

Study on the Type of the type of wealth and tax

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Abstract: The Japanese economy is facing a new phase from a long-term recession over the past 30 years to an annual economic growth of around 2%. With the recovery of the Japanese economy, not only foreigners but also Japanese capital are returning to Japan. Already, the Japanese Composite Stock Price Index has exceeded 39000 points before the bubble burst. Changes in the yen exchange rate are also inducing the inflow of foreign capital into Japan. In this economic trend, investors are paying attention to the Japanese capital market, and in particular, the wealthy in Japan are focusing on the Japanese domestic market to increase their assets. In particular, the Japanese financial market is attracting attention as a relatively safe asset due to the unstable environment at home and abroad. According to this trend, asset management of the wealthy in Japan is also carried out in various ways. Sometimes there are considerable losses due to asset management failures. That is why it has emerged recently to use various tax savings. Companies and individuals show the same behavior, but on the contrary, the government sometimes strengthens monitoring in various ways to prevent a decrease in tax revenue. This phenomenon has recently become common in Japan. This paper will help the wealthy in Japan understand their asset management and the Japanese government's response by examining the types of asset management and measures to manage assets through tax savings. It is also expected that problems with asset management and implications for government policies will be used as reference for various countries. Therefore, this paper will focus on the asset management and tax savings of the wealthy in Japan.

Keywords: Japan's wealthy, wealth management, asset growth, tax savings, investment types, tax avoidance

1. Definition of the Japanese Wealthy

Although there is no clear definition of the term wealthy, it generally refers to those who have a lot of money and assets, but it is not defined how much they actually have to have. According to the definition of the wealthy by the NOMURA General Research Institute in Japan, those who hold net financial assets (the sum of financial assets held by households, such as deposits and installment savings, stocks, investment trusts, and life insurance, minus liabilities) are defined as those who hold more than 100 million yen and less than 500 million yen^[1].

Table 1 The hierarchical structure of the wealthy in Japan

Classes by asset	net financial assets held by households	Amount of assets held the size of a household
a super-rich layer	more than 500 million yen	105 trillion yen (9.0 million households)
the upper class	More than 100 million yen to less than 500 million yen	259 trillion yen (1395,000 households)
the semi-wealthy class	More than 50 million yen to less than 100 million yen	258 trillion yen (3254,000 households)
Upper Mass	More than 30 million yen to less than 50 million yen	332 trillion yen (726.3 million households)

Mass	less than 30 million yen	678 trillion yen (4213.2 million households)
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Data: NOMURA General Research Institute (2020), a research report on the wealthy in Japan

In Table 1, less than 30 million yen of net financial assets belong to the Mass layer, and in Japan, 78% of households belong to this class. Most of them can be seen as salary men belonging to the Mass layer. The characteristic of the Upper Mass layer, which salary workers want to take to the next level, is that they were originally the Mass layer, but their assets increased due to asset management. This includes groups that have inherited assets from their parents. Most of the Upper Mass's jobs are professional professions, and include lawyers, doctors, certified public accountants, high-level company officials, and foreign-funded employees. They are increasing their additional income from non-working income through stocks, bonds, and real estate investment. The characteristics of the Upper Mass layer and people at higher levels are, first, a strong health consciousness. They have a stronger health consciousness than the Mass layer. There is a consciousness that you must be healthy to not pay unnecessarily for hospital expenses. Second, thoughts are positive. Physical health soon leads to mental health. They are not afraid of failure, see a crisis as an opportunity, and accept it as an opportunity. Third, they judge their essential values. The basics of what is valuable in assets are clear. They are people who make a judgment by absolutely thinking about whether it will be beneficial to them or not, not the general evaluation of high value = value. If you are a Mass layer, you must first continue to increase your assets without reducing your accumulated assets to join the Upper Mass layer. They think that real estate is the answer to increasing assets. There is a strong belief that real estate is directed upward.

The NOMURA Comprehensive Research Institute estimates and publishes the number of households and assets of the wealthy in Japan every year, and the number of households with net financial assets of more than 100 million yen and less than 500 million yen reaches 1.39 million households. The rich with more than 500 million yen in net financial assets is 9 million households, and the two groups together amount to 1.48 million households, which accounts for only 2% of all households. The net financial assets of these wealthy and excess wealthy people amount to 364 trillion yen (\$2.37 trillion).

The number of wealthy people estimated by the NOMURA Research Institute (NRI) has been increasing every year since 2013. Compared to the time of 2019, the number of households in Japan increased by 158,000. It is analyzed that some of the wealthy have moved (more than 50 million yen and less than 100 million yen) due to financial easing and rising stock prices^[2]. This phenomenon is the same as the contents of a survey of the wealthy by the British investment consulting firm Henley & Partners. The company counts the number of wealthy people with assets that can invest more than 1 million dollars (about 140 million yen) by major cities in the world. At the end of 2022, Tokyo was second to New York City in the U.S., with 290,300 people <Table 2>. However, Japan fell by 5%. This seems to be the movement of assets due to overseas migration. What is also noteworthy is that most of these wealthy groups are business executives. According to a survey by the NOMURA Research Institute, about a third of Japan's wealthy with financial assets of 100 to 500 million yen are entrepreneurs. This is not irrelevant to the annual increase in start-ups against the background of the increase in the wealthy. According to the Tokyo Research Institute of Commerce and Industry, the number of newly established corporations in 2021 was the highest in the past with 144,622 companies. Therefore, successful start-ups is also the gateway to the wealthy joining.

