

## **PART 1. INTRODUCTION**

### 1. Standards and Guidelines on NTA's Administrative Tasks, and Performance Evaluation

(1)"Instruction concerning Standards and Guidelines on Administrative Tasks of National Tax Agency " (Instruction #12 of the Ministry of Finance)

On January 6, 2001, Finance Minister issued "Instruction concerning Standards and Guidelines on Administrative Tasks of National Tax Agency". This instruction is based on Article 16, Paragraph 6-(ii) of "Basic Law for Reform of Central Government, etc.," which requires central government ministers to define and publicly announce standards on administrative duties entrusted to their affiliated agencies. The instruction consists of two parts: Standards governing NTA's duties pursuant to Article 19 of Finance Ministry Establishment Law; and detailed guidelines on these standards.

Finance Minister also supervises NTA's activities to ensure compliance with the standards and guidelines stated above.

"Instruction concerning Standards and Guidelines on Administrative Tasks of National Tax Agency " (excerpt)

(Standards for Administrative Duties)

Article 3. National Tax Agency shall, when carrying out administrative duties in its charge, take steps to achieve proper and fair taxation and domestic tax collection by providing favorable environments for taxpayers to properly and smoothly fulfill their tax obligations. The Agency shall also take steps to ensure the sound development in the alcoholic beverage industry and to have public tax accountants provide proper services.

(Rules)

Article 4. The Agency shall adopt the following guidelines in line with the standards set forth in the preceding article and shall conduct its duties in a transparent and efficient manner.

(1) Steps taken to achieve proper and fair taxation and tax collection shall be as follows.

a. Creating favorable environments for taxpayers

(i) Correctly informing taxpayers, in easily understandable terms, of the laws and administrative procedures related to filing tax returns and paying taxes;

(ii) Promptly and appropriately handling questions from taxpayers; and

(iii) Making efforts to secure broad cooperation and participation of Japanese citizens and competent government bodies, etc., in order to enhance public understanding in the role of tax and tax administration and encourage their cooperation in tax administrative affairs.

b. Promoting proper and fair tax administration

(i) Applying related laws and regulations in a proper manner;

(ii) Making efforts for taxpayers to file accurate tax returns, as well as correcting mistakes in self-assessment tax returns by conducting proper examination and providing instructions for taxpayers who submit erroneous tax returns;

(iii) Making efforts to collect taxes before the deadline, and also collecting tax delinquency by taking proper measures on taxpayers who fail to meet the deadline; and

(iv) Quickly and properly dealing with administrative appeals from taxpayers in order to protect taxpayer's legitimate rights and interests.

(2) Steps taken to ensure sound development in the liquor industry shall be as follows.

a. Stabilizing business performance in the liquor industry as well as encouraging R&D in brewing technologies and ensuring the quality and safety in alcoholic beverages; and

b. Ensuring effective use of resources for alcoholic beverages.

(3) Steps taken to ensure proper services of certified public tax accountants shall be as follows.

Certified public tax accountants, as independent and impartial experts in tax affairs, should meet taxpayer's expectations in line with basic philosophy for the self-assessment scheme, and strive for the proper fulfillment of taxpaying responsibility as set forth in tax-related legislation. In line with this, National Tax Agency shall encourage certified public tax accountants to provide proper services, allowing them to fulfill an important role in the proper and smooth operation of the self-assessment tax return system.

(2) "The Mission of National Tax Agency "

"The Mission of National Tax Agency" briefly explains the above-mentioned standards and guidelines as well as the code of conduct for NTA's administrative duties, paying attentions to future tax administrative affairs as well as to performance evaluation results since FY2001.

(3) Evaluation of NTA's performance

Minister of Finance shall set targets to be met by NTA, an operating agency of the Finance Ministry, and shall evaluate and announce NTA's actual performance against the targets. "Implementing Plan for Evaluation of Achievement of the Targets to Be Met by NTA in Business Year 2003" (hereinafter referred to as the "Implementing Plan") was formulated and announced in June 2003.

The Implementing Plan encompasses three targets, namely "Achieving proper and fair taxation and tax collection," "Encouraging sound development in the alcoholic beverage industry" and "Ensuring proper services of certified public tax accountants."

These three targets have nine performance goals, such as “NTA shall provide correct, easy-to-understand information on legal interpretations and administrative procedures for filing tax returns and paying taxes.” The Implementing Plan also sets out sixty-five performance indicators for evaluating achievement levels of these targets.

In October 2003, Finance Minister formulated and announced the “Performance Evaluation Report on NTA’s Targets in Business Year 2002.”

The expert discussion group, “Roundtable on Policy Evaluation of Finance Ministry,” (chairperson: Taizo Nishimuro, Chairman, Toshiba Corporation, and vice chairman, Nippon Keidanren) discusses and provides feedbacks on the performance evaluation report. These feedbacks contribute to enhancing evaluation objectivity and its quality.

NTA is working on its duties, taking into consideration the feedbacks provided by this expert group.

(Reference)

## **The Mission of National Tax Agency**

**Mission: To enable taxpayers to properly and smoothly fulfill their tax responsibility.**

### **Responsibilities**

To achieve the mission stated above, National Tax Agency is responsible for fulfilling the responsibilities stipulated in Article 19 of the Law to Establish the Ministry of Finance, while paying due consideration to transparency and efficiency.

#### 1 Achieving proper and fair taxation and collection

##### (1) Creating Favorable Environment for Taxpayers

(i) NTA shall provide correct and easy-to-understand information on legal interpretation and administrative procedures for filing tax returns and paying taxes.

(ii) NTA shall quickly and accurately handle inquiries from taxpayers.

(iii) NTA shall endeavor to call on other ministries and citizens from all parts of society for their cooperation and participation in order to improve public understanding and support regarding the role of tax and tax administration.

##### (2) Achieving Proper and Fair Taxation

(i) To achieve proper and fair taxation,

a. NTA shall ensure that laws and regulations are applied properly.

b. NTA shall endeavor to have taxpayers file accurate tax returns and shall correct mistakes in tax returns by conducting tax examinations of and providing guidance for those taxpayers whose returns are deemed to be inaccurate.

c. NTA shall endeavor to have taxpayers submit their tax payments by the deadline and shall surely collect the taxes of those who have not paid by the deadline by implementing delinquency procedures.

(ii) To protect the rights and interests of taxpayers, NTA shall properly and promptly respond to requests for reinvestigation or requests for reconsideration.

## 2 Achieving sound development in the alcoholic beverage industry

(i) NTA shall endeavor to promote the sound management of the alcoholic beverage industry, promote research and development on brewing technologies, and maintain the quality and safety of alcoholic beverages.

(ii) NTA shall endeavor to ensure effective use of resources for alcoholic beverages.

## 3 Ensuring the proper activity of certified public tax accountants

NTA shall endeavor to ensure that certified public tax accountants properly engage in their duties and play their vital role in implementing the self-assessment system properly and smoothly in accordance with their responsibilities.

### **Code of Conduct**

The above missions shall be fulfilled in accordance with the following code of conduct.

#### (1) Code of Conduct to Accomplish NTA's Responsibilities

(i) NTA shall endeavor to secure transparency in tax administration so that taxpayers are able to gain information on legal interpretation and applicable procedures for filing tax returns and paying taxes.

(ii) NTA shall endeavor to make the filing or tax returns and the payment of taxes more convenient.

(iii) NTA shall endeavor to improve its operations in order to enhance efficiency of tax administration.

(iv) NTA shall endeavor to actively gather and use information and document materials to accurately conduct examinations and implement collection procedures in delinquent cases.

(v) NTA shall take strict measures on taxpayers who commit malicious tax evasion and vicious tax delinquency.

## (2) Code of Conduct for Tax Officials

(i) Tax officials must serve taxpayers sincerely.

(ii) Tax officials must keep confidential all information obtained in the course of official duties, and strictly observe disciplines.

(iii) Tax officials should endeavor to acquire professional expertise necessary for their official duties.

## **Future Approach**

NTA shall constantly review and improve its own organization structure and administrative duties in order to properly and flexibly address highly networked information society, globalization and other socioeconomic changes as well as to meet taxpayer needs.

## 2. Overview of Tax Administrative Structure

On June 1, 1949, NTA was established as Finance Ministry's affiliated agency responsible for assessing and collecting national taxes (except for customs duty, tonnage due and special tonnage due). Until then, this role was performed by Tax Bureau of Finance Ministry. Immediately after the Second World War, tax administration did not function properly as Tax Bureau had undertaken excessive operations. This organizational reform established NTA's current three-tiered organizational structure consisting of the head office, regional taxation bureaus and tax offices.

