
Tax Reform and the Board of Audit

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Introduction

The 1998 Fiscal Audit Report, rather than focusing on the administrative issues of taxation and tax collection, discussed two topics related to the reform of the tax system. One of those topics was in the Report's special description, which concluded that the tax system actually encouraged tax evasion. The second topic in the Report related to current problems such as consumption tax delinquency related to article 36 of the Board of Audit Law. In this paper, I would like to discuss the relationship between the reform of the tax system and accounting audits in the context of these two topics.

1. Special Description on Registered License Tax Act and Tax Revision in 2000

First of all, let us look at the structural defects of the old registered license tax system, which the 1998 Fiscal Audit Report picked up as a problem. Under the old registered license tax system, the tax rate on the registration of ownership transfer was 5% while the rate on the partition of common property was 0.6%. An example of the way that this tax rate was used for tax avoidance is as follows: "Suppose that the ownership of some real estate is transferred from A to B. At the first stage, this real estate is jointly owned by A and B by transferring ownership of a small portion of property (for example 1/100) through buying and selling. Then, the rest of ownership of the property is transferred to B in the form of a compensated partition. The tax rate of 50/1000 is applied to the first transfer, while the rate of 6/1000 is applied to the next transfer through compensated partition. Therefore, the rate of registered license tax can be greatly reduced compared with ordinary cases in which the whole property is transferred for buying and selling purposes."¹⁾

The law prescribed that the reduced tax rate also be applied to the portion not corresponding to own quota before the partition. In the case of registering the ownership transfer of land equivalent to ¥100 million by the normal method of buying and selling, ¥5 million of registered license tax (¥100 million x 5%) is imposed. On the other hand, if you adopt the method of changing common property to single ownership by registering your ownership transfer of 1/100 portion of property firstly and then registering the remaining portion as a partition of common property, the tax imposed will be as follows:

¥100 million x 1/100 x 5% = ¥50 thousand (ownership transfer)

¥100 million x 99/100 x 0.6% = ¥594 thousand (partition of common property)

The above calculation shows that the tax amount decreases to about one-tenth (¥644,000) of the amount in a sales transfer case (¥5,000,000). The Auditing Report explained the factual circumstances in which such tax evasion was prevalent : "There were 655 cases involving unusual sales transfers of land ownership (involving a

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1) 1998 Fiscal Audit Report, p. 437

total of 1,033 parcels of land and 613 buildings) registered with 25 registration offices (including the Tokyo Legal Affairs Bureau). These cases usually involved a sales transfer of a small portion of the relevant property (not exceeding 10% of the total area). The remaining portion of common property was then transferred through a partition of the common property within a short period of time (30 days). Further, it was reported that out of these 655 cases, less than 1/100 of the property had been transferred by sale in 626 cases (95% of the total cases), with the registration application for the sales transfer and the application for transfer of the remaining property made on the same day in 612 cases (93% of the total cases). The Board determined that these registrations were for the purpose of decreasing the registered license tax by taking advantage of the lower tax rate on partition of common property. The Board therefore considered application of the lower tax rate on partitions of common property in the above cases does not meet with the intent of preventing double taxation but results in unfair tax burden.”²⁾

The problem indicated by the Board of Audit was not just an operational problem, but a structural defect in that the reduced tax rate was approved for any partition of common property, regardless of the ratio of individually owned property. The Board of Audit stated its opinion in the Report as follows.

“Although this problem is basically due to the lack of a sense of responsibility among a few tax payers, it is also because of the following aspects of the law and tax system.

(a) Because the Registered License Tax Act prescribes that a tax rate of 6/1000 is applied to registrations of ownership transferred through a partition of common property, this tax rate is applied even to the extreme aforementioned cases.

(b) Because registration applications for real estate ownership are examined in writing, reviewing staff members must swiftly process many registration applications, and it is therefore difficult to ascertain the real purpose of registration.

(c) Under the current system, tax officers do not investigate those who pay the registered license tax.

