

H.E. Mr. Junichiro Koizumi
Prime Minister of Japan
Prime Minister's Official Residence
2-3-1 Nagatacho, Chiyoda-ku, Tokyo



November 22, 2002

Re: Factor based tax

Dear Prime Minister,

As the trade policy arm of the thirteen national European chambers of commerce and business associations in Japan, the European Business Community (EBC) takes an active interest in tax reform measures currently being studied by the Japanese Government.

One of the issues currently being studied by the Government Tax Commission and other entities entrusted with tax reform in Japan is a Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPHPT) proposal to introduce a factor-based tax (*gaikei hyojun kazei seido*) for part of the Corporate Enterprise Tax. Under this system factors other than profits would be used to calculate a portion of the Corporate Enterprise Tax in order to secure local government revenue even from loss-making firms.

The EBC is strongly opposed to the introduction of any further taxes wherein factors such as sales, capital, and/or personnel cost form the basis of the levy of tax. Such taxes discourage investment and contravene the international standard of imposing tax in accordance with the principle of "ability to pay".

Few companies make a profit during their start-up period, and the extra tax burden associated with the factor-based portion of the Corporate Enterprise Tax would discourage investment in new ventures. The system proposed by the MPHPT would also discourage further investment into the Japanese market by European firms as they will very likely be unable to credit factor-based taxes in Japan against tax in their home country. This contradicts other measures taken by the Japanese Government to promote further investment into Japan, resulting in lost job opportunities and new sources of economic stimulus.

In fact, unemployment may increase as large numbers of loss-making small and medium sized businesses in Japan search for ways to reduce headcount and/or reduce salaries in order to fund the factor-based portion of the Corporate Enterprise Tax. This would have a negative effect on the Japanese economy as a whole.

The mere complexity of this proposal will substantially increase the administrative burden on taxpayers and given the variables used as basis for this tax, this will make it more difficult to make correct projections of the tax burden related to future investments.

Whilst this proposal has been presented by the MPHPT as effectively lowering the tax burden of taxpayers, it is the view of the EBC that it will rather increase the tax burden on loss-

making businesses to a degree that will outweigh any decrease in the tax burden for profit making firms.

For these reasons the EBC strongly urges the Japanese Government to abandon the MPHPT's proposal to introduce a factor-based component to the Corporate Enterprise Tax.

Yours Sincerely,

Richard Collasse,
Chairman,
European Business Community in Japan.

cc. Ministry of Finance (Minister Shiokawa)
Ministry of Public Management, Home Affairs, Posts and Telecommunications
(Minister Katayama)
Ministry of Economy, Trade and Industry (Minister Hiranuma)
LDP Tax Commission (Chairman Aizawa)
Government of Japan Tax Commission (Chairman Ishi)
Delegation of the European Commission in Japan (Ambassador Zepter)