

廈門大學圖書館珍藏
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中華民國史史料外編

——前日本末次研究所情報資料

英文史料
第二十六冊

廣西師範大學出版社

AN \$80,000,000

SALT LOAN

JUL 26 1934—N.C.D.N.

The Reform of the Salt
AdministrationISSUE TO BE MADE
ON AUGUST 1

Nanking, July 23.

It is learned that following a special investigation meeting of the finance Committee of the Legislative Yuan in the morning, the Regulations governing the issue of a new \$80,000,000 Salt Loan was formally adopted by the Legislative Yuan at an extraordinary session yesterday afternoon.

Mr. Chang Shou-yung, Political Vice-Minister of Finance, was present at the session to report and answer the interrogatories of the members of the Yuan.

It is understood that the proceeds of the loan will be applied to the reform of the Salt Administration and other urgent fiscal requirements.

The Regulations will be submitted to the National Government Council for consideration and promulgation. According to the Regulations, the loan will be offered for public subscription on August 1.—Kuo Min.

SPECULATION ON ITALY'S INTEREST IN CHINA

JUN 20 1935

N.C.D.N.

Conversations Between Washington Ambassadors
Cause Comment: State Department Cautious

SIR SAMUEL HOARE IS SEEKING FACTS

Preliminary to Considering if Steps Can be Taken:
In Closest Touch with America

NOW that the tension in North China has eased, speculation is supplying much of the news. Yesterday it was the turn to debate the possibility of Italy becoming interested, this being based on a conference between the Chinese and Italian Ambassadors in Washington, and a visit paid by the Italian Ambassador to the Department of State. However, diligent inquiries failed to produce any information from either.

There was a rain of questions in the House of Commons yesterday, but the new Foreign Secretary gave only general answers, except when he replied emphatically that Great Britain was keeping in the closest touch with the United States in connection with developments in China.

SUN CHUAN-FANG NOT INTERESTED IN INDEPENDENCE

Lacks Aspiration to Head
Northern Political Move

FOREDOOMED TO FAILURE
HE BELIEVES

Tientsin, June 19.

Gen. Sun Chuan-fang, one-time warlord of the five central China provinces centring on Shanghai, to-day repudiated the use of his name in handbills and other media of propaganda in connection with an independence movement. His denial of any aspirations to political power was made in the course of an exclusive

Interview with the United Press.

"I am not interested in such proposals, and would not accept leadership of the movement if it were offered to me," he declared. "I think the movement, moreover, is foredoomed to failure. The use of my name is probably part of a Japanese plot designed to instigate those who are dissatisfied with the Nanking Government into stirring up a revolutionary movement, and then substituting another person as head of a puppet regime. I am interested only in deep Buddhist studies, and in the writing of Buddhist books. I shall not return to politics or wars."

Advice to Western Powers

Referring directly to recent events in North China, Gen. Sun said:—"I would advise the Americans and the British to study Japan, which is the most dangerous country. Eventually her greed will turn toward America. Japan and China are both, however, guilty of the events precipitating the

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present situation in the North." —

In official Chinese circles, Gen. Sun's statement is considered of the greatest importance, because of the fact that he is regarded as the only powerful, sincere, and well-known opponent of the Nanking Government and the Kuomintang in North China, who might at present be able to lead a genuine independence movement. Gen. Wu Pei-fu, recently mentioned in connection with a possible independence move, is on the payroll of the Kuomintang, it is pointed out, and Gen. Feng Yu-hsiang, is at present supporting the Kuomintang. Other military chieftains who might ally themselves with an independence campaign are only small fry, Chinese official circles point out. Such leaders might gain power with Japan's support, it is admitted, but they would be unable to gain general support among the Chinese.

Japanese Army's Position

In connection with repeated talk of a possible independence coup, Major-General Kenji Doihara, chief of the Japanese Military Mission in Mukden, told the United Press:—"The Japanese Kwantung Army is not taking any official cognizance of any independence movement. It is difficult to say what the army's position would be if such a movement were established. It would all depend on its policy and its leaders."

Referring to the North China situation in general, Gen. Doihara declared:—"The Hopei province issue virtually is settled. No new demands have been made, nor are any contemplated. Everything looks serene and quiet."—United Press.

MID-WEST FLOODS CLAIM 175 LIVES

Damage in Six States Reaches
\$26,000,000

New York, June 19.

The Middle West, which suffered heavily recently owing to floods and tornadoes, has been flooded again as a result of heavy rains.

Unofficial estimates put the death toll due to the latest inundation at 175, including 106 in Nebraska.

Damage to property is estimated at \$26,000,000 in the affected area, which embraces Nebraska, Texas, Oklahoma, Colorado, Wyoming and New Mexico.

The flood waters are now receding.
—Reuter

THREATS TO ASSASSINATE ONTARIO PREMIER

Toronto, June 18.

It was reliably reported here to-day that the Premier, Mr. Hepburn, is being heavily guarded, as a result of

assassination threats received within the past few days.—United-Press.

Washington, June 18.

No new information warranting comment had been received concerning the Sino-Japanese situation, said the Secretary of State, Mr. Cordell Hull, in a statement here to-day. It is understood that the varying reports from Tokyo, Nanking, and London are serving to increase the caution of the State Department in considering what diplomatic moves, if any, might be made.

A conference on the situation was held to-day between the Italian Ambassador and the Chinese Ambassador, Dr. Alfred Sze.—Reuter.

Italian Interest

Washington, June 19.

Considerable curiosity has been aroused by yesterday's visit to the offices of the United States Department of State of Count Rosso, the Italian Ambassador to America. Questioned as to whether he had learned anything new on the Sino-Japanese question, Count Rosso refused to answer. He confined himself to the simple statement that the visit had been made on his own initiative.

Dr. Alfred Sze, the Chinese Ambassador to the United States, made a similar call yesterday, but would give no explanation of his purpose nor the results of his conversations.—Havas.

Questions in Commons

London, June 19.

The Sino-Japanese situation in North China was the subject of questions in the House of Commons to-day. Capt. C. Erskine-Bolst, Conservative Member for Blackpool, asked whether, in view of developments in China producing serious repercussions on the peace and security of the world, the Foreign Secretary would consider what steps could be taken in conjunction with other Powers to minimise the constant infraction of treaties which was now occurring in the Far East.

Sir Samuel Hoare replied:—"I am inquiring about the facts, and, until they have definitely been established, I am not in a position to consider anything further."

Mr. Morgan Jones, Labour Member for the Caerphilly division of Glamorgan, inquired whether Britain was keeping in the closest touch with the United States in connection with developments in China.

"Yes, certainly," was the reply of the Foreign Secretary.

In answer to a question by Major Henry Procter, Conservative Member for Accrington, Sir Samuel Hoare said the Government was under no obligation in the matter of Chinese integrity, except in connection with the Covenant of the League of Nations and the Nine-Power Treaty.

Mr. Tom Williams, Labour Member for the Don Valley of Yorkshire,

desired to know whether Britain, as a signatory of the Nine-Power Treaty, had an obligation to intervene in the dispute. If Britain had no obligation, he said, what was the value of her signature.

The Foreign Secretary replied that it was necessary for the facts to be established before he was able to deal with more general questions of that kind.

Answering Mr. B. W. Gardner, Labour Member for the Upton division of West Ham, Sir Samuel Hoare said he was unable to state at present whether the Japanese action in North China could be described as involving a breach of the Nine-Power Treaty.—Reuter.

Geneva Chinese Protest

Geneva, June 19.

A declaration strongly protesting against Japan's action in Asia and North China was published yesterday by the Chinese colony at Geneva. The declaration affirms that the Chinese nation will resist Japanese aggression and draws the world's attention to the eventual consequences of this aggression.—Havas.

A Hankow Conference

Hankow, June 19.

Lieut.-Col. Kaneshiro Shibayama, formerly assistant Japanese Military Attaché in Peking, has arranged to call on Gen. Chang Hsueh-liang tomorrow morning. He also will visit Gen. Chang Chun, chairman of the Hupeh Provincial Government.—Rengo.

Japanese Hold Sham Fight

Tientsin, June 19.

A three-day sham battle between the marine detachments from the two Japanese gunboats anchored off the Tientsin Japanese Bund started here yesterday in the Japanese Concession.—Central News.

Charhar Troops Transferred

Peiping, June 19.

An order for the transfer of the 132nd Division of the troops commanded by Gen. Sung Chieh-yuan, Chairman of the Charhar Provincial Government, from the province to Yangquan, a town in Shansi, was issued yesterday by the Peiping.

(Continued on page 13)

Branch Military Council. The division was held responsible by the Japanese authorities in North China for the arrest and alleged ill-treatment of four civilian employees of the Kwantung Army at Changpei on June 5.

