Ongoing Tax Reform in Japan

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I. Japan's Current Government Finance's Position

1. The Post-war and High Growth Periods

(1) From a balanced budget to the borrowings

From the end of World War II to the mid-1960's, the Japanese government strictly followed a balanced budget policy in the course of reconstruction from devastation and on the way to the rapid economic growth. However, FY1965 marked a turning point for this policy, when the government formulated a supplementary budget requiring an issuance of bonds to make up for the revenue shortfall and to reflate the stagnant economy. Furthermore, in the following fiscal year, the issuance of government bonds was required to balance the revenue and expenditure even in the initial budget. Thus, around the mid-1960's, the government abandoned its balanced budget policy and began relying on bonds to finance its expenditures.[1]

The Public Finance Law allows the government to issue public bonds only financing public work projects, which would become social infrastructures benefiting both present and future generations, and for financing equity participation and lending. These bonds are called "construction bonds" ; between FY1966 and FY1974, construction bonds were the only type of bonds that had been issued.

(2) Deficit-financing bonds

The oil crisis in 1973 triggered another turning point in the government's fiscal policy. As tax revenues stagnated in the wake of the prolonged recession due to the crisis, the Public Finance Law was amended to permit the government to issue special deficit-financing bonds inn the supplementary budget of FY1975. From that FY, the issuance of special deficit-financing bonds, based on this kind of special legislation annually, continued until the FY1989 budget.

In the late 1970's, the fiscal deficit expanded rapidly, with the bond issues as a percentage of the total expenditures reaching the first peak of 39.6% in the initial budget of FY1979. This was particularly due to (a) the stagnating tax revenue as the high economic growth period ended, (b) the rapid expansion of expenditures on social security services in the 1970's and (c) the increase in public works expenditures financed by borrowings to cope with the depressing economic conditions.

2. Stable Economic Growth Path

(1) Fiscal Consolidation

Faced with the serious fiscal condition, Japan has, since the FY1980 budget, maintained the goal of reducing the issuance of special deficit-financing bonds wherever possible through restraint on the expenditure side. In addition, the government has explored every avenue to raise revenues from non-tax resources. With these efforts and the increase of tax revenues in the latter half of the 1980's partly resulting from the so-called "bubble economy", Japan finally succeeded in compiling the FY1990 budget without issuing special deficit-financing bonds for the first time in 16 years. Government bonds which accounted for more than one third of the total expenditures at the late FY70's gradually decreased and reached 9.5% of the total expenditures in FY1991.(2)

(2) Economic Packages

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

In 1997, the government decided not to continue the temporary tax cut, and instead raised the consumption tax rate from 3% to 5%. In November of that year, the Fiscal Structural Reform Law was enacted, thereby numerical spending limits on major expenditure categories are provided.

3. Current Fiscal Situation

(1) Fiscal Reconstruction or Economic Recovery

In spite of its resolution, the government had to implement two economic packages in April and November of 1998 to cope with the stagnant economy. To finance these large scale economic packages, a record high of 34 trillion yen ($281.0 billion) of government bonds were to be issued. (In this paper, the exchange rate used is, unless otherwise mentioned, US$ 1.00=121 Japanese yen, which is the average actual market value from June to November 2002) Bond dependency defined as the amount of government bond issues as a percentage of the total expenditures reached a new high of 40.3%.

In FY1999, two supplementary budgets were needed to carry out the Policy Measures for Economic Rebirth. Thus, the bond dependency rose to an unprecedented 43.4%. The FY2000 budget continued to be stimulative with a view to getting the economy back onto the track to a full-scale recovery. The amount of new government bond issues was reduced from the previous FY but the outstandings increased remarkably. The FY2001 budget was compiled from the viewpoint of facilitating a smooth shift from public to private demand in the interest of autonomous economic recovery. New public bond issues were further decreased but the situation of government finances has been further deteriorated.

(2) Structural Reform of the Japanese Economy

Since the inauguration of the Koizumi Cabinet at the end of April 2001, the emphasis of its policy has been shifted from economic recovery to the structural reform of the Japanese economy. Based on the firm determination that "there can be no growth without reform", a "Reform Schedule" has been worked out. To accelerate the process of structural reform and avert a deflationary spiral, two supplementary budgets were formulated. After the second supplementary budget in December 2001, the amount of public bond issues increased to 30 trillion yen ($247.9 billion), which makes the bond dependency 35.4%. The FY2002 budget was prepared to stand as a "budget committed to reform", which will fundamentally review expenditure structures and mark a fiscal structural reform, adhering to the principle of "keeping new government bond issues to less than 30 trillion yen". Such budget will be made possible only by "reducing expenditures by 5 trillion yen while allocating 2 trillion yen to priority areas". This requires a bold shift in budgetary allocations to promote economic structural transformation.[(3)]

The FY2003 budget is characterized by "Acceleration of Expenditure Reform". While the General Account expenditures increased over the previous FY by only 0.7%, tax revenues are expected to decline by 10.7% from the previous FY because of the prolonged economic recession. To make up for the difference, the government is forced to issue public bonds in the amount of 36,445 billion yen ($301.2 million), which is over the limit of 30 trillion yen. In this way, the bond dependency will rise from 41.8% of the previous FY to an all-time high of 44.6%.

Thus, the limited fund resources available should be used for the priority areas such as creation of new jobs, relief of small businesses, science and technology, environmental protection for the sake of revitalization of the economy. Also pending is the problem of fiscal relationship between the national and local governments.[(4)]

(3) General Government Financial Balances and Gross Debt

According to the OECD's *Economic Outlook* issued in December 2002, the fiscal deficit of Japan in calendar year 2003 is estimated to be 7.7% of GDP on a general government basis whether social security funds is included or not. Many other developed countries have been working towards fiscal consolidation and have already shows improvements. However, Japan's fiscal deficit has greatly increased and exceeded that of other industrialized countries due to various measures aimed at economic recovery.[(5)] It is evident from Table 1 which shows the general financial balance as a percentage of GDP and Table 2 which shows the general government gross debt as a percentage of GDP of major industrialized countries.

Table 1 General Government Financial Balances (International Comparison)

(As a percentage of GDP)

Calendar Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
General Government Excluding Social Security														
Japan	▲ 1.5	▲ 0.7	▲ 1.6	▲ 4.5	▲ 4.7	▲ 6.0	▲ 6.5	▲ 5.3	▲ 6.7	▲ 8.1	▲ 7.9	▲ 7.6	▲ 8.2	▲ 7.7
United States	▲ 5.4	▲ 5.9	▲ 6.7	▲ 5.7	▲ 4.5	▲ 3.9	▲ 3.1	▲ 2.0	▲ 0.9	▲ 0.7	▲ 0.1	▲ 2.1	▲ 4.6	▲ 4.7
General Governmewnt														
Japan	1.9	1.8	0.8	▲ 2.4	▲ 2.8	▲ 4.2	▲ 4.9	▲ 3.7	▲ 5.5	▲ 7.1	▲ 7.4	▲ 7.2	▲ 7.9	▲ 7.7
United States	▲ 4.3	▲ 5.0	▲ 5.9	▲ 5.0	▲ 3.6	▲ 3.1	▲ 2.2	▲ 0.9	0.3	0.7	1.4	▲ 0.5	▲ 3.1	▲ 3.0
United Kingdom	▲ 1.6	▲ 3.1	▲ 6.4	▲ 7.9	▲ 6.7	▲ 5.8	▲ 4.4	▲ 2.2	0.2	1.1	3.9	0.7	▲ 1.4	▲ 1.4
Germany	▲ 2.0	▲ 2.9	▲ 2.6	▲ 3.1	▲ 2.4	▲ 3.3	▲ 3.4	▲ 2.7	▲ 2.2	▲ 1.5	1.1	▲ 2.8	▲ 3.7	▲ 3.3
France	▲ 2.1	▲ 2.4	▲ 4.2	▲ 6.0	▲ 5.5	▲ 5.5	▲ 4.1	▲ 3.0	▲ 2.7	▲ 1.6	▲ 1.3	▲ 1.4	▲ 2.7	▲ 2.9
Italy	▲11.8	▲11.7	▲10.7	▲10.3	▲ 9.3	▲ 7.6	▲ 7.1	▲ 2.7	▲ 3.1	▲ 1.8	▲ 0.6	▲ 2.2	▲ 2.3	▲ 2.1
Canada	▲ 5.8	▲ 8.4	▲ 9.1	▲ 8.7	▲ 6.7	▲ 5.3	▲ 2.8	0.2	0.1	1.7	3.1	1.8	0.6	0.5

Source : OECD *Economic Outlook* 72 (December 2002). Figures are general government figures calculated on a SNA basis.

Table 2 General Government Gross Debt (International Comparison)

(As a percentage of GDP)

Calendar Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Japan	64.6	61.1	63.5	69.0	73.9	80.4	86.5	92.0	103.0	115.8	123.4	132.6	142.7	151.0
United States	66.6	71.4	74.1	75.8	75.0	74.5	73.9	71.4	68.3	65.3	59.5	59.7	60.7	62.0
United Kingdom	44.4	44.3	49.2	58.1	55.8	60.6	60.1	60.5	61.5	56.3	51.5	50.7	50.8	50.9
Germany	41.5	38.8	41.8	47.4	47.9	57.1	60.3	61.8	63.2	61.2	60.5	60.2	62.4	63.7
France	39.5	40.3	44.7	51.6	55.3	62.9	66.5	68.2	70.4	66.2	65.4	65.0	66.7	68.4
Italy	97.2	100.6	107.7	118.1	123.8	123.2	122.1	120.2	116.3	114.5	110.5	109.8	109.6	108.1
Canada	75.1	82.8	90.9	96.2	97.2	99.9	99.2	97.5	94.3	92.5	83.3	83.2	81.2	78.9

Source : OECD *Economic Outlook* 72 (December 2002). Figures are general government figures calculated on a SNA basis.

