

Contents

<i>List of Figures</i>	xvii
<i>List of Tables</i>	xix
<i>List of Abbreviations</i>	xxiii
<i>Introduction</i>	xxv
I. Overview	1
1. General Characteristics of the Tax System	3
2. Background of the Japanese Tax System	16
3. Two Strategies of Postwar Tax Policy	36
4. Tax Administration and Tax Equity	53
II. Individual Income Tax	73
5. Basic Structures	75
6. The Erosion of Individual Income Tax	94
7. Inflation Adjustments	110
8. The Taxation of Investment Income and Savings	130
9. Effects of Taxation on the Distribution of Income	147
III. Corporate Taxation and Taxes on Capital	165
10. Principles of Corporate Taxation	167
11. Corporate Tax Levels and Tax Incentives	187
12. Inheritance and Gift Taxes	204
13. Land Tax Reform	219
IV. Indirect Tax System	249
14. The Traditional Framework of Indirect Taxes	251
15. The Value Added Tax	268
16. Design of Environmental Taxes	300

V. Recent Tax Developments	317
17. Rebuilding the Tax System	319
18. Local Taxation and Intergovernmental Fiscal Relations	349
19. Appraisal and Further Reform	383
 <i>References</i>	 397
<i>Name Index</i>	409
<i>Subject Index</i>	411

General Characteristics of the Tax System

The purpose of this chapter is to provide a brief overview of the tax system in Japan. In general, a tax system presents certain significant features which have a close bearing on the workings of the economy in which it operates. What, then, are the general characteristics of the Japanese system? To answer this question, three important areas must be covered before beginning to consider major issues.

First, a brief description is given of the evolution of the prewar and postwar tax systems. Second, three main features in tax levels and structure are explored. Lastly, several notable aspects of tax process and administration are examined as a preliminary step for further analysis.

HISTORICAL BACKGROUND

Modernizing the Tax System

The origin of a modern tax system in Japan can be dated to 1887, when the national government instituted an income tax. Although this took a truly modern form only in 1940, Japan is thus counted as a pioneer in the use of the income tax. However, since the Japanese economy was at that time still underdeveloped, the income tax played only a minor role in total national tax revenues (say, 1.5 per cent in 1888).

Before the income tax became predominant in the tax system as a whole, the main revenues for the national government were raised first from a land tax, and then from indirect taxes. In fact, the land tax accounted for the largest share of national taxes until 1908, after which time the primary source was revenues from indirect taxes, mainly on alcoholic beverages and tobacco. Only after 1935 did income tax on individuals and corporations become the most important single source of total revenues. In short, before the Second World War the Japanese government relied mainly on indirect taxes, deriving more than two-thirds of its total revenue from them.

In 1940 an overall tax reform was carried out to prepare for the wartime economy. The whole tax system was thoroughly overhauled, resulting in the modern tax system, based mainly on direct taxes. Although individual and corporate incomes had been taxed together by a single form of income tax, in 1940 separate taxes were imposed for each type of income. Since then, individual and corporate income taxes have coexisted in the tax system.

The individual income tax was a schedular tax, under which different sources of income were levied by different tax rates. It was supplemented by a progressive

comprehensive tax which applied to an individual's aggregated income above a specific amount. On the other hand, the corporate income tax was imposed on corporate income at a flat rate of 18 per cent. Moreover, the commodity tax was introduced in 1937 mainly to collect revenue for wartime expenses, and the tax on alcoholic beverages was also simplified in 1940. The relative share of indirect taxes, however, began to decline as a result of the 1940 tax reform.

Evolution of the Postwar Tax System

The process of developing the tax system in postwar Japan was initiated by the USA. In 1947, several important reforms were undertaken under the influence of the US occupation authorities. The schedular tax on individual income was replaced by a unified tax on an aggregate basis with graduated tax rates. Furthermore, a turnover tax, which was levied on the basis of the sales amount at every stage of transaction at the rate of 1 per cent, was enacted in 1948 to collect necessary revenues.

In 1949 a tax mission headed by Carl S. Shoup came to Japan with the task of reorganizing the tax system as a whole. The Shoup Mission recommended a tax plan intended to achieve a complete overhaul of the Japanese system. Essentially, the Shoup recommendations placed more importance on direct taxes, mainly income taxes on individuals and corporations. Thus, the entire tax system was fully reconstructed producing epoch-making change. However, the ideal tax system achieved by the initiative of US influences was of temporary duration: many of the taxes were abolished or modified soon after their enactment. Hence it is necessary briefly to describe the post-Shoup evolution of four major taxes.¹

First, and most importantly, comprehensive income taxation has been replaced by a combination of a comprehensive tax and a schedular tax. This hybrid system was produced as a result of modifying the global income tax approach of the Shoup proposals. For example, instead of aggregating most incomes with progressive tax rates, some incomes (e.g. capital gains or interest income) are not now subject to global income taxation but are taxed at reduced flat rates, separate from other incomes. This special treatment is due to a number of tax concessions intended to stimulate saving and investment and to improve the welfare level among specific taxpayers.

Second, the corporate income tax was a split-rate system until March 1990, but it has now become a uniform one in which a single rate is imposed on a whole corporate income. The old system was quite similar to that used in West Germany, in which retained profits and dividends are taxed at different rates. Also, numerous special tax measures have made the corporate income tax extraordinarily complicated.

Third, an accession tax on transfer of wealth at death proposed by the Shoup Mission was replaced by a combination of inheritance and gift taxes. Fourth, in contrast to the general trend of modifying direct taxes, the whole system of indirect

¹ For a general discussion, see e.g. Pechman and Kaizuka (1976), MOF Tax Bureau (1991), and Aoki (1986).

Table 1.1 Source of tax revenues in Japan and seven major countries, 1995 (%)

	Japan	USA	UK	Canada	France	Germany	Italy	Sweden
Income	36.6	45.8	36.9	45.9 ^c	17.6	30.1	35.1	41.4
Individuals	21.4	36.3	27.4	37.3	13.9	27.3	26.2	35.3
Corporate	15.2	9.4	9.5	8.1	3.7	2.8	8.7	6.1
Social security contributions ^a	36.3	25.1	17.7	16.8	45.7	39.4	32.0	31.3
Goods & services	15.1	17.9	34.7	25.5	27.3	27.8	27.3	24.3
General	5.2	8.0	19.0	15.2	17.4	17.3	13.9	15.1
Specific ^b	9.9	9.9	15.7	10.3	9.9	10.5	13.4	9.2
Death and gift	1.9	1.0	0.6	0.0	0.8	0.3	0.2	0.2
Property	9.7	10.2	9.9	10.5	4.4	2.5	5.5	2.7
Other	0.4	0.0	0.2	1.3	4.2	—	—	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^a Include taxes on payroll, if any.

^b Include taxes on specific goods and services and those on use of goods and performance of activities.

^c Unallocable items are omitted.

Notes: Tax revenues include social security contributions, as well as national and local taxes.

Source: Calculated from OECD, *Revenue Statistics of OECD Member Countries, 1965–1996*.

taxes has remained unchanged for a long time since the time of the Shoup recommendations. There had been no general consumption tax in Japan until April 1989, and indirect taxation depended mainly on selective excise taxes.

As a result of the evolving postwar tax system, what significant characteristics can we observe from the present tax system of Japan as compared with those of other major countries? As seen in Table 1.1, the Japanese system has several features different from those of other countries.²

Japan depends more on revenues from taxes on income, and places greater emphasis on the corporate income tax, which is the highest among OECD countries. Social security contributions (equivalent to the payroll tax) play an equally important role in raising revenues, in spite of heavier reliance on income taxes. The relative share of social security contributions has increased very sharply during the past decade or so. Among major advanced countries, Japan is the only one that did not impose a general consumption tax until 1989, and so its relative share was at the lowest level in 1995 even after the adoption of VAT. Thus, taxes on goods and services derive from specific excise taxes (e.g. alcohol, tobacco, or petrol taxes). Minor sources of revenue are obtained from death and gift taxes, while the property tax, a main source of local government revenue, occupies a relatively higher share in the totals.

In 1995, of total tax revenues collected in Japan, 36.6 per cent came from individual and corporate income taxes, 36.3 per cent from social security contributions, 15.1 per cent from taxes on goods and services, 9.7 per cent from the property tax, and 1.9 per cent from inheritance and gift taxes. The USA raised total tax revenues in relatively similar proportions from each source. Japan's tax structure and that of the USA, with their heavier reliance on income taxes and social security contributions, should be compared with those of many European countries where a much larger share of revenues is obtained from taxes on goods and services.

MAIN FEATURES OF TAX LEVEL AND STRUCTURE

Low Tax Burden

It is difficult to judge whether taxpayers in any one country are burdened to a greater or lesser degree than those in other countries. Since many taxpayers believe that they are personally overburdened and overtaxed, we need some objective yardstick. Perhaps the best tool is an international comparison, which is frequently used by economists. The relevant question is, Is the Japanese tax system required to raise more revenue than are tax systems in similar countries overseas?

² OECD (1987, 62) classified OECD member countries into three categories geographically, by using the percentage distribution in question: those in (1) northern and central Europe, which rely on general consumption taxes; (2) OECD non-Europe, which rely on income (individual and corporate) taxes; and (3) Mediterranean Europe, which rely on social security contributions and consumption taxes. In accordance with this classification, Japan and the USA belong to category (2).

One measure of the tax burden is provided by tax levels i.e. the ratio of tax revenues (including social security contributions) to GDP. Table 1.2 lists this ratio for 24 OECD countries for the years 1970, 1980, 1990, and 1995. Although the level and timing of increases change from country to country, the highest tax levels are to be found, as expected, in the Scandinavian countries, followed by other European countries, such as Belgium, France, and Luxemburg.

In this comparison, Japan came third to last of 24 countries in 1970. In fact, apart from Spain and Turkey, Japan was ranked lowest among the major advanced countries. The same holds for 1980. However, this ratio in Japan rose, exceeding that of the USA and Australia in 1990, but it was still ranked among the lower group around the 30 per cent level. In 1995, it had declined again to the 20 per cent level, reflecting successive tax reductions, although its rank remains the same.

Table 1.2 Tax levels in OECD countries: tax revenues^a as a percentage of GDP, selected years

	1995	1990	1980	1970
Denmark	51.3	48.7	45.5	40.4
Sweden	49.7	55.6	48.8	39.8
Belgium	46.5	44.4	44.4	35.7
Finland	46.5	45.4	36.9	32.5
France	44.5	43.7	41.7	35.1
Luxemburg	44.0	43.4	42.0	28.0
Netherlands	44.0	44.6	45.2	37.1
Austria	42.4	41.0	40.3	35.7
Norway	41.5	41.8	42.7	39.3
Greece	41.4	36.5	29.4	25.3
Italy	41.3	39.2	30.4	26.1
Germany	39.2	36.7	38.2	32.9
New Zealand	38.2	38.1	33.0	27.4
Canada	37.2	36.5	31.6	31.3
UK	35.3	36.4	35.3	36.9
Spain	34.0	34.4	24.1	16.9
Switzerland	33.9	31.5	30.8	23.8
Ireland	33.8	34.8	33.8	31.0
Portugal	33.8	31.0	25.2	20.3
Iceland	31.2	31.4	29.2	27.0
Australia	30.9	30.8	28.4	24.2
Japan	28.5	31.3	25.4	19.7
USA	27.9	26.7	26.9	27.4
Turkey	22.5	20.0	17.9	12.5

^a Social security contributions are included.

