

# The Trend of Tax Policy Reforms: Examples in Japan, Korea and Singapore

## 税制改革的倾向- 在日本, 韩国和新加坡的事例



BY SATORU ARAKI, PUBLIC MANAGEMENT SPECIALIST, ADB  
AT THE ASIA-PACIFIC FINANCE AND DEVELOPMENT CENTER  
IN SHANGHAI

ON 21<sup>ST</sup> MAY 2013

2013年5月21号

在上海市 亚太财经与发展中心  
亚行 公共管理专门官 荒木 知

**Disclaimer:**

The views expressed in this document are those of the author, and do not necessarily reflect the views and policies of the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this document, and accept no responsibility for any consequence of their use. By making any designation or reference to a particular territory or geographical area, or by using the term "country" in this document, ADB does not intend to make any judgments as to the legal or other status of any territory or area.

# 1: Changing Demography

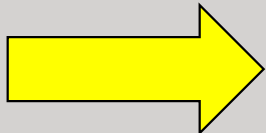


## 1. Aging society and declining population

- Population in Japan peaked off in 2008. Will peak off in the PRC in 2026, and in Korea and Singapore in 2030?
- In Japan, 25% of the population is over 65 years old in 2013 est. 9% in the PRC, 12% in Korea and 8% in Singapore. In 2050 in Japan, 39% of the population may be over 65.

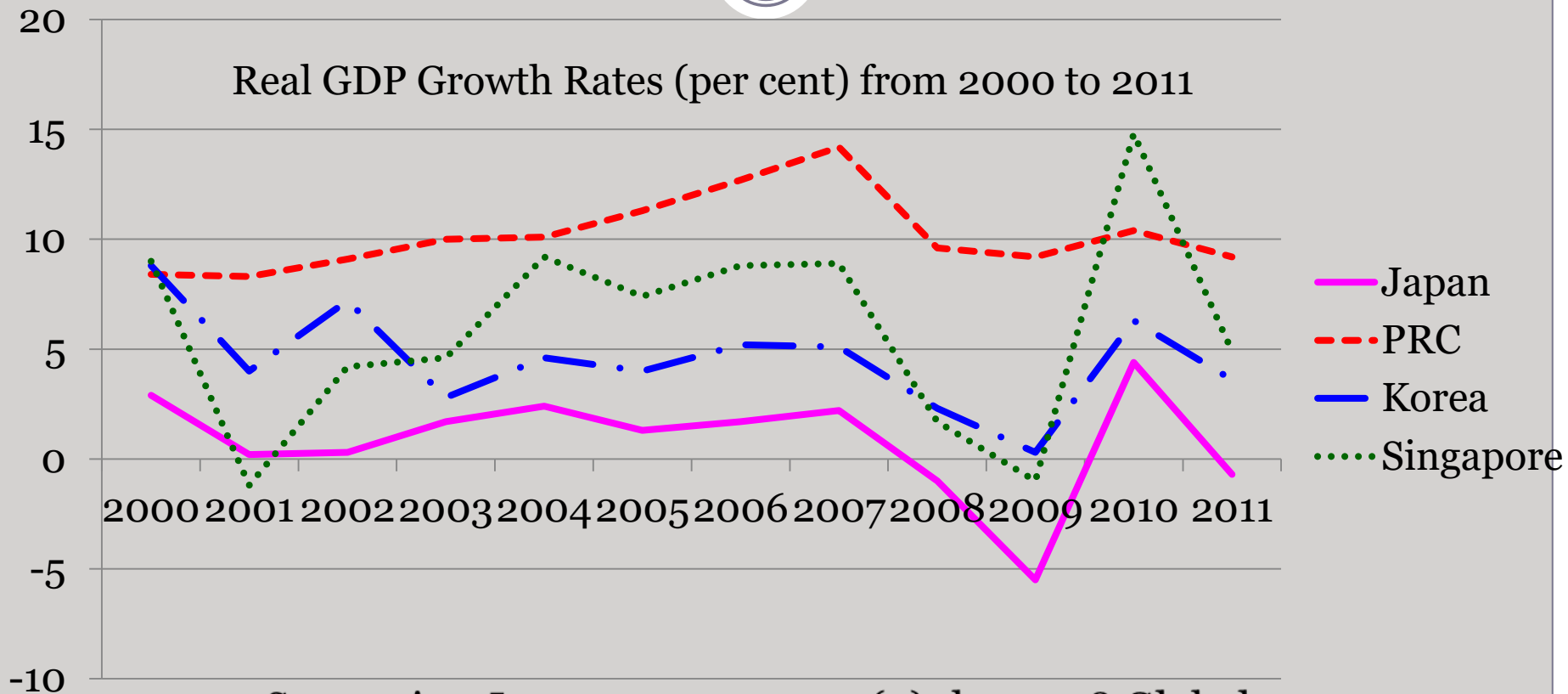
## 2. Inflating social security expenditure

