

Tax Updates in Japan

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Written by Hideaki Mitani, Vice-chairman,
Matsuoka Nobuaki, Member,
Goro Inoue, Member,
Kuniharu Hamachi, Member,
International Relations Dept.,
Japan Federation of Certified Public Tax Accountants' Associations

Japan's National Tax Electronic Filing (e-Tax): Current Situation and Issues

1. History of the e-Tax System

Japan's national tax electronic filing and payment system (commonly known as e-Tax) was launched in February 2004, first in the Nagoya Regional Taxation Bureau and then nationwide in June 2004. To prevent identity theft, electronic certification by a public personal authentication service is required to file a tax return through e-Tax. Initially, the electronic signatures of both the taxpayer and the *ZEIRISHI*, Certified Public Tax Accountant (referred to hereinafter as "*Zeirishi*"), were required. Since January 2007, however, the taxpayer's electronic signature is no longer necessary if the *Zeirishi* or the like submits the form on the taxpayer's behalf.

In February 2012, gift tax returns were added to the list of available procedures, and inheritance tax returns were added in October 2019. Starting in April 2021, large corporations with capital of 100 million yen or more are required to file electronically. In this way, the system continues to gradually expand its scope of application.

2. e-Tax Usage Rate

According to data from the National Tax Agency, 64.3 percent of Japanese taxpayers used e-Tax in 2020 to file income tax returns, 15.4 percent to file inheritance tax returns, and 88.4 percent to file corporate tax returns. Since electronic filing began in 2004, both the usage rate and the number of returns filed have steadily increased each year. However, compared to other countries, the usage rate is significantly lower (references 1 and 2).

Electronic filing of inheritance tax began in 2019, so 2020 is the first year for which data is available. A National Tax Agency survey indicates the satisfaction rate of e-Tax users is 67.5 percent.

3. Electronic Filing Usage Rates in Other Countries

USA: Individuals: 87% Corporations: 53%

UK: Individuals: 93.5% Corporations: Mandatory

Canada: Individuals: 90.6% Corporations: Over 90%

4. Issues Surrounding e-Tax

A comparison of the usage rates of electronic filing in other countries versus Japan reveals that use by individuals in Japan is clearly low. Increasing the usage of e-Tax among individual taxpayers is therefore an urgent issue.

To prevent identity theft when using e-Tax in Japan, individuals are authenticated through digital certificates for signatures issued by a public personal authentication service, which is stored in the IC chip of the user's individual number (My Number) card. An IC card reader is also required for authentication.

According to the National Tax Agency Survey (reference 3), the number one reason taxpayers give for not using e-Tax is the cost and hassle of obtaining an IC card reader (30.4 percent). The number two reason is the cost and hassle of obtaining an electronic certificate (24.7 percent). These two reasons account for over half of the reasons for not filing electronically.

Furthermore, as of June 1, 2022, only 44.7 percent of eligible residents have obtained a My Number card, which was first made available in January 2016. This shows that the card is not widely in use.

Some reasons for the lack of widespread use among the population include the fact that Japan introduced an individual identification number system over two decades later than other countries, and that obtaining a My Number card is not mandatory, but rather a matter of personal preference. There is no obligation to carry it at all times or any penalty for not being able to present it when requested. Additionally, driver's licenses are commonly used as ID, so the public does not feel the need for a My Number card.

To increase e-Tax use by individuals, the use of the My Number card must be expanded. The national government has begun taking various steps to make this happen. For example, My Number cards can now be used as an alternative to conventional health insurance cards. Additionally, the government launched a campaign to award MyNa points (worth up to 20,000 yen) for obtaining and using the My Number card. Discussions regarding the integration of the driver's license and My Number card in the near future have also begun.

As an alternative, the National Tax Agency introduced an ID/password system that does not require a My Number card as a temporary measure for three years starting in 2019. Under this system, taxpayers can visit a tax office to confirm their identity and get an ID and password issued that allows them to file electronically without the need for a My Number card. One disadvantage is that returns can only be filed using the National Tax Agency's system, the Tax Return Preparation Corner, not via other commercially available accounting software or the like. In addition, the tax office message box cannot be accessed without a My Number card, which means that notices of receipt and other notices from the tax office (such as scheduled tax payments) cannot be viewed. Since the National Tax Agency has not changed its stance in advocating for electronic filing through the use of My Number cards, this temporary system is only considered a provisional measure and is likely to be discontinued at some

point.