N.B. Tax Bureau of Finance Ministry is responsible for research and policy planning on domestic tax system. Customs and Tariff Bureau and Customhouses are responsible for researching, planning and collecting customs duty, tonnage due and special tonnage due.

### (1) Organization Structure of NTA

NTA consists of the head office, 11 regional taxation bureaus (Sapporo, Sendai, Kanto-Shin-Etsu, Tokyo, Kanazawa, Nagoya, Osaka, Hiroshima, Takamatsu, Fukuoka and Kumamoto), Okinawa Regional Taxation Office and 524 tax offices throughout the country (see Table 1).

NTA's head office has four departments: Commissioner's Secretariat; Taxation Department; Revenue Management and Collection Department; and Examination and Criminal Investigation Department. The head office plans overall tax administrative policies, provides uniform interpretation on tax law, gives necessary instructions to regional taxation bureaus and supervises tax administrative operations carried out by regional taxation bureaus and tax offices. As the core government body in charge of tax administrative affairs, NTA keeps close contacts with other ministries, agencies and related organizations (see Figure 1).

Regional taxation bureau has similar organizational structure to the head office and supervises tax offices under their jurisdiction in accordance with instructions from the head office. Regional taxation bureaus are also directly involved in certain tax assessment and collection affairs. For instance, Examination and Criminal



Investigation Department at regional taxation bureau level examines large-scale corporation's corporate and consumption taxes and investigates tax evasion cases. Taxation Department at regional taxation bureau level examines and investigates liquor tax and gasoline tax payable by large companies, while Revenue Management and Collection Department collects overdue taxes from large-scale tax defaulters (see Figure 1).

Okinawa Regional Taxation Office was established on May 15, 1972 when US returned Okinawa back to Japanese administration. The office plays similar roles to regional taxation bureaus, but its organization scale is smaller. It has no "department" (see Figure 2).

Tax office is a front-line administrative body in charge of assessing and collecting domestic taxes and has the closest contacts with taxpayers. Tax office is authorized to assess and collect domestic taxes within its responsible area. Its organization structure varies, depending on tax office's scale. Generally, a tax office has 1 division and 4 groups: co-ordination division, revenue management and collection group, examination group (individual), examination group (property tax), and examination group (corporation).

- (i) Co-ordination division is in charge of overall coordination and general affairs as well as accounting tasks in the tax office.
- (ii) Revenue management and collection group manages domestic tax credits and collects unpaid taxes.
- (iii) Examination group (individual) handles personal income tax and unincorporated enterprise's consumption tax and also collects documentary materials related to domestic taxes.
- (iv) Examination group (property tax) handles inheritance tax and gift tax.
- (v) Examination group (corporation) is responsible for corporate tax, corporate consumption tax, withholding income tax and other indirect taxes.

Some small-scale tax offices consist of 1 division and 1 group, namely co-

ordination division and examination group.

Each division or group has a few staff members led by chief examiner (chief revenue officer).

Large-scale tax offices have special officer (public relations) who specially handles public relations activities concerning domestic taxes, and a chief examiner (liquor tax and industry) in charge of liquor tax and administrative tasks related with the liquor industry. Some tax offices have even larger scale and have deputy district director (assisting the district director), special examiners (in charge of investigating large-scaled taxpayers) and special revenue officers who are responsible for compulsory collections in major default cases.

NTA also has other affiliated organizations, including National Tax College, which provides training programs for tax officials and National Tax Tribunal that reviews taxpayer's requests for reconsideration on tax controversies. National Tax College and National Tax Tribunals have their local training centers or branch offices in the cities where regional taxation bureaus and Okinawa Regional Taxation Office are located (see Figures 1 and 2).

In connection with the central government reorganization, NTA's organization has also seen structural reforms since January 2001, such as newly setting up Taxation Management Division, renaming Public Relations Division as Director's office (Public Relations), and establishing new National Tax Council by integrating former National Tax Council, Tax Accountant Council and Central Council on Alcoholic Beverages (CCAB).

In April 2001, NTA reorganized its affiliated facility, National Research Institute of Brewing, as independent administrative entity.

## (2) Number of personnel

Immediately after the WWII, when galloping inflation and public unfamiliarity with the new tax system led to great confusion and a near crisis in tax administration, the number of NTA personnel rose to nearly 62,000. After personnel reductions, the number of personnel was reduced to 50,300 in 1954. From 1972 to 1986, the number remained around 52,000, reflecting the severity of circumstances in government administration and finances. However, with the introduction of consumption tax in 1989 and land value tax in 1991, NTA expanded its organization. The number exceeded 56,000 in 1992 and stands at 56,315 as of the end of FY2003.

The distribution of NTA staff is as follows: 54,827 (97.4%) in regional taxation bureaus and tax offices, 655 (1.2%) in the head office, 355 (0.6%) in National Tax College and 478 (0.8%) in National Tax Tribunal.

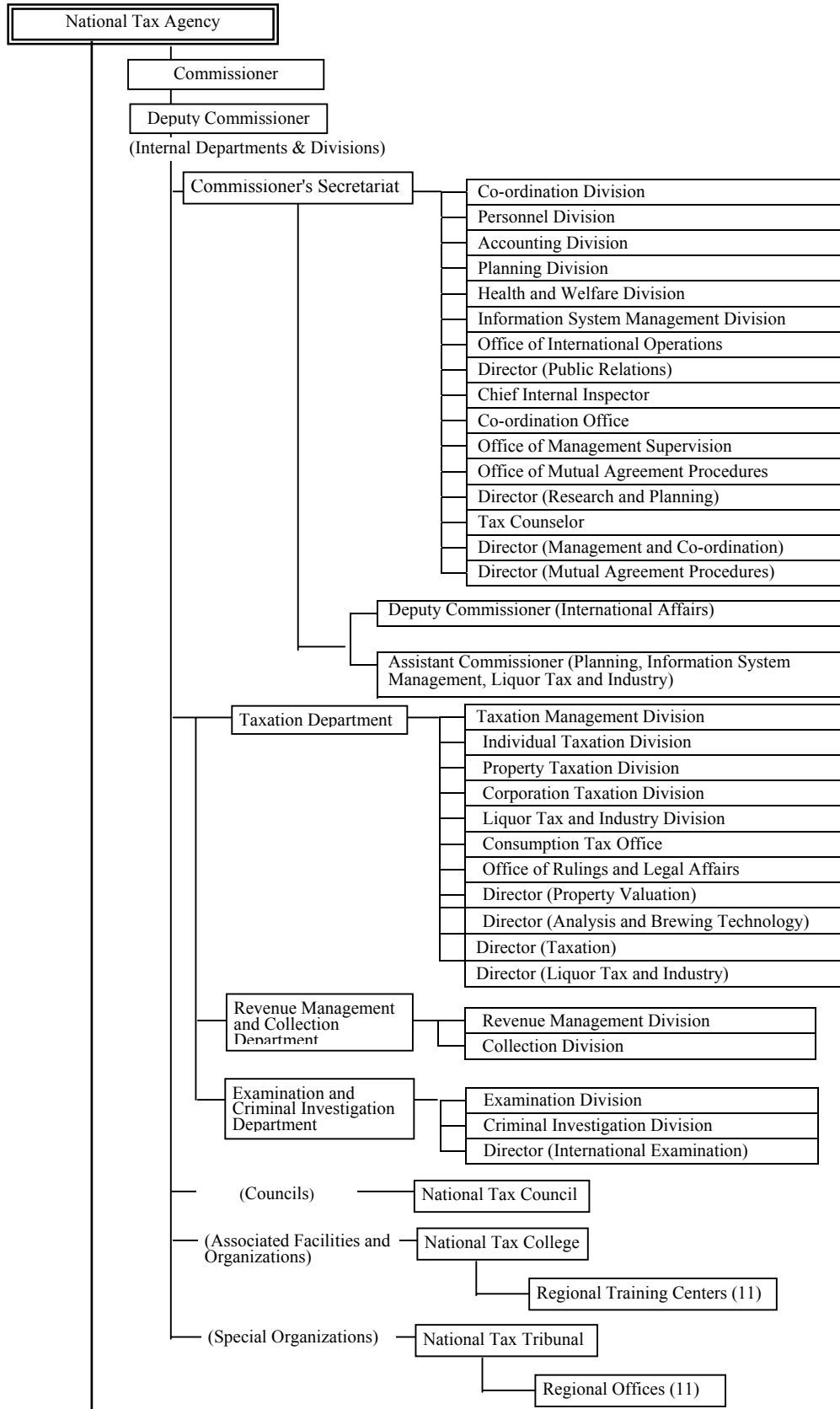
By type of duty, 68% of NTA staff are engaged in assessing taxes such as income tax, corporate tax and consumption tax, while 15% in revenue management and collection activities, and the remaining 17% in general affairs and coordination.