Table 2 Status and rate of increase/decrease of the wealthy in each country

Ranking	City	the wealthy (people)	the super- wealthy(people)	Compared to 2012 Increase/decrease rate (%)
1	New York	340,000	724	40
2	Tokyo	290,000	250	Δ5
3	Bay Area	285,000	629	68
4	London	258,000	384	Δ15
5	Singapore	240,100	329	40
6	Los Angeles	205,400	480	35
7	Hong Kong	129,500	290	Δ27
8	Beijing	128,200	354	70
9	Shanghai	127,200	332	72

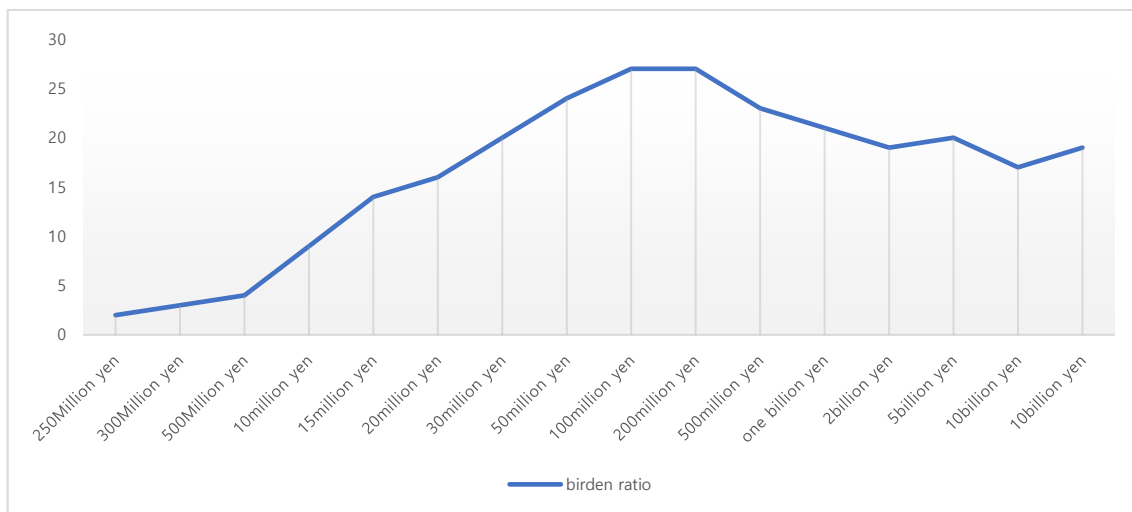
10	Sydney	126,900	184	35
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Data: NOMURA Comprehensive Laboratory (2020) Reports on the Japanese Rich

2. Status of asset growth

Meanwhile, due to rising interest rates, there are many wealthy people who actively invest in dollar bonds to prepare for high exchange rate returns. However, as they also experienced investment failures, rising interest rates increased financing costs. Funds flowing from investment funds to venture companies also saw their profits plunge in the United States and other countries. IPOs, which had been booming so far, became difficult. IPOs are high at 110 cases in 2022, but they declined in 2023. The rate of decline reached 17%. Whether it was a global financial crisis or a 32% decline in 2009, this has changed rapidly. Venture business managers tried for IPOs, but the number of companies selling companies canceled their listing plans due to deteriorating market environment.

Graph 1 Trends in the tax burden rate for high-income earners (%)



Data: Japan's Ministry of Finance (2022) Survey of 2021 National Tax Default Rate

Amid the fluctuations in the global financial market following the Corona epidemic, the wealthy preferred to invest in U.S. stocks. According to the representative stock index S&P 500, the average annual interest rate for 10 years until 2019 is more than 11%. If you hold an ETF (listed investment trust) linked with the same year for 10 years, the asset value will be about three times higher. From 2020, among U.S. stocks, there has been a lot of investment in high-tech stocks, including GAFAM. The Nasdaq Composite Index, which represents an indicator of high-tech stocks, has risen sharply to about 30% over two years, with the wealthy increasing their investment.

There was also a phenomenon that the wealthy avoided taxation due to changes in asset value. In 2021 (July 2021 to June 2022), the amount of reported missing income per case of the wealthy reached 37.6 billion yen. It increased to 66% compared to the previous year. Graph 1 In particular, when limited to the wealthy doing overseas transactions, the amount of additional tax per case increased 3.3 times compared to the previous year. Compared to other general income tax additional taxes, the wealthy were found to be 9.1 times higher.

