

Debate on Numbering Taxpayers Brewing Again

By Hamano Takayoshi

The debate on whether or not to introduce a taxpayers' numbering system, by which all taxpayers would be given fixed numbers for their financial affairs, is brewing again in Japan.

Back in 1978, there were moves to introduce "green cards" for taxpayers, who would then be known by their numbers, and indeed the Diet at one stage did decide to initiate the system. Opposition was vehement, however, and in the end the idea was abandoned.

Although that plan was called a taxpayers' numbering system, actually the objectives and scope of application would have been limited. At that time, there was a tax-free small-sum savings system by which depositors could save up to ¥3 million tax-free. But this system was much abused, with many depositors using false names to duplicate their tax-free accounts. The idea of the "green card" system was simply to prevent this abuse of the tax-free system. However, people opposed to the idea expressed concern that through this system the authorities would be able to find out about all of a person's income, so the plan was eventually scrapped.

Then why has the debate on the introduction of a numbering system for taxpayers arisen again? And should such a system be introduced?

What is the taxpayers' numbering system?

Generally speaking, the taxpayers' numbering system means that all taxpayers are given identification numbers, so that the tax authorities can manage information on a person's tax affairs in a concentrated manner in accordance with his or her number. For this purpose, the taxpayer has to submit his or her number whenever making a financial transaction, for example at the bank. Therefore, even if an account is opened using a pen name or false

name, the tax authorities would be able to maintain control through the taxpayer's number.

The purpose of introducing such a system, needless to say, would be to enable the tax authorities to promote computerization of their administration, make their work more efficient, and make it easier for them to keep an eye on a taxpayer's income. In particular, it would be easier for them to supervise those financial transactions that go through so quickly they are often overlooked, or that are divided up so much that keeping track of them is a hard task. It should also be possible to subject interest income, which currently is taxed separately, to general taxation.

Furthermore, depending on the method of implementing the system, it might become possible for the tax authorities to keep tabs on stock information, such as the opening of deposit accounts, possession of shares, and possession of assets overseas, which taxpayers at present are not legally required to report to the tax authorities. Accordingly, it would become possible to operate the taxation of assets, such as inheritance taxes, more rationally.

Elsewhere, the taxpayers' numbering system has already been introduced in the United States, Canada, Denmark, Sweden, Norway, Italy, and also Australia. In those countries, apparently the authorities obtain flow information on income and interest received and the like but do not necessarily receive full stock information, such as the possession of shares and property.

Why is the debate taking place again now?

After the "green card" idea was abandoned, the debate on introducing a taxpayers' numbering system was not taken up very earnestly. This was

because the self-employed and other taxpayers who had to file their own tax returns strongly opposed the idea of the tax authorities getting to know about all their income; there were concerns that giving administrative authorities more power over private information would lead to an invasion of privacy; and financial institutions and companies balked at the heavier cost burden. For these reasons, there was strong opposition among politicians to the idea.

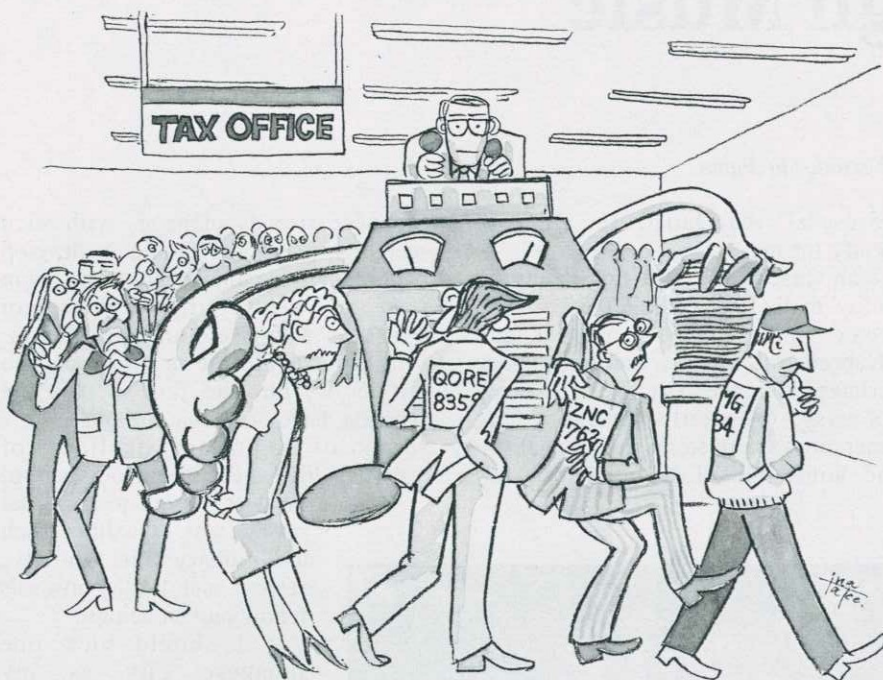
So why has the debate suddenly flared up again now?