The "Charhar Affair" will not be completely settled until after agreement is reached on minor details, Mr. Chin Teh-chun, Director of the Charhar Bureau of Civil Administration, said to-day on his arrival here from Tientsin. Mr. Chin said he understood that Gen. Sung Chieh-yuan had given a pledge to follow the orders of the Central Government.—Rengo.

Ambition's Fault

London, June 19.

North China and Chahar are two provinces and military problems, declared a spokesman of the Japanese War Office, interviewed by the "Daily Telegraph" Tokyo correspondent. "A number of ambitious Chinese leaders in Chahar are obviously trying to turn the general situation there to their advantage," he continued. "The troops under the command of Gen. Sung Chen-yuan have already been responsible for a number of anti-

Japanese moves. There is no way in which the trouble in Chahar can be attributed to Russia for there are but few Soviet troops in the province."

In respect to the "North China situation," the same spokesman added: "The Nanking authorities have so far returned no more than a verbal acceptance to the Japanese demands that they withdraw all troops and cease immediately all anti-Japanese activities. We are keeping close watch over the situation there."—Havas.

The Mr. Yung Kei, but miles between himself and Canton, his powers of persuasion won him 22,000 in gold and diamonds from would-be employees in the China and South Seas Trading Co. He had set up offices on the Bund and in Shamceen and these he furnished sumptuously, with furniture unpaid for.

Both offices had been open two months or longer, and the staffs were getting nervous about their salaries which had been overlooked from the outset. Mr. Yung Yui-ming resigned, and as Mr. Yung Kei could not return his security on Thursday he made

MORE ECONOMY IN CANTON

Salary Reductions for Three Year Plan: Arrest of News Agency Editor

FROM OUR OWN CORRESPONDENT SEP 18 1935

Canton, Sept. 12.

Mr. Chan Sik-ye, chief editor of the Nam Fung (South Wind) News Service, was arrested by the police on Sunday on information filed by General Headquarters. Since then the New Reporters' Guild has been fumbling about in the dark, but has had no success in its efforts to get their member out of his predicament, and has not an inkling of the cause of his downfall. Mr. Chan himself is wondering what it is all about. He guesses that he wrote something for consumption in Shanghai or Hongkong about the military, which did not please the authorities.

The Nam Fung News Service is entirely a political propagandist organization. The capital to which it owes its existence was supplied and its maintenance assured by the Provincial Government and the Provincial Kuomintang.

After the warrant was read to him, Mr. Chan Sik-ye got permission to send one note to his Guild. Taken to Police Headquarters, he was transferred immediately to Military Headquarters and was interrogated on hour or more. He was taken back to prison and even his wife has been forbidden to see him since.

Guild, it is learned is not so much on the head of Mr. Chan Sik-ye, as on that of whoever put in motion the report of continental military statistics and plans that got to Shanghai and Hongkong. Reporters had been to Gen. Chen Chi-tang, but he was too busy. Yesterday, Mr. Lam Men-ko, Provincial Chairman and Gen. Li Hon-wan, 5th Division Commander, separately wrote to Gen. Mau Pui-nam, Chief of Staff, warning the character of Mr. Chan and asking for his release.

It was not at General Headquarters that the news leak was sprung. Two months back a Board of Military Research came into existence, and some one connected with the Board was

indiscreet enough to let out an unauthorized account of the progress that is being made in building up the army.

Bank of Canton's Affairs

One more group of creditors got

their legal adviser on Sunday and independently of others has been registering all who will join them to take action against the Bank of Canton. This was the straw that broke the camel's back. Mr. Au Fong-po, treasurer, has moved to quash all that four groups have done. Their registrations of creditors will not be recognized, and they have been enjoined from proceeding further with their preparations for legal action. Only registrations at the Treasury Office on the Bank premises will be recognized as having validity.

Keys to the vaults of the Canton branch of the Bank of Canton were sent back from Hongkong yesterday, and to-day the trustees appointed by the Provincial Treasurer will have access to the books and cash. At 10 o'clock, the doors of the vaults will swing back on their hinges while witnesses from the Provincial Government, Municipal Chamber of Commerce, and the Bankers' Guild look on.

A staff of accountants will go over the books immediately. Cash on hand will be counted, and after this preliminary survey, Mr. Chiu Cheuk, from the Treasury, will take over all as temporary trustee, or custodian. Mr. Chiu, however, will make no disbursements, and will settle no claims. He will keep everything intact until the courts make disposition of the claims that will come before it.

Successful Swindle

Before suspicion were aroused to a degree that made it highly advisable

him go before a police station captain but a merchant named Chan came forth as guarantor. Released, Mr. Yung Kei disappeared, and no one has set eyes on him since.

Two assistants of Yung, a Mr. Pang and a Mr. Chu, are also among the missing. They had obtained most of the bonded employees and helped convince them that fine jobs that would last for long would be assured if the money as security for good behaviour were deposited.

Overloaded Kwong sai Aground

It is the supposition in Canton that the ss. Kwong sai became unmanageable on her Monday trip down

river through overloading. "So deep was she in the water near Nam-shektau that she stuck on a sandy shoal, and had to lie there for over three hours. After 9 p.m. the tide was high enough to float her.

Apparently the helmsman lost control near the Bocca Tigris Forts while a high wind was blowing and rain was beating down so that visibility was not the best. The Kwong sai hit a rock, and although the collision did not let in water, or not enough to put the vessel in danger of sinking, it brought grim tragedy in its wake.

Crates and baskets were everywhere, and where there were not goods stored, there were passengers, for the cheap fare had brought a host of Chinese who did not mind the inconvenience of stumbling over freight if the trip did not cost much. With the impact the top rows of boxes and bales tottered over, pinning passengers under them. Seven, three of whom were women, were crushed so that they died, three were very badly hurt, and nine others hurt less seriously. One, whose wounds were most severe, was struck on the head by an electric fan that tore loose from its fastenings.

Insurance will cover damage to the Kwong sai, \$800,000 being carried in two policies.

Provincial Retrenchment

To keep within its means, the Provincial Government is going to retain part of salaries in its departments. After times grow better, there will be a restitution of the portion held back.

Salaries under \$50 will not be

BIG DEFICIT NOW FACING GOVERNMENT.

Nanking Studies Means Of Tapping New Revenue Sources.

BUDGET EXPECTED TO BE \$200,000,000 BEHIND AT FISCAL YEAR END.

APR 24 1936

P.T.T.

By T. C. Tang.

Nanking, April 18.

How to cover the \$200,000,000 deficit which is imminently facing the Government is now taxing the brains of authorities of the national treasury, according to a perspective scrutiny of financial experts here.

Such an assumption is based upon the depleted revenue of the exchequer and observers contend that the national budget will suffer a shortage of \$200,000,000 before the expiration of the present fiscal year.

Before last February of the present year, it is recalled, the monthly deficit of the Government reached \$24,000,000. Since the flotation of the \$1,460,000,000 Consolidation Loan, the Government has been relieved of a monthly burden of \$5,000,000 for the repayment of interest and principal on existing loans. Thus, the monthly deficit at present aggregates \$20,000,000.

Observers believe that if present conditions are allowed to go unchecked, the deficit for the 25th Year (1936) fiscal budget will total \$150,000,000.

Customs Leads Revenues.

It should be remembered that China's finance is built on the revenue from the Customs tariff, salt tax and consolidated tax. The annual Customs revenue is estimated at \$300,000,000, the salt tax at \$180,000,000, and the consolidated tax at \$120,000,000, reaching a grand total of \$600,000,000.

Added the revenue from other national taxes, receipts from

Government properties, Government enterprises, Government administration, and transfer from Government enterprises, the annual income of the national treasury would reach \$700,000,000.

But looking at the issue from an international point of view, such a foundation is now quite shaky. For as soon as a world-wide armed conflict breaks out, China's coastal navigation will be paralyzed. In that event, her Customs revenue will be greatly affected.

Such a possibility also applies to China's revenue from her salt tax, largely because majority of her salt fields are situated along the sea coast.

This would leave only the revenue from the consolidated tax and other taxes to support the Government. While the income derived from such taxes is estimated at only \$220,000,000, the disparity between the estimated annual expenditures of \$600,000,000 is obvious.

In reviewing the collection of the Customs revenue, it may be remembered that the Ministry of Finance was talking about the abolition of the transit duty and the reduction of the export tax early last summer. At the same time, the ministry was reported to have considered the increase of the Customs tariff. The proposal, nevertheless, was dropped on account of the alleged interference of Japan.

affected. Above that, starting with five per cent, the amount taken from pay envelopes is to increase in proportion to the monthly rate, the best paid civil servants to get but 60 per cent, of their normal stipends.

