

Papers on the Local Governance System and its Implementation  
in Selected Fields in Japan No.3

## **The Equalization of Fiscal Capacity and the Securing of Financial Resources for Local Public Bodies**

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## Foreword

The Council of Local Authorities for International Relations (CLAIR) and the National Graduate Institute for Policy Studies (GRIPS) have been working since 2005 on a “Project on the overseas dissemination of information on the local governance system of Japan and its operation”. On the basis of the recognition that the dissemination to overseas countries of information on the Japanese local governance system and its operation was insufficient, the objective of this project was defined as the pursuit of comparative studies on local governance by means of compiling in foreign languages materials on the Japanese local governance system and its implementation as well as by accumulating literature and reference materials on local governance in Japan and foreign countries.

In 2006, continuing from the previous year, we compiled various materials, for example “Statistics on Local Governance (Japanese/English)” and “Glossary on Local Governance Used in Japanese Official Gazettes (Japanese/English) (Supplementary Edition)”, and conducted a search for literature and reference materials concerned with local governance in Japan and overseas to be stored in the Institute for Comparative Studies in Local Governance (COSLOG). We also finished compiling “Up-to-date Documents on Local Autonomy in Japan” on two themes on which we had been working since 2005, and made a start on a new research project, “Papers on the Local Governance System and its Implementation in Selected Fields in Japan”, for which we decided to take up 4 themes.

This project is to be continued in 2007, and we aim to improve the materials so that they will be of real use and benefit to those who are working in the field of local governance.

If you have any comments, suggestions or inquiries regarding our project, please feel free to contact the Council of Local Authorities for International Relations (CLAIR) or the Institute for Comparative Studies in Local Governance (COSLOG) of the National Graduate Institute for Policy Studies (GRIPS).

July 2007

Michihiro Kayama  
Chairman of the Board of Directors  
Council of Local Authorities for International Relations (CLAIR)  
Tatsuo Hatta  
President  
National Graduate Institute for Policy Studies (GRIPS)

## Preface

This booklet is one of the results of research activities conducted by the Institute for Comparative Studies in Local Governance (COSLOG) in 2006 as one part of a 5-year project that started in 2005 entitled “Project on the overseas dissemination of information on the local governance system of Japan and its operation”, sponsored by the Council of Local Authorities for International Relations (CLAIR). For the purpose of implementing this project, a “Research committee for the project on the overseas dissemination of information on the local governance system of Japan and its operation” has been set up, and a chief and deputy chiefs with responsibility for the project have been designated from among the members concerned with each research subject.

“Papers on the Local Governance System and its Implementation in Selected Fields in Japan” (2006, Volumes 1-4) were written under the responsibility of the following four members.

(Chief)

Satoru Ohsugi, Professor, Faculty of Urban Liberal Arts, Tokyo Metropolitan University

(Deputy Chief)

Yoshinori Ishikawa, Director of the Mutual Aid Association of Prefectural Government Personnel

Toshinori Ogata, Professor, Graduate School of Management, Kagawa University

Nagaki Koyama, Associate Professor, Graduate School of Library, Information and Media Studies, University of Tsukuba

This booklet, the third volume in the series, is about the equalization of fiscal capacity and the securing of financial resources for local public bodies. It was written by Professor Ogata.

It focuses on the local allocation tax system and describes the background underlying the need for this system, the role it plays in local public finance, its current condition, the actual calculation methods currently used and reform trends. In order to help readers understand the system and its actual operation, the booklet is written in plain language and uses as many figures and tables as possible.

We will continue to take up new topics, and add to the series.

Finally, I would like to express my appreciation to Professor Ogata, and also to other members of the research committee for their expert opinions and advice.

July 2007

Hiroshi Ikawa

Chairperson

Research committee for the project on the overseas dissemination of information on the local  
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# The Equalization of Fiscal Capacity and the Securing of Financial Resources for Local Public Bodies

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## 1. The role of local finance

While the subject that is the focus of this paper is the local allocation tax system, we will begin with an overview of the role of public finance in Japan.

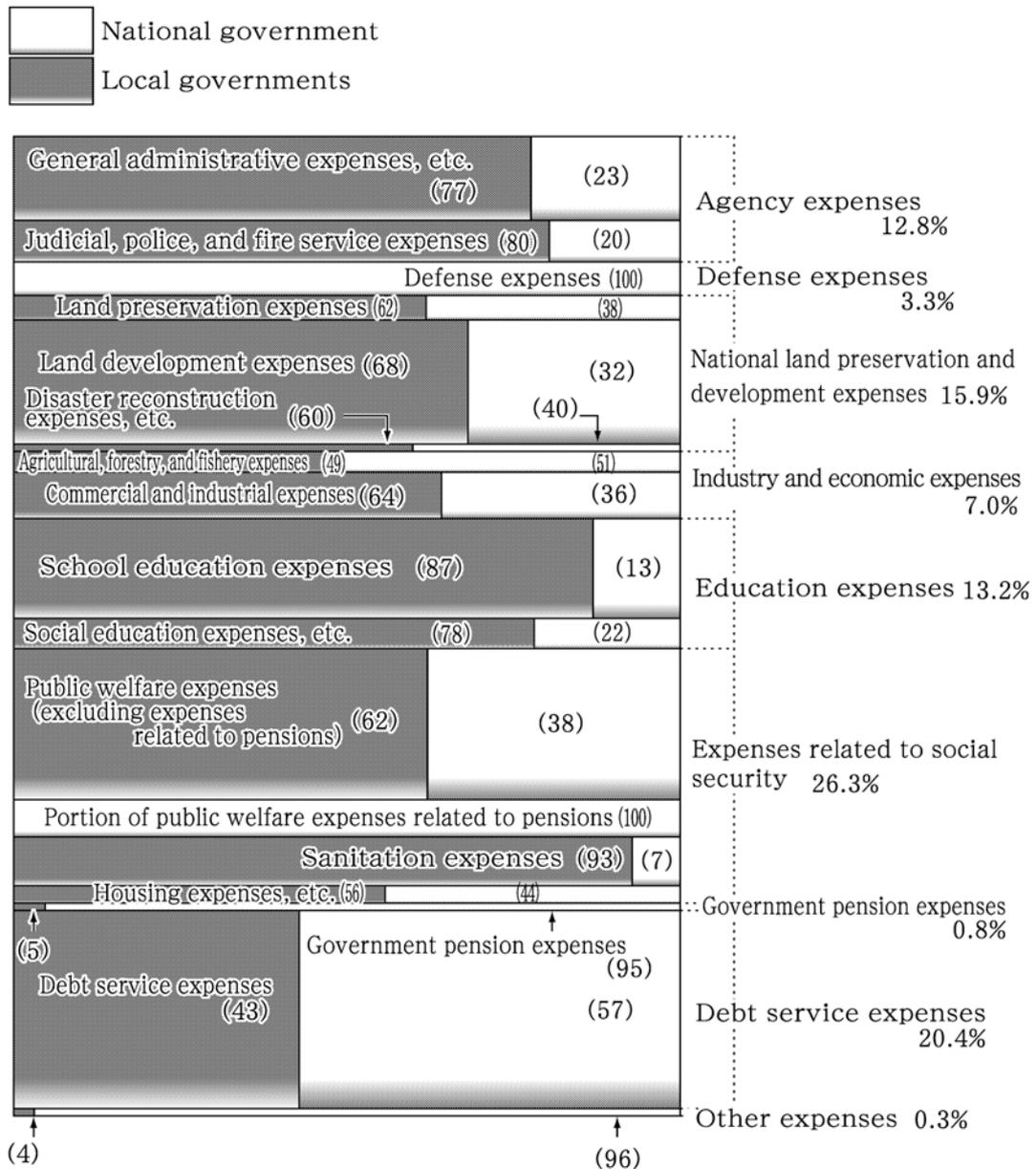
Japan has two levels of local public bodies: prefectures and municipalities (cities, towns, and villages). There are 47 prefectures and 1,817 municipalities (as of Oct. 1, 2006). Local finance system is designed to support various administrative activities of these local public bodies.

Let's take a look at the activities of local public bodies. We'll focus on the expenditure side of local public finance.

The gross domestic expenditure (GDE) of Japan's national economy in fiscal 2004 (April 2004 to March 2005) was ¥496,197.0 billion. The government sector accounted for 22.9% of that amount. If we look at the central and local governments' shares of Japan's GDE, we see that the central government accounts for 4.1% and local governments for 12.3%. The scale of local government spending is three times that of the central government, and the role that local public bodies assume in Japan's national economy is large.

**Figure 1** shows the national and local governments' shares, by individual administrative area, of Japan's total government spending of ¥149,845.0 billion in fiscal 2004. The width of each column for an administrative area represents the size of the outlay in that area. Two main points in particular can be understood from this figure. First, while some administrative areas are implemented solely by the national government, such as defense expenses and pensions, Japan's government sector is such that administrative activities are fundamentally carried out on a shared basis by the national and local governments. Second, as far as the shares shouldered by the national and local governments are concerned, government at the local level incurs more expenditures and implements more administrative activities than government at the national level in administrative areas that are directly related to people's lives, such as welfare, sanitation, and education.

**Figure 1. Scale of Net Total Government Expenditures at the National and Local Levels by Function (FY 2004)**



Note: The figures in parentheses indicate the national and local governments' shares (expressed as percentages) of expenses shown by function.

Source: Ministry of Internal Affairs and Communications, Heisei 18-nenban Chiho Zaisei Hakusho (Fiscal 2006 White Paper on Local Public Finance) (2006), p. 3

When we consider the significance of these kinds of administrative activities of local governments, it is understandable why securing financial resources in a stable manner for the purpose of performing each fiscal year's administrative activities in an appropriate way is extremely crucial for all of the more than 1,800 local public bodies nationwide.

## 2. The intent of the local allocation tax and its present status

### 2.1 The intent of the local allocation tax

As observed in the preceding paragraphs, Japan's local public bodies bear substantial responsibility for administrative services that are closely related to the public. Furthermore, in light of the way that local autonomy is supposed to work, the scenario ought to be such that the expenditures required for activities connected to those services are covered by putting the cost burden on residents in the areas concerned, that is, through local taxes.

Depending on their own circumstances, though, there are gaps among Japan's local public bodies' in terms of their economic strength. This makes it difficult for many local public bodies to cover necessary expenses solely through local taxes.

First, with regard to the circumstances of local public bodies in Japan being different, let's take a look at the situation on a population basis. **Table 1** indicates the number of prefectures in different population size categories and gives the approximate number of people in each category. There is only one prefectural body, Tokyo, with a population exceeding 10 million people, and eight other prefectures have populations surpassing 5 million. Together, these nine prefectures account for 52.3% of the total number of people in Japan, and half of the nation's population is concentrated in them. If we look at these nine in terms of their population density, aside from Hokkaido, the population densities of the other eight prefectures range from 2 to 17 times the national average of 343 people per square kilometer (according to the Population Census of 2005). Meanwhile, 27 prefectures, or more than half of the total number of prefectures, have populations under 2 million. Among them, there are some prefectures whose population densities are nearly a quarter of the nationwide average.

**Table 1. Number of Prefectures Categorized by Population Size and Total Population in Each Category (Population Census of 2005)**

Size of population	No. of prefectures	Population (1,000s of people)	Share of nation's population (%)
10 million or more	1	12,571	9.8
5 million to less than 10 million	8	54,239	42.5
3 million to less than 5 million	1	3,792	3.0
2 million to less than 3 million	10	23,726	18.6
1 million to less than 2 million	20	27,901	21.8
Under 1 million	7	5,528	4.3
Total	47	127,757	100.0

**Table 2** presents the number of municipalities in different population size categories and gives the approximate number of people in each category. Approximately a third of Japan's 2,217

municipalities (as of the Population Census of 2005) are cities. The total population of these cities is 110,254,000, a figure that is 86.3% of the nation's entire population. Twelve of these cities have populations of more than 1 million, and these 12 alone account for a 21.8% share of the country's population. Meanwhile, the number of towns and villages is 1,466, which is two-thirds of the total number of municipalities. But they only account for 13.7% of the population of Japan.

