New Developments in the Taxation of Financial Income and Wealthy Individuals*

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Abstract

In May 2021, the Select Revenue Measures Subcommittee of the United States House Committee on Ways & Means held a hearing titled "Funding Our Nation's Priorities: Reforming the Tax Code's Advantageous Treatment of the Wealthy."

In November 2023, the Senate Committee on the Budget held a hearing titled "Fairness and Fiscal Responsibility: Cracking Down on Wealthy Tax Cheats," which addressed issues including tax enforcement.

Drawing on the analysis and discussions in the U.S. congressional hearings in which financial resources and fairness of taxation are keywords, as well as the experiences of Japan and other countries in this area in recent years, this study explores the prospects for post-COVID-19 taxation of financial income and wealthy individuals.

The reason for focusing on the U.S. experience and findings is that the U.S. (federal) tax system derives a substantial portion of its tax revenues from income taxes. In addition, timely discussions are carried out on the issue of how to restore the progressivity of the tax system in order to finance the bigger government in the post-COVID-19 era.

This paper (1) analyzes the concentration of financial assets and income among the wealthy in Japan and the United States and the current state of distribution. (2) Then, it discusses institutional options to secure revenue and adjust distortion in the distribution of tax burdens. Options include the top-up minimum tax for the super-wealthy that Japan introduced in the FY2023 tax reform (applicable from CY2025), the additional tax (surcharge) for the super-wealthy, and a more ambitious proposal for mark-to-market taxation of unrealized gains being proposed by the Biden administration in the United States.

Since financial income, which is statutory taxed more favorably than labor income, is heavily concentrated among wealthy individuals, this paper argues that changes in the way the wealthy are taxed can effectively address the problem of distortion in the distribution of tax burden without any changing taxation of financial income itself.

In a post-COVID-19 economy, envisioning a tax system that efficiently and equitably raises funds to address priority issues and promotes inclusive economic growth became a common challenge for all countries.

Focusing on wealthy individuals, what is the tax system based on ability-to-pay, how much progressivity should be restored in the tax system as a whole, and what are the

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institutional options for this? To what extent do these options contribute to the optimization of the burden? Also, what is the contribution to financial resources?

These are the themes explored in this paper.

Note on Recent Important Development: G20 Ministerial Declaration on Tax Cooperation at the G20 meeting in Brazil in July 2024, finance ministers adopted the G20 Ministerial Declaration on Tax Cooperation. This historic declaration reflects a unified commitment among G20 countries to enhance international cooperation on the taxation of the ultra-wealthy.[1]

In the years ahead, the growing international momentum for taxing the wealthy should be leveraged as a catalyst for stimulating domestic discussions on this critical issue.

Terms used in this paper to describe high-income earners

For the purposes of this paper, we will use the following simplified terms to classify high-net-worth individuals (HNWIs):

- Wealthy: Roughly the top 0.1% of the population. In Japan, this category includes approximately 70,000 taxpayers with a total annual income exceeding 50 million yen.
- Super-Wealthy: In Japan, this refers to individuals with a total annual income exceeding 100 million yen.
- Ultra-Wealthy: In the United States, under the Biden administration's classification, this refers to individuals with a total annual income exceeding 10 million dollars. According to Zucman (Blueprint submitted to G20 Brazil), this threshold is $1 billion.

Financial income and capital income

- In this paper, the terms "financial income" and "capital income" are generally used interchangeably.

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JEL Classification: H24, D31, D63

I. Introduction

In a policy pamphlet, former Prime Minister Fumio Kishida, who won the 2021 Liberal Democratic Party (LDP) presidential election, listed "breaking down the '100 million yen barri-

[1] G20 Brazil (2024) para 13 states "With full respect to tax sovereignty, we will seek to engage cooperatively to ensure that ultra-high-net-worth individuals are effectively taxed."

er' through measures such as a review of financial income taxation" as one of the specific measures to "mobilize all policies for a virtuous cycle of 'growth' and 'distribution.' " He positioned the way in which financial income taxation of wealthy people should be carried out as being important in the distribution policy, which is one of the flagship policies of his administration.

Tax law textbooks explain that "income tax is designed so that the tax burden ratio increases as the amount of income increases" and "it is well suited to the objectives of achieving a fair tax burden in line with the ability to pay and redistributing wealth." In order for income tax to effectively fulfill these roles, a seven-tier progressive tax rate has been set, with tax rates ranging from 5% for incomes of less than 1,950 thousand yen to 45% for incomes of 40 million yen or more.

However, when a graph of the effective tax burden rate by income class is created from the tax statistics of the National Tax Agency, the actual effective tax burden rates (which are the amount of income tax divided by the amount of taxable income) decrease for the wealthy as the income amount exceeds 100 million yen (see Figure 4). Why is this? The reason is that financial income, such as capital gains and dividend income, are subject to a flat tax rate of 15% (national), which is significantly lower than the top rate of 45% of the progressive tax rate applied to income subject to comprehensive taxation, such as salary income and business income.

Experts have pointed out that the COVID-19 pandemic has exacerbated the concentration of wealth among the wealthy. For example, Oxfam (headquarters in Oxford, UK), one of the prominent international NGOs working on the issue of inequality, states that since 2020, the richest 1% of the world's population has acquired almost two-thirds of the new wealth, which is nearly double that of the remaining 99% of the population.[2]

As shown by the fact that Thomas Piketty's "Capital in the 21st Century," which revealed the historical trend of wealth concentration among the super-wealthy, such as the top 1%, based on long-term tax statistics, became an unprecedented bestseller for an economics book, there is a high level of public interest in the concentration of wealth among the wealthy and the resulting inequality. The concentration of wealth and the inequity it brings have become one of the important issues that our society and communities cannot avoid when considering distribution policies for the 21st century.

In addition to the issue of distribution (redressing disparities), there are various other issues involved in the taxation of financial income, such as its impact on the stock market, promoting innovation and entrepreneurship, and the policy in recent years of "promoting a shift from savings to investment."

Achieving consensus in this area is, therefore, not an easy task due to the diversified interests of stakeholders.

To comprehensively examine these issues, it is necessary to have data and analysis on the "current state of the tax base" and "distribution of the tax burden," which form the basis for designing the tax system.

Chapters II to VI of this paper will empirically examine the current state of inequality,

[2] OXFAM "Survival of the Richest," Figure 1

the tax base of financial income, and the distribution of tax burden.

Chapter VII of this paper evaluates and examines specific options for tax system reform to tax the wealthy based on the experiences of Japan and the United States. In our examination, this paper tried to show the impact of each option on the rationalization of the burden and the scale of the financial resources as much as possible.

II. Discussion and Implications of the U. S. Congressional Hearings on Taxation of the Wealthy

II-1. Discussion and Implications of U.S. Congressional Hearings on Post-COVID-19 Taxation of the Wealthy and Fiscal Policy Trends

In May 2021, amid the COVID-19 pandemic, the Select Revenue Measures Subcommittee of the United States House Committee on Ways & Means held a hearing titled "Funding Our Nation's Priorities: Reforming the Tax Code's Advantageous Treatment of the Wealthy." As shown in the title, the hearing focused on reviewing the taxation of wealthy individuals and identifying funding options for the nation's priorities.

In November 2023, the Senate Committee on the Budget held a hearing titled "Fairness and Fiscal Responsibility: Cracking Down on Wealthy Tax Cheats." This hearing addressed issues discussed in the 2021 hearing and also included tax enforcement.

Both the 2021 House hearing and the 2023 Senate hearing were held under Democratic chairmanship.

The Joint Committee on Taxation (JCT) staff prepared a bipartisan congressional report on the Taxation of High-Income and High-Asset Holders.

The JCT reports note that financial assets are concentrated among the wealthy (see Table 2). This concentration is similar in Japan (see Figure 3). Then, the impact of this concentration on the tax system needs to be examined.

Countries, including Japan and the U.S., base their tax systems on comprehensive income taxation (based on the Haig-Simons definition of income), but financial income is taxed at reduced cost. Financial income taxation is referred to as the "Achilles' heel" of comprehensive income taxation.

Under the comprehensive income concept, asset value increases are also included in the tax base in principle. Still, because of the difficulty of valuing unrealized gains, income from the transfer of assets is taxed on a realization basis. Therefore, income taxation on unrealized capital gains is deferred or never taxed. "There is a benefit to the taxpayer from deferral due to the time value of money."[3]

Because unrealized financial assets are concentrated among wealthy individuals, "Preferential treatment for unrealized gains disproportionately benefits high-wealth taxpayers and provides many high-wealth taxpayers with a lower effective tax rate than many low- and

[3] JCT (2023) p. 58

middle-income taxpayers."[4]

The progressive structure of income tax is undermined by the fact that the returns on financial assets, which are concentrated in the hands of the wealthy, are subject to either low taxation or no taxation on unrealized gains. The U.S. (federal tax) obtains 80%[5] of its tax revenue from personal income tax, and awareness of income tax issues must be higher than in Japan and European countries.

The following sections will examine discussions in the U.S. congressional reports that may serve as useful references for Japan.

II-2. Basic Point of View

The U.S. Congressional Report JCT (2021) summarizes and presents the essential perspectives that Japan can (and should) share in conceptualizing post-COVID-19 tax and fiscal systems (see Table 1).

Table 1: Basic Point of View on Financing Important Post-COVID-19 Pandemic Measures (U.S. Experience)

1. The primary purpose of a tax system is to raise revenue to fund government expenditures.
2. The economic crisis brought on by the ongoing COVID-19 pandemic has led Congress to respond by passing several bills that will substantially increase the government's expenditures and U.S. debt.
3. If Congress desires to increase government expenditures further, funding options include increasing government debt or raising more revenue.
4. If Congress decides to raise more revenue, one of the questions is how.
5. Several factors may be used to assess how well a tax system raises revenue, including economic efficiency and growth, how fair the tax system is (including both horizontal and vertical equity), and how simple and administrable the tax system is.
6. The disparate effects of the COVID-19 pandemic across industry, educational attainment, and income groups have drawn focus to the continuing debate about the fairness of the U.S. tax system.
7. One salient question in that debate is the degree to which the U.S. tax system should impose taxes according to a taxpayer's ability to pay; in other words, what is the appropriate level of progressivity for the overall U.S. tax system?

(Source) Prepared by the author, based on excerpts from the JCT (2021)[6]

[4] U.S. Department of the Treasury (2024) p. 83

[5] Percentage share of tax items in selected countries (2020). Central government.

	Corporation Income Tax	Individual Income Tax	Goods and Service Tax
France	15.7	25.9	46.1
Germany	4.5	42.9	52.2
Japan	22.0	30.2	42.8
United Kingdom	9.9	39.1	42.1
United States	9.3	82.4	7.3

[6] JCT (2021) Introduction

II-3. How to Measure the Taxpayers' "Ability to Pay"

JCT (2021), page 2, points out that "income" and "wealth" are indicators of a taxpayer's ability to pay. The summaries in the next two sections are adopted from the report's explanation.

II-3-1. Income

A general concept of income (broad income) is the change in an individual's net wealth and consumption over a certain timeframe. (JCT(2021) p. 2)

- Income is a more appropriate measure of ability to pay than wealth because not all wealth is held in liquid assets.
- However, there are administrative concerns under a broad income tax, including how changes in an asset's value should be measured.
- There are also efficiency concerns: what do high marginal income tax rates do to incentives to work, and compared to other taxes, how distortionary is such a tax?

II-3-2. Wealth

Another possibility is to use a taxpayer's wealth to indicate the ability to pay. Arguably, a taxpayer with more wealth (assets) has more capacity to pay taxes.

However, concerns in this approach would include:

- This approach may treat otherwise similarly situated taxpayers differently depending on saving and consumption patterns.
- If attempting to tax wealth directly (such as wealth tax), there may be administrative concerns in measuring wealth.
- There are also efficiency concerns, e.g., what would a broad tax on wealth do to incentives to save and invest.

II-4. Inequality in Income and Wealth Distribution in the U.S. (Initial Income)

The U.S. Congressional reports provide a detailed analysis of income and wealth holdings by wealth group. The data on the distribution of net financial wealth by wealth group (Table 2) shows that the amount of net financial wealth held by the top 1% of the wealth group in 2023 is $46 trillion, which is 1.3 times more than the same since 2020, when the COVID-19 pandemic began, and its share has also increased.

The wealthiest 1% hold more than half (54%) of Corporate Equities and Mutual Fund Shares, while the bottom 50% have only 1%.[7]

In the U.S., there is an extreme concentration of financial wealth among the top 1%, while in Japan, too, there is an extreme concentration of financial income among the top

[7] JCT (2023) Table 7.

1%. In 2019, the top 0.3% held 53% (= 3.9 trillion yen out of 7.4 trillion yen) of total financial income (Figure 3).

Table 2: Distribution of Net Financial Wealth Levels and Shares by the Class of Wealth Group

Wealth Group (Percentile)	Level (Trillion USD)		Share (Percent)	
	2020	2023	2020	2023
Bottom 50	2.2	4	2	2.5
50-90	33	42	29	28.6
90-99	43.8	55	38.4	37.5
Top 1	35.1	46	30.8	31.4

(Source) Prepared by the author, adopted from Table 8 of JCT (2021) and Table 5 of JCT (2023)

II-5. Possible Options for Reform

Recognizing the wide range of possibilities for changes in the taxation of income or wealth of individuals, JCT reports discuss a range of options, from changes to rates and rules within the existing system to broader overhauls and ambitious options (e.g., introducing a new base on which to impose a tax).