3. Type of asset growth

Asset management is the process of maximizing profits and minimizing risk by operating the assets held by investors as efficiently as possible. The wealthy in Japan have been interested in asset management and investment in a variety of ways.

3.1 The purchase of dollar bonds

At the end of the COVID-19 epidemic, the interest of the wealthy increased investment in US dollar bonds. In 2023, the number of consultations with the health partner corporation on US dollar bonds

increased fivefold compared to the previous year. There are two main causes. The first is the high interest rate. The interest rate on US long-term bonds is 3.7% in the first half of 2022, the highest level in 12 years. When the interest rate on US bonds rises, interest rates on other bonds, such as bonds of US companies, inevitably rise. For that reason, even bonds with relatively high credit ratings of A and BBB received an interest rate of 5-6%. The second is the strong dollar. In 2022, the foreign exchange rate was around \$1 = 115 yen, but the dollar value rose to 151 yen in October of the same year due to the US interest rate hike.

Originally, there was a custom of the wealthy in Japan to hold most of their assets in yen. In addition, almost all of their income tried to suppress the risk of a decline in the yen's value and to receive high dollar profits by converting a certain amount of assets into dollar products for the yen. In fact, at the end of 2022, such a phenomenon was confirmed. The Bank of Japan's interest rate hike temporarily raised the yen and the dollar fell. When the dollar's value falls, the yen base falls, making customers nervous. The Bank of Japan's money supply temporarily raised the yen's value and the dollar's value fell, giving the wealthy an opportunity for dollar assets. Interest in long-term bonds also was high. Long-term bonds mean more than 10 years until the principal returns. Long-term bonds have a large price increase when market interest rates fall. Amid the realization of the U.S. interest rate cut, many wealthy investments aimed at investment profits when interest rates fall due to long-term bond investment. Since 2022, when global inflation was in progress, there have been not a few wealthy people with investment losses due to market fluctuations. In a situation where asset management is difficult, investment and tax savings by the wealthy have become more important.

3.2 Subordinated bonds abroad

Second, the type is subordinated overseas bonds. In a situation where interest rates are rising, the dollar can receive higher interest than yen bonds. On the list of the 2024 National Securities Conference in Japan, dollar-denominated subordinated bonds issued by overseas banks are permanent subordinated bonds. Subordinated bonds are subordinated bonds to ordinary bonds when the issuing company goes bankrupt. Among them, permanent subordinated bonds have no fixed maturity, such as 5 or 10 years later. For that reason, the investment risk is high, so the interest is relatively high, but it is a dangerous product. There are 6-7 of these risk products, but there are bonds with high interest rates of more than 10%. For example, it is a permanent subordinate bond of Swiss financial Credit Suisse Group. The other name is ATI bonds. Credit Suisse is a global financial group. The bond was bought by many wealthy people because it had a high interest rate of 10%. However, the value disappeared in March 2024. Credit Suisse agreed to purchase through stock exchange with UBS Group in Switzerland due to high management instability. Moreover, it received liquidity support (temporary funding) from the central bank's Swiss National Bank. The Swiss Federal Financial Market Supervisory Organization judged that such support measures were not worthwhile, as they violated the principal reduction provisions stipulating Credit Suisse's ATI bonds. The total amount of ATI bonds that have lost value is about 16 billion Swiss francs. It amounted to about \$15.3 billion. According to a survey by the Japanese Financial Services Agency, it purchased about \$890 million, mainly from the wealthy in Japan. For MITUBISI UFJ Morgan Stanley Securities, which sold about \$650 million of them, the Japanese Financial Services Agency ordered a customer response report.

3.3 Structured Note

In 2023, the Japanese domestic market was confused. KOEI TECMO HOLDINGS, which develops game

Software, lost \$26 million due to investment in ATI bonds. Class action by the victim's wealthy also began to expand. What was noted is the issue of responsibility for securities companies to explain the risk of principal reduction clauses to some extent. According to the contract document, there are two conditions in the column below the principal reduction clause: when the ratio of CETI (Tier1^[3] such as ordinary stock) is less than 7% (when accepting support from a processing agency). The latter (receiving support) does not seem to have a problem, but it is also true that the securities company that sold paid attention only to the CETI ratio. There was a lack of clear explanation even for the support from public institutions.

The Japanese Financial Services Agency points out the loss of Structured Notes (special bonds, financial derivatives) among hospitalized customers who are damaged by ATI bonds. Structured Notes are financial products that combine bonds and derivative^[4] transactions. Derivative transactions are

bonds but are high-risk products because of large price fluctuations in conjunction with individual stock prices, stock indices, and exchange rates. Due to the complex product design, investment beginners are dangerous products. Local banks sold it as a product with high interest rates. ATI bonds were a product popular in the securities industry to avoid regulation. That's why it became a problem.

