Tax Expenditures in Japan

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I. Current Situation of Government Finance

1. Fiscal Problems Faced by the Japanese Government(1)(2)

After the collapse of the "bubble economy", in the early 1990s the Japanese economy entered a recessionary phase partly due to the adjustment of excessive production capacities during the "bubble economy" period. Thanks to the implementation of a series of macroeconomic policy measures, the economy had recovered for a short while. However, since the fall of 1997, the adverse factors, both domestic and overseas, such as failures of financial institutions in Japan and financial and economic turmoil in Asia has driven the Japanese economy once again into a severe recession. The unemployment rate has recently reached a record high. Financial institutions are suffering from a huge amount of non-performing loans.

Facing a difficult choice between the economic stimulus and the reconstruction of public finance, the Japanese government has compiled the draft budget for fiscal year 2002, starting April 1, 2002. The General Account of the draft budget totals 81,230 billion yen or 1.7% less than in the initial budget of the previous fiscal year. The amount of tax revenues is expected to decrease to 46,816 billion yen by 7.7% from FY 2001. In order to achieve the established target to "limit government bond issues to less than 30 trillion yen", every effort has been made to secure non-tax revenues on the revenue side.

On the expenditure side, in view of the limited fund resources available, allocation of budget will be prioritized towards priority areas such as environment, aging society, local community revitalization, urban rejuvenation and transformation of Japan into globally advanced IT nation, while reducing expenditures on public investment and official development assistance (ODA) by 10% and thoroughly reviewing the current systems such as the medical system.

Under the Local Public Finance Program, the total expenditures of local governments for fiscal 2002 will decline for the first time by about 1.9% to 87.57 trillion yen from previous fiscal year. Broadly speaking, of the total budget amount of national and local governments combined, about 60% of the expenditures is accounted for by the local governments and about 40% by the national government. In contrast, on the revenue side, approximately 60% is accounted for by the national government and approximately 40% by local governments. In other words, the percentage shares by the two are just reversed. The shortages of the local governments are compensated by the local allocation tax grants and subsidies from the national government.

The following two Tables are indicative of the current plights of the Japanese government finances. According to Table 1, at the outset of the 1990s the Japanese government financial balance as a percentage of GDP enjoyed the best position among the major advanced nations but now has fallen down to the worst. By the same token, Table 2 reveals that Japan is the only country whose outstanding of government gross debt as a percentage of GDP is expanding so rapidly.

Table 1 Government Financial Balance (National and Local Governments) as a percentage of GDP

	1991	1993	1996	1999	2000	2001	2002
Japan	− 0.8	− 4.5	− 6.5	− 7.8	− 7.3	− 7.0	− 7.3
U.S.	− 5.9	− 5.7	− 3.1	− 0.6	0.2	− 1.0	− 2.9
U.K.	− 2.8	− 7.9	− 4.4	1.1	1.9	1.1	0.0
Germany	− 2.9	− 3.1	− 3.4	− 1.6	− 1.2	− 2.5	− 2.5
France	− 2.2	− 6.0	− 4.1	− 1.6	− 1.4	− 1.8	− 1.8
Italy	−10.0	−10.3	− 7.1	− 1.8	− 0.3	− 1.1	− 1.1
Canada	− 7.2	− 8.7	− 2.8	1.6	3.2	2.1	2.1

Source: OECD, *Economic Outlook,* Nos. 66 and 70, Dec. 1999 and Dec. 2001

Table 2 Government Gross Debt (National and Local Governments) as a percentage of GDP

	1991	1993	1996	1999	2000	2001	2002
Japan	58.2	69.0	86.5	115.3	123.2	132.0	141.5
U.S.	65.5	75.8	73.9	65.3	59.4	57.6	58.0
U.K.	40.1	58.1	60.1	56.4	53.8	52.2	50.9
Germany	40.1	47.1	60.3	60.9	60.8	60.9	62.5
France	40.3	51.6	62.3	64.6	64.1	64.9	65.4
Italy	107.4	117.9	121.8	115.7	110.8	107.7	105.2
Canada	80.9	116.2	120.0	109.6	103.2	98.3	95.1

Source: OECD, *Economic Outlook,* Nos. 66 and 70, Dec. 1999 and Dec. 2001

2. National and Local Taxes

The estimates of the receipts Receipt of the national taxes in the recent fiscal years are given in Table 3 on next page.

The local taxes to meet about 40% of the financial needs of local governments are as follows:

(1) Prefectural taxes

Prefectural inhabitant tax and enterprise tax (both on individuals and entities) are major source of revenues. Automobile tax, prefectural tobacco tax, real property acquisition tax, light-oil delivery tax and automobile acquisition tax are also worthy to be mentioned. Some prefectures levy discretionary tax such as nuclear fuel tax not prescribed in the Local Tax Law under the authorisation of the Ministry of Home Affairs.

Table 3 Tax Receipt Estimates

(In 100 millions of yen)

	FY 2000		FY 2001		FY 2002
	Initial	Revised	Initial	Revised	Initial
General Account	486,590	498,950	507,270	496,250	468,160
Income Tax	186,800	190,470	185,720	181,160	158,310
Withheld at Source	156,610	161,820	156,570	152,010	129,330
Self－assessed	30,190	28,650	29,150	29,150	28,980
Corporate Income Tax	99,470	108,160	118,390	111,930	118,390
Inheritance Tax	16,710	16,710	15,970	15,970	15,300
Land Value Tax	10	10	10	10	10
Consumption Tax	98,560	98,560	101,290	101,290	98,250
Liquor Tax	18,600	18,600	18,230	18,230	17,350
Tobacco Tax	9,000	9,000	8,810	8,810	8,480
Gasoline Tax	20,780	20,780	21,210	21,210	21,340
Liquefied Petroleum Gas Tax	150	150	140	140	140
Aviation Fuel Tax	870	870	900	900	910
Petroleum Tax	4,820	4,820	4,880	4,880	4,800
Motor Vehicle Tonnage Tax	8,320	8,320	8,440	8,440	8,400
Customs Duty	7,300	7,300	8,140	8,140	8,600
Tonnage Due	90	90	90	90	90
Stamp Receipts	15,110	15,110	15,050	15,050	14,440

Source: Based on Policy Research Institute, Ministry of Finance, *Financial Statistics of Japan 2001* and others.