Table 3 (1) below summarizes selected proposals (options) and discussions on income tax and wealth tax.

III. Income Distribution Inequality in Japan

In discussing the degree of progressivity of tax that should be adopted in the United States, the JCT reports examine a considerable amount of empirical data on the current state of distribution in the United States.

Following this approach, this section will discuss the current state of income distribution inequality (disparity) in Japan.

III-1. Gini Index (Income)

The Gini index indicates the degree of inequality in income distribution. It takes a value from 0 (when income is divided equally) to 1 (when one person monopolizes all income), and the closer the value is to 1, the more unequal the income distribution is.

Table 4 shows the trend in the Gini index. For Japanese society as a whole, when looking at “income before redistribution,” the Gini index increased from 0.43 in 1990 (during Japan’s bubble economy period) to 0.57 in 2021. On the other hand, if we look at “redistributed income” after redistribution through various benefits such as pensions and child allow-

Table 3 (1): Income Tax Options

Proposals	Discussion and Assessment of the Proposal
Raise tax rates and rate brackets to make the individual income tax system more progressive	● These changes are relatively straightforward (using the same tax base). ● Certain incomes continue to enjoy preferential treatment provided for under the present law. ● Most empirical studies find that the labor supply decisions of low-income individuals are generally more responsive to taxes than the labor supply decisions of high-income individuals.
Raise corporate income tax rate[8]	● This change is relatively straightforward (using the same tax base). ● If the shareholder (owners of capital) bear a substantial portion of the corporate income tax burden, then increasing the corporate income tax would raise taxes relatively more from taxpayers with high wealth and high income, which will, in turn, increase the progressivity of the U.S. tax system. ● The degree to which workers bear the incidence of a tax on capital may alter the progressivity of such a tax. ● Increasing the tax on capital presents economic issues related to fairness and efficiency.
Raising the highest marginal rate on capital gain (currently 20%) or increasing the rate of the Net Invest Income Tax (a surcharge, currently 3.8%)	● Capital gain is taxed at the time of disposition. The disposition-based system can create a “lock-in” effect where taxpayers choose to hold property with built-in capital gain. This effect may create inefficiencies if less productive investments are held rather than disposed of as a means of delaying tax consequences. ● Recent estimates suggest the tax elasticity of capital gains is approximately -0.7, meaning a 10% rate increase leads to a 7% reduction in capital gains income.[9]
Mark-to-market taxation	● The Code currently contains provisions using a mark-to-market approach. Those provisions target specific fact patterns, e.g., expatriating persons and marketable PFIC stock. ● Proposals to expand mark-to-market taxation may identify other specific fact patterns where mark-to-market rules solve a narrow policy problem. ● Proposals to expand mark-to-market taxation may be used narrowly to deal with specific policy issues or, alternatively, more broadly, to deal with the distortion in the current tax system, which defers the timing of taxation until its realization. ● (The Japanese tax system does not have the “step-up” problem that the U.S. tax system has.)

(Source) Prepared by the author, adopted from JCT (2021) Chapter III. Discussion A. Income Tax Proposals

Table 3 (2): Wealth Taxation Option

Proposals	Discussion and Assessment of the Proposal
Wealth taxation is a tax imposed directly on an individual's wealth, assets, or property held by individuals.	● Implementing a wealth tax raises many design considerations. - The scope of taxpayers subject to tax (e.g., individuals/trusts/married couples) - The base of the wealth tax (e.g., scope of asset/threshold/geographical scope) - Tax rates (flat rate vs progressive rates) ● The wealth distribution is highly concentrated. Thus, a direct tax on wealth would improve progressivity. ● Opponents of a wealth tax argue that the European experience with wealth taxes shows that efficiency concerns and administrative issues raised by a wealth tax outweigh the benefits of such a tax. - According to the Organisation for Economic Co-operation and Development (OECD) (2018) Figure 1.1, the number of countries with wealth taxes has decreased from 12 in the 1990s to 4 in 2017. - Zucman (2024) proposed a 2% minimum wealth tax on ultra-wealthy individuals (with wealth exceeding 1 billion USD) in his report commissioned by the Brazilian G20 presidency.[10] - From 1950 to 1953, Japan implemented a Wealth tax at the rates of 0.5% to 3% on net wealth exceeding 5 million yen.

(Source) Prepared by the author, adopted from JCT (2021) Chapter III. Discussion B. Wealth Taxation

[8] Some might feel a little strange that we are discussing personal income taxation and why the issue of corporate taxation comes up. The premise is that the burden of corporate taxation falls on the shareholders. JCT (2021), p. 69, points out the following.

Increasing the tax on capital presents certain economic issues related to both fairness and efficiency. In particular, while economic analysis concludes that in the long run owners of domestic capital are more easily able to escape some of the burden of the tax such that a tax on capital is at least partially passed on to labor, there is no consensus among economists on the extent to which the incidence of taxes on the income from capital is borne by owners of capital in the form of reduced returns, or whether reduced returns cause investors to save less and provide less capital to workers, thereby reducing wages in the long run.

[9] JCT (2021) page 71 points out the following:

Recent estimates suggest the permanent elasticity of capital gains is approximately -0.7, meaning a 10% increase in rates leads to a 7% reduction in capital gains income. The transitory elasticity is estimated to be in excess of -1.0, meaning a 10% increase in rates leads to a more than 10% reduction in capital gains income.

[10] Zucman, Gabriel (2024) "A blueprint for a coordinated minimum effective taxation standard for ultra-high-net-worth individuals" https://gabriel-zucman.eu/files/report-g20.pdf

ances, it has remained at around 0.36 to 0.38 over the same period, so it can be said to have remained flat. The degree of improvement in inequality through redistribution has strengthened significantly from 15.9% to 33.1%. Thus, it may be fair to say that Japan is managing to hold on to the edge of a dangerous area of distributional inequality.

Table 4: Trends in the Gini Index the Effect of Income Disparity Correction in Japan

	1987	1990	1993	1996	1999	2002	2005	2008	2011	2014	2017	2021
Income before redistribution	0.4049	0.4334	0.4394	0.4412	0.472	0.4983	0.5263	0.5318	0.5536	0.5704	0.5594	0.57
Income after redistribution	0.3382	0.3643	0.3645	0.3606	0.3814	0.3812	0.3873	0.3758	0.3791	0.3759	0.3721	0.3813
Improving rate (%)	0.165	0.159	0.17	0.183	0.192	0.235	0.264	0.293	0.315	0.341	0.335	0.331
Tax	0.042	0.029	0.032	0.017	0.013	0.008	0.032	0.037	0.045	0.045	0.048	0.047
Social security	0.12	0.125	0.132	0.157	0.171	0.214	0.24	0.266	0.283	0.31	0.301	0.298

(Source) Prepared by the author, from the Ministry of Health, Labor and Welfare “Income Redistribution Survey”

III-2. Poverty Rate

The poverty rate (relative poverty rate) refers to the percentage of a population living with an income below 50% of the median household income in a given country. It is a measure commonly used to assess income inequality and the extent of economic disparities within societies. A high poverty rate indicates that many people in that society are in a state of economic poverty.

Table 5 shows the changes in the poverty rate. The poverty rate in Japan has risen almost consistently from 13.5% in 1991 to 15.4% in 2021. This is worse than the 15.1% (2021) in the United States, which is often viewed as a society with a wide gap between rich and poor.[11]

However, the child poverty rate (the percentage of those under 18 years of age in a state of relative poverty compared to the total population under 18 years of age) fell from 16.3% in 2012 to 11.5% in 2021 during the period of “Abenomics” (the second to fourth Abe administrations from 2012 to 2020).

In addition, the poverty rate for single-parent households (A household where one adult is the sole caregiver and breadwinner for at least one dependent child aged 0-17) was as high as 63.1% in 1997, when Japan’s economic bubble burst and several large financial institutions went bankrupt. By 2021, this had fallen to 44.5%, showing a significant improvement.

[11] OECD Poverty rate database: https://data.oecd.org/inequality/poverty-rate.htm#indicator-chart

As we have seen above, when we look at popular indicators of inequality, such as the Gini coefficient and the poverty rate, it could be said that the widening of income inequality in Japan has been, to some extent, suppressed.

Table 5: Trends in Poverty Rates in Japan

	1985	1988	1991	1994	1997	2000	2003	2006	2009	2012	2015	2018	2021
Relative poverty rate	0.12	0.132	0.135	0.137	0.146	0.153	0.149	0.157	0.16	0.161	0.157	0.157	0.154
Child poverty rate	0.109	0.129	0.128	0.121	0.134	0.145	0.137	0.142	0.157	0.163	0.139	0.14	0.115
Single-parent	0.545	0.514	0.501	0.532	0.631	0.582	0.587	0.543	0.508	0.546	0.508	0.483	0.445

(Note) Since 2018, the new standards have been used.
(Source) Prepared by the author, from the Ministry of Health, Labor and Welfare "Income Redistribution Survey"

III-3. The High Cost of Redistribution through Social Security

As mentioned in Section III-1, Japan is attempting to improve the widening gap in initial income through redistribution via taxation and social security. Still, this approach is expensive (it requires a large government). Furthermore, Japan's income redistribution relies largely on social security (see Table 4).

In FY2023, social security benefit expenses will total 134.3 trillion yen, including 60.1 trillion yen for pensions, 41.6 trillion yen for medical care, 13.5 trillion yen for long-term care, 10 trillion yen for children and childcare, and 9 trillion yen for other welfare, etc. 77.5 trillion yen is covered by insurance premiums (41 trillion yen for insured persons, 36.5 trillion yen for employer contributions), 36.7 trillion yen by the national government (general account), and 16.4 trillion yen by local governments (general revenue).[12]

As the recipients of cash benefits such as pensions and in-kind benefits such as nursing care are limited to the elderly, and as the proportion of older people receiving in-kind benefits for medical care is also high, income redistribution in Japan is not redistributing from high-income earners to low-income earners, which is the original purpose of the redistribution system but is redistributing from the working generation to older people.

III-4. Concentration among the Wealthy

Historically, there are many signs that the tendency for wealth to become concentrated

[12] The Ministry of Health, Labour and Welfare "The current state of social security benefits and contributions" (Japanese) https://www.mhlw.go.jp/stf/newpage_21509.html

among the wealthy, or the top 1% of wealthy people, is accelerating in each country. This has been pointed out by many. For example, Piketty (2014),[13] Oxfam (2023), JCT (2021;2023). How about Japan? Let's check using an indicator that allows for international comparison.

III-4-1. Top 10% vs Bottom 10% (Inter-decile P90/P10)

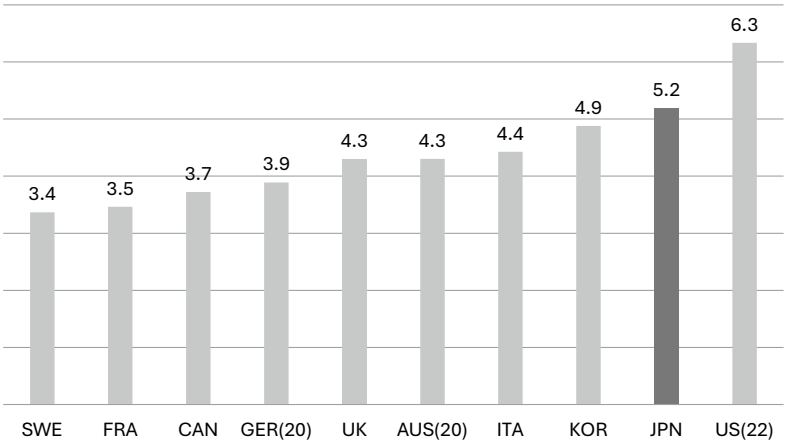
One of the indicators of inequality listed in the OECD's "Income Inequality Database" is P90/P10 for household disposable income. The Interdecile P90/P10 ratio measures the gap between the relatively wealthy (top 10%) to the relatively poor (bottom 10%).[14]

A higher P90/P10 ratio indicates greater inequality, as the top 10% have significantly more (income, wealth, etc.) than the bottom 10%.

In major countries, the highest ratio is 6.3 times (2022) in the United States, followed by 5.2 times (2021) in Japan, 4.3 times (2021) in the United Kingdom, 3.9 times (2020) in Germany, and 3.5 times (2021) in France (Figure 1).

The data and comparability need to be assessed, and while some reservations are necessary in interpreting the data, looking at these indicators, Japan's income concentration among the wealthy is second only to the United States among major countries.

Figure 1: Concentration on Top 10% (Household Disposable Income)



(Note) Data years are 2021 unless otherwise indicated in parentheses after the country names

(Source) Prepared by the author, from the OECD Income Distribution Database (P90/P10)

III-4-2. Empirical Analysis Based on Anonymized Tax Data

Kunieda and Yoneta (2023) conducted a detailed empirical study based on anonymized

[13] Piketty, Thomas (2014) "Capital in the Twenty-First Century"

[14] P90 refers to the 90th percentile of income (the income level below which 90% of the population falls). P10 refers to the 10th percentile of income (the income level below which 10% of the population falls). The P90/P10 ratio is calculated by dividing the income at the 90th percentile by the income at the 10th percentile.

income tax return data of the National Tax Agency (more than 22 million returns per year), estimating Pareto parameters for income categories such as financial income and labor income in addition to total income, and comparing these with the Pareto parameters of the United States (Table 6).

