



Comprehensive Reform of Social Security and Tax



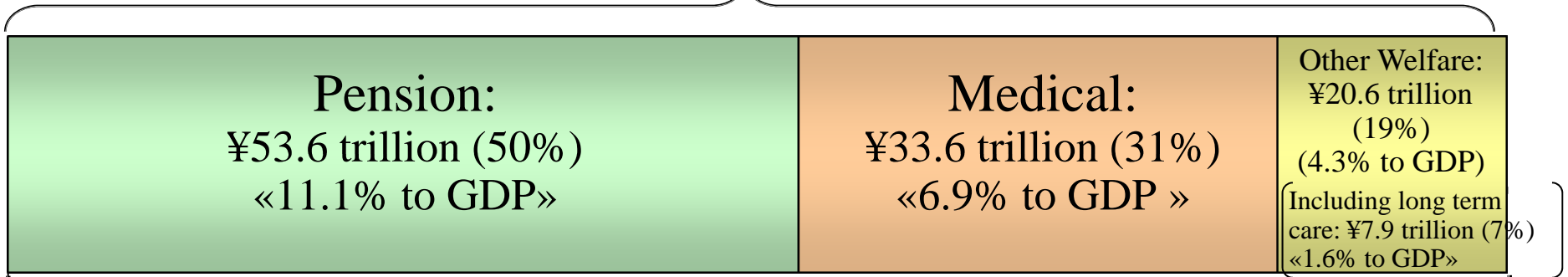
1 Background for the Discussion on the Comprehensive Reform of Social Security and Tax

Current Status of Social Security Benefits and Burdens

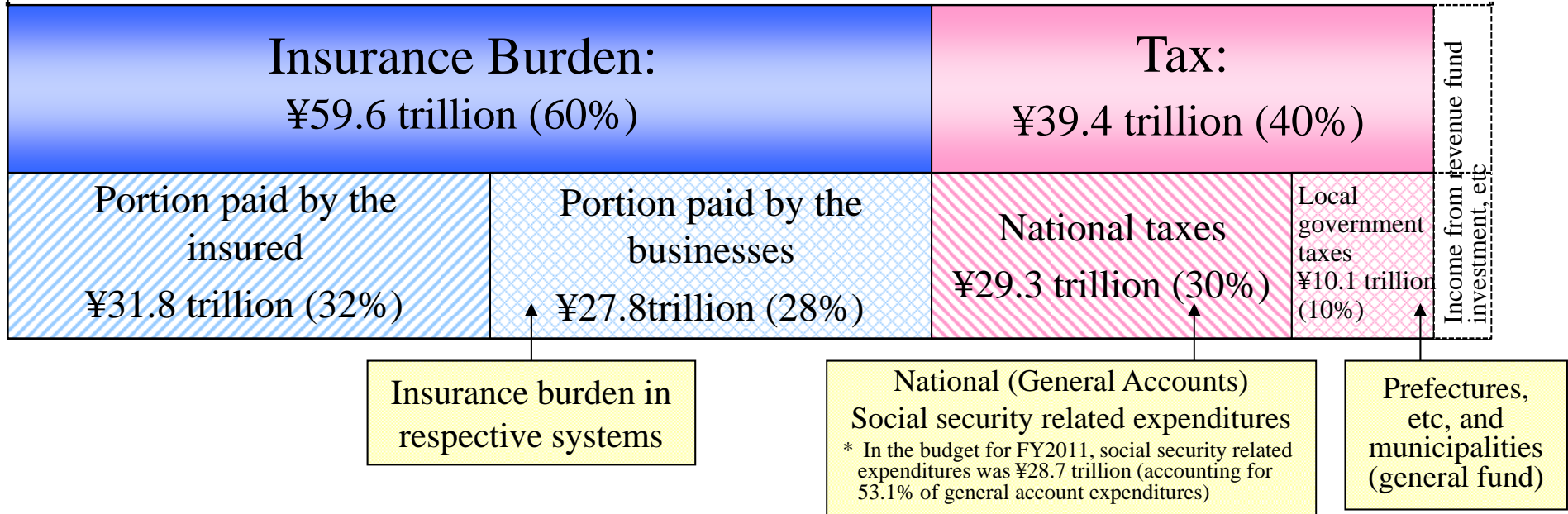
Social Security Benefit Payment in FY2011(Budget based): ¥107.8 trillion (Actual figure; 22.3% to GDP)

[Benefit Payment]

Social Security Benefit Payment



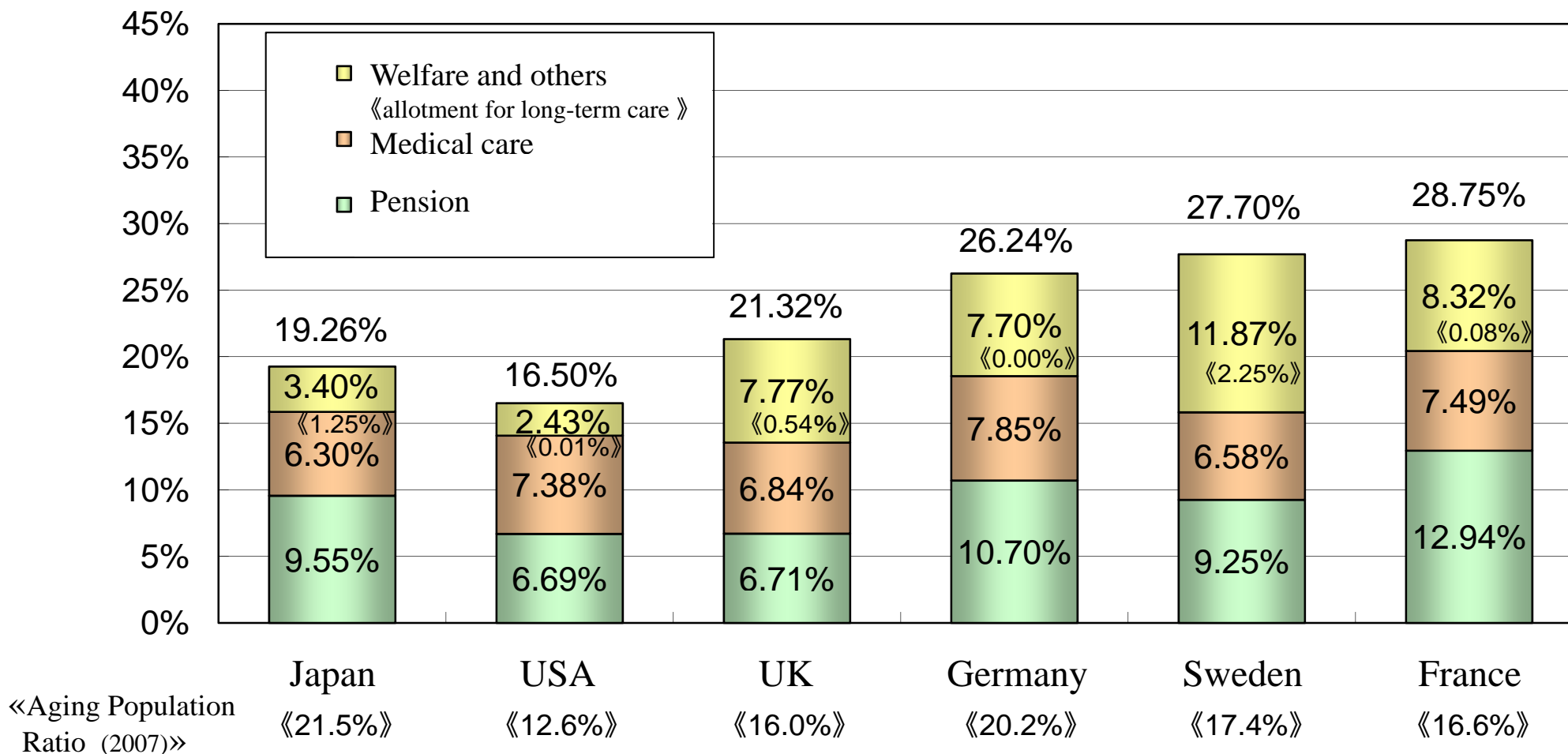
[Burden]



* Other sources of Social Security Funds include income generated from assets, etc

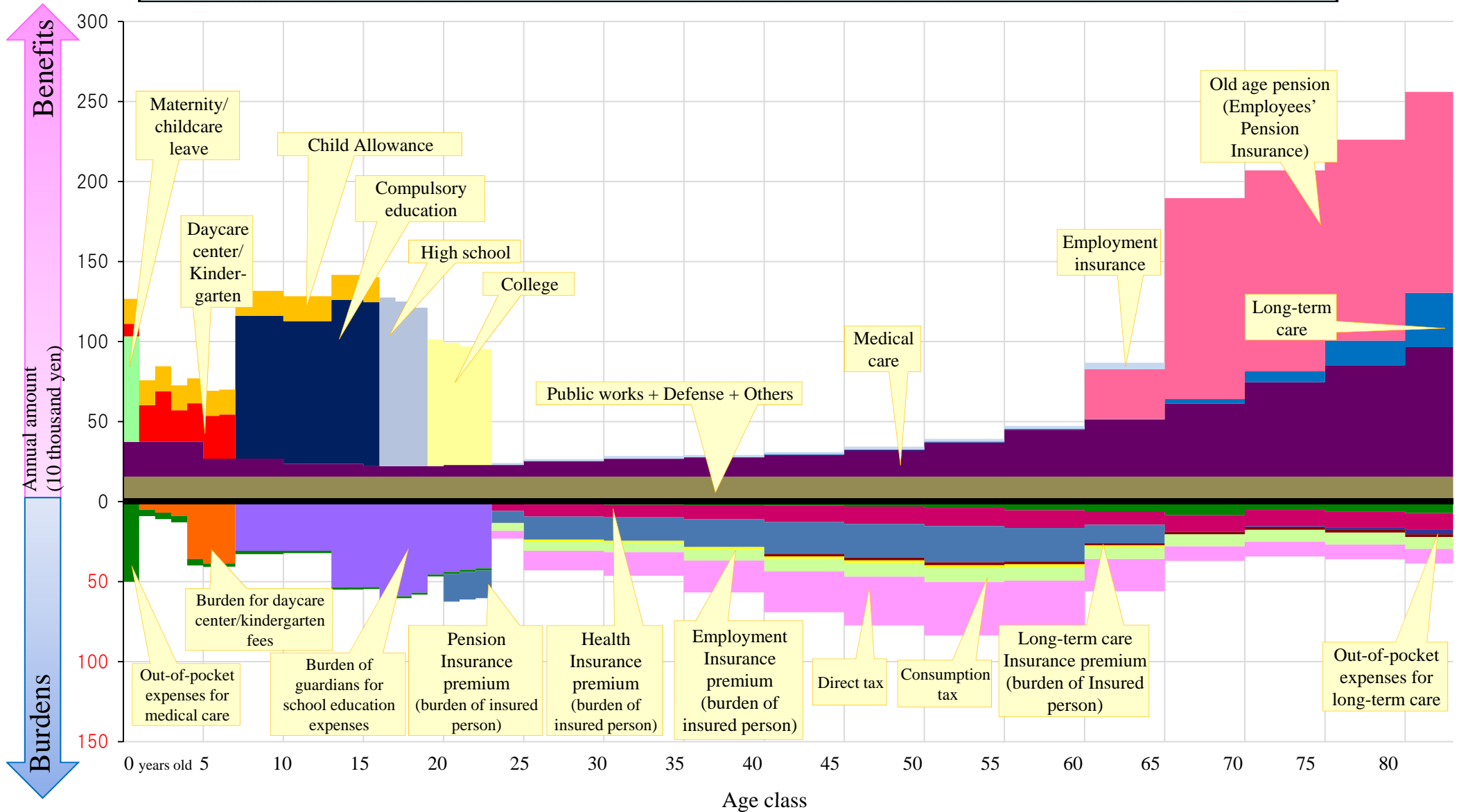
International Comparison of Social Security Benefits by Division (to GDP)

