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COMMENTS ON THE CHINESE TAX SYSTEM

Chou Kuei-t'ang

Under the KMT, more than 20 different kinds of taxes were in use in China. Now that all continental China except Tibet has been completely liberated, the time has come to establish a new tax system.

Tax regulations and principles for four of the 14 tax categories have already been promulgated; these are the commodity tax, industrial and commercial tax, customs tariffs, and salt tax. We will examine below all the tax categories except customs tariffs and the salt tax.

1. Commodity Tax

The new commodity tax law has three special points:

a. Whereas the former national tobacco tax, wine tax, and mine products tax each had its own set of regulations, these now have been combined under the new tax law.

b. In the new tax law, articles subject to commodity taxes are divided into ten general classifications and 44 items. There are 24 more items than formerly. Moreover, canned beverages, Grade B hides, furs, and feathers, cement, first-class building materials, first- and second-grade cosmetics, and other goods have been further broken down into categories. Such things as high-grade silk yarn, hemp yarn, woolen fabrics, canned food, spices, first-grade hides and furs, lacquer, glue, dyes and bleaches, glass utensils, electrical appliances, hardware, clocks and watches, pens, phonographs, bicycles, automobiles, etc., are all industrial articles or good-grade goods not ordinarily used by the common people, and consequently high taxes on them are not a burden. Although cotton goods, wheat flour, soap, marine products, ordinary leather

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goods, ordinary paper goods, tea, vegetable oil, coal, and other items of everyday use are necessities to many people, still the tax rate was reduced only 3-5 percent, which is too small a reduction. Certain agricultural products -- raw silk and native cotton cloth -- are tax exempt. Native tobacco, although a luxury, is considered an agricultural product and the tax rate has been reduced from 60 percent to 20 percent. Machinery for industry is also tax exempt; this is obviously to expand profits in industry.

c. In the new tax laws, the tax rate for tobacco and wine is the highest. It has been increased from 100 percent to 120 percent. The cosmetic tax has been increased from 45 percent to 80 percent. The tax on religious articles has been increased from 60 percent to 80 percent. This not only restricts useless consumption of these articles by the people, but in addition increases the national income, and is exceptionally fair.

Valuable medicines from all provinces of the Northeast, Northwest, and Southwest, as well as fruits, dried lichee, dried longan, muskmelons, lotus seeds, and other items from the Southeast provinces are shipped and sold throughout the country and are properly taxed as a national source of wealth.

The tax on both natural and manufactured commodities which are exported has been rescinded to reduce costs, to encourage foreign trade, and to aid in obtaining foreign currency.

In the past, goods within the country were subject to the commodity tax; those imported from abroad were subject to both the commodity tax and customs duties. Now we must rescind this regulation [i.e., the commodity tax on imported goods] and include such taxes in the customs duties.

2. Industrial and Commercial Taxes

This is a new tax item and is most important, especially in urban areas. Five special points may be noted:

a. In the past, income tax was divided into corporation income tax and merchant (business) income tax, and four kinds of special business taxes. They [the latter four?] have now been unified into one, thus eliminating three taxes.

b. The tax rate is set on a sliding scale for each kind of industrial and commercial enterprise. In general, those enterprises profitable to the country and people must be developed, and are encouraged by light taxes. Important industrial and commercial enterprises had their tax rates lowered by 40-200 percent.

c. State-controlled enterprises, except for special national enterprises, will all be taxed under a single system. Naturally the government wants state-controlled enterprises to meet a fixed financial obligation. At the same time, private industry should not suffer from unequal competition due to tax burdens.

d. Elimination of tax loopholes will insure that all enterprises do their full share in increasing the national income.

e. The new tax collection system has now eliminated the old methods of inspection of records and inventories and has instituted a complete-bookkeeping, declaration system known as the Democratic Deliberation Method [see below]. This method will reduce time and expense.

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3. Income Tax on Wages and Fees

The tax on wage income of employees of private industries, mines, and commercial firms must be increased, but not that on the incomes of employees and teachers in government agencies and schools and state-controlled enterprises. At present, wages are generally figured in terms of rice or millet. Those who receive small incomes, that is, a monthly income of 200 catties or less, are tax-exempt. For incomes of 201 catties and above, the tax begins at one percent, and increases one percent for each additional 50 catties, to a maximum of 6 percent. For convenience in calculating, fractions of less than one-half catty are figured as one-half catty; those between one half and one catty are figured as one catty.

Originally taxes were uniformly deducted from pay at the employer level. Now income is to be reported by the employees themselves. This system of collection must be extended. But in general, because income is not fixed, there are some types of income which are taxed by periodic and cumulative taxes. This is a relatively more complicated procedure and could be changed into a categorized, sliding scale tax.