Source: As Table 1.1.

As is evident from such an international comparison, the Japanese tax system imposes a lower burden on taxpayers, as does that of the USA, among major industrialized countries.³ Perhaps this is one of its most salient features, which deserves wider attention.

Heavier Reliance on Direct Taxes

Tax structure is another important element of the tax system of a country. Past trends in the variation of tax structure are seen in Table 1.3, in which we compare the percentage distribution of tax revenues (excluding social security contributions⁴) by source at both national and local government levels. The dominance of income taxes since 1950 was maintained and even accelerated until fiscal 1990. In 1990 approximately 70.7 per cent of total national taxes was collected from individual and corporate income taxes, and 63.7 per cent of local taxes came from the same sources. In contrast, the relative importance of taxes on consumption has continued to decline for the past decade or so. Taxes on wealth, which are used more prevalently by the local governments, increased their relative share until 1990. However, substantial changes have recently taken place in both national and local taxes, switching from income taxes to taxes on consumption.

The Japanese often use the ratio between direct and indirect taxes⁵ as a crude measure of investigating a change in tax structure (simply referred to as the 'direct-indirect taxes ratio') in Japan. In Figure 1.1 this ratio is depicted for national and local governments, respectively for selected years over a 60-year span.

Obviously, the relative weight of direct taxes moved upward until 1990. In particular, the shift from indirect to direct national taxes in the 1980s progressed markedly since the prewar period. It was widely acknowledged in Japan that the reliance on direct taxes was excessive. By definition, taxpayers felt the burden of direct taxes more strongly than other taxes and were inclined to avoid and evade them. Consequently, many Japanese taxpayers had complaints about the fairness and reliability of the tax system. Such an excessive reliance on direct taxes was partly responsible for the tax reforms, and as a result the relative share in direct taxes began to fall in the 1990s.

³ Kay and King (1986, 224) also attempted to classify selected OECD countries into three groups: (1) Holland and the Scandinavian countries, (2) other Western countries, and (3) a somewhat heterogeneous group including Japan and the USA.

⁴ Revenues from social security contributions are generally not included when studying tax policy issues in Japan. In fact, tax data do not include social security contributions, mainly for two reasons: (1) social security contributions are not treated as part of the general account of the national government, and (2) they are administered mainly by the Ministry of Health and Welfare, not the Ministry of Finance. Thus, we are likely to neglect them in analysing tax issues because of the lack of combined data.

⁵ At the national level, direct taxes are composed of individual and corporate income taxes and inheritance and gift taxes, and the remainder are all classified as indirect taxes including miscellaneous ones. The same holds true for local taxation.

Table 1.3 Sources of tax revenues, by source, selected years

	Fiscal year									
	1950	1960	1970	1975	1980	1985	1990	1995	2000 ^a	
National taxes										
Taxes on income	54.4	53.6	64.3	67.2	69.5	70.1	70.7	60.5	56.5	
Individual	38.8	21.8	31.2	37.8	38.1	39.4	41.4	35.5	36.9	
Corporate	15.6	31.9	33.0	29.4	31.5	30.7	29.3	25.0	19.6	
Taxes on consumption	43.4	42.2	30.9	26.8	25.2	21.9	22.0	29.4	36.9	
Taxes on wealth	2.2	4.2	4.9	6.0	5.3	8.0	7.3	10.1	6.6	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Local taxes										
Taxes on income	44.9	49.6	55.6	54.8	57.1	58.1	63.7	52.7	45.9	
Individual	38.9	15.4	20.1	26.3	27.6	28.7	31.1	30.5	28.5	
Corporate	6.0	34.1	35.5	28.5	29.6	29.4	32.6	22.2	17.4	
Taxes on consumption	18.1	23.3	24.5	20.0	19.2	17.1	12.3	14.7	21.7	
Taxes on wealth	36.9	27.1	19.9	25.1	23.7	24.7	24.0	32.6	32.4	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

^a Preliminary figures.

Note: The classification of taxes in this table is rearranged according to the OECD criterion, but social security contributions are excluded.

Source: Tax Advisory Commission, *Tax Report on a Sweeping Tax Reform* (in Japanese), Oct. 1986, pp. 18–19; and MOF, *Primary Statistics of Taxation* (Zeisei Shuyo Sanko Shiryoshu), Feb. 2000.

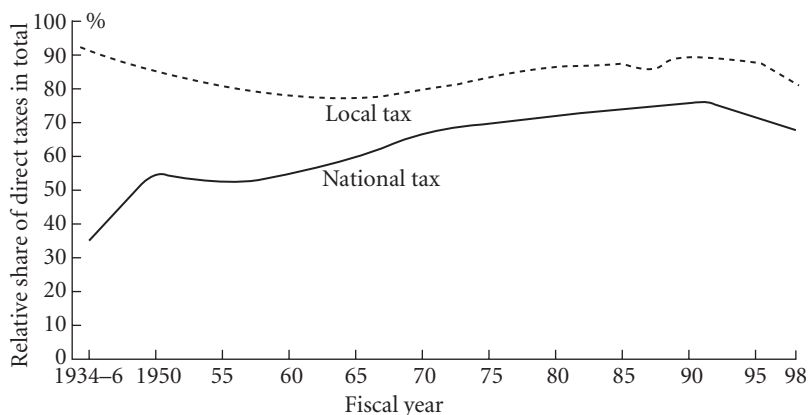


Fig. 1.1 Trends in the relative shares of direct and indirect taxes, 1934–1998

Source: As Table 1.3.

Centralized Tax Collections

Attention should also be paid to the relative proportion of national and local taxes. Japan is centralized to a degree comparable to that of the UK, and local governments are given only limited fiscal responsibility and powers over their fiscal activities. Under a centralized fiscal system, unitary taxation is generally prevalent throughout the country (see Chapter 18). This is quite different from the decentralized systems of federal nations such as the USA, Canada, and Australia.

Table 1.4 summarizes the relative share of total tax revenues of the national and local governments for selected years since 1950. In 1998 the total tax ratio (not including social security contributions) amounted to 24.5 per cent, of which 14.5 and 9.6 per cent were allocated respectively to the national and local governments. More than 60 per cent of total taxes is collected by the national government, but its relative share has steadily declined for the last three decades. This ratio of tax share is of course not applicable to the allocation of public expenditures to different levels of government, in accordance with the workings of intergovernmental fiscal transfers.

It is also interesting to compare collection costs (i.e. administrative costs in the public sector) at two different levels of the government (see Chapter 4 for an international comparison). As seen in Figure 1.2, collection costs of national taxes constantly moved at a much lower level than those of local taxes during the period 1965–98, although two lines show the declining trends over the long run until fiscal 1990. It is thus conjectured that tax administration at the national level has been performed more efficiently by enlarging automation and computerized procedures with an unchanged number of staff.

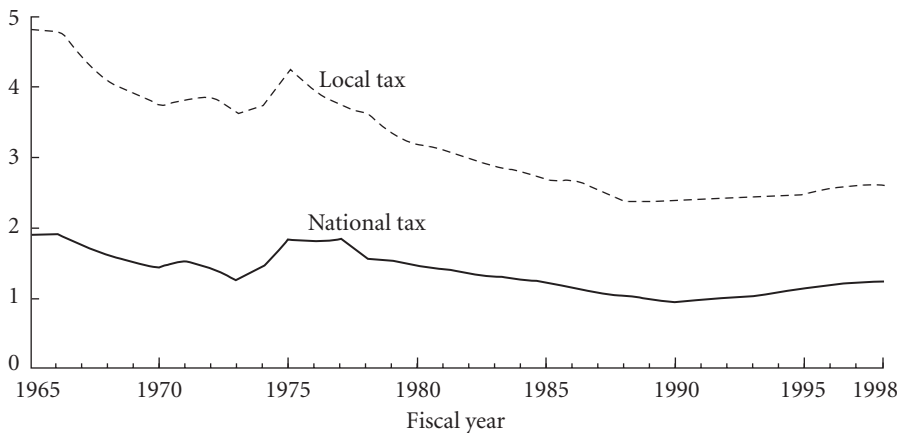
The problem lies in the costs of collecting local taxes by prefectural and municipal governments. The collection of local taxes costs over twice as much as that of

Table 1.4 Tax revenues as a percentage of national income, by level of government, selected years

Fiscal year	Level of government		Total
	National	Local	
1950	16.9 (75.1)	5.6 (24.9)	22.5 (100.0)
1955	12.8 (71.1)	5.2 (28.9)	18.0 (100.0)
1960	13.6 (70.8)	5.6 (29.2)	19.2 (100.0)
1965	12.4 (67.9)	5.9 (32.1)	18.3 (100.0)
1970	12.7 (67.5)	6.1 (32.5)	18.8 (100.0)
1975	11.7 (64.0)	6.6 (36.0)	18.3 (100.0)
1980	14.2 (64.1)	8.0 (35.9)	22.2 (100.0)
1983	15.0 (63.3)	8.7 (36.7)	23.7 (100.0)
1984	15.3 (63.1)	9.0 (36.9)	24.3 (100.0)
1985	15.1 (62.7)	9.0 (37.3)	24.1 (100.0)
1990	18.2 (65.2)	9.7 (34.8)	27.9 (100.0)
1995	14.5 (62.0)	8.9 (38.0)	23.3 (100.0)
1998	14.9 (60.7)	9.6 (39.3)	24.5 (100.0)

Notes: Social security contributions are excluded. Figures in parentheses are percentage distributions.

Source: As Table 1.3.

**Fig. 1.2** Trends in tax collection costs, 1965–1998

Note: Costs are calculated per ¥100.

Source: National Tax Administration, *Annual Reports* (Kokuzeicho Tokei Nenpo).

national taxes. Why are costs so much higher in the collection of local taxes? One reason often mentioned is that tax offices of local governments perform less efficiently; tax revenues cannot be collected in proportion to the larger numbers of tax officials. Given this situation, it is often proposed that the two administrative

mechanisms be merged to improve the efficiency level of tax administration and to lower total costs of collecting taxes as a whole.

In summary, the most salient features of the Japanese tax system are that (1) the tax burden is relatively lower among major industrialized countries; (2) heavier reliance is placed on direct taxes; and (3) tax collection is centralized.

TAX PROCESS

The Formulation of Tax Policy

The Japanese have generated a unique system to create a general consensus on tax policy. For convenience, we distinguish the Japanese type from the US–Western type in formulating tax policy.

In Figure 1.3, the two types are drawn as upper and lower pathways. Each process starts from a government inquiry which is initiated when the government admits the necessity for promoting any tax policy or reform. In the US–Western type, a task force or committee is usually established by the president, prime minister, or other authorities; several tax experts are appointed as members, and they are headed by an influential chairman.⁶

The task force or commission of inquiry generally undertakes a review of the whole tax system for five or six years, and then publishes a report to recommend a plan of structural tax reform for specific goals of tax policy. This report is virtually independent of political powers, at least while it is in preparation. In this sense, it can be considered a public report of an independent task force or commission. After the report is published, the government begins the legislative process in the congress or parliament. It should be emphasized, however, that there is a low degree of implementation of inquiry recommendations by the promoting government (see Kay 1987, 67–9).

Needless to say, the proposals contained within the report tend to define both gainers and losers, which causes a great deal of controversy by a variety of vested interests. In particular, it is very difficult to win public support for potentially unpopular policies, including tax increases. In general, governments lose their inclination to tackle the political problems of structural reform, and in turn the initial objective is likely to be frustrated. Therefore, under a tax formulation of the US–Western type, the possibility of implementing the tax reports is much poorer than might be expected.