Based on newly discovered data, the findings of the study overturn the conventional view of experts that the problem of inequality in Japan is not the accelerated concentration of income among the top 1% as in the United States, but the expansion of the poor as symbolized by the poverty rate and other indicators.

The study points out that Japan is somewhat more concentrated in financial income than the United States. In addition, the Pareto parameter for labor income in Japan is considerably larger than that in the United States (i.e., Japan is more equal), but this may be because the compensation of managers and executives in U.S. firms is much higher than that of ordinary employees, while the compensation of managers and others in Japanese firms is suppressed to some extent.

The study suggests, as a policy implication for Japan, that "most of the income of super-wealthy individuals in Japan derives from financial income, and that income inequality should be addressed by taking financial income into account" (Kunieda and Yoneta, supra, p30).

Table 6: Pareto Parameters by the Type of Income in Japan and in the United States

	Total income	Financial income	Labor income
Japan	1.45	1.35	1.95
United States	1.40	1.38	1.60

(Note) A smaller Pareto parameter (coefficient) indicates higher inequality.
(Source) Prepared by the author from Kunieda and Yoneta (2023) page 26 and Saez and Stantcheva (2018) page 130

III-5. Asset Inequality

III-5-1. Approach from the National Survey of Family Income and Expenditure

Kitao, S and Yamada, Y (2019) aim to grasp the current state of inequality from multiple perspectives and envision more elaborate redistribution policies. To accomplish this, they analyze macro inequality trends and inequality in various micro aspects (age, labor participation and type, family structure, etc.) using individual data from the National Survey of Family Income and Expenditure conducted by the Ministry of Internal Affairs and Communications for approximately 60,000 households nationwide.

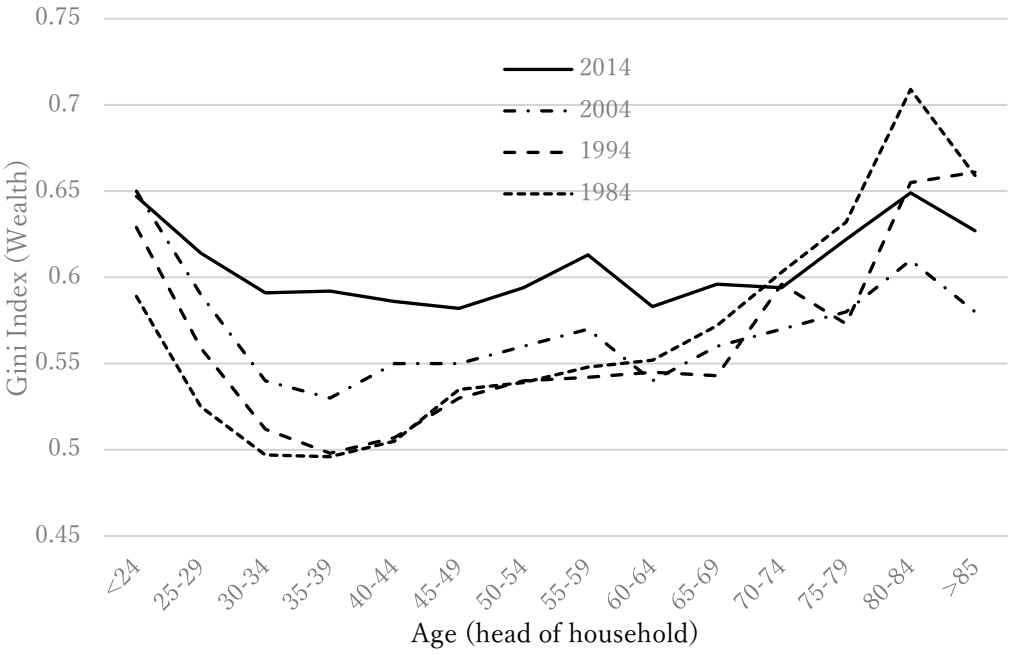
I want to draw attention to the following two critical findings regarding asset inequality discussed in the paper.

- First, since 1980, wealth inequality has risen sharply among the young and middle-aged (in their 20s to 50s). Figure 2 shows the Gini coefficient of assets by the head

of household age group.

- The second point is that this is mainly due to the increase in households with zero or very low wealth ownership (Table 7).

Figure 2: Gini Index of Wealth in Japan (1984-2014), by Age of Head of Household



(Source) Prepared by the author from Kitao and Yamada (2019) Tables 21-24

Table 7: Households with Zero Wealth in Japan

Age	<24	25-29	30-34	35-39	40-44	45-49	50-54
1989	11.50%	6.94%	6.58%	7.09%	7.50%	7.81%	8.24%
2014	10.48%	8.45%	9.78%	10.56%	10.87%	11.16%	9.26%
Change	▲ 1.02	1.51	3.20	3.47	3.37	3.35	1.02

Age	55-59	60-64	65-69	70-74	75-79	80-84	>85	Total Sample
1989	8.01%	6.11%	7.38%	8.50%	8.66%	5.68%	18.84%	7.59%
2014	10.72%	9.92%	10.60%	11.68%	12.99%	14.37%	15.49%	10.97%
Change	2.71	3.81	3.22	3.18	4.33	8.69	▲ 3.35	3.38

(Source) Prepared by the author from Kitao and Yamada (2019) Table 25

III-5-2. Distribution of Financial Income

According to a detailed analysis conducted by the Ministry of Finance based on data from tax returns filed by taxpayers as well as annual transaction reports for specified ac-

counts, dividend payment reports, and reports on the payment of capital gain of stocks submitted by financial institutions of the 17.64 million people who earned a total of 7.4 trillion yen in capital income in 2019, the top 0.03% (a little over 5,200 people who earned over 100 million yen) earned 37% of the total capital income.

IV. The Income Tax Burden and Redistribution through Taxation in Japan

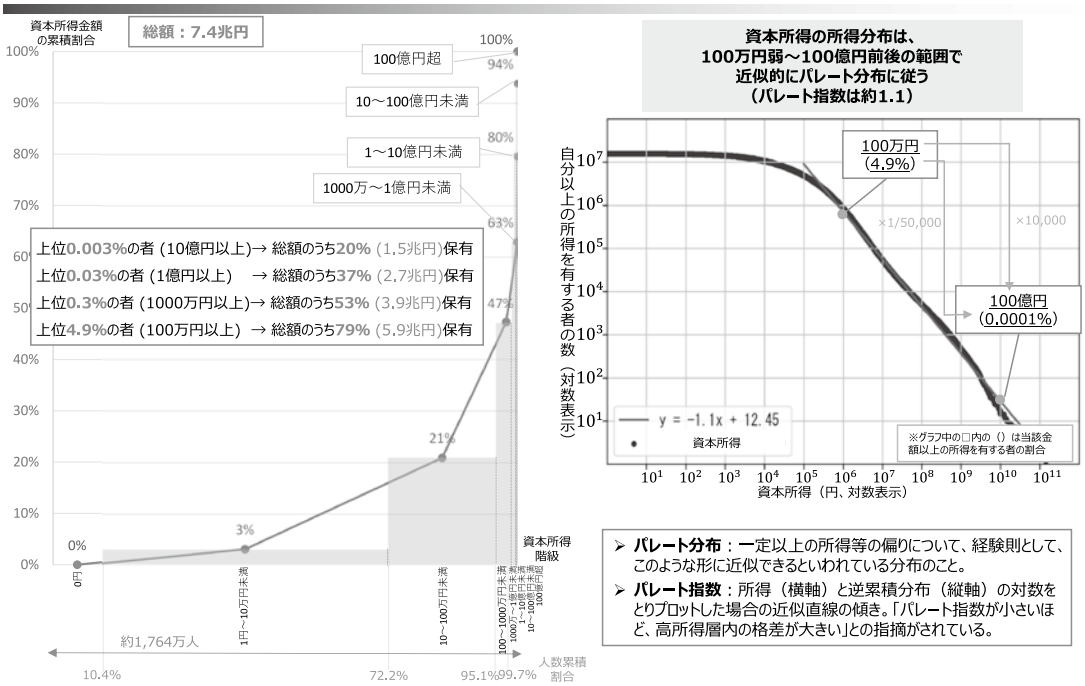
IV-1. Distortion of Tax Burden Ratio by Income Group

Former Prime Minister Kishida fought and won the LDP presidential election in September 2021 on the platform of "a virtuous circle of growth and distribution" and "reviewing financial income taxation to break through the 100 million yen barrier" (this refers to the phenomena that effective tax rates will decrease for taxpayers with income above 100 million yen).[15]

What is the "¥100 million barrier (wall)," and what is wrong with it? In "Explanation of

Figure 3: Distribution of Capital (Financial) Income (2019)

「資本所得」の分布について



（注１）令和元年分の確定申告書や特定口座年間取引報告書、配当、剰余金の分配、金銭の分配及び基金利息の支払調書、株式等の譲渡の対価等の支払調書のデータをもとに、財務省において作成。
（注２）「資本所得」には、上場株式、非上場株式、公募投資信託、特定公社債等の譲渡所得、配当所得、利子所得等のうち、以下のものが含まれる。一方、預貯金の利子や非上場株式等の配当、少額投資非課税制度（NISA制度）の非課税口座における配当・譲渡益等は含まれていない。
・特定口座内の取引により発生したもの　・一般口座内の上場株式の取引により発生したもの
・その他の取引により発生したもので分離課税の対象となっているもののうち、確定申告がされたもの（公募投資信託及び特定公社債の配当・利子所得を除く）
（注３）横軸は各資本所得階級であり、各資本所得階級毎の人数割合を基に横軸幅を設定（分布人数が多いほど棒グラフの横軸の幅が広い）。折れ線グラフは、各資本所得階級の人数の中央値をプロットしたもの。

(Source) Documents submitted by the Ministry of Finance to the Government Tax Commission (Oct. 4, 2022) https://www.cao.go.jp/zei-cho/content/4zen17kai1.pdf#page=34

Note by the author for Figure 3

This document presents a survey conducted by the Ministry of Finance on 17.46 million individuals who collectively earned a total of 7.4 trillion yen in capital income in 2019. It also includes an investigation into the distribution of that income by income class (e.g., the top 0.003%).

The 'capital income' subject to taxation includes capital gains from the sale of stocks, investment trusts, public bonds, dividends, interest, and other sources. The term 'capital income' is interchangeable with the term 'financial income' used in this paper.

As of 2024, this is the only comprehensive survey of the distribution of financial income by income class available in Japan.

Income class	Earn more than	Share	Total capital income	Number of individuals
Top	¥ million	percentage	¥ billion	Thousands
0.003%	1,000	20%	1,500	0.5
0.03%	100	37%	2,700	5.2
0.3%	10	53%	3,900	52
4.9%	1	79%	5,900	855
100%		100%	7,400	17,460

(Source) Translated and prepared by the author

FY2023 Tax Reforms," written by the person in charge of the Tax Bureau of the Ministry of Finance explains, in essence, as follows: (at p. 34)

> The so-called "100-million-yen wall" problem refers to the issue where the income tax burden ratio decreases for high-income individuals with a total income exceeding 100 million yen. This is attributed to factors such as the higher proportion of financial income subject to separate taxation, which is taxed at a lower rate compared to the progressive tax rates under comprehensive taxation. This issue has been previously discussed in forums such as the ruling party's tax system research committee and the government's tax system council. (Informal translation from Japanese original by Author).

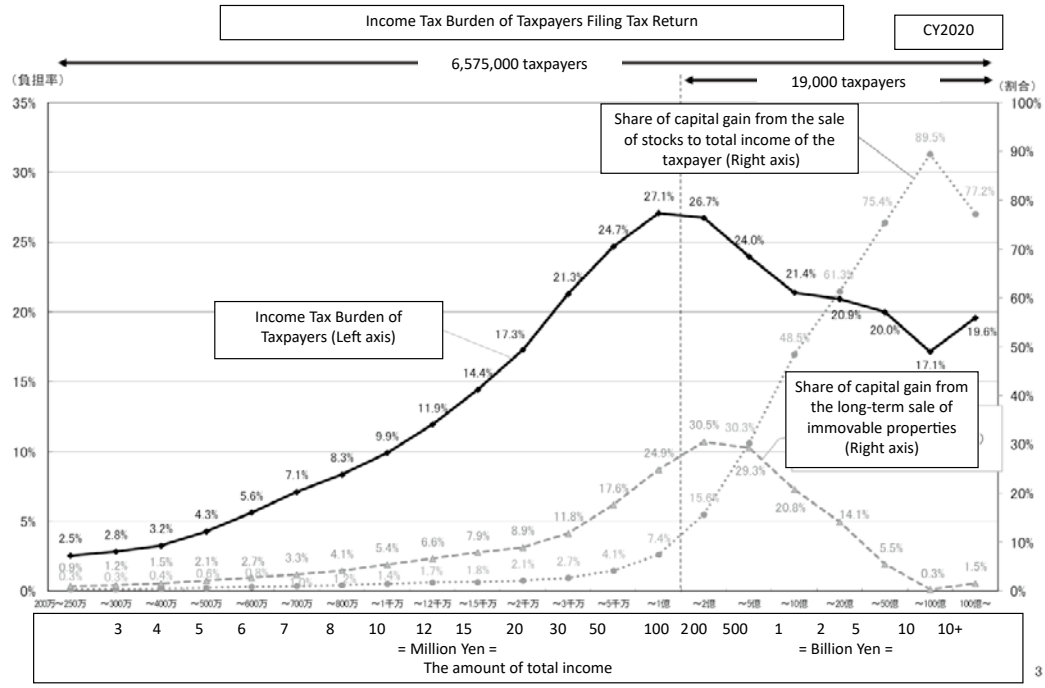
[15] This is a common phenomena among countries. For international discussions, see Zucman (2024) on page 12 "Why does the income tax fail at the top end?" and figure 2.

