

Papers on the Local Governance System and its Implementation
in Selected Fields in Japan No.10

Local Taxation in Japan

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Foreword

The Council of Local Authorities for International Relations (CLAIR) and the National Graduate Institute for Policy Studies (GRIPS) have been working since FY 2005 on a “Project on the overseas dissemination of information on the local governance system of Japan and its operation”. On the basis of the recognition that the dissemination to overseas countries of information on the Japanese local governance system and its operation was insufficient, the objective of this project was defined as the pursuit of comparative studies on local governance by means of compiling in foreign languages materials on the Japanese local governance system and its implementation as well as by accumulating literature and reference materials on local governance in Japan and foreign countries.

Continuing from FY 2006, as a project which were begun in FY 2005, we will compile “Statistics on Local Governance (Japanese/English)” and will conduct a search for literature and reference materials concerned with local governance in Japan and overseas to be stored in the Institute for Comparative Studies in Local Governance (COSLOG). In addition we will continue to compile new documents on “Up-to-date Documents on Local Autonomy in Japan” every fiscal years and we will draw up 4 themes in FY 2008 on “Papers on the Local Governance System and its Implementation in Selected Fields in Japan,” for which we took up 6 themes in FY 2007.

This project is to be continued in FY 2009, and we aim to improve the materials so that they will be of real use and benefit to those who are working in the field of local governance.

If you have any comments, suggestions or inquiries regarding our project, please feel free to contact the Council of Local Authorities for International Relations (CLAIR) or the Institute for Comparative Studies in Local Governance (COSLOG) of the National Graduate Institute for Policy Studies (GRIPS).

March 2009

Michihiro Kayama
Chairman of the Board of Directors
Council of Local Authorities for International Relations (CLAIR)
Tatsuo Hatta
President
National Graduate Institute for Policy Studies

Preface

This booklet is one of the results of research activities conducted by the Institute for Comparative Studies in Local Governance (COSLOG) in collaboration with the Council of Local Authorities for International Relations (CLAIR) in FY 2007. This is part of a 5-year project that started in 2005 entitled "Project on the overseas dissemination of information on the local governance system of Japan and its operation". For the purpose of implementing this project, a "Research committee for the project on the overseas dissemination of information on the local governance system of Japan and its operation" has been set up, and a chief and deputy chiefs with responsibility for the project have been designated from among the members concerned with each research subject.

"Papers on the Local Governance System and its Implementation in Selected Fields in Japan" (Volumes 5-10) were written under the responsibility of the following six members (The official positions are as of March 2008).

(Chief)

Satoru Ohsugi, Professor, Graduate School of Social Science, Tokyo Metropolitan University

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Yoshinori Ishikawa, Executive Director of the Mutual Aid Association of Prefectural Government Personnel

Toshinori Ogata, Professor, Graduate School of Management, Kagawa University

Yoshihiko Kawato, Associate Professor, Faculty of Regional Policy, Takasaki City University of Economics

Nagaki Koyama, Associate Professor, Graduate School of Library, Information and Media Studies,
University of Tsukuba

Kenichiro Harada, Associate Professor, School of Law, Tohoku University

This booklet, the tenth volume in the series, is about Local Taxation in Japan, and was written by Mr. Harada (Present Vice Mayor of Komono Town, located in Mie Prefecture. He changed his career from Tohoku University to Komono Town in August 2008). This booklet provides an overview about allocation of financial resources of Japanese governments and local tax structure of Japan, and then describes the current conditions and problems of the local tax system and administration. In order to help readers understand the system and its actual operation of local tax in Japan, the booklet uses many figures and tables.

We will continue to take up new topics, and add to the series.

Finally, I would like to express my appreciation to Mr. Harada, and also to other members of the research committee for their expert opinions and advice.

March 2009

Hiroshi Ikawa
Chairperson

Research committee for the project on the overseas dissemination of information
on the local governance system of Japan and its operation
Professor
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Local Taxation in Japan

Kenichiro HARADA

Vice Mayor

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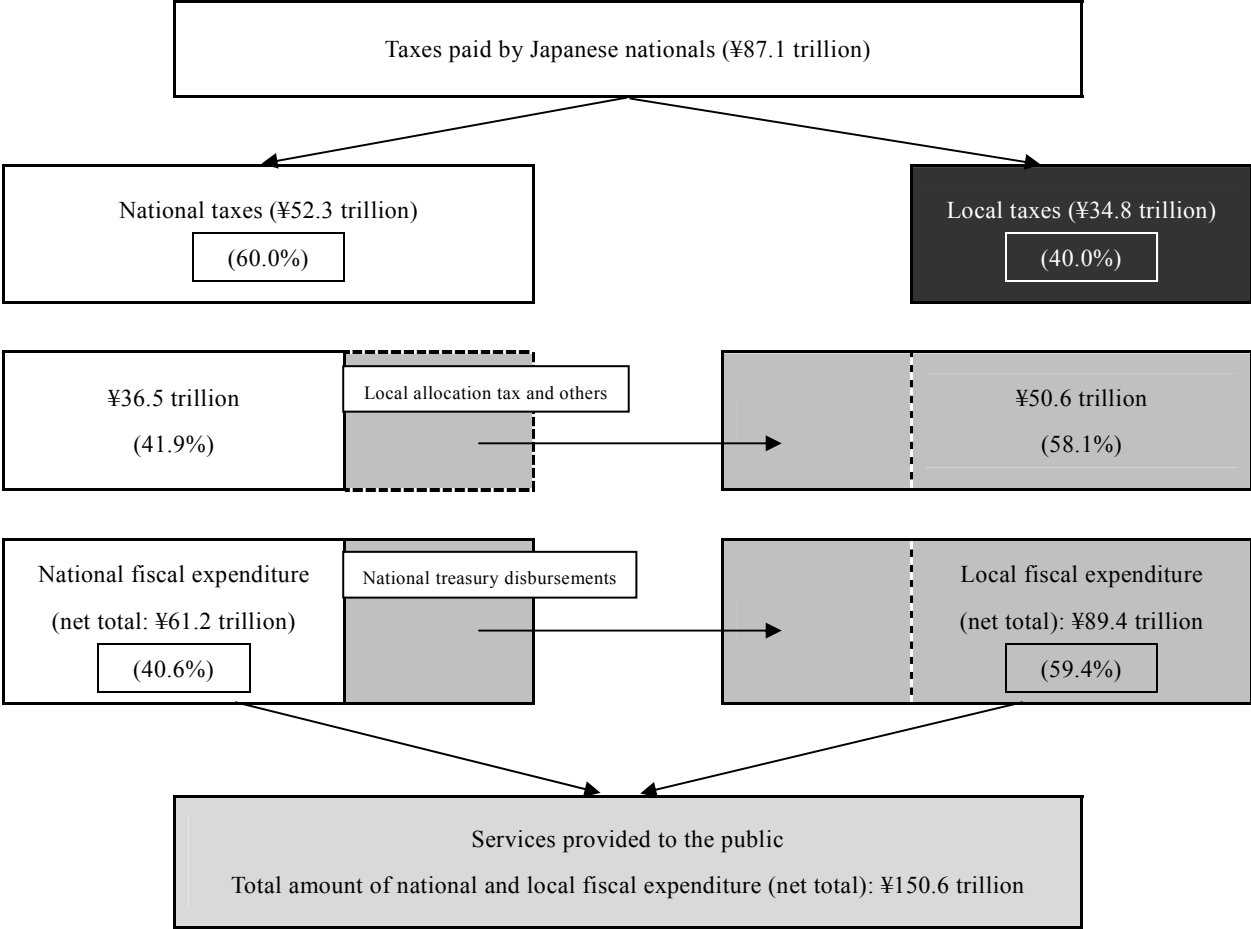
1 Central government and local governments in terms of tax revenue distribution

1-1 The role of local governments and tax distribution from the point of view of expenditures

As shown in Figure 1, in fiscal year 2005, the percentage taken up by local expenditures within the combined final total of national and local expenditures was 59.4%. On the other hand, the combined total of tax revenues for central and local governments was 8,710 billion yen, and out of this total figure, the total figure for local taxation was 3,480 billion yen, showing that within the overall total of tax revenue, local tax revenue accounts for no more than 40%.

What makes it possible for local government expenditures to exceed those of central government despite the fact that local tax revenues take up no more than 40% of the total tax revenue is explained by the transfer of funds from central government to local governments in the form of national treasury subsidies, local allocation tax and local transfer tax. Among these financial transfers, national treasury subsidies are restricted in the ways in which they can be used, hence decision-making in terms of both annual revenue and expenditure of these subsidies is in the hands of central government. In contrast to this, in the case of local allocation tax, while it is stipulated that this revenue source is linked to national fiscal income, on the local government side, it is treated as general tax revenue with no restrictions on the manner of use, so it can serve to develop local government autonomy. Furthermore, in the case of tax rebates, these take the form of tax income received by central government and then distributed to local governments according to specific criteria. Currently, this revenue source is earmarked for specific public works such as road construction.

Figure 1. Allocation of Financial Resources between the National Government and Local Governments (2005 fiscal year)



Source: Web site of the Ministry of Internal Affairs and Communications (<http://www.soumu.go.jp/czaisei/czais.html>).

The result of the system of tax distribution described here is that, as shown in Figure 2, the percentage of local revenues taken up by tax revenue was 37.4% (35.2% for prefectures and 35% for municipalities) according to the amount shown in the settlement of accounts at the end of fiscal 2005. However, in this kind of revenue structure, the inter-relationship between benefits and burdens for local residents in terms of the administrative services of local governments is unclear, and there is a fear that accompanying the various kinds of interventions by central government, cost consciousness is linked to a tendency for administrative and financial activities to become weaker. It is against this background that it is very important to secure and strengthen local taxation from the standpoint of trying to minimize as far as at all possible the weakening noted above in local expenditures and taxation revenues. Specifically, if after a very thorough effort aimed at radically reassessing and reducing expenditures, the remaining expenditures can be financed by strengthened local taxation, which is in essence autonomous revenue, it is reasonable to presume that the inter-relationships between benefits and burdens in the administrative services provided by local governments will become much clearer for local residents, and that as well as raising the level of self-regulation in financial matters through the choices of local residents, it will become much easier to aim at increasing management efficiency.

Figure 3 International comparison of tax revenue distribution between central government and local governments in major countries

Country name	Tax revenue distribution		Composition breakdown (%) of local tax revenue		Composition breakdown (%) of state tax revenue		Composition breakdown (%) of national tax revenue	
			Main tax headings	%	Main tax headings	%	Main tax headings	%
Japan	National tax	Hundred million yen	Individual resident tax, Enterprise tax	47.9	-	-	Income	57.3
	Local tax	522,905 (60.0)	Local consumption tax, Tobacco tax, Automobile tax, Light oil delivery tax, Fixed asset tax, Real property acquisition tax, Business Office tax, City planning tax	20.7	-	-	Consumption	37.4
	Total	348,044 (40.0)		31.4	-	-	Assets, etc.	5.2
U.S.A	National tax	Hundred million US dollars					Income	89.7
	State tax	11,470 (62.1)	Retail sales tax, Excise taxes	5.4	39.4	Individual and corporate income tax	Consumption	8.2
	Local tax	6,141 (27.9)	Property tax	22.3	57.8	Liquor tax, Tobacco tax	Assets, etc.	2.1
U.K.	National tax	Hundred million pounds					Income	48.7
	Local tax	3,165 (94.0)	Council tax (93~)	0.0	-	-	Consumption	41.7
	Total	202 (6.0)		100.0	-	-	Assets, etc.	9.6
Germany	National tax	Hundred million euros	Income tax (common federal, state, and city, town and village tax)	76.3			Income	38.1
	State tax	2,269 (50.4)	Sales profit tax (city, town and village)	0.0			Consumption	61.9
	Local tax	1,866 (37.0)	Value added tax (common federal, state, and city, town and village tax)	5.9	48.3	Individual and corporate income tax (common federal, state, and city, town and village tax)	Assets, etc.	0.0
France	National tax	Hundred million euros	Real estate property tax (on built and undeveloped properties)	17.8			Income	45.3
	Local tax	3,705 (82.3)	Professional tax, Housing tax	0.0			Consumption	45.9
	Total	796 (17.7)		84.5			Assets, etc.	8.7
Canada	National tax	Hundred million Canadian dollars					Income	73.8
	State tax	1,794 (48.2)	Automobile tax, Automobile registration tax	0.0			Consumption	26.2
	Local tax	1,551 (41.7)	Real estate property tax (on built and undeveloped properties)	2.0	46.1	Individual and corporate income tax	Assets, etc.	0.0
Sweden	National tax	100 million kronor					Income	13.6
	Local tax	376 (10.1)	Property tax	98.0			Consumption	65.8
	Total	4,503 (12.6)		100.0			Assets, etc.	20.5
Australia	National tax	100 million Australian dollars					Income	84.2
	State tax	5,018 (54.4)	Individual income tax	100.0			Consumption	15.7
	Local tax	4,198 (45.6)		0.0			Assets, etc.	0.2

Note 1. Figures for countries other than Japan are taken from the 2004 edition of "Revenue Statistics of OECD Member Countries 1965-2005".

Note 2. Figures for Japan are from the settled accounts for fiscal 2005.

Note 3. French regional tax is included in the OECD statistics on "Local Tax".

Source: Web site of the Ministry of Internal Affairs and Communications (<http://www.soumu.go.jp/czaisei/czais.html>)

If we look first at the tax revenue distribution between national government tax revenue on the one hand and state or local tax revenue on the other, we find that in Britain and France, a high proportion of tax revenue is taken up by national tax revenue. The level in Japan is between that of Australia and Sweden, while lower levels are found, in descending order, in the U.S.A., Germany and Canada.

Looking next at constituent proportions of state and local tax income by type of tax, we find that the level of dependency on income tax is high in Sweden, Germany (state and local tax), Japan, and Canada (provincial and territorial tax). In contrast to this, we find that there is a high level of dependency on consumption tax in Australia (state and territorial tax), the U.S.A. (state tax), Germany (state tax), and Canada (provincial and territorial tax), while there is a high level of dependency on property tax in Britain, Australia (state and territorial tax), Canada (provincial and territorial tax), France and the U.S. A. (local tax).

1-3 Separation and duplication of tax revenues

One problem that has to be considered in the context of trying to strengthen local taxation is that of the duplication of local tax and national tax revenue.

Under the current tax system in Japan, if we think in terms of the three main taxation bases, namely income, consumption and property, we find that in the case of each tax base, there is duplication of tax revenues in terms of national tax and local tax.

Figure 4 Figures for national taxes and local taxes

	National taxes	Local Taxes		National taxes	Local Taxes
Income taxation	Income tax	Individual resident tax	Consumption taxation	Consumption tax	Local consumption tax
	Corporation tax	Individual business tax		Liquor tax	Local tobacco tax
		Corporate resident tax		Tobacco tax	Light oil delivery tax
		Corporate business tax		Special tobacco tax	Automobile acquisition tax
		Interest-based prefectural inhabitant tax		Gasoline tax	Golf course utilization tax
		Dividend-based prefectural inhabitant tax		Local road tax	Bathing tax
		Prefectural inhabitant tax based on capital gain from stock transfer		Liquefied petroleum gas tax	Automobile tax
				Motor vehicle tonnage tax	Light Vehicle tax
				Aviation fuel tax	Mineral products tax
				Petroleum and coal tax	Hunting tax
Taxation on assets, etc.	Inheritance tax / Gift tax	Real property acquisition tax		Promotion of power-resources development tax	Mine-lot tax
	Registration and licence tax	Fixed asset tax		Customs duty	
	Stamp Tax	City planning tax		Tonnage dues	
		Business Office tax		Special tonnage dues	
		Special landholding tax, etc.			