II. Characteristics of the Japanese Taxes

1. National and Local Taxes

The receipt estimates of the national taxes are given in Table 3. It should be remembered that, as mentioned earlier, recently, because of the economic slump which depresses income and profits or makes tax reduction necessary, tax revenues usually fall short of the estimates in the initial budget. In order to make up for the difference, the government has to work out a supplementary budget to issue additional public bonds. In this way, the government finances have got in an even worse shape.

The local taxes which meet about 40% of the financial needs of local governments are as follows : (i) Prefectural taxes — Prefctural inhabitant tax and enterprise tax (both on individuals and entities) are major source of revenues. Automobile tax, prefectural tobacco tax, light oil delivery tax and automobile acquisition tax are also worthy to be mentioned. Some prefectures levy a discretionary tax, such as nuclear fuel tax, not prescribed in the Local Tax Law with the consent of the Minister of Home Affairs. (ii) Municipal

Table 3 Tax Receipt Estimates

(In 100 millions of yen ≒ US$826,000)

	FY 1998	FY 1999	FY 2000	FY 2001		FY 2002	FY 2003
	Initial	Initial	Initial	Initial	Revised	Initial	Initial
General Account	*585,220	471,190	486,590	507,270	496,250	468,160	417,860
Income tax	164,020	124,590	186,800	185,720	181,160	158,310	138,100
Withheld at source	41,530	32,260	156,610	156,570	152,010	129,330	112,410
Self-assessed	205,550	156,850	30,190	29,150	29,150	28,980	25,690
Corporate income tax	152,740	104,280	99,470	118,390	111,930	111,740	91,140
Inheritance tax	23,510	19,480	16,710	15,970	15,970	15,300	13,510
Land value tax	60	30	10	10	10	10	10
Consumption tax	108,180	103,760	98,560	101,290	101,290	98,250	94,890
Liquor tax	20,580	19,810	18,600	18,230	18,230	17,350	17,330
Tobacco tax	10,200	8,960	9,000	8,810	8,810	8,480	9,170
Gasoline tax	19,960	20,450	20,780	21,210	21,210	21,340	21,330
Liquefied petroleum gas tax	150	150	150	140	140	140	140
Aviation fuel tax	910	900	870	900	900	910	880
Petroleum tax	5,160	4,960	4,820	4,880	4,880	4,800	4,500
Motor vehicle tonnage tax	8,400	8,410	8,320	8,440	8,440	8,400	7,410
Customs duty	9,470	7,850	7,300	8,140	8,140	8,600	8,080
Tonnage due	90	90	90	90	90	90	80
Stamp receipts	18,240	15,210	15,110	15,050	15,050	14,440	11,290

Source : Based on Policy Research Institute, Ministry of Finance, *Financial Statistics of Japan,* Tokyo, Ministry of Finance, each year issue. The figures for FY 2003 are from Tax Bureau, Ministry of Finance.

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 also worthy to be mentioned. Like prefectures, some municipals levy a discretionary tax, such as tax on the possession of resort villas, with the consent of the Minister of Public Management, Home Affairs, Posts and Telecommunications.

2. Problems of Tax Burden

According to the OECD *Revenue Statistics 1965–2001*, Japan's total tax revenue as a percentage of GDP in 2000 was 27.1%, which was the third from the bottom of all the 30 member countries, with the average being 37.4%. If social security contributions are

Table 3 Tax Receipt Estimates (Continued)

(In 100 millions of yen ≒ US$826,000)

	FY 1998	FY 1999	FY 2000	FY 2001		FY 2002	FY 2003
	Initial	Initial	Initial	Initial	Revised	Initial	Initial
Special Account for Allotment of Local Allocation Tax and Local Transfer taxes	6,077	6,136	6,159	6,265	6,265	6,261	7,145
Local road tax	2,848	2,906	2,965	3,035	3,035	3,043	3,035
Liquefied petroleum gas tax**	150	150	150	140	140	140	140
Aviation fuel tax**	166	164	158	164	164	165	160
Motor vehicle tonnage tax**	2,800	2,803	2,773	2,813	2,813	2,800	3,710
Special tonnage due	113	113	113	113	113	113	100
Special Account for Coal, Petroleum and More Sophisticated Structure of Demand and Supply of Energy Policy							
Customs duty on oil, etc.	662	619	522	527	527	380	380
Special Account for Promotion of Electric Power Resources Development							
Power resources development promotion tax	3,636	3,679	3,699	3,799	3,799	3,767	3,685
Road Improvement Special Account							
Gasoline tax	6,654	6,716	6,934	7,155	7,155	7,102	7,033
Special Account for Debt Consolidation Fund							
Special tobacco tax	1,202	2,675	2,716	2,659	2,659	2,558	2,463
Total	603,451	491,015	506,620	527,675	516,655	488,228	438,566

Notes: * includes 1,810 million yen (US$14,959,000) of "Security Transaction Tax" and 210 million yen (US$ 1,736,000) of "Bourse Tax" which were both abolished as from the end of FY 1998.
** denotes the distributed amount to local governments.

excluded, this percentage of Japan will be 17.2%, which is the last but one of all the 30 members, with the average being 27.9%. 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 fairly well-advanced welfare system.[6]

The Japanese tax burden is in no way heavy from macroeconomic point of view. Nevertheless, one of the reasons why the Japanese taxpayers have a conception of a heavy tax burden is the imbalance among types of taxation on income, consumption and property. As will be discussed in greater detail, contrary to the pre-war period, after the war, the Japanese tax system became heavily dependent on direct tax as against indirect tax. So far, the Japanese government has made all-out efforts to change the situation. OECD's study recently published seems to endorse the fruits of Japan's such efforts to some extent in terms of change in tax revenue as a percentage of GDP.[7] Nevertheless, Japan at 70.6% ranks the second among all the 30 member countries in the revenue from the tax on income and profits and social security contributions combined as a percentage of the total tax revenues as against 61.7% of the average of all the 30 members. Also in terms of revenue, the share of tax on property in the total revenue is 10.3%, which is almost twice as high as the members' average of 5.4%. On the other hand, however, Japan's revenue from tax on goods and services account for only 18.9% of the total tax revenues, which ranks the second from the bottom of all the 30 member countries, with the average being 31.6%.[8]

To compare with other major advanced countries, i.e. U. S., U. K., Germany and France, the following illustration from the report on tax reform submitted in June 2002 by the Tax Commission, an advisory organ to the Prime Minister, in June 2002 to Prime Minister Junichiro Koizumi has many implications concerning the issues of tax burden. For comparison purpose, the report uses the FY2002 initial budget figures for Japan and 1999 OECD *Revenue Statistics* figures for all the rest. Japan's burden of taxes (national and local) as a percentage of national income is 22.9%, which is the lowest of the major five nations. When social security contributions are included, this percentage rises to 38.3%, which is the last but one. Japan barely surpasses 35.9% of the U. S. where the social security is substantially left to the private sector. It is to be noted that Japan's percentage of taxes on consumption is 7.1%, which compares with 5.7% and mid-ten per cent of all other countries. Japan's ratio of taxes on individual income is 6.8%, which is about half of 13.4% of the U.S., 13.9% of the U. K. etc. but that of taxes on corporate income is 5.0%, which is the highest together with the U. K. and is more than double 2.4% of that of Germany. Japan's percentage of taxes on property is 3.9%.[9]

3. Direct Tax vs. Indirect Tax

In Japan, the analysis of tax issues is conventionally approached from the viewpoint of 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 FYs 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 two in Japan has been reversed. The share of the direct taxes steadily increased during the period of high economic growth. Thus, the shares of the direct and indirect taxes in 1989, when the consumption tax was introduced, were 74.2% and 25.8%, respectively.

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 improved policy formulation and administration. Fully aware of such reality, the Japanese Ministry of Finance seems to feel that this dichotomy approach is useful for analysis for policy-making. For the advanced economies, its Tax

Table 4 Direct and Indirect Taxes

Country	Fiscal Year	Direct Tax	Indirect Tax
Japan	FY2002 initial budget	58.4%	41.6%
United States	FY2000 settled account	93.3%	6.7%
United Kingdom	FY1999 actual	57.1%	42.9%
Germany	FY2000 settled account	47.4%	52.6%
France	FY2000 settled account	43.3%	56.7%

Source : Policy Research Institute, Ministry of Finance, *Ministry of Finance Statistcs Monthly,* Tokyo, Printiing Bureau of the Ministry of Finance, April 2002 (Special Issue on Taxes), pp. 22–23.

