

Efforts to promote special collection (Withholding System) of individual residents' tax and future courses of action

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Introduction

As demonstrated by the August 22, 2014 release by the National Residents' Tax Council of a "Statement on Promotion of Special Collection (Withholding System) of Individual Residents' Tax," recently local governments in Japan have been focusing efforts on promoting special collection of individual residents' tax. The Local Tax Act calls for an employer (as a party obligated to conduct special collection) to employ special collection if it has even one salaried employee (taxpayer). (Ordinarily this does not apply to cases such as when paying salary to two or fewer persons employed in housework.) However, nationally only about 70% of such employers conduct special collection. Since the devolution of tax sources in 2007, individual residents' tax has been growing even more important. Under such circumstances, local governments have realized anew that the system of special collection is an efficient one that is beneficial for both employees and employers, as well as local governments, and they have been focusing efforts on its promotion over the past few years.

Until now it has been thought that enforced designation of use of special collection would be impractical for the most part. Most local governments visit with employers to request their cooperation in special collection and accept employers' requests to use ordinary collection instead. Thus, even though in principle special collection is to be used, local governments have been in a weak position to enforce it. The city of Aki in Kochi Prefecture was the first to enforce use of special collection. Instead of visiting employers, Aki sent them a notice of designation of special collection one year in advance and then began enforcing special collection the following year. As other local governments learned about Aki's efforts, opportunities have been created in Shizuoka and Kumamoto prefectures for local governments in those prefectures, inspired by their participation in lectures led by the city of Aki, to take leadership in promoting the system in their own prefectures as well. While local governments in the greater Tokyo area have been slower than those in other prefectures to adopt such efforts, a trend toward promotion of special collection is apparent there too. In the 65th meeting of heads of nine local governments in the region, held May 20, 2014, the governor of Saitama Prefecture called for cooperation in promoting special collection of individual residents' tax. A look at information sources including prefecture websites shows that there were plans to designate that all eligible employers use special collection beginning in fiscal 2015 in Saitama, Ibaraki, and Tochigi prefectures and beginning in fiscal 2016 in Kanagawa and Chiba prefectures, while the Tokyo Metropolitan Government also is promoting special collection throughout its jurisdiction.

The reasons for failure to promote special collection, while differing somewhat in part among local governments, generally are similar in nature. Despite their individual circumstances, compliance with the law is an important precondition, and for this reason local governments have no choice but to make appropriate efforts to ensure compliance. There is no reason why other local governments should not be able to replicate the success of the city of Aki. Accordingly, in part as encouragement for local governments aiming to achieve thorough compliance with special collection in the future, this paper will introduce the efforts of local governments that have taken leadership in this area—the city of Aki and Shizuoka Prefecture—and consider issues and future prospects related to special collection.

1. Overview of the special collection system and its current state

Article 321-4 of the Local Tax Act covers special collection, calling for local governments to designate comprehensively in local ordinances the parties obligated to conduct special collection and to issue notice of tax amounts subject to special collection based on reports of salary payment

submitted by employers each year.

Table 1. Implementation of special collection nationwide (FY2013)