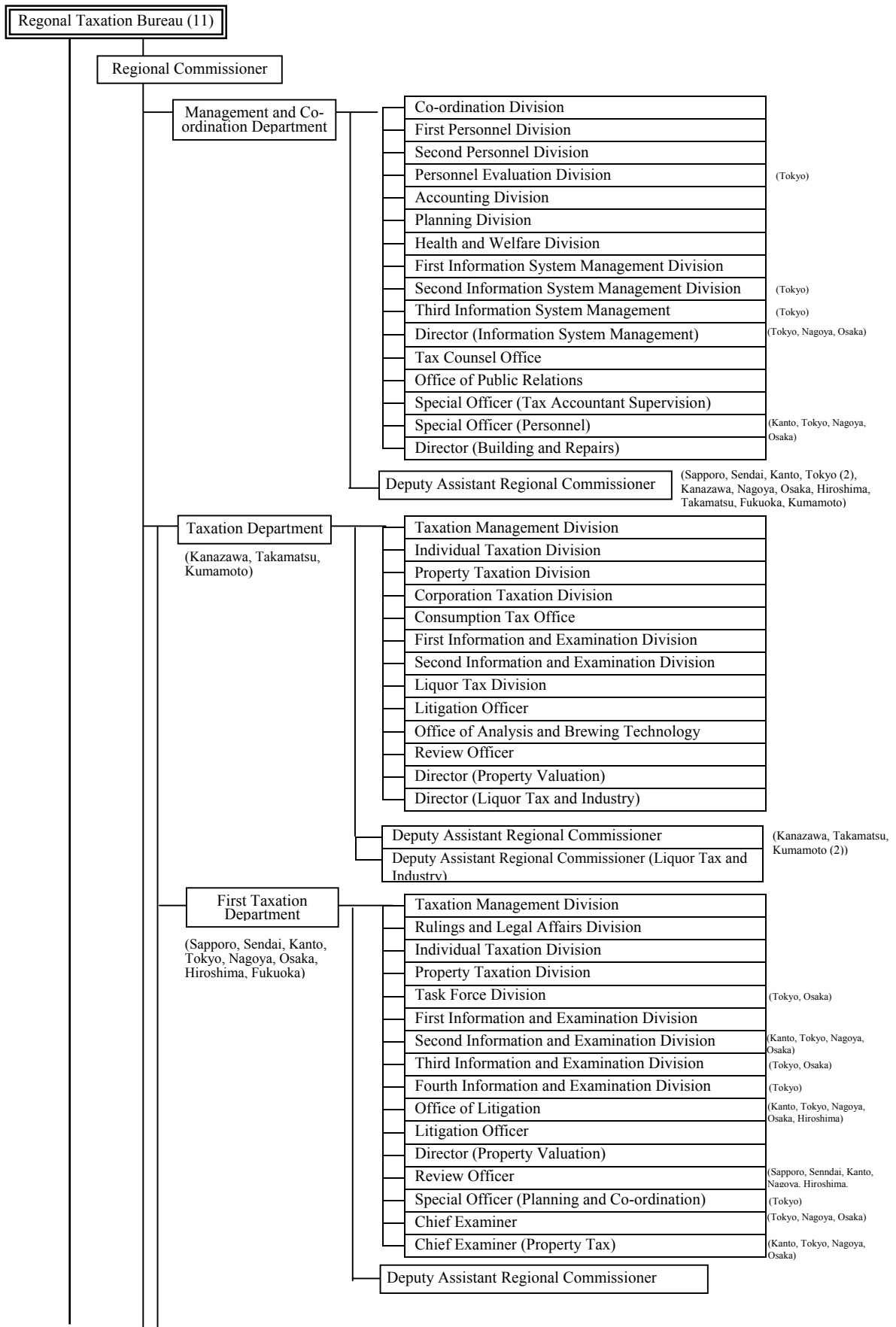
**Table 1: Location, Territories and Number of Tax Offices under the Jurisdiction of Regional Taxation Bureaus and Okinawa Regional Taxation Office**

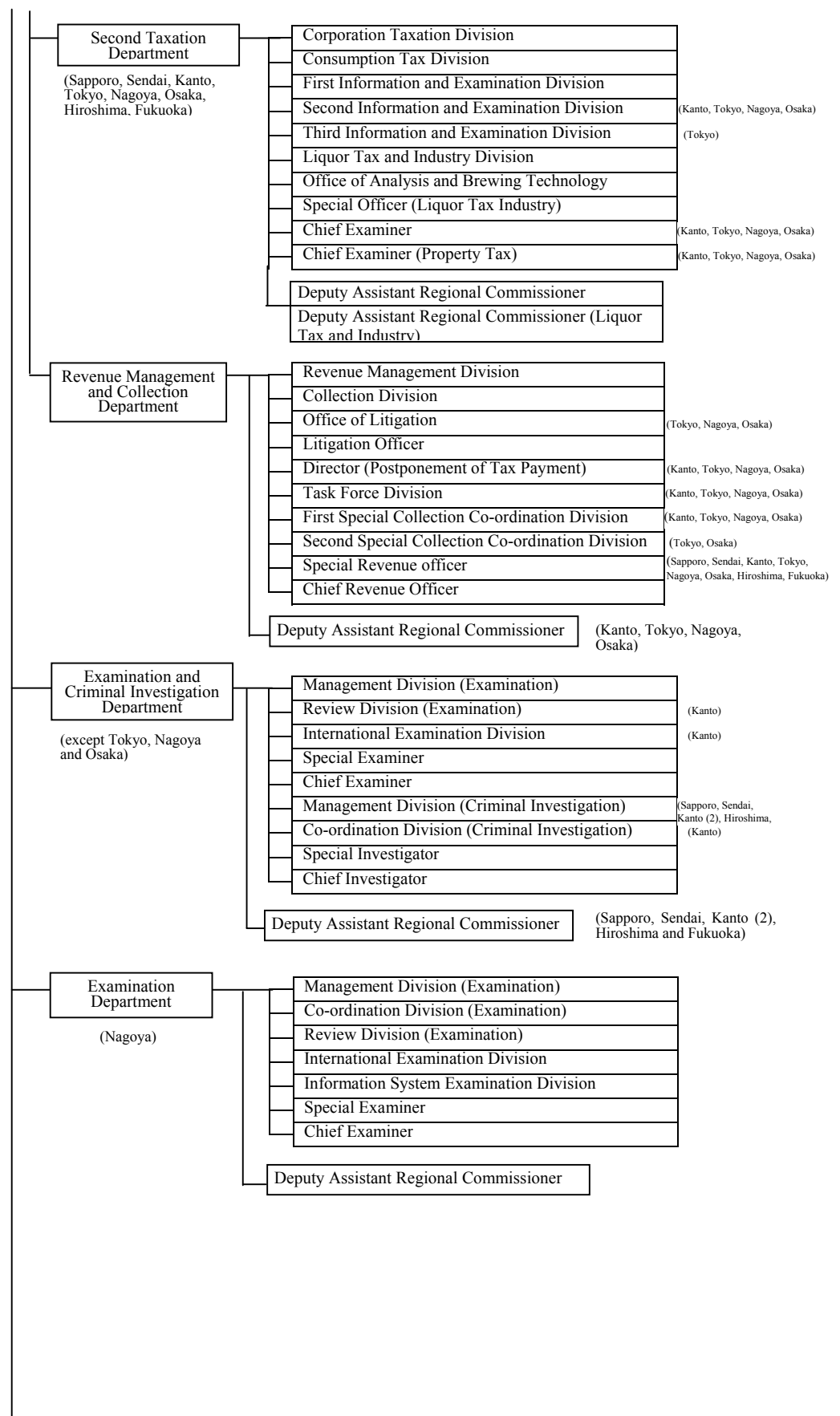
(as of March 31, 2004)