According to the materials submitted by the Ministry of Finance to the Government Tax Commission (Figure 4), the tax burden ratio decreases steadily when total income exceeds 100 million yen. The main reason is that the proportion of income from the transfer of stocks, which is taxed at a rate of 15% - significantly lower than the top tax rate of 45% - is greater for wealthy people. (Tax rates are for national tax.)

Similarly, long-term capital gain from land and buildings is subject to a lower tax rate of 15%. However, long-term transfer capital gain from land and buildings is not concentrated excessively on high-income earners.

In short, in order to become ultra-rich, one needs to have capital gain from stocks (financial income) and one cannot become ultra-rich from the alienation of land and buildings.

Figure 4: Burden Ratios Taxpayers by Income Class "100 Million Yen Barrier (wall)"



(Source) Documents submitted by the Ministry of Finance to the Government Tax Commission (Oct. 4, 2022) https://www.cao.go.jp/zei-cho/content/4zen17kai1.pdf#page=31

IV-2. Statutory Percentage of Tax Burden by Income Category

The National Tax Agency's Sample Survey of Income Tax Returns covers taxpayers who have filed final income tax returns (excluding those who have filed tax returns for a refund). In 2021, the survey covered 6.56 million people. In addition, each person's income is categorized according to the income category (Table 8) with the most significant amount of income: ① business income earners (1.75 million), ② real estate income earners (1.05 million),

③ employment income earners (2.61 million), ④ miscellaneous income earners (790,000), and ⑤ income earners not otherwise classified (other income earners) (340,000).

Of these categories of income earners, most of the income of "⑤ income earners not otherwise classified" is of the type of income that is taxed at a preferential rate of 15% instead of the comprehensive tax rate (maximum 45%).

Even for the types of income of "income earners not falling under any other category" to which the comprehensive tax rate (maximum 45%) could be applied, various deductions and other allowances are applied, and preferential treatment is given (e,g, public pensions income that have preferential public pension deductions, FX trading income)

If we draw a graph of the tax burden rate based on these categories of income earners (1) to (5), it will look like Figure 5. This is a more detailed analysis of the graph of the 100 million yen barrier shown in Figure 4, "broken down" based on the taxpayer's income type.

From Figure 5, we can observe the effect of the progressive tax burden ratios - with the exception of "income earners not otherwise classified" (most of whom can be considered to be financial income earners subject to a reduced rate of 15%. Otherwise, the tax burden rate would be progressive).

The line graph has been omitted, but the tax burden rate for the income bracket of 50 million to 100 million yen is 34.3% for real estate income earners and 23.7% for miscellaneous income earners. For these income earners, the tax burden rate increases as income increases, and the "100 million yen barrier" is not observed.

On the other hand, the tax burden ratio for "income earners not otherwise classified" (which includes financial income earners in this paper) is only 16.3%. It decreases to 15.4% for those with 5 to 10 billion yen in income after peaking at 18.5% for those with 5 to 10 billion yen in income. For this reason, the problem of the 100 million yen barrier arises from the imbalance in the tax system that stems from the taxation of financial income. In addition to the issue of "vertical fairness" (an issue of distribution) that suggests the wealthy should bear a higher tax burden, it also exacerbates the issue of "horizontal fairness," which states that even among the wealthy, the tax burden rate differs significantly between types of income.

V. Findings on the State of Distribution (Disparity) in Japan and the Tax System (Summary)

From discussions thus far, the main findings regarding the trends in inequality in Japan can be summarized as follows.

1. Regarding the inequality of income distribution in society as a whole, using popular indicators such as the Gini coefficient and the poverty rate, the disparity of distribution in Japan is on an increasing trend when viewed from the perspective of initial income.
2. However, the expansion of inequality is being held back to some extent by redistribution through social security. This is resulting in significant social costs.The recipients of Social Security benefits are mainly older people, and the working-age population pays the insurance premiums that fund Social Security. As a result, redistribution,

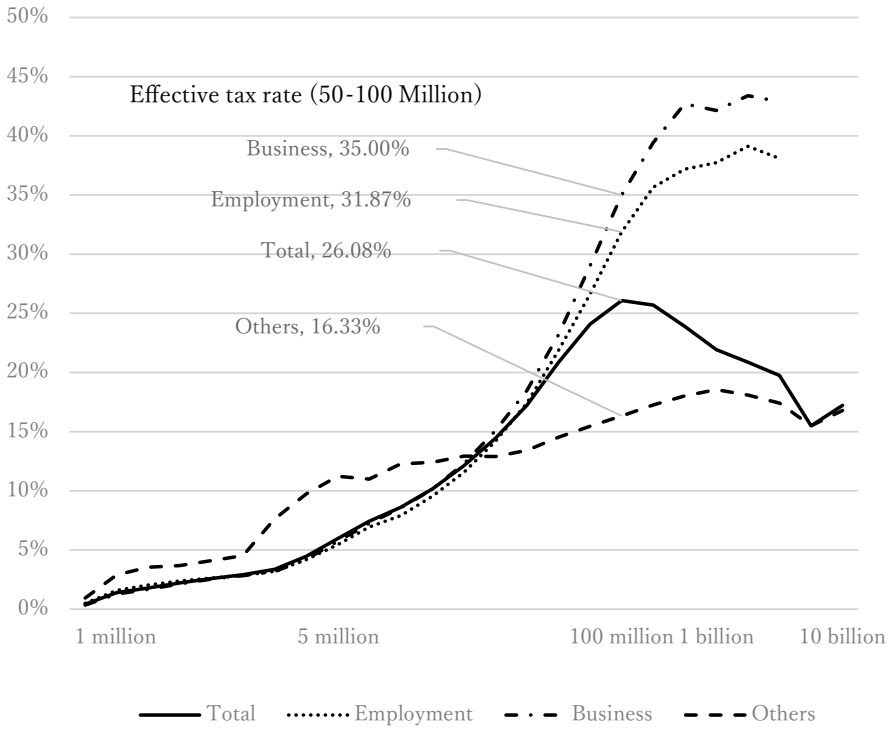
Table 8: Overview of Income Categories and Top Tax Rates/Mode of Taxation Used for Statistical Purposes

Types of income (Income category)	Prescribed deductions (where applicable) /Necessary expenses	Top tax rates and mode of taxation	Income categories used for statistical purpose	
			Sample Survey of Self-assessed Income Tax (NTA)	Kunieda & Yoneta (2023)
1.Interest income	No	15% (final)	【⑤Income earners not otherwise classified：“Other income earners”】	【Financial income】
2.Dividend income (*3)	From listed shares	15% (SSAT)	【⑤Other income earners】	【Financial income】
	From non-listed shares/large shareholders	45% (aggregate/tax credit)	【⑤Other income earners】	【Financial income】
3.Real property income		45% (aggregate)	②Real estate income earners	【Financial income】
4.Business income		45% (aggregate)	①Business income earners	【Financial income】
5.Employment income	Employment income deductions (minimum Y550,000)	45% (aggregate)	③Employment income earners	Labor income
6.Retirement income	Retirement income deduction (x1/2)	45% (separate)	【⑤Other income earners】	Labor income
7.Timber income	SD (Y0.5m). Tax is computed under the 5/5 method	45% (SSAT)	【⑤Other income earners】	【Financial income】
8.Capital gains	Real estate SD	15% (SSAT)	【⑤Other income earners】	【Financial income】
	SD (Y0.5m), tax 1/2 of gain	45% (aggregate)	【⑤Other income earners】	【Financial income】
9.Capital gains (listed stocks)		15% (SSAT or final where applicable)	【⑤Other income earners】	【Financial income】
10.Capital gains (stocks)		15% (SSAT)	【⑤Other income earners】	【Financial income】
11.Income from future trading		15% (SSAT)	④Miscellaneous income earners	【Financial income】
12.Occasional income	SD (Y0.5m), tax 1/2 of income	45% (aggregate)	【⑤Other income earners】	【Financial income】
13.Miscellaneous income	Public pension deduction (where applicable)	45% (aggregate)	④Miscellaneous income earners	Labor income

(Note) Tax rates are for national tax. From 2013 through 2037, 2.1% of the base income tax amount (as a surtax) is added.
(Source) Prepared by the author from various public sources

Acronym
SSAT: Separate Self Assessment Taxation
SWT: Separate Withholding Taxation (withholding tax as final tax)
SD: Special Deduction
References:
Ministry of Finance “Structure of Income Tax of Japan” https://www.mof.go.jp/english/policy/tax_policy/tax_system/income/02_1.pdf
National Tax Agency “Results of Sample Survey for Self-assessment Income Tax (excerpt)”
https://www.nta.go.jp/publication/statistics/kokuzeicho/r04/R04.pdf#page=184

Figure 5: Tax Burden Ratios by Income Class and Type of Income Earners (2022)



(Source) Prepared by the author from the National Tax Agency Sample Survey for Self-assessment Income Tax Returns (2022)

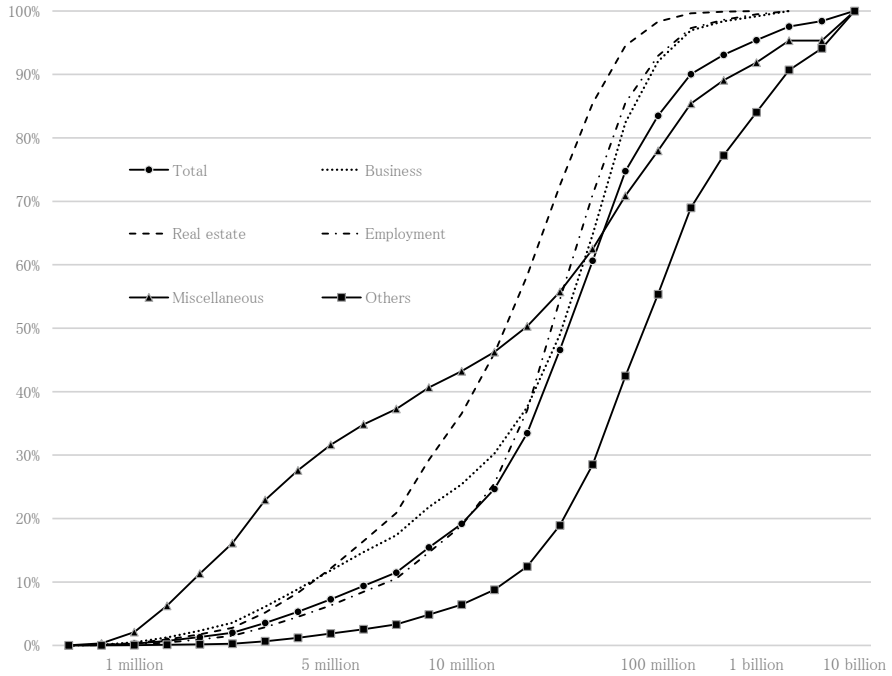
which should be a transfer from high-income earners to low-income earners, is actually a redistribution from the working-age population to older people in Japan.

3. With regard to financial income, there is a marked concentration among the super-wealthy. Nearly a quarter (23%) of the tax paid by “⑤Other income earners” (those earning financial income are included in this category) is paid by the top 750 (with incomes of over 1 billion yen) of the super-rich. As Figure 6 shows, in the case

of "taxpayers not falling into any other category," 58% of the tax paid is concentrated in taxpayers with over 100 million yen incomes.

4. The empirical analysis of the indicators and burdens of inequality we have looked at so far (in particular, III-4 "Concentration among the wealthy," and III-5 "Asset inequality" and IV-1 "Distribution of Tax Burden ratio by income group") shows that the concentration of assets and income that generate financial income (dividends, stock capital gains, etc.) among the wealthy is also accelerating in Japan, and that policy measures are needed.