Source: Web site of the Ministry of Finance (<http://www.mof.go.jp/jouhou/syuzei/siryou/001.htm>)

Figure 4 brings together the figures for national taxes and local taxes by type of tax base. Specifically, in terms of the income tax base, in the case of national taxation, the taxes are income tax and corporate tax, and in the case of local taxation, they comprise a tax on local residents, a tax on corporate residents, and a tax on corporate enterprises. In the case of the consumption tax base, national taxes include consumption tax, while local taxes include local consumption tax. And thirdly, in the case of the property tax base, national taxes comprise inheritance tax and gift tax, while local taxes comprise fixed assets tax.

In terms of the harmful effects that derive from this duplication of national and local taxes, it has been pointed out that the duplication is a problem when seen from the perspective of fiscal administration. In the first instance, looking in more detail at the problem in terms of tax administration, if we take up the fact that there is duplication in the tax headings for the types of taxes, then where there are differences in the ways of interpreting the tax base or in the methods of tax payment, there is a fear that complications and confusion will arise both for taxpayers and tax officials. Secondly, in terms of the problems of local governments, on the basis of the need to respect local autonomy, the reform of local taxation should be discussed separately from the reform of the national taxation system. However, in view of the reality that tax revenue sources are duplicated, reform of the national taxation system exerts a direct and an indirect influence on the reform of the local tax system.

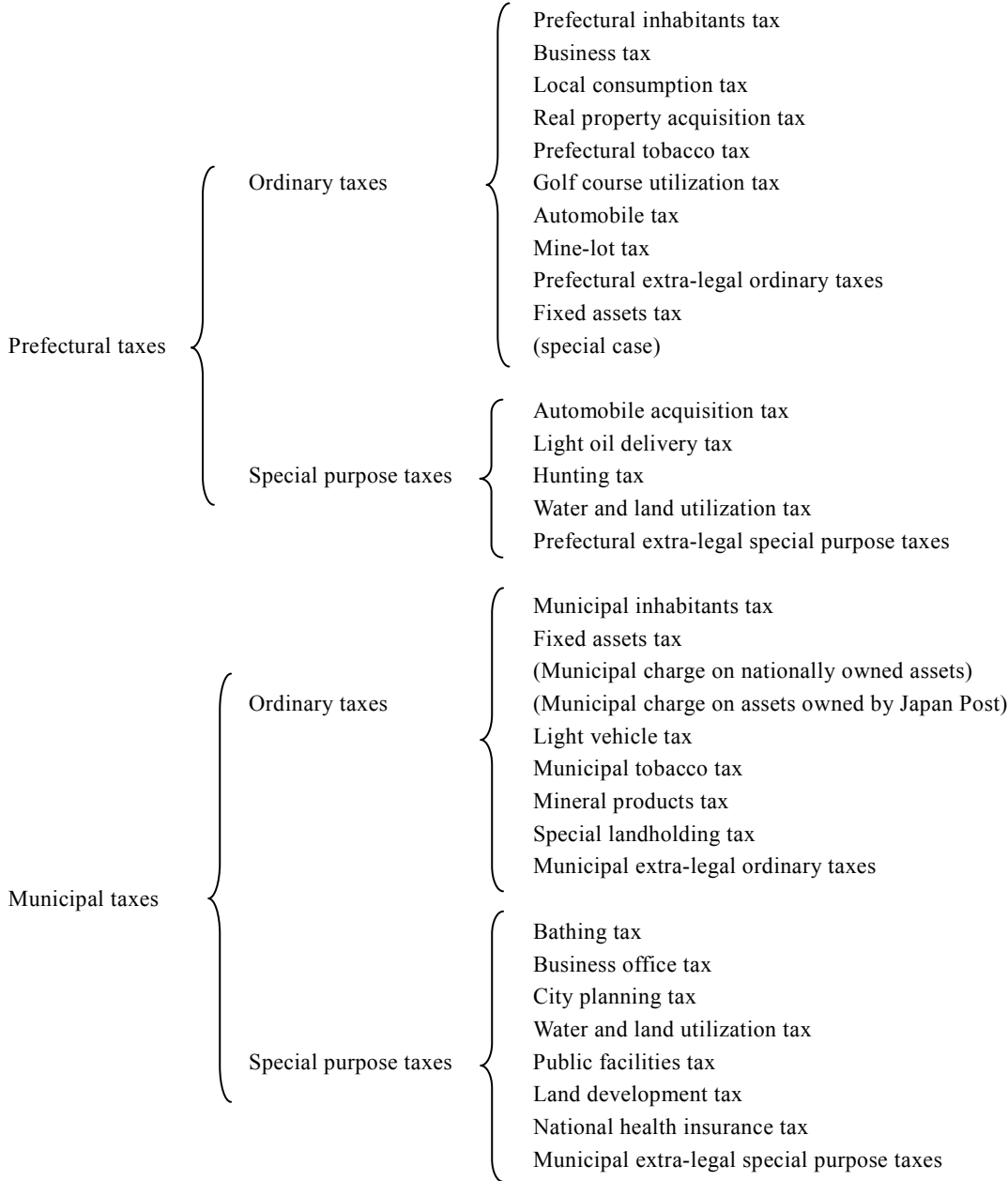
It follows from this that on the basis of the difference in the character of national taxation and local taxation, as set out below, it is desirable, as a matter of basic principle, to separate the respective tax revenue sources. Specifically, national tax is levied on the principle of “ability to pay” within the perspective of the distribution of income, while on the other hand, local tax is levied on the principle of “reciprocating benefit” within the perspective of acquiring funds to pay for services provided within the local area concerned. With these points in mind, it is fair to assume that it is desirable for income tax and property tax to be treated as national taxes, and for consumption tax or property tax (particularly immovables) to be treated as local taxes.

2 The local taxation system

2-1 The current local taxation system

The local taxation system in Japan as of end September 2007 is as shown in Figure 5.

Figure 5. Local tax system



Source: Web site of the Ministry of Internal Affairs and Communications (<http://www.soumu.go.jp/czaisei/czais.html>).

Local taxes are composed of prefectural taxes and municipal taxes, and both can be broadly divided into ordinary taxes and special-purpose taxes. More specifically, ordinary taxes are not earmarked for any specific purpose, and are levied with the intention of assigning them to cover general expenditure. In contrast to this, special-purpose taxes are levied with the specific object from the outset

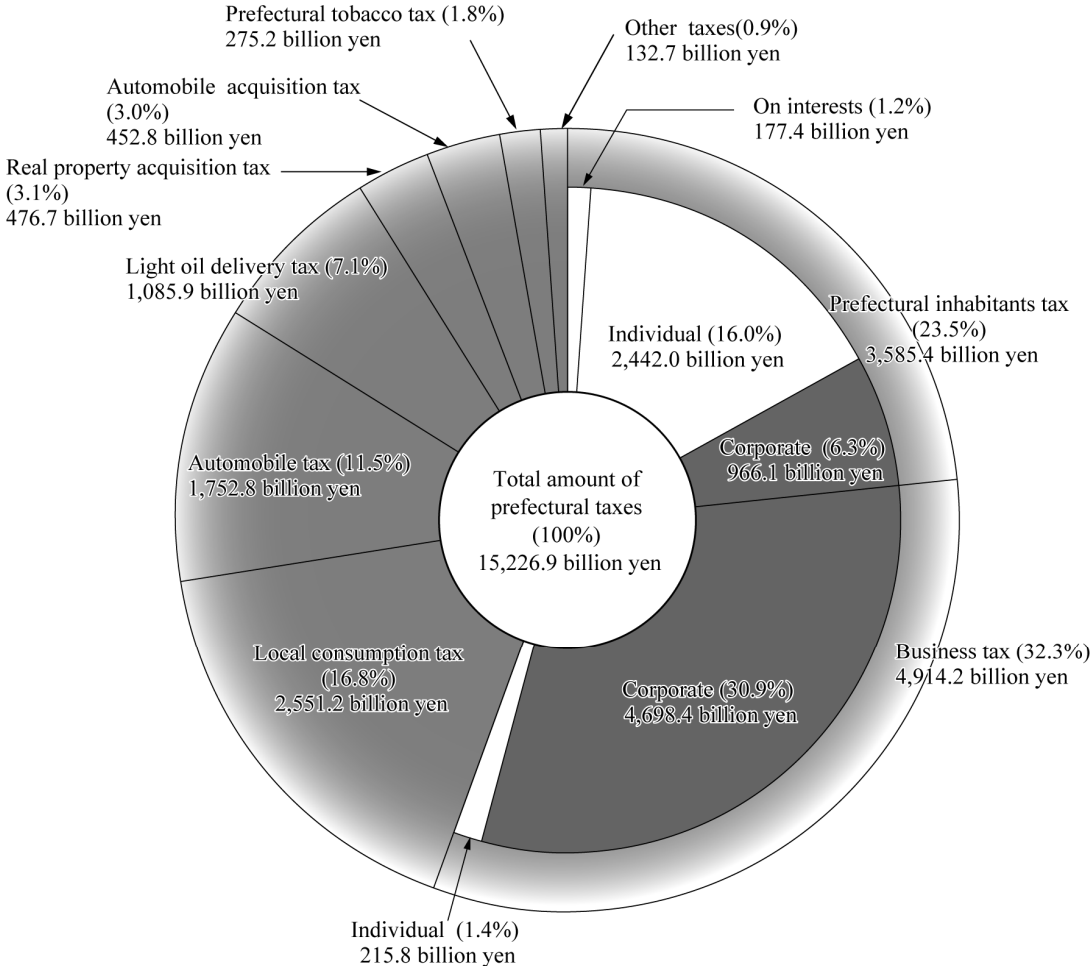
of using them for a designated purpose. For example, car acquisition tax (a prefectural tax) is used for expenditures concerned with roads, while city planning tax (a municipal tax) is used for city planning works on the basis of the City Planning Law, or for land readjustment works carried out on the basis of the Land Readjustment Act.

Furthermore, within the scope of ordinary taxes, taxes which are not specified in the Local Tax Law are called “extra-legal ordinary taxes”, and special purpose taxes not specified in the said law are called “extra-legal special-purpose taxes”. The term “extra-legal taxes” is used as a generic term for both these types of tax.

2-2 Amounts of revenue and relative percentages by tax heading within local tax

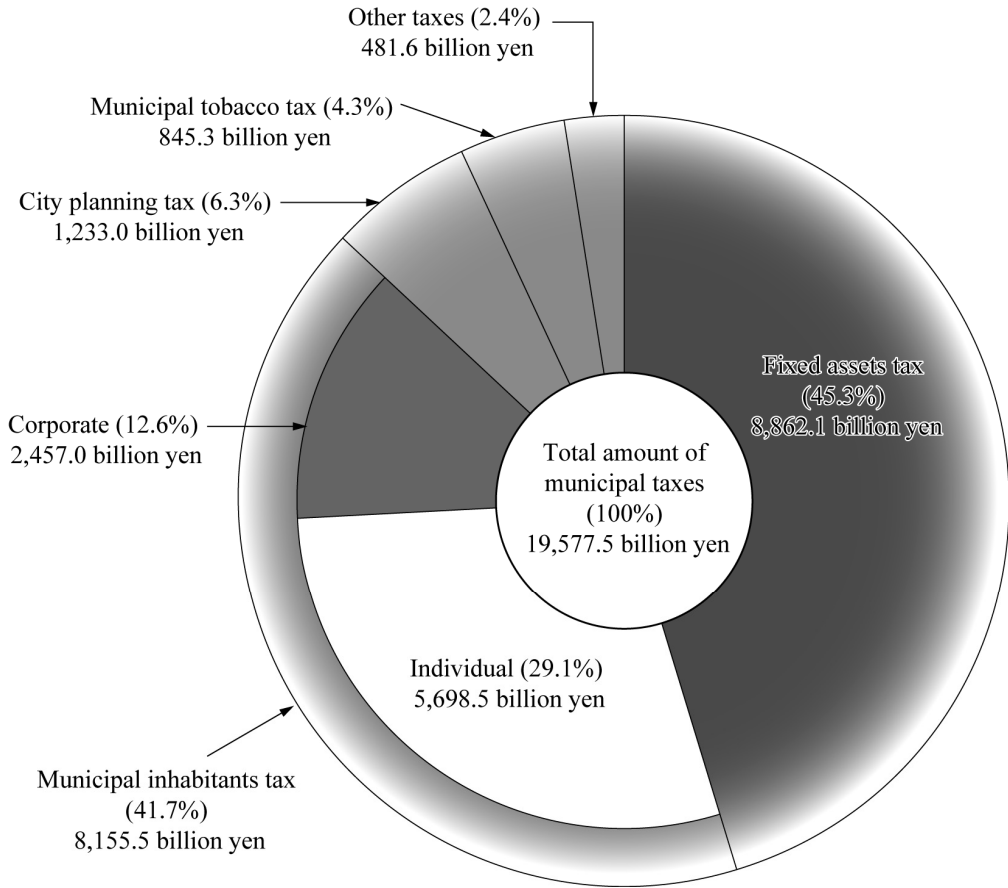
Figures 6-1 and 6-2 show the revenue amounts by tax heading and relative percentages in respect of prefectural and municipal taxes for fiscal 2005.

Figure 6-1 Breakdown of Prefectural Tax Revenue



Source: Ministry of Internal Affairs and Communications, ed, White Paper on Local Public Finance, 2007

Figure 6-2 Breakdown of Municipal Tax Revenue



Source: Ministry of Internal Affairs and Communications, ed, White Paper on Local Public Finance ,2007

Looking at these two figures, we see that for prefectural taxes, more than 70% of total taxation income is taken up by prefectural inhabitant tax (23.5%), business tax (32.3%) and local consumption tax (16.8%), forming together the main body of taxation. And these three types of tax are followed in order by car tax (11.5%) and light oil purchase transaction tax (7.1%). Within these taxes, special attention should be paid to the fact that the “corporate bodies” part of prefectural inhabitant tax (6.3%) and the “corporate bodies” part of business tax (30.9%) make up nearly 40% in terms of tax related to corporate bodies. On the other hand, in the case of municipal taxes, two types of taxes, namely fixed assets tax (45.3%) and municipal inhabitant tax (41.7%) make up nearly 90% of total taxation, constituting the main body of this form of taxation.

Furthermore, the structure of local taxation in Japan, as will already have become clear from Figure 4 above, is not, regardless of whether we are talking about prefectural or about municipal tax, composed of independent or small tax headings, but is what is termed a tax mix structure, formed by combining in the form of tax headings various kinds of tax bases, namely income tax, consumption tax and property tax. And this is because many parts of the administrative services offered are borne by local governments in Japan compared to the situation in many foreign countries.

