

DECLASSIFIED

E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

894.5123/1-145--12-3146-47-~~48~~-49

FAR EASTERN COMMISSION
2516 MASSACHUSETTS AVENUE, N. W.
WASHINGTON 8, D. C.

28 August 1946

DIVISION OF JAPANESE AFFAIRS
Transmitted to
AUG 29 1946
DEPARTMENT OF STATE

since
9/30/46

The Honorable Dean Acheson
Acting Secretary of State
Washington, D. C.

My dear Mr. Secretary:

The Terms of Reference of the Far Eastern Commission provide that the Commission "may make such arrangements through the chairman as may be practicable for consultation with the Supreme Commander for the Allied Powers."

DIVISION OF CHINESE AFFAIRS
SEP - 3 1946
DEPARTMENT OF STATE

At the twenty-fourth meeting of the Far Eastern Commission, held at 2516 Massachusetts Avenue, Northwest, Washington, D. C., on 28 August 1946, the enclosed request for consultation with the Supreme Commander for the Allied Powers relative to extraordinary taxation in Japan was unanimously adopted by the Commission.

As Chairman of the Far Eastern Commission, I am forwarding this request to you for transmission, in such form as may be appropriate, to the Supreme Commander.

In adopting the enclosed request for consultation, the Commission agreed that it should be released to the press along with the message from the Supreme Commander to which it has reference (FEC-055/7), a copy of which I am also enclosing for your information. The Supreme Commander has already expressed to me his willingness that any message from him to the Commission might be released to the press, provided that he might have an opportunity to release it at the same time in Tokyo. The Commission, therefore, intends to release both documents forty-eight hours after receipt in Tokyo of the enclosed consultation, so as to give the Supreme Commander time to provide for simultaneous release if he so desires. I would appreciate it if you could make arrangements to notify the Secretary General when the enclosed consultation is dispatched to Tokyo and when it has been received.

Because of the intention of releasing the enclosure to the press, we have not classified it, but I understand that you may desire to make some arrangements to preserve a degree of security in its transmission prior to the time of release.

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Enclosures

Sincerely yours,

Frank R. McCoy

Frank R. McCoy
Chairman

894.5123/8-2846

CS/A

SEP 6 1946

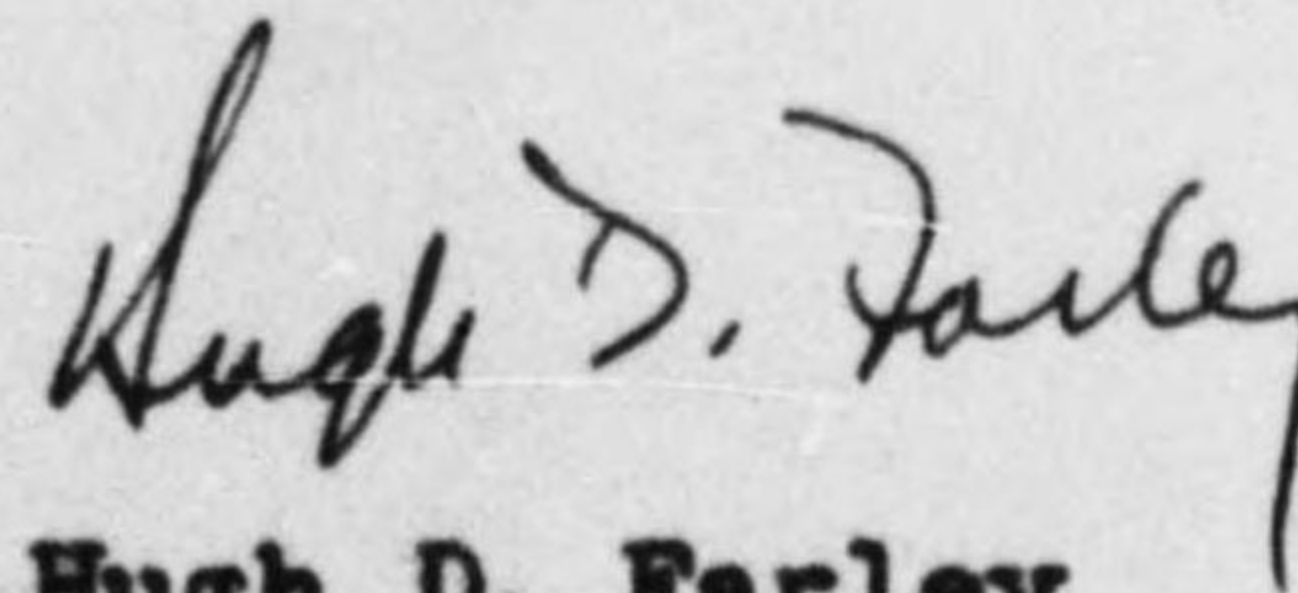
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8-2846

FAR EASTERN COMMISSION
2516 MASSACHUSETTS AVENUE, N. W.
WASHINGTON 8, D. C.

The attached copy of a document unanimously adopted at the twenty-fourth meeting of the Far Eastern Commission, held at 2516 Massachusetts Avenue, Northwest, Washington, D. C., on 28 August 1946, has been compared with the official text and is hereby certified to be correct.



Hugh D. Farley
Acting Secretary General

Washington, D. C.
28 August 1946

ENCLOSURECONSULTATION WITH THE SUPREME COMMANDER
FOR THE ALLIED POWERS RELATIVE TO EXTRAORDINARY
TAXATION IN JAPAN

The Far Eastern Commission requests its chairman to inform the Supreme Commander for the Allied Powers that it welcomes the message from the Supreme Commander on extraordinary taxation [FEC-055/7]. The discussions of the Commission were solely concerned with the possible application to nationals of Members of the United Nations of any such laws; and the Commission appreciates the Supreme Commander's statement that adequate safeguards will be achieved to protect Allied interests.

Handwritten:
CNI-1N 1819
8 August, 1946

SC-016/8

RESTRICTED

FEC-055/7

15 August 1946

FAR EASTERN COMMISSION

INFORMAL COMMUNICATION FROM THE SUPREME COMMANDER
FOR THE ALLIED POWERS RELATIVE TO EXTRAORDINARY TAXATION IN JAPAN

(References: SC-016/5; SC-016/6; C2-003; C2-003/1;
C2-003/2; FEC-055/5; C2-015)

Note by the Secretary General

1. The enclosure, an informal communication from the Supreme Commander for the Allied Powers relative to extraordinary taxation in Japan, submitted by the United States representative, is circulated herewith and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS and to COMMITTEE NO. 6: ALIENS IN JAPAN.
2. The enclosure is referred to Committee No. 6 in connection with the study of SC-016/6, Report of Committee No. 6: Aliens in Japan, on the Question of the Application of Extraordinary Tax Laws to Nationals of Members of the United Nations.
3. The enclosure is referred to Committee No. 2: Economic and Financial Affairs, in connection with the study of C2-015, Claims for Compensation By Japanese War Industries.
4. The attention of members of the Commission is invited to those sections of the enclosure referring to the capital levy, which are related to the Commission's policy decision on Japanese Taxation of Aliens (FEC-055/5), approved 18 July 1946.
5. The attention of all concerned is invited to the classification of this document which prohibits the dissemination of the information contained therein to unauthorized persons or to the press.

NELSON T. JOHNSON
Secretary General

FEC-055/7

RESTRICTEDENCLOSUREINFORMATION RELATIVE TO EXTRAORDINARY TAXATION IN JAPAN

The following message has been received from the Supreme Commander for the Allied Powers with regard to latest plans for extraordinary taxation in Japan:

"Tax Program prepared by Japanese Government after detailed study with guidance by members of this staff includes Capital Levy on individuals only, excluding United Nations Nationals. Concurrent with Capital Levy there is being imposed 100% tax on indemnity claims against the Government growing out of the war. These measures together with guarantee of small deposits and establishment of government finance agencies are designed to effect (a) maximum recapture of war profits; (b) sound reorganization of Japanese Banking System; (c) minimum disruption essential industrial production; (d) imposition of major taxation burden on high income class.