Taking into consideration the above circumstances, it is difficult to correct the current situation and promote fair taxation. However, we should take appropriate measures for fair and proper taxation by studying and discussing the problems with the Ministry of Justice, which is responsible for the tax rates on registered license tax and confirming the tax payments, and the Ministry of Finance responsible for investigating and planning the tax systems.”³⁾

This recommendation by the Board of Audit was incorporated into the revision of the tax system in 2000. In response to this recommendation, the revised tax system in 2000 raised the tax rate for partition of common property except for the part corresponding to individually owned property prior to partition, to 5%, the same as for ordinary ownership transfers. With this system, the 5% tax rate is to be imposed in the aforementioned cases when sole ownership is attempted through the partition of common property (99/100): in other words, tax evasion is prevented (see Article 84-4-1 of the Special Taxation Measures Law). According to the official comments on the revision process, “The special description in the 1998 Fiscal Audit Report issued by the Board of Audit explained there were some cases wherein registered license tax was partially evaded by registering the sales transfer of a nominal portion of property and by registering the rest of the property as a transfer through a partition of common property, although this was actually a subsequent sales transfer. Such cases were not in line with the purposes of the Registered License Tax Act, which prescribed the lower tax rate for partition of common property on the assumption that common property is partitioned based on a “partition in kind”, in which common property is divided in proportion to each individual quota and is then transferred to sole possession. The Board of Audit indicated that the lower tax rate was applied to the aforementioned property transfers although they were actually cases involving sales transfers. The Board predicted that such fraudulent registrations will increase. To deal expediently with this problem of fair taxation, it was decided that measures be taken to revise the tax rate of 50/1000, which was the rate applied to registration of sales transfers, is to also be imposed on partitioned common property except for the portion corresponding to individual quotas before partition.”⁴⁾

2) 1998 Fiscal Audit Report, pp. 437–38

3) 1998 Fiscal Audit Report, p. 439

4) “On the Revision of the Special Taxation Measures Law” (registered license tax); Masatoshi Shirato, Magazine on Tax and Economy (Zeikei Tsushin), p.190, No.8, Volume 55.

This comment made clear that the Report issued by the Board of Audit was a decisive factor in making the revision. The Board of Audit investigated not only the problem of tax usage, but also the administration of the taxation system and the factual situations involving tax evasion, and their investigation results led to a reform of the tax system. It is worth noting that the Board's investigative activities, which are generally the oversight of the collection and usage of taxes, promoted a reform of the tax system itself.

There were some cases where accounting audits had an effect on the tax system, irrespective whether or not they directly led to a revision of the tax system.

1) In a special description to the Ministry of Finance in FY 1976, "The special rules for calculating taxable income for physicians who receive medical treatment fees paid from the social insurance system". The description commented that there was a 20% discrepancy between the average actual expense rate of doctors and the 72% tax deduction rate set by law, and that the discrepancy increased in proportion to the revenue of doctors.⁵⁾ This well-known problem had been publicly discussed as an example of unfair taxation, and severe criticism had been leveled also by the Tax Commission in its annual report since 1974.⁶⁾ Finally, the rates were changed in the tax revisions of 1979. It can be said that the revisions were prompted based on the Tax Commission criticisms, which was supported by the Board of Audit.

2) In 1985 the Board of Audit suggested correcting the administration of the extension of the deadline for inheritance taxes on agricultural land. It identified the actual practice in which inheritance tax was not applied to transferred land, even though extension were not by law supposed to be permitted when agricultural land was transferred for sale or was switched to non-agricultural usage. The Board of Audit requested corrections be made to the administration aspects of this system.⁷⁾

3) The Board of Audit suggested correcting anomalies in the registered license tax on registration of ownership transfer of residential houses in FY 1987. The Board pointed out that special tax treatment was actually being applied to many houses that were not inhabited or used for residential purposes, although the special tax treatments were to be applied only to residential housing. These suggestions were made in a special description to the Ministry of Justice.⁸⁾

4) The non-taxation on interest on tax refunds was described in 1990.⁹⁾ The Board of Audit stated that interest on tax refunds should be classified as taxable income although both tax payers and taxation authorities did not fully understand the concept, resulting in much tax avoidance in fact. The board prompted for improvements to be made.

