

On the Collection and Influence of Income Tax in Sichuan Province during the Anti-Japanese War

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Abstract: In order to broaden the source of finance and expand the government revenue, the National Government implemented the income tax system in Sichuan Province. Though suffered some problems and difficulties, the system made some achievements in stimulating economic development and supporting the Anti-Japanese War.

1. Introduction

Before the outbreak of the War of Resistance Against Japanese Aggression, Sichuan suffered by the confused fighting between warlords for a long time; its economic development was stagnant. The National Government moved westward to Chongqing after the outbreak of the Comprehensive Anti-Japanese War. In order to obtain sufficient resources for the war of resistance, the government must vigorously develop the industrial economy. From 1938 to 1943, the National Government successively implemented economic development programs such as the *Industrial Construction Plan for Southwest and Northwest China (Draft)* and the *Chuan-Kang Construction Plan* to promote the economic construction of Sichuan Province. At the same time, the implementation of income tax by the National Government indirectly broadened the source of finance and expanded the government revenue. [1] The National Government vigorously promoted income tax, which not only unified existing tax revenue to a certain extent and realized the transformation from indirect tax to direct tax, but also made the interest income earners bear certain tax liability. [2]

2. The Construction of Income Tax Collection System in Sichuan during the Anti-Japanese War

2.1 Formulation of Income Tax Collection Policy

First of all, tax collection and audit were separated. Before the implementation of the income tax, the National Government usually authorized the audit organization to collect tax. As a result, some illegal elements took the advantage of their positions to play favouritism; corruption phenomena often happened. In order to better control the situation and prevent the occurrence of corruption, the Ministry of Finance of the National Government clearly pointed out in *Detailed Rules for the Implementation of Provisional Regulations on Income Tax* in 1936 that the Ministry of Finance should be in charge of the collection; the National Bank, companies or local offices should be in charge of inspection, so as to give full play to the internal restraining effect. Secondly, the reward and punishment system based on performance was implemented. In order to better stimulate the initiative of staff in the tax department, the Ministry of Finance clearly stated in Article 30 of *Detailed Rules on Rewards and Punishment of Income Tax* in 1938 that if the withholding of income tax could be completed in accordance with the statutory procedures, the local tax collection authority would provide a reward of 5 % of the total amount of tax withheld. In the same year, various regions in Sichuan province further improved the reward and punishment system based on *Detailed Rules on Rewards and Punishment of Income Tax* issued by the Ministry of Finance and fully considered their own actual situation.

2.2 Selection of Income Tax Collectors

At that time, in order to ensure the smooth work of income tax collection, the National Government attached great importance to the appointment of tax personnel. Examination and training were adopted to select tax collectors. The recruitment of tax personnel is held once a year. Only those who have graduated from senior high school were qualified to participate in the examination and training. After passing the examination, relevant departments organized on-the-job training for these people, and finally selected talents with high quality and assigned them to various regions to occupy corresponding positions.

2.3 Formulation of Income Tax Reporting Procedure

In the new *Detailed Rules of Interim Regulations on Income Tax* in 1936, the Sichuan Government divided the procedures of income tax reporting and payment into three parts: report, investigation and review. First is the income tax reporting procedures. For the first type of income (income from credit and remuneration), the tax payer should report the amount of income to the collection authority in accordance with prescribed format and within the prescribed tax period. For the second type of income (securities and deposit income), within one month after the interest is paid or received, the tax payer should report the income amount to the collection authority in accordance with the prescribed format. Once the tax collection authority found that there were fictitious, concealed or overdue items in reports submitted by tax payers, it would give certain punishment according to the seriousness of situation. For the third type of income (income tax for enterprises with profits), for the first and second category, the taxpayer should report the income amount to the collection authority in accordance with the prescribed format and within one month after the settlement of each year. The third category should be deducted by the paying income authority, and if there was no paying authority, the taxpayer or his agent should pay it by himself.[3] Second, the procedure of income tax investigation and examination was formulated. In 1936, the tax department of Sichuan Province clearly pointed out in the *Provisional Regulations on Income Tax* that the tax collection authority had the obligation to investigate the authenticity, integrity and comprehensiveness of reports submitted by income tax payers. The authority should arrange personnel to conduct investigation in a random manner, determined various income and tax payable according to the investigation, and informed the taxpayer in time. If the taxpayer had any objection after receiving the notice, he or she could submit materials to the authority within 20 days to ask for re-investigation. If there were still objections after the re-investigation, the taxpayer could apply to the review committee for decision within 10 days. For this part of tax, the collection authority should put the money in the bank, and after the review committee made the decision, the collection authority should refund the tax or make up the tax in accordance with the decision. If taxpayers were still not satisfied with the decision of the review committee, they would need to apply for administrative petition or litigation to solve the problem.

