

Taxpayer ID Number System Would Benefit All Japanese Citizens

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Debate is growing in Japan on advancing studies for introduction of a social security number system for enhanced citizen convenience as the first step for introduction of a taxpayer ID number system. At the Tokyo Foundation, The Integration of Tax and Social Security Systems research project is currently studying the specific challenges in introducing a taxpayer ID number system.

Last year-end, the government and ruling parties agreed in principle to discuss the introduction of a taxpayer identification (ID) number system. The ruling coalition spelled out the idea in its December outline for tax system reform for fiscal 2009, while the midterm program for comprehensive tax reform that was approved at a Cabinet meeting also referred to the idea.

The debate has been spurred by the approval of the government's package of fixed-amount handouts to households, which will cost 2 trillion yen in taxpayers' money. While the controversial plan continues to create a ruckus, properly speaking, I believe the most effective way to spend the money would be to limit the handouts to low-income earners and people who are struggling to make ends meet.

The government gave up on the idea of setting an income cap on recipients because it would take too long to identify eligible low-income earners. Information about the incomes of wage earners and self-employed workers is brought to local governments, but it is far too onerous to identify taxpayers individually and calculate the total income at each household. Hence the argument that a taxpayer ID number system could enable authorities to quickly discern information about a person's income and use it to alleviate the widely-felt sense of injustice about tax burdens.

To help tax authorities determine taxpayer income, companies and individuals that made payments to taxpayers in specified transactions, such as contracts with lawyers and other professionals, along with payments in real estate sales or rental deals, are required to submit the payment records. Employers are required to file certificates that show how much companies paid to each worker in annual wages and allowances after deducting amounts equivalent to taxes. Tax authorities check the submitted documents against the names and addresses on income tax returns filed by taxpayers to calculate the exact amount of tax that should be paid.

In order to make this system work, authorities have to ensure that names listed on records accurately identify individual taxpayers. They also need to confirm that the listed data matches up with information given in tax returns by using computers to sift rapidly through a vast amount of information.

The question that needs to be asked, then, is this: What kind of information should be gathered with the aid of ID numbers?

Up to now, debate has been directed largely to the issue of improving the efficiency of tax administration and ensuring fair taxation of inherited and other assets. In short, it attached greater importance to the convenience of tax collectors than that of taxpayers. As a result, the idea of tax authorities gaining access to information such as bank account balances needed for taxation on assets triggered a wave of angry objections from people who feared the government was invading their privacy and trying to tighten its grip on them by assigning them ID numbers. Japan consequently lagged behind other industrialized countries in introducing the system.

To avoid a repeat of this problem, discussion this time needs to focus on how the system would benefit taxpayers in simple black and white terms.

For example, the system would enable implementation of policy that combines tax reduction and payment of benefits. Taxpayers can benefit from tax cuts while low-income earners who are exempt from tax payment can receive handouts. Such a tax credit system, combined with benefits, can be introduced to support the working poor and child-rearing families.

Similar systems are already in place in the United States and most European countries. It is a well-designed system that can also help ameliorate the regressive nature of the consumption tax--which has a greater impact on the poor than the rich--and address the issue of unpaid public pension insurance premiums.

In Scandinavian countries and France, tax authorities notify taxpayers of their personal income based on their ID numbers. It allows taxpayers to file tax returns by simply confirming the information provided by tax authorities. This system is called "pre-populated tax return."

In advancing this debate, as an initial step, why not consider the introduction of a social security number system for management of social security-related information, an idea that has been discussed in connection with pension system reform? Then we would be able to consider using the social security numbers to identify taxpayers. While many people are cautious about or oppose the introduction of social security numbers, to play fair, this hurdle must be cleared.

The biggest problem that comes with introducing an ID number system is the threat it potentially poses to privacy. I believe, though, that we would be able to overcome this by taking measures, such as the legislation of a basic law for the protection of privacy that embodies the spirit of the Constitution. Also needed are a watchdog organization to keep an eye on the administration to prevent use of the numbers for improper purposes and legislation to ban the use of the taxpayer ID numbers for purposes other than taxation.

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