As indicated by the above examples, the Board of Audit has identified important problems in the tax system mainly regarding collection practices. However, the Board's statements were not enough to a directly influence revisions to the tax system, as with the 1998 report. It seems that the 1998 Fiscal Audit Report resulted in heightening the influence of the role of the Board of Audit.

5) 1976 Fiscal Audit Report, p.95.

6) "Report on the special rule in calculating tax on medical treatment fee under social insurance system"; October 1974

7) 1985 Fiscal Audit Report, p.43.

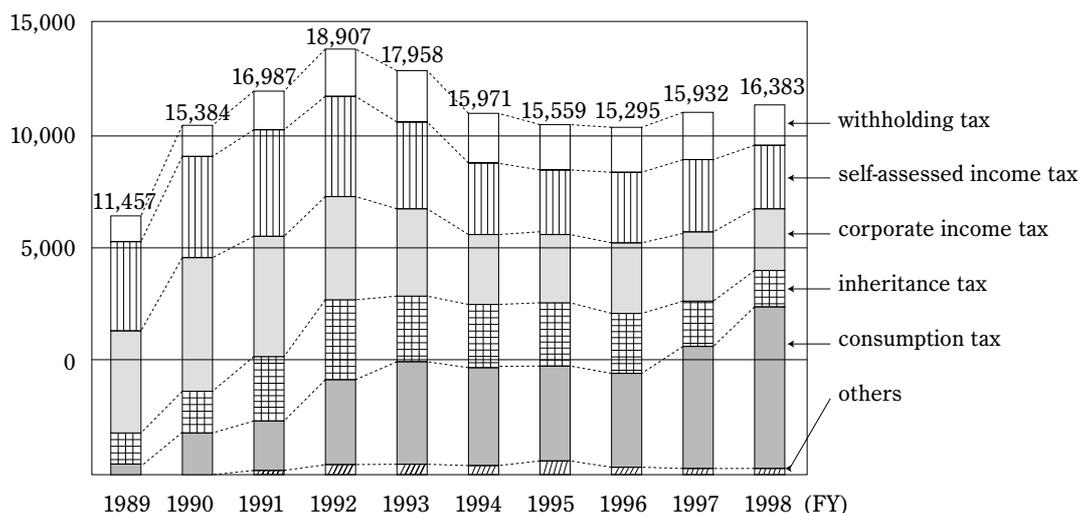
8) 1987 Fiscal Audit Report, p.298.

9) 1990 Fiscal Audit Report, p.61.

2. Consumption tax and delinquency

Next, let us move on to the second problem of delinquency in payment of the consumption tax. After summarizing changes in the newly arising tax delinquent amounts, the Audit Report stated, "By tax type, delinquency in payment of the consumption tax has been increasing significantly and reached 44.2% of the total national taxes in FY 1998, although the rate for other taxes has been decreasing or remained at the same levels."¹⁰⁾

Table 1 Changes in delinquent amounts by year (¥100 million)



(quoted from p.88 of the 1998 Fiscal Audit Report)

As shown in the table, the ratio of delinquency on consumption tax to delinquency on all taxes has increased. Further the Report explained the structure of consumption tax as follows: "The consumption tax is imposed on sales at each stage of production, wholesale, retail, and others. The tax is imposed at each stage, and the total tax amount is finally charged on consumers. Sellers at each stage are required to pay the consumption tax on their sales after deducting the consumption tax on their purchases. In this system, the burden is ultimately passed on to consumers, although sellers are responsible for paying the consumption tax. This structure suggests that amount of the consumption tax to be paid by sellers characteristics of deposited money from consumers."¹¹⁾

If the consumption tax has the legal character of a deposit, the government should investigate delinquency in consumption tax payments.