This retrenchment measure was passed at yesterday's regular meeting of the Provincial Council. It will be

published as law next week.

Included in the same enactment is a clause that reduces the appropriation for the overhead of all provincial schools by 20 per cent. Administrative officers and teachers will, just like those attached to other departments, have a bit of their salaries withheld for the time being, but for all it will mean only a temporary reduction by 10 per cent.

Putting all the savings effected by this bill together, the monthly budget will be reduced by about \$120,000. That is to say, the operating expenses of the Government will be reduced to this extent, but the money will be spent nevertheless. It will be allowed to accumulate until 1936 and then will be available for the furtherance of the new Three Year Plan, which will go into the initial stage next January.

Still spoken of as the second Three Year Plan, there is a strong probability that there will be a prolongation so that it will become a Five Year Plan. Altogether it will depend upon how much can be scraped together, the less that can be raised, the greater the number of years over which the reconstruction projects must be stretched.

Cinema Guild Defence

The Cinema Guild has prepared a written defence of its attitude against the censorship fee controversy in refutation of the allegations of representatives of the American film distributors. First of all they deny that the Central Government has any objection to such fees being charged as local taxes. What the Central Government collects is for its own purposes, and it is not concerned with what the various municipal authorities may do in this regard. Besides censorship fees are imposed locally in both Peiping and Tientsin.

Next the Guild declares that all levies and taxes up to the moment when the films are handed over to the first-run houses should, from a legal and contractual standpoint, be for the account of the distributors. As the distributors do not maintain offices in Canton the first-run houses attend to the censorship details, but do so on behalf of the distributors. Had the latter Canton branches, they naturally would themselves have their films passed by the censors, and would then be in a position to try to pass the inspection fees on to the firms renting from them.

The Pearl Centre was the instigator of the controversy by deducting the fee the exhibitor had to pay the board of censorship.

New Tax Frustrated.

Later, the Ministry was reported to have considered the levy of a 10 per cent surtax on the Customs duty. This was also frustrated by an objection allegedly raised by Japan. Upon learning the contemplated increase of a Customs surtax, importers feverishly placed orders for alien goods before the arrival of July 1, 1935, the date supposedly fixed for the enforcement of the surcharge.

As a result, there was a drastic drop of imports during last July, August and September. This directly affected the income from the Customs revenue, which registered a figure of not more than \$18,000,000 a month. October, 1935, witnessed the emergence of the exchange rate question. Import trade was again affected and the Customs income was further curtailed.

A dead blow was dealt to the Customs revenue in November, 1935, after the enforcement of the legal tender policy. Quotations in the foreign exchange market were fluctuating violently. The business slump showed no sign of recovery. Under such adverse circumstances, the revenue from Customs duty took a deep plunge.

Although the present Customs revenue is reported to be on the upward trend, the figure is still far from what was expected. There is, therefore, no cause for optimism just yet.

Salt Tax Encouraging.

Nominally speaking, the revenue from the salt tax is more encouraging than the Customs income, in view of the fact that the annual collection from the former registers a satisfactory figure of \$180,000,000. But it should also be taken into account the fact that the seemingly swollen sum does not represent the increased consumption of salt by the public. Rather, it is because of the advance transportation of salt from the salt fields so that the Government may reap the tax yield in order

stand now, there is little possibility for the Government to contract its budget. Likewise, hopes for the opening of new revenue sources are small.

Take the proposal for the institution of income tax as an example. Long talked-about by the Ministry of Finance, the tax was to have been introduced July 1, 1935. Unforeseen circumstances, however, prevented the promulgation of such a tax on the original date. Even if the tax is enforced, the revenue will not exceed \$5,000,000 a year.

Difficulties Seen.

The enforcement of the inheritance tax is another expedient advanced to swell the coffers of the Government. While regulations are now under the discussion of the Government, many difficulties are said to be in the way and its enforcement will be even harder than that of the income tax. Furthermore, the annual revenue from this new form of tax cannot be more than the estimated income of the income tax, according to observers here.

This leaves only the Customs revenue as the last resort. Well-informed quarters, likewise, see little hope in such an increase. They intimate, however, that the Ministry of Finance is talking about the revision of the present tariff and a readjustment may thus bring about an increase in the Customs revenue.

In talking about the raising of the tariff wall, it is pointed out, two matters have to be considered first. Higher import duties will serve as an impetus for further smuggling. It will also encourage foreign capitalists to establish factories on Chinese soil taking advantage of the

abundant raw materials, cheap labour now available in this country.

Smugglers Also In South.

It should be remembered that the clandestine trade is not only rampant in North China. South China is also the haven of the illicit traffickers. Any rise in the tariff table will undoubtedly encourage large-scale smuggling unprecedented in scope.

Looking the matter from the standpoint of finance and economics, therefore, a tariff wall may not serve the original purpose after all.

Financial experts, however, assert that there is no reason for undue alarm—despite the huge deficit now facing the Government. They recall that with the issue of the \$1,460,000,000 Consolidation Loan and the \$340,000,000 Recovery Loan last February, there still is left \$190,000,000 in the Consolidation Loan after all existing bonds are converted. This sum may be devoted to emergency use if the occasion demands.

Likewise, there is still \$290,000,000 left in the Recovery Loan after \$50,000,000 has been set aside for the sinking fund for the equalization of the bond market. This may also be provided against contingency.

With this to back the Government up, observers foresee little hardship confronting the national treasury unless the international situation takes swift change for the worse.—*China Press.*

CONTINUATION OF CUSTOMS

JUNE 30 SURTAX.

Nanking, May 30.

The question whether the 5 per cent Customs surtax should be continued after June 30, was (Continued on page 12.)

discussed at length at a joint session of the Finance and Economic Committees of the Legislative Yuan yesterday.

Presided over by Mr. Ma Yin-chu, Chairman of the Finance Committee, the meeting was attended by Mr. Tsou Shu-fan, representing the Ministry of Finance, Mr. Wu Shang-ying, Mr. Chen Hung-nien and other legislative members.

The question will be referred to the general session of the Legislative Yuan next Friday for further discussion.—*Central News.*

to tide itself over the present stringency.

Two ways are open to meet the present deficit. One is to cut down unnecessary expenditures, and the other is to cultivate new sources of revenue. As things

SINO-GERMAN TRADE TALKS IN NANKING

MAY 12, 1936

One Hundred Million Dollar Credit for China: Japanese Disturbed

Negotiations to arrange details of a huge Sino-German "barter" trade agreement, secretly signed in Berlin in mid-May, are under way in Nanking between the Reich representatives and high National Government officials, Domei learned yesterday on unimpeachable authority.

Representing the German side are Gen. W. von Reichenau, Commander of the Seventh Army Corps of the Reichswehr and personal representative of Gen. W. Von Blomberg, Reichswehr Minister, and Herr Hans

by the director of the Economic Department of the Reichswehr Ministry, representing Gen. von Blomberg, and by Mr. Klein on behalf of Germany. Mr. Tan Fa-pu, son of the late Gen. Tan Yen-kai, Kuomintang revolutionary hero, representing Gen. Chiang Kai-shek, President of the Executive Yuan, and Mr. Cheng Tien-fang, Chinese Ambassador to Germany, initialled the agreement for China.

While declining to comment on the report, pending the receipt of a formal confirmation from German or Chinese sources, Japanese diplomatic officials yesterday said they were "paying close attention to the situation."

Klein, representative of a German trading firm, generally known as Hapag.

Both arrived here from Europe in the ss. Conte Verde on June 22, and after staying overnight at the Park Hotel, proceeded to the capital, where Herr Klein is staying with friends.

The agreement, Domei learned, is designed to provide Germany with raw materials, especially fats, which she needs acutely, for German heavy armaments and electrical and textile machinery.

Agreement Admitted

The conclusion of the agreement in Berlin was admitted by Lieut.-Col. Hermann Kriebel, Consul-General for Germany, in an exclusive interview with Domei.

"It is a fact that an agreement has been concluded by Herr Klein," Lieut.-Col. Kriebel said. "Gen. von Reichenau has a personal letter addressed to Gen. Chiang Kai-shek from Gen. von Blomberg and asks to introduce Herr Klein to the Generalissimo."

"The details of the accord are being strictly guarded and even I don't know much about them, but I believe it can be truthfully described as a barter trade agreement."

Under the terms of the agreement, Domei learned from authoritative sources, China will provide Germany with wolfram, tung oil, peanuts and other raw materials over a period of from four to six years.

Germany, in exchange, will set up

immediately a credit not to exceed \$100,000,000, this amount to be used for the purchase of German manufactured products, especially heavy armaments and electrical machinery.