Bureau tentatively estimates their shares of the direct and indirect taxes as shown in Table 4 :

In Germany and France, where the value added tax is originated, indirect taxes have a larger share than direct taxes in the total tax revenues. As for Japan, in view of the perception of a heavy tax burden, which was explained earlier at some length, and in the hope of securing fund resources to finance the social security for the rapidly ageing society, every effort has been made to shift emphasis from direct to indirect tax. It is reported that in the FY2003 initial budget the share of the direct taxes is expected to fall to 55.4%, which is the lowest in the last about 40 years since the middle of the 1960's, because the income and profits of individuals and corporations under the economic recession while indirect taxes remain relatively unaffected. The U.S. has an exceptionally large share of direct taxes. It is to be noted, however, there is a vast difference in the components of direct taxes between the U. S. and Japan, While in Japan personal and corporate income taxes, respectively, account for 55.4% and 39.2% of the total direct tax revenues, in the U. S. personal and corporate income taxes, respectively, account for 80.9% and 16.7%. In other words, in contrast to the U. S. where the personal income tax plays an overwhelmingly major role, in Japan the corporate income tax is important.(10)

III. Necessity of Tax Reform

1. Structural Changes in the Socioeconomy

Since the Japanese post-war tax system was first established in 1950 mainly based on the recommendations of the tax advisory group headed by Prof. Carl S. Shoup, the social and economic environments in Japan have phenomenally changed. Therefore, from the fundamental principles of taxation fairness, neutrality and simplicity, the tax system also should be reviewed and revised wherever necessary, especially with the following respects.:

- the shrinking population with the declining birthrate and ageing society
- internationalization, computerization and diversification of corporate activity

- the diversification of financial transactions and a shift towards a stock economy
- the diversification of lifestyles
- trends in the distribution of income

2. Rapidly Ageing of the Population

Japan's birthrate is declining year after year, while its life expectancy is increasing. The number of people who are 65 or older is estimated to increase to about 1.5 times its present level in 2015. The following Table 5 shows how rapidly Japan's population is ageing.

Table 5 Ratio of the Number of Aged People to the Total Population

	1965	1980	1995	2000	2025
Japan	6.3	9.1	14.5	17.3	28.7
Germany	12.5	15.6	15.5	16.4	24.6
France	12.1	14.0	15.1	16.0	22.2
U. K.	12.0	15.1	15.7	15.8	21.9
U. S.	9.5	11.2	12.5	12.3	18.5

Source : National Institute of Population and Social Security Research, January 2002.

The ageing of population requires an increase in the expenses on social security service. But because of the declining birthrate the number of working persons between the ages of 20 and 64 who are expected to support the aged persons will not gain so much. Thus, while in 2000 one elderly person was supported by 3.6 working individuals aged between 20 and 64, in 2025 one elderly person will be supported by 1.9 working individuals of the same range of ages. This has many implications in connection with tax reform, particularly that of consumption tax.

3. Fiscal Deficits

At the outset, the current plight of government finances was described at some length. It is hardly necessary to repeat that with accumulated public debt amount Japan's fiscal position relative to GDP is the worst of the advanced countries. On the revenue side, after reaching a peak of over 60 trillion yen in FY1990, tax revenue has declined substantially. Following the collapse of bubble economy, tax revenue has revenue shrunk because of slow economic growth and because of tax reductions implemented as economic stimulus measures over the past few years. As a result, tax revenue of 46.8 trillion yen in the FY2002 initial budget is roughly at the level of 1987 or 15 years ago.(11)

One of the fundamental principles of taxation is "neutrality". This may first apply to economic activities but may be also extended to revenues so that any revenue loss caused by tax reform may be offset. By the very nature, the prime concern of tax authorities is securing of tax revenues. Tax reform usually tends to imply tax reductions, which will result in the revenue loss on the part of the government. Unless such revenue loss is circumvented in the same tax reform under the principle of neutrality, the government has no choice but to borrow. This has led Japan to today's plight of government finances. In this sense, neutrality is one of the most important factors to be taken into consideration in formulating tax reform. It should be borne in mind any attempt for tax reform merely to increase taxes usually fails. Therefore, for example, revenue loss due to the lowering of tax rates should be offset by broadening tax base in the same legislation.

4. Process of Tax Reform

Thus far tax reform has been implemented in accordance with the change in the economic and social environments. Representing an effort to shift from direct tax to indirect tax, the most recent drastic tax reform took place in 1988, when a consumption tax, a Japanese version of value-added tax, was introduced and instead the individual and corporate income taxes and inheritance tax were reduced. In the FY1991 tax reform, as a part of the land policy, in order to halt the soaring land prices, the land value tax which penalizes ownership of land was instituted. In the FY1998 tax reform, the Corporation Tax Law was amended so as to radically revamp the corporate income tax for the first time since the enactment of the Law in 1965. The tax rates were cut but the tax was broadened by abolishing or reducing some reserves and changing the methods of depreciation and others. The land value tax has been suspended in view of the calming down of land prices.

It goes without saying that the Tax Commission (generally known as government's Tax Commission) is primarily responsible for tax reform. Under the parliamentary system, the Tax Research Committee of the ruling Liberal Democratic Party is also powerful. In the past, these two institutions used to publish their own reports almost simultaneously just prior to the completion of the budget compilation. Although based on separate deliberations, the conclusions of both repots happen to be almost the same albeit minor differences perhaps through the good offices of Tax Bureau, the Ministry of Finance. Recently, the Council on Economic and Fiscal Policy, a government panel chaired by the Prime Minister, which started in January 2001, has come into the picture. The rule is going to be established that the Council is in charge of the philosophical aspects of taxation. The Council insists that the fundamental principles of taxation are "fairness, *vigor* and simplicity" rather than traditional "fairness, neutrality and simplicity".

IV. Contents of Tax Reform

1. Income Tax (Individual Income Tax)

Since the drastic tax reform in 1988 the burden of taxes on income such as individual income tax (one of Japan's key taxes) has been considerably reduced by easing the progressive tax structure and by raising the tax threshold (the minimum taxable income). As a result, the progressiveness of the income tax structure has been relaxed from the top rate of 70% with 15 brackets in 1986 to the present top rate 37% with 4 brackets. The minimum taxable income for the standard family (a couple with two children) has been raised from 1.830,000 yen ($15,123) in 1975 to 2,357,000 yen ($19,479) in 1986 and further to today's 3,842,000 yen ($31,752).

Thus, Japan's burden of taxes on income as a percentage of national income is by far

Table 6 International Comparison of Tax Burden as Percentage of National Income

	France	U. K.	Germany	U. S.	Japan	
Individual taxes on income	1999	1999	1999	1999	FY1999	FY2002
	11.2%	13.9%	12.8%	14.2%	9.5%	6.8%
Of which : national tax	11.2%	13.9%	10.2%	11.7%	6.6%	4.3%

Sources : For Japan's FY1999, *68SNA* (*System of National Accounts*) and for FY2002, *The Government's Economic Outlook for FY2002.* For other countries, OECD, *Revenue Statistics 1965–2000* and *National Accounts.*

Table 7 International Comparison of Income Tax Threshold

In thousand of yen ($8.26)

Japan	United States	United Kingdom	Germany	France
3,842	3,164	1,500	4,223	3,385

Notes : 1) For foreign countries, as of January 1, 2003. 2) Exchange rates used are US$1.00= JP¥121, UK£1.00=JP¥186 and 1.00 EURO=JP¥119. (Base exchange rates : Average actual market values from June until November 2002)
Source : Tax Bureau, the Ministry of Finance, *Let's Talk about Taxes,* Tokyo, the Ministry of Finance, April 2003, p. 16

the least heavy as compared with other major advanced countries as follows (Table 6) :

The following Table 7 internationally comparing the minimum taxable income for the standard family also shows that of Japan is very high.

In taxable year 2000, more than 16.7 million gainfully employed workers who accounted for about a quarter of the total work force did not pay income tax mainly because of the extremely high tax threshold. As a matter of fact, in the past, the tax reductions were implemented by raising the allowances or dedctions which may be deducted from taxable income or by creating a new allowance or deduction. In this way, the allowances and deductions have proliferated, now totaling more than 20 kinds, including the basic allowance, allowances for spouse, dependents and elderly and deductions for contributions to social security and employment income.

In 1987 to settle the so-called "part-timer problem", a special allowance for spouse was introduced. Now is the time to integrate numerous personal deductions. In the FY2003 tax reform, among the special allowance for spouse the additional amount (maximum of 380,000 yen ≒ $ 3,140) has been abolished as from CY2004 with a view to broadening the tax base.

The discussions of the Tax Commission include the following : (1) the tax system should shift from one of savings-oriented to one of investment-oriented ; (2) taxation on pension should be strengthened because by and large some pensioners are found in a rather comfortable financial position; and (3) a dual approach to income taxation, i.e. lighter taxation on income from assets than taxation income from employment and introduction of the taxpayer identification number system should be also considered.

2. Corporation Tax (Corporate Income Tax)

(1) Effective Tax Rates

As mentioned earlier, the rates of corporation tax were cut in the drastic FY1988 tax reform and in the FY1998 tax reform a sweeping revision was made to the Corporation Tax Law for the first time since its enactment in 1965, including further reduction of the tax rates. Thus, Japan's corporation tax rate is now at the lowest level of the post-war era. As a result, its effective tax rate (national and local combined) is in line with the rates in other advanced countries as follows, enabling the Japanese businesses almost to compete internationally (Table 8):

(2) Restructuring of Corporations

Recently, as globalization of the economy progresses, in order to improve the competitiveness of industries, in 1997 the Antimonopoly Law was amended and in the following year the prohibition of creation of holding companies by a bank was lifted. In 1999, with a view to facilitating holding companies, the Commercial Code was revised especially by adding provisions on split of corporations. In the wake of this legislation, in the FY2001 tax reform, a new taxation system relating to the restructuring of corporations such as splits, mergers and investment in kind has been created.

