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The Unease Development and Implications of the First Income Tax Law in Modern China: 1912-1937

# Introduction

The inception of modern income tax can be traced back to 1799 in Britain, when the then Prime Minister William Pitt the Younger introduced an income tax as a measure to finance the wars against France.[[1]](#footnote-1) While designated as a temporary tax and levied on and off in the following decades after its inception, the war-time income tax was evolved into a lasting feature of the British tax system in 1842 and became major means of public funding from the 20th century till this day.[[2]](#footnote-2) The revenue-generating ability of the tax was eventually established in the country.[[3]](#footnote-3) The tax made contributions to government revenue in Britain, though at the early stage in the 19th century the contribution was far below the level the Government expected.[[4]](#footnote-4) Many other countries followed suit with an income tax, for instance, in the Austrian Empire in 1849, Italy in 1864, Japan in 1887, the United States (US) in 1913, Australia in 1915 and Canada in 1917.[[5]](#footnote-5) In some countries, local or state level income taxes started long before national level income taxes were formally introduced.[[6]](#footnote-6) Income tax was gradually and steadily introduced to industrialized countries throughout the 20th century. Nowadays, most countries and jurisdictions have an income tax of one form or another.[[7]](#footnote-7)

The history of income taxation illustrates that war finance is frequently a catalyst for the adoption of the tax in early industrialized countries and in many other countries later. China was no exception during its Republican period that started following the collapse of the Imperial regime in 1911 and prior to the creation of a People’s Republic in 1949. The first draft income tax bill was introduced to the National Council soon after the establishment of the Republic of China with the Beiyang government in control,[[8]](#footnote-8) but it took more than two decades for the government that was then controlled by the Nationalist or Kuomintang (KMT) Party to finally pass the draft legislation into a quasi-law (named “regulations”) and formally put it into force nationwide. How did the internal turmoil in China from 1914 to 1937 prevent adoption of the draft law?  What made it possible for the bill get through to the final enactment as quasi-law?xcccc And what implications does the first income tax legislation have for the design and implementation of the income tax law in contemporary China?

This article considers these questions by way of an exploration of historical documents and economic and social conditions that underpinned the evolution of the income tax bill at the time. It argues that while financial strain may appear to be a major contributor to the enactment and implementation of the income tax, other factors are equally important, in particular intellectual contributions, public education and acceptance, corresponding economic development level, pragmatic design that considers both tax equity and administrative capacity and political stability. The exploration of the legal history of the first income tax also reveals how history rhymes and why lessons from the past need to be taken seriously.

# The Background

Taxes were no stranger to people and businesses in China. Various taxes had been adopted and implemented in ancient times and in Imperial China that lasted almost two thousand years. Over the long history, the main types of taxes, typically land tax and salt monopoly, were imposed in a way that was analogous to indirect taxes. These taxes had inherent flaws from the perspective of modern tax principles, that is, their imposition was often not based on the ability to pay and tax liability could be shifted from the nominal taxpayers to the consumers or from the wealthy to the poor. There had been a recurring feature of light taxation at the beginning of each Imperial dynasty and high taxation towards the end of the dynasty. Disproportionally heavy tax burdens on ordinary farmers and households frequently triggered social upheavals, leading to collapse of dynasties.

All dynastical emperors and rulers would want to avoid the recurring feature and ultimate demise. Clearly that is the case for the rulers of the Qing Dynasty (1644-1911), the last Imperial dynasty of China. Unfortunately, the dynasty did not escape from the dynastical fate. There were many reasons to explain why it failed completely in the end, and the fiscal and taxation system could be an underlying factor.[[9]](#footnote-9) The emperors at the start of Qing seemed to learn the previous lessons well with relieving farmers’ tax burdens through a series of measures from abolishing informal levies to tightening control over tax evasion of wealthy households. A tax reform that underwent for more than a century in the early-to-middle of the Qing Dynasty made considerable improvement in taxation to the extent that it changed the imposition of taxes based on labour to wealth and the mode of payment from labour payment to monetary payment, yielding positive outcomes including population growth and economic development.[[10]](#footnote-10) Nevertheless, many measures made to improve the tax system in the early to middle of the Qing period were not effectively enforced in the later years. Arbitrary imposition, tax evasion, inequality in tax payment, and corruption in tax administration and collection were rampant throughout the country.

Worse, the loss of the two Opium Wars (the first 1839-1942 and the second 1856-1860) by the Qing government forced the government to agree on unequal treaties, surrendering part of its territory to western powers, opening ports to foreign trade, losing tariff autonomy, incurring a huge amount of debts, termed as indemnities, to treaty countries in addition to crippling war expenses on itself, and seeing large outflows of silver from the opium trade.[[11]](#footnote-11) The dreadful financial situation could only become even worse with a blow to the Qing government by the loss of the First Sino-Japanese War (1894-1895). These external wars led to a fragile and financially unsustainable empire and a weakened government that was vulnerable to western powers.[[12]](#footnote-12) A group of elite reformers and intellectuals were motivated to explore ways and measures that could salvage the country,[[13]](#footnote-13) and at the same time many revolts broke up within China and various regional warlords rose to compete for power. External wars and internal struggles made China in a shambles and tax collection extremely difficult.

Politically, the central control of the government was severely weakened in the late Qing. It was not able to enforce taxes at local levels due to the many internal rebellions that disrupted administrative operation, *de facto* dominance of regional heads or warlords that craved for revenues as badly as the central government, and the existence of foreign enclaves that functioned as virtual colonies within the country as they were not subject to the Chinese law but the law of a foreign treaty power, such as Britain, France, or Japan that effectively controlled the enclave and enjoyed privileged status under treaties with the Qing government.[[14]](#footnote-14) While the Qing rulers kept sovereignty and nominal control of the empire, much of China was effectively under foreign control and the Chinese sovereignty was “supplanted by that of the treaty powers”.[[15]](#footnote-15)

As pointed out in some study, by the end of the 19th century, China was “drug-addled, divided, exploited by foreign interests and plagued by corrupt officials”, but the Qing rulers did not have the “political will, national authority, popular support and military strength to respond to these challenges”.[[16]](#footnote-16) The demise of the Qing Dynasty and the creation of the Republic of China in 1912 did not immediately reverse the downgrading trend and address those challenges left by their predecessor. Rather, the Republic underwent a turbulent period characterized by internal battles and fragmented politics. While the Xinhai Revolution in 1911 ushered in a Republic, it did not lead to democracy. The Revolution gave rise to a settlement which consisted of relinquishment of the provisional presidency of Sun Yat-sen who was also the first leader of the Nationalist Party and known as the father of modern China,[[17]](#footnote-17) the assumption of the first president of Yuan Shikai who rose to power during the late Qing as an army leader and reformist,[[18]](#footnote-18) and Yuan’s promise to create a republican government.

The Beiyang government, officially the Republic of China, was established with capital in Beijing and lasted from 1912 to 1928. The government’s name derives from the Beiyang Army, a dominant force in politics with Yuan Shikai in control. Yuan dissolved parliament (the National Assembly) in 1914 and appointed another body to draft a constitution according to his requirements. However, internationally the Beiyang government was recognized as the legitimate Chinese government during that time and had the right to tax and collect customs revenue. Domestically, Yuan attempted to make himself an Emperor in 1915, and his failure and death in 1916 led to a Warlord Era from 1916 to 1928,[[19]](#footnote-19) during which the country was divided into several regional factions and military cliques of the Beiyang Army. On the surface, the Beiyang government and the country were under civilian control with a constitution, but effectively it was the military powers that were in charge.[[20]](#footnote-20)

The legitimacy of the Beiyang government was challenged by Sun Yat-sen and his Canton-based KMT government led movement in 1917. The movement was known as the Movement to Protect the Constitution. Sun’s effort to create a government in China’s south was not successful in the end, but it caused a protracted division between north and south. Indeed, the country was split with endless battles between military rivals, and no single authority, among the rival military factions, was able to defeat all other rivals and to create a unified and effectively centralized political system. This means, for taxation, that the central government could barely get any tax revenues collected by local government, especially after Yuan’s death.[[21]](#footnote-21) It was not until Chiang Kai-shek’s defeat of the Beiyang warlords during the Northern Expedition from 1926 to 1928 and overthrow of the factions and the Beiyang government that China became unified under a centralized government in Nanjing.

The Nationalist government was subsequently recognized internationally as the legitimate government of China. The recognition brought to the government the revenue collected by the Maritime Customs Service at the time, and the regain of tariff autonomy by the government saw an increase in the revenue. However, internal fights and external wars continued during the period of Nationalist government. While Chiang and his government brought to the country relatively political stability in the late 1920s to the late-1930s, Chiang had to deal with conflicts between the government, the Chinese Communist Party (CCP) who served as once an alliance in the fight against the Beiyang control, remaining warlords, and Japanese invasion of Manchuria in 1931. The outbreak of the Second Sino-Japanese War in 1937 gave rise to unprecedented national effort to resist the full-scale Japanese invasion by way of the formation of the united front between the KMT and the CCP. However, after the end of the War and the surrender of Japan in 1945, the Chinese Civil War between the two parties began with full-scale fighting. In 1949, the CCP established the People’s Republic of China in Beijing, while the KMT finally moved its government to Taiwan.

As can be seen from the broad backdrop of the late Qing and the Republic of China, the main theme had constantly been wars, battles and fights. These constant conflicts between internal and external rivals and powers entail enduring financial needs. Traditional tax revenue sources could not meet the ever-increasing war expenses. While public debts and borrowing from banks or other entities could provide some funding, the government, whoever in charge, had to find new ways to generate revenue. The question is what new taxes could be introduced and how to introduce and enforce them.

# From Idea to Legislation

## The Starting Point

The two Opium Wars in the mid-19th century significantly changed China, pushing the empire to cede the territory of Hong Kong (including Hong Kong Island and Kowloon[[22]](#footnote-22)) to Britain, open treaty ports to foreign trade, grant foreigners privileged status in the country and give in sovereignty control over revenues.[[23]](#footnote-23) The Opium Wars were the critical juncture in modern Chinese history also in the sense that they prompted an economic transformation. Industrialization and mercantilism started to emerge. With the intrusion of western capital into the domestic market, modern manufacturing was introduced to the country and grew steadily as shown in the expansion of factories from firstly only foreign owned factories to government-owned factories, and to public-private joint ventures to establish manufacturing facilities. These various types of factories engaged in the production of major industrial products in the country.