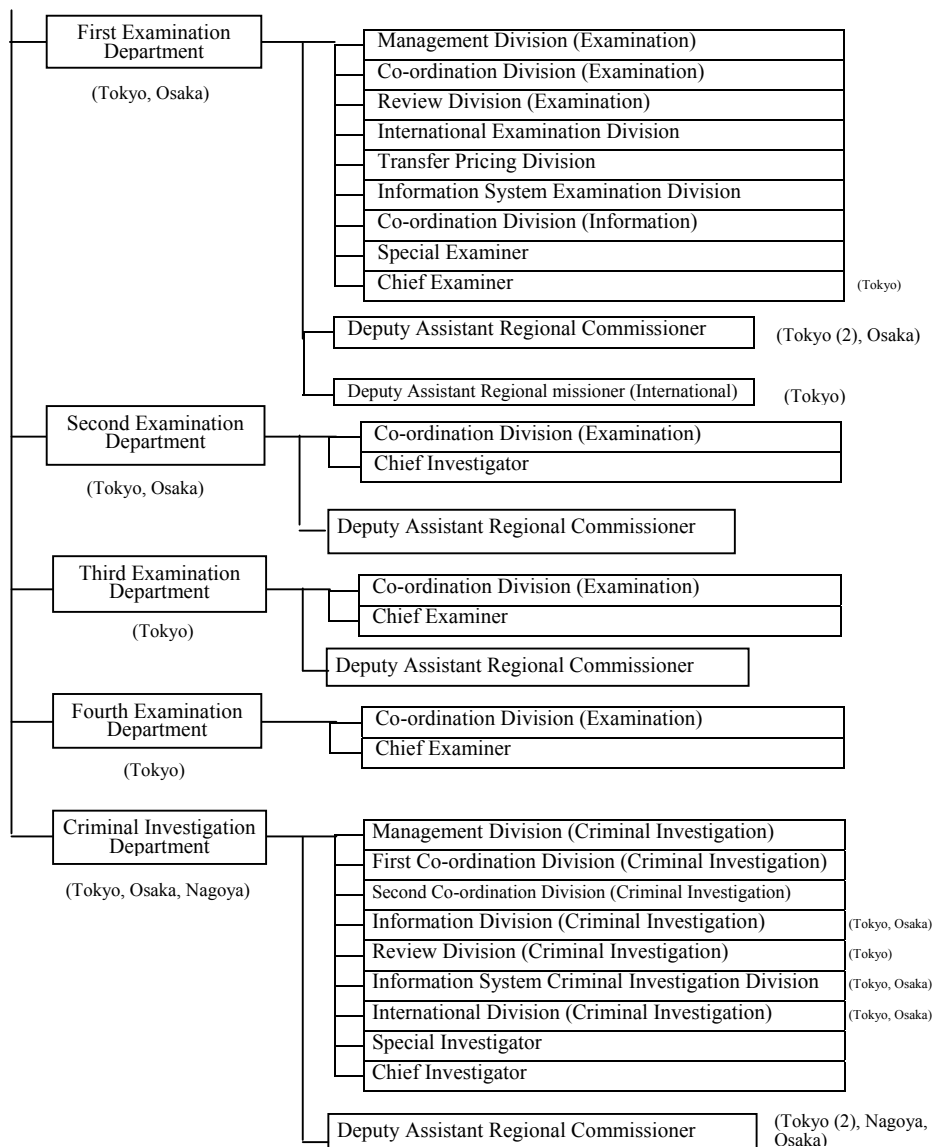
Name	Location	Prefectures under jurisdiction	Number of Tax offices
Sapporo Regional Taxation Bureau	Sapporo City	Hokkaido	30
Sendai Regional Taxation Bureau	Sendai City	Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima	52
Kanto-Shin-Etsu Regional Taxation Bureau	Saitama City	Ibaraki, Tochigi, Gunma, Saitama, Niigata, Nagano	63
Tokyo Regional Taxation Bureau	Tokyo Metropolis	Chiba, Tokyo, Kanagawa, Yamanashi	84
Kanazawa Regional Taxation Bureau	Kanazawa City	Toyama, Ishikawa, Fukui	15
Nagoya Regional Taxation Bureau	Nagoya City	Gifu, Shizuoka, Aichi, Mie	48
Osaka Regional Taxation Bureau	Osaka City	Shiga, Kyoto, Osaka, Hyogo, Nara, Wakayama,	83
Hiroshima Regional Taxation Bureau	Hiroshima City	Tottori, Shimane, Okayama, Hiroshima, Yamaguchi	50
Takamatsu Regional Taxation Bureau	Takamatsu City	Tokushima, Kagawa, Ehime, Kochi	26
Fukuoka Regional Taxation Bureau	Fukuoka City	Fukuoka, Saga, Nagasaki	31
Kumamoto Regional Taxation Bureau	Kumamoto City	Kumamoto, Oita, Miyazaki, Kagoshima	36
Okinawa Regional Taxation Office	Naha city	Okinawa	6

