The Rise and Fall of the Land Myth in Japan

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Definition of Asset Values

\[
\text{asset value} = \frac{\text{profit}}{\text{long-term interest rate} + \text{risk premium}}
\]
Reference 9: Share prices and land prices

- Nikkei 225 (at the end of the month) (the value for the end of March 1980 set at 100)
- The urban land price index, the average price of land for commercial use in six major cities (the value for the end of March 1980 set at 100)
- The urban land price index, the average price of residential land in six major cities (the value for the end of March 1980 set at 100)
- Official discount rate (right)
Reference 10: Multiples of annual income required to purchase a home in the metropolitan area

(in units of ten thousand yen)

(Multiples)

Nationwide Apartment Market by Real Estate Economic Institute Co., Ltd. and the saving survey of the Ministry of Internal Affairs and Communications
Reference 8: Effective fixed property tax rate in Japan

Note: The effective tax rate was calculated by dividing fixed property tax revenue by the total market value of land.

The total market value of land is indicated as “land asset” of the private sector in national economic accounting by the Cabinet Office, the Government of Japan.

The revenue from fixed property tax on land is stated as settled value in the local tax data by the Ministry of Internal Affairs and Communications.
Land Tax System Reform

• Establishment of Land Value Tax (January 1992)
• Higher Capital Gains Tax
  – Individuals: Raising tax on capital gains from land held for more than five years (1991)
  – Companies: Raising tax on capital gains from land held for a very short period (two years or fewer) (1991)
• Rationalizing Land Appraisals for Inheritance Tax Purposes (1992)
• Revision of Exceptions for Inheritance Tax and Fixed Property Tax of Agricultural Land in Urban Areas (1994)
• Measures Against Tax Avoidance Using Land (1992)
Reference 13: Changes in additional taxation for companies on capital gains generated by land

<table>
<thead>
<tr>
<th>Period</th>
<th>Land held for an extremely short period (two years or less)</th>
<th>Land held for a short period (five years or less)</th>
<th>Land held for a long period (more than five years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989 -</td>
<td>30% of additional tax</td>
<td>20% of additional tax</td>
<td>none</td>
</tr>
<tr>
<td>After the 1991 revision</td>
<td>30% of separation tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>After the 1996 revision</td>
<td>15% of additional tax</td>
<td>10% of additional tax</td>
<td>5% of additional tax</td>
</tr>
<tr>
<td>After the 1998 revision</td>
<td>Abolished</td>
<td>Suspension postponed (for three years)</td>
<td>Suspension postponed (for five years)</td>
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<tr>
<td>After the 2001 revision</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>After the 2004 revision</td>
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</tbody>
</table>

Note: Additional taxes are not imposed in the case of transfers of land to create high-quality residential land.
End of Land Myth and Deflation

End of Land Myth and Deflation
• The Myth Vanished
• Bank Changed Their Loan Policy
• The Use of Discount Value Method

The Rapid Decline in Land Price Created Deflation
• Delay of Change Tax Law
• Bad Coordination Between Monetary Policy and Fiscal Policy, Including Tax Policy