**Table 2. Number of Municipalities Categorized by Population Size and Total Population in Each Category (Population Census of 2005)**

Size of population	No. of municipalities	Population (1,000s of people)	Share of nation's population (%)
Cities	751	110,254	86.3
1 million or more	12	27,870	21.8
500,000 to 999,999	14	9,775	7.7
300,000 to 499,999	45	17,297	13.5
200,000 to 299,999	40	9,758	7.6
100,000 to 199,999	141	19,384	15.2
50,000 to 99,999	249	17,378	13.6
30,000 to 49,999	152	7,207	5.6
Under 30,000	74	1,585	1.2
Towns and villages	1,466	17,503	13.7
30,000 or more	90	3,387	2.7
20,000 to 29,999	160	3,845	3.0
10,000 to 19,999	430	6,087	4.8
5,000 to 9,999	425	3,089	2.4
Under 5,000	361	1,095	0.9
Total	2,217	127,757	100.0

Note: The special wards of Tokyo are calculated as a single city.

Next, in connection with economic disparities among local public bodies, let's examine per capita prefectural income. **Table 3** uses an index to show the level of per capita income in each prefecture in 2003. With 100 as the national average, Tokyo's figure of 145.1 stands out. There are 10 prefectural bodies indexed above the average of 100. The remaining 80% or so of the nation's prefectural bodies are indexed below the national average, with their figures distributed across a range running from the 90s down to the 60s. We can say that this illustrates the existence of economic disparities at the prefectural level.

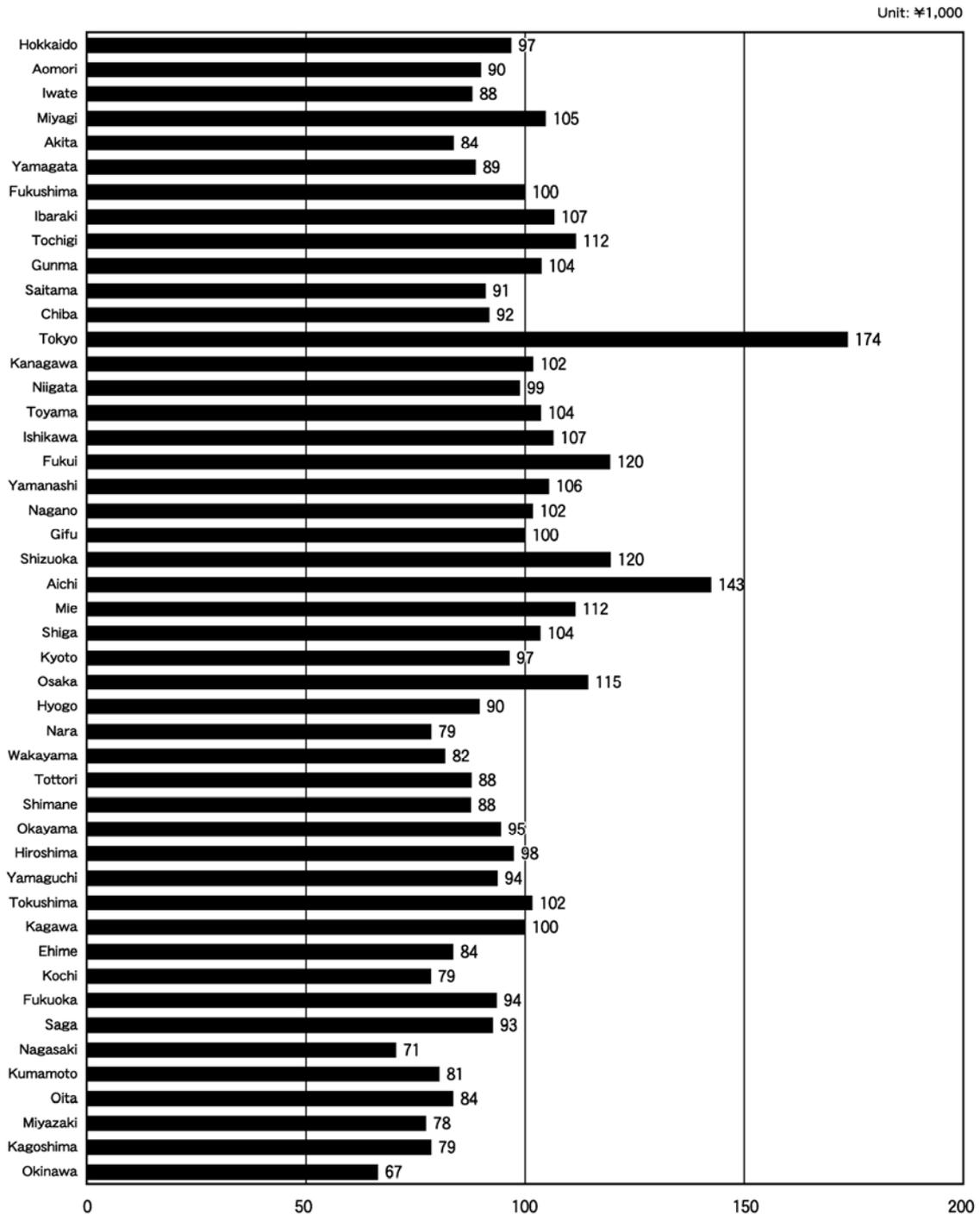
**Table 3. Number of Prefectures Categorized by Index of Per Capita Prefectural Income (FY 2003)**

<b>Index category (national average = 100)</b>	<b>No. of prefectures</b>
140 or more	1
130 to less than 140	0
120 to less than 130	0
110 to less than 120	1
100 to less than 110	8
90 to less than 100	12
80 to less than 90	17
70 to less than 80	7
Under 70	1
Total	47

Note: Prefectural income data are based on a Cabinet Office investigation. Population figures used in the calculation are as of Oct. 1, 2003, and were compiled by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Circumstances such as those described above are linked to an imbalance among local public bodies in terms of their financial capabilities. **Figure 2** shows the amount of prefectural tax on a per capita basis in fiscal 2004. With the figures ranging from ¥174,000 in Tokyo to ¥67,000 in Okinawa, a difference of 2.6 times exists (Note 1).

**Figure 2. Per Capita Amount of Prefectural Tax in FY 2004**



Source: Chiho Kofuzei Seido Kenkyukai (Local allocation tax system study group), ed., Heisei 18-nenban Chiho Kofuzei no Aramashi (Overview of the local allocation tax, 2006 edition) (2006), p. 14

If this sort of current situation is left as is, local public bodies whose tax revenue is small will be forced either to lower the level of their administrative services or to increase local taxes and impose a greater burden on residents. Overall, this would end up producing noticeable differences among local public bodies in terms of the level of their administrative services and the tax burden on residents.

The nature of local autonomy, however, requires that all members of the public equally enjoy

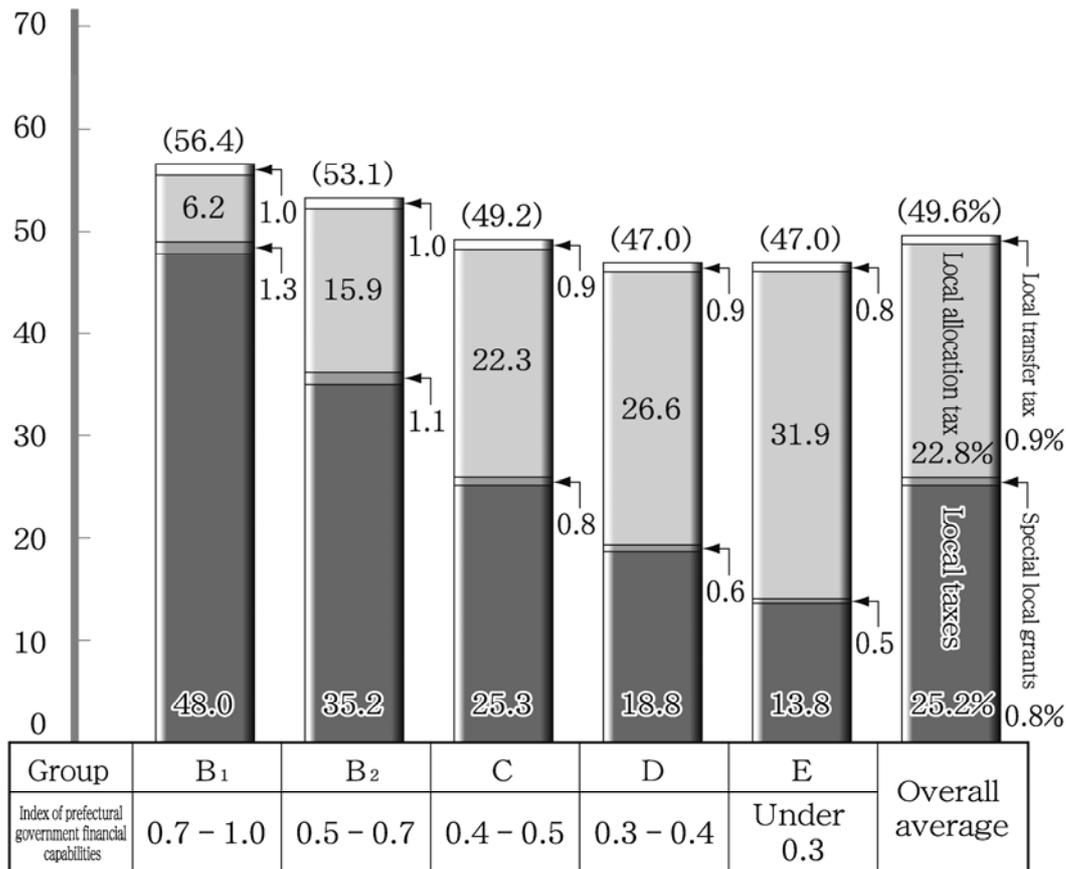
a certain level of administrative services based on assuming a fixed burden. In order to make that scenario a reality, therefore, adjustment of overages and shortages in local public bodies' financial needs and financial resources is required. The mechanism for doing this is the local allocation tax system.

## ***2.2 The present status of the local allocation tax***

Before commencing with an explanation of the local allocation tax system, let's examine in concrete numerical terms how the financial resources of local public bodies are secured through the local allocation tax.

**Figures 3 and 4** show variations in the ratio of general revenue resources to the amount of total annual revenue. **Figure 3** focuses on prefectures, while **Figure 4** looks at municipalities. Fiscal 2004 data are used in both cases.

**Figure 3. Ratio of General Revenue Resources to Total Revenue for Prefectures Grouped According to Financial Capabilities (FY 2004)**