（2） **Municipal taxes**

Municipal inhabitant tax (both on individuals and entities) and property (fixed asset) tax are major source of revenues. Municipal tobacco tax and urban planning tax are worthy to be mentioned. Like prefectures, some municipalities levy discretionary tax such as tax on the possession of resort villas.(3)

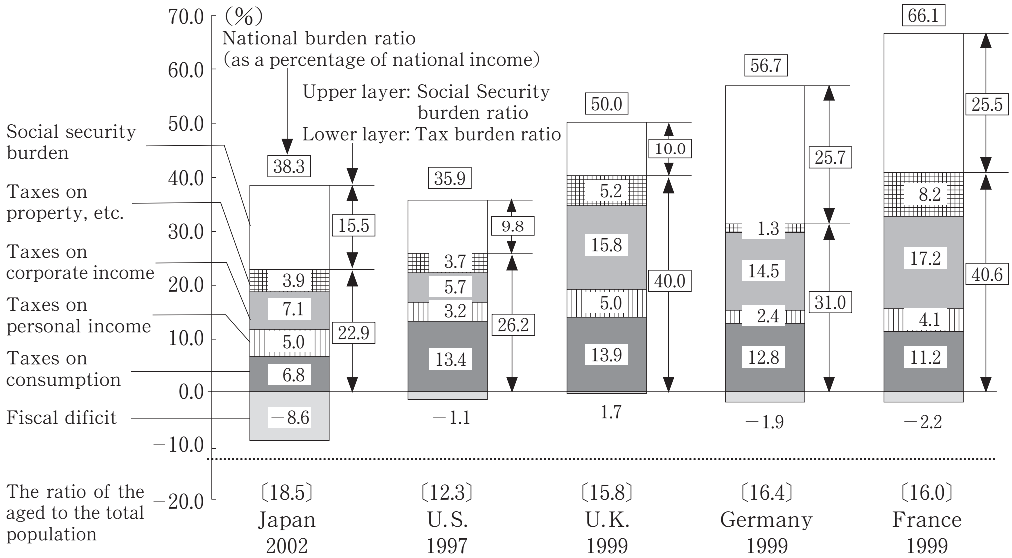
II. Features of the Japanese Taxes

1. Problems of Tax Burden

According to the OECD *Revenue Statistics 1965–2000,* Japan's total tax revenues as a percentage of GDP for 1999 was 26.2%, which was the third from the bottom of all the 30 member countries, with the average being 37.3%. If social security contributions are excluded, this percentage will be 16.4% and Japan will be the last but one of all the 30 members, with the average being 27.7%. As is generally thought this percentage is high in the Scandinavian countries and New Zealand, where the taxpayers bear a relatively heavy tax burden for a fairly well-advanced welfare system.

The Japanese tax burden is in no way heavy from macroeconomic point of view. Nevertheless, one of the reasons why Japanese taxpayers have a conception of a heavy tax burden is the imbalance among types of taxation on income, consumption and property. Although Japan ranks the fifth and second respectively of all the 30 member countries in

Fig. 1 International Comparison of the Components of National Burden Ratio



Notes: 1. The national burden ratio for Japan is on the FY 2002 budget base, figures for other countries are based on OECD, *Revenue Statistics 1965–2000* & *National Accounts* and the materials of the countries concerned for the respective years mentioned.

2. The ratio of tax burden includes both national and local taxes.

3. The ratio of the aged to the total population is a percentage of population aged 65 years and more: the figures for Japan are projection by the National Institute of Population and Social-Security Research for 2002 and those for other countries are estimates by the United Nations for 2000.

Source: Tax Commission, *Explanatory Materials,* February 15, 2002.

terms of proportion of taxation on income & profits, social security and payroll, combined, (68.6%) and property (11.0%), she ranks the bottom of all the 30 members in terms of proportion of taxation on goods and services (20.1%), which is less than two-thirds of all member countries (31.7%).[(4)]

To compare with other major advanced countries, the following illustration submitted to the Tax Commissions, an advisory organ to the Prime Minister, has many implications. Japan's burden of taxes (national and local) as a percentage of national income in fiscal year 1999 was 22.6%, which was the lowest of the major five nations. When social contributions are included, this percentage rises to 36.9%, which is the last but one. Japan barely surpasses 35.8% of the United States where the social security is substantially left to the private sector. One thing noteworthy is that the share of taxes on consumption (on goods and services) in Japan is the smallest but one of these five countries. By far the largest fiscal deficit and rapidly aging of Japan's population also stand out clear.

In February 2002, at the start of the deliberation of the FY 2003 tax reform, the Tax Commission published the national burden as a percentage of national income of major countries for 1999. The ratios for Japan, the U. K., Germany, France, and the U. S. are (the percentages in parentheses are those excluding social security): 35.9% (22.1%), 50.0% (40.0%), 56.7% (31.0%). 66.1% (40.6%) and 35.8% (26.5%) (For the U.S., the ratio of national burden is for 1997 and the ratio of tax (national and local) burden is for 1999).[(5)] By and large, these updated figures don't change the trends mentioned above (Fig. 1).

2. Direct Tax vs. Indirect Tax

In Japan, the analysis of tax burden is conventionally approached in relation to direct and indirect taxes. Under this dichotomy, most of taxation on property comes under the heading of direct taxes. Before World War II, the ratios of the direct and indirect taxes to the total national tax revenues were approximately 40% and 60%, respectively. To be more exact, on the average of the fiscal years from 1934 to 1936, the shares of the direct and indirect taxes were 34.8% and 65.2%, respectively. After the war, this relative importance between the direct and indirect taxes in Japan has been reversed. Thus, the shares of the direct and indirect taxes in 1989, when the consumption tax was introduced, were 74.2% and 25.8%, respectively.

However, this dichotomy approach deviates from the internationally accepted OECD's approach which classifies the tax revenues into the following three categories: (i) income and profits, (ii) property and (iii) consumption. The dichotomy approach is not free from a problem from the standpoint of improvement of policy formulation and administration. Fully aware of such criticism, the Japanese Ministry of Finance seems to feel this dichotomy approach is useful for analysis for policy-making. For the advanced economies, the Ministry of Finance tentatively estimates the following shares of the direct and indirect taxes shown in Table 4.

In Germany and France, where the value added tax is originated, indirect taxes have a greater share than direct taxes in the total tax revenues. In Japan, as her efforts to shift the emphasis from the direct taxes to indirect taxes have produced the intended effect, the share of direct taxes has been reduced from an all-time high of 74.2% in 1989 to 58.4% in the un the initial budget for fiscal 2002, which is the lowest in the last 38 years. The U.S. has an exceptionally large share of direct taxes amounting to 92.5%. It is to be noted, however, there is a vast difference in the components of direct taxes between Japan and the United States. While in Japan personal and corporate income taxes, respectively, account for 58.0% and 37.0% of the total direct tax revenues, in the U.S. personal and corporate income taxes, respectively, account for 80.5% and 16.9%. In other words, in contrast to U.S. where the personal income tax plays an overwhelmingly major role, in Japan the corporate income tax is important.