**Figure 1: NTA Organization Chart in FY2003 (except Okinawa)**

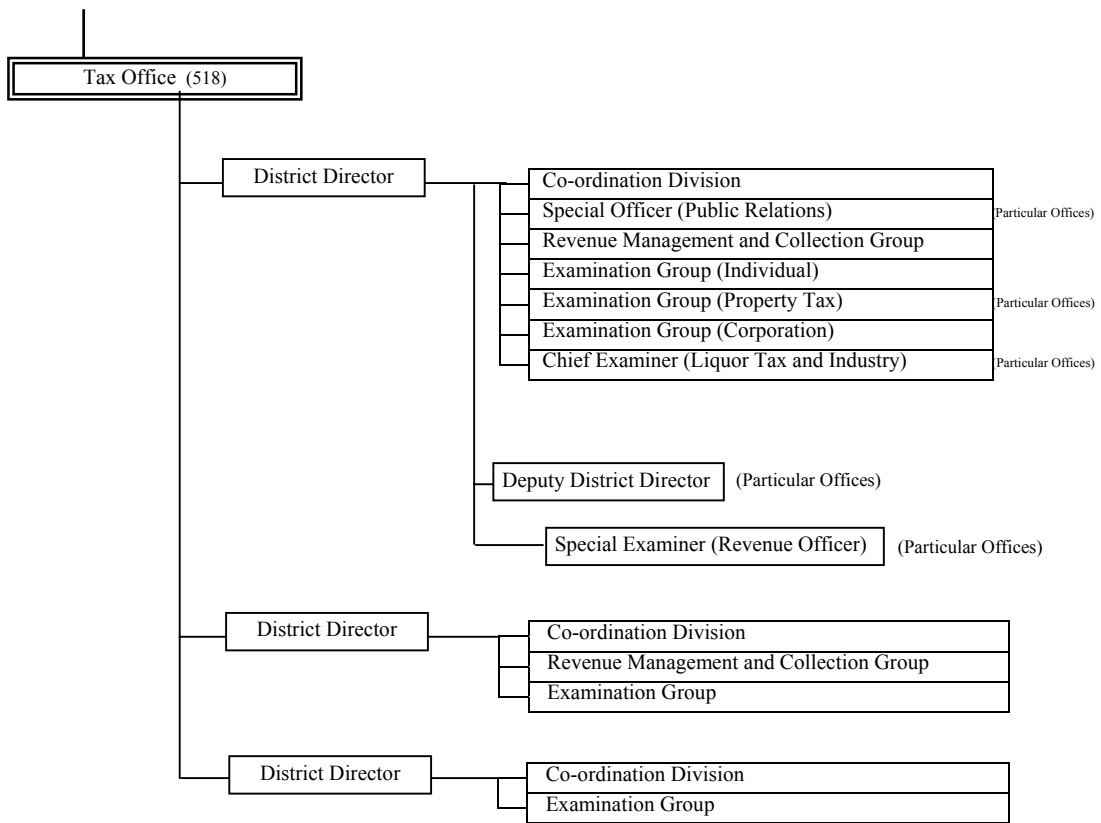




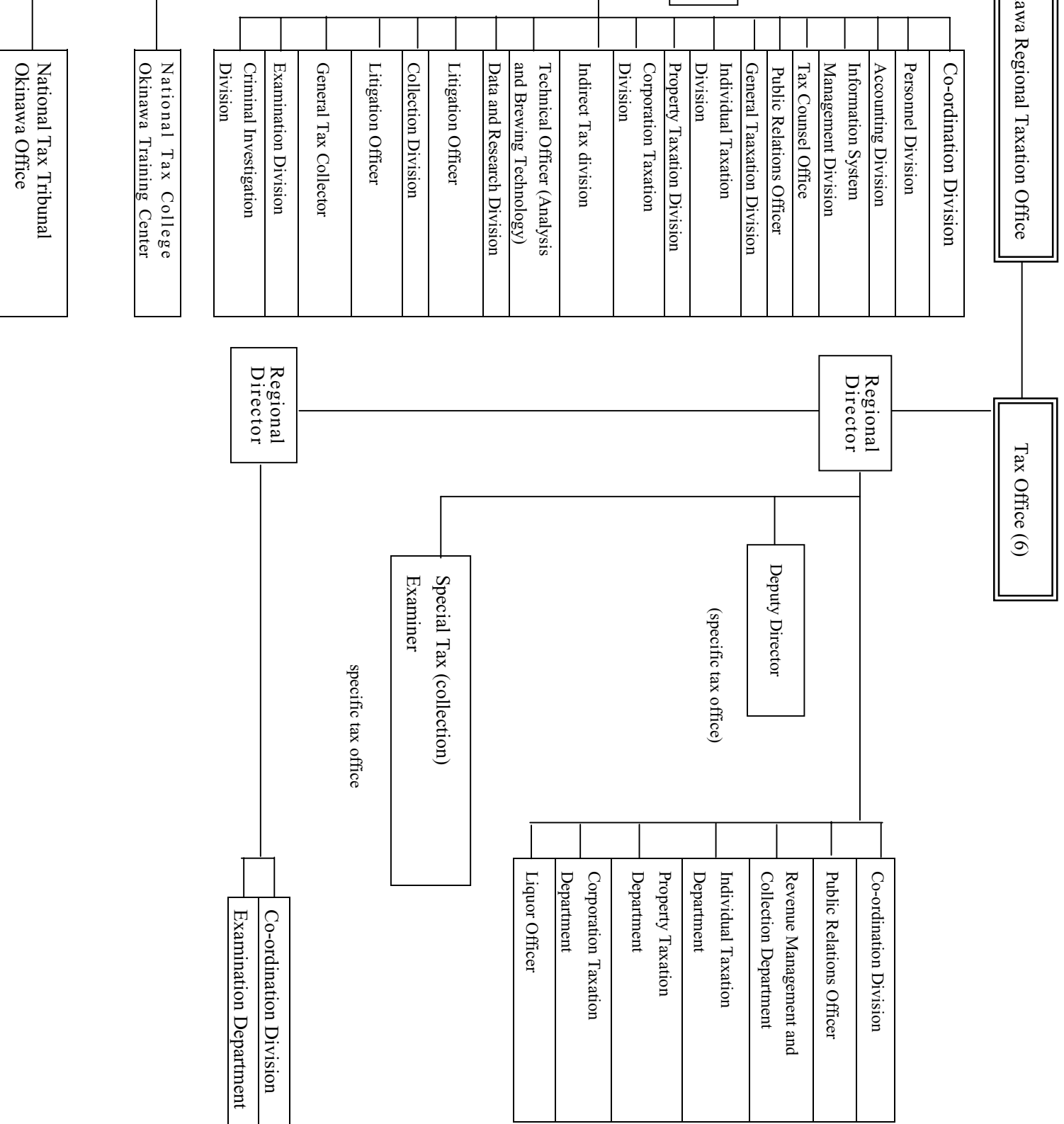




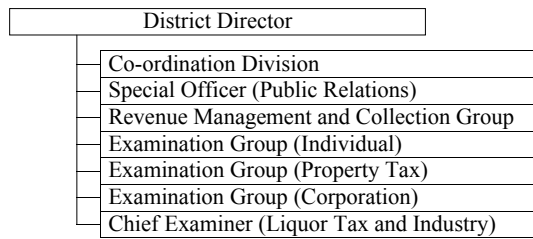




# Administration in FY2003 (Okinawa Regional Taxation Office)



**Figure 3: Organization Chart of Tax Office**



### 3. Operating Costs of Tax Administration

The operating costs of tax administration (i.e., all expenditures for tax administrative tasks, such as personnel costs, travel charges and nonpersonnel expenses) are all included in the General Account Budget.

As of FY2003, the total budget for tax collection operating costs stands at 721.9 billion yen, of which personnel expenses occupies the largest share, accounting for 568.6 billion yen. The remainder includes 128.6 billion yen for nonpersonnel costs and 14.2 billion yen for travel expenses.

The cost of collecting 100 yen of tax and stamp duty revenues (cost of tax collection) is 1.78 yen as of FY2003, while it was 2.79 yen in FY1950.

Such downward trend in the tax collection costs has resulted from the following three factors: Significant increases in tax revenues due to Japan's economic growth; relatively stable manpower in NTA's tax officials in the long run; and NTA's persistent efforts for improving efficiency to cope with increasing workload (see Table 2).

**Table 2: Annual Cost of Tax Collection**

Fiscal Year	Cost per 100 yen
1950	2.79
1955	2.32
1960	1.81
1965	1.87
1970	1.40
1975	1.80
1980	1.40
1985	1.16
1990	0.90
1995	1.26
1998	1.44
1999	1.50
2000	1.42
2001	1.54
2002	1.66
2003	1.78

Note: Figures up to FY2002 are settled amounts; those for FY2003 are estimates based on the initial budget.

A decrease in tax collection cost is surely desirable because it means increased efficiency in tax collection duties. However, since the expenditure for tax collection also represents the cost of fair taxation, mere comparison with tax revenue might result in misled performance evaluation.

#### 4. Budget Structure and Tax Revenue in Japan

##### (1) Tax and stamp duty revenues in the general account budget

Japan's national budget consists of General Account Budget and Special Account Budgets, the latter being for specific projects or fund management. There are also budgets for government-affiliated agencies, which are not part of the government itself but whose functions are closely related to the central government.

The General Account Budget covers most of the expenditures for the government's primary operations and is mainly financed by tax and stamp duty revenues. From FY1934 to FY1936, however, the amount of tax and stamp duty revenues only stood at around 1 billion yen (44.7%) compared to the total General Account Budget of approximately 2.3 billion yen.

During the postwar era, the ratio of tax and stamp duty revenues to total General Account Budget rose dramatically. This is mainly because Public Finance Law did not allow the Japanese government to finance its annual expenditure (except expenditure for public utilities) using government bonds or loans. Even when the government was permitted to issue bonds, the Bank of Japan (Japan's central bank) was in principle not permitted to underwrite them. This was called "Sound Fiscal Policy." In FY1960, the total amount of General Account Revenue was 1,961 billion yen, and the amount of tax and stamp duty revenues reached 1,618.3 billion yen (82.5%). Over the following decade from 1965, the ratio of tax and stamp duty revenues to total General Account Revenue remained fairly constant between 75% and 85%, although the central government started issuing construction bonds to compensate for its fiscal deficits.

In the autumn of 1973, the first Oil Crisis triggered a fierce recession, which significantly pushed down tax and stamp duty revenues, especially in corporate tax revenue. As a result, the ratio of tax and stamp duty revenues to total revenue fell sharply to 64.0% in FY1975. Over the subsequent few years after 1976, government initiatives to stimulate the economy and to stabilize and improve the standard of living pushed up the total expenditures, while the increase in annual revenue was only marginal. Consequently, the government depended on government bond issues, including revenue from special bonds. The ratio of bond issues to total General Account Budget grew to about 30%, while that of tax and stamp duty revenues shrunk

to around 60%.

Since FY1980, the government has refrained from issuing bonds. In FY1982, at the stage of estimated budget requests from all ministries, a 'zero-ceiling' policy of no increase for their budgets was declared. This budgetary restraint policy produced a low growth rate in General Account Expenditure. These measures gradually increased the ratio of tax and stamp duty revenues. In FY1990, the ratio of tax and stamp duty revenues to General Account reached its peak at 83.8%. However, decreased revenues and increased public investments following a severe economic recession brought down the ratio of tax and stamp duty revenues to 51.0% in the revised budget for FY2003 (see Table 3).

## (2) Outline of tax and stamp duty revenues

In the FY 2003 General Account Budget, tax and stamp duty revenues stood at 41,786 billion yen. This consisted of 39,841 billion yen in national tax revenue, 816 billion yen in customs duty and tonnage due and 1,129 billion yen in stamp duty revenue.

The main components of national tax revenue are withholding income tax of 11,241 billion yen (25.6% of national tax revenue), corporate tax of 9,114 billion yen (20.8%) and self-assessment income tax of 2,569 billion yen (5.9%) in the direct tax group, plus consumption tax of 9,489 billion yen (21.6%) and liquor tax of 1,733 billion yen (4.0%) in the indirect tax group (see Table 4).