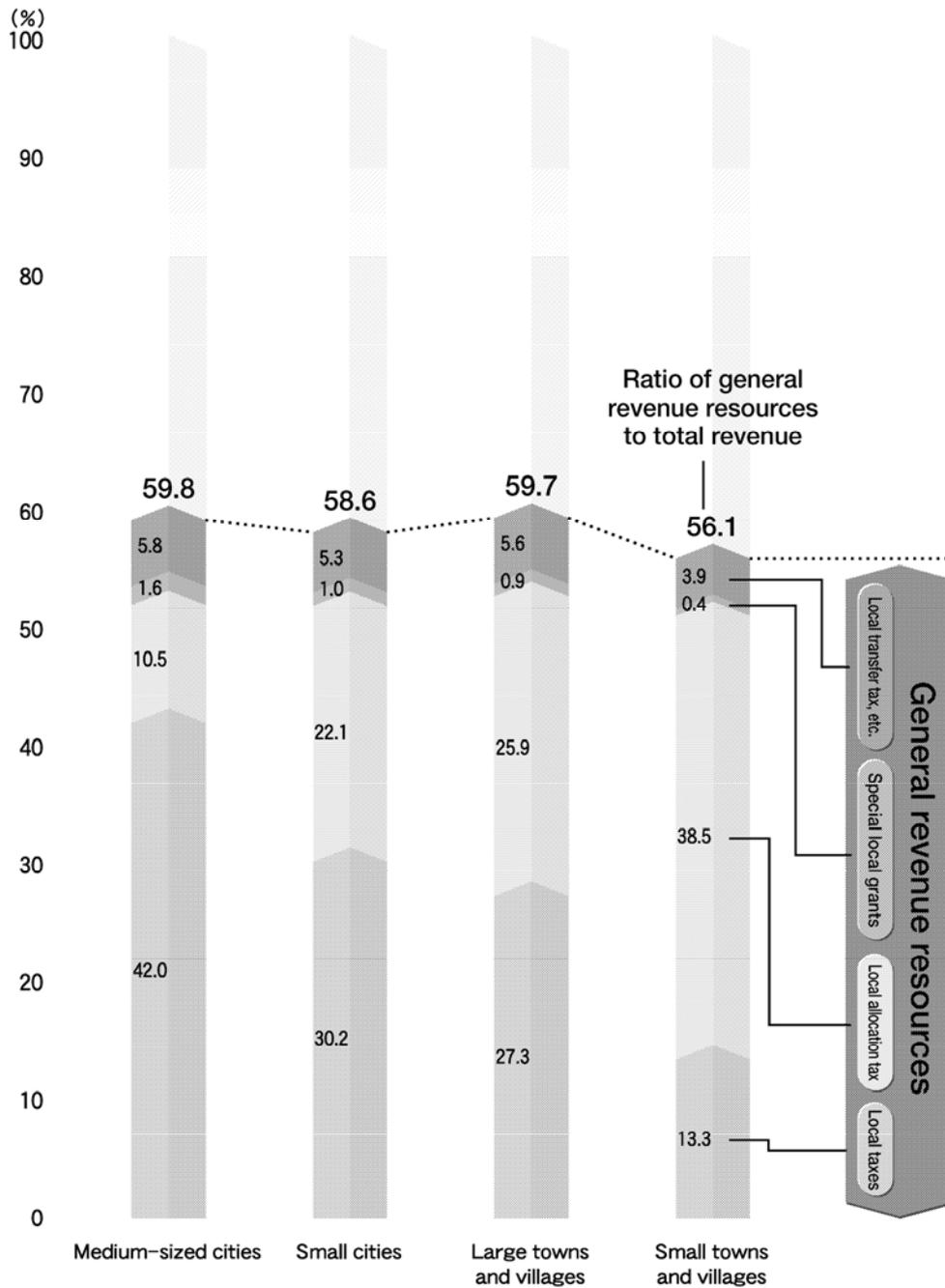


- Notes 1 The figures in parentheses represent the share of total revenue accounted for by general revenue resources.
- 2 For total revenue and local taxes, the amounts corresponding to transfers of the portions of prefectural inhabitant tax paid on interest, dividends, and stock transfers and so forth as well as the amounts corresponding to grants associated with local consumption tax, golf course utilization tax, special local consumption tax, automobile acquisition tax, and light oil delivery tax have been subtracted.
- 3 The number of prefectures in each group is as follows:  
B<sub>1</sub>–2, B<sub>2</sub>–6, C–10, D–13, E–15
- 4 Tokyo has been omitted from the overall average.

\* Note 3 has been abridged by the author of this paper.

Source: Chiho Kofuzei Seido Kenkyukai (Local allocation tax system study group), ed., Heisei 18-nenban Chiho Kofuzei no Aramashi (Overview of the local allocation tax, 2006 edition) (2006), p. 16

**Figure 4. Ratio of General Revenue Resources to Total Revenue for Municipalities by Population Size (FY 2004)**



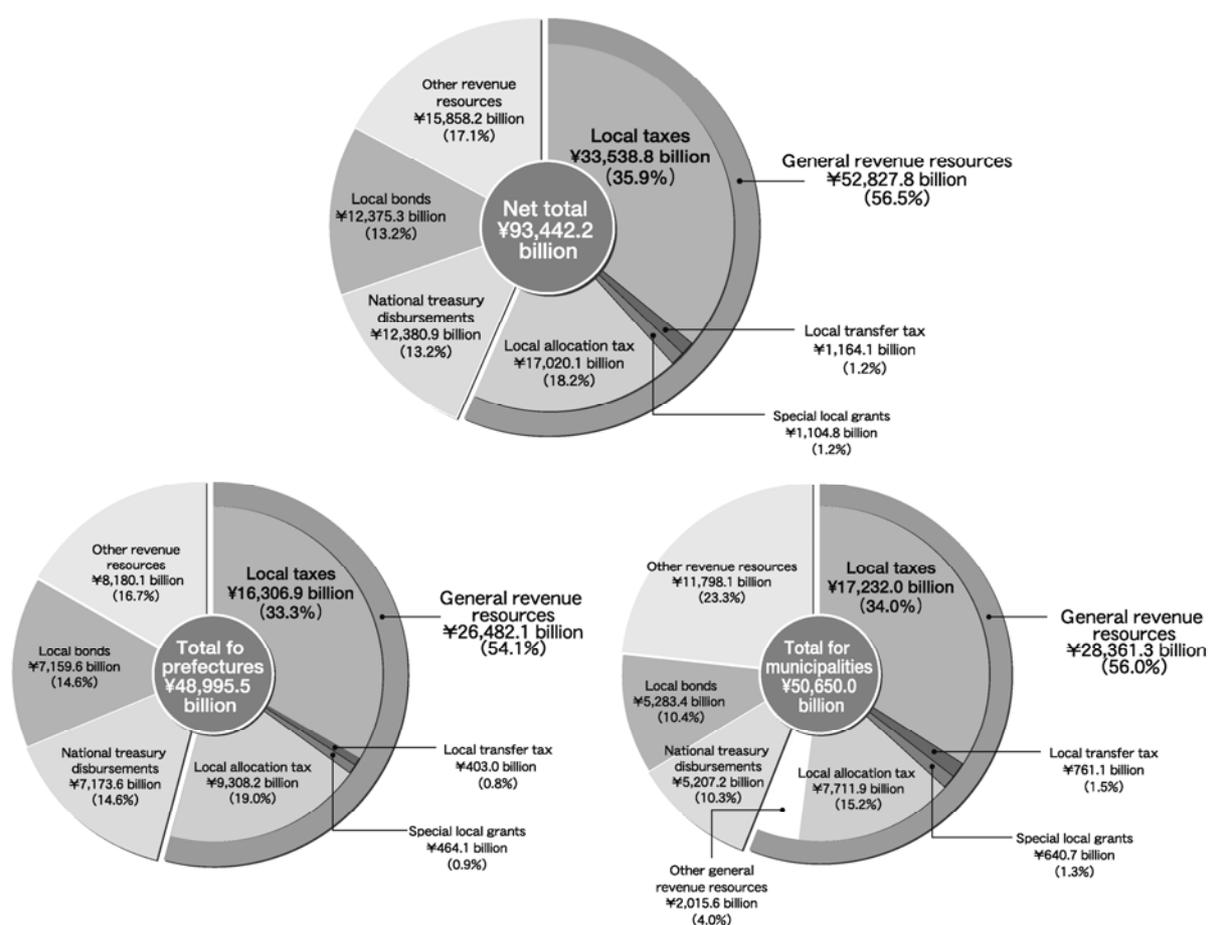
1. "Medium-sized cities" refers to cities with populations of 100,000 people or more according to Japan's 2000 population census. "Small cities" refers to cities with populations of fewer than 100,000 people.  
 2. "Large towns and villages" refers to towns and villages with populations of 10,000 people or more. "Small towns and villages" refers to towns and villages with populations of fewer than 10,000 people.

Source: Ministry of Internal Affairs and Communications, Heisei 18-nenban Chiho Zaisei Hakusho Bijuaruban (White Paper on Local Public Finance, 2006, Illustrated) (2006), p. 11

The term "general revenue resources" appears here. The financial resources of local public bodies include resources for which no usage is specified and resources whose usage is designated. Access to revenue resources that are not designated for specific purposes is extremely crucial in

terms of allowing local public bodies to conduct independent fiscal management. Resources whose usage is not specified are referred to as general revenue resources. **Figure 5** presents the breakdown of local public bodies' revenue in fiscal 2004. The general revenue resources of prefectures and municipalities total ¥52,827.8 billion, which is 56.5% of their net total revenue. If we look at the revenue breakdown, we can see that local taxes (35.9%) and local allocation tax (18.2%) are principal components. The ratio of general revenue resources to the total revenue of prefectures is 54.1%. This ratio in the case of municipalities, as well, is 56.0%, which is virtually at the same level. Revenue resources that, unlike general revenue resources, do have a designated usage are referred to as earmarked revenue resources. National government disbursements are a typical example of such revenue resources.

**Figure 5. Local Public Body Revenue Breakdown (FY 2004)**



Source: Ministry of Internal Affairs and Communications, Heisei 18-nenban Chiho Zaisei Hakusho Bijuaruban (White Paper on Local Public Finance, 2006, Illustrated)(2006), p.6

In **Figure 3**, the ratio of local tax revenue to total revenue for prefectures in Group B<sub>1</sub> is large, while the proportion of this group's revenue coming from the local allocation tax is merely 6.2%. Meanwhile, for Group E, whose ratio of revenue from local taxes is small, the share of local allocation tax revenue is 31.9%. On average, general revenue resources account for a 49.6% share of total revenue, but we can see that adjustments are made through the size of the amount of local allocation tax – both for groups whose financial capabilities are large and those whose financial

capabilities are small – and that this puts the groups at an essentially equal level in terms of their general revenue resources. **Figure 4** shows variations in the ratio of general revenue resources to the amount of total annual revenue in the case of municipalities. As we can see, the smaller the scale of municipalities, that is, moving from medium-sized cities to small cities and then to towns and villages, the lower the ratio of local taxes as a share of total revenue becomes. Just as in the case of prefectures in **Figure 3**, we can see that adjustments are made through transfers of local allocation tax, and that this process reconciles differences among municipalities so that they are at basically the same level in terms of the percentage that general revenue resources contribute to total annual revenue.

### **3. The history of the local allocation tax**

The system for making financial equalization among local public bodies in Japan emerged in the context of social and economic conditions in the country after World War One. With the development of a capitalist economy in Japan, the gap between urban and rural areas in terms of their economic strength had become quite pronounced. As the nation suffered from a series of economic slumps following World War One, the impoverishment of rural areas in particular grew severe. In addition, the workload of local public bodies expanded each year, and a correspondingly weighty tax burden was imposed on the residents of rural areas in order to cover that increase. Even so there were local public bodies that were still impeded in their efforts to implement smooth operations. Some parties started to speak up about the need for a financial adjustment system among local public bodies in order to relieve this kind of poverty in rural areas.

A scheme for making financial equalization among local public bodies was put into place as a temporary arrangement in 1936, but the first true system was the local apportionment tax system, which was established as a permanent system in 1940. The local apportionment tax consisted of two types of tax: refund tax and distribution tax. It was the distribution tax that had the financial equalization function. This tax was a mechanism that drew funds from a fixed portion of national tax proceeds and distributed them to local public bodies. The smaller the taxation capabilities of public bodies, the greater the amounts of the allocations distributed to them. In 1947 the refund tax was repealed, and the distribution tax mechanism was succeeded by the local apportionment tax. This tax was then slightly modified and renamed in 1948, becoming the local distribution tax. In fiscal 1949, though, as the country was pursuing an austere fiscal policy, the government decided to cut in half the rate applied to national taxes when computing the total amount of the local distribution tax. This reduction led to a situation engendering a major loss of confidence in the stability of the system.

The local finance equalization grant system was therefore proposed that same year in the Shoup Recommendation (Note 2). In designing this system, it was decided that the total amount would be determined on the basis of the sum of the amounts of local public bodies' deficits in financial resources. Additionally, for distributions made to individual local public bodies, the approach would be to calculate the amount of each local public body's deficit in financial resources and then provide funds to compensate for the amount of that shortfall. Two concepts, basic

financial needs and basic financial revenues, were introduced with regard to performing the calculation of the amount of deficits in financial resources.

The local finance equalization grant system was instituted in fiscal 1950. Theoretically it was an excellent system. In reality, though, there was endless controversy concerning the amount of deficits in financial resources, which represented the total amount of the grant. Given that and the impact of various factors, including the nation's financial situation, it was difficult for the system to be implemented in a proper and stable manner.

That system consequently ended up being revamped into the local allocation tax system in 1954. This system provided that the total amount would be determined as a fixed percentage of national tax revenue, and this approach served to improve the stability of local public bodies in terms of having independent revenue resources. Additionally, this move meant a shift from a mechanism guaranteeing financial resources for each fiscal year to a mechanism ensuring such resources over the long term.

#### **4. The object, functions, and characteristics of the local allocation tax**

##### ***4.1 The object and functions of the local allocation tax***

Article 1 of the Local Allocation Tax Law stipulates that the object of this tax is to contribute toward the realization of the principles of local autonomy and to strengthen the self-dependence of local public bodies, by equalizing the financial resources of local public bodies and by assuring the systematic operation of local administration through the establishment of allocation standards for the local allocation tax, without impairing the autonomy of such local public bodies.