The Board investigated the causes of delinquency and identified the following problems. "As a result of investigating the delinquency of sellers in 808 cases, by examining documents on punishments for delinquency, the Board estimates that financial problems due to the sales declines, difficulties in financing working capital, excessive investments, and others causes arose in 1,084 cases (which did not match the number of sellers due to multiple answers in the questionnaire), which constituted most of the 1,230 cases. The following background facts were also identified:

- (1) Sellers have a low awareness of the concept that consumption tax has the property of a fund that is deposited by consumers.
- (2) The fund equivalent to the consumption tax imposed on sales cannot be clearly distinguished from the sales

10) 1998 Fiscal Audit Report, p.88.

11) 1998 Fiscal Audit Report, pp.89-90.

themselves.

(3) The period covering the time at which receiving the equivalent fund to the consumption tax until the tax is paid is long because the tax is to be paid one to four times per year.¹²⁾

The Report stated the following measures for improvement had been taken: (1) publicity, (2) attachment of a certificate of tax payment to applications for participation in bidding, (3) fund pool for tax payments, and so on.

The Report made the following recommendations.

- a) require sellers to strictly adhere to deadlines for tax payments by increased public relations explaining that consumption tax is a form of tax that has the property of being deposited by consumers.
- b) ask local governments, which currently do not request sellers to attach a certificate of tax payment when applying for a bid qualification review, to ensure that this is adhered to, and also ask national agencies to cooperate in making applicants attach this certificate.
- c) ask relevant private groups, such as savings unions, for tax payment and the like to cooperate in encouraging sellers to save their fund for tax payments.¹³⁾

The Fiscal Audit Report reviewed several important items concerning the consumption tax delinquency problem. The Report's recommendations were mild, and only requested cooperation from taxpayers. However, this problem includes several disputed points, which should promote a review on how consumption tax should be arranged. Next, let us review the consumption tax delinquency problem from the perspective of the tax law in line with the indications in the audit report.

2.1 Is the consumption tax delinquency rate abnormal?

Is consumption tax delinquency an important enough issue for the Board of Audit to focus on? It is certainly true that both the delinquency amounts and the delinquency rates have increased since the time of introduction of consumption tax (see Table 2).

Compared with the figures for other taxes in Table 3, although the delinquency rate for the consumption tax is higher than those for the withholding tax and corporate income tax, it is still lower than the rates for self-assessed income tax and inheritance tax. Once we focus on the fact that the consumption tax is an indirect tax, however, it is not so meaningful for consumption tax to be compared with direct taxes, it should therefore be compared with other indirect taxes. In Table 3, the consumption tax should be compared with the figures in the column "Other tax items," which include indirect taxes. Compared with other indirect taxes with figures of around 0.1%, consumption tax delinquency rates seem abnormally high.

However, as shown in Table 4 "Comparison of delinquency rates for each tax in 1965 and 1975", indirect taxes such as the liquor tax were extremely low, while the commodity tax, the predecessor of consumption tax, was not so low.

The delinquency rates for indirect taxes are, in general, extremely low compared with those for direct taxes. In view of the general trends in delinquency rates for indirect taxes, you might well say that the consumption tax delinquency rate is abnormally high. However, indirect taxes other than the consumption tax are imposed on manufacturers, and not on the final retailers. Comparing other indirect taxes imposed at one stage to manufacturers (which are mostly large enterprises) with the consumption tax imposed at all stages mostly on retailers, it is quite natural that the delinquency rate is higher for the latter tax. Although we should therefore compare the consumption tax with other indirect taxes for which retailers are liable, there is no such tax under the

Table 2 Changes in the consumption tax delinquency rate

	Collection amount determined	Newly incurred delinquent amount	Rate of delinquency
1989	39,370	306	0.78%
1990	61,741	1,712	2.77%
1991	66,599	2,275	3.42%
1992	71,596	3,891	5.43%
1993	74,808	4,597	6.15%
1994	74,524	4,369	5.86%
1995	74,545	4,263	5.72%
1996	76,163	4,300	5.65%
1997	95,080	5,395	5.67%
1998	105,228	7,249	6.89%

(prepared from p.89 of the 1998 Fiscal Audit Report)

12) 1998 Fiscal Audit Report, pp.90-91.