"Above program will be ready for submission to Diet in mid-August and forced introduction of new measures such as (a) increased Property Tax Law and (b) War Profits Tax as imposed on juridical persons would cause serious disruption of organized plans of government for tax collection and create delays detrimental to badly needed programs for essential industrial production and economic stabilization. Above measures were considered and rejected here because of administrative difficulties created in connection with collection processes and because of conviction that results desired can be obtained with greater certainty through present simplified program.

"Adequate safeguards will be achieved here to protect Allied interests. It is urged that Far Eastern Commission be requested not to take formal action on substantive aspects of tax program until opportunity for comment has been accorded to Supreme Commander for the Allied Powers.

"Will forward complete details approved Japanese Tax Program earliest. If adjustments required subsequently by Far Eastern Commission these can be accomplished here after final coordination has been achieved."

28 August 1946

The Honorable Dean Acheson
Acting Secretary of State
Washington, D. C.

My dear Mr. Secretary:

The Terms of Reference of the Far Eastern Commission provide that the Commission "may make such arrangements through the chairman as may be practicable for consultation with the Supreme Commander for the Allied Powers."

At the twenty-fourth meeting of the Far Eastern Commission, held at 2516 Massachusetts Avenue, Northwest, Washington, D. C., on 28 August 1946, the enclosed request for consultation with the Supreme Commander for the Allied Powers relative to extraordinary taxation in Japan was unanimously adopted by the Commission.

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Because of the intention of releasing the enclosure to the press, we have not classified it, but I understand that you may desire to make some arrangements to preserve a degree of security in its transmission prior to the time of release.

Sincerely yours,

Frank R. McCoy
Chairman

Enclosures

ENCLOSURECONSULTATION WITH THE SUPREME COMMANDER
FOR THE ALLIED POWERS RELATIVE TO EXTRAORDINARY
TAXATION IN JAPAN

The Far Eastern Commission requests its chairman to inform the Supreme Commander for the Allied Powers that it welcomes the message from the Supreme Commander on extraordinary taxation (FEC-055/7). The discussions of the Commission were solely concerned with the possible application to nationals of Members of the United Nations of any such laws; and the Commission appreciates the Supreme Commander's statement that adequate safeguards will be achieved to protect Allied interests.

SC-016/8

28 August 1946

The Honorable Dean Acheson
Acting Secretary of State
Washington, D. C.

My dear Mr. Secretary:

The Terms of Reference of the Far Eastern Commission provide that the Commission "may make such arrangements through the chairman as may be practicable for consultation with the Supreme Commander for the Allied Powers."

At the twenty-fourth meeting of the Far Eastern Commission, held at 2516 Massachusetts Avenue, Northwest, Washington, D. C., on 28 August 1946, the enclosed request for consultation with the Supreme Commander for the Allied Powers relative to extraordinary taxation in Japan was unanimously adopted by the Commission.

As Chairman of the Far Eastern Commission, I am forwarding this request to you for transmission, in such form as may be appropriate, to the Supreme Commander.

In adopting the enclosed request for consultation, the Commission agreed that it should be released to the press along with the message from the Supreme Commander to which it has reference (FEC-055/7), a copy of which I am also enclosing for your information. The Supreme Commander has already expressed to me his willingness that any message from him to the Commission might be released to the press, provided that he might have an opportunity to release it at the same time in Tokyo. The Commission, therefore, intends to release both documents forty-eight hours after receipt in Tokyo of the enclosed consultation, so as to give the Supreme Commander time to provide for simultaneous release if he so desires. I would appreciate it if you could make arrangements to notify the Secretary General when the enclosed consultation is dispatched to Tokyo and when it has been received.

Because of the intention of releasing the enclosure to the press, we have not classified it, but I understand that you may desire to make some arrangements to preserve a degree of security in its transmission prior to the time of release.

Sincerely yours,

Frank R. McCoy
Chairman

Enclosures

ENCLOSURECONSULTATION WITH THE SUPREME COMMANDER
FOR THE ALLIED POWERS RELATIVE TO EXTRAORDINARY
TAXATION IN JAPAN

The Far Eastern Commission requests its chairman to inform the Supreme Commander for the Allied Powers that it welcomes the message from the Supreme Commander on extraordinary taxation (PEC-055/7). The discussions of the Commission were solely concerned with the possible application to nationals of Members of the United Nations of any such laws; and the Commission appreciates the Supreme Commander's statement that adequate safeguards will be achieved to protect Allied interests.

SC-016/8

August 30, 1946

MEMORANDUM FOR THE SECRETARY, BWNOG

Subject: Consultation with the Supreme Commander for the Allied Powers Relative to Extraordinary Taxation in Japan

The Far Eastern Commission, acting under paragraph VI of its Terms of Reference, which provides that the Commission "may make such arrangements through the Chairman as may be practicable for consultation with the Supreme Commander for the Allied Powers", requested its Chairman on August 28, 1946 to consult with the Supreme Commander of the Allied Powers on the matter referred to in paragraph I of the enclosure.

A statement of the Chairman of the Commission in reference to the release to the Press of the consultative message and reference telegram from the Supreme Commander is contained in paragraph II of the enclosure.

It is requested that the attached enclosure be forwarded to the Joint Chiefs of Staff for transmission to the Supreme Commander for the Allied Powers.

894.5123/8-2846

OS/A

J. H. Hilldring
State Department Member
State-War-Navy Coordinating Committee

SEP 4 1946

TO: _____
FROM: _____
SUBJECT: _____
DATE: _____
DIST: _____

A true copy of the signed original.

894.5123/

8-2846

Enclosure:

JA:HLory:11b
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SEP 4 1946

ENCLOSURE**CONSULTATION WITH THE SUPREME COMMANDER
FOR THE ALLIED POWERS RELATIVE TO EXTRAORDINARY
TAXATION IN JAPAN**

1. The Far Eastern Commission requests its Chairman to inform the Supreme Commander for the Allied Powers that it welcomes the message from the Supreme Commander on extraordinary taxation (CM-IN 1819, 8 August, 1946). The discussions of the Commission were solely concerned with the possible application to nationals of Members of the United Nations of any such laws; and the Commission appreciates the Supreme Commander's statement that adequate safeguards will be achieved to protect Allied interests.

2. The Chairman of the Far Eastern Commission advises that in adopting the above, the Commission agreed that it should be released to the Press along with the message from the Supreme Commander to which it has reference (CM-IN 1819, 8 August 1946). As the Supreme Commander has already expressed to the Chairman of the Commission that any message from him to the Commission might be released to the press, provided that he might have an opportunity to release it at the same time in Tokyo, the Commission intends to release

both

-2-

documents forty-eight hours after receipt in Tokyo of the above communication. It is requested, therefore, that receipt of this message be acknowledged.

SC-016/8

A true copy of the signed original.

SEP 4 1946

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8/30/46

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FORM DS-322
7-18-46

OUTGOING TELEGRAM

CLASSIFICATION

INDICATE

Collect

Charge Department

Charge to

~~CONFIDENTIAL~~
Department of State

CONFIDENTIAL

Washington
~~CONFIDENTIAL~~
~~CONFIDENTIAL~~

Control 4282

May 20, 1948
1 P.M.

Supreme Commander for the Allied Powers,
Tokyo,

Info: Army Chief of Staff.

¹⁹⁴
For Acting Political Adviser.

Following question raised FEC re taxation in-
come foreign nationals: Does total income of foreign
national i.e. income in yen plus income in non-yen
currency determine bracket on basis of which yen income
is taxed? If so how will law be implemented ref
foreign nationals to be consistent with provision
that non-yen income not taxable under para 3 of SCAPIN
4938-A, Nov 29, 1947?

