

**Statement by Yasuchika Hasegawa, Chairman of Keizai Doyukai  
On the outline of fiscal 2012 tax reform**

1. The Noda cabinet approved the outline of FY 2012 tax reform proposals while the cabinet faced a difficult agenda, such as securing a budget to finance the reconstruction of the areas affected by the Great East Japan Earthquake, as well as an unified reform of the tax and social security systems. It is regrettable that the outline does not fully include measures that will contribute to a growth strategy and invigorate private companies.
2. It is regrettable that having last year approved a five percent cut of the effective corporate tax rate, this has been effectively frozen for three years as a result of adoption of the Act on Special Measures to Secure Revenues to Finance the Disaster Reconstruction. At the same time, we should appreciate the decision to extend the research and development tax credit, however, in reality, the early and steady reduction of the effective corporate tax rate is one of the indispensable measures in implementing the national growth strategy, along with participation in TPP and implementing regulatory reforms.
3. While the Act on Special Measures to Secure Revenues to Finance the Disaster Reconstruction passed the Diet, legislations involving cuts in public spending, such as reducing the number of seats in the Diet and lowering wages for civil servants were postponed. Many voters will likely remain interested in social security reform accompanied by rises in consumption tax, rather than the immediate tax reforms for the next fiscal year. In that sense, I am deeply concerned that no remarkable outcome was forthcoming in relation to expenditures cuts, which will make it difficult for the Noda cabinet to gain the understanding and cooperation from voters on the increase of their tax burden.
4. The essence of unified reform of the social security and tax systems is to clarify the correlation between benefits and burdens (tax and social insurance payments) voters face, to redress inequality / disparity between generations and within generations, and finally, to establish a sustainable system with proper restraints on the increase of the national burden. The government now is planning to make a preliminary draft of the reforms by the end of this

year, and then expand on the outline next year. If the process proceeds with a focus solely on revenue increase by the consumption tax hike without presenting an overall vision of the social security reforms nor concrete policies, a unified reform process loses its meaning.

5. A tax system conducive to growth and invigorating private corporations also contributes to the reconstruction support. Furthermore, a sustainable social welfare system is important social infrastructure that empowers individuals and companies. When faced with a “divided Diet”, it is the debate between the government and opposition taking place from now on that decides whether the tax reforms for the next fiscal year and unified reform will succeed or not. I strongly hope the Noda cabinet approaches this with unwavering resolve, and continues to have in mind a bill on increasing the consumption tax rate next spring.