Figure 6: Accumulation of Tax by Type of Income Earners



(Source) Prepared by the author from the National Tax Agency Sample Survey for Self-assessment Income Tax Returns (2022)

VI. The State of Tax Burden of Wealthy Individuals (Japan-U.S. Comparison)

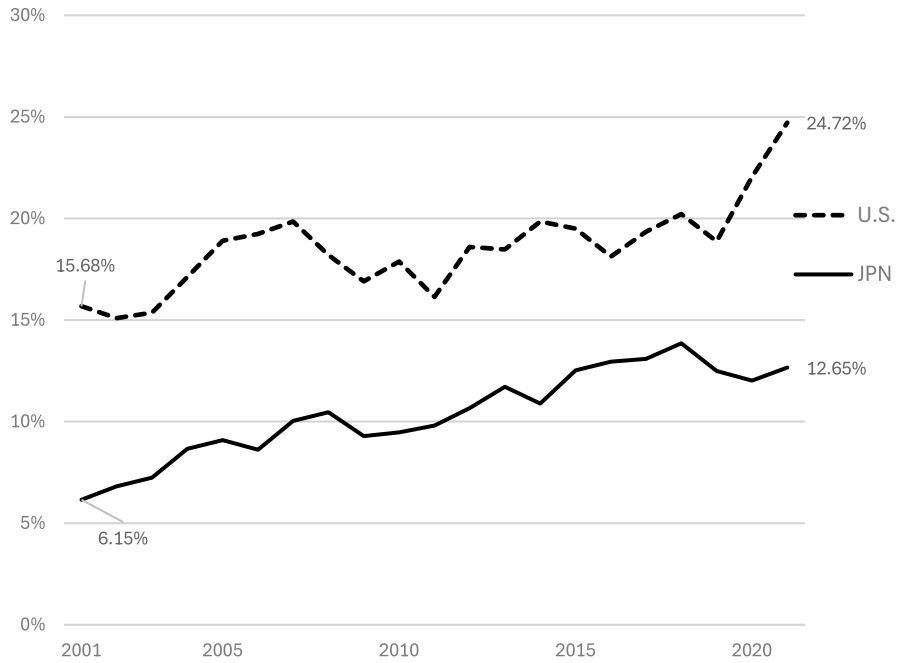
VI-1. Tax Payment Share of the Top 0.1% of Taxpayers in Japan and the U.S.

In 2022, there were 78,263 taxpayers with a total income of over 50 million yen; the number has remained at around 60,000 to 70,000 since 2012 (the period of Abenomics).

According to data from the Ministry of Internal Affairs and Communications, the number of taxpayers in Japan (including households exempt from residence tax) in 2022 can be estimated to be around 70 to 80 million.[16] In addition, according to data from the Statistics

Bureau of the Ministry of Internal Affairs and Communications, the working population each year is 60 to 70 million. If we look at the percentage of taxpayers with a total income of over 50 million yen in each year compared to the total population, it has been around 0.09% to 0.1% since 2013. From the above, for convenience, this paper will regard taxpayers in the income class with a total income of over 50 million yen as the top 0.1% of taxpayers in Japan.

Figure 7: The Share of Tax Paid by Top 0.1% Income Earners in Japan and the U.S. (2001-2021)



(Note) The ratio of the tax paid by the top 0.1% of taxpayers to the total amount of individual income tax. The U.S. Inland Revenue Service (IRS) statistics show the number of taxpayers and the tax paid by each decile, and 120,000 to 150,000 people fall into the top 0.1%. As Japanese statistics do not show data by decile, we have assumed that taxpayers with a total income of over 50 million yen (60,000 to 70,000 people) are in the top 0.1%, and have estimated the amount of income tax paid by individuals by deducting the withholding tax paid by corporations from the income tax data in the National Tax Agency's statistical materials, and then estimating the tax amount share of the top 0.1%.
(Source) Prepared by the author from National Tax Agency Statistical Survey of Income Tax Returns, Table 1 and the IRS Statistics of Income Table 4

The total amount of individual income tax in Japan is estimated to be 19.9 trillion yen in 2021 (see the methodology outlined in Note above). According to the National Tax Agency

[16] According to Table 2 of the "2022 Municipal Tax Taxation Situation Survey" by the Ministry of Internal Affairs and Communications, 64,498,120 taxpayers pay the per capita levy nationwide. The number of residents in households exempt from municipal tax was estimated at 16,396,742 in 2016. Takahiko Fukutome, "Calculation of the Ratio of Municipal Tax-Exempt Households Using an Analysis of Support Patterns," Statistics Research Bulletin No. 76 (2019), Table 18. Therefore, the number of taxpayers in Japan (including exempt households) is estimated to be around 70 to 80 million.

statistics (Sample Survey for Self-Assessment Income Tax Returns), approximately 74,000 taxpayers with total income exceeding 50 million yen paid more than 2.5 trillion yen in taxes in 2021, accounting for 12.65% of all individual income tax revenues (Figure 7).

In the U.S., the IRS publishes data for each income bracket, and the number of taxpayers in the top 0.1%, the amount of tax paid, and the tax share can be directly obtained.

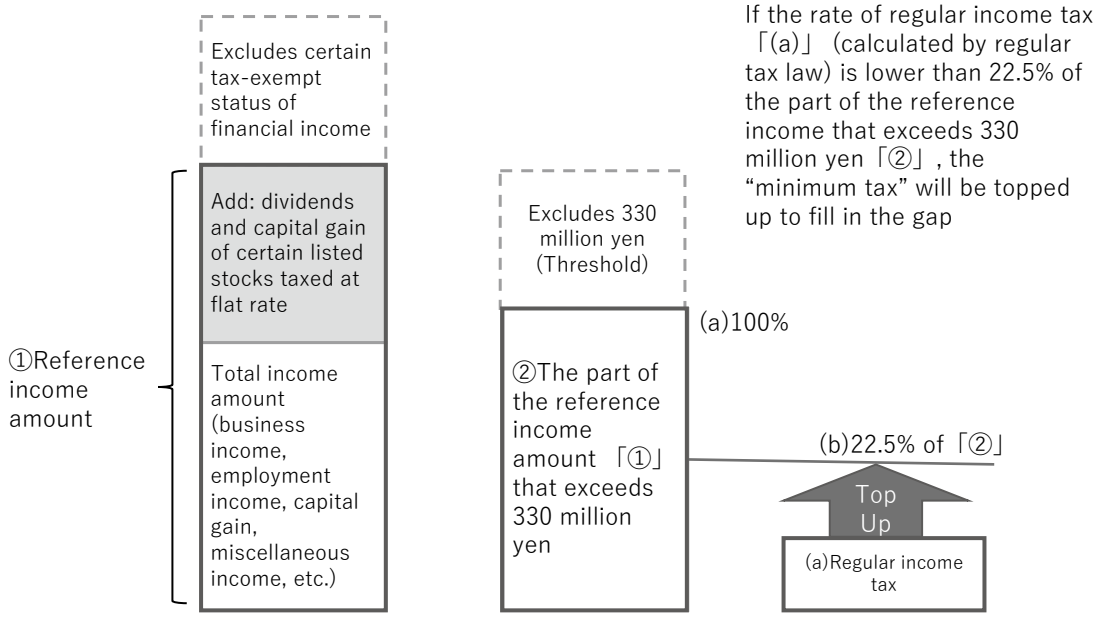
VII. Options for and Evaluation of Tax Burden Equalization for Wealthy Individuals

As we have seen, in Japan, as in the United States, the tax burden is distorted when viewed by income class. The leading cause of this is that financial income is taxed at a lower rate than other types of income. This suggests that reducing the sources of distortion of the tax burden for high-income individuals effectively addresses the problem of the distortion of the tax burden and the low taxation of financial income, even without changing the taxation of financial income itself, which affects many taxpayers and markets.

The 2023 tax reform introduced a "measure for rationalizing the burden on extremely high levels of income" (a top-up minimum tax for the super-wealthy, See Figure 8). This is a system that requires the super-wealthy to pay a minimum tax of 22.5%, and it is scheduled to be implemented in CY2025. It has been explained that the average income level at which the additional burden arises is about 3 billion yen.[17]

This system imposes an income tax on individuals whose "standard income amount" for

Figure 8: Outline of a Top-Up Minimum Tax for Super-Wealthy Individuals in Japan



(Source) Author

the year exceeds 330 million yen, with the amount of tax being equivalent to 22.5% of the amount exceeding 330 million yen, minus the standard income tax amount for the year (i.e., the regular income tax amount). The tax is levied by adding a top-up tax to the regular income tax amount (calculated disregarding this provision) so that super-wealthy individuals will pay a tax burden of at least 22.5% of the tax for the proportion of income exceeding the 330 million yen threshold (see Figure 8). This is a novel system that has not existed in Japan's (and probably global) tax system before.[18]

Although the types of income subject to taxation are not classified, in practice, it is difficult to think of any income other than financial income resulting in a tax burden of less than 22.5%.

VII-1. Examination of Technical Points

(1) Is the minimum tax rate too low?

The maximum tax rate (over 40 million yen) in Japan is 45% (national), but the minimum tax rate of this new tax is set at 22.5%.

The Ministry of Finance (2023), p. 237, explains the setting of this tax rate as follows (in essence).

The level of "22.5%" is one-half of the maximum tax rate (45%) for income tax subject to comprehensive taxation (Article 89 of the Income Tax Act). This is because under the Income Tax Act, the amount of long-term capital gains subject to comprehensive taxation is calculated as half of the total income amount (Article 22 (2) (ii) of the Income Tax Act), and therefore, the effective maximum tax rate is 22.5%.

(2) The threshold is set at 330 million yen, but isn't that too high?

On page 237 of the Ministry of Finance (2023), the threshold for wealthy individuals subject to taxation is explained, in essence, as follows.

The above-mentioned level of 330 million yen was set after choosing the tax rate of 22.5% based on the approach in the main clause of the Income Tax Act and by taking into account the situation of the effective tax burden ratios by income class and by taking into account the equalizing effect of capital gain income in which long-term value increases occurring at once.

Specifically, under this deduction of 330 million yen, if a person earns only capital gains, additional tax will be incurred when the amount exceeds about 1 billion yen, but on the other hand, if the capital gains are leveled out over a long period of time and are less than 1 billion yen, it is possible that the tax rate will be less than 15% even under the current comprehensive taxation system, and this is something that was taken into consideration.

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[17] Ministry of Finance, "Explanation of the 2023 Tax Reform," pp. 235, 236, March 16, 2023 and Finance Minister Suzuki, Syunichi, in response to a question by Akira Koike, Member of Parliament, at a meeting of the Financial Affairs Committee.

[18] The Ministry of Finance has not published the estimated amount of tax revenue. It is presumed that this is because estimating tax revenue for a completely new type of tax is technically difficult.

According to (1) and (2) above, the reason for adopting 22.5% as the minimum tax rate is that the effective maximum tax rate on long-term capital gains (held for more than 5 years) is 22.5% under the Income Tax Act.

However, in order for this explanation to be straightforwardly valid, is it not necessary that the income of wealthy people, which is subject to a distortion of the burden to begin with, consists of what corresponds to long-term transfer income? As the "Ratio of transfer income from stocks, etc. to total income" in the Ministry of Finance materials, etc. mentioned above (Figure 4) shows, what constitutes the income of wealthy people is the profit from the transfer of stocks, etc., to which a reduced tax rate (15%) is applied. The low tax burden rate stems from this.

The reason why the capital gain of assets such as antiques, gold products, jewelry, and golf club memberships is subject to a 1/2 general tax (maximum tax rate of 45%) because the period of ownership exceeds 5 years is that "it is common for some kind of equalization measure to be adopted from the consideration that the application of a high progressive tax rate needs to be eased because the capital gains that have gradually accumulated over a long period of time are realized all at once through the transfer of assets." Kaneko (2021), a tax law textbook, p. 264.

It seems that discussion about treating stocks and ordinary assets (such as antiques, golf club membership) on the same basis for setting the rate of tax is lacking.

A minimum tax rate and threshold are important components in the design of a top-up minimum tax for ultra-wealthy individuals (applicable from CY2025), and we should remain mindful of the issues surrounding them.

In the United States, the Biden administration has also proposed a tax reform that would impose a 25% minimum tax burden on wealthy individuals with net assets of over $100 million, including unrealized gains, through a "top-up" method (see Section VII-3-1 below).

The level of the minimum tax in Japan, set at 22.5%, is roughly the same as the proposal made by the Biden administration in the United States (25% for FY2024 and 2025 and 20% for FY2023) and can be assessed as a reasonable level.

VII-2. Additional Tax Type (surcharge)[19]

VII-2-1. Net Investment Income Tax (USA)

The Net Investment Income Tax (NIIT) in the U.S. imposes an additional tax of 3.8% on individuals, estates, and trusts whose net investment income exceeds a certain threshold. The threshold amount (based on adjusted gross income) is set at $250,000 for married couples filing jointly and $200,000 for single filers. It was introduced in 2013 as an additional tax on certain income for high-income earners as a source of funding for the so-called

[19] In this paper, the term "surtax" is used to denote taxation imposed at a rate supplementary to the standard tax rate. Surtaxes of this kind may be confined to financial income (as exemplified by the U.S. Net Investment Income Tax) or may apply more broadly - for instance, the 5% and 8% surtaxes on the income of high-net-worth individuals proposed in the Build Back Better Act in 2021 (see Section VII-2-2), which, however, was not enacted into law.

Obamacare (covering more U.S. citizens with medical insurance).

Net investment income subject to the NIIT includes capital gains (stocks, bonds, mutual funds, real estate, etc.), interest, dividends, certain non-qualified annuities, royalties, rent, and passive activities (such as buying and selling financial securities and trading commodity products). It does not apply to wages or income from non-passive businesses.

The tax rate is 3.8% on the amount of net investment income that exceeds the threshold amount. Since exempt income is not included in the taxable standard, the basic nature of this tax is an additional tax (surcharge) on the financial and asset income of wealthy individuals.

The NIIT tax rate is numerically equal to the rate of the Medicare taxes imposed on earned income. The ordinary Medicare tax rate imposed on earned income is 1.45% for employees and employers, plus an additional Medicare tax of 0.9% for those who receive high salaries.

Internererational equity: The design of these tax rates is an important point. While working-age people pay taxes on their earned income, older households do not (because their ability to make earned income is limited). On the other hand, older households generally have more "investment income" (financial income and asset-based income) than working-age people,[20] so by balancing the tax rates for the two groups, the tax burden becomes fairer between generations.