3.4 Real estate investment

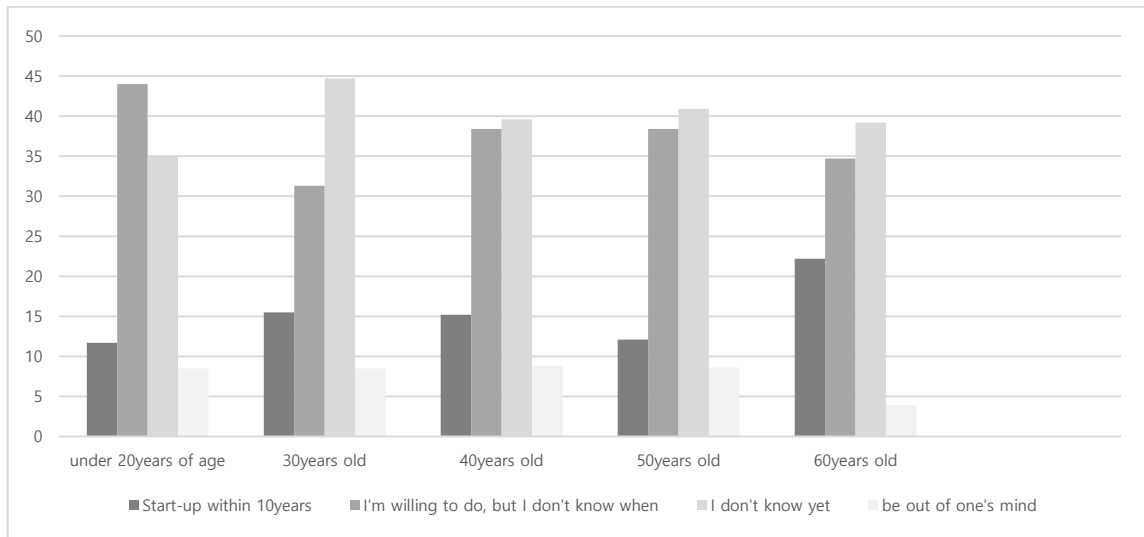
Real estate has been recognized as a highly attractive product. This is because real estate is generally curved upward. Japan is no exception. For example, individual investors in houses were immediately resold without occupancy, whether used as an athlete's village for the Tokyo Olympics and Paralympics in Japan. The winning rate is 111 times the maximum magnification. The initial sale price was 50% higher than at the time of sale. Even considering the economic situation and taxes, the profit margin on sale was high. Originally, the Paralympic apartments were relatively inexpensive. MITUI real estate operators acquired a vast athletes' village of about 13.4 hectares at a relatively low price of 12.9 billion yen and 60 million yen (flat 320,000 yen). Since the sale price was cheaper than the surrounding market price, there were many investments not only from end users but also from the wealthy. Due to overheated investment, the operator limited the probability of winning the first applicant requested by the buyer to twice and reduced the probability to half after the second wish. In addition, for tower apartments that began sale in 2023, applications were limited to two houses per person. There was also an effectiveness problem because the purchase of new apartments was not limited, but it is not an offense to resell new apartments. It is difficult for the business operator to determine whether the buyer wants to resell the MITUI real estate, an apartment sales manager. It is not only Olympic apartments for the disabled that are being resold. The number of items to be sold within two years after completion has increased again since 2021. Investment in large-scale high-priced items centered on Tokyo also increased. This is centered on the wealthy. The wealthy, who predicted inflation, moved their financial assets to in-kind assets such as real estate. It is not uncommon for the wealthy to have multiple expensive apartments in Japan.

3.5 A boom in senior start-ups

In 2022, the start-up boom weakened. This is because financing costs increased as interest rate hikes continued due to global inflation caused by the outbreak of the COVID-19 pandemic. Therefore, the supply of start-up loans has begun to weaken rapidly. Most start-ups have become more and more difficult to list their stocks due to the high difficulty of financing for business abuse. In addition, what has come as a headwind is the issue of (trust-type stock option) (stock purchase right, SO).

When the Japanese National Tax Service purchases trust-type SO stocks, the economic profit is recognized as salary income, and the taxation policy was an opportunity. SO is the right to purchase stocks at a predetermined price. After being granted to employees, when the company grows and the stock price rises, the employee's assets also increase. It has been expanded and used in start-up companies as a method of hiring talent. In particular, trust-type SO is a system that distributes stock purchase rights entrusted to a trust company according to the work capabilities of employees. It is good to use because the purchase price of stocks does not go up and down depending on the timing assigned differently from the existing SO. Start-up companies that have introduced trust-type SO have a perception that the tax rate borne by employees is about 20% of the capital gains from the sale of stocks. However, when taxed as salary income, the tax rate rises to 55%. The tax burden on companies and employees increases. It is a headwind for start-up companies that want to continue growing due to the increase in the number of people.

