

224 A number of papers expressed dissatisfaction over the methods of tax collection and assessment. A Mito journal (f), claiming that the collection system was imperfect, declared that although the number of tax payers allegedly had increased 15-fold since the end of the war, there were few capable revenue officers, with the result that collection and investigation systems were "lax, inefficient, and unfair." Furthermore, the income reporting system was not being properly practiced, asserted the paper, adding that its successful implementation called for reorganization of the methods of accounting and examination of reports. A Tokushima journal (g) warned that unless an equitable system of tax collection were instituted, full payment of taxes by the people could not be expected. Efforts by authorities to examine the ability of the public to pay levies and to expose tax evasion cases have not produced satisfactory results to date, the paper charged. The Government, therefore, was urged to elevate efficiency in collection by improving tax administration and employing competent revenue officers.

10-MAY A Yamaguchi paper (h) criticized the taxation system because imposition of tax rates was placed "completely in the hands of collectors, with the result that disparities were numerous." The journal hoped that the visit of the Shoup Mission would be fruitful in bringing about a democratic imposition of taxation. Noting that some tax payers reportedly had gone insane or had died due to the impact of heavy tax burdens, an Imabari paper (i) insisted that revenue officials "act with more prudence and sympathy." The journal pointed out that conscientious individuals "who regarded tax payment as one of their prime duties" suffered the greatest shock from unreasonable taxation. A high return in collection could be attained only through impartial taxation, asserted a Kofu paper (j). Charging tax collectors with employing discriminatory tactics "in direct violation of the law," the journal said that "such attitudes and tactics" were the biggest factors adversely affecting tax collection. An Ueda paper (k) declared that if tax dodgers were apprehended more strictly and illegal profits of enterprisers were fully taxed, a large amount of revenue could be realized that would ease the burden on the masses. Other journals urging quick action to mitigate the tax pressure on the people included three papers in Nagasaki (l), Shizuoka (m), and Kagoshima (n).

Taxation System

10-MAY 224 Demands for revision of the taxation system to render it more equitable and efficient were widespread, as journals pressed for improvement in tax-collection and assessment methods and for "changes in the attitudes of revenue officers." An Osaka paper (e) observed that since the budget called for a 70-percent hike in internal revenue for the fiscal year, the tax load on the masses was heavy. Moreover, a possible business depression due to proposed administrative and enterprise adjustment will further reduce the people's ability to bear taxes. Under these circumstances, it was necessary to amend the existing tax system, said the journal. This revision must begin with deciding the ratio of direct taxes to indirect taxes, which was said to be the very foundation of a tax system. Although income taxes usually form the greatest single tax source, yet, in the event the people's capacity to bear taxes in proportion to the national income has reached its limit, it was necessary from the standpoint of both social policy and the tax system itself that the burden of direct taxes be shifted to indirect taxes. Secondly, the "unbalance between the increase of labor income taxes and enterprise income taxes" -- 150 and 70 percent, respectively -- must be remedied, advised the paper, so that the basic reduction point of the labor income tax would be boosted and thus ease the burden of the workers. The paper though it was justifiable for corporations to bear the heaviest share of the nation's taxes, since the economic sacrifice they would have to make as a result of enterprise adjustment was to be "made up for by the social policy of the Government." In addition, the journal suggested that the dates for paying taxes be readjusted, and that the "unreasonableness of assessments and examination of final tax returns be rectified." It was hoped that the Shoup Mission would study these problems thoroughly and make satisfactory recommendations.

TAXATION

224 Finance Minister IKEDA underlined the need for softening the income tax in memorandum submitted yesterday to Dr Carl SHOUP, Columbia University professor who arrived here Tuesday as head of a tax survey mission. Outlining his private views, the Finance Minister also recommended the abolition of the transactions tax and the use of independent revenue sources to cover local finance. IKEDA and other government officials will take up specific tax problems with the Shoup mission on Saturday. (d)

12-MAY The Finance Ministry yesterday gave the Shoup mission detailed information on the national income and the people's tax capacity. (e) At the same time the ministry appointed four Japanese college professors to help SHOUP and his staff with their survey. (c)

ITEM 25 LOCAL FINANCE AND TAX SYSTEM

(Full Translation)

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MAINICHI SHIMBUN, 17 May -- The crisis in local finance, which supports the local self-government system, has now reached a climax. According to a survey conducted by this paper, 2,179 city, town, ward and village heads resigned as of May this year among 10,628 cities, towns, wards, and villages surveyed. Since last year it has been rumored that half of the resigned heads assumed the responsibility for the 6-3 education system. It is generally inconceivable that publicly elected local heads, other than those involved in some scandals, would resign, being pressed by the dilemma of co-ordinating administration and finance.

This year's local budget totals 38,500,000,000 yen. Different views may emerge in comparing this with the general national budget. In actuality, however, between 70 and 80 percent of local appropriations are spent in carrying out state businesses and merely 20 or 30 percent can be utilized by local bodies at their own discretion.

Among various expenditures of the local finance, it is needless to say that the appropriations for the 6-3 education system have been most important. These appropriations were 25.6 percent of the total in 1947-48 fiscal year, 23 percent in 1948-49 year, and 20.7 percent this fiscal year.

According to the distribution of the public works expenses in the state general budget, the appropriations for educational facilities, which amounted to 600,000,000 yen in the last fiscal year, have been increased to nearly 1,200,000,000 yen, about two times as much. However, the percentage of the whole amount of the budget has been lowered from 12.3 to 2.4 percent. In view of the increase in prices, such an increase in these appropriations is completely negligible. Under the circumstances, there is no alternative for maintaining the 6-3 education system except to solicit public contributions as much as or more than in the last fiscal year.

Whether it may be taxation or contribution, it comes from the same purse. However, it cannot be denied that the burden on the people is not well balanced in consideration of the actuality of local bodies.

Just as local finance has confronted various obstacles in the field of expenditure, it has been almost stalemated in the field of revenue. According to the fixed rate (33.4 percent) as provided in the Local Distribution Tax Law, 11,400,000,000 yen should have been distributed to local bodies. Since the rate was lowered to 16.29 percent this year, however, merely 5,700,000,000 yen is to be distributed to local organizations. This may be interpreted that the principle to stabilize the over-all finance has also been applied to local finance. In view of this, it seems apparent that the local authorities concerned will face a great difficulty, but the burden on the people may be left unchanged.

In practice, however, the rates of the prefectural tax, the city, town, and village tax, the land tax, the surtax on land tax, the house tax, the mine lot tax, and the hunting tax were raised on a large scale. Meanwhile, the Local Finance Commission planned to create the land use tax, the house tax, the fruit delivery tax, the tobacco consumption tax, the special activity tax, and other taxes, but this attempt failed. However, more than 30 local taxes, headed by the prefectural inhabitant tax, have been legislated, while there are about 100 taxes such as the sewing machine tax, the cattle tax, the prime mover engine tax, and the garden tax which are independent taxes not provided by laws. It is anticipated that the total of these taxes will reach about

EDITORIALSITEM 25 (Continued)

40 percent of the 145,000,000,000-yen local budget. In view of this, it is clear that independent local tax resources have already been exhausted.

Among these taxes such high taxes as the 15 percent admission tax and the amusement tax whose standard assessed rate reaches 15 percent have occupied important positions. This fact shows that the local tax system should be reviewed from the viewpoint of establishing a sound and independent local finance.

Needless to say, the visit of Dr SHOUP is the golden opportunity for the reform of the state and local finance. Especially at this time, it is necessary to adjust the state taxes reasonably and fundamentally with local taxes.

A distinct line has been drawn between state and prefectures and between the Finance Ministry and the Local Finance Committee. However, it is always the people who bear the burdens of the state and local finances. Therefore, the relationship between these two finances must be determined by the balance of power between the two governmental organizations.

At this juncture, it is reported that the Local Finance Committee has completed its opinion on the reform of local finance, which is to be presented to both the Shoup mission and the Tax System Council. According to a report available, the Local Finance Committee is going to preserve the existing Local Distribution Tax.

At the same time, importance is to be laid on consumption taxes. The tobacco consumption tax is to be created, the sake consumption tax is to be increased, and the state gasoline tax is to be shifted to local finance. Meanwhile, the real estate acquisition tax, the admission tax, and the amusement tax are to be alleviated, while the railway track tax and the wagon tax are to be removed from local authority.

Since the existing tax system has contained various unreasonable points, any abolition of taxes or the alleviation of tax rates, whatever they may be, sounds realistic and reasonable. It cannot be denied that every attempt to prevent this seems unreasonable and impractical. In this sense, the public may be given the same impression about the creation of the tobacco and sake consumption taxes, which is contemplated by the Local Finance Committee. Under the present economic conditions surrounding the nation, it is unavoidable that importance will be laid on consumption taxes as local tax sources. At all events, we should study various points in the plan of the Local Finance Committee in the future.

It is urgently hoped that this problem will be enthusiastically discussed by various circles for the purpose of reconstructing local finance.

ITEM 1. CORRUPT TAX OFFICIALS MUST BE WEEDED OUT (Sub-editorial)

(Full Translation)

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ASAHI SHIMBUN, 12 May -- Mr Harold MOSS, chief of the Internal Revenue Division, ESS, SCAP, has emphasized that corrupt tax officials must be weeded out. Although the misdeeds of the leaders in political, financial and official circles were recently exposed in the Showa Denko scandal, it is an open secret that many minor tax officials, who are in direct contact with the people, are engaged in illicit shenanigans.

The postwar economic chaos has caused corporations and merchants to keep secret accounts of their illegal transactions. When such secret account-books are discovered by tax-officials, negotiations with the officials for mitigating their taxes and fines takes place instantly. After several "conferences" which, of course, are held at restaurants, these tax evaders usually succeed in mitigating their taxes by bribing the officials. Thus, tax officials get their "cuts", and the national treasury loses large sums of due tax money.

Which is to blame is like trying to determine the "hen or egg" question. Although entrepreneurs actually have no love for greedy tax officials, they find it advantageous not to expose the latter's misdeeds. Such being the case, corrupt tax officials can continue their evil practices without the fear of being exposed, although their misdeeds are widely known among the public. It is almost hopeless in the present set-up, therefore, to remedy the abuses in the tax service. This scandalous situation must have detrimental effects upon the mental attitude of the people toward their tax payment.

In the UNITED STATES and SWITZERLAND, certificate of tax payment must be presented when one leaves the country. In some states in the UNITED STATES, tax payment certificates are necessary in order to assume public posts. A great deal of importance is attached to the tax duty even in the richest countries. To enhance the people's will to pay taxes, weeding out of corrupt tax officials and equalization of tax burdens are an absolute necessity.

ITEM 12 SHOUP PROBES TAX CONDITIONS IN TALKS WITH OFFICIALS

(Full Translation)

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JIJI SHIMPO, 17 May -- State Minister KIMURA and Chief OGITA of the Local Finance Business Bureau called on Dr SHOUP, at GHQ, at 0900 hours yesterday. Presenting reference material relating to the local tax and finance, they conferred with Dr SHOUP for about two hours.

Dr SHOUP, accompanied by Professor VICKERY, Mr HATFIELD, and Chief MOSS of GHQ's Internal Revenue Division, inspected the Tokyo Finance Bureau at 1350 hours. They sought an explanation from Chief HIRATA of the Revenue Bureau and Chief YUCHI of the Financial Bureau regarding the outline of the tax administration structure, methods for estimating taxes, and the manner of handling individuals' demands for reassessment of taxes.

The Shoup Mission this afternoon will invite representatives of local governors, mayors, and town and village heads to voice their opinions relative to actual local situations. Further, the Mission will shortly inspect local public organizations in the vicinity of TOKYO.

MAINICHI SHIMBUN, 17 May -- Cancelling their scheduled visit to the Yotsuya and Kyobashi Revenue Offices, Dr SHOUP and his colleagues unexpectedly made their appearance at the Yodobashi Revenue Office yesterday, after 1600 hours. They asked young officials there detailed questions, such as, "What are your duties?" and "What are the people's protests on official tax estimates?"

Chairman KIMURA of the Local Finance Committee visited Dr SHOUP yesterday morning and frankly explained about the stringency of local finance. With regard to the proposed tax system reform, the following opinion of the Local Finance Committee was presented to Dr SHOUP:

1. Maintenance of the Local Tax Grant system--The grant rate will be 33.14 percent, as prior to the revision.
2. Consumption Tax--Present "sake" consumption tax rate will be raised from 5 percent to 20 percent. By setting the tobacco tax at 10 percent, part of the state revenue will be granted to local governments.
3. Rate of business tax, special income tax, amusement admission tax, real estate acquisition tax, and entertainment-eating-drinking taxes will be lowered, pending economic recovery.
4. The railway tax, cart tax, cattle tax, advertisement tax, and employee tax will be exempted from the legal tax list.

ITEM 7 CONFLICT BETWEEN TAX AND LIVING

(Summary)

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ASAHI HYORON (Monthly magazine), May 49 -- "In compiling the budget for the current fiscal year, the same taxation system as that of the last fiscal year was adopted with the exception of the change in the method of collecting the sales tax." This was the only reference Finance Minister IKEDA made to the Government taxation policy in his speech in the fifth Diet session.

Even with the small amount of taxes for last year, people were concerned about the demands made on them, and some even attempted suicide, while some enterprisers collapsed under the heavy burden. Furthermore, it is reported that a number of hasty persons who lost confidence in the Democratic Liberal and the Socialist parties have turned to extreme leftist parties. Moreover, in spite of the fact an order has been issued to check inflation this year, tax revenues which are to be collected in the current fiscal year have increased by 60 percent in comparison to last year. Taxation constitutes a great social and political problem.

In the 1948-49 budget, the rate of increase in the tax on wages is higher than that on business taxes. It is incomprehensible why the working classes, who had the ability to maintain the minimum standard of living, are burdened with heavier income taxes than the enterprisers.

From postwar experiences, the people realize that if tax rates remain unchanged under inflationary conditions, the effects would naturally be similar to an increase of taxes. The most typical example is seen in the excessive graduated taxes. Under the present income tax system, a worker having three dependents pays 92 yen for income tax if he earns 5,000 yen a month, which increases to 13 times the amount if his monthly income is 10,000 yen. As inflation advances, taxes will be increased on a compulsory basis, unless tax rates are greatly lowered. Consequently, from this standpoint a defect exists in the taxation policy adopted by the Yoshida Administration in the budget for the current fiscal year. The complaints now being made against the heavy tax burden can be attributed to this defect.

The Government intends to leave everything as is for a half year and wait for recommendations by Dr SHOUP. It should, however, initiate attempts to improve that which is required and then consult Dr SHOUP. The people are well aware that the Government, in order to avoid its own responsibility, is attempting to rely on others.

Is it possible to remove this contradiction within the frame of balanced finance? The income tax system which due to inflationary tendencies is distorted can be fundamentally reconstructed with revenues obtained by increasing indirect taxes, particularly sales tax. This procedure is not difficult by any means.

It is unfortunate that the majority party fails to carry out policies which could be enforced with a little enthusiasm and

sincerity. At the same time, it is extremely important that people be able to judge the financial problem, particularly the taxation problem for themselves. Interest has been shown only when paying taxes but once they have been paid, people are indifferent to the question as to how their taxes will be spent. Taking advantage of such indifference on the part of the people, unreasonable policies continue. The taxation policy of the Yoshida Cabinet is a typical example.

ITEM 27. BARBARIC TAXES ON CULTURE

(Full Translation)

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YOMIURI SHIMBUN, 14 May -- The barbarism of the human race is not limited to violence and aggressive war. Complete insensibility to culture, vandalism arising from a contempt for art, and the indifference of the authorities in regard to taxes on culture (which can now be perceived in JAPAN), are acts of barbarism equal to violence.

On Wednesday morning a group, headed by a monkey with a parasol, and carrying placards of badgers and horses, held a demonstration, from Ueno zoo to the Diet building, against bad taxes which will destroy the national culture. The demonstrators opposed the admission taxes which are to be levied on zoological gardens, state museums, and science museums, in accordance with the proposed amendment to the Local Finance Law. The demonstration shows that monkeys, badgers, and horses ridicule the human race, which is proud of its own culture. However, this is too serious a problem to regard it as merely a humorous event.

Needless to say, the problem does not lie in the fact that the Government is going to collect the necessary taxes. However reckless and unreasonable they may be, every citizen of this defeated nation must bear this burden, as he has done up to the present.

Nevertheless, we demand that the authorities seriously reflect on the unreasonable and barbarous attitude of tax collectors who act in defiance of culture. Since all government officials had long been under a state of uncivilized militarism, they have become callous toward culture. They are of the opinion that cultural matters are other people's affair.

Of course, we might excuse some unreasonable taxes if the nation's politics were undefiled, and if all statesmen and government officials were unselfish and energetic men. Actually, however, delinquent taxpayers offer bribes so that they can build big houses and live fast lives. On the other hand, admission taxes are to be levied on zoological gardens, the only amusement which our beloved children have. Moreover, 15 percent taxes will be levied on art exhibitions, on movies concerned with UNESCO's peace movement (sponsored by poor and sincere men of culture), on concerts, and plays.

The cultural spirit of the poor Japanese can be perceived in the fact that they are going to regard these performances in the same light as erotic and grotesque shows and tips for geisha. Monkeys and horses may well ridicule the human race.

From the viewpoint of simple-minded tax collectors and statesmen, cinema, art, music, and sports can be regarded simply as amusements. Sound amusements can not be considered riotous dissipation. If these bad taxes continue, Japanese culture is headed for ruin.

Taking the latest Takarazuka exhibition as an example, 60 percent of each lowest-class admission fee, which cost 100 yen, was taken as admission tax. Moreover, advertisement and transactions taxes were deducted from the remaining 40 percent. This is equally true of all cinema and theatrical exhibitions. If this situation continues, artistic cinema productions will no longer be made, every cinema enterprise will collapse, and all men of culture will become poor.

Under the circumstances, the "cultural state" may cynically be referred to as a miserable state. The creation of high admission taxes on state and science museums is unreasonable conduct unparalleled in world history.

At present, UNESCO headquarters is trying to ease international postal rates on books and publications. However, government officials in JAPAN do not appreciate the value of books and publications. As much as baseball and other sports, publications, plays, cinema,

EDITORIALSITEM 27 (Continued)

arts, and music should be encouraged by the Government. However, the Japanese Government is hampering their development by levying bad taxes upon them. Under the circumstances, this nation can be regarded as nothing more than a poor and barbarous state, completely deprived of noble sentiment.

It is the ordinary people that fall prey to such a barbarous state. Not only are we suffering from bad taxes, but we are also surrounded by various time-worn neighborhood traditions. In a feudalistic manner, contributions to festivals and schools are arbitrarily collected.

The Government is ready to collect 10,000,000,000 yen from admission taxes. Furthermore, it is said that the Government will raise this goal. On the other hand, only 100 percent of retail taxes have been levied on golf articles and jewels, and 20 percent on curios.

We cannot condone such unreasonableness. Because admission taxes can be collected easily, the Government has an eye on them.

At all events, it can be said that the existence of delinquent tax collections and of government officials whose lack of sensibility to culture has ignored the Japanese culture (the only treasure and motive power of this defeated nation) is symbolic of the barbarous state of this nation.

ITEM 15 HOPES ON TAX REFORM

(Full Translation)

224
 ASAHI SHIMBUN, 16 May -- The tax system reform should have been studied along with the compilation of the new budget. Nevertheless, fundamental reform of the tax system was moved back because of the priority of executing the nine economic principles. However, general belief is that it will be studied soon now that the Shoup Mission has arrived. The line-up of the mission consists chiefly of scholars. It is hoped that a fair and proper recommendation plan, in harmony with the real economic conditions of JAPAN, will be drafted.

