

Japan's Furusato nozei Tax System

Shared Japanese Citizenship or Rewarded Local Place Appeal?

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A front-page article in the February 20, 2017 morning edition of my local newspaper announced that the majority of the *furusato nozei* tax contributions that had been directed to prefectures and municipalities around Japan was to be allocated for education and childcare. Originally envisioned as a way for relocated individuals to contribute financially to the economic health of their hometown, the *furusato nozei* tax system, a tax allocation/deduction system begun in 2008 whereby taxpayers from throughout Japan can direct their tax payments to the prefecture or municipality of their choice, seems to have become widely popular by 2016. This paper will examine the *furusato nozei* tax, illuminating its rationale, reality, implications and controversies.

Furusato nozei Tax, 2016

The article referred to above, run in the *Toonippo*, the defacto Aomori prefectural newspaper, cited a fall 2016 Kyodo Tsushin survey of 1788 governing bodies from throughout Japan, including prefectures, municipalities and the 23 Tokyo wards. According to recent rule additions associated with *furusato nozei* tax system, contributors can, in addition to selecting a 'place' to contribute tax payments, indicate policy areas where they would like their contributions to be applied. According to the results of the survey, and presumably at the request of contributors, 12 percent of *furusato nozei* tax contributions nationally were to be allocated toward education, with 11 percent to be allocated to child support services. Six percent were to be allocated for two areas: regional and industrial recovery as one and town making and citizen activities the other. Health, medical and welfare services were to have garnered five percent, tourism and exchange activities four percent, and the local environment and sports/cultural activities three percent each.

The article also included selected examples of how the money was to be used within these policy categories. The article stated that a village in Ibaragi prefecture would put the revenue to use in securing adjunct instructors for elementary school education, while a city in Nagasaki would use the money to provide childcare costs for families with over two children. A town in Hokkaido indicated that the money would go to researching cold resistant grapes, with a town in Miyazaki indicating that the money would fund a citizen marathon. As for Aomori prefecture, the articles indicated that one-quarter was directed toward 'town making' activities (25%), with 14 percent set for promotion of regional industries, eight percent for health, medical and welfare services, and another eight for tourism-exchange activities. For Aomori, only six percent was to be directed toward child support with three percent set to go to environmental-related policy programs.

As will be detailed below, most prefectures and municipalities now provide return gifts, local goods (and sometimes services) that are provided by the prefecture or municipality to the individual *furusato nozei* tax contributor for *furusato nozei* tax contributions. Regarding these return gifts, over half (54%) of the locations saw provision of these gifts as a contribution to local recovery. However, just over 20 percent (21%) responded that no favourable effect could be seen, with the remaining quarter of respondents offering no response. According to a Saga prefectural city, selection of local products as gifts by the city has provided a boost to the weakening traditional crafts industries of the area. The portion of contributions that go to provision of the gifts rose to 43 percent in 2016, up from 37 percent the previous year, meaning a decrease of the amount applied to policies, whether specified by the contributor or not. As for Aomori prefecture, responses regarding the effect of providing such return gifts on the local producers and general economy were split: 14 out of 39 responding municipalities indicated a positive effect, with 16 indicating no notable effect.

What is *Furusato nozei* Tax?

As explained on the Ministry of Internal Affairs and Communication *Furusato nozei* Portal Site,¹ the *furusato nozei* tax is a system whereby a portion of the taxes owed by an individual can be voluntarily contributed to a specific regional governing body, a prefecture, municipality or special district, yielding a decrease in overall tax burden according to a set schedule.

The provisions of the *furusato nozei* tax are set out in Section 37 of the Regional Tax Law and were promulgated in spring of 2008. The specifics of the law allow that an individual can reduce taxes owed by 20 percent by making a contribution at the appropriate level. Offered as an example of the system at work on the *Furusato nozei* Site,² if an individual earns 6 million yen annually, the ordinary tax would be 65,000 yen. However, participation in the *furusato nozei* tax system would allow 63,000 yen to be designated as a contribution to a prefecture or municipality of the individual's choice, for which local products would be offered by the receiving municipality as gifts.

Debate, both political and public, began with a 2006 March opinion piece in the *Nihon Keizai Shimbun* which proposed a Regional Improvement *Furusato* Tax System. The governor of Fukui prefecture at the time stated that such a tax system would work to reduce the gaps between regions and contribute to the slowing of depopulation of rural areas by providing for program funding for areas experiencing such trends. Over the period of debate and to the present, the merits and demerits have been clearly identified by supporters and detractors.