When an asset is transferred, in principle, tax is imposed on the gains arising from such transfer. However, the gains arising from the transfer connected with the following types of restructuring shall be deferred unless the payment is made in money in exchange for the transfer as shown in Table 9:

Table 8 International Comparison of Effective Corporation Tax Rates

In percentage

	Japan			U. S.	U. K.	Germany	France
	Until FY 1997	FY 1998	Since FY 1999				
Total	49.98	46.36	40.87	40.75	30.00	39.69	34.33
Local	16.50	15.28	13.50	8.84	—	16.28	—
National	33.48	31.08	27.37	31.91	30.00	23.41	34.33

Notes: 1) For foreign countries, the figures are based on the tax system as of January 2003.
2) The effective tax rate in Japan is the total rates of the corporation tax, corporation inhabitants tax and corporation enterprise tax after adjustment for the deduction of corporation enterprise tax from the tax base of the corporation tax.
3) The corporate income tax in California is used as an example of the state taxes in the U. S. A municipal corporate tax is also assessed in some cities. The effective tax rate in New York, for example, is 45.95%, when federal, state and city taxes are combined.
4) Germany's effective tax rate includes a surtax (5.5% of the corporation tax payment). For the purpose of computing the effective tax rate, the tax rates of Gewerbesteuer, which differ depending on communities, are assumed to be 19.5%. The raise of corporation tax rate from 25% to 26.5% as a temporary measure for FY2003 only is taken into account.
5) France's effective tax rate includes a surtax (3 % of the corporation tax payment).

Sources: Tax Bureau Information Office, op. cit., p. 14.; Policy Research Institute, Ministry of Finance, *Ministry of Finance Statistics Monthly,* Printing Bureau of the Ministry of Finance, April 2002 (Special Issue on Taxes), pp. 82–83, and Tax Bureau, the Ministry of Finance, *Let's Talk about Taxes,* Tokyo, the Ministry of Finance, April 2003, p. 18.

Table 9 Tax Treatment of Restructuring of Corporations

Types of restructuring	Requirements
Restructuring within a group of corporations (Stock ownership must exceed 100%)	(1) Transfer of an independent business unit (Transfer of essential assets/liabilities and a substantial number of employees) (2) Continuation of the transferred business However, the requirements (1) and (2) above need not be satisfied if transfer is made among a group of corporations with the shareholding ratio of 100%
Restructuring for conducting "cooperating business" • The restructuring must be conducted in a related business. • In addition, (i) or (ii) must be satisfied (i) The sizes of the business units are not considerably different.: e. g. The ratio of the gross sales, number of employees, or other equivalent element is smaller than roughly 1 : 5. (ii) Managing directors or directors of higher standing participate in the management.	(1) Transfer of an independent business unit (Transfer of essential assets/liabilities and a substantial number of employees) (2) Continuation of the transferred business (3) Continued holding of the shares acquired in exchange for the transferred business

Source: Tax Bureau, Ministry of Finance, *An Outline of Japanese Taxes 2001 • 2002 Edition,* Tokyo. Printing Bureau of the Ministry of Finance, 2002, pp.319–400.

When a shareholder receives only the shares of a newly-created corporation, recognition of the gains for tax purposes of the former shares shall be deferred. Necessary measures are taken over the tax-free reserves according to types of restructuring of corporations.

A comprehensive preventive provision against tax avoidance has been introduced in addition to the provision for preventing tax avoidance through carrying forward of losses.

The registration and license tax for commercial registration, land registration, etc. related to restructuring of corporations is reduced to the same level as the tax in the case of mergers.

These measures are applicable to restructuring of corporations carried out on and after 1 April 2001. (12)

(3) Consolidated Taxation System

In order to maintain and strengthen international competitiveness of Japanese enterprises and to facilitate restructuring of corporations, and partly in response to the wishes of the business community, a consolidation taxation system was instituted by amending the Corporation Tax Law in July 2002 and has become retroactively applicable to those corporations whose business year started on and after 1 April 2002 and ended on and after 31 March 2003.

Under the consolidated tax system, the corporation tax is charged on the integrated amount of profit and loss of a group of corporations. The scope of corporations is a parent company and its 100% domestic subsidiaries. Application of the system is optional and subject to approval by the Commissioner of the National Tax Agency. Once elected, the tax system should continue to be applied.

The amount of consolidated taxable income and tax liability will be computed for the consolidated group of corporations as a single tax unit by applying necessary adjustments to the amount of taxable income of each corporation in the consolidated group. Then, the amount of consolidated tax liability will be allocated to each corporation in the group based on the taxable income and loss of each corpration.

Various tax treatments will be applied under the consolidated system, based on the principle of calculating the taxable income and tax liability for the group as a single tax unit, while making necessary adjustments taking account of the purpose of each taxation provision.

A comprehensive anti-tax avoidance rule will be introduced with a view to dealing appropriately with various types of possible tax avoidances.

The Ministry of Finance estimated the revenue loss due to the institution of the consolidated tax regime to be about 800 billion yen ($6,611.5 million) for FY2002. In the interest of fiscal neutrality, partly to make up for this revenue loss, as a temporary measure for the first two years, a surtax of two percent is imposed on those corporations who have elected the system.

Some business sectors alleged that this surcharge is considerably crippling the merits or advantages of the long-awaited system and requested to abolish the surtax after one year. Anyway, the Finance Ministry conducted a questionnaire on 4,765 listed or over-the-counter companies concerning the application of the consolidated taxation system. In November 2002, the Ministry announced the results of the questionnaire, according to which 3,305 companies replied. Of the total companies which replied, 136 have already applied for or intend to apply for the system and 405 consider election of the system, given the existing system as it is. On other hand, if the surtax is lifted, 150 companies say they would apply for the system and 261 would consider election of the system. These results of the questionnaire were taken as not necessarily to substantiate the allegation that the surtax is endangering the consolidated taxation system. Hence, the provision on the surtax has been kept intact.

(4) Assessment of Corporation Enterprise Tax (Local) by Size

Some 1,767,000 corporations which accounted for 69.9% of the total corporations whose business year ended by 31 January 2000 reported deficits for taxation purposes. Although these “red-ink” companies don’t pay the corporation tax, they are benefiting from the services and facilities provided by the national and local governments. On the other hand, the enterprise tax, which is one of the major sources of local governments, is subject to business fluctuations and, hence, the local governments badly need more stable source of funds. From this viewpoint, it may be reasonable to introduce assessment by estimation on the basis of the size of business for the enterprise tax.

For the purposes of this pro-forma tax, the size of business is proposed to be estimated by, for example, the amount of capital and number of employees. This has long been high on the agenda of the Tax Commission and very controversial. Even if the financial need of the local governments are understood to be acceptable, the timing of its introduction may be another problem. If instituted amid these days of stagnant economy, hardest hit would be small business. Taking this situation into consideration, the national government hesitated to introduce the pro-forma taxation.

In March 2000, the Metropolitan Assembly of Tokyo approved the ordinance to levy the pro-forma enterprise tax on banks for five years effective as from FY2000. Under the ordinance, the tax is imposed on banks with funds of 5 trillion yen ($41.3 million) and over (numbering 31 for FY2000) at the rate of 3 % (2 % for certain special corporations) only on their gross profits. In response, 21 major banks brought the new tax to the Tokyo District Court. In March 2002, the Court ruled the new tax was void, ordering the Metropolitan Government to return the tax amount of some 72.4 billion yen ($598,347.1 million) and pay the compensation of 1.8 billion yen ($14,876.0 million). The Metropolitan Government appealed to the Tokyo High Court. In March 2003, the trial at the High Court concluded. The Metropolitan Government lost the case again and was ordered to return the tax amount of some 162.8 billion yen ($1,345.4 million). The case now has been brought to the Supreme Court. The Prefecture Government of Osaka also has the ordinance concerning the pro-forma enterprise tax on banks but its collections have been suspended.

At long last, in the FY2003 tax reform, "Taxation of Corporations by the Size of Their Businesses (local tax)" has been proposed all over the coutry. From the viewpoint of sharing the tax burden more broadly but thinly and clarifying the relationship between the burden and benefits in the local community, imposition of corporation enterprise tax by the size of their businesses has been introduced as follows by amendment of the Local Tax Law :

- Taxpayers : corporations capitalized at 100 million yen ($826,446) or more.
- Tax base : changing the tax base from the profits of corporations to a mix of profits and capital and other value added items such as wages, interest and rentals. Special measures to reduce tax burden for corporations with high proportion of wages in their value added and those with significant amount of capital shall be taken.
- Tax rates : income (7.2%), value added (0.48%) and capital (0.2%).
- Applicable for business year beginning in and after FY2004. (13)

Of some 2.46 million corporations which are at present subject to corporation enterprise tax, about 31,000 are capitalized at 100 million or more yen. Therefore, approximately one percent of the total corporations are expected to be affected by the new regime.

3. Consumption Tax

(1) The Problems of the Japanese Consumption Tax

After unsuccessful attempts to introduce a broad-based "general consumption tax", eventually a "consumption tax", the Japanese version of value-added tax, was instituted in 1989. Its intention was preparation for the coming aged society which might need much financial resources for social security as well as rectification of heavy reliance on direct taxation which tended to cause the perception of heavy tax burden. The 3 % rate is so low that no multiple-rate regime is necessary to achieve special policy objectives.