Dr SHOUP stated that the aim of his visit is to advise Gen MacARTHUR on the establishment of a fair taxation system. Now if the present system is to be reformed fundamentally, the issue will become extensive and complicated. Even the problems requiring immediate solution include such points as the adjustment direct taxes in consideration of indirect ones, the ferreting out of key revenue sources of indirect taxes, the elasticizing of the system to prevent its coming to a stonewall within two or three years, the adjusting of the inequalities under the present system, and adjustment of national and local tax distribution between the central and local governments.

Moreover, the new reform should be carried out in rigid adherence to the nine economic principles. In other words, it is absolutely necessary that this year's revenue of 514,600,000,000 yen be secured. This is also true of local taxes. Therefore, the primary aim of the new reform is not to lighten the tax burdens but to distribute the present heavy tax obligations fairly according to the taxpayers' capacity to bear the assessment. The people as a whole cannot expect any easing of the tax burden.

The logical procedure is to make a drastic cut in the financial expenditures rather than to reform the tax system if taxes are to be reduced. One likely possibility at this time is that the unfair tax burden caused by the irrationality in the present system may be eliminated. Another question in connection with the tax reform is how to properly execute the tax law after its enactment. Even if, theoretically, an ideal system should be established as a result of the reform, such reform could be only nominal if the people proved to lack the sense of duty to pay taxes and continued large-scale evasions as in the past.

Agricultural, forestry, marine products, and general private business men's incomes represent a large portion of this year's national income--which amounts to 20,974,200,000,000 yen--although taxation authorities cannot obtain the exact figures of the private businessmen's income. Consequently, tax evasion is now carried out on a large scale. In executing the tax reform, this fact must be emphasized. Enlargement of the tax collection structure and improvement of tax collection efficiency are topics of discussion in this connection. As regards the former, it has been informally decided to set up a National Taxation Board. However, the problem of increasing tax collection efficiency cannot be solved through mere structural reform. This is a problem for future solution. However, since it has a direct bearing upon the fair tax burden principle, which is the most important factor of the taxation system, it should not be treated lightly.

As Chief MOSS of the Internal Revenue Division, ESS, GHQ pointed out, we must regrettably acknowledge the inefficiency and corruption of taxation officials. The recent series of scandalous acts perpetrated by these officials represent only a small fraction of the still undisclosed offenses being committed by them. It is an open secret that the actual conditions are extremely serious.

Closely connected with this, is the question of the quality of revenue officers. Only two percent of the present revenue officers, who number a little over 57,200, are university graduates and only eight percent, college graduates. The bulk of them, namely, 78 percent, have only secondary school education, and 12 percent have no more than primary school training.

The best way to improve efficiency and prevent corruption is to post officers of high quality in tax offices. At the same time, it would be advisable to practice Mr MOSS's valuable suggestion that able and upright private businessmen be specially employed to renovate the taxation administration.

The main object of the projected tax reform is to eliminate the existing unfairness in imposing taxes, and this requires prompt action. It is, therefore, desired that the Shoup mission and the Government complete the reform plan as quickly as possible so that it can be enforced by this fall at the latest.

ITEM 2 SEARCH RIGHT SWAGS LOCAL TAX LAW REVISION BILL

(Full Translation)

224
TOKYO SHIMBUN, 13 May -- The bill partially revising the Local Tax Law is now under discussion by the local administration committees of both Houses of the Diet. In this connection, the constitutionality of the clause pertaining to the "process for the recovery of taxes in arrears" of Article 45, the key-point of the revision bill, has been questioned by members of the committees.

In attaching the property of tax defaulters, the clause permits the tax collector to search their houses and warehouses and to take necessary measures of unlocking and unsealing in their search. This is admittedly unconstitutional since it infringes upon the protection of the people's property as guaranteed in Article 35 of the Constitution. The question is whether the right of search can be exercised only after a warrant is issued by a judge, as in the case of national tax defaulters.

Regarding this problem, local finance authorities - after deliberation with the Attorney General's Office - sounded GIC's opinion. It is expected that the issue will be decided after consulting with the Shoup Mission now in JAPAN. The development of this revision plan, which is to strengthen tax collection in line with the nine-point economic principles, is being watched closely.

ITEM 26 DR SHOUP, ALLEVIATOR OF TAX MISERIES (Sub-editorial)

(Full Translation)

224
ASAHI SHIMBUN, 14 May -- "When Dr SHOUP comes" were words that were habitually spoken by Premier YOSHIDA and Finance Minister IKEDA. The present Cabinet, which failed in fulfilling Democratic Liberal pledges, apparently tried to impress the people that Dr SHOUP was the "penicillin" required to alleviate the tax suffering and to achieve equality in taxation. Their attitude can be likened to a vigil for the arrival of a treasure box.

Even with Dr SHOUP's Solomon-like wisdom, he can do nothing with the balanced over-all budget and the tax revenue of 507,600,000,000 yen. All that he can do is to concentrate his sharp taxation mind on the question of who should pay the necessary taxes and how.

The people's great dissatisfaction with present taxes lies in the fact that it is hard on the weak and honest. Actually, the honest, low-income earners' will to work is weakened whenever they are obliged to pay high taxes. Frankly speaking, salaried people wear their most miserable look on the day they receive their pay envelopes.

"Husband and wife community property taxation" is reportedly one of Dr SHOUP's pet theories (NIHON KEIZAI SHIMBUN). If the wife has no income, the husband's income is divided into two for taxation. If both husband and wife have incomes, presumably the total of their incomes will be divided equally and will be taxed.

According to this theory, workers are relieved of the progressive tax burden. At any rate, it means a lightened burden for the low-income classes. In this case, the wife is not a dependent. Therefore, the family allowance system is likely to be substantially changed.

In EUROPE and AMERICA, it is the custom for the husband and wife to own separate property, and their parents do not live under the same roof. But in JAPAN, the household includes the parents. How will this be treated in dealing with the tax burden?

In revising our taxation system, our family system may become involved to such an extent as to complicate the issue.

ITEM 10 QUALITY OF TAX OFFICIALS TO BE IMPROVED: IKEDA

(Full Translation)

224
YUKAWA CHUGAI, 14 May -- At the Upper House plenary session, which opened at 1050 hours yesterday, State Minister HONDA explained the purport of the Table of Organization Personnel Bill. Then, MORISHITA Masakazu (Socialist) made an urgent interpellation on the tax problem, asking for the Government's opinions on the removal of corrupt tax officials.

In reply to this question, Finance Minister IKEDA said as follows:

"Recently there have been a series of irregularities by tax officials. Investigations have proved that the Urawa and Sakai tax office cases were as reported. As a countermeasure it is necessary to improve the quality of tax officials as well as to reform the tax collection system. According to the recently designed administrative readjustment program, 4,000 tax officials will be discharged. However, independently of this plan, corrupt elements will strictly be punished.

"As for the problem of tax collection goals, the authorities are aware of the difficulty of calculating the tax collection goals in local districts and will not issue any more directives concerning collection goals to the tax offices."

KIUCHI Kyo's (Ryokufukai) urgent interpellation on the importation of clothing for babies was answered by Welfare Minister HAYASHI, Director-general AOKI of the Economic Stabilization Board, and Commerce-Industry Minister INAGAKI as follows:

Welfare Minister HAYASHI: "Since each household in this country only has few clothes available, the Welfare Ministry will exert further efforts to increase the supply of clothes for use by pregnant women, babies, and children. We are asking GID authorities to give special consideration to this problem."

Director-general AOKI of the Economic Stabilization Board: "Infant clothes are issued before the birth of babies and an additional special supply is issued after birth. The present ration of clothing for babies is 2.9 lbs; for laborers 1.7 lbs, and for the average person 1.1 lbs, and is not considered too little.

"The distribution of textiles and cotton goods for domestic consumption is hard-pressed because of the principle of "export first." However, we shall try to secure the same amount as that of last year."

Commerce-Industry Minister INAGAKI: "I want to negotiate with the authorities concerned to meet the demand."

Vice-Premier HAYASHI, Attorney General UEDA, and Labor Minister SUZUKI answered the urgent question put by KINOSHITA Gengo (Socialist) in regard to public peace ordinances. Bills for the partial revision of the Eugenics Law and the establishment of national institutions for the protection and guidance of the deformed were presented together. TAKASE Sotaro (Ryokufukai) and INOUE Natsue (Ryokufukai) argued pro and con the Eugenics Law revision after TAMIGUCHI, a director of the National Welfare Committee, had made a report on it. However, as the result of a vote, the bill was adopted as reported by the committee.

Then, the bill for the establishment of national institutions for the protection and guidance of the deformed was approved as reported.

Recessing briefly at 1224 hours, the House reassembled at 1455 hours but adjourned immediately for lack of a quorum.

ITEM 5 TAX MISSION GETS LOCAL FINANCE COMMITTEE PLAN

(Full Translation)

224
 JIJI SHIMPO, 16 May - State Minister KIMURA, Local Finance Committeemen, and Director OGITA of the Local Finance Bureau will visit Dr SHOUP today to present the wishes of the Japanese Government on the reform of the local finance system. At the same time, they will introduce as reference the reform policy which was adopted by the Local Finance Committee. Taking advantage of Dr SHOUP's arrival, the committee met twice to study means of putting local finances upon a sound and rational basis.

The committee's policy includes the following points: (1) equal division of consumer tax sources between national and local finance; (2) strict observation of the 30 percent principle for the distribution of taxes to local bodies; (3) transfer of effective sources into local tax structures; (4) reform of the city or village independent tax system; (5) reduction of the rates of enterprise, admission, and entertainment taxes.

Further, Dr SHOUP is scheduled today to inspect the ward offices in TOKYO. He will also see the governor of TOKYO and city, town, and village chiefs and will study the actual conditions of local finances.

The salient points of the Local Finance Committee's policy follow:

1. Direction of the reform of local finance

a. Reform of the system to adjust finances between national and local governments and among local governments: The idea of national finance's preference should be abandoned and a readjustment effected between the prefecture and city, town, or village tax structures.

b. Rationalization of local taxes and finance: A number of the local taxes yield only small revenues and lack expansibility (the ship tax, the cart tax, and so on.) Moreover, some local taxes, including the admission tax, are too heavy. On the other hand, the expenses for calamities, rehabilitation, and education, which by nature should fall upon the national treasury, are arbitrarily imposed upon local finance. These points must be rationalized.

2. Reform of the local tax system

a. Increase of local revenue sources: Consumer-tax sources, now monopolized by national finance, should be equally divided between national and local finance.

b. Reform of the tax grant system: The total amount of local grant taxes should be held to about 30 percent of the total amount of local taxes. On the other hand, independent sources should be strengthened.

c. Induction of expansible tax items into the local tax structure: The income tax and the consumer tax should be introduced into the local tax structure to meet the needs of local finance. To this end, a tobacco consumption tax should be created and the rate of the sake consumption tax should be increased to about 20 percent from the present five percent. Moreover, the sur-tax as a prefectural tax should be created.

d. Mutual transfer of taxes: The gasoline tax should be transferred to local finance and the mine-lot and hunting taxes, to national finance.

e. Removal of taxes from the legal tax lists for local finances: The tramway, cart, butchery, advertisement, and servant taxes should be removed from the legal tax lists.

f. Reduction of rates: The rates of enterprise, real estate acquisition, admission, and entertainment taxes are too high. These rates should be reduced if substitute sources are found.

ITEM 7 EXAMINATION BODY CALLS WITNESSES IN URAWA TAX CASE

(Full Translation)

224
 TOKYO SHIMBUN, 16 May -- To make a thorough investigation of the Urawa tax office case, the Examination Committee will summon four witnesses tomorrow. They are KIYOMIYA Matsugono, a director of the Urawa Fruit Association; ISHII Takejiro, a member of that association; KITAJI A Jutaro, director of the Tailors' Association; and SUZUKI Yasuzo, a member of that association.

ITEM 7 NATIONAL INCOME AND CURRENT TAXES

(Full Translation)

SHIN TOKYO, 9 May -- In view of the possible revision of the taxation system, it is expected that the relationship between the people's incomes and their ability to bear taxes will become more and more an issue in connection with the tax reduction problem. According to the data compiled by the Revenue Bureau of the Finance Ministry, the people's total income for the 1949-50 fiscal year is estimated at 2,974,200,000,000 yen, and the total taxes at 785,700,000,000 yen or 26.4 percent of the entire national income. If we compare this percentage with other years, we find that in 1930, the total taxes came to 15.9 percent of the entire national income; 14.0 percent in 1934; 10.6 percent in 1946; 18.6 percent in 1947; and 20.2 percent in 1948. This year's percentage is the highest so far.

When we compare the nation's real annual income with its nominal income, with 1930-34 as the base year, we tabulate the following:

	Nominal income	Real income
1930	100	93
1934	107	104
1946	3,031	41
1947	8,549	46
1948	18,229	45
1949	21,551	64

The people's tax burden has multiplied, while their real income has declined considerably, as indicated in the above table. It can easily be seen that the nation's taxes for this year are tremendously heavy. Furthermore, the tax burden of wage earners has increased remarkably since 1930. For instance, although in 1930 a single person who obtained an annual income of 1,200 yen paid no taxes, this year he has to shoulder a 31.4 percent tax. This computation is made on the basis of the present value of currency, which comes to 297,624 yen for 1,200 yen in 1930. The same burden is assumed by those engaged in business. A person with an annual income of 10,000 yen paid only 5.4 percent of this income for taxes in 1930. This year he must pay 68.8 percent at the converted figure.

Under such circumstances, it is quite natural that the people strongly desire the reduction of taxes.

ITEM 18 EXAMINATION COMM HEARS WITNESSES TO URAWA TAX CASE

(Full Translation)

JUJI SHIMPO, 15 May -- The Examination Committee yesterday afternoon summoned for the first time Superintendent SUGITA of the Urawa Tax Office, SUZUKI, member of the Bicycle Dealers' Association, and former President FUJIKURA and current President KANEKO of the same association to testify on the Urawa Tax Office bribery scandal. Following are the testimonies given by the four witnesses.

SUGITA Isokichi: "Nine officials of the Urawa Tax Office have been either indicted or arrested up to the present time. The bribery began by their dining with association members during the course of negotiations, and ended with their accepting money and valuables. It is undeniable that there have been officials who drank with the businessmen."

SUZUKI Masakichi: "Eleven persons whose revised assessment was provisionally fixed at more than 200,000 yen assembled to talk with Official KANAKAMI of the Tax Office. Negotiations OMORI Chokichi and KANEKO Tokutaro, brother of President KANEKO, were entrusted with a total of 330,000 yen, or 3,000 yen per person, as expenses for the bargaining. As a result, the provisional revised assessment on my case was reportedly lowered from 260,000 yen to 230,000 yen, and that of KANEKO from 250,000 yen to 190,000 yen."

FUJIKURA Chikayoshi: "Since, I was not consulted, I was not aware of the case until it was reported in the press."

ITEM 1 IN REPLY TO KIMURA ON LOCAL TAX SYSTEM by NOZU Kojiro

(Full Translation)

224

YOMIURI SHIMBUN, 7 May -- (The following article is NOZU Kojiro's answer to KIMURA Seiji's criticism of NOZU's earlier discussion on the local tax system. -- Editor). My article entitled "Clarify the Spheres of National and Local Taxes," which appeared in this paper on 5 March (PT&S; 14 Mar 49), was criticized on 30 March by Mr KIMURA Seiji, member of the Local Tax Deliberation Council (PT&S; 7 Apr 49). I am thankful for his detailed study and criticism on my comments; and I am happy to be given the opportunity of calling further public attention to this problem.

The only regrettable point is that, in criticising my opinion advocating the clarification of the spheres of national and local taxes, Mr KIMURA merely refuted and made no constructive criticism and advanced no concrete policy. This type of criticism adds nothing to the solution of the problem.

It is necessary to clarify the spheres of national and local taxes in order to comply with new developments in the tax system. The nucleus of the national tax structure has shifted from the land tax to the income tax. The land tax, the business tax and other business profit taxes have been transferred to the jurisdiction of local governments. The local tax structure was switched over to a setup based on these profit taxes. A clear-cut distinction between the local and the national taxes is the first step towards fair taxation on the people and towards the simplification of the national and local tax systems.

If both national and local finance are given the same status, and are able to impose taxes at will on desirable tax sources, the tax system becomes complicated and confused, and results in unfair taxation. In addition, tax collections by two authorities will increase tax collection expenses, and will make the collection procedure more complicated.

The most rational measure, I believe, is to base the national tax structure on taxes assessed on all people according to ability to pay and the local structure on taxes which are unique to individual provinces and are levied according to potential utility. The deficit in local finance should be covered with money given by the Government as local grant tax allotments. Mr KIMURA advocates that the local grant tax (government levied) should be applied only to the Corporation Tax, the Income Tax and other taxes which entail extremely undesirable results if collected as local taxes. However, the local grant tax system can apply to other taxes. It was actually applied to the taxes on entertainment, eating, and drinking, before they were transferred to local finance. In the old days of GERMANY, taxes to be collected by the Government for local grants included the customs duty, the tax on tobacco, stamp duty; later on, the income, corporation, inheritance, real estate acquisition, and transactions taxes were also added to the list of the government collected local grant taxes.

ECONOMIC

ITEM 1 ... (Continued)

Mr. KIMURA asserted that the local tax system should be a structure chiefly based on consumption taxes. He gave these three reasons: (1) The extremely centralized administration should be eliminated in line with the spirit of the new constitution recognizing local autonomy. (2) The importance of protecting national life, which is now entrusted to local governments, has been recognized. (3) The tax system changes to meet the changes in the economic situation. He also asserted that taxes on sake and tobacco are the most suitable consumption taxes.

I feel that these are dogmatic arguments. The three reasons he points out do not necessarily mean that the tax system will shift to a setup with the consumption tax as its basis. It is just as likely that the new tax system will develop around the present one based on taxation according to utility and supported by local grant taxes such as the income tax, corporation tax, tax on sake, and tobacco monopoly tax. These will increase with the development of the national economy.

Mr. KIMURA further asserts that the local tax system, based on the consumption tax, does not discriminate between urban and rural populations because sake and tobacco are consumed everywhere. This opinion disregards the fact that cities are the consumption centers, especially of luxury goods, and that the place where goods are consumed is often not where the consumption taxes were collected. In order to prove this fact, let us study the rations of sake, synthetic sake, and beer distributed by the Public Liquor Distributing Corporation during 1948 (Unit KOKU [39.7 gallons]; parenthesized figures represent the percentage):

	Sake	Synthetic sake	Beer
Industrial purpose	153,943 (22)	101,412 (46)	85,294 (21)
Special price liquor	400,370 (58)	40,974 (19)	205,671 (50)
Household rations	85,723 (12)	67,176 (30)	85,286 (21)
For ceremonial occasions	39,147 (6)	8,333 (4)	243 (0)
For emergency and others	14,785 (2)	2,598 (1)	36,993 (9)
Total	693,968 (100)	220,493 (100)	413,487 (100)

Liquor for household rationing, for ceremonial occasions, for emergencies, and for other purposes, can be regarded consumed equally in cities and farming and fishing villages, in proportion to their populations. But what about the remainder, 80 percent in sake, 65 percent in synthetic sake, and 71 percent in beer? Most of the industrial rations, which are distributed to factories, mines, and farming and fishing villages as linked goods or incentive goods, are consumed in factories in cities or neighboring districts, and taxes from this source increase the income of the cities. Almost all special price sake is distributed to cities, swelling the treasuries of local governments.