As for merits, *furusato nozei* tax funds are seen as vital for areas where economic growth, if not long term economic stability, is inherently difficult. Contributions directed to specific prefectures or municipalities are seen as representing either investments in the future of such places or re-investments on lost opportunity. Regardless of whether the money is designated for a specific policy area or not, such contributions provide a notable part of larger prefectural and municipal budget planning. Taking the case of education, rural areas often face an investment loss in this area, as many young people who have been educated by their cities, towns and villages, relocate to urban areas for employment when they become adults and never return to their hometowns. Thus, a contribution directed to a prefecture or municipality to be allocated for education can be framed as either a shared provision of future education costs (partially by areas where the youth will relocate and partially by the rural municipality itself) or a re-investment in a local area directed specially to cover such lost education expenses. Another area where the *furusato nozei* tax system is now starting to show some effect is in the area of providing a stable planning environment in specific budget areas, for example, in the ensured continuation of local area traditional crafts used as gifts for contributors.

The demerits that have been identified refer, first of all, to the fact that some areas are simply less attractive and garner less attachment, and subsequently fewer contributions, thereby creating a negative imbalance between areas that can attract additional revenues and those that cannot. A second demerit comes with the complications of government planning and service provision that accompany *furusato nozei* tax payments. The central government, along with prefectural and municipal governments, must administer such tax transfers, creating complications, and as local municipal governments cannot accurately predict the outcome, whether gain or loss, near and long term planning is complicated. In cases where local residents may have contributed tax payments elsewhere, but few contributions emerge from other areas, the municipality may face a significant burden of replacing the lost revenue. Further, as costs of providing local services vary from region to region, the flow of revenue from areas of high service provision cost to an area of low service cost (or *vice versa*) based solely on such sentiments as affection creates a service imbalance nationally. While in some cases, such flows of tax revenue may lessen regional gaps, in other cases, the gaps inevitably increase, meaning, as critics contend, the *furusato nozei* tax system is not a reasonable or predictable policy to address regional imbalance over a national scale.

Furusato nozei Tax by the Numbers

The year-by-year increase in *furusato nozei* tax contributions is shown in Table 1. As shown, the number of 'applicants,' which is to say contributors, along with contributed and deducted amounts were steady with little variation until 2012 (tax year 2011). As will be further detailed below, the massive increase, followed by a subsequent

decrease (but to levels higher than before) represent contributions directed to the victims of the Great East Japan Disaster of 2011. Also notable is the increase from 2015, attributable to changes in the rules allowing higher deductions and more aggressive marketing for the program.

Table 1: *Furusato nozei* Trends

Year	Applicants	Contributed Amount (yen)	Deducted Amount (yen)
2009 ^{*1}	33,100	7,260,000,000	1,890,000,000
2010	33,100	6,550,000,000	1,810,000,000
2011	33,500	6,710,000,000	2,040,000,000
2012	741,700	64,910,000,000	21,020,000,000
2013	106,400	13,010,000,000	4,530,000,000
2014	133,900	14,190,000,000	6,060,000,000
2015	435,700	34,110,000,000	18,420,000,000
2016 ^{*2}	419,500	24,780,000,000	22,850,000,000

Source: Ministry of Internal Affairs and Communication, 2016 data

^{*1} tax year 2008

^{*2} as of June, 2016

As provided in a *Furusato nozei* Archive,³ one can discern participation trends at the prefectural level nationally and within any prefecture and regarding whether the contribution reflects a loss to the prefecture or to the municipalities within the prefecture. As can be expected, the two largest locations in terms of participants are Tokyo and Osaka, accounting for from one-quarter to 30 percent of contributions. Nationally, the revenues deducted by prefecture versus contributions made have ranged from 26 percent for 2008 (7.26 billion yen contributed externally versus 1.89 billion yen deducted from revenue base) to 54 percent for 2014 (34 billion yen contributed versus 18 billion deducted yen). Prefectural averages for each year (2009 to 2014) reflect a similar range of variation. In the case of the latter trend, across both the seven years of data and the breadth of Japan, the balance between tax revenue losses to prefecture versus municipalities is 40 percent for the prefecture and 60 percent for the municipalities.