In contrast, the Japanese government uses the tax commission on a more formal basis; that is, as a Tax Advisory Commission of the prime minister. After the prime minister submits the inquiry to the Commission, it starts the discussion with a review, public hearings, and analyses. In the case of long-range tax reform proposals, after an intensive study for a relatively shorter period, say less than three years, the

⁶ Typical examples include the Carter Commission in Canada in 1962, the Ashrey Committee in Australia in 1972, the Irish Commission in 1980, or the US Treasury case in 1984 (see Kay 1987). The Shoup Mission can be regarded as an example of this category.

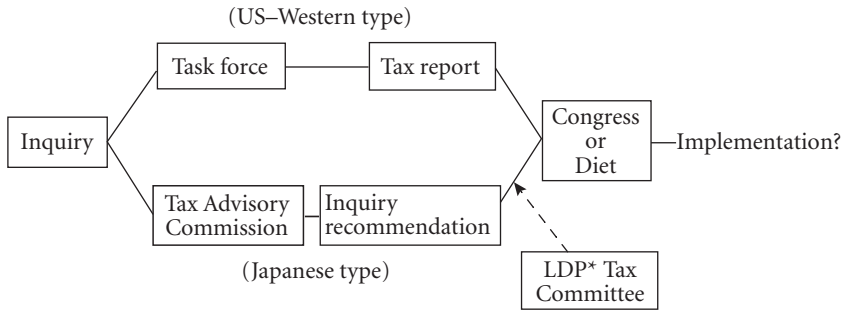


Fig. 1.3 The taxation process under Japanese and US-Western systems

* Liberal Democratic Party (in Japan).

Commission presents its recommendation to the prime minister, not to the general public. What is of primary importance in the Japanese method is that tax recommendations differ from those undertaken in the US-Western type. As will be explained shortly, the Tax Advisory Commission contains representatives from many vested interests. Despite serious conflicts between each group, reconciliation is conventionally made before the Commission recommends a tax programme, since political pressure groups can resolve differences.

The Commission does encounter considerable difficulty and resistance in making reconciliations, and as a result a great number of political compromises are involved in the final tax proposals. This makes the contents of proposals difficult to understand readily. The greatest benefit from the Japanese method is that almost all inquiry recommendations can be relatively easily approved by the Diet, chiefly because political problems have already been resolved by the major interests. In short, the extent of implementation is much higher, in spite of many defects in the theoretical level of tax proposals.

This process, however, has changed with the intervention of the tax committee of the ruling party, the Liberal Democratic Party (LDP), as is shown in Figure 1.3. The LDP has its own tax committee, which makes tax recommendations every year, and it has become much more influential politically. The Tax Advisory Commission's recommendations, which were adopted virtually intact two decades ago, have often been altered by the different views expressed within the LDP. Thus, the Tax Advisory Commission is inclined to exclude engineering features of tax proposals (e.g. percentage of tax rates or the level of deductions) in order to avoid any possible conflicts with the LDP Tax Committee. Usually, its recommendations are merely made as a fundamental argument for tax reforms without supplying any concrete figures necessary to construct tax structures. The detailed framework of tax changes is politically decided by the LDP, not the Tax Advisory Commission. A typical example will be seen in the case of the land holding tax (see Chapter 13).

The Role of the Tax Advisory Commission

The Tax Advisory Commission has long played a central role in assisting the formulation of tax policy and reform, although it is often criticized that its role has tended to be less important. It is impossible to understand the Japanese tax process without a detail knowledge of the Commission itself.

The Tax Advisory Commission was established by the government in 1953⁷ to review the whole tax system and to formulate annual tax changes as well as long-run tax policy. One of Japan's most prestigious committees, it consists of 30 regular members and about the same number of supporting members, all of whom are appointed by the prime minister. Usually, tenure for members is for three years. Members of the Commission are selected from a variety of people, including academics, tax experts, tax lawyers, journalists, former government officials of each ministry, representatives of big and small businesses, labour union leaders, and so on. Because of this diverse membership, the Commission can arbitrate conflicting issues among the vested interests who greatly affect tax policy.

The Commission's major objectives include the formulation of both short-run and long-range tax proposals. Annual tax revisions are prepared from a short-run standpoint by the Commission when the budget is compiled. Likewise, the Commission is responsible for the formulation of long-run policy on the structure of the tax system. Both types of tax proposals have had a substantial impact on general attitudes towards changes in the tax structure.

High-level staff of the tax bureaux in both the Ministry of Finance (MOF) and the Ministry of Home Affairs (MOHA) are deeply involved in the decision-making process of the Commission as its secretariat. In fact, they appear to have much influence on the Commission's recommendations in two respects: first, they are responsible for the recruitment of members to assist the Commission and the government; second, the necessary data are for the most part limited to that provided by the tax bureaux.

Therefore, the role of the staff of the tax bureaux is of great importance to the functioning of the Tax Advisory Commission. These staff members are the most enlightened and imaginative of government officials, and if necessary they could formulate tax proposals by themselves without the aid of any outsiders. In fact, before recommendations are actually made by the Commission, tax proposals are frequently discussed with the MOF and other ministries.

Why do the government and tax bureau staffs seek the assistance of the Tax Advisory Commission? Generally speaking, a consensus is reached in the movement between the government and the Commission. While the Commission is sometimes seen as 'hiding behind the government',⁸ the government's views also have been

⁷ This was not a permanent establishment, but a temporary committee whose term lasted for a couple of years. After 1960 it was replaced by the long-standing committee that still operates today.

⁸ We use the term 'Kakuremino' in Japanese. The government sometimes uses the commission as a screen in order to divert attention from its real motives.

altered as a result of conferring with the Commission's members. Thus, tax recommendations prepared by the Commission, which signify the government's approval, are instrumental in smoothing the way for the enactment of tax reform. Without them, the government would encounter obstacles in having any tax proposals implemented, chiefly because it is difficult to obtain public support of tax changes.

Strictly speaking, the Commission has not played a crucial role in short-run tax revisions for the past two decades or so. Attention should also be paid to the more influential role of the LDP tax committee, as argued before, which usually attempts to present tax proposals in the annual tax process. Around the end of the calendar year, the recommendations of the Tax Advisory Commission are transmitted to the prime minister for budgetary preparations; those of the LDP tax committee follow almost simultaneously. The final decisions are made by the cabinet based on these two recommendations. In the case of opposed views, it became the general tendency for the LDP Tax Committee to predominate over the Tax Advisory Committee in the tax process. Indeed, the powerful LDP committee often succeeded in significantly modifying the proposals of the Tax Advisory Commission.

Consequently, as noted above, the Tax Advisory Commission has tended to limit its proposals to the basic arguments in favour of the desirable direction for the long-term tax system and not to raise politically subtle issues of tax policy (e.g. any judgement regarding the value added tax rate). Also, it is of great importance to note that deliberation in the Commission has become open to the press since autumn 1998. This is a result of the recent movement to make official information open to the public.

Name Index

- Aaron, H. J. 91 n, 110 n
Ackley, G. 125
Amano, A. 314
Andrews, W. 91 n
Aoki, T. 4 n, 328
Atkinson, A. B. 149 n
- Ballentine, J. G. 326 n
Bayoumi, T. 242
Bird, R. M. 18, 24
Bittker, B. I. 97 n
Blinder, A. S. 125
Boskin, M. J. 139
Bowen, H. R. 25 n
Bronfenbrenner, M. 30, 30 n, 31 n, 35 n
- Chelliah, R. J. 17 n
Cnossen, S. 253
Cohen, J. B. 25 n, 26, 26 n
Collyns, C. 242–3
- Deutsch, K. W. 20 n
Dodge, J. 26 n, 32 n
Doko, Toshio 321
- Feldstein, M. 31
Furuta, S. 185
- Galper, H. 91 n, 381 n
Gomi, Y. 131 n, 206
Goode, R. 65, 184
Gordon, R. J. 185
Gramlich, E. M. 381 n
Gravelle, J. 197, 199
Gregory, K. 314 n
- Harberger, A. C. 184
Hatfield, R. R. 25 n
Hatta, T. 393 n
Hayashi, H. 69 n
Heller, W. W. 125
Henderson, J. M. 381 n
Hicks, U. K. 27, 28 n
Hinrichs, H. H. 16, 17 n, 18, 24
Hollerman, L. 187, 198 n
- Homma, M. 69 n, 325 n
Horioka, C. Y. 138 n, 139, 142 n
- Ihori, T. 116 n, 320 n, 322
Ikemoto, Y. 189
Ishi, H. 16 n, 17 n, 18 n, 21 n, 25, 37, 46 n, 49, 50, 50 n, 53 n, 56, 69 n, 86 n, 88 n, 94 n, 99 n, 103, 106, 110 n, 130 n, 142, 157 n, 187 n, 219 n, 242, 268 n, 274, 277, 300 n, 319, 320, 320 n, 322, 323, 323 n, 328, 329, 339, 341, 380
Ishikawa, T. 138 n, 142 n
Ito, H. 30
Ito, T. 319, 327
- Kaizuka, K. 4 n, 36 n, 37, 46 n, 138, 142, 393 n
Kato, K. 304, 309
Kay, J. A. 8 n, 12, 78, 81, 84, 91 n, 92 n, 110 n, 127, 335 n, 358 n
Kilpatrick, R. W. 185
Kimura, M. 28 n
King, M. A. 8 n, 84, 91 n, 92 n, 110 n, 127, 197 n, 335 n, 358 n
Kirk, J. 86 n
Kogiku, K. 30 n, 31 n, 35 n
Komiya, R. 37, 138
Kosai, Y. 138 n
Kotlikoff, L. 139
Krueger, A. 327
Krzyszaniak, M. 184, 185
Kubouchi, Y. 198
Kumon, S. 321
Kuroda, M. 314
- Lewis, S. R. Jun. 21 n
Lewis, W. A. 17 n
Lewis, W. L. 45, 46 n
Lincoln, E. 50, 320, 321
- MacArthur, General 26 n, 31, 31 n
McDaniel, P. R. 95 n
Martin, A. W. A. 17 n
Mathews, R. 384 n
Maxwell, A. 45, 110 n
Messere, K. C. 271, 327, 333

- Minami, R. 17 n
 Miyajima, H. 326 n
 Mizoguchi, T. 138 n, 148 n
 Moss, H. 25 n, 32 n
 Musgrave, R. A. 17 n, 19, 45, 91 n, 184, 185

 Nagano, A. 328
 Nakagiri, H. 116 n
 Nishibe, S. 326 n
 Noguchi, Y. 50, 136 n, 221, 320, 393 n

 Ogino, Y. 138 n
 Ohkawa, K. 17 n
 Ohtake, F. 142 n
 Okner, B. A. 103, 107, 107 n
 Okuno, M. 69 n
 Oshima, H. 17 n, 19 n
 Owens, J. P. 271, 327, 333
 Ozaki, M. 63

 Patrick, H. 36, 125
 Peacock, A. T. 17 n
 Pechman, J. A. 4 n, 36 n, 37, 46 n, 91, 91 n, 98, 98 n,
 103, 107, 107 n, 112 n, 116, 138, 142, 175, 184,
 200, 205, 327, 331, 333, 335 n, 336 n, 357, 390, 394