Table 4 Direct and Indirect Taxes of Major Countries

(As a percentage of the total tax revenues)

Country	Fiscal Year	Direct Taxes	Indirect Taxes
Japan	FY 2001 initial budget	60.7%	39.3%
U.S.	FY 1999 settled account	92.5%	7.5%
U.K.	FY 1998 actual	57.3%	42.7%
Germany	FY 1999 settled account	46.9%	53.1%
France	FY 1999 actual	41.5%	58.5%

Source: Tax Bureau of the Ministry of Finance, the Japanese Government

III. Concept of Tax Expenditures

1. Introduction of the Concept

(1) Budget Process in the U.S.

The concept of tax expenditures was introduced in the United States in 1968 by the Treasury Department under the direction of the late Stanley S. Surrey, who was Assistant Secretary for Tax Policy in the Treasury Department from 1961 to 1969, and was described in his landmark book, *Pathways to Tax Reform* (Harvard University Press, 1973). The concept was incorporated into the budget process by the Congressional Budget Act of 1974 which requires that a list of "tax expenditures" be included in the budget. The United States prepared special analyses of tax expenditures 1975 and Congress made the tax expenditure budget a part of the Tax Reform Act of 1981.

(2) Nature of Tax Expenditures

To achieve the particular policy purposes, a variety of forms, covering exclusion from income, exemption, deductions, credits against tax, preferential rates of tax, and deferrals of tax are provided in the tax law. These special tax provisions serve ends which are similar in nature to those served in the same or other areas by direct government expenditures in the form of grants, loans, interest subsidies, and national insurance or guarantees of private loans.(6)

"If these tax amounts were treated as line items on the expenditure side of the Budget, they would automatically come under close scrutiny of the Congress and the Budget Bureau. But the tax expenditures are not so listed, and they are thus automatically excluded from that scrutiny. Instead, since they are phrased in tax languages and placed in the Internal Revenue Code, any examination to be given to them must fall in the classification of "tax reform" and not "expenditure control". There is a vast difference between the two classifications."(7)

As Prof. William D. Andrews of Harvard Law School puts it, the tax expenditure is an implicit subsidy.(8) Thus the tax legislation is dominated by the aspect of tax subsidies. Underlying the tax expenditure concept is the notion that the government would otherwise collect additional revenues but for these provisions.

The largest tax expenditures tend to be associated with the individual income tax. For example, sizable deductions and exclusions are provided for pension contributions and earnings, employer contributions for medical insurance, mortgage interest payments on owner-occupied homes, capital gains, and payments of State and local individual income and property taxes. Tax expenditures under the corporate income tax tend to be related to the rate of cost recovery for various investments. Charitable contributions and credits for State taxes on bequests are the largest tax expenditures under the unified transfer (i.e., estate and gift) tax.(9)

Because of potential interactions among provisions, the chapter of tax expenditures does not present a grand total for the estimated tax expenditures. Table 5 presents the

Table 5 Individual and Corporate Income Tax Expenditures Ranked by Total FY 2002 Projected Revenue Effect: Fifteen Largest Provisions

(In millions of dollars)

Provision	2002	2002–2006
Net exclusion of pension contributions and earnings: Employer Plans	97,510	545,210
Exclusion of employer contributions for medical insurance premiums and medical care	92,230	540,110
Deductibility of mortgage interest on owner-occupied homes	65,750	353,520
Deductibility of nonbusiness state and local taxes other than on owner-occupied homes	48,730	276,090
Capital gains (except agriculture, timber, iron ore, and coal) (normal tax method)	42,950	227,830
Accelerated depreciation of machinery and equipment (normal tax method)	35,400	197,700
Step-up basis of capital gains at death	29,370	159,060
Deductibility of State and local property tax on owner-occupied homes	25,570	146,070
Exclusion of interest on public purpose State and local bonds	23,510	122,350
Deductibility of charitable contributions, other than education and health	22,030	121,590
Exclusion of Social Security benefits for retired workers	19,930	106,120
Capital gains exclusion on home sales	19,670	104,430
Child credit	18,980	89,610
Net exclusion of pension contributions and earnings: Individual Retirement Accounts	16,600	88,340
Exclusion of interest on life insurance savings	16,520	98,820

Source: U.S. Office of Management and Budget, *Budget of the United States Government for Fiscal Year 2002, Analytical Perspectives,* U.S. Government Printing Office, Washington, D.C. 2001, p. 71.

fifteen largest income (individual and corporate) tax expenditures ranked by total 2002 projected revenue effect.

The original Treasury analysis considered only the Federal income tax, individual and corporate. But to some extent the same analysis may be applicable to the most of other taxes.[(10)]

2. International Aspects

(1) Pioneering Institutions

The concept of tax expenditures also began to attract international attention. At its congress of 1976 in Jerusalem, the International Fiscal Association (IFA) made "Tax Incentives as an Instrument for Achievement of Governmental Goals" a principal subject. The writer was privileged to serve as a national reporter for Japan.[(11)] The general reporters, Stanley S. Surrey and Emil M. Sunley, Jr. concluded that there was a need to define and estimate tax expenditures and to scrutinize them as carefully as other matters of budget and economic policy.

At its Verna congress in 1977, the International Institute of Public Finance (IIPF) also considered tax expenditures as forms tax relief under the topic "Subsidies, Tax Relief, and Prices." The consideration and acceptance of the tax expenditure concept at these two international conferences undoubtedly stimulated much of the recent work in countries other than the United States.

(2) Other Countries

Since 1966, Germany has had a type of tax expenditure budget. The list is published every two years. In 1979, Department of Finance of Canada published the Government of Canada Tax Expenditure which placed Canada, along with the U. S., in the forefront of countries applying a complete tax analysis to their budget and tax systems.(12)

In 1979, the Chancellor of Exchequer of the United Kingdom included a list titled *Direct Tax Allowances and Reliefs in the Government's Expenditure Plans 1979–1980 to 1982–83* in response to the desire of the Expenditure Committee of the House of Commons.(13) In France, the 1981 finance bill contained the French tax expenditure budget. The list extends to all national taxes: individual and corporate income taxes, value added tax, inheritance tax, and various special taxes. In Spain, the first tax expenditure budget was published in 1979. Lists have been published for later years. Since 1978, the Austrian Ministry of Finance has included a tax expenditure budget in its annual report on government subsidies.(14) In 1977, the Netherlands Ministry of Finance established a commission to consider tax expenditures in that country's tax system. In 1987, a report entitled "Tax expenditures with regard to the Dutch wage and income tax" was published. This report uses the revenue-foregone method to quantify tax expenditures and was up-dated in 1984.(15)

(3) OECD

The Organisation for Economic Co-operation and Development (OECD) for years has published comparative data on the budgets and tax systems of member countries. With the development of the tax expenditure concept, as pointed out in the 1976 *General Report* of IFA congress in Jerusalem, it has become obvious that these comparisons don't represent a complete picture of actual direct spending and revenue collections.(16)

Under the circumstances based upon a series of country notes submitted to the Working Party on Tax Analysis and Tax Statistics of the Committee on Fiscal Affairs which took place during 1982 and 1983, OECD published a Report entitled *Tax Expenditures: A Review of the Issues and Country Practices* in 1984. The discussions focused mainly on the personal and corporate income tax and while some reference was made to tax expenditures in relation to property and consumption taxes, tax expenditures in relation to social security contributions were not covered.(17) The Report reviewed the experiences of 11 countries including those described above and Ireland and Portugal which have examined the concept of tax expenditures but prefer to publish regular listings of all tax reliefs without identifying which are tax expenditures.