Graph 2 Survey of senior entrepreneurial consciousness (%)



Data: Japanese Policy Financial Institutions (2022) Report on 2021 Start-up Consciousness Survey

Although financing has become difficult or new tax problems have emerged, the entrepreneurial craze among the 60-year-old is increasing every year. In Graph 2, a survey by Japanese policy and financial institutions surveyed the start-up plans for those interested in starting a business. 56.9% of the respondents who answered (starting a business within 10 years) and (want to start a business) were in their 60s, higher than 55.7% of those in their 20s and younger, which was the highest by age group. In the same survey in 2017, those in their 60s were 35.5%, the lowest by age group. It has risen by more than 20% in the last five years. It seems to be due to various factors such as changes in values through the Corona epidemic as the pension age has increased, and tax support by the government. It seems that start-ups have been expanded mainly for the elderly by connecting senior talents and start-up companies to support the improvement of the internal management system. In 2023, the government expanded the open innovation^[5] promotion system to start-up companies.

4. Types of tax savings for the wealthy

4.1 Utilization of depreciation

The wealthy are particularly interested in tax savings when their holdings decrease. For example, tax savings through the use of depreciation are increasing. The representative one is the use of lease. The use of lease was prohibited due to the tax amendment (2022). Nevertheless, the wealthy are using it a lot. Let's see why.

First of all, the basic scaffolding used in construction work is assembled using construction materials such as metal pipes and metal tools. To illustrate this by likening it, tax evaluation is carried out per material, and in most cases, each material is less than 100,000 yen. If it was a business asset of less than 100,000 yen, it was a small depreciation asset, and the entire cost was treated as a loss by 2021, enabling tax savings. For example, even if millions of construction scaffolding materials were purchased, each material was less than 100,000 yen, so the entire acquisition cost for the year was treated as a loss. However, due to the ban (2022), the total loss was not processed after that. However, it is possible to continue handling losses if it is a period determined by the state (the number of legally usable years). In principle, the legal number of years that building materials such as building scaffolding can be used is three years. If you purchase a used product that has been used for more than three years, it can be depreciated for the shortest two years in tax. Although its usability as a tax-saving method has declined, it is still attractive to the wealthy that it can be depreciated in a short period of two years.

4.2 The use of life insurance

Another aspect of the National Tax Service's increased monitoring is the avoidance of taxation with life insurance that has been widely used by small and medium-sized business owners in the past. Income is often hidden by receiving refunds for cancellation violations such as regular insurance. If the

cancellation violation refund exceeds 1 million yen, the life insurance company must provide the payment details to the tax office. This had the effect of preventing income from being hidden. However, for example, 9 million yen for cancellation violation refunds is divided into 10 sessions and 900,000 yen each. Then, the insurance company does not have to provide the payment details, and the insurance recipient does not know the temporary income. Eventually, tax evasion becomes possible.

In the United States, tax avoidance emerged in the form of tax savings using overseas real estate. The house is decomposed into building parts and auxiliary facilities such as piping and home appliances for depreciation. The number of years available for wooden and residential buildings is about 22 years, but auxiliary facilities are short around 10 years. It is a method of reducing taxes by early accounting for a large amount of depreciation costs per year only when the building is subdivided by law.

4.3 Establishment of Public Interest Foundation

Japan, rather than Europe and America, has not yet taken root in its donation culture. For example, it is the establishment of a public interest foundation by donating from the wealthy. First of all, it is the case of establishing a family foundation. Japan's famous HasIMO Modern Art Museum is a public interest foundation established by the founder of Sports Products (HD). The founder creates an art museum that displays the art collected by him and donations it to the foundation. The HasIMO Foundation, whose second generation is the chairman of the board of directors, is currently the second largest shareholder of the Xebio Group. NOTORI HD and KEYENCE, listed companies in the founder's family, are scholarship foundations established by the founder as the shareholders of the company.

In principle, profits from public interest foundations are not corporate tax. In addition, when property is donated to a public interest foundation, taxable income deducted from income is reduced, and inheritance tax is not levied on donated property, so listed companies often use the public interest foundation to reduce taxes. However, the original purpose of the public interest foundation is to contribute to society through 23 types of projects with high public interest, such as art and sports.

4.4 The establishment of a fund

However, establishing a public interest foundation takes a long time and requires directors and councilors. Therefore, establishing a public interest foundation is complicated and difficult. However, the fund can be established in about two weeks, resources are unnecessary, and all projects linked to social contribution are targeted. As a result, fund consultations of more than 100 million yen are increasing rapidly recently. With 5 million yen, you can establish your own fund, and assets other than cash, such as stocks and real estate, are possible. Those who wish to donate can talk to the foundation staff about the field or business they want to apply for and design the fund.