Looking at a Ministry of Internal Affairs and Communication report of the 2015 *furusato nozei* tax system results,⁴ opinions regarding the reasons for these increases from the recipient side were indicated as the attractiveness of the gifts (41%), the ease of making a contribution (16%), the ‘popularisation’ of the *furusato nozei* tax system (15%) and the results of effective program promotion (13%). The 2015 report also includes recipient level data from 2008 by prefecture, the pattern for which is quite interesting. In 2008, the first year, the amount received by Tokyo was the highest of any prefecture, at 1.4 billion yen, while the number of recipient cases was highest for Hokkaido, at 5,222. However, by 2015, Yamagata surpassed both Tokyo and Hokkaido, with 5.05 billion yen in receipts and 289,258 cases, topping Hokkaido’s 4.28 billion yen and 268,950 cases. Indeed, in terms of revenue received, Tokyo in 2015 ranked 12th, and by cases, third from lowest.

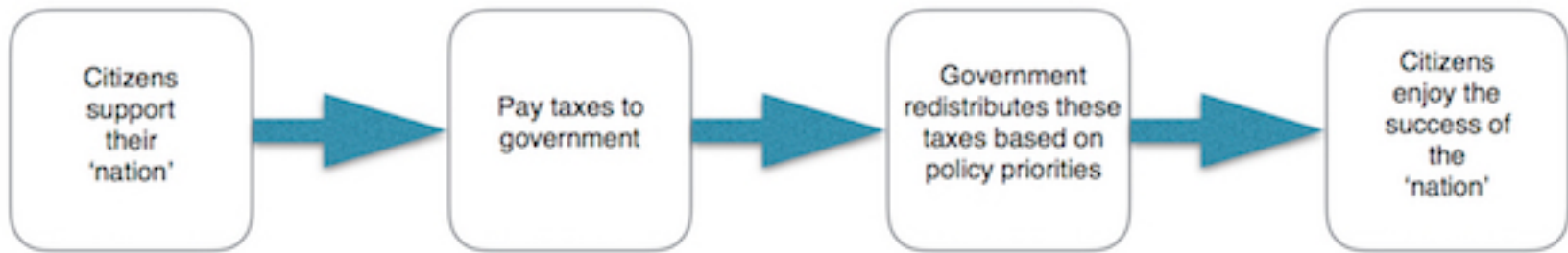
An additional telling aspect of the *furusato nozei* tax system that is apparent in these data is its potential to allow residents throughout Japan to respond to events; in the case that follows, a natural disaster. While the receipts and cases for outlying Japan were strikingly lower than for Tokyo, and to a lesser degree Osaka (the exception being Hokkaido, as above) from 2008 to 2010, this all changed in 2011. In response to the 2011 disaster, the receipts and cases for Iwate Prefecture shot up from 178 million yen and 899 cases in 2010 to 2.87 billion yen and 9,463 cases. In other words, the amount of *furusato nozei* tax revenue directed to Iwate rose by 16 times from 2010 to 2011, with the number of contribution cases rising by ten times. The jump is similar for Fukushima Prefecture, where the 2010 revenue of 132 million yen jumped eight times to 1.138 billion yen and the cases seven-fold from 1,094 to 7,301.

***Furusato nozei* Tax System: Shared Japanese Citizenship or Rewarded Place Appeal?**

Governments at all levels need to raise revenue from a variety of sources and through a variety of means in order to

finance public-sector expenditures. Bluntly stated, taxation is the price we pay for government services. And while there are controversies over the appropriate levels of taxation for various economic and social citizen profiles and the specific topical segmenting and manner of distribution of collected taxes for those public-sector expenditures, most view paying taxes as a form of citizenship, where the citizens support their nation through payment of taxes and the government determines the distribution of these taxes based on policy priorities that emerge out of the democratic process of voting and elections (Figure 1).