The defeat of the First Sino-Japanese War, also known as War of Jiawu, by the Qing government at the end of the 19th century not only catalyzed a series of political rebellions led by Sun Yat-sen and Kang Youwei, which culminated in Xinhai Revolution in 1911 that ultimately led to the creation of the Republic of China in 1912, but also prompted the development of national industry. Aspired by a slogan of “saving the country by engaging in industry”, Chinese entrepreneurs and merchants poured private capital into a slew of new factories, reversing the dominance of government capital in the industrial area before the First Sino-Japanese War. Foreign invested factories also had a rapid growth in China. However, the outbreak of the First World War in 1914 distracted the attention of western powers and their investors, providing an opportunity for national industry to expand and grow.

In terms of commerce, during the period from the late Qing (after the Opium Wars) to the Republic in the 1920s, the Chinese economy gradually became more open to the world: there were merely fifteen trading ports after the two Opium Wars while by the time of the First World War, 92 cities were open for trade.[[24]](#footnote-24) Imports and exports both had a considerable increase during the period from 1912 to 1927. The total volume of imports and exports in 1913 was 900 million silver taels, which jumped to 2.1 billion silver taels in 1928.[[25]](#footnote-25) There was also a rise in foreign investment: the total amount of investment in 1914 more than doubled that in 1902, an increase within just a decade or so.[[26]](#footnote-26) Internally, the domestic market was steadily expanded with the emergence of new forms of commercial activities that linked domestic manufacturers and traders of goods to trading firms for exports and imports, and a growing transport network via sea, river and railways. A nationwide sales network began to shape, spreading from trading ports to remote countryside.

The industrial and commercial development impacted on tax revenues. Traditionally and for a very long time, the Chinee tax system was centered on land tax, salt monopoly and other imposts related to agriculture.[[27]](#footnote-27) The traditional tax base, i.e., land, salt and alike based on an agrarian economy, was however shrunken during the turn of the 20th century while the new tax base, i.e., income, transaction and consumption based on modern industry and commerce, was growing. This had direct impacts on revenue generation as the government had to seek revenue sources other than the traditional ones for public funding. The modern economic development laid the necessary basis for the shift of the focus of the tax system relying on agriculture to new types of taxes based on industrial and commercial activities. Further, with the economic transformation, an increasing number of new forms of income such as wages and salaries, rentals, interest and alike emerged, implying the conditions for introduction of an income tax would have become relatively ready.

Another factor that might prompt the introduction of an income tax was the huge war expenses incurred for battels between regional warlords during the period of Beiyang government (1912-1928)[[28]](#footnote-28) and later for Japanese evasion and Civil Wars.[[29]](#footnote-29) The costly battles and wars entailed a high demand for revenue, prompting exploration of new revenue sources.

## The First Attempt: The 1914 Regulations

The idea of adopting modern taxes was firstly considered by some elite reformers in the late Qing. One of the critical reformers, Kang Youwei, who led the Hundred Days’ Reform (11 June 1898–16 September 1898), also known as the Wuxu Reform, in the late Qing condemned heavy taxation, especially heavy taxes on ordinary people, and taxes that were detriment to both famers, merchants and the government, particularly *Lijin*, an internal tariff on domestic merchants.[[30]](#footnote-30) He instead advocated light taxation, and for revenue purposes adoption of modern taxes that facilitate commerce and industrialization on the basis of western experiences.[[31]](#footnote-31) While the Hundred Days’ Reform was failed and many reform measures did not come into effect, it helped disseminate western ideas of equality, social contract, freedom and democracy in the society and catalyzed a call for reform of the tax system. Just before the 1911 Revolution, the debate on the repeal of *Lijin* triggered a wide discussion of approaches to adjusting and improving the tax system among commentators, the public, and government officials.

In 1902, Liang Qichao, another influential intellectual leader in the first two decades of the 20th century, proposed adoption of income tax, inheritance tax and land appreciation tax to reform China’s public finance as those taxes were believed to be able to help adjust tax burdens between the rich and the poor and reduce inequality.[[32]](#footnote-32) Intellectual debates provided theoretical foundations that were needed in proposing reform measures to decision makers.

The dire financial situation arising from unequal treaties, loss of autonomy over customs duties and increased expenses incurred to put down internal rebellions towards the end of the Qing Dynasty led the Qing government to make effort to reform its tax system. In 1910, in an attempt to ease financial pressure and improve tax structure, the government drafted Provisional Ordinance on Income Tax by reference to foreign practices. The proposed tax was intended to apply to three types of income, including company income and interest income, wages and salaries (received by officials, teachers, public institutions’ employees), and other income. The draft Ordinance was unfortunately aborted with the outbreak of the 1911 Revolution and the fall of the Qing Dynasty.

At the beginning of the Republic of China, the Beiyang government faced similar financial problems as its immediate predecessor did, i.e., the lack of stable revenue sources. High military expenses pressured the government to find ways to generate tax revenue. At the same time, the discussion about how to improve China’s tax system among society members continued and an income tax was accepted relatively widely as a desired new type of taxes because the tax was thought to have some distinct advantages. One of such advantages, as claimed by intellectuals, was it satisfied the principles of equity and universality, that is, the tax was levied on the basis of the ability to pay and it was to be applied universally.[[33]](#footnote-33)

In view of a general endorsement on income tax, the then Minister of Finance included introduction of an income tax in his budget plans to the Senate in May 1912.[[34]](#footnote-34) In the following year, the then Deputy Minister of Finance suggested that income tax was an important tax among proposed new types of taxes and it was urgent to introduce new taxes to rebuild the country and to consolidate politics, even though it would add extra burdens on people and businesses.[[35]](#footnote-35) In January 1914, the government issued the Regulations on Income Tax, with an explanation of four reasons for the introduction of the tax.[[36]](#footnote-36) The four reasons effectively referred to the four principles: equalization, universality, flexibility and the ability to pay, and the government believed that income taxes could satisfy the four principles.[[37]](#footnote-37) Despite a short piece of legislation, the 1914 Regulations encompassed both substantive provisions and procedural provisions, laying down a basic operational framework for the enforcement of the tax.

The 1914 Regulations adopted a general system and a territorial principle to tax income derived by both domestic and foreign residents from sources within the territory of the Republic.[[38]](#footnote-38) There were two types of income that were subject to tax. The first was income earned by legal persons and income from bonds excluding treasury bonds, and the second was all income other than the first type of income.[[39]](#footnote-39) A few items, such as salaries of military officers, author remunerations, teachers’ salaries and income derived by not-for-profit legal persons, were exempt from the tax. The tax scope thus appears broad. The first type of income applied a flat rate of 1.5 percent for income from bonds and a flat rate of 2 percent for all other business income, while the second type of income applied a progressive rate schedule ranging from 0.5 percent to 5 percent up to 500,000 yuan with a further increase of 0.5 percent upon every 100,000 yuan.[[40]](#footnote-40) Persons that would be liable to tax include those who were domiciled or had an abode for more than one year within the country and those who were not domiciled nor had an abode for more than one year but who had property, or business, or income from bonds in China.

The 1914 Regulations provided some necessary administrative procedures for tax return filing, reporting, third-party checking, investigation, and collection. Noticeably, the document provided a legal procedure for taxpayers to object to assessments made by the government and a further appeal to an administrative tribunal or a court if taxpayers disagreed on the decision on their objection.[[41]](#footnote-41) The objection would not be available if the taxpayer made any underreporting or fraudulent reporting.

The 1914 Regulations as a whole seemed to be a reasonably structured legal document. The document nevertheless had some noticeable flaws, one of which was the absence of penalty provisions on tax avoidance and evasion. The Regulations, while being made public, were never put into operation due to too complicated collection procedures and too broad tax scope in the view of many people at the time as well as other barriers.[[42]](#footnote-42)

To make the 1914 Regulations more easily enforceable, the government issued, in 1915, Phase I Implementation Rules on Income Tax, which were designed by the Ministry of Finance and approved by the President of the government. The 1915 Implementation Rules narrowed the application scope of the 1914 Regulations as it selected only a few items covered by the 1914 Regulations for implementation from 1 January 1916, including income earned by pawnshops, financial institutions, salt traders, and chartered firms as well as wages and salaries received by legislative members, government officials and employees, lawyers, engineers, doctors, and pharmacists.[[43]](#footnote-43) The 1915 Implementation Rules were, however again, never made operative due to widespread protests after the then President, Yuan Shikai, contrived to make himself Emperor of China in late 1915.[[44]](#footnote-44)

The 1915 Implementation Rules were revoked formally on 15 September 1920 by the government. Also on the same date, the government issued the revised Regulations on Income Tax. A series of supporting implementation rules were subsequently published in 1921 by the Ministry of Finance. Five types of income, including salaries and business profits earned by registered companies, banks and factories, were included into the tax net and scheduled to become taxable from the beginning of 1921. The promulgation of the revised Regulations and their supporting documents as well as the enforcement requirement triggered vehement opposition in the society, and the majority of local governments took a “wait and see” approach to the tax. The widespread opposition and local governments’ *de facto* resistance led the Ministry of Finance to decide to suspend taxation of all prescribed types of income except salaries of government officials. Unsurprisingly, the actual collection of the tax on officials’ salaries only saw a meagre amount of 10,310 yuan in 1921, [[45]](#footnote-45) and the tax became practically a mere name in paper afterwards, owing to political turbulence and defaulting of wage and salary payment. This outcome seemed to imply a complete failure of the imposition of the income tax. On the other hand, it did denote the beginning of income taxation in the country in modern times, however ineffective the tax collection was.