3 The present state of the local tax system and current issues

3-1 The relationship between the Local Tax Law and taxation bylaws and regulations

The Supreme Law of the Constitution of Japan (hereafter, Constitution) contains various items listed under the heading of Chapter 8, “Local Self-Government”. Within this Chapter, Article 92 contains the following stipulation: “Regulations concerning organization and operations of local public entities shall be fixed by law in accordance with the principle of local autonomy”. Furthermore, Article 94 stipulates as follows: “Local public entities shall have the right to manage their property, affairs and administration and to enact their own regulations within law.” These stipulations signify that the Constitution guarantees the autonomy of local governments on the basis of rejecting the centralized and state-centered local system that existed in the days of the “Great Japanese Empire”, and acknowledges that authority is vested in local governments to dispose autonomously of their affairs on their own responsibility on the basis of democratic control by local residents.

However, in order for local governments to be able to dispose of their affairs in accordance with the true spirit of local autonomy, it is indispensable that they have the authority to levy taxes, specifically, to acquire, using their own free will, the necessary financial revenue sources. Without this authority and ability, local autonomous bodies (= local governments) will end up by becoming dependent on the State (= central government), and it becomes very easy for them to accept supervision by central government in exchange for this. It is in this sense that the authority of local governments to levy taxes is an indispensable element of local autonomy, and should be understood as having been imparted directly to local governments by the Constitution as one link in the structure that can be termed the right of self-government. It follows that local governments have the authority to levy taxes (autonomous levy of taxes) as one element in self-government under the Constitution, and that the principle of being able, by so doing, autonomously to acquire financial revenues can be termed the “principle of financial autonomy”.

Of course, under a system of “citizens’ autonomy,” local taxes must be levied and collected on the basis of bylaws enacted by a local assembly as the representative organ of local residents. This kind of principle can be termed the “principle of local taxes being determined by bylaw”, which corresponds to the national level principle of “taxation determined by law”. It follows from this that if we think about the former principle in the same way as we do about the principle of “taxation determined by law”, it follows that the conditions of local taxes and the procedures for levying and collecting them must be determined by bylaws, and furthermore, that the manner of such determination must be clear. It should also be understood that within the framework of taxation requirements that is established, local governments do not have the freedom to carry out reduction of or exemption from local taxes without the authority of bylaws.

However, the principle of financial autonomy set out above does not completely preclude the establishment of unifying regulations or a framework taking the form of national laws pertaining to the authority to levy taxes on the part of local governments and designed to prevent a situation in which taxation systems vary by local government from one town to the next, and there is clear inequality in terms of the tax burden imposed on local residents. And as an example of a law possessing this kind of character, namely a “framework law”, in Japan, one could cite the existence of the Local Tax Law (Law

No. 226, 1950).

Specifically, at the same time as setting out some general rules (Article 1), this law stipulates in a very comprehensive way (Article 2 and following Articles) the taxation requirements in respect of the various tax headings and the procedures for levying and collecting tax. However, since this law is, as just mentioned, a “framework law”, in order for a local government to be able to decide, in respect of local taxes, on tax headings, the objects of taxation, taxation criteria, rates of taxation and other matters concerned with levying and collecting tax, it must act in accordance with the bylaws of the said local government (Local Tax Law, Article 3, Clause 1). Furthermore, it is stipulated that the chief executive officer of a local government may regulate necessary matters concerned with the implementation of the said bylaws (ibid, Clause 2).

Essentially, the various local governments in Japan must establish taxation bylaws and taxation regulations that are in accordance with the stipulations of the Local Tax Law, and must levy and collect taxes on the basis of these bylaws and regulations.

3-2 Setting tax rates

The relationship between the Local Tax Law and taxation bylaws and regulations has been explained in 3-1 above, but bearing in mind the spirit of the principle of financial autonomy already referred to, and the need to pay sufficient respect to the autonomy of local governments, it would be inappropriate for everything concerned with local taxation to be regulated in a uniform manner by national laws, and it is necessary to exclude very strongly leadership and supervision by central government administrative institutions. With these points in mind, with regard, for example, to setting tax rates, it is stipulated that given that a local government has recognizance of the local financial situation and other necessary matters, then there is no need for it to abide by the “standard tax rates”, which represent the tax rates that are normally followed by a local government when levying taxes (Local Tax Law, Article 1, Clause 1, 5). Next, I want to deal with the formula for setting tax rates and with the circumstances of implementing “tax levy in excess of the norm”, when tax rates levied are in excess of the standard tax rates.

3-2-1 Formula for setting tax rates

As explained in section 3-1, local taxation rates are determined by bylaws enacted by the local government concerned. However, from the point of view of adjustment of the taxation rate for the Japanese people as a whole or from that of matters concerned with national economic policy or the financial adjustment system, fixed limits and rules are established in the Local Tax Law in connection with setting local taxation rates. The formula for the limits varies according to the tax heading concerned; the main points are as follows.

(1) Standard tax rates

“Standard tax rates” are rates which local governments should normally follow when levying taxes, but which do not necessarily have to be followed when special consideration is being taken of financial circumstances or other necessary matters, and are the rates used as the basis for calculating the basic financial revenue when the amount of local allocation tax is determined by the Minister for Internal

Affairs and Communications (Local Tax Law, Article 1, Clause 1, 5).

On the basis of the fact that standard tax rates are the rates that are set when calculating the tax burden of the people as a whole, including national taxes and local taxes, or when considering such matters as the distribution of revenue sources between central government and local governments, they can be thought of as having a significance over and above that of a simple guideline for standard tax rates. In actual fact, since standard rates are used as the basis for calculating the standard amount of revenue at the time of calculating the amount of the local allocation tax, in a case where the tax rate set is lower than the standard amount, the difference is not made up by means of the local allocation tax, and furthermore, when local bonds are issued, instead of the normal process of consultation with the Minister of Internal Affairs and Communication or with the prefectural governor, their permission must be sought (Local Finance Law (Law No. 109, 1948), Article 5, Clause 4, 4). As a result of these factors, standard tax rates have a constraining effect on the establishment of actual tax rates by local governments.

(2) Tax rate limits

“Tax rate limits” are legally established rates which may not be exceeded by a local government when levying taxes.

The usual practice is for tax rate limits to be established at a level that corresponds to the standard tax rates, and under the current Local Tax Law, tax rate limits are set, broadly speaking and while giving consideration to the actual circumstances related to each tax heading, within a range extending from 1.1 to 1.5 times the standard tax rates. However, tax headings like the City Planning Law, where tax rate limits only are determined, without determining the standard tax rate, do exist.

(3) Fixed tax rate

A “fixed tax rate” is a legally determined tax rate, another rate than which a local government is not permitted to use in the case of levying tax.

The tax headings in respect of which a fixed tax rate is used are for the most part ones such as the levying of consumption tax or transfer tax, where there is a fear that if a different rate of tax is used, the economic effects of using a different rate would spread beyond the boundaries of the local government concerned (for example, local consumption tax, etc.), or ones in respect of which, as in a tax policy system, it is expected that the tax will have a unified effect throughout the country as a whole (for example, the temporary tax rate imposed in the case of car acquisition tax or light oil purchase transaction tax).

(4) Voluntary tax rate

A “voluntary tax rate” is not in any way determined in the Local Tax Law, and the establishment of the rate is left completely to the judgment of the local government.

An overview of the formulae for establishing tax rates for different tax headings in the local tax system in Japan is given in Figure 7.

Figure 7 Table of local taxation rates

(Prefectural taxes)	Tax category	Kinds of tax rates	Presence or absence of tax rate limits	Notes	
Individual	Municipal inhabitants tax	Income-based	None	To be submitted up to f.y. 1997	
		Per capita rate	None		
	Corporate	Dividend-based	Standard tax rate (1,000) Fixed tax rate (3% (in principle 3%)) (special device from January 1, 2004 to December 31, 2010)	None	
		Based on capital gain from stock transfer	Fixed tax rate (3% (in principle 5%)) (special device from January 1, 2004 to December 31, 2010)	None	
	Interest-based	Corporate tax based	Standard tax rate (5%)	(Since inception) (6%)	
		Per capita rate	Standard tax rate (20,000~800,000)	None	
	Business tax	Individual	Standard tax rate (3%~5%)	(Since f.y. 1975) (1.1 times)	To be submitted up to f.y. 1974
		Corporate	Standard tax rate (Corporate body taxed using outward criteria as the tax base (Note) (Ordinary corporate body with capital over 100 million) Added value levy 0.48% Capital levy 0.20% Income levy 3.8%~7.2% Corporate income tax payer (Ordinary corporate body with less than 100 million capital, public benefit corporate body and special corporate body) Income levy 3%~9.6% Corporate body taxed on income Income levy 1.3%	(1.2 times since f.y. 2004, tax rate limit since inception in f.y. 1975) (1.1 times since inception)	To be submitted up to f.y. 1974
	Local consumption tax	Transaction levy Cargo levy	Fixed tax rate (25%) Fixed tax rate (25%)		
	Real property acquisition tax		Standard tax rate (in principle 4%) (Residence and land taxed at 3% from April 1, 2006 to March 31, 2009)	None	To be submitted up to f.y. 1997
Prefectural tobacco tax		Fixed tax rate (1,074 per 1,000 cigarettes)			
Golf course utilization tax		Standard tax rate (800 per person per day)	(1,200 from f.y. 1977)		
Automobile tax		Standard tax rate (tax at fixed amount)	(1.5 times since f.y. 2006, tax rate limit since inception in f.y. 1976, (1.2 times since inception)		
Mine-lot tax		Fixed tax rate			
Prefectural fixed assets tax		Standard tax rate (1.4%)	None	To be submitted up to f.y. 1997	
Automobile acquisition tax		Fixed tax rate (Car used for business and light car 3% Car other than the above 5% (in principle 3%) (Provisional measure from May 1, 2008 to March 31, 2018))			
Light oil delivery		Fixed tax rate (32,100 per 1 kiloliter (in principle 115,000)) (Provisional measure from May 1, 2008 to March 31, 2018)		Provisional tax rate from f.y. 1974	
Hunting tax		Fixed tax rate (5,500, 8,200, 11,000, 116,500)		Provisional tax rate from f.y. 1976	
Water and land utilization tax		Voluntary tax rate	None		

(Note) The taxation using outward criteria as the tax base in respect of corporate business tax has been implemented since the start of the fiscal year on April 1, 2001.

(Municipal taxes)	Tax category	Kinds of tax rates	Presence or absence of tax rate limits	Notes
Municipal inhabitants tax	Income-based	6%	None	Since the revision of 1998, the tax rate limit applied to individual municipal inhabitants tax has been abolished.
	Per capita rate	Standard tax rate (3,000)	None	
Corporate	Corporate tax based	Standard tax rate (12.3%)	Since its inception in 1981, 14.7% Since its inception in 1984, 1.2 times	
	Per capita rate	Standard rate tax (From 50,000 to 3 million)	None	Since the revision of 1998, the prior notification obligation has been abolished, but it has become necessary to hold an assembly when the fixed rate exceeds 1.7%.
Fixed assets tax		Standard tax rate (1.4%)	None	
Light vehicle tax		Standard tax rate (tax at fixed amount)	1.5 times since f.y. 2006, tax rate limit since inception in f.y. 1976, (1.2 times since inception)	
Municipal tobacco tax		Fixed tax rate (3.2% per 1,000)		
Mineral products tax		Standard tax rate (1%) (0.7% when less than 2 million per month)	(1.2% since inception) 0.9% when less than 2 million per month	
Special landholding tax		Fixed tax rate (Land holding 1.4% (Land acquisition 3%))		Since the revision of 2004, the tax rate limit has been abolished.
Bathing tax		Standard tax rate (150 per person per day)	None	
Business Office tax		Fixed tax rate (Fixed assets levy 600/m ² Levy on employee numbers (0.25/100))		Imposition of new tax suspended since f.y.
City planning tax		Tax rate limit (0.3%)	(0.2% since inception)	0.3% since f.y. 1978
Water and land utilization tax		Voluntary tax rate	None	
Public facilities tax		Voluntary tax rate	None	
Land development tax		Voluntary tax rate	None	

Source : Web site of the Ministry of Internal Affairs and Communications (<http://www.soumug.go.jp/czaisei/czaisei.html>).

3-2-2 Implementation of a tax rate in excess of the standard rate

In the context of the determination of tax headings by the standard rate, the term given to the process of determining rates that exceed the standard rate is “tax levy in excess of the norm”, and the circumstances surrounding the implementation of such a tax rate are set out in Figure 8.

Figure 8. Numbers of local government bodies levying tax at a rate in excess of the norm (as of April 1, 2006) as well as the scale of such tax (final accounts for fiscal 2005)

Prefectures <Prefectural inhabitants tax>			Prefectural tax (Number of prefectures(Note))		
Individual per capita rate	16 prefectures	Iwate, Fukushima, Shizuoka, Shiga, Hyogo, Nara, Tottori, Shimane, Okayama, Yamaguchi, Ehime, Kochi, Kumamoto, Oita, Miyazaki, Kagoshima	Prefectural inhabitants tax	Individual per capita rate (8 prefectures)	1.9 billion yen
Corporate per capita rate	17 prefectures			*Corporate per capita rate (9 prefectures)	5.68 billion yen
Corporation-based tax	46 prefectures	Iwate, Fukushima, Shizuoka, Shiga, Osaka, Hyogo, Nara, Tottori, Shimane, Okayama, Yamaguchi, Ehime, Kochi, Kumamoto, Oita, Miyazaki, Kagoshima		*Corporation-based tax (46 prefectures)	110.19 billion yen
<Corporate business tax>	7 prefectures	Metropolitan Tokyo, Kanagawa, Shizuoka, Aichi, Kyoto prefecture, Osaka prefecture, Hyogo		*Corporate business tax (7 prefectures)	114.5 billion yen
<Automobile tax>	1 prefecture		Metropolitan Tokyo	Automobile tax (1 prefecture)	30 million yen
Municipalities <Municipal inhabitants tax>				Prefectural tax total	232.29 billion yen
Corporate per capita rate	408 municipalities		Municipal inhabitants tax	Municipal tax (Number of municipalities (Note))	
Corporation tax based	1,021 municipalities			*Corporate per capita levy (478 municipalities)	14.45 billion yen
<Fixed assets tax>	154 municipalities		*Corporate tax levy (1,189 municipalities)	264.6 billion yen	
<Light vehicle tax>	22 municipalities	Hokkaido: Cities: Hakodate, Akabira, Nemuro, Takikawa; Towns: Nanporo, Kuriyama, Takinoue. Yamanashi Pref.: Hayakawa Town. Kyoto Pref.: Ine Town. Shimane Pref.: Cities: Matsue, Hamada, Izumo, Masuda, Ooda. Hikawa Town. Tokushima Pref.: Cities: Tokushima, Komatsushima, Naruto. Kagawa Pref.: Takamatsu City. Kochi Pref.: Cities: Kochi, Susaki; Haruno Town.	Fixed assets tax (185 municipalities)	37.38 billion yen	
<Mineral products tax>	37 municipalities			Light vehicle tax (25 municipalities)	530 million yen
<Bathing tax>	2 municipalities	Mie Pref.: Kuwana City. Okayama Pref.: Mimasaka City.	Mining products tax (47 municipalities)	9 million yen	
			Bathing tax (2 municipalities)	24 million yen	
			Municipal tax total	317 billion yen	
			Total of tax above the norm	549.29 billion yen	

* Proportion taken up by corporate taxes (as asterisked in the list above): 92.7%

Note: Numbers of prefectures and municipalities correct as of April 1, 2005

As is clear from Figure 8, the greater part of tax in excess of the norm is implemented in the area of corporate taxation. It is certainly the case that this trend results from the belief that corporate bodies have a greater ability to pay tax, but when it comes to allocating “tax in excess of the norm” in such a way as to meet the financial demands involved in promoting and increasing the general welfare of the people within a very broad framework, then it is time to return to first principles and make a selection about which is the most appropriate tax heading.