Details as to the nature, price, amount of the goods to be supplied and the means of transportation are to be settled in the negotiations now in progress in Nanking.

The accord was initialled in Berlin

Japan Concerned

"Japan cannot but be concerned with this report in view of the fact that the alleged agreement provides for a long term credit for the purchase of large quantities of armaments," a spokesman for the Japanese Embassy said yesterday morning.

"We have been informed that Germany has been supplying the Southwest with armaments. Now, if the report is true, she will be providing Nanking with them. This will only promote internal warfare in China. Japan, which has important political and economic interests in China, cannot regard with equanimity such a possible increase of elements tending to disturb the internal peace of China," he added.

Six German bombers were landed in Canton in the middle of this month for use by the Kwangtung forces, according to highly reliable non-Japanese sources.

GERMANY TO SUPPLY ARMS TO CHINA? JUN 29 1936

Tokio Authorities Perturbed By Reports Of Secret Agreement.

"A MOVE WHICH WARRANTS SERIOUS ATTENTION."

Tokio, June 28.

Germany's sale of arms to China will not only throw a dark cloud over friendly relations of Japan and Germany, but will cause complications in East Asia.

This was the opinion expressed by military quarters here following the receipt of a report that Germany and China concluded a secret agreement, whereby the former will supply arms in exchange for raw materials.

The Nanking Government, these quarters claimed, will apparently strengthen its armament for resistance against Japan, and therefore, the conclusion of the agreement is an encouragement to the National Government, which is taking a provocative attitude toward Japan.

Although Britain, the United States and other Powers have been selling arms to China for a long time, Germany's move warrants serious attention, they

said.

Japan is closely watching the sale of arms by the Powers to China, the same quarters add. —Domei.

Tokio, June 28.

Pointing out that the exportation of arms by Germany is prohibited by the Versailles Treaty, Gaimusho officials said that Germany violated the

treaty if the secret Sino-German Agreement contains a provision for the sale of arms to China.

The Foreign Ministry, however, has not yet received any official report on the conclusion of the agreement, whereby Germany will supply arms in exchange for raw materials to the extent of Yuan 100,000,000 according to a press report.

They asserted that China has not yet abandoned the policy of relying upon the western Powers with a remark that General Chiang Kai-shek, Pre-

sident of the Military Council and concurrently Chairman of the Executive Council, proceeded to Hangchow, together with Italian aviation instructors, German experts on the construction of positions and American military instructors.

Japan, which is the stabilizing Power in East Asia, cannot remain silent at the attitude of China, which sought British and American economic assistance and German military assistance in disregard of this country's stabilizing position, the officials said.

Germany's exportation of arms to China will expedite the erection of defences in the Nanking region and Szechuan Province, they concluded.—*Domest.*

CHANGES IN INCOME

TAX BILL

N.C.D.N. JUL 9 1938

Revisions Calculated to
Lighten the Burden

Nanking, July 8.

The Legislative Yuan will hold an extraordinary meeting to-morrow to consider the Income Tax Bill again, and it is expected the Bill will pass, so that it can be enforced without delay. As the result of a compromise between the Yuan and the Ministry of Finance, several revisions have been made.

One important change effected is that, for business profits, the tax will be levied on the nett profit instead of the total income. Indicative of the Government's determination to ensure a better livelihood for primary school teachers, it has also been decided to exempt them from payment of income tax. The rate on interest receipts from various securities and deposits has been fixed at 5 per cent. flat, a lowering of 2 per cent. as compared with the original Bill.

Dr. Ma to-day reiterated that the Income Tax Bill would be applicable to both Chinese and foreigners residing in China.—*Central News.*

✓ CHINA'S INCOME TAX LAW

N.C.D.N.

JUL 12 1938

Text of New Measure Passed by Legislative Yuan: Three Classes To Be Taxable

Nanking, July 11.

The following is a free translation of the Income Tax Law, which was passed by the Legislative Yuan at an extraordinary session on July 9:

Chapter I: General Principles

Art. 1: Either one of the following classes of income shall be subject to taxation according to this law:

Class A: Incomes of profit-seeking business enterprises:

(a) Earnings of corporations, shops, hongs, factories, or individual enterprises capitalized at over \$2,000.

(b) Earnings of joint government and commercial enterprises

(c) Earnings from monetary undertakings.

Class B: Emoluments and salaries of public functionaries, people practising free professions and those engaged in other profitable vocations.

Class C: Interest accrued from government bonds, corporation debentures and stocks and banking deposits.

Art. 2: The following types of incomes shall be exempt from taxation:

(a) Incomes of non-profit-seeking judicial persons, (b) Other incomes: (1) salaries below \$30 monthly, (2) pensions given to families of service men, policemen and public functionaries, who died or suffered bodily injuries while in the execution of duties, (3) salaries of primary school teachers, (4) pensions of disabled persons, labourers and those lacking in physical strength to earn a livelihood.

c. Third type of incomes (1) deposits of government organs; (2) compulsory savings of public functionaries and labourers; (3) sinking fund of educational and charity and public organizations; (4) individual savings for educational purposes yielding annual interest less than \$100.

Chapter II: Tax Rates

Art. 3: For incomes under the Class A, the following rates will be imposed:

a. tax of 3 per cent. on profits less than 5 per cent. of the actual capital.

b. tax of 4 per cent. on profits

between 10 and 15 per cent. of the actual capital.

c. tax of 6 per cent. on profits between 15 and 20 per cent. of the actual capital.

d. tax of 8 per cent. on profits between 20 and 25 per cent. of the actual capital.

e. tax of 10 per cent. on profits above 25 per cent. of the actual capital.

Art. 4: For earnings of business establishments, which can not be calculated on the basis of Art. 3, the following rates shall be imposed:

a. No tax on incomes not exceeding \$100.

b. Tax of 3 per cent. on earnings between \$100 and \$1,000.

c. Tax of 4 per cent. on earnings between \$1,000 and \$2,500.

d. Tax of 6 per cent. on earnings between \$2,500 and \$5,000.

e. Tax of 1 per cent. for every \$1,000 above \$5,000.

Art. 5: Income tax rates on emoluments and salaries shall be as follows:

a. For an average monthly income of between \$30 and \$60, a tax of 5 cents shall be levied on every \$10.

b. For average monthly income of between \$60 and \$100, a tax of 10 per cent. shall be levied on every \$10 above \$60.

c. For average monthly income of between \$100 and \$200, a tax of 20 cents on every \$10 above \$100.

d. For average monthly income of between \$200 and \$300, a tax of 30 cents on every \$10 above \$200.

e. For average monthly income of between \$300 and \$400, a tax of 40 cents on every \$10 above \$300.

f. For average monthly income of between \$400 and \$500 a tax of 40 cents on every \$10 above \$400.

g. For average monthly income of between \$500 and \$600 a tax of 80 cents on every \$10 above \$500.

h. For average monthly income of between \$600 and \$700 a tax of \$1 on every \$10 above \$600.

i. For average monthly income of

between \$700 and \$800, levy of \$1.20 on every \$10 above \$700.
 j. For average monthly income of above \$800 a tax of 20 cents on every \$10 of the first \$100 above the \$800 until it reaches \$2 on every \$10.

k. No income tax on amounts above any mark but below \$5 in difference, while any amounts above \$5 shall be counted as the \$10 mark.

Art. 6: Flat rate of 5 per cent. shall be imposed on interest accrued from government bonds, corporation debentures and banking deposits.

Chapter III: Methods of Calculating Incomes and Reports

Art. 7: Methods of calculating incomes are as follows:

a. For earnings of profit-seeking business enterprises rates shall be based on their net profits.

b. For earnings from salaries and other emoluments tax shall be based on monthly income.

c. For interests from government bonds, corporation debentures and stocks and banking deposits the tax shall be based on the amount thus accrued.

Art. 8: For earnings under a and b under Class A, under Art. 1 taxpayers shall report to the responsible tax collecting organs within three months after yearly settlements of accounts.

Art. 9: For earnings under c of Class A under Art. 1 taxpayers shall so report within one month of accounts.

Art. 10: Salary earners shall duly report their total receipts periodically to collecting organs.

Art. 11: For earnings of Class C, under Article 1 concerning interests the taxpayer shall report within one month after receiving the payment.

Art. 12: Collecting organs shall decide the taxpayers' income whenever discovered falsehood and concealments or delay in submitting reports.

Chapter IV

Art. 13: Collecting organs may conduct their own investigations after the receipt of such reports.