The fund has a fixed-rate business every year for a certain period of time, and there is a continuous business that operates the operating profit for a long period of time in cases of more than 100 million yen. In Japan, individual donations are 60 million yen excluding local taxes. The Japan Philanthropy Foundation expects this to expand to 3 trillion yen over 10 years^[6]. Then, in order to expand the donation market, it is also important to evaluate whether the supported money is properly used in addition to the function of connecting donors and non-profit organizations. In other words, the supervisory function of the non-profit is necessary. On the one hand, there is a positive role for the foundation or fund of the wealthy, which means in areas not supported by the state or local government in financial difficulties, so the government needs to make efforts to prevent negative problems.

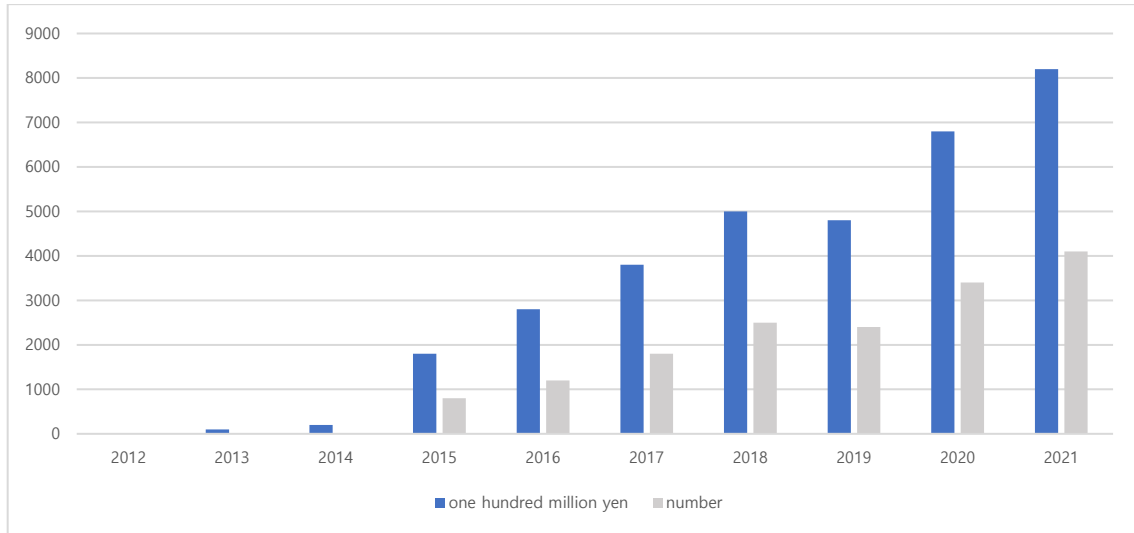
4.5 Hometown tax payment

The hometown tax payment is a law established to bridge the regional gap that began in 2008 in Japan, and is an area to be noted. In recent years, it is one of the donation tax systems aimed at bridging the gap in large cities, responding to tax reduction in population-reduced areas, and local development in an urban-intensive society. Donations to local governments are deducted as income tax or resident tax within the legally determined range. The presence of the wealthy in donations plays a big role in paying hometown tax. The amount of hometown tax paid is increasing every year. With the expansion of the market size, local governments are also interested in it.

Members' hometown tax payments are between 2 and 3 million yen per year (annual income: 50-70 million yen), but there are capitalists and managers who have increased by tens of millions of yen due to profits from stock selling. Depending on the family composition or lifestyle, if you wish to travel, you

will receive preferential treatment in the form of 30% for food and 70% for travel, and appreciation for local specialties will be given. It also deals with travel card points with no expiration date. Travel was difficult due to the Corona epidemic, and many people donate to local governments where they want to travel to receive points. There are also wealthy people who spend 1.5 million yen for three nights at a foreign-funded hotel in KYUTO CITY with a donation of 5 million yen.

Graph 3 Trends in the amount and number of home tax payments (billion yen)



Data: Japan's Ministry of Internal Affairs and Communications (2022) Survey on the Status of Home Tax Payment in 2021

A trust bank that operates a traditional household on a hometown tax payment site also started the concierge service for the wealthy five years ago. The number of concierge service inquiries is increasing every year. In addition to accommodation facilities, interest in craftwork making, fruit and vegetable cultivation experiences, and marine sports is increasing.

These systems are attracting attention as a new development method in the provinces, and the actions of the wealthy are attracting attention. The wealthy are highly interested in unique objects and experiences. Local governments are also explaining that and referring to the development of appreciated products. For hometown tax, the Japanese Ministry of Internal Affairs and Communications stipulates the upper limit of the discount on the amount of appreciated products on donations in 2019. This is because competition for appreciated products between local governments, which want to recruit a lot of donors, was overheated.

Competition is quiet on the surface due to the regulation of the reduction rate. However, local governments are trying to find a way out through hometown tax payments due to difficulties in local government finances due to a decrease in population. The trust bank established AINUS HD in 2022. It aims to revitalize the sustainable economy of the provinces by increasing the added value of local products and tourism resources, centering on three areas such as food, travel, and traditional technology.

Even if the places the wealthy want to go are in the provinces, they often do not have good accommodation. If the wealthy want to stay, they will also spend money on food and specialties. The most common use of travel is the accommodation cost, which is a catalyst for luxurious accommodation and the return of money from the city to the provinces.