 Reed, S. R. 351, 366 n
 Rosovsky, H. 36, 125
 Roth, J. A. 65

 Sandford, C. 54 n, 56 n
 Shavell, H. 26
 Shinohara, M. 138 n
 Shiokawa, M. 240
 Shoup, C. S. xiii, 4, 25, 27, 27 n, 28, 31, 253, 269,
 273, 283, 391 n, 393 n
 Shoven, J. B. 197 n

 Simons, H. 97
 Slitor, R. E. 88
 Snowborger, M. 86 n
 Solow, R. M. 125
 Summers, L. H. 139
 Sundelson, J. W. 32 n
 Sunley, E. M. Jun. 95 n, 112 n, 116
 Surrey, S. S. 25 n, 27, 95 n, 97 n
 Suzuki, Y. 131 n

 Tachibanaki, T. 197 n
 Tait, A. T. 269, 274 n
 Tajika, E. 187 n, 197 n, 200
 Takayama, T. 148 n
 Takenaka, H. 203, 319
 Tanzi, V. 111, 111–12 n, 116 n
 Taylor, L. D. 142, 146
 Thorn, R. 16 n

 Vickrey, J. N. 25 n, 27

 Wada, Y. 116 n
 Walsh, C. 234 n
 Warren, W. C. 25 n
 Webber, C. 268
 Webley, P. 65
 Widavsky, A. 268
 Williamson, J. G. 17 n, 22 n
 Wiseman, J. 17 n

 Yamamura, K. 26 n
 Yamazawa, I. 18
 Yashiro, N. 323 n
 Yonehara, J. 374 n
 Yoshida, K. 326 n
 Yoshikawa, J. 142 n
 Yui, Y. 187 n, 197 n, 200

Subject Index

- abuses *see* evasion
- accelerated cost recovery system (ACRS) 199, 202
- accelerated depreciation 190, 202
- accession tax 4, 29, 30, 204–6
- account method, for consumption tax 281, 387, 391–2
- accounting records, small businesses 28, 69
- accretion 200
- ACRS (accelerated cost recovery system) 199, 202
- actual cost method, inventory valuation 168
- actually-paid tax rates, corporate taxes 192–6
- Ad Hoc Commission for Administrative Reform (Rincho) 321, 323
- ad hoc* relief, capital gains 142
- ad hoc* remedies, inflation adjustments 111, 127
- ad hoc* Special Committee of the Lower House 328 n
- ad valorem* taxes:
 - alcoholic beverages 255, 257
 - tobacco 258
- administration 53–71
 - before Shoup Mission 26
 - costs 11–12, 54–6, 386–7
 - reform 321–2
 - Shoup recommendations 28
 - value added tax 291–3
- Administrative and Management Centre 321
- admission tax 253, 254
- age ratio of population 142 n
- ageing society, effect on savings 146
- aggregate savings function 142, 143, 146
- aggregation method 79, 84, 389
- agricultural incomes:
 - redistributive effects 155–7
 - reporting of taxable income 52, 54, 64–5, 70
 - self-assessment 61
 - tax gap 68
- agricultural land:
 - inheritance tax 212 n, 236, 239–40
 - land tax 230–2
 - Urbanization Promotion Areas 230, 236, 239–40
- air pollution charge 309
- airport construction 306, 307
- alcoholic beverages, categories 255 n, 256
- alcoholic beverages tax 255–8
 - as revenue source 19, 254
 - coexistence with consumption tax 284
 - historical background 3, 4
 - negative externalities 252–3
 - Shoup recommendations 34
- allowances:
 - corporate taxes 190, 191, 192, 347
 - see also* deductions
- Annual Household Survey 148
- annual tax reductions *see* reductions
- Ashrey Committee 12 n
- assets:
 - business:
 - property tax 362
 - roll-over scheme 229–30, 235–6, 239
 - employees' 132
 - land value 225–6, 233, 234, 237–8
 - proportion allotted to financial and real investments 141
 - revaluation, Shoup recommendations 29, 33
 - sale *see* capital gains tax
 - see also* depreciation
- Australia:
 - Ashrey Committee 12 n
 - land-holding tax 234 n
 - sales tax 252
 - tax equity 384 n
 - tax unit 78
 - value added tax 270
- aviation fuel tax 253, 254
- aviation fuel transfer tax 364, 465
- avoidance 54, 87 n, 124, 239
- backward-shifting, corporate taxes 185
- bad debts, tax-free reserves 190, 347
- balanced budget policy 50, 320
- Bank of Japan 18
- bases *see* tax bases
- Basic Environment Law 302, 303
- basic financial needs, local governments 372–3
- basic financial revenues, local governments 373–4
- Basic Land Law 222, 235
- Basic Law for Environmental Pollution Control 300

- Belgium, tax burden 92, 93
- bequests *see* gift taxes; inheritance taxes
- blue returns 69–70
 - corporations 168, 180, 181, 182
 - deduction of cost of preparation 77
 - Shoup recommendations 28
- bond dependency ratio 322–3
- bonds:
 - discount 134
 - national 50
 - proportion of portfolio investments 140, 141
- bonus effect on savings 139
- bonus payments, tax-free reserves 190, 196, 347
- bonuses, withholding tax table 62
- border-tax adjustments, value added tax 270
- borrowings, local 365–7
- bourse tax 253, 254
- bracket creep 52, 128, 334
- bubble boom (bubble economy), effects 215
 - on fiscal deficits 51, 320 n
 - on income distribution 150–1
 - on inheritance tax 210
 - on land prices 220, 221, 243, 244, 245, 328
 - on relative share of withheld tax 62
 - on stamp and security transaction taxes 254
 - on tax reduction policy 42
 - on tax system elasticity 46
 - on wealth distribution 328
- building *see* construction
- built-in flexibility of taxation 124
- burdens:
 - alcoholic beverages tax 255–6
 - business organizations 181–2
 - capital gains tax 235
 - capital owners 184
 - car-related taxes 261–3, 263
 - carbon dioxide emissions 306–8, 314–15
 - commodity tax 265, 266
 - comparison with other OECD countries xxv, 6–8
 - corporate taxes 197–203, 336–8
 - enterprise tax 273
 - factor in high savings rate 142
 - gift tax 213
 - income tax 92–3, 344
 - inheritance tax 205, 206, 212–14, 338–9
 - land taxes 221–5, 232–4, 235, 241–7
 - property tax 362
 - reduction 330
 - tobacco tax 258–9
 - see also* equity; revenues
- bureaux 14
- business assets:
 - property tax 362
 - roll-over scheme 229–30, 235–6, 239
- business expenses:
 - deduction 52
 - exclusion from net income 200
 - exemption from commodity tax 264
 - interest payments on land purchase loans 338
 - salaries of family employees 180, 181
 - see also* income-splitting
 - self-employed 77
- business financing 175, 182–4
- business incomes:
 - determination 77
 - income-splitting 52, 80
 - redistributional effects 155–7
 - tax collection 60, 61
 - see also* self-employment incomes; small businesses
- business saving and investment 40, 41, 188
- business tax (enterprise tax) 167, 273, 333 n, 355, 359–60
- Canada:
 - Carter Commission and Report 12 n, 27
 - cost-revenue ratio 48, 55, 56, 58
 - Royal Commission on Taxation 97 n
 - value added tax 270
- capital accumulation, promotion 130–1, 176
- capital gains tax:
 - collection 60, 61
 - corporations 168
 - neutrality 386
 - on land 227–30
 - reforms 238–9, 243–5
 - special tax measures 104–6, 157
 - unrealized 233
 - on real estate 60, 77, 84, 142, 238
 - on stocks and securities 30, 60, 77, 134–5, 173–4, 386, 388–9
 - on valuable assets, paintings, jewels 61
 - redistributive effects 155, 157
 - Shoup recommendations 28, 30, 33
- capital owners, tax burden 184
- car purchase tax 261 n
- car-related taxes 261–3, 263, 309
- carbon dioxide emissions 301–2, 306–8, 310–15
- carbon tax, carbon/energy tax 310–15
- carry-back/carry-forward, operating losses 168
- Carter Commission and Report 12 n, 27

- casual (occasional) incomes 61, 84
- casualty insurance premiums, deductions 38, 63 n, 135
- casualty losses, deductions 77 n, 361 n
- categorical grants-in-aid 376–9, 380
- centralization 10–12, 350
- chiho-kofuzei* 352
- children:
 - incomes 79
 - see also* heirs
- cigarette taxes 259, 260
 - see also* tobacco taxes
- cities, designated 352, 371
- citizenship 29
- City Planning Law 230 n, 362
- city planning tax 224, 362
- Civil Code, taxable inheritance percentages 207
- coal subsidies 306, 307
- collection:
 - before Shoup Mission 26
 - business incomes 60, 61
 - capital gains tax 60, 61
 - centralized xxv, 10–12
 - costs 11–12, 54–6
 - dividends 60–1
 - employment incomes 57, 59, 62–4
 - international comparison 53–7
 - local governments 357, 359
 - reform 388
 - value added tax 291–3
- ‘command-and-control’ environmental regulation 304
- Commercial Law 170 n
- commodity taxes 4, 254, 264–7
 - Shoup recommendations 34
- compensation packages, fringe benefits 80
- compliance:
 - costs 54, 386
 - value added tax 291–3
- ‘Comprehensive Land Policy Plan’ 236
- comprehensive tax 4, 28, 84, 91, 95, 96–103
 - base 91–2, 108–9
- computation:
 - corporate taxes 168–9
 - individual taxable income 75–6
 - inheritance tax 206–8, 217–18
- concessions:
 - environmental policy 304
 - interest income 133
- conditional fiscal transfers 352–3
- Conference of Parties, third (COP3) 301
- construction:
 - airports and roads, earmarked taxes 306, 307
 - houses, tax credits 135
 - Ministry of Construction, land policy 222
- ‘construction bonds’ 320 n
- consumer price index (CPI) 117 n, 286
- consumers, corporate tax-shifting 184–5
- consumption tax:
 - as value added tax 268, 279–85, 341, 391
 - in tax mix, 396
 - indirect taxes a form of 251–2
 - local 297–9
 - share of tax revenues 6, 8, 9
 - see also* commodity taxes; value added tax
- consumption transfer tax 284, 364
- co-operatives:
 - corporate tax rates 172
 - enterprise tax 360 n
 - taxable corporations 169
 - see also* corporations
- COP3 (third Conference of Parties) 301
- corporate net income, calculation 200
- corporate rate of return on capital approach 185
- Corporate Tax Law 169
- corporate taxes 3–4, 167–86
 - before Shoup Mission 26
 - burdens 197–203, 336–8
 - capital gains tax 224, 228–30, 238–9, 243–5
 - enterprise tax 359–60
 - income tax:
 - basic rate changes 323–4, 336–8
 - effect of inflation 110 n
 - elasticity 48
 - share of tax revenues 5, 6
 - Shoup recommendations 4, 33
 - taxable income 168–9
 - inhabitants’ tax 360–1
 - profit tax 26, 176
 - reform 345–8, 388–9
 - relative share 167–8, 343–4
 - tax-shifting 184–6, 185
- corporations:
 - deemed and quasi-corporations 180, 181, 182
 - taxable 169–71
 - see also* corporate taxes
- cost-of-living index 117 n
- cost–revenue ratio 48, 55–6, 57, 58–9
- costs of collection 11–12, 54–6
- Council of Economic Advisers 125, 126 n