Art. 14: After ascertaining the incomes of the taxpayers and taxes due, collecting organs shall duly inform the taxpayers who in case of disagreement, may file petitions within 20 days after the receipt of such notification for new assessment, and the collecting organs may conduct another investigation.

Art. 15: In case of further disagreement the taxpayer may ask the Examination Committee for fresh inquiry within 10 days after col-

lecting organs' second investigation. Meanwhile, the tax will be collected as usual, but will be deposited in the bank pending the decision of the Examination Committee, which may retain the decrease or increase of the amount first assessed by the collecting organs. In case the refund interest accrued from depositing in the bank shall also be given to the taxpayer.

Art. 16: In case the taxpayer still disagrees with the decision of the Examination Committee he may file administrative suits with the court.

Art. 17: Such examination committees shall be established in various municipalities, hsiens and other tax collecting districts. The committee shall be composed from three to seven members who draw no salaries and who will be chosen by the Ministry of Finance from among public functionaries, persons known for their justice and officials of professional organizations. The term of office shall be three years. Whenever examination committee meets, responsible officials of the collection organs shall attend in person or send delegates.

Chapter V

Art. 18: A fine of less than \$20 shall be inflicted on taxpayers who are late in submitting reports.

Art. 19: A fine of less than \$20 shall be inflicted on taxpayers who conceal facts or make false reports, and in addition, the collection organ may ask the Court to fine such taxpayers from 2 to 5 times of the amount involved. In serious cases, such taxpayers may be sentenced to imprisonment of less than one year or hard labour.

Art. 20: Taxpayers who fail to pay income tax on time, the collection organs may ask the Court to exact payment as well as inflict penalties as follows:

(1) Those who fail to pay either whole or part of the tax for more than 3 months shall be fined an amount of 30 per cent. of the total sum involved.

(2) Those who fail to pay either whole or part of the tax for more than 6 months shall be fined an amount of 60 per cent. of the total sum involved.

(3) Those who fail to pay either whole or part of the tax for more than 9 months shall be fined an amount of less than 100 per cent. of the sum involved.

Chapter Six

Art. 21: Detailed enforcement regulations and organic rules of

examination committees shall be drafted by the Ministry of Finance and approved by the Executive Yuan.

Art. 22: The date of enforcement of these regulations shall be formally promulgated by the National Government.—Central News.

IMPARTIAL NOT NEUTRAL SEP-3 1936 NCDN INCOME TAX REALITIES

The "China Press," amiably discharging its duty as an apologist for the Government, considers that foreigners are unreasonably objecting to pay income-tax under the new law:

Those who propose to shield themselves from making this contribution by extraterritoriality, may evade legal action. (They cannot evade moral censure.

This apparent plea for waiver of extraterritorial rights is more specious than convincing. The British community—to cite one section of extraterritorial foreigners—has in certain matters properly, if unnecessarily, disregarded the strict interpretation of the extraterritorial privilege in order to escape what the "China Press" calls moral censure. That abnegation has not met with reciprocal treatment, as anyone knows who has observed the ingenuity with which extraterritorial obligations have been evaded by the exercise of what might be called oblique pressure. British leaders have found one of their greatest difficulties in persuading their countrymen to co-operate in the mitigation of extraterritorial claims has been the irrefutable evidence of the one-sided nature of the process. If the privilege is permitted, the extraterritorial foreigner, like the weather-worn spinster, has done all the forgiving and had little of the kissing. Apart from that, legal rights cannot be so readily abandoned as the "China Press" appears to think. This particularly applies to the disarming suggestion that extraterritorial foreigners—overcoming that human reluctance to pay taxation wherever met—should forget their status and voluntarily pay the income-tax under the new Law. It is safe to assert that legal practitioners concerned in the administration of trusts would promptly expound the weightiest objections to that proposal.

Foreigners fully recognize their obligation to make contribution to the revenues of the country in which they live and trade. In point

of fact the peculiarities of the high Customs Tariff enables them to fulfil that obligation in no ungenerous manner. In principle, to use the words of the Government's able champion, foreigners can hardly object to direct taxation, provided it be universally applied, equitably assessed and effectively collected. The British Chamber of Commerce Journal, speaking for an important body of merchants, has endorsed that principle. For extraterritorially protected foreigners the issue, as has been pointed out here, is at present one for diplomatic treatment. It may be left in that pleasantly decorous condition. At-

on may more appropriately be drawn to the wider implications on which the "China Press" is understandably silent: the amazing defects in the Law itself as in general application to non-extraterritorial foreigners and Chinese. In brief it prescribes an income tax scale of assessment but the tax is not a tax on income as usually understood by countries where scientific infliction of that form of taxation has long been applied. If an exact term be wanted it might be called a "Salary tax," for, apparently, except in regard to business profits, there is apparently no effort made to ascertain the assessee's total income from all sources. The result is that the man who draws nothing more than his salary on which he pays the tax is most invidiously penalized in contrast to the man with large private means. The Government employee, who is exposed to other unfairness in the earlier deduction of the tax from the source of his salary, is specially hardly hit here, unless he be an ardent imitator of certain shining lights in the late

and unlamented administration of Kwangtung, when, instead of being privileged to pay income-tax, he should be enjoying free accommodation at the public expense.

Fortunately it is not necessary to labour the impracticability of this Law—to say nothing of the symmetrical unrealities of its schedules—for the "China Press" obligingly if unwittingly comes to the rescue:

From reliable sources we have learned that the officials in charge of preparation for this momentous task of tax collection are earnestly

making enquiries about the income tax laws and procedures of other countries. Foreigners who are sympathetic toward the conscientious endeavour on China's part to rationalize her system of taxation on modern lines should take advantage of the present opportunity to make their view heard as these Provisional Regulations are being enforced.

Here is complete endorsement of criticisms which have been levelled against this law on the ground of the complete lack of adequate machinery for assessment and collection and the physical, indeed financial, impossibility of levying such negligible imposts as 15 cents. on a \$20 p.m. income. If this inspired communication means anything it means that the officials are still searching for guidance, when, according to the Law, this elaborate system of taxation should now be actually inaugurated. The creation of an income-tax collecting department cannot be casually evolved from existing bureaux; its light cannot be hid under a bushel. To equip the Government with the requisite machinery a service somewhat on the lines of the Maritime Customs would have to be formed. That action must be an essential condition precedent to the enforcement of the law. Unless the Government has been able to practise the virtue of doing good by stealth on more spacious lines than have ever been conceived by bureaucracies elsewhere, no such facilities exist. It seems, therefore, that the practical collection of the tax will be confined to the deductions from helpless government servants and to somewhat rough-and-ready extraction from the pockets of private citizens by methods which will especially lend themselves to inefficiency, inequity and wastage. With every desire to encourage what the "China Press" calls rationalized systems of taxation, this journal respectfully urges the Government to consider the difficulties into which it is likely to be led by the uncurbed though doubtless well-intentioned, enthusiasm of its Finance Ministry.

INCOME TAX IN CHINA.

No Decision by British Foreign Office.

WASHINGTON ALSO STUDYING NANKING'S NOTE.

SEP 13 1936
Enforcement of Law on
p. 11 October 1.

Peiping, Sept. 12.

Conflicting reports have been current for some days regarding the Chinese Government's desire to enforce the new income tax law in the case of foreign residents in China.

It is learned that reports are current in Nanking that the British and French Embassies have informed the Foreign Office that they will endeavour to persuade their nationals to conform with the new law and pay the tax.

It is learned reliably that this report has no basis in fact whatever. It is understood that the British Foreign Office and the American State Department are considering the identic note sent by the Waichiaopu to all Foreign Embassies and Legations in China. No reply has yet been sent to China by either country.

It is reported that at least one foreign Embassy has replied to the Chinese note stating that their nationals will not pay the tax.

October 1 has been set by the Chinese Government as the date for enforcing the new tax but it is reported that in North China at least no organisation for the collection of the tax here has yet been formed.

The Chinese press is devoting considerable quantities of space to the matter. They generally agree that the principle is excellent but comment on the difficulties of properly organising the collection of the tax. They also offer considerable criticism of the

law in that it provides for no rebates in respect of wives and children and other dependants of the persons liable to pay the tax.—Reuter.

CHINA INCOME TAX AND FOREIGNERS

SEP 19 1933

— N.C.D.N

Dr. Kung Thinks They Ought
to Give Support

Nanking, Sept. 18.

Important questions bearing on China's present financial and economic situation were discussed by Dr. H. H. Kung, Minister of Finance, in an interview before he left for Shanghai this afternoon.

"Foreign nationals residing in China who have cultivated the habit of paying income tax in their homeland should abide by the decision of the Chinese Government in paying the new levy," declared Dr. Kung. "The fact that they are enjoying the privileges accorded them by the Chinese Government during their sojourn here proves conclusively that they should pledge their full support to such a legitimate direct tax."

