from the political standpoint.* As I have already pointed out, local self-government is very important and the local administration of taxation is desirable inasmuch as it tends to promote the former. However, the principle of local self-government must be subjected to a closer scrutiny than has hitherto been done, for it is not without shortcomings. It cannot meet requirements which are often satisfactorily met by the principle of centralisation. Even supposing local self-government to be an ideal political principle, it is incapable of universal application, and frequently, it is found unsatisfactory, due to the people's political incapacity. Its ideal application is conditioned by many factors and its perfectionment is exceedingly difficult. One may urge that National administration should be adopted for the district whose local self-government is not yet sufficiently developed. However, it is very possible that different conditions prevail in different localities at a given time so that no uniform decision for all will be found advisable; local self-government, as a national policy, therefore, will be open to serious doubt; and arguments pro and con may be advanced. Secondly, local governments are inclined to corruptions more seriously than the National Government as supervision on the administration of the former is less adequately performed than is that of the latter. True, the National Government is also exposed to the dangers of corruption, but its administration is watched over by a greater number of supervisors than that of local communities and therein may be found its greater security against corruptions. Thirdly, the officials of local governments are apt to disregard the interests of the nation as a whole because of their over-eagerness to further the interests of their own local communities. Fourthly, some of the tasks which are entrusted to local governments by the National Government and are supposed to be local affairs may be more satisfactorily administered by the National

Government: moreover, the prevailing general trend favors the national administration of such tasks. Different countries draw different lines of demarcation between national affairs and local affairs. Demarcation largely depends upon the geographical, political and historical circumstances of each country. With the development of economy and transportation, the movement of men and goods from one place to another becomes increasingly freer and more frequent, and affairs hitherto held as local become national in nature, thereby making the line of demarcation between them less distinct than before. Take hygienic affairs, for instance. Their neglect in one place will inevitably affect other places. They should, therefore, be dealt with by the National Government. The same may be said of social welfare work. New arrivals in a given district who are in a distressed condition must be relieved the same as the ordinary residents of the district in a similar deplorable state. Welfare work should be administered nationally instead of locally. In our country the work of compulsory national education is usually regarded as a task of the National Government, because of the spiritual nature of education. The same conclusion may be, however, reached from other standpoints such as economy and transportation. Those who have received education in one locality do not necessarily remain in that locality throughout their entire lives but may go out into other localities to work. Moreover, with the progress of transportation, local education becomes more and more national in character. Waterworks is usually considered as an enterprise of local governments, but its administration has ceased to remain purely local in many cases. A community in one locality is often faced by the necessity of having to obtain its water in some other locality belonging to another community, and this necessarily involves inter-regional issues. Even in the case of road work, cooperation among different localities is found imperative, if high efficiency is to be secured. Moreover, roads and highways are important from the standpoint of national defence; they have a close re-

lationship with the political administration of the nation; and thus national control of them becomes vital. All this will tend to increase with the progress of transportation. Fifthly, the national administration of taxation is simple and more impressive than the local administration which will be marked by diversity. Under the former arrangement defects of the taxation system can be easily discovered, and improvement of the system will be easier. Moreover, a separate and independent tax system for each local community will necessarily give rise to friction among different communities and will encourage double taxation and omission of taxation, both of which can be eliminated in great measure by the national system. True, friction among different local communities will remain under the system in which the revenue collected by the National Government is allotted among these communities, but it would not be so intense or complex as in the former case.

(E) *Viewed from economic and other standpoints.* If local communities are to build their economic establishments as they see fit and protect their own respective industries according to their own judgment, the development of one community may frustrate that of others and local economy on the whole may become unbalanced. It may again happen that some communities will attempt to reduce their own financial burden by promoting the concentration of business addresses and offices, the result being that these communities will prosper at the expense of the impoverishment of the others. The prosperous communities will be able to perfect their economic establishments and facilities, while the depressed ones will become poorer and poorer and will be placed in a deplorable condition. Thus, the economic progress of the nation will be one-sided and unbalanced. All this could be prevented if the local administration of taxation is replaced by a national system.

We have seen that both the national and local system of tax assessment have merits as well as demerits. Neither of them should be adopted singly. The best conceivable

system seems to combine both systems. I shall next explain how such a system can be adopted with the best possible results.

PART II. THE POSITION OF LOCAL AUTHORITIES AS AN ORGAN OF TAX ASSESSMENT

The question is how to utilise the two organs of tax assessment, namely, the National and local authorities. In the United States, the number of State-administered locally-shared taxes has been on the increase in recent years and a centralisation trend has been in evidence. In some countries like Germany, this system is applied to the income tax and some other taxes. Such a State system cannot be said to be desirable.

I would rather advocate what I shall call the "mixed commission system" composed of State as well as local officials. In order to know the real value of this system, it is advisable to study other possible alternatives.

(1) THE SYSTEM UNDER WHICH EITHER STATE OFFICIALS OR LOCAL AUTHORITIES ADMINISTER TAX ASSESSMENT.