To update the 1984 Report, in 1996, OECD published another report, *Tax Expenditures: Recent Experiences,* covering the experiences of 14 member countries. Newly added are Belgium, Finland and Italy. Parenthetically, in its footnote, the Report adds that, besides 14 countries covered, Japan and Luxembourg have some form of accounting for tax expenditures.(18) Since the 1984 Report, a number of countries have published tax expenditure figures, including four of those surveyed in this Report, while others have extended the coverage of their report or altered the presentation.

Definitions of what constitutes a tax expenditure in practice can be controversial. Where the tax system deviates from a benchmark or norm for the provision concerning the rate structure, accounting conventions, the deductibility of compulsory payments, provisions to facilitate administration or those relating to international fiscal obligations, a tax expenditure is said to exist. Now about three-quarters of the member countries publish their tax expenditures. It cannot be denied, however, that the contents of tax expenditures as published are vastly different from one country to another. It is because the definitions or tests for tax expenditures are reporting countries' own.

IV. Tax Expenditures in Japan

1. Introduction

From the standpoint of the "tax expenditures" to achieve the particular economic and social objectives in Japan, tax incentives are provided for by the Special Taxation Measures Law. They take the following forms: 1) tax credits, 2) exemptions and deductions from income, 3) special depreciation allowances consisting of i) special initial depreciation allowances for equipment and ii) additional depreciation allowances for a certain period, and 4) tax free reserves.

As discussed above, the tax expenditures are another side of tax-exempt direct subsidies. However, under the tax expenditure concept of OECD, most deductions including deduction for retirement income in Japan are considered as being part of the "normal" tax structure. Therefore, the amount of the tax expenditures is considerably limited. Thus, in fiscal year 1999 the revenue loss due to the so-called special taxation measures total approximately two hundred billion yen or about 0.4% of GDP.

2. Review of the Tax System

As a result of application of the special taxation measures for policy purposes, the tax system has been distorted and efficient allocation of resources has been prevented. Therefore, it is of vital importance to make the tax system neutral to economic activities of individuals or enterprises through the review of the special taxation measures.

Needless to say, this subject is high on the agenda of the Tax Commission. All the provisions of the special taxation measures should be scrutinized on a zero basis for consolidation and rationalization in the most cautious manner ever just as subsidies are now under radical review.

It should be borne in mind, however, that under the existing conditions that in taxable year 2000 more than 16.7 million gainfully employed workers who account for about a quarter of the total work force did not pay personal income tax mainly because of the extermely high tax threshold and some 1,767,000 corporations which account for 69.9% of the total corporations whose 1999 business year ended by January 31, 2000 reported deficits for taxation purposes, the possible effects of the special taxation measures may be limited.

V. Changing Policy Objectives

1. The Postwar Period

Soon after the war in 1946, the Special Taxation Measures Law was put into effect to replace the Temporary Taxation Measures Law of 1938 which served the war purposes. The special taxation measures granted under the Law tended to proliferate. The recommendations of the mission headed by Prof. Carl S. Shoup stopped this trend from the equity point of view. Nevertheless, since then, various tax incentives were introduced one after another.

Under the circumstances in 1957, the Special Taxation Measures Law was totally revised by consolidating the then existing diverse tax incentives, such as for accumulation of capital, encouragement of savings, modernization of equipment, promotion of exports, etc. As time went on, however, there arose criticisms concerning the efficiency of these tax incentives. In response, attempts were made to correct the situation but progress was rather slow. On the other hand, a variety of tax incentives were brought in to favor specific taxpayers or specific types of income. They ran counter to the principles of equality of burden, neutrality and simplicity. They often distorted the decision-making of each individual or enterprise.

The underlying philosophy of the Special Taxation Measures Law is that any tax incentives may be allowed to exist so long as their of serving the intended policy purposes overweigh the demerits of being against the above-mentioned tax principles. Therefore, all the tax incentives are under the strict and constant review from such a stand point. The policy objectives which the tax incentives serve thus far have considerably changed as Japan has undergone an economic and social transformation. A case in point is the tax exemption for important products which is in substance equivalent to provision of subsidies, meaning tax expenditures. This system which involves difficulties in selecting its subjects of tax exemption existed in Japan since 1913 and was renamed as "tax exemption for new important products" in 1961. For some time after the war, nylon and other chemical fabric-related products, coal and other mineral products and electric power were three major items which enjoyed the tax exemption as important products. However, eventually the FY 1966 tax reform put an end to this 55-year-old system since it had accomplished its tasks.

2. High Growth Period

(1) Foreign Trade

After the war, when export was urgently needed, the deduction of income from export introduced in 1953 contributed a lot to the Japanese economy through the improvement of her international balance of payments in the 50s. But it was declared against the provisions of the General Agreement on Tariffs and Trade (GATT, now WTO) ruling out subsidies and abolished in 1964. Thus, the export income deduction was replaced by additional depreciation allowances for overseas transaction business expansion, deduction for income from technical service export and creation of reserves for overseas market development and for overseas investment loss. However, as the Japanese economy phenomenally changed in its for report on the 1971 tax reform, the Tax Commission for the first time advised to reassess the policy of export promotion. Since then, emphasis of the tax incentives has been gradually shifted from export to import of manufactured goods.

(2) Small Business

In the late 1950s, it became alleged that major tax incentives, such as tax free reserves and accelerated depreciation allowances were mainly used by large corporations. In response to this allegation, the Tax Commission conducted a series of sample surveys in 1959. The survey revealed that during 1957 and 1958, while for small corporations (capitalized at 50 million yen or less) the special taxation measures made 91.2% of their gross income taxable, for large corporations these measures made 79.5% of their gross income taxable. This may suggest that the use of the available tax incentives was lopsided in favor of large corporations.