Local government	Number of salary-earner taxpayers A	Number of parties obligated to pay tax through special collection from salary income B	Number of parties obligated to pay tax through special collection from salary income as a percentage of the number of salary-earner taxpayers (B/A)
Hokkaido	1,912,277	1,282,337	67.1%
Aomori	442,190	321,175	72.6%
Iwate	444,236	348,237	78.4%
Miyagi	805,375	661,610	82.1%
Akita	349,950	256,117	73.2%
Yamagata	414,931	329,699	79.5%
Fukushima	690,265	474,599	68.8%
Ibaraki	1,092,410	737,261	67.5%
Tochigi	757,411	519,160	68.5%
Gunma	733,286	498,582	68.0%
Saitama	2,787,603	1,933,040	69.3%
Chiba	2,379,522	1,644,551	69.1%
Tokyo	5,492,892	3,793,336	69.1%
Kanagawa	3,605,814	2,590,501	71.8%
Niigata	876,264	648,167	74.0%
Toyama	433,359	318,923	73.6%
Ishikawa	448,867	333,383	74.3%
Fukui	313,282	226,466	72.3%
Yamanashi	310,762	216,906	69.8%
Nagano	789,081	561,477	71.2%
Gifu	775,821	549,956	70.9%
Shizuoka	1,489,749	1,220,879	82.0%
Aichi	2,945,703	2,220,332	75.4%
Mie	692,430	503,814	72.8%
Shiga	529,670	393,360	74.3%
Kyoto	902,838	638,795	70.8%
Osaka	3,010,894	2,234,404	74.2%
Hyogo	1,964,311	1,497,297	76.2%
Nara	449,219	335,335	74.6%
Wakayama	314,022	251,362	80.0%
Tottori	201,847	154,495	76.5%
Shimane	252,290	195,051	77.3%
Okayama	682,399	552,269	80.9%
Hiroshima	1,054,185	856,059	81.2%
Yamaguchi	500,269	383,936	76.7%
Tokushima	254,047	191,628	75.4%
Kagawa	364,217	269,345	74.0%
Ehime	464,683	336,459	72.4%
Kochi	242,867	193,163	79.5%
Fukuoka	1,753,787	1,307,857	74.6%
Saga	291,747	216,891	74.3%
Nagasaki	455,366	338,321	74.3%
Kumamoto	589,239	511,388	86.8%
Oita	398,179	278,963	70.1%
Miyazaki	363,104	285,726	78.7%
Kagoshima	533,570	423,092	79.3%
Okinawa	398,054	337,591	84.8%
Total (nationwide)	46,954,284	34,373,295	73.2%

Source: Materials from the Tokyo Metropolitan Government, prepared based on a FY2013 survey of tax and other

conditions by the Ministry of Internal Affairs and Communications of Japan.

Since special collection is conducted through withholding from monthly salary, it helps to prevent cases of taxpayers forgetting to pay tax or getting behind in payments, because the amount of tax paid in each installment is small and there is no need for employees to go to financial institutions or local government offices themselves. The system of special collection also offers advantages to employers in that it makes possible improved employment conditions since it can lessen the burden on employees themselves and advantages to local governments in that it can be expected to lead to increased tax collections. Even so, as shown in Table 1 it is employed for only about 70% of collection of residents' tax. Accordingly, individual local governments are promoting use of special collection through means including distribution of flyers, pamphlets, and other documents encouraging its use, visiting employers individually, encouraging its use when employers submit reports of salary payment, and requesting the cooperation of related organizations such as business associations and associations of licensed tax accountants.

The reason why employers would prefer not to be obligated to conduct special collection is due to the complexity of its administration. This is because separate procedures must be conducted for each local government assessing tax, and in some cases there are needs for payment of fees when paying taxes and for changes to payroll systems, resulting in time and cost requirements. Particularly in the case of employers with small numbers of employees, the view is expressed that special collection is a troublesome system. Some industries involve large numbers of short-term employees, such as part-time and temporary workers, and they identify the complexity of employment and severance procedures as an issue. This is the reason behind local governments' tendency to accept employers' requests to use ordinary tax collection, and a tendency is apparent for both local government staff and employers to believe mistakenly that use of special collection is an option, not an obligation. Some local governments even include on salary payment reports (summary sheets) spaces for employers to indicate whether they would prefer ordinary collection.

However, simply continuing to use ordinary collection because that is what has been employed through now would not result in compliance with the law. Accordingly, this paper will look at the cases of the city of Aki and Shizuoka Prefecture as examples of how special collection can be implemented thoroughly.

2 The efforts of the city of Aki

The city of Aki in Kochi Prefecture was the first local government to employ enforced designation of special collection on parties obligated to use it. Aki enacted its efforts beginning in 2005, designating that all employers other than those such as farms that employ only family members use special collection beginning in 2006. Since then, it has held lectures 18 times as a model case for local governments across Japan, having a major influence on special collection by local governments as a result.

Aki's efforts first began with a transfer of staff inside the city tax department in October 2004, a transfer that resulted in tax collection personnel who understood the principles of taxation and residents' tax staff who understood tax collection. As a result, staff on the residents' tax team came to keep in mind at all times the fact that their goal was not merely the sending of tax bills but the completion of tax payment by taxpayers.