- In Japan, the social security expenditure such as pension and medical insurance equivalent to 15% of GDP in 2000. 5% in the PRC and Korea and 2% in Singapore.
- In Japan, the social security expenditure per GDP ratio was 15% in 2000 and 21% in 2009, and will be 24% in 2025 projection.



What is fair tax burden? How to secure stable tax revenues?  
A shift from income taxation to consumption and property  
taxation?

## 2: Changing economic circumstances



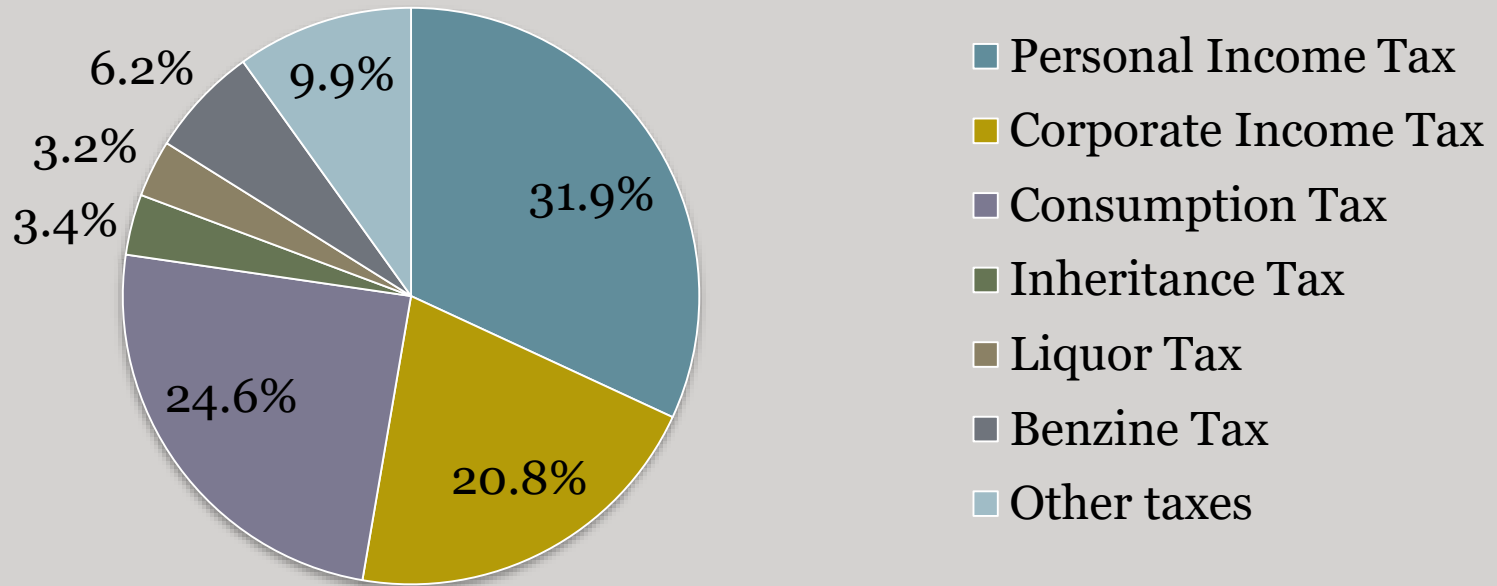
Stagnating Japanese economy, (2) the 2008 Global Financial Crisis and (3) intensifying global competition

➔ A competitive corporate income tax to reactivate economy?