- couples:
 - exemptions for spouses 76, 79, 330–1, 333, 344, 385
 - income-splitting 78, 79, 331
 - tax liabilities 78–9
- CPI (consumer price index) 117 n, 286
- credits:
 - corporate taxes 189, 190, 191, 192
 - dividends 175–6
 - effects on equity 94–5, 103
 - erosion of tax base 96, 388
 - foreign 77, 338
 - individual income tax 77
 - dividends 134
 - loans for house purchase 135
 - inheritance tax 207–9
 - need for reform 388
 - Shoup recommendations 33
- crowding-out, capital markets 320 n
- cultural-political factors 24–5
- customs duties 252
- cuts *see* reductions
- data sources:
 - income tax 107–8, 116 n, 147–9
 - savings 143
- death taxes *see* accession tax; gift taxes; inheritance taxes
- debt burden 320 n
- debt charge ratio 366
- debt financing:
 - business enterprises 182–4
 - local government 365–7
- debt permit system 366–7, 380
- debt service costs 320 n
- debts:
 - bad, tax-free reserves 190, 347
 - local governments 354, 365–7, 380
- decentralization 350
- declining balance method, depreciation 168
- deductions:
 - blue returns, cost of preparation 77
 - business incomes 77, 182
 - capital gains 77
 - casualty losses 77 n, 361 n
 - dividend-paid 175
 - donations 77 n
 - effect on income distribution 153–4
 - employment incomes 76, 77
 - erosion of tax base 96, 97–8, 102, 388
 - individual income tax 76–7, 344, 345
 - at year-end adjustment 63
 - effects on equity 94–5
 - insurance premiums 38, 63 n, 135, 141
 - medical expenses 42, 63 n, 77 n, 361 n
 - municipal inhabitants' tax 361
 - need for reform 388
 - physically handicapped persons 77 n
 - retirement incomes 77, 335–6
 - Shoup recommendations 33
 - timber income 77
 - 'deemed corporate income' 182
 - 'deemed corporations' 77, 333
- deferred taxes:
 - agricultural land 230–1, 236, 239–40
 - corporate taxation 190
- 'deficit-covering bonds' 320 n
- deficit-operating corporations 170–1, 229, 235, 238–9
- deflated taxes 116–24
- delinquency 63–4
- democratic citizenship 29
- Denmark:
 - tax burden 92, 93
 - tobacco tax 259
- density modification coefficients 373
- Department of Labour 66
- dependants, exemptions for 76, 79, 330–1, 333, 336, 344, 385
- deposit-refund system 309
- depreciation, corporate taxation 26, 168, 190, 191, 202, 336 n, 347
- designated cities 352, 371
- development:
 - effect on tax structure 16–24
 - see also* economic growth
- direct taxes:
 - definition* 8 n
 - reliance on xxv
 - share of tax structure 8–10, 18–19, 25
 - Shoup recommendations 4, 27
 - switch to indirect taxes 271, 343
- 'direct taxpayers' (withholding agents) 62, 63
- disaster-related works, obligatory shares 375
- disbursements, national government 374–5
- discount bonds 134
- 'disguised' land 231
- disguised subsidies, environmental policy 304
- distortions:
 - effect of inflation 110–15
 - tax-induced 385–6, 390
- distributed profits, tax rate 174, 175

- distribution of income *see* redistributive effects
- 'District for Identifying and Promoting the Utilization of Idle Land' 238
- dividends:
 - business costs 183
 - corporate taxes 168, 174, 175–6, 182–4, 337
 - distribution 184
 - double taxation 172, 174–5, 177–80
 - special tax measures 134
 - Tax Advisory Commission proposals 175
 - tax collection 60–1
 - tax credits 77
 - tax rates 84, 175
 - withheld taxes 63
- doctors, tax benefits 332–3
- 'Dodge Line' 26–7
- donations, deductions for 77 n
- double taxation:
 - dividends 172, 174–5, 177–80
 - savings 92, 395
- earmarked taxes 253, 254, 261, 306, 307, 313, 364, 365
- earned incomes *see* employment incomes; self-employment incomes
- easy money policy 221
- EC (European Community):
 - carbon/energy tax 310
 - dispute on alcohol tax 256–7
 - value added tax 268, 270
- economic development, effect on tax structure 16–24
- economic growth:
 - after 1973 oil crisis 319–20
 - effect of corporate tax burdens 197
 - promotion through tax system 36 n, 37
 - relation to environmental policy 301, 313–14
 - relation to natural increase in tax revenues 48–9
 - stimulation by tax cuts 339–40
- economic income 97, 200–2
- economic instruments, environmental policy 303–5
- Economic Planning Agency (EPA) 44, 66, 285, 320
 - Annual Report on National Accounts* 143
- economic power 200
- Economic Stabilization Board 26 n
- effective tax rates:
 - alcoholic beverages tax 255–6, 257
 - corporate taxes 192–6, 200, 203, 346, 348
 - effects of inflation 115, 122–4
 - individual income tax 99–103
 - land tax 223, 225
 - property tax 226 n, 230 n, 362
- efficiency of administration 11–12, 55–6, 71
- elasticity of tax revenues 44–8
- electricity tax 363 n
- employee compensation, fringe benefits 80
- employees' assets 132
- employment incomes:
 - special deductions 76, 77
 - tax burden 328
 - tax collection 57, 59, 62–4
 - tax gap 68
- Employment Status Survey* 66
- energy taxes 305–8, 310–12
- energy-saving equipment 189, 304 n
- Engels's law 16
- enterprise tax 167, 273, 333 n, 355, 359–60
- entertainment expenses, fringe benefits 80
- entrepreneurs, registration as corporations 170 n
- Environmental Agency 300, 303, 307 n, 314
- environmental quality, promotion by tax incentives 40, 41
- environmental taxes 300–15
- EPA *see* Economic Planning Agency
- equalization, fiscal 367–74
- equalization coefficient:
 - income taxes 149, 151, 152–3, 159, 161, 162
 - inheritance tax 214–16
- equalization grant, Shoup recommendations 35
- Equalization Grant Scheme 29
- equity:
 - income tax 103–7
 - erosion 94–6
 - v. expenditure tax 394–5
 - policy 49–52
 - relation to tax administration 53–71
 - Shoup recommendations 28, 29–30
 - tax reform 327, 328, 329, 332, 383, 384–5
 - see also* burdens
- equity financing 182–4
- equity securities, proportion of portfolio investments 140, 141
- erosion:
 - by tax incentives on savings 146
 - individual income tax 94–109
 - special tax measures 154 n
- estate tax 204, 205, 206
- estate transfers *see* inheritance taxes
- EU (European Union) 257–8

- European Community *see* EC
- evasion 54, 87 n, 124, 137–8
- excess profits tax 19, 26, 33
- excise taxes 252–67
- need for reform 271
 - repeal 283–4
 - share of tax revenues 6
 - Shoup recommendations 34
- exclusions:
- effects on equity 94–5
 - erosion of tax base 97–8, 102
- exemptions:
- corporate taxes 189
 - effect on income distribution 153–4
 - erosion of tax base 96, 97–8, 388
 - individual income tax 76, 330–1, 344, 345
 - inheritance tax 209–12
 - land value tax 237
 - municipal inhabitants' tax 361
 - non-profit organizations 169
 - reform 333, 388
 - Shoup recommendations 33
 - value added tax 240–1, 294, 296, 297, 393
- expenditure, v. income, as tax base 91–2
- expenditure cuts 320–3
- expenditure tax 92, 251 n, 394–5
- see also* hybrid taxes
- expense accounts, fringe benefits 80
- expenses *see* business expenses; medical expenses;
- R&D (research and development); tax credits
- exports, promotion 40, 41, 187–8, 189
- expropriated land, capital gains tax 239
- Fair Trade Commission 289, 290–1
- fairness *see* equity
- family, as tax unit 78
- farm incomes *see* agricultural incomes
- farm land *see* agricultural land
- farmers:
- household units, income distribution 158, 159, 160
 - other occupations 65 n, 160 n
- farming sector, decline 71
- Federation of Economic Organizations (Keidanren) 198, 321
- FIFO, inventory valuation 168
- financial reconstruction bodies 366
- fire insurance premiums, deductions for 38, 63 n, 135
- fiscal austerity 322, 322–3
- fiscal consolidation (reconstruction) 319–20, 328
- fiscal deficits 49–51, 319–20
- fiscal dividend 124–7
- fiscal drag 124–7, 129
- fiscal equalization 367–74
- fiscal performance, local 379–82
- fiscal reconstruction 319–24, 328
- fiscal transfers 352–3
- fiscal 'window-dressing' 322 n
- fixed asset tax *see* property tax
- flattening of rate structure 333–4, 390–1
- flexibility of taxation 124
- foreign corporations, taxable 169
- foreign investment, promotion by tax incentives 40, 41
- foreign tax credits 77, 338
- foreign trade taxes 18, 19, 21 n
- forward-shifting:
- corporate taxes 185
 - value added tax 287–91, 392
- France:
- corporate tax rates 171
 - corporate tax share 167
 - military expenditure 25
 - savings rate 136
 - tax burden 92, 93
 - tax unit 78
 - tobacco tax 258
 - value added tax 268
- fringe benefits, income tax 80–1
- fuel taxes *see* energy taxes; liquefied petroleum gas (LPG) tax; petrol tax
- Gordon (G) model, corporate tax-shifting 185–6
- gains, capital *see* capital gains tax
- gas tax 363 n
- gasoline *see* petrol tax
- GDP (gross domestic product):
- ratio of tax revenues 7–8
 - social welfare transfers as percentage 25
- general account deficits 50 n
- general consumption taxes 251–2, 268, 274, 276–7, 320
- general sales tax 251
- generalizations of change 16–17
- Germany:
- avoidance of double taxation of dividends 177
 - corporate income tax 4
 - corporate tax rates 171
 - corporate tax shares 167
 - military expenditure 25

- savings rate 136
- tax rates 83
- tobacco tax 258
- gift taxes 204–18
 - on transferred income 137 n
 - postwar system 4
 - redistributive effects 161
 - reform 339
 - share of tax revenues 5, 6
 - see also* inheritance taxes
- Gini coefficient 149, 151, 162
 - inheritance tax 215–16
- global warming 301–2, 304, 313 n
- GNP (gross national product):
 - correlation with tax shares 21–2
 - deflator 117
 - percentage of military expenditures 24–5
 - response of tax revenues to change in growth 44–8
 - tax ratio 18–19
- ‘goal system’ of collection 26
- goods and services taxes 252–67
 - environmental protection 309
 - local 299
 - New Zealand 270
 - share of tax revenues 5, 6
 - see also* excise taxes
- Gordon (G) model, corporate tax-shifting 185–6
- government inquiries into tax systems 12
- ‘grace period’, value added tax 294, 296
- grants:
 - equalization grant, Shoup recommendations 35
 - Equalization Grant Scheme 29
 - impact on local government budgets 380–2
 - specific-purpose 353, 354, 374–9, 380
- Green Card system 389 n
- gross domestic product (GDP):
 - ratio of tax revenues 7–8
 - social welfare transfers as percentage 25
- growth *see* economic growth
- GS taxes *see* goods and services taxes
- Haig–Simons concept of income 97, 200 n
- handicapped persons:
 - deductions and exemptions for 77 n, 330
 - gift tax 209, 339
 - inheritance tax 339
- Hashimoto administration 340–1
- health insurance, reform 322
- heirs, inheritance tax 207–9, 211–12, 214, 215, 338–9
- heuristic model of tax structure change 18, 24
- high-income earners 94, 148, 157, 335, 388, 396
- hikiatekin* 190
- Hitotsubashi University 17
- Hokkaido-Takushoku Bank 340
- Home Ministry 350
- horizontal equity 64, 94–5, 335, 384
- house purchase:
 - relation to land prices 221
 - tax credits 77, 98 n, 135
- household expenditure, environment-related 312–13
- household sector, portfolio investments 140–2
- household survey data 157–60
- household units, redistributive effects 157–60
- housing:
 - promotion 40, 41
 - subsidized, fringe benefits 80
- hybrid taxes 4, 91–2, 393–4
 - corporate taxes 177
 - effect on portfolio decisions 141–2
- ideological commitments 24
- idle land 233, 238
- implicit carbon taxes 314
- imputation method 175, 176, 177
- incentives:
 - corporate 187–203
 - effect on savings 138–46
 - policies 36–42
 - see also* credits; special tax measures
- incidence of taxation 184, 251
- income:
 - definition* 97, 200
 - distribution and inequality 147–63
 - national, tax revenues as percentage 10, 11
 - taxable *see* taxable income
 - v. expenditure, as tax base *see* hybrid taxes
- income classes, tax erosion 99–103, 104, 105, 106
- income elasticity of tax revenues and yield 44–8, 115 n
- income-splitting:
 - business incomes 52, 80
 - couples 78, 79, 331
- income taxes 3–4, 73–163, 167–86
 - as revenue sources 19
 - avoidance and evasion 54, 87 n, 124, 239
 - before Shoup reforms 26
 - burden 92–3, 344
 - international comparison 343
 - land transfer 224