In regard to IC card readers, it is true that acquiring one costs money, so a tax incentive for filing electronically should be available to mitigate some of this cost. Currently, the blue return special deduction has been increased from 550,000 to 650,000 yen for returns that are filed electronically, but this means that the incentive is only available to blue return business income taxpayers. More individuals may use e-Tax if there were some incentives for non-business income earners.

[Reference 1]

FY		2017	2018	2019	2020	Year-on-year comparison
Category						
Major procedures	Income tax returns ①	54.5	57.9	59.9	64.3	+4.4
	Consumption tax returns (individual) ②	66.1	68.5	70.4	77.1	+6.7
	(Total of ① and ②)	55.1	58.5	60.4	64.9	+4.5
	Inheritance tax returns ③	-	-	-	15.4	-
	Corporate tax returns ④	80.0	84.3	87.1	88.4	+1.3
	Consumption tax returns (corporate) ⑤	81.6	82.6	86.8	88.0	+1.2
	Liquor tax returns ⑥	81.2	81.8	83.3	87.3	+4.0
	Stamp duty returns ⑦	59.2	60.8	60.9	63.5	+2.6
	(Total of ④ to ⑦)	80.0	82.9	86.2	87.6	+1.4
	Request for tax payment certificate ⑧	10.8	12.7	12.1	10.9	-1.2
	Withholding tax certificate for employment income, etc. (6 procedures) ⑨	59.5	61.7	63.7	66.7	+3.0
	Payment record for interest, etc. ⑩	23.1	21.3	22.5	25.5	+3.0
	Notification of commencement (change, etc.) of electronic tax return/tax payment, etc. ⑪	99.4	99.1	98.6	98.7	+0.1
	(Total of ⑧ to ⑪)	77.4	76.9	76.2	72.4	-3.8

[Reference 2]

FY		2017	2018	2019	2020	Year-on-year comparison %
Category						
Major procedures	Income tax returns ①	10,430,168	11,472,798	12,435,802	14,220,417	114.4
	Consumption tax returns (individual) ②	745,056	770,681	805,431	897,514	111.4
	(Total of ① and ②)	11,175,224	12,243,479	13,241,233	15,117,931	114.2
	Inheritance tax returns ③	-	-	-	20,824	-
	Corporate tax returns ④	2,128,054	2,268,473	2,368,882	2,424,547	102.3
	Consumption tax returns (corporate) ⑤	1,624,911	1,655,396	1,725,177	1,749,338	101.4
	Liquor tax returns ⑥	35,299	35,952	37,362	37,877	101.4
	Stamp duty returns ⑦	84,287	86,527	86,173	88,760	103.0
	(Total of ④ to ⑦)	3,872,551	4,046,348	4,217,594	4,300,522	102.0
	Request for tax payment certificate ⑧	150,104	185,854	174,356	247,718	142.1
	Withholding tax certificate for employment income, etc. (6 procedures) ⑨	2,188,589	2,283,195	2,364,734	2,488,775	105.2
	Payment record for interest, etc. ⑩	13,778	8,161	7,562	7,493	99.1
	Notification of commencement (change, etc.) of electronic tax return/tax payment, etc. ⑪	7,316,619	6,790,648	6,212,791	6,103,817	98.2
	(Total of ⑧ to ⑪)	9,669,090	9,267,858	8,759,443	8,847,803	101.0
Total of all major procedures (① to ⑪) ⑫		24,716,865	25,557,685	26,218,270	28,287,080	107.9
Applications, notification, etc. other than ⑫ above ⑬		5,518,884	5,208,659	7,914,376	11,397,759	144.0
Payment procedures ⑭		5,817,975	6,827,436	8,128,964	10,349,950	127.3
Total (of ⑫ to ⑭)		36,053,724	37,593,780	42,261,610	50,034,789	118.4

[Reference 3]

