IOTA PAPER

The Current Situation of Digitalisation in Japan

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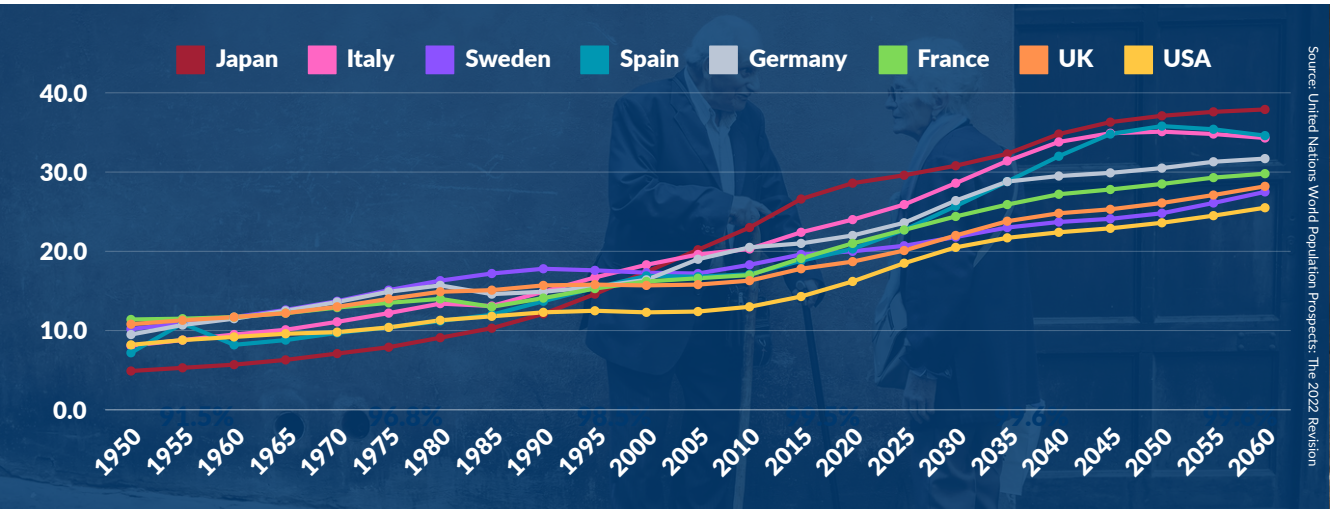
Japan's Challenges: Depopulation and an Aging Society

Japan faces a critical demographic challenge in sustaining its socioeconomic infrastructure amidst unprecedented population decline and accelerated aging.

Japan is experiencing an aging society ahead of other countries. Figure 1 illustrates the global demographic aging trends, providing a comprehensive comparative analysis of international population aging patterns. Japan's ratio of elderly people was 20.2% in 2005, and since then, it has been the country with the highest aging rate in the world. It is estimated that this rate will continue increasing, reaching 28.6% in 2020, 30.8% in 2030, and 37.9% in 2060.

Figure 1
Rate of elderly population



Population decline is another serious concern. The birth rate has remained low for several decades, and the total population has been declining since 2005. Consequently, the working-age population has shrunk, while the proportion of people aged 65 and older has increased. In 2023, nearly 30% of the population was over 65, which means almost one in three individuals was elderly. Japan's total population is projected to decline to 95.15 million by 2050.

This situation is especially worrisome for Japan because it affects social welfare and leads to labour shortages, meaning fewer workers must handle the same amount of work. For instance, the number of local government tax officials per 10,000 residents declined from 6.8 in 1994 to 5.5 in 2016. The retirement age for government officials has traditionally been 60 years old, but the government is trying to gradually raise the retirement age each year, until it reaches the age of 65.

Rural depopulation is another critical issue, as many young people migrate to Tokyo and other major urban centres for work. As a result, businesses and residents are heavily concentrated in these metropolitan areas, creating a vicious cycle for regional areas. Both central and local governments have attempted to address this issue with limited success, and a fundamental solution remains unclear.

When examining prefectural GDP, Tokyo ranks highest among all prefectures at nine times the national average. It produces 60 times the GDP of Tottori Prefecture, which has the lowest GDP in the country. Tokyo's economic concentration is evidenced by its GDP, highlighting substantial regional economic disparities.