- When comparing Japan's Social Security Benefits per Division with other countries,
- Pension: Japan exceeds the US and the UK, but is slightly outperformed by the other European countries
 - Medical: is outperformed by the US and the other European countries
 - Other benefits: Exceeds the US but is considerably outperformed by the European countries



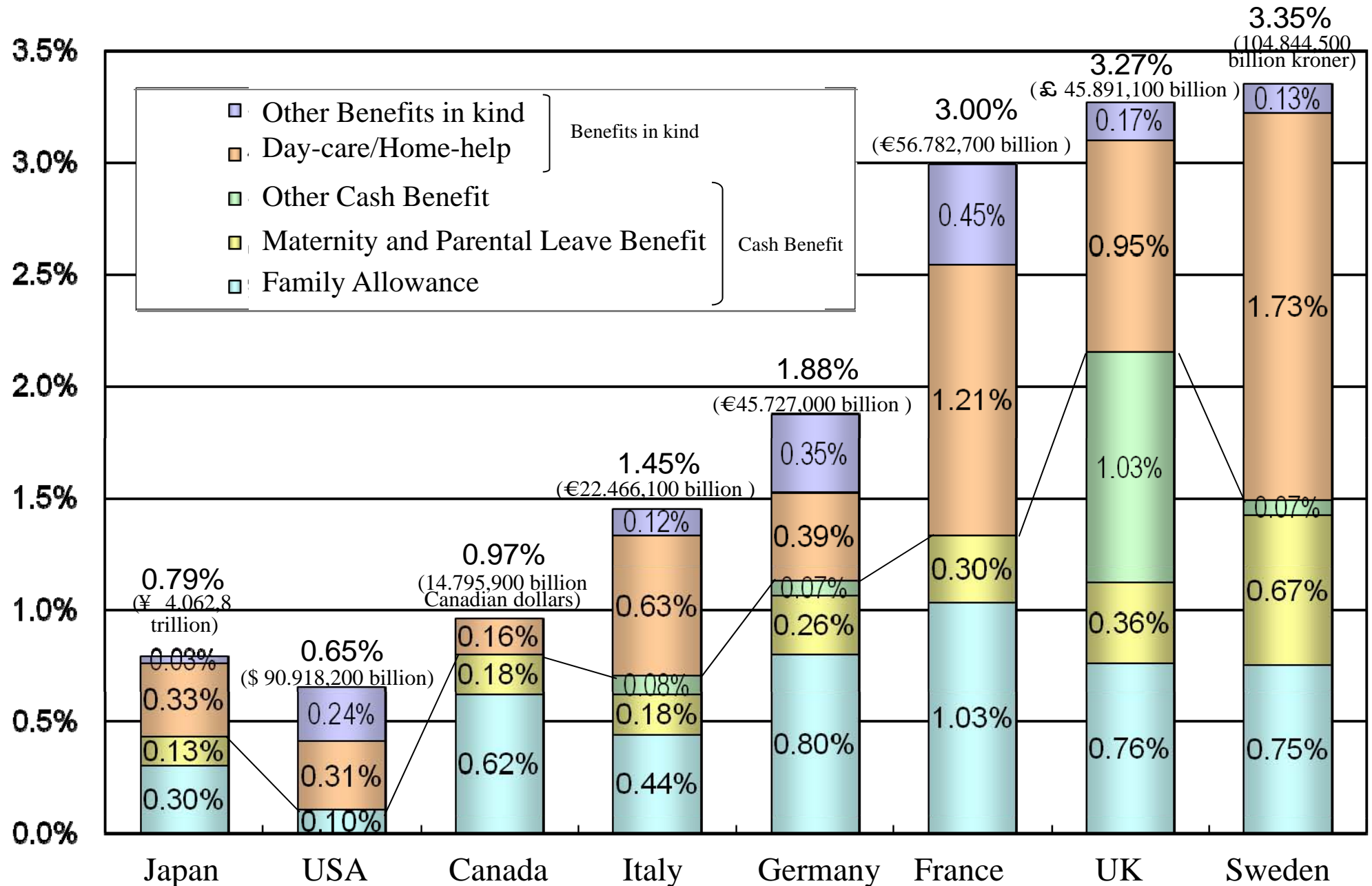
(Notes) Figures calculated by Office of Director for Social Security, Director-General for Policy Planning and Evaluation, Ministry of Health, Labour and Welfare, based on the data in OECD "Social Expenditure Database" and other resources. (Figures of 2007)
 Due to use of OECD social expenditures data, generated using the OECD social expenditure criteria, the actual figures include the costs for wider purposes than the Social Security Benefits Costs (such as public housing expenditure and facility improvement and maintenance expenditure)
 Aging population ratio is based on OECD: "OECD in figures 2009"

Image of Benefits and Burdens of Social Insurance and Services including childcare/educations in Lifecycle

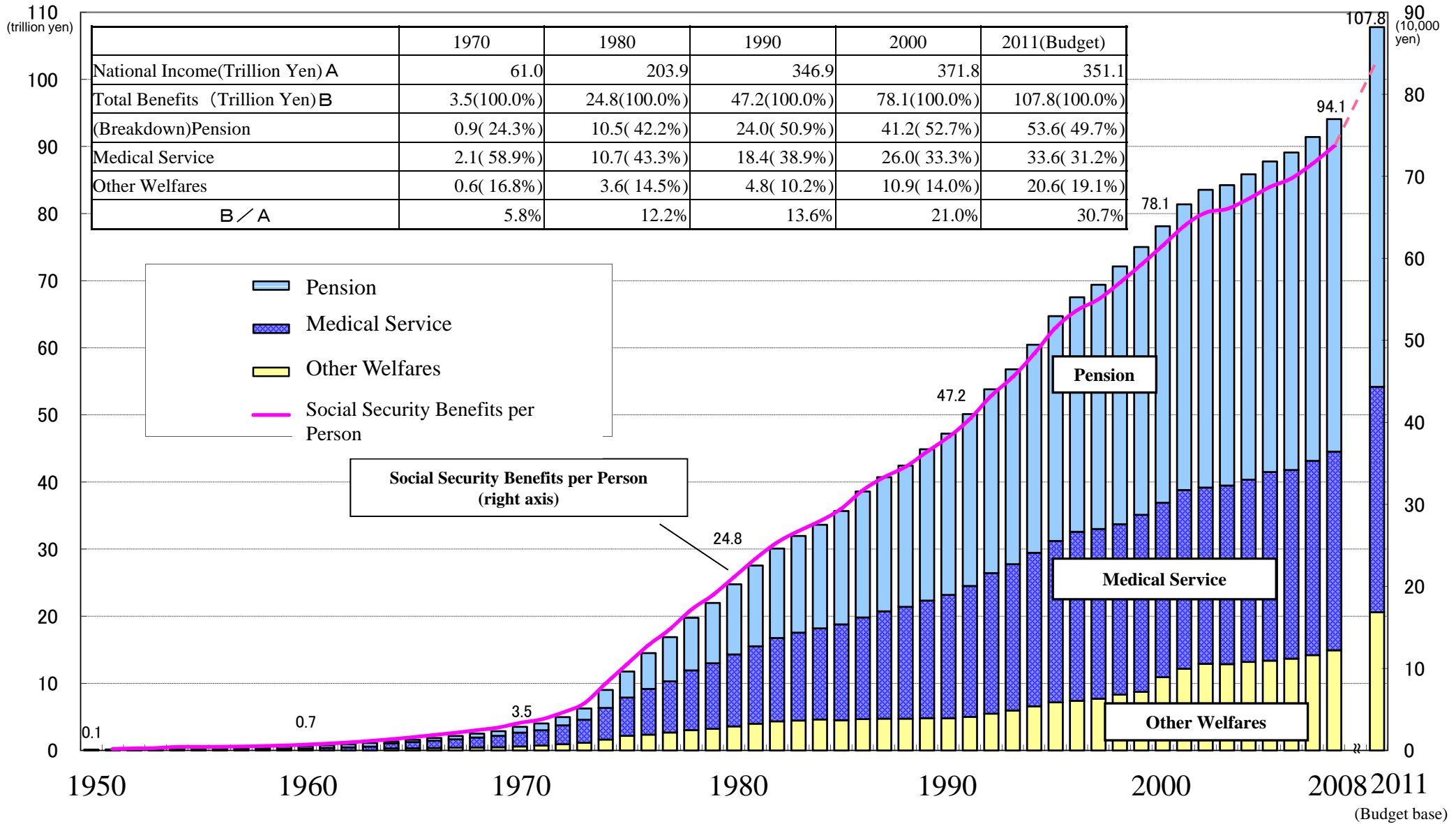


- 1) The amounts per person are calculated based on the results for FY 2009 (or the latest ones available). "Public works, defense and others" is based on the FY 2010 budget.
- 2) Direct tax and consumption tax represent the total of national tax and local tax.
- 3) Regarding burdens, attention needs to be paid on the government bond issues (about 44 trillion yen and about 350,000 yen per capita based on the FY 2010 budget) as burdens for the future generations.

International Comparison of Expenditure Related to Families by Division (to GDP, in 2007)



Trends in Social Security Benefits

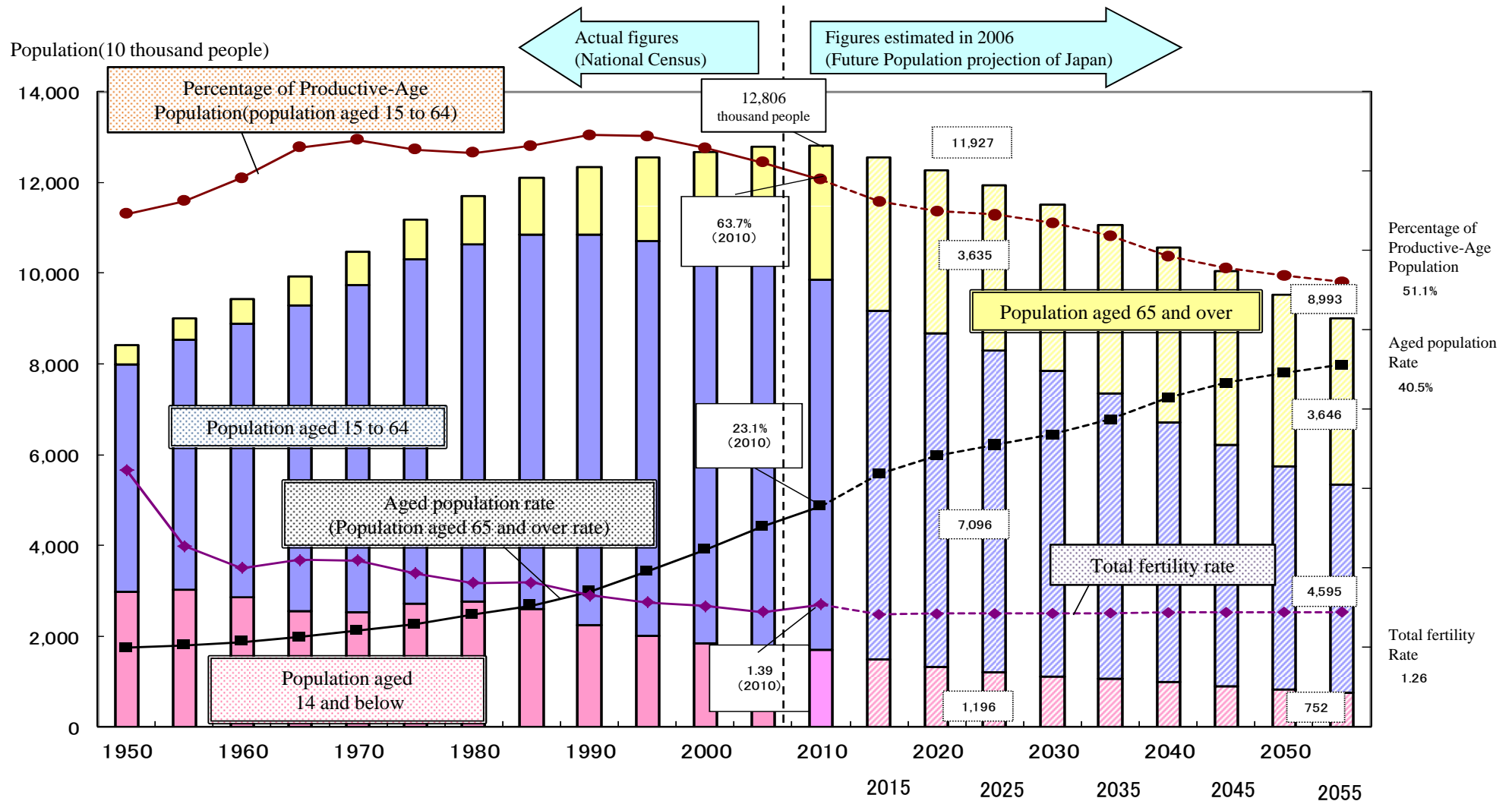


Source: "FY2008 Social Security Benefit Expenditures" by the National Institute of Population and Figures for FY2011 (budget base) are Ministry of Health, Labour and Welfare estimates. National income level for FY2011 reflects FY2011 economic projection and basic stance of economic finance administration (as Cabinet Decision of January 24, 2011)