From cursory survey of Jap Income Tax Law Mar 15,
1947 it appears ~~that~~ total income of foreign national is
subject to taxation and ~~total~~ total income determines
bracket on basis of which income taxed. Comments requested.

894.5123/5-2048

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MAY 20 1948 P.M.

Form DS-302
(7-2-46)

DIVISION OF
COMMUNICATIONS AND RECORDS
TELEGRAPH BRANCH

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DEPARTMENT OF STATE
INCOMING TELETYPE

CONFIDENTIAL
DEPARTMENT OF STATE
file
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NORTHEAST ASIAN AFFAIRS
May 28 1948

~~JAF~~
OFFICE ACTION COPY
FAR EASTERN AFFAIRS
MAY 28 1948
DIRECTOR
Department of State

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Action: FE

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DCR

Control 9470

Rec'd May 28, 1948
9:02 a.m.

FROM: Tokyo

TO: Secretary of State

NO: C-61006, May 28 (Army Message)

FROM SCAP TO STATE DEPARTMENT

REURAD 194, May 20.

Under present Japanese income tax law and application of Paragraph three SCAPIN 4938-A, 29 November, 1947, only yen income level determines income tax bracket rates, as non yen income is not subject to Japanese taxation.

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DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DEPARTMENT OF STATE DIVISION OF SOUTHEAST ASIAN AFFAIRS

DC/R ACTION COPY

REPRODUCTION OF ARMY MESSAGE TO INCOMING TELEGRAM

AUG 11 1949

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TOP SECRET

Action: FE
Info:
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DCR

Office of FAR EASTERN AFFAIRS
AUG 11 1949
DIRECTOR
Department of State

DEPARTMENT OF STATE
Control 4114-755

Rec'd August 10, 1949
Action Assigned to NA

Action Taken Noted - no

State action

Date of Action - Aug 16/49

Action Office Symbol - FE

Name of Officer - [Signature]

Direction to DC/R - file

FROM: SCAP Tokyo Japan
TO: Secretary of State
NO: C 51729, August 1
Serial Number 3.
FROM SHOUP FOR WEST

1. Following tentative decisions have been reached by our tax mission. These decisions cover only part of the field. Later radios will give further decisions.

2. Excess profits tax should be repealed. Vigorous enforcement of corporation tax can make up loss in revenue.

3. Personal income tax should be kept as mainstay of system but personal exemptions should be raised somewhat and some rates decreased to induce better compliance and enforcement. Some revenue loss must be sustained temporarily to break present vicious circle of arbitrary reassessment because tax official knows taxpayer is not filing true income and taxpayer files false return of income because he knows tax official will reassess anyway.

4. Land and house tax should be strengthened.

5. Local finances in general must be strengthened if present local autonomy program is to be effective, as we agree it should be. Present system of distribution tax and subsidies must be overhauled, and some simpler equalization type of grant introduced.

6. Rates of

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TOP SECRET

-2- #C 51729, August 1, from SCAP Tokyo, Japan

6. Rates of personal income tax should be put at levels where the moderately well to do will have incentive to invest and work for top executive posts but on the extremely wealthy the tax rates should be kept high to avoid dangerous concentration of economic power in hands of a few persons. An excellent alternative to these high top rates is a supplementary low rate annual tax on net personal fortune. This tax has been used successfully for many years by Switzerland. We may merely suggest this alternative to Japanese people, leaving this decision to them.

7. Revaluation of corporate assets should be carried through, but under carefully drawn restrictions which we are now formulating.

8. Two revenue programs will be formulated. One will provide for substantially same total central and local revenue as at present. The other will indicate how tax reduction should be allocated if events indicate that any reduction is desirable.

9. Bowen, Cohen, and Surrey departed for United States Wednesday. All next week Hatfield, Vickery, Warren and I shall be in hotel near Nikko reaching final decisions on all points and drafting report. Hatfield leaves for United States August 17th. Warren and I leave August 27th or perhaps earlier. Report will be made public about August 25th. Vickery will stay on for a week or two into September to help get under way plans for implementing the report.

10. Success of the proposed tax reform depends basically on continuation of marked improvement in Japanese tax administration that has been achieved under administrative reforms designed by ESS, Internal Revenue Division, Harold Moss. These reforms have included (A) establishment of professional vertically controlled tax administration headed by tax administration agency an external Bureau of Ministry of Finance separated from all non-tax functions; (B) creation of national tax inspectors to uncover fraud and national tax investigators for

non-fraud

TOP SECRET

TOP SECRET

-3- #C 51729, August 1, from SCAP Tokyo, Japan

non-fraud investigation; (C) creation of national tax supervisors who maintain surveillance over regional and other national tax offices and report to director tax administration agency; (D) national tax personal investigators; (E) special tax procurators. On SCAP side, several experienced tax and monopoly revenue technicians have been brought to Japan, most of them recruited on loan basis from United States Treasury and selected state and local governments. Some were assigned to tax surveillance positions with Eighth Army. Our mission strongly supports these important changes and believes them largely responsible for fact that collections last year exceeded budget goal by 35 billion and collections as of July 10th of this year are 75 per cent ahead of same date last year.

TOP SECRET

EUGENE P. THOMAS, President

WILLIAM S. SWINGLER, Executive Vice President

ROBERT H. PATCHIN, Treasurer

ACTION is assigned to

OFD

NATIONAL FOREIGN TRADE COUNCIL, INC.

TAX COMMITTEE

Chairman:
FELIX DAYTON
International General Electric Co.
Special Counsel
MITCHELL B. CARROLL

1904 111 BROADWAY
NEW YORK 6, N.Y.

July 12, 1949

The Honorable Dean Acheson
Secretary of State
Department of State
Washington, D. C.

Attention: Mr. Frederick Livesey,
Office of Financial and Development Policy
Department of State

My dear Mr. Secretary:

The question has been raised as to whether it is possible to conclude a convention for the avoidance of international double taxation with the present government of Japan, before the Treaty of Peace is concluded. I would appreciate your advising me whether this can be done.

Yours respectfully,

Mitchell B. Carroll

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OFFICE OF FINANCIAL AND DEVELOPMENT POLICY
Meud. to FW. Doherty
OFD: Flinsky 8/24/49
JUL 18 1949
Meud. to FW. Doherty 9/1/49
DEPARTMENT OF STATE
DIVISION OF FINANCIAL AFFAIRS
Letter drafted FW Strong and sent
AUG 24 1949
8-25-49
DEPARTMENT OF STATE
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OCT 28 1949

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EXECUTIVE AGREEMENT SERIES 236

COOPERATIVE WAR EFFORT

DECLARATION BY UNITED NATIONS

Washington, January 1, 1942

AND

DECLARATION KNOWN AS THE
ATLANTIC CHARTER

August 14, 1941



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1942

DEPARTMENT OF STATE
PUBLICATION 1732

DECLARATION BY UNITED STATES

A JOINT DECLARATION BY THE UNITED STATES OF AMERICA, THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND, THE UNION OF SOVIET SOCIALIST REPUBLICS, BELGIUM, CANADA, COSTA RICA, CUBA, DOMINICAN REPUBLIC, EL SALVADOR, GREECE, GUATEMALA, HONDURAS, INDIA, LUXEMBOURG, NETHERLANDS, PANAMA, PARAGUAY, PERU, PHILIPPINES, PORTUGAL, RAGUA, NORWAY, PANAMA, POLAND, SOUTH AFRICA, SWEDEN, SWITZERLAND, TAIWAN, THAILAND, TRINIDAD AND TOBAGO, YUGOSLAVIA.