3. Progress of Income Tax Collection in Sichuan during the Anti-Japanese War

The progress of income tax collection in Sichuan during the anti-Japanese war can be discussed from following aspects: salary income, interest income from securities and deposits, business income and income from property lease and sale.

First is salary income. During the anti-Japanese war, the National Government issued and implemented the *Provisional Regulations on Income Tax*. Sichuan Province responded positively to the government's call to levy salary income tax from the salaries of civil servants, freelancers and other personnel in all walks of life; the excess cumulative tax rate with 10 levels was adopted. After that, Sichuan province further improved the salary income tax and standardized the format of income tax report and withholding list, so as to facilitate taxation and indirectly meet the needs of wartime finance. In 1943, Sichuan Province officially promulgated and implemented the *Income Tax Law*, which adjusted the initial tax amount and tax rate. The original initial tax amount was increased from 30 yuan to 100 yuan, and the tax rate was adjusted from 10 levels to 17 levels. The

part with 17 levels exceeding 10000 yuan was taxed with 3 yuan per 10 yuan. At the beginning of levying salary income tax, there were some obstacles. In feedback reports of the Sichuan Income Tax Office of the Ministry of Finance to the review committee, difficulties encountered in the process of levying the salary income tax were pointed out. The situation was uneven; some units and individuals delayed to pay it. The main reasons included complicated procedures, excessive tax rate adjustment and personnel changes. However, with the improvement of relevant legal provisions, such phenomena gradually decreased, providing a certain guarantee for the war expenses.

Second is interest income from securities and deposits. During the war, the National Government made clear the income tax on interests of securities and deposits. In *Provisional Regulations on Income Tax*, it was pointed out that the interest of bonds, corporate bonds, deposits and stocks should be subject to income tax, and the tax rate was 50%. In the announcement, the Taxation Office of Sichuan Province also pointed out that all income from deposit interests which belonged to the second category should be taxed at 50% of the income amount in accordance with Article 6, namely and Paragraph 3 of Article 7 of the *Income Tax Regulations* promulgated by the Ministry of Finance, and shall be deducted by the person in charge of the business on his behalf in accordance with Paragraph 4 of Article 27 of the *Detailed Rules*. However, the situation of income tax collection was not optimistic. The income of Chuankang District in Chengdu was 590000 yuan, which was not ideal. In 1943, the National Government reformed and merged the interest income tax on securities and deposits, which mainly included the income from securities issued by the government and savings from state financial institutions, as well as income from securities issued by non-government organizations and savings income from non-state financial institutions. The interest income tax of these two types of securities and deposits was levied at the rate of 5%. After several years of efforts, the interest income tax of securities and deposits gradually stepped on the track; the withholding unit should deduct and pay it on schedule according to the law.

Third is business income tax. During the anti-Japanese war, the *Provisional Regulations on Income Tax* promulgated and implemented by the National Government divided the business income tax area into three categories: A, B and C. Among them, item A includes the business income more than 2000 yuan of companies, factories, trade firms, warehouses or personal capitals; item B refers to income of profit-making enterprises jointly run by the government and businessmen; item C refers to temporary profit-making income. Due to differences in specific business conditions, the progressive tax rate was adopted. However, during this period, the collection of business income tax was not smooth; many taxpayers delayed the payment, and the general environment was not optimistic. In order to carry out the work smoothly, the tax department of Sichuan Province put forward certain requirements to all branches, requiring them to increase efforts. For taxpayers who ignored and hindered the tax collection, the tax collection officials should never treat them with leniency.