(Note) Figures in the diagram are social security benefit expenditures (trillion yen) for 1950, 1960, 1970, 1980, 1990, 2000 and 2008, and an estimate for 2011(budget base).

Population Trends of Japan

○ Japan's population remains on the same level recent years and has entered on the decreasing phase. It is projected, by year 2055; the total population will drop below 90 million while the aging population ratio will exceed 40%.



Source: Statistics Bureau, Ministry of Internal Affairs and Communications "National Census" and "Population Projection (Annual Report)", Ministry of Health Labor and Welfare "Demographic Statistics", and National Institute of Population and Social Security Research "Population Projections for Japan" (estimate as of December 2006), median projection.

Social Security System Today

○ The framework for the current social security system was decided in the 1960s and the 70s, in a period of rapid economic growth, based on the following assumption.

① Regular Employment, Lifetime Employment, Full Employment

→ Universal healthcare insurance and pension system were established; salaried workers are subjects of workplace insurance schemes (health insurance and Employee's pension), while the self-employed workers, farmers, aged persons, etc, are subjects of the system for the self-employed, etc., group (National health insurance and National pension) .

② Rapid Growth of the Economy

→ The increase of the benefit payment can be paid by the increase in premium and tax revenue due to the increase of the salary.

③ Well-filled welfare in companies, the nuclearization of the family(usually with housewives), the connection in a local community

→ Benefits of social security for the working generations are complementary.

→ Benefits for the old are relatively substantial.

Changes in the Social Security System

- The situation around the social security system today has changed greatly since 1960s and 70s.
 - ① Changes in the Employment Base (ex. diversified work styles)
 - ② Changes in the style of the family (ex. increase in old, one-person households and one-parent family due to the increasing number of divorces)
 - ③ Changes in the local social infrastructure (ex. concurrent urbanization and depopulation, a weakening in a local community, the advent of the depopulated society)
 - ④ Changes in lifestyles and types of risk in life (ex. increase in social stress, suicides, and people with mental problems)



Due to the aging society with a declining birthrate and the end of the rapid growth of the economy, social security benefit payment to GDP has increased

- Structural reforms have been carried out in accordance with the drastic changes in social circumstances so far in each system such as pension, medical care and welfare respectively,
- Problems to be solved remain; unfairness of benefit and burden among generations, services that do not meet the changing needs, gaps between the systems, insufficient alleviation of poverty, shifting the social security costs to the future generations.
 - To tackle over those issues, comprehensive and drastic reform of social security system and its finance is necessary.



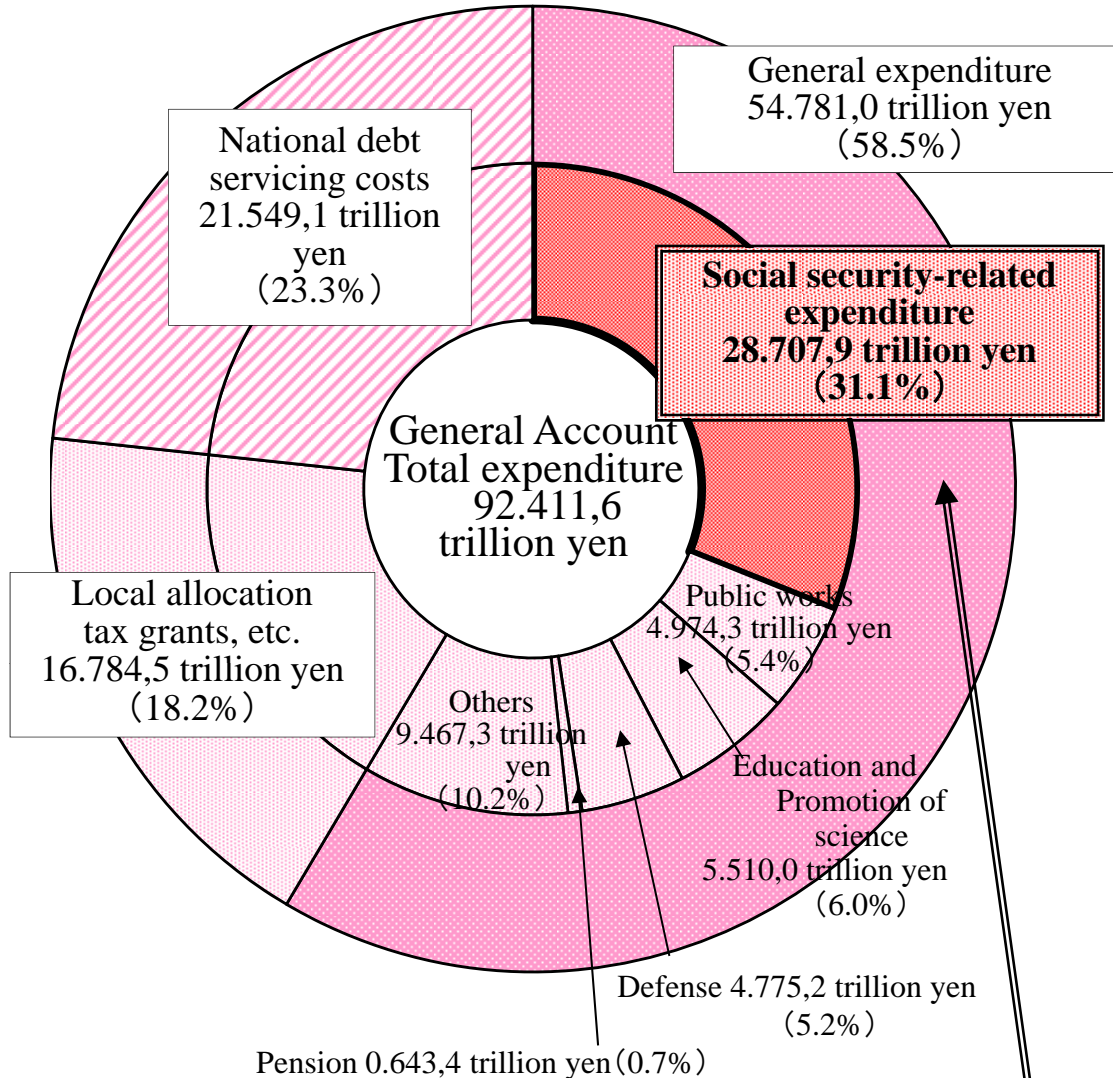
The point to discuss the overall perspective of the structural reform

- To establish a social security system which supports the economy and contributes to the economic growth (by which each of the people can perform at his/her maximum potential =positive welfare)
- To enhance necessary functions of social security while handling new issues, change in people's needs and the problems within the each system, rationalizing system operations at the same time
- To secure stable financial resources

※ Necessary to discuss those matters collectively and comprehensively

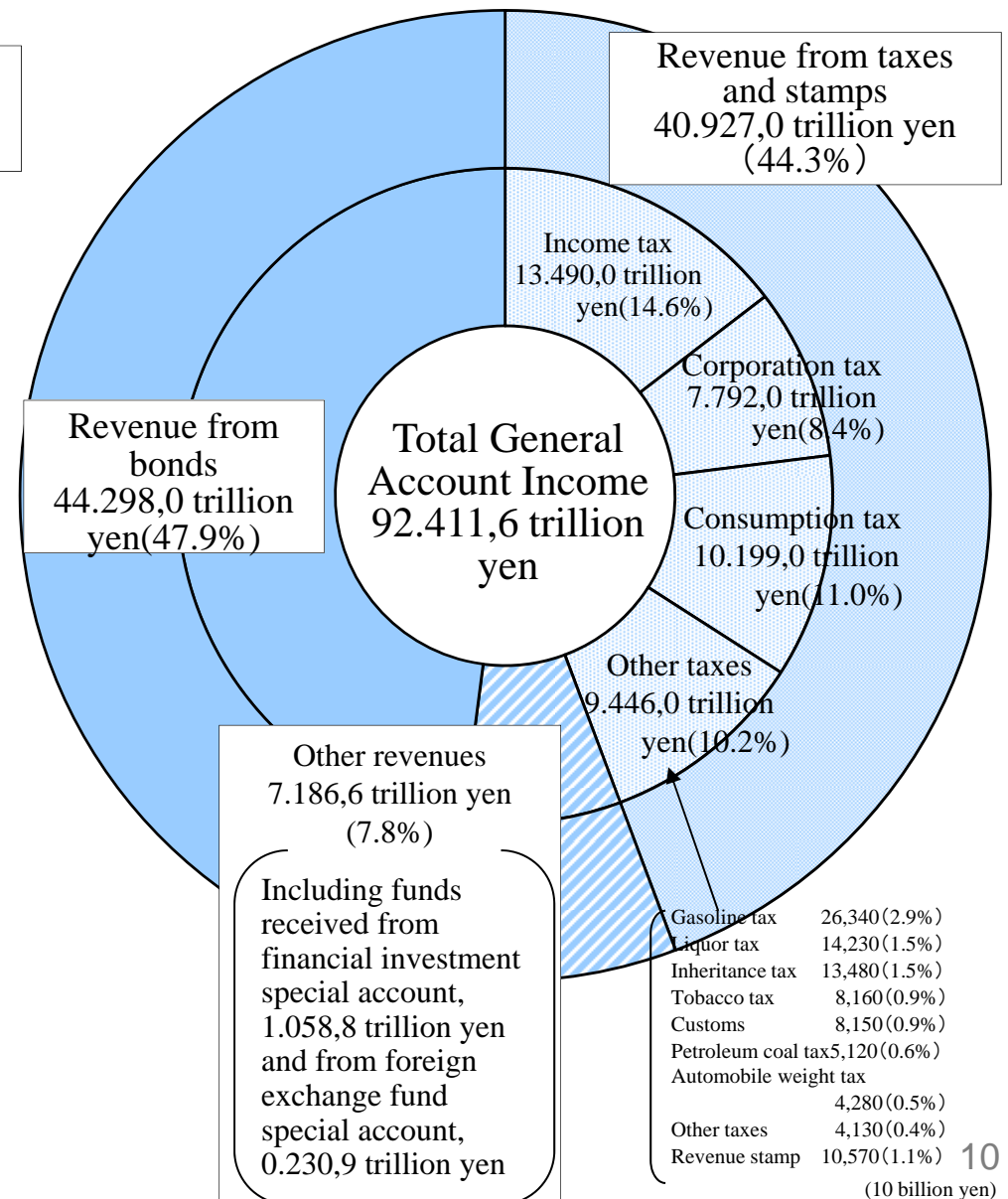
General Expenditure and Social Security-related Expenditure in FY2011