(A) *When the whole yield is regarded as the belongings of either the State or a local community*

(a) When the yield is given to the community which actually administers the tax. To carry out this system with thoroughness, taxes (excluding surtaxes) that are levied by the State should be separated from those levied by local communities. In our country, the State levies the following taxes and the revenue therefrom is turned into the State treasury: the capital interest tax, the second class income tax, the inheritance tax, the tax on registration, the stamp tax, the turn-over tax in bourses, the tax on the issue of Bank Notes, the tax on hunting, the tonnage dues, the tax on sake, the tax on beer, the tax on alcohol and alcoholic

liquors, the table water tax, the sugar tax, the textiles tax, the tax on playing cards, customs duties. Local authorities levy the following taxes for their own revenue: the house tax, the special business tax, miscellaneous duties (levied by a prefecture, or local communities), the tax on households. This differentiation of taxes according to their nature into National and local is supported by some scholars who also contend that the taxes on land, houses, business, immovables transactions, and use should be made special local taxes inasmuch as the objects of those taxes can be easily differentiated locally and receive special benefits from the development and facilities of the localities, and, furthermore, they are in special relations with the local administration.

(b) When the administration of taxation is entrusted to the officials of some other community.

(i) When the National taxes are entrusted to local authorities. This system was embodied in the apportioned tax which has since become extinct because of the unfair distribution among different localities.

(ii) When local taxes are administered by the State. This system may be applied to such a tax as our special land tax in the prefectures. The French local tax, *centimes additionnels*, is an example of such.

(B) *The system under which the revenue is divided between the State and local governments*

(a) When the taxes are administered by the State.

(i) When local governments levy an additional charge on the State tax and receive revenue therefrom. Such are found in the local additional taxes on products in German States and in our own local additional taxes on income, land, business profits, mining, and bourse business.

(ii) When the State levies taxes, receives revenue therefrom and gives part of it to local communities. Under this system, what are really additional local taxes are col-

lected by the State before part of their revenue is given over to the local governments. In Germany, the *Reich* gives to states and local governments 75 per cent of the National income tax and of the corporation tax, 30 per cent of the turnover tax and 96 per cent of the taxes on real estate transactions, automobiles and betting on races.

In the United States, State-administered locally-shared taxes are levied on corporations, inheritance, motor vehicles, income, forests, and mining. The number of such taxes on January 1, 1930 was found to be as many as 142. France has a special fund called *fonds communes* which is part of the revenue from the National tax on turnover, the charge for *cartes d'identité* for foreigners and the tax on beverages. It is distributed among local communities. Part of the coal-extraction tax and the revenue from the tax on horses and carriages are also similarly given over to the local communities.

(iii) When the State consumes part of the tax revenue in the locality where it has been raised. Such a system is found in North Carolina where 70 per cent of the motor vehicle tax is used for the construction and repairing of roads in the locality where it is levied.

(b) When the assessment of taxes is made by local authorities. Such an example is found in the case of the State of Kansas in the United States where local officials levy the tax on money and credits, the proceeds therefrom being divided between the State and localities.

(2) THE SYSTEM UNDER WHICH THE STATE AND LOCAL AUTHORITIES JOINTLY ADMINISTER TAX ASSESSMENT.

This system is seen in our prefectural tax on houses the assessment of which is administered jointly by prefectural and local officials. This system may be extended into the relations between the States and local communities. Under this system, State and local authorities can utilize

their respective merits in advancing their mutual cooperation and harmony. It appears to be necessary for the taxation of land, houses and business. Supposing they are made purely local taxes because of their nature, still it is highly doubtful whether or not their assessment can be made solely by local authorities.

State cooperation will be found highly desirable. Moreover, the State will receive an indirect benefit in the form of information regarding the income and inheritance taxes, etc. The tax affairs of local communities may be considered as part of State affairs and in consequence the State has the duty to assist local authorities in their tax assessments. The State will have a greater reason for participation in tax assessments, when it levies surtaxes on the objects thus taxed by local governments or makes the latter turn over a fixed portion of the revenue to the National Treasury. When the foregoing taxes are to be made National taxes (in such a case the tax system could not be perfected unless the house tax is also made a National tax), it would be better to solicit participation by local authorities in their assessment than to carry them out by the State alone.

CONCLUSION

To summarise: The problem of deciding on proper organs for tax assessment is an important issue, although it has not received the adequate attention it deserves. We have seen that the two systems of National administration and local administration have their respective merits and demerits, so that neither of them can entirely replace the other. It appears that the system of National administration has been on the increase in such countries as the United States, Germany, and France. It undoubtedly has its good points but it is not immune from inherent defects. After all additions and subtractions have been made, joint administration by National and local authorities seems to be the best conceivable solution. This system will have its immediate

value in the administration of the land, house and business taxes in our country.

MASAO KAMBE
