

Implementation Guidelines for Policy Evaluation Pertaining to Special Taxation Measures

(May 28, 2010

Partially amended on August 5, 2013

Approved at the Interministerial Liaison Meeting on Policy Evaluation)

These Guidelines, under the framework of the Government Policy Evaluation Act (Act No. 86 of 2001; hereinafter referred to as the “Evaluation Act”), provide standard guidance for the contents, procedures, and other matters related to the evaluation of policies pertaining to special taxation measures on national tax and tax-burden reduction measures on local tax (hereinafter referred to as “special taxation measures”) in order to contribute to carrying out smooth and effective evaluation of policies pertaining to special taxation measures and to provide useful information for examination work by administrative organs and for tax revision work by the government, thereby fulfilling the requirement of accountability to the public.

On the basis of the progress in efforts made by individual administrative organs, these guidelines shall be reviewed as necessary in order to improve and enhance evaluation of policies pertaining to special taxation measures.

I. Before Evaluation

In the Fiscal Year 2010 Tax Reform Outline (Cabinet Decision of December 22, 2009; hereinafter referred to as the “FY2010 Outline”), special taxation measures are regarded as follows: “Many of them reduce the tax burden of certain entities, thereby acting as a means of inducing economic activities toward realization of a specific policy objective, such as industrial policy. On the other hand, when viewed from the principles of ‘fairness, transparency, and confidence,’ these special taxation measures are exceptions to the principle of fairness. For this to be justified, their actual application and effects must be transparent and easy to understand, and must be such that taxpayers can consent to them.” In making special taxation measures transparent and revising them appropriately, policy evaluation plays an important role.

The FY2010 Outline states, in relation to the radical reform of special taxation measures, that policy evaluation should be carried out strictly. In addition, as a criterion for review, it clearly specifies that the effectiveness that justifies a decrease in tax revenue has been objectively confirmed in ex-post evaluation by the competent

authorities based on the Evaluation Act. Furthermore, the Basic Policy on Economic and Fiscal Management and Reform (Cabinet Decision of June 14, 2013) establishes improvements that include the utilization of fact-finding surveys concerning the application of policy evaluations in policy taxation based on the Act on Improving Transparency of Application of Special Measures Concerning Taxation (Act No. 8 of 2010; hereinafter the “Special Taxation Measures Act”).

Policy evaluation pertaining to special taxation measures shall be carried out in accordance with these Cabinet decisions. In carrying out policy evaluations, it is important to reveal as much objective data as possible, and to analyze them to contribute to examining the propriety of creating, expanding, or extending special taxation measures or the specific content of special taxation measures. It is also important that the contents of analysis are used as a common base for discussion with citizens and stakeholders, and that they are effectively used in examination work by administrative organs and in tax revision work by the government.

II. Evaluation Methods

1. Evaluation subject

(1) Policies that require ex-ante evaluation are the policies stipulated in items (vii) and (viii) of Article 3 of the Cabinet Order for Enforcement of the Government Policy Evaluation Act (Cabinet Order No. 323 of 2001) and I4G of the Basic Guidelines for Implementing Policy Evaluation (Cabinet Decision of December 16, 2005). The “measures to reduce tax amounts or income amounts” in items (vii) and (viii) of Article 3 of the Cabinet Order for Enforcement of the Government Policy Evaluation Act refer to the measures that reduce the tax burden or defer tax for realization of specific administrative objectives.

Policies that require ex-post evaluation are the policies stipulated in I5F of the Basic Guidelines for Implementing Policy Evaluation. The specific coverage of special taxation measures related to corporation tax, corporate resident’s tax, and corporate business tax is the same as (a) and (b) of Item (vii) of Article 3 of the Cabinet Order for Enforcement of the Government Policy Evaluation Act.

2. Evaluation unit

For a policy pertaining to special taxation measures that is subject to ex-ante evaluation, the ex-ante evaluation is carried out when an administrative organ requests a

tax revision. The result of an ex-ante evaluation should fit appropriately with the administrative organ's request for a tax revision and for the tax revision work afterward. Therefore, the unit of policy subject to ex-ante evaluation should be, in principle, the unit of special taxation measures for which tax revision is requested.

Ex-post evaluation is carried out with an appropriate unit based on the unit of ex-ante evaluation.

3. Entity to carry out evaluation

(1) Ex-ante evaluation

Ex-ante evaluation is carried out by an administrative organ that requests creation, expansion, or extension of special taxation measures. If multiple administrative organs request the same special taxation measures, these administrative organs can carry out evaluation in cooperation with each other as necessary, assuming that each administrative organ is the entity to carry out evaluation.