Impact of the COVID-19 pandemic

The unprecedented global pandemic in 2020 precipitated immediate and transformative shifts in societal operational paradigms, forcing rapid adaptation across multiple domains of social and economic interaction.

In 2020, Japan, like the rest of the world, was suddenly impacted by COVID-19, forcing a rapid change in lifestyle. Citizens were urged to avoid “Three Cs” (closed spaces, crowded places, and close-contact settings) to mitigate viral transmission risks, a slogan known in Japan as “San-mitsu” that was created by taking the initial letters of these words.

At the same time, digitalisation progressed significantly. People worked from home, held online meetings, shopped via the internet, and enjoyed online entertainment. Overall, Japan’s level of digitalisation has advanced considerably since my previous presentation at the 2019 IOTA General Assembly.

Digitalisation as One Solution to an Aging Society

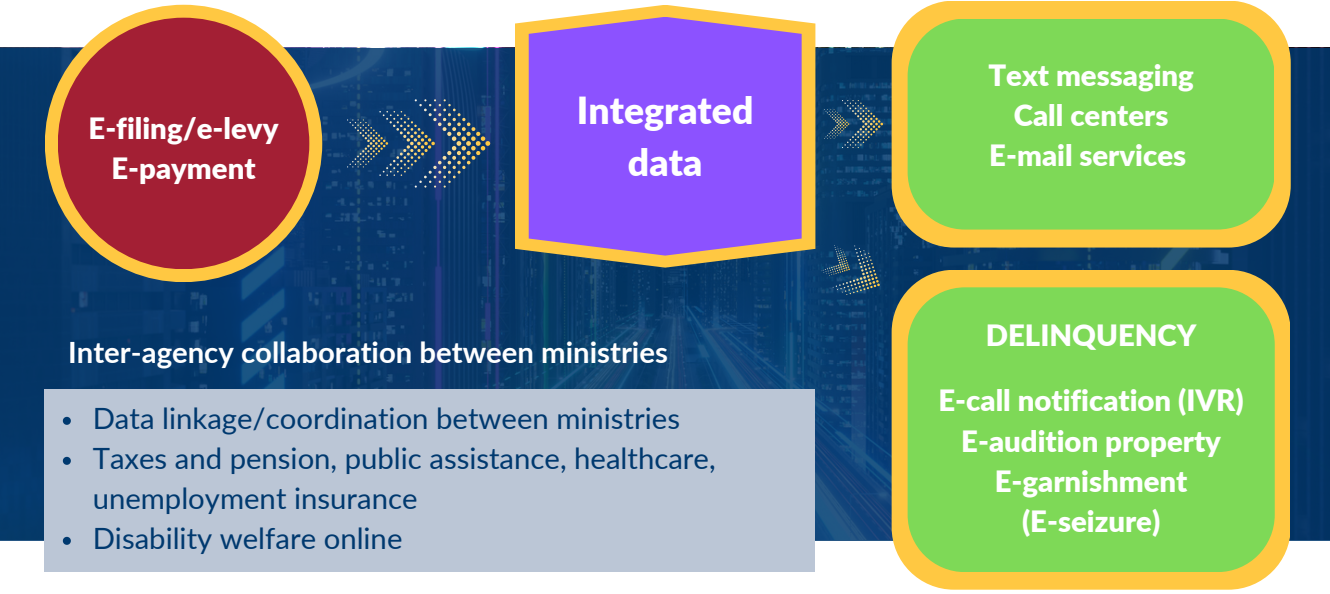
Digitalisation is one potential solution to the challenges posed by Japan's aging population. For government agencies, it helps compensate for labour shortages and enhances work efficiency. For taxpayers, it improves convenience and supports daily life.

In addition, when discussing digitalisation of the tax system, there are five important perspectives:

1. Enhancement of customer services
2. Efficiency and accuracy of internal procedures
3. Stability, security, and reliability of the tax system
4. Time and cost-effectiveness
5. Fairness and neutrality for taxpayers

Based on the aforementioned five points, Figure 2 illustrates the ideal situation I envisioned 15 years ago, and Japan is steadily moving closer to this goal.