Figure 1. A Citizenship View of Taxes

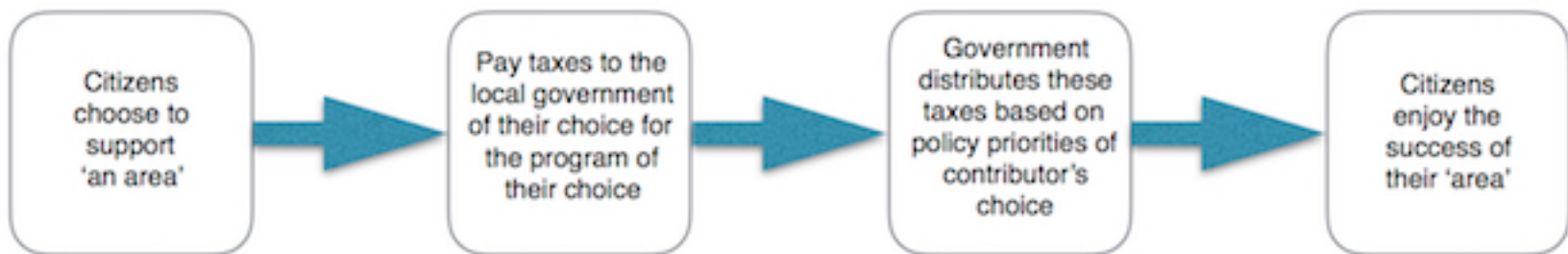


Of course, in such a scenario, citizens of rural areas expect that the central government will address their needs and demands through redistribution of collected taxes in a manner balanced with the usual focus on larger urban and industrial areas. In this sense, the citizenship model acquiesces policy priorities to the government, but expects that their situation and needs will be taken into account. The *furusato nozei* tax system, however, adds an additional element to this citizenship model: the option for any individual to focus on a specific place or place and policy. In a collection of papers from the Japanese Studies Association of Canada 2015 conference on the theme of “Culture, Identity and Citizenship,”⁵ I argued that one area where a sense of shared sacrifice for shared investment resulting in regional vitalisation could be realised was in the *furusato nozei* tax system. My presentation/paper reflected an orientation that Japan, both as a nation at large and as a nation of individuals, was called upon to share the sacrifice of investment in regional revitalisation, primarily through the distribution and allocation of public-sector expenditures both governmental and by individuals toward those places and policies that needed them most.

Summarising from that paper: Whereas citizenship historically focused on the civic, political and social rights of citizens..., citizens today are largely passive participants of citizenship, convinced that conspicuous consumption, payment of (minimal) taxes and occasional voting are the only citizenship acts required of them. Other notions of citizenship have, however, been articulated: cultural citizenship, which stresses the centrality of culture and identity for an understanding of citizenship, where the challenge of conception and practice is to bring identity as a cultural element into the consciousness and action of citizenship. Transformed into operational terms, the agency of such citizenship manifests itself through common experiences, processes and expectations, together with discourses and actions of empowerment that result in a triadic conception of ‘cultural-identity citizenship.’ In terms of the *furusato nozei* tax system, this agency is articulated at an individual level through a revenue contribution to a geographically-specific policy (Figure 2). This is the expression of shared citizenship, in the cultural-identity of shared investment for regional revitalisation.

Figure 2.

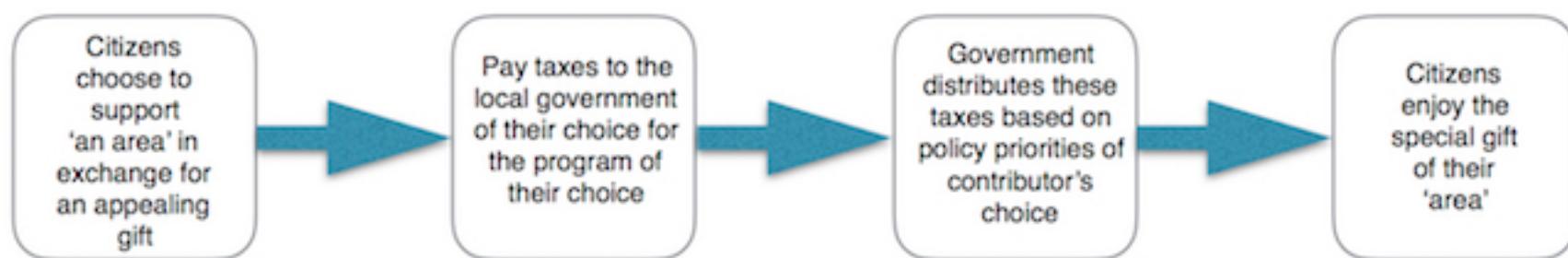
Figure 2. A Shared Citizenship View of *Furusato nozei* Taxes



In this view, paying taxes to an area yields a good outcome for both tax-payer as contributor and local area as tax revenue recipient. The contributor gets to ‘feel good’ about a contribution to an location and policy of their choice and the location realises a revenue boost. A 2015 *NHK Closeup Gendai* broadcast⁶ echoed a similar argument, albeit with the addition of unavoidable and inherently controversial elements of the *furusato nozei* tax system. The article cites a planning division official for the Hokkaido town of Tokachi, who offers this illustration of the power of *furusato nozei* tax receipts: he states that the additional tax revenues make it seem as if the village had doubled its actual population and has yielded a meaningful change in residents’ lives, particularly in the area of childcare services. However, the official also allows that approximately half of the value of the contributed tax revenues are returned to contributors in the form of local beef, a reflection of the local custom to give back half of what you received, confirming that the enthusiasm for the *furusato nozei* tax system is largely driven by the gifts that are offered in return for contributions. In this, the article highlights an increasing dilemma inherent in the system as prefectures and municipalities must now ‘attract’ contributions using only their local resources.