For the purpose of obtaining the approval of the bill more easily, a great deal of concessions were made.

(i) Special rules for small businesses

Especially in favor of small businesses, with a view to mitigating their tax burden and also taking their limited book-keeping ability into consideration, the following measures were adopted:

(a) Tax exemption

An enterprise with annual sales of 30 million yen ($247,934) or less are exempt from the tax.

In FY2000, the tax-exempt enterprises account for 62.0% (individuals 45.8% and incorporated 16.1%) of the total enterprises. This upper limit is internationally remarkably high as illustrated by Table 10:

Table 10 International Comparison of Consumption Tax

In tens of thousands of yen ($82,645) ; As of August 2002

	Japan	France	Germany	U. K.
Maximum limit of annual sales	3,000 ($247,930)	310 ($25,619) in previous calendar year and 350 ($29,752) in current c. year	191 ($15,785) in previous calendar year and 575 ($47,520) in current c. year	1,028 ($84,958) in the preceding year or 991 ($81,190) in one year thereafter
Standard rate	5 %	19.6%	16%	17.5%

Note: Exchange rates used are 1.00 EURO=115 JPY and UK£1.00=187 JPY. However, the US dollar figures in parentheses are converted ones at the exchange rate of US$1.00=121 JPY which is the average actual market value from June to November 2002.

Source: Sub-commission on the Basic Problems, the Tax Commission, *Explanatory Paper concerning Consumption Tax,* 1 October 2002, Ministry of Finance, 2002, p. 10.

(b) Simplified method for calculation of taxable income

For firms whose annual sales are 500 million yen (≒ $4,132,200) or less, 80% of taxable sales are deemed taxable purchases for retailers and 90% for wholesalers. Thus, the tax amount for retailers is equivalent to 0.6% of their sales (3 % of the sales net of purchasing costs) and for wholesalers 0.3%.

As will be mentioned later, this method has been somewhat changed subsequently to meet the reality. Nevertheless, since this is optional for taxpayers, only those whose deemed rates of purchases as prescribed by the law are higher than their own actual ones prefer this simplified method. The sample survey conducted by the National Tax Agency (NTA) from the tax returns for FY2000 reveals such a kind of moral hazard. Since April 1997, the threshold entitling small businesses to use the simplified method has been lowered to an annual sale of 200 million yen ($1,652,892) and the deemed rates of puchases have been further classified to five types ranging from 50% to 90%. The following are the results of the NTA's survey which covered 669,000 enterprises (individual 209,000 & corporated 460,000) whose annual sales are 200 million yen or less and who come under the regular scheme for computation of tax and sampled 4,438 enterprises (individual 1,670 &

Table 11 Use of the Simplified Method

Types	1	2	3	4	5
Regular scheme	89.4%	85.6%	75.6%	68.6%	85.2%
Simplified scheme	81.7%	75.4%	59.5%	56.8%	40.1%
No. of samples	420	574	1,557	227	1,660
Deemed rates of purchases	90%	80%	70%	60%	50%

Source : Sub-commission on the Basic Problems, op. cit. (Table 10), p. 13

corporated 2,768) using the simplified method (Table 11) :

(c) Marginal deductions

A marginal deduction or vanishing exemption method was also adopted for small enterprises whose annual sales are above 30 million yen ($247,934) but less than 60 million yen ($495,868). In such a case, the tax due is gradually reduced to zero by a marginal reduction that takes the form of a tax credit.

(ii) Other special treatments

(a) Accounts methods

Unlike all other countries that have adopted a VAT and employ the tax credit method, Japan did not require invoice. The book accounts method without use of invoice was adopted in response to the request of Japanese businesses who were not well accustomed to invoices. But the fact remained that it is difficult to ascertain the exact creditable amount. Therefore, in the November 1994 tax reform, which took effect as from 1 April 1997, for tax credit purpose, in addition to the current requirement of book-keeping, bills, receipts, invoices and other documents supporting the trade have become to be required.

(b) Self-assessment and payment

Taxable enterprises should file tax returns and pay tax due within two months following the close of the tax period. Enterprises whose annual tax amount exceed 600,000 yen ($4,959) had to file interim tax return and to pay half of the tax amount reported in the previous year's final return and to pay the remainder of the tax due within two months (until 1991, three months for individual proprietors) of the day following the last day of the tax period.

The standard taxable period is somewhat longer than is common in many countries. Taxpayers may benefit from such a "grace period" by both saving time on the preparation of tax return and by investing money until the tax due is actually paid to the taxation office. In order to cope with the cash-flow benefits for a period before tax revenues are handed over to the tax authorities, the following amendments were made: In the 1991 amendment, enterprises should file their tax returns and pay tax four times a year. However, those with the tax amount for the previous taxable year of more than 600,000 yen but not more than 5 million yen may file their interim tax returns and pay tax in the middle of the tax period and file final returns when the tax period ends and those with the annual tax amount of 600,000 yen or less may do so once a year. In the November 1994 tax reform, which came into force as from 1 April 1997, the standard annual tax amount for interim tax returns has been reduced from "more than 600,000 yen but not more than 5 million yen ($41,322)" to "more than 480,000 yen ($3,967) but not more than 4 million yen ($33,058)".

(iii) Windfall gains (*Ekizei*)

Various concessionary measures adopted to make the bill more acceptable, as thus far described, have brought about windfall gains, which is called "*ekizei*" in Japanese, "*eki*" meaning "benefit" and "*zei*", tax and are creating difficult problems. Suppose a tax-exempt enterprise raises the price by a larger margin than the increase in the purchase price. The thus resulting difference is a case in point of *ekizei*. These gains from special treatments are considered unfair by the general public. If the increase in the consumption tax rates is to be approved in the future, something should be done now to deal with this inequitable aspect and to improve the transparency of the system.

(2) Reductions in the Preferential Measures

(i) FY 1991 tax reform

(a) Simplified scheme for computation of tax

The upper limit entitling enterprises to the scheme was lowered from 500 million yen (≒ $4,132,200) to 400 million yen (≒ $3,305,800) of annual sales.

The number of types of the deemed rates of purchases was doubled from 2 of 90% and 80% to 4 of 90%, 80%, 70% and 60%.

(b) Marginal reduction

The threshold qualifying enterprises to the method was lowered from 60 million yen ($495,868) to 50 million yen ($413,223).

(c) Self-assessment and payment of tax

As explained above, the principle of twice a year filing tax returns and tax payments has been changed to one of four times a year with more simplified formulae available depending on the annual tax amount.

(ii) The amendment of November 1994 (with effect from 1 April 1997)

(a) Simplified scheme for computation of tax

The upper limit entitling enterprises to the scheme has been halved from 400 million yen (≒ $3,305,800) to 200 million yen (≒ $1,652,900) of annual sales.

The number of types of the deemed rates of purchases has been increased from 4 to 5 by adding 50%.

(b) Marginal reduction

The marginal reduction applicable to the small businesses whose annual sales are less than 50 million yen ($413,223) has been abolished.

(c) Tax exemption for newly established entities

The tax exemption for all the newly established entities for the first two years has been made applicable only to those capitalized at less than 10 million yen ($82,645).

(d) Tax deduction for consumption tax on purchases

In addition to the current requirement of book-keeping, bills, receipts, invoices and other documents supporting the trade have become necessary.

(iii) FY2003 tax reform

From the viewpoint of improving the transparency of the consumption tax, special treatments for small businesses will be revised as follows effective as from 1 April 2004 :

(a) Tax exemption

The tax exemption for small vendors will be diminished to the level one-third of the current level : the tax exemption threshold for eligible small vendors will be reduced from 30 million yen ($247,934) to 10 million yen ($82,645).

(b) Simplified scheme for computation of tax

The upper limit entitling enterprises to the scheme will be lowered from 200 million yen (≒ $1,652.900) to 50 million yen ($413,223) of annual sales.

(c) Obligation to show net price

Vendors shall be obliged to show the net price(cost plus tax)of goods and services.(14)

(3) The Future Role of the Consumption Tax in Japan

In the rapidly ageing society of Japan, high hopes are laid on the consumption tax to finance social security needs. Unlike the income tax, individual and corporate, the consumption tax is free from business fluctuations and stable as financial resources. Bearing this role in mind and in international comparison, we will notice our current rate of 5 % is too low. As a matter of fact, the Japan Federation of Economic Organizations (Keidanren) has recently proposed to raise the rate of the consumption tax by one per cent each year starting as from FY2004 to 16% in FY2014. The Japan Association of Corporate Executives also has reportedly proposed to hike the rate gradually to 14% in 2010 and to 16% in 2016. Should an increase in the tax rate be accepted and approved, it is absolutely necessary to secure the system's transparancy and to convince the general public of its reliability and equity by eliminating the preferential treatments as much as possible.

4. Excises

(1) Liquor Tax

The liquor tax used to be an important tax in Japan. Back in 1914, it accounted for 28% of the total tax revenues while the land tax and income tax, 22% and 11%, respectively. However, since 1925 it has been taken place of by the income tax. In the FY2003 budget, the revenue from liquor tax is estimated to account for only 3.95% of the total tax revenues. For tax purposes, liquor is classified into 10 types and 11 items, such as *sake*, beer, wine and whisky. Under the FY1989 tax reform, the ad valorem duty and the grading system for *sake* and whisky were abolished. Parenthetically, liquor is also subject to the consumption tax.