ECONOMICITEM 1 (Continued)

The same is true in regard to tobacco. The estimated sales of tobacco for the 1948 fiscal year are as follows:

Use	Quantity (Unit million pieces)	Percentage	Amount (Unit million yen)	Percentage
Free sale	23,046	41	81,571	73
Household ration	31,357	55	28,705	25
Rations to laborers	2,067	4	1,883	2
Total	56,471	100	112,160	100

We can see in the table a tendency similar to that in the case of sake. In case a local tax is levied on tobacco, it is desirable that the tax rate be equal throughout the country as long as tobacco is under the government monopoly. The tobacco price has almost reached the limit. If it is raised further, to provide local finance with a tax source, the tax receipts as a whole will decrease. Hence, the rate of the local tax should be subtracted from the national tax rate, even though the tax receipt by the national government is decreased thereby. Therefore it would be much more advisable for the national government to apportion a part of the monopoly profit as local grant tax allotments than for local governments to create a surtax on tobacco. In this case, labor and expenses for tax collection can be greatly reduced.

I further asserted that the entertainment admission tax provides a tax source for cities, in which various performances are given, but the tax is almost meaningless as a tax source for farming and fishing villages. In order to supply this revenue without discrimination to all local governments, it is advisable that the tax on admissions be maintained as a national tax, and that the revenue from this source be allocated to local governments. Attention should also be paid to the fact that there are big differences in admission tax receipts even among local bodies that have performance equipment and facilities. The difference is especially marked between cities and towns, where famous theatres, baseball fields and race tracks are located, and farming and fishing villages, where cinema and other performances are given only during the farmers' or fishermen's leisure season.

As explained above, the taxes on sake, tobacco, and entertainment admissions, which are regarded by Mr KIMURA as most suitable sources of the local tax revenue, are likely to be concentrated in cities. They cannot therefore be proper revenue sources for farming and fishing villages. Hence, they should not be transferred to local governments, and surtaxes should not be levied on them.

There are, however, opinions denouncing the establishment and expansion of the local grant tax system. Opponents declare that the acceptance of allotments from the local grant tax is contradictory to the spirit of local autonomy and that money given by the national government is apt to be wasted by local governments. The first reason seems to be based on the face-saving opinion that as long as the local government is given the same status as the national government, the former should also rely upon taxes for its revenue, just as

ECONOMICITEM 1 (Continued)

in the case of the latter. I think however, there is no reason why the revenue source for the local government should be limited to taxes. In my opinion, any source will do if it is reliable, provides sufficient revenue, and does not have adverse effects on the national economy.

The second argument is absurd. It is obvious that public funds will be disbursed for proper purposes and in proper ways.

The rate of allotment of the local grant tax must not be changed without good reasons. If the rate is changed at every turn in the national financial situation, local finance, and the local tax system cannot be established on a firm basis. In JAPAN, however, the rate was not only changed often in the past, but is going to undergo a big revision in the future. But I cannot support the revision of the rate, for the above reason.

I hope that the Shoup Mission due to visit JAPAN in the near future will examine this point and that a permanent rate will be fixed. (The author is a special member of the House of Councillor's Budget Committee. -- Editor)

ITEM 30 RELIANCE ON TAX SYSTEM REFORM

224 (Full Translation)

MAINICHI SHIMBUN, 12 May -- Dr SHOUP has just arrived here, and the nation's tax system is going to be overhauled under his guidance. The tax system constitutes the largest of all the postwar problems that are left unsolved.

As to economic stabilization and national reconstruction, a fundamental plan which is almost final has been recommended by Minister DODGE. The economic deconcentration issue has been nearly settled by the energetic activities of the five-man committee. In regard to the reparations question, no great change is likely to develop. Thus, postwar economic confusion which lasted for four years under Allied Occupation has been put on the right track.

Only the question of tax system remains to be solved. When this is settled, reconstruction programs in the major fields of postwar economy may be said to have been completed. A tax system revision would be a finishing touch to the national reconstruction plan.

We depend on the tax revision mission for the renovation of taxation. We are content to point out matters to be corrected.

First of all, the current tax obligation is too heavy. It may not be true of all cases, but suicidal cases allegedly arising from exorbitant tax burdens are reported from time to time. There are not a few major companies which default, not necessarily wilfully, payment of tens of millions of yen in taxes and are on the brink of bankruptcy. Tax rates of this country were excessive from olden times. Even so, people seldom committed suicide by reason of taxes. These facts attest to the heaviness of tax obligation to the extent of squeezing life out of individuals, although divergent views may be advanced on a statistical basis.

Considering the necessity for national disbursements, however, we cannot rush to the conclusion that excessive taxes are being levied. The budgetary demand for the new educational system has been so drastically curtailed that the new system is in danger of infantile death. Once we are visited by a typhoon, damages caused by it will be as large as 10,000,000,000 yen, but almost nothing is disbursed for river improvement and reforestation.

The number of prisons is too small, and inmate are accommodated two or three times the capacity at all times. We surmise that cases of release on probation are more than necessary because of the shortage of confinement facilities. According to statistics, more than 30 percent of these convicts released on probation commit criminal acts again.

It may be seen from these facts that the current tax revenue is far from being sufficient for state administration. On the part of taxpayers, however, the present tax rates constitute a question of life or death. The reason which is common for these two conflicting facts is the near-bankruptcy situation of the Japanese economy. How to reconcile these conditions is the most difficult of all questions, but undoubtedly this is the core of the problem in regard to the revision of taxes.

While the tax rates now in force are generally exorbitant, the inequity with which tax obligation is distributed is another serious question. Comparatively heavier tax burdens are imposed upon the working classes which cannot evade them because of taxation at the source. In regard to the business income tax, while scoundrels evade their obligations, honest taxpayers are in consequence forced to pay more than their share of taxes.

According to Finance Ministry statistics for 1930, the business

EDITORIALSITEM 30 (Continued)

income tax was 34 percent, and the wage income tax 41 percent. The former has risen to 51 percent in 1949. Even under a normal economic situation, business income is difficult to tax. At present it is more so because of inflation and blackmarket dealings. When it is clearly known that blackmarket transactions cannot be successfully coped with, there are too many controls, almost ineffective, upon prices and distribution. It is surprising that, including minor controls enforced in local areas, there are more than 600,000 different commodities on which price control is imposed. Although this may also be a difficult task to tackle, something must be done to improve the situation, and we believe something can be done.

Corrupt dealings of revenue officials constitute a far greater problem to be urgently solved. The corrupt conduct by a group of URAWA Revenue Office officials was taken up by the Tax Revenue Committee of the House of Councillors. Other such scandalous acts by individual revenue officers are being brought to light one after another all over the country. In this connection, Chief MOSS of the Internal Revenue Section, GHQ, has bitterly censured these corrupt officials.

Those who have gained large profits by blackmarketing are apt to effect ties with corrupt tax collectors to evade the greater part of their tax obligations. Those small businessmen such as plant grovers and stallkeepers cannot afford to bribe tax collectors and are groaning under unbearable tax burdens. This is correctable.

In regard to individual taxes, there are many which should be improved. For instance, music concerts for the sake of training, highly artistic performances which cannot attract sufficient audiences, and performances to raise funds for charity are being taxed at the same rates as cinema houses and variety theaters attracting crowds of common people. The bureaucratic cliché in this connection may be that no clear-cut line of demarcation can be drawn between artistic and vulgar performances. We deplore the coarseness of these bureaucrats.

At any rate, the question of taxation is left in a confused state. We learn that the Shoup Mission will work out a plan to improve the nation's tax system with the co-operation of Japanese experts. This is a large problem, and the people place great reliance upon them.

ITEM 8 MINISTRY NAMES FOUR SCHOLARS TO ASSIST SHOUP MISSION

(Full Translation)

224
NIHON KEIZAI SHIMBUN, 12 May -- To offer co-operation in the tax system survey to be conducted by the Shoup Mission, the Finance Ministry has appointed four advisers. They are NAGATA Kiyoshi, Keio University lecturer; ITO Hanya, professor of Tokyo College of Commerce; SHIOMI Saburo, Kyoto University professor; and TSURU Shigeto, professor of Tokyo College of Commerce.

ITEM 6 REPORT TO SHOUP MISSION STRESSES INCREASED TAX BURDEN

(Summary)

224
YOMIURI SHIMBUN, 12 May -- The Finance Ministry yesterday submitted to the Shoup tax survey mission data concerning the national income and the people's ability to shoulder the tax burden. Salient points of the data submitted to the mission are as follows:

1. The prewar 1934-36 national income averaged 13,600,000,000 yen, of which 1,300,000,000 yen was taken away for taxes, including local taxes. This means that the people at that time paid, on the average, 13.3 percent of their total income for taxes. However, the average national income during the 1949-50 fiscal year is estimated at 2,974,200,000,000 yen, of which 785,600,000,000 yen, or 23 percent of the total income, is to go for taxes. This represents an increase of 30 percent over last year's tax burden.

Last year's tax rate in JAPAN stood at 20.2 percent; that of ENGLAND was 39.2 percent; and that of the UNITED STATES was 21.7 percent. Therefore, this year's tax rate of 23 percent will probably exceed that of the UNITED STATES. It must be kept in mind, however, that in this connection the Finance Ministry's national income estimate is made on an all-inclusive basis; and, therefore, at least 30 percent of it cannot be taxable in view of its being derived from blackmarket transactions. It follows, therefore, that the actual tax burden will far exceed the estimated 23 percent.

2. The Bank of Japan's effective retail price index during the current fiscal year stands at 33,632.5, with the 1930-34 retail price averages taken as 100. When we divide the above-mentioned national income estimate of 2,974,200,000,000 yen by this price index, we can get the real national income during the current fiscal year, which stands at 8,800,000,000 yen. This represents only 79 percent of the national income during the 1930-34 period. However, the tax rates on the people's income for the current fiscal year are twice as much as those in the 1930-34 period.

3. There have been considerable changes in the structure of the people's income. The property income, which represented 22 to 24 percent during the 1930-34 period, now represents only 2.3 percent of this year's national income. On the other hand, the percentage earned income has increased to 44 percent, from the prewar rates of 38 to 40 percent, and the business income to 51 percent, from 34-38 percent. Such an equalizing tendency of the national income, coupled with troubles resulting from tax collection, is giving the people the impression that their tax burden is becoming heavier.

4. In the field of income tax, the year 1930 saw a total of 930,000 taxpayers, but the number has now increased more than 19 times, to 17,910,000. The total amount of income tax imposed during 1930 was 110,000,000 yen, but it is now 349,000,000,000 yen for the current fiscal year. This means an increase of 3,160 times. On the other hand, corporate taxes have not been increasing as much as individual income taxes.

5. In prewar days, the income tax exemption point was set at 1,500 yen, and the minimum income tax paid during 1930 was nine yen a year, or six percent of the total annual income. The annual income of 1,500 yen in 1930 is now valued at 372,030 yen, insofar as the parity price system is concerned, and if the present tax system is applied to this sum (372,030 yen) the tax rate will be 363 percent.

In the case of entrepreneurs' income, the minimum tax limit was 1,200 yen in prewar days. The tax rate was eight percent at that time, but it is now 38.3 percent under the present taxation system.

ITEM 31 GREETING DR. SHOUP

(Full Translation)

224

TOKYO SHIMBUN, 12 May -- Premier YOSHIDA has often declared that he wants to lighten the tax burden of the people. This is one of the public promises of the Democratic Liberal Party. In the general accounts of this year's budget, however, government revenue according from taxes and the sale of postage stamps amount to 514,600,000,000 yen, which means an increase of 198,600,000,000 yen, or a 62.8 percent increase over the figures of last year.

With regard to the income tax, this year's estimate is 310,200,000,000 yen, which means an increase of 126,800,000,000 yen, or a 69 percent increase as compared with last year's 183,400,000,000 yen. If the profits accruing from the sale of monopoly goods and local taxes are added, more than 26 percent of the nation's total income (which is 2,974,300,000,000 yen, as announced by the Government) will be collected as taxes. This is the highest percentage since the beginning of the Meiji Era. Moreover, the actual ratio will become higher if the national income should happen to total less than 2,974,300,000,000 yen.

JAPAN's tax rate, which accounts for 26 percent of the nation's total income, may be lower than that of foreign countries. However, the Government's estimate of the national income is too high, even as the nominal income. Furthermore, since real income continues to decrease, it is clear that the people's tax burden is too heavy.

It goes without saying that the present tax system leaves much to be desired. The imposition of the graduated income tax system, under which only a slight profit can be made beyond a certain income level, will discourage an individual's will to work.

In order to improve these conditions, the Government has established the Tax System Council. The US tax survey mission, headed by Dr SHOUP, has arrived in JAPAN. The people expect much from the Shoup mission, inasmuch as the Government has often stated that it will wait for the arrival of the Shoup mission before taking definite steps.

Even though the people's tax burden will not immediately be lightened, since the budget has already been formulated, the people hope that the Government will utilize this opportunity to establish a tax system befitting actual conditions.

What the Government should realize in this connection is that this cannot be achieved by mere petitions alone. Needless to say, reform of the tax system has a bearing upon the over-all policies of the Government. The nine-point Economic Stabilization Program must be observed. Lightening of the people's heavy tax burden must be carried out within the framework of the nine-point ESP.

It follows, therefore, that the Government must have a clear-cut policy regarding the execution of the budget. At the same time, unless the Government has a clear view of the future in studying the tax system with the Shoup mission, the achievement of this objective cannot be expected.

For instance, the Government has drawn up a policy whereby it hopes to decrease this year's budgetary expenditures as much as possible. This is the natural step to take, but the Government must discard its heretofore irresponsible methods.

Only when the Government changes its way of thinking and is able to get the people to understand it, can the tax system be reformed so as to lighten the people's tax burden, and thus insure the impartial assessment of taxes. Unless the Government has firm determination, as well as a concrete policy, economic rehabilitation through disinflation (by avoiding the confusion arising from vicious deflation) can not be expected.

ITEM 7 URAWA TAX OFFICE CHIEF CALLED TO TESTIFY

(Full Translation)

224

ASAHI SHIMBUN, 12 May -- The Lower House Examination Committee yesterday decided to summon on Saturday Superintendent SUGITA Isokichi of the Urawa Taxation Office, President KANEKO Yoshitaro of the Urawa Bicycle Dealers Association, former president FUJIKURA Chikayoshi of the same association, and an association official SUZUKI Masakichi to testify in the Urawa Taxation Office scandal.

After the questioning of witnesses is completed the committee is scheduled to proceed to URAWA for further investigation.

ITEM 32 STRESS LIGHTENING OF BURDEN IN REFORMING TAXATION

224
(Full Translation)

JIJI SHIMPO, 12 May — A plan to lighten income and corporation taxes and to abolish the transactions taxes, which was one of the Democratic Liberals' major pre-election pledges and which was most earnestly desired by the people, was shelved in accordance with the balanced budget, which demands a definite tax revenue. The problem was to be placed before the Shoup Mission on its arrival in JAPAN.

The Mission, which is to have an influential voice in the tax reform in JAPAN, arrived here Tuesday. The Mission is to devote itself to investigating the Japanese taxation system for months to come.

Dr SHOUP announced that it is the aim of the Mission to contribute to the establishment of a fair taxation system in JAPAN. There cannot be any objection to the old-established principle that taxes

should be levied equitably. The greatest concern of the Japanese people today is whether the equitable taxation will aim at maintaining tax revenues at present levels, at lightening the people's tax burden, or at increasing taxes.

If the equity in taxation is to be realized without lightening the existing tax burdens, the result will be that the tax burden, which is now comparatively light, will be made heavier. In this case, equitable taxation will practically call for an increased tax levy.

If the equity is realized by lightening the heavier tax assessments, while leaving the lighter assessments alone, the result will be a reduction in the tax levy as a whole.

If the equity means ironing out irregularities among different kinds of taxes, we may consider it an equity on the basis of the present level of tax burdens. It is the greatest concern of the Japanese people on what point the Shoup Mission will attach importance in realizing equitable taxation.

There is no doubt that the people, who are now groaning under the heavy burden of national and local government taxes, are eagerly hoping for a reduction in taxes. History shows that the people's tax burden, everywhere, should increase after a war. It is also inevitable that the situation should be more aggravated in a defeated nation than in a victorious one.

The Japanese people are well aware that JAPAN cannot be an exception to this rule. Nevertheless, the Japanese people hope for a lightened tax burden because the existing tax burden already exceeds the limit of the people's capacity to pay.

In 1930, a man with an annual income of 1,500 yen paid an income tax of only nine yen, or 0.6 percent, of this income. The sum of 1,500 yen in 1930 may be compared with 372,030 yen in 1949, on the basis of price indices, and the income tax on this sum (under the present system) would be a little more than 135,200 yen, or 36.3 percent of the total income.

What makes the tax so much heavier today than in 1930? Income from property, which accounted for 24 percent of the total national income in 1930, declined in 1949 to only 2.3 percent of the national income, with a corresponding decline in tax on this sort of income. Consequently, an additional burden has been imposed on earned income. This is one of the major reasons for increasing the earned income tax.

The decline in unearned income may be ascribable to the farmland reform, the restrictions on capital's profits (on the basis of the restricted company and the special accounting company laws), and the depressed condition of business circles as a whole. However, it must not be overlooked that a heavy corporation tax diminished the entrepreneur's zeal for enterprise, and heavy taxes created many tax evaders.

It is likely that the revenue derived from the corporation tax may actually be increased by reducing the rate of taxation. In other words, under the present situation of the Japanese economy, a tax reduction is the most important factor for stabilizing both the nation's economy and the people's livelihood. It goes without saying that tax reduction necessitates a saving in government spending, and it is concerned not only with reforms in the taxation system but also, with many other problems relative to the nation's economy.

It will be up to those in contact with the Shoup Mission to make every effort to take advantage of its arrival for carrying out the tax reduction, as well as making the Mission fully cognizant of the characteristics of Japanese national finance and economy.

ITEM 23 EXPECTATIONS FROM THE SHOUP MISSION

(Full Translation).

224
 YOMIURI SHIMBUN, 13 May -- The Japanese people are pinning much hope on Dr SHOUP who has just arrived here. The Yoshida Government, having failed to live up to its promises to abolish the transactions tax and to lighten the income tax, has stated its dependence upon the Shoup Mission for a revision of the tax system. It is natural that the tax-harrassed people should look to Dr SHOUP for relief.

The economic situation, however, does not warrant a very rosy prospect for the people. A survey of actual conditions would undoubtedly convince Dr SHOUP of the appalling heaviness of the tax burdens imposed on the people, but the situation necessitates our recognizing that the heaviness of burden is one thing and its alleviation, another. This follows since the real balance of government budgets is a principle which even the Shoup Mission cannot alter, and to reduce the people's tax obligation while observing this principle would mean curtailing disbursements from the national treasury. Therefore, possible mitigation of the general tax burdens depends upon the Government's effort to minimize expenditures in executing the budget plan.

Then, what are we to expect from the Shoup Mission? Dr SHOUP himself answered this question when he stated at the press interview, "I have come to JAPAN to advance suggestions to Gen MacARTHUR on the establishment of an equitable tax system here." The heavier the tax burdens on the people, the more equitably they should be distributed. Our greatest objection is to the lowness of the basic reduction rate for the income tax. Not only is this the case with income tax, but incongruities are to be found in the business tax as well.

The greater share of Japanese industry is occupied by small industrial and commercial enterprises which are operated exclusively by family members. The most these small enterprises can do in times of depression is to earn minimum living expenses, and, in these times, the current tax system is demanding too much of them. Small retailers on the outskirts of cities, for instance, do so little business that, deducting business expenses, their annual net income is often as low as 100,000 yen. This amount can provide only the barest household sustenance. The current basic reduction rate being 15,000 yen, the income tax on the remainder totals more than 30,000 yen. How can they pay such an amount?