Fourth is the income tax of property leasing and selling. At the Eighth Plenary Session of the Fifth Central Committee of the Nationalist Party in 1941, the government decided to expand and improve the direct tax system. The Ministry of Finance proposed contents of income tax on selling and leasing property on the basis of the original salary income, interest income of securities and deposits and business income. Because of the extraordinary period at that time, to resell or rent land, houses, machinery and other properties, the income could double the profit before the war, or even reach thousand times. In this case, there was a suspicion of getting huge profits without labour. Levying the income tax on the sale and leasing of property can not only broaden the channels of financial sources, but also indirectly restrain illegal profiteering, crack down on speculation, and stabilize prices. In 1943, Sichuan Province officially began to implement the *Property Leasing and Sales Income Tax Law* promulgated by the National Government. At the beginning of the tax collection, the National Government gave high expectations to Sichuan Province. In the Sichuan income tax budget with a total income of 1.7 billion yuan, the planned amount of property leasing and sales income tax reached 1.1 billion yuan. This obviously exceeded the actual capacity of Sichuan province, which was difficult to accomplish. Although the Ministry of Finance decided to reduce the original budget from 1.1 billion yuan to 100 million yuan, the actual tax amount reached

50 million yuan, which was very difficult and unreasonable.[4] In order to carry out the work steadily, Sichuan Taxation Bureau paid more attention to the income tax of property leasing and sales in 1943, and laid a solid foundation for the smooth development of tax collection through extensive publicity, detailed investigation, compilation of records and real-time supervision. [5]

4. Problems of Income Tax Collection in Sichuan during the Anti-Japanese War

First of all, the outbreak of the war of resistance against Japan had a huge impact on factory production. Some industries were unable to carry out normal business due to the depletion of capital, and they were unable to bear the tax burden. At that time, the implementation of income tax collection in Sichuan Province would inevitably cause strong repercussion. It was conceivable that some factories and companies did not cooperate with the tax collection. During the war, although the economy of the rear area developed to some extent after the government moved to Chongqing, the tax base was still limited. Secondly, some groups and individuals did not have correct understanding of paying taxes, and felt that paying taxes would damage their own interests. They refused to pay taxes by delaying, pleading, or refusing to pay. What's more, they were against the tax personnel and complained them to relevant departments. Meanwhile, the basic work of accounting needs to be improved. Income tax collection cannot be carried out smoothly without the account books of taxpayers. However, the vast majority of enterprises in the industrial and commercial circles of Sichuan Province still used the old style account books and lacked a unified format, which directly hindered the tax collection. At the same time, some accountants in enterprises had poor comprehensive quality, and were unable to deeply understand and master the accounting and tax knowledge. The profit and loss of that year cannot be accurately reflected in the account books.

5. The Positive Influence and Limitation of Income Tax Collection in Sichuan during the Anti-Japanese War

Although there were many difficulties in Sichuan's tax collection during the anti-Japanese war, some achievements were made. At the beginning of the war, Sichuan province only had 760,000 yuan of tax revenue in 1937, but it reached more than 3 million yuan in 1938 and more than 10 million yuan in 1939. Since 1943, the property leasing income tax was levied, which was 180 million yuan in that year, and the income reached 400 million yuan in 1945. The income tax collection had a great impact on the overall tax work. In addition, the business income tax was not collected until 1942, but between 1942 and 1945, the amount of business tax was far more than other direct taxes, so the status of income tax in supporting the war became increasingly important.[6]

The income tax in Sichuan Province made some achievements, but it also had limitations. First of all, there were many omissions in the formulation and implementation of the tax law. The authority, seriousness and stability of the tax law were poor. The rulers still promulgated some laws and regulations that were not feasible; people did not obey such laws at all. As a result, some laws and regulations became ornament. Even the government itself took the lead in violating the tax law, which indirectly increased the difficulty of income tax collection. Secondly, the cost of income tax collection was too high. [7] During this period, there were some limitations in the tax system of Sichuan Province, such as limited tax collection capacity and high cost. Taking the year 1944 as an example, the tax collection fees of Sichuan Tax Bureau reached 140.25 million yuan, while the annual income was only 286.23 million yuan. The tax fees accounted for half of the income. In some areas, the tax fees were offset with the income. There were also situations that the income could not make ends meet, which was very unreasonable. Finally, the focus of taxation was shifted. The basic principle of paying taxes is to pay taxes on the basis of fairness and rationality according to people's ability. However, due to the influence of the general environment and government policies during the anti-Japanese war, the income tax collection in Sichuan Province was not reasonable and could not treat equally. The originally fair taxes became unfair. The burden of big

owners was lighter, but the burden of ordinary people was heavier.

6. Conclusion

In a word, the achievements of income tax collection in Sichuan during this period were far greater than its limitations. At that time, financial resources which can support the anti-Japanese war were seriously deficient. With the efforts of tax personnel at all levels and the cooperation of citizens, the government obtained a certain amount of financial resources to resist invaders and develop the economy, which provided a certain guarantee for the national development.

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