- income taxes (*cont.*):
 - progressivity 28, 85–90, 95, 148, 153–4, 333–6
 - reductions 330–1
 - reform 344–5, 393–5
 - share of national and local taxes 8–10
 - share of tax revenues 5, 6
 - shift from indirect taxes 18, 19
 - Shoup recommendations 33
 - tax delinquency 63–4
 - see also* withholding at source
- index of tax rates 46 n
- indexing (inflation adjustments) 111–15, 127
- indicators, basic financial needs 372
- indirect taxes 3–4, 251–67
 - definition* 8 n, 251
 - equity 384
 - increases 324, 325
 - share of tax structure 8–10, 25
 - shift from land taxes 18, 19
 - Shoup recommendations 27, 33–4
 - switch from direct taxes 8, 10, 271–2, 343
 - see also* environmental taxes; value added tax
- individual, as tax unit 78
- individual income tax 3–4, 73–163
 - before Shoup reform 26
 - classification of taxable income 57, 59–61
 - elasticity 48
 - international comparison 343
 - reform 330–6, 344–5
 - share of tax revenues 5, 6
 - Shoup recommendations 28, 33
- industrial equipment modernization, promotion 40
- industrial policy, tax incentives 187–8
- Industrial Structure Council 313 n
- inefficient expenditures 320 n
- inequity *see* equity
- inflation:
 - adjustments 110–29
 - effect on corporate tax base 202
- inhabitants' tax:
 - municipal 334, 355, 358–9, 360–1
 - prefectural 334–5, 355, 357–9
 - Shoup recommendations 34
- inheritance taxes 204–18
 - burdens 205, 206, 212–14, 338–9
 - land 224, 227, 234–5, 238
 - agricultural 212 n, 230–1, 236, 239–40
 - postwar system 4
 - redistributive effects 161, 204, 213–17
 - reform 338–9
 - share of tax revenues 5, 6
 - tax delinquency 64
- initial depreciation 190
- innovations, technological, tax incentives 40, 188
- Institute of Fiscal Affairs 91 n, 205
- insurance:
 - deductions for premiums 38, 63 n, 135, 141
 - exemptions for payments to heirs 339
 - proportion of portfolio investments 140–1
- integrated system, corporate and individual
 - income taxes 172–80
- interest elasticity of savings 139
- interest income:
 - inclusion in or exclusion from tax base 91–2
 - inhabitants' tax 359
 - privileged savings 131–4
 - Shoup recommendations 33
 - special tax measures 96, 133–4
 - tax collection 60
 - withheld tax 63
- interest payments, corporate tax 182
- interest rate, impact on savings 143
- interest surcharges on retained corporate profits 172, 173
- intergovernmental fiscal relations 34–5, 349–82
- intergovernmental transfers 29, 284
- International Fiscal Association 95 n
- International Institute of Public Finance 95 n
- interventionist approach 52
- inventories, valuation 168, 203
- investment:
 - business 40, 41, 188
 - household sector 140–2
 - proportion of assets allotted 141
- investment income 130–46
 - aggregation 79
 - withheld tax 387
- invoices, non-use for consumption tax 281, 387, 391–2
- Irish Commission 12 n
- 'irrational' sources of erosion 98
- Italy:
 - savings rate 136 n
 - tax burden 92, 93
 - tobacco tax 258
- Japan Tobacco and Salt 321
- Japanese National Railroad 260, 321
- Jichi Sogo Centre 374 n
- Jichicho* *see* Ministry of Home Affairs
- Joint Committee 296

- joint-stock companies 170 n
- junbi-kin* 190
- ‘Kakuremino’ (‘hiding behind the government’) 14 n
- ‘Kasumigaseki’ 142 n
- Keidanren (Federation of Economic Organizations) 198, 321
- key industries, tax incentives 187–8, 189
- kokko-shishutsukin* (specific-purpose grants) 353, 354, 374–9, 380
- Korea, value added tax 274 n
- Krzyzaviak and Musgrave (K–M) and Kilpatrick (K) models, corporate tax-shifting 185–6
- ‘Ku-ro-yon’ phenomenon 64–70, 160 n
- Kyoto protocol 302
- labour force, size, effect on income inequality 151
- land:
 - agricultural *see* agricultural land
 - Basic Land Law 222, 235
 - capital gains tax:
 - collection 60
 - reforms 227–30, 238–9, 243–5
 - special tax measures 104–6, 157
 - unrealized gains 233
 - ‘Comprehensive Land Policy Plan’ 236
 - ‘disguised’ 231
 - idle and underutilized 233, 238
 - inheritance taxes 224, 227, 234–5, 238
 - municipal taxes *see* land-holding taxes; property tax
 - purchase, interest on loans, business expenses 338
- land-acquisition tax 224
- land-holding taxes 223–7, 232–4, 237, 240–1, 363
- ‘land myth’ 220
- land ownership 222, 229
- land policy 222
- land prices 219–22, 226, 243, 244, 245, 328
- land problem, nontariff barriers 221
- Land Reform Bill 239
- land regulation 221
- land supply 222–3, 239
- Land Tax Bill 219
- Land Tax Review Group 234 n
- land taxes:
 - as revenue source 19
 - historical background 3
 - property tax 361–3
 - reform 219–47
 - land transfer taxes 227–8
 - land use 221
 - land value tax 234 n, 237, 240–1, 241–3, 396
 - land values 221, 225–6, 237–8, 245–7, 362
 - LDP *see* Liberal Democratic Party
 - levels 7, 187–203, 341–4
 - liabilities:
 - couples 78–9
 - effect of inflation 110–24
 - see also* taxable income
- Liberal Democratic Party (LDP):
 - Tax Committee:
 - land tax reform 233, 234, 236, 237, 240
 - relation to Tax Advisory Commission 13, 15
 - Tax Council:
 - land taxation 219
 - value added tax 278
 - tax reform compromises 219, 334 n, 335, 387
 - value added tax proposals 276, 279, 293–4, 295–6
- life cycle hypothesis, effect on savings 139
- life insurance:
 - deductions for premiums 38, 63 n, 135, 141
 - exemptions for payments to heirs 339
 - proportion of portfolio investments 140–1
- LIFO, inventory valuation 168
- light oil delivery tax 261 n, 363 n
- light vehicle tax 261 n
- limited companies 170 n
- liquefied petroleum gas (LPG) tax 253, 261, 262, 306
- liquidation income, enterprise tax 360 n
- liquor tax *see* alcoholic beverages tax
- loans:
 - for house purchase, credits and exemptions 135, 142
 - for land purchase, interest as business expense 338
 - fringe benefits 80
- local autonomy 26, 29, 349, 350, 355, 357, 359
- Local Autonomy Board 350
- local borrowings 365–7
- local debts 354, 365–7, 380
- Local Finance Law 365
- local governments 351–4
 - finance, Shoup recommendations 29
 - fiscal deficits 320 n
 - fiscal performance 379–82
 - see also* local taxes
- local public bodies 351–2
- Local Public Finance Law 375, 380

- Local Public Finance Programme (LPFP) 352
- Local recentralization Law 357
- Local Tax Law 357, 379
- local taxes 349–82, 354–63
- allocation tax 352, 354, 367–74
 - before Shoup Mission 26
 - business tax 346 n
 - consumption tax 284, 297–9
 - corporate taxes 171
 - distribution tax 369
 - goods and services (GS) tax 299
 - income tax 34, 81
 - property tax 234
 - proportion to national taxes 10–12, 343
 - road tax 261, 262
 - road transfer tax 364, 365
 - Shoup recommendations 34–5
 - sources of revenues 8–12
 - surtax 22 n, 273, 355, 357
 - transfer taxes 353, 364–5
- 'lock-in' effects, capital gains tax on land 239
- long-term gains, taxable income 135
- Lorenz curve 149–50, 215
- losses on returned goods, tax-free reserves 190
- low-income earners, tax burden 335, 344
- LPFP (Local Public Finance Programme) 352
- LPG (liquefied petroleum gas) tax 253, 261, 262, 306
- luxuries *see* commodity taxes
- machinery industry, tax incentives 188
- Management and Coordination Agency, Statistics Bureau 66
- manufacturers' excises 255, 264
- manufacturers' sales taxes 251–2, 278
- marginal tax rates, income tax 83–4
- 'Maruyu' system 131, 132, 328
- Meade Report 27
- medical doctors, tax benefits 332–3
- medical expenses, deductions for 42, 63 n, 77 n, 361 n
- Meiji government 255, 350
- MERGE data 107
- middle-income earners 331, 384
- military expenses, relative to GNP 24–5
- Ministry of Construction (MOC), land policy 222
- Ministry of Finance (MOF):
- Budget Bureau 50
 - consumption tax 298
 - corporate tax burden 197, 198
 - excise tax 252
 - fiscal reforms 320, 322 n, 323, 324, 326, 329, 347
 - land policy 222
 - land taxation 230 n, 241
 - local taxes 357
 - natural tax increases 48
 - petrol-related taxes 261
 - relation to Tax Advisory Commission 14
 - revenue adjustment for tax changes 46
 - Securities Bureau 178
 - special tax measures 38, 40–2
 - tax threshold calculation 76
 - tobacco tax 258
- Ministry of Health and Welfare (MOHW) 8 n, 56 n, 147, 158
- Ministry of Home Affairs (MOHA):
- consumption tax 298
 - local taxes 350, 352, 357, 361, 362, 365, 366, 367
 - property tax 245
 - relation to Tax Advisory Commission 14
- Ministry of International Trade and Industry (MITI) 288, 303, 304, 313, 320
- Ministry of the Interior 350
- mix of taxes 395–6
- modification coefficients, basic financial needs 372–3
- modified flat tax 334
- Monopolized Public Corporation 258
- motor fuel taxes 309
- see also* energy taxes; liquefied petroleum gas tax; petrol tax
- motor vehicle tax 261 n, 363 n
- motor vehicle tonnage tax 253, 254, 261, 262
- motor vehicle transfer tax 364, 365
- motoring excise taxes 254
- multi-stage taxes 251–2
- municipal taxes:
- income tax 81
 - inhabitants' tax 167, 224, 334, 355, 358–9, 360–1
 - land taxes *see* city planning tax; land-holding taxes; property tax
 - tobacco consumption tax 363 n
 - see also* local taxes
- municipalities 351
- governments *see* local governments
- Naimusho 350
- Nakasone administration:
- control of fiscal deficits 320 n
 - income tax cuts 331, 334