They have no recourse but to pay it with money raised by selling clothes and other household equipment. An income tax in name, it is a property tax in reality. We wonder what is to become of these people, who, while able to earn no more than a minimum living, are assessed an income tax of the nature of a property tax. We want Dr SHOUP to make a detailed study of the actual situation and correct this irrationality.

Another serious incongruity in the tax system is depreciation funds in connection with the corporate tax. Strictly speaking, this too is of the nature of a property tax. It is understandable that these defects cannot be remedied very quickly without affecting tax revenue. Nonetheless, we desire that correction of these two points be the first step in rationalizing the tax system.

Next, however admirable a tax system might be, in practice it can be no more than an inequitable tax system so long as tax collection organs are not properly operated. Business proprietors' complaints that higher taxes are levied on them than on others, attest eloquently to the fact that tax collection is not being carried on in fairness of spirit.

Due to personnel shortages and incompetency and the rapid economic changes since the war, revenue offices have not carried out business income surveys satisfactorily. To take the Tokyo area as illustration, a single revenue officer has to deal with 800 taxpayers. Economic circumstances change so rapidly as to make old data unreliable, and we cannot expect this restricted number of revenue officers to execute any accurate assessment of taxes.

To make matters worse, there is evidence to show that a considerable number of tax collectors are given to corrupt dealings; thus, we can expect nothing better than a bullying taxation. As long as tax collection organs remain unchanged, a revision of the tax system will not bring about an equitable distribution of tax obligations. With Dr SHOUP's visit as a turningpoint, we hope that drastic measures will be taken to remedy this deplorable situation. Last, we should like to stress the need for the Shoup Mission to grasp conditions as they actually are, so that it can advance effective suggestions for reorganizing the nation's tax system. The Government is responsible for this. It should endeavor to give out precise facts and data and discriminating opinions as such, for the convenience of the mission.

ITEM 5 IKEDA ASKS LIGHTER TAX BURDEN IN FIRST TALK WITH SHOUP

(Full Translation)

224

JIJI SHIMPO, 12 May -- Finance Minister IKEDA, Director-general AOKI of the Economic Stabilization Board, State Minister and concurrently Local Finance Committee Chairman KIMURA, and Chief Cabinet Secretary MASUDA called together at GHQ at 1500 hours yesterday and conferred for the first time with the members of the Shoup taxation investigation commission, which arrived in JAPAN on the night of 10 May. The meeting lasted about an hour.

Those present were Dr SHOUP, three members of his mission-- Professor VICKERY of Columbia University, Assistant-professor COHEN of New York University, and Chief HATFIELD of the Minnesota State Tax Department--, and GHQ Revenue Division Chief MOSS. (BOHEN, SURREY, and WARREN are scheduled to visit JAPAN a little later to join the investigation mission).

Introducing his policy to study the taxation system in a prudent scholarly manner, Dr SHOUP stated, in effect: "Instead" of being swayed by a prejudiced view, we will at approach the tax reform problem with a clean slate. Before taking up the taxation issue, however, we intend to study the general situation of Japanese economy and reach a conclusion on tax reform from a broad viewpoint."

Finance Minister IKEDA, on the same day, submitted in writing his private view on the tax reform issue. Along with Taxation Bureau Chief HIRATA and others, he is scheduled to hold on 14 May a first round of talks with the Shoup mission.

At yesterday's meeting, Finance Minister IKEDA expressed his desire that Dr SHOUP will inspect local conditions and direct his attention to the livelihood in farm villages in particular. He desired, at the same time, that the views of the Taxation System Council be also heard.

Alleviation of Income Tax Desired

Finance Minister IKEDA met Dr SHOUP at 1300 hours yesterday and talked with him about various taxation problems of the future. Dr SHOUP then stated, in effect: "I intend to start with a clean slate in studying and investigating JAPAN's taxation problem. First, I will study economic problems in general and then begin the probe of each specific tax problem."

At this talk, Finance Minister IKEDA submitted the following private view of his own: "In my opinion, alleviation of the income tax is necessary. It is desired the transactions tax be considered because it is undesirable. I deem it also necessary to cover local finance by independent sources of revenue."

ITEM 4 NATIONAL TAX BOARD ESTABLISHMENT BILL DRAWN UP

(Full Translation)

224

YUKAN CHUGAI, 13 May -- The Government has decided to set up a national tax board as an attached agency of the Finance Ministry, in accordance with a GHQ memorandum. At the extraordinary cabinet conference yesterday morning it approved a revision of the Finance Ministry Establishment Bill, a partial revision of the plan concerning the adjustment of government ordinances related to enforcement of Finance Ministry Establishment Law, and a Finance Ministry Establishment Bill revision plan in conjunction with the establishment of the national tax board.

According to this plan, the national tax board will have four departments as attached offices of the main office. National tax bureaus will replace the present finance bureaus located in eleven localities. Eight finance sections will be established in the local districts to handle all taxation business other than that of national taxes. They will be set up in SAPPORO, SENDAI, KYOTO, OSAKA, HIROSHIMA, TAKAMATSU, NAGOYA, and KUMAMOTO. National tax bureaus will be set up in each of the above eight cities and also in FUKUOKA, KANAZAWA, and TOKYO.

ITEM 24 DIRECTION OF TAX SYSTEM REFORM

(Full Translation)

224
TOKYO TIMES, 13 May -- Dr SHOUP told an AP reporter that the objective of his mission was to recommend fair and productive improvements in the Japanese tax system. The doctor is said to have a very wide field of vision and to have made a deep practical and theoretical study of tax systems in relation to national income and economy.

It is hoped that Dr SHOUP, after his three months' stay, will submit to Gen MacARTHUR an excellent report on improvement of the tax system, and urge its effectuation upon the Japanese Government.

As indicated by Chief MOSS of the Internal Revenue Division, ESS, GHQ, the Japanese tax system is very incomplete from the viewpoints of tax laws and administration. During the war, the tax system was revised with major emphasis on the classified and composite income taxes. Centering around such taxes, circulation or indirect taxes have, until now, been created or increased. Partially, therefore, equalization of the tax burden was considered and revisions effected in the light of social policy, to be sure, but the major stress was always placed upon the increase of tax revenues. In this sense, it can be said that due consideration has not been given to any revision which would meet sudden changes in national income during and after the war.

In addition, such revisions and increases centered on raises in tax rates, in view of their simplicity, thus creating such defects as disregard of the substantial slash in national income arising from currency depreciation and assessments based solely on nominal wages. This eventually made the tax burden on the people heavier, and it is said, at present, that the people's tax paying capacity has already hit the ceiling.

We have heard that Dr SHOUP has made an especially deep study of the income tax. In comparing the merits and demerits of the income and sales taxes, he is said to attribute the greatest value to the permanency of the income tax.

We fear that one impediment to economic rehabilitation is that taxes are not only heavy but inequally imposed. At present, most of the people are struggling to make a daily living while a considerable number of people are doubtless gaining blackmarket

income and successfully evading taxes. If the tax burden on the general public is heavy while such illicit traders or tax dodgers go on undisturbed, honest workers will come to entertain antipathy against the State and society.

This point should be given special consideration in the light of tax administration. As pointed out by Mr MOSS, the present tax officials are undoubtedly not of superior character. Of course it may be argued from the other side that the government's training of tax officials is inadequate and that they are poorly paid and overworked. Citing American examples, Mr MOSS takes an extremely sympathetic stand on improving the lot of tax officials, and on this point Dr SHOUP too may well be sympathetic. Since the war newspapers have printed a surprising number of reports on illegal activities of tax officials and suicides resulting from taxation worries. What does this show? On greeting Dr SHOUP's mission, we protect this lamentable trend and express our great hopes for the day its survey is completed.

ITEM 7 TAX REDUCTIONS HOPELESS

(Summary)

224
SHIN TOKYO, 4 May -- Because of SCAP's suggestions on the 1949-50 budget, the Government was compelled to revise the budget breaking many of its election pledges. We have frequently stressed that, apparently in view of the urgent need for enforcing the Nine-point Economic Stabilization Program, the realization of public pledges of the Democratic Liberal Party would entail various difficulties. The people were discontented not so much with the non-fulfillment of public pledges as with the irresponsible attitude of the Government and its party which made such impracticable pledges.

Yet, Finance Minister IKEDA promised the enforcement of the reductions after the arrival of the Shoup Mission, but we have previously emphasized in this column that his idea was too optimistic. Now, with no prospects for a possible revision of the tax system, hopes for a tax reduction cannot possibly be entertained.

Although the Government is collecting basic data for a tax system revision, most experts predict that Dr SHOUP will plan to establish a perpetual taxation system which would contribute to our economy, without being swayed by the temporary economic problems now confronting JAPAN. The inevitable consequence will be a gap in time between the Government's plan and the Shoup plan.

It is apparent that the Government is contemplating to reduce the income tax by utilizing the surplus carried over from the 1948-49 fiscal year budget and funds to be obtained through the curtailment of the commodity price adjustment funds and other appropriations, in the 1949-50 fiscal year budget but the amount of funds to be curtailed is yet unpredictable. The execution of this plan has been made more difficult by the establishment of the single exchange rate at 360 yen to one dollar. The establishment of the single exchange rate at 360 yen will necessitate an increase in import subsidies which had been computed on an assumed rate of 330 yen to the dollar. Since this difference is to be made up by slashing State subsidies to essential commodities, the Government's plan to reduce tax burdens by curtailing the 1949-50 fiscal year appropriations should be seriously reexamined. Realization of the plan to utilize the surplus carried over from the 1949-50 fiscal year budget for instrumenting a tax reduction will also be difficult under the present circumstances. The stipulations of the Finance Law will require that half of the said surplus, which is estimated at 30 billion yen, be transferred to the National Board Refundment Funds. It is impossible to utilize the whole sum of the said surplus to implement a tax reduction unless a special provision is made in the Finance Law.

The irresponsible attitude of the Government which promised tax reductions after the arrival of the Shoup Mission should be thoroughly questioned. Since tax reductions are impossible, because of the current critical situation of JAPAN, the Government should cancel its public promises and strive to convince the people of the reason.

ITEM 18 CABINET WILL DECIDE STATE TAX BOARD BILL TODAY

(Full Translation)

224
JIJI SHIMPO, 10 May -- The Government, at yesterday's cabinet session, discussed the establishment of a state tax board. The decision was reached that State Minister HONDA should investigate the matter so that it can be acted on at today's cabinet meeting, as an amendment to the Finance Ministry Establishment bill.

ECONOMY

224 In their initial reaction to the announcement that the Shoup Mission would visit Japan to study the entire Japanese national and local tax structures, editorialists voiced the hope that the Mission would succeed in drastically revising the taxation system in order to make it more equitable. Noting that tax collections had "increased considerably" since the end of the war, a Nagoya writer (o 1) declared that unreasonable taxation was exerting a damaging influence on the spirit of the people. The heavy taxation was believed to be attributable to a "desperate effort" to bring it to the level of a balanced budget. Moreover, there was said to be the "tendency to add the portion of the taxes skilfully evaded by big profiteers and blackmarketeers to the already-onerous tax burden of medium enterprisers and farmers." Therefore, the visit of the Shoup Mission at a time when a drastic amendment of the tax structure was urgent was highly welcome, averred the commentator. It was expected that when the group completes its work, the ESP would be implemented more smoothly.

224 Since the people's tax-bearing capacity allegedly has reached its limit, the system should be revised fundamentally so that the burden will be fairly distributed among the masses, according to a Kobe writer (p 1). Since the end of the war, Japan has been receiving a large amount of aid from the US, where taxes have not undergone any substantial reductions after the war and where it is asserted that taxes may have to be increased for the coming fiscal year. From this standpoint, Japan should not expect a great reduction in taxes, the editorialist said. This was said to be the attitude held by "many Japanese of good sense and sincerity." What they hope for is fair taxation commensurate to their tax-bearing ability and simple, convincing tax-collection methods.

224 Seventeen factories designated for reparations appealed to the Government Saturday for tax exemption. (f)

Economy

224 KOGYO SHIMBUN's subeditorial wondered what would be the advantage of abolishing the transactions tax when Dr SHOUP, according to his book, favors replacing the transactions tax with an increased income tax. Instead of abolishing the tax merely to fulfill its public pledge, the paper hoped the Democratic Liberals would endeavor to lighten the people's tax burden.

224 Finance Ministry authorities, meanwhile, saw a bleak future for the cabinet attempt to revise the tax system during a special Diet session this summer. They believed that tax reforms would not materialize before the next fiscal year because of the six months or more required to study the tax faults of the 1949 budget. In addition the Government itself has slowed down its reform drive, suspending work on income tax reduction until the arrival of the Shoup tax survey mission for the US. (c) The Shoup mission was scheduled to arrive here on 9 or 10 May. Government leaders hoped that the results of its survey would not preclude fulfillment of the Democratic Liberal Party's tax-softening pledges. (d)

224 At the suggestion of "quarters concerned," government planners have decided to create a new board within the Finance Ministry to step up tax collection. (a)

FINANCE

224 The Government will set up a new bureau within the Finance Ministry to improve tax collection. The proposed administrative agency will take charge of levying and collecting taxes and of cracking down on tax-evaders. Its creation was suggested in a GHQ memorandum handed to the Government on Wednesday. Commenting on the impending reorganization, Chief Cabinet Secretary MASUDA said the new bureau would not immediately boost the ceiling on Finance Ministry employees. (a)

224 YUKAN CHUGAI urged the nation's financiers to help the US tax mission headed by Dr SHOUP with their advice and knowledge. Since the tax structure as it stands now threatens the very livelihood of the people, it is extremely vital to the nation that the whole system be revamped, the daily believed. Above all, it said, the tax burden must be equalized and reduced if possible by preventing tax dodging.

Finance

224 Noting that the existing tax structure is entirely unsystematic and inflexible, NIHON KEIZAI called for a fundamental revision which is currently predicated on inflation in defiance of national economy. To establish a solid tax structure "unaffected by technical juggling of tax laws," the paper stated, the basic concepts of the system must be clarified. It hoped the Shoup Mission would give frank criticism and advice after thoroughly investigating the actual situation.

ITEM 19 DEFINE TAX SYSTEM CLEARLY

(Full Translation)

224

NIHON KEIZAI SHIMBUN, 11 May — Dr SHOUP and his party are coming to this country from the UNITED STATES to give forceful advice on reforming the taxation system. As an issue apart from the Democratic Liberal Party's public promises to reduce income tax and abolish the transactions tax, reform of the taxation system has been much debated since the compilation of this year's budget. However, in anticipation of Dr SHOUP's visit to this country to fundamentally revise the taxation system, the problem has been left untouched. We certainly hope that Dr SHOUP and his party will give frank criticism and advice after thoroughly investigating the actual situation.

Since the Finance Ministry must already have a plan for tax reform, a portion of this plan may be realized in the special Diet session to be convoked in August or September. However, tax reform must have as its precondition this year's budget. Therefore, the reform may not produce over-all effects until the next fiscal year. Accordingly, along with points requiring immediate revision, the basic principles and conceptions of the taxation system must be reinvestigated and improved from the ground up.

The existing tax structure in this country is entirely unsystematic and lacks flexibility as well. This is due to the increase and creation of taxes to meet the postwar financial expansion and also to the unstable economic situation resulting from the postwar inflation. Now that the Japanese economy is entering a period of stability and there is need to promote national economic stabilization in the matter of taxation,

a fundamental revision of the present taxation system, which is predicated on inflation in defiance of the national economy, is necessary. For example, in the readjustment of state and local taxes, a distinction must be made between the tax sources suitable to state taxes and those suitable to local taxes instead of transferring certain taxes back and forth between state and local accounts according to the financial circumstances. The ratio of direct to indirect taxes must not be changed for superficial reasons. What is most important is to give the taxation system a solid structure unaffected by such technical juggling of the tax laws as the alteration of rates. In this connection, the first need is to clarify the basic concept of the taxation system.

Opinion varies on whether the existing taxation system is capitalistic or anti-capitalistic. It is rather a mixed system and herein lies the cause of the confusion. What opinion Dr SHOUP will express in this regard attracts our greatest attention. However, since the Japanese economy is based upon capitalism, the taxation system alone cannot follow an anti-capitalistic principle. Simultaneously, it is necessary to introduce socialistic policies into the tax system as our economy, though based on capitalism, has adopted some socialistic measures.

Nevertheless, many ambiguous points are found in the present tax system. This is the case with the distribution of the tax burden. Either it is accepted as inequable or prewar relationships are carried over in toto to the present. The old progressive income tax rates which were adopted in prewar days when income was not evenly distributed, still apply today when income is almost equalized. Consequently, the incentive to earn has been decreased and the accumulation of capital hindered, since work performed above a certain level results in only a negligible increment of income. It is only natural to give socialistic consideration to the capitalistic tax system; however, the fundamental cause of confusion in the present taxation system is that it is not based on clearcut ideas.

ITEM 23 ON WELCOMING DR SHOUP

(Full Translation)

224
YUKAN CHUGAI, 10 May -- The tax mission headed by Dr SHOUP, professor at Columbia University, was to arrive in JAPAN last night or this morning. After making an over-all study of national and local taxes, the mission plans to recommend a reasonable taxation program. As stipulated by Paragraph 2 of the nine-point economic stabilization program, the attainment of the taxation goal is of vital importance to economic rehabilitation, considering that we are making united efforts to achieve rehabilitation in accordance with the program.

Defects in the present tax system have brought about various problems among both tax officials and taxpayers. Thus, the tax problem is becoming not only a political and economic problem but a social one as well. The visit of the American experts will offer an opportunity for JAPAN to revamp the current tax system fundamentally. Therefore, our specialists should help the tax mission by expressing their own opinions.

The existing tax system involves many problems. Some time ago, Premier YOSHIDA asserted through Chief Cabinet Secretary MASUDA that the rate of the present income tax should be lowered. In addition, the abolition of the transactions tax, one of the Democratic Liberal Party's campaign promises, should be restudied. In the local areas most of the sure tax sources are used up for State taxes; thus, it follows that the local governments are desirous of more secure taxes. The lightening of the corporation tax for promoting the introduction of foreign capital now constitutes a problem. Studies may be conducted on a method of increasing government revenue through tobacco sales taxes after abolition of the monopoly. At any rate, the most important issue is that present taxes are threatening the people's livelihood.

In consideration of a balanced budget, there can be no means of lightening the tax burden on the people except by a slash in expenditures. The prevailing defective condition, which evidences some successful tax evaders in the high income bracket while the

general public suffers from heavy taxes, should by all means be rectified.

Mr DODGE, SAPI's financial adviser, stated that in contrast to relatively high tax rates, the tax collecting efficiency is extremely low. In this connection, we recently insisted on improving the quality of tax officials. In its 4 May memorandum, GHQ directed the Japanese Government to speed up the tax program by preparing as many tax officials with high moral sense and expert qualifications as possible. In accordance with the note, a National Tax Board will shortly be established.

If tax dodging thus can be successfully prevented, it will be possible to lighten the tax burden on the general public by raising the minimum taxable point and the dependent exemption of income tax and by lowering its rates. In short, in the proposed revision of the tax system, it is important to equalize the tax burden.

ITEM 13 EXAMINATION COMM BEGINS PROBE OF URAWA TAX CASE TODAY

(Full Translation)

224
ASAHI SHIMBUN, 11 May -- The Lower House Special Examination Committee has been debating the scope of its investigations since its inaugural meeting on 9 April. Today it takes up its first case. The committee has decided to make the Urawa Tax Office case, an example of government official corruption, its first target.