Around that time, a citizen's lawsuit was filed in fiscal 2005, claiming that most of the 31.92 million yen in losses from nonpayment of National Health Insurance tax during fiscal 2003 had lapsed through prescription and that the city had neglected to collect taxes from the public. The mayor at that time acknowledged that the city was at fault and the case was settled with payment of 500,000 yen to the city of Aki and a pledge to conduct disposition of taxes in arrears properly in the future. The case was reported widely in newspapers and attracted considerable attention at the time.

This case generated an awareness that tax collection must be conducted thoroughly and that public officials must comply with the law, leading to proactive handling and disposition of taxes in arrears. Under such conditions, the residents' tax section began to consider whether there were any efforts that it could make to assist the tax collection section as it worked hard on disposition of taxes

in arrears. It came upon the idea of enforced designation of special collection. This, combined with the fact that it already had received guidance from Kochi Prefecture considering designation of special collection, led to the goal of enforced designation of special collection.

During the first year of these efforts, fiscal 2005, a warning notice was sent to employers not using special collection, and then in the second year, during May 2006, it sent notices of special collection tax amounts, notices of tax amounts, and statements of tax payments. Designation of parties obligated to conduct special collection was complete with the sending of these documents. As a result, about 90% of employers were cooperative, and only a few disputes arose. The key to the success of this effort was the way it was implemented for all employers without exception.

The results of bulk designation of special collection in this way are shown in Table 2. Comparison of FY2006 with FY2005 shows increases of 119 employers obligated to conduct special collection, 500 persons obligated to pay taxes through special collection, and approximately 30 million yen in taxes collected. Since then, Aki has designated more than 1000 employers as parties obligated to conduct special collection each year, and more than 80% of taxpayers earning salary income pay through special collection (special collection implementation rate). The amount of tax collected through special collection remains around 400 million yen, accounting for 60-70% of total residents' tax. The collection rate resulting from this bulk enforced designation of special collection is 98-99 percent.

Table 2. Trends in implementation of special collection in the city of Aki

FY	Number of parties obligated to conduct special collection (employers)	Number of taxpayers obligated to use special collection (persons)	Funds raised through individual residents' tax (thousands yen)	Taxes collected through special collection (thousands yen)	Taxes collected through special collection as a percentage of total individual residents' tax	Collection rate (%)
2005	915	4,066	449,403	299,273	66.59%	97.69%
2006	1,034	4,566	467,726	329,648	70.48%	98.35%
2007	1,057	4,547	620,602	435,119	70.11%	98.37%
2008	1,070	4,512	623,514	415,311	66.61%	98.58%
2009	1,068	4,529	593,443	396,937	66.89%	98.21%
2010	1,070	4,477	570,319	388,137	68.06%	98.86%
2011	1,105	4,525	563,747	378,945	67.22%	99.23%
2012	1,139	4,529	575,662	396,725	68.92%	98.95%
2013	1,117	4,575	587,872	391,738	66.64%	99.11%
2014	1,131	4,555	572,420	387,597	67.71%	—

Source: Materials from the city of Aki

3. Efforts of Shizuoka Prefecture

Anticipating that late payment of residents' tax would increase with the devolution of tax sources in fiscal 2007, Shizuoka Prefecture began considering promotion of special collection, establishing an Individual Residents' Tax Council in April 2008 and establishing a Residents' Tax Collection Working Group consisting of Shizuoka prefectural, municipal, and regional residents' tax nonpayment processing agencies ("nonpayment agency" hereinafter) in September 2009. In these ways, it carried out repeated discussions on collection of individual residents' tax. However, as shown in Table 3, from fiscal 2009 through fiscal 2011 it had the lowest rate of individual residents' tax receipts in Japan (and the same was true for individual prefecture residents' tax). Shizuoka Prefecture decided to promote special collection prefecture-wide in order to secure tax receipts and compliance with the law, beginning efforts at the Shimoda Local Finance Office for one city and five towns in fiscal 2011 and for all cities and towns in the prefecture in fiscal 2012.