The Governments signatory hereto,

Having subscribed to a common program embodied in the Joint Declaration of the United States of America and the Prime Minister of Great Britain and Northern Ireland dated August 14, 1941, and the Atlantic Charter. [1]

Being convinced that complete victory is essential to defend life, liberty, independence and justice in their own lands and in other lands, and that they are now engaged in a common struggle against savage and brutal forces seeking to subvert and destroy democracy, they hereby DECLARE:

(1) Each Government pledges itself to cooperate fully and honestly with the others, militarily or economic, against those members of the Axis and its adherents with which such governments are at war.

(2) Each Government pledges itself to cooperate fully and honestly with the others, militarily or economic, against those members of the Axis and its adherents with which such governments are at war, and not to make a separate peace with the enemies.

The foregoing declaration may be added to by any other Government which are, or which may be, rendering military or other substantial contributions in the struggle for victory over the Axis.

Done at Washington
January First, 1942

The United States of America
by FRANKLIN D. ROOSEVELT

The United Kingdom of Great Britain
& Northern Ireland
by WINSTON S. CHURCHILL

¹[P. 4.]

DECLARATION BY UNITED NATIONS:

A JOINT DECLARATION BY THE UNITED STATES OF AMERICA, THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND, THE UNION OF SOVIET SOCIALIST REPUBLICS, CHINA, AUSTRALIA, BELGIUM, CANADA, COSTA RICA, CUBA, CZECHOSLOVAKIA, DOMINICAN REPUBLIC, EL SALVADOR, GREECE, GUATEMALA, HAITI, HONDURAS, INDIA, LUXEMBOURG, NETHERLANDS, NEW ZEALAND, NICARAGUA, NORWAY, PANAMA, POLAND, SOUTH AFRICA, YUGOSLAVIA.

The Governments signatory hereto,

Having subscribed to a common program of purposes and principles embodied in the Joint Declaration of the President of the United States of America and the Prime Minister of the United Kingdom of Great Britain and Northern Ireland dated August 14, 1941, known as the Atlantic Charter. [1]

Being convinced that complete victory over their enemies is essential to defend life, liberty, independence and religious freedom, and to preserve human rights and justice in their own lands as well as in other lands, and that they are now engaged in a common struggle against savage and brutal forces seeking to subjugate the world, DECLARE:

(1) Each Government pledges itself to employ its full resources, military or economic, against those members of the Tripartite Pact and its adherents with which such government is at war.

(2) Each Government pledges itself to cooperate with the Governments signatory hereto and not to make a separate armistice or peace with the enemies.

The foregoing declaration may be adhered to by other nations which are, or which may be, rendering material assistance and contributions in the struggle for victory over Hitlerism.

Done at Washington
January First, 1942

The United States of America
by FRANKLIN D ROOSEVELT

The United Kingdom of Great Britain
& Northern Ireland
by WINSTON S. CHURCHILL

¹[P. 4.]

[E. A. S. 236]

2

On behalf of the Government
of the Union of Soviet Socialist Republics
MAXIM LITVINOFF
Ambassador

National Government of the Republic of China
TSE VUNG SOONG
Minister for Foreign Affairs

The Commonwealth of Australia
by R. G. CASEY.

The Kingdom of Belgium
by C^{te} R. v. STRATEN

Canada
by LEIGHTON McCARTHY

The Republic of Costa Rica
by LUIS FERNÁNDEZ

The Republic of Cuba
by AURELIO F. CONCHESO.

Czechoslovak Republic
by V. S. HURBAN

The Dominican Republic
by J M TRONCOSO

The Republic of El Salvador
by C A ALFARO-

The Kingdom of Greece
by CIMON G. DIAMANTOPOULOS.

The Republic of Guatemala
by:—ENRIQUE LOPEZ HERRARTE.

La Republique d'Haïti
par FERNAND DENNIS.

The Republic of Honduras
by JULIÁN R. CÁCERES

India by
GIRJA SHANKAR BAJPAL.

The Grand Duchy of Luxembourg
by
HUGUES LE GALLAIS

The Kingdom of the Netherlands
A. LOUDON

Signed on behalf of the Govt
of the Dominion of New Zealand
by FRANK LANGSTONE

3

The Republic of Nicaragua
by LEÓN DE BAY

The Kingdom of Norway
by W. MUNTHE M

The Republic of Panama
by JAÉN GUARDIA

The Republic of Poland
by JAN CIECHANO

The Union of South Africa
by RALPH W. CL

The Kingdom of Yugoslavia
by
CONSTANTIN A. I

Government
of Soviet Socialist Republics
NOFF
for
ment of the Republic of China
DONG
for Foreign Affairs
th of Australia
EY.
Belgium
STRATEN
McCARTHY
Costa Rica
NÁNDEZ
Cuba
F. CONCHESO.
public
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NCOSO
El Salvador
ARO-
Greece
. DIAMANTOPOULOS.
Guatemala
UE LOPEZ HERRARTE.
'Haiti
D DENNIS.
Honduras
R. CÁCERES
NKAR BAJPAL.
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GALLAIS
of the Netherlands
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on of New Zealand
LANGSTONE

The Republic of Nicaragua
by LEÓN DE BAYLE
The Kingdom of Norway
by W. MUNTHE MORGENSTIERNE
The Republic of Panamá
by JAÉN GUARDIA
The Republic of Poland
by JAN CIECHANOWSKI
The Union of South Africa
by RALPH W. CLOSE
The Kingdom of Yugoslavia
by
CONSTANTIN A. FOTITCH

**DECLARATION OF PRINCIPLES, KNOWN AS THE ATLANTIC
CHARTER, BY THE PRESIDENT OF THE UNITED STATES
OF AMERICA AND THE PRIME MINISTER OF THE UNITED
KINGDOM, AUGUST 14, 1941**

Joint declaration of the President of the United States of America and the Prime Minister, Mr. Churchill, representing His Majesty's Government in the United Kingdom, being met together, deem it right to make known certain common principles in the national policies of their respective countries on which they base their hopes for a better future for the world.

First, their countries seek no aggrandizement, territorial or other;

Second, they desire to see no territorial changes that do not accord with the freely expressed wishes of the peoples concerned;

Third, they respect the right of all peoples to choose the form of government under which they will live; and they wish to see sovereign rights and self-government restored to those who have been forcibly deprived of them;

Fourth, they will endeavor, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity;

Fifth, they desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic advancement and social security;

Sixth, after the final destruction of the Nazi tyranny, they hope to see established a peace which will afford to all nations the means of dwelling in safety within their own boundaries, and which will afford assurance that all the men in all the lands may live out their lives in freedom from fear and want;

Seventh, such a peace should enable all men to traverse the high seas and oceans without hindrance;

Eighth, they believe that all of the nations of the world, for realistic as well as spiritual reasons must come to the abandonment of the use of force. Since no future peace can be maintained if land, sea or air armaments continue to be employed by nations which threaten, or may threaten, aggression outside of their frontiers, they believe, pending the establishment of a wider and permanent system of general security, that the disarmament of such nations is essential. They will likewise aid and encourage all other practicable measures which will lighten for peace-loving peoples the crushing burden of armaments.

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : L/T - Mr. Whittington
FROM : FN - Gordon Strong *G.S.*
SUBJECT: As attached

DATE: September 15, 1949
LEGAL ADVISER

SEP 16 1949

DEPARTMENT OF STATE

I am referring attached to you as per our telephone conversation. FN agrees that our draft prepared August 25, 1949, should not be sent to Mr. Carroll.

DEPARTMENT OF STATE
L/T
SEP 16 1949
TREATY BRANCH
OFFICE OF THE LEGAL ADVISER

OCR- OFD UNIT

OFD:FN:Strong/mjp

FN 8994.5123/7-12419

In reply refer to
FN 811.513294 Double/
7-1249

My dear Mr. Carroll:

The receipt is acknowledged of your letter dated July 12, 1949 concerning the possibility of concluding a convention for the avoidance of international double taxation with the present government of Japan in advance of a general Treaty of Peace with Japan.

