

A light blue map of Japan is visible in the background of the slide.

A Simple Tax Proposal

-- Replacement of Income Tax by VAT

Japanese for Tax Reform
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1. A Good Tax System

- **Simple**
- **Fair**
- **Efficient**
- **Reduced rate**

2. Economy of Japan

Annual Nominal GDP (fiscal year 2008) :

US\$ 5.444 trillion

(544.4 trillion yen)

3. Government Budget (FY2008)

- **Government Revenues:**
US\$ 892.1 billion (89.21 trillion yen)
 - Tax Revenues:
US\$ 442.7 billion (44.27 trillion yen)
(That is 49.6% of the gov. revenues)
 - Government Bond Issues:
US\$ 331.7 billion (33.17 trillion yen)

1USD=100.00JPY

4. Japan Public Debt

Government Bonds (JGB) Outstanding:

US\$ 6.80 trillion (680.448 trillion yen)

Total Government Debt:

US\$ 8.46 trillion (846.497 trillion yen)

Debt Per Capita:

US\$ 66,700 (6.67 million yen)

(Population of Japan: 127 million)

1USD=100.00JPY

5. Government Fiscal Conditions

Japan is a household who has:

- Annual Income **\$34,860**
- Annual Expenditure **\$70,240**
- Total Debts Outstanding **\$84,650 !**

6. Tax System in Japan

- There are about **67** categories of local and national taxes in Japan:

individual income tax
corporation tax
individual inhabitants tax
individual enterprise tax
corporation inhabitants tax
corporation enterprise tax
inheritance tax and gift tax
land value tax
stamp tax
registration and license tax
real property acquisition tax
property tax
city planning tax
special landholding tax
consumption tax
liquor tax
tobacco tax
gasoline tax
aviation fuel tax
liquefied petroleum gas tax
petroleum tax

motor vehicle tax
custom duty
tonnage duty
local road tax
special tonnage due
promotion of power
resources development tax
local consumption tax
prefectural tobacco tax
municipal tobacco tax
light oil delivery tax
automobile acquisition tax
special local consumption tax
golf course utilization tax
bathing tax
automobile tax
light vehicle tax
mineral product tax
hunters' registration tax
hunting tax
mine-lot tax
others

Ministry of Finance Japan

- **Historical Background of Japan's current tax system:**

Hirobumi Ito (1841-1901), a statesman, supervised the drafting of the Meiji Constitution, which modeled after the Constitution of Prussia. Article 104 of the Constitution of Prussia clearly states the discharging of the government accountability.

(The Constitution of Prussia, Art. 104)

Any violation of the provisions of the budget shall require subsequent approval by the chambers. The accounts relating to the budget shall be examined and audited by the supreme chamber of accounts. The general budget accounts of every year, including the tabular view of the national debt shall, with the comments of the supreme chamber of accounts, be laid before the chambers for the **purpose of discharging the government of responsibility.**

Constitution of the kingdom of Prussia. Translated and supplied with an introduction and notes by James Harvey Robinson. Philadelphia: American academy of political and social science, 1894.

- **Art. 90 of The Constitution of Japan reflects the Art. 104 of the Prussian Constitution:**

(The Constitution of Japan, Art. 90)

Final accounts of the expenditures and revenues of the State shall be audited annually by a Board of Audit and submitted by the Diet, together with the statement of audit, during the fiscal year immediately following the period covered. 2) The organization and competency of the Board of Audit shall be determined by law.

7. A Present Tax System

- **Complicated**
- **Unfair**
- **Inefficient**
- **Expensive**

8.1 A Proposal for Problem-solving -- VAT --

- **Japan has VAT of 5%:**
US\$ 997 billion (9.97 trillion yen)
- **Tax Revenues:**
US\$ 4427 billion (44.27 trillion yen)
- **VAT is 22.5% of Tax Revenue Total**

8.2 A Proposal for Problem-solving -- Income Tax--

- **Income Tax Revenue**
(includes all individual income taxes) :
US\$ 149.9 billion (14.99 trillion yen)
- **Income Tax Revenue is 33.9% of
Total Tax Revenues**

8.3 A Proposal for Problem-solving -- 0% Ultimate Flat Income Tax --

If 0% flat income tax is introduced within the same frame of tax revenue:

**VAT will be 12.5% (+7.5%)
in replace of income tax.**

(1%VAT = US\$20.00 billion (2.0 trillion yen))

8.4 A Proposal for Problem-solving -- Individual Income Tax & Corporation Tax --

- **If 0% flat income tax and 0% flat corporation tax are introduced within the same frame of tax revenues;**

VAT will be 17.5% (+12.5%) in replacement of individual income tax and corporation tax.

Corporation tax revenue:

US\$ 100.00 billion (10.0 trillion yen)

8.5 More Radical Proposal -- Complete Overhaul --

- **If all taxes are reduced to 0% flat rate within the same frame of total tax revenue then, the VAT will be 22.2% in replace of 0all the rest of taxes.**

*Social Security is excluded in all calculations.

9. Conclusion

- Japan can introduce the flat tax with a realistic % of VAT replacement.
- This advanced form of flat tax is simple, fair, and pro-growth.
- Advantageous and efficient to both taxpayers and government.
- It is not a tax-cut proposal.
- A great cut in tax administering and its related cost by government can be made. A fierce resistance can be expected by the government.