As studies have found, there are a number of reasons to explain why the 1914 Regulations failed to come into force.[[46]](#footnote-46) Most reasons relate to the broad political and socioeconomic conditions at the time. The first reason is political instability. The initial several years of the Republic was in the turning point in the country’s politics that was characterized by a departure (but not completely) from monarchy and embracing of western ideas of election, equality, democracy, industrialization, the market economy and alike. In the midst of transmission was fraught with frequent battles between regional warlords vying for power, together with incomplete state sovereignty on revenue and governance, intrusion of western powers into the country’s politics and economy, a weak central government who was unable to effectively control the regions, and a fragile Republic that was several times usurped by proponents for monarchy in the early republican period. The unstable political situation could not create an environment for law enforcement and the frequent changes to the tax rules themselves also reduced the intention of both the public and administrators at central and local levels to take them seriously.

The second reason is the low economic development level. The economy that was badly interrupted by wars and battles just started to transform from one based on agriculture to one on modern industry and commerce. The base of income tax was the income or profits of persons, which means if the income tax was expected to play a role in public finance, the revenue source needed to be sufficient. Ultimately that means the underlying economy would have to be relatively developed so as to produce adequate income and wealth. The problem is the industrial and commercial development in the country in the first two decades of the 20th century was limited, albeit with certain growth. Production was yet to be fully industrialized, and it was still largely manually operated. There was international trade, but most exports were raw materials while most imports were finished industrial products, leading to a trade gulf. A large population lived in rural areas as urbanization was not yet to occur. Most ordinary people struggled to survive in the country wrested by frequent internal fights and foreign intervention. Only a tiny minority could reach the level of income and wealth that was set for the income tax. While designed as a tax with universal application, the administration cost could be very high if it was to be applied generally to people that were scattered all over the countryside. There was also a serious lack of information and necessary collection capacity at the local level. However, if the tax was restricted to just a few key regions such as relatively developed cities, the tax would no longer be a universal tax.

The third reason relates to the lack of related rules and institutions that were necessary to the implementation of the income tax. Such rules and institutions include but not limited to accounting rules, property registration, record and information of households and profession. An unstable political environment made creation and development of these rules and institutions difficult.

Fourthly, there was a general resistance to the tax, especially from the wealthy. As a direct tax, the income tax was directly applied to those who were targeted by the law (in a broad sense) and the tax burden could not be shifted to someone else. Moreover, the higher income the more taxes. This was clearly not welcomed by the wealthy and the enforcement of the tax was not surprisingly scuttled by those people. A special obstacle came from the concession areas controlled by western powers during the period of the late Qing to the early Republic. With extraterritoriality in the concession areas, the Chinese income tax was not applicable to those living within the areas, including foreigners and Chinese who were usually elite or wealthy individuals. The existence of such concession areas could effectively create tax avoidance opportunities and gave rise to unequal taxation between those how lived within and outside the areas.

The general resistance also came from ordinary people due to a lack of understanding. Throughout the long Imperial period, ordinary people only had the obligation to pay tax and fulfil labour duties as a way of tax payment. They paid taxes largely passively and unwillingly as they could not see benefits as return from payment and they were frightened by penalty. Over the long history and still in the period of the late Qing to the early Republic, arbitrary imposition, direct appropriation, coercion, and corruption were a frequent feature of the tax system and the existence of these problems could only make the imposition of any new tax abhorrent to the ordinary people. While an income tax might play a role in reducing inequality, most ordinary people did not understand this. From their perspective, the new tax meant a source of revenue for the government but only a sacrifice to themselves, and as such they did not support the imposition of the tax.[[47]](#footnote-47)

The last reason can be attributed to the inter-governmental fiscal arrangements. Nominally China was a centralized state and the Beiyang government in Beijing was in charge, but as noted above the central government could not effectively rein the local areas controlled by regional warlords. The income tax was designated as a central tax and while part of the revenue derived by it would be allocated to the provinces after they had collected and remitted the tax to the central government, there was no clear indication of how much revenue benefit each province would get. As such, the provinces did not have the motivation to enforce and collect the tax.[[48]](#footnote-48)

## The Long Preparation: From 1922 to 1936

The Nationalist government in Nanjing formally established a unified Republic after defeating the major warlords in 1928. However, it took another several years for the government to tackle the continuing military separatism and bring it down to provincial sizes. The government also successfully resumed control over several concession areas that were occupied and effectively governed by foreign law of the relevant invading powers. The general political unification enabled the government to take measures to improve its fiscal and tax systems.

At the outset, the major revenue sources for the central government in Nanjing came from a few indirect taxes, including tariffs, salt tax, and business tax on domestic handicraft industry and commerce, as well as public borrowing. Local governments relied on land tax and other taxes on local business operation for revenue purposes. The principal types of taxes for both levels of government were indirect taxes in terms of revenue, but such reliance was seen as inappropriate and unsustainable because for one thing, the spending power of ordinary households at the time was very limited, meaning the tax base as consumption would not generate sufficient revenue, and for the other thing, the general regressive nature of indirect taxes meant income inequality could become worsened. It was also believed that indirect taxes could not meet special financial needs in war times, endangering a country’s survival.[[49]](#footnote-49) The government sought to explore new sources of tax revenue and upon establishing its capital in Nanjing it quickly moved to propose introduction of an income tax as the first type of new source of revenue. The then Minster of Finance highly praised the tax by referring to the practices and experiences in major western countries and arguing that income tax had become a pillar of modern tax systems in those countries and thus it is urgent for the country to implement it.[[50]](#footnote-50) Nevertheless, this proposal did not move further due to an unstable political situation in the early period of the Nationalist government.

On the other hand, the government managed to impose an income tax, albeit on only one type of income, during that period. The tax was an imposition on salaries of civil servants and KMT party members at various government levels. The legal basis to apply the tax was the Regulations on Collection of Income Contributions, which was passed by the KMT national standing committee on 24 June 1927.[[51]](#footnote-51) There were 9 tax brackets with progressive rates ranging from 1 percent to 8 percent. The imposition started from April 1928 and continued for 9 years until a more broad-based income tax, based on the 1936 Regulations, came into effect nationwide.[[52]](#footnote-52)

The ultimate aim of the government was, however, to push forward tax reforms and to make income tax a formal tax in the tax system. To achieve this aim, the Ministry of Finance prepared the Draft Regulations on Income Tax, together with the implementation rules, a position paper and a plan on implementation procedures, and submitted these documents for discussion in the first national fiscal meeting in July 1928. The draft regulations and the accompanying implementation rules were based on the 1914 Regulations and supplementary implementation packages issued in 1921, but the 1928 draft introduced a number of changes, including a reduction of tax rates on profits of legal persons, an increase in tax thresholds for income other than that of legal persons, and classification of types of income that would be subject to tax at staggered times (i.e., some taxed first and some later). The national fiscal meeting agreed to implement the tax at an appropriate time but there was no further action.[[53]](#footnote-53)

The Draft Regulations on Income Tax were further revised by the Ministry of Finance in January 1929. Major revisions include inclusion of interest on national debts into the tax net, application of progressive rates on profits of legal persons according to the percentage of their profits in total capital (the higher the percentage the higher the tax rate), and a further increase of tax thresholds for income other than that of legal persons with application of progressive rates. These revisions suggest that while the tax base was broadened, the tax payable would be more determined by the ability to pay and presumably the majority of ordinary income earners would be exempt from the tax with the further increase in tax thresholds. These changes might make implementation of the tax acceptable by the public.

However, at the time of government deliberations, the proposed income tax met objections by the design committee consisted of a group of US financial experts.[[54]](#footnote-54) The committee was of the view that it was not time to adopt either a general income tax or a schedular system in light of the nature of income taxes and the actual status of individual accounting in general in China.[[55]](#footnote-55) It argued that China certainly can adopt an income tax when the conditions that enabled other countries to introduce the tax were ripe, but even then it should implement it on a trial basis at the initial stage. The committee insisted on this view in its Tax Policy Opinion Paper published in November 1930. The view seemed to play a significant role in the final unsuccessful introduction of the tax by the government.[[56]](#footnote-56) The further postponement of the tax might also likely be influenced by the committee’s view.[[57]](#footnote-57) Some commentators at the time disagreed on the view, arguing that many western countries did not have all the required conditions met when introducing an income tax and the implementation of the tax was largely an incremental process.[[58]](#footnote-58) Nevertheless, they acknowledged that it was difficult to implement the tax due to some basic conditions missing.[[59]](#footnote-59) Presumably they meant the political situation was still unstable and some parts of the country were outside control of the Nationalist government.

The introduction of the tax was consequently sidelined in the following years until May 1934 when the second national fiscal meeting was convened. A decision on sorting out old taxes and initiating new taxes was reached in the meeting. It was noticed in the meeting that past attempts to introduce new taxes were largely for fundraising purposes, but because the implementation of income tax would entail complicated procedures and incur relatively high costs, the introduction of the tax had been delayed. In view of this, the government agreed that this time the introduction of the tax should be aimed at reforming or improving the tax system rather than at the revenue the tax would yield. A preparatory office was set up by the Ministry of Finance for the introduction of the tax. In July of the following year, the Ministry of Finance decided to implement the tax because of imbalanced revenue and expenditure. The Ministry submitted a draft set of regulations and rules to the Executive Yuan and then the Legislative Yuan for deliberations. The draft regulations and rules were finally approved by the KMT central political committee on 24 June 1936. The Legislative Yuan passed the Provisional Regulations on Income Tax on 9 July 1936, which were then issued by the Nationalist government on 21 July 1936. The accompanying Implementation Rues on the Provisional Regulations on Income Tax were passed by the Executive Yuan on 18 August and issued on 22 August 1936. With all the basic legislation in place, the government issued an order, requiring that the Provisional Regulations and Implementation Rules become effective from 1 October 1936 and certain types of income be taxed from 1 October 1936 and all other income from 1 January 1937.[[60]](#footnote-60) After more than three decades, the idea of a modern income tax finally turned into an enforceable measure.