While my initial reaction to this question would be to say "positively no", I believe I should reserve my position until the matter has been thoroughly discussed among qualified persons and agencies. In this connection, I believe the concerned agencies in Washington will have the opportunity of discussing the matter with Dr. Shoup, Head of the Tax Mission in Japan, when, as is expected in the fairly near future, he returns to the United States with his report and recommendations.

If you will bear with me, then, I should like to defer discussion of the matter of a tax convention with Japan until we know what thought may have already been devoted in Japan to the problem.

Sincerely yours,

Frederick Livesey, Adviser
Office of
Financial and Development Policy

Mr. Mitchell B. Carroll,
Special Counsel, Tax Committee,
National Foreign Trade Council, Inc.
111 Broadway,
New York 6, New York.

g.s.
OED:FN:GStrong/mjp
8-25-49
SWD

L/T CP NA

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DEPARTMENT OF STATE

THE LEGAL ADVISER

10/3/49

OFD - Mr. Livesey

I would add the words "prior to
the consummation of a Treaty of Peace"
at the end of page 4.

CS
C. E. Snow

OFFICE OF
FINANCIAL & DEVELOPMENT POLICY

OCT 4 1949

DEPARTMENT OF STATE

DEPARTMENT OF STATE
THE LEGAL ADVISER

September 29, 1949

TO : OFD - Mr. Livesey *file*
THROUGH: L/P - Mr. Snow
FROM : L/T - Mr. Barron *BBB*
SUBJECT: Possibility of concluding a tax convention with Japan.

Reference is made to the letter of July 12 from Mitchell B. Carroll regarding the possibility of concluding a tax convention with Japan and to the memorandum of September 8 addressed by you to FN and FN's memorandum of September 15 to L/T.

The question as presented in Mr. Carroll's letter and as paraphrased in your memorandum involves some rather complex questions as to what constitutes a state with competence to make treaties and the effect of a state of war upon treaty relations.

There is actually no well-crystallized rule of international law which positively precludes the possibility of a country in Japan's situation from concluding treaties, depending perhaps on the character and substance of the treaties. On the contrary, it would appear that one of the pertinent rules is that the treaty-making capacity is possessed by all states, the capacity to enter into treaties being an "attribute of sovereignty". So far as L/T knows, it has not been contended that Japan has lost its statehood; it is true that the Japanese Government's powers of administration and functioning are at present subject to imposed limitations, but apparently Japan remains a state in its broader sense. Any treaty of peace with or in respect of Japan would not create Japan's statehood but would lay

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the base for future relations between that state and other states, returning to Japan, subject to treaty obligations, the full capacity to govern itself as a member of the community of nations.

It would hardly seem possible, therefore, to say with assurance that the state of war which, in a technical sense, continues to exist between the United States and Japan precludes all possibility of concluding certain types of treaties between the two countries. A tax convention deals, of course, with technical and administrative matters and such a treaty between the United States and Japan would be almost exclusively of concern to them and of no direct concern to other countries. In view of that fact, it is reasonable to assume that if certain types of treaties could be concluded between the two countries, a tax convention would be one of those types.

Whether or not the United States would choose to conclude such a convention with Japan in the present situation is another question.

We understand that for some time the position has been taken in the Department that every practicable step should be taken to enable Japan gradually to resume its normal intercourse with the rest of the world, and toward that end the United States Government has supported proposals that Japan be permitted forthwith to become a party to certain international arrangements of a multilateral character, such as the Atlantic City international telecommunication convention, which deals with technical problems involving the allocation and use of radio frequencies and other telecommunication matters. There is no doubt but that, so long as it does not unduly complicate the situation vis-à-vis relations between the United States and other countries, the Department is inclined to encourage the idea that Japan should be permitted to enter into treaty relations with other nations, subject to such limitations as SCAP may deem essential.

On the

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On the other hand, there are probably those who would point out that the United States is committed to the pledge made in the Declaration by United Nations (55 Stat., pt. 2, 1600; Executive Agreement Series 236) reading as follows:

"(2) Each Government pledges itself to cooperate with the Governments signatory hereto and not to make a separate armistice or peace with the enemies."

No doubt it would be pointed out that, in view of that commitment, as well as the fact that this Government and certain other governments have joint commitments with respect to the occupation and control of Japanese affairs pending the conclusion of a peace treaty with or in respect of Japan, the United States should go slowly in taking action which would be construed as establishing a separate peace with Japan.

If a tax convention, or for that matter any formal bilateral treaty, were concluded between the United States and Japan it might be argued that, in effect, the United States had recognized the end of the state of war between the two countries.

All this involves policy determinations outside the province of L/T. L/T is, however, inclined to believe that the conclusion of a tax convention with Japan could give rise to perplexing questions in view of the authority which this Government and other governments exercise over Japanese affairs. As you have intimated in your memorandum, there is reason to believe that it might be impolitic to let the impression gain headway that we were "imposing a tax treaty on Japan under present circumstances". The attitude of the Treasury Department, as you point out, is another factor.

Even, therefore, if we assume that there is no rule of international law that precludes the possibility of concluding such a convention with Japan, consideration will need to be given to the question whether it would be inexpedient and impractical to complicate the international situation by entering into such a convention. The Department

need not,

-4-

need not, of course, enter into a discussion of these matters in replying to Mr. Carroll's letter. You may wish to include in the reply statements along the following lines:

"I have consulted with interested offices of the Department regarding this matter. Apparently there is no fixed rule of international law that would make it impossible for the United States to conclude a tax convention with Japan. Under existing circumstances, however, it is believed to be highly unlikely that this Government would consider it practicable to undertake the conclusion with Japan of a tax convention."

CB
L:L/T:WWhittington:pi

CS
L/P

~~NA~~

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : FN - Mr. Doherty

DATE: September 8, 1949

FROM : OFD - Mr. Livesey

SUBJECT: Is it possible to negotiate a tax treaty with Japan before a peace treaty

I do not like the draft prepared for my signature as a reply to the July 12 letter of Mitchell B. Carroll, Special Counsel, Tax Committee, National Foreign Trade Council, which reads as follows:

"The question has been raised as to whether it is possible to conclude a convention for the avoidance of international double taxation with the present government of Japan, before the Treaty of Peace is concluded. I would appreciate your advising me whether this can be done."

This letter does not ask the Department to review all questions of policy and attitude that might stand in the way of negotiating a tax treaty with Japan before advising Mr. Carroll whether it is possible for the United States to negotiate a treaty with a country legally at war with the United States and having a government with the status that the present Government of Japan has, before concluding a peace treaty with such country. The more reasonable assumption is that prior to committing himself or the Tax Committee to an elaborate study of the situation, Mr. Carroll has passed on the first preliminary question that would be raised, which is a question within the jurisdiction of the Department of State and properly referable to it: namely, if I may suggest a paraphrase:

"Aside from all questions of policy, does the legal fact that the United States is at war with Japan, or does any fact in the special relations of the Government of the United States with the present Government of Japan, preclude all possibility of the United States concluding a tax treaty with the present Government of Japan before the United States concludes a peace treaty with Japan."

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If that preliminary question is answered, the Tax Committee/NFTC can decide whether it wishes to submit further inquiries and suggestions. The Department doesn't have to consider them all before it answers the question.

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FW 894.5123/7-1249

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On grounds of tax treaty policy I would be strongly opposed to imposing a tax treaty on Japan under present circumstances, and I doubt it would be possible to get the Treasury to agree to doing so. The Department is committed to seek liberalizing United States tax legislation in connection with our Point IV program, to negotiate tax treaties with Latin American countries tied in with that program and our other economic treaty programs. Brazil, Colombia, Cuba, all publicly invited, lined up waiting on our doorstep to negotiate tax treaties with us but we are solidly frozen not able to talk to them on account of Treasury indecisions as to policy. Ten or twelve tax treaties will be before the Senate awaiting action next January. We don't want to take on a tax treaty with Japan with priority to our long waiting list with other countries.