In 2021, a total of 59.6 billion dollars (8.8 trillion yen; 1 USD = 148.63 yen) was levied on 7.21 million people. For those in the income bracket of 200,000 dollars or more, each person was responsible for 8,420 dollars (Table 9). In addition, the impact on revenue is significant. The Biden administration has proposed increasing the NIIT tax rate by 1.2% for high-income earners. If this were to be implemented, it is estimated that it would bring in an additional $403.7 billion in tax revenue over the 10-year period from 2025 to 2034.

VII-2-2. Additional Taxes on Income of the Ultra-Wealthy (Biden BBB Act)

The "Build Back Better" bill (H.R. 5376), the signature policy of the Biden administration, which passed the House of Representatives on November 19, 2021, included a proposed surcharge of 5% and 8% on the incomes of the ultra-wealthy. The additional tax rates would be 5% on the portion of adjusted gross income in excess of $10 million and an additional 3% (i.e., 8%) on the portion of adjusted gross income in excess of $25 million, and would not be limited to financial income or asset-based income.

However, the Senate failed to approve the bill due to opposition from Senator Manchin, a Democrat like the President, and the entire bill was replaced. The law passed the Senate

[20] In Japan, too, the amount of savings is high among older people.
Savings and debt (million yen) by age group of household head (2022)

Age group	Average	Below 40	40-49	50-59	60-69	Over 70
Savings	19.01	8.12	11.6	18.28	24.58	24.11
Debts	5.76	14.69	12.26	6.2	2.07	0.9

(Note) Household of two or more people
(Source) Prepared by the author from data published by the Ministry of Public Management, Home Affairs, Posts and Telecommunications

Table 9: Net Investment Income Tax (NIIT) Amount (2021)

Adjusted Gross Income (AGI)	Net Investment Income Tax			Reference (the amount after tax credits)		
	Number of returns	Amount (thousands of dollars)	Per one return (dollars)	Number of returns	Amount (thousands of dollars)	Per one return (dollars)
No AGI	66	271	4,106	4,361	186,617	42,792
$1 under $5,000				142,544	73,072	513
$5,000 under $10,000				184,757	78,223	423
$10,000 under $15,000				1,055,682	211,113	200
$15,000 under $20,000	208	6	29	3,224,915	1,247,479	387
$20,000 under $25,000	637	78	122	4,511,505	4,047,553	897
$25,000 under $30,000	393	48	122	5,152,093	6,837,013	1,327
$30,000 under $40,000	868	273	315	10,941,846	21,563,554	1,971
$40,000 under $50,000	795	285	358	10,178,852	28,872,618	2,837
$50,000 under $75,000	1,901	820	431	20,079,918	93,196,258	4,641
$75,000 under $100,000	1,852	947	511	13,899,298	105,625,288	7,599
$100,000 under $200,000	121,281	56,842	469	23,678,030	365,139,832	15,421
$200,000 or more	7,083,133	59,638,040	8,420	11,496,007	1,509,572,121	131,313
All returns, total	7,211,136	59,697,612	8,279	104,549,808	2,136,650,742	20,437

(Note) The IRS does not publish figures broken down by income group for the $200,000 and above income group for anonymization purposes.
(Source) Prepared by the author from IRS Statistics of Income Individual Income Table 3.3 (2021)

on August 7, 2022, as the “Inflation Reduction Act of 2022.” The law passed on August 12 did not include this amendment.

VII-3. Taxation of Unrealized Gain (mark-to-market)

VII-3-1. The Biden Administration's Proposal for Taxation of Unrealized Gains and Minimum Taxation on the Wealthiest Individuals (Ultra-Wealthy)

An example of mark-to-market income taxation for the wealthy is the proposal for a minimum tax on unrealized gains of the ultra-wealthy that was included in Biden's budget proposals for each fiscal year. This would impose a minimum tax of 25% on ultra-wealthy individuals with net worth exceeding $100 million, including unrealized gains on assets they hold in taxable income. The tax would be levied only on ultra-wealthy taxpayers with net worth exceeding $100 million.

Unlike a wealth tax, which is imposed on the net asset balance every year, this is theoretically an advanced taxation of gain at the time it is realized in the future. This is an important aspect of the nature of unrealized gains taxation.

The U.S. Department of the Treasury (2024), p. 82, explains the reasons for this proposal as follows: (1) tax deferral on unrealized gains (due to the tax law's use of the realization principle) disproportionately benefits high-wealth taxpayers, and the effective tax burden rate of many high-wealth taxpayers is lower than that of middle- and low-income taxpayers. (2) The preferential treatment of unrealized gains creates an incentive (lock-in effect) for taxpayers to fix and hold portfolios to avoid capital gains tax rather than reinvesting capital in more economically productive investments. The document then argues that "Reforms to the taxation of capital gains will reduce economic disparities among Americans and raise needed revenue."

Table 10 summarizes the Biden Administration's proposal.

VII-3-2. The Global Minimum Tax for the Wealthy

In a 2023 report, the EU tax think tank "EU Tax Observatory" proposed a minimum tax of 2% on assets for billionaires. Fernando Haddad, the Finance Minister of Brazil, which chair the G20 in 2024, expressed his desire to have the G20 agree on a framework for a 2% global minimum tax on billionaires in order to secure the financial resources for sustainable growth, such as combating global warming and poverty, and to correct the unfairness caused by wealthy people avoiding taxes. The proposal of the EU Tax Observatory (2023) "A coordinated global minimum wealth tax on the very rich " could form the basis (Table 11).

Recent Developments

■Gabriel Zucman's Global Billionaire Tax Proposal to the G20

At the request of Brazil, the G20 presidency in 2024, French economist Gabriel Zucman prepared a proposal for a global minimum tax on billionaires (Zucman (2024) pp 20-24). The proposal recommends a minimum annual tax of 2% on the net wealth of individuals with assets exceeding $1 billion.

According to Zucman's estimates, this tax could generate between $200-250 billion per year from approximately 3,000 billionaires (ultra-high-net-worth individuals) worldwide.

Bruno Le Maire, the French Minister of the Economy, Finance, Industry and Digital Sovereignty, who has been involved in the OECD's international tax agreement compilation for many

Table 10: Summary of the Biden Administration's (Democratic Party) Proposal for a Minimum Tax on Ultra-Wealthy People's Unrealized Gains

Items	Summary
Reasons for Change (main item)	Preferential treatment for unrealized gains disproportionately benefits high-wealth taxpayers and provides many high-wealth taxpayers with a lower effective tax rate than many low-and middle-income taxpayers. Lock-in portfolios of assets to avoid capital gains tax on appreciation, rather than reinvesting the capital in more economically productive investments, create inefficiencies.
Taxpayer and tax rate	The proposal would impose a minimum tax of 25% on total income, generally inclusive of unrealized capital gains, for all taxpayers with wealth (that is, the difference obtained by subtracting liabilities from assets) greater than $100 million.
Payment of tax	Under the proposal, taxpayers could choose to pay the first year of minimum tax liability in nine equal annual installments. For subsequent years, taxpayers could choose to pay the minimum tax imposed for those years (not including installment payments due in that year) in five equal annual installments.
Calculation of the amount of minimum tax	A taxpayer's minimum tax liability would equal the minimum tax rate (25%) times the sum of taxable income and unrealized gains (including on ordinary assets) of the taxpayer, less the sum of the taxpayer's unrefunded, uncredited prepayments and regular tax.
Avoidance of taxing the same amount of capital gain twice	Payments of the minimum tax would be treated as a prepayment available to be credited against subsequent taxes on realized capital gains to avoid taxing the same amount of gain more than once.
Refund of tax	Refunds would be provided to the extent that net uncredited prepayments exceed the long-term capital gains rate (inclusive of applicable surtaxes) times the taxpayer's unrealized gains – such as after unrealized loss or charitable gift. However, refunds would first offset any remaining installment payments of minimum tax before being refundable in cash.
Information return (Reporting)	Taxpayers with wealth greater than the threshold would be required to report to the Internal Revenue Service (IRS) on an annual basis, separately by asset class, the total basis, and total estimated value (as of December 31 of the taxable year) of their assets in each specified asset class, and the total amount of their liabilities.
Valuation of assets	Taxpayers would not have to obtain annual, market valuations of non-tradable assets. Instead, non-tradable assets would be valued using the greater of the original or adjusted cost basis, the last valuation event from investment, borrowing, or financial Statements, or other methods approved by the Secretary. Valuations of non-tradable assets would not be required annually and would instead increase by a conservative floating annual return (the five-year Treasury rate plus two percentage points) in between valuations. The IRS may offer avenues for taxpayers to appeal valuations, such as through appraisal.

(Note) EU Tax Observatory (2023) p. 78 pointed out that the proposed tax is similar to the heavy one-off wealth tax imposed only once in the first year. Avi-Yonah and Gamage (2022, p. 557) pointed out that the proposed tax brings forward the timing of capital gains taxation.
(Source) Prepared by the author based on the U.S. Department of the Treasury (2023) "General Explanations of the Administration's Fiscal Year 2024" pp. 82-84

Table 10-2: Example of the Proposed Minimum Tax on Unrealized Capital Gains

Step of the Calculation	Amount	Notes
A. Net Wealth	$200 million	Tax phases in starting at $100 million in net wealth and applies fully to taxpayers with net wealth over $200 million (unclear if the proposal will index thresholds to inflation)
B. Ordinary Income	$5 million	
C. Ordinary Income Tax Owed	$1.8 million (B × ordinary effective tax rate of 35.5%)	Ordinary income tax liability without additional deductions from ordinary income or credits offsetting tax owed
D. Unrealized Capital Gains	$10 million	Unrealized gains from increase in value of privately held company
E. Original Minimum Tax Effective Tax Rate	12% (C / B+D)	Effective tax rate inclusive of unrealized gains before the minimum tax payment
F. Minimum Tax Owed	$1.95 million	Total prepaid tax owed to raise effective tax rate inclusive of unrealized gains to 25%
G. New Effective Tax Rate under Minimum Tax	25% (C + F）/（B+D)	Effective tax rate inclusive of unrealized gains, including the minimum tax payment

(Source) Garrett Watson, Erica York “Analysis of Harris’s Billionaire Minimum Tax on Unrealized Capital Gains” (2024) Tax Foundation
https://taxfoundation.org/blog/harris-unrealized-capital-gains-tax/

years since 2017, held a joint press conference with Brazil’s Minister of Finance, Fernando Haddad, in Washington, D.C., United States, in April 2024, where he reportedly argued that there were issues with the efficiency of taxation of wealthy people and the justice of taxation, and strongly backed Brazil’s G20 Global Billionaire Minimum Tax Initiative’s G20 Global Billionaire Minimum Tax Initiative.The fact that a topic that has now been regarded as the subject of discussion among researchers is now being discussed in the international political arena represents an important shift. It will be necessary to monitor the development of discussions at the G20 and the reactions of various countries for the time being and to use this as a driving force for promoting discussions domestically.

(Note) The Rio de Janeiro G20 Ministerial Declaration on International Tax Cooperation (July 2024): In the first-ever declaration of its kind, the Finance Ministers expressed their commitment, among other things, to ensuring the effective taxation of ultra-high-net-worth

individuals, while respecting each country's tax sovereignty.

Table 11: Outline of the Proposal for a Coordinated Minimum Taxation Standard (Reported to the G20 Finance Ministers in 2024)

Items	Summary
Purpose	A tool to strengthen the income taxation (not a wealth tax)
Taxing methodology	A presumptive income tax
Taxpayers	Billionaires (with a net worth of over a billion USD)
Tax base	The value of wealth in individual taxes (Market value of non-financial and financial assets, net of debts)
Tax rate and operation of the tax	2% of wealth. The tax considered for calculation 2% include individual income taxes, wealth taxes are considered for the computation. Payroll taxes, property taxes (business-level and indirect taxes) are not considered. The tax operates as a "top-up tax": individual income tax payment would be topped up to reach 2% of wealth.
Payments	Annualy
Valuation of assets	The methodologies for valuation in inheritance tax/ estate tax in place in national tax laws can be used as a starting point. For valuing private businesses, apply the valuation multiples for similar listed businesses in the same industry.

(Note) Regarding taxation of the super-wealthy, the 2023 EU Tax Observatory report proposed a 2% global minimum wealth tax (EU Tax Observatory (2023) p. 76). However, a proposal in a report commissioned by the Brazilian G20 Presidency prepared by Zucman emphasized that his 2% minimum tax is "a tool to strengthen the income tax" and it should not be seen as a wealth tax (Zucman (2024) p. 21).
(Source) Zucmen (2024)

VII-3-3. Rationales of Taxing Unrealized Gains

Avi-Yonah and Gamage (2022) p. 555 point out that the background to the proposal of income tax reform in the U.S. in recent years, which targets the super-wealthy and is based on market value assessment (taxation of unrealized gains and losses), as "This is part of a larger movement calling for fixes to how existing tax systems are mostly broken when it comes to taxing the wealthiest individuals and families."

They also explain that the essence of taxation on unrealized gains is that the timing of taxation is not based on waiting for events such as the disposal (transfer) or transfer of property but is recognized at present, and that "In theory, the differences between a BIT (mark-to-market income tax proposals)[21] and current law are only about timing."