As seen in Table 3, these efforts enabled the prefecture to move out of last place to 43rd place (44th place for individual prefecture residents' tax and 43rd place for individual municipal residents' tax) in fiscal 2012. Table 4 shows the state of designation of parties obligated to conduct special

collection in Shizuoka Prefecture. The number of such parties increased from 130,547 in fiscal 2011, prior to the start of these efforts, to 175,365 in 2012 and 178,538 in 2013. The percentage of salaried income earners from whom taxes were collected through special collection increased from 71.6% (ranked 22nd nationwide) in fiscal 2011 to 82.5% (ranked first) in fiscal 2012, while the percentage of taxes collected through special collection also increased from 82.1% (ranked 27th) in fiscal 2011 to 90.5% (ranked first) in fiscal 2012, as the results of bulk designation prefecture-wide became apparent quickly.

Table 3. Individual residents' tax in Shizuoka Prefecture (Unit: millions yen)

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Revenues outstanding (local tax as a whole)	57,468	60,685	64,316	66,991	65,463	60,608	52,565	45,192
Individual residents' tax included above	23,697	29,640	34,574	39,030	38,756	35,768	30,504	26,041
Share of local tax as a whole	41.2%	48.8%	53.8%	58.3%	59.2%	59.0%	58.0%	57.6%
Percentage of individual residents' tax revenues collected	90.9%	91.9%	91.1%	90.0%	89.0%	89.3%	90.8%	92.1%
Nationwide ranking	39th	43rd	46th	47th	47th	47th	43rd	Now being calculated

Source: Shizuoka Prefecture materials

Table 4. Special collection in Shizuoka Prefecture (Unit: collections)

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	2012→2013
Number of parties obligated to conduct special collection	129,993	125,847	125,060	130,547	175,365	178,538	+3,173
Percentage of salary earners handled through special collection	67.5%	67.0%	69.4%	71.6%	82.5%	83.3%	+0.8%
Nationwide ranking	28th	30th	30th	22nd	1st	3rd	
Percentage of tax on salary earners handled through special collection	79.8%	78.9%	80.0%	82.1%	90.5%	91.0%	+0.5%
Nationwide ranking	31st	30th	34th	27th	1st	2nd	

Source: Shizuoka Prefecture materials. Prepared based on Table 2 (annual) of the survey of municipal tax and other conditions by the Ministry of Internal Affairs and Communications.

3. How efforts should be implemented—Learning from the efforts of Shizuoka Prefecture and the city of Aki—

As seen above, both the city of Aki and Shizuoka Prefecture have generated results. Most local government efforts have been led by prefectures, since it is more effective for multiple local governments to promote special collection together and since increases in individual municipal

residents' tax receipts through promotion of special collection by municipalities leads to similar increases in individual prefecture residents' tax receipts. Accordingly, this paper will look in further detail at the cases of Shizuoka Prefecture as an example of prefecture-led efforts and Aki as an example of municipal efforts.

(1) Efforts of Shizuoka Prefecture

(i) Establishment of an Individual Residents' Tax Council

In April 2008, Shizuoka Prefecture and municipalities inside the prefecture established an Individual Residents' Tax Council (with membership from Local Finance Offices and managers responsible in the municipalities under their jurisdiction) in each Local Finance Office, based on residents' tax study meetings that had been conducted by individual Local Finance Offices until then. Its activities include adjustments to the direct collection of individual residents' tax by the prefecture under Article 48 of the Local Tax Act, sending letters to employers not specified as parties obligated to conduct special collection to recommend use of the system, in the names of the mayor of the municipality and the director of the Local Finance Office, and joint visits to employers by municipal and Local Tax Office staff.

(ii) Establishment of a Residents' Tax Collection Working Group

The Residents' Tax Consolidation Liaison Council established by Shizuoka Prefecture and municipalities inside the prefecture starting at the stage of planning the Nonpayment Agency, which began operations in April 2008 (now reorganized into the Residents' Tax Administrative Advancement Promotion Council) established the Shizuoka Prefecture Residents' Tax Collection Working Group, with membership consisting of Shizuoka Prefecture, municipalities inside the prefecture, and the Nonpayment Agency, in September 2009. It established subcommittees on promoting designation of parties obligated to conduct special collection, enhancement of collection, and management of tax claims, and in a meeting of subcommittees in March 2010 it issued a report calling for an understanding of the start of efforts to ensure thorough compliance with designation of parties obligated to conduct special collection.