Mr. Carroll is now in Germany looking over tax matters there for the NFTC. There is no special hurry to answer him. Ordinarily he talks with me by telephone every week or two reviewing the tax treaty situation and I need only tell him that the Japan matter is stalled in the Department's machinery. However, it would be nice if some qualified person or persons could let me have a little memorandum which might run to the effect that while the circumstances of the present relations between the United States and Japan may not theoretically preclude all possibility of negotiating a tax treaty with that country, the circumstances may be regarded as having that practical effect. I could draft a brief letter of this kind to Mr. Carroll but would need the phrases to be supplied from the legal side, if I am right in supposing that the status of war would justify such a reply independently of the more localized complications of our governmental relations with Japan.

OFD:FLivesey:bmm

OCT 12 1949

In reply refer to
OFD ~~811.51233-Double/~~
~~7-1249~~

My dear Mr. Carroll:

The Department has given careful consideration to your letter of July 12, 1949, inquiring as to the possibility of concluding a tax treaty with the present Government of Japan before a Peace Treaty is made with Japan.

Apparently there is no fixed rule of international law that would make it impossible for the United States to conclude a tax convention with Japan. Under existing circumstances, however, it is believed to be highly unlikely that this Government would consider it practicable to undertake the conclusion with Japan of a tax convention prior to the consummation of a Treaty of Peace.

Sincerely yours,

For the Secretary of State:

DCR-UNIT	
Ancl. <i>[Signature]</i>	Frederick Livesey, Adviser Office of Financial and Development Policy
Rev. <i>[Signature]</i>	
Ch. <i>[Signature]</i>	
Dist. <i>[Signature]</i>	

Mr. Mitchell B. Carroll,
Special Counsel, Tax Committee,
National Foreign Trade Council, Inc.,
111 Broadway,
New York 6, New York.

OFD:FLivesey:bmm 10/10/49

Approved by L/T - Mr. Whittington
L/E - Mr. Snow
(Memo of Sept. 29)

OCT 12 1949 P.M.

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DIVISION OF
NORTHEAST ASIAN AFFAIRS

SEP - 6 1949

DEPARTMENT OF STATE

97,1st floor,
Leighton Hill Rd.,
Hongkong

Far East Committee in Washington D. C.
Washington, U.S.A.

Referred to NA
9/2/49
KCO
SEP 1949
DEPARTMENT OF STATE
No reply
9/7/49

Sir:

Re improper re-taxation

I wish to draw your kind attention to the effect that Japanese tax official imposed me income tax for 1947 repeatedly in spite of having been paid. I have to submit before you the following reasons:-

I had been doing undertaking in 22 3-Chome Kitahama, Higashi-ku Osaka, Japan, in the way of publication. There were three kinds of magazines issued during that time namely "Yellow Gold", "Chuka Paaku" and "Yellow River". The first two magazines were published in Japanese language while the last one in Chinese. Due to shortage on paper, it was afterward stopped from rationing. All fees, such as advertising, subscription, could not be collected. Furthermore, all my properties had been robbed and the undertaking was forced to suspend. Simultaneously, the trading of marine product and preserved stuff, due to the uncareful purchase of my employees, most of the stuff were deteriorated and unwholesome which had finally caused a great detriment to my capital. All this failure of my business were in the year 1947.

Sometime in 1947, I was informed by Osaka Revenue Bureau of Japanese Government at the East Prefecture that my taxation for that year was over ¥360,000.00 which of course, I could not agree and immediately I had to submit my opposition. After this submitting of my opposition, the Chinese Chamber of Commerce in Osaka had a conference with you in regard to this matter. Then I was told to submit my application for the proper amount to be taxed; I had afterward paid more than ¥6,000.- out of my profit of ¥35,000.- from my magazine business.

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I had duly liquidated after my failure in trading and returned to Hongkong. I was again informed by the Japanese tax officer that I must pay over ¥13,000,000.- which, eventually, I disagreed. I had requested Mr. Ku Giok Seng to be my liquidator to file an apposition to the Japanese tax collector, but it was refused.

As I had already left Japan for Hongkong and did not engaged any business, moreover, all my properties were lost, it will be very unreasonable to impose heavy tax on one who was already out of his business field. All the above-mentioned facts can easily be traced out from "Asahi Newspaper of Japan" and "Daily News" as well as other publishers so as to regulate for tax payer for your reference.

Hence, I respectfully appeal to your Supreme Headquarters for sound judgement. Kindly advise the Japanese tax collector to withdraw his order of my retaxation so as to sympathize the difficulty which had confronted me.

I have the honour to be,

Your obedient servant,

San Ki So

(So San Ki)

DECLASSIFIED

E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Far East Committee in Washington D.C.
Washington, U.S.A.





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**THE FOREIGN SERVICE
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United States Political Adviser
for Japan

Tokyo, October 25, 1949.

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Subject: Suggestions Concerning Taxation of Foreign Nationals
Prepared by American Chamber of Commerce in Japan.

The Acting Political Adviser has the honor to refer to this Mission's despatch no. 706 dated October 10, 1949, entitled "Issuance of Report on Japanese Taxation by the Shoup Mission," and to make specific reference to the section in that despatch regarding the reactions of foreign business men to the Shoup tax recommendations.

- 1/ There is now enclosed a copy of a memorandum dated October 4, 1949, entitled "Suggestions Concerning Taxation of Foreign Nationals," the original of which was handed on that date by Mr. Paul AURELL, President of the American Chamber of Commerce in Japan, Tokyo, to Finance Minister Hayato IKEDA. The latter, together with five other officials from the Finance Ministry, were entertained at a dinner given by Mr. Aurell and members of the Chamber's taxation committee appointed to study the Shoup recommendations which effect foreign business men. Also enclosed is a copy of the proposed law, mentioned in the last sentence of Mr. Aurell's memorandum, which would, if approved by the Diet, permit foreign business men to deduct from taxable income a sum not to exceed Yen 2,000,000, equal to \$5,555.56, as expenditure for "support" of their necessary personal establishments in Japan.
- 2/

According to a member of the Chamber's taxation committee, Finance Minister Ikeda indicated that Japanese tax officials had been considering special tax legislation designed to exempt foreigners from certain taxes, or portions thereof, in order to encourage foreign investment in Japan.

- Enclosures: *att*
- 1/ Copy of memorandum dated October 4, 1949, entitled "Suggestions Concerning Taxation of Foreign Nationals";
- 2/ Copy of Draft of Legislation.

Parchment mat to the Department
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RETURN TO DC/R FILES WITHIN 14 DAYS, WITH A NOTATION OF ACTION TAKEN.

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Enclosure No. 1 to Despatch No. 741 dated October 25, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject "Suggestions Concerning Taxation of Foreign Nationals Prepared by American Chamber of Commerce in Japan".

(COPY)

THE AMERICAN CHAMBER OF COMMERCE IN JAPAN
TOKYO

October 4, 1949

Suggestions Concerning Taxation of Foreign Nationals:

Foreign nationals residing in Japan should pay their fair share of the cost of the Japanese government.

We believe, however, that some consideration should be given by the Japanese government, in preparing a permanent tax program, to the results which will occur if proposed Japanese taxes are imposed in full upon foreign businessmen.

It is believed that all foreign businessmen in Japan will pay between 50% and 60% combined income and inhabitant taxes on their incomes if proposed taxes are levied. These taxes are so high that we forecast that the following will result:

First, foreign investment in Japan will be greatly discouraged. Foreign investors will invest only if they can send observers to observe the use of their money, instructors to instruct how to operate their machines, and technicians to insure the use of their money in the most modern method. If the pay of these foreign observers, instructors and technicians is to be taxed between 50% and 60%, as it will be, it will cost so much money to send them to Japan that they will not be sent, and thus foreign investment will be discouraged.