**Table 3: Breakdown of General Account Revenue and Ratio of Tax Revenue to Total Revenue**

(¥ billion)

Fiscal Year	General Account Revenue								
	Tax and Stamp Duty Revenue	Receipts from Govt. Monopolies	Profits and Receipts from Govt. Enterprises	Receipts from Govt. Property Sales	Misc. Receipts	Govt. Bonds	Surplus Carried over from Previous FY	Total	Ratio %
	(A)							(B)	(A)/(B)
1934 to									
1936	1.02	0.20	0.05	0.02	0.24	0.67	0.07	2.29	44.7
1950	456.4	114.5	5.0	17.4	64.4	-	59.2	716.8	63.7
1955	796.0	114.3	13.8	8.3	49.8	-	144.3	1,126.4	70.7
1960	1,618.3	147.0	18.3	22.6	52.7	-	102.2	1,961.0	82.5
1965	3,049.6	180.4	15.7	24.6	169.9	197.2	135.8	3,773.1	80.8
1970	7,295.8	274.4	3.6	27.7	319.9	347.2	190.6	8,459.2	86.2
1975	13,752.7	340.5	4.1	30.4	785.7	5,280.5	1,279.3	21,473.4	64.0
1980	26,868.7	812.4	9.9	64.1	1,126.0	14,170.2	989.4	44,040.7	61.0
1985	38,198.8	10.8	22.5	163.1	2,586.5	12,308.0	702.8	53,992.6	70.7
1990	60,105.9	11.1	22.4	162.0	2,701.1	7,312.0	1,388.9	71,703.5	83.8
1995	51,930.8	16.3	22.4	274.4	4,340.9	21,247.0	2,725.4	80,557.2	64.5
1998	49,431.9	19.9	25.7	364.4	4,240.6	34,000.0	1,700.2	89,782.7	55.1
1999	47,234.5	25.2	24.9	247.2	3,940.1	37,513.6	5,390.9	94,376.3	50.0
2000	50,712.5	20.5	20.5	224.9	4,039.8	33,004.0	5,338.9	93,361.0	54.3
2001	47,948.1	-	19.6	235.1	4,659.7	30,000.0	4,040.0	86,903.0	55.2
2002	43,833.2	-	20.2	326.6	6,049.2	34,968.0	2,091.9	87,289.0	50.2
2003	41,786.0	-	16.6	358.1	2,946.5	36,445.0	387.4	81,939.6	51.0

Notes: 1. The figures up to FY2002 are settled amounts; those for FY2003 are the revised budget.

2. The receipts from government monopolies up to FY1980 include receipts from Japan Monopoly Corporation.

3. Other revenues also include receipts from taxable income adjustment of 1,617.4 billion yen in FY1997 and 0.6 billion yen in FY2001.

**Table 4: Yearly Composition of National Revenue**

(¥ billion)

Fiscal Year Tax Name	1955		1965		1970		1975		1980	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>Direct Tax</b>	<u>481.1</u>	<u>51.4</u>	<u>1,941.6</u>	<u>59.2</u>	<u>5,134.4</u>	<u>66.1</u>	<u>10,058.3</u>	<u>69.3</u>	<u>20,162.8</u>	<u>71.1</u>
Income tax	278.7	29.8	970.4	29.6	2,428.2	31.2	5,482.3	37.8	10,799.6	38.1
Withholding Tax	214.1	22.9	712.2	21.7	1,728.7	22.2	3,966.3	27.3	8,235.3	29.0
Self-assessment Tax	64.6	6.9	258.1	7.9	695.5	9.0	1,516.0	10.5	2,564.3	9.0
Corporation tax	192.1	20.5	927.1	28.3	2,567.2	33.0	4,127.9	28.5	8,922.7	31.5
Temporary Company Special tax	-	-	-	-	-	-	137.4	0.9	-	-
Inheritance Tax	5.6	0.6	44.0	1.3	139.1	1.8	310.4	2.1	440.5	1.6
Old Taxes	-	-	-	-	0.0	0.0	0.2	0.0	0.0	0.0
Assets Revaluation Tax	4.3	0.5	0.0	0.0	-	-	-	-	-	-
Others	0.5	0.1	0.0	0.0	-	-	-	-	-	-
<b>Indirect Tax</b>	<u>455.2</u>	<u>48.6</u>	<u>1,336.9</u>	<u>40.8</u>	<u>2,638.8</u>	<u>33.9</u>	<u>4,446.0</u>	<u>30.7</u>	<u>8,206.0</u>	<u>28.9</u>
Liquor Tax	160.5	17.1	352.9	10.8	613.6	7.9	914.0	6.3	1,424.4	5.0
Sugar Excise Tax	47.6	5.1	28.9	0.9	44.2	0.6	42.6	0.3	43.1	0.2
Gasoline Tax	25.5	2.7	254.5	7.8	498.7	6.4	824.4	5.7	1,547.4	5.5
Liquefied Petroleum Gas Tax	-	-	-	-	12.2	0.2	13.9	0.1	14.9	0.1
Aviation Fuel Tax	-	-	-	-	-	-	18.3	0.1	48.8	0.2
Petroleum Tax	-	-	-	-	-	-	-	-	404.1	1.4
Commodity Tax	26.9	2.9	137.9	4.2	339.5	4.4	682.5	4.7	1,039.7	3.7
Playing-cards Tax	-	-	0.5	0.0	0.6	0.0	0.9	0.0	0.5	0.0
Bourse Tax	0.2	0.0	2.5	0.1	4.9	0.1	9.7	0.1	15.2	0.1
Securities Transaction Tax	0.8	0.1	8.2	0.3	15.8	0.2	66.8	0.5	208.7	0.7
Travel Tax	2.4	0.3	4.2	0.1	12.2	0.2	34.5	0.2	63.7	0.2
Admission Tax	14.4	1.5	10.4	0.3	13.5	0.2	2.6	0.0	5.4	0.0
Motor Vehicle Tonnage Tax	-	-	-	-	-	-	220.3	1.5	395.1	1.4
Customs Duty	27.0	2.9	222.0	6.8	381.5	4.9	373.3	2.6	646.9	2.3
Tonnage Due	0.3	0.0	2.9	0.1	5.1	0.1	6.7	0.0	8.9	0.0
Bank of Japan Note Issue Tax	0.5	0.1	0.4	0.0	0.8	0.0	4.0	0.0	0.0	0.0
Stamp Duty Revenue	23.3	2.5	82.7	2.5	218.7	2.8	479.8	3.3	840.9	3.0
Monopoly Profits	118.2	12.6	179.3	5.5	272.3	3.5	338.0	2.3	808.1	2.8
Local Road Tax	7.7	0.8	46.1	1.4	90.3	1.2	149.6	1.0	278.3	1.0
Liquefied Petroleum Gas Tax	-	-	0.0	0.0	12.2	0.2	13.9	0.1	14.8	0.1
Aviation Fuel Tax	-	-	-	-	-	-	3.3	0.0	8.9	0.0
Motor Vehicle Tonnage Due	-	-	-	-	-	-	73.4	0.5	131.7	0.5
Special Tonnage Due	-	-	3.6	0.1	6.3	0.1	8.4	0.1	11.1	0.0
Customs Duty for Crude Heavy Oil	-	-	-	-	96.3	1.2	134.9	0.9	138.7	0.5
Promotion of Power-Resources Development Tax	-	-	-	-	-	-	29.9	0.2	108.5	0.4
<b>Total</b>	<u>936.3</u>	<u>100.0</u>	<u>3,278.5</u>	<u>100.0</u>	<u>7,773.3</u>	<u>100.0</u>	<u>14,504.2</u>	<u>100.0</u>	<u>28,368.8</u>	<u>100.0</u>