Comparisons with the previous draft regulations reveal some important features of the newly passed legislation. There are two distinct differences between the new legislation and the 1929 Draft Regulations on Income Tax. First, the new legislation adopted a schedular system, rather than a general system that was proposed in the 1929 Draft Regulations. Second, there were only three types of income that would be subject to tax under the new legislation – business profits, wages and salaries, and income from securities and deposits, whereas the 1929 Draft Regulations included more types of income into the tax scope. The new legislation was also distinguishable from the 1914 Regulations in mainly three aspects. First, tax rates used in the new legislation were primarily progressive rates, while the 1914 Regulations mainly used flat rates to tax. Progressive rates might increase progressivity of the income tax and their application would be more aligned with the principle of the ability to pay as compared to flat rates, although the ultimate effects of progressivity depend on a number of factors including tax incidence, tax base, exemptions and alike. Second, the new legislation was designed to tax net profits or income earned by legal persons or sole proprietors, while the 1914 Regulations simply used profits as the basis to tax. This difference means that the new legislation did take (reasonable and necessary) business expenses into account in calculating tax payable, which was a progress from the 1914 Regulations. Third, more items of income were exempt from tax under the new legislation than in the 1914 Regulations. Some examples include profits or income below a certain threshold, salaries of elementary school teachers, interest income on deposits received by government agencies, mandatory provident funds of civil servants and workers,[[61]](#footnote-61) income of diplomats who stayed within the territory and foreign-source income of foreign residents who stayed no more than one year within the territory.[[62]](#footnote-62)

These features of the new legislation, as compared with those of the previous draft bills, imply that the applicable scope of the tax was narrow as a result of the adoption of a schedular system and various exemptions. The tax rates were also low as detailed in the next Section. Moreover, the government used a series of measures to make tax administration and collection easy. All these meant to make the new tax acceptable and manageable, especially at the initial stage. These efforts bore fruit as the new legislation was finally passed and enforced in China, after the long process of proposal, preparation and drafting from the late Qing to the second phase of the Republic period with the Nationalist government in office.

Some other efforts to make the implementation possible could not be neglected. Improvement in tax administration, in particular personnel, was instrumental to enforce the tax laws (in a broad sense) and collect taxes. One lesson the government learnt from the past failures was to train staff and to set up offices directly in charge of administration and collection of the tax at local levels.[[63]](#footnote-63) The first income tax office was set up in Shanghai on 12 October 1936 as Shanghai was the city with the largest source of income tax revenue.[[64]](#footnote-64) Provincial-level tax offices were also quickly created and by the end of June 1937 all provinces had an income tax office and some counties with relatively large revenue sources even had tax branches within their localities.[[65]](#footnote-65) The necessity and importance of administrative capacity building could not be emphasized enough in terms of the final successful introduction.

Further, the government made particular effort to explain to the general public the theory, the function and the advantages of the income tax as well as the rules and measures the government were to take to make the implementation simple and easy.[[66]](#footnote-66) Scholars and commentators also contributed to the general education by publishing books and articles to illustrate the significance of the new tax, and reminding businesses to prepare for the tax.[[67]](#footnote-67) Importantly, both the government and intellectuals pointed out that income tax was a good tax as compared with some old taxes that distorted the economy and disproportionally burdened ordinary people, and thus introducing new taxes could help remove those bad taxes and make the tax system more equitable and efficient. The preparation heled push forward a general acceptance by people and businesses.

## The 1936 Legislation and its Implementation

The issuance and the implementation of the 1936 Provisional Regulations and Implementation Rules was hailed as marking a watershed in China’s tax history as it signals a transformation from traditional tax system focusing on agriculture to a system focusing on modern industry and commerce.[[68]](#footnote-68) Perhaps it is because adoption of income taxes relies, among other things, on the level of economic development and administrative capacity that its formal introduction was remarked as a turning point in China’s modern tax history.

As noted above, the new legislation applied a schedular system to tax income. While a general system would be more in line with the principle of equity as it applies the same (progressive) rates to all income, the adoption of such system was conditioned upon that information about a taxpayer’s income could be all known to and verified by the tax authority. This was apparently not the case at that time. A schedular system would thus be a pragmatic choice. The legislation, however, did not explicitly state whether it applied a principle of worldwide taxation or territorial taxation. The provision that non-China sourced income derived by foreign residents who stayed in China for less than one year was exempt from tax[[69]](#footnote-69) seems to imply that if the foreign residents stayed in China for one year or more, they would be liable to tax on income sourced outside China. On the other hand, the provisions that businesses who had either their branch or parent entity resided in China must pay taxes on income or profits that were derived from carrying on business in China regardless of whether their capital was separated suggest that the legislation applied a territorial principle to tax income. The choice of territorial taxation appeared, again, realistic and justifiable to the extent that it would make passage of the legislation and implementation of the tax less resisted by the public.

The narrowed application scope that meant to make introduction acceptable and easy was to some extent offset by the relatively complicated categorization of income and application of tax rates. Under the schedular system, there were three types of income that would be subject to tax – income of profit-making businesses, salaries and wages, and income from securities and deposits, and the first type was further broken down to several groups with applicable rates varying.[[70]](#footnote-70) Each of the three types of income was provided with exemptions for certain types of income.[[71]](#footnote-71) The first type of income was divided into three groups: first, income from carrying on business by companies, firms, brokerages, factories or sole proprietors whose capital was above 2,000 yuan;[[72]](#footnote-72) second, income derived by public-private joint ventures; and third, occasional income from carrying on business. Different groups of income within the first type of income may be subject to different progressive rates. The table below details the types of income and their applicable tax rates under the 1936 Provisional Regulations.

Table 1 Types of Income and Tax Rates

|  |  |  |  |
| --- | --- | --- | --- |
| Types of Income | | Taxable Income | Tax Rates |
| Income of Profit-making Businesses  (Group 1, Group 2 and Group 3) | Groups 1-3 Income  (share of income in capital can be calculated according to capital) | Income in capital at or above 5% but less than10% | 3% |
| Income in capital at or above 10% but less than15% | 4% |
| Income in capital at or above 15% but less than 20% | 6% |
| Income in capital at or above 20% but less than 25% | 8% |
| Income in capital above 25% | 10% |
| Group 3 Income  (share of income in capital cannot be calculated according to capital) | Income more than 100 yuan but less than 1,000 yuan | 3% |
| Income more than 1,000 yuan but less than 2,500 yuan | 4% |
| Income more than 2,500 yuan but less than 5,000元 | 6% |
| Income above 5,000元 | Max 20%  (1% on each additional 1,000 yuan) |
| Salaries and Wages | Civil servants, Freelancers and Professionals | Monthly average income between 30-60 yuan | 0.05 yuan per 10 yuan |
| Monthly average income exceeding 60-100 yuan | Exceeding portion at 0.1 yuan per 10 yuan |
| Monthly average income exceeding 100-200 yuan | Exceeding portion at 0.2 yuan per 10 yuan |
| Monthly average income exceeding 200-300 yuan | Exceeding portion at 0.3 yuan per 10 yuan |
| Monthly average income exceeding 300-400 yuan | Exceeding portion at 0.4 yuan per 10 yuan |
| Monthly average income exceeding 400-500 yuan | Exceeding portion at 0.6 yuan per 10 yuan |
| Monthly average income exceeding 500-600 yuan | Exceeding portion at 0.8 yuan per 10 yuan |
| Monthly average income exceeding 600-700 yuan | Exceeding portion at 1 yuan per 10 yuan |
| Monthly average income exceeding 700-800 yuan | Exceeding portion at 1.2 yuan per 10 yuan |
| Monthly average income exceeding 800 yuan | For each additional 100 yuan, every 10 yuan at additional tax of 0.2 yuan until the 10 yuan at additional tax of 2 yuan |
| Income from Securities and Deposits | Government bonds, Company bonds, Shares and Deposits | All income | 5% |

As can be seen, the schedule of the progressive rates for income from profit-making businesses and wages and salaries was complicated. For wages and salaries, there were actually more than 10 tax brackets and the calculation method appeared to be burdensome as an increased rate applied to every portion of additional 100 yuan calculated on an each-10 yuan basis. Moreover, there was a further tax increase applied to each 10 yuan within every additional 100 yuan for monthly salaries and wages exceeding 800 yuan, which was capped at 2 yuan in tax for the further rate increase.[[73]](#footnote-73) This means that the maximum highest rate for each additional 10 yuan was 20 percent. The overall tax rates by different income groups under the progressive rate schedule on wages and salaries were low.[[74]](#footnote-74) Similarly, for income of profit-making businesses, the maximum tax rate was either 10 percent or 20 percent as shown in the Table.

Apparently, despite complicated rate schedules, the tax rates were rather moderate. As a comparison, the federal income tax rates on individual income in the United States (US) in 1936 ranged from 4 percent to 62 percent.[[75]](#footnote-75) While the tax rates for the same, respective income groups were lower in 1930 – ranged from 1.5 percent to 24 percent, the rates were much higher in 1940 which ranged from 13 percent to 69 percent in the US.[[76]](#footnote-76) The standard income tax rate in the United Kingdom (UK) in the year of 1931-1932 was 25 percent and surtax rates could be up to 41.25 percent.[[77]](#footnote-77) The comparison shows the tax rates adopted by the Nationalist government was internationally low at the time. However, the application of lower rates is common, especially at an initial stage when a country introduced an income tax. For example, in the UK when income tax was first implemented, the maximum rate was 10 percent; and during the First World War, the standard rate was 6 percent in 1914, which increased to 30 percent in 1918.[[78]](#footnote-78) The rationale behind lower rates would be to make a new tax more easily introduced with less objection.