Today's meeting, instead of conducting a fact-finding probe, will give priority to examination of what brought about this case and what effect the case is having on the general public socially and politically.

It is further expected that the committee will extend its activities to other official corruption cases in the government railways and the Commerce-Industry Ministry. The committee is scheduled to continue meeting for about 10 days following the Diet adjournment.

ITEM 2 GOVT PLANS TO SET UP TAX COLLECTION AGENCY

(Full Translation)

224
YOMIURI SHIMBUN, 6 May -- In accordance with a suggestion by the quarters concerned, the Government is planning to set up a tax collection board as an agency attached to the Finance Ministry. The purpose of the board would be to reinforce the tax-collecting organizations. The Government will correspondingly modify the "Bill for the establishment of the Finance Ministry" now being presented to the Diet.

According to the plan of the quarters concerned, Inspection Division, the Supervision Sections I-III which are responsible for supervision and liaison duties in tax collection, the Employee Section, and the Accountant Section will be separated from the Taxation Bureau to form a separate attached agency. State Tax Sections I and II, both responsible for the drafting of tax laws, will remain in the original bureau.

At the same time, tax-collecting agencies will be separated from local finance bureaus to form a "State Tax Supervision Bureau" which will be directly responsible for the final determination of taxes for individual incomes exceeding 1,000,000 yen and the incomes of corporations whose capital exceeds 10,000,000 yen. It will also supervise the tax-collecting activities of taxation offices.

Able officials with more than five years' experience in tax administration will be assigned to this State Tax Supervision Bureau as "State Tax Investigators." They will help the big taxpayers formulate their income reports and will be responsible for the final determination of these taxes. Meanwhile, the Table of Organization Bill for the ministry will undergo necessary modifications.

ITEM 1 GHQ DIRECTS GOVT TO REORGANIZE TAX ADMINISTRATION

(Summary)

224
JIJI SHIMPO, 7 May -- It has been demanded of the Japanese Government in line with the nine-point Economic Stabilization Program to adopt measures to accelerate and strengthen the program of tax collection and to insure thoroughgoing criminal prosecution of tax-dodgers. In this connection, GHQ sent a memorandum to the Japanese Government on Wednesday requesting the "reorganization of national tax administration."

According to the memorandum, an external bureau to be called the "Tax Administration Bureau" will be established within the Finance Ministry to be given complete authority on tax collection administration. As a result, the functions of the existing Taxation Bureau will be reduced to tax legislation and research pertaining thereto while present regional financial affairs bureaus will be dissolved by transferring taxation affairs to regional tax offices (tentative name) belonging to the Tax Administration Bureau and all other matters not connected with taxation to other agencies. Thus tax administration will be regulated along the line of the Tax Administration Bureau, regional tax offices, and tax offices.

In consequence of this reform, a part of the functions hitherto exercised by the chief of a tax office, such as the right to make final decision on the sum exceeding stipulated standards of income, tax, and revised assessment, will be transferred to the regional tax office, and those matters which cannot be dealt with by the regional tax office will be decided on by the Tax Administration Bureau. Thus the tax collection setup will be simplified.

Moreover, effective measures will be taken to elevate the functional grade of tax officials as a means to improve their treatment and to staff the new structure, as much as possible, with personnel of high moral and professional qualifications.

No Change in Fixed Number of Tax Officials, Says MASUDA

In connection with the impending partial reorganization of the Finance Ministry to be carried out in accordance with the GHQ memorandum concerning the tax collection structure, Chief Cabinet Secretary MASUDA yesterday said:

"Aside from the future prospect, the present fixed number of tax officials decided on by the cabinet council will not be changed on a large scale, although there may be a slight change in the number of bureau chiefs and others."

ITEM 2 TAX REFORM PLAN SPEEDED FOR SMALLER ENTERPRISES

(Full Translation)

224
KOGYO SHIMBUN, 4 May -- With Dr SHOUP slated to arrive shortly from the UNITED STATES to direct a tax system reform, the Smaller Business Board is rushing to prepare tax rationalization measures to apply to smaller enterprises, which have been the chief victims of inequitable taxation. These measures can be incorporated into the over-all reforms to be made after the arrival of Dr SHOUP.

Although the tax problem was recognized to be every bit as vital to the existence of smaller enterprises as the fund problem, there were no concrete data obtainable to prove actual conditions, despite constant complaints.

Under the circumstances, the Smaller Business Board has decided to investigate the true state of smaller enterprisers from a sympathetic standpoint and to eliminate any tax evils.

The problems to be taken up in this survey, which is attracting keen public interest, are:

1) To make comparisons of income taxes between farmers and smaller entrepreneurs and between wage earners and smaller entrepreneurs.
2) To investigate into the complaints that smaller enterprises are subject to strict tax collection while tax delinquencies on the part of large enterprises are tolerated.

3) To find out whether the fault lies essentially in the defectiveness of the taxation system itself, or in the faulty application of the system.

In order to achieve the most effective results, the Board plans to hold a public hearing on the subject by inviting representatives of various industrial organizations as well as scientific experts. An extensive survey will meanwhile be conducted on the actual conditions, using available documents; this is expected to be completed by the end of May.

The first meeting to discuss the rationalization of the tax assessment system was held on 2 May under the sponsorship of the Smaller Business Board. Those present at the meeting were: Prof FUJITA Takeo, St Paul University; YANAGI Noboru, director of the Japan Tax Association; MAEKAWA Manjiro, managing director Tokyo Tax Agent Association; NAKAJIMA Eishin, president Smaller Business Research Office; KITAMURA Minoru, director of the League of Commercial Entrepreneurs; SAKATA Takeo, representing the Commerce and Industrial Guidance Office of TOKYO; ANDO Toyosaku, director of the Union of Japan Smaller Industries.

ITEM 4 TAX OFFICE STOPS ATTACHMENTS FOR UNPAID TAXES

(Full Translation)

224
AKAHATA, 6 May (Kyoto dispatch) -- It is reported that taxes collected in KYOTO Shi exceeded the expected amount by 10 percent. In NAKAKYO Ku alone, more than 10,000 houses were attached in a taxation drive, in which even traffic policemen were mobilized for the task.

On 30 April, some 300 representatives of the citizens, among them KONISHI Kyojiro, president of the Nakakyo Ward Tax Democratization League, urged Mayor KAMBE to do his utmost to ease the rigorous tax situation. In this the citizens were joined by members of various labor unions, who were conducting by petition a struggle against the Kyoto city (TN: peace) ordinance.

Mayor KAMBE accordingly, at 0800 hours called at the Nakakyo tax office with Chief KATSUMOTO of the municipal tax bureau, and stated his views on fair tax payment. As a result, the Nakakyo tax office took down several thousand public notices of attachments posted in front of the office, and announced that, (1) compulsory attachment of properties to meet income taxes for the 1498 fiscal year would be discontinued and, (2) re-checks would be made in order to assure fair taxation in the future.

ITEM 1. BUDGET COMPILATION HELD UNDEMOCRATIC by KIMURA Kihachiro

(Full Translation)

224

SEINEN SHIMBUN, 26 Apr -- The 1949 fiscal year budget is shockingly undemocratic. Firstly, it is amazing that the historically significant, revolutionary budget, designed to put an end to the 18 years of inflation, was passed by the House of Representatives after only 11 days of deliberation.

Article 27 of the Public Finance Law legislated under the new democratic Constitution reads: "The Cabinet shall conform with the custom of submitting the draft budget for each fiscal year to the Diet during December of the previous fiscal year." This means that at least three months would be required to act on the State budget to the full satisfaction of the people. Nevertheless, the unprecedented budget amounting to two trillion yen including the general and special accounts was rammed through the Lower House by the dominant majority party in 11 days to our great astonishment.

The time given us to interpellate Premier YOSHIDA at the meeting of the House of Councillors' Budget Committee was only five minutes. The time given to KURODA Hisao of the Labor-Farmer Party for interpellation at the meeting of the Lower House Budget Committee was only 30 minutes. Moreover, the Government reply to the interpellation was very abstract, evasive and unconvincing. This violates the principle of the Public Finance Law, legislated for the purpose of democratizing the budget, and the spirit of the Constitution. This action is no better than the methods employed by the wartime Diet.

Government Lacks Conscience

The second astonishing point is that the Government finds no inconsistency between two entirely different draft budgets nor does it feel any responsibility for it. The Yoshida Cabinet on 22 February drafted a general budget of 578 billion yen incorporating the so-called public promises of the Democratic Liberal Party and submitted it to SCAP. However, this budget was rejected in its entirety and an entirely new draft budget was presented to the Diet "at the responsibility of the Government."

The original draft budget of the Government differs from the new budget in the following points:

	Original draft	New budget
(1) Deficit and currency issue	Deficit, 100 billion yen; increase in currency issue, 54 billion yen	No deficit no increase in currency issue

ECONOMIC

ITEM 1 (Continued)

 Original draft	New budget
(2) Commodity price and railway fare	Rise in prices of safety zone materials (coal, iron and steel, and rise in freight charges	No rise in commodity prices permitted Rise in passenger fare permitted
(3) Price adjustment expenses	70 billion yen	202.2 billion yen
(4) Public works project expenses	75 billion yen	50 billion yen
(5) Allotment of local allocation tax	72 billion yen	57 billion yen
(6) Tax	412.3 billion yen	514 billion yen
(7) RFB loans	80 billion yen	---
(8) US Aid to Japan	To be used as subsidies	Subsidies will be financed by taxes and the total amount of US aid will be used for industrial investment

The above contrast represents a fundamental difference in policy and is far more serious than the question of whether or not it embodies the public pledges of the Democratic Liberal Party.

I reproached Premier YOSHIDA with this statement: "The life of a party is its platform and policy. Now that the principles of your party have been rejected by SCAP, you ought to take the responsibility.

Premier YOSHIDA impudently replied that he did not feel the need of taking responsibility because the new draft budget completely conforms to the policy of the Democratic Liberal Party. Men of conscience would never insist on forcing their viewpoints through the Diet by the strength of a majority, even if their party's principles faced opposition. Men of fascistic ideas alone would do that.

Behind YOSHIDA's pet phrase, "The principle of democratic government," lies the undemocratic method of power politics. This is politics based on falsehood; a government by violence instead of by reason. Falsehood and violence are the enemies of democracy.

Budget Content Undemocratic

Thirdly, the contents of the budget is strikingly undemocratic. The characteristic of the budget lies in its principle to maintain over-all equilibrium with no deficits in an attempt to terminate inflation and to expedite the accumulation of capital.

The policy recommended by Minister DODGE to the Japanese Government is sound per se. However, the problem is that its burden and sacrifices are heavy for the working classes, farmers and proprietors of smaller businesses, and only major banks and large industrial capital actually benefit from the budget. For instance, the US aid funds for JAPAN (amounting to 175 billion yen in 1949), which have been used as subsidies, will be applied to industrial investment (accumulation of capital) in order to redeem public debentures and RFB

ECONOMICITEM 1 (Continued)

bonds held by banks. As a result, the tax burden will be increased by 150 billion yen in order to finance domestic subsidies. In addition, 30 billion yen in RFB bonds will be redeemed for industrial investment (accumulation of capital) by an increase in tax revenue. This is the reason why the 1949 fiscal year budget is about 230 billion yen larger than that for the previous year.

In order to meet this, the earned income tax will be increased by 96 percent, indirect tax (tax on the general public) by 62 percent, passenger fares by 60-100 percent, and the staple food prices by 13.5 percent. The US aid fund will be turned to banks and large industry.

Measures to Help Working Class

Such are the characteristics of the new budget. Within the limits of a balanced budget suggested by Minister DODGE, there are many measures aimed at helping the working classes. The most important of these measures is the taxing of blackmarket income and profits arising from inflation.

The ESB estimated blackmarket income in the 1948 fiscal year at 824,520 million yen. The nation's income calculated at official prices is 1,113,511 million yen, and that calculated according to effective prices (average between official prices and blackmarket prices) 1,938,031 million yen. Subtracting the former from the latter, the balance of 824,520 million yen is blackmarket income. Since this includes blackmarket incomes under the exemption point, the actual blackmarket income may probably be about 590,000 million yen as stated by the chief of the Accountant's Bureau of the Finance Ministry.

If this is put under taxation, there will be an additional tax revenue of 200,000 million to 300,000 million yen, and the tax burden upon the general public can be lightened. The most urgent problem is to levy tax upon this blackmarket income.

(The writer is Socialist member of the House of Councillors. -- Editor)

ITEM 8 REDUCTION OF LOCAL TAX GRANTS SCORED

(Full Translation)

224

AKAHATA, 30 Apr -- The Special Local Distribution Tax Law, which reduces the amount of government tax revenue to be distributed to local governments, passed the House of Councillors on 25 April. TANIGUCHI Zentarō, member of the Local Administrative Committee of the House of Representatives, attacked the law as unconstitutional and

called on a campaign of opposition. TANIGUCHI's statement follows:

"During the war local finance was constantly unstable because the Government was free to increase or decrease the distribution to prefectural governments. Therefore, after the war, it was decided to distribute 33.14 percent (110 billion yen for this fiscal year) of the nation's income taxes and corporation taxes (330 billion yen for this fiscal year) by instituting a local distribution tax law in compliance with the purport of the new Constitution which calls for the establishment of a local self-government system. This percentage should not be changed at the Government's convenience. The Government, however, has reduced the appropriation to 57.7 billion yen (16.29 percent) under the pretense of financial necessities. This measure itself conflicts with the objective of the Local Distribution Tax Law and the Local Finance Law.

"The 'particular necessities' of the nation have been caused by an increase in the price adjustment expenses in accordance with the Dodge suggestion. Vigorous countercampaigns have already been launched because the enforcement of this measure will lead to the total collapse of local finance. For instance, 600 assemblymen of 30 towns in CHIBA Ken, INBA Gun, organized a council of assemblymen. Each member contributes 50 yen a month for campaign funds, and the sum is sent to its secretary bureau. With this fund the group has launched campaigns regarding general local problems.

"In the Diet, even the Social Democrats, Worker-Farmers, Cooperatives, Farmers, anti-Government Democrats, as well as the Communists opposed the special law. Even the Democratic Liberals individually expressed dissent. They voted for the draft bill because they have no determination to oppose the policies of the Yoshida Cabinet. This indicates the fact that the Democratic Liberals themselves will act in concert with other parties in the event local governments rise in opposition to the Government. This is just the time for local governments throughout the country, in cooperation with local democratic groups, to push a bill to safeguard the financial resources of local governments and to win a decisive victory in the fight for tax reforms this year."

ITEM 4 TAX REFORM HELD IMPOSSIBLE TILL NEXT FISCAL YEAR

(Full Translation)

224

TOKYO SHIMBUN, 5 May -- Finance Minister IKEDA called on Chief MARQUAT of the Economic and Scientific Section, GHQ, at the latter's office at 0930 hours yesterday and negotiated on various problems concerning the Shoup mission, which is due to arrive here next week. As a result, it was decided that matters pertaining to the revision of the tax system and the abolition of the Alcohol and Beverage Rationing Public Corporation be left untouched, pending the arrival of the mission.

According to observations by Finance Ministry authorities, it will be necessary prior to embarking upon a drastic revision of tax system, such as the reduction of income tax, to watch the outcome of the execution of the budget for this fiscal year as well as that of tax collections for at least half a year. Hence, it will be impossible to decide upon the tax system reform at the special Diet session to be convened this June or July, as expected by the Government. Moreover, these sources hold that a decision in this respect will not be made earlier than October, and that the enforcement of the tax system revision will presumably be carried over to the next fiscal year.

ITEM 3 IMMEDIATE TAX REFORM HELD DIFFICULT

(Full Translation)

224
 NIHON KEIZAI SHIMBUN, 2 May -- Finance Ministry authorities are rushing the collection of basic data required for the tax system reform which the Government intends to realize upon the arrival in JAPAN of Dr SHOUP. The reform program is expected to include the realignment of the entire tax system in order to adjust national and local taxes as well as the realization of the oft-promised reduction of income tax.

Some Finance Ministry authorities believe that Dr SHOUP will favor a permanent tax system with an eye to a stabilized economy in JAPAN instead of a temporary one applicable only to the immediate future. The enforcement of the new tax system, therefore, may possibly be delayed until after 1950. Controversial points of the tax system reform are as follows:

Reduction in the Income Tax

According to the availability of other revenue sources, the Government intends to reduce the income tax by raising the basic deduction and dependency exemptions and by lowering income tax rates.

As other revenue sources, the Government expects to use the 1948-49 budget surplus and funds gained through price adjustments and by economizing on expenses appropriated in the 1949-50 budget. For this purpose, the Public Finance Law and the Accounting Law were partly revised to restrict the 1949-50 budget expenditures, and, in addition, other control measures are being considered. The amount to be raised through the above measures, however, cannot be ascertained until the latter half of this year.

Moreover, the plan to reduce the income tax by economizing on 1949 expenditures has met with new objections as the Government is forced to cover the increase in import subsidies due to the 360-yen exchange rate by slashing the stabilization goods subsidy.

In addition, the actual results of the 1948 general accounts, now being examined by Finance authorities, will probably not be clarified until June.

The total surplus of the 1948-49 budget is estimated at about 30,000,000,000 yen, including ten billion yen in unspent appropriations, and 15 to 20 billion yen in income tax at the source and sake tax collected in excess. The Public Finance Law, however, states that one half of the surplus shall be transferred to the national bond redemption fund, and the entire surplus cannot possibly be used as revenue source for the tax system reform unless exceptional provisions are introduced. The reduction of the income tax can hardly be expected to materialize under these conditions.

The Adjustment of National and Local Taxes

The previous tax system reforms had not necessarily alleviated the public tax burden since national taxes were decreased while simultaneously increasing local taxes. The Finance Ministry recognizes the inconsistency existing between the national and local tax systems. Adding to the confusion was the 100-percent increase in both the land tax and the house tax effected in the 1949 local finance program.

Numerous non-legalized independent taxes are being instituted as the easiest way to bolster local finance, but this is adding greatly to the local tax burden. Among the approximately 110 types of such taxes are those levied on sewing machines, cattle, gardens, large houses, and lumbering, as well as those on hair-dressing machines, RINTAKU (taxi-bicycle), bath-tubs, mushroom and poultry. These taxes are lately being levied on many items on which business tax is already imposed.

Independent taxes were estimated to yield 1,036,000,000 yen of the 70,228,000,000-yen local tax revenue for 1948 and 1,197,000,000 yen of the 150,000,000,000 yen for 1949. It is hoped that independent taxes will be promptly eliminated because the small revenue they produce fail to justify the numerous maleffects.

ITEM 2 THE TWO SIDES OF TAX COLLECTION (Letter to the Editor)

(Full Translation)

224
 MAINICHI SHIMBUN, 30 Apr -- In his reply to a question raised by Mr KICHISAKA at a round-table meeting discussing the "taxpayers' stand and the taxation policy," as reported in your newspaper dated 17 April, Mr HIRATA, chief of the Taxation Bureau, declared that "Taxes should be collected according to the Tax Law. It's a serious wrongdoing to assess taxes in disregard of the Tax Law on the pretext of shortage of revenue....." Mr HIRATA's statement is proper and true to the point, but is it not strange that his view is not being realized?

I have had an actual experience opposite to Mr HIRATA's statement. Having received a summons, I appeared at the revenue office concerned where I was surprised to hear a revenue officer say, "I do not believe that you actually have conducted such an enormous amount of transactions, but, since we have been allotted a tax collection quota, we have no alternative but to ask you to understand the situation and pay the taxes. If you object, you must expect to have your property attached."

I presume that not only the revenue office to which I am connected, but revenue offices in general are threatening numerous persons in a like manner, driving them to agony.