Furthermore, as a movement which deserves attention, now as in the past, one can cite the example of prefectures which implemented a “tax in excess of the norm” by means of a per capita levy on individual prefectural residents and on corporate bodies with the objective of securing revenue for the work of conserving the forest environment. Begun in Kochi Prefecture in fiscal 2003, this project had grown to include 16 prefectures as of April 1, 2006. Moreover, according to a survey conducted by the Ministry of Internal Affairs and Communications (hereafter, the Ministry survey) to capture subsequent developments, as of February 19, 2007, a further 7 prefectures were planning to implement such a tax, and of these, only Kanagawa was planning to target individuals only, and in addition to a per capita rate, they were also planning to implement a supplementary tax on income in excess of the standard rate. The extent to which the increased rate is in excess of the standard rate varies from prefecture to prefecture, but there are many cases in which prefectures specify clearly the intended use of the excess charges with a view to gaining the understanding of residents, by such ways as accumulating the excess charges in a fund and using them for newly designated forest conservation work or for promoting the use of prefectural products. Since the environmental conservation of forests is a topic in respect of which it is relatively easy to gain people’s agreement, residents are likely to show interest and are able to participate in creating a system to decide what rate to charge and how to use the revenue thus acquired, with the result that what could be called pioneering examples of a “citizen-participation-type tax system” are positively evaluated. However, the other side of the coin is that specifying in advance the intended use of ordinary tax revenue in the form of prefectural inhabitant tax makes unified financial management difficult, depending on the size of the tax revenue, and is liable to become one cause of increasing financial rigidity, so sufficient consideration needs to be given to the introduction of such a system.

3-3 Individual resident taxation

The following sections give an account of the present situation and discussion points in respect of the various tax headings within local taxation, but because of space restrictions, I would like to concentrate on the main tax headings, namely individual resident tax, corporate resident tax, local consumption tax and fixed assets tax, and on extra-legal taxes, which do not bring in much tax revenue, but which have become a focus of attention in recent years in the context of decentralization.

3-3-1 The current situation

“Individual resident tax” is the generic name given to the tax which an individual is obliged to pay to a prefecture and a municipality. Specifically, prefectural inhabitant tax designates individual per capita rate, income rate, interest rate, dividend rate, and share transfer rate, while municipal inhabitant tax designates individual per capita rate and income rate. However, among these various taxes, prefectural inhabitant rate is also levied on corporate bodies. An overview of individual resident taxation is given in Figure 9.

Figure 9. Overview of Individual Residents Tax Per capita rate and Income-based

Category	Individual residents tax	(Reference) Income tax																																															
Tax levying body	City (ward), town or village, and prefecture, where resident is domiciled as of January	National																																															
Person obliged to pay tax	Person with residence within city, town or village, and prefecture	Person with residence (address) in Japan																																															
Method of levying tax	Tax levying method (the city, town or village calculates and decides the tax amount)	Self-assessed tax payment method (tax report filed by taxpayer or person obliged to withhold tax; tax amount calculated by end-of-year adjustment)																																															
Tax standard	(Income-based) Amount of income during the year previous to the tax payment year	Amount of income (current year)																																															
Tax rate	<table border="1"> <tr> <td rowspan="4">Income – based</td> <td colspan="3"><Aggregate taxation amount></td> </tr> <tr> <td></td> <td>Standard tax rate</td> <td></td> </tr> <tr> <td></td> <td>(Prefecture)</td> <td>(Municipality)</td> </tr> <tr> <td>Uniform</td> <td>4%</td> <td>6%</td> </tr> <tr> <td></td> <td></td> <td>(Total)</td> <td>10%</td> </tr> <tr> <td colspan="4"><Separate taxation amount> (Ex.) Taxable long-term transfer income</td> </tr> <tr> <td></td> <td>(Prefecture)</td> <td>(Municipality)</td> <td>(Total)</td> </tr> <tr> <td>Uniform</td> <td>2%</td> <td>3%</td> <td>5%</td> </tr> </table>	Income – based	<Aggregate taxation amount>				Standard tax rate			(Prefecture)	(Municipality)	Uniform	4%	6%			(Total)	10%	<Separate taxation amount> (Ex.) Taxable long-term transfer income					(Prefecture)	(Municipality)	(Total)	Uniform	2%	3%	5%	<table border="1"> <tr> <td>Total taxable income</td> <td>Tax rate</td> </tr> <tr> <td>¥1.95 mill or less</td> <td>5%</td> </tr> <tr> <td>¥3.3 mill or less</td> <td>10%</td> </tr> <tr> <td>¥6.95 mill or less</td> <td>20%</td> </tr> <tr> <td>¥9 mill or less</td> <td>23%</td> </tr> <tr> <td>¥18 mill or less</td> <td>33%</td> </tr> <tr> <td>Over ¥18 mill</td> <td>40%</td> </tr> <tr> <td colspan="2">Taxable long-term transfer income</td> </tr> <tr> <td>Uniform</td> <td>15%</td> </tr> </table>	Total taxable income	Tax rate	¥1.95 mill or less	5%	¥3.3 mill or less	10%	¥6.95 mill or less	20%	¥9 mill or less	23%	¥18 mill or less	33%	Over ¥18 mill	40%	Taxable long-term transfer income		Uniform	15%
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Prefecture	¥1,000																																																
Municipality	¥3,000																																																
Exemptions	<ul style="list-style-type: none"> •Basic exemption ¥330,000 •Exemption for spouses ¥330,000 •Exemption for dependents ¥330,000 •Special exemption for dependents ¥450,000 etc. 	<ul style="list-style-type: none"> Same as left ¥380,000 Same as left ¥380,000 Same as left ¥380,000 Same as left ¥630,000 etc. 																																															
Minimum taxable amount	Salaried employee couple with 2 children (one of children in receipt of special exemption for dependents) ¥2.7 million	¥3.25 million																																															
Tax allowances	(Adjustment to avoid double burden)																																																
	<ul style="list-style-type: none"> •Dividend allowance •Allowance for tax paid overseas •Allowance for dividend-based individual residents tax •Allowance for individual residents tax based on capital gain from stock transfer 	<ul style="list-style-type: none"> •Dividend allowance •Allowance for tax paid overseas 																																															
	(From a policy viewpoint)																																																
	None	<ul style="list-style-type: none"> •Special allowance for housing loan repayment •Special allowance for additional cost of testing and research etc. 																																															
Tax revenue (Amount of settled accounts for fiscal 2005)	¥8,317.8 billion (billion Per capita rate ¥206.2 billion, Income-based ¥7,746.7 billion, Interest-based ¥177.4 billion, Dividend-based ¥78.6 billion, Based on capital gain from stock transfer ¥109.1 billion.)	¥16,701.8 billion (including income transfer tax (Income transfer tax ¥1,115.9 billion)																																															

Interest-based, Dividend-based and Based on capital gain from stock transfer

	Interest-based	Dividend-based	Based on capital gain from stock transfer
1) Tax levying body	Prefecture		
2) Person obliged to pay tax	Person in receipt of interest payment	Person domiciled in a prefecture who is in receipt of a set dividend payment from a listed company (special dividend)	Person domiciled in a prefecture who is in receipt of a payment such as consideration in respect of the transfer of the share of a listed company in a special account selected for income tax withheld at source (tax withholding account)
3) Tax standard	Amount of interest payment that should be received	Special dividend amount	Income in a tax-withholding account from the transfer of a share in a listed company (special share transfer income)
4) Tax rate	5% (15% income tax)	5% (15% income tax) (3% between January 1, 2004 and March 31, 2009 (7% income tax))	5% (15% income tax) (3% between January 1, 2004 and March 31, 2009 (7% income tax))
5) Collection methods	When a financial institution pays interest or handles such payment, it collects tax and makes payment to the prefecture in which the business of paying interest is located by the 10th day of the month following that in which interest is paid	When a limited company located in a prefecture pays a special dividend, it collects tax and pays it to the prefecture in which the person who receives the dividend is resident by the 10th day of the month after which the dividend is paid	When a securities company collects and pays into the tax-withholding account opened by a person resident in a prefecture the tax assessed in respect of a listed security, it must pay this tax to the prefecture in which the person liable to receive the payment was resident on January 1 of the year in which the payment was made by January 10 of the year following that in which payment was made.
6) Adjustment of Corporation tax based or Income-based tax	(Adjustment of corporation tax -based residents tax) In order to adjust matters so that there is no overlap between the interest-based residents tax levied on a corporate body and corporation tax-based residents tax, when a corporate body files a prefectural corporate residents tax return, the amount of interest-based residents tax may be deducted from the corporation tax -based residents tax or be refunded	(Adjustment of income-based resident tax) When a taxpayer files a tax return in respect of a special dividend or a special share transfer income, the amount of dividend-based individual residents tax and the amount of individual residents tax based on capital gain from stock transfer may be deducted from the income-based individual residents tax.	
7) Grant	Three-fifths of the amount remaining after deducting the equivalent to expenditure for tax collection (1%) from interest-based individual residents tax income is passed to municipalities.	A set percentage (three-fifths. However, the dividend-based individual residents tax on the special dividend payment to be received between January 1, 2004 and March 31, 2008, was two-thirds) of the amount remaining after deducting the equivalent to expenditure for tax collection (1%) from dividend-based individual residents tax income is passed to municipalities.	A set percentage (three-fifths. However, the individual residents tax based on capital gain from stock transfer accruing to special share transfer income resulting from a stock transfer carried out between January 1, 2004 and December 31, 2007, was two-thirds) of the amount remaining after deducting the equivalent to expenditure for tax collection (1%) from income of individual residents tax based on capital gain from stock transfer is passed to municipalities.
	The amount distributed to municipalities corresponds to the percentage of the prefectural total of prefectural individual residents tax income in respect of the municipalities concerned at the close of accounts (the average figure for the past 3 fiscal years preceding the fiscal year in which distribution takes place).		
8) Tax revenue	¥177.4 billion (Amount of settled accounts for fiscal 2005)	¥78.6 billion (Amount of settled accounts for fiscal 2005)	¥109.1 billion (Amount of settled accounts for fiscal 2005)

Source: Web site of the Ministry of Internal Affairs and Communications

(<http://www.soumu.go.jp/czaisei/czais.html>)

3-3-2 Current issues

As a kind of “membership fee of local society”, individual resident tax has the character of being widely shared among local residents as a tax burden that corresponds to an individual’s ability to pay. At the same time, it is possible to confirm clearly the reciprocal nature of the tax, seeing it as a burden borne in response to the benefits received from the services offered by the local government to local residents. In addition to this, if we look at the tax from the point of view of tax revenue, the rate of mal-distribution is very low, and on the basis of the stable nature of the tax revenue, there is a need to strengthen and secure the tax as a major pillar of local taxation. From that perspective, as one vital element in the reform of the tax system, termed the “Trinity Reform”, carried out in fiscal 2006, a substantive tax revenue transfer to the extent of 3.000 billion yen was implemented as a permanent measure transferring the revenue from income tax (a national tax) to the individual resident income tax levy. Moreover, accompanying this transfer, the structure of the levy on individual resident income tax was changed from a graduated structure in 3 stages (5%, 10% and 13%) to a unified rate of 10% (of which, 6% was prefectural tax and 4% municipal tax) (creation of a proportional tax rate). As a result of this change, the supporting function of the tax was clarified, and at the same time, the degree of mal-distribution of tax revenue among local areas was reduced. It should also be noted that this device was implemented from 2007, with the new tax rate being applied from January in the case of income tax and from June in the case of individual resident tax.

On the other hand, when one takes into consideration factors like the increase in the national per capita income, the current per capita tax still remains at a low rate, so even when paying all due consideration to trends in the individual tax burden, the need to examine a rise in the tax rate is something to be thought about. Moreover, there is a need to rationalize the various income levy deductions and to make efforts to expand the tax base on the basis of thinking of the character of the local resident tax as a kind of “membership fee of local society”. Especially with regard to policy-led deductions, in consideration of the fact that the income levy has been made proportional, the rational level of the amount of the deductions should be speedily re-examined.

3-4 Corporate resident tax

3-4-1 The current situation

“Corporate resident tax” is a generic label for the tax paid by those corporate bodies from among prefectural and municipal residents that are obliged to pay tax, and specifically, it designates the corporate per capita levy and the corporate body tax levy applied to such prefectural and municipal residents. An overview of corporate resident tax is given in Figure 10.

Figure 10: Overview of Corporate Residents Tax

Heading	Contents																													
1. Tax levying body	Prefectures and municipalities																													
2. Persons obliged to pay tax	Corporate persons which have an office or a place of business in the prefecture and municipality concerned																													
3. Method of levying tax	Filing tax returns and making tax payment																													
4. Tax standard (Corporation tax based)	Corporate person other than a corporate person acting as a member of a company network: Amount of the national corporation tax Corporate person acting as a member of a company network: Tax amount levied on a corporate person in the form of a subsidiary company on the basis of the system whereby the total of national corporation tax is levied on the parent (holding) company as being in total control of a network of affiliated companies.																													
5. Tax rate	<p>(Per capita rate)</p> <table border="1"> <thead> <tr> <th rowspan="2">Amount of capital, etc.</th> <th rowspan="2">Per capita rate on prefectural residents tax</th> <th colspan="2">Per capita rate on municipal residents tax</th> </tr> <tr> <th>More than 50 employees</th> <th>50 employees or less</th> </tr> </thead> <tbody> <tr> <td>More than 5 billion yen</td> <td>800,000 yen</td> <td>3 million yen</td> <td>410,000 yen</td> </tr> <tr> <td>More than 1 billion and 5 billion yen or less</td> <td>540,000 yen</td> <td>1.75 million yen</td> <td>410,000 yen</td> </tr> <tr> <td>More than 100 million and 1 billion yen or less</td> <td>130,000 yen</td> <td>400,000 yen</td> <td>160,000 yen</td> </tr> <tr> <td>More than 10 million and 100 million yen or less</td> <td>50,000 yen</td> <td>150,000 yen</td> <td>130,000 yen</td> </tr> <tr> <td>10 million yen or less</td> <td>20,000 yen</td> <td>120,000 yen</td> <td>50,000 yen</td> </tr> </tbody> </table> <p>* A limited tax rate (1.2 times) is set for the per capita rate on municipal residents tax. (Corporation-based tax) Prefecture: 5% (tax rate limit 6%) Municipality: 12.3% (tax rate limit 14.7%)</p>				Amount of capital, etc.	Per capita rate on prefectural residents tax	Per capita rate on municipal residents tax		More than 50 employees	50 employees or less	More than 5 billion yen	800,000 yen	3 million yen	410,000 yen	More than 1 billion and 5 billion yen or less	540,000 yen	1.75 million yen	410,000 yen	More than 100 million and 1 billion yen or less	130,000 yen	400,000 yen	160,000 yen	More than 10 million and 100 million yen or less	50,000 yen	150,000 yen	130,000 yen	10 million yen or less	20,000 yen	120,000 yen	50,000 yen
Amount of capital, etc.	Per capita rate on prefectural residents tax	Per capita rate on municipal residents tax																												
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10 million yen or less	20,000 yen	120,000 yen	50,000 yen																											
6. Criteria for making divisions	A corporate person with offices or places of business in two or more prefectures will have tax standard divided by the number of employees in each office or place of business and pay the requisite tax amount to the prefecture or municipality in which the assessed office or place of business is located.																													
7. Tax revenue (Amount of settled accounts for fiscal 2005)	<table border="1"> <thead> <tr> <th colspan="2"></th> <th>Tax revenue</th> <th>Of the total tax revenue, tax levied at a rate in excess of the norm (number of local government bodies implementing this rate)</th> </tr> </thead> <tbody> <tr> <td>Prefectural corporate residents tax</td> <td>Per capita rate</td> <td>143.5 billion yen</td> <td>5.7 billion yen (9)</td> </tr> <tr> <td></td> <td>Corporation tax based</td> <td>822.7 billion yen</td> <td>110.2 billion yen (46)</td> </tr> <tr> <td>Municipal corporate residents tax</td> <td>Per capita rate</td> <td>403.0 billion yen</td> <td>14.5 billion yen (478)</td> </tr> <tr> <td></td> <td>Corporation tax based</td> <td>2,054.0 billion yen</td> <td>264.6 billion yen (1,190)</td> </tr> </tbody> </table>						Tax revenue	Of the total tax revenue, tax levied at a rate in excess of the norm (number of local government bodies implementing this rate)	Prefectural corporate residents tax	Per capita rate	143.5 billion yen	5.7 billion yen (9)		Corporation tax based	822.7 billion yen	110.2 billion yen (46)	Municipal corporate residents tax	Per capita rate	403.0 billion yen	14.5 billion yen (478)		Corporation tax based	2,054.0 billion yen	264.6 billion yen (1,190)						
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Source: Web site of the Ministry of Internal Affairs and Communications

