KEIZAI DOYUKAI

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Statement by Yasuchika Hasegawa, Chairman of Keizai Doyukai

On the Outline of the Fiscal 2014 Tax Reform

This outline of the fiscal 2014 tax reform clearly takes into account the economic growth to be gained through the Japan Revitalization Strategy as well as of the two step process planned to raise the unavoidable consumption tax rate up to 10 percent.

As for its details, we regard the reform plan as appropriate, especially in the area of automobile tax. This is because it includes measures to provide relief from automobile acquisition tax, measures reflecting the consideration for the environment, as well as measures to supplement local tax revenues, which are estimated to shrink due to adjustment of tax burdens. In addition, it includes reform on corporate inhabitant tax aimed at redressing disparities in tax revenues among municipalities. These measures represent significant progress toward the realization of a desirable tax system, a valuable outcome achieved through difficult coordination of diverse interests. Regarding the two step reduction in the income deduction for high income earners, which was presented a little too abruptly, we understand it as excusable and unavoidable in the light of the “ability-to-pay” principle.

On the other hand, in regard to our series of proposals for tax reform, the following two points must be reconfirmed and stressed. First, the timing of the introduction of the reduced consumption tax rates was not clarified in the reform plan. We believe that the uniform tax rate should be applied to all taxable goods and services while the consumption rate is 10 percent. Mitigation of the estimated economic burdens especially on low-income earners would be better accomplished by a tax deduction with benefits and by use of the new national identification number system.
The problem related to the introduction of the reduced tax rate is that there has not been a broad agreement or sufficient debate on the definition of items to which the reduced

tax rate will be applied, and the question of where the government will find alternative revenue sources. In addition, the precondition of the introduction of the reduced tax rate, which the reform plan states will be introduced “based on the understanding of the related parties,” is not yet fulfilled, as a number of the organizations involved in the debate have expressed negative opinions on the policy.

Second, the reform plan merely explains that the cut in the corporate tax rate will be under consideration for the time being. We urge the government to recognize this issue as a central element of the Japan Revitalization Plan and to accelerate discussion toward its implementation. While the government did abolish the “Special Corporate Tax for recovery from damages caused by the Great East Japan Earthquake” a year ahead of the original schedule, the effective corporate tax rate in Japan is still higher than that of other industrialized countries. To lower this to the international standard will greatly contribute to regaining corporate earnings. In addition, this measure is essential to bring more Foreign Direct Investment (FDI) to Japan, which remains extremely small in comparison with other advanced economies. This will generate a virtuous cycle which leads to an increase in employment and wages, restoring the Japanese economy to sustainable economic growth.

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