Expenditure

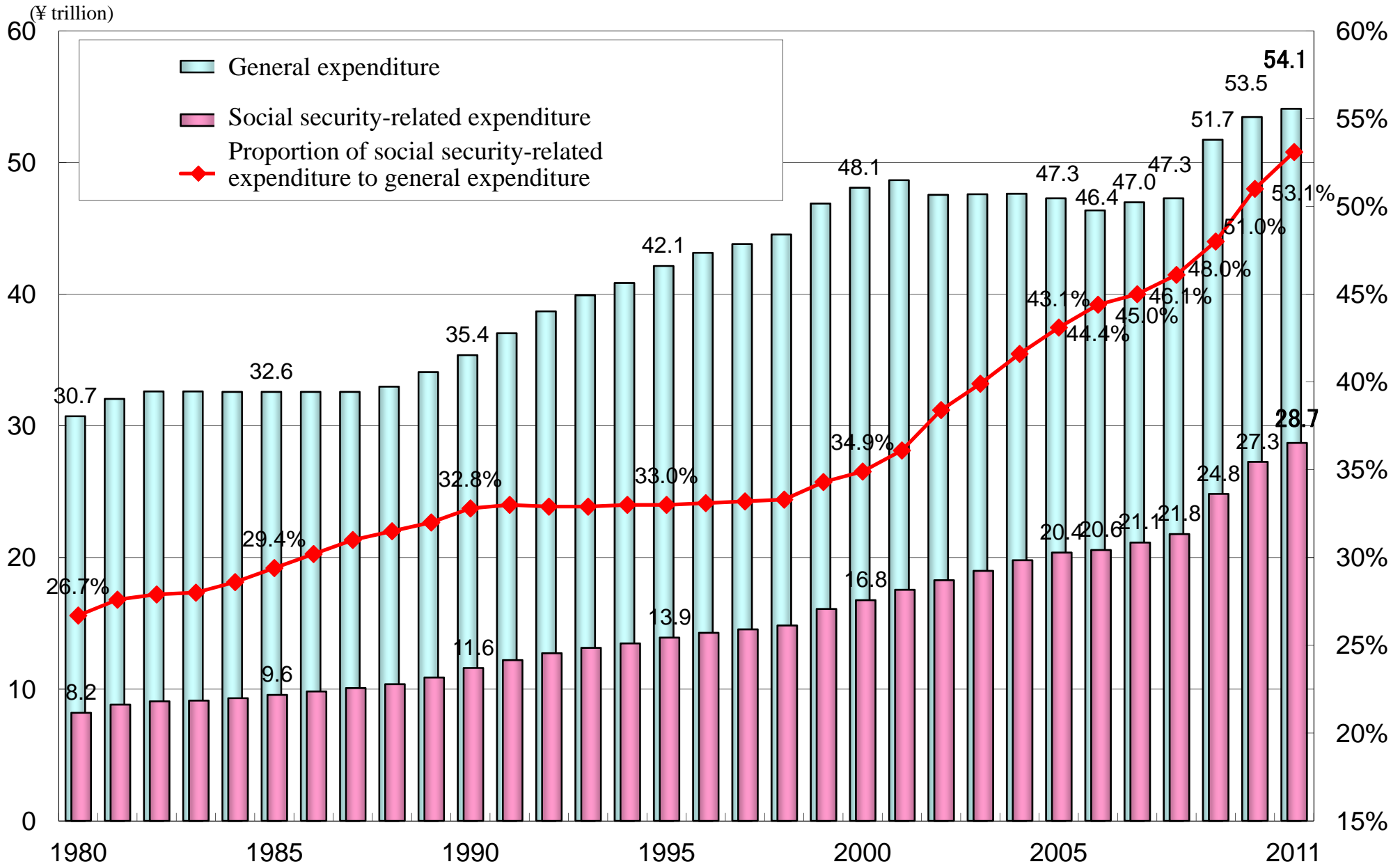


Ratio of social security-related expenditure in the general account expenditure 53.1%

Revenue



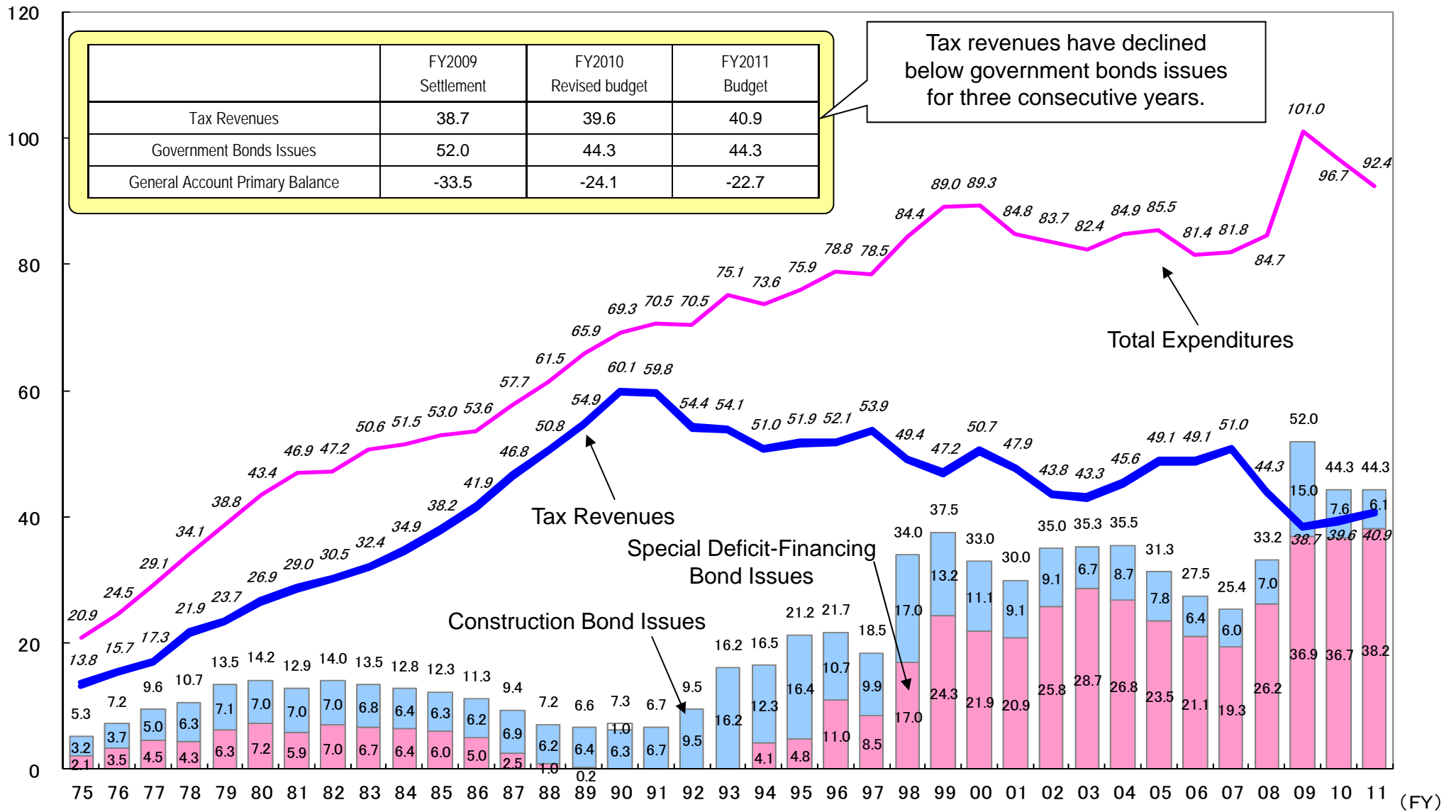
Changes in General Expenditure and Social Security-related Expenditure



(Note) Based on original budget

Trends in general account tax revenue, total expenditure, and government bond issues

(Trillion Yen)



(Note 1) FY1975-2009: Settlement, FY2010: Revised budget, FY2011: Budget

(Note 2) Ad-hoc deficit-financing bonds (approx. 1 trillion yen) were issued in FY1990 as a source of funds to support peace and reconstruction efforts in the Persian Gulf Region.

(Note 3) General Account Primary Balance is calculated based on the easy-to-use method of National Debt Service minus Government Bond Issues, and is different from the Central Government Primary Balance on an SNA basis.

International Comparison of General Government Financial Balance and Gross Debt to GDP

General Government Financial Balance to GDP

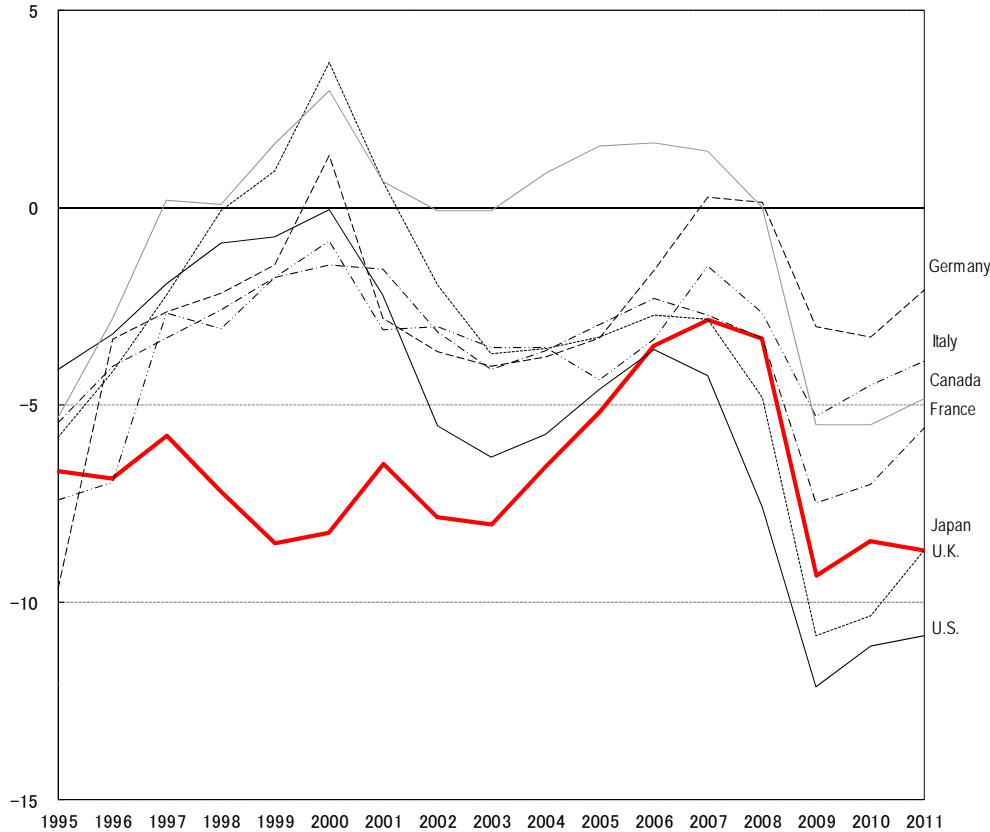
CY	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Japan	-6.7	-6.9	-5.8	-7.2	-8.5	-8.2	-6.5	-7.9	-8.0	-6.6	-5.2	-3.5	-2.8	-3.3	-9.3	-8.5	-8.7
U.S.	-4.1	-3.2	-1.9	-0.9	-0.7	-0.1	-2.2	-5.5	-6.3	-5.8	-4.6	-3.6	-4.3	-7.6	-12.1	-11.1	-10.8
U.K.	-5.8	-4.2	-2.2	-0.1	0.9	3.7	0.6	-2.0	-3.7	-3.6	-3.3	-2.7	-2.8	-4.8	-10.8	-10.3	-8.7
Germany	-9.7	-3.3	-2.6	-2.2	-1.5	1.3	-2.8	-3.6	-4.0	-3.8	-3.3	-1.6	0.3	0.1	-3.0	-3.3	-2.1
France	-5.5	-4.0	-3.3	-2.6	-1.8	-1.5	-1.6	-3.2	-4.1	-3.6	-3.0	-2.3	-2.7	-3.3	-7.5	-7.0	-5.6
Italy	-7.4	-7.0	-2.7	-3.1	-1.8	-0.9	-3.1	-3.0	-3.5	-3.6	-4.4	-3.3	-1.5	-2.7	-5.3	-4.5	-3.9
Canada	-5.3	-2.8	0.2	0.1	1.6	2.9	0.7	-0.1	-0.1	0.9	1.5	1.6	1.4	0.0	-5.5	-5.5	-4.9

(Source) OECD Economic Outlook 89 (June 2011)

(Note1) Figures represent the general government-based data (including the central/local governments and the social security funds), except for Japan and the U.S. where the figures of the social security funds are excluded. Their figures including the social security funds are as shown below.