UI, a travel business under AINUS, opened a luxury villa ^[7] in DOKUEIJIMA in 2024. In 2021, it was established in the village in solidarity with DOKUEIJIMA, which also allows visitors to see rare animals and plants registered as a World Natural Heritage site. The fare is 120,000 yen (5,500 yuan) per night, and you can get a one-night stay ticket with a hometown tax payment of over 400,000 yen (8,500 yuan). There are many inquiries about the private jet ^[8] that opens early. The hometown tax payment can be used to bring in the wealthy. The form of donation by the wealthy is increasing every year, so donations are expected to play a big role in regional development.

4.6 Immigration abroad

The pattern of overseas migration of the wealthy is changing. Until now, there have been many

migrations for the inheritance measures of the elderly generation or for the purpose of education for the children of the active generation. However, if you acquire permanent residence, you are not obligated to live and are not subject to inheritance tax. Migration is increasing for the purpose of avoiding taxation. Currently, the largest number of Japanese residents in the United States for more than 3 months including permanent residents is about 420,000, followed by China, Australia, Thailand, and Canada. In particular, immigration to Canada is increasing recently. This seems to have had an impact on foreign immigration policies due to the Canadian government's lack of skilled personnel in the fields of medical care and construction. The image of a country tolerant of foreign immigration served as a factor in increasing the immigration of the wealthy in Japan.

The United States is also popular as an immigrant destination for the wealthy. In Japan, 106 countries and regions, including the Multilateral Agreement (CRS), participate to exchange financial account information to prevent taxation of the wealthy, but the United States is not participating. For example, establishing a SPC (specific purpose company) in Delaware or Nevada, where corporate tax is low, and moving assets to acquire permanent residency. When families move, it is difficult for Japanese national tax authorities to collect inheritance tax. For the Japanese, the number of wealthy people migrating abroad is expected to increase further for comfortable housing and tax avoidance purposes.

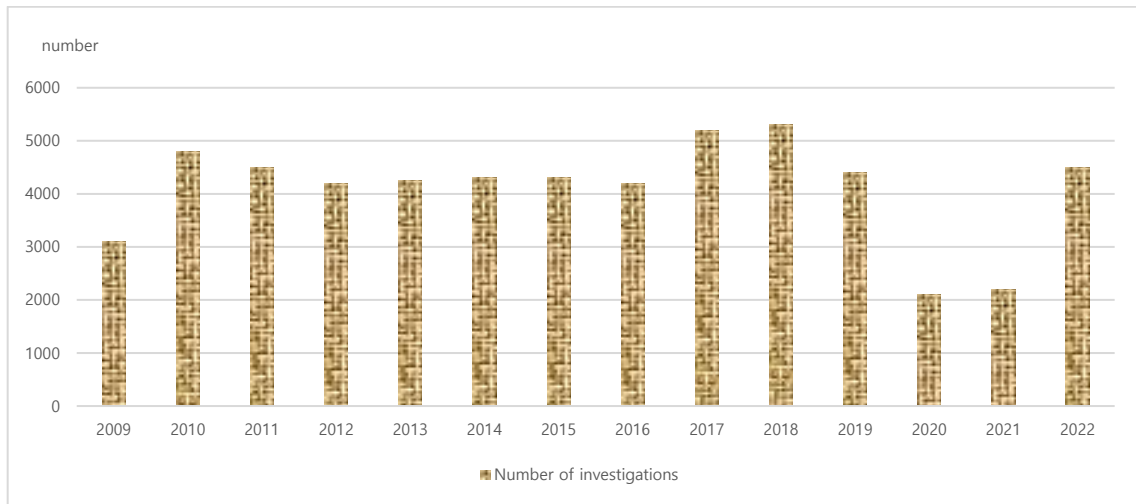
5. Strengthening the Prevention of Tax Avoidance

5.1 Increased surveillance of lease utilization

The wealthy are trying to save tax, but the government is strengthening its prevention of tax avoidance. The end of the settlement period is March. The tax saving method is to use profits during this period in settlement measures. The important thing is to use it as a loss (cost) cost of small depreciable assets such as small leases. This is to keep the tax burden low, with the total cost of the lease being spent at one time as a loss cost. That is why many SMEs are using it. However, due to abnormal overheating, the Japanese National Tax Service revised the tax system in 2022 to prohibit the use of tax savings. The problem is that it is a small depreciation asset, so it is easy to plan tax savings, so not only corporations but also individuals have used it a lot. In particular, the wealthy with assets of 300 million yen or more are in danger of saving their lives. If taxable income exceeds 20 million yen due to difficulty in tax savings, they must report the details of their asset debt to the national tax authorities. Asset debt content refers to the detailed annual report of assets and borrowings held to the national tax authorities. The scope of reporting obligations is wide. It is obligated to report securities such as stocks, cash, precious metals, real estate, as well as cryptographic assets. Even if cryptographic assets are found in overseas accounts, the state can grasp them all with the contents of property bonds.