(<http://www.soumu.go.jp/czaisei/czais.html>)

3-4-2 Current issues

As a current issue concerned with corporate resident tax, one could cite, in the same way as in the case of corporate business tax, the mal-distribution of tax revenue, but this issue will be covered in 3-5-2 (2).

3-5 Corporate business tax

3-5-1 The current situation

“Corporate business tax” focuses on the wide range of benefits connected with business activities and prefectural administrative services, and designates the tax levied on business activities carried out by corporate bodies out of the wider range represented by “business tax” as a tax levied on those who carry out business activities. An overview of corporate business tax is given in Figure 11.

Figure 11. Overview of corporate business tax

Heading	Contents		
1. Tax levying body	Prefectures		
2. Persons obliged to pay tax	Corporate persons which have an office or a place of business in the prefecture concerned and carry on business		
3. Taxable object	Business carried on by the corporate person		
(Non-taxable business)	<p>The following items of business are not subject to corporate business tax</p> <ol style="list-style-type: none"> 1) Forestry business, mining excavation business as well as agricultural business carried on by a special agricultural association 2) Business carried on by central government, local governments, or by Japan Post, etc. 3) Non-profit businesses carried on by corporate persons such as a social welfare corporate person, a religious corporate person, or an educational corporate person, etc. or by bodies without corporate status, etc.. 		
4. Method of levying tax	<p>Filing tax returns and making tax payment</p> <p>In principle, a final tax return including the assessed amount of tax, should be filed within 2 months after the close of the business fiscal year (interim return to be filed after 6 months has passed) with the taxation office of the prefecture in which the office or the place of business is located.</p> <ol style="list-style-type: none"> 1) Final return 2) Interim return <ol style="list-style-type: none"> (a) Provisional return based on the actual final return of the previous year (b) Interim return based on a tentative settlement <p>※ Corporate persons required to file an interim return are: an ordinary corporate person whose business fiscal year is for more than 6 months, a) whose national corporation tax amount exceeds ¥100,000 for 6 months of the previous year or b) whose individually attributed liability to payment as a linked corporate person for 6 months of the previous year exceeds ¥100,000; and corporate persons who are liable to taxation by the size of their businesses, as well as corporate persons liable for tax on the basis of the amount of proceeds.</p> <p>※ There is no case of (b) for a corporate person acting as a member of a company network, who is liable to file and pay an income-based corporate business tax.</p> 3) Return after expiry of the due date 4) Amended return 		
5. Tax standards and tax rates	Classification of corporate persons	Tax standards	Tax rates
		Value added amount	Based on value added 0.48%
		Capital amount	Capital-based 0.2%
		Income and liquidation income	<p>Income-based</p> <p>Percentage of income</p> <p>¥4 million or less a year 3.8%</p> <p>More than ¥4 million and ¥8 million or less a year 5.5%</p> <p>Amount exceeding ¥8 million a year and liquidation income 7.2%</p>
	Ordinary corporate person with capital of ¥100 million or less; public benefit corporate person etc.; investment corporate person etc.	Income and liquidation income	<p>Income-based</p> <p>Percentage of income</p> <p>¥4 million or less a year 5%</p> <p>More than ¥4 million and ¥8 million or less a year 7.3%</p> <p>Amount exceeding ¥8 million a year and liquidation income 9.6%</p>
	Special corporate person	Income and liquidation income	<p>Income-based</p> <p>Percentage of income</p> <p>¥4 million or less a year 5%</p> <p>Amount exceeding ¥4 million a year and liquidation income 6.6%</p>
	Corporate person engaged in electricity supply business, gas supply business or insurance business	Amount of proceeds	<p>Proceeds-based</p> <p>Amount of proceeds 1.3%</p>

	(Note 1)“Tax rates” means the standard tax rates.(The limited tax rate is 1.2 times the standard rate.) (Note 2)“Special corporate person” denotes a cooperative association etc. (same as separate Table No. 3 on corporation tax law) as well as a medical corporate person (Note 3) A reduced rate is not applied to the tax rate accruing to the income-based corporate business tax of corporate person with capital of ¥10 million or more from among those corporate persons with offices or places of business in three or more prefectures.												
6. Criteria for making divisions	<p>A corporate person with offices or places of business in two or more prefectures will have the tax standard divided by the number of employees, etc. and pay the requisite tax amount to the prefecture in which the assessed office or place of business is located.</p> <table border="1"> <thead> <tr> <th>Type of business</th> <th>Criteria for making divisions</th> </tr> </thead> <tbody> <tr> <td>Non-manufacturing business*</td> <td>Half of the tax standards: Number of offices Half of the tax standards: Number of employees</td> </tr> <tr> <td>Manufacturing business</td> <td>Number of employees (Corporate person with capital of ¥100 million or more: multiply the number of factory employees by 1.5 times)</td> </tr> <tr> <td>Railroad business Tram business</td> <td>Number of kilometers of extended track</td> </tr> <tr> <td>Gas supply business Warehousing business</td> <td>Value of fixed assets of offices, etc.</td> </tr> <tr> <td>Electricity supply business</td> <td>3/4 of the tax standards: Value of fixed assets used for generating station 1/4 of the tax standards: Value of fixed assets of offices, etc</td> </tr> </tbody> </table> <p>(Note) Transitional measures will remain the criteria for making divisions in the electricity supply business for a certain period. * Excluding railroad and tram business, gas supply, warehousing, and electricity supply businesses</p>	Type of business	Criteria for making divisions	Non-manufacturing business*	Half of the tax standards: Number of offices Half of the tax standards: Number of employees	Manufacturing business	Number of employees (Corporate person with capital of ¥100 million or more: multiply the number of factory employees by 1.5 times)	Railroad business Tram business	Number of kilometers of extended track	Gas supply business Warehousing business	Value of fixed assets of offices, etc.	Electricity supply business	3/4 of the tax standards: Value of fixed assets used for generating station 1/4 of the tax standards: Value of fixed assets of offices, etc
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Railroad business Tram business	Number of kilometers of extended track												
Gas supply business Warehousing business	Value of fixed assets of offices, etc.												
Electricity supply business	3/4 of the tax standards: Value of fixed assets used for generating station 1/4 of the tax standards: Value of fixed assets of offices, etc												
7. Tax revenue (Amount of settled accounts for fiscal 2005)	4698.4 billion yen (Of the total tax revenue, tax levied at a rate in excess of the norm : 114.5 billion yen (7 local government bodies implemented this rate.))												

Source: Web site of the Ministry of Internal Affairs and Communication

(<http://www.soumu.go.jp/czaisei/czais.html>)

3-5-2 Current issues

(1) Establishing taxation using outward criteria as the tax base.

The introduction of taxation using outward criteria as the tax base in respect of corporate business tax was the result of many years of debate. In the tax reform carried out in fiscal 2003, from the perspective of such factors as securing fairness in respect of the tax burden, clarifying the character of business tax as being proportionately related to profits, providing stability for a major supporting pillar of decentralization, breathing new life into the economy and so on, a system was introduced from fiscal 2004 which made corporate bodies with capital exceeding 100 million yen the objects of the taxation and took the amount of added value plus the capital value as the tax standard. However, cases occurred of corporate bodies that reduced the amount of capital and took themselves out of the range of taxation using outward criteria as the tax base, with the result that an issue that needs to be considered from now on is how the object of taxation can be examined afresh from the point of view of securing fairness in the application of the tax burden, while at the same time taking due account of the situation with regard to capital. Taxation using outward criteria as the tax base aims to correct the situation whereby many corporate bodies do not pay corporate business tax, and at the same time, while reducing the tax burden levied on corporate income, will levy tax on added value. It is a reasonable assumption that there is a need to work hard to ensure acceptance of this tax from the perspective of its relationship to profits.

(2) The mal-distribution of tax revenue

Excluding “tax in excess of the norm” and looking at the amount of per capita tax revenue derived from what are called the two forms of corporate taxation, namely the corporate business tax and the

corporate resident tax, if we take the average over the whole country as 100 and use that as a base, the largest amount found in the settlement amount for fiscal 2005 was that of metropolitan Tokyo at 266.8, while the smallest amount was that of Nagasaki Prefecture at 40.9, representing a difference of 6.5 times. Even when we compare this with the difference of 3.3 times in respect of individual resident tax, or of approximately 2.0 in respect of local consumption tax (after settlement), the extent of the mal-distribution in terms of tax revenue is still very noticeable. In order that local financial policy is in a suitable condition to support a decentralized society, taking the total of local tax revenues after settlement in fiscal 2005 as a base, there is a need to correct the mal-distribution in tax revenues between one local government and another, where the highest figure is 178.8 for metropolitan Tokyo and the lowest figure is 56.6 for Okinawa Prefecture, and out of the many things that need to be done, it can be said that the biggest is that of correcting the mal-distribution in respect of the 2 corporate taxes referred to above.

In terms of specific policies designed to correct the mal-distribution in tax revenue between local governments, as will be explained later, there is a need for radical reform of the taxation system including consumption tax as a national tax, but it has been decided that in a tax reform in fiscal 2008, as an interim measure until a radical reform can be undertaken, a part of corporate business tax will be decentralized in that together with the “special tax on local corporate bodies”, which is a national tax, it will be allocated to general prefectural revenue, instead of being earmarked for a specific purpose, in the form of a newly created “specially transferred local corporate body tax”, with the result that the construction of a local tax system with only a small element of mal-distribution will be taken forward.

Furthermore, in terms of the local tax system, the tax reforms in fiscal 2008 will aim to strengthen local consumption tax within the framework of strengthening local tax revenue as a basis for taking decentralization forward. At the same time, by combing this with a radical reappraisal of the ideal method of levying local taxes, reforms will be promoted that aim to provide a foundation for the construction of a stable local tax system in terms of revenue and with only a small amount of mal-distribution. In line with this basic policy, it will be possible to get to grips with the realization of radical local tax reform including a reappraisal of the ideal method of levying tax on corporate bodies and a strengthening of local consumption tax in the context of radically reforming the tax system including consumption tax

3-6 Local consumption tax

3-6-1 The current situation

.As an integral part of the tax reform carried out in the autumn of 1994 from the perspective of realizing a vibrant and fruitful welfare-oriented society, “local consumption tax” was newly created, in place of the consumption transfer tax that had existed up to that time, from the perspective of aiming to strengthen local tax revenues in the name of promoting decentralization and enriching and strengthening welfare-oriented local society.

Local consumption tax comes in two forms, firstly a transfer levy which takes as the criterion for levying tax the consumption tax value after the consumption tax applied to such actions as stocking goods etc., has been deducted from the consumption tax applied to such actions as transferring goods,

and secondly, a freight levy which takes as the criterion for applying tax the value of the consumption tax applying to taxed freight. An overview of the tax is given in Figure 12.

Figure 12. Overview of Local Consumption Tax

Heading	Contents								
1. Tax levying body	Prefectures								
2. Persons obliged to pay tax (Transaction levy) (Cargo levy)	Persons carrying out the transfer of taxable assets (including the provision of services) Persons receiving taxable goods from a bonded area (place for storing goods imported from abroad before declaring them)								
3. Method of levying tax (Transaction levy) (Cargo levy)	For the present, payable to the state (tax office) together with consumption tax (in principle, payable to prefectures) Payable to the state (customs office) together with consumption tax								
4. Tax standard	Amount of consumption tax								
5. Tax rate	25/100 (Consumption tax rate conversion 1%)								
6. Tax revenue (Amount of settled accounts for fiscal 2005)	2,551.2 billion yen								
7. Settlement	<p>With regard to the equivalent of local consumption tax that is paid by central government, so as to be able to allocate tax revenue to the place where the final act of consumption takes place, settlements take place between prefectures by means of the standards related to consumption</p> <table border="1"> <thead> <tr> <th>Indicators</th> <th>Weight</th> </tr> </thead> <tbody> <tr> <td>Total of annual retail sales amount (Commerce census) and amount of revenue derived from services to individuals (Survey on service industries)</td> <td>6/8</td> </tr> <tr> <td>Population (Population census)</td> <td>1/8</td> </tr> <tr> <td>Number of employees (Establishment and enterprise census)</td> <td>1/8</td> </tr> </tbody> </table>	Indicators	Weight	Total of annual retail sales amount (Commerce census) and amount of revenue derived from services to individuals (Survey on service industries)	6/8	Population (Population census)	1/8	Number of employees (Establishment and enterprise census)	1/8
Indicators	Weight								
Total of annual retail sales amount (Commerce census) and amount of revenue derived from services to individuals (Survey on service industries)	6/8								
Population (Population census)	1/8								
Number of employees (Establishment and enterprise census)	1/8								
8. Grant	<p>Half of tax revenue (after settlement) is given as a grant to municipalities. It is divided proportionally in terms of population and number of employees.</p> <table border="1"> <thead> <tr> <th>Indicators</th> <th>Weight</th> </tr> </thead> <tbody> <tr> <td>Population (Population census)</td> <td>1/2</td> </tr> <tr> <td>Number of employees (Establishment and enterprise census)</td> <td>1/2</td> </tr> </tbody> </table> <p>Amount of the grant in fiscal 2005: 1,249.4 billion yen</p>	Indicators	Weight	Population (Population census)	1/2	Number of employees (Establishment and enterprise census)	1/2		
Indicators	Weight								
Population (Population census)	1/2								
Number of employees (Establishment and enterprise census)	1/2								

Source: Web site of the Ministry of Internal Affairs and Communications

(<http://www.soumu.go.jp/czaisei/czais.html>)

3-6-2 Current issues

Among major local current tax headings, local consumption tax contains only a small element of mal-distribution, and has a high quotient of stability. As seen also from the point of view of the purpose of the creation of this tax, explained in 3-6-1 above, as a tax which can meet a wide variety of administrative demands in fields such as welfare, education, etc., its role will become more and more important, making it very important that it is strengthened. In that context, when we think that

consumption acts are not necessarily carried out within the boundaries of a municipality, and of the connection with tax revenue cultivation efforts such as policies to promote consumption within a local area, it should be considered very desirable to strengthen this tax still further as a major tax heading within the prefectural tax system.