As is clear here, the local allocation tax has two functions (Note 3).

The first function is the financial equalization function. Namely, there are disparities among local public bodies in terms of their financial capabilities. This tax aims to rectify those disparities by distributing local allocation tax appropriately.

The second function is the financial resource guarantee function. This function has two parts. One sub-function is to guarantee revenue resources for local public bodies as a whole. This sub-function is referred to as the macro-level financial resource guarantee function. The total amount of local allocation tax is designated by law as being fixed percentages of the proceeds of five national taxes, and revenue resources for local finance as a whole are guaranteed through that arrangement.

The other sub-function is to guarantee financial resources for individual local public bodies. This sub-function is called the micro-level financial resource guarantee function. The local allocation tax essentially entails calculating the amount of a local public body's deficit in financial resources on an objective and rational basis that consists of the amount of its basic financial needs and the amount of its basic financial revenues. The resulting deficit amount is an entitlement to the allocation for that local public body. The revenue resources required by any given local public body are guaranteed through this mechanism.

#### **4.2 The characteristics of the local allocation tax**

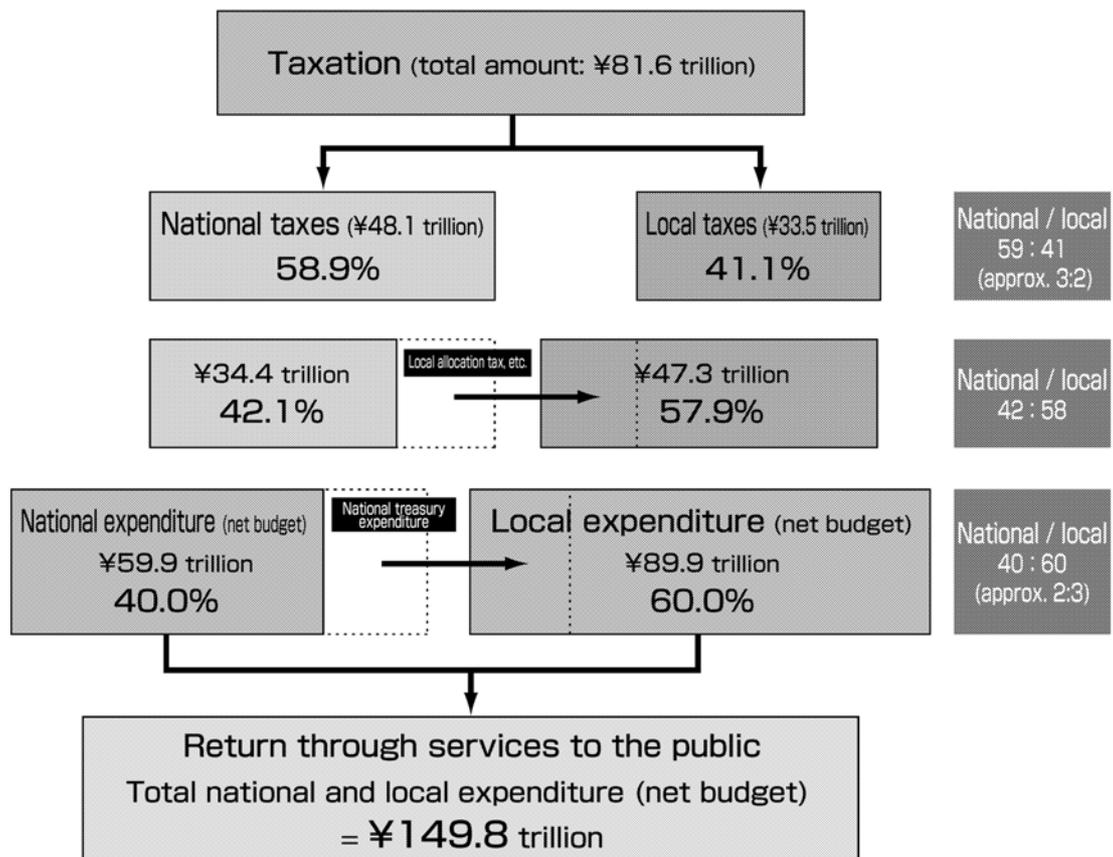
The local allocation tax that was instituted in this way can be said to have three characteristics (Note 4).

The first characteristic is that local allocation tax money constitutes revenue resources that are specifically for local public bodies and are shared by them. For the local allocation tax, a portion of taxes collected as national taxes becomes tax proceeds for common use by local public bodies and is then redistributed to them on the basis of rules. We can think of the local allocation tax as a local tax collected by the central government on behalf of local authorities. In that sense, this tax has the attribute of being financial resources that local public bodies share and that are specifically for their use.

The second characteristic is that this tax provides general revenue resources for local public bodies. In the case of the local allocation tax, the national government is prohibited from restricting how the funds are spent or from stipulating any conditions regarding their usage, and their utilization is left up to local public bodies to decide independently. While national government disbursements are likewise funds that are transferred from the national government, they are earmarked resources whose usage is restricted. The nature of local allocation tax proceeds is completely different from these government disbursements.

The third characteristic is that the local allocation tax fills in the gaps in the distribution of national and local tax sources. As **Figure 6** indicates, national and local governments' expenditures in fiscal 2004 consisted of ¥59.9 trillion in spending at the national level and ¥89.9 trillion in outlays at the local level, yielding an overall national/local ratio of 2:3. Compared with that, tax proceeds received from the public in fiscal 2004 consisted of ¥48.1 trillion in national taxes and ¥33.5 trillion in local taxes. The ratio in this case was roughly 3:2, with local tax proceeds being comparatively smaller. The local allocation tax is a vehicle that, as part of the distribution of national and local tax sources, corrects this gap between the scale of expenditures and local tax revenue. As we can see in **Figure 6**, the shifting of local allocation tax money changes the national/local ratio to 42:58.

**Figure 6. Distribution of Financial Resources Between the National and Local Governments (FY 2004)**



Source: Ministry of Internal Affairs and Communications, Heisei 18-nenban *Chiho Zaisei Hakusho Bijuaruban* (White Paper on Local Public Finance, 2006, Illustrated) (2006), p. 32

## 5. Determination of the total amount of local allocation tax

The total amount of local allocation tax is determined on the basis of fixed percentages of national taxes. As shown in **Table 4**, there are three core taxes among the national taxes that are subject to the local allocation tax system and have all been included since its establishment: income tax, corporate tax, and alcohol tax. Consumption tax and tobacco tax were added in fiscal 1989. The state of affairs in fiscal 2006 is such that the local allocation tax's shares of income tax proceeds and alcohol tax revenue are both 32%, while the percentages for the amounts of revenue from corporate tax, consumption tax, and tobacco tax are 35.8%, 29.5%, and 25%, respectively.

**Table 4. Changes in Local Allocation Tax Rates and Taxes Subject to the System**

Year	Income tax	Corporation tax	Liquor tax	Consumption tax	Tobacco tax
1954	19.874 / 100	19.874 / 100	20 / 100		
1955	22 / 100				
1956	25 / 100				
1957	26 / 100				
1958	27.5 / 100				
1959	28.5 / 100				
1960 – 1961	28.5 / 100 + 0.3 / 100 <sup>1</sup>				
1962 – 1964	28.9 / 100				
1965	29.5 / 100				
1966 – 1988	32 / 100				
1989 – 1996	32 / 100			24 / 100 <sup>2</sup>	25 / 100
1997 – 1998	32 / 100			29.5 / 100	25 / 100
1999	32 / 100	32.5 / 100	32 / 100	29.5 / 100	25 / 100
2000 – 2006	32 / 100 <sup>3</sup>	35.8 / 100	32 / 100	29.5 / 100	25 / 100
2007	32 / 100	34 / 100	32 / 100	29.5 / 100	25 / 100

## Notes

1. The figure 0.3 / 100 was the rate used for a temporary special local grant.
2. The figure 24 / 100 was the rate applicable to consumption tax excluding the amount related to consumption transfer tax.
3. The figure for FY 2004 through FY 2006 has been the rate applicable to income tax excluding the amount related to income transfer tax.

Source: Chiho Kofuzei Seido Kenkyukai (Local allocation tax system study group), ed., *Heisei 18-nenban Chiho Kofuzei no Aramashi* (Overview of the local allocation tax, 2006 edition) (2006), p. 23

Fixed percentages of national taxes serve as the basis for determining the total amount of local allocation tax, but the actual total is not decided solely on that basis. While the local allocation tax is an instrument that performs the function of guaranteeing the financial resources required for local public bodies' administrative activities, the amount of financial resources needed each fiscal year and the amount of funds that is calculated as a fixed share of national taxes do not necessarily match. Therefore, through the formulation of the Local Public Finance Program (Note 5), the government implements special measures related to the total amount of local allocation tax (Note 6).

In fiscal 2006 the amount of money calculated as a fixed share of national taxes was ¥12,526.7 billion. Special measures were taken, and as a result the total amount allocated to local public bodies became ¥15,907.3 billion (Note 7).

At present, with the nation's finances in a state of crisis, some parties have voiced the opinion that the total amount of local allocation tax also ought to be reduced in an effort to cooperate with Japan's fiscal reconstruction. Local public bodies are also facing a difficult financial situation, and a fierce conflict over the total amount of local allocation tax continues to exist between the national and local governments.

## 6. Kinds of local allocation tax and calculation methods

### 6.1 Kinds of local allocation tax

There are two kinds of local allocation tax: regular local allocation tax and special local allocation tax. Of the amount of local allocation tax, 94% is treated as regular local allocation tax and 6% as special local allocation tax (**Table 5**).

**Table 5. Total Amounts of Regular and Special Local Allocation Tax**

Unit: ¥ billion

	FY 2005	FY 2006 (initial)
Local allocation tax	16,897.9	15,907.3
Regular local allocation tax	15,883.8	14,952.7
Special local allocation tax	1,014.0	954.6

Note: Some adjustment in the process of calculating the total amount of regular local allocation tax is carried out in the total amount of special local allocation tax. For this reason the amount of each category actually allocated to local public bodies does not end up exactly in the ratio 94 to 6.

As a result of rounding off, the total amount may not be equal to the exact sum of each item.

Local allocation tax is transferred to each local public body in an equitable manner in accordance with the amount of its deficit in financial resources. In the case of regular local allocation tax, the intent is to calculate the amount of the deficit in financial resources for each local public body in an objective and rational way. No matter what, though, this approach inevitably ends up becoming standardized and mechanical. This led to the decision to establish the special local allocation tax as a supplementary instrument for picking up elements not factored into regular allocation tax, including them in a separate computation process, and then transferring that additional amount to individual local public bodies.

## 6.2 Calculation of regular local allocation tax

### (1) Adjustment of the total amount and recipient and non-recipient local public bodies

The fundamental procedure for regular local allocation tax is to allocate funds to individual local public bodies in accordance with the amounts of their deficits in financial resources as calculated according to the following formula (Notes 8 and 9).

$$\text{Basic financial needs} - \text{Basic financial revenues} = \text{Deficit in financial resources}$$

Local public bodies that receive regular local allocation tax as a result of the above calculation are referred to as recipient bodies. Those that do not receive regular allocation tax called non-recipient bodies. **Table 6** shows the number of local public bodies in each of these categories in fiscal 2006. The non-recipient bodies consist of 2 prefectures and 169 municipalities. Non-recipient bodies account for a small portion of the overall number of local public bodies, virtually all of which receive regular local allocation tax. If non-recipient bodies are looked at in terms of municipal population size, however, their combined population accounts for 25.9% of Japan's total population, a percentage that is climbing compared with the previous fiscal year. The government's current policy is to aim toward increasing the number of non-recipient local public bodies from now on.

**Table 6. Local Public Bodies Receiving and Not Receiving Regular Local Allocation Tax**

#### *Number of Recipient and Non-Recipient Bodies in FY 2006*

Status	Prefectures	Municipalities
Recipient	45	1,651
Non-recipient	2	169
Total	47	1,820

#### *Number of Recipient and Non-Recipient Bodies in FY 2005*

Status	Prefectures	Municipalities
Recipient	46	2,249
Non-recipient	1	146
Total	47	2,395

***Population Share of Non-Recipient Bodies (Municipalities)***

	<b>FY 2006</b>	<b>FY 2005</b>	<b>Difference</b>
	(A)	(B)	(A – B)
Population of non-recipient local public bodies (1,000s of people)	33,030	23,332	9,698
Population share of non-recipient local public bodies	25.9%	18.4%	7.5 percentage points

Notes

1. The figures for non-recipient local public bodies include those provided with local allocation tax through the application of special measures for mergers.
2. Special wards are not included among non-recipient municipal bodies.
3. The FY 2005 figures are based on initial calculations.