(iii) Advance implementation by one city and five towns under the jurisdiction of the Shimoda Local Finance Office and subsequent prefecture-wide implementation

A practical training session on tax administration held in October 2009 by the Shizuoka Prefecture local finance department invited staff from the tax department of the city of Aki in Kochi Prefecture as instructors in lectures on Aki's efforts to ensure thorough designation of parties obligated to conduct special collection. Based on a report by city of Shimoda staff who took part in this training session, Shimoda decided to begin efforts to promote designation of parties obligated to conduct special collection, and in response the one city and five towns under the jurisdiction of the Shimoda Local Finance Office decided to begin such efforts together. At a press conference in January 2010, the Director of the Shimoda Local Finance Office announced that beginning in fiscal 2011 the city of Shimoda and five towns in Kamo District would ensure thorough designation of employers who met certain conditions as parties obligated to conduct special collection.

Then, the Individual Residents' Tax Council of regions outside the jurisdiction of the Shimoda Local Finance Office, which began to meet in April 2010, reached agreement on practical implementation of measures to promote designation of parties obligated to conduct special collection beginning in fiscal 2012. Based on this agreement, efforts were made to achieve consensus at the level of heads of local governments, including visits by the managers of the prefecture residents' tax and local finance departments and the director of the Local Finance Office to the heads of municipalities (and wards in the city of Shizuoka, an ordinance-designated city that enjoys administrative rights on a par with prefectures). After that, activities were conducted including cities and towns sending notices of planned designation in the autumn of the fiscal year prior to the start of such efforts (fiscal 2010 and fiscal 2011) and describing the special collection system using opportunities such as briefings on year-end adjustment for income tax, and efforts began in bulk in fiscal 2012, after attaining the understanding of related parties.

Inside the Shimoda Local Finance Office, since a system is in place under which parties obligated to collect withholding tax under the provisions of Article 183, Paragraph 1 of the Income Tax Act are parties obligated to conduct special collection (Article 321-4 of the Act) and under Article 184 of the Act they are exempted from the obligation of tax withholding only when employing two or fewer employees doing housework, in promoting designation of parties obligated to conduct special collection a criteria was employed for the time being under which those with three or more employees, a fact that is easy to ascertain from external appearances, would be subject to such designation. Basically, the same approach was employed in other regions that began efforts in fiscal 2012 as well.

The Individual Residents' Tax Council established in each individual Local Finance Office beginning in July 2010 established a working group with membership including municipal staff responsible, to promote designation of parties obligated to conduct special collection (in the Shimoda Local Finance Office, this group was established in January 2010). In addition, at a prefecture-wide level meetings were held between specialized officers from each Local Finance Office, the prefecture residents' tax department, and the prefecture local finance department, to share information on thorough designation of parties obligated to conduct special collection. Through these meetings, information and concepts from each regional subcommittee were shared with all regions and prefecture-wide trends were reflected one by one in each regional subcommittee. (Since fiscal 2012 it has been renamed the Individual Residents' Tax Information-Sharing Council, with membership now including the officers responsible for tax collection from each Local Finance Officer or tax department managers, while its duties continue to consist of ensuring thorough designation of special collection as well as addressing delayed payment by parties obligated to conduct special collection.)

(iv) Practical preparations and efforts

A. Distributing flyers and posters

In fiscal 2009, Shizuoka Prefecture began preparing flyers and posters and distributing them through municipalities. It asked 58 organizations including chambers of commerce and industry and licensed tax accountants' associations to explain their content in general meetings and other venues and to enclose them in their bulletins. In fiscal 2010, 10,736 copies were distributed, and in fiscal 2011, 13,465 copies were distributed.

B. Raising awareness through the media and printed materials

The prefecture also utilizes the media and printed materials proactively, generating the results outlined below.

