



JRI news release

An Evaluation of Measures to Lighten the Burden of Dividend Taxation and Future Issues for Financial and Securities Taxation

February 21, 2003

**Center for Economic and Public Policy Research
Economic Research Center, Economics Department
The Japan Research Institute, Limited**

<http://www.jri.co.jp/>

For more information on the content of this report, please contact

Kenji Yumoto Tel: 03-3288-4737 E-mail: yumoto.kenji@jri.co.jp

or

Toshio Mikami Tel: 03-3288-5132 E-mail: mikami.toshio@jri.co.jp

Overview

Amidst growing calls for tax systems to give preferential treatment to investment rather than savings, and for more active use to be made of tax systems as a means of revitalizing the capital markets, the tax system reforms for fiscal 2003 include measures to lighten taxation of dividends, and measures giving preferential treatment to investment trusts holding listed and publicly offered shares.

JRI takes the view that in addition to a reform of Japan's complex and opaque financial and securities taxation systems based on a medium-to-long term perspective it is also essential that the government introduce short-term tax systems to help revitalize the capital markets. In September 2002 JRI proposed a short-term strengthening of tax incentive systems. The subsequently announced fiscal 2003 tax system reforms expanded the measures according preferential tax treatment to listed shares and related products. We commend these measures, which are in line with the approach proposed by JRI in that they strengthen tax incentive systems.

The center of attention among the fiscal 2003 tax system reforms are the measures to lighten the burden of dividend taxation. These measures are commendable in that they (i) strengthen tax incentive systems, (ii) redress the problem of double taxation of dividends and (iii) simplify the dividend taxation system. As the measures have the effect of increasing the amount of dividend after tax received by individual investors, thereby boosting the value of shares, they are likely to have a positive impact on Japan's currently sluggish stock market. Assuming certain conditions, they are likely to boost the total market value of shares listed on the Tokyo Stock Exchange by ¥5.9.

The content of the fiscal 2003 tax system reforms is generally sound, but we believe further efforts should be made in the following areas.

- (I) If the aim is to revitalize the capital markets, according preferential tax treatment only to products relating to listed shares is insufficient, and similar measures should be applied to share-related derivatives such as unlisted shares, futures and options, including an expansion of the “angel” tax system.
- (ii) Further efforts should be made in terms of systemic reform, to allow the carrying over of profit from investment trusts holding publicly offered shares and of losses on the sale of listed shares which was not made possible by the recent reforms.
- (iii) Measures to promote risk-taking among individual investors, such as extending the period for which losses on the sale of shares can be carried over by 3-5 years and expanding the fixed-contribution pension system should be implemented as a matter of urgency.

As already proposed in JRI's vision for medium-term tax systems over the next five years and beyond, the aim should not only be to achieve greater neutrality and simplicity. Consideration should also be given to introducing a Japanese version of income tax at an early stage.