CY	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Japan	-4.7	-5.1	-4.0	-5.8	-7.4	-7.6	-6.3	-8.0	-7.9	-6.2	-4.8	-3.4	-3.0	-3.9	-10.5	-9.3	-9.6
U.S.	-3.3	-2.3	-0.9	0.3	0.7	1.5	-0.6	-4.0	-5.0	-4.4	-3.3	-2.2	-2.9	-6.3	-11.3	-10.6	-10.1

(%)



(Note 2) Figures for Japan are adjusted to exclude special factors.

(CY)

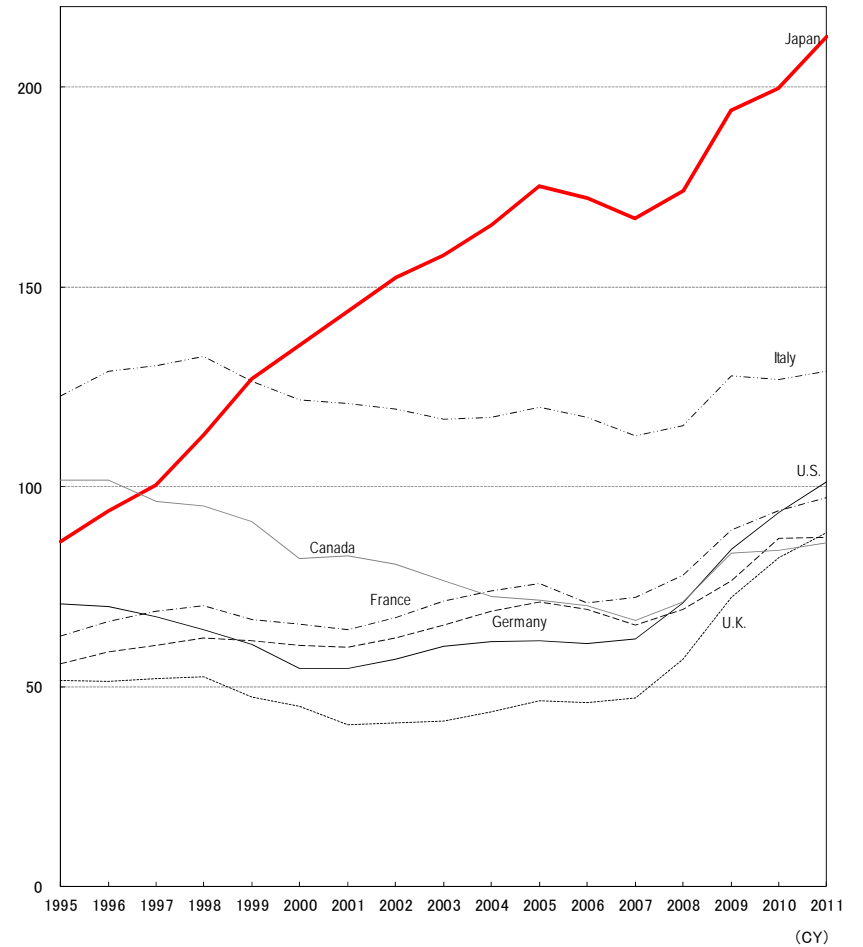
General Government Gross Debt to GDP

CY	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Japan	86.2	93.8	100.5	113.2	127.0	135.4	143.7	152.3	158.0	165.5	175.3	172.1	167.0	174.1	194.1	199.7	212.7
U.S.	70.7	69.9	67.4	64.2	60.5	54.5	54.4	56.8	60.2	61.2	61.4	60.8	62.0	71.0	84.3	93.6	101.1
U.K.	51.6	51.2	52.0	52.5	47.4	45.1	40.4	40.8	41.5	43.8	46.4	46.1	47.2	57.0	72.4	82.4	88.5
Germany	55.7	58.8	60.3	62.2	61.5	60.4	59.8	62.2	65.4	68.8	71.2	69.3	65.3	69.3	76.4	87.0	87.3
France	62.7	66.3	68.8	70.3	66.8	65.6	64.3	67.3	71.4	73.9	75.7	70.9	72.3	77.8	89.2	94.1	97.3
Italy	122.5	128.9	130.3	132.6	126.4	121.6	120.8	119.4	116.8	117.3	120.0	117.4	112.8	115.2	127.8	126.8	129.0
Canada	101.6	101.7	96.3	95.2	91.4	82.1	82.7	80.6	76.6	72.6	71.6	70.3	66.5	71.3	83.4	84.2	85.9

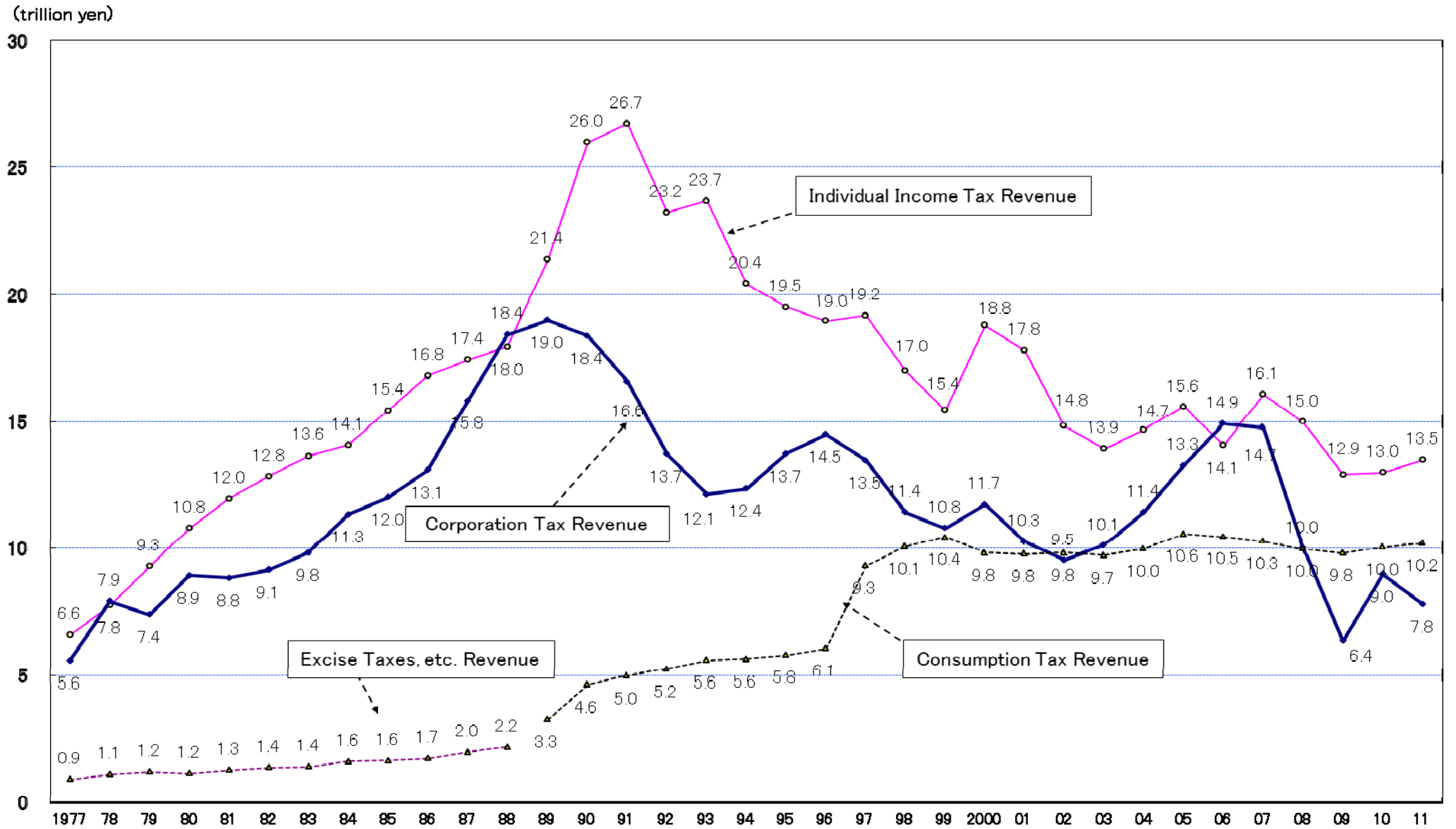
(Source) OECD Economic Outlook 89 (June 2011)

(Note) Figures represent the general government-based data (including the central/local governments and the social security funds).

(%)



Historical Changes of Revenues from Major Taxes (General Account)



Note: Up to FY 2010—Settlement, FY2011 Budget

(Fiscal Year)



2 Outline of the Definite Plan for the Comprehensive Reform of Social Security and Tax (Cabinet Report dated July 1, 2011)

This Definite plan summarizes the specific directions of the comprehensive reform of social security and tax, in line with the “Promotion of Social Security Reform” (Cabinet Decision dated December 14, 2010) and based on the results of the concentrated deliberations by the government and the ruling parties. The plan was reported to the Cabinet on July 1, 2011. Under this plan, the government and the ruling parties will further deepen the deliberations and will seek to substantiate them.

Accumulation of Discussions on the Comprehensive Reform of Social Security and Tax

< In 2008 >

National Commission on Social Security (final report : Nov. 2008)

The Medium-term Program for Establishing a Sustainable Social Security System and Securing Its Stable Revenue Sources (Dec. 2008)

Tax Reform 2009 (Mar.2009)

[Article 104, paragraph 1, of the supplementary provisions of the Tax Reform Act 2009] : In order to implement the comprehensive reform of the tax system, including consumption tax, on a gradual basis and without delay, the government shall **take the necessary legislative measures by Mar. 2012**, on the assumption that the economic situation will improve.

< In 2009 >

Council for Realization of a Reassuring Society (report : Jun.2009)

< In 2010 >

Headquarters of the Government and Ruling Parties for Social Security Reform (Oct. 2010)

Democratic Party's Research Committee for the Comprehensive Reform of Tax and Social Security (interim report : Dec. 2010)

Academic Experts Committee for Social Security Reform (report : Dec. 2010)

Promotion of Social Security Reform (Dec. 14, 2010, Cabinet Decision)

The government and ruling parties shall clarify the substantial reform plan with the aim of stabilizing and strengthening the social security and identifying the necessary financial resources, and comprehensively advance the reform of the tax system in order to secure the stable necessary financial resources and to achieve fiscal consolidation simultaneously; the definite plan as well as the time schedule shall be **formulated by mid-2011**, and we shall pursue the realization of the plan obtaining the people's consensus.