13) 1998 Fiscal Audit Report, p.94.

current tax system. However, one possible reference is the Class 1 of the former commodity tax for which retail stores were liable. It would be necessary to check the details of delinquency for the former commodity tax, but regrettably the delinquency rates for commodity taxes, which were classified into the Class 1 and Class 2, have not been disclosed by the National Tax Administration, and therefore, it is impossible to present an accurate figure. Judging from the experiences of personnel in charge of commodity tax collection, however most cases of delinquency in the commodity tax were for Class 1, which were imposed on retail stores, while the delinquency rate for the Class 2 imposed on manufacturers was extremely low. There is no data directly supporting this. But

Table 3 Occurrence of delinquency and settlement per tax type

Units: ¥100 million, %

Classification Tax item		State on occurrence					Delinquency needed for settlement		State of settlement					
		Determined amount for collection		Delinquent amount newly occurring		Ratio of delinquency occurring			Settled		Disposed ratio	On settlement		
			Ratio to previous year		Ratio to previous year			Ratio to previous year		Ratio to previous year			Ratio to previous year	
Total of all tax items	1996	531,008	98.8	15,295	98.3	2.9	41,901	103.4	14,870	106.7	35.5	27,031	101.6	
	1997	544,108	102.5	15,932	104.2	2.9	42,963	102.5	15,133	101.8	35.2	27,830	103.0	
	1998	505,037	92.8	16,383	102.8	3.2	44,213	102.9	16,064	106.2	36.3	28,149	101.1	
Breakdown per tax item	Withholding tax	1996	161,736	94.8	2,006	96.7	1.2	6,455	104.6	1,755	101.9	27.2	4,700	105.6
		1997	166,462	102.9	2,109	105.2	1.3	6,809	105.5	1,752	99.8	25.7	5,057	107.6
		1998	150,544	90.4	1,912	90.6	1.3	6,969	102.4	1,824	104.1	26.2	5,145	101.7
	self-assessed income tax	1996	41,255	103.3	3,037	101.9	7.4	10,993	102.6	3,027	109.6	27.5	7,966	100.1
		1997	39,982	96.9	3,128	103.0	7.8	11,094	100.9	2,924	96.6	26.4	8,170	102.6
		1998	34,411	86.1	2,787	89.1	8.1	10,957	98.8	3,155	107.9	28.8	7,802	95.5
	corporate income tax	1996	149,776	104.4	3,110	106.5	2.1	10,465	101.5	3,476	117.6	33.2	6,989	95.0
		1997	141,596	94.5	3,090	99.4	2.2	10,079	96.3	4,013	115.4	39.8	6,066	86.8
		1998	121,646	85.9	2,680	86.7	2.2	8,746	86.8	3,389	84.5	38.7	5,357	88.3
	inheritance tax	1996	31,201	86.3	2,670	93.4	8.6	5,050	105.3	2,374	98.3	47.0	2,676	112.4
		1997	30,905	99.1	2,092	78.4	6.8	4,768	94.4	1,764	74.3	37.0	3,004	112.3
		1998	25,749	83.3	1,689	80.7	6.6	4,693	98.4	1,334	75.6	28.4	3,359	111.8
	consumption tax	1996	76,163	102.2	4,300	100.9	5.6	8,161	107.1	3,919	104.2	48.0	4,242	109.9
		1997	95,080	124.8	5,395	125.5	5.7	9,637	118.1	4,525	115.5	47.0	5,112	120.5
		1998	105,228	110.7	7,249	134.4	6.9	12,361	228.3	6,215	137.3	50.3	6,146	120.2
	other tax items	1996	70,877	97.5	172	37.2	0.2	777	84.3	319	100.6	41.1	458	75.7
		1997	70,084	98.9	118	68.9	0.2	576	74.2	155	48.6	26.9	421	92.0
		1998	67,460	96.3	66	55.9	0.1	487	84.6	148	95.4	30.4	339	80.6