(2) Ex-post evaluation

Ex-post evaluation is carried out by the administrative organ that requested special taxation measures in the past for the policy pertaining to the special taxation measures that is subject to evaluation. If multiple administrative organs are involved in the same special taxation measures, these administrative organs can carry out evaluation in cooperation with each other as necessary, assuming that each administrative organ is the entity to carry out evaluation.

4. Contents of evaluation

Ex-ante evaluation and ex-post evaluation of policies pertaining to special taxation measures shall be carried out with the following contents. It is important that the results of an ex-ante evaluation are always verified by an ex-post evaluation.

(1) Ex-ante evaluation

A. Period for analysis

When requesting creation of special taxation measures, the period for analysis should be set appropriately based on the individual case, considering the applicable period of the special taxation measures to be requested and the precision of predictions estimating the effects, decrease in revenue, and so forth.

When requesting expansion or extension of special taxation measures, the

period for analysis on the part of future predictions should be the same as in the case of creation described above. The period for analysis on the part of past achievement should be set appropriately based on the individual case, with 3 to 5 years being a rough standard.

B. Necessity, etc. of special taxation measures

(i) Policy objective to be realized by special taxation measures

Explain the policy objective to be realized by the special taxation measures being requested. This policy objective is basically the same as the objective of the “policy in the background” stated in “Guidelines for Revision of Policy Taxation Measures (‘Six Tests’),” an attachment to the “Basic Guidelines for Screening Special Taxation Measures” in the FY2010 Outline (the same as in (2)B(i)).

Along with the explanation of the policy objective, specify what basis (law, cabinet order, cabinet decision, etc.) said policy objective is based on, thereby explaining whether the policy objective is ranked high in priority or urgency.

Also, clearly position the policy objective within the policy structure that was specified in advance.

(ii) Target to be achieved by special taxation measures

Under the policy objective described in (i) above, explain the concrete target to be achieved by special taxation measures, and set a measurement indicator of the target. In doing so, explain how realization of the target to be achieved will contribute to the policy objective.

C. Effectiveness, etc. of special taxation measures

In ex-ante evaluation of policy pertaining to special taxation measures, predict and ascertain the number and amount of applied special taxation measures, decrease in revenue, and effects; and explain whether any effects that justify the decrease in tax revenue are expected (confirmed). When requesting creation of special taxation measures, estimate these figures. When requesting expansion or extension, ascertain past achievement in addition to estimates. For quantitative data on decreased revenue and the like, specify the basis for calculation.

For the number and amount of applied special taxation measures and decrease in revenue, predict and ascertain these items by analyzing information on actual circumstances of application to be grasped based on the Special Taxation Measures Act and Local Tax Act (Act No. 226 of 1950) and using other various sources of information.

For the effects of special taxation measures, ascertain direct effects and how the policy objective to be realized is (was) achieved by the special taxation measures, in as quantitative a way as possible. When predicting future effects, also explain the conditions that are expected if no special taxation measures are created, expanded, or extended.

When requesting expansion or extension of special taxation measures, clarify the state of how much the target mentioned in B(ii) above is realized, and explain whether or not the expected target has already been achieved. In addition, explain concretely whether or not the number of applications is unexpectedly small or unexpectedly concentrated on specific entities.

In ascertaining the effects, try to find out various ripple effects of the special taxation measures, while paying attention to the precision and objectivity of the data.

If effects appear different in different areas, try to obtain as much data as possible in each area.

When requesting expansion or extension of special taxation measures, and if there seems to be no effect so far, analyze the cause.

D. Appropriateness of special taxation measures

Explain whether taking special taxation measures is necessary and appropriate while there are various other means of realizing the policy objective, such as subsidies and regulations.

If there are some other supportive measures or obligations pertaining to the similar policy objective, explain whether their roles are divided clearly and appropriately.

For special taxation measures pertaining to local tax (including cases where local tax is affected in connection with national tax), explain whether it is appropriate for local public entities to cooperate toward realization of the policy objective.

(2) Ex-post evaluation

A. Period for analysis

The period of analysis for ex-post evaluation should be set appropriately based on the individual case, with 3 to 5 years being a rough standard.

B. Necessity, etc. of special taxation measures

(i) Policy objective to be realized by special taxation measures

Explain the policy objective to be realized by the special taxation measures. Along with the explanation of the policy objective, specify what basis (law, cabinet order, cabinet decision, etc.) said policy objective is based on, thereby explaining whether the policy objective is ranked high in priority or urgency.

Also, clearly position the policy objective within the policy structure that was specified in advance.