- Articles were carried in the June 2010 and December 2011 issues of the prefecture government's bulletin, and the efforts were described in the *Shizuoka Shimbun* newspaper's special features published during tax week in November 2010 and 2011 and on the prefecture's public-relations programs ("Konnichiwa kencho desu" on Shizuoka Broadcasting System [SBS] radio and cable television).
- A seven-column advertisement (about half a page) was carried in the *Shizuoka Shimbun* and *Chunichi Shimbun* newspapers on January 30, 2011.
- The efforts were publicized on programs including "Shizuoka Daily Message" broadcast by Shizuoka FM in April, July, and October 2012 and "Konnichiwa kencho desu" broadcast by SBS radio in May and October 2012.
- The efforts were publicized through municipal bulletins and other media in individual municipalities.
- Shizuoka Prefecture prepared a manual for employers' staff responsible for implementing special collection and distributed them via all municipalities for employers to use.

C. Standardization of forms

Previously, the formats of various forms such as notices of changes to salary earners in connection with special collection of individual residents' tax (Form no. 18 to the Enforcement Regulations of the Local Tax Act) had varied slightly among municipalities, but since such variation

was a cause of the complexity of operations faced by parties obligated to conduct special collection a standardized format for the prefecture was decided on through discussions in the Information-Sharing Council and in each region's working group, to lessen the administrative burden on parties obligated to conduct special collection.

D. Information sharing

Since sharing of information among municipalities in the prefecture also is an important topic, a set of questions and answers was prepared for use by city and town staff.

Following efforts such as the above, in order to promote designation further on February 15, 2012 the Shizuoka Prefecture Individual Residents' Tax Collection Central Committee was established, chaired by the vice-governor. This committee was tasked with sharing of information concerning individual residents' tax and carrying out unified efforts, with the participation of Shizuoka Prefecture, all cities and towns in the prefecture, and the Nonpayment Agency. In this way, the prefecture cooperates and partners with cities and towns on efforts to enhance tax collection and further promote designation for special collection. In particular, it endeavors to carry out disposition for late payment and other measures promptly for late payment by parties obligated to conduct special collection. In addition, in the Individual Residents' Tax Information-Sharing Council information is shared between the prefecture and cities and towns regarding the status of employers who have rejected designation as parties obligated to conduct special collection for reasons such as incompatibility of their computer systems. In fiscal 2013, a total of 138 such employers that required handling on a regional basis, such as those with multiple facilities in the prefecture, were sent notices or visited by Shizuoka Prefecture.

(2) The efforts of the city of Aki

The city of Aki's method of moving forward with its efforts should prove useful information for reference by local governments aiming to ensure thorough designation of parties obligated to conduct special collection in the future.

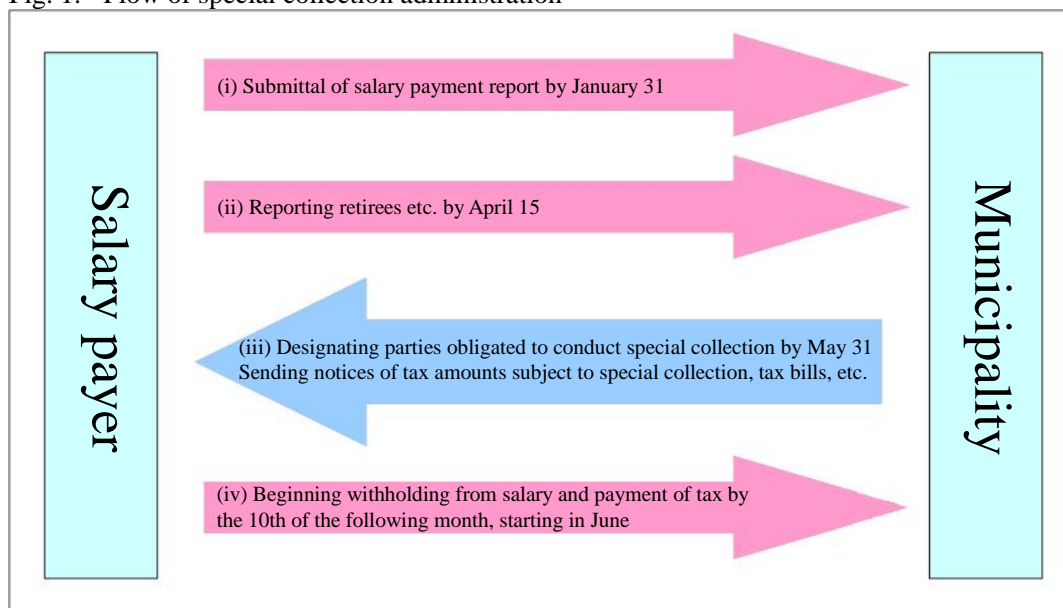
Previously Aki had requested uses of special collection by telephone after employers submitted reports of salary payment. However, it replaced this method with one of enforced designation pursuant to the Local Tax Act: sending notices of designation for special collection and bills for tax payment. This was because the Local Tax Act stipulates that municipalities should designate all eligible employers for special collection rather than giving them the option of whether or not to use it.