In those days, nearly 90% of the special taxation measures in terms of the amount of deductions from income were accounted for by the following three reserves: 1) reserves for bad debts, 2) reserves for price fluctuations and 3) reserves for retirement allowance. By nature, large corporations were in a better position than small ones to take advantage of these reserves. The same policy purpose was served by the special depreciation allowances. From the viewpoint of equity of taxation, special depreciation allowance may be more acceptable than tax-free reserves. There were two types of the special depreciation as follows: 1) 50% depreciation allowance in the first year and 2) 50% additional allowance for the first three years. Here, also inequality in the benefits from the special taxation measures between large and small corporations was evident.(19)

Under the circumstances, in order to compensate small business for their insufficient benefits from the special taxation measures as compared with large corporations, the reduced tax rate for small corporations (35% for corporations of annual taxable income of 500,000 yen or less as against the basic rate of 40%) was for the first time introduced in 1955. This difference of 5% was maintained until FY 1965 and then changed from time to time taking into a variety of factors account. Such differential was largest in fiscal years 1984 and '85 at 12.3% but has never been below 5%. At this writing, the reduced rate for small corporations capitalized at 100 million yen or less and with taxable income of 8 million yen or lees is 22% as against the basic corporation tax rate of 30% since April 1, 1999.

(3) Encouragement of Savings

The Japanese people in general have a high propensity to save. To finance economic development in Japan, by and large they prefer indirect approach using financial intermediaries to direct approach. In other words, they deposit money in banks, which in turn extend loans to industries; they are rather not so accustomed to invest in equity, such as purchase of stock shares. After the war, fund resources were badly needed for economic and social reconstruction. A good part of these fund resources were expected to come from the savings of the public. In order to encourage savings the following special taxation measures were taken:

1) Separate withholding taxation at source on deposit interest and tax exemption for interest on certain kinds of deposits, such as postal savings, subject to the limit of amount, were granted. 2) A special treatment was given to the discount amount between face value

and issue price (profits from redemption) of discount bonds. 3) Reduced rates for withholding tax at source were applied on dividends and tax credits were granted for dividends. 4) Capital gains from stocks and other securities were made exempt from income tax as from FY 1953 and, instead, sales of these securities were made subject to securities transaction tax. 5) A certain amount of insurance premium may be deducted from taxable income. 6) From FY 1953, social insurance premiums are deductible.

From the mid-50s to 60s, taxation on interest and dividends was considerably reduced but afterwards taxation on savings was gradually tightened. However, in FY 1971, a new tax exemption for interest income from employees assets formation savings earmarked for house acquisition for salaried workers was added to the existing non-taxable savings.

In 1982, the government attempted to institute a "green card system" to control the abuse of tax-free deposit accounts and terminate the separate taxation for interest income. This system was comparable to the social security number of the United States although its coverage was much narrower. The proposed introduction of the green card system met a storm of opposition especially from some of politicians. The government's attempt failed and the legislation was forced to repeal the law in 1985 without coming into effect ever.

As from April 1988, the traditional system of tax-privileged savings accounts, i.e. tax-exempt small savings and postal savings accounts and small-sum government bonds was replaced by the system under which the elderly (65 years or older) and disabled, etc. are eligible for tax exemption up to the total outstandings of 3.5 million yen. This was an epoch-making change in the tax treatment of interest income in the history of Japan's tax system. In the FY 2002 tax reform, the following changes will be made: 1) Exemption of tax on income on small deposits owned by the elderly, the disabled persons, etc. will be reformed in January 2006 and applied only to small deposits owned by disabled persons, etc. and 2) The elderly will be excluded from this treatment at the end of calendar year 2005 until when the transitional measures will be applied (for example, setting up a new tax-free account will not be allowed after January 2003).

In FY 1963, the revenue loss due to encouragement of savings accounted for 59.4% of the total national tax revenue loss due to the special taxation measures but turned to decline since 1970, recording 38.1% in FY 1973. Nevertheless, the encouragement of savings had been the single most important item of the special taxation measures until FY 1994 when its share in the total revenue loss reached 67.2%. (In FY 1993, its share was 77.6%). After that, the encouragement of savings has been taken over by housing measure as the leader of the list of the special taxation measures contributing to tax revenue loss. In FY 2000, the encouragement of savings suddenly became to top the list. However, this is because of the very special situation as follows: of the total revenue loss of 656 billion yen due to the tax-exempt savings accounts of the elderly, etc., about 600 billion yen is for interest payments for the postal time deposits which mature during the fiscal year in a huge amount. This situation continues in FY 2001. Thus, the revenue loss due to the savings accounts of the elderly, etc. amount to 601 billion yen, accounting for 25.4% of the total revenue loss due to the special taxation measures. The encouragement of savings remain leading the list, surpassing the housing measure totaling 587 billion yen or 24.9% of the total revenue loss. It is to be noted, however, if massively maturing postal time deposits are excluded, the revenue loss due to the savings accounts of the elderly, etc. is 113 billion yen.

3. Sustainable Growth Period

(1) Housing

In the 1970s, emphasis of the special taxation measures was shifted from promotion of industries and encouragement of savings to improvement of the quality of life, protection of environments and conservation of energy and resources under the economy of stable and sustainable growth.

With a view to increasing owner-occupied houses, in 1967, a 4% tax credit was instituted for savings for acquisition of dwelling houses within the upper limit of 10,000 yen for three years. As mentioned earlier, in 1971, the tax exemption system of interest income from savings of employees' assets formation for house acquisition was created. This was immediately followed by introduction of a 1% tax credit for standard acquisition cost of a dwelling house up to 20,000 yen for three years in 1972.

The tax credit for acquiring houses which had been logically expanded was abolished in 1982. However, the tax credit for acquisition costs of houses which had undergone substantial changes to include mortgage was replaced by a new tax system to facilitate ownership of dwelling houses in 1986. Under the new system, a taxpayer who acquires a dwelling house is entitled to a tax credit of prescribed amount based on (approximately 1% of) the outstanding of borrowing from financial institutions up to the upper limit of 350,000 yen for six years. Since then the system has been reorganized, expanded and extended several times.

Since FY 1995 the special taxation measures for housing are the single largest factor that contributes to the revenue loss of the national government. As mentioned earlier, statistics shows that in FY's 2000 and 2001, the tax-exempt savings accounts of the elderly, etc. were more responsible for revenue loss than the housing measures. But the fact is in both fiscal years these tax-exempt savings accounts included a huge amount of interest payments of the postal time deposits which happened to mature in both years. On the other hand, the above-mentioned interest income from savings of employees' assets formation for house acquisition does not come under "housing measures" but under "encouragement of savings".

(2) Pollution Control

Until the early 1960s, sporadic taxation measures were taken to control environment pollution. The FY 1969 tax reform introduced as full-fledged anti-pollution measures a special initial depreciation allowance of the acquisition cost for machinery and equipment to control air and noise pollution and water contamination.