Second, foreign trade of Japan will be discouraged. Imposition of proposed taxes will mean that the businessmen engaged in foreign trade must double their salaries or double their profits if their standard of living is to be maintained. This is not possible. Yet the foreign businessmen now in Japan are accounting for much of Japan's foreign trade. Their presence should be encouraged and not discouraged.

Third, service agencies now indispensable to foreign trade and foreign investment will be discouraged. A foreign bank must nearly double the pay of its foreign employees if it makes up only the difference between Japanese and, for example, United States taxes. Such employees will not remain in Japan if it is not more attractive, financially, to be here than at home. Thus, proposed taxes will discourage the foreign banks, insurance agencies and steamship lines so indispensable to Japanese business today.

Foreign businessmen,

RESTRICTED

Enclosure No. 1 to
Tokyo's Despatch No. 741,
October 25, 1949.

- 2 -

Foreign businessmen, who are usually here for only a few years, have the problem of maintaining establishments at home, arranging for insurance, retirement and education of children, and of providing for occasional residences at home. The proposed taxes will deprive them of the opportunity to meet such problems.

It is apparent that some consideration must be given to the businessman who is here to aid in Japan's recovery. A possible solution is to provide by law:

That foreign nationals actively contributing to Japan's economic recovery be entitled to deduct from their gross incomes, with the approval in each case of the Minister of Finance, their actual expenses of living in Japan, not to exceed ¥2,000,000.00.

A draft of appropriate legislation is enclosed.

/s/
PAUL W. AURELL
President

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Enclosure No. 2 to Despatch No. 741
dated October 25, 1949 from the
United States Political Adviser for
Japan, Tokyo, on the subject "Sug-
gestions Concerning Taxation of
Foreign Nationals Prepared by
American Chamber of Commerce in
Japan".

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(COPY)

DRAFT OF LEGISLATION

ARTICLE I.

This Law is enacted to encourage foreign investment, the develop-
ment of the international trade of Japan and the development of the
tourist travel of foreign nationals within Japan, by providing for
allowances for taxation purposes of certain expenses of foreign
nationals residing in Japan for the purpose of the furtherance of
such programs.

ARTICLE II.

A person, who shall establish to the satisfaction of the
Minister of Finance the facts that he is a foreign national lawfully
in Japan and that he is actively engaged in a trade, profession or
enterprise which shall result in the creation of international trade,
shall positively aid in Japanese economic rehabilitation, or shall
provide a source of foreign exchange for Japan, shall be entitled
to deduct from the gross income of such trade, profession or enter-
prise, in computing his net income for all purposes of taxation,
such amount as he may establish to the satisfaction of the Minister
of Finance as having been expended by him during a taxable year in
the support of his necessary personal establishment in Japan.

ARTICLE III.

No deduction permitted by Article II above shall be allowable
during any taxable year in excess of ¥2,000,000.00.

ARTICLE IV.

This Law shall become effective January 1, 1950.

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DIVISION OF THE FOREIGN SERVICE OF THE UNITED STATES OF AMERICA

DEC 1949
DEPARTMENT OF STATE

[Handwritten signature]

894.5123/11-1749

United States Political Adviser for Japan

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Tokyo, November 17, 1949.

No. 803

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Subject: Revised suggestions concerning Taxation of Foreign Nationals in Japan.

The Acting political Adviser has the honor to refer to this Mission's despatch no. 741 dated October 25, 1949, entitled "Suggestions Concerning Taxation of Foreign Nationals Prepared by American Chamber of Commerce in Japan".

There is now enclosed a copy of a letter dated November 1, 1949, sent to the Japanese Finance Minister by the members of the Taxation Committee of the American Chamber, stating that at a meeting of seven members of that Chamber, together with representatives from the British and Dutch Chambers, it was decided to amend the American Chamber's previous suggestions for legislation providing for tax exemption in Japan for foreign nationals. A copy of the original suggested draft law was enclosed with the reference despatch; Article III of that draft read as follows:

"No deduction permitted by Article II above shall be allowable during any taxable year in excess of Yen 2,000,000.00".

The proposed revision of this Article follows:

"No deduction permitted by Article II above shall be allowable during any taxable year in excess of seventy per cent (70%) of the gross income of any taxpayer, including any such deduction".

As explained in the Taxation Committee's letter, "this change has been made because many foreign nationals receive a part of their income in foreign currency, and we believe it equitable to measure these income

taxes,

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RETURN TO DC/R FILES WITHIN 14 DAYS, WITH A NOTATION OF ACTION TAKEN.

Tokyo's Despatch No. 803,
November 17, 1949.

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taxes, although payable in yen, in the same currency as that in which the income is earned. This is most effectively implemented by making the deduction for the support of one's personal establishment a percentage of income rather than a fixed amount which will not recognize possible fluctuations in exchange as does the present recommendation".

Of interest in connection with the enclosed letter are the following comments on the November 1 meeting of the American Chamber's Board of Governors with the representatives of the British and Dutch Chambers, made by Mr. Bruce AITCHISON, Chairman of the American Chamber's Taxation Committee, at the regular fortnightly meeting of the American Chamber on November 8, 1949:

"The President reported that instead of the regular Board of Governors' meeting a joint meeting with the British and Dutch Chambers was held regarding the tax question. Mr. Aitchison was asked to give a report of that meeting.

"Mr. Aitchison stated that 15 people attended the meeting which was held in Mr. Aurell's office, and exchanged many conflicting views on the Japanese tax situation. It was pointed out that many foreigners, including members of the American Chamber, were not too happy about the initial proposal presented by the Taxation Committee. Mr. Aitchison informed the members that it was a temporary measure to be used as a basis for the Finance Minister who had requested a written statement of position to be used to support his proposals when the tax bill is presented to the Diet. Mr. Aitchison said that some minor changes had been made, but that the only material change made was that instead of recommending that foreign nationals be allowed to deduct cost of living expenses up to 6,000 dollars, they recommended that foreign nationals be allowed to deduct cost of living expenses up to 70% of total income earned in Japan regardless of where paid. Mr. Aitchison informed the members that a four-page written report signed by himself, Mr. Ale and Mr. Aurell had been sent to the Finance Minister."

These comments are extracted from the minutes of the regular meeting of the American Chamber on November 8, as circularized by the executive secretary of the Chamber to all members. It may be noted that Mr. Aurell is President of the Chamber.

According

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Tokyo's Despatch No. 803,
November 17, 1949.

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According to Mr. Aitchison, no reply had been received, as of November 17, from the Finance Ministry in response to the Chamber's letter dated November 1. Asked on that date as to the position taken by the Internal Revenue Division, Economic and Scientific Section, General Headquarters, with respect to the Chamber's recommendations for tax exemption made to the Finance Minister, Mr. Aitchison stated to an officer of this Mission that, in his opinion, the Internal Revenue Division was following a "hands-off" policy with respect to the recommendations.

Asked on November 17 to comment on Mr. Aitchison's interpretation of the position taken by the Internal Revenue Division, Mr. Henry SHAVELL, Deputy Chief of that Division, stated to this Mission's officer that Mr. Aitchison's viewpoint was not altogether correct. Mr. Shavell explained that final approval of any plan for exempting foreigners from Japanese taxation rests with the Internal Revenue Division. He added, however, that in principle the Division would be prepared to give sympathetic consideration to any plan for tax exemption mutually satisfactory to the Chamber and to the Finance Ministry.

Enclosure: 

Copy of letter dated November 1, 1949,
sent to Finance Minister by
Taxation Committee, American
Chamber of Commerce in Japan.

Parchment Mat to the Department

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Enclosure to Despatch No. 803,
November 17, 1949 from the Uni-
ted States Political Adviser for
Japan, Tokyo, on the subject "Re-
vised Suggestions Concerning Tax-
ation of Foreign Nationals in
Japan".