However, there were criticisms on the design of the tax rates. One criticism was that the tax threshold for wages and salaries was too low.[[79]](#footnote-79) As shown in the Table, those whose monthly wages or salaries were below 30 yuan were exempt from the tax. It was not clear what the average monthly income of workers was at the time in the country. Presumably the threshold of 30 yuan would bring many ordinary workers to the tax net. Another criticism was that the progressing of the rates between tax brackets was too slow, reducing the function of progressivity.[[80]](#footnote-80) Further, labour income was taxed at progressive rates, while investment income was only subject to a low flat rate and business profits above 5,000 yuan were applied with low progressive rates until they reached a very high level, suggesting that the legislation burdened labour more than capital.[[81]](#footnote-81)

With regard to tax collection, the major methods were withholding and tax-filing (together with self-assessment).[[82]](#footnote-82) However, withholding was preferred and required whatever there was a withholding agent or paying entity. Again, this method was meant to make tax collection easy and reliable, particularly from a tax authority’s perspective. Both carrots and sticks were used to motivate withholding agents to comply with the law: an incentive payment of 0.5 percent of the withheld amount of taxes would be granted when withholding agents could fulfill their withholding obligations according to the law on time,[[83]](#footnote-83) but on the other hand they would be held liable for any shortfall of tax payments where that shortfall was detected by the tax authority.[[84]](#footnote-84) The dates or periods of tax payment were explicitly prescribed by the legislation. When taxpayers or withholding agents failed to pay taxes on time, they would be imposed with penalty. There was a serious shortcoming of the penalty rule. Under the rule, taxpayers or withholding agents who were 3 months or more in arrear with whole or part of the tax were required to pay penalty of up to 30 percent of the default amount and those who were 6 months or more in arrear had to pay penalty of up to 60 percent, but those who failed to pay whole or part of the tax for more than 9 months were only liable to penalty below 100 percent of the default amount.[[85]](#footnote-85) That means no matter how long the tax arrears were, the maximum penalty would never exceed the amount that doubled the default amount. This clearly would encourage taxpayers to defer tax payment for as long as they can and utilize the time value of the default amount to make profits, especially when the default amount was high.

The legislation provided investigation and audit procedures to check whether the reported information by taxpayers or withholding agents was correct. It also contained procedures to allow those who had tax liability to object to an assessment decision, apply for a review of the objection decision to a review body if they disagreed on the decision, and if they did not accept the review decision they could make an administrative appeal or launch a law suit.[[86]](#footnote-86) The review body was called committee of income tax review that was to be set up in cities, counties or other collection regions with members appointed from local governments and professional bodies as well individuals trusted by the local community.[[87]](#footnote-87) Protection of privacy was also emphasized in the legislation. Where an employee of a tax office failed to comply with the privacy obligations, the employee would be dismissed or given disciplinary punishment or sent to court if their (mis)conduct violated criminal law.[[88]](#footnote-88) These dispute resolution and privacy protection procedures appeared to be properly designed and their availability could offer a degree of assurance to taxpayers in complying with the law and making tax payment.

Probably the most important progress in terms of tax governance was to separate tax administration from actual receipt of tax money. The implementation rules stipulated that tax payments shall be collected by national banks or post office savings banks entrusted by the tax authority and if there were no such financial institutions in the region, the tax payments were to be collected by other designated banks or financial institutions.[[89]](#footnote-89) This progress was significant in that tax administration and actual receipt of the tax money were in the past within the same institute, and absent institutional checks and controls it was difficult to prevent embezzlement and misappropriation from within, which occurred often. The separation could help avoid corruption and make China’s tax administration and governance more aligned with international norms.

With sufficient preparation, the income tax was put into full operation from 1937. Unfortunately, the implementation was disrupted by the Japanese invasion and the outbreak of the Second Sino-Japanese War (1937-1945). Coastal regions and many places in the inner part of the country fell, which negatively affected the implementation of the tax. The government had to move tax offices and important documents to safe places such as foreign bank branches that would not be hit by Japanese forces. Tax administration and collection were made much simplified by the government to accommodate the extraordinary situation, for example, allowing taxpayers to pay taxes according to previously reported figures.[[90]](#footnote-90) Many ordinary individuals and businesses complied with the rules and made payment on time, thanks partly to a simplified procedure and low taxes and partly to the prevailing social ethos of fighting against the common enemy to win the war. While the war seriously undermined the implementation of the tax, the Nationalist government managed to collect taxes from businesses and individuals. For example, after the fall of Shanghai in November 1937, tax implementation was carried on with various indirect measures and tax collected in Shanghai after the fall and until the full closure of Shanghai tax offices in 1941 (when the Pacific War broke out) amounted to around 30 million yuan, which was remarkable if one evaluates this against the war background.[[91]](#footnote-91) Obviously, patriotism played an indispensable role in achieving the tax collection.

During the Sino-Japanese War, China’s economy went into deep recession and inflation soared to an uncontrollable level.[[92]](#footnote-92) Tax payments were changed into in-kind payments at some stage. After the fall of Eastern China as well as other parts of the country, the Nationalist government had to move its capital from Nanjing to Chongqing in 1938. Despite all the difficulties, the government managed to carry on taxation in occupied areas and to establish new tax offices in rear areas in Western China. Tax revenues were budgeted to be 30 million yuan in 1939, which increased to 170 million in 1942, and except for the period of 1937-1939 when the actual collection nearly met budget amounts, tax collection in all other years during the war time far exceeded budget amounts.[[93]](#footnote-93) When the tax implementation partially started in 1936, it was only the 6th most important tax in terms of revenue contribution in total national tax revenue, but by 1940 it became the third most important tax revenue source for the government.[[94]](#footnote-94) In view of the tax collection, it would be safe to say that the implementation of the tax by the Nationalist government was successful.

# The Success and the Failure: Lessons from the First Income Tax

There are several reasons to explain why the 1936 Regulations, as a quasi-law, were finally enacted and successfully implemented.

At a micro level, the success could be attributed to the good preparation by the government. First, to practically implement a law, detailed and clear rules were needed as general provisions would be far from sufficient. While the general law, the 1936 Provisional Regulations, was noticeably short, 22 articles in total – and even the implementation rules only contained 49 articles, the government did provide a number of detailed operational rules and guidance to supplement the general law. These include a notice to explain some key terms for the first type of income – business profits, a notice to specify the calculation of taxable income and tax filing and payment procedures for the second type of income – wages and salaries, and another notice to clarify the tax scope of the third type of income – income from securities and deposits – as well as their withholding details.[[95]](#footnote-95) These operational rules were timely issued and in practice severed important operational functions, although these rules should have been enacted in the general law that was subject to legislative scrutiny.

Second, modern accounting rules and system were gradually built up, which facilitated the implementation of the tax. As noted above, when the first income tax bill was introduced by the Beiyang government in 1914 and later another bill by the Nationalist government in 1927, both bills did not pass the legislature and instead met vehement objection from people and even experts. One reason for the objection at that time was, as argued by foreign experts, the low level of accounting standards prevailed in the country. Indeed, in the early republican period, businesses used traditional accounting method for book records, which was very simple and did not reflect actual business operation. To promote the introduction of the income tax in 1936-1937, the Nationalist government made efforts to reform the accounting system.[[96]](#footnote-96) Two measures were taken for this purpose. One was to lay down and apply new accounting standards and the other was to train business employees in charge of booking and accounting.[[97]](#footnote-97) These measures could assist businesses in improving their accounting methods and complying with the tax law.

Third, information collection and recording were improved. This was particularly necessary as without information it would be very difficult, if not impossible, to implement the tax. The application of a schedular system can be seen, in a way, as a response to mitigate the limitations on information gathering at the initial stage. The latter two schedules, wages and salaries and income from securities and deposits, could be collected from third parties such as employers, banks, or security exchanges, but other types of income derived by individuals could still be difficult for the tax authority to obtain. To collect information about business profits, the government issued a guidance on investigation into commodity prices in 1938 and an investigation plan on local specialties related to industrial, mineral, agricultural or animal husbandry products and on bulk distributed goods in each tax jurisdiction in 1939. The purpose was to gather information about transactions in major goods, which was important as profits from such transactions constituted as a large tax revenue source. In 1941, the government issued a document on freight transport registration method, requiring tax offices (direct taxes) to set up registration stations on key transport points to gather information on distribution of goods. The registration helped reduce tax base erosion, though it caused some unintended consequences such as extortion and abuse of power.[[98]](#footnote-98)

Fourth, the government made particular effort to establish a personnel management system for the administration of direct taxes, in particular the income tax. The system was comprised of selection, professional training, assessment, and career development with a legal document regulating the examination of direct tax personnel.[[99]](#footnote-99) Another legal document regulating the assessment and promotion of direct tax personnel was issued later.[[100]](#footnote-100) The system was meant to select those who had certain educational background and professional experiences to work on the administration of direct taxes, the modern type of taxes which was viewed by the government as a way to improve the country’s tax system and to encourage socioeconomical development. From an administrative perspective, personnel management and professional training were very necessary and instrumental to the enforcement of the tax given modern income taxation was such a specialized area of public administration. At the same time, to prevent potential abuse of power and strengthen tax administration, the government set up an auditing system with rules and procedures requiring the creation of auditing offices at various levels of tax offices and rules detailing the role and duty of auditing officers.[[101]](#footnote-101) The internal checks and supervision could help forestall misconduct of tax officials and employees to some degree, and thereby building public trust in tax administration.

At a macro level, there are also several factors that contributed to the success of the 1936 legislation. Presumably, the first and foremost is the development of the economy. Despite external wars and internal battles during the 1920s and 1930s, China’s economy underwent a relatively fast growth period after the First World War.[[102]](#footnote-102) National industries grew from 1927 to 1931, and while seriously hit by the Great Depression from 1931 to 1935 and Japan’s occupation of Manchuria in 1931, industrial output recovered by 1936 and suppressed the previous peak in 1931.[[103]](#footnote-103) Foreign investment in China before 1936 totaled US$4.285 billion and foreign trade reached 4.7 billion yuan by 1936, which was an increase by 20 times the amount at the end of the 19th century.[[104]](#footnote-104) Indeed, the period around 1936 was considered the most prosperous time of China’s national capitalism development in the republican period,[[105]](#footnote-105) though China’s countryside did not benefit as much as its urban counterparts from the economic growth. The capitalist economic development laid a necessary foundation for the government to implement the income tax.

Another important factor can be attributed to the relative political stability and unity the Nationalist government brought about in the 1930s after overthrowing the previous Beiyang government. Political instability and fragmentation had been a character in the period of the Beiyang government. Central control was only nominal during that period as the central government could not effectively reign reginal warlords and the government itself was actually controlled by military powers. The Nationalist government finally unified the entire country in 1928, even though nominally in the first few years, making the beginning of what is called the Nanjing Decade.[[106]](#footnote-106) The Decade denotes a period of relatively stable government between 1928 and 1937 and a period in which most of the country was governed by the KMT government. While it was effectively a one-party state, the government did much to build up a uniform monetary and banking system and to improve taxation.[[107]](#footnote-107) The government also made attempts to facilitate economic development and modernization during the Nanjing Decade. The political stability and unity which was not available in the late Qing and the early Republic created an environment in which introduction and enforcement of new taxes was possible.