Source: Ministry of Internal Affairs and Communications data

***(2) Calculation date, determination date, and allocation schedule***

Local allocation tax is calculated and allocated each fiscal year. April 1 is the base date used for this calculation. Recently municipal mergers were in progress, and there were, for example, instances of municipalities that merged on April 2. In the case of a merger on that date, the amount of local allocation tax that year for the local public body resulting from that merger would be an amount that is the combined total of the funds that each municipality involved in the merger would have received on its own prior to the merger.

Additionally, the determination of the amount of regular local allocation tax that will be provided is an important aspect of the systematic management of the finances of each local public body. For this reason, having the allocation amounts determined as early as possible is desirable for local public bodies. Meanwhile, though, there are also requests to perform the calculations on the basis of the most recent conditions insofar as possible. Therefore, bearing these points in mind, a deadline has been set, and the amounts must be determined each fiscal year by the end of August at the very latest. The fiscal 2006 amounts were decided on July 25. Once the amounts have been determined there are also instances when calculations may be performed again at a later date. This happens in the event that some major change subsequently occurs.

The allocation times are April, June, September, and November. Allocations are made even in April and June, before the determination of amounts, in order to accommodate the capital needs of local public bodies. The amounts of the April and June allocations are each equivalent to roughly a fourth of the amount of regular local allocation tax that an individual local public body received the previous year.

### *(3) Significance of the amount of basic financial needs*

The object of the local allocation tax system is to guarantee that local public bodies will have financial resources for their necessary expenses in order to maintain a standard level of services. Consequently, when the basic financial needs of each local public body are computed, the figures used are not the exact amounts that were actually paid out. Instead, the amounts required for the administration of a standard level of services are to be computed using objective numerical values. If allocations were made on the basis of past spending records, this would create inequalities, for the greater the amount of outlays, the greater the amounts provided as regular local allocation tax would also become. Even though the process is premised upon a standard level of services, the circumstances of individual public bodies are varied, and the computation process allows for natural, geographic, and social conditions (Note 10).

### *(4) Calculation of the amount of basic financial needs*

The amount of basic financial needs is obtained by first using the following formula to compute the amount needed for each service item and then determining the total by adding up those individual amounts.

$$\text{Amount of basic financial needs} = \text{Unit cost} \times \text{Unit of service} \times \text{Adjustment coefficient(s)}$$

Sequential explanations of the terms “service item,” “unit of service,” “unit cost,” and “adjustment coefficients” appear below.

#### **(A) Service item**

The leftmost column in **Table 7** identifies the service items used in the calculation of the amounts of basic financial needs in fiscal 2006. Service items for prefectures and municipalities are presented separately. For the prefectural portion the service item classifications are police expenses, civil engineering expenses, education expenses, welfare and labor expenses, industry and economic expenses, other administrative expenses, and debt service expenses. For the municipal portion the service items are divided into fire service expenses, civil engineering expenses, education expenses, welfare expenses, industry and economic expenses, other administrative expenses, and debt service expenses. Individual categories have also been further subdivided.

**Table 7. Service Items and Units of Service for Basic Financial Needs (FY 2005)**

*Prefectural Portion*

Unit: ¥ million

Service item	Current expenses		Investment expenses	
	Unit of service	Amount required	Unit of service	Amount required
<i>Police expenses</i>	No. of police personnel	2,355,847	–	–
<i>Civil engineering expenses</i>				
Road and bridge expenses	Area of roads	401,148	Length of roads	1,059,713
River expenses	Length of rivers	47,571	Length of rivers	193,122
Port and harbor expenses	Ports and harbors: length of berthing facilities	38,807	Ports and harbors: length of outlying facilities	36,684
	Fishing ports: length of berthing facilities	11,267	Fishing ports: length of outlying facilities	18,837
Other civil engineering expenses	Population	138,940	–	–
<i>Education expenses</i>				
Primary school expenses	No. of school personnel	2,695,052	–	–
Middle school expenses	No. of school personnel	1,457,546	–	–
High school expenses	No. of school personnel	1,608,166	–	–
	No. of students	187,599	No. of students	109,768
Special education school expenses	No. of school personnel	517,280	–	–
	No. of classes	65,722	No. of classes	35,019
Other education expenses	Population	233,583	–	–
	No. of students at public universities, etc.	114,675	–	–
	No. of students at private schools, etc.	518,721	–	–

<b><i>Welfare and labor expenses</i></b>				
Livelihood relief expenses	Population of towns and villages	121,716	–	–
Social welfare expenses	Population	628,939	Population	23,956
Sanitation expenses	Population	1,209,257	–	–
Elderly health and welfare expenses	Population age 65 and older	888,372	Population age 65 and older	29,908
	Population age 73 and older	701,807	–	–
Labor expenses	Population	76,328	–	–
<b><i>Industry and economic expenses</i></b>				
Agricultural administration expenses	No. of farm households	374,562	Area of cultivated land	279,696
Forestry administration expenses	Area of non-public forest land	68,457	Area of forest land	107,069
	Area of public forest land	20,060	–	–
Fishery administration expenses	No. of fishery workers	43,331	–	–
Commerce and industry administration expenses	Population	256,205	–	–
<b><i>Other administrative expenses</i></b>				
Planning and promotion expenses	Population	195,074	–	–
Tax collection expenses	No. of households	336,296	–	–
Government pension expenses	No. of people entitled to government pensions	53,086	–	–
Various other expenses	Population	665,380	Population	807,371
	–	–	Area	289,508
<b><i>Debt service expenses</i></b>	–	2,511,873	–	–

**Municipal Portion**

Unit: ¥ million

Service item	Current expenses		Investment expenses	
	Unit of service	Amount required	Unit of service	Amount required
<b>Fire service expenses</b>	Population	1,646,839	–	–
<b>Civil engineering expenses</b>				
Road and bridge expenses	Area of roads	625,928	Length of roads	1,023,313
Port and harbor expenses	Ports and harbors: length of berthing facilities	19,136	Ports and harbors: length of outlying facilities	19,176
	Fishing ports: length of berthing facilities	10,887	Fishing ports: length of outlying facilities	10,649
City planning expenses	Population of city planning area	164,958	Population of city planning area	179,605
Park expenses	Population	105,909	Population	51,536
	Area of city parks	35,826	–	–
Sewerage expenses	Population	147,730	Population	642,196
Other civil engineering expenses	Population	226,358	Population	460,828
<b>Education expenses</b>				
Primary school expenses	No. of children	334,892	–	–
	No. of classes	275,858	No. of classes	334,394
	No. of schools	229,937	–	–
Middle school expenses	No. of students	144,003	–	–
	No. of classes	139,066	No. of classes	188,348
	No. of schools	112,559	–	–
High school expenses	No. of school personnel	105,133	–	–
	No. of students	13,396	No. of students	6,589
Other education expenses	Population	938,037	Population	33,747
	No. of young children in preschool	134,463	–	–
<b>Welfare expenses</b>				
Livelihood relief expenses	Population within city limits	728,408	–	–
Social welfare	Population	1,599,967	Population	81,477

expenses				
Health and sanitation expenses	Population	1,120,276	–	–
Elderly health and welfare expenses	Population age 65 and older	1,850,200	Population age 65 and older	59,028
	Population age 73 and older	707,932	–	–
Waste disposal expenses	Population	1,206,708	Population	252,854
<b><i>Industry and economic expenses</i></b>				
Agricultural administration expenses	No. of farm households	236,705	No. of farm households	168,961
Commerce and industry administration expenses	Population	201,878	–	–
Other industry and economic expenses	No. of people engaged in forestry, fishery, and mining industry work	70,513	No. of people engaged in forestry, fishery, and mining industry work	63,416
<b><i>Other administrative expenses</i></b>				
Planning and promotion expenses	Population	705,252	Population	476,767
Tax collection expenses	No. of households	371,439	–	–
Family register and basic resident register expenses	No. of families registered	88,270	–	–
	No. of households	140,147	–	–
Various other expenses	Population	2,122,588	Population	330,827
	Area	171,350	Area	169,260
<b><i>Debt service expenses</i></b>	–	2,170,881	–	–

Note: The “amount required” figures shown above are figures prior to extraordinary financial measures bond funds being transferred and do not include amounts later found to be in error. Additionally, the municipal portion figures are amounts calculated based on single post-merger municipalities.

Source: Chiho Kofuzei Seido Kenkyukai (Local allocation tax system study group), ed., *Heisei 18-nenban Chiho Kofuzei no Aramashi* (Overview of the local allocation tax, 2006 edition) (2006), p. 38

It should be noted here that these service items will also be modified and adjusted in conjunction with the introduction of Japan's new type of allocation tax in fiscal 2007.

#### (B) Unit of service

A unit of service is utilized in order to quantitatively determine the financial need for each service item. Service items are classified as current expenses and investment expenses, and generally one unit of service is used for each item (see **Table 7**). But there are also instances in which two units are used for a single service item. An example of this is the listing of both the number of school personnel and the number of students as units for current expenses in the high school expenses part of education expenses in the prefectural portion of the table. Additionally, there are cases in which the units of service for current and investment expenses are different even though they apply to the same service item. An example of this can be seen in the case of road and bridge expenses included under civil engineering expenses in the prefectural portion of the table.

A numerical value that reflects the financial need related to a service item as accurately as possible is used as its unit of service. Moreover, in order to perform calculations fairly, it is also desirable for a unit of service to be an objective numerical value. A further necessary element is that this numerical value should be clear and readily understandable.

#### (C) Unit cost

The unit cost is the value per unit for a single unit of service. As shown in **Table 8**, unit costs are divided into prefectural and municipal portions and are determined for each unit of service. A unit cost expresses the amount per unit of service of general revenue resources required in the case of a local public body performing a standard service. This unit cost is calculated according to the following formula.

**Table 8. Unit Costs (FY 2006)**

**Prefectural Portion**

Units: ¥ and %

Service area			FY 2006 unit cost (A)	FY 2005 unit cost (B)	A – B (C)	% change (C/B × 100)
<b>I. Police expenses</b>	No. of police personnel	Current	9,408,000	9,761,000	-353,000	-3.6
<b>II. Civil engineering expenses</b>						
1. Road and bridge expenses	Area of roads	Current	174,000	180,000	-6,000	-3.3
	Length of roads	Investment	2,790,000	3,402,000	-612,000	-18.0
2. River expenses	Length of rivers	Current	151,000	139,000	12,000	8.6
		Investment	462,000	525,000	-63,000	-12.0
3. Port and harbor expenses	Ports and harbors: length of berthing facilities	Current	36,700	37,200	-500	-1.3
	Ports and harbors: length of outlying facilities	Investment	6,140	6,010	130	2.2
	Fishing ports: length of berthing facilities	Current	13,300	13,600	-300	-2.2
	Fishing ports: length of outlying facilities	Investment	6,170	6,030	140	2.3
4. Other civil engineering expenses	Population	Current	1,710	1,360	350	25.7
<b>III. Education expenses</b>						
1. Primary school expenses	No. of school personnel	Current	6,783,000	6,258,000	525,000	8.4
2. Middle school expenses	No. of school personnel	Current	6,799,000	6,080,000	719,000	11.8

3. High school expenses	No. of school personnel	Current	7,623,000	7,727,000	-104,000	-1.3
	No. of students	Current	72,400	79,300	-6,900	-8.7
		Investment	39,200	38,600	600	1.6
4. Special education school expenses	No. of school personnel	Current	6,714,000	6,145,000	569,000	9.3
		Investment	2,421,000	2,616,000	-195,000	-7.5
	No. of classes	Current	1,469,000	1,486,000	-17,000	-1.1
5. Other education expenses	Population	Current	2,010	2,070	-60	-2.9
	No. of students at public universities, etc.	Current	273,000	308,000	-35,000	-11.4
		Current	240,100	236,900	3,200	1.4
<b><i>IV. Welfare and labor expenses</i></b>						
1. Livelihood relief expenses	Population of towns and villages	Current	6,770	6,500	270	4.2
2. Social welfare expenses	Population	Current	7,640	5,850	1,790	30.6
		Investment	204	246	-42	-17.1
3. Sanitation expenses	Population	Current	11,400	10,200	1,200	11.8
4. Elderly health and welfare expenses	Population age 65 and older	Current	52,100	42,900	9,200	21.4
		Investment	1,080	1,640	-560	-34.1
	Population age 74 and older	Current	71,100	62,000	9,100	14.7
5. Labor expenses	Population	Current	611	656	-45	-6.9
<b><i>V. Industry and economic expenses</i></b>						
1. Agricultural administration expenses	No. of farm households	Current	118,000	99,200	18,800	19.0
	Area of cultivated	Investment	41,800	50,400	-8,600	-17.1