3-7 Fixed assets tax

3-7-1 Current situation

“Fixed assets tax” takes as a standard of tax assessment the value (appropriate current value) of a fixed asset such as land, a house, and a redeemed asset, and as shown in Figure 6-2, is the commonest type of tax heading in a municipality. An overview of this tax is given in Figure 13.

Figure 13. Overview of Fixed Assets Tax

Tax levying body	All municipalities (In the case of Tokyo, the Tokyo Metropolitan Government levies the tax in each of Tokyo’s 23 wards)
Objects on which tax is levied	Land, houses and depreciating assets (Land: 178.37 million house building plots; 60.73 million houses)
Persons obliged to pay tax	Persons in possession of land, houses or depreciating assets (Land: 38.51 million; Houses: 37.99 million; Depreciating assets: 3.86 million)
Tax standards	The value of land, houses and depreciating assets *Land and houses are revalued every 3 years (A revaluation was implemented in 2006)
Tax rate	Standard rate: 1.4%
Tax revenue	8,754.7 billion yen(final settlement of accounts for fiscal 2005)

Note 1: Data other than for tax revenue use actual results from fiscal 2006 as a base.

Note 2: The tax rate limit (2.1%) was abolished by the reform of 2004.

Source: Web site of the Ministry of Internal Affairs and Communications
(<http://www.soumu.go.jp/czaisei/czais.html>).

Furthermore, in relation to fixed assets tax in relation to land, since 1994, what is known as the 70% evaluation has been implemented, and the assessment level has been equalized over the whole of Japan. On the other hand, as the result of using a device of easing the sudden rise in taxation, the level of the tax burden remained scattered as it had been in the past. With this in mind, accompanying the change in the assessment level in fiscal 2006 (implemented every 3 years), it was decided to move one step closer to equalizing the tax burden by maintaining at the same level the tax on land where the level was already high, and reappraising it in a case where the level was low, while aiming all the time at simplifying the mechanism of levying the tax.

3-7-2 Current issues

The fixed assets that are the object of the fixed assets tax are widespread in every municipality in Japan, the tax has a very large element of stability, and the mal-distribution of tax revenue is small, all of which makes it very suitable to be a fundamental tax heading within the framework of municipal tax, and it is necessary to secure it in a stable manner, while continuing to make efforts to increase equalization of the tax burden and the appropriateness of the tax as the foundation of reform.

3-8 Extra-legal taxes

3-8-1 An overview of the system

Local autonomous bodies (= local governments) have the power to establish new tax headings by means of bylaws apart from the tax headings established in the Local Tax Law, and these newly established taxes are called “extra-legal taxes”, which are divided into “ordinary extra-legal taxes” and “special-purpose extra-legal taxes”.

The act of establishing or amending an extra-legal tax is entrusted to the discretion of the local government, but in the event of a local government wishing to establish or to amend an extra-legal tax, it is stipulated that it has to consult in advance with the Minister of Internal Affairs and Communications and obtain the Minister’s agreement. Furthermore, in the event that the population of people who are obliged to pay taxes exceeds a set criterion, the assembly of the local government concerned must be consulted and its opinion heard before a bylaw is enacted.

The Minister of Internal Affairs and Communications must, as stated, be consulted, but except in the event that one of the conditions listed below applies, he must agree to the enactment or amendment of an extra-legal tax.

- (1) a case where the proposed tax is the same as an existing national tax or another municipal tax, or where the burden on taxpayers will clearly become excessively heavy.
- (2) a case where a major barrier to the passage of goods between local governments will be created by the new tax.
- (3) excluding the cases mentioned in (1) and (2), a case where the proposed new tax is inappropriate in the light of national economic policy.

With regard to the system of extra-legal taxes, it should also be noted that by means of the revision to the Local Tax Law contained in the Omnibus Decentralization Law implemented in April 2000, the requirement to get permission from the (then) Ministry of Home Affairs was changed to a requirement to get consent from the Minister, and the conditions of the consultation were considerably truncated so as to cover simply the three points listed above. At the same time, a system of extra-legal special-purpose taxes was newly introduced.

3-8-2 Current condition

The situation of extra-legal taxes established in local governments as of April 2007 is set out in Figure 14.

Figure 14. Overview of extra-legal taxes

Amount of settled accounts for fiscal year 2005: 54.1 billion yen (0.16% of local tax revenue)		
		(Amount of settled accounts for f.y. 2005)
1. Extra-legal ordinary taxes		Unit: billion yen
[Prefectures]		
Gasoline value adjustment tax	Okinawa	1
Nuclear fuel tax	Fukui, Fukushima, Ehime, Saga, Shimane, Shizuoka, Kagoshima, Miyagi, Niigata, Hokkaido, Ishikawa.	17.9
Nuclear fuel handling tax	Ibaraki	2
Nuclear fuel materials handling tax	Aomori	14.5
Temporary special business tax	Kanagawa	10
Total	15 areas	45.3
[Municipalities]		
Gravel collection tax	Joyo City (Kyoto Pref.), Nakai Town (Kanagawa Pref.), Yamakita Town (Kanagawa Pref.).	.04
Tax on possession of vacation house	Atami City (Shizuoka Pref.).	0.6
Historical and cultural environment tax	Dazaifu City ((Fukuoka Pref.).	.05
Tax on spent nuclear fuel	Satsuma-sendai City (Kagoshima Pref.).	0.2
Tax on housing units with extremely small living space	Toshima Ward (Tokyo)	0.5
Total	7 areas	1.4
Grand total	22 areas	46.6
2. Extra-legal special purpose taxes		
[Prefectures]		
Tax on industrial waste (*1)	Mie, Tottori, Okayama, Hiroshima, Aomori, Iwate, Akita, Shiga, Nara, Niigata, Yamaguchi, Miyagi, Kyoto, Shimane, Fukuoka, Saga, Nagasaki, Oita, Kagoshima, Kumamoto, Miyazaki, Fukushima, Aichi, Okinawa, Hokkaido, Yamagata, Ehime.	4.8
Accommodation tax	Tokyo.	1.2
Mt. Norikura environmental conservation tax	Gifu	0.02
Total	29 areas.	6
[Municipalities]		
Tax on pleasure fishing	Fujikawaguchiko Town (Yamanashi Pref.) (*2)	0.02
Tax for the benefit of the future local environment	Kitakyushu City (Fukuoka Pref.)	0.9
Tax on spent nuclear fuel	Kashiwazaki City (Niigata Pref.).	0.5
Environmental cooperation tax	Izena Village (Okinawa Pref.).	0.00
Total	4 areas	1.4 (*3)
Grand total	33 areas	7.5

*1. "Tax on industrial waste" is given many different names by different prefectures, e.g. Tax on the disposal of industrial waste (Okayama), Tax on the burial of industrial waste (Hiroshima), Tax on use of the industrial waste disposal site (Tottori), Tax on reducing the amount of industrial waste (Shimane), and Tax to promote the recycling of resources (Hokkaido). However, since all the taxes have in common a levy on the final disposal of industrial waste, they have been grouped together for the purposes of this paper.

*2. 3 places that formerly levied separate taxes on pleasure fishing, namely Kawaguchiko Town, Katsuyama Village and Ashiwada Village, merged on November 15, 2003.

*3. The figure includes 0.04 billion yen Municipal solid waste burial tax applied by Tajimi City, Gifu Prefecture, until 2006 f.y.

*4. As a result of rounding off, the totals do not necessarily match.

Source: Web site of the Ministry of Internal Affairs and Communications

(<http://www.soumu.go.jp/czaisei/czais.html>).

As will be clear from Figure 14, a large part of prefectural extra-legal ordinary taxes is taken up by energy-related matters, while a large number of extra-legal special-purpose taxes are concerned with industrial waste. As was shown in Figure 4, the three fundamental bases for levying tax, namely income, consumption and property, have already been incorporated into the taxation system, and from the point of view of tax revenue, it would be very difficult to identify a new tax base, which is likely to grow into a large figure. It is considered that the preferred option is to clarify, as one step along the road within the framework of the promotion of decentralization, the relationship between benefits and burdens in the local area concerned, and expectations are attached to the utilization of extra-legal taxes.

3-8-3 Current issues

For local governments, extra-legal taxes widen the spectrum of choice in terms of levying taxes, and extra-legal special-purpose taxes in particular are a mechanism by which the interrelationship between benefits and burdens can be clarified. As referred to in 3-8-1 above, the Local Tax Law was amended by means of the Omnibus Decentralization Law implemented in April 2000, and since then, many local governments have been tackling the creation of extra-legal taxes. Efforts of this kind aim at securing revenue in a way that is in accord with the actual situation of a particular locality, and as such are in principle a development to be welcomed, but it is very important that when the specific step of enacting a bylaw is being considered, cautious and sufficient consideration is given, on the basis of an understanding of the significance of the tax, to preserving the credibility of the tax and to ensuring that it will contribute to the promotion of decentralization. Particularly close attention deserves to be paid to the following points.

- (1) A sufficiently careful examination should be made by the chief executive officer of the local government and by the assembly of that body of the suitability of choosing taxation as a device and of whether there is not some other more suitable device from such perspectives as the objectives of the proposed extra-legal tax and the targets of that tax.
- (2) A sufficiently careful examination must be made, by the chief executive officer and by the assembly of the local government concerned, of such matters as whether the source of tax revenue is able to secure the revenue desired, whether financial demand makes that financial revenue necessary, and whether it has been ensured that there is nothing that is contrary to the fundamental principles of taxation, namely fairness, neutrality and simplicity.
- (3) A decision on the length of time of the imposition of an extra-legal tax, in principle for a set period of time, should be taken only after consideration of such matters as the possibility of a change in national economic policy accompanying a change in the country's socio-economic circumstances, and after consideration is given to the tax revenue situation, financial demand and the burden on residents (taxpayers).
- (4) Sufficient attention should be paid to guaranteeing the suitability of the procedures concerned with the establishment of an extra-legal tax, and with ensuring that an adequate explanation is given in advance to all those concerned, including taxpayers. In particular, efforts should be made to acquire the understanding of taxpayers especially in cases where the tax is imposed on special groups or minority groups.

4 The current situation and current issue in relation to local tax administration

4-1 The current situation

There are various possibilities regarding what to select as indicators of the current situation of local tax administration in Japan, but the 3 indicators used in this paper, chosen from the point of view of the circumstances of receiving payment, are 1) the percentage of tax collected, as a percentage of the total collectable amount, 2) the amount of tax payment that is in arrears, and 3) the deficit that is written off as non-collectable.

4-1-1 The percentage of tax collected

The “percentage of tax collected” denotes the amount of tax actually collected as a percentage of the amount of tax that it was estimated would be collected (more specifically, “estimated” refers to the action taken by the chief executive officer in making a decision on the amount of money to be collected after investigating the content of the annual revenue at the point when the local government is making preparations for the collection of annual tax revenue).

Changes in the percentage of tax collected in prefectures and municipalities, using the final settlement figures as a base, from fiscal 2000 through fiscal 2005, are shown in Figure 15.

Figure 15. Changes in the Percentage of Local Tax Collected

1. Prefectures

Unit: %

Fiscal year	Tax collected in the current year	Portion carried forward from previous years	Total collected
2000	98.6	22.5	95.5
2001	98.6	21.8	95.6
2002	98.4	21.4	95.0
2003	98.6	22.3	95.3
2004	98.7	22.5	95.7
2005	98.9	23.9	96.3

Note: The calculations exclude local consumption tax.

2. Municipalities

Unit: %

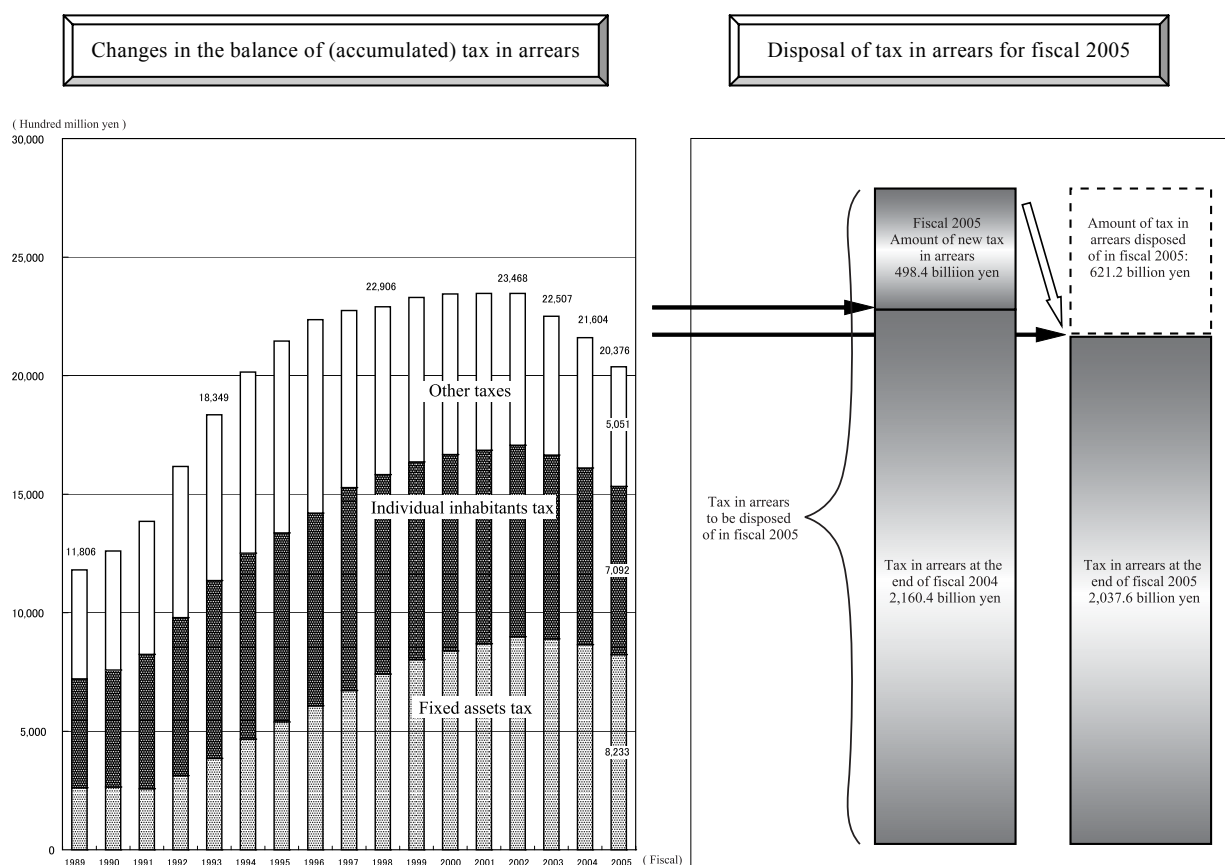
Fiscal year	Tax collected in the current year	Portion carried forward from previous years	Total collected
2000	97.9	17.2	92.0
2001	97.9	16.9	92.0
2002	97.8	16.5	91.8
2003	98.0	17.5	91.8
2004	98.1	17.6	92.1
2005	98.2	18.8	92.7

Source: Ministry of Internal Affairs and Communications, ed, White Paper on Local Public Finance, 2007

4-1-2 The amount of tax payment in arrears

If we take the percentage of tax collected as an indicator for evaluating the annual flow of tax revenue within the taxation circumstances of the local government concerned, then the amount of tax payment that is in arrears can be seen as an indicator for evaluating the stock aspect of the tax situation. Tax that is in arrears after the deadline for tax collection has passed is the total of the uncollected amount for the current year that will be carried forward to the next fiscal year plus the amount uncollected from previous years. More specifically, Figure 16 shows the changes in the balance of accumulated tax in arrears over the years.