The third contributing factor is intellectual enlightenment and public education. The idea of a modern income tax appeared in China as early as in the late Qing. Intellectual leaders and reformists in the Qing government saw the decadence and disgraceful defeat of the Qing regime and the advancement of western technology and institutions, and they sought to reform the old regime and strengthen the country by leaning from the west. As income tax had been introduced to major western powers including Britain, Japan and the US and direct taxes played an important role in generating government revenues in those countries, intellectuals and other elites at that time thought an income tax could also be introduced to China as a way to modernize its outdated, unequal and corrupted tax system. After the collapse of the Qing regime and with more understanding of western tax systems, an increasing number of elite members from academia and the government called for introduction of income tax and other direct taxes.[[108]](#footnote-108) They particularly advocated income tax because they believed unlike many traditional taxes in China, an income tax could make distribution of tax burdens between rich and poor more equal and tax shifting by wealthy individuals more difficult. The intellectual enlightenment helped disseminate income tax theories among the society. Translated literature on income tax theory and practice from western countries during the republican period also played a role in familiarizing Chinese people with the idea of the tax.[[109]](#footnote-109) While ordinary people did not welcome any new tax, which was natural and common, the low level of the actual income tax and the narrow tax scope ultimately won their acceptance. Importantly the outbreak of the Second Sino-Japanese War lifted Chinese morale and motivated tax compliance as paying tax was seen as a way to save the country.

On the other hand, intellectual contributions from western scholars and experts might have dragged on the introduction of the tax. As discussed earlier, when the Nationalist government attempted to pass a revised income tax regulation in 1929, foreign experts opposed the introduction and even went further to state that it was not right time to enact either a general income tax or a schedular system and only when conditions for the tax were all met could the government consider introducing it. The foreign experts’ opinion might explain why there had been no action by the government from 1929 to 1934 and the income tax seemed to be completely off the government agenda.

The last but not the least contributing factor was the heavy pressure the war finance put on the government. In the first years of the Nationalist government, the government continued its battles against regional warlords and took action to crack down on the CCP. The battels and conflicts pushed up military spending,[[110]](#footnote-110) but the chronical shortcomings of traditional taxes meant a shortfall of tax revenues. Fiscal deficit grew increasingly larger in the early years of the Nationalist government and even larger during the war against Japanese full-scale invasion from 1937 to 1945.[[111]](#footnote-111) Worse, when in 1931 Japan occupied Manchuria, the government lost a significant portion of tariffs from customs in the occupied region.[[112]](#footnote-112) Manchuria was a huge and rich area of China. The revenue loss warned the government that as major traditional tax revenue sources – customs duties, salt tax and excise tax on certain goods – mainly came from costal regions, once these regions were lost due to the war against Japan, the government would incur serious financial trouble. Thus, it was urgent and imperative for the government to find new tax revenue source, and the long-advocated income tax with its almost ready-to-go draft bill was pushed forward and finally passed into a real, enforceable legal document.

# Conclusion

The idea of introducing an income tax to China first appeared in the late Qing. Such modern tax was regarded as a good tax by Chinese elites to reform the old tax system and a measure to modernize the outdate political and economic regime. The first income tax bill was introduced in 1914, the earlier republican period when Beiyang government was in charge. Draft bills then underwent several rounds of revisions, but it was not until 1936 that an income tax was formally passed into law and became operative in the republic.

While war finance ordinarily serves as a catalyst for the introduction of income tax in many countries and despite many internal and external battles and conflicts occurred during the period from 1914 to 1937 in China, the fiscal and tax constraints from the wars did not immediately trigger introduction of the tax. Upon a close examination of the evolution of the income tax bills in the period, the article reveals that successful introduction and implementation of income tax is hinged upon a few critical factors in addition to financial strain, which include economic development, administrative capacity building, creation of modern accounting standards and information recording system, intellectual enlightenment and public education, and ultimately relatively political stability. While overall a success, the 1936 legislation and its implementation did contain inherent shortcomings. One of such shortcomings was the lack of equity (mainly due to a schedular system) and the other was the failure to apply the regulations to foreign concession areas within the country, causing unequal taxation between Chinese and foreign nationals. The schedular feature on individual income tax continued till this day, although the tax system gradually moved to a mix of schedular and global system in very recent years. When corporate income taxation was re-introduced by the socialist government in the early 1980s, separate corporate income tax laws (in a broad sense) were adopted for domestic and foreign-owned enterprises, with the latter receiving preferential treatment until the separate laws were merged in 2007 and a single set of law became applicable to all enterprises in the country in 2008. Historical lessons might be learnt too slowly.