Protection for Foreigners

Regarding the Chengtu and Pakhoi incidents, which, he said, should be considered as a national humiliation, inasmuch as they occurred at a moment when both the Chinese and Japanese Governments were bent upon readjusting their relations, Dr. Kung said the National Government already had instructed local authorities to afford effective protection to foreign nationals living in China. It also had ordered the local authorities to keep a close check against the recurrence of any similar affairs in the future. The Chinese diplomatic authorities would adhere to the policy of the Central Government and guide the settlement talks with the spirit of friendliness and sincerity. He hoped Japan would do her part in bringing about a general readjustment of all the pending Sino-Japanese issues in the principle of equality and reciprocity and in accordance with her desire for the maintenance of peace and order in the Far East.

Turning to the National Treasury, Dr. Kung said there were signs of improvement. Blessed by Providence—as shown in the unification of national and local administration, bumper crops, and escape from floods and drought—the future finances of the country could be more easily straightened out.—Central News.

DR. H. H. KUNG APPEALS FOR SUPPORT OF INCOME TAX

SEP 29 1933

SEP 29 1933

N.C.D.N

Belief Expressed That Foreigners Will Pay: New
Direct Levy Compared With Old System

Nanking, Sept. 28.

THE belief that foreign nationals residing in China will, in pursuance of the traditional spirit of equality and reciprocity, pay the new direct levy, the income tax, was expressed by Dr. H. H. Kung, Minister of Finance, in a report made at the Central Party Headquarters this morning.

Declaring that one of the features of the Chinese tax regulations is its universality and equality, Dr. Kung saw no reason why foreigners should not pay the levy since it has been the practice in fifty or more countries where the income tax is adopted.

According to the Finance Minister, detailed regulations governing the enforcement of the income tax are based on those already enforced in England, France, and the United States. A foreigner whose term of domicile in China is less than one year, and whose income does not come from this country, is exempted from the tax. Dr. Kung added that this is only applicable to foreign nationals whose governments accord the same treatment to Chinese residing within their boundaries.

As to overseas Chinese, Dr. Kung revealed that they are not required to pay the income tax to the Chinese government since they are paying income levy to foreign governments under which they receive protection

duties, the salt tax and the consolidated tax, Dr. Kung revealed.

Flexibility Stressed

Dr. Kung stressed the flexibility of the income tax. In ordinary times, he said, the income tax rates may be lowered. But in case of national crisis the rates may be raised so as to meet the emergency expenditures.

Dr. Kung concluded by stating that in introducing the income tax, the government has borne three principles in mind: first, to make the collection and assessment procedures as simple and as suitable to Chinese conditions as possible; secondly, to pave the way for the reformation of the existing taxation system and to open up desirable revenue resources; and, thirdly, to strive to cultivate the habit among the people of paying direct taxes.—Central News.

Mr. Lin Sen's Speech

Nanking, Sept. 28.

Characterizing the income tax as one of the most equitable forms of taxation, Mr. Lin Sen, Chairman of the National Government, this morning enlisted the support of all tax payers for the new levy, in a speech delivered at the memorial service of the National Government here.

With the introduction of the income tax, Mr. Lin said, a new chapter will be introduced in China's financial history. The income tax, he said, is not only equitable, but also universal and flexible.

Mr. Lin criticized the present central taxation system, which bases the main source of national revenue on Customs duties, salt and consolidated taxes, as being unfair and irrational. In time of emergency, he added, there is also a grave chance that these revenues will drop heavily.

Mr. Lin was especially severe in his criticism of the inequity of the salt tax. He believed when the new direct levy is effectively enforced, it will pave the way for the abolition of the existing indirect taxation system.—Central News.

Appeal for Support

Appealing to all Chinese taxpayers to pledge their support to the new tax, the Finance Minister brought out the significance of introducing the direct levy in China from the standpoint of national salvation. At the present juncture, when the world is getting more unsettled than ever, he said, the Chinese Government would be at a loss to raise necessary revenue, should she find herself in emergency. It is imperative therefore that China should adopt the flexible taxation system in order to nurture the economic strength of her people and to readjust her financial resources.

Now that China is finding herself in acute national crisis, a prerequisite to national salvation is to make all necessary preparations, so that the financial foundation of the country may be firmly established.

As the present indirect taxation system stands, continued Dr. Kung, there is already felt an acute lack of adequate revenue to meet the ordinary expenditures. How precarious the situation will be, should such an emergency arise, is only too obvious since 90 per cent. of the national revenue comes from Customs

GERMAN-CHINA TRADE METHODS.

Major L. H. Cripps of Alfred Holt & Co., on His

NOV-4 1933 Observations.

P.L.F. LOAN PURCHASE EXCHANGES.

The following, an extract of the article printed in the Shanghai British Chamber of Commerce *Journal*, is by Major the Hon. L. H. Cripps, C.B.E., of Messrs. Alfred Holt & Co., Liverpool, who from last autumn till the spring of this year, toured the Far East examining conditions. His comment on German trading methods in China will be of interest.

Britain is facing the possible loss of a future trade with China with her four hundred million inhabitants at a development comparable with that of Europe and America in the nineteenth century; but with the differences that, whereas development in the last century was slow and unsure, science now makes that same process a more rapid and certain one, and that China is starting her development with the assistance of all the inventions of the nineteenth century.

China normally would represent the most attractive development area in the world but for the reason that she lacks credit, due to the political situation, the difficulty of internal transport and the bickering which is going on between China and Japan. Whether, in fact, these credit conditions are anything like so bad as existed in most parts of the world during the early parts of the nineteenth century is extremely doubtful and there can be no doubt as to the success which followed our giving those very doubtful credits, as a nation, though in-

dividual losses were made. Our present ideas of credit risks are very different from those adventurous days and may require a reorientation on the basis adopted by our more adventurous neighbour, Germany.

Germany's Advantage.

China has no real desire for

industrialization; her civilization is an agricultural one. Such industrialization as has been carried out has been forced upon the nation by circumstances beyond her control. She has found it impossible to import what she wants and her only way has been to industrialize. The movement is more or less limited, so far, to the Shanghai and Canton districts.

Germany is the only nation at present trading extensively with China, and the Germans are lending China large sums of money for the purchase of material in Germany, and financing power, water and rail transport schemes on such conditions as to give them what they consider reasonable security. As the service becomes operative and produces income, the security improves, and the capital loan can be repaid out of profits within five years from the inception of the scheme.

Under modern conditions Germany recognizes that while the individual firm cannot face losses, it may well be in the interest of a nation to divert money, which would normally be required to meet unemployment doles to productive work.

German Methods.

The method adopted for financing these loans is simple and ingenious. A loan is made to the manufacturer, representing the import value of the goods on order from China. The manufacturer insures 75 per cent. of the loan with the Hermes Insurance Co., which undertakes this service under government control. Meanwhile, the German Government collects a 2 per cent. turnover tax, and out of the fund so accumulated it makes a "zusatz" or premium payment to the manufacturer undertaking the contract, which probably represents the other 25 per cent. he has at risk. The

grant is absolute, so that the German manufacturer has cover for all eventualities. If the credit is dishonoured, he receives his complete outlay, less the 3 to 7 per cent. premium to Hermes, whereas, if the credit is honoured, he draws 125 per cent. of the contract price, less insurance premium. The Hermes Insurance Co. is said to have operated these credits throughout the world on the basis of getting back 99 per cent. of the money at risk, a loss of only 1 per cent., and the interest on loans outstanding is covered by the German Government.

If, therefore, 70 per cent. of the contract price represents raw material and Germany gets 90 per cent. of the cost back in foreign currency, she makes a profit of 29 per cent in foreign currency. In addition, she is able to keep large numbers of skilled men employed. These men would otherwise have been engaged, in many cases, in unremunerative work, such as building unnecessary roads, and other such schemes carried on by any national unemployment scheme. It is a real achievement that the German community is able to import a large amount of raw

material, turn it into manufactured goods, and sell them to another nation at a real profit.

Risks Analysed.

The risks are naturally not confined to any particular area, but in China thirteen of the fourteen large contracts which I was able to analyse showed that the German price was 15 to 20 per cent. below European and American competitors; there were no German tenders for the fourteenth contract. This ability to underquote needs study. The cost of manufacture in Germany on the gold mark basis has been stated to be between 4 and 7 per cent. above the corresponding British price, so that the ability of Germany to underquote is due, presumably to the credit arrangement between the German manufacturer and his government. The latter insists that the particular profits made in this business should be used to reduce the price where necessary, so as to obtain business in

foreign competitive contracts.