Figure 16. Changes in the Balance of Local Tax (Accumulated Tax) in Arrears



- Notes: 1. After excluding the amount of tax collected from the estimated amount, the figures show the total of the amount of tax in arrears in the current year and the amount in arrears accumulated from previous years.
2. The amounts include tax payments halted in the course of implementation as well as the amount in arrears prior to a reminder letter being sent, but do not include delayed payments or additional charges for being in arrears.

Source: Web site of the Ministry of Internal Affairs and Communications

(<http://www.soumu.go.jp/czaisei/czais.html>)

At present, at the end of fiscal 2005, the amount of tax in arrears was 492.4 billion yen in the case of prefectures, and 1,545.2 billion yen in the case of municipalities, making a total of 2,037.6 billion yen for tax arrears as a whole. Looking at changes in past years, the peak years were fiscal 2001 and

2002, when arrears amounted to 2,346.8 billion yen, since when the amount has declined. However, in contrast to fiscal 1989, when the figure for tax arrears was 1,180.6 billion yen in relation to total tax income of 31,795.1 billion yen, the figure for tax arrears in fiscal 2005 was 237.6 billion yen in relation to total tax income of 34,804.4 billion yen. Specifically, these figures mean that over a time span of 16 years, tax income increased 1.09 times, while the amount in arrears increased 1.73 times, in other words, the amount of local tax in arrears showed a relative increase.

Moreover, if we look at the figures by tax heading, at present, at the end of fiscal 2005, fixed assets tax is the largest amount at 823.3 billion yen, accounting for 40.4% of the total of local tax in arrears, and of this total, 53.3% represents municipal tax in arrears. The next highest figure is 709.2 billion yen for individual resident tax (made up of 209.5 billion yen for prefectural tax and 499.7 billion yen for municipal tax, together accounting for 34.8% of local tax in arrears. The prefectural individual resident tax is in arrears by 42.5%, putting it into first place in prefectural taxes. On the other hand, the municipal resident tax is in arrears by 32.5%, putting it into second place in municipal taxes”.

4-1-3 The non-collectable deficit

When the amount of local tax to be collected has been decided, it is either collected or, after implementation of the collection of the arrears has failed for 3 successive years (Local Tax Law, Article 15, Clause 7, 4), the amount is disposed of in the local government accounts as non-collectable tax arrears by eradicating the obligation to pay. Specifically, what lies behind the percentage of collected tax described in 4-1-1 is the amount written off as non-collectable, making it impossible to grasp the actual state of affairs simply by looking at the percentage collected.

As far as national taxes are concerned, statistics concerning the non-collectable deficit have long been made public, but until recently, comparable statistics for local taxes covering the whole country did not exist. In this situation, the Ministry of Internal Affairs and Communications carried out in August 2006, with the objective of enabling people to grasp the real state of affairs with regard to local taxes, a survey to ascertain the deficit of uncollectible arrears in every local government throughout the country from fiscal 1999 through fiscal 2004, and the results of this survey are shown in Figure 17.

Figure 17. Changes in the amount of the non-collectable deficit

Unit: billion yen

	f.y. 1999	f.y. 2000	f.y. 2001	f.y. 2002	f.y. 2003	f.y. 2004
Prefectural share	70.3	69.4	75.7	78.0	68.1	70.4
Municipal share	109.4	124.5	131.9	149.5	148.5	155.7
Local tax amount	179.7	193.9	207.6	227.5	216.6	226.1
Percentage of tax collected	0.51%	0.55%	0.58%	0.68%	0.66%	0.67%

Notes:1. The amounts shown indicate the non-collectable deficit (i.e. tax arrears that are written off) and do not include delayed payments or additional charges for being in arrears.

2. The national health insurance tax charge is not included.

Source: Extracted from: Chihou-zeimu Kenkyuu-kai, ed. (July, 2007), Chihou-zei kankei shiryuu handobukku (Heisei 19-nen), [Handbook of documents concerning local tax (2007 edition)].

According to the details shown here, the simple average figure for the non-collectable deficit in local taxes from fiscal 1999 through fiscal 2004 was 208.6 billion yen, and in the same way, the average of the non-collectable deficit as a percentage of collected taxes is 0.61%. The figure for the non-collectable deficit as a percentage of the collected tax in a particular fiscal year becomes greater in a year subsequent to the year in which the tax was levied, hence it is not necessarily appropriate to use the expression “non-collectable arrears ratio”. However, by doing a reverse calculation using the simple average of 0.61% referred to earlier, it can be deduced that it is possible to speak of a percentage of 99.3% of local tax as having been collected.

4-2 Current issues

The current state of local tax administration is as shown above from the perspective of the collection of local tax, but local finances remain in a very serious condition, and increased efforts aimed at securing revenue are expected of every local government. In addition, as explained in 3-3-2, through such measures as implementing by means of the tax system revision a transfer to individual resident tax to the extent of 3,000 billion yen, the role of local tax, representing as it does the autonomous tax of local governments, is getting steadily larger, and at the same time, it has become even more necessary than in the past for every local government to secure the trust of taxpayers in their impartiality and fairness. With this point in mind, it is reasonable to presume that from now on, there will be a heightened necessity to promote tax collection even more strongly and to prevent tax evasion and people falling into arrears with their tax payments.

Against this background, this paper will look from two perspectives at the various advanced strategies directed toward strengthening the collection of local taxes within the framework of the local tax system currently operated in Japan and the issues they raise, namely “adjusting and strengthening the tax collection environment” and “arranging and strengthening an efficient tax collection system”.

4-2-1 Adjusting and strengthening the tax collection environment.

Payment of local tax in Japan can be made by presenting oneself at the appropriate counter in a local government office and paying directly, or by making a cash transfer or an automatic transfer at a bank or post office. Recently, there have been demands for it to be easier to pay tax without having to choose a particular place and time and without being restricted by opening hours within which to make a payment at an office counter or at a financial institution.

(1) Entrusting tax collection to convenience stores

From the point of view of making payment more convenient for taxpayers, an increasing number of local governments are entrusting receipt of tax payments to convenience stores, which never close and which will receive payments even at dead of night. According to a survey implemented on July 1, 2006, by the Ministry of Internal Affairs and Communications (Survey on tax payment and tax collection in respect of local tax), 23 prefectures and 102 municipalities were implementing such a scheme, and a further 11 prefectures and 82 municipalities had specific plans to introduce one. Furthermore, the processing costs involved in entrusting receipt of tax payments to convenience stores amounted according to a survey of local governments that had completed implementation (results

limited to answers received) to an average of 58.6 yen per case. It is reasonable to argue that from the point of view too of proof of cost-effectiveness, corresponding to the actual situation of local governments, including such factors as the geographical location of convenience stores, there was a need to examine utilizing such stores to collect tax payments.

Looking at the tax headings in respect of which convenience stores are used for collection of tax payments, taxes on cars (prefectural tax) and light cars (municipal tax) form a majority, and there are more than just a few local governments which utilize this method to collect fixed assets tax (municipal tax). And in connection with the time limit for collecting a particular tax, there are local governments which allow convenience stores to collect tax only up to the limit of the date set for collection, but on the other hand, there are local governments which continue to use convenience stores as a vehicle for collecting tax in respect of those taxes where the tax rate is very low, such as taxes on light cars, up to a set date within which period it is permitted to discard small amounts of tax arrears in the context of fractional calculations. Either of these methods is possible, and each local government has to make an appropriate judgment, taking account both of the need to strongly encourage taxpayers to pay tax within the specified limits, and of the risk of continuing arrears resulting from a decision to stop convenience stores from collecting the said tax.

(2) Utilizing a multi-payment network

“Multi-payment network” (hereafter, MPN) designates a private-sector settlement base, whereby institutions receiving payment are linked in a network to financial institutions, and taxpayers can make public service payments using different kinds of channels, including ATM in financial institutions, the telephone and personal computer, and the payment information can be received immediately by the institutions. “Pay-easy” is the name given to the service of receiving payment through the MPN.

The fact that it is now possible for taxpayers to pay their local taxes and other dues without being restricted to choosing a particular time or place, by using an ATM, a cell phone, or some other medium, to connect to or respond to the local government payment receipt system linked to the MPN, has markedly increased the convenience of the system for taxpayers.

According to the Ministry survey referred to above, 10 prefectures and 3 municipalities have already introduced the MPN system, and a further 9 prefectures and 8 municipalities have specific plans to introduce it.

There is a cost problem in terms of the cost needed to improve the system so that it is MSN-compatible, but on the basis of the fact that payment through the MPN is now becoming an indispensable condition for payment of car tax, car acquisition tax etc, in the context of a one-stop service for car-related matters, or that the mobile banking service by means of financial institutions has become widespread, positive steps aimed at examining the introduction of the MSN service can now be thought of as a necessity.

(3) The introduction of electronic application

In the area of facilitating the filing of tax reports by electronic means, the introduction of what is termed “electronic tax reporting”, comprising a local tax portal system (eLTAX : <http://www.eltax.jp/>), managed by the Association of the Promotion of Tax-online in Local Government, has now begun operating in all prefectures, all designated cities and a number of general municipalities in respect of

corporate business tax (prefectural tax), corporate residence tax (prefectural and municipal tax) and fixed assets tax (municipal tax, but only in respect of depreciating assets).

Electronic filing of local tax reports means that it is possible to carry out tax filing operations from one's office or other location without having to go to the counter of a tax office, and by means of the automatic insertion of tax headings, the automatic calculation of amounts of tax, and so on, filing tax reports has become a much more accurate and simpler procedure. Moreover, by making use of the portal system, it is no longer necessary to submit reports to different locations, because it is possible for the system to carry out automatic sorting and transmission to different local government bodies; in ways such as these, it has a great effect in terms of enhanced convenience for the taxpayer. From now on, it will clearly be important to look for ways of further promoting the use of eLTAX, such as increasing the number of municipalities that make use of the system, expanding the tax headings and procedures that can be handled by the system, and simplifying still further the procedures for making use of the system.

(4) Payment of taxes by use of a credit card

Efforts to raise the level of convenience for taxpayers by approving the use of credit cards for the payment of local taxes are another useful device for securing tax payments. There are already a number of local governments which are implementing payment of tax by the use of credit cards for the payment of tax, albeit in the form of practical research trials, in respect of light car tax, and there are also local governments which have plans to expand the number of tax headings as targets for this means of payment. As indispensable prerequisites for permitting the receipt of tax payments by the use of credit cards (including the affirmation of trust vis-à-vis credit card companies, a broad division can be made into the 4 sets of factors listed below.

- (i) A tried and trusted method of inputting and transmitting the credit card number of the taxpayer concerned.
- (ii) A method of having the credit card number, and other details of the taxpayer registered by means of the application document with the local government office, and affirming such registration within a set period of time.
- (iii) A method of receiving credit card details at the appropriate counter in a tax office or other building, and of enabling staff to validate the details provided by the installation of suitable equipment.
- (iv) A method whereby an official who visits the home of someone who is in arrears with their tax payments can receive credit details and validate these by means of a call by cell phone to the tax office concerned.

The practical research trial mentioned above as having been carried out recently was a case study for (i) above, and it can be said that on the basis of being able to make a tax payment without being restricted to a specific time and place, effectiveness analogous to that of MPN in (2) above could be obtained, but on the other hand, in order for an actual tax payment to be made to the tax office by the use of the internet, it is necessary to give sufficient consideration to guaranteeing ways of dealing with the credit card details and other personal information pertaining to the taxpayer and to guaranteeing the genuineness of these details. Furthermore, it is reasonable to presume that the cost of equipping every local government office with a system for receiving tax payments via the internet will be considerable,

consequently there is a need to examine ways of trying to reduce costs by such ways as the choice of an appropriate service provider.

With regard next to method (ii) referred to above, there is the advantage, as well as being able to obtain an effect analogous to that of a transfer from one account to another, of being able to avoid the state of affairs of being unable to make a transfer because there is an insufficient balance in the account, as can be experienced when making a money transfer.

On a different point, with regard to personal interaction situations as described in (iii) and (iv) above, as of March 2007, there is no information on any studies having been implemented, but recently, with regard to (iv) above, some local governments are examining the possibility of implementing this method, because even if a cash payment cannot be made when an official from the tax office makes a house call, there is the possibility of arranging for the tax payment to be made, by means of a credit card, by the person who is in arrears.

A fair conclusion is that it is necessary to make an appropriate decision on the use of a credit card to pay tax while treating other advanced case studies as a base and while considering and making a cautious examination of a number of issues. These include looking at various handling charges and trying to keep a balance between them as well as trying to define the ideal handling method, also the cycle of tax payment from presentation of a credit card to payment by the credit card company to the local government concerned.

4-2-2 Arranging and strengthening an efficient tax collection system

(1) Entrusting work to the private sector

There is usefulness in utilizing private sector businesses that have the necessary know-how regarding tax collection, and in this way trying to raise the level of ability in terms of tax collection and make the business of collection more efficient. In this section, I would like to look at entrusting to the private sector the work of inducing those who are in arrears to pay their taxes.

Essentially, if a taxpayer does not complete payment of tax within the set payment period, an official charged with tax collection duties in the local government office concerned will issue a reminder letter on the basis of regulations set out in laws and government orders, and must then go on, provided that certain set conditions are fulfilled, to distrain the property of the tax defaulter. Pursuing this issue, in the area of what is termed disposal of tax arrears, including enquiry by means of a questionnaire or a search of property, very strong powers, depending on the nature of the tax default involved, are permitted to be exercised, and the right to implement these powers is limited to tax officials.

Looking at the above from another angle, the actual situation in a tax office is that before reaching the stage of exercising the strong powers referred to above, all kinds of methods, including letters, telephone calls and home visits, are carried out as part of the process of tax collection, and the clerical workload involved is given considerable weight within the context of tax collection policies. Recently, it has come to be seen as useful, from the perspective of enabling tax officials to work in a more concentrated and effective way on work that requires the exercise of public authority, to entrust as far as possible tasks that do not have to be implemented specifically by tax officials to people other than

such officials, including the utilization of part-time and private sector workers.