< In 2011 >

Council for Intensive Discussion on Social Security Reform

- concentrated deliberations on comprehensive reform of social security and tax, open discussions among the people
- The 1st meeting was held on Feb. 5 ⇒ On the 6th meeting (May 12) Proposal of the Ministry of Health, Labour and Welfare ⇒ On the 10th (Jun. 2) Social Security Reform Plan

Discussion with local entities on "Discussion Forum between the National and Local Governments" (Jun. 13) and so on

Plan for realization of desirable social security (Democratic Party's Research Committee for the Comprehensive Reform of Social Security and Tax (May. 2011))

Final Draft Preparation Meeting under the Headquarters of the Government and Ruling Parties for Social Security Reform

- Set up under the Headquarters of the Government and Ruling Parties for Social Security Reform in order to draw up the Definite Plan for the Comprehensive Reform of Social Security and Tax ⇒ The 1st meeting was held on Jun. 8. After that, 5th meeting (Jun. 30) was the last.

Definite Plan for the Comprehensive Reform of Social Security and Tax (Jun. 30, Decision by the Headquarters of the Government and Ruling Parties for Social Security Reform) ⇒ Jul. 1 Cabinet Report

Points of the Plan

I. The whole picture of the reform of social security

See p.20-22

Drastic changes in social and economic circumstances

Since the 1960s, when the basic framework of the current social security system was formulated, up until this day, there have been drastic changes in social and economic circumstances, including (i) changes in the employment base, such as increases of irregular employment; (ii) the weakening of the safety-net functions of local communities and families; (iii) a conspicuous decrease in the population, especially the working generations; (iv) a rapid increase of costs associated with social security because of the aging population; (v) difficult economic and financial conditions such as stagnation of the economy and long-term deflation; and (vi) the weakening of the safety-net functions of corporations.

- to respect the accumulation of various discussions since the National Commission on Social Security and the Council for Realization of a Reassuring Society
- the report of the Academic Experts Committee for Social Security Reform (“three philosophies”, “five principles”)

Basic concept of this reform

- **To secure the safety of all the generations and to increase each individual citizen’s peace of mind**
Everyone can actually feel the benefits of social security. Society neutral to the individual’s choice about way of living and working, where participation is assured.
- **The reformed social security system will be supported by the most appropriate balance between self-help, mutual assistance, and public assistance, in a more fair and equitable manner.**
Confront the real problems faced by the people, such as inadequate services, job shortage, working poor, social exclusion, and abuse. Establish a comprehensive support system
- **Assume a balance between benefits and burdens, design in consideration of each level of the benefits and the burdens in developed countries of the OECD**

⇒ Seek to establish a medium-scale and highly functional social security system



Priority order of the reform and directions of specific reforms in individual areas

- Give priority to the following matters; (i) Measures for the support of children and child raising and employment of young people, (ii) Reform of medical and long-term care services, etc., (iii) Pension reform, (iv) “Measures against poverty and income inequality (multilayered safety net)” and “measures for low-income earners
- The contents and reform process of the items to be enhanced and prioritized or rationalized in individual areas are also indicated.



Early introduction of the common number system for social security and tax

II. Estimated social security costs

- Estimated costs required for the reform in I above
 - ⇒ The costs additionally required (public expenditures) in 2015 is estimated at about 2.7 trillion yen
 - (Amount required for enhancement : about 3.8 trillion yen
Amount reduced by prioritization/rationalization : up to about minus 1.2 trillion yen)
- Estimate of the whole (national and local) public expenditures required for social security benefits
 - ⇒ Comprehensively sort out the entire picture and estimated costs of the social security benefits including the local independent projects

III. Basic concept of the Comprehensive Reform of the Social Security and Tax

See p.23-25

1. Basic framework to secure stable financial resources for social security

- (National and local) consumption taxation will be secured as the main financial resource for the public expenditures required for social security benefits
- As for the national consumption tax revenue is currently allocated to the three costs for the elderly under the general budget provisions. In the future, on the basis of the three costs for the elderly, we will expand the fields that are to be allocated to the “costs required for the social security benefits under the established systems of pension, medical care, and long-term care and the measures to deal with the falling birthrate”.
- Clarify the purpose of the use of the (national and local) consumption tax revenues (excluding the current local consumption tax) (the consumption tax revenue will be the financial resource for social security).
- An increased part of the (national and local) consumption tax revenues will be allocated in accordance with the role sharing between the national government and local government for social security benefits. As for the current (national and local) consumption tax revenues, the allocation of consumption tax revenues to the national and local governments and the basic framework of the tax allocation to the local governments will not be changed.
- Raise the Consumption tax rate (national and local) in stages to 10% by the middle of 2010's

2. Simultaneous achievement of securing stable financial resources for social security reform and fiscal consolidation

- To seek to achieve the target of fiscal consolidation by FY2015 will be the milestone for the simultaneous achievement

IV. The Comprehensive Reform of the Tax System

See p.26

- Standpoints of the reforms of individual income taxation, corporation taxation, consumption taxation, and property taxation

V. Schedule of the Comprehensive Reform of Social Security and Tax

See p.27

- Sincere discussions at the “discussion forum between the national and local governments” for the reforms.
- The social security reform will be implemented according to the schedule.
- To implement without delay the Comprehensive Reform of the Tax system, including Consumption tax, on the condition that the economic situation is improved, take the necessary legislative measures in FY2011 in accordance with the roadmap as described in Article 104 of the supplementary provisions of the Tax Reform Act 2009.
 - The “improvement of the economic situation” will be comprehensively judged
 - an arrangement that can flexibly respond to unpredicted economic fluctuation
 - unremitting administrative reforms, elimination of wasteful expenditures

VI. Policies for overcoming deflation and realization of a virtuous cycle with economic growth

See p.28

- In order to overcome deflation, the government and the Bank of Japan make policy efforts
- A virtuous cycle contribute to economic growth through the Comprehensive Reform of Social Security and Tax

Major Social Security Reform Items

I Children and child raising

- To realize functional enhancements such as the quantitative expansion of childcare, etc., in accordance with the circumstances of the local community and the integration of kindergarten and day nursery, in line with the implementation of the new system for children and child raising, etc.

- Resolution of the problem of the waiting-list children, realization of high-quality school education and childcare, enhancement of after-school care clubs, and improvement of social orphanages
- Promotion of participation by diverse business entities in childcare, etc.; effective use of existing facilities; and unification of implementation system

Amount required
(Public expenditures) 2015

About 0.7 trillion yen

* Hereafter, we will consider the measures with about 1 trillion yen, including financial resources other than those from the Comprehensive Reform of the Tax System.

II Medical and long-term care services, etc.

- To rationalize or prioritize, and to functionally enhance, the service supply system in accordance with the actual circumstances of the local community; for this purpose, we will comprehensively review the systems of medical service fees and long-term care fees and improve legal systems in order to develop infrastructure for reformed medical and long-term care services.

- Differentiation and strengthening of, and cooperation between, functions of hospitals and hospital beds; correction of uneven distribution among regions and hospital departments; strengthening of preventive measures; enhancement, etc., of in-home medical care; establishment of an integrated community care system, strengthening of care management functions, and enhancement of accommodation-type services; reformation of rooms in facilities into units consisting private rooms and a common room; and increase in manpower associated with prioritization
- To shorten average length of hospital stay; appropriating outpatient consultation; reduction of multiple consultations, multiple examinations, medication overdose, etc., by effectively using ICT; and preventive long-term care and prevention of aggravation

Amount required
(Public expenditures) 2015

Up to about 0.6 trillion yen

- **To strengthen the safety-net functions and to prioritize benefits in the medical care and long-term care insurance systems, through the enhancement of functions of the insurers**
 - a) **To expand the scope of application of employees' health insurance and to stabilize, strengthen, and regionally widen the financial base of the national health insurance**
 - To expand the application of employees' health insurance to part-time workers, to shift the fiscal administration of the national health insurance from the municipal level to the prefectural level, and to strengthen the financial base of the national health insurance
 - b) **To reinforce the factors of burden according to each capacity to bear the cost of long-term care insurance, to pay attention to low-income earners, and to prioritize benefits**
 - To further reduce the insurance premiums of Primary Insured Persons to be paid by low-income earners
 - To calculate long-term care levy on medical insurers in proportion to total amounts of insured persons' wages; to prioritize the benefits that are effective in preventing aggravation
 - c) **To address advanced and long-term medical services (to strengthen the safety-net function) and to prioritize benefits**
 - To examine the reduction of burden by reviewing the high-cost medical care benefit system, and fixed payment upon medical consultation according to the scale of the reduction, etc. (to also examine appropriation of outpatient consultation taking into account role-sharing among hospitals and clinics); and to pay attention, however, to fixed payment upon medical consultation in the case of low-income earners
 - d) **Others**
 - To examine the total accumulation system and measures for low-income earners and regressivity, etc.
 - To further promote the use of generic medicines, to review the medicinal costs to be borne by patients, and to review the government support to the national health insurance association
 - To review the medical system for the elderly (to establish a burden system that is fair to both the elderly generation and young generation, to introduce assistance calculation by total remuneration rate, and to review the self-pay burden)

Amount required
(Public expenditures)
2015

Up to about
almost
1 trillion yen

III Pension

- To promote discussions and environmental improvement for a national consensus and to strive for the realization of the “establishment of new pension system”

- Earnings-related pension (social insurance system) and minimum-guaranteed pension (tax financed)

- To improve the current system in line with the right direction of pension reform

- To strengthen the minimum-guarantee function and to review the pension for high-income earners
- To expand the application of the employee’s pension to part-time workers, to review the system of No.3 insured persons, to review the old-age pension for active employees, to exempt payment of insurance premium during the period of child-care leave, and to unify employees’ pensions
- To examine the macroeconomic slide, increase in the pension eligibility age, and increase in the upper limit of standard remuneration

Amount required
(Public expenditures)
2015

Up to about
0.6 trillion
yen

- To rationalize operations (to improve operations and systems)

(Note) Through the measures under the Comprehensive Reform of the Tax System, the financial resources for one-half of the national government’s contribution to the basic pension will be obtained. The necessary measures will be taken so that proper budget allocation is made each year until the implementation of the Comprehensive Reform of the Tax System.

Total of the above amounts required in FY2015 (Public expenditures) = About 2.7 trillion yen

IV Employment promotion

- With the aim of realizing a society with participation of all the people, we will actively work to secure stable employment for young people, to eliminate the M-shaped curve of the women’s employment rate, to create a society in which people can continue working regardless of their age, and to promote the employment of disabled persons

- To seek to realize decent work (human work with job satisfaction)

- To examine the financial resources of employment insurance and the job-seeker support system, in consideration of the provisions of related laws

V Items to be enhanced, prioritized, and rationalized, other than I to IV

· To improve the service infrastructure; to promote medical innovation; to establish a secondary safety-net; to review public assistance (enhancement, prioritization and rationalization); to enhance the measures for disabled; to examine the measures for intractable diseases; and to present a new, reassuring community model in the context of recovery from the earthquake disaster

· Take measures to establish an educational environment, to ensure the quality of education and equal opportunity in addition to the social security system reform

VI Local independent projects

- Implement local independent projects related to social security according to the actual circumstances of local communities.

(note) As for the current cost estimate for social security benefits, the fundamental statistics basically do not include local independent projects. From now on we will study the whole condition and will comprehensively sort out the entire picture and estimated costs of the social security benefits including the local independent projects.