It may be desirable that the British Government should do something of the same sort. China represents the greatest undeveloped consuming power in the world. It has a huge population living under almost barbaric conditions. If England had the same amount of railway per square mile as China, she would have one railway line extending from London to

Swindon! Power and water plants are almost unknown except in a few of the leading towns, and construction is centuries behind that of modern times. There is no desire for industrialization. Should China in the next two decades develop her transport system by building roads, railway and river transport, it should inevitably tend to develop a stable government and stable conditions of trading.

CHINESE INCOME TAX LAW.

COLLECTION SYSTEM OUTLINED TO TIENTSIN ROTARIANS.

NOV-6 1936 P.T.

Simplification of British and American Systems.

HOW THE INDIVIDUAL AND THE BUSINESS CONCERN WILL PAY THE LEVY.

A most interesting and instructive address on China's Income Tax system was delivered at the weekly meeting of the Tientsin Rotary Club yesterday by Mr. Chen Ming-yi, of the Sin-Hua Trust and Savings Bank.

Mr. Chen said:

The subject of Income tax is no doubt familiar to you—or at least to most of you here today. But to Chinese citizens this is the first time when actually the Government meant to make it a law and put it into practice. To the rich, it is at least unpleasant, to the less rich, it is very annoying and to those marginal payers, well, it is just too bad. I say this not because I feel bad about it. It is due to this usual sentiment about any tax among these three classes of people that the gist of this law is to soak the rich, and to relieve the poor. Therefore we can expect to have a graduated tax and indeed it is just and right, for there we have the economic law of increasing returns, i.e. the more he has, the easier it is for him to acquire still more. So from the point of view of production (i.e. the production of wealth), the faculty or the ability to pay increase more rapidly than income and this element of taxable capacity would logically result in a more

than proportionate rate of taxation.

Income tax is a direct tax and it is a good tax, and for a citizen there is absolutely no reason to dislike it or even try to evade it, for we know that the burden of indirect tax is to rich and poor mathematically alike. But the value of that same amount of wealth is naturally different for the rich and the poor.

So, on 9th of July, the Legislative Yuan passed a bill taxing incomes of individuals (including natural person and legal person). Since this piece of work was done, there has appeared quite an amount of literature: there are criticisms and suggestions, but in principle, the general opinion is favourable. Of course, I am not here to give a debate. I will try to present to you the content of the law. But let me say this, from a law like Income tax law or in fact any other law, it can not be expected to cover all peculiar, doubtful and exceptional cases; for that part of the work law-makers can not be bothered about and it is consequently left to income tax commissioners and to judicial courts. Now let's get down to brass tacks. I am approaching the subject this way. I'll first deal with "Who

pays Income Tax" and then "How much to pay" and then "How to collect."

Who pays income tax.

In this respect it is more or less similar to British and American Income tax laws. Two of the most prominent and important factors are residence and sources of income. The follow-

ing quotations illustrate and define clearly these two points in British law. "Every one who resides within the United Kingdom is liable to pay tax. Residence has not necessarily got anything to do with nationality, nor yet with 'domicile'. Thus, a per-

son born in France, but temporarily employed within the U. K. is probably both of French nationality and domiciled in France. Nevertheless, at the moment he resides within the U. K. and accordingly must pay taxes to British Treasury." "A person who is not a resident in the U. K. is only liable to pay British Income tax in so far as he may derive income from sources within the U. K." Thus we can see that the principle of residence and source of income in the subject of income tax is important and similarly treated in its new law in China, as Articles 3, 4, 5, and 6 of the Regulation of application tell us. However, Article 3 states that other nationals whose duration of residence in China does not exceed one year, even when their sources of income are within China, are free from tax, but this privilege is restricted to nationals of those countries, where similar privilege is given to Chinese citizens abroad. This is not so severe in comparing with sec. 103 of the Revenue Act, of 1924 of the U.S. which says in effect that when the U.S. Government finds out that American citizens abroad are subjected to discriminatory taxes, they shall proclaim that citizens of that country in the U.S. shall be taxed double the ordinary amount. According to Chinese law, in taxing business concerns, regardless of whether their head-offices are located in China or not, and regardless of whether the capital is actually

separated from the head office or the branches, they are liable to Income tax in *only* that part of the net income which is obtained

or derived in China. The only thing is that no regulation can be found with regard to non-resident aliens whose sources of Income are within China.

Now let's see who are free from Income tax.

First, any business concern, Corporations, Partnerships or Individual ownership enterprises whose capital is below \$2000.00 can get by free. What do we mean by "Capital"? Art. 7 of the Regulation of application states that it represents the sum of money actually paid in as such, plus 1/3 of the Reserves. Here is a question of accountancy and to our general understanding, the word "Capital" includes the paid-in amount plus surplus reserves and undivided profits. Therefore, it appears that the definition given by our law makers is a little too hazy especially about the word reserve. I am unable to state why only 1/3 of the Reserve is added, but I suppose it was meant to avoid too heavy a burden imposed on business concerns.

2ndly, Individuals whose monthly average earned income i.e. salaries, Bonus etc., is below \$30.00 is exempt from Income tax.

3rdly, institutions and societies whose purpose is not to acquire profit, are free. In this category, we have charitable societies, educational institutions, clubs.

(Continued on page 11.)

CHINESE INCOME TAX LAW.

(Continued from page 10.)

including the Rotary club of course, etc.

4thly, Bonus and Pensions for service men, for police, and all government employees, who were wounded or died on duty.

5thly, Salary for primary school teachers.

6thly, Bonus or Pensions and allowances for the disabled, the

old and minors.

7thly, Bank deposit interest on accounts of any government organs.

8thly, Interest on savings deposit required by law on Government employees as well as labourers.

9thly, Bank deposit interest on accounts of charitable and educational institutions.

10thly, Any educational fund set up by individuals whose interest does not exceed \$100 per annum.

Now there is another fact that seems to be worthy of note. The law imposes full rate of tax on quasi Government enterprises i.e. those where the Government invest a part of the capital. The Bank of China and indirectly my Bank fortunately or unfortunately fall into this category. I am not self conscious but since taxing on government capital is just like taking money out from one pocket and putting it into the other, it would be well and thorough to leave out the capital contributed by the government. If that's the case, my Bank can practically go free from Income tax (and, by the way, I am not advertising).

II. How much to pay—This is the most interesting and absorbing part of the story and let's take a purely imaginary illustrative case first dealing with individuals.

Here is a man, receiving salary and Bonus from a concern @ \$500 a month. He is married and lives happily together with 2 dependent children. Interest on Investment of Government Bonds 2000 per year. Income from speculation \$4000. Interest on the overdraft account in the Bank. 500.00. He has some real estate property receiving annual rent of 1200.00. Bank deposit interest in the year \$700.00. He carries Insurance policy of 20,000 paying a yearly premium of \$600.00.

1st the Salary—The schedule

starts with \$30 monthly Income. Between \$30—60 the tax is 5 cts. to every \$10.00.

Exceed \$60—100 the tax is 10 cts. to every \$10.00.

Exceed \$100—200 the tax is 20 cts. to every \$10.00.

Exceed \$200—300 the tax is 30 cts. to every \$10.00.

Exceed \$300—400 the tax is 40 cts. to every \$10.00.

Exceed \$400—500 the tax is 50 cts. to every \$10.00.

Exceed \$500—600 the tax is 60 cts. to every \$10.00.

Exceed \$600—700 the tax is \$1.00 to every \$10.00.

Exceed \$700—800 the tax is \$1.20 to every \$10.00.

With a Maximum of \$2.00 to every \$10. In terms of monthly income, the graduated rate stops at \$1.200. Above that, the tax rate will be strictly proportional. In other words, the man who earns \$2,000 a month, pays tax according to the increasingly proportional schedule up to \$1,200—the remaining \$800 is subject to tax at a strictly proportional rate of \$2.00 to every \$10 on the following \$100 excesses. Such calculations may seem to be complicated but... To make the matter worse, the regulation also says that if such excess is below \$5.00 that part goes free from tax, and if the excess is over \$5.00 it shall be taxed as \$10.00.

Now let's see how much this man who earns \$500 a month has to pay. The calculation should be made as follows:

1st \$30 .05

31—60 .15

61—100 .40

101—200 2.00

201—300 3.00

301—400 4.00

401—500 6.00

Total \$15.60 or \$181.80

on his yearly salary of \$6000, the actual amount of tax paid amounting to about 3.12%. Now in case his salary is \$504. The amount of tax is the same, but if it is \$505.00, he shall be taxed on \$514.00 basis, i.e.

\$16.40.