Three such areas of tasks are now introduced.

(i) The work of printing, preparing and putting into envelopes notification and reminder letters.

According to the Local Tax Law, a “reminder letter” is a necessary precondition to implementing the disposal of tax arrears, and it is stipulated that such a “reminder” must be conveyed in written form and not by word of mouth. The implementer of such a reminder must be a tax official, but it is not stipulated that the various tasks concerned with the implementation must be carried out exclusively by a tax official. With this in mind, after taking any measures necessary to safeguard the privacy of individual information, there is no objection to entrusting the work to the private sector, including conversion into figures of the tax amount due, printing, compilation, insertion into an envelope, and dispatch of the reminder letter.

There are also many cases in which, quite apart from the “reminder letter” defined in laws and government orders, attempts are made by means of written documents, such as a demand letter, a final demand letter, a warning of impending distraint of property, and so on, to obtain payment of tax arrears, and it is possible to entrust the private sector with the clerical tasks associated with such written documents in the same way as with the reminder letter.

According to the Ministry survey, the tasks connected with the written documents mentioned above, including the conversion into figures of the tax amount due, are currently entrusted to the private sector by 36 prefectures and by 473 municipalities out of the 1,842 municipalities surveyed, showing that utilization of the private sector is being taken forward on a wide front.

It is fair to say that there is now a need to examine how to select the most effective method of entrusting work to the private sector, taking into account the actual situation of the work in each local government.

(ii) Tasks involved in telephone calls urging voluntary payment of arrears.

In addition to letters to the defaulting taxpayer in the form of reminders and demands, widespread use is also made of telephone calls to inform the taxpayer of the actual situation and urge voluntary payment of the arrears of tax. Among the various tasks involved that are not exclusively restricted by law to tax officials, are telephone calls to the defaulting taxpayer to convey information about the existence of tax arrears and the amount due in respect of local tax, as well as to urge the taxpayer to make payment voluntarily, and to confirm the taxpayer’s intentions regarding payment and the projected date of payment, and to make a record of information submitted of the taxpayer’s own volition, and it is possible to have such tasks implemented by entrusting them to private sector agencies. There is also no objection, in line with enquiries made of the tax defaulter, to a private sector representative giving an objective explanation to the taxpayer of such matters as the basis of the tax demand, and the system of the disposal of tax arrears.

On the other hand, on the basis of the fact that the authority to ask questions designed to ascertain the financial circumstances of the tax defaulter is vested exclusively in tax officials (National Tax Collection Law (Law No. 147, 1959) Article 141), the task of putting such questions cannot be delegated to the private sector. Nor is it appropriate for tax negotiations on such matters as approval of payment of the tax by installments to be comprehensively delegated to the private sector, since the

power to delay local tax payments is vested in the chief executive officer of the local government concerned (Local Tax Law, Article 15).

One sophisticated measure that can be cited involves preparing one room in the city hall as working space, and then receiving a worker who is possessed with know-how in making tax collection telephone calls and who has been dispatched by a private-sector agency. The job of the worker is to telephone the home of the tax defaulter and to try and induce him or her to make a voluntary tax payment. In this example, the worker dispatched by an agency is under contract to the local government, and is subject to directions given by the local government. Necessary measures are taken to prevent the leakage of private personal information, including a check of the times when the worker enters or leaves the working room, enforcement of a prohibition whereby the worker may not take private possessions into the working room, and periodically implemented training of the dispatched worker by tax officials. There have been a number of positive evaluations of cases where tax has been paid as a result of telephone calls made in the early stages of tax default for relatively small amounts of tax after a tendency to rely on written notification letters.

It is a reasonable assumption that it would be useful for every local government, in line with actual circumstances, to utilize private-sector businesses, while taking as a base the kind of case study outlined above, and while taking necessary measures to safeguard personal information.

(iii) Work involved in making home visits with the aim of inducing the voluntary payment of tax arrears.

There are many cases where a taxpayer remains in default even after written notifications and telephone calls, and in those cases, attempts are made to solicit payment of tax by visiting the taxpayer's home and meeting the defaulter directly. As in (ii) above, in the case of a home visit too, such matters as giving an explanation to the tax defaulter of the nature of the default and the amount due, encouraging voluntary payment of the tax, and ascertaining the intentions of the tax defaulter and the intended date of settlement, are not restricted by law to tax officials, and it is possible to entrust these matters to the private sector.

However, unlike attempts to induce voluntary tax payment by means of telephone conversations conducted from within a tax office, because home visits take place in the home of the defaulting taxpayer, personal information about that person is disseminated outside the boundaries of the tax office building. It follows that in a case where consideration is being given to entrusting home visits to the private sector, absolute guarantees must be sought from the perspective of the suitability of the private-sector service provider and the safeguarding of private personal information.

As of March 2007, no local government was entrusting home visits to the private sector, but there were many cases of local governments utilizing persons with special knowledge of tax collection who were employed on a part-time basis. Furthermore, any private care employees making home visits must always have with them and show a certificate of attestation from the city office. Along with this, there are local governments which are examining whether they can entrust home visits to the private sector provided that various conditions are met. These include ensuring that the information taken on the visit by the person making the visit is limited to the absolute minimum necessary, and is put in a bag equipped with GPS (Global Positioning System) so that in the event that the bag is forgotten, mislaid or

stolen, there is a possibility of retrieving the information.

(2) The establishment of partial-affairs-associations and wide area unions which carry out the collection tasks involved in collecting arrears of tax.

A basic principle of local tax is that the local government with the authority to levy tax is of its own volition brought face to face with local residents in the process of tax collection. However, elements of the process of disposing of tax arrears, such as investigations into the financial affairs of a tax defaulter, and the distraint and public auction of property, are things that required a great deal of accumulated knowledge and experience, and particularly in the case of small-scale municipalities, there are a significant number that have difficulties in finding people with the requisite know-how. In these circumstances, in order to implement the disposal of tax arrears in a more sophisticated and effective way, numbers of municipalities or all the municipalities within a prefecture establish a partial-affairs-association or a wide area union to carry out the business of disposal of tax arrears. In particular, examples of forced collection in cases where the forced collection of taxes is difficult are on the increase, and in the face of this phenomenon, according to the Ministry survey, there are 20 partial-affairs-associations and 1 wide area union (Furusato wide area union in the central part of Tottori Prefecture) in the country as a whole set up to deal with the disposal of tax arrears.

Recently, taking the case for example of the “Wakayama Local Tax Collection Organization” established in April 2006, the result of a notification to tax defaulters that matters concerning collection of their taxes were being transferred to the newly established office was that about 200 million yen was paid over the counter in local city, town and village tax offices, and about a further 900 million yen was promised, providing evidence of a rise in effectiveness. And in the case of the “Ibaraki Tax Claim Control Organization”, an example of a sophisticated organization working in this field established in April 2001, reports have been made of the same kind of effectiveness; in fiscal 2004, the amount of tax paid simply as a result of a preliminary warning is said to have amounted to 2.3 billion yen.

With regard to the effect produced simply by issuing a transfer notification, looked at from the reverse perspective, it is not out of the question to say that in a sense, the amounts collected by various municipalities are the other side of the coin in terms of local tax having been lightly treated by tax defaulters, but from the perspective of treating with fairness and impartiality the many taxpayers who do pay their tax within the stipulated period, and of securing trust in the local tax system, it is reasonable to think of the measures outlined here as receiving a high measure of approval.

However, even if one can say that the system has been strengthened vis-à-vis tax defaulters by the creation of wide-area type groupings, in the final analysis, it is individual local governments which have the authority to levy and collect taxes, and it is not desirable for local governments to become facilely dependent on the kind of groupings referred to here for the collection of local taxes. In the first place, an important precondition is that the tax collection ability of individual municipalities is exhausted, and if after that, the local governments concerned utilize a system of making joint efforts to collect tax arrears in difficult cases, then that can be considered desirable.

(3) Personnel transfer of tax officials

In the context of raising the level of the tax officials who are responsible for tax collection, and of taking forward the strengthening of tax collection policies through the formation of groupings that

extend over a wide area, personnel exchange of tax officials among local governments can be considered a significant measure.

According to the survey of the Ministry of Internal Affairs and Communications, 35 prefectures and 439 municipalities implement personnel exchanges with other local governments. Of these numbers, in the case of prefectures, 26 dispatch officials to cities, wards, towns and villages within the area of the prefecture, while on the other hand, there are 26 prefectures which receive officials dispatched by cities, wards, towns and villages within the prefectural area, and there are 10 prefectures which dispatch officials to bodies such as the partial-affairs-associations mentioned in (2) above. Furthermore, in the case of municipalities (=cities, wards, towns and villages), there are 267 which receive officials dispatched by prefectures, 169 which dispatch officials to prefectures, 65 which dispatch officials to bodies such as the partial-affairs-associations referred to in (2) above, and 24 which receive officials from other municipalities within the same prefecture.

As one device employed when personnel exchanges of tax officials take place between prefectures and municipalities, there are cases where by giving orders simultaneously for a prefectural official to be dispatched to a city, and for a city official to be dispatched to a prefecture, the procedures used in tax collection policies in both prefectures and municipalities can be utilized.

(4) Using part-time employees or fixed-term contract employees

In local tax collection offices too, it is very difficult to increase the number of general full-time employees in a context of administrative reform and management of staff capacity. In these circumstances, widespread use is being made of part-time staff.

According to the Ministry survey referred to earlier, looking first at the prefectural level, 23 prefectures are using temporary or part-time employees in general posts, and 16 prefectures have appointed part-time contract employees in special posts. In terms of examples of the types of duties carried out by these part-time staff, 16 prefectures use them for supplementary work that arises when tax officials are implementing distraint procedures, 13 use them for work concerned with inducing tax defaulters by home visits and other means to make voluntary payments settling their tax arrears, 13 use them for tax collection work, and 12 use them for such work as printing, stuffing in envelopes and dispatching tax notifications. And looking at the situation at municipal level, 447 municipalities have appointed part-time staff in general posts, and 331 are using part-time staff in special posts. In terms of the types of work they do, the largest number, 552, use them for work concerned with receiving tax payments, 439 use them for duties concerned with inducing taxpayers to make voluntary payments of tax, 195 use them for such work as printing, stuffing in envelopes and dispatching tax notifications, and 135 use them for supplementary work that arises when tax officials are implementing distraint procedures.

On the question of the use that can be made of part-time employees, regardless of whether they are in general or special posts, they cannot be appointed to posts where the occupant is responsible for exercising extreme authority in such cases as disposal of tax arrears or to posts where the tax collection is intimately linked with highly confidential personal information about the taxpayer. The reason for this is that regulations in the form of provisions, backed by the Penal Code, found in the Local Public Service Law (Law No. 261 of 1950) concerning the obligation to strict secrecy and very severe service

regulations are not applicable to such part-time employees in specialized posts, and because it is also generally understood that part-time employees in general posts too cannot fundamentally be given such duties, with the exception, as will be explained later, of persons who are re-employed for short-term periods or who are employed on the basis of a short-term, fixed-term contract.

In recent years, a number of legal regulations have been strengthened from the perspective of the diversification of patterns of employment. Specifically, the new provisions provide for the re-appointment of people after retirement on age grounds (Local Public Service Law, Article 28, 4) and for re-appointment on a short-term basis (ibid, Article 28, 5); under these Articles, a local government can reappoint people after they have retired on the basis of a set age for retirement. Persons can also be re-employed on the basis of a fixed-term contract (Law concerning Fixed-term Employment by Local Public Bodies for General Posts (Law No. 48, 2002), Articles 3 and 4), and on a short-term contract (ibid, Article 5). Thanks to these laws, a number of cases can now be found of the employment of persons with experience of national and local tax systems in tax collection. According to the Ministry survey referred to earlier, at prefectural level, 18 prefectures are using a re-appointment system of people who retired on age grounds, 12 prefectures are re-appointing people to work as officials on a short-term contract system, and 7 prefectures are appointing people on fixed-term contracts. And at municipal level, 64 municipalities are using a fixed-term contract system, 48 are using a system of reappointing people after retirement on age grounds, 28 are using a system of re-appointing people on short-term contracts, and 23 are employing people on fixed, short-term contracts.

By using a diversity of patterns of appointment and employment as shown here, it is possible to anticipate positive effects as a result of such phenomena as the widening utilization as tax officials of people with the necessary technical know-how in tax-related affairs. And by the use of short-term fixed-term contracts, it is possible to rearrange the system of working hours to include night work and work on public holidays. Accordingly, it is expected that the various systems will be positively utilized so as to cater for municipalities in which there is a need for this kind of flexible working.

(5) Other matters

(i) Unified payment of other public dues

Public funds claimed by local governments from residents are not limited to local taxes, but include such examples of national tax payments as national health insurance, care for the elderly, pre-school care, and so on, authority to implement the collection of which is assigned to the local government, and a wide variety of other payments such as public housing residents' fee, school meals fee, and loans. A significant number of local governments are experiencing problems because of an increase in the number of defaulting cases and the number of people who are in default with payments.

Until recently, different departments were responsible for collection policies in respect of each of these different payments, but with the aim of putting in place a more efficient and a more effective system, responsibility for collecting arrears is now being transferred in an increasing number of cases to one unified collection point, where people with specialized knowledge of tax collection can also collect all the other public service payments that have to be made in addition to local taxes. According to the Ministry survey, there are currently no prefectures operating this system, but 344 municipalities are implementing a unified system of collection of local taxes and other public service payments.

As explained above, among public service payments in addition to local tax are some examples of national taxation like national health insurance payments, authority to collect which is delegated to the municipality, and others where such authority is not so delegated. On the issue of people who get into arrears with their payments, including local tax, it is not expected that in such cases, even if payments are unified, the effect will be particularly great. In addition, in the case of a person who is behind with multiple payments, there is the problem, when some money is available for repayment, of which demand to pay off first. That said, from the perspective of firmly securing local government income, the unification of payments can be considered a significant measure as one link in efforts to secure public service payments other than local tax.

(ii) Taking over individual prefectural tax from municipalities

With regard to individual prefectural tax, taking into account the costs of tax collection and the burden on the individual, it is usual for municipalities to collect this tax at the same time as collecting municipal tax (Local Tax Law, Article 41, 1). However, in cases where set conditions are satisfied, it is possible for arrangements to be made whereby the prefectural governor, after obtaining the agreement of the mayor of the municipality, can directly collect prefectural tax together with municipal tax or dispose of tax arrears (*ibid*, Article 48, 1 and 2). Taking over the payment of prefectural tax from municipalities has been made easier through the tax system reforms of 2005 referred to earlier, whereby the conditions for implementing this procedure were relaxed.

Whether or not for that reason, according to the Ministry survey, whereas in fiscal 2003, only 11 prefectures availed themselves of this procedure, the number subsequently rose steeply to 31. It can be seen as a desirable development for the future if as a result of efficient liaison between prefectures and municipalities, efforts are made to strengthen the collection of arrears in respect of individual resident's tax, the tax heading with the next largest amount of arrears following fixed assets tax, as referred to in 4-1-2 above.

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16. Top page of the section on the tax system on the web site of the Ministry of Finance, Japan, (Japanese only) (<http://www.mof.go.jp/jouhou/syuzei/syuzei.htm>) .
17. Top page of the el.TAX portal web site (Japanese only) (<http://www.eltax.jp/>)