2. Forestry administration expenses	land					
	Area of non-public forest land	Current	4,890	4,240	650	15.3
	Area of public forest land	Current	11,400	11,800	-400	-3.4
	Area of forest land	Investment	3,760	4,340	-580	-13.4
3. Fishery administration expenses	No. of fishery workers	Current	295,000	272,000	23,000	8.5
4. Commerce and industry administration expenses	Population	Current	2,250	2,370	-120	-5.1
<b>VI. Other administrative expenses</b>						
1. Planning and promotion expenses	Population	Current	1,890	1,730	160	9.2
2. Tax collection expenses	No. of households	Current	7,610	7,520	90	1.2
3. Government pension expenses	No. of people entitled to government pensions	Current	1,246,000	1,272,000	-26,000	-2.0
4. Various other expenses	Population	Current	6,420	4,840	1,580	32.6
		Investment	2,100	2,830	-730	-25.8
	Area	Investment	726,000	656,000	70,000	10.7
<b>VII. Debt service expenses</b>						
1. Disaster reconstruction expenses			950	950	0	0.0
2. Supplementary budget bond redemption expenses						
For bonds approved in FY 1998 or earlier			800	800	0	0.0
For bonds approved in FY 1999 or later			70	71	-1	-1.4
3. Local tax revenue decrease compensation bond redemption expenses			24	24	0	0.0
4. Special local financial measures bond redemption expenses			40	24	16	66.7

5. Temporary special financial measures bond redemption expenses	87	87	0	0.0
6. Revenue deficit compensation bond redemption expenses	83	85	-2	-2.4
7. Tax cut compensation bond redemption expenses	74	75	-1	-1.3
8. Extraordinary tax revenue compensation bond redemption expenses	128	130	-2	-1.5
9. Extraordinary financial measures bond redemption expenses	71	72	-1	-1.4
10. Redemption expenses for local improvement project special measure bond(s), etc.	800	800	0	0.0
11. Pollution prevention project bond redemption expenses	500	500	0	0.0
12. Redemption expenses for petrochemical complex bond(s), etc.	500	500	0	0.0
13. Earthquake countermeasure urgent improvement project bond redemption expenses	500	500	0	0.0
14. Natural disaster victim relief bond redemption expenses	800	800	0	0.0
15. Redemption expenses for bond(s) promoting a local economy where a nuclear power station, etc., is located	700	700	0	0.0
16. Interest payment expenses on loan(s) for disaster restoration, etc.	950	950	0	0.0

Source: Chiho Kofuzei Seido Kenkyukai (Local allocation tax system study group), ed., *Heisei 18-nenban Chiho Kofuzei no Aramashi* (Overview of the local allocation tax, 2006 edition) (2006), p. 42

### ***Municipal Portion***

Units: ¥ and %

Service area			FY 2006 unit cost (A)	FY 2005 unit cost (B)	A – B (C)	% change (C/B × 100)
<b><i>I. Fire service expenses</i></b>	Population	Current	10,600	10,800	-200	-1.9
<b><i>II. Civil engineering expenses</i></b>						
1. Road and bridge expenses	Area of roads	Current	92,800	96,900	-4,100	-4.2

2. Port and harbor expenses	Length of roads	Investment	299,000	370,000	-71,000	-19.2	
	Ports and harbors: length of berthing facilities	Current	36,600	37,200	-600	-1.6	
	Ports and harbors: length of outlying facilities	Investment	6,140	6,010	130	2.2	
	Fishing ports: length of berthing facilities	Current	13,300	13,600	-300	-2.2	
	Fishing ports: length of outlying facilities	Investment	4,810	4,790	20	0.4	
	3. City planning expenses	Population of city planning area	Current	1,240	1,270	-30	-2.4
	4. Park expenses	Population	Investment	545	610	-65	-10.7
Current			662	679	-17	-2.5	
5. Sewerage expenses	Area of city parks	Investment	106	118	-12	-10.2	
		Current	42,200	44,800	-2,600	-5.8	
		Population	Current	100	100	0	0.0
6. Other civil engineering expenses	Population	Investment	124	115	9	7.8	
		Current	2,090	1,660	430	25.9	
		Investment	357	368	-11	-3.0	
<b>III. Education expenses</b>							
1. Primary school expenses	No. of children	Current	41,700	43,800	-2,100	-4.8	
	No. of classes	Current	907,000	969,000	-62,000	-6.4	
		Investment	668,000	671,000	-3,000	-0.4	
2. Middle school expenses	No. of schools	Current	7,692,000	9,818,000	-2,126,000	-21.7	
	No. of students	Current	38,100	39,200	-1,100	-2.8	
		Current	1,126,000	1,167,000	-41,000	-3.5	
	No. of classes	Investment	668,000	671,000	-3,000	-0.4	
		Current	9,020,000	10,723,000	-1,703,000	-15.9	
	3. High school expenses	No. of school personnel	Current	7,529,000	7,526,000	3,000	0.0

4. Other education expenses	No. of students	Current	53,800	60,900	-7,100	-11.7
		Investment	28,000	26,600	1,400	5.3
	Population	Current	6,010	6,170	-160	-2.6
		Investment	190	193	-3	-1.6
	No. of young children in preschool	Current	360,000	380,000	-20,000	-5.3
<b><i>IV. Welfare expenses</i></b>						
1. Livelihood relief expenses	Population within city limits	Current	6,790	6,610	180	2.7
2. Social welfare expenses	Population	Current	14,500	12,100	2,400	19.8
		Investment	369	451	-82	-18.2
3. Health and sanitation expenses	Population	Current	4,510	4,330	180	4.2
4. Elderly health and welfare expenses	Population age 65 and older	Current	80,800	78,200	2,600	3.3
		Investment	1,450	1,760	-310	-17.6
5. Waste disposal expenses	Population	Current	71,100	62,000	9,100	14.7
		Investment	365	438	-73	-16.7
<b><i>V. Industry and economic expenses</i></b>						
1. Agricultural administration expenses	No. of farm households	Current	69,900	63,200	6,700	10.6
		Investment	25,600	29,000	-3,400	-11.7
2. Commerce and industry administration expenses	Population	Current	1,270	1,230	40	3.3
3. Other industry and economic	No. of people engaged in forestry,	Current	145,000	137,000	8,000	5.8

expenses	fishery, and mining industry work	Investment	88,800	95,300	-6,500	-6.8
<b>VI. Various other expenses</b>						
1. Planning and promotion expenses	Population	Current	4,570	4,580	-10	-0.2
		Investment	770	970	-200	-20.6
2. Tax collection expenses	No. of households	Current	7,640	8,060	-420	-5.2
3. Family register and basic resident register expenses	No. of families registered	Current	1,680	1,680	0	0.0
	No. of households	Current	2,710	2,800	-90	-3.2
4. Various other expenses	Population	Current	13,700	12,200	1,500	12.3
		Investment	822	966	-144	-14.9
	Area	Current	3,587,000	3,113,000	474,000	15.2
		Investment	202,000	234,000	-32,000	-13.7
<b>VII. Debt service expenses</b>						
1. Disaster reconstruction expenses			950	950	0	0.0
2. Remote area relief project bond redemption expenses						
3. Supplementary budget bond redemption expenses			800	800	0	0.0
			800	800	0	0.0
			71	71	0	0.0
4. Local tax revenue decrease compensation bond redemption expenses			24	64	-40	-62.5
5. Special local financial measures bond redemption expenses			40	24	16	66.7
6. Temporary special financial measures bond redemption expenses			87	87	0	0.0
7. Revenue deficit compensation bond redemption expenses			83	85	-2	-2.4
8. Tax cut compensation bond redemption expenses			97	99	-2	-2.0
9. Extraordinary tax revenue compensation bond redemption expenses			89	89	0	0.0
10. Extraordinary financial measures bond redemption expenses			72	72	0	0.0
11. Redemption expenses for local improvement project			800	800	0	0.0

special measure bond(s), etc.				
12. Depopulated area relief project bond redemption expenses	700	700	0	0.0
13. Pollution prevention project bond redemption expenses	500	500	0	0.0
14. Redemption expenses for petrochemical complex bond(s), etc.	500	500	0	0.0
15. Earthquake countermeasure urgent improvement project bond redemption expenses	500	500	0	0.0
16. Municipal merger special bond redemption expenses	700	700	0	0.0
17. Redemption expenses for bond(s) promoting a local economy where a nuclear power station, etc., is located	700	700	0	0.0
18. Interest payment expenses on loan(s) for disaster restoration, etc.	950	950	0	0.0

Source: Chiho Kofuzei Seido Kenkyukai (Local allocation tax system study group), ed., *Heisei 18-nenban Chiho Kofuzei no Aramashi* (Overview of the local allocation tax, 2006 edition) (2006), p. 43

$$\begin{aligned} \text{Unit cost} &= \frac{\text{Standard local public body's standard total expenditure} - \text{Portion of that covered by earmarked revenue resources (national treasury disbursements, etc.)}}{\text{Numerical value for standard local public body's unit of service}} \\ &= \frac{\text{Standard local public body's standard general revenue resources need}}{\text{Numerical value for standard local public body's unit of service}} \end{aligned}$$

First, there is a hypothetical standard local public body that is average in terms of its population, area, and scale of services and that does not feature any natural conditions, geographical conditions, and so forth that are out of the ordinary. The standard local public body in the case of a prefecture has a population of 1.7 million and an area of 6,500 square kilometers, and the standard in the case of a municipality has a population of 100,000 and an area of 160 square kilometers (see **Table 9**).

**Table 9. Examples of Standard Local Public Bodies**

	<b>Prefecture</b>	<b>Municipality</b>
Population	1,700,000 people	100,000 people
Area	6,500 km <sup>2</sup>	160 km <sup>2</sup>
No. of households	630,000 households	37,000 households
Length of roads	3,900 km	500 km

Source: Chiho Kofuzei Seido Kenkyukai (Local allocation tax system study group), ed., *Heisei*

Taking this sort of standard local public body as well as standard facilities as a base, the cost entailed in performing a service related to a specific service item is calculated. Of that, any amount covered by earmarked revenue resources is deducted. The resulting figure becomes the amount of general revenue resources deemed necessary in the case of performing standard service activities with respect to the service item concerned.

This amount is then divided by the numerical value of the unit of service of the standard local public body. The amount thus calculated becomes the unit cost.

Note 11 shows an example of this process of calculating the unit cost.

#### (D) Adjustment coefficients

If regular local allocation tax is to be allocated among local public bodies in an equitable manner, differences among them in terms of natural and social conditions must be reflected. Those differences are to be reflected through adjustment of the numerical values of units of service. To do this, units of service are multiplied by coefficients that are known as adjustment coefficients. Just as there are instances when the amount of funds calculated becomes greater as a result of carrying out this adjustment, there are also instances in which the amount becomes smaller.

On the one hand there is a demand for the actual state of affairs of individual local public bodies to be reflected as much as possible through these adjustment coefficients. On the other hand, though, there is a request for efforts to ensure that the calculation method does not become complicated. The practice is therefore that adjustments are to be carried out in cases in which the following factors are fulfilled: there are implications for a noticeable disparity in expenses for a service, this disparity is of a universal nature, and it can be grasped through objective data.

The adjustment coefficients consist of the eight types listed below (Note 12). The adjustment coefficient applied differs depending on the expense item concerned. Moreover, there are many instances when two or more adjustment coefficients are combined and applied to a single expense item (see Note 13).

##### *(a) Class adjustment*

This adjustment is applicable when there are different classes within a unit of service and there is a disparity in expenses per unit for each class.

Example: In the case of high school expenses, a disparity in expenses among regular schools, technical schools, and so on due to the nature of each school's curriculum is reflected.