In 1972, a reserve for prevention of environmental pollution was established. A special initial depreciation allowance of one-third of the acquisition cost was introduced for manufacturing equipment of pollution-free machinery and for machinery and equipment for recycling wastes in FYs 1973 and 1974, respectively.

In the light of the Polluter Pays Principle (PPP) as announced by OECD in November 1974, in the FY 1976 tax reform, the special initial depreciation allowance for both manufacturing equipment of pollution-free machinery and equipment for recycling wastes was reduced from one-third of the acquisition cost to one-forth, while that of the machinery for prevention of environmental pollution was kept unchanged at one-half. In FY 1978, the reserve for prevention of environmental pollution was abolished as a part of the move to the elective tax reductions and the tax system for facilitation of industrial conversion.

In spite of recognition of the importance of the prevention of environmental pollution, the special depreciation allowance for these machinery and equipment have been amidst the trend of the streamlining and rationalization of the special taxation measures. For example, in FY 1980, the initial depreciation allowances were 27% for machinery for prevention of environmental pollution and 20% for other two machinery and equipment mentioned above. The special depreciation in allowance for manufacturing equipment of pollution-free machinery was abolished in FY 1996 when its rate was 16% and that for equipment for recycling wastes was also terminated when its rate was 14%.

Instead, in the FY 1996 tax reform, a tax system for reinforcement of the foundation for promotion of recycling was created. Under this system, the special initial depreciation allowance of equipment, etc. used to initiate the re-entry of used goods in is 25% or 14% depending on the kind of machinery, etc. In the FY 2002 tax reform, the special initial depreciation allowances for machinery and equipment used for the prevention of environmental pollution, such as air pollution and water contamination, in general has been extended for another two years but its rate has been reduced from 16% to 12%. By the same token, under the taxation system on recycling equipment the special depreciation allowance has been extended for another two years although its rate has been reduced from 25% to 23% after making necessary adjustments to the eligible equipment list and acquisition costs for the depreciation purpose.

Against the background of growing concerns about in the global warming problem especially since the Kyoto Conference on Climate Change in 1997, the Tax Commission for the first time refers to the environmental issues in its report of July 2000 entitled *The Current Situation and Tasks of the Japanese Tax System—Participation in the Discussions and Making Choices Towards the 21st Century.*

To decrease greenhouse gas emissions, generally the following economic instruments, which internalize the external costs through market mechanism, may be considered: taxes and charges; assistance measures; emissions trading system; and deposit-refund system.

The taxes and charges are in conformity with the Polluter Pays Principle (PPP) and will keep the social cost to a minimum because every agent will choose the most effective measure through market force. In addition, they are expected to provide a continuous incentive to technological research and development for abatement of pollution in the long run. Therefore, these taxes and charges should be adopted in the areas which can take full advantage of their merits and characteristics such as abundant supply of resources and necessity of continuous incentives.

The assistance measures include subsides, soft loans and tax concessions. These measures, which don't preclude the possibility of infringing the PPP, are likely to cause social unfairness by helping the polluters with the public funds and to further deteriorate the environmental conditions by increasing participants in the markets. Moreover, they are prone to lead to protection of the specific industries and possibly distort the fair trade and investment both at home and abroad. Therefore, it is of vital importance to review whether these measures are truly needed.

In the discussions at the OECD and others, the assistance measures are treated as an exception to the PPP. Accordingly, it may be appropriate to lay emphasis on the kind of measures whose effects are extensive such as R & D on environment-related technologies and on those of a transitional nature such as the relief measures against sudden change from regulations. It should be borne in mind that, of these assistance measures, the tax concessions are designed for specific policy objectives as special tax measures which are exceptions to the basic principles of fairness and neutrality and, hence, should be subject to a constant scrutiny from the standpoint of policy objectives and effectiveness.

The emissions trading system makes control of the whole amount of gas emissions possible and leaves each economic agent relatively wide discretion but, on the other hand, in its implementation, has difficulties in allocation at the initial stage and are more costly than taxes and charges for creation of the markets and surveillance setup. The deposit-refund system is an economic measure to provide an incentive to recycle wastes.

(3) Conservation of Resources and Energy

The special taxation measures for resources began with the creation of a mine prospecting reserve in 1965 and the foreign mine prospecting reserve started later in 1975. Under both reserves, 12% of the proceeds from sales of minerals can be credited to the reserve and after three years should be added to the income. In 1970, a loss reserve for investment in petroleum development was instituted against the risk of exploration of petroleum and in 1971 was reorganized into the loss reserve for investment in resource development.

In 1973, this system was integrated as the reserve for overseas investment loss. Under this system; 1) if a corporation acquires stocks of the specified companies engaged in overseas business or extends credits to such companies, the prescribed amount may be credited to the reserve, held for five years therein and then should be added back to the income in the following five years and 2) when banks or insurance companies credit to this reserve an amount of 1% or less of the specified overseas loans to meet an expected loss from bad debt, such amount thus credited is deductible. The amount credited to the reserve should be added back in full to the income in the following year.

In the FY 2001 tax reform, this reserve system, which had been extended by two years in the previous FY tax reform, was changed in accordance with a new taxation system relating to the restructuring of corporations. In the FY 2002 tax reform, the provisions on the specified overseas loans by banks and insurance companies have been abolished but other provisions have been extended for another two years.

From the late 1960's the policy of atomic power generation was positively pursued. In 1968, a depreciation reserve for construction of atomic power generation and special depreciation allowance were introduced. Later as experience gained, the reserve for reprocessing of spent nuclear fuel was added in 1983. Unfortunately, however, as far as the atomic power policy is concerned, things were not going well for a variety of reasons. Both depreciation reserve and special depreciation allowance created in 1986 were brought to an end in 1990. And in the same year, a reserve for the removal and disposal of atomic power generation was instituted. Under this system, electric companies may put funds within a certain limit into the reserve and deduct the amount as an expense. When the expense for the removal and disposal is paid, after removal and disposal are completed, this reserve should be added back to the income.

(4) Research and Development (R & D)

In order to cope with the open economy, the following four tax credits were adopted almost at the same time: 1) to help merger of corporations, 2) to facilitate scrapping of obsolete equipment and 3) to improve the capital composition in FY 1966 and 4) to increase expenses for research and development in FY 1967. But the three tax credits from 1) to 3) were abolished in the FY 1970 because they had not played an expected role in achieving their respective policy objectives. However, 4) the tax credit for increased research expenses over the base amount survived.

The tax credit introduced in the FY 1967 tax reform is as follows: for business years beginning on any day during a period from June 1, 1967 to March 31, 1970, when an amount of experimental and research expense incurred during a business year exceeds the largest one of such amounts during each of the preceding business years, 20% of such excess amount may be credited against the corporation tax. The maximum amount deductible is 10% of the corporation tax liability.