(COPY)

1 November 1949.

To the Finance Minister

Attention: Mr. Ishizaki

At a meeting composed of seven members of the Amer-
ican Chamber of Commerce, three members of the British
Association and two members of the Dutch Association in
Japan held today, it was decided to amend our previous
draft of legislation as follows:

Article III (quote)

"No deduction permitted by Article II above shall
be allowable during any taxable year in excess of seventy
percent (70%) of the gross income of any taxpayer,
including any such deduction".

A revised copy of our proposed legislation is
attached. This change has been made because many for-
eign nationals receive a part of their income in for-
eign currency, and we believe it equitable to measure
these income taxes, although payable in yen, in the
same currency as that in which the income is earned.
This is most effectively implemented by making the
deduction for the support of one's personal establish-
ment a percentage of income rather than a fixed amount
which will not recognize possible fluctuations in
exchange as does this present recommendation.

In regard to cost of living in Japan for foreign
nationals, we have already given you many facts. As one
of our members permanently resident in Japan stated
today, the cost of living in Japan is at least twice
as great as it is in most of our respective homelands.
The cost of trader hotels is well established and may
well be used by the Ministry of Finance as a fair gen-
eral guide for basic living consisting only of food and
shelter for single persons or couples. This figure for
a married couple with no children varies from a minimum
of \$435.00 to a maximum of \$750.00 per month. It must
be emphasized that this is for only food and shelter,
and for foreign residents of the class that can qualify
under Article II for our proposed exemption, normal
living expenses include the following:

1. Hotel expenses or home operating expenses
which include food and shelter
2. Household furnishings (if not living in a
hotel)
3. Clothing

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3. Clothing
4. Servants
5. Sundries and household supplies including laundry, utilities, etc.
6. Transportation - usually automobile
7. Medical and hospital expenses
8. Donations
9. Education of children in Japan or abroad
10. Recreation
11. Transportation when on leave to the homeland
12. Life insurance premium
13. Reasonable saving for retirement

The cost to a foreigner of his residence in Japan depends partly upon his own income and partly upon the general standard of living to which he is accustomed, and a review of living costs in Japan of other nationals as compared with their homeland does not show as great a disparity in many instances as for our members (American nationals). For example, a Chinese or a Korean residing in Japan may well live upon a sum much smaller than the average Japanese. On the other hand, a British subject or an American citizen may be accustomed to a much higher standard of living which would mean that he would spend large sums upon his personal establishment. Likewise, a man with a large income usually will have a greater living expense than a man with a modest income.

We estimate that the average American clerk would probably receive between \$4,000 and \$5,000 yearly in Japan. He would spend all, or nearly all, of this in modest living in Japan. We estimate that the American businessman who lives in modest style (compared with living conditions in the United States) would spend between \$10,000 and \$11,000 annually upon his necessary personal expenses resulting from his business in Japan. He cannot live with his family in any degree of substantial comfort for much less money. Consequently, the lower income group would require the full seventy percent exemption. As the income increases the amount for living would also increase, but would not represent so large a percentage of gross income. In all cases, of course, the amount would have to be substantiated to the satisfaction of the Japanese Taxation Department as provided in Article II.

We are advised by our friends, the British Trade Association and the Netherlands Trade Association, that the living expenses of their nationals in Japan are somewhat lower. For your information, the Netherlands Government allows its businessmen in Japan a very limited

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personal living allowance. The Dutch find that this sum is barely adequate. If they are taxed at all upon this slender allowance, they will be unable to pay a tax and remain in Japan. Thus, business with the Netherlands East Indies will be most seriously harmed.

The British likewise are in a difficult position, for they are allowed only £7 a day for living and office expenses. This \$19.60 per diem allowance is barely adequate when one considers the cost of cables, taxis, office rent and other costs resulting from their Japanese business. Imposition of taxes upon them likewise would tend to repel them from Japan. Neither the British nor the Dutch would be allowed by their respective governments to bring any funds to Japan with which to pay taxes.

We would therefore suggest that the proposed legislation, which the British and Dutch groups agree with us will be realistic and will permit them to remain in Japan, be sought from the forthcoming session of the Diet.

Our recommendations for exempting a portion of the foreign national's cost of living in Japan from taxes merely puts the resident on approximately the same basis as he would enjoy in his homeland. We feel this is the minimum necessary to encourage foreign investment requiring foreign technicians and executives to come to Japan.

We feel that there is a spirit of understanding between the Finance Minister (Mr. Ikeda) and those of us who are working on the problem of an equitable tax structure as affecting foreign nationals who are contributing to the economic recovery of Japan.

We respectfully request that favorable consideration be given to our suggestion which is stated briefly, that actual expenses of living in Japan not to exceed seventy percent of gross income should be granted as an allowable deduction from gross income before applying the effective Japanese tax schedules and that income taxes do not become effective until after one year of residence in Japan.

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TAXATION COMMITTEE
THE AMERICAN CHAMBER OF COMMERCE
IN JAPAN

Bruce Aitchison
Chairman

Frank H. Ale

Paul W. Aurell

cc: British Trade Association
Netherlands Trade Association

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DRAFT OF LEGISLATION

ARTICLE I.

This law is enacted to encourage foreign investment, the development of the international trade of Japan and the development of the tourist travel of foreign nationals within Japan, by providing for allowances for taxation purposes of certain expenses of foreign nationals residing in Japan for the purpose of the furtherance of such programs.

ARTICLE II.

A person, who shall establish to the satisfaction of the Minister of Finance the facts that he is a foreign national lawfully in Japan and that he is actively engaged in a trade, profession or enterprise which shall result in the creation of international trade, shall positively aid in Japanese economic rehabilitation, or shall provide a source of foreign exchange for Japan, shall be entitled to deduct from the gross income of such trade, profession or enterprise, in computing his net income for all purposes of taxation, such amount as he may establish to the satisfaction of the Minister of Finance as having been expended by him during a taxable year in the support of his necessary personal establishment.

ARTICLE III.

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ARTICLE III.

No deduction permitted by Article II above shall be allowable during any taxable year in excess of seventy percent (70%) of the gross income of any taxpayer, including any such deduction.

ARTICLE IV.

This law shall become effective January 1, 1950.

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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DIVISION OF
NORTH AMERICAN AFFAIRS
DEC 20 1949

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Action Assigned to NA
Action Taken no action

AIRGRAM

DEPARTMENT OF STATE
1499

LEGAL ADVISER

FROM: USFOLAD, Tokyo.

Date of Action 12/21/49
UNCLASSIFIED

Action transferred to
DEC 15 1949
NAE sign

Date of mailing: December 13, 1949.

Action Office Symbol NA

DEPARTMENT OF STATE

Rec'd: Dec. 12, 1949 5:14 PM

Name of Officer NA
Secretary of State

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Washington.
A-349, December 9, 1949.

Office of
FAR EASTERN AFFAIRS
DEC 20 1949
DEPUTY DIRECTOR
Department of State

Following news item released December 6, 1949, by Public Information Office, General Headquarters, (U.S.) Far East Command, Tokyo, under heading "Courts Increasingly Severe with Tax Dodgers:"

"Japan's courts are dealing more severely with violators of tax and economic laws, a report made by the Supreme Court to SCAP's Legal Section showed today.

"The Supreme Court said that the Japanese government collected 152,500,000 yen in fines and confiscations during September, and that fines totaling more than 200,000,000 yen were imposed in decisions which became final during the month. The latter represented an increase of approximately 68,000,000 yen over fines levied in August.

"Of the fines imposed in September, 58,000,000 yen was against violators of tax laws, an increase of 45,500,000 yen over August tax fines, and 115,000,000 against violators of economic laws, an increase of 13,500,000 yen over the August figure.

"Concerning the 152,500,000 yen collected, 101,500,000 yen was from black-marketiers and other violators of economic laws, 4,000,000 yen from violators of tax laws, and approximately 22,500,000 yen worth of property through confiscation and sequestration."

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DEC 27 1949
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