##### *(b) Grade adjustment*

This adjustment is applicable with respect to instances in which expenses per unit become comparatively high or low as the numerical value of a unit of service changes.

Example: With a larger population, fire service expenses are relatively low, while for a smaller population they are comparatively high. This is reflected through adjustment.

*(c) Density adjustment*

This adjustment is applicable with respect to instances in which expenses per unit become comparatively high or low because of the extent of the density associated with the numerical value of a unit of service, such as population density.

Example: Even when the area of roads is the same, road maintenance and repair costs become relatively high as the volume of vehicular traffic (density) per unit of area increases. This is reflected through adjustment.

*(d) Circumstantial adjustment*

This type of adjustment is applicable with respect to instances in which expenses per unit become relatively high or low due to the circumstances of local public bodies.

1) Regular circumstantial adjustment

The following items are reflected through adjustment.

- Circumstances due to the degree of urbanization
- Circumstances due to a difference in a municipality's administrative authorities

2) Current circumstantial adjustment

Because of differences in the average age of school personnel, a disparity emerges among local public bodies in terms of the unit cost of salaries. This is reflected through adjustment.

3) Investment-related circumstantial adjustment

i. Investment adjustment

The degree of necessity for investment-type expenses varies for each local public body. This is reflected through adjustment.

ii. Project expense adjustment

Actual financial needs of investment expense are reflected through adjustment.

*(e) Coldness adjustment*

This adjustment is applicable with respect to instances in which expenses per unit become relatively high due to the degree of coldness or the amount of snowfall.

Example: An increase in heating expenses is included for colder districts.

*(f) Adjustment for a sudden numerical increase or decrease*

When a local public body has experienced a sudden increase in its population or other unit of service, its expanded financial needs as a result of that sudden increase are reflected through adjustment. Additionally, in the case of a local public body that has undergone a sudden decrease in its population or other unit of service, adjustment is made to allow for the fact that the scale of services cannot be reduced all at once despite that sudden decrease.

*(g) Merger adjustment*

Adjustment is carried out in order to include an extra amount for the expenses that become

necessary immediately after a merger.

*(h) Financial capabilities adjustment*

Funds for principal and interest redemption in the case of local bonds issued for disaster reconstruction projects are included in basic financial needs. However, the weaker the financial capabilities of local public bodies are, the greater the adjustment that is carried out so as to increase the percentage that is included for this purpose.

(E) Note 13 presents a concrete example of calculating the amount of basic financial needs.

*(5) Amount of basic financial revenues*

(A) As shown in 6.2(1), regular local allocation tax is fundamentally allocated to each local public body in accordance with the amount of its deficit in financial resources as computed according to the following formula.

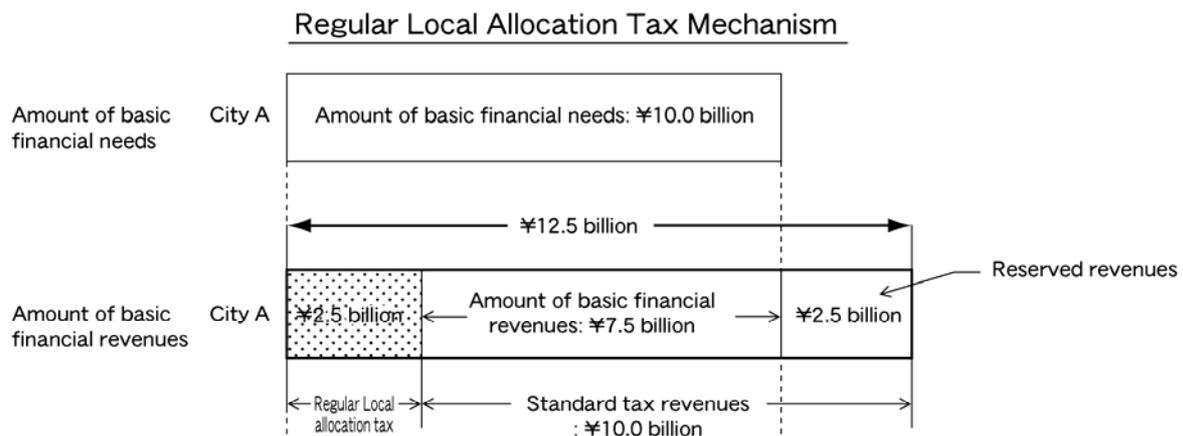
$$\text{Basic financial needs} - \text{Basic financial revenues} = \text{Deficit in financial resources}$$

Because the portion covered by earmarked revenue resources is subtracted in the process of computing the amount of the basic financial needs, as explained in 6.2(4)C, the object of the calculation of the amount of basic financial revenues is general revenue resources. The amount of basic financial revenues is computed according to the following formula.

$$\text{Standard local tax revenue} \times 75/100 + \text{Local transfer taxes, etc. (Note 14)}$$

The regular local allocation tax mechanism based on the two preceding formulas is as illustrated in **Figure 7**.

**Figure 7. Regular Local Allocation Tax Mechanism**



Source: Ministry of Internal Affairs and Communications, "Chiho Kofuzei Seido no Gaiyo" (Outline of the local allocation tax system), available on-line from the Ministry of Internal Affairs and Communications at <http://www.soumu.go.jp/c-zaisei/gaiyo.html> (accessed on Nov. 25, 2006)

(B) As we can understand from the above, the full amount of standard local tax revenues is not included when working out the amount of basic financial revenues. The 25% of standard local tax revenues not included is referred to as reserved revenues. In **Figure 7** the amount of these reserves is ¥2.5 billion.

There are two major reasons for the establishment of reserved revenues (Note 15).

First, since all standard expenses cannot be factored into the amount of basic financial needs, it is necessary to withhold a certain proportion of tax revenues to cover any expenses not incorporated. Second, in the event that 100% of local tax revenues were included, aside from funds to cover financial needs contained within the amount of basic financial needs, other financial resources that enable local public bodies to implement their own policies would cease to exist. Along with that, there is concern that the inclusion of 100% of tax proceeds would diminish the motivation of public bodies to make an effort to develop sources of tax revenues.

(C) **Table 10** lists the tax items and so forth encompassed by the amount of basic financial revenues. Standard general revenue resources are to be computed in a rational manner, with objective data being utilized for these tax items and so forth insofar as possible (Note 16).

**Table 10. Tax Items and So Forth Included in the Amount of Basic Financial Revenues**

**(A) Prefectures**

	<b>Items included in the calculation</b>	<b>Items not included</b>
<i>General revenue resources</i>		
<i>Ordinary taxes</i>	All ordinary taxes defined in the Local Tax Law Prefectural inhabitant tax (excluding grant portion) Enterprise tax Local consumption tax (excluding grant portion) Real property acquisition tax Tobacco tax (including tobacco tax grant from municipalities) Tax on usage of golf facilities(excluding grant portion) Automobile tax Mining area tax Fixed assets tax (special measures portion)	Extra-legal ordinary taxes
<i>Local transfer tax</i>	Income transfer tax	
<i>Others</i>	Grants to prefectures in lieu of fixed assets tax on national properties etc. Special local grant	

<i>Earmarked revenue resources</i>		
<i>Special purpose taxes</i>	Automobile acquisition tax (excluding grant portion) Light oil delivery tax (excluding grant portion)	Hunting tax Extra-legal special purpose taxes
<i>Local transfer taxes, etc.</i>	Local road transfer tax Petroleum gas transfer tax Aviation fuel transfer tax Special grant for traffic safety	

Note: Aside from the above items, special additional amounts calculated on the basis of the amounts corresponding to tax cut compensation bonds are also included within the calculation.

### **(B) Municipalities**

	<b>Items included in the calculation</b>	<b>Items not included</b>
<i>General revenue resources</i>		
<i>Ordinary taxes</i>	<i>All ordinary taxes defined in the Local Tax Law</i> Municipal inhabitant tax Fixed assets tax Light motor vehicle tax Tobacco tax (excluding tobacco tax grant to prefectures) Mine product tax	Extra-legal ordinary taxes
<i>Tax grants</i>	Grant from interest-based prefectural inhabitant tax Grant from dividend-based prefectural inhabitant tax Grant from the portion of prefectural inhabitant tax levied on capital gains from stock transfer, etc. Local consumption tax grant Grant from tax on usage of golf facilities	
<i>Local transfer taxes</i>	Special tonnage transfer tax Income transfer tax	
<i>Others</i>	Grants to municipalities in lieu of fixed assets tax on national properties etc. Special local grant	
<i>Earmarked revenue resources</i>		
<i>Special purpose taxes</i>	Business office tax	Mineral bath taking tax City planning tax Water utilization and land benefit tax Extra-legal special purpose taxes
<i>Tax grants</i>	Automobile acquisition tax grant Light oil delivery tax grant (designated cities only)	

<i>Local transfer taxes, etc.</i>	Local road transfer tax Motor vehicle tonnage transfer tax Petroleum gas transfer tax (designated cities only) Aviation fuel transfer tax Special grant for traffic safety	
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Note: Aside from the above items, special additional amounts calculated on the basis of amounts corresponding to tax cut compensation bonds are also included within the calculation.

Source: Chiho Kofuzei Seido Kenkyukai (Local allocation tax system study group), ed., *Heisei 18-nenban Chiho Kofuzei no Aramashi* (Overview of the local allocation tax, 2006 edition) (2006), pp. 52 and 53

The specific basis for performing the calculations entails one of three approaches: (a) utilize quantitative data and so forth that relevant administrative agencies have collected pertaining to the tax objects, (b) utilize past taxation data, or (c) utilize past allocation and transfer data. Examples of the tax items and so forth as well as the bases for calculations are as follows (Note 17).

- (a) Examples in the case of utilizing quantitative data and so forth that relevant administrative agencies have collected pertaining to the tax objects
  - Prefectural inhabitant tax: The number of people liable for this tax the previous fiscal year as checked by the local public body concerned
  - Tax on usage of golf facilities: The total number of users of golf facilities located within the boundaries of the local public body concerned
  - Automobile tax: The number of vehicles regularly parked within the boundaries of the local public body concerned
- (b) Examples in the case of utilizing past taxation data
  - Corporate enterprise tax: The amount of the previous fiscal year's taxable base, etc.
  - Tobacco tax: The quantity used as the concerned local public body's base for taxation in the previous fiscal year
- (c) Examples in the case of utilizing past allocation and transfer data
  - Local road transfer tax: The amount of the previous fiscal year's transfer
  - Local consumption tax grant: The amount of the previous fiscal year's grant

(D) A concrete example of the calculation of the amount of basic financial revenues is shown in Note 18.

### **6.3 Special local allocation tax**

The total amount of special local allocation tax is 6% of the total amount of local allocation tax.

Special local allocation tax is allocated in consideration of the specific circumstances of individual local public bodies. Those circumstances include conditions that were not reflected in the calculation of regular local allocation tax due to the standardized format used. They also include situations that could not be reflected in that calculation since they happened after the time that regular local allocation tax was determined. A disaster, such as an earthquake or a typhoon, and crop damage due to drought or cold weather conditions are examples.

Because special local allocation tax is computed on the bases of these circumstances, it can be described as supplementing the function of regular local allocation tax.

The process of determining and distributing special local allocation tax occurs on two separate occasions each fiscal year. The first occasion when each local public body's amount is determined and allocated is within the month of December. The amount distributed at that time, though, is a third or less of the total amount of special allocation tax. The second occasion is within the month of March, at which time the entire amount of the remainder is determined and allocated.

## **7. Local allocation tax reform trends**

Widespread debate about reform of the local allocation tax system has been occurring recently. The following briefly describes that debate and the direction being indicated.

(1) Japan has been proceeding with the Trinity Reform of local finance from fiscal 2004 through fiscal 2006. This entails the implementation of reform in an integrated manner with respect to national treasury disbursements, transfers of tax revenue sources, and the local allocation tax. As can be understood from **Figure 5**, each of those three is an important component of the total revenues of local public bodies. As part of this process, reform carried out with regard to the local allocation tax has included reining it in by a total amount of ¥5.1 trillion over a three-year period. With the nation's finances presently being in a crisis situation and spending reform at both the national and local levels of government being demanded, the total amount of local allocation tax continues to be a focus of discussion. Moreover, those on the side of local public bodies are also weighing in. In their opinion, the local allocation tax system ought to undergo a review, one that includes changing the name of the system. They want this done in order to make it clear, for instance, that local allocation tax money constitutes revenues resources that are specifically for local public bodies and are shared by them.