1. For the introduction of the income tax, see Martin Daunton, *Trusting Leviathan: The Politics of Taxation in Britain, 1799–1914* (Cambridge University Press, 2001), Ch 1 and Ch 4; see also Meade Emory, “The Early English Income Tax: A Heritage for the Contemporary” (1965) 9(4) *The American Journal of Legal History* 286-319. [↑](#footnote-ref-1)
2. See Toke S. Aidt and Peter S. Jensen, “The Taxman Tools Up: An Event History Study of the Introduction of the Personal Income Tax” (2009) 93 *Journal of Public Economics* 160, 162. Interestingly, the British income tax remains a temporary tax today, expiring on 5 April each year, and thus it needs to be renewed in the annual Finance Bill. However, the Provisional Collection of Taxes Act 1913 allowed the Government to continue to collect the tax for up to four months after the expiry until the Finance Bill becomes law. See Politics.co.uk, *UK Income Tax*, available at <https://www.politics.co.uk/reference/income-tax/>. [↑](#footnote-ref-2)
3. Emory (n 1) 288. [↑](#footnote-ref-3)
4. See Politics.co.uk (n 2). The publication notes that in 1874, the income tax contributed only £6 million of Government revenues of £77 million. Aidt and Jensen’s study also shows that revenue from income tax reached 5% of total revenue in Britain only from 1844, indicating that revenue contributions of the tax were insignificant in its early days. Aidt and Jensen (n 2) 162. [↑](#footnote-ref-4)
5. Aidt and Jensen (n 2) 162. [↑](#footnote-ref-5)
6. For example, the Australian, Canadian and US income taxes had state or provincial or colony income taxes in 1884, 1866, and 1706 respectively, long before their national level income taxes started. See Aidt and Jensen (n 2) 162. [↑](#footnote-ref-6)
7. For a general discussion of the development and importance of income taxation, see Esteban Ortiz-Ospina and Max Roser, “Taxation”, *Our World in Data*, available at <https://ourworldindata.org/taxation>; see also OECD, *Global Revenue Statistics Database*, available at <https://www.oecd.org/tax/tax-policy/global-revenue-statistics-database.htm>. The OECD database implies the wide application of income taxes. [↑](#footnote-ref-7)
8. During the period of the Beiyang government in the Republican era of Chinese history, the National Assembly was the legislative branch of the government. It was funded in 1913, but it was disbanded less than a year by the then President, Yuan Shikai, and later during the Warlord Era (1916-1928) it was resurrected and disbanded several times. In 1914, a Constitutional Conference produced the Constitutional Compact, which gave Yuan as the president sweeping powers. The National Council became the new legislature. The draft income tax bill was originally named as draft “law”, which was prepared by the Ministry of Finance. However, when the draft bill was submitted to the National Council, it was renamed as “regulations” according to a National Council’s resolution. See Jiawei He, “Brief Account on Nationalist Government’s Individual Income Tax System” (2008) 61(1) *Wuhan University Journal (Humanity Sciences)* 80, 80. [↑](#footnote-ref-8)
9. See Susan Mann Jones and Philip A. Kuhn, “Chapter 3 Dynastic Decline and the Roots of Rebellion” in John K. Fairbank (ed.), *The Cambridge History of China: Volume 10 Late Ch’ing 1800-1911, Part 1* (Cambridge University Press, 1978) pp 107-62. Fairbank also notes several aspects of Qing weakness including internal disorder, foreign troubles, an “habituated ignorance of foreign realities” and a “wilful refusal [of the Qing government] to take them into account”. John K. Fairbank, “Chapter 5 The Creation of the Treaty System” in John K. Fairbank (ed.), *The Cambridge History of China: Volume 10 Late Ch’ing 1800-1911, Part 1* (Cambridge University Press, 1978) p 260. [↑](#footnote-ref-9)
10. See Yumin Zhou, *Public Finance and Social Changes in Late Qing* (Shanghai: Shanghai People’s Publishing House, 2000) p 13; Zhenpeng Ye (ed), *Fiscal and Tax Reforms in China’s History* (Beijing, China Economics and Finance Press, 1999) pp 569–76. [↑](#footnote-ref-10)
11. For a brief account of the aftermath of the Opium Wars, see Jack Patrick Hayes, “The Opium Wars in China”, *Asia Pacific Curriculum*, available at <https://asiapacificcurriculum.ca/learning-module/opium-wars-china>. [↑](#footnote-ref-11)
12. The major foreign powers that invaded China during that period were Britain, France, Germany, Italy, Russia, and the US as well as few other foreign countries. See generally Fairbank (n 9). [↑](#footnote-ref-12)
13. See generally Ting-yee Kuo and Kwang-Ching Liu, “Chapter 10 Self-strengthening: the Pursuit of Western Technology” in John K. Fairbank (ed.), *The Cambridge History of China: Volume 10 Late Ch’ing 1800-1911, Part 1* (Cambridge University Press, 1978); Hao Chang, “Chapter 5 Intellectual Change and the Reform Movement: 1890-8” in John K. Fairbank and Kwang-Ching Liu (eds.), *The Cambridge History of China: Volume 11 Late Ch’ing 1800-1911, Part 2* (Cambridge University Press, 1980). [↑](#footnote-ref-13)
14. These foreign enclaves were also called concession areas or foreign settlements. Some enclaves were controlled by Britain, some by France, some by other foreign powers, and a very few by a mix of foreign powers in China. Major coastal cities and trading centres such as Shanghai, Tianjin and Wuhan were hosts of the various foreign enclaves. It was found that from 1845 when Britain established the first enclave in Shanghai to the end of Qing, there were in total 22 discrete enclaves of various sizes controlled by one of the foreign powers in China and 2 communal enslaves. See National Codification Committee on History of the Qing Dynasty, *Qing History, Chorology of Laws and Regulations, Chorology of Foreign Enclaves* (Beijing: National Codification Committee on History of the Qing Dynasty, 2012) p1; see also Fairbank (n 9) pp 238-43, 259-60; Chengkang Fei, *History of Enclaves in China* (Shanghai: Shanghai Academy of Social Sciences Press, 1992); Office on Chorology of Shanghai, *Chorology of Enclaves in Shanghai: General Overview*, 27 August 2003, available at <http://www.shtong.gov.cn/newsite/node2/node2245/node63852/node63855/index.html>. [↑](#footnote-ref-14)
15. See Fairbank (n 9) 260. [↑](#footnote-ref-15)
16. Glenn Kucha and Jennifer Llewellyn, “Foreign Imperialism in China” (Alpha History, 28 August 2019), available at <https://alphahistory.com/chineserevolution/foreign-imperialism-in-china/>. [↑](#footnote-ref-16)
17. For a historical account and review of Sun Yat-sen, see National Dr. Sun Yat-sen Memorial Hall, *Chronology of Dr. Sun Yat-sen*, available at <https://web.archive.org/web/20140416192520/http://www.yatsen.gov.tw/en/index.php?option=com_content&view=article&id=153&Itemid=129>; Marie-Claire Bergère (translated Janet Lloyd), *Sun Yat-sen* (Stanford University Press, 1998). [↑](#footnote-ref-17)
18. For an extensive review of Yuan Shikai, see Patrick Fuliang Shan, *Yuan Shikai: A Reappraisal* (The University of British Columbia Press, 2018). [↑](#footnote-ref-18)
19. Arthur Waldron, “The Warlord: Twentieth Chinese Understandings of Violence, Militarism, and Imperialism” (1991)96(4) *American Historical Review* 1073, 1075. [↑](#footnote-ref-19)
20. See William C. Kirby, Man-houng Lin, James Chin Shih and David A. Pietz (eds), *State and Economy in Republican China* (Harvard University Asia Center, 2000) pp 60-61; Christopher R. Lew, Edwin Pak-wah Leung, *Historical Dictionary of the Chinese Civil War* (Scarecrow Press, 2013) pp 18-19; See also Chi Man Kwong, *War and Geopolitics in Interwar Manchuria* (Brill, 2017) Ch 2 and Ch 3. [↑](#footnote-ref-20)
21. See Julia C. Strauss, “The Evolution of Republican Government” (1997) 150 *The China Quarterly* 329, 333-334, 336. The article notes that Yuan briefly received tax revenues coming from local government in 1914. After his death, the central government got revenues by way of the remission of the remainder of salt tax funds collected by customs and Sino-foreign tax collecting agencies and loans from western banks. [↑](#footnote-ref-21)
22. The ceded Kowloon part refers to the part of Kowloon Peninsula south of present-day Boundary Street. The New Territories, the third constituent part of Hong Kong, were leased rent-free to Britain for 99 years in 1898 according to the Convention for the Extension of Hong Kong Territory signed between Qing China and Britain on 9 June 1898. [↑](#footnote-ref-22)
23. For detailed accounts of the Opium Wars, see Jack Beeching, *The Chinese Opium Wars* (London: Hutchinson, 1975); Stephen R. Platt, *Imperial Twilight: The Opium War and the End of China’s Last Golden Age* (New York: Alfred A. Knopf, 2018); Hayes (n 11). [↑](#footnote-ref-23)
24. Yaohui Zeng, *Study on the Income Tax System in the Republic of China* (Doctoral dissertation, Jiangxi University of Finance & Economics, 2012) p 24. [↑](#footnote-ref-24)
25. Tianhua Huang, *China Taxation History* (East China Normal University Publishing, 2007) p 659. [↑](#footnote-ref-25)
26. Xianggang Sun, *History of China Public Finance* (China Social Sciences Publishing, 2003) p 334. [↑](#footnote-ref-26)
27. See generally Zhaoxin Wu, *China Taxation History* (Shangwu Yinshuguan (Commercial Press), 1937); see also Yan Xu, “Land Tax without Land and Land without Land Tax: A History of Land Tax in China” in John Tiley (ed.), *Studies in The History of Tax Law* (Vol 6) (Cambridge: Hart Publishing, 2013) 523-56; Yan Xu, “The State Salt Monopoly in China: Ancient Origins and Modern Implications” in Peter Harris and Dominic de Cogan (eds.), *Studies in The History of Tax Law* (Vol 8) (Cambridge: Hart Publishing, 2017) 513-37. [↑](#footnote-ref-27)
28. See Wenzhi Li and Youyi Zhang, *Modern History of Chinese Agriculture* (SDX Joint Publishing Company, 1957, Vol 2) p 608; Xinxia Lai, “Several Types of Internal Extractions by Beiyang Worlords” (1957) 3 *Monthly Journal of History Studies* (repr. Renmin University School of Economies (ed.), *Chinese Modern History of Agricultural Economy* (Renmin University Press, 1980) p 130. Cited in Zeng (n 24) pp 28-9. [↑](#footnote-ref-28)
29. [↑](#footnote-ref-29)
30. *Lijin* was introduced as a temporary measure during the Taiping Rebellion (1850-1864), but it became a regular tax in the late Qing. The levy applied to only domestic merchants (transporting goods from one place to another) and was imposed more than once (i.e., double taxation or even worse). The rate of tariffs varied from region to region and there were many other forms of *Lijin*, such as the one on resident merchants. This levy was seen as not only unfair but also harmful to the competitiveness of Chinese products as compared with foreign goods. See Edwin George Beal, *The Origin of Likin, 1853-1864* (Cambridge, MA: Harvard University Press, 1958); Yudong Luo, *History of Linjin in China* (Shangwu Yinshuguan (Commercial Press), 1936), repr. in 2010). [↑](#footnote-ref-30)
31. Chengbai Wang and Wenxue Sun (eds), *Chinese History of Thoughts on Taxation* (China Public Finance and Economics Publishing, 1995) pp 618-631; cited in Zeng (n 24) 26. [↑](#footnote-ref-31)
32. Liang Qichao, *Collected Works of Yinbingshi* (Zhonghua Book Co, Shanghai 1936, repr. in Beijing, 2003), Book 10. Cited in Weiguang Li, “Liang Qichao: The Enlightenment Thinker and Pioneer of China’s Public Finance” (2011)29(4) *Tribune of Political Science and Law* 3, 7. [↑](#footnote-ref-32)