Noteworthy is the declining trend of the taxable volume of *sake*. After reaching its peak at 1,766,000 kl in FY1973, the taxable volume decreased to 95,000 kl in FY2001.

Accordingly, its share in the total revenue from liquor tax also shrank from 39.9% in FY1960 to 7.1% in FY2000. On the contrary, the share of beer, which was 25.1% in FY1950, jumped to 75.0% in FY1995, its heydays, and then slideded to 66.1% in FY2000 because of the competition from low-malt *happoshu* beer.

In the FY1997 tax reform, in accordance with the recommendations by the World Trade Organization (WTO), with regard to the distilled spirits, amendments have been made so that, in principle, there would be no difference in tax rate per unit of alcohol content among the different types of liquor. With the competition between the imported whiskey and domestic popular *shochu* in mind, this legislation dealt a hard blow with domestic brewers. It will be unfair if we don't mention the remarkable growth of wine consumption in Japan although its contribution to tax revenue remains minimal, being 0.6% in FY1965 and 0.9% in FY2000. The taxable volume of wine in FY1965 was only 2,000 kl but soared to 38.5 million kl in FY1998 and was 28.4 million kl in FY2000.

Recently, another competition is taking place but this time, among the products and domestic rather than international. After tireless efforts, some beer manufacturers succeeded in brewing low-malt beer (sparkling spirits with malt proportion of less than 50%) which is subject to a lighter tax than beer and, nonetheless, is almost as tasty and refreshing as beer. It is named *happoshu* and has won sweeping popularity. To indicate this, the taxable amount of *happoshu* jumped from 4.6 billion yen ($38.0 million) in FY1994 to 251.6 billion yen ($2,079.3 million) in FY2001 at the sacrifice of beer the taxable amount of which fell from 1,632.7 billion yen ($13,493.4 million) to 1,065.6 billion yen ($8,806.6 million) during the same period. As a result, the government has lost the tax revenue which would have otherwise accrued thanks to the favorable growth of beer consumption. In view of the sever fiscal situation, the government tried to raise the tax on *happoshu*. The businesses, including brewer companies, were strongly opposed to the proposed tax hike, insisting that it disregards the efforts of enterprises. In conclusion, the following revisions have been made in the FY2003 tax reform taking effect as from 1 May 2003:

Difference in tax rates on similar types of liquors shall be reduced by about a quarter through adjusting tax rates on low-malt beer (*happoshu*), wine and others as follows (Table 12):

Table 12 Changes in Liquor Tax

	Changes made (per kl)	Tax rate for similar types of liquor
Low-malt beer (*Happoshu,* malt proportion～25%)	Increase to 134,250 yen ($1,109.5) from current level of 105,000 yen ($867.8)	(Beer) 222,000 yen ($1,834.7)
Wine	Increase to 70,472 yen ($582.4) from current level of 56,500 yen ($466.9)	(*Sake,* alcohol 12%) 112,390 yen ($928.8)
Sake compound (Alcohol 15%)	Increase to 94,600 yen ($781.8) from current level of 79,300 yen ($655.3)	(*Sake,* alcohol 15%) 140,500 yen($1,161.5)
Sweet wine (Alcohol 12%)	Increase to 103,722 yen ($857.2) from current level of 98,600 yen ($814.8)	(Liqueur) 119,088 yen($984.1)

Source: Policy Research Institute, *Monthly Finance Review,* Tokyo. The Ministry of Finance, February 2003, p. 7

For the purpose of encouraging small-scale local breweries, the tax rate on beer produced by these breweries will be cut by 20% for three years as a temporary measure.

(2) Tobacco Tax

When the tobacco industry was transferred from the monopolizing public corporation to an ordinary stock company in April 1985, a special charge on corporation profit was replaced by a "tobacco excise tax". With the introduction of the consumption tax in April 1989, the tobacco excise tax was renamed the "tobacco tax". As a temporary measure, in December 1998, the "special tobacco tax" was created in consideration of the increased burden on the general account after assuming debts related to the Japan National Railways and others. Effective as from 1 May 1999, the rates of the national tobacco tax have been lowered, and by the corresponding rates the local tobacco tax have been raised as a temporary measure with a view to smooth operation of the local government finances.

Like the liquor tax, the tobacco tax is also considered a sumptuous tax, implying the ability to bear the tax burden. To make the matter worse, today no one challenges that smoking is harmful to health. For both fiscal and medical reasons, from time to time, a hike of the tobacco tax has been proposed to cover the revenue shortfall of the government. The above-mentioned special tobacco tax in 1998 is a case in point. In the FY2003 tax reform, effective as from 1 July 2003, the rate of the tobacco tax for cigarettes per thousand will be raised from 2,716 yen ($22.40) to 3,126 yen ($25.80) (however, for those classified into the third class under the special charge system of the now defunct public corporation, from 1,289 yen ($10.60) to 1,484 yen ($12.20)). In other words, the tobacco tax, national and local combined, will be raised by 0.82 yen per cigarette on 1 July 2003, which translates into a 20 yen (16.5 US cents) hike, inclusive of handling charge, per pack.

(3) Automobile-related Taxes

In connection with the gasoline tax, motor vehicle tonnage tax, etc., for the future, it will be even more important to take the environmental issues into consideration. In accordance with the Framework Convention on Climate Change and the Kyoto Protocol, to reduce greenhouse gas emissions, some day an environmental tax may be introduced on the basis of the Polluter Pays Principle. Another complex problem comes from the current system under which the prescribed part of revenues from the automobile-related taxes are earmarked for construction and improvement of roads.

5. Inheritance Tax

(1) Background

The inheritance tax was created in 1905 and was originally an estate tax, the tax base of which was the value of a decedent's properties. But after World War II, according to the recommendations of the Tax Mission led by Dr. Carl Shoup, in 1950, it was changed to an accession tax, which is imposed on the recipient of inherited properties, gifts, or bequests. The value of properties used as the tax base was computed cumulatively over the recipient's lifetime. In the 1953 amendments, the accession tax was divided into the inheritance tax and gift tax and the method of cumulative taxation was repealed mainly for administrative reasons. Thus, both taxes are provided for by the same Inheritance Tax Law. The gift tax is imposed to complement the inheritance tax. With the progressive structure, the inheritance tax plays a role of redistribution of wealth.

(2) Recent Issues and Reforms

Japan's inheritance tax has been reviewed in the light of socioeconomic change and eased by continuing reforms of the rate structure, etc. In the drastic tax reform of 1988, the inheritance tax was reduced as follows: the minimum taxable threshold was increased; tax brackets were widened by reducing the number from 14 to 13 and the maximum rate was lowered from 75% to 70%. The corresponding amendments were made to the gift tax, widening tax brackets, reducing the maximum tax rate and increasing the allowance for spouses. Since the FY1994 tax reform, the structure of the inheritance tax has been with top rate of 70% and 9 tax brackets. Also because of the increase in the basic exemption and other necessary changes, those assed the inheritance tax on their bequeathed assets as a percentage of the total deceased had remained at the level of 5 % and were 5.0% in FY2000. This percentage was low of 2.1% in 1975 and the highest at 7.9% in FY1987. Certain special tax exemptions are granted to small-scale business sites and small residential sites.

In the FY2003 tax reform, taking into the tendency of economic stock consideration, the following amendments have been made:

Introduction of a new system for adjusting gift tax at the time of inheritance from the viewpoint of promoting the transfer of assets held by the older generation (i. e. parents) to the younger generation (i. e. children).

• A new system to calculate gift and inheritance taxes at the time of inheritance (applied by election) has been introduced by deducting the amount of previously paid gift tax from the total tax amount calculated on the total amount of gifts and inheritance property.

• Qualified gifts: The new system will be applied for gifts from parents of age 65 and older to children of age 20 and older.

• Exemption threshold at the time of receiving gifts: Gifts not exceeding 25 million yen (≒ $206,600) (in total) will be exempt from the tax.

• Tax rate at the time of receiving gifts: Prepayment of gift tax will be charged at the rate of 20% on the amount exceeding the exemption threshold. The amount of gift tax will be treated as prepayment of tax against inheritance tax at the time of inheritance (refundable).

Additional exemption for residential housing

• A tax exemption threshold of 35 million yen (≒ $289,200) will be applied for gifts from parents (no age qualification applies) to children (20 years and over) for purpose of purchasing residential housing until CY2005.

Tax rate cuts

• The maximum rates of the inheritance and gift taxes have been both cut from 70% to 50%.

• The numbers of the inheritance tax brackets (currently nine) and gift tax brackets (currently thirteen) have been both reduced to six. (16)

6. Taxation on Securities

(1) Background

Against the background of socioeconomic structural change, the growing economic stock in the rapidly ageing society, and diversification of financial transactions, the prime concern of tax policy is to keep neutral to various kinds of object of taxation so as not to distort investments or savings from the tax consideration. It is particularly important to keep a balance among interest, dividends and capital gains from stock transactions, and in addition recently many financial instruments, such as financial derivatives are entering into the picture. In this connection, the recent newly emerging dual approach to income taxation, i.e. lighter taxation on income from assets than income from employment, deserves a serious study as well as the comprehensive taxation.