Figure 2
The Goal: Integration of Information



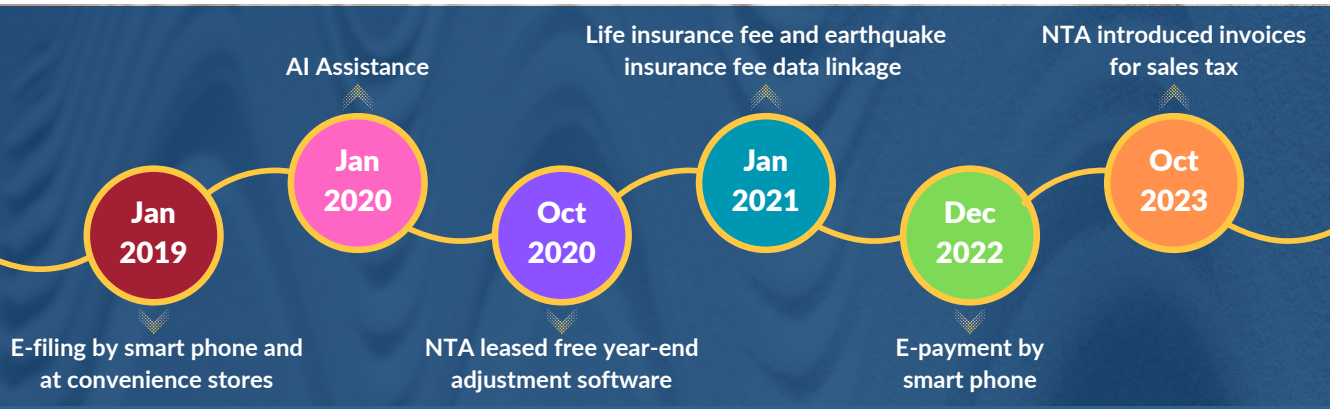
The History of Japan's Digitalisation of Tax Payments

Digital transformation emerges as a strategic intervention to mitigate socioeconomic challenges precipitated by demographic shifts. It represents a multifaceted approach for governmental entities to address workforce deficits and optimise administrative productivity through technological innovation.

Japan's e-filing system began in 2004. Initially, the central government did not anticipate that tax accountants would become the primary point of contact. However, because 90% of Japanese companies are small or medium-sized, they relied on tax accountants to submit online tax returns on their behalf. Over time, the Tax Accountants Association requested minor adjustments, leading to at least 24 system revisions by 2018. Progress has therefore been incremental, improving step by step.

As shown in Figure 3, e-filing via mobile phones and at convenience stores became available in 2019. The implementation of mobile and convenience store-based electronic filing mechanisms represented a significant step forward in enhancing taxpayer accessibility and technological integration. In 2020, the National Tax Agency of Japan (NTA) launched AI assistance feature and released free-of-charge filling software. In 2021, the NTA introduced data-linking for life and earthquake insurance fee deductions, and in 2022, it introduced e-payment by mobile phone.

Figure 3
Continuously evolving



Taxpayers, tax accountants and tax officials no longer need to handle large amounts of paper when completing tax-related activities.

As of 2023, the e-tax utilisation rate is approximately 90% for corporate income tax (CIT) and 70% for personal income tax (PIT).

Most recently, in 2023, the NTA introduced invoices for the consumption tax (Japan's equivalent to VAT), prompting a significant increase in e-filing by self-employed individuals. Overall, Japan has made impressive progress in e-tax implementation.

Current and Near Future Customer Solutions

Japan is particularly focused on improving convenience for taxpayers. As mentioned previously, the NTA has introduced e-filing by mobile phone and AI assistance for taxpayers. The number of taxpayers using the e-filing system has been increasing gradually. The number of taxpayers using the e-filing option overtook those using conventional tax filing in 2020. The preferred method of tax payment has been changed.

Taxpayers who pay outstanding taxes at the tax office and at banks has been decreasing since the onset of COVID-19. Similarly, the percentage share of bank transfers has been decreasing. Accordingly, the e-payment service has been increasingly successful and caught up with bank transfers in terms of numbers in 2020.