* quoted from p.24 of Reference data issued by the Tax Commission dated May 16, 2000

Table 4 Comparison of delinquency rates for each tax in 1965 and 1975

	Income tax	inheritance tax	commodity tax	liquor tax
1965	7.04	12.69	3.49	0
1975	6.51	16.94	4.16	0.06

* prepared from the "annual statistical report of the National Tax Administration"

according to an investigation on tax-law violators ordered to correct commodity tax declaration, the Class 1 delinquency rate was 10 times higher than that of the Class 2 (the delinquency of Class 1 of commodity tax is ¥2,164 million to tax amount of ¥82,400 million, or the delinquency rate of around 2.5%; and the delinquency of Class 2 tax is ¥2,251 million to tax amount of ¥842,000 million, or delinquency rate of 0.2%). This data, therefore supports the above estimation.

As mentioned above, it is impossible to conclude that the delinquency rate of consumption tax as a tax imposed on retailers is abnormally high. Rather, we should consider that delinquency at the time of its introduction was abnormally low. The reasons for this included very favorable tax relief measures through special exemptions applied to smaller enterprisers, as represented by a simplified tax system (which has often been criticized), as well as the bubble economy. We can conclude that the delinquency rate merely reached a “normal level” with the later reduction of the special exceptions and the bursting of the bubble economy.

2.2 Is the consumption tax a deposit?

Next, the Audit Report stated “low recognition of the legal character of a deposit” as a reason for the increasing delinquency. The meaning of “deposit” is that sellers receive de facto consumption tax payments from consumers and keep it until they pay the tax. However, as is well known, sellers are responsible for paying tax under the Consumption Tax Law (Article 5), while consumers are not liable for tax payment. Because consumers do not have a legal liability to pay consumption tax, whether consumption tax is shifted onto the product price and actually paid by consumers is based on the de facto relative bargaining power of businesses and consumers. If consumers have the responsibility to pay consumption tax, sellers' statements such as “We did not receive any consumption tax,” or “sales campaign to pay back consumption tax,” would be illegal. Then the question becomes the legal character by the money received by sellers as consumption tax and the money paid by consumers as consumption tax. According to a statement by the Government (defendant) in the trial on the rationality of the simplified tax system at the Tokyo District Court (decided on March 26, 1990) “the equivalent amount to consumption tax that sellers receive from customers is a portion of a consideration paid for a commodity or service provided in the said transaction.”¹⁴ The decision of the court also stated, “The consumption tax charged to consumers is, in essence, nothing more than consideration.” In terms of tax law, the amount equivalent to the consumption tax charged to consumers does not constitute a consumption tax, but a part of a consideration. Sellers pay a certain percentage of sales, including it as consumption tax which is imposed on the difference between sales amount and purchase amount. Sellers are not legally required to keep consumer tax amount from consumers. It is difficult to consider consumer tax-equivalent amounts as deposits received from consumers unless consumers are defined by law as tax payers and sellers as special collecting agents. This is the reason why the Fiscal Audit Report used the expression “the character of a deposit.”

In practice, sellers take it for granted that they will charge a consumption tax on consumers, while consumers conduct themselves as if they were actually liable for paying consumption tax. These facts reflect people's recognition of the consumption tax's character as a deposit. Then it should be asked why delinquency has increased in spite of such a recognition. Consumption tax delinquency seems to have been influenced by the difficult financial situation of sellers or a decrease in income itself. This can be indirectly construed from the fact that the delinquency rate for the consumption tax is situated approximately at the mid-point between the delinquency rate for the self-assessed income tax and the corporate income tax. Therefore, it is difficult to say that the delinquency rate is abnormal.

2.3 Financial situation and delinquency

As the rates of income tax and corporate income tax have decreased, the importance of consumption tax revenues out of all total tax revenues has increased. It is urgently necessary to contain the increase of delinquency even if we cannot say it is abnormal. Let us review possible measures.

