

# Support for Property Tax Investigation of Depreciating Assets



## Fukuoka Prefecture

### Background

The taxation of depreciating assets in property tax (\*) is based on the content of the tax return filed by the owner, because there is no system of registration for such property, unlike with land and houses. Municipalities are required to examine the content of tax returns and investigate whether a person who has not submitted a tax return owns property which is taxable.

However, advanced skills are required for these investigations, and we received consultations from many municipalities that were struggling to cope. We conducted a survey of the sixty municipalities in Fukuoka Prefecture in FY2011.

The survey revealed that many municipalities were struggling with the following issues:

(1) Lack of personnel (There are no staff dedicated to issues related to depreciating assets.), (2) Lack of expertise (There is not enough time for on-site investigations. Action is limited only to reviewing tax returns. It is difficult to assign new staff to the role because they have no site-investigation experience.), and (3) Lack of public relations activities (Business operators do not know their obligations in regards to filing tax returns.).

In response to these issues, Fukuoka Prefecture and its municipalities have been working together since FY2012 to (1) improve the situation from the perspective of fair and proper taxation, and (2) ensure municipalities' independent revenue source by actively implementing the taxation of depreciating assets.

\*The taxation of depreciating assets in property tax is calculated based on the assets (machinery equipment, etc.) of businesses other than land and buildings.

Known as property tax in the United States or Canada, business rate in the United Kingdom, general rates in Hong Kong and real property tax in South Korea and the Philippines.

### Purpose of the Project

- Proper taxation of depreciating assets and ensuring tax revenue
- Acquisition of expertise by municipal officials

pertaining to the tax investigation of depreciating assets

- Establishment of the appropriate taxation system and understanding the management supervisor' s role in the taxation of depreciating assets

### Outline of Project

To address the issues that municipalities are facing, the following measures have been initiated:

(1) Efforts to increase personnel (since FY2012)

In Fukuoka prefecture, we hold meetings with the Vice-Mayors of each municipality three times a year. At these meetings, we explain to the Vice-Mayors, HR staff, and finance managers in attendance, how cooperating with the prefecture and properly implementing the taxation of depreciating assets could secure the independent revenue source of each municipality. We also asked for further consideration of these issues when assigning personnel to the Tax Division.

(2) Efforts to tackle the skill shortage

A. Training for management supervisors (since FY2013)

This training is held once a year for the management supervisors (section chief) in charge of municipal tax. The purpose of the training is to re-emphasize the importance of the proper taxation of depreciating assets and establish a systematic response.

In FY2017, the lecturers were staff from the Ministry of Internal Affairs and Communications and prefectural government officials who presented case studies on the current state of depreciating asset taxation and leading-edge policies implemented by municipalities.

B. General meeting for personnel in charge (since FY2012)

This meeting was held three times in FY2017. We invited lecturers from outside agencies, aiming to improve the knowledge of municipality officials concerning the taxation of depreciating assets.

(Theme for FY2017)

First meeting	(1) Depreciating asset taxation, (2) the flow of investigations pertaining to depreciating asset taxation, and (3) case studies and investigations
Second meeting	(1) How to read laws and regulations focusing on local tax laws (special provisions on property taxes, etc.)
Third meeting	(1) Procedure of site surveys (case studies), (2) How to read a corporate tax return form (group discussion)

### C. Regional Meetings (since FY2012)

After each general meeting, we ask participants to divide into 9 regional groups for a regional meeting. This provides an opportunity for discussion and information sharing between neighbouring municipalities so that they can work towards the uniformity of their investigations, and is led entirely by the municipality staff.

(Agenda for FY2017)

First meeting	(1) Selection of chairperson (2) Arrange schedule for tax office visits
Second meeting	(1) Simple investigations
Third meeting	(1) Free discussion about depreciating assets

### D. Joint investigations of multi-branch businesses (since FY2013)

The relevant municipalities are working together to conduct investigations of multi-branch businesses, which have offices or stores spread across several municipalities in the prefecture, such as so-called chain stores. In FY2017, eight businesses and two industries (not specific business establishments) were targeted.

Fukuoka prefecture provides opportunities to meet and discuss joint investigations together with the cooperation of an adviser invited from an outside agency, to support the efforts of the municipalities. Similar to the regional conference, these meetings are run by municipality staff. A team leader is selected for each business and industry to be investigated then the leaders run the meetings.

In FY2017, these meetings were held four times. Advisers provided information such as what to look for when visiting a tax office, the procedure for obtaining a property ledger, and the analysis of the integration of a property ledger and depreciating asset declaration.

To ensure that municipalities can visit the local tax offices smoothly, Fukuoka Prefecture officially requests cooperation from the local tax offices

through the Fukuoka Regional Taxation Bureau every year.

### E. Dispatch of prefectural officials to municipalities (since FY2013)

In order to support municipalities in taking the first step in conducting a site investigation of a business, a prefectural official is dispatched to accompany them on the visit.

### (3) Efforts to increase public relations activities (since FY2012)

In cooperation with the Certified Public Tax Accountant Association, we explain how to raise the awareness and cooperation of a board of directors, and provide a flyer to be enclosed with a newsletter or bulletin.

We also create posters and leaflets about the taxation of depreciating assets and distribute them to prefectural offices and tax offices in addition to municipalities.

### Progress and Achievements

These efforts were the first of their kind nationwide, and were recognised for their success in improving the skills of municipal officials and securing tax revenue. We received the 2015 Local Tax Bureau Special Award from the Ministry of Internal Affairs and Communications and the 2016 Excellence Award of the Advanced Policy Creation Conference from the National Governors' Association.

### Effects of Project

The number of municipalities participating in the above initiatives and the resulting amount of tax revenue are as follows:

	FY2012	FY2013	FY2014	FY2015	FY2016
Number of participating municipalities	40	51	48	50	47
Resulting tax revenue (in million yen)	51	96	138	267	213

### Outlook

Since property tax is managed as a municipal tax, the implementation of these initiatives are led by municipal officials. The prefecture has supported the strengthening of cooperation between municipalities and the improvement of the taxation skills of municipal officials by providing them with opportunities for discussion and training.

This is the sixth year since we started this initiative, and we believe that we have achieved the initial goal of optimising taxation and ensuring the municipality's independent financial resources. In addition, we believe there has been a marked improvement in the investigation skills of municipalities, so we will continue this effort for

the time being.

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