(2) Work on the simplification of the local allocation tax calculation method has been progressing up to this point. In order to move further ahead with streamlining, a new type of local allocation tax calculated on the basis of population and area is to be adopted starting in fiscal 2007. Approximately 10% of the amount of basic financial needs is to be calculated on this basis in fiscal 2007. Additionally, it is anticipated that the items included in the calculations will be reduced by

about 30% with the new system's introduction.

(3) An administrative reform incentive calculation was established in fiscal 2005 in order to encourage local public body administrative reform action surpassing previous efforts. This incentive calculation serves to boost administrative reform efforts by having them be reflected in the calculation of the amount of basic financial needs. In addition, the fruits of various efforts of local public bodies towards revitalization are to be reflected in the local allocation tax beginning in fiscal 2007, thereby supporting local public bodies that do their best to carry out unique projects.

(4) As shown in **Table 5**, the local public bodies that did not receive local allocation tax in fiscal 2006 consisted of 2 prefectural governments and 169 municipal governments. The policy from now on will be to move ahead with various steps, including a review of the distribution of tax sources, and increase the number of non-recipient bodies.

(5) Proper estimation of the amount of local allocation tax that a local public body can count on is also important for its systematic management of finances. A model estimation method is therefore to be provided in order to make it easier for individual local public bodies to predict the amount of local allocation tax that they will receive.

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## Notes

1. Because the mechanism for local taxes is virtually identical nationwide, this gap emerges as a result of differences in terms of the level of taxable income, population size, the state of affairs of economic activity, and so forth.

2. A mission led by Professor Carl S. Shoup came to Japan in 1949 at the request of the General Headquarters of the Allied Powers. The purpose of this mission was to examine Japan's tax system and present a reform plan. The report compiled by this mission is known as the Shoup Recommendation. Although the content of the report is actually related to Japan's tax system, the document also makes recommendations concerning other points, including the improvement and reinforcement of local financial resources and the establishment of equalization grants. (For details refer to: Ishihara, Nobuo and Shimazu, Akira, *Gotei, Chiho Zaisei Shojiten* [Concise dictionary of local finance, fifth edition], [Gyosei Publishing Co., 2002].)

3. For details refer to: Ministry of Internal Affairs and Communications, "Chiho Kofuzei Seido no Gaiyo" (Overview of the local allocation tax system), available on-line from the Ministry of Internal Affairs and Communications at <http://www.soumu.go.jp/c-zaisei/gaiyo.html> (accessed on Dec. 12, 2006).

4. For details refer to: Ministry of Internal Affairs and Communications, "Chiho Kofuzei Seido no Gaiyo" (Overview of the local allocation tax system), available on-line from the Ministry of Internal Affairs and Communications at <http://www.soumu.go.jp/c-zaisei/gaiyo.html> (accessed on Dec. 12, 2006).

5. Estimates for revenue and expenditures for all local public bodies are consolidated into a plan as part of the Local Public Finance Program. This plan is prepared each fiscal year by the cabinet. In the event that deficits in financial resources become evident in the course of its compilation, special measures are taken in order to provide revenue. Special measures have thus far been implemented in some form or another every fiscal year up to this time.

6. The amount set for the fiscal 2006 (initial) Local Public Finance Program is ¥83,150.8 billion.

There is a projected deficit in financial resources in the amount of ¥8,742.0 billion, and the following action has been taken in response.

- Increase in the amount of local allocation tax      ¥1,147.2 billion
- Extraordinary financial measures bond              ¥2,907.2 billion (see Note 7)
- The others    ¥4,687.6 billion

7. Up until fiscal 2000 the amount of a deficit in financial resources was chiefly covered by the provision of additional funds borrowed by the national government. The rule then was that the amount of money for the redemption of the loan principal and interest would be split in half, with the national and local governments each bearing an equal burden. In fiscal 1999 this type of borrowing by the central government for local allocation tax purposes had expanded to as much as ¥30.0 trillion. But there were some problems with this method. For instance, even though the borrowing by the national government fundamentally represented local public bodies' own debt, this aspect was not readily recognized. Japan consequently shifted to a method that first subjects the amount of the deficit in financial resources to a specific adjustment and then evenly splits the remaining deficit between the national and local governments, with each side being responsible for making up its share of the difference. As a result, the practice that has come to be followed with regard to the portion borne by local governments is that each local public body covers its share by issuing a special local bond.

8. As shown here, regular local allocation tax is fundamentally allocated according to the amounts of the deficits in financial resources that have been calculated for each local public body. It has already been stipulated, however, that the amount of regular local allocation tax is to be 94% of the total amount of local allocation tax. Consequently, the figure that is 94% of the amount of local allocation tax (A) does not necessarily always match the total amount of the deficits in financial resources that have been computed for all local public bodies (B). In actuality, therefore, adjustment is carried out.

*When A is less than B*

The amount of the basic financial needs of a local public body that has a deficit in its financial resources is adjusted downward by multiplying the amount of its basic financial needs by a fixed percentage. This percentage is referred to as the adjustment ratio. The regular local allocation tax that is given to each local public body is consequently calculated according to the following formula.

$$\text{Regular local allocation tax amount} = \left( \frac{\text{Basic financial needs amount}}{\text{Basic financial revenues amount}} \right) - \frac{\text{Basic financial needs amount}}{\text{Basic financial revenues amount}} \times \text{Adjustment ratio}$$

In the case of fiscal 2005 the amount of basic financial needs was set at ¥37,182.9 billion, the amount of basic financial revenues at ¥21,238.3 billion, and the adjustment ratio at 0.001636624. As a result, the amount of regular allocation tax was ¥15,883.8 billion, and the amount of the downward adjustment was ¥60.9 billion.

(Numbers are based on “Chiho Zaimu Youran (issued in Dec. 2005)”, p.64, Chiho Zaimu Kyokai (Institute of Local Finance) 2005

*When A is greater than B*

The amount by which A exceeds B is added to the amount of special local allocation tax.

9. Exceptions in connection with calculating the amount of basic financial needs until FY 2009

As explained in Note 7, beginning in fiscal 2001 there was a change in the rule related to covering the amounts of deficits in financial resources on the basis of the Local Public Finance Program, and local public bodies have subsequently partially covered those deficits individually through the issuance of a special local bond. This mechanism is to remain in place until fiscal 2009. This means that the figures that are used as the amounts of the basic financial needs of an individual local public body is the discounted amount derived by subtracting the amount of funds transferred for this special local bond. The transfer amount is to be calculated based upon the population of the individual local public body concerned. Additionally, the entire amount of funds to cover local bond interest and principal redemption in the future is to be included in the amount of basic financial needs for regular local allocation tax.

10. The scope of and standards for annual expenditures shown in the Local Public Finance Program serve as the specific foundation for the standards used to determine the amount of basic financial needs. They are calculated on the basis of the standards for and content of salary expenses, welfare, infrastructure, and so forth built into the Local Public Finance Program. Accordingly, this fulfills the role of guaranteeing, through the calculation of the amount of basic financial needs, the amount required by individual local public bodies.

11. An example of calculating process of the unit costs. (A case of primary school expenses from the education expenses for prefectures)

(A) Standard local public body's scale of services (for a population of 1.7 million)

Item	FY 2006	Change due to reinforcement, etc.	FY 2005
No. of schools (main schools)	400 schools	–	400 schools
No. of school personnel			
Principals	400 people	–	400 people
Vice principals	400 people	–	400 people
Regular teachers	5,338 people	-21 people	5,359 people
Administrative personnel, etc.	527 people	–	527 people
Total	6,665 people	-21 people *	6,686 people

\* The total number nationwide declined by 619, a figure that factors in an increase in the number of personnel as a result of the reinforcement of the fixed number of primary school personnel and a decrease due to attrition.

(B) Standard local public body's expenses

Total expenditure (salary expenses, travel expenses, etc.):	¥60,080 million
Total revenue (national treasury disbursements):	¥14,874 million
Difference (amount of general revenue resources required):	¥45,206 million

(C) Unit cost

$$\frac{\text{General revenue resources amount required by a standard local public body}}{\text{Standard local public body's no. of school personnel}} = \frac{\text{¥45,206 million}}{\text{¥6,783,000}} = 6,665 \text{ people}$$

Source: Chiho Kofuzei Seido Kenkyukai (Local allocation tax system study group), ed., *Heisei 18-nenban Chiho Kofuzei no Aramashi* (Overview of the local allocation tax, 2006 edition) (2006), p. 41

*Additional comments by the author of this paper*

- 1) A figure of 400 for the number of primary schools is the normal level in the case of a hypothetical prefecture with a population of 1.7 million people.
- 2) The number of school personnel required is then calculated. This process of tallying the total number is done along the lines of each school having one principal, one vice principal, and so forth. Here a total of 6,665 people is calculated for fiscal 2006. This figure becomes the number of school personnel for a standard prefecture with a population of 1.7 million people.
- 3) Then, taking into consideration differences in costs depending on each position, the expenses for 6,665 people, including salary and travel expenses, are tallied. The result is ¥60,080 million. This figure is the amount shown for the total expenditure in the part entitled "(B) Standard local public body's expenses."
- 4) The next step is to factor in national treasury disbursements, which are given for expenses that include the salaries of primary school personnel. The monetary amount of such disbursements here is ¥14,874 million. This amount is subtracted from ¥60,080 million, and the resulting figure, ¥45,206 million, represents the amount of general revenue resources required.
- 5) This amount of funds is then divided by 6,665, which is the standard local public body's number of school personnel. The number that results is the cost per employee for a standard local public body's school personnel. This figure becomes the unit cost used for the prefectural portion of primary school expenses.

12. For details refer to: Chiho Kofuzei Seido Kenkyukai (Local allocation tax system study group), ed., *Heisei 18-nenban Chiho Kofuzei no Aramashi* (Overview of the local allocation tax, 2006 edition) (Chiho Zaimu Kyokai [Institute of Local Finance], 2006), pp. 45 and 46.

13. An example of the application of adjustment coefficients for the basic financial needs amount

*Road and bridge expenses (unit of service: road length)*

$$(1) \text{ Basic financial needs amount} = \underbrace{\text{Cost per km of road}}_{\text{Unit cost}} \times \underbrace{\text{Road length}}_{\text{Unit of service}} \times \left\{ \underbrace{\text{Investment adjustment}}_{\text{Adjustment coefficients}} + \underbrace{\text{Project expense adjustment}}_{\text{Adjustment coefficients}} + \underbrace{\text{Coldness adjustment}}_{\text{Adjustment coefficients}} \right\}$$

(2) Calculation on an individual prefecture basis (FY 2005 calculation in the case of Niigata Prefecture)

$$¥31.5 \text{ billion} = ¥3,402,000 \times 6,656 \text{ km} \times (0.826 + 0.400 + 0.163)$$

*Adjustment coefficients*

- Investment adjustment: Reflects factors such as the degree of need for road reconstruction (for example, the ratio of the prefecture's undeveloped roads versus the national average)
- Project expense adjustment: Incorporates a portion of funds for special local road development bond principal and interest redemption (based on the volume of road projects)
- Coldness adjustment: Reflects increases in construction expenses due to protection against freezing and so on (degree of coldness) and increases in construction expenses in snowy areas, including wider road widths (degree of snowfall)

*Unit cost*

- Unit cost per kilometer of road  

$$¥3,402,000 / \text{km} = ¥13,269 \text{ million} \div 3,900 \text{ km}$$

(Standard local public body's general revenue resources)      (Standard local public body's road length)

Source: Chiho Kofuzei Seido Kenkyukai (Local allocation tax system study group), ed., *Heisei 18-nenban Chiho Kofuzei no Aramashi* (Overview of the local allocation tax, 2006 edition) (2006), p.51

14. The local road transfer tax, the motor vehicle tonnage transfer tax, the petroleum gas transfer tax, the aviation fuel transfer tax, the income transfer tax, special grants for traffic safety, and special grants for the child allowance among special local grants are categorized as "Local transfer taxes, etc." here (in the case of fiscal 2006).

15. For details refer to: Ishihara, Nobuo, *Shin Chiho Zaisei Chosei Seido Ron* (New argument for a local financial adjustment system) (Gyosei Publishing Co., 2000), p. 458.