14) Precedent Times No. 722, p.222; Precedent Jihou No. 1344, p.115; Tax Suit Document No. 176, p.194; 100 Selected Tax Precedents (3rd edition) by Yasutaka Abe (Jurists, Separate volume No. 120) p.126; Stoiel No.347, p.1, by Minoru Kira; Law Seminar, p.113, No.8, Vol. 35, by Takeshi Kobayashi; etc.

As the Board of Audit indicated, the biggest cause for delinquency in consumption tax payments is the worsening of the financial situation. If this is true, encouragements to pay the tax through public relations activities is unlikely to be successful, although obligatory submission of a tax payment certificate for a company's bid application for public works projects should have some effect because participation in a bid is vital for suppliers to governments. As for sellers in general, the current method of deducting sales tax based on the "book method" and the payment period for the tax may lead to delinquency. The book method is a uniquely Japanese method, in which taxable purchase amounts are calculated based on a book, rather than based on an invoice. This system was originally adopted in order to ease opposition by sellers to the introduction of consumption tax. Sellers therefore are likely not to distinguish consumption tax equivalent amount from ordinary sales amounts, even though they have received an amount equivalent to consumption tax as a "deposit" from consumers.

Figure 1 Trends in the revised return and payment system for the consumption tax

	Time of introduction	Revision in 1991	Reform of tax system in Autumn 1994	Yearly tax amount in previous taxation period
Four times per year (final tax return: once, interim tax return: three times)		Exceeding ¥5 million	Exceeding ¥4 million	¥5 million
Twice per year (final tax return: once, interim tax return: once)	Exceeding ¥0.6 million	Not exceeding ¥5 million and exceeding ¥0.6 million	Not exceeding ¥4 million and exceeding ¥0.48 million	¥4 million
Once a year (final tax return: once)	Not exceeding ¥0.6 million	Not exceeding ¥0.6 million	Not exceeding ¥0.48 million	¥0.6 million ¥0.48 million

Rate of consumption tax	3%	4%(note)
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(Note) effective in April 1997

*quoted from p.24 of explanatory information (consumption tax, etc.) issued by the Tax Commission dated April 18,2000

Further, sellers have a relatively long period in which to pay the tax. The payment times for consumption tax were initially once or twice per year to ease the opposition of sellers. Later, through the changes shown in Figure 1, payment is now made every three months by dividing yearly payments into four payments for sellers above a certain scale, although for smaller sellers who account for the greater part of all sellers payment is still made once or twice a year. As can be seen in the above figure, the relatively long period before payment enables sellers to use the consumption tax-equivalent amount "deposited" by consumers, and can result in delinquency. In order to improve the situation, changing from the book method to an invoice method is considered a method of raising awareness about its character as a deposit, but is inadequate as a means of preventing delinquency. For example, delinquency in Korea, where the invoice method has been adopted, is shown in Table 5.

Although the delinquency rate in Korea was slightly lower than in Japan until a few years ago, it is currently higher than in Japan. Recession and the financial difficulties of sellers may also be the causes of this situation,

Table 5 Delinquency rates for value added tax in Korea (million won)

Fiscal year	determined collection amount	unpaid deficit amount	uncollected amount	total delinquent amount	delinquency rate
1990	7,187,670	68,159	155,092	223,251	3.1%
1991	8,588,360	62,689	273,044	335,733	3.9%
1992	10,610,992	101,703	432,993	534,696	5.0%
1993	12,287,114	152,562	447,046	599,608	4.9%
1994	13,762,576	170,144	534,459	704,603	5.1%
1995	15,754,211	365,278	752,040	1,117,318	7.1%
1996	18,225,257	469,481	966,237	1,435,718	7.9%
1997	21,473,127	572,279	1,412,857	1,985,136	9.2%
1998	18,200,874	981,218	1,512,851	2,494,069	13.7%

*(from "Tax related statistical data collection," by Hyun Kwon Jin, Korean Tax Research Board, 1997) This data was presented by a certified tax accountant Masaomi Kou, for which I express my appreciation.

because as in Japan, the taxation period for the consumption tax in Korea is six months,¹⁵⁾ with three months for a provisional return