Basic framework to secure stable financial resources for social security

(1) To secure stable financial resources for the social security system by using consumption tax revenue as the main financial resource

- (national and local) consumption taxation will be secured as the main financial resource for the public expenditures required for social security benefits
- As for the national consumption tax revenue is currently allocated to the three costs for the elderly under the general budget provisions. In the future, on the basis of the three costs for the elderly, we will expand the fields that are to be allocated to the “costs required for the social security benefits under the established systems of pension, medical care, and long-term care and the measures to deal with the falling birthrate”.
- Considering the relationship between the scale of the consumption tax revenue and these costs, we will seek to enhance both the national and local consumption tax revenues in order to secure stable financial resources for social security.

(2) To make clear the use of the consumption tax revenue

- All the (national and local) consumption tax revenues (excluding the current local consumption tax) will be used for the people and will not be used for the enlargement of the bureaucracy. We will clarify the purpose of use of the consumption tax revenue by fully implementing divisional accounting, etc.; from a legal standpoint and an accounting standpoint, it will be clarified that the consumption tax revenue will be in principle used for the purpose of social security (the consumption tax revenue will be the financial resource for social security).
- In the future, the (national and local) consumption tax revenues will be secured as the main and stable financial resources of the whole public expenditure for social security benefits.

(3) To secure stable financial resources for social security benefits provided by the national and local governments

- As for the current (national and local) consumption tax revenues, the allocation of consumption tax revenues to the national and local governments (the tax allocation to the local governments includes the current local consumption tax and the part of the current national consumption tax that is allocated to the local governments by the local tax grant ratio) and the basic framework of the tax allocation to the local governments will not be changed.
- An increased part of the (national and local) consumption tax revenues will be allocated in accordance with the role sharing between the national government and local government for social security benefits within the fields as described in (1) above.
- In the light of the concept of securing stable financial resources under social security reform this time, we will comprehensively sort out the entire picture and estimated costs of the social security benefits including the local independent projects and implement the reform of local tax systems etc. in the comprehensive reform of the tax system in order to secure the necessary and stable financial resources for local independent projects.

(4) To gradually increase the Consumption tax rate

- As a first step towards securing stable financial resources sufficient for the scale of total social security benefits, raise the Consumption tax rate (national and local) in stages to 10% by the middle of 2010's, to secure stable financial resources urgently required for the Comprehensive Reform of Social Security.

Simultaneous achievement of securing stable financial resources for social security reform and fiscal consolidation

- The social security reform this time aims for the “strengthening of functions of social security” and “maintaining of the functions: securing of sustainability of the system.” Both targets can be achieved only by simultaneously achieving to secure financial resources for social security reform and ensure fiscal consolidation.
- As per this way of thinking, we will, under the Comprehensive Reform of Social Security and Tax, simultaneously achieve fiscal consolidation by securing stable financial resources for social security benefits.
- Specifically, we will, as a first step towards securing stable financial resources sufficient for the scale of total social security benefits, raise the Consumption tax rate (national and local) in stages to 10% by the middle of 2010’s. This increase in the national and local consumption tax rates will cover the following costs:
 - costs required for “strengthening of the functions”
 - costs to be increased because of the aging population, etc.
 - costs required in order to ensure that the national government’s burden regarding the basic pension will be increased to 50%
 - costs required for “maintaining of the functions” that are shifted to the future generations
 - costs required for the increase in social security expenditures, etc., associated with the increase in the consumption tax rate.

In this way, we aim to secure stable financial resources for social security.

- On the basis of these measures, we will seek to achieve the target of fiscal consolidation by FY2015 ; this will be the milestone for the “simultaneous achievement of securing stable financial resources for social security and fiscal consolidation.”

The Comprehensive Reform of the Tax System

(1) Individual Income Taxation

- Review various tax deductions and the tax rate structure from the viewpoint of alleviating disparities and restoring its income redistribution function
- Conduct a study of refundable tax credits in conjunction with a review of the related social security system on the premise of the introduction of a single identification number system for capturing income
- Promote the integration of taxation on financial income with regard to the taxation of financial and securities transactions

(2) Corporation Taxation

- Reduce the effective corporate income tax rate in conjunction with a tax-base broadening (as well as the preferential corporate tax rate for small or medium-sized enterprises) from the perspective of maintaining and enhancing international competitiveness, securing and promoting the establishment of foreign businesses in Japan, and promoting employment and domestic investment

(3) Consumption taxation

- Amend (national and local) Consumption Tax provisions, in accordance with this plan. As for the issue of regressivity, consider prioritizing an expenditure scheme, rather than multiple tax rates, as the basis for its comprehensive measures, when the tax rate reaches a certain level and countermeasures should become necessary, in consideration of the redistribution of the tax and social security system overall.
- Examine issues in the relationships between Consumption Tax and individual excise taxes in addition to promoting fairness of taxation to ensure the reliability of Consumption Tax
- Introduce taxation for controlling the emission of energy-originated CO2 from the viewpoint of mitigating global warming. Also conduct a study of ways to secure revenue sources for local governments to promote their global warming countermeasures in a comprehensive way. Consider a review of automobile taxes to make the tax system simpler and “greener” and to reduce the taxpayers’ burden.

(4) Property Taxation

- Consider optimizing the property tax burden by reviewing the inheritance tax base and tax rate structure from the viewpoint of alleviating descendent disparities and restoring its income redistribution function. Also reducing gift taxes.

(5) Local taxation systems

- Move forward with the construction of local taxation systems that provide stable revenue and whose revenue gaps among jurisdictions are small. To this end, we will review local corporate taxation, and will consider enhancing the local consumption tax system from the perspective of promoting government decentralization and securing central and local government stable revenue sources for social security programs.

(6) Others

- Facilitate tax compliance and enforcement, including the introduction of the common number system for social security and tax and so on.

In line with the direction described above, we are engaging in urgently required reforms as part of the drastic reform of the taxation systems, under the taxation system reform of 2010 and 2011. We will continuously aim for the earlier realization of the taxation system revision in 2011 as currently deliberated in the Diet.

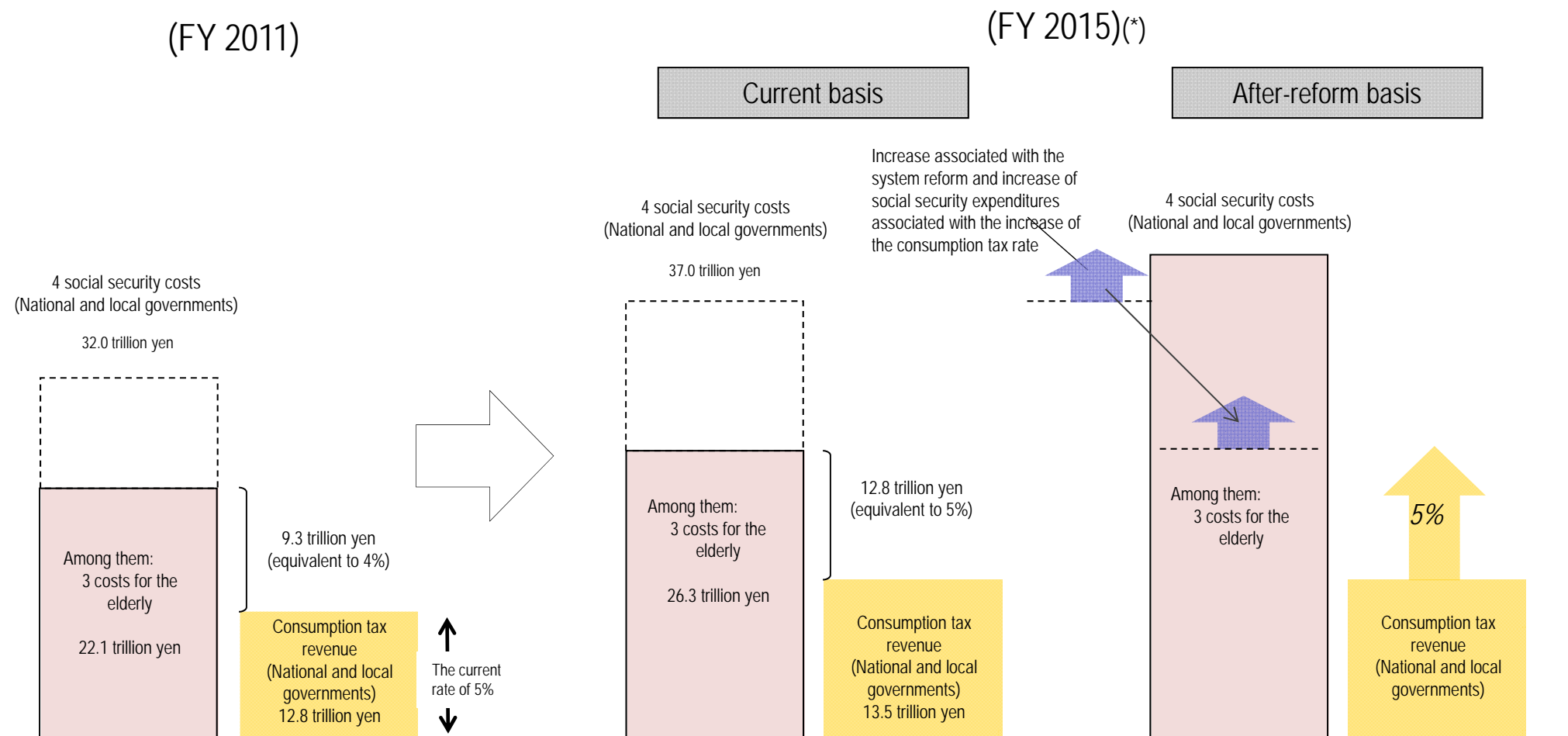
Schedule of the Comprehensive Reform of Social Security and Tax

- For the comprehensive reform of the social security and taxation systems, we will have sincere discussions at the “discussion forum between the national and local governments” and will smoothly and steadily promote the reforms at the national and local levels.
- Along with the Comprehensive Reform of the Tax System, the social security reform will sequentially be implemented without delay in each area, according to the schedule.
- For the Comprehensive Reform of the Tax System, the government and Bank of Japan will work together to overcome deflation and revitalize the economy; in order to implement without delay the Comprehensive Reform of the Tax system, including Consumption tax, on the condition that the economic situation is improved through the measures above, the government will take the necessary legislative measures in FY2011 in accordance with the roadmap as described in Article 104 of the supplementary provisions of the Tax Reform Act 2009.
- The “improvement of the economic situation” will be comprehensively judged by checking the status of improvement of various economic indices such as the nominal and real growth rates and by assessing the process of economic recovery from the impact of the Great East Japan Earthquake, etc. and trends in the international economy, etc. Upon the implementation of the Comprehensive Reform of the Tax System, we will formulate an arrangement that can flexibly respond to unpredicted economic fluctuation. The necessary measures described above will be substantiated at the time of legislation, after adequate examination, including consideration of reference economic indices and their figures, by the government and ruling parties.
- On the basis of the schedule described above, we will strengthen the measures for the reduction of the Diet seats, the reduction of personal expenses relating to public servants, unremitting administrative reforms such as the reform of special accounts and public procurement reform, and thorough elimination of wasteful expenditures with effectively revising budget, etc.; we will promote the reform of the social security and taxation systems comprehensively, by gaining understanding and cooperation from the people.

Policies for overcoming deflation and the realization of a virtuous cycle with economic growth

- In order to overcome deflation, the government will strongly and comprehensively make policy efforts to the utmost extent. While maintaining close information exchange and collaboration with the Bank of Japan, the government expects that the Bank of Japan will support the economy through appropriate and flexible monetary policy management. By such efforts, we will put the Japanese economy on the track of full-scale growth.
- Through the Comprehensive Reform of Social Security and Tax, a potential demand will be realized in the social security area; the establishment of a dependable social security system will lead to employment creation and the expansion of consumption; such a virtuous cycle will contribute to economic growth and a stable increase of the prices.
- Social security has functions to contribute to economic growth in the aspects of both demand and supply. We will promote several reforms from the standpoint of improving the convenience of the users and the people and developing new industrial fields; these reforms include the improvement of the environment for employment creation in the medical care and long-term care fields and for the creation of new private services, appropriation of social security costs by effectively using technologies such as ICT, improvement of service quality, promotion of medical care innovation and life innovation, earlier elimination of drug lag and device lag, improvement of operations of the advanced medical care system, promotion of new participation by diversified business entities including private corporations, and creation of the “New Public Commons.”