Since assets will change hands (including inheritance) at some point, and unrealized gains and losses are realized, the taxation of unrealized gains and losses is only a change in

the timing of the taxation of transfer income and is theoretically valid.

In addition, the CRS (2022) points out that one of the advantages of adopting the taxation of unrealized gains and losses is that it makes it possible to apply a higher tax rate to capital gains without affecting investment behavior.

Several American researchers and commentators have pointed out that, in the United States, the taxation of the income of wealthy individuals is missing a huge tax base due to unrealized gains. One estimate in the United States estimates that more than three-quarters of the investment income of the very wealthy is completely and permanently exempt from income taxation under current law.[22]

Avi-Yonah and Gamage (2022), p. 560, give the example of Oracle co-founder Larry Ellison, who used a $10 billion personal line of credit (i.e. borrowing) to purchase several mansions, a superyacht, and a Hawaiian island for $300 million, instead of selling his shares in the company. This is an example of the classic tax planning strategy of "buy, borrow, inherit" (avoiding taxation by not realizing capital gains) by postponing the realization of investments and instead covering expenditures with borrowings. The similar thing is possible under the Japanese tax system, which also adopts a realization approach too.[23]

In addition, Avi-Yonah and Gamage (2022) p. 559, states that[24]

"Regardless of whether you think that our tax system should ideally measure consumption or something closer to Haig-Simons income, many billionaires and mega millionaires fully and permanently escape tax on most of what their tax bases should be under either of these philosophical views. A BIT reform would alleviate this problem, and that would be its primary impact."

VII-3-4. Criticism of the Mark-to-Market Taxation of Unrealized Gains

One criticism often heard of the taxation of unrealized gains is that it involves double taxation of asset appreciation gains.

"Susswein and Brown argue that BIT (Billionaire Income Tax : mark-to-market income tax) reforms would amount to double taxation 'because the taxpayer still owns the asset generating the income and would thus be taxed twice on the income: once as an increase in anticipated future ordinary income and twice when the ordinary income is actually received.' "

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[21] Avi-Yonah and Gamage (2022) refer to mark-to-market income tax reform proposals collectively as "BIT" (Billionaire Income Tax).

[22] See David Gamage and John R. Brooks (2021), "Tax Now or Tax Never: Political Optionality and the Case for Current-Assessment Tax Reform," 100 N.C. L. REV. 487 (2022), pp. 501-502.

[23] In the United States, when there is an inheritance, the acquisition price of the heir's inherited property is the current market price (step up). As a result, the amount of unrealized gains that the deceased had will never be taxed. In Japan, the acquisition price of inherited property inherits the acquisition price of the deceased, so this kind of problem does not arise. Biden administration repeatedly proposed a tax reform that would abolish the step-up, but was never included in the bill.

[24] "Consumption-based (expenditure-based) income concept" and "comprehensive income concept"

The consumption-based (expenditure-based) income concept is one in which only the portion of income that is used to purchase goods and services is considered income, and savings are excluded from income.

The comprehensive income concept is one that regards all economic gains that increase the ability to pay taxes as income. The total amount of the increase in net assets and consumption during the tax period is the income for that tax period. This is used in the tax systems of various countries today, including Japan and the United States. (Reference) Kaneko (2021) pp. 194-196

However, Avi-Yonah and Gamage (2022), p. 561, point out that this is simply not true. This point is probably correct, as the Biden administration's proposal already incorporates a measure to avoid double taxation by allowing tax credits for taxes paid in previous years.

Watson, G. and York, E. (2021)[25] of the Tax Foundation, one of the United States' prominent tax think tanks, criticize Biden's proposal for a minimum tax on income, including unrealized gains and losses, from a policy perspective, saying that it is moving in the opposite direction to sound tax policy because of the high administrative costs for taxpayers and the IRS, the reduction in U.S. savings, and the uncertainty over revenue potential. In addition, as a technical issue, it is pointed out that changing the definition of taxable income to include unrealized capital gains ("hidden profits") would pose significant administrative challenges, such as the problem of valuing non-liquid assets and how to deal with taxpayers with low liquidity who do not have the funds to pay taxes even if they have "hidden profits" on their books.[26]

In this respect, both the U.S. tax system and the Japanese tax system support the "comprehensive income concept," which states that economic gains that increase a person's ability to pay taxes constitute taxable income. In principle, this includes gains from increases in the value of owned assets, but under the realization principle, unrealized gains are understood to be excluded from the scope of taxation. However, a tax law textbook Kaneko (2021), p. 198, points out that this is not because unrealized profits "are not essentially income, but because it is difficult to capture and evaluate unrealized profits, and whether or not to make them subject to taxation is a matter of legislative policy (there are several examples of special provisions that tax unrealized profits and imputed income (omitted))".

Whether or not to introduce taxation on unrealized gains in limited situations, such as taxation on the wealthy (evaluation of dealing with technical issues) and policy decisions based on this will be necessary.

VII-4. "Rationalization of the Burden" and "Contribution to Financial Resources" (Summary)

Measures to ensure that the wealthy pay their fair share of tax and remove distortions in burden are expected to reduce disparities and provide a new source of revenue. So, when considering institutional responses in Japan, what specific options are there for the system, and to what extent will they contribute to ensuring that the burden is fair and providing a source of revenue?

VII-4-1. Options for Ensuring that the Wealthy Pay their Fair Share of Income Tax

From the discussions so far, the following options could be considered. Table 12 summarizes them.

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[25] Watson, G. and York, E. (2021) "Proposed Minimum Tax on Billionaire Capital Gains Takes Tax Code in Wrong Direction", Tax Foundation https://taxfoundation.org/blog/biden-billionaire-tax-unrealized-capital-gains/

[26] Examples of mark-to-market valuation in Japanese tax law include the so-called "Exit tax" (for individuals), a tax on unrealized gains at the time of departure from Japan, and the year-end valuation of trading securities held by corporations.

Table 12: Options for Ensuring that the Wealthy Pay an Appropriate Amount of Income Tax

Options/Examples	Summary
(a) A top-up minimum tax for the super-wealthy individuals in Japan (applicable from CY2025)	A top-up tax will be imposed on high incomes of 3 billion yen (on average) or more, so that the minimum tax burden will be equivalent to 22.5% of the part of income exceeding 330 million yen or more.
(b) Expansion of the scope of the minimum tax for the super-wealthy individuals above	The threshold will be lowered to 50 million yen (i.e., top 0.1% of taxpayers), and the minimum tax rate (22.5%) will be raised to expand the scope of the minimum tax above .
(c) Increase in the tax rate applied to financial income subject to withholding tax as final tax	Currently (as of 2025), the broad scope of financial income is taxed at a 20% flat rate (national 15%, local 5%). Suppose the tax rate for financial income is increased in general. In that case, there is a problem that it will result in a significant increase in taxation for many general taxpayers who are subject to a low tax rate for comprehensive taxation. Allowing low-income taxpayers to file tax returns for refunds of tax withheld will complicate the system and increase the administrative burden on both tax authorities and taxpayers. With the significant expansion (up to 18 million yen) of NISA (Individual Savings Account—preferential tax treatment in Japan) started from CY2024, even if financial income taxation is strengthened, it can be assumed that there will be no real impact on low-middle-class taxpayers.
(d) Impose additional taxes (surcharge) on the financial income of wealthy individuals (example of the U.S. NIIT)	Ito(2021), p. 52, proposes that a new financial income tax (a special tax for wealthy people) be introduced, with a new tax burden imposed on certain financial income of taxpayers with income of over 100 million yen (imposed as a separate tax in addition to income tax). It is a tax system modeled on the U.S. net investment income tax (special tax for capital gain of wealthy individuals). Ito argues that this will help restore the progressive nature of income tax and contribute to horizontal fairness among the asset-based income invested by wealthy people.
(e) Surcharge on high-income individuals	In the Build Back Better bill (2021) in the U.S., a surcharge on high-income individuals was proposed (an initial surtax of 5% on AGI in excess of $10 million and an additional surtax of 3% on AGI in excess of $25 million). It was narrowly approved by the House of Representatives, but it was not included in the Senate amendment (Inflation Reduction Act of 2022), and it did not become law.
(f) Taxation of unrealized capital gainsof the super-wealthy (mark-to-market tax)	Taxation of unrealized gains is not a recurrent tax on assets, like a wealth tax. It is a forward-looking tax on future gains. From a technical perspective, it is possible to assess marketable stocks with large unrealized gains (or losses) because the impact of market supply and demand is greater than the asset's intrinsic (liquidation) value. This shows that there is potential for this in terms of tax administration. Japan already has experience with a tax system based on market value assessment in the form of the so-called “exit tax” and mark-to-market taxation for corporations. Unrealized gains and losses taxation is one promising option for the future to ensure that the wealthy pay their fair share. In terms of its potential contribution to revenue, the Biden budget proposal (U.S. Department of the Treasury, 2024), which imposes a 25% minimum tax on the total amount of ordinary taxable income and unrealized gains on assets, is expected to raise around $436 billion over 10 years. It is the single-largest of the proposals for strengthening taxation of high-income earners in the administration’s 2025 budget proposal.

(Source) Prepared by the author

VII-4-2. Contribution to the Proper Allocation of the Burden (Image/General Outline)

Let's consider the following options and try to draw an image (general outline) of how they might contribute to the proper allocation of the burden, using publicly available statistics from the National Tax Agency to show their impact on income tax burden effective rates by income class.

(1) A top-up minimum tax for the super-wealthy: top-up tax to a minimum of 22.5% of the part of income exceeding 330 million yen (Applicable from CY2025 in Japan).
(2) Expanded minimum tax on the super-wealthy to cover the top 0.1% of taxpayers (with income exceeding 50 million yen) (expansion of the minimum tax above).
(3) Impose an additional tax (surcharge) of 3.8% on high-amount financial income (the part of income exceeding 20 million yen) (similar to the U.S. investment net income tax).
(4) Apply an additional tax rate to wealthy individuals. Add a tax rate of 3% for amounts exceeding 1 billion yen and 5% for amounts exceeding 2.5 billion yen (similar to the proposal in the U.S. BBB bill).

The effective tax burden rate by income class for each option can be visualized as in Figure 9 (improvement of the degree of progressivity). From this outline, it seems that the A top-up minimum tax for the super-wealthy can be evaluated as an effective system for correcting the distortion of the burden on super-wealthy individuals.

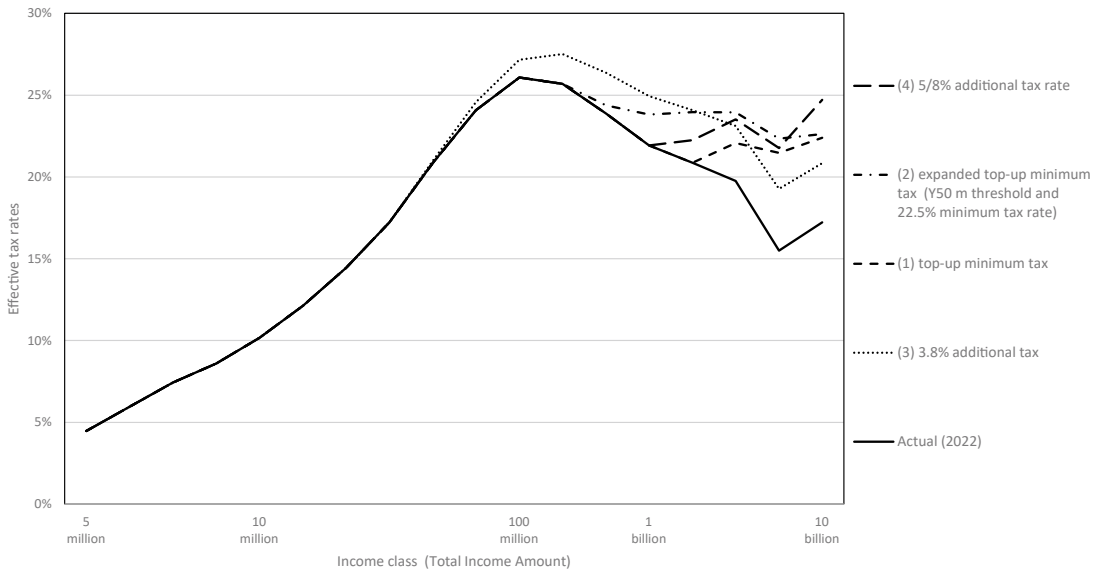
VIII. Final Remarks

Saez and Zuckman's *Triumph of Injustice* (2020) introduces the following episode from the 2016 U.S. presidential election. During a televised debate, Hillary Clinton, the Democratic Party's presidential candidate, and Donald Trump, the Republican Party's candidate, clashed on the issue of tax payments. Trump broke with a tradition dating back to the 1970s by refusing to make his tax returns public. Clinton, a lawyer, sought to expose Trump's alleged tax avoidance, stating, "He has not paid a single penny of federal income tax," based on the only publicly disclosed tax return from Trump. Trump reportedly "proudly admitted it" and replied, "That's because I'm smart." Saez and Zuckman argue that this reflects how tax avoidance among the wealthy has become normalized, to the point where presidential candidates can openly admit to it without viable solutions being proposed by their opponents. They contend that this reveals a fundamental dysfunction in the U.S. tax system, a cornerstone of its democracy.