- savings, withholding tax 385
- tax reforms 275, 277, 279, 324–6, 329
- value added tax 70, 268, 279
- national bonds 50
- national government disbursements (specific-purpose grants) 353, 354, 374–9, 380
- national income, tax revenues as percentage 10, 11
- National Land Agency (NLA), land policy 222
- National Tax Administration (NTA):
 - Annual Report of National Tax Administration* 66 n, 107, 215
 - blue returns 69
 - consumption tax enforcement 285
 - implementation of VAT 291 n, 292
 - Statistics on Private Wages and Salaries* 66 n, 86, 107, 116 n
 - Statistics on the Self-Assessed Income Tax* 68 n, 107, 116 n
 - withholding tax tables 62
- national treasury grants-in-aid 375, 380
- national treasury obligatory shares 375, 380
- natural resources, promotion 40
- natural tax increases 48–9
- negative externalities 252 n, 253
- net annual value, land 221
- net income, corporate taxation 168, 200
- net lending 141
- net worth tax 29, 30, 83
- Netherlands, tax burden 92, 93
- neutrality 49–52, 383, 385–6
- New South Wales Tax Task Force 234 n
- New Zealand:
 - goods and service tax 270
 - tax unit 78
- Nippon Telegraph and Telephone 321
- Nippon Tobacco Product Industry 258
- nitrogen oxide emissions 304 n
- NLA (National Land Agency), land policy 222
- nofukin* 362 n
- nominal tax rates, corporate taxes 192–6, 197–8, 199
- non-cash benefits, income tax 80
- non-energy taxes 308–9
- non-entitlement expenditures 322
- non-juridical organizations 169
- non-profit organizations 169–70, 172
 - see also* corporations
- non-receiving local governments 371
- non-reporting *see* under-reporting
- nontariff barriers, land problem 221
- Norway, tax burden 92, 93
- NTA *see* National Tax Administration
- nuclear power 312, 357
- obligatory shares 375, 380
- Obuti administration 341
- occasional incomes 61, 84
- OECD countries:
 - company taxation 177
 - environmental taxes 301, 303 n, 304 n, 305, 308
 - tax revenues 5, 6, 7, 8 n
 - value added tax 269–70
 - withheld taxes 61 n
- Office of Management and Budget 38
- Ohira administration 274, 275, 276, 277
- oil, crude 306–7, 310
- oil crises 46, 51, 301, 319
- openness of economy, correlation with tax shares 21–2
- Ordinary Account, local government 352
- ordinary allocation tax 370–1
- ordinary obligatory shares 375
- overseas investment, promotion 40
- over-shifting, corporate tax 185–6
- partnership method, integration of corporate and individual income taxes 175
- partnerships, registration as corporations 170 n
- payments in kind, fringe benefits 80
- pension funds 135, 140–1
- per capita GNP, correlation with tax shares 21–2
- per capita tax, inhabitants' taxes 359, 361
- per-staff revenue 56–7, 58–9
- personal income, *definition* 142 n
- personnel 28 n, 55, 56–7, 58–9, 291
 - see also* administration
- petrochemical industry, encouragement 187, 189
- petrol tax 253, 260–3, 284, 306
 - see also* excise taxes
- petroleum gas transfer tax 364, 365
- petroleum subsidies 306, 307
- 'piggyback' surtax 273, 355, 357
- policy:
 - environmental 301–3
 - formulation 12–15
 - individual income tax erosion 106–7
 - industrial, tax incentives 187–8
 - inflation adjustments 124–9
 - link with income distribution 161
 - personal savings 136–9
 - postwar strategies 36–52

- policy (*cont.*):
 - redistribution of income 161
 - tax incentives 36–42, 187–96
- Polluter-Pays Principles (PPP) 305, 309
- pollution control 40, 41, 188, 300–1, 309
- population:
 - age ratio 142 n
 - designated cities 352
 - prefectures 351
- portfolios, personal savings, tax incentives 140–6
- postal savings 131, 132, 135
- postwar growth, effect on tax share 19
- postwar military expenditures 24
- postwar tax system 4, 6, 36–52
- power resources development tax 253, 254
- PPP (Polluter-Pays Principles) 305, 309
- prefectural taxes:
 - consumption tax 297–9, 355
 - enterprise tax 355, 367, 368
 - income tax 81
 - inhabitants' tax 334–5, 355, 357–9, 367, 368
 - land taxes 224
 - see also* local taxes
- prefectures 351
 - governments *see* local governments
- preferences 130–6
 - see also* incentives
- price escalators 112–13
- price-monitoring system 285–7, 289–90
- prices, effect of value added tax 285–91
- privatization 321
- privileged savings 131–4, 135–6, 137–8
- Productive Green Tract Areas 239–40
- 'productivity', tax personnel 55, 56–7
- professional incomes, redistributive effects 155–7
- profit share approach 185
- profits, corporate taxation 1, 19, 26, 33, 167–86
- progressive taxes:
 - gift tax 209
 - income tax 28, 85–90, 95, 148, 153–4, 333–6
- property income, relationship to savings 143
- property tax 6, 29, 232, 245–7, 361–3
 - agricultural land 230–1
 - land holding 224, 232, 234
 - land valuation 237–8
 - share of tax revenues 5, 6
 - Shoup recommendations 34–5
 - tax burden 223
 - Urbanization Promotion Areas 230
- property transfers *see* inheritance taxes
- protectionism, environmental policy 304–5
- Public Enterprise Account, local government 352
- public good, land 222
- public works, obligatory shares 375
- pyramiding, turnover tax 252
- 'quasi-corporations' 180–2
 - see also* deemed corporations
- R&D (research and development), tax credits 77, 169, 189, 190, 191
- rates of tax *see* tax rates
- rates (property tax), Australia 234 n
- 'rational' sources of erosion 98
- Reagan administration 202, 277
- real estate taxes 61, 361–3
- rebuilding 319–49
- 'Rebuilding Japan's Archipelago' 220
- receiving local governments 371
- recreation facilities, fringe benefits 80
- 'recruit scandal' 386 n
- redistributive effects:
 - of income tax 84, 147–63
 - of wealth taxes 213–17, 396
- reductions:
 - annual 42–9
 - crucial issue for Shoup Mission 26
 - effect on redistribution of income 153, 161
 - effect on revenue 56
 - individual income tax 329–30, 344–5
 - interest income 133–4
 - stimulation of economy 339–41
 - tax reforms 339–41
 - to offset inflation 115–24, 125, 127
- reforms 3–4, 25–35, 319–49, 327, 383–96
- regional development, promotion 40
- registration and licence tax 224
- regressivity:
 - carbon/energy tax 313
 - value added tax 294, 396
- reliefs:
 - capital gains 142
 - land transfers 229–30
- remuneration *see* salaries
- rental value, land 221
- rents:
 - imputed 135
 - subsidized 80
- repairs, tax-free reserves 190, 347
- research and development (R&D), tax credits 77, 169, 189, 190, 191
- reserves, tax-free 190–2, 196, 202, 347

- retail prices, effect of value added tax 285–91
- retail sales tax 278
 - USA 270
- retailers' sales taxes 251–2
- retirement allowances, tax-free reserves 190, 196, 347
- retirement incomes:
 - collection 57, 59
 - received by heirs 339
 - separate tax rates 84
 - special deductions 77, 335–6
- returned goods, losses, tax-free reserves 190
- returns *see* tax returns
- revaluation *see* assets, land value; assets, revaluation
- revenue non-neutral approach 330
- revenue-neutral approach 326
- revenues:
 - basic financial, local governments 373–4
 - changing patterns in the 1990s 341
 - cost–revenue ratio 48, 55–6, 57, 58–9
 - decrease by tax reform 329–31
 - effect of inflation 124–9
 - effect of tax reductions 56
 - elasticity 44–8
 - erosion 9
 - fiscal deficits 49–51
 - losses, from special tax measures 38–40, 188–9, 190–1
 - Ministry of Finance, adjustment for tax changes 46
 - national and local 11
 - OECD countries 5, 6, 7, 8 n
 - per-staff revenue 56–7, 58–9
 - percentage of national income 10, 11
 - ratio to GDP 7–8
 - relation to economic growth 44–8
 - sources 5, 6, 8–10
 - alcoholic beverages tax 3, 19, 254
 - consumption tax 6, 8, 9
 - corporate taxes 3, 167–8
 - income taxes 6, 19
 - inheritance tax 6, 212, 213
 - land taxes 3, 19, 241–2
 - local taxes 8–12
 - social security contributions 5, 6, 8 n, 56 n
 - tobacco tax 3
 - value added tax 294–5, 297
 - wealth taxes 8, 9
 - see also* structure
- 'Rincho' (*Ad Hoc* Commission for Administrative Reform) 321, 323
- Rio Environment-Summit 302
- road construction 261, 306, 307
- Road Rating Assessments 237–8
- road tax 253, 254, 261
- road transport 309
- roll-over scheme 229–30, 235–6, 239
- Royal Commission on Taxation in Canada 97 n
- salaries:
 - proprietors' and family employees', deduction 77, 182
 - withholding tax table 62
 - see also* employment incomes; self-employment incomes
- salary earners, income inequality 150–1
- sales tax with exemption for inter-firm transactions 278
- sales taxes 251–2, 268, 277–9, 278
- savings 130–46
 - corporate, stimulation 40, 41, 188, 189
 - double taxation 92, 395
 - flat tax rate on interest 84, 385
 - inclusion in or exclusion from tax base 91–2
 - rates, personal 136–8
 - tax incentives 40, 41
- SCAP (Supreme Commander for the Allied Powers) 25–6, 26 n, 31
- schedular taxes 3, 4, 28, 91
- Securities Transaction Council 183
- securities transaction tax 253, 254, 284
- self-assessment 53–4, 61
 - effect of inflation 117, 118–19, 124
 - progressivity 87, 89–90
 - redistributive effects 151–2, 155–7, 162
 - Shoup recommendations 28
 - tax delinquency 64
 - tax returns 69–70
 - see also* self-employment incomes
- self-employed entrepreneurs, registration as corporations 170 n
- self-employed households, income distribution 158, 159, 160
- self-employment incomes:
 - income inequality 150–1
 - income-splitting 52, 331
 - manipulation of taxable income 52, 54
 - redistributive effects 155–7
 - tax collection 61
 - tax gap 68
 - underreporting 64–5
 - see also* self-assessment