With regard to tax on salaries, a word may be said to the individuals on Government service. As we know, they have been subjected to tax before and such tax was primarily for maintenance of the party—party tax. Since the new law has been put into effect, they will be taxed

according to the new schedule instead of the old.

The old schedule is as follows:—

Below \$30.00 no tax

50—100—1%	400—500—5%
100—200—2%	500—600—6%
200—300—3%	600—700—7%
300—400—4%	700—800—8%

So the person who receives salary of \$500 from Government service had to pay \$25.00 whereas now he only has to contribute \$15.00. As far as Government employees are concerned therefore, they are in fact, better off.

Second—Interest on Bank deposits and on Investments.

These income items are subjected to a lump-sum tax of 5%. Thus:

Interest on	
Bank deposit	700.00
Interest on	
Gov't Bonds	2000.00

2700.00 5% = \$135.00

Thirdly—Income from speculation. There we find another schedule of rates which are progressive. I shall not bother you with rate schedule but this man having obtained a profit of \$4000, has to pay 6% i.e. \$240. Now let's sum up the statement.

1. His yearly Income from salary and Bonus	600.00
2. His yearly Income from Interest	2700.00
3. His yearly Income from Bond or Exch. transactions	4000.00

\$12700.00

His tax—

1. on Salary	181.80
2. on Interest	135.00
3. on Speculation	240.00

556.80

556.80

\$12,143.20

Therefore, the amount of tax is only 4.4% of his income.

In comparing with British and American Income tax, we find that this is far more simple and perhaps feasible. The process of American Income tax as regards an individual is first of all to find out your net income—gross Income less exclusions, deductions. Then from the net Income you are entitled to deduct various allowances, and then the Government charge you 4% on the rest. When your net income, after some of the allowances, is above \$4,000.00 you are subject to surtax. In the case of British income tax, you have to deal with schedules. The different types of Income are made out in

various schedules. You are entitled to Relief allowances and charges i.e. deductions, and then the Government collects from you 1s. 6d. per £ on the first £133 and then the standard rate of 4s. 9d. per £ on the balance, and when your net taxable Income exceeds £2,000, you'll have to pay surtax. These processes, both American and British, involve heaps and piles of regulations and cases, complicated and confusing, that one can not have a full understanding without much study and follow-up.

The Chinese Income tax regulations on individuals therefore differs from that of American and British in the following aspects.

1. We have no deductions, allowances or reliefs.
2. Losses when suffered by individuals are not taken care of.
3. We have no surtax.
4. Income from rent is not included.
5. Government Bonds are not tax free as is the case of American system.

(To be Continued.)

CHINESE INCOME TAX LAW.

COLLECTION SYSTEM OUTLINED TO TIENTSIN ROTARIANS.

P.L.T. NOV-7 1936

Simplification of British and American Systems.

HOW THE INDIVIDUAL AND THE BUSINESS CONCERN WILL PAY THE LEVY.

(Concluded from Yesterday)

You may have noticed before that when I presented to you a typical case of an individual, I said that he is married with 2 children, and that he is insured for a certain sum paying premium at a certain sum and that he has properties which yield income. As far as Chinese Income tax is concerned, these facts are ignored. So far, we are only dealing with individuals. How about business concerns? From the view of Chinese income tax regulation, "business concern" includes, individual ownership enterprises, partnerships and corporations. This may seem queer but as I said before the essential idea of this law is simplicity feasibility, and therefore if individual ownership business or partnerships operate at a profit they shall be taxed upon. If the proprietor or partners receive salaries, the salary is subject to tax but the business is taxed on its net income which naturally is the amount after such salary has

been already deducted. Net income as stated in art. 15 of Regulation of Application means gross income minus business expenses, bad debts, depreciation, depletion, inventories, taxes and legal reserve. This array of deductions will later on no doubt become the sore spots

that lawyers, accountants and the government will have to touch because there is absolutely no scope, no definition, no explanation.

Anyhow, income tax on business concern is on net income in relation with its capital. If the amount of net Income equals to 5%, but less than 10% of the capital, the tax is 3%.

10%	—	15%	—	4%
15%	—	20%	—	6%
20%	—	25%	—	8%
over 25%	—		—	10%

In other words, if a one-million dollar capital concern earns a net profit of \$100,000, it shall be

taxed \$4660 and if this is compared with the 12½% tax in the U. S. law and the standard rate of 45.90 per pound sterling (this means 23.75%) in the case of British firms, it can be readily seen who has the heaviest burden and who has the least burden. In all, if you gentlemen have time and find an equitable basis of comparison, I am quite sure that you will find British tax being the heaviest of all, next comes American tax and the Chinese income tax will be the last, both regards to individuals and limited companies.

A border line case is the professional practitioner, such as the lawyers, physicians, chartered accountants etc. Income tax on this class of people is the

same as ordinary salary earners except that they have the privilege of deductions—viz. Rent on business premises, salary and bonus and commissions paid to employees, travelling expenses, and other direct and necessary business expenses. In case he combines his business quarters with his residential quarters, the maximum he can deduct for rent is 60% of that amount paid.

Now let me touch a few of the sore spots with regard to how much we ought to pay. 1st The question of double-taxation. As you have noticed the business concerns are taxed on their net income but in case this concern has investment on Bonds, there we have a case of double-taxation (i.e. taxed twice).

The Chinese Bankers associations in various places have expressed themselves in this respect and they were told that since the item "taxes" is a deduction from Gross Income, Income tax paid on Interest shall naturally be included in taxes and may be deducted before arriving at the net income figure. Now, this is not the way to avoid double tax for it is readily seen that when a concern pays \$50.00 tax, it is naturally treated as a debit to tax and naturally deduction to Gross Income. In other words, the whole Amount of Interest on Bonds which has been taxed when at source, should be deducted from net Income, as such is the case with British and U. S. Income tax

laws. The same situation applies to dividends on stocks since such Income is obtained from concerns after paying the Income tax on the net income, but when this dividend gets into the hands of stock holders, they will again pay 5%. The argument is that stock holders are natural persons whereas limited companies are legal persons and so long as tax is not collected from the same person twice, there is no double taxation. This is indeed illogical, since every body

knows that stock holders are owners of the corporation and a tax imposed upon the result of mere distribution of the already taxed net profit is clearly double tax. That's why in the case of American law but not the British law, this is taken care of. Secondly, when we compare with income from salary and income from speculation, we can easily come to the conclusion as to whom should bear a heavier tax. And when this law is taxing the salary income from \$30 upwards while in the case of speculation, income below \$100 is free from tax, it naturally leads to the opinion that such is contrary to the principle of taxation—i.e. equality and justice. Another instance which is interesting to note. Here is a partnership of four persons, each contributing \$5000 as capital and supposing the net profit is \$1200.00 you will see that as a business concern, it will be subject to tax since the capital is over \$2000.00 and net profit is over 5% of the capital.

To be exact, the tax is 3% of \$1200 = \$36.00 But if this business is all they have, Income for each of the partners will be $\frac{1200}{4} = \$300$ a year or less than \$300 a month which, in the case of income from salaries, is free. Therefore, it seems that the starting point on Business Income tax is too low.

All in all, the Chinese income tax procedure is following the line of least resistance. It has its merits and it has loopholes. When a system is first started, it has got to be simple and easy to understand, and when we look

into the manner of collecting the tax we will perhaps appreciate more of this fact.

III. How to collect.

1. Business concerns—Declare by themselves.

Such declaration should be supported by financial statements and other necessary documentary evidence.

2. Income on temporary transactions—for example, speculation

If possible, the tax should be stopped at source.

Otherwise declare themselves.

3. Income from salary, commission and fees, tax stopped at source, declared by the institution or employer paying such money. Otherwise declare by themselves.

4. Interest on Bonds; Bank deposit and dividends on stocks.

Tax on these items, is to be collected at source, that is, deducted and paid by the institution.

Now we can see that a large part of the tax can easily be stopped at source and indeed pecuniary encouragement is provided to institutions or employers who declare and hand in taxes promptly (within certain dates specified), to the extent of granting \$5 per \$1000 of the whole amount, as a rebate. Such encouragement however is not granted to government institutions. With respect to time limit of declaration, it is provided that companies must declare once a year, either between March 1st to May 30 or between Aug. 1 to Oct. 31, according to the fiscal year of that concern. Thus, for a concern taking Jan. 1 to Dec. 31 as its fiscal period, a report must be turned in between March 1 to May 30. The reason why it should be March instead of say, February is because at present, a very large number of concerns still stick to the Old Calendar (the lunar Calendar) which is approximately one month behind.

For temporary profits, declaration shall be made and collected at each time when such transactions are closed.

For salaries, collection shall be made monthly as salaries are