This paper uses Japan's National Tax Agency statistics, Tax Commission reports, and prior research published by researchers. It confirms that, like in the United States, financial assets in Japan are concentrated among the wealthy, resulting in a similarly low tax burden for high-income individuals. Given these shared challenges, examining the U.S. approach to taxing the wealthy can provide valuable insights for Japan's own tax policy, particularly concerning financial income and wealth taxation.

When considering tax reform, it is essential to understand the potential impact on reve-

Figure 9: Contribution to the Proper Allocation of the Burden (General Outline)



(Source) Prepared by the author, estimates based on Table 1 of the National Tax Agency's "Sample Survey of Income Tax Returns for 2022." The data for Figure 9 is shown below

	Actual (2022)	(1) top-up minimum tax	(2) expanded top-up minimum tax	(3) 3.8% additional tax	(4) 5%, 8% additional tax
	0.4%				
1 million	1.4%				
	1.8%				
	2.2%				
	2.6%				
	2.9%				
	3.4%				
5 million	4.5%				
	6.0%				
	7.4%				
	8.6%				
10 million	10.2%				
	12.1%				
	14.5%				
	17.2%				
	20.9%			21.0%	
	24.1%			24.6%	
100 million	26.1%			27.2%	
	25.7%			27.5%	
	23.9%		24.4%	26.4%	
1 billion	21.9%		23.8%	24.9%	
	20.9%		24.0%	24.1%	22.3%
	19.8%	22.1%	24.0%	23.1%	23.5%
	15.5%	21.5%	22.3%	19.3%	21.8%
10 billion	17.2%	22.4%	22.6%	20.8%	24.7%

Note) Income tax and "realization" as a taxable event

In Moore v. United States, No. 22-800. (June 20, 2024), the U.S. Supreme Court ruled that the mandatory repatriation tax (a tax on retained earnings of foreign subsidiaries by U.S. shareholders) was constitutional (7 to 2), while avoiding a general ruling on the constitutionality of the taxation of unrealized income, which was the point in dispute.

However, four of the nine justices expressed the opinion that "realization" is a constitutional requirement, and there is still room for debate in the future regarding the constitutionality of taxation on unrealized profits.

This is an important ruling because it concerns a unique issue in the U.S. Constitution regarding the definition of income tax that Congress can legislate, but it is not thought to have a direct impact on similar debates in countries other than the U.S.

nue and the effectiveness of measures to address inequality. Evidence-based policymaking has become a global standard, with the effective tax burden and revenue estimates being critical data points for designing fair tax policies. Without this data, citizens cannot objectively evaluate or support tax reforms. To address this, this paper highlights U.S. experiences with revenue scales and fairness impacts from disparity-reducing measures. It also provides a breakdown of the tax burden by income class, illustrating the potential effects of various reform options (Figure 9).

Historically, discussions about the fairness of taxation on the wealthy in Japan, such as the so-called "100 million yen barrier," have focused on the low tax rates on financial income, including dividends and capital gains from stock sales.

Recently, however, in the U.S. and in the G20 countries, there has been a growing recognition that the very structure of capital gains taxation—where unrealized gains on assets remain untaxed until disposition under the widely used realization approach—constitutes preferential treatment for the wealthy. In the U.S., the Biden administration has proposed reforms to include unrealized gains in taxable income and impose a minimum tax on the ultra-wealthy. However, as of now, these proposals have not been enacted into law (U.S. Department of the Treasury, 2024, p. 83).

In April 2024, Brazil, as the G20 presidency, introduced a proposal for a global minimum tax on the wealthy, suggesting a harmonized low-rate asset tax (wealth tax) for billionaires among G20 nations. French Finance Minister Bruno Le Maire has championed this proposal, emphasizing the need for tax efficiency and justice in response to wealthy individuals' tax avoidance. What was once a topic primarily debated by researchers has now entered the realm of international politics.

At a U.S. Senate hearing in November 2023, Senator Mike Crapo (Republican) argued that high-income earners already bear a significant portion of the tax burden in the U.S. and that higher taxes on them discourage work, savings, and investment. While income taxation may impact economic efficiency, Japan's income tax burden on the wealthy is only about half that of the U.S., leaving considerable room for reform.

Japan must seriously consider broadening its tax base for the wealthy. The country has

long relied on regressive but efficient revenue sources, such as consumption taxes and social insurance premiums. Unlike the U.S. Congress's approach, which emphasizes ability-to-pay principles and the overall progressivity of the tax system, Japan appears to have overlooked these critical perspectives.

As this paper has shown, there are various policy options for mobilizing the tax base of wealthy individuals. These include expanding Japan's 2023 minimum tax reforms for the wealthy, introducing surcharge similar to the U.S.'s Net Investment Income Tax (NIIT), or taxing unrealized capital gains for the ultra-wealthy (mark-to-market taxation). Combining these measures with spending initiatives, such as investments in education, could strengthen redistribution efforts and enhance public support.

At the G20 Finance Ministers and Central Bank Governors Meeting held in Rio de Janeiro, Brazil, in July 2024, the "G20 Ministerial Declaration on International Tax Cooperation" was adopted, in which finance ministers committed to addressing the taxation of wealthy individuals. This growing international momentum should be leveraged as a driving force for domestic discussions on taxing the wealthy.

Japan has already taken a step forward by introducing a minimum tax on the wealthy, setting itself apart from other nations. However, this should not be the end point. Continuous exploration of options, informed by the U.S.'s experiences and findings, is essential for optimizing the tax burden on the wealthy and strengthening Japan's tax base in a fair and effective manner.

Supplementary Note 1: Income of Top 500 CEOs/Executives (with Income Over 100 Million Yen)

The table below shows the income breakdown of executives who earn more than 100 million yen through compensation and dividends. Among the top 500 executives, approximately two-thirds of their total income comes from executive compensation, while one-third comes from dividends. However, for the top 100 executives, income from dividends exceeds that from executive compensation.

Supplementary Note Table 1: Inome of Top 500 CEOs/Exectives

Hundred Million yen

Amount	Top 100	101-200	201-300	301-400	401-502	Total
Compensation	616.9	306.4	238.77	196.56	171.87	1530.5
Dividends	736.93	73.96	32.99	18.47	11.88	874.16
Total	1353.83	380.36	271.76	214.96	183.75	2404.66

Percentage

Share	100	101-200	201-300	301-400	401-502	Total
Compensation	45.60%	80.60%	87.90%	91.40%	93.50%	63.60%
Dividends	54.40%	19.40%	12.10%	8.60%	6.50%	36.40%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

(Source) Prepared by the author from Toyo Keizai online 2023/10/4

Items of income	Applicable top tax rates
Compensation	45% (national) / 10% (local)
Dividends	15% (national) / 5% (local)
Dividends (if more than 3% of share is held)	45% (national) / 10% (local)

(Note) Tax rates applicable to CEO/executive income.

Supplementary Note 2: Will Taxing Financial Income Cause People to Flee the Country?

One of the criticisms of proposals to improve and strengthen the taxation of financial income is that it will cause people to flee the country.[27]

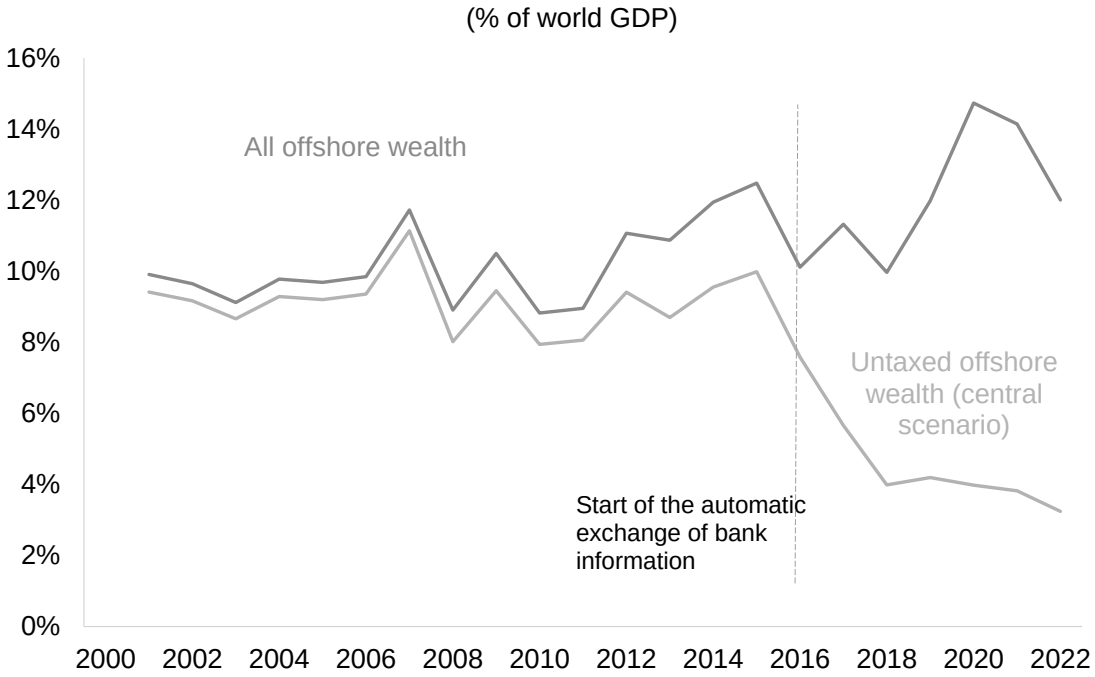
However, the exchange of international banking information (CRS: Common Reporting Standard) has been implemented internationally, including in Japan since 2017 and financial account information related to non-residents is being exchanged automatically and efficient-

ly between tax authorities based on internationally common standards.

According to the EU Tax Observatory's "Global Tax Evasion Report 2024," analysis and data sharing on tax, the scale of untaxed offshore financial assets held by the household sector has decreased dramatically since the introduction of the CRS. The report praises the decrease in non-compliance due to the exchange of CRS information as a real breakthrough. (See Supplementary Note Figure 1 below.)

According to the CRS information received by the National Tax Agency, Japanese residents held financial assets of 10.9 trillion yen overseas in 2022. However, the amounts of offshore financial assets reported per Japan's rule were 3.45 trillion yen in securities and 0.77 trillion yen in bank deposits. It has been pointed out that there is a gap of as much as 6.7 trillion yen between the two data. (The cause of this has not been clarified.)

Supplementary Note Figure 1: Offshore Household Financial Wealth



(Source) EU Tax Observatory (2023) "Global Tax Evasion Report 2024" figure 1 The success of the automatic exchange of bank information

[27] Zucman (2024, p. 37) proposes that, in order to counteract tax-driven changes in residency, wealthy individuals who move abroad should continue to be treated as residents for tax purposes for a certain period. This proposal is based on the benefit principle, which holds that individuals who have lived in a country for a long time and become wealthy owe part of their success to public goods and services, such as education, provided by that country. Japan has already implemented such a mechanism in its gift and inheritance tax systems. If either the donor or the recipient is a Japanese national who resided in Japan at any time during the ten years prior to the gift, the gift is taxed in the same manner as if both parties were residents.

Supplementary Note 3: Will Raising the Tax Rate on Financial Income Contribute to an Increase in Tax Revenue in the Short Term? (Japan's Experience)

The amount of capital gains tax withheld on listed stocks held in special accounts was 516.5 billion yen in 2013, the year before the tax rate was raised from 7% to 15%, but it fell to 433.3 billion yen in 2014, the year the higher tax rate took effect. (Most special account holders are believed to have chosen not to file a tax return.) This decline occurred because taxpayers can choose the timing of realizing capital gains on stocks, and similar behavior that has been observed in the United States[28] was also seen in Japan.

However, such timing manipulation is temporary, and the decline in tax revenue does

Supplementary Note Table 2: Trends in Withholding Tax Revenue

	Interest income, etc.	Dividend income	Capital gains (listed shares)	Tax rates
2008	819,520	2,044,204	49,652	10%
2009	661,963	1,584,196	50,449	10%
2010	548,231	1,641,050	46,817	10%
2011	467,925	1,670,059	38,895	10%
2012	431,845	1,827,282	43,371	10%
2013	439,088	2,576,926	516,579	10%
2014	480,674	3,821,381	433,386	20%
2015	430,169	4,591,692	577,913	20%
2016	347,941	3,738,116	233,936	20%
2017	357,624	4,292,488	557,872	20%
2018	367,314	4,568,613	373,698	20%
2019	306,535	5,246,734	300,870	20%
2020	297,348	4,800,715	511,351	20%
2021	273,656	5,393,381	845,002	20%
2022	299,358	5,943,998	484,088	20%
2023	415,537	5,622,514	819,721	20%

(Source) Prepared by the author from the National Tax Agency annual statistics report of various years

not persist over time. While it is difficult to determine with certainty—since capital gains tax revenue is affected by market trends—the average annual amount of tax withheld on capital gains from listed stocks (in special accounts) during the period when the 7% reduced rate applied (2002-2013) was 144.1 billion yen. From 2014 to 2021, however, this figure increased to an average of 479.2 billion yen per year. (All figures refer to national tax rates.) (See Supplementary Note Table 2)

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[28] JCT (2021) page 71 points out the following: Recent estimates suggest the permanent elasticity of capital gains is approximately -0.7, meaning a 10% increase in rates leads to a 7% reduction in capital gains income. The transitory elasticity is estimated to be in excess of -1.0, meaning a 10% increase in rates leads to a more than 10% reduction in capital gains income.

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