- self-financing, business enterprises 175, 182–4
- SEO (*Survey of Economic Opportunity*) 107 n
- separate taxation:
 - corporate taxes 176, 177
 - erosion of tax base 96, 103
 - income tax 84
 - see also* special tax measures
- services taxes 271
 - see also* goods and services taxes
- shochu, dispute with EU 257–8
- short-term gains, taxable income 135
- Shoup Mission and Report 4, 25
 - accession tax 204, 205
 - aggregation approach 84
 - commodity tax 264
 - corporate taxes 172–3, 174, 175, 176, 180, 189
 - income tax 91, 95
 - tax unit 78
 - turnover tax 273 n, 274
 - value added tax 273, 274
- SII (Structural Impediments Initiative) 221, 236
- simplicity, criterion for tax reform 383, 386–7
- single-stage taxes 251–2
- small businesses 170
 - value added tax 278, 291, 393
 - see also* self-employment incomes
- social security contributions:
 - relationship to savings 143
 - tax revenues 5, 6, 8 n, 56 n
- social security system:
 - effect on savings 139
 - reform 322
- social welfare:
 - benefits, fringe benefits 80
 - effect on fiscal deficits 51
 - enhancement through tax incentives 188
 - programmes 25, 51
 - reduction of spending 322
 - transfers, as percentage of GDP 25
- socio-cultural factors, effect on savings 139, 146
- Sotozei* 290–1
- Special Account for Road Construction and Improvement 261
- special allocation tax 370, 374
- Special Council on the Transition to a new tax 285
- special depreciation, corporate taxation 190–2
- special land-holding tax 224, 232–3, 238, 363
- special reliefs:
 - inheritance tax 227
 - property tax 223
- special tax measures 37–8
 - corporate taxation 187–203, 389
 - effectiveness 139, 140–6
 - erosion of individual income tax 94–109
 - investment income and savings 130–6
 - redistributive effects 154, 161
 - see also* incentives
- Special Tax Measures Law 37, 37 n, 38
- special tonnage transfer tax 364, 365
- special wards 352
- specific-purpose grants 353, 354, 374–9, 380
- split-rate system, corporate tax 4, 174, 175, 177, 183–4
- spouses:
 - exemptions for 76, 79, 330–1, 333, 344, 385
 - tax burdens 339
- staff 28 n, 55, 56–7, 58–9, 291
 - see also* administration
- stamp tax 253, 254
- 'starving-out' of government expenditures 321
- Statistics Bureau, Management and Coordination Agency 66
- statistics, data sources:
 - income tax 107–8, 116 n, 147–9
 - taxable income 65, 66, 67, 68
 - savings 143
- statutory heirs, inheritance tax 207–9, 211–12, 214, 215
- steel industry, tax incentives 188
- stocks, sale, capital gains tax 30, 60, 77, 134–5, 173–4, 386, 388–9
- straight-line method, depreciation 168
- Structural Impediments Initiative (SII) 221, 236
- structure 6–12, 16–25, 341–4
 - environmental taxes 305–9
- subsidies:
 - environmental policy 304
 - fuel 306, 307
 - housing 80
 - to local governments 35
- sugar tax 253, 254
- sumptuary tax 252 n, 254, 255
- Sunley–Pechman formula 116
- Supreme Commander for the Allied Powers (SCAP) 25–6, 26 n, 31
- surtax 273, 355, 357
- Survey of Economic Opportunity* (SEO) 107 n
- Suzuki administration 320 n
- Sweden:
 - savings rate 136
 - tax burden 92, 93

- Takeshita administration:
- capital gains tax 134–5, 386
 - income tax rates 334, 335, 336, 390
 - inheritance tax 338
 - reforms 326, 328, 332, 333 n
 - tax base 385
 - value added tax 70, 268, 275–6, 277, 279, 285
- tangible business assets, property tax 362
- tariff autonomy and structure 18
- tatewari gyosei* 351 n
- tax administration *see* administration
- Tax Advisory Commission 12–15
- corporate taxes 174, 175, 176, 181, 183–4, 348
 - enterprise tax 360
 - land taxes 219, 222–3, 232, 233, 234, 235, 236–7, 240, 243
 - special tax measures 38 n, 139
- Tax Identification Numbers 389
- tax reforms 325, 326, 332
 - value added tax 276, 277, 278, 279, 298
- tax avoidance 54, 87 n, 124, 239
- tax-base elasticity 45
- tax bases 75–81
- broadening through tax reform 331–3, 385, 387
 - comprehensive, *definition* 96–8
 - corporate taxation 200, 388
 - definition of time period 395
 - effects of inflation 110–15
 - enterprise tax 360
 - erosion 91, 94–109, 109
 - income v. expenditure 91
 - inheritance tax 206–7, 212
 - need to broaden 387–9
 - selective excise taxes 271
- tax benefits:
- effect on personal savings 138–9
 - see also* concessions; incentives
- Tax Bills 237, 296
- tax burdens *see* burdens
- tax bureaux 14
- tax collection *see* collection
- tax concessions *see* concessions
- tax-credit method, consumption tax 281, 282, 392
- tax credits *see* credits
- tax cuts *see* reductions
- tax deferrals *see* deferred taxes
- tax delinquency 63–4
- ‘tax design’ 31, 32
- tax equity *see* equity
- tax erosion *see* erosion
- tax evasion 54, 87 n, 124, 137–8
- tax exemptions *see* exemptions
- tax-free reserves 190–2, 196, 202, 347
- tax gap 64–70
- tax-GNP ratio 18, 19
- Tax Identification Numbers (TIN) 63, 135, 389
- tax incentives *see* incentives
- tax indexing (inflation adjustments) 111–15, 127
- tax instruments, environmental policy 305
- tax levels 7, 187–203, 341–4
- tax liability *see* liabilities
- tax mix 395–6
- tax personnel 28 n, 55, 56–7, 291
- see also* administration
- tax policy *see* policy
- tax preferences *see* preferences
- tax process 12–15
- tax-rate elasticity 45
- tax rates:
- adjustments, effect on income distribution 154
 - analysis of tax erosion 99
 - capital gains on land 229
 - commodity tax 265, 266
 - consumption tax 283, 392
 - corporate taxation 171–2, 173, 192–203, 346–8, 360
 - dividends 134, 178
 - enterprise tax 360
 - flattening of structure 333–4, 390–1
 - index 46 n
 - individual income tax 81–90, 99–103, 344–5
 - inhabitants’ tax 361
 - inheritance and gift taxes 209–12, 338–9
 - interest 133–4
 - property tax 226 n, 230 n, 362
 - simplification 390–1
- tax reductions *see* reductions
- tax reforms 3–4, 25–35, 319–49, 327, 383–96
- tax reliefs *see* reliefs
- tax returns 61, 69–70
- corporations 168, 180, 181, 182
 - deduction of cost of preparation 77
 - Shoup recommendations 28
- tax revenues *see* revenues
- tax shares 18, 19, 20–2, 24
- tax-sharing ratio, local allocation tax 369–70
- tax-shifting, corporate 185
- tax statistics *see* statistics
- tax styles 25
- tax thresholds *see* thresholds
- tax unit 78–80
- tax yield 99, 100, 109

- taxable corporations 169–71
- taxable income:
 - classification 57, 59–61
 - computation 75–6
 - corporate taxes 200–2
 - definition 95
- technological development and innovation, tax
 - incentives 40, 188
- Temporary Tax Measures Law 37 n, 38 n, 189
- textile consumption tax 33
- thresholds:
 - income tax 76, 128–9
 - inheritance tax 338
- timber income 61, 77, 84
- TIN (Tax Identification Numbers) 63, 135, 389
- tobacco taxes 34, 252–3, 254, 258–60, 284, 363 n
 - see also* excise taxes
- Tokyo:
 - agricultural land 230 n, 231
 - prefectural population 351
 - special wards 226, 352, 371
- tradable permits 309 n
- trade (foreign), taxes 18, 19
- training, tax personnel 28 n
- transactions tax (turnover tax) 4, 33, 252, 272–3, 282, 325
- ‘transfer from the local to the national government’ 353
- transfer payments, erosion of tax base 98
- transfer taxes *see* gift taxes; inheritance taxes
- transfers:
 - fiscal 352–3
 - property tax 362 n
- travel tax 253, 254
- treasury grants-in-aid 375, 380
- treasury obligatory shares 375, 380
- turnover tax 4, 33, 252, 272–3, 282, 325

- Uchizei* 290–1
- UK *see* United Kingdom
- UN (United Nations), *Framework Convention on Climate Change* 302
- unconditional fiscal transfers 352
- underground economy 65 n
- under-reporting 64–5, 148
 - omission from statistics 149
 - source of tax erosion 107
- underutilized land 233, 238
- undistributed profits, tax rate 174, 175
- unfairness *see* equity

- unit of taxation 78–80
- unit-land price 221
- United Kingdom:
 - corporate tax rates 171
 - corporate tax share 167
 - cost-revenue ratio 55, 56, 57, 58–9
 - Meade Report 27
 - military expenditure 25
 - PAYE, Schedule E 63 n
 - portfolio investments 140, 141, 142
 - savings rate 136
 - tax burden 92, 93
 - tax rates 83, 171
 - tax unit 78
 - tobacco tax 258
- United Nations, *Framework Convention on Climate Change* 302
- United States of America *see* USA
- unrelated business income 169, 170
- urban land prices 220–1
- Urban Promotion Areas 236
- Urbanization Control Areas 230 n
- Urbanization Promotion Areas 230, 238, 239–40
- USA:
 - corporate taxes 167, 171, 199–203
 - cost-revenue ratio 55, 56, 57, 58
 - impact of national government on local government 380–2
 - military expenditure 24, 25
 - occupation, effect on local government structure 350
 - portfolio investments 140, 141, 142
 - retail sales tax 270
 - savings rate 136
 - tax burden 92, 93, 199–203
 - tax rates 83, 171
 - tax revenue sources 5, 6
 - tax unit 78
 - tobacco tax 259
 - Treasury 12 n, 91 n, 92, 327, 331
 - value added tax 270
 - see also* Shoup Mission and Report

- valuation:
 - assets 29, 33
 - inventories, valuation 168, 203
 - land 225–6, 234, 237–8, 362
 - see also* assets, land value
- value added ratios 292, 293
- value added tax (VAT) 268–99
 - alcoholic beverages 257

- cash-flow benefits 294
- 'Ku-ro-yon' phenomenon 70–1
- merged with commodity tax 264, 267
- multi-stage sales tax 252
- need for reform 391–3
- prefectural tax 273
- Shoup recommendations 29, 30, 34, 273–4
- simplified procedures 391
- tobacco 260
- vanishing exemption method 282–3, 292–3
- VAT *see* value added tax
- vehicle-related taxes 261–3, 263, 309
- vertical consolidation 351 n
- vertical equity 94–5, 103–4, 335, 384, 385, 388
- Vietnam, value added tax 269
- wage earners, income inequality 150–1
- wages:
 - family employees', allowable deduction 77
 - see also* self-employment incomes; withholding at source
- wartime:
 - military expenditures 24–5
 - taxes 3–4
 - commodity tax 264
- wasteful expenditures 320 n, 322
- wealth:
 - as tax base 91 n
- redistribution 84, 396
 - accession tax 205
 - income tax 147–63
 - inheritance and gift taxes 161, 204, 213–17, 396
 - taxes' share of revenues 8, 9
- welfare *see* social welfare
- whisky, international disputes 256, 257–8, 271
- white returns 69, 70
- wholesalers' sales taxes 251–2
- windfall revenue gains, value added tax 294–5, 297
- 'window-dressing', fiscal 322 n
- withholding agents 62, 63
- withholding at source 53–4, 57, 59–64
 - effect of inflation 120–1, 122, 124, 127
 - investment income 387
 - Nakasone administration, savings, withholding tax 385
 - OECD countries, withheld taxes 61 n
 - redistributive effects 151, 163
 - Shoup recommendations 28
- World Trade Organization (WTO) 258
- Yamaichi Security Co. 340
- 'year-end' adjustment 63, 387
- yield 99, 100, 109