(2) Recent Issues and Reforms

In the drastic tax reform of 1988, for the sake of more equitable distribution of tax burden, capital gains from securities transactions became generally subject to taxation as follows: (i) Income tax ; separate taxation at 20% through the filing of final returns or, at the taxpayer's choice, separate taxation withheld at the source, at 20% of the deemed gains of 5% of the proceeds from the sale of listed stocks and other publicly traded securities (Not applicable to proceeds from stocks acquired before initial public offering (IPO) and sold within one year of IPO). (ii) Individual inhabitant tax; separate taxation at 6 % except where separate taxation at source is chosen for income tax.

In the FY1999 tax reform, (1) To promote internationalization of the Japanese yen, the withholding tax on interest on government bonds in the Bank of Japan book-entry system paid to nonresident individuals and foreign corporations was exempted. (2) The Securities Transactions Tax and Bourse Tax were abolished effective on 31 March 1999. The special measure for listed stocks to allow taxation at 1.05% on proceeds of sales in lieu of taxation at 26% on capital gains was to continue to be applied until 31 March 2001 and then to be abolished. (3) The special corporation tax (imposed on assets contributed by employers for corporate pension plans at the rate of 1 %) was suspended for two years.

In the FY2001 tax reform, (1) The abolition of an option for the capital gains taxation of listed stocks at 1.05% of gross proceeds (separate taxation through withholding) was postponed by two years until 1 April 2003. (2) Capital gains of individuals from commodity futures transactions became to be taxed at 26% (national 20% and local 6 %) (separate taxation by filing tax returns) in order to facilitate individuals' participation. (3) Withholding tax exemption became also granted to interest on Japanese government bonds deposited by nonresident investors in the Bank of Japan book-entry system through qualified foreign intermediaries approved by the BOJ and the National Tax Agency.

In the FY2002 tax reform, the following amendments were made :

(1) Tax exemption for interest income on certain small deposits was changed as follows :

• Exemption of interest 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.

• The elderly persons will be excluded from this treatment as from the end of CY2005 after applying transitional measures.

(2) Introduction of special measures for simplified filing and optional non-filing of returns of capital gains of listed stocks held in a designated account.

• Capital gains from listed stocks held in a designated account will be calculated independently from those held in other account(s) for simplified filing of returns.

• Capital gains from listed stocks in the designated account may be taxed by election through withholding of tax at source and, in this case, no filing of a tax return is required.

(3) Broadening of the scope for eligible stock options under the stock option taxation treatment in response to the change of the Commercial Code.

• The scope of recipients of eligible stock options was broadened so as to include employees of 50% subsidiaries and sub-subsidiaries and the limitation on the amount of exercised stock options was increased from currently 10 million yen ($82,645) to 12 million yen ($99,174).

(4) Exemption of tax on loan interest of cross-boarder repo.

• Loan interest of cross-boarder bond repurchase transactions (repo) between financial institutions became exempt from tax under certain conditions.

(5) Treatment on capital gains/losses of "treasury stocks"

• Capital gains or losses from "treasury stocks" (stocks acquired by an issuing corporation itself) will be treated as increase or decrease of capital reserve (i. e. no taxable gain or loss will result). [17]

In the FY2003 tax reform, the following amendments have been made:

(1) Special additional tax measures to promote a shift from deposits to investment (stocks) have been taken;

• Dividends of stocks and distributions from publicly traded stock investment funds are taxed at the reduced rate of 10% by withholding for five years (see below).

• Capital gains from listed stocks are taxed at the rate of 10% for five years.

(2) From the viewpoint of creating simplified taxation of financial assets to ensure neutrality among them, taxation of stocks and publicly traded stock investment funds shall be streamlined and the usability of the "special account" for stocks shall be improved on a permanent basis.

• Dividends of listed stocks will be taxed (by election) at the rate of 20% by withholding (after the running of five years of 10% taxation mentioned above).

• Loss arising from publicly traded stock investment funds can be aggregated with capital gain, if any, of stocks.

• A new type of special account system will be introduced under which tax will be paid by withholding and no filing tax returns will be required.

(3) Exemption from withholding tax on interest of qualified public bonds (e. g. public bonds traded through the '*furiketsu*' clearing system) received by corporations with capital

of 100 million yen (≒ $826,400) or more (Applicable for interest of public bonds arising from the period of interest calculation starting on or after 1 April 2003.).

7. Tax Treatments of Small and Medium Enterprises (SMEs)

(1) Background

(i) Definition and importance of SMEs

As in most other countries, in Japan small- and medium-sized enterprise play (SMEs) a vital role in the national economy. The Small and Medium Enterprise Basic Law of 1963, as amended in 1999, defines the SMEs as follows: in mining and manufacturing and other industries, those with 300 or less employees, or capitalized at 300 million yen (≒ $2,479,300) or less, in whole sale those with 100 emplyees or less, or capitalized at 100 million yen (≒ $826,400) or less, in retail and service industries those with 50 or less employees or capitalized at 50 million yen (≒ $413,200) or less. However, for the purpose of implementing the policies set forth in the Law, "Small Scale Enterprises" are defined as in manufacturing and other industries those with 20 or less employees and in commerce and services those with 5 or less employees. According to this definition, in 1999 in the non-primary industries, in terms of the number of establishments, SMEs account for 99.3% of the total and small scale enterprises account for 73.0% of the total and, in terms of the number of employees, SMEs and small scale enterprises account for 80.6% and 25.8% of the total, respectively.

The Small Credit Insurance Law, tax-related laws and other laws have their own definitions of SEMs which are somewhat different from the above-mentioned one for the purposes of their implementation.

(ii) Reduced tax rates for SEMs

The basic principle of income taxation is that while the individual income tax should be progressive for the sake equity, the corporate income tax may be flat because, unlike a natural person, a corporate is divisible. But some enterprises such as public utilities by nature cannot be divided into smaller companies to avoid progressive taxation. In Japan, it was in 1955 that a reduced tax corporation rate for companies with taxable income of 500,000 yen ($4,132) or less of 35% as against the basic rate of 40% was first introduced. The main reason was to compensate SEMs for insufficient benefit from tax-free reserves and allowances provided by tax laws, especially the Special Taxation Measures Law, as compared with large companies. Since 1966 this reduced rate has been applicable only to the companies capitalized at 100 million yen (≒ $826,400) or less (this amount of the added criteria still remains unchanged). As of now, the reduced rate for SEMs is 22% as against the basic corporation tax rate of 30% since FY1999. Eligible SEMs are those capitalized at 100 million yen or less and with taxable income of 8 million yen ($66,116) or less since FY1981.

(iii) Exceptions to taxation of retained earnings on family corporation

Primarily to deter shareholders of closely held corporations from attempting to avoid the progressive individual income tax that would be imposed on dividend distributions, an additional tax is imposed on retained earnings of such family corporations. A family corporation is a company of which 50% or more of all capital stocks are owned by no more than three shareholders or corporations connected to them. The retained earnings in excess of the prescribed amount is subject to taxation.

There are some exceptions for SEMs as follows:

(a) Ten years old or less SEMs are not subject to taxation of retained earnings.

(b) The SEMs authorized under the Law for Facilitating the Creation of New Businesses and certain venture innovative SEMs are not subject to taxation of retained earnings.

(c) The tax amount of SEMs capitalized at 100 million yen (≒ $826,400) or less is reduced by 5 %.

The above provisions had been extended by another two years or newly introduced in the FY2002 tax reform and was effective until 31 March 2004.

The FY 2003 Tax reform will be explained later in (2).

(iv) Exceptions for deductible entertainment expenses

The taxation on entertainment and social expenses introduced in FY1954 was first addressed large corporations and in FY1971 extended to all the corporations regardless of their size. For business year beginning on or after 1 April 1982, entertainment expenses are not deductible for tax purposes, even though such expenses are necessary for carrying business. However, SMEs with capital of over 10 million yen ($82,645) but not exceeding 50 million yen ($413,223) are allowed to deduct 80% of entertainment expenses, the maximum being 4 million yen ($33,057) per annum. This fixed amount cap has been raised from 3 million yen ($24,793) in the FY2002 tax reform as will be mentioned later.

(v) Special measures business succession

With a view to making business succession by SEMs easier, in the FY2002 tax reform, the following system in calculating inheritance tax has been introduced in the FY2002 tax reform: the taxable value of non-quoted stocks inherited by individuals is reduced by 10% in calculating the inheritance tax (applicable for assets inherited by inheritance or bequeath on or after 1 January 2002).

For calculation of tax base of inheritance tax with respect to small-sized (330 m^2) sites for business, 20% or 50% of the value is treated as taxable value.

(vi) Facilitation of equipment investment and promotion of research and development (R&D)

(a) Special initial depreciation allowance of machinery or equipment acquired by SMEs.

11% of the acquisition costs of machinery or equipment acquired by SMEs and whose price is 1.6 million yen ($13,223) (has been lowered from 2.3 million yen ($19,008) in the FY2002 tax reform and will be effective until 31 March 2004) or more may be written off in the first year of use.

(b) Special tax treatment for improvement of technological foundation of SMEs.

The research credit is, in general, 15% of the excess of research expenses over the base amount (the average of annual research expenses for the 3 years of the highest expenses in 5 years preceding the credit period). The maximum amount is, in principle, 12% of the corporation tax liability for the credit year. For this purpose, experiment and research costs include : ①materials costs, labor cost and expenses related to research and development, ②consigned research and development expenses, ③dues imposed by the industrial associations and ④dues imposed by the associations covered by laws, such as the Law for Promoting the Modernization of Small Businesses.