Should such a great difference be allowed between the remarks of the head of the Taxation Bureau and a subordinate official? We small merchants do not mind leading a life of privation, but we are now in a state of destitution. Everything seems to go black when we realize that we shall be further forced to put up with the Government's contradictory way of doing things.

I ask the Government to study once more the reasons why results of tax collections are not satisfactory. Especially, I beg that the actual situation of tax collection being carried out by lower revenue officials be given special attention.

(TAKAHASHI Sakae, merchant CHIBA Ken)

ITEM 5 GOVT ANTICIPATES TAX EQUALIZATION FROM SHOUP MISSION

(Full Translation)

224
 ASAHI SHIMBUN, 5 May -- The mission headed by Dr Carl S SHOUP, committed to undertake a fundamental reinvestigation of the Japanese tax system, will arrive here on 9 or 10 May. Prof Jerome B COHEN of the City College of New York, who preceded the mission, is now collecting comprehensive data on our tax system in preparation.

Upon the arrival of the entire mission, actual activities will begin, which will mean the opening of the second stage of economic negotiations between GHQ and the Government. The first phase of negotiations ended with the departure of Minister DODGE.

Dr SHOUP, professor of Columbia University, is among the ablest financiers in the UNITED STATES. Senior members of his mission include Prof Howard R BOWEN of the University of Illinois, Professors William S. VICKERY and William G. WARREN of Columbia University, and Prof Stanley S. SURREY of the University of California.

The mission plans to seek the co-operation of government and civilian taxation specialists in JAPAN and to collect objective data, in particular. It will lay emphasis on contact with Japanese financial specialists. Accordingly, the mission will take considerable time before reaching a conclusion on its survey, which is believed will be theoretical.

The Government and the Democratic Liberal Party, failed in fulfilling their public pledges, such as reduction of the income tax and the abolition of sales tax because the budget was drawn up along the lines of the nine economic principles, have hopes of taking up the matter on the occasion of the mission's visit. However, in view of the characteristics of the mission, it is deemed difficult to directly connect the mission with such political objectives as convocation of a special Diet and realization of public promises.

Meanwhile, the Finance Ministry itself recognizes the difficulties in collecting taxes owing to high rates and unbalanced imposition. It is expected that the scholastic study of the mission will result in the rationalization of our tax structure and impartial tax imposition upon the people.

224 In a similar vein, MAINICHI believed that since Dr SHOUP and his mission are in JAPAN at present, the entire financial structure should be renovated, especially that of local finance which has already exhausted all possible revenue sources and is still far short of funds. This vital issue, the daily emphasized, must be attacked vigorously by all circles concerned to put local finance on a sound basis.

18 MAY 224 Aware of both the exceedingly high tax burden and the growing number of tax dodgers, NIHON KEIZAI felt that of the two alternatives--to lower tax rates enough to guarantee honest payment or to lower them and strictly control evasions--the latter is the more plausible solution. The daily ruled out the former because of the collection red tape. Adoption of the latter, it believed, will contribute not only to the prevention of tax evasion but to the promotion of the people's will to pay taxes.

TAXATION

224 The Economic Stabilization Board has underlined the need for revising the tax laws in a report submitted to the Shoup mission. Clarifying its views on the crucial problems of tax collection defects and fixed assets evaluation, the ESB concluded that the present tax system cannot be improved until its legal shortcomings are eliminated. (b)

19 MAY In his recent memorandum to Dr SHOUP, Finance Minister IKEDA was understood to have urged substantial tax cuts. It was believed that he called for as much easing of the people's tax burden as the national economy would permit. (c)

224 JIJI SHIMPO, stressing that a reduction of expenditures is more important than revising the tax system, said that if both central and local governments could cut expenses by one-third, the people's tax burden would be decreased. However, the editorial felt that the tax system should be improved and placed hopes upon the Shoup Mission to realize an effective tax reform. It asked the mission to understand the peculiarities of the nation's economy and carry out reform in accordance with the actual conditions of the country. The Japanese people were also advised to exert efforts to familiarize the group with these peculiarities.

19 MAY 224 The Government is preparing budgetary measures to study social unrest. But Attorney General UEDA emphasized yesterday that this does not mean the establishment of an un-Japanese activities committee. (c)

20 MAY 224 Finance Minister IKEDA was reported to have informally decided on the selection of TAKAHASHI Mamoru, chief of the Hiroshima Revenue Office, as the first director of the National Tax Board. The new board will start functioning on 1 June. (d)

Finance

Referring to Dr SHOUP's first statement to the press since his arrival in TOKYO, SEKAI KEIZAI regretted that the Government had given up all hope of hurdling the many obstacles hindering achievement of a reasonable tax structure and is relying solely on his ingenuity to find an answer. The paper felt along with the American tax expert that tax reform would be useless unless accompanied by a genuine willingness on the part of both the Government and the people to co-operate in rebuilding national finance.

Shoup Mission

274 All editorials commenting on Dr SHOUP's statement on tax reform regarded it as encouraging to the Japanese people. MAINICHI remarked that though the Government and the people recognize the necessity of taxation reform outlined in the Shoup statement, they are indifferent to such conditions. Good administration and co-operation are the crux of a reliable taxation system, the paper asserted but pointed out that what JAPAN needs most is a system which can dispense with elaborate techniques and unusual ability. NIHON KEIZAI placed hopes on the Shoup Mission's research to lighten the tax burden and curtail expenditures. It also saw the need for revenue officials to change their discriminatory attitude and for the people to fulfill their obligation to pay taxes.

YUKAN CHUGAI felt sure that the drastic tax reform will be accomplished satisfactorily since it is being handled by a world-famous tax expert. The daily wanted a reasonable system enforced, if possible, from the latter half of the current fiscal year so that the tax burden may be redistributed evenly. According to HOCHI SHIMBUN, the five goals clarified in the recent statement should be called the "five principles for the tax system." It expected much from the Shoup Mission and told the people to achieve stabilization through full tax payments as soon as possible.

ITEM 6 AG MINISTRY TO ASK SHOUP MISSION FOR FARM TAX CUT

(Full Translation)

224
TOKYO SHIMBUN, 29 May -- The Agriculture-Forestry Ministry has decided to submit a report on the agrarian tax situation to the Shoup Mission through either Minister MORI or Vice-Minister KATAYANAGI early next week.

The report stresses the need for rectifying unreasonable points and discrepancies in the existing agrarian taxes and for adopting an appropriate system. The report also points out that the tax system now practiced in the farm communities, which depend mainly on family labor, has the character of taxation on capital and that this practice is seriously hampering production. Detailed reports on individual items will be submitted later. Salient points of the report follow:

Unlike commerce and industry, the tax-bearing capacity of our farm communities is limited. Moreover, the swollen expenditures of the central and local governments have increased the farmers' tax burden and caused discrepancies. This situation is attributed chiefly to the small farm income, difficulties in evaluating income, numerous local taxes and excessive levy, increased tax burden and the insufficient flow of financial funds to farm communities.

To meet these defects, the following steps are desirable:

A. Lightening of the income tax burden.

1. Allowance of a tax-exemption point for each individual working member of a farm family.

2. Rationalization of the taxation system.

(a) Fair evaluation of taxable income.

(b) Establishment of a committee composed of agrarian representatives and agricultural experts to study tax-gathering and procedure.

(c) Tax exemption for that part of the taxable income to be carried over to the following year.

3. Due consideration to be given to reproduction in calculating necessary expenses (especially in the field of forestry).

B. Local Taxes.

1. Combination of business tax and income tax, with a certain percentage to be automatically appropriated for local finance.

2. Readjustment and creation of miscellaneous taxes to be controlled by the central Government.

3. Stipulations to be made to determine taxable items and fix rates for transactions in farm, forestry, and marine products.

4. Any increase in land taxes to be handled carefully.

5. The practice of compulsory donation in the 6-3 education system and other new systems to be prohibited, and the source of revenue to be rationally adjusted.

ITEM 4 NO DRASTIC CHANGE EXPECTED FROM TAX REFORM

(Full Translation)

224
SEIKEI JOHO, 21 May -- Much is expected of Dr SHOUP in the revision of the current taxation system. However, unless the budget expenditures are cut drastically, a large-scale reduction of taxes cannot be hoped for. Only a partial reduction of the corporation and the income taxes and the adjustment of the national and the local taxes may be all that can be expected.

1. Corporation Tax. In view of the need for inducting foreign investments and accumulating capital, modest reductions can be expected in the current 35 percent tax rate (ordinary income) and the excess income tax rate.

2. Income Tax. Since the earned income tax and the business income tax are too heavy for the national income, the basic exemption and the exemption for dependents may be raised, and the progressive rates revised, but no drastic revision is anticipated. As for the business income tax, it is considered high compared with the earned income tax because the local business tax rate is 15 percent. Therefore, chances are strong that the business income tax will be revised.

The abolition of the transactions tax is impossible, both because of its role as a revenue source and because of the character of the tax itself.

The adjustment of the local and the national taxes is believed to be the crux of the coming taxation reform. In the past, new local taxes were established and rates raised almost at random. It is believed such uncontrolled action will be regulated and friction between the national and the local taxes eliminated.

ITEM 1 TAX REFORM DISCUSSED (Part Two)

(Summary)

224
 YOMIURI SHIMBUN, 22 May 49 -- (The roundtable conference summarized below is the second installment in a series of three articles appearing in this paper. The first installment appeared in this section of the ATIS PT & S, No. 936, 28 May 49. --Editor)

Press: We understand that merchants are willing to record on the books the various blackmarket transactions necessitated by business; but refrain from doing so since the police refuse to recognize such entries.

KITAMURA: Such circumstances probably do exist. The main reason why merchants neglect to list such transactions is that they are inclined to feel the futility of making entries which the tax office will not recognize, especially after a long working day. Some merchants record blackmarket transactions on a separate book, to convince the tax office, but their efforts are of no avail, since there are no receipts for blackmarket transactions to confirm the entries. Current tax rates are inconsistent in that a person with a 1,000,000-yen total income is left with a smaller net income than a person with a 500,000-yen income, after various taxes are deducted.

Tax office chief: Taxpayers should make entries as accurately as possible, and the tax office should give credit to the books in order to enforce effectively the tax declaration system. This is essential in eliminating disputes over tax assessments. There have been many cases, however, where taxpayers' books were rejected because of incomplete entries. The establishment of an effective tax system and mutual co-operation in its enforcement can bring about an ideal tax system in several years. Taxpayers must comprehend the theory behind the present income tax system, an extremely progressive one under which taxpayers calculate their own taxes. We are compelled to make reassessments, much to our regret, because there is always a great difference between declared and actual income. Regarding the issue over taxpayers' organizations raised by Mr TOYODA, it would be making an exception to the principle of tax declaration to consider the opinions of a third party. Although we make it a practice to listen to opinions of reliable taxpayers' organizations, taxpayers should not alter the amount of declaration on the strength of the word of such organizations. The present income tax rates are indeed heavy, especially with the business tax superimposed. Steps should be taken to ease the payment of income tax, and the business tax levy should be re-examined. Under the present tax system, there are no possible instances where a greater total income will result in a smaller net income as long as the calculation is correct.

ITEM 2 HIGH TAXES BLAMED FOR TAX OFFICE CORRUPTION

(Full Translation)

224
 MAINICHI SHIMBUN, 29 May -- Testifying before the Lower House Special Examination Committee, Finance Minister IKEDA on 28 May admitted that high taxes were fundamentally responsible for the recent rash of bribery cases involving taxation offices. The committee, investigating the Urawa and Nakano Taxation Office cases, heard testimony from four persons, including the Finance Minister and YUJI Kinjiro, chief of the Tokyo Financial Bureau, on why so many bribery cases occurred in taxation offices and whether there is anything unreasonable in the present taxation method. Conclusions derived from the testimony are to be reported to the plenary session of the Diet on 31 May after being discussed by the committee.

The Finance Minister testified to the following effect: The amount of taxes is determined by each chief of the financial bureaus in consultation with taxation office chiefs. There is no case of arbitrary assessment by officials. In 1948 there were more than 400 bribery cases involving taxation offices, and this year 60 or more cases have so far been reported. Although the poor quality of officials today accounts for this to a certain degree, the fundamental cause lies in high taxes. The Government will endeavor to take immediate measures for tax reduction.

ECONOMICITEM 1 (Continued)

TOYODA: In my opinion, the imposition of business income tax upon merchants is uncalled for. A tax system which combines both business income and earned income tax into a single tax must be established for smaller businesses.

Tax office chief: Earned income undoubtedly constitutes a portion of any business income. One solution would be to adjust tax rates taking this point into consideration.

TOYODA: Steps should be taken to allow basic deductions on business income similar to those on earned income, and the opinions of representatives of reliable taxpayers' organization should be considered, to enable reasonable assessments.

Tax office chief: The assessment of business income tax solely on the basis of declarations will result in inadequate revenue from this source. Reassessments are, therefore, necessary to equalize the tax burden and to assure the national income. Last year, 90 percent of HOKKAIDO's farmers were assessed the exact amount in their tax declarations, and in some parts of the Tohoku and Hokuriku districts, reassessments were necessary in only five percent of all cases. The above is attributable to the fact that farmers' taxes are simpler to calculate. It is hoped that businessmen will report their income just as accurately.

Press: Mr KUNII, what are conditions like in smaller businesses?

KUNII: The deduction of business tax as business expenses seems impracticable. It was not allowed in tax declarations on 31 January in TOKYO. Authorities must give due consideration to the actual conditions. A recent survey of three tax offices revealed that taxes on persons of identical business status differed according to tax precincts. The fault probably lies in the tax collection ledgers at the tax offices which are classified according to streets instead of occupations. It is at least hoped that persons under the same business conditions will pay the same taxes. The business functions of tax offices should be drastically overhauled to assure equitable taxation, which is more important to taxpayers than the amount of taxes.

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(Full Translation)

224
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Dr. Shoup, Members Of Party Go Down Coal Pit To Ask Miners About Tax Issue.

224
By Takeshi Ito, Staff Writer

OMURA, June 23.—Dr. Carl S. Shoup, head of the Mission bearing his name, and five members went down below the earth and interviewed a mechanic and two miners at the coal face of the Mikawa mine on the second day of their on-the-spot checkup of the current tax situation in Kyushu.

Arriving from Fukuoka at 12.30 p.m., the party forthwith motored to the nation's biggest coal mine—the Mitsui-owned Milke colliery.

After changing into miners' clothes complete with cap-lumps and sticks, they started on mine cars for a 15-minute descent, and walked the rest of the distance for about 20 minutes along the track slanting at 15 degrees, often stooping on their ways due to the low ceiling.

The temperature gradually rose as they went deeper, and by the time the party reached the coal face, the face of every member of the mission, including Dr. Shoup, was sparkling with beads of perspiration that were continually oozing out.

Along the narrow, low ceiling gallery was a belt conveyer leading to the coal face yonder. Here and there the gallery was wet with water dripping from the ceiling, and carpenters were found busy fixing the broken props.

The air now became damp and temperature rose to nearly 100 degrees. The water running along the side ditches produced an eerie sound. Limes were found spread all over the ground, walls and ceiling, indirectly giving the hint that there was dangerous gas developing.

At a point some 300 feet from the coal face, the thin, soft-speaking, bespectacled American tax expert asked a barrage of questions of a half-naked mechanic operating the belt conveyer.

The setting was quite ideal. The actors were superb. No newspaper cameramen could afford to lose such a golden opportunity. Crisscross of flashes followed. And suddenly, one of the cameramen inadvertently dropped a used bulb, which crashed with a "bang." Momentarily, we held our breath. We felt as if a lighted match were thrown into gunpowder but Dr. Shoup only raised his eyebrows and stared sharply at him.

"That's dangerous in a coal mine like this," Dr. Howard R. Bowen, who was standing by, mildly reprimanded the cameraman.

At the coal face 3,200 meters from

the mouth of the shaft were several miners moving about with only G-strings on. Almost half crawling in, flanked by a wall of "black diamonds" and rows of automatic steel props, Dr. Shoup and the members of the mission interviewed the miners for about 15 minutes on questions of income and taxation.

By the time the party came back to the point where mine cars were waiting some 1,500 meters from the main entrance, cool refreshing air that was being pumped in soothed our perspiring skin. Without exception, all raised their hands unconsciously and inhaled eagerly.

"That was a good Turkish bath I had," Dr. William B. Warren, who joined the party at Fukuoka, said jovially as he embarked on a mine car, which brought Dr. Shoup and his staff and the rest of the members of the party out again to the face of the earth.

The members of the Shoup Mission immediately proceeded again to the office of the Mikawa mine and changed their clothes and motored back to the station. They left for Kumamoto late in the afternoon.

MAINICHI JUN 25 1949

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EDITORIAL

Tax Reduction

Or Price Increase?

224

Wide repercussions have been caused by Finance Minister Hayato Ikeda's recent aboard-the-train remarks during his Kansai trip that he hopes to carry out a ¥30-billion to ¥50-billion tax reduction during the current fiscal year.

The general criticism is that this is merely a popularity-seeking move for his Democratic Liberal Party, for there is no evidence available to show that the party which dominates the Government is now really convinced of its ability to carry out the tax reduction despite its bitter experience of having had to shelve this very election pledge.

Another controversial point is how far the desired tax reduction will be approved by the competent authorities. The Shoup investigation activities are still underway and it is highly doubtful whether the Government will be permitted to carry out a tax reduction in the current fiscal year, although a possibility may exist for and after fiscal 1950.

And then again, supposing that substitute revenue is available to enable the Government to carry out the tax reduction, it is yet to be seen if this expected new revenue will cover the reduced taxation or will be used to revive not a few expenditures slashed or canceled at the time of the budget compilation.

Finance Minister Ikeda apparently contemplates securing the substitute income for reduced taxes by saving the price differentials fund which, together with the sum carried forward from the previous fiscal year, will be sufficient to fill a ¥30-billion to ¥50-billion tax reduction gap.

It is irrational that the price differentials fund budgeted at ¥202.2-billion occupies 28 per cent of the total expenditures. It must be our ultimate objective to delete this irrational item from future budgets.

Finance Minister Ikeda's program, therefore, to do without this price differentials fund as far as possible even in the current, instead of in and after the next, fiscal year is theoretically the way further to implement a balanced budget faithful to the Dodge pattern.

However, even this implementation of the Dodge pattern of national budget is conditioned by the fact that there must be no ill effect caused by the use of the price differentials fund.

Needless to mention, there will be a boost in commodity prices if there is no price differentials fund available to offset the difference between producer and consumer prices. The current low price levels of the so-called "stabilization zone" materials and imported food are being maintained by dint of the leverage of this price differentials fund.

If the reaction, therefore, to follow the withdrawal of the price differentials fund is to be offset not by price increases but by the reorientation of enterprises, there must be some "time" before it proves really successful.

And if this time factor be ignored in withdrawing the price differentials fund, the result will be either to necessitate price increases or to coerce unreasonable and suppressive reorientation of enterprises.

The inflation is now apparently at a standstill but is likely to soar again whenever we are off our guard. It is absolutely necessary to maintain the low price horizon at least for several months to come if we are really to conquer inflation. Tax reduction, desirable as it is, will only be a hoodoo if these essential things are not taken into full consideration.

MAINICHI JUN 15 1949

¥60-Billion Available To Cover Tax Cut

TOKYO, June 23.—The Finance Ministry is reported to be now confident of securing a substitute revenue amounting to ¥60-billion to help the Government carry out the contemplated tax reduction in the current fiscal year.