However, since this required a considerable change in direction from the past, the city proposed the following policies: (i) promoting the facts that special collection does not require monthly calculation like income tax, since the amount of residents' tax is fixed, and that it would make it easier for employees to pay the tax; (ii) taking a firm approach toward employers who replied that they could not employ special collection due to the resulting increase in administrative burden, reminding them that circumstances such as inability to employ the system due to a lack of specialist administrative staff were not sufficient grounds for cancellation of designation; and, (iii) implementing disposition for nonpayment against the assets of employers (parties obligated to conduct special collection) who rejected enforced designation and failed to pay the tax. A prior notice was issued in fiscal 2005, and then, as shown in Fig. 1, designation was enacted for all applicable employers, whether inside or outside the city.

During fiscal 2005, the city still was in the process of finding its way around the new approach, and it was lenient on identification of subject businesses, setting a grace period of one year for businesses unable to conduct special collection for reasons related to their computer systems. Beginning in fiscal 2006, however, it devoted considerable staffing and time to narrowing down the subject employers and enforced the law strictly. While feedback from some employers noted that other cities did not designate them as parties obligated to conduct special collection, described the implementation as too unilateral, and commented that tax collection was the job of city hall, not individual employers, the city visited each such employer individually to stress the simplicity of special collection and the need to comply with the law, refusing to compromise.

This was realized thanks to a transfer of staff within the residents' tax department, instituted at the discretion of the department's manager at that time. The result was a workforce that included collection staff who understood assessment of taxes and assessment staff who understood arrangements for nonpayment, working in cooperation with each other to implement efforts as a single unit from top to bottom. This approach of insisting on legal compliance earned the understanding of businesses in Aki, and as a result there were no cases of parties obligated to conduct special collection who failed to pay taxes.

Fig. 1. Flow of special collection administration



Source: City of Aki materials

4. Current issues and future outlook

Above we reviewed the cases of the city of Aki and Shizuoka Prefecture. Below we will discuss some general issues seen across Japan along with the future outlook for special collection.

(1) Issues faced by local governments

(i) In many cases it is the local governments in charge of collecting tax that promote special collection.

Many local governments are considering special collection as an approach to tax collection. However, in essence it is an operation conducted as part of tax assessment, not tax collection. Tax assessment is not limited to sending out tax notices alone. It is important to aim for efficient collection at the tax-assessment stage as well, to the extent possible. For this reason, there is a need to raise awareness of tax collection among staff in charge of tax assessment.

In many cases, tax-assessment staff already have requested special collection from employers but tend not to pursue it aggressively. If this is the case in the majority of situations, then tax-collection staff may promote special collection, but it would be preferable to reform the awareness of staff regarding this matter.

(ii) Promotion of special collection inside and outside the city, under prefecture leadership

It is understandable that some businesses would prefer ordinary tax collection because newly adopting special collection would lead to increased work volumes and costs. In addition, local governments promoting special collection might find it harder to persuade employers to agree to use it if other local governments around them do not promote special collection. Accordingly, it probably would be a good idea to promote special collection throughout the entire prefecture as a whole or, in

the case of a major urban area such as the greater Tokyo area, for prefectures to cooperate in reminding employers that special collection is their obligation.

(2) Issues regarding employers

Issues regarding employers include raising awareness of special collection on a large scale. Consideration might also be given to penalties.