But with respect to R & D by SMEs with capital of 100 million yen and 1,000 employees, since 1 April 1985, a tax credit of 6 % (10% until the accounting years starting by 31 March 2003) (extended by one year in the FY2002 tax reform) of the R & D expenses is allowed instead of the above-mentioned amount. The upper limit of such tax credit is 15% of the corporation tax liability for the credit year.

(vii) Special treatments concerning the consumption tax

Discussed above at some length.

(2) The Latest Tax Reform

Given the current severe economic environment surrounding SMEs, the following amendments have been made in the FY2003 tax reform :

① An additional tax on retained earnings of family corporations (closely held corporations) shall be suspended for SMEs capitalized at 100 million yen (≒ $826,400) or less with equity ratio not exceeding 50% for the business years beginning from 1 April 2003 to 31 March 2006 and the existing 5 % reduction of the tax amount on retained earnings has been abolished.

② The scope of SMEs qualified for the fixed deduction of 4 million yen ($33,057) as entertainment expenses will be broadened by raising from those with capital of 50 million yen (≒ $413,200) to those with 100 million yen. At the same time, the ratio to make income taxable up to the fixed deduction of 4 million yen has been cut from 20% to 10%.

③ The scope for immediate write-offs for small amount depreciation assets purchased by SMEs has been broadened from 100,000 yen ($826) or less to 300,000 yen ($2,479) or les yen for FY2003 to FY2005.

④ For research and development activities conducted by SMEs, a proportional tax credit of 12% plus special extra 3 % (applicable only for FY2003 to FY2005) has been introduced.

⑤ Investment in qualified 'venture s' may be deducted from the capital gains of stocks of the same year. [18]

8. R & D Tax Credit/Investment Tax Incentives

From the viewpoints of strengthening the global competitiveness of Japanese businesses, a new framework for R & D tax credit and focused investment incentives, FY2003 tax reform has made the following amendments:

(1) R & D Tax Credit (proportional)

A new proportional R & D tax credit has been introduced as an alternative to the existing incremental R & D tax credit.

• For R & D activities conducted by corporations, a proportional R & D tax credit of 8 % plus 2 % (applicable only for FY2003 to FY2005) of the amount of R & D expenditure has been introduced.

For corporations with higher proportion of R & D expenses, up to 2 % of additional tax credit is applied.

• For R & D activities conducted by SMEs, a proportional tax credit of 12% plus 3 % (applicable only for FY2003 to FY2005) has been introduced.

• For R & D activities conducted jointly by academic, business and government sectors, or R & D commissioned by the government, in order to promote basic studies or innovative studies, a proportional tax credit of 12% plus 3 % (applicable only for FY2003 to FY2005) has been introduced.

• The amount of the R & D tax credit can not exceed 20% of the amount of the corporation tax.

• The amount of the R & D tax credit exceeding the ceiling may be carried-over for one year under certain conditions.

(2) Investment Incentives (IT)

Since IT investment would create immediate demand and promote improved industry competitiveness in the mid to long term, the investment incentives outlined below are applied for FY2003 to FY2005.

• The scope of qualified IT investment to include both hardware and software.

• Certain expenses for leasing may be eligible.

• Corporations may elect tax credit (10%) or special allowance for accelerated depreciation (50%)

• The amount of tax credit can not exceed 20% of the amount of corporation tax.

• Tax credit exceeding the ceiling may be carried-over for one year under certain conditions.

(3) Accelerated Depreciation for R & D Investment

In addition to the R & D tax credit (above), a special allowance (50%) may be applied for R & D investment in FY2003 to FY2005. [19]

9. Nonprofit Organization (NPO)

In the FY2001 tax reform, the certified NPO (nonprofit organization) system was set up for the purpose of supporting activities of specific organizations that are given legal personality under the Law for Promoting Specified Nonprofit Activities enacted on 1 October 2001. The certified NPO system allows an individual, corporation, and a person who inherited an asset or received a bequest to deduct a contribution made to an NPO organization that has satisfied certain requirements and has been certified by the Commissioner of the National Tax Agency (NTA) (certified NPO).[20]

The certified NPOs are given the following special tax treatments:

(i) contributions made by individuals are deductible from income,

(ii) apart from the amount allowable for general donation, contributions made by corporations are included in expenses along with contributions to specific public-interest-promoting corporations up to the limit of said amount allowable, both combined, and,

(iii) when an individual has contributed inheritance property, etc., it is included in the calculation of the value for the inheritance tax.[21]

For these special tax treatments, NPOs should satisfy, among others, the following requirements:

(1) Achievements of two business years.

(2) 80% or more of the total business expenditures and 70% or more of the total contributions are spent for the business expenditures of nonprofit activities.

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

(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.

In spite of the all-out efforts of NTA, so far not so many NPOs have been certified. Some critics allege this is because the requirements are too strict. Under the circumstances, to relax the requirements without legislative change, effective as from 1 April 2002, regarding (3)above, contributions from board members and employeer can be included in the total amount of contributions.

In the FY2003 tax reform, the following amendments have been made:

(1) The requirements for certified NPOs have been relaxed as follows:

(i) The public support test has been changed as follows:

a. The ratio of the amount of contribution to the total revenue has been lowered from one-third to one-fifth for 1 April 2003 to 31 March 2006.

b. The maximum ratio of the contribution from one person or company that can not be accounted into the total amount of contribution has been raised from “over 2 %” to “over 5 %”.

c. The amount of the contribution from one person or company that is not included in the total amount of contributions has been lowered from “less than 3,000 yen ($24.79)” to “less than 1,000 yen ($8.26)”.

d. Expenses for consigned tasks received from the natural and local governments and international organizations of which Japan is a member and subsidies from such national organizations are not included international organizations are not included in the total revenues.

(ii) The requirement that the area of the activities should cover more than one community has been withdrawn.

(iii) Only remittance or taking abroad of the amount of over 2 million yen (US$16,529) requires report to NTA in advance and remittance of 2 million yen or less need report after the close of the business year.

(2) A system of deemed contribution has been newly introduced. Under this system, any expenditures from the assets of profit-making business for other purposes are treated as deemed contributions. These deemed contributions are, together with other contributions, are deductible as expenses, and the ceiling of such tax deductibility has been raised from 2.5% to 20% of the total income.

Notes

(1) Budget Bureau, Ministry of Finance, the Government of Japan, *Understanding the Japanese Budget 2002,* Tokyo, Budget Bureau, the Ministry of Finance, 2002, p. 5.

(2) Ibid., p. 6.

(3) Ibid., p. 8.

(4) Ministry of Finance, The Government of Japan, *Highlights of the Budget for FY2003,* Tokyo, the Ministry of Finance, December 2002 (Mimeo.), pp. 1–4.

(5) Ministry of Finance, *Current Japanese Fiscal Conditions and Issues to be Considered*, Tokyo, the Ministry of Finance, July 2002, pp. 12–14.

(6) Organisation for Economic Co-operation and Development (OECD), *Revenue Statistics,1965-2001*, Paris, OECD, 2002, pp. 39 and 72.

(7) Ibid., *passim.*

(8) Ibid., p. 76.

(9) Tax Commission, *Basic Policy for Building Up of the Desired Tax System, References*, (in Japanese) Tokyo, Tax Bureau, Ministry of Finance, June 2002, p. 1.

(10) For further discussion on direct taxes vs. indirect taxes and tax burden, see Torao Aoki, “The National Taxation System”, Tokue Shibata, ed., *Japan’s Public Sector : How the Government Is Financed*, Tokyo, University of Tokyo Press, 1993, pp. 103–108.

(11) Tax Bureau Information Office, the Ministry of Finance, *Let’s Talk about Taxes*, Tokyo, Ministry of Finance, April 2002, pp. 19–21.

(12) Tax Bureau, the Ministry of Finance, *An Outline of Japanese Taxes, 2001•2002 Edition*, Tokyo, Printing Bureau of the Ministry of Finance, 2002, pp. 319–320.

(13) Policy Research Institute, the Ministry of Finance, “FY2003 Tax Reform (Main Points)”, *Monthly Finance Review*, February 2003, Tokyo, the Ministry of Finance, p. 7.

(14) Ibid., p. 6.

(15) Idem., pp. 6–7.

(16) Ibid., pp. 5–6.

(17) Tax Bureau, the Ministry of Finance, *An Outline of Japanese Taxes 2001•2002 Edition*, 2002, Printing Bureau, pp. 296–328.

(18) Ibid., p. 6.

(19) Ibid., pp. 3–4.

(20) National Tax Agency, Commissioner’s Secretariat Planning Division, *An Outline of Japanese Tax Administration, 2001,* Tokyo. National Tax Agency, 2002, p. 95.

(21) Tax Bureau, op. cit., pp. 322–323.

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［後　記］

本稿は，2003 年 3 月 12〜16 日，オーストリアのウィーンで開かれた International Atlantic Economic Society の第 55 回会議において筆者が行った報告を基に，その際のコメントにかんがみ手を加えたものである。なお，これを短縮編集したものがオランダのアムステルダムに本部のある International Bureau of Fiscal Documentation の月刊誌 *Asia-Pacific Tax Bulletin* に掲載の予定である。