# 3. Tax structure in Japan



## National tax revenues in Japan (FY 2012 budget)

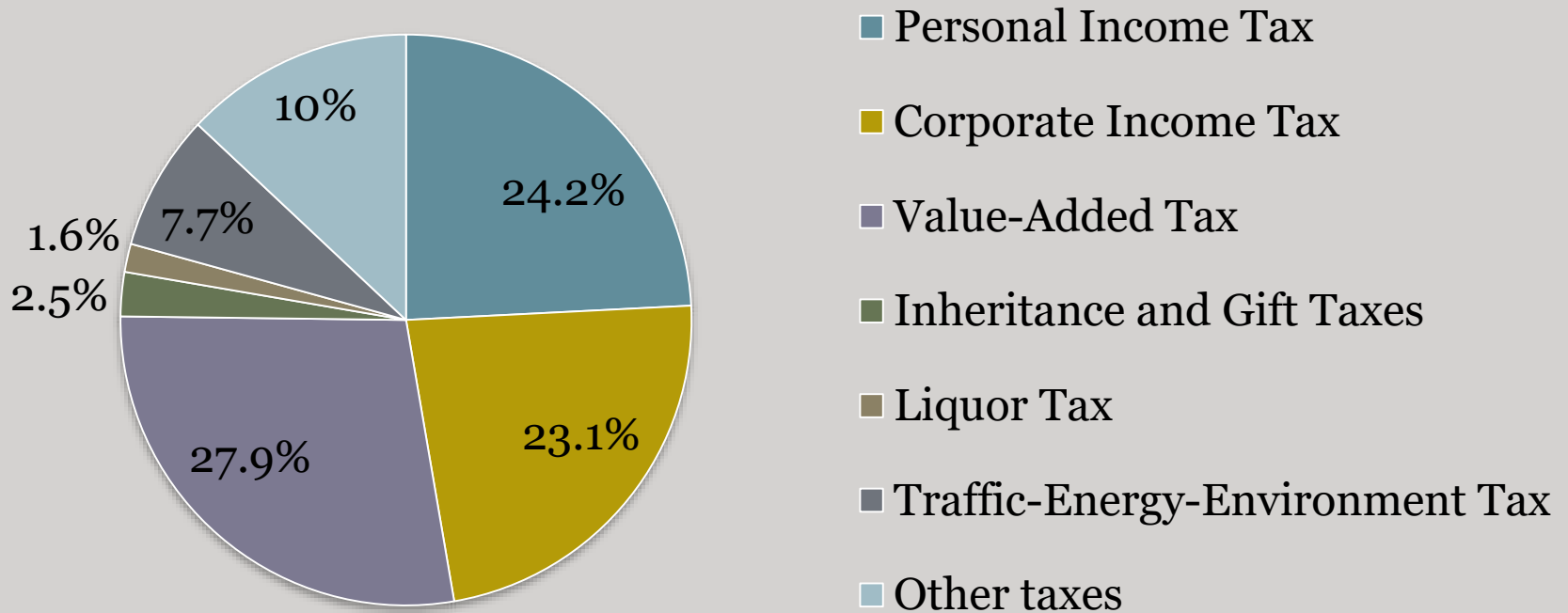


Personal Income Tax (maximum rate 40%), Corporate Income Tax (25.5% rate) and Consumption Tax (Value-Added Tax, 4%-rate national tax) occupy nearly 80% of national tax revenues. Relatively high weight in PIT, and low weight in CIT.

# 4. Tax structure in Korea



## National tax revenues in Korea (2008 budget)

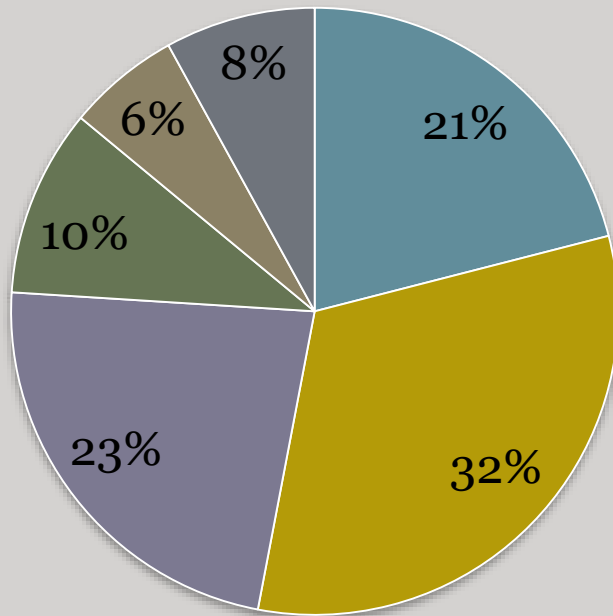


A similar tax structure with that of Japan. Slightly higher weight in VAT (10% rate), and less weight in Inheritance and Gift Taxes.