Tax Name	Fiscal Year		1985		1990		1995		2000		2002		2003	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Direct Tax	<u>28,517.0</u>	<u>72.8</u>	<u>46,297.1</u>	<u>73.7</u>	<u>36,351.9</u>	<u>66.1</u>	<u>32,319.3</u>	<u>61.3</u>	<u>25,789.1</u>	<u>56.3</u>	<u>24,276.0</u>	<u>55.4</u>		
Income tax	15,435.0	39.4	25,995.5	41.4	19,515.1	35.5	18,788.9	35.6	14,812.2	32.3	13,810.0	31.5		
Withholding Tax	12,249.5	31.3	18,778.7	29.9	15,725.9	28.6	15,878.5	30.1	12,249.2	26.7	11,241.0	25.6		
Self-assessment Tax	3,185.5	8.1	7,216.8	11.5	3,789.1	6.9	2,910.4	5.5	2,563.1	5.6	2,569.0	5.9		
Corporation tax	12,020.7	30.7	18,383.6	29.3	13,735.4	25.0	11,747.2	22.3	9,523.4	20.8	9,143.0	20.8		
Temporary Company Special tax	-	-	-	-	4.4	0.0	0.1	0.0	-	-	-	-		
Inheritance Tax	1,061.3	2.7	1,918.0	3.1	2,690.3	4.9	1,782.2	3.4	1,452.9	3.2	1,351.0	3.1		
Land Value Tax	-	-	-	-	406.3	0.7	0.9	0.0	0.5	0.0	1.0	0.0		
Old Taxes	0.0	0.0	0.0	0.0	-	-	0	0.0	-	-	-	-		
Special Provisional Corporation Tax	-	-	-	-	0.4	0.0	-	-	-	-	-	-		
Indirect Tax	<u>10,633.2</u>	<u>27.2</u>	<u>16,482.7</u>	<u>26.3</u>	<u>18,611.1</u>	<u>33.9</u>	<u>20,401.6</u>	<u>38.7</u>	<u>20,055.2</u>	<u>43.7</u>	<u>19,580.6</u>	<u>44.6</u>		
Consumption Tax	-	-	4,622.7	7.4	5,790.1	10.5	9,822.1	18.6	9,811.5	21.4	9,488.0	21.6		
Liquor Tax	1,931.5	4.9	1,935.0	3.1	2,061.0	3.7	1,816.4	3.4	1,680.4	3.7	1,733.0	4.0		
Tobacco Tax	883.7	2.3	995.9	1.6	1,042.0	1.9	875.5	1.7	844.1	1.8	917.0	2.1		
Sugar Excise Tax	40.8	0.1	0.0	0.0	-	-	-	-	-	-	-	-		
Gasoline Tax	1,556.8	4.0	1,505.5	2.4	1,865.1	3.4	2,075.2	3.9	2,126.3	4.6	2,133.0	4.9		
Liquefied Petroleum Gas Tax	15.5	0.0	15.7	0.0	15.3	0.0	14.2	0.0	14.2	0.0	14.0	0.0		
Aviation Fuel Tax	52.1	0.1	64.1	0.1	85.5	0.2	88.0	0.2	90.1	0.2	88.0	0.2		
Petroleum Tax	400.4	1.0	487.0	0.8	513.1	0.9	489.0	0.9	463.4	1.0	450.0	1.0		
Commodity Tax	1,527.9	3.9	4.6	0.0	0.3	0.0	-	-	-	-	-	-		
Playing-cards Tax	0.4	0.0	0.0	0.0	-	-	-	-	-	-	-	-		
Bourse Tax	11.1	0.0	41.3	0.1	43.8	0.1	-	-	-	-	-	-		
Securities Transaction Tax	670.9	1.7	747.9	1.2	479.1	0.9	0	0.0	-	-	-	-		
Travel Tax	75.3	0.2	-0.4	0.0	-	-	-	-	-	-	-	-		
Admission Tax	5.0	0.0	0	0.0	0.0	0.0	-	-	-	-	-	-		
Motor Vehicle Tonnage Tax	452.3	1.2	661.0	1.1	783.7	1.4	850.7	1.6	848.0	1.8	741.0	1.7		
Customs Duty	636.9	1.6	825.2	1.3	950.0	1.7	821.5	1.6	793.6	1.7	808.0	1.8		
Tonnage Due	8.6	0.0	8.9	0.0	8.7	0.0	8.8	0.0	8.7	0.0	8.0	0.0		
Bank of Japan Note Issue Tax	0	0.0	0	0.0	0	0.0	-	-	-	-	-	-		
Stamp Duty Revenue	1,412.6	3.6	1,894.4	3.0	1,941.3	3.5	1,531.8	2.9	1,363.8	3.0	1,129.0	2.6		
Local Road Tax	299.9	0.8	360.8	0.6	263.5	0.5	296.2	0.6	303.5	0.7	303.5	0.7		
Liquefied Petroleum Gas Tax	15.5	0.0	15.7	0.0	15.3	0.0	14.2	0.0	14.2	0.0	14.0	0.0		
Aviation Fuel Tax	9.5	0.0	11.6	0.0	15.5	0.0	16.0	0.0	16.4	0.0	16.0	0.0		
Motor Vehicle Tonnage Due	150.8	0.4	220.3	0.4	261.2	0.5	283.6	0.5	282.7	0.6	371.0	0.8		
Special Tonnage Due	10.7	0.0	11.1	0.0	10.9	0.0	11.1	0.0	10.9	0.0	10.0	0.0		
Customs Duty for Crude Heavy Oil	120.5	0.3	-	-	-	-	-	-	-	-	-	-		
Customs Duty for Crude Oil	-	-	102.9	0.2	82.1	0.1	55.0	0.1	41.5	0.1	38.0	0.1		
Promotion of Power-Resources Development Tax	233.5	0.6	294.7	0.5	338.6	0.6	374.6	0.7	376.8	0.8	368.5	0.8		
Gasoline Tax	111.0	0.3	501.1	0.8	597.6	1.1	693.4	1.3	710.2	1.5	703.3	1.6		
Temporary Special Petroleum Tax	-	-	-	-	0	0.0	-	-	-	-	-	-		
Consumption Tax	-	-	1,155.7	1.8	1,447.5	2.6	-	-	-	-	-	-		
Special Tobacco Surtax	-	-	-	-	-	-	264.4	0.5	255.0	0.6	246.3	0.6		
Total	<u>39,150.2</u>	<u>100.0</u>	<u>62,779.8</u>	<u>100.0</u>	<u>54,963.0</u>	<u>100.0</u>	<u>52,720.9</u>	<u>100.0</u>	<u>45,844.2</u>	<u>100.0</u>	<u>43,856.6</u>	<u>100.0</u>		

Notes: 1 . The figures up to FY2002 are settled amounts; those for FY2003 are the revised budget.

2 . Admission tax used to belong to the Special Account until FY1961.

### (3) National tax system (taxes on income, consumption and property)

We can see the composition of national tax revenue from taxes on income, consumption and property as follows. As Japan's postwar taxation scheme has mainly focused on income taxation, the steep growth of the Japanese economy pushed up personal income tax revenues due to its progressive tax rate structure and also contributed to increase in corporate tax revenue. This led to a high ratio of income tax revenues to total tax revenue, reaching 72.0% in FY1974. Thereafter, as Japan's economic growth started slowing down, the income tax revenues increased less remarkably than in high economic growth era, and the ratio of income tax revenues stayed around 70% until FY1991. With drastic tax reforms between FY1988 and FY1994, consumption tax has gradually occupied larger share in total tax revenues, but the central focus was still on income tax. Since the Japanese government has reduced personal income and corporate taxes and also suffers from smaller tax revenues due to economic recession, the income taxation account for lower percentage (52.3%) in total tax revenues in FY2003.

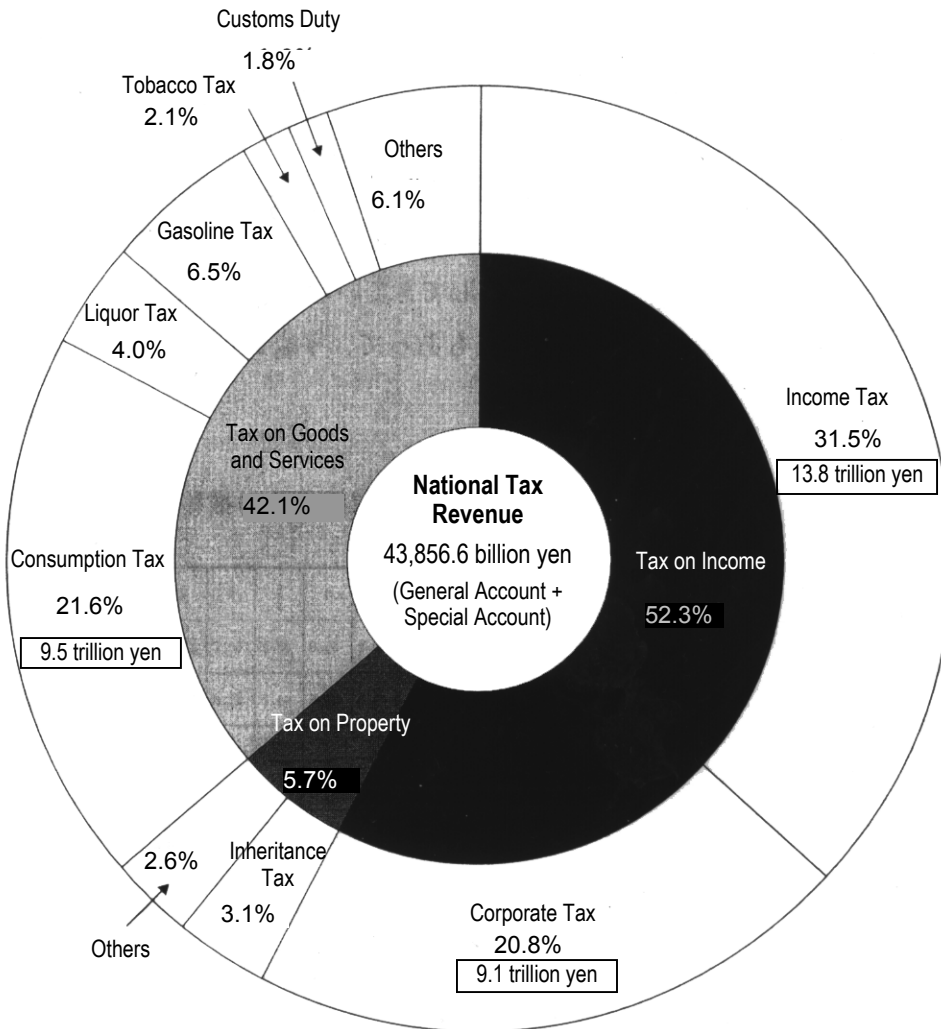
**Table 5: Yearly Composition of National Revenue (Income Tax, Consumption Tax and Property Tax)**