MAINICHI JUN 24 1949

Progress In Economic Rehabilitation:

Tax Collections ¥346,264-Million; Cost-Of-Living Index Is Leveling Off

— 1 — JUN 16 1949

GHQ, FEC, PIO, June 15.—Japanese economic rehabilitation programs, supported by active information projects, have shown marked progress during the fiscal year ended March 31. SCAP's Civil Information and Education Section has informed Military Government information officers in the field.

Data furnished MG officers showed Japan's cost-of-living index is leveling off, and that increases have been made in coal production, reforestation, tax collections and yen savings. The trade union movement has continued to expand, the data indicated, and more farmers are buying their own land.

The information projects supporting these programs were worked out by Japanese government agencies, usually in consultation with CIE's Information Division. They were executed in the prefectures by Japanese officials, assisted by Military Government officers.

Latest available figures show that tax collections totaled ¥346,264-million exceeding the budget es-

timate of ¥316,096-million by approximately ¥30-billion. Taxes attributable to the year 1948-49 continued to be collected during April and May, 1949.

Farmers' deliveries of 1948 staple food crops to the government during the year were the largest since 1944. Deliveries totaled 7,154,000 metric tons, (brown rice equivalents) exceeding the target quota by 10 per cent. This compared with deliveries of 6,280,000 metric tons from 1947 staple food crops which exceeded the 1947 quota by only 1.6 per cent. Staple food collections from the 1948 crop continued through April and May, 1949.

Tobacco sales, an important item on the revenue side of the budget, totaled ¥113,013-million for the fiscal year 1948-49, exceeding the budget estimate of ¥112,184-million by almost one billion yen.

Yen savings for the 12 months ending March 31, 1949, totaled ¥402-billion, or ¥102-billion over the 1948-49 goal, and are credited with being an important factor in slowing down the inflationary trend.

Coal production for the past fiscal year, while approximately one million tons short of the goal, totaled 34,776,700 tons, or 96.6 per cent of the target. The year's production represented an increase of 18.5 per cent over the 29,335,200 tons produced in 1947 and 54.4 per cent increase over the 22,523,000 tons produced in 1946.

According to the Securities Coordinating Liquidation Commission, on April 22, 1949, 112,488 shares of stock formerly owned by the Zaibatsu and other monopoly interests had been sold since the industrial democratization program was started in 1947. Shares sold brought ¥7,723,336,102 and contributed substantially toward providing capital required for the rehabilitation of Japanese industry. Sales through April 22, 1949, represented approximately 38.7 per cent of the total number of shares presently held for disposal.

MAINICHI JUN 16 1949

Shoup Mission In Kyoto

KYOTO, June 29.—Dr. Carl S. Shoup and 10 other members of his taxation mission arrived here from Tottori by train yesterday at 8.50 p.m.

Aboard the train, the members of the mission conferred for about two hours with Masao Kambe, mayor of Kyoto, and Saburo Shiomi, former professor of Kyoto University, on four points centering around local finances, taxes, autonomy, and relations between central and local governments.

MAINICHI JUN 30 1949

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Tax Group Members Leaving On Tours ²²⁴

Shoup And 2 Others To South; 2 To North

United Press

TOKYO, June 17.—Members of the Shoup tax mission are leaving Tokyo, early next week, on tours which will take them to the furthest corners of Japan.

Dr. Carl Shoup, Head of the Mission, together with Dean Howard R. Howen and Dr. Stanley S. Surrey, are scheduled to begin tour of Kyushu and Southern Honshu Monday night.

Two other mission members, Dr. Jerome Cohen and Dr. Rolland Hatfield, will leave for a tour of Northern Honshu and Hokkaido Thursday night. Both groups plan to be back in Tokyo by July 1.

In keeping with their policy of getting down to the "grass roots" level for information on Japan's tax problems, the mission members will interview scores of businessmen, farmers, tax collectors, laborers and prefectural, municipal and village officials.

Dr. Shoup has indicated that the information-seeking phase of his visit to Japan will end by July 10. By that time he feels he will have amassed sufficient data to begin the actual writing of his definitive recommendations on Japan's tax system, which will be submitted to General MacArthur around the middle of August.

Dr. Shoup's itinerary includes visits to Yahata, Fukuoka, Kumamoto, Kagoshima, Oita, Hamada, Tottori, Kanazawa and Nagano.

Dr. Cohen and Dr. Hatfield will visit Morioka, Sapporo, Hakodate, Kakkanai, Akita, Sendai and Yamagata.

MAINICHI JUN 18 1949

EDITORIAL

Eliminate Bad Taxes ²²⁴

With the reform of the taxation system looming before us, we wish to express our desire that the renovation will first of all eliminate irrational taxes—taxes which can be so defined from the angle of commonsense.

First of all, there is the tax on retirement allowance. There is no room to doubt the evil of this tax.

Aside from few cases in which former Government officials on taking up employment in private companies obtain an appreciable amount of retirement allowance for only a few years of bureaucratic service, the majority of recipients of retirement allowance are elderly men who have served for more than 20 to 30 years. They depend upon such allowances to live for the rest of their lives.

Not a small portion of such retirement allowances go to taxes. They unanimously contend that it is hardly possible to differentiate taxable from untaxable retirement allowance.

The fact, however, is that there are numerous regulations and auxiliary regulations for the collection of taxes—such a number of them that it is certainly possible to provide as a matter of principle for exemptions from taxation those retirement allowances which are obtained for continued service of at least 15 years or more.

The taxation on payments received by farmers for their over-quota delivery of staple food crops is no less irrational. Taxation authorities will again contend that it is reasonable to tax these payments three times as much as payments received for the general delivery of crops.

These Government payments to farmers for their extra delivery of crops—as high as around ¥4,500 per bale of rice or in the neighborhood of the blackmarket price in major producing areas—are apparently aimed at preventing farmers from selling their crops on the blackmarket.

It is open to criticism that farmers are in a position to choose between the Government payments for their crop deliveries and the blackmarket proceeds but it will undoubtedly prompt them to sell on the blackmarket if the Government payments are taxed.

There is also the real estate acquisition tax on those who build or buy houses. It is understandable that the sellers are subjected to taxation for such transactions but the actual practice is that the buyers are also taxed.

It seems to be the contention on the part of the taxation authorities that those who can afford to build or purchase a house have means sufficient to bear the tax burden. Most of these people, however, build or buy the house by borrowing funds in order to dispense with the paying of exorbitantly high "guarantee money" for leasing a house or a room because of the stringent housing shortage.

The admission tax as high as 150 per cent is also being imposed without discrimination on both pure amusement presentations and academic events of high cultural or artistic value. In the latter case, the imposition of a 150-per cent admission tax means the virtual prohibition of such events.

If we are really asking too much, there is little hope for the rebirth of Japan into a truly cultured nation.

MAINICHI JUN 25 1949

Shoup Party Making Survey In Kyushu Area

Emphasis Being Placed ²²⁴ On Industrial Workers

By Takeshi Ito, Staff Writer

FUKUOKA, June 22.—In an interview with the Mainichi, Dr. Carl Summer Shoup, head of the Shoup Taxation Mission, and adviser on taxation to the U.S. Treasury Department, today confirmed the report that as to the people to whom the members of the mission interviewed, emphasis varies, more or less, according to regions.

"Here in Kyushu," Dr. Shoup said, "we expect more emphasis will be laid on the industrial workers."

Dr. Shoup arrived here today, at about 3.19 p.m. to look into the current tax situation in Kyushu. He was accompanied by Dr. Howard Rathmann Bowen, Dr. Stanley S. Surry, Rolland B. Hatfield, all members of the Shoup Taxation Mission, Harold Moss, Chief, Internal Revenue Division, and Tom Blakemore, Legal Section, SCAP.

Immediately upon arrival, the party branched into three. Heading the first group, Dr. Shoup proceeded to the Bureau of Internal Revenue, and inquired into such taxation problems as (A) Relation between the National Revenue Office and the Local Tax Office; (B) Evasion of Tax on wine; (C) on Transaction Tax; and (D) Collection of Commodity Tax.

Earlier in the morning, the Shoup Mission began its first survey of the current tax situation in Kyushu at Yahata which is the industrial hub of northern Kyushu.

In the midst of the torrential rain, Dr. Shoup and the members of the mission proceeded to plant No. 2 of the Yahata Steel Mill, and exposing themselves to the intense heat, interviewed the workers at work at the open hearth furnace.

In a fashion reminiscent of his profession, the American tax expert asked a young Japanese assayer as to how much he now actually receives, his family status and the amount of taxes he pays.

When the young man scratched his head at being unable to figure out how much tax is included in an admission fee for the movie, the professor broke into a broad understanding smile.

One of the members of the mission later opined that the Japanese labor is quite salary-conscious, but it is frightfully tragic that they seem to know very little about how much they are paying for taxes.

After having an on-the-spot survey of downtown Fukuoka, early in the morning tomorrow, the Shoup Taxation Mission will leave for Omuta at 10 a.m.

MAINICHI JUN 24 1949

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76 Tax Collectors Nabbed 224

Kyodo
TOKYO, May 29.—The Metropolitan Police Board arrested 76 corrupt tax collectors during the May 6 to 28 period. They were allegedly implicated in bribery and other scandals.

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MAINICHI JUN 1 1949

Finance Minister Ikeda 224
Presents Recommendation

TOKYO, June 9.—Finance Minister Hayato Ikeda has recently presented to Dr. Carl S. Shoup, chief of the United States Tax Mission, a recommendation for reforming the nation's taxation system.

The recommendation, it was learned, points out that the taxes now in force are too heavy in proportion to the national income, and that the way of collecting taxes now contains a number of unreasonable and contradictory points. These defects were claimed as creating social and political confusion as manifested in the anti-tax campaigns and other movements.

MAINICHI JUN 10 1949

224
Cohen, 2 Others Talk
With Japan Experts

TOKYO, June 17.—Inviting Drs. J. Cohen, R. Hatfield and S. Surrey, members of the Shoup Mission, the Japan and Tokyo Chamber of Commerce held a meeting today with Japanese business experts to seek means of improving the current taxation problems.

The Japanese experts answered questions submitted by the mission at the meeting.

It was explained that there were no Certified Public Accountants as yet, and only about 2,500 registered accountants in all authorized by law to handle a public accounting business for a period of 10 years until 1959.

The enforcement of the CPA System is a little premature in Japan, for the public do not have confidence in the character of the CPA and the legal validity of CPA audits.

The officials of the Chamber of Commerce said that there were many steps which may be taken to improve the quality of officers, including:

1. Improved training schools for tax officers.
2. Just administration of reward and punishment.
3. Improvement of tax officers for more efficient and scientific work.
4. Better administration of young tax officers.
5. Elimination of agitation or interference by socially harmful elements in connection with tax payment.

The Japanese admitted that they believe the present rate of most of the taxes was beyond the capacity of the taxpayer, and therefore, by lowering the rate more revenue in the total could be expected.

MAINICHI JUN 18 1949

Quoting press reports that the current downward trend of prices in the United States will result in the reduction of the American aid-to-Japan fund from \$490-million to \$450-million, the Finance Minister prophesied that the difference between the American and Japanese price horizons will soon be narrowed down.

In his later press conference at the Osaka Mint, Finance Minister Ikeda revealed his plan to run an American-Japanese joint capitalized tobacco company in the future. He emphasized that the contemplated plant will produce cigarettes like "Chesterfield."

JUN 3 1949

MAINICHI

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Recommendation Plan
Re Japan Tax Slated

Shoup Mission To Set
About Drafting In July

Kyodo
TOKYO, June 9.—The U.S. Army Department Tax Mission to Japan with Dr. Carl S. Shoup as the head, which has been investigating Japanese tax collection problems, will set about drafting its recommendation plan upon the Japanese tax system early July, it is learned.

In its plan, emphasis will be placed on the following three points, according to the Tax Bureau of the Finance Ministry:

1. Rationalization of taxation rather than its mitigation.
2. Establishment of the mechanism whereby to grasp the real aspects of taxation standards.
3. Re-assessment of assets.

MAINICHI JUN 10 1949

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Finance Minister Sees Need To Ease
Taxation For Better National Living

"Reduction of the tax burden for the people is the first and last key to an easier and better national living," declared Finance Minister Hayato Ikeda to the press on his arrival in Osaka by train Thursday, June 2, at 8.04 a.m. to confer with economic and financial experts in Kansai. Finance Minister Ikeda will proceed from Osaka to Hiroshima to attend the inauguration ceremony of the Hiroshima branch of the Democratic Liberal Party.

He admitted that the expected improvement of the current tax system is a matter of greatest importance to the Government in the immediate

budget, and the new draft budget will be introduced to an extraordinary session of the Diet, Finance Minister Ikeda disclosed.

Speaking on the budget, the Finance Minister went on to say that the current budget which has been formulated with the greatest emphasis laid on balanced national finance is actually such that \$350-billion worth or some one-half of the total budget is being used for subsidy payments and postwar disposal expenses, thus leaving still much to be desired in ironing out "forced" national economy.

"Subsidy payments must be discontinued as soon as possible," Ikeda commented, adding as his personal hope that the subsidies for the next year will be slashed to less than half the amount to be paid this year and that there will be no more subsidy payments in and after 1951.

Finance Minister Ikeda denied the common conjecture that the current tight money market is the outcome of conscious manipulations to such a purpose on the part of the Government. "The situation," he stated, "is due entirely to the fact that the banking circles are in dark as to the prospect of the inflation."

"Private financiers are now too much concerned over the security of their loans to be sufficiently enterprising in monetary investment activities," he opined, further commenting that "private bankers are too pusillanimous."

He warned against depending too much upon the "foreign aid counter-part fund" which, he said, should be mainly used to amortize national debts, thereby enriching the general banking funds.



Finance Minister Ikeda on right.

future. He said Dr. Carl S. Shoup who is now gathering materials extensively for his tax system revision program will complete his survey some time toward the end of August.

When the tax reduction is finally decided upon, it will become necessary for the Government to re-scrutinize the current national

Sweeping Tax Reforms, General Cut In Rates Recommended By Dr. Shoup



Dr. Shoup

Total Taxes Estimated At ¥766-Billion For 1950-51 Compared With ¥785-Billion To Be Levied During Current Fiscal Year

By Peter Kalischer, United Press Staff Correspondent

TOKYO, Aug. 26.—Professor Carl Shoup called for a sweeping Japanese tax reforms program today, which would slightly lower next year's tax rate by a fairer distribution of taxes, encourage honest income declarations and offer special inducements to foreign businessmen.

Shoup warned, however, that the 1950-51 returns would be only a little under this year's and that the anticipated tax reductions were based on expected higher incomes, lower Government expenditures and on rigorous enforcement of tax laws.

Virtually Certain To Be Adopted As Law In Diet

He estimated the proposed tax program would take a "20 to 25 per cent bite" out of Japan's income, but refused to compare it with the American tax burden because of the dissimilarity of the two countries' economies.

The recommendations, proposed by a seven-man mission headed by Shoup, are virtually certain to be adopted as law in the next session of the Japanese Diet.

They called for a lowered tax of 55 per cent on top-bracket yearly incomes of ¥300,000 or over—about \$1,200 at the present exchange rate—and total exemption of incomes of ¥24,000 yearly and under.

The report also asked for a new sliding six per cent "net worth tax" on fortunes over ¥5-million to make up additional revenue and to encourage investments and honest tax declarations.

But it suggested that this tax be applied to foreign nationals "only in exceptional cases and, depending on the degree of encouragement that is desired to be accorded them, they might or might not be exempted entirely...."

Shoup predicted at a packed press conference that this year's income taxes would be reduced by only ¥5-billion depending on how much revenue was raised by increased liquor taxes.

He estimated that the total taxes—national and local—would be ¥766-billion for 1950-51 compared to ¥785-billion for the current fiscal year, a decrease of ¥20-billion.

The Mission recommended:

- 1 That personal income taxes be the major source of national revenue, but that they be reduced for 1950-51 in order to bring in ¥290-billion compared to this year's ¥310-billion—a reduction of ¥20-billion.
- 2 That top-bracket income taxes be 55 per cent of income rather than the present 80 per cent but that a sliding "net worth tax" be placed on fortunes in excess of ¥5-million.
- 3 That the unpopular transactions tax be repealed.
- 4 That the excess profits tax be abolished and that income taxes on corporations be reduced, but that a piecemeal six per cent revaluations tax make up the subsequent loss of revenue from corporations sources next year.
- 5 That gift and inheritance taxes be raised.
- 6 That liquor taxes be raised in order to bring in ¥80-billion next year.

- 7 That no change be made in the tobacco monopoly tax.
- 8 That textile taxes be repealed by March 1, 1950, but that the present 40 per cent silk tax be lowered to 10 per cent at once.
- 9 That commodity taxes which yield ¥27-billion yearly be continued at the same level with minor changes.

The mission report assumed that "the total national Government revenue from taxes in 1950-51 will be ¥576-billion compared with ¥635-billion budgeted for the current year."

The Shoup report stressed that all proposed tax reductions and reforms hinged on greatly improved administration of tax laws.

"Its (the mission's) recommendations for a fair and economically beneficial tax system cannot be of practical significance unless taxpayers are able and determined to enforce the law fully and not arbitrarily," the report said.

The report noted that the 55 per cent tax on incomes over ¥300,000 yearly "should not prove an important barrier" to the activities of foreigners in Japan.

It also recommended that the net worth tax "would apply to foreign nationals only in exceptional cases" and "...they might or might not be exempted entirely from the net worth tax" depending on the amount of encouragement that is desired to be accorded them.

At the local level, the mission recommended that:

- 1 Cities, towns and villages be given additional taxing power to raise revenue from ¥80-billion to ¥120-billion.
- 2 The land and house tax be extended to become a real estate tax.
- 3 Real property acquisition tax be repealed, and that admission taxes be reduced from 150 per cent to 100 per cent.

Yoshida Wishes To Effect Greater Tax Reduction

TOKYO, Aug. 27.—Prime Minister Shigeru Yoshida today issued a statement setting forth his resolve to try to carry out a greater tax reduction than that envisaged in the Shoup recommendations in order to live up to the people's expectations.

The Prime Minister said, adding, "we are grateful to the mission which gave us valuable suggestions on tax revision after three months of strenuous efforts."

28 AUG 1949
MAINICHI

Dr. Shoup Leaves For US

Kyoto
TOKYO, Aug. 27.—Completing his task of recommending a sweeping tax system reform in Japan, Dr. Carl Shoup left Haneda airport for home yesterday at 11.50 p.m. by a U.S. Army plane.

28 AUG 1949
MAINICHI

GHQ Officials Of Shoup-Rec Of Tax System

'Such Important Act Should Not Be Used As Political Football'

By Earnest Hoberock
United Press Manager For J...

TOKYO, Aug. 27.—Allied quarters officials want the J Diet to quickly pass the tax recommended by the Shoup Mission and there may be "dilation" on the part of GHQ Japanese are too slow, sources told the United Press.

High Allied officials expressed opinion that the various political parties would cooperate the proper legislation through the legislative but said if they did not, they be told that such important "sures should not be used as political footballs" at the expense of the people.

Reaction to the Shoup report indicates that the people welcome recommendations and want reforms carried out with few changes.

28 AUG 1949

27 AUG 1949
MAINICHI

GHQ Officials Want Quick Approval Of Shoup-Recommended Reforms Of Tax System By Japanese Diet

**'Such Important Action
Should Not Be Used
As Political Footballs'**

By Earnest Hoberecht
United Press Manager For Japan

TOKYO, Aug. 27.—Allied Headquarters officials want the Japanese Diet to quickly pass the tax reforms recommended by the Shoup Taxation Mission and there may be "direct action" on the part of GHQ if the Japanese are too slow, reliable sources told the United Press today.

High Allied officials expressed the opinion that the various Japanese political parties would cooperate to see the proper legislation speeded through the legislative branches, but said if they did not, they would be told that such important measures should not be used as "political footballs" at the expense of the people.