# 5. Tax structure in Singapore



## Tax collection in Singapore (FY2011/2012)



- Personal Income Tax
- Corporate Income Tax
- Goods and Services Tax
- Property Tax
- Betting Tax
- Stamp Duty

Compared to the Japanese and Korean structures, slightly higher weight in Corporate Income Tax (17% rate) and Property Tax, and less weight in Personal Income Tax (maximum rate 20%) and Goods and Services Tax (7% rate).

## 6. Personal income tax reforms



- Long-term trend: reducing burden through mitigating progressivity and expanding taxable income deductions.

In Japan: in 1986, the maximum PIT rate 70% and 15 income brackets, and in 1999, they were lowered to 37% and 4 brackets.

In Korea, in 1994, the maximum rate 45% and 6 income brackets, and by 2012, lowered to 33% and 4 brackets.

In Singapore, in 1985, the maximum rate 40% and 14 income brackets, and by 2006, lowered to 20% and 6 brackets. From 2008, Personal Income Tax rebate of 20%.

# 7. Recent direction of personal income tax reforms in Japan

**Stabilise Social Security System**

**Sounder Public Finance**

Framework on Social Security and Tax Comprehensive Reforms (February 2012):  
Personal Income Tax's role: rectify social inequality through the revival of income redistribution function.

**Reconstruction from the Great East Japan Earthquake (March 2011)**

Concrete measures and proposals

- (1) Additional personal income tax (2.1%) for reconstruction (from 2013)
- (2) Introduced a ceiling for salary income deduction for high salary earners (from 2013)
- (3) Shift from income deduction to cash allowance for minor dependents (from 2011)
- (4) Abolish a reduced tax rate on listed stocks' dividends and capital gains (from 2014)
- (5) Raise the maximum rate from 40% to 45% (from 2015)



## 8. Corporate income tax reforms



- Long-term trend: reducing tax rates in order to strengthen international competitiveness

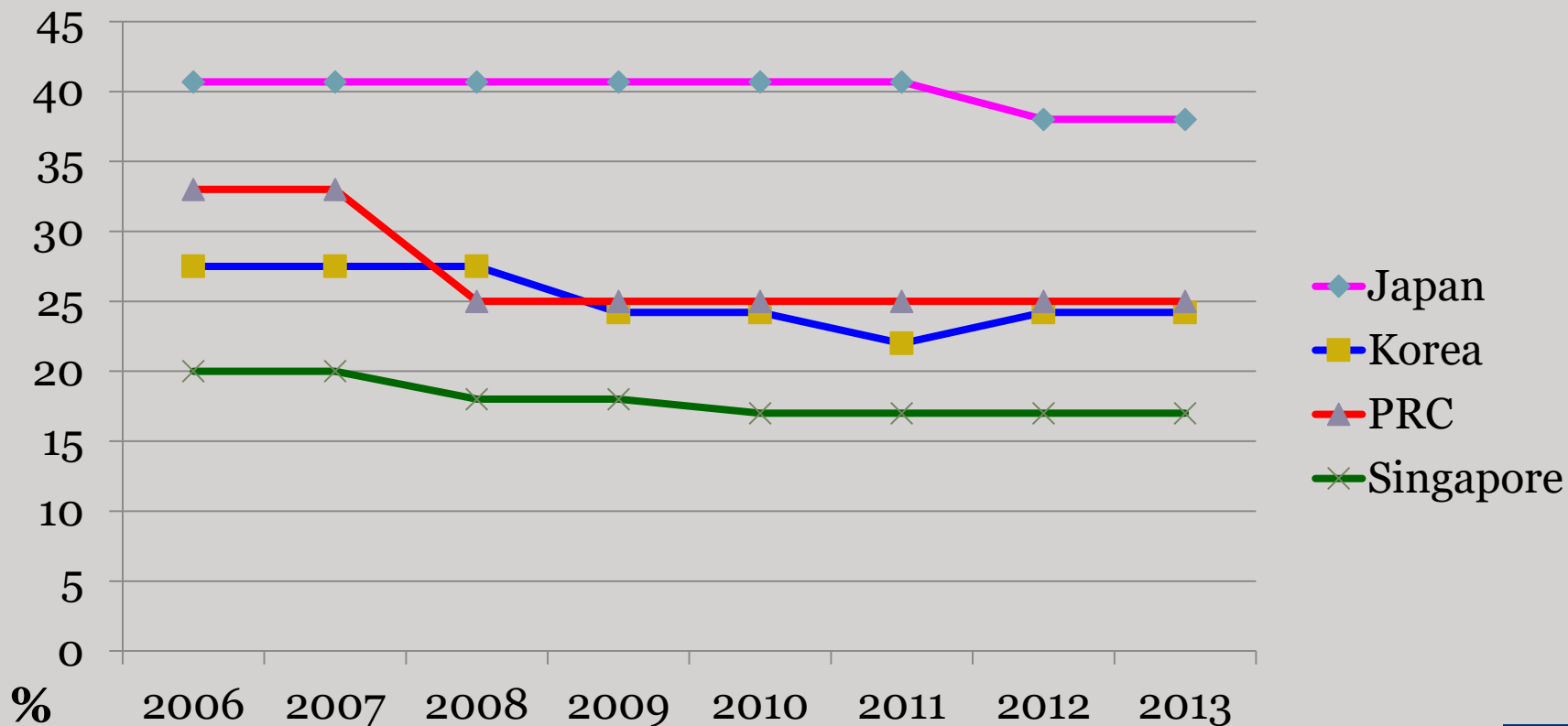
In Japan: in 1989, the statutory CIT rate was 40%. Lowered to 30% by 1999, and to 25.5% by 2012.