The controversy relating to the reality of local gifts being now a significant part of the *furusato nozei* tax system is obvious when one looks at the 2017 *Furusato nozei* Products Ranking page on the Ministry of Internal Affairs and Communication site.⁷ The site shows, along with the most popular regional items on the basis of a ‘page view’ rank, the top nine in 15 specific categories. The top items are: Saga pork, Kumamoto oysters, Shiga beef, a Tokyo Skytree lunch, Yamagata rice and Kochi vegetables, along with meat and seafoods from other areas (12 total listed). Provided on the page are items from throughout Japan in a range of categories: meat, rice-bread, fruits, seafoods, fisheries products, vegetables, sake and drinks, cakes, processed foods, noodles, cooking condiments-ingredients, travel and event tickets, miscellaneous daily goods, beauty and fashion, and traditional crafts goods. As outlined above, there is controversy regarding the appropriate value of the gifts, measured in terms of percentage of the amount of contribution, as well as to whether provision of such gifts has a beneficial effect on the area, whether in such basic sectors as agriculture or the fishing industry and processed foods industries or in terms of traditional crafts and unique local foods artisans. In any case, the inherent and inescapable reality is that some locales have more attractive ‘return gifts’ available than other areas, gifts that are more appealing to a wider and possibly more urban audience than other gifts, so as to entice more and higher-level contributions in exchange. Such a reality essentially replicates, if not reinforces, a winner-takes-all reality of rural place versus rural place in an individual-reward view of *furusato nozei* taxes that a shared citizenship approach to *furusato nozei* taxes was designed to address.

Figure 3. An Individual-Reward View of *Furusato nozei* Taxes



The *NHK Closeup Gendai* article quotes Uno Shigeki, professor at the Institute of Sociology, Tokyo University, who attempts to bridge this gap. While allowing that *furusato nozei* tax contributions do contribute to regional revitalization, primarily through energising and creating development in local industries, Uno also outlines how such transfers allow for non-residents the feeling of being involved in the creation and re-creation of local areas. In this sense, the *furusato nozei* tax transfers that now are rewarded with local gift products could be conceived as a way for urban residents to participate in the policy making as well as the future of local areas. As the contributions connect the contributor with the locale, the contributor becomes a part of that place’s history and ongoing story.

To close, how should we view the *furusato nozei* tax system? Should it be viewed as an improvement on the traditional citizenship view of taxes? Indeed, many see the *furusato nozei* tax system precisely as a way to exercise judgement over their taxes, as a way to direct money to the places, and the programs, that they deem worthy, as their weapon supporting rural areas in their fight against fiscal disparity. Or rather, should the *furusato nozei* tax system be seen as merely a furthering of the present status-quo, where areas blessed with appealing ‘gifts’ can attract

additional revenues, undercutting either an equality-based or needs-based tax redistribution system based on an empirical and rationalised system of governance? So, is Japan's *furusato nozei* tax system an example of shared Japanese citizenship or rewarded appeal for select local places?

Notes

[1] http://www.soumu.go.jp/main_sosiki/jichi_zeisei/czaisei/czaisei_seido/o8o4o3_2_kojin.html

[2] <https://furusato-tax.jp/about.html>

[3] http://www.soumu.go.jp/main_sosiki/jichi_zeisei/czaisei/czaisei_seido/furusato/archive

[4] http://www.soumu.go.jp/main_sosiki/jichi_zeisei/czaisei/czaisei_seido/furusato/file/report20151023.pdf

[5] http://buna.yorku.ca/jsac/jsac_web_pub/JSAC2015_comparative.pdf

[6] Print version: <http://www.nhk.or.jp/gendai/articles/3605/1.html>

[7] <https://www.furusato-tax.jp/rank.html>

About the Author

Anthony Rausch has a PhD from Monash University. His research interests are rural Japanese society. He is editor of *Japanese Journalism and the Japanese Newspaper: A Supplemental Reader* (Teneo Press, 2014), and has published *A Year with the Local Newspaper: Understanding the Times in Aomori, Japan; Japan's Local Newspapers: Chihoshi and Revitalisation Journalism* (Routledge Contemporary Japan Series, 2012); and more recently, *Cultural Commodities in Japanese Rural Revitalisation: Tsugaru Nuri Lacquerware and Tsugaru Shamisen* (Brill).

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