( % )

	1955	1960	1965	1970	1975	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 (estimate)
Tax on Income	50.7	53.6	57.9	64.3	67.2	69.5	70.1	69.8	69.5	67.9	70.7	70.7	69.2	65.0	63.2	60.7	60.5	60.6	58.7	55.5	53.3	57.9	56.2	53.1	52.3
Income Tax	29.9	21.8	29.6	31.2	37.8	38.1	39.4	39.3	36.5	34.4	37.4	41.4	42.3	40.5	41.5	37.8	35.5	34.3	34.5	33.2	31.4	35.6	35.6	32.3	31.5
Corporate Tax	20.8	31.9	28.3	33.0	29.4	31.5	30.7	30.6	33.1	35.1	33.2	29.3	26.9	24.5	21.8	22.9	25.0	26.2	24.2	22.3	21.9	22.3	20.5	20.8	20.8
Consumption Tax	46.0	42.2	37.9	30.9	26.8	25.2	21.8	20.0	19.1	18.9	20.1	22.0	23.2	26.0	26.9	29.4	29.4	30.4	32.8	37.2	39.7	35.8	37.6	40.8	42.1
Property Tax	3.3	4.2	4.2	4.9	6.0	5.3	8.1	10.2	11.3	11.4	9.2	7.3	7.6	9.0	9.9	9.9	10.1	9.1	8.4	7.3	7.0	6.3	6.2	6.1	5.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

- Notes: 1. Classification into Income Tax, Consumption Tax and Property Tax is based on OECD standards.  
 "Property Tax" consists of inheritance tax, land value tax and stamp duty revenue, etc.  
 2. The figures up to FY2002 are settled amounts; those for FY2003 represent estimates.  
 3. The figures for Corporate Tax include temporary company special tax and special provisional corporation tax.

**Figure 4: Breakdown of the National Tax Revenue (FY2003 Budget)**



#### (4) Tax burden ratio

Japan's tax burden ratio is shown in Table 6. Including both national and local tax burdens, the tax burden ratio was about 13% before the Second World War (12.9% from FY1934 to FY1936). During the postwar era, excluding the period of social turmoil immediately after the war, the ratio remained around 20%.

Japan's tax burden ratio increased gradually since FY1976, standing at 27.4% in FY1990. However, the ratio has remained at around 20% since FY1990 and stands at 21.0% as of FY2003.

Figure 4 illustrates the national burden ratio (tax burden and social security burden as percentage to national income) in several major nations.

**Table 6: Ratio of Tax Burden to National Income**

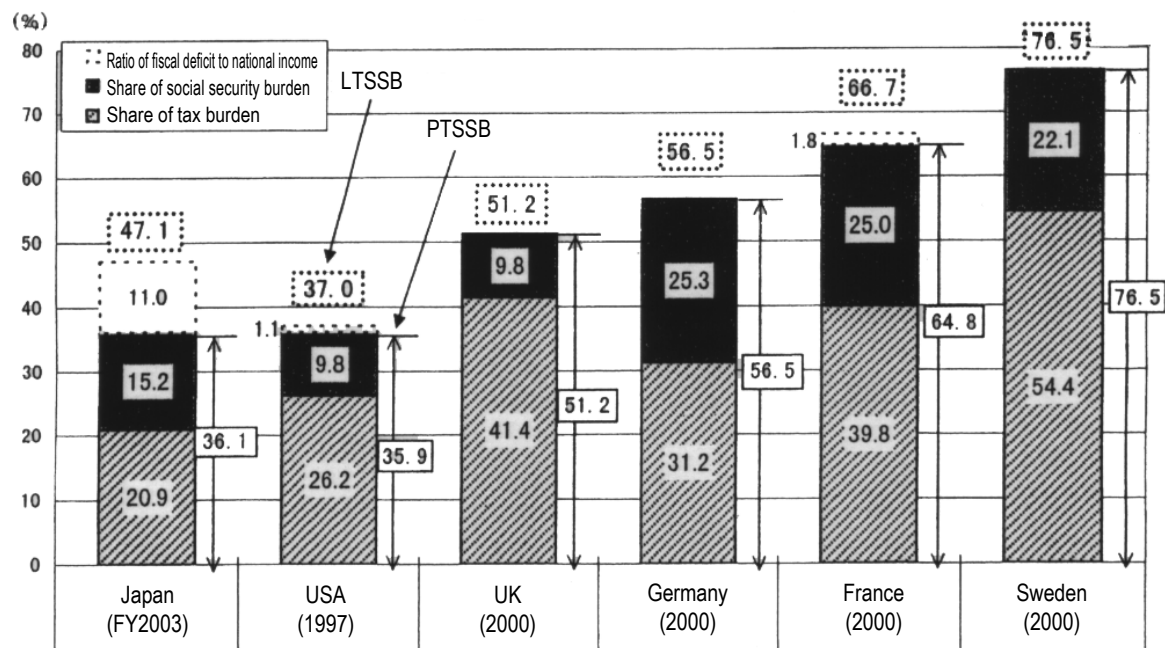
Fiscal Year	National Income (A) (¥ billion)	Amount of Tax Burden			Ratio of Tax Burden	
		National Tax (B) (¥ billion)	Local Tax (¥ billion)	Total (C) (¥ billion)	National Tax (B)/(A) (%)	Total (C)/(A) (%)
1934 ~						
1936	14.4	1.2	0.6	1.9	8.5	12.9
1950	3,381.5	570.2	188.3	758.5	16.9	22.4
1955	6,973.3	936.3	381.5	1,317.9	13.4	18.9
1960	13,496.7	1,801.0	744.2	2,545.2	13.3	18.9
1965	26,827.0	3,278.5	1,549.4	4,827.9	12.2	18.0
1970	61,029.7	7,773.2	3,750.7	11,523.9	12.7	18.9
1975	123,990.7	14,504.3	8,154.8	22,659.1	11.7	18.3
1980	199,590.2	28,368.8	15,893.8	44,262.6	14.2	22.2
1985	260,278.4	39,150.2	23,316.5	64,466.7	15.0	24.0
1990	350,715.2	62,779.8	33,450.4	96,230.2	17.9	27.4
1995	376,454.2	54,963.0	33,675.0	88,638.0	14.6	23.5
1996	388,710.7	55,226.1	35,093.7	90,319.8	14.2	23.2
1997	372,433.4	55,600.7	36,155.5	91,756.2	14.2	23.4
1998	380,533.5	51,197.7	35,922.2	87,119.9	13.5	22.9
1999	374,601.5	49,213.9	35,026.1	84,240.0	13.1	22.5
2000	350,449.9	52,720.9	35,546.4	88,267.3	13.9	23.2
2001	370,046.8	49,968.4	35,548.8	85,517.2	13.5	23.1
2002	366,900.0	46,282.8	33,421.4	79,704.2	12.6	21.7
2003	366,100.0	43,856.6	32,629.8	76,486.4	12.0	20.9

- Notes: 1. The figures up to FY2001 are settled amounts. For FY2002, the figures for national tax are the revised budget; and those for local tax are estimates. For FY2003, the figures for national tax represent projected tax revenue; and those for local tax are estimates.
2. The figures for national tax include receipts from Japan Monopoly Corporation up to FY1980. From FY1955, national tax includes special accounts.
3. Local tax does not include local allocation tax, local grant tax or local transfer tax.
4. The figures for national income are actual amounts computed based on the "System of National Accounts (93 SNA)." The figures for FY2002 and FY2003 are estimates based on the "FY2003 Government Economic Forecast." The figures for national income up to FY1950 are actual amounts based on 53SNA, and those from FY1955 to FY1985 are based on 68SNA. There is no connection between the two.

**Figure 5: International Comparison of the Public Share of Tax and Social Security Burdens**

[Public share of tax and social security burden (PTSSB) = Share of tax burden + Share of social security burden]

[Latent share of tax and social security burden (LTSSB) = Public share of tax and social security burden + Ratio of fiscal deficit to national income]



- Notes: 1. The figures for Japan are forecasts in the initial budget for FY2003, while the figures for other countries are actual figures from the calendar year.
2. The ratio of fiscal deficit to national income for Japan and the USA is based on general government amounts minus social security reserves, while the corresponding ratio for other countries is based on general government amounts.