In Korea, in 1993, the CIT rate was 34%. Lowered to 22% by 2011.

In Singapore, in 1986 the CIT rate was 40%. Lowered to 17% by 2010. From 2013, Corporate Income Tax rebate of 30%.

# 9. Cross-country comparison of effective corporate tax burden

- Compare corporate tax burden with effective tax rates including national and local taxes.



Source: KPMG

# 10. Value-added tax reforms



- Characteristics of VAT (Goods and Services Tax):
  - (1) Stable revenue, less susceptible to economic circumstances.
  - (2) Public service costs borne fairly across generations.
  - (3) Regressive effect. Heavier burden on the low-income.

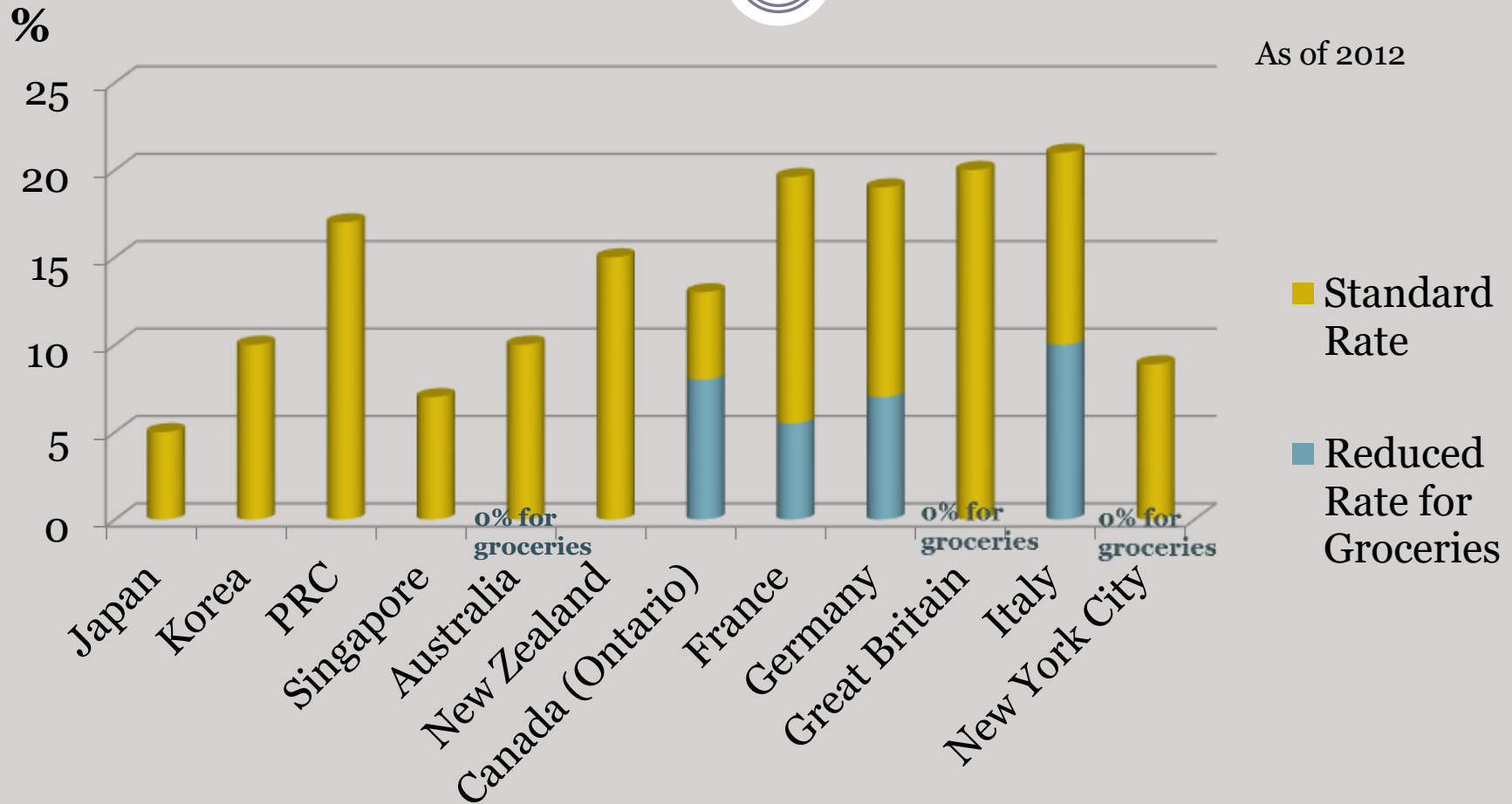
In Japan, Consumption Tax was introduced in 1989 with 3% rate.