(i) Special collection can improve a company's image

Under the current labor shortage, increasing numbers of SMEs and small businesses, and even large businesses, are likely to face a need to improve their image by improving working conditions in order to secure the workforces that they need. The first result of proper implementation of special collection will be a corporate image as a reliable company that complies with the law. The second result will be the fostering of an image as a company that prioritizes protection of its employees by eliminating the effort that employees need to make on their own under ordinary tax collection (i.e., going to a financial institution or local government office to pay tax), rather than stressing the complexity of administration by the employer. Such an approach will become more and more important in the future, and it can help in securing the cooperation of employers when local governments designate them for special collection.

(ii) Securing part-time workers and other temporary employees

While part-time workers and other temporary employees are not subject to special collection if employed for short periods of time, they are if employed continuously for several years. While some employers use special collection for permanent employees but not for long-term part-time workers and other temporary employees, it probably would not be acceptable in terms of legal compliance for municipalities to exempt them from designation as parties obligated to conduct special collection. However, since in fact it is difficult for local governments to ascertain employees' years of continuous service, conceivable measures include consideration of systems for ascertaining employment status and penalties for noncompliance, together with continuing to raise awareness among employers.

(iii) Employers who request deferral due to inability to revise their payroll systems

Some relatively large employers request deferrals due to an inability to revise their payroll systems immediately.

(iv) Dispensation for nonpayment against parties obligated to conduct special collection

Cases of nonpayment by employers conducting special collection are increasing, and in some cases, these can reach the stage where dispensation for nonpayment is necessary. Increasingly there is a need for measures to prevent nonpayment.

(3) Future outlook

The objective of these efforts for now is to secure thorough compliance with special collection. However, it is conceivable that the special collection system could develop further through use of information technology, including linkage to the national identification number system, and improvements in the efficiency of tax collection through wide-area collection and centralized operations.

(i) Step 1: Introduction of wide-area reception centers

Some employers have business facilities across Japan and in multiple regions, and their employees may commute to work from multiple different municipalities. While income tax need be paid only to a single tax office, local tax must be paid to the local government where the employee resides. This results in complex administrative requirements. Accordingly, it might be a good idea to introduce wide-area reception centers that would accept payment and submittal of materials from

employers and distribute the relevant data to the appropriate individual local governments.

(ii) Step 2: Tax assessment for the current year together with withholding tax

Withholding tax and special collection are similar in that the employer pays tax on behalf of the employee. Income tax is withheld at the source and then tax is finalized through year-end adjustment or filing an income tax return. Residents' tax differs from income tax in that it is assessed in the following fiscal year instead of being paid through self-assessment. Withholding of income tax at the source is an efficient system, even though employees are not highly conscious of the fact that they are paying taxes and it would be difficult to say that it truly is based on self-assessment. As such, it might be a good idea for residents' tax too to employ the approach of collection based on estimated amounts and adjusting amounts during the current fiscal year through year-end adjustments, with any excess payments refunded in the following fiscal year.

It has been pointed out before that one of the major causes of delinquencies in payment of residents' tax is the fact that local tax is assessed in the following fiscal year based on income during the preceding year. If it were to be withheld at the time of payment of salary, then the number of residents who become delinquent in the following fiscal year because they did not save any of their salary or retirement benefits for payment of residents' tax due to a misunderstanding of the system would be likely to decrease.

Conclusion

This paper considered efforts to promote special collection of individual residents' tax and future courses of action. Special collection is an efficient collection system provided for in the Local Tax Act. While it has been described through now as leading to complexity of operations on the part of employers, it is a system that could provide considerable benefits to employees, employers, and local governments alike with the spread of the national identification number system and some improvements to the special collection system. It can be said that the greatest advantage of special collection is the fact that it can eliminate the risk of employees and employers becoming delinquent in tax payments.

As seen in Table 1, recently some local governments are striving to catch up with or overtake Shizuoka Prefecture in promoting special collection. These include Kumamoto, Okinawa, Hiroshima, Kagawa, and Wakayama prefectures. Local governments in the greater Tokyo area, while late to adopt such measures, appear to be ready to make strong efforts in this area as well. It is hoped that the number of local governments implementing special collection thoroughly will increase greatly as they refer to the cases of Shizuoka Prefecture and the city of Aki as described in this paper.

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