While the scope of the wealthy has expanded, the tax revision in 2023 has further strengthened taxation for the wealthy. The content is a substantial increase in income tax rates for all the ultra-wealthy, whose annual individual income is in the billions. The higher the amount of income, the higher the taxation of income tax. Because of that, the wealthy are bound to feel a heavy burden. However, the situation is completely different. As shown in Graph 3, the tax burden tends to decline on the basis of an income of 100 million yen.

Graph 3 Trends in tax audit results for wealthy people



Data: Japanese National Tax Service (2022), National Tax Service Year (July to June of the following year)

The income of the wealthy has a relatively large proportion of financial income such as stock investment. Salaries and business income are comprehensive taxation, and the maximum tax rate is 45%. Meanwhile, financial income is a separate tax, and the tax rate is about 20%. The higher the ratio of financial income, the lower the burden rate. Considering the fairness of the tax burden, it should be improved to be wrong.

However, introducing a new system such as the Japanese consumption tax is unlikely. Although it is not easy considering the opposition of the wealthy, many of the wealthy will be affected by lowering the level of personal income after 2024.

5.2 Increased surveillance of overseas transactions

The need to strengthen monitoring of tax avoidance has been raised due to the diversification of asset management and internationalization of the wealthy. In particular, the surveillance enhancement sector is overseas transactions. There is an increasing number of cases of hiding income by using foreign corporations. For example, the owner of a company is avoiding surveillance by moving funds to three foreign countries using ghost companies. However, since 2017, the National Tax Service has introduced a common reporting standard (CRS) so that international financial account information can be automatically exchanged, providing information such as income. The National Tax Service uses various information such as CRS information and overseas remittance to focus on a clear grasp of overseas transactions and overseas asset-related income. It is becoming increasingly difficult to avoid taxation by moving funds abroad.

5.3 Increased monitoring of inheritance tax

The taxation network of the wealthy is also affecting the inheritance sector. The Japanese government will strengthen the prevention of inheritance avoidance using tower apartments by establishing an expert meeting on apartment-related property evaluation standards in 2023.

The land per household in a tower with hundreds of homes in one building is small. The land value of the inheritance tax becomes smaller. The higher the tower, the higher the price. The higher the inheritance tax valuation and the market price, the greater the gap. For example, if you live in a tower apartment worth 100 million yen, the inheritance tax valuation is often compressed to between 20 and 30 million yen. In order to avoid inheritance tax, interested wealthy people often purchase high-rise tower apartments. It seems difficult to avoid inheritance tax using tower apartments because the Japanese government plans to establish a detailed tax revision.

Conclusion

The Japanese wealthy play a role in driving the flow of funds, and they lead the domestic flow of

funds. When funds are collected in the market through this, ordinary investors also join and overheat occurs. However, not all asset growth succeeds. Sometimes they fail greatly. When their assets decrease, they respond in a variety of ways to manage their assets. One of them is the tax saving method. The first is the method of using depreciation. In companies, depreciation is generally applied to facilities, but the Japanese wealthy avoid taxation by damaging the years of use and the upper limit regulation. Second, it is a method of using a refund for violation of life insurance cancellation. It is divided below the upper limit regulation amount. For example, if the refund for violation of the cancellation exceeds 1 million yen, the life insurance company is obligated to provide the details of the refund to the tax office. However, if paid in installments, the life insurance company is not obligated to provide, and the recipient is not obligated to pay income tax. Third, it is the establishment of a public interest foundation and fund. The establishment of a public interest foundation and fund has the effect of reducing taxable income through donations. On the other hand, it is also possible to serve as a shareholder of related companies at the same time, which is also used as an expedient for the succession of the founder's family. In particular, establishing a fund is relatively simple, and the amount and operation are simple, so it is a preferred method. Fourth, the hometown tax system is popular in Japan recently. The hometown tax system is a tax law created for the purpose of bridging the gap in large cities, responding to tax reduction due to the reduction of the urban population, and local development. The hometown tax payment receives tax benefits such as taxation on the donation amount and resident tax. It is an attractive method as a tax-saving method for the wealthy. It is one of the preferred systems for the wealthy because it is possible to donate to the local area, tax benefits, and use of local accommodation and tourism leisure is also available. In recent years, the use of the hometown tax system in Japan is on the rise and is expected to increase further in the future. Fifth, it is a method of overseas immigration. Acquiring an overseas permanent residence is not subject to inheritance tax. Therefore, the number of wealthy people prefer overseas immigration to avoid inheritance tax is increasing.

In particular, the hometown tax system will be encouraged in the future, so that the wealthy can find opportunities to contribute to society by donating, and the government will provide a system for the wealthy to contribute to society. Support should also be spared so that the wealthy can establish themselves as a model for co-prosperity, not as a boundary object of society.

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