The main reason is that, as a result of the Japanese version of the financial "Big Bang," by which various reforms are scheduled to be realized by 2001, including the complete liberalization of foreign exchange transactions, financial transactions and asset movements that go beyond national borders are expected to expand considerably. Without any means of keeping an eye on these transborder transactions, it will not be possible for the authorities to keep track of assets that are cleverly shifted overseas in order to avoid taxation.

Also, so-called electronic money is going to start flowing in the not-too-distant future. So considering these two factors, it is not difficult to understand the Ministry of Finance's position that a taxpayers' numbering system should be introduced in the next two or three years.

In the background, of course, the use of various kinds of cards has become widespread, and also identification numbers have become common. In addition, it seems ridiculous that although computerization has made such remarkable progress in the world, the computer processing of tax-related matters is unable to make progress because taxpayers do not have numbers.

The attitude of the public to the taxpayers' numbering system has



changed significantly since the "green card" episode, too. According to the results of a survey on the introduction of a taxpayers' numbering system conducted by the Ministries of Finance and Home Affairs in March 1996, 40.9% of respondents replied "favor" or "favor if either," exceeding the 34.8% who answered "opposed" or "opposed if either." Those in favor still do not constitute a majority, but still the situation has clearly undergone a change since the last bout, when an overwhelming number of people expressed concern about an invasion of privacy.

In response to this changed climate, the government's Tax Commission stated in December 1997, in a report on tax revisions for the new fiscal year, that, "The environment surrounding the introduction of a taxpayers' numbering system is entering a new phase, and the time has come for this commission, while fully grasping the nation's reception of the idea, to carry out a more concrete and positive study."

What are the merits for taxpayers?

In considering this issue, one

important point is that, while a taxpayers' numbering system would certainly have important merits for the tax authorities, what are the merits for the taxpayer? If there were merits for the taxpayer, then presumably the number of people favoring the system would increase.

If a taxpayers' numbering system were introduced in Japan, then one of two numbers would probably be used. One is the basic pension number, which was introduced in January 1997 for 74 million public pension subscribers around the country. The other is the number in the residents' ledger network system, which was unveiled by the Ministry of Home Affairs in June 1997 and is currently under discussion in the Diet.

Of these two numbers, the pension number helps in preventing the situation in which people receiving more than one pension are paid in duplicate and large sums of money have to be returned to iron the problem out. If the residents' ledger network system were introduced, meanwhile, it would simplify and boost the efficiency of administrative work. For example, people would be able to get copies of their resident cards at any municipal

office in Japan and, when they move, to complete the necessary procedures in one go, rather than having to visit the municipal offices of both their old and new residences, as at present. Both of these numbers clearly have merits for the user, but what about the taxpayers' numbering system?

As a demerit of the system, opponents used to cite the likelihood of privacy being violated. In view of the widespread use of credit card numbers now, it seems unlikely that the introduction of a numbering system would lead straight to an invasion of privacy. But when electronic money starts flying around the computer networks, and information about taxpayers begins to flow, is there really no chance that your number might be stolen and information about you might be leaked to others? To prevent such a situation from arising, it is certainly necessary to protect individual information on the networks more soundly.

As for the merits for taxpayers, first of all, if this system were introduced, it would reduce administrative costs considerably. Also, it would become less of a burden for salary earners to file their own returns. Through this method of self-filing, it might be possible to increase awareness among taxpayers. In Japan at present, taxation is strictly levied at source in the case of salary earners, so they are not very conscious about how much tax they are actually paying. It is even said that for the Japanese, income tax is just like an indirect tax. If people could easily file their own returns, then this situation might be improved. In addition, a numbering system could help information disclosure on tax affairs, because taxpayers would be able to access their own tax information simply on a computer screen. The key to the direction of the debate from now on probably lies in how far supportive arguments like these from the taxpayers' side can be elaborated. ■

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