The right side of Figure 4 shows a preview of Japan's future tax payment software. In order to improve convenience for taxpayers, to prevent data entry errors by citizens and to ensure data accuracy, Japan is aiming to reduce manual data entry. In Figure 4 we can see the Japanese version of a pre-print tax return.

Figure 4

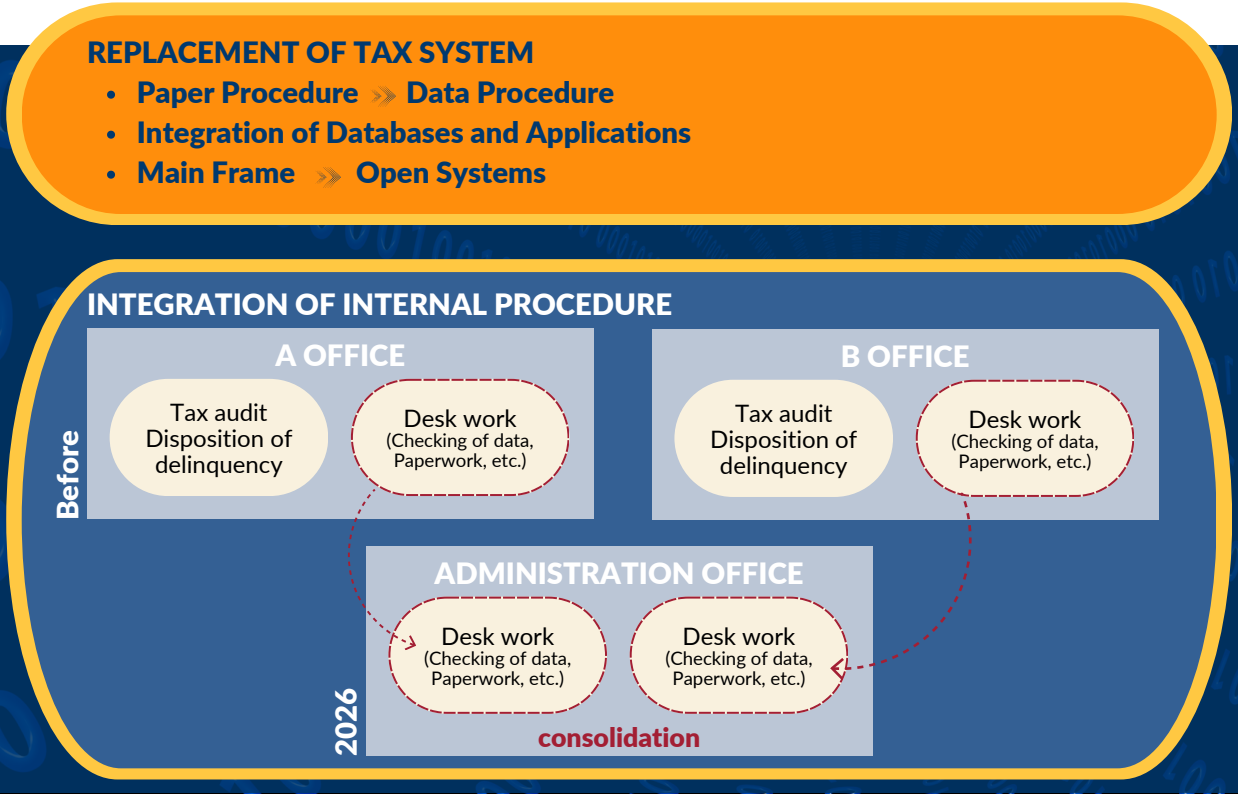
Current and Near Future Customer Solutions

The Future - A new IT system

Another critical development is shown in Figure 5.

Figure 5

The Future Tax System (2026～)



The NTA is currently building a new IT system to replace the existing one, which was launched in 1997. The new system, scheduled for completion in 2026, will be an open system rather than a mainframe, freeing staff from burdensome paper-based processes and integrating data and applications.

In addition, the NTA has already tested integrated internal procedures in several tax offices, and all 524 offices will adopt the integrated model by 2026.

In conclusion, the NTA has responded to changing demographics and technological developments by strategically developing a comprehensive technological infrastructure, designed to supersede the legacy system implemented in 1997, reflecting a systematic approach to digital transformation.

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