Reaction to the Shoup reports indicates that the people welcome the recommendations and want the reforms carried out with few, if any, changes.

At the same time, officials in Allied Headquarters are hoping that the reforms—when put into effect—will result in gaining more cooperation from the masses of taxpayers than has been received in the past.

Officials are divided on whether or not such cooperation can be obtained.

Some say that the Japanese lack the necessary "public spirit" to submit honest tax reports.

Foreign businessmen are anxiously awaiting Diet action on the recommendations to see what the attitude will be toward taxing foreign firms.

Bad tax laws have done much to prevent the flow of large quantities of foreign capital into Japan since the end of the war, although it is badly needed here.

If the Japanese really want to benefit by foreign capital, they will have to make their tax structures friendly to foreign firms, it is agreed in foreign circles.

Foreign businessmen also are anxious to see safeguards written into the tax laws to protect firms against arbitrary over-assessments by tax collectors who now are reported to be "shaking down" firms and accepting "presents" on the side.

EDITORIAL

Shoup Program For Tax Reform 224

Professor Dr. Carl S. Shoup who heads the seven-man tax mission to Japan, by announcing the gist of his recommendations on August 26, called for a "sweeping" Japanese tax reform program highlighted by a fairer distribution of taxes, encouragement of honest income declarations plus special inducements to foreign businessmen.

Dr. Shoup and his mission came to Japan on May 10 to lay the foundation for curbing inflation along the line of the basic nine principles for Japan's economic rehabilitation. For this purpose, a stabilized tax system, elimination of inequities from the current tax system, strengthened financial position of local autonomies and improved tax administration were declared necessary.

These are the pivotal points with which we must peruse the Shoup recommendations. For, if, without taking these fundamental points into full consideration, anyone of us should merely seek some intense social policy statement in the tax recommendations, he is almost sure to be disappointed in such an attempt.

From our own viewpoint we applaud the present Shoup recommendations first of all in that they visualize a rational balance between national and local taxes by raising the latter to ¥190-billion in the 1950-51 fiscal year—such rational balancing which seems to be next to impossible with the extant orientation of powers within the Government.

Second, personal income taxes are reduced. Although the exemption from tax on earned incomes is rated down, the raise in the basic tax-free limit and also in the tax exemption margin for dependent (s) undoubtedly relieves the tax burden of the small-income stratum of the people.

And third, income taxes on corporations are lowered with a piecemeal six per cent revaluations tax making up the subsequent loss of state revenue from corporate sources. This will help general management do without running through its business capital and, more positively, accumulate it.

Other than the above three major points, the present Shoup recommendations are worth our favorable criticism in that they repeal textile taxes by March 1, 1950, and reduce the present 40 per cent silk tax to 10 per cent immediately.

The recommended repeal of real property acquisition tax also deserves our appreciation as there is no need to reiterate the evil involved in this tax. Special considerations to be made of income taxes payable from the blind now in practice in the United States also had better be in effect in Japan.

Along with many other points which meet our full consent, there are at the same time some points open to skepticism.

Whether the recommended reduction is really the possible maximum of tax relief for small-incomers, whether the top-bracket income taxes should be restricted to 55 per cent of income instead of the present 80 per cent, and the recommendation of a wealth tax like the property tax insofar as the technique of imposition is concerned are included in this skeptical category.

In our unreserved opinion, the Shoup mission should have paid more attention to the indirect tax system also to be reformed.

Be that as it may, we are well aware that it is really a Herculean task to combat Japan's impoverished economy and carry out tax reductions while assuring the state of necessary tax revenue. We extend our hearty gratitude to all members of the Shoup mission.

28 AUG 1949

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28 AUG 1949 MAINICHI

ITEM 8 REDUCTION IN TAX ITEMS NEEDED

(Summary)

224
TOKYO NICHINICHI SHIMBUN, 24 May -- Everywhere we go we hear nothing but complaints about heavy taxes. Such complaints will probably continue until around August when the Shoup Mission submits its recommendations to General MacARTHUR. But on the other hand, as long as the people request the Government and local public entities for expensive facilities and undertakings, the tax burden will not decrease. This is a patent fact. But the problem lies in what extent the tax burden will be fairly distributed among the people. We have placed much expectations on the Shoup Mission, but we must refrain from entertaining undue expectations.

Because of heavy taxes and partial taxation, the people's demands on the proposed tax revision are many. As one of the demands we would like to comment on the reduction of tax items here. National taxes are confined to less than ten items, but local taxes authorized under the Local Tax Law are imposed on more than 30 items, including the prefectural inhabitant tax, hotel and restaurant business tax, employee tax, etc. Beside these, there are more than 100 items that do not come under the Local Tax Law which are taxed. Taxes on garden, sewing machine, amusement facilities, dog, cattle and horse, domestic animal, piano, radio, typewriter, photograph are only a few examples. Since these taxes are imposed in accordance with the respective special circumstances of the various localities, it is difficult to weigh their merits and faults. It is strange that no local tax is imposed on birth of babies yet.

However, local public entities impose these tax not because they like the idea but because local finance cannot keep up with functions of local administration. Therefore, we not only keenly feel the need for drastic reduction of tax items but also an adjustment between the national tax and the local tax.

ITEM 8 COLLABORATION BETWEEN GOVERNMENT AND PEOPLE

(Summary)

224
KAHOKU SHIMPO (Sendai), 21 May -- The statement of Dr Carl S SHOUP, chairman of the US tax mission to JAPAN, at a press conference on 19 May, is of deep significance to us. He emphasizes that taxation authorities and tax-payers should exert united efforts to expedite the smooth handling of taxation business. The Government officials, fully realizing that they are public servants, should consider everything from the people's standpoint. On the other hand, the people must recognize that Government officials are their representatives, and should collaborate with the Government. The necessity of collaboration between the Government and the people is repeatedly emphasized in various quarters today. Everybody knows that reconstructing JAPAN is the important task of the whole nation, that is, the Government and the people. Nevertheless, the Government and the people are constantly at odds with each other in relation to administrative and political affairs.

One of the causes is that Government officials hold the same dogmatic ideas they held during war-time. While asking the people to co-operate with them, they contemplate forcing the people to follow the course of action mapped out by them. They shape this course not from the people's standpoint, but only in the light of their own convenience. It is natural, therefore, that the people harbor antipathy for the Government.

Another fundamental cause is that the people feel that the Government is set up in opposition to them; and they have no clear sense of State or society. They think that the interests of the Government clash with theirs, and are almost unaware of the fact that they are organically linked to the Government in society and in the nation. Therefore, they consider the problems between individuals and society as those among individuals.

It is superfluous to say that such an idea is a fundamental obstacle to the establishment of democracy as well as co-operation between the Government and the people in the true sense of the word. In order to realize democracy through such co-operation, it is primarily necessary to implant in the people's minds the idea that the Government and the people in combination with each other create an organic body which is called "society" or the "State".

ITEM 24 CONCEPTS OF TAXPAYING AND TAXCOLLECTING

(Summary)

224
NIHON KEIZAI SHIMBUN, 1 Jun -- Large-scale tax evasions are being exposed on the one hand while scandalous bribery and coercion cases involving revenue officials are being reported on the other. Moreover, it is apparent that only persons and corporations guilty of large-scale evasions have been exposed since tax evasions are believed generally widespread. Thus, it is noted that both the taxpayers and revenue officials of today have low concepts of the taxation obligation.

However, if either the taxpaying or the taxcollecting were secured, the issue would not be so fatal. The pity is, however, that both phases of taxation have degenerated. We are aware that unfair tax burdens come from unreasonable stipulations in the current tax laws, but it is also true that most of the present evils can be attributed to inequitable application of the tax laws.

One of the reasons for the low moral sense of taxpayers is the general moral degeneration. The low sense of duty in taxcollection also derives from the inferior caliber of revenue officials and their livelihood difficulties. Basically speaking, however, the too-heavy tax burdens are responsible for this degradation in taxation morals.

From the recent tax evasion case of the Mitsubishi Chemical Co it is evident that if a corporation pays taxes according to the letter of the law, it cannot remain solvent; thus, a corporation, if it endeavors to be healthy, is obliged to evade imposed taxes. This applies not only to this one corporation but to many others as well. Reported scandals connected with the Urawa and Nakano Tax Offices can be traced to the same source. At any rate, a sound taxation system cannot be expected unless the moral sense in connection with taxpayment and taxcollection is raised.

It is natural that lighter taxes should be desired by all circles in face of the tax reform, but there is a limit to the possible reduction in taxation since taxes are assessed to meet the financial need of the state. Despite this plain fact, lighter tax burdens are widely desired because the present taxation is so heavy that it is having vicious effects on the people's economy. In other words, there is serious danger that the present taxation may cripple businesses and oppress the people's living, thus slackening economic activities with the possible result of eventual drying-up of the revenue sources.

At the same time, it is necessary to reduce tax burdens or effect fair tax assessments by educating taxpayers and revenue officials. Establishment of a sound taxation system indeed requires reasonable tax laws, a complete taxcollection structure, and the people's co-operation in taxpayment. Moreover, the taxation system should be so revised as to boost the moral sense of the payers and collectors.

Actually there are various factors that need improvement in the present tax system in which the individual files his own declaration. Briefly, the tax rates should be lowered so that they could be paid without difficulty. Efforts should also be made to train and foster a sense of duty in regard to taxation in place of mere acceptance of tax law revision.

ITEM 1 YOSHIDA VIEWS LIGHTER TAX BURDEN AS CRYING NEED

(Full Translation)

224
TOKYO SHIMBUN, 2 Jun -- With world opinion regarding JAPAN now assuming a favorable turn, the prospects are that a peace conference will be held much earlier than was generally expected, Premier YOSHIDA told yesterday's press conference. The Premier revealed that Dr SHOUP was making satisfactory progress in his investigations of the Japanese taxation system, and that satisfactory progress was also being made with the purge appeals of economic men. He was waiting for a proper time for realization of the envisaged conservative merger, the Premier added.

The following questions and answers were exchanged between the Premier and the newsmen:

Q: Now that the Diet has ended its session, what do you expect of the people?

Premier: What I was most perturbed about during the Diet session was the fact that the representatives were not taking into consideration the present narrow financial conditions. In other words, they dealt with expensive ideas. If that represents the sentiment of the people, I must ask them to look more closely into the existing conditions in JAPAN. If I remember correctly, GLADSTONE said that apparently excellent plans are suggested, but they are foolish plans from the viewpoint of budgets. It was well said. For instance, the establishment of a tourist bureau is an excellent idea, because tourists would get disgusted when they found JAPAN's cities filled with garbage, instead of national treasures. First and foremost, therefore, would be to make available proper facilities for tourists. The establishment of a tourist bureau is, in itself, unimportant.

Q: To what immediate problems is the Government going to pay the greatest attention?

NEWSITEM 1 (Continued)

Premier: Above all, lightening the tax burden of the people by revising the taxation system is the crying need of the moment. To accomplish this, the Government should do everything in its power. If and when labor unrest is removed by lightening the tax burden, people will then be able to devote themselves to production with a light heart. This will bring about an inflow of foreign capital, and various industries will arise. On the other hand, we must effect administrative reform. If the Government rationalizes its administrative structure, and if private industries follow suit, we will be able to put our economy on a sound basis.

Q: Are the investigations and preparations necessary for revision of the taxation system making any progress?

Premier: I read in the newspapers that Dr SHOUP personally visited tea parlors and asked various questions. He is seriously studying existing conditions. The Government is also voluntarily facilitating his investigations by submitting to him various data, through the Finance Ministry. Therefore, I think he is making satisfactory progress in his investigations. Economic reconstruction of JAPAN must be accelerated, and in order to realize this the Government will carry out administrative reform and enforce the budget. In putting the budget into effect, the Government will curtail expenditures as much as possible and lighten the tax burden of the people. The amount thus saved we hope to be able to divert to unemployment relief.

Release of Political Men Will Be Delayed

Q: What are the prospects of releasing businessmen from purge, and what is being done with the appeals of political purgees?

Premier: The Purge Appeals Committee has not yet disclosed its findings. That's why it seems as though its work is at a standstill. The committee has begun working on appeals made by people who are not very prominent, such as village chiefs. The committee is making minute investigations. In fact, members of the committee frequently come to see me about the findings of the committee. As regards businessmen, from the viewpoint of JAPAN's economic reconstruction and expansion of foreign trade, I would like to clear men who can play an important role in increasing production, even if they were nationalists in the past, so long as they did not co-operate with the military. As the Purge Appeals Committee members are working with high spirit, I am sure some results will be seen in the near future. It is easy to prove a robbery, for instance, but it is difficult to show counterevidence. Similarly, it is difficult to disprove that so-and-so was a nationalist, or that he collaborated with the military. You see, the work is very difficult, but I expect the committee's labor will come to fruition very soon. Once the suspicion is removed that we are going to make releases which are favorable to the Democratic Liberal Party, and once JAPAN's economic reconstruction is under way, I will want to get at the problem of release of political purgees, though gradually. I would like to see men released from purge, so that they can contribute to the progress of democracy in JAPAN, if they are really worthy of release and if it is found that they have been purged without justification. This applies even to rival parties.

NEWSITEM 1 (Continued)

Upper House Did Its Best to Meet Government

Q: In the Diet session just ended, the Upper House showed a clear-cut, independent policy toward the Yoshida Cabinet. What do you think is the reason for this?

Premier: I think one of the reasons why the Upper House took this stand was their initial impression that we might ride a high horse, because we had won a majority. However, we were cautious to avoid riding a high horse. In fact, we have refrained from saying what we really wanted to say. I think our attitude was excellent. But, this is our own view. It may be that the Upper House wanted to deal us a blow or two in consideration of an election next year, and there were a few points which we did not appreciate at all. However, most of the Government bills were passed without any important amendments. After all, I think the Upper House did its best to meet us halfway.

Q: What do you say about the discrepancy regarding the number of Japanese repatriates in Soviet territory, as announced by the Soviet Government and the Japanese Foreign Office?

Premier: Adequate information is unavailable, as we have no diplomatic representation abroad, but according to what I was told by SCAP, the 90,000 Japanese are soldiers and do not include civilians. I think that accounts for the discrepancy. We could not get any information from the Soviet representative in TOKYO.

Peace May Arrive Earlier than Expected

Q: At the Council of Foreign Ministers now being held in PARIS, the question of peace with JAPAN has been brought under consideration, while news dispatches say that a peace conference may be held in October. What is the outlook, in your opinion?

Premier: As we have no means of directly confirming such reports abroad, we can only make guesses, based on news dispatches. But, it occurs to me that world opinion regarding JAPAN has undergone considerable change lately. At least, AMERICA's feelings toward JAPAN are now taking a favorable turn. That is said by everybody, and those who have returned to this country from the UNITED STATES confirm this. I was told by Australian representatives that public opinion regarding JAPAN in AUSTRALIA and NEW ZEALAND is changing for the better. In the present confusion in CHINA, nothing can be known about her. But, as the general atmosphere is taking a favorable turn, I think public opinion is now being voiced to the effect that a peace conference should be held as speedily as possible, in order to restore peaceful relations with JAPAN and to enable her to trade with other countries. For these reasons, while we cannot tell whether or not a peace conference will be held in October, it looks as though it will be held much earlier than we had expected.

Difficult to Foresee Trade with China

Q: What will be the psychological effect as a result of the Communist advances in CHINA, and what is the possibility of trade with CHINA?

NEWSITEM 1 (Continued)

Premier: I would like to hear the opinion of the Japanese Communists on the prospects of trading with CHINA, but, as you know, CHINA has continued to trade with foreign countries, even though it is engaged in a civil war. It appears that smuggling is being carried on. However, until the political situation in CHINA is stabilized, I do not think normal trade can be conducted. When a nation is in the throes of a civil war, trade cannot flourish. At present, we cannot tell how far the Chinese Communists will advance, and until the situation in CHINA settles down, we cannot foresee the future.

Yoshida to Wait for Chance for a Conservative Merger

Q: What's being done in connection with the proposed conservative merger?

Premier: Newspapers reported that we had met to discuss a conservative merger, but we know nothing about this. To tell you the truth, we hope that we could merge. Besides, the Democratic oppositionists are not entirely at loggerheads with us regarding principles and beliefs. From the viewpoint of securing confidence abroad, it would be advisable to have industries settle down and to organize a large political party as a stabilizing force. So, there is no question but that a conservative merger is desirable. It would not be in the best interests of the nation for political parties to continue to be divided into small parties by being committed too much to past petty differences and party histories. I do not think the Democrats disagree with us on this point. But it is no use trying to rush matters. So, we are adopting a wait-and-see policy. In fact, we are not doing anything at all.

Q: How are you going to cope with the labor offensive?

Premier: Most of the labor offensives are based upon misunderstandings. Misunderstandings will melt away in time. It will, however, be necessary for us to seek the understanding of the people and of our constituencies by explaining the situation. Our representatives will be returning home following the close of the Diet, and so we will have them explain the sentiment of the Democratic Liberal Party to their constituencies. The Government also wants to seek the understanding of the people by shaping its labor policy.

ITEM 5 TAX POLICIES FOR SMALLER BUSINESS REVIEWED by NAKANISHI Torao

(Summary)

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YUKAN CHUGAI, 28 May -- Tax laws are about to be completely overhauled with the aid of the tax advisory mission which arrived from the UNITED STATES. Tax problems, particularly the present heavy income tax rates, constitute a matter of life and death for smaller business operators. The present tax system is based on the taxpayer's voluntary declaration. Even so, it puts an unreasonably heavy tax burden upon smaller business operators who report accurately on their own business incomes.

Tax rates on annual incomes by the average individual living in the Metropolis with three dependents are given in the following table (in yen):

Amount of Income	Income Tax	Business Tax	Metropolitan Tax	Total	Net Income
50,000	5,333	9,000	2,520	14,853	35,147
100,000	21,301	18,000	3,880	43,181	56,819
150,000	40,785	27,000	6,880	74,665	75,335
200,000	62,786	36,000	13,780	112,548	87,452
300,000	114,236	54,000	21,880	190,116	109,884

The cost of living for a person with five dependents is estimated at 15,000 yen a month or at least 180,000 yen a year.

The Tokyo Tax Bureau reports that the income of the average Metropolitan resident for the 1948 fiscal year is 189,000 yen. Assuming that this data is accurate, the average net income will be a little more than 7,100 yen a month. With this small income, it is virtually impossible to support dependents numbering 4.6 persons on the average. The present exemptions of as low as 15,000 yen or 1,250 yen a month do not allow the average taxpayer to maintain even the lowest level of living. Also, the exemption for each dependent is fixed at as low as 1,500 yen or 125 yen a month. Under such circumstances, a majority of the taxpayers will never want to report accurately on their incomes, no matter what tax authorities order them to do.

The present tax rates must be lowered at any rate to the extent where entrepreneurs can operate business even after tax deductions. Business operators hope that the reassessment on taxes will be made in a more fair and rationalized way when they appeal. A decline in technical ability and the shortage of tax officials are claimed to be responsible for the situation. It is advocated that business operators intensify profit survey agencies of their own and provide more accurate data on their incomes in order to relieve the present inadequate tax system.

The Tokyo Metropolitan Commerce-Industry Guidance Office plans to work out a simple criterion of bookkeeping applicable to all small stores and factories. The lack of funds is a factor annoying taxpayers. Therefore, trade associations of smaller business operators are requested to encourage the accumulation of funds for taxpayments by daily savings or by the taxpayment preparatory deposit.

(The writer is the chief of the Tokyo Metropolitan Commerce-Industry Guidance Office -- Editor).