Push for Corporate Tax Changes Appears to Falter in Japan

By STEPHANIE STROM

OKYO -- A Japanese government commitment to change corporate taxation in ways that would encourage companies to become more efficient and competitive appears to be faltering.

Nobuaki Usui, the administrative vice minister at the Ministry of Finance, suggested Monday that it would be difficult to meet the April 2001 deadline set by the ruling party's tax committee for taxing corporate operations on what is known as a consolidated basis, rather than the current system of taxing affiliates and subsidiaries independently.

"There is talk that taxation on a consolidated basis is impossible," Usui told a news conference.

Any delay would likely disappoint investors, since consolidated taxation was supposed to help ease the restructuring of Japanese corporations. "It's a setback in terms of restructuring because if Japan did have consolidated taxation, more companies would adopt a holding company structure, which would promote restructuring," said Kathy Matsui, chief strategist at Goldman, Sachs in Tokyo.

A holding company structure would allow companies to draw greater distinctions between their divisions, better illuminating profit centers and money losers, and establish different pay practices for different businesses. Japanese companies have hesitated to adopt the structure because it has inherent disadvantages under the current tax code.

That was to change April 1, 2001. But the Tax Bureau is hinting more strongly that it is having problems implementing the changes.

The bureau's stated reason is that it is having difficulty deciding on
the criteria for companies to pay consolidated taxes. Must its subsidiaries be wholly owned? Should affiliates in which a company has a simple majority be included? What about those units in which a company holds a minority stake but is nonetheless effectively in control?

"Consolidation involves big changes in basic tax philosophy, and the Tax Bureau feels there is a need to discuss a broad range of issues," the Finance Ministry spokesman said.

But the government has already established guidelines for consolidated accounting, which must begin this April, that suggested it had already resolved many of the issues it is now revisiting.

Thus, one question that remains is how the government can justify forcing companies to adopt consolidated accounting, which makes them take responsibility for a number of formerly off-balance-sheet liabilities like pension fund shortfalls and shared debts, if it does not use the new accounting for tax purposes. Would companies need to keep two separate sets of books, one for investors and one for the tax collector?

Tax consolidation, which would give Japanese corporations a collective tax break of between 1 trillion and 2 trillion yen, or between $9.7 billion and $19.4 billion, was supposed to help companies offset the pain of consolidated accounting.

The Tax Bureau contends that tax consolidation and accounting consolidation are separate matters. For example, some overseas subsidiaries that are included in a company's consolidated accounting may not be consolidated for tax purposes, a Finance Ministry spokesman said. A far bigger but less acknowledged problem for the government is the steep drop in tax revenue over the past two years, which could be worsened by consolidated taxation.

The Ministry of Finance has already estimated that consolidated taxation will produce a 1 trillion yen to 2 trillion yen shortfall in tax revenue.