In 1997, the rate was raised to 4% and Local Consumption Tax with 1% rate was established (total effective rate: 5%).

In Korea, Value-Added Tax was introduced in 1977 with 10% rate.

In Singapore, Goods and Services Tax was introduced in 1994 with 3% rate. Its rate was increased to 4% in 2003, to 5% in 2004 and to 7% in 2007.

# 11. Cross-country comparison of effective VAT rates



Some countries apply a reduced rate for food at grocer's.

# 12. Consumption tax reform plan in Japan



- In Japan, the Tax Policy Fundamental Reform Act passed Diet in August 2012. Consumption tax (VAT) reforms' direction:
  - (1) Consumption tax revenue shall be used for social security expenditure.
  - (2) Effective tax rate (national and local taxes) will be raised from 5% to 8% in April 2014, and to 10% in October 2015.
  - (3) Consideration for the low-income when the effective tax rate is raised, e.g. simplified cash grant, income tax credit, and reduced tax rates.
  - (4) Tax rate raises are conditional upon the up-turn of economy.

**Income Tax Credit**

**OR**

**Reduced Tax Rates**

**?**

Ruling parties' tax reform framework January 2013 targets the introduction of reduced tax rates when the effective standard rate is raised to 10% in 2015.

# 13. Inheritance tax and property tax reforms



- Roles of inheritance tax: supplement income tax and redistribution of wealth through progressive tax rates.
- In Japan, the maximum tax rate of Inheritance Tax reduced from 70% to 50% in 2003. In order to prevent the fixation of social inequality and to encourage the transfer of property to young generation, the maximum rate plans to be raised to 55% and the amount of basic deduction to be reduced in 2015.
- In Korea, the maximum amount of Inheritance Tax was raised from 45% to the current 50% in 2000.
- In Singapore, Estate Duty (the maximum 10% rate), a tax on the deceased person's assets was abolished in 2008. Property Tax is imposed on the ownership of property. The current tax rate is flat 10%, but progressive tax rates applicable from 2014 (the maximum rate 19% in 2014 and 20% in 2015).

# 14: Conclusions



- (1) Socio-economic factors heavily influence tax policy reforms' direction. Japan's aging society may be a precursor in Asia.
- (2) Personal Income Tax, Corporate Income Tax and VAT will continue to be three *pillar* taxes.
- (3) Countermeasures for cross-border tax avoidance will be a key for fair administration of PIT.

More needs to be done to address the issues of international tax avoidance and evasion, in particular through tax havens, as well as non-cooperative jurisdictions (G20 Finance Ministers and Central Governors' meeting in Washington DC on 19<sup>th</sup> April 2012).

- (4) CIT rates reflect international economic circumstances.
- (5) VAT possibly plays a wider role; yet regressive effect an issue.
- (6) Property taxation's role as wealth redistribution may be revisited as social inequality grows.

*Thanks awfully for your attention.*  
谢谢.



**Satoru ARAKI**

**Regional and Sustainable Development Department**

**Asian Development Bank**

**Metro Manila**

**荒木 知**

**区域和可持续发展局**

**亚洲开发银行**

**马尼拉大都会**

NB: views expressed in this presentation are personal, and not necessarily those of the ADB.