(ii) Target to be achieved by special taxation measures

Under the policy objective described in (i) above, explain the concrete target to be achieved by special taxation measures, and set a measurement indicator of the target. In doing so, explain how realization of the target to be achieved will contribute to the policy objective.

C. Effectiveness, etc. of special taxation measures

In ex-post evaluation of policy pertaining to special taxation measures, ascertain the number and amount of applied special taxation measures, decrease in revenue, and effects; and explain whether any effects that justify the decrease in tax revenue are confirmed. For quantitative data on decreased revenue and the like, specify the basis for calculation.

For the number and amount of applied special taxation measures and decrease in revenue, ascertain these items by analyzing information on actual circumstances of application to be grasped based on the Special Taxation Measures Act and Local Tax Act and using other various sources of information.

For effects of special taxation measures, ascertain direct effects and how the policy objective to be realized was achieved by the special taxation measures, in as quantitative a way as possible. In doing so, clarify the state of how the target

mentioned in B(ii) above is realized, and explain whether or not the expected target has already been achieved. In addition, explain concretely whether or not the number of applications is unexpectedly small or unexpectedly concentrated on specific entities.

In ascertaining the effects, try to find out various ripple effects of special taxation measures, while paying attention to the precision and objectivity of the data.

If effects appear different in different areas, try to obtain as much data as possible in each area.

In ex-post evaluation, if there seems to be no effect so far, analyze the cause.

D. Appropriateness of special taxation measures

Explain whether taking special taxation measures is necessary and appropriate while there are various other means of realizing the policy objective, such as subsidies and regulations.

If there are some other supportive measures or obligations pertaining to the similar policy objective, explain whether their roles are divided clearly and appropriately.

For special taxation measures pertaining to local tax (including cases where local tax is affected in connection with national tax), explain whether it is appropriate for local public entities to cooperate toward realization of the policy objective.

E. Direction for reflecting evaluation results

Explain how the ex-post evaluation results can be reflected in what is done with the special taxation measures subjected to the evaluation.

5. Timing, etc. of carrying out evaluation

(1) Ex-ante evaluation

In principle, ex-ante evaluation should be carried out with appropriate timing when an administrative organ requests special taxation measures so that the information gained by evaluation is used as useful information. However, if it is difficult to describe concretely the contents of a request at the stage of making a request, the result of

evaluation may be publicized at an appropriate time after the request. Each administrative organ should make efforts to start evaluation as early as possible in the course of the process from the conception of the request to a decision.

(2) Ex-post evaluation

In principle, ex-post evaluation should be carried out with appropriate timing by the end of August each year so that the results are used as useful information for examination work on special taxation measures by the administrative organs and for tax revision work by the government.

For special taxation measures, it is important that their effects are verified periodically, and it is necessary to continuously carry out ex-post evaluation. For the cycle of ex-post evaluation, considering the period of a basic plan for policy evaluation, the evaluation should be carried out once in 3 to 5 years, in principle. Each administrative organ should try to carry out uninterrupted verification even in the fiscal years when no ex-post evaluation is made.

In doing so, the organ should start ex-post evaluation with measures having no set time-limit or measures having existed for 10 or more years in order to systematically start evaluation with those in most need of evaluation.

If an ex-ante evaluation is carried out to request expansion or extension of existing special taxation measures, it contains elements of an ex-post evaluation, so it is not necessary to carry out a new ex-post evaluation.

6. Objectivity-ensuring evaluation activities by the Ministry of Internal Affairs and Communications

The Administrative Evaluation Bureau of the Ministry of Internal Affairs and Communications checks on the objectivity and rigor of the results of policy evaluation carried out by individual administrative organs. The results of these checks are provided in a timely manner for tax revision work each fiscal year.

7. Others

(1) Opinions of experts

If councils have examination results or expert opinions on policy evaluation pertaining to special taxation measures, these should be stated in the evaluation report.

(2) Provision of information on the actual state of application

Administrative organs, the Ministry of Finance, and the Ministry of Internal Affairs and Communications shall appropriately handle the provision and use of information on the actual state of application of special taxation measures necessary for policy evaluation under the framework of the Special Taxation Measures Act and Local Tax Act.

(3) Improvement of analysis contents

It is important to improve further the quality of new policy evaluation pertaining to special taxation measures that will be dealt with from now on. For this, the Administrative Evaluation Bureau of the Ministry of Internal Affairs and Communications will promote the necessary work in cooperation with the Ministry of Finance, the Ministry of Internal Affairs and Communications, and other administrative organs. It is also important for each administrative organ to try to improve the quality of its own evaluations.