4. Taxes on Income From Interest

This tax item includes taxes on bonds, company debentures, stocks, and interest from bank deposits. But since the currency is not yet completely stabilized and because of black market profits, people may be encouraged to save more by adopting the tax system used in Shanghai, where the highest rate officially is 5 percent.

At present, a group of industrial and commercial enterprises, especially the latter, often have a higher rate of profit than banking enterprises and take in large sums which they use as capital. This is prohibited by the Banking Administration, but actually there is no way to stop it. Therefore, if the tax rate on interest were heavy -- 20 percent or above -- it might not eliminate such practices, but it would limit them to a comparatively few cases. Since a certain group of industrial and commercial enterprises does not have well-kept accounts and it is difficult to examine their books, an investigation tax could be imposed on them to prevent them from evading taxes completely.

5. Stamp Tax

There are four general classifications of stamp taxes, which include 37 items. The four general classifications are: commercial certificates, production (rights) certificates, occupational certificates, and permits.

In the commercial certificates classification, five items are widely used, but tax evasion is easy. These five are bills of lading, delivery permits, receipts, drafts, and expense accounts. The cost in men and in money needed by the revenue organs to collect this tax in cities with thousands of factories is more than the tax returns. Therefore, for these five items, which require certification, the payments from now on could be made collectively and automatically by each factory over 10-day periods. In this way, the tax payment could be checked for honesty, by comparing it with the business taxes paid but industrial and commercial enterprises, which are evidence of the gross volume of business. From this a stamp tax could be derived. Those businesses which cannot fix the tax by gross amount at each period must still affix stamps as heretofore, to avoid tax evasion. The tax rates for these different certificates may still be regulated as at present.

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6. Inheritance Tax

The amount to be free from inheritance taxes shall be determined according to the financial status of the inheritors. In general, the tax rate will be 3 percent. For inheritances in excess of a fixed amount, there will be a cumulative tax of from 4 to 40 percent. These taxes are to be reported on a voluntary basis.

7. Business Transactions Tax

This tax is already being collected in the North China Administrative Area on livestock, food, cotton, and local cloth, but the other administrative areas make little use of this tax. In many cases the farmers exchange these commodities for items of personal use, so taxation is not appropriate; and, furthermore, these items usually are taxed later as straight commercial goods. Any such taxation system should be set up based on local conditions.

8. Slaughtering Tax

This tax is levied either by the animal or by the weight of the animal. The rate is generally 10 percent, but to avoid excessive slaughter of draft oxen, the rate on beef should be 20 percent. The tax will be collected at the slaughterhouses.

9. Land Tax

Since a farm is taxed according to its produce, this tax should be levied only in urban areas. It will be levied according to assessments to be made in each area. The unit area will be the square shih-chang or the shih-mou. Generally, assessments should be in accord roughly with the Shanghai scale, which does not exceed 7.5 or 10 mils $\sqrt{\text{per unit of area}}$, but some of the larger cities can assess as high as 15 to 30 mils to combat wasteful hoarding of land.

10. Real Estate Tax

These taxes will vary in each area. They should be elastic so as to conform to fluctuations in value and in income. Buildings for personal use should be taxed at a lower rate than those for rental.

11. Special Consumers Taxes

These will include taxes on places of amusement, feasts, refrigerated foods and beverages, and hotels. The taxes will be levied in accordance with the value of the establishment to the nation as a whole. For instance, feasts will be taxed heavily to cut down food wastage, while people's theaters will be taxed lightly to encourage their development.

12. License Taxes

These are to be levied on vehicles and boats. Private vehicles will have a higher tax than commercial vehicles since they are for luxury use. Boats will be divided into power and sail; power boats will be taxed according to tonnage and sailboats according to either size or tonnage.

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According to an analysis of the Northeast and of the Wu-han area, only about 20 percent of the enterprises have well-organized accounting records; the other 80 percent have poor records or none. For this reason, taxes cannot

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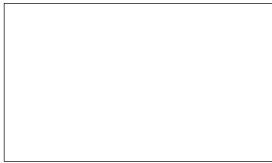


yet be assessed by examining business records, but must be assessed by other means. The most effective system will probably be that of the Deliberation Organization and the Deliberation Method (P'ing-i tsu-chih, p'ing-i fang-shih):

In each city and town, each district will organize Deliberation Organization branches which will be familiar with the people and businesses in each street and area. The personnel from these Deliberation Organizations will work in close cooperation with the tax collection agencies.

There are two types of Deliberation Methods: deliberation in depth and deliberation in width. In the deliberation in depth, each type of enterprise is studied separately and a general assessment is made; then each individual business is studied and assigned a portion of the general assessment. The individual businesses will be divided into small, medium, and large, and taxes will be assessed within these three categories. In the deliberation in width, a city or town is divided geographically, and assessment is made on each separate business without regard to category of industry. A compilation of the results of the two methods is used for the final assessments.

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