33. Wu (n 27) 219. [↑](#footnote-ref-33)
34. Jinwen Zou, *Study on Thoughts on Public Finance and Taxation in Republican China* (Wuhan University Press, 2008) p 110; cited in Zeng (n 24) 30. [↑](#footnote-ref-34)
35. Xuelu Cen, *Chronological Biography of Mr Liang Yan Sun* (Shangwu Yinshuguan (Commercial Press), 1939) p141; cited in Zeng (n 24) 30. [↑](#footnote-ref-35)
36. As noted in footnote 8, the draft income tax bill was renamed from “law” to “regulations” when the bill was sent to the National Council. The rename is presumably because the government thought the income tax so designed would be further developed, and thus not a permanent legislation. [↑](#footnote-ref-36)
37. Qie Zhu, *The Development History of Income Tax* (Zhengzhong Book Co, 1947) pp126-127; cited in Zeng (n 24) 31. [↑](#footnote-ref-37)
38. Zeng (n 24) 31. [↑](#footnote-ref-38)
39. Ibid. [↑](#footnote-ref-39)
40. Ibid. The amount of 500,000 yuan or 100,000 yuan would be worth XXX by today’s money value. [↑](#footnote-ref-40)
41. See Zuo Liu, “The Origin of China’s Income Tax System” (2010) 16 *China Finance* 74-75. [↑](#footnote-ref-41)
42. Zeng (n 24) 32. [↑](#footnote-ref-42)
43. Ibid. [↑](#footnote-ref-43)
44. Jonathan D. Spence, *The Search for Modern China* (W. W. Norton, 2nd edn., 1999) p XX. [↑](#footnote-ref-44)
45. State Taxation Administration (ed.), *Outlines of the History of Taxes on Industry and Commerce in Republican China* (China Economy Publisher, 2001) p 116; cited in Zeng (n 24) 33. [↑](#footnote-ref-45)
46. Zeng (n 24) 33-6. [↑](#footnote-ref-46)
47. Jingbo Cui, *The Personal Problem in Pursuing the Income Tax* (Economic Research Society of National Peking Research Institute, 1937) p 3; cited in Zeng (n 24) 35. [↑](#footnote-ref-47)
48. Zhaozhi Yang, *China Taxation* (Shangwu Yinshuguan (Commercial Press), 1947) p 41; cited in Zeng (n 24) 36. [↑](#footnote-ref-48)
49. Kong Xiangxi, “Features of Income Tax and the Status of Government Preparation” in Zhengdong Liu (ed.), *Collections of Mr Kong Yongzhi Speeches* (The US New York Sino-American Cultural Association, 1960), p 169; cited in Zeng (n 24) 37. [↑](#footnote-ref-49)
50. The remarks were made by Gu Yingfen, the then Minister of Finance. Cited in the State Taxation Administration (ed.), *History of Taxes on Industry and Commerce in the Republic of China – Volume on Direct Taxes* (China Financial and Economic Publishing House, 1996) p 12. [↑](#footnote-ref-50)
51. See Zeng (n 24) 38. [↑](#footnote-ref-51)
52. Xin Jin et al. (eds.), *History of Taxes on Industry and Commerce in the Republic of China: Direct Taxes* (China Financial and Economic Publishing House, 1996) pp 13-14. [↑](#footnote-ref-52)
53. Zhu (37) 133. [↑](#footnote-ref-53)
54. The committee was engaged by the Ministry of Finance for tax reforms in China. The public finance expert from the US, E.W. Kemmerer, was appointed as an advisor to investigate the environment for introduction of an income tax in China. See Lihua Dai, “The Application and Evolution of the Idea on Legality of Taxation” (2016) 383 *Taxation Research* 95, 97. [↑](#footnote-ref-54)
55. See Yanshuang Du, *Compendium of China Income Taxation* (Jinghua Publishing, 1944) pp 35-40; see also Zeng (n 24) 7. [↑](#footnote-ref-55)
56. Xulun Pan and Wenjie Li (eds.), *Theory and Practice of Income Tax* (Shangwu Yinshuguan (Commercial Press), 1937) pp 106-7. [↑](#footnote-ref-56)
57. Ibid. [↑](#footnote-ref-57)
58. Wenhuan Cai, “The Implementation and Prospect of Income Tax” (1936) 1(9) *Time Tribune* [Shi Dai Lun Tan]. [↑](#footnote-ref-58)
59. Ibid. [↑](#footnote-ref-59)
60. Wu (n 27) 235. [↑](#footnote-ref-60)
61. 1936 Provisional Regulations on Income Tax, art 2. Cited in Zhaoxin Wu (n 27) 228-9. [↑](#footnote-ref-61)
62. 1936 Implementation Rules on Provisional Regulations on Income Tax, arts 2-3. Cited in Wu (n 27) 236. [↑](#footnote-ref-62)
63. Yujie Hu, *Theory and Practice of Introduction of Income Tax to Our Country* (Economics Book Co., 1937) p 24; Jiangsu Province Editing and Composing Group of Republic of China Taxes on Industry and Commerce (Second Historical Archives of China), *Historical Records of Taxes on Industry and Commerce in the Republic of China* (Volume 4, Part 1) (Nanjing University Press, 1994) p 583. [↑](#footnote-ref-63)
64. Zeng (n 24) 48. [↑](#footnote-ref-64)
65. Hu (63) 23. [↑](#footnote-ref-65)
66. Hu (n 63) 1-3. [↑](#footnote-ref-66)
67. Bin Li (ed.), *Brief Guide on Income Tax Payment* (Zhonghua Book Co, 1937) p 116-7, 119. [↑](#footnote-ref-67)
68. Zeng (n 24) 1. [↑](#footnote-ref-68)
69. 1936 Implementation Rules on Provisional Regulations on Income Tax, art. 3; cited in Wu (n 27) 236. [↑](#footnote-ref-69)
70. 1936 Provisional Regulations on Income Tax, arts. 1, 3-4. Cited in Wu (n 27) 228. [↑](#footnote-ref-70)
71. 1936 Provisional Regulations on Income Tax, art. 2. Cited in Zhaoxin Wu (n 27) 228-29. [↑](#footnote-ref-71)
72. 1936 Provisional Regulations on Income Tax, art. 1 para 1. The legislation used the term “individuals” rather than “sole proprietors” to refer to income derived by this type of persons from carrying on business in China. [↑](#footnote-ref-72)
73. 1936 Provisional Regulations on Income Tax, art. 5(10). Cited in Wu (n 27) 231. [↑](#footnote-ref-73)
74. Based on the rate schedule, the tax rate for the lowest income group (i.e., 30-60 yuan) liable to tax would be up to 0.3%, for the next group (i.e., 60-100) up to 0.7% and for the highest income group (i.e., above 800 yuan) up to around 7.4%. [↑](#footnote-ref-74)
75. See Alan Reynolds, “The Economic Impact of Tax Changes, 1920-1939” (Winter 2021) *CATO Journal*. [↑](#footnote-ref-75)
76. Ibid. [↑](#footnote-ref-76)
77. Zeng (n 24) 44; see also A. B. Atkinson, “Top Incomes in the United Kingdom over the Twentieth Century” (University of Oxford Discussion Papers in Economic and Social History, No. 43, January 2002), available at <https://www.nuff.ox.ac.uk/Economics/History/Paper43/43atkinson.pdf>. [↑](#footnote-ref-77)
78. UK Parliament, “War and the Coming of Income Tax”, available at <https://www.parliament.uk/about/living-heritage/transformingsociety/private-lives/taxation/overview/incometax/>; UK Parliament, “Taxation during the First World War”, available at <https://www.parliament.uk/about/living-heritage/transformingsociety/private-lives/taxation/overview/firstworldwar/>. [↑](#footnote-ref-78)
79. Wu (n 27) 247. [↑](#footnote-ref-79)
80. Ibid. [↑](#footnote-ref-80)
81. Ibid. [↑](#footnote-ref-81)
82. 1936 Provisional Regulations on Income Tax, arts. 8-11; 1936 Implementation Rules on the Provisional Regulations on Income Tax, art. 27. [↑](#footnote-ref-82)
83. 1936 Implementation Rules on the Provisional Regulations on Income Tax, art. 30. [↑](#footnote-ref-83)
84. 1936 Implementation Rules on the Provisional Regulations on Income Tax, art. 35. [↑](#footnote-ref-84)
85. 1936 Provisional Regulations on Income Tax, art. 20. [↑](#footnote-ref-85)
86. 1936 Provisional Regulations on Income Tax, arts. 14-16. [↑](#footnote-ref-86)
87. 1936 Provisional Regulations on Income Tax, arts. 17. [↑](#footnote-ref-87)
88. 1936 Implementation Rules on the Provisional Regulations on Income Tax, art. 43. [↑](#footnote-ref-88)
89. 1936 Implementation Rules on the Provisional Regulations on Income Tax, art. 25. [↑](#footnote-ref-89)
90. Zeng (n 24) 48. [↑](#footnote-ref-90)
91. Jin (n 52) 71-74; cited in Zeng (n 24) 49. [↑](#footnote-ref-91)
92. See Michell Li, “Inflation in Eastern China during the Second Sino-Japanese War” (May 2018) *Studies in Applied Economics* No. 102, Johns Hopkins Institute for Applied Economics, Global Health and Study of Business Enterprise. [↑](#footnote-ref-92)
93. Jin (n 52) 39-40; cited in Zeng (n 24) 49; see also Chih Meng, “Some Economic Aspects of the Sino-Japanese Conflict” (1938) 199 *The Annals of the American Academy of Political and Social Science* 233, 239. The author noted the estimated return of the income tax for the fiscal year ending June 1938 was 25 million yuan. [↑](#footnote-ref-93)
94. Yang (n 48) 43. [↑](#footnote-ref-94)
95. Notice on Taxation of Type 1 Income by Profit-making Businesses (Ministry of Finance, 31 May 1937); Notice on Taxation of Type 2 Wages and Salaries (Ministry of Finance, 19 June 1937); Notice on Taxation of Type 3 Income from Securities and Deposits (29 September 1936). [↑](#footnote-ref-95)
96. Pan and Li (n 56) 245. [↑](#footnote-ref-96)
97. Two documents on improving booking and accounting for businesses were issued by the Ministry of Finance Department on Income Tax in 1939. Cited in Zeng (n 24) 51. [↑](#footnote-ref-97)
98. Jin (n 52) 41-52. Cited in Zeng (n 24) 50. [↑](#footnote-ref-98)
99. The legal document was Provisional Regulations on Special Examination Ministry of Finance Direct Tax Personnel Examination (The Examination Yuan, July 1937). See also Wenxiang Wei, “New Tax, New People, New Spirit: The Examination and Training System on Direct Tax Personnel during the Anti-Japanese War Period” (2019) 8 *Studies of Modern History*. [↑](#footnote-ref-99)
100. The legal document was Rules on Examination and Promotion of Personnel in Ministry of Finance Department on Direct Taxes (Ministry of Finance, November 1943). See also Wei (n 99). [↑](#footnote-ref-100)
101. Zeng (n 24) 51. [↑](#footnote-ref-101)
102. Some argue that the outbreak of the First World War might have indirectly contributed to the growth as the war distracted attention of major western powers from exploiting the country. Ibid. [↑](#footnote-ref-102)
103. [↑](#footnote-ref-103)
104. Shaowen Chen and Yanglin Guo, *Brief History of China’s Modern Economy* (Shanghai People’s Publishing House, 1983) p 238. [↑](#footnote-ref-104)
105. Tianhua Huang, *History of China’s Tax Systems* (East China Normal University Press, 2007) p 711. [↑](#footnote-ref-105)
106. See Diana Lary, “The Nanjing Decade – a New Beginning? 1928-37” in Diana Lary, *China’s Republic* (Cambridge University Press, 2007) pp 81-111. [↑](#footnote-ref-106)
107. For the banking and monetary system, notably the government achieved standardization of currency values by issuing a national currency based on paper banknotes rather than silver in 1935, formation of a reserve bank, the Central Bank of China, in 1928, and creation of other business banks. [↑](#footnote-ref-107)
108. Some notable scholars and government officials promoting income tax in the republican period include: Yinchu Ma, Zhaoxin Wu, Cixue Cai, Ziwen Song (first Minister of Finance of the Nationalist government), and Xiangxi Kong (second Minister of Finance of the Nationalist government). [↑](#footnote-ref-108)
109. Zeng (n 24) 3. The author notes the publications by Dowell on British tax history, H.B. Spauding on the comparison between British and US income tax systems, and R. M. Montgomery on the development of income taxes at that time. [↑](#footnote-ref-109)
110. For example, military spending accounted for 87% of total government expenditures in 1927, and the share was kept between 43% and 51% during the period of 1928 to 1933. See Zeng (n 24) 55. [↑](#footnote-ref-110)
111. For example, fiscal deficit reached to 30.3% in 1931, and it sored to around 72% to 82% between 1937 ad 1945. See Zeng (n 24) 56; He (n 8) 81. [↑](#footnote-ref-111)
112. It was estimated that the lost customs duties accounted for about 11% of total customs revenue, or 6.5% of total tax revenue in 1931. He (n 8) 81. [↑](#footnote-ref-112)