Appendix - Basic framework of securing stable financial resources for social security



(*) Under the Proposal, it is stated that “we will raise the Consumption tax rate(national and local) in stages to 10% by the middle of 2010’s, to secure stable financial resources urgently required for the social security reform.”

(Note1) As for the consumption tax revenues, the national revenue is currently allocated to the 3 costs for the elderly under the general budget provisions, and the local revenue is used as general financial resources.

(Note2) The specific areas to which the (national) consumption tax revenue will be allocated (as of FY 2015) will be examined in the future, considering the 3 costs for the elderly as the basics.

(Note3) The 4 social security costs mean the government contribution for social security benefits and the “costs required for the social security benefits under established systems of pension, medical care, and long-term care and the measures to deal with the falling birthrate” (Article 104 of the supplementary provisions of the Tax Reform Act of 2009). The required amount is estimated by the Ministry of Health, Labour and Welfare (as of May 2011). Basically, the amount does not include local independent projects; we will examine the whole status of local independent projects and comprehensively sort out the entire picture and cost estimate of the social security benefits, including local independent projects.

(Note4) The consumption tax revenue in FY 2015 is estimated on the basis of the “Medium and Long Term Estimate for Economic and Fiscal Policies” by the Cabinet Office (January 2011) (to be revised in the middle of 2011).

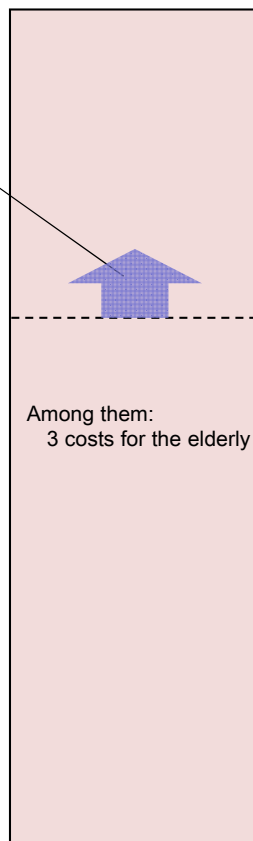
Appendix - Securing of stable financial resources for social security reform

(FY 2015)(*)

After-reform basis

4 social security costs
(National and local governments)

Increase associated with the system reform and increase of social security expenditures associated with the increase of consumption tax rate



Among them:
3 costs for the elderly

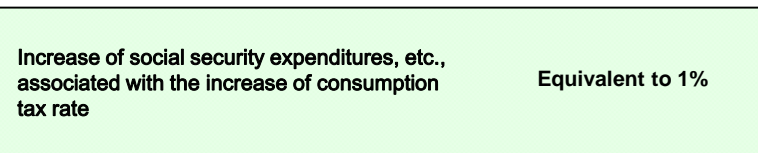
(National and local governments)



Consumption tax revenue
(National and local governments)

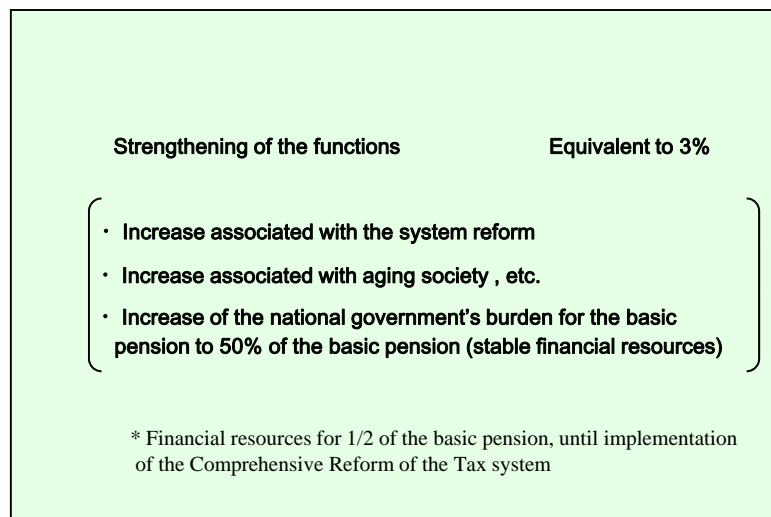
5%

Securing of stable financial resources equivalent to 5%



Increase of social security expenditures, etc., associated with the increase of consumption tax rate

Equivalent to 1%

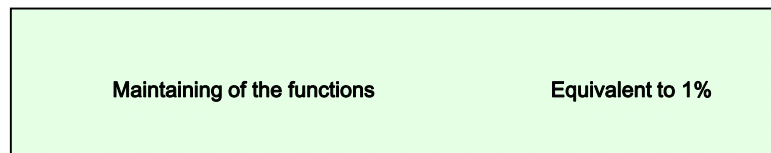


Strengthening of the functions

Equivalent to 3%

- Increase associated with the system reform
- Increase associated with aging society, etc.
- Increase of the national government's burden for the basic pension to 50% of the basic pension (stable financial resources)

* Financial resources for 1/2 of the basic pension, until implementation of the Comprehensive Reform of the Tax system



Maintaining of the functions

Equivalent to 1%

(*) Under the Definite Plan, it is stated that "we will raise the Consumption tax rate(national and local) in stages to 10% by the middle of 2010's, to secure stable financial resources urgently required for the social security reform."

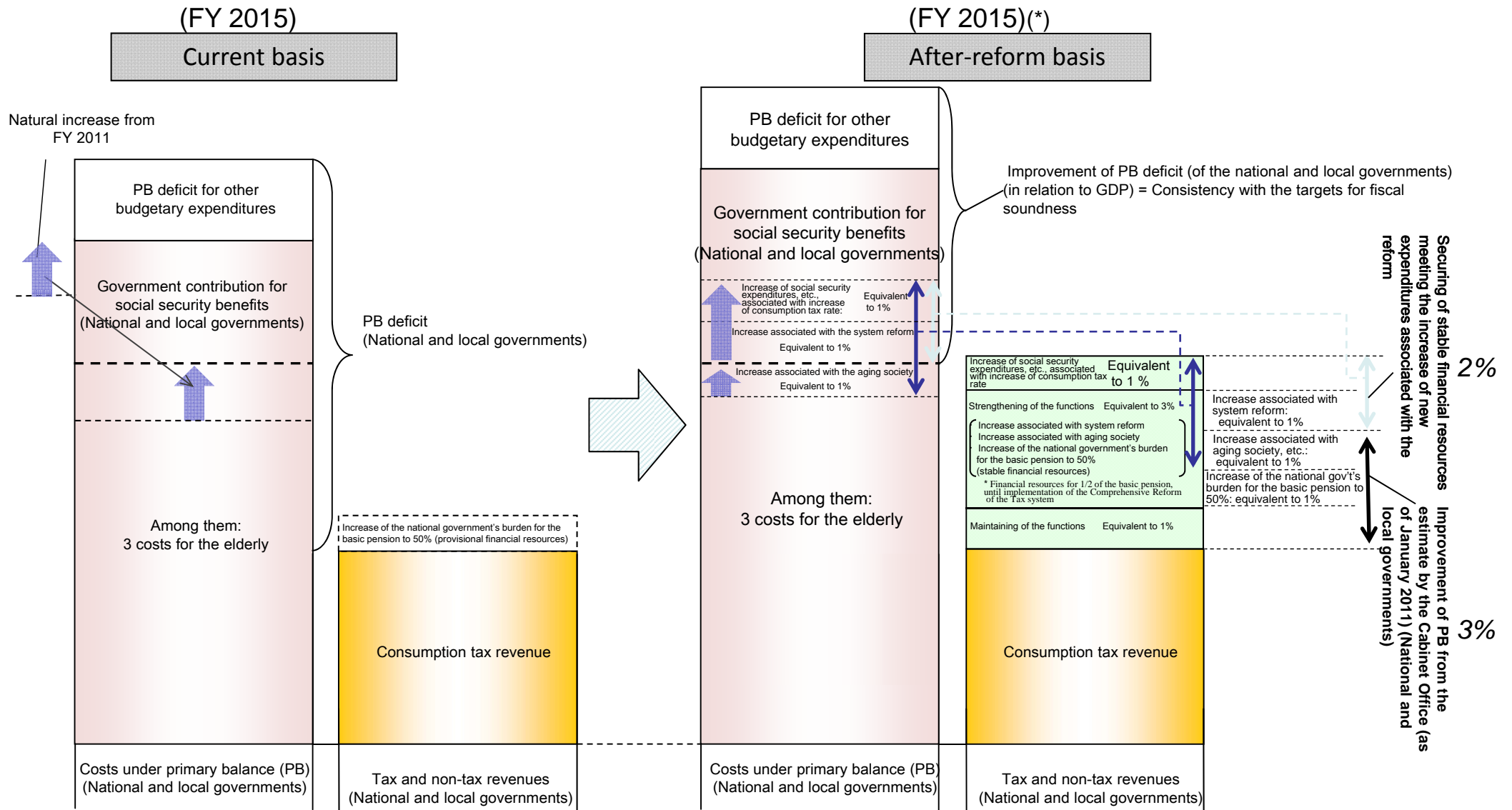
(Note1) The increase of social security expenditures, etc., associated with the increase of consumption tax rate includes commodity procurement expenditures by the national and local governments, which are to be increased after the increase of the consumption tax rate. The amount required is based on the estimate by the Ministry of Finance (as of May 2011) and must be closely examined in the budgetary process in each year in the future.

(Note2) The increase associated with the aging society etc. indicates a so-called natural increase, which exceeds the increase rate of economic growth.

(Note3) The amount of functional enhancement is based on the estimate by the Ministry of Health, Labour and Welfare (as of May 2011). The specific contents of the functional enhancement are as indicated in Appendix 2.

(Note4) The 4 social security costs mean the government contribution for social security benefits and the "costs required for the social security benefits under established systems of pension, medical care and long-term care and the measures to deal with the falling birthrate" (Article 104 of the supplementary provisions of the Tax Reform Act of 2009). The required amount is estimated by the Ministry of Health, Labour and Welfare (as of May 2011). Basically, the amount does not include local independent projects; we will examine the whole status of local independent projects and comprehensively sort out the entire picture and cost estimate of the social security benefits, including local independent projects.

Appendix - Simultaneous achievements of securing stable financial resources for social security reform and fiscal consolidation



(*) Under the Definite Plan, it is stated that "we will raise the Consumption tax rate(national and local) in stages to 10% by the middle of 2010's, to secure stable financial resources urgently required for the social security reform."

(Note1) In the fiscal soundness target under the "Fiscal Management Strategy" (Cabinet decision on June 22, 2010), it was decided that, for the national and local governments primary balance and for the national government primary balance, the deficit ratio to GDP shall be halved from the ratio in FY 2010 by FY 2015 at the latest, and the surplus shall be achieved by FY 2020 at the latest. According to the estimate for FY 2015 by the Cabinet Office (as of January 2011), the PB (of national and local governments) must be improved by about 3% (in consumption tax rate).

(Note2) The "increase associated with aging society" on the after-reform basis indicates a so-called natural increase, which exceeds the increase rate of economic growth (included in the "functional enhancement").

(Note3) Basically, the amount does not include local independent projects; we will examine the whole status of local independent projects and comprehensively sort out the entire picture and cost estimate of the social security benefits, including local independent projects