

8. Let's discuss How "Taxes" should be in the Future

"The State and Issues of the Tax System in Japan: Structural Changes and the Ideal Tax System for the Reiwa Period" (June 2023), reported by the Government Tax Commission, provides materials to be considered when discussing how the tax system should be for future society.

Structural Changes in the Economic System

Taxes are "society membership fees to cover the common cost." In order to construct a "fair, neutral, and simple" tax system that is acceptable to the majority, while securing "sufficient" and necessary financial resources to provide public services, it is important to understand various social problems and issues, and to take into account any possible changes that could occur in the future.

Diversification of Working Styles and Life Courses

- Diversification of work styles and life courses, including the expansion of non-traditional employment careers
- Increased dual income household, changes in the household structure, increase in foreign workforce, etc.

Globalization and Digitalization of Economy

- Changes in the environment due to the rise of platform providers, Web 3.0 and other technologies, and growth of crypto assets
- Promoting industrial renewals, building startup ecosystems, are critical

Changing Circumstances Surrounding Disparities

- In addition to disparities due to non-permanent employment and poverty, issues with single mothers and isolated households must also be addressed.
- Redistribution through taxation and social securities is very important, considering issues with education and decreased social mobility

Changes in Energy and Environmental Issues

- The challenges to deal with SDGs and climate change and to promote environmentally friendly vehicles
- Russia's invasion of Ukraine highlighted the energy problems in Japan

Changes in National Security

- Corporate strategies should be renewed to ensure economic security
- National defense capabilities should be strengthened also through economic and fiscal enhancement

Declining Population, Lowering Birthrate and Aging Society

- Ensure the sustainability of the social security system facing a declining population, falling birthrates, and an aging society
- Enhancement of policies for children and child-rearing generations are essential, such as raising the income of younger and child-rearing generations

Changes in Local Communities

- Local governments are facing more issues, such as increasing needs to provide social security services
- Building a sustainable local tax and financial base is required

Structural Deterioration of Fiscal Situation

- More serious situation in finance due to increased funding to cope with the COVID-19 pandemic
- Fulfill the tax function to fund sources, not to put the burden on future generations

The State and Issues of Each Tax

Individual Income Taxation

- (1) Establish a tax system neutral to the way people work**
 - Consider a fair and neutral tax system for diverse work styles
 - Keep attention to the balance of tax burden among salary, retirement allowance and pension benefits
- (2) Consider how to fulfill the proper income redistribution function**
 - Analyze and review the distribution of tax burden, including the separate taxation
 - Consider the role of tax exemption
- (3) Initiatives to improve reliability of tax system**
 - Improve convenience for taxpayers and ensure fairness

Consumption Taxation

- (1) Consumption Tax**
 - Consumption tax will continue to play an important role, in order to provide stable support for social security, whose needs are expected to increase further
- (2) Liquor / Tobacco Tax**
 - Review how tax burden should be allocated according to the basic principle of consumption taxation
- (3) Automobile and Energy-related Taxes**
 - Review automobile-related taxes at the background of the spread of electric vehicles

International Taxation

- Allocation of new taxation rights to market jurisdictions and implement the global minimum taxation
- Expand the tax treaty network in both aspects of quality and quantity, address tax evasions of individuals and businesses, and promote exchange of taxation-related information

Asset Taxation

- (1) Inheritance / Gift Tax**
 - Discuss and consider the taxation system and various special treatments from a wide range of perspectives
- (2) Fixed Property Tax**
 - Balanced the level of burden concerning land

Business taxation

- (1) Corporation Tax**
 - "Growth-oriented Corporation Tax Policy Reform" needs to be reviewed from objective and empirical perspectives
- (2) Special Measures Concerning Taxation**
 - In principle, Special Measures Concerning Taxation should be limited to those are necessary and valid, and should be allowed within a certain time frame
 - Evidence based policy making (EBPM), such as a constant review based on appropriate data, should be introduced
- (3) Local Businesses Taxation**
 - The scope of application of Size-based Business Taxation should be reviewed

Tax Payment Platform Maintenance

- Promote digitalization of tax procedures, and review how legal reporting should be done for crypto assets transactions or any other transactions using platforms
- Consider measures to deal with acts that seriously undermine a sense of fairness, including non-cooperation with tax audits, complicity in fraud by third parties, and tax evasion