Like most of other special taxation measures, this tax credit has been renewed every two years after careful review, especially in general the definition of "experimental and research expenses" having been expanded. In the FY 1993 tax reform, the special taxation measures to promote R & D of basic technologies were added as follows: Tax credit of 7% of the acquisition cost may be allowed for specific property used for R & D of basic technologies, in addition to the credit for incremental research and experimental expenditure. The measure is applicable for the accounting period beginning on or before March 31, 1995. The maximum amount of the both credits combined is 15% of the corporation tax liability. The technologies subject to this measures are : new materials, biotechnology, advanced electronics, advanced robots and machinery, advanced artificial condition and advanced processing. [20]

In the FY 1995 tax reform, the tax credit as a whole was extended for another two years with some amendments, for example, the definition of expenditure has been expanded to include joint research with universities and the like institutions. For the purpose of smooth implementation of business innovations of specified enterprises, 10% of the incremental R & D expenses was made creditable against the corporation tax. For this purpose, 165 types of industries were designated. But of the above-mentioned special taxation measures to promote R&D of basic technologies, the rate of tax credit was reduced from 7% to 5%, and the maximum amount was also lowered from 15% to 13% of the corporation tax liability, respectively.

In the FY 1999 tax reform, the following changes were made to the research tax credit: which has been extended by two years: the research credit has been reduced from 20% to 15% of the excess of research expense over the new base amount. The new base amount is the average of annual research expenses for the three years of the highest expenses in five years preceding the credit period. The maximum amount has also been lowered from 14% to 12% of the corporation tax liability. If the special research expense is included in the increased research expenditure, the maximum amount is the lesser of (1) the sum of 12% of the corporation tax liability and 15% of the special research expense or (2) 14% of the corporation tax liability. The special taxation measure to promote R&D of basic technologies, special measures for smooth implementation of business innovations by specified enterprises and the tax credit for special experimental and research expenses have been all terminated.

Parenthetically, the above statement is related to taxation on corporations but needless to say, an individual taxpayers filing a blue tax return is entitled to the same tax credit against his/her income tax.

In spite of the severe criticisms which the special taxation measures are receiving, favorable consideration is always given to small business. Taxation on R&D expenditure is no exception and that degree may be even stronger because in this area, the small business, which otherwise can't afford the R&D expenses, is left behind and, hence, is supposed to benefit most from the tax incentives.

As a result of the FY 1993 tax reform, tax credit equal to 6% of experimental and research expense, or 15% of the corporation tax before tax credit, whichever is the lesser, may be deducted from the corporation tax, instead of "20% of excess amount-credit". This alternative credit applies only to small- and medium-sized enterprises, whose capital amounts to 100 million yen or less. For this purpose, experiment and research costs include: (i) material costs, labor cost and expenses related to research and development, (ii) consigned research and development expenses, (iii) dues imposed by the industrial associations and (iv) dues imposed by the associations covered by laws, such as the Law for Promoting the Modernization of Small Businesses.

According to the tax legislation to implement the Comprehensive Economic Package determined in April 1998 in the Cabinet meeting, in order to reinforce research and experiment expenses for small business, the tax credit for small business was raised from 6% to 10% of research and experimental expenses, applicable for the accounting year from April1, 1998 to March 31, 1999. Thus, small-and medium-sized enterprises are allowed to elect the above 10% tax credit instead of "15% of excess amount-credit". In the FY 2001 tax reform, this application of increased tax credit at the rate of 10% for R&D has been extended to be applied until the end of the taxable year that starts by March 31, 2002 as special treatment for improvement of technological foundation of small－and medium-sized enterprises.

(5) Nonprofit Organization (NPO)

We are painfully aware that when it comes to philanthropies and charities, voluntary activities of citizens and nonprofit organizations (NPO), Japan cannot claim to be one of the most advanced countries. Unfortunately, Japan has no enough historical, social and religious backgrounds for these matters. It is quite recently that they have drawn attention of the general public in Japan. NPO's have just emerged especially because of the activities of volunteers on the occasion of the Hanshin Great Earthquake of 1995 and in the needy developing countries in these days of the shrinking official development assistance (ODA).

As Table 5 on the tax expenditures shows, in the U.S., the revenue effect of deductibility of charities, other than education and health, on individual and corporate income taxes ranks tenth, being projected to total 22,030 million dollars in fiscal year 2002. In the U.K., charities have enjoyed some relief from income tax since the tax was first introduced in 1842 and today amounts to total exemption from income tax and capital gains tax except in respect of the profits of a trade carried out by a charity which is not directly connected with the charity's objects.[21] According to the OECD's *Tax Expenditures: Recent Experiences* mentioned earlier, in FY 1994/95 for income tax, exemption of income of charities ranked second, amounting to 600 million pounds.

In Japan, tax treatment of contributions or donations differs depending on the recipients of such contributions or donations. The national and local governments and public corporations and other organizations listed in Schedule 1 of the Corporation Tax Law are exempt from the corporation tax, According to said Law, taxable organizations are grouped under the following four: (1) Ordinary corporations, such as joint stock companies and limited companies, (2) Corporations in the public interest listed in Schedule 2 such as incorporated associations, foundations, etc., (3) Cooperative associations listed in Schedule 3, (4) Non-juridical organizations with designated representatives or managers.

As for individual income tax, donations or contributions by a taxpayer to (i) the national or local government authorities, (ii) organizations specially designated by the Minister of Finance when they satisfy certain criteria set forth by the Law, (iii) specific public-interest-promoting corporations when they satisfy certain criteria set forth by the Law (as from October 1, 2001, contributions to NPOs designated by the National Tax Agency, NTA, have come under this category) and (iv) political organizations which meet certain conditions, an amount in excess of 10,000 yen is deductible from his/her ordinary income, retirement income or timber income up to an amount equal to 25% of the total of three kinds of income. As for corporate income tax, the whole amounts of contribution to the (i) and (ii) mentioned above are deductible. And contribution to the (iii) is up to the amount equal to half of the sum of 2.5% of income and 0.25% of the paid-in capital in the case of ordinary corporations (The ceiling differs to some extent for other corporations); the Law stipulates that such institutions should be those that make a remarkable contribution to the promotion of art, education, science, improvement of culture or social welfare, or advancement of the public interest. Other donations and contributions may be deducted from the taxable income within the upper limit to be calculated by the same formula as (iii) above.

The public interest corporations listed in Schedule 2 of Corporation Tax Law and non-juridical organizations with designated representatives or managers are subject to the corporation tax on the income derived from profit-making at the reduced rate of 22% as against the basic rate of 30% applicable to ordinary corporations. Of the total public interest corporations, nearly three-quarters are religious organization, 10% are those based on the Civil Code and schools and colleges are 3%. At present, 33 types of activity are designated as profit-making. Profits from any one of three 33 types of activity are taxed if (i) it is conducted continuously and (ii) at a specific establishment (analogous to permanent establishment in tax treaties). However, the following are exempt from tax regardless of the type activity: (1) organizations more than half of whose employees are physically handicapped or recipients of livelihood assistance and (2) organizations for widow and child. A little more than 9% of all qualified corporations are engaged in profit-making activities. Public interest corporations must keep accounts for non-profit-making activity and those for profit-making activity separately. When they transfer the assets from their profit-making business account to non-profit-making activity account, such transfer will be treated as a "deemed donation" and may be deductible only within certain limitation.

A long−awaited bill to help the activities of NPOs was proposed by Diet members and at long last approved in March 1998 as the Law for Promoting Specified Nonprofit Activities which came into force as from December 1, 1998. The major objective of this legislation is to give legal personality to the organizations created based on this Law. In approving the bill, the Diet made resolutions that a conclusion should be reached within two years about the tax status of NPOs. Thus, amendment was made to the Special Taxation Measures Law in March 2001 and became applicable as from October 1 of the same year.

Having assumed main new responsibilities for designating or certifying NPOs, the National Tax Agency (NTA) is doing everything within its power. They were fully ready for the enforcement of the law. Well in advance, in early August they prepared abundant supply of informative booklets. For information purpose, they have opened home pages over the internet for the convenience of taxpayers. In spite of the all-out efforts of NTA, in the first six months, only five NPOs were certified by the Commissioner of NTA. Some critics allege this is because the requirements are too severe. But this is not necessarily true. The fact may be these days an increasing number of NPOs are engaged in business of care of the aged and they perhaps don't need support in respect of taxation.

If certified by the Commissioner of the NTA as having satisfied certain requirements, NPO will be given the following special tax treatments:

- contributions made by individuals will be deductible from income within the upper limit described earlier.
- Apart from the amount for general contributions, contributions made by corporations shall be included in expenses along with contributions made to specific public-interest-promoting corporations up to the limit of said amount allowable, both combined.

• When an individual has contributed inheritance property, etc., it shall not be included in the calculation of the value for the inheritance tax.

The followings are the main requirements for special tax treatments:

(1) Achievements of two business years

(2) 80% or over of the total business expenditures and 70% or over of the total contributions are spent for the business expenditures of non-profit activities.

(3) The ratio of the amount of contributions to the total revenue is one-third or more.

(4) Board members of relative within the sixth degree of relationship by blood account for one-third or less of the total board members.

(5) Area of the activities covers more than one municipality.

Under the circumstances, to relax the requirements without legislative change, effective as from April 1, 2002, regarding (3) above, contributions from board members and from employees can be included in the total amount of contributions.

Notes

(1) Ministry of Finance, Budget Bureau, *The Japanese Budget in Brief 2001,* December 2001, Ministry of Finance, pp. 20–21.

(2) __________, *Highlights of the Budget for FY 2002,* December 2001, Ministry of Finance, pp. 1–3 and 9–10.

(3) For further information on the local taxes, see Nobuo Ishihara "The Local Public Finance System", Junshichiro Yonehara "Financial Relations between the National and Local Government" in Tokue Shibata, ed., *Japan's Public Sector—How the Government Is Financed,* University of Tokyo Press, 1993, pp. 141–166 and pp. 167–178, respectively.

(4) Organisation for Economic Co-operation and Development (OECD), *Revenue Statistics 1965–2000,* OECD, Paris, 2001, pp. 18–78. For tax burden, see also Torao Aoki "The National Taxation System" in Tokue Shibata, ed., *op. cit.,* pp. 104–106.

(5) Tax Commission, *Explanatory Materials,* February 15, 2002.

(6) Stanley S. Surrey, *Pathways to Tax Reform,* Harvard University Press, Cambridge, Massachusetts, 1973, p. 6.

(7) *Ibid.,* p. 4.

(8) William D. Andrews, *Basic Federal Income Taxation,* Little, Brown and Company, Boston and Tronto, 1988, p. 18. Also see pp. 351–358.

(9) U. S. Office of Management and Budget, *Budget of the United States Government for Fiscal Year 2002, Analytical Perspectives,* U.S. Government Printing Office. Washington, D.C. 2001, p. 61.

(10) *Ibid.,* p. 61.

(11) Torao Aoki "National Report: Japan", International Fiscal Association "Tax Incentives as an Instrument for Achievement of Government Goals" *Cahier de droit fiscal international,* Vol. LXIa, 1976, Kluwer, the Netherlands, pp. 423–438.

(12) Stanley S. Surrey and Paul R. McDaniel, *Tax Expenditures,* Harvard University Press, Cambridge, Massachusetts, 1985, pp. 178–180.

(13) Stanley S. Surrey & Paul R. McDaniel, *op. cit.,* pp. 179–180. For the detailed list of tax expenditures, see J. R. M. Willis and Philip J. W. Hardwick, *Tax Expenditures in the United Kingdom,* Heinemann Educational Books for The Institute for Fiscal Studies, 1978.

(14) Stanley S. Surrey & Paul R. McDaniel, *op. cit.,* pp. 177–181.

(15) *Ibid.,* p. 283. Organisation for Economic Co-operation and Development (OECD), *Tax Expenditures: Resent Experiences,* OECD, Paris, 1996, pp. 79–82.

(16) Stanley S. Surrey & Paul R. McDaniel, *op. cit.,* p. 181.
(17) OECD, *Tax Expenditures: A Review of the Issues and Country Practices,* OECD, Paris, 1984.
(18) OECD, *Tax Expenditures: Recent Experiences,* OECD Paris, 1996, p. 7.
(19) Office of Historical Studies, Ministry of Finance, Japan, *Showa Zaisei-shi* (History of Fiscal and Monetary Policies in Japan) *1952–1973, Vol. VI, Tax,* (in Japanese) Toyo Keizai Inc., Tokyo, 1990, pp. 58–68. Also see pp. 215–227.
(20) Based on Tax Bureau, the Japanese Ministry of Finance, *An Outline of Japanese Taxes, 1997,* Printing Bureau, Ministry of Finance, Tokyo, 1997, p. 123.
(21) J. R. M. Willis and Philip J. W. Hardwick, *Tax Expenditures in the United Kingdom,* 1978, Heinemann Educational Books for the Institute for Fiscal Studies, London, p. 58.

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（後記） 本稿は，筆者がオーストラリアのメルボルンにある Victoria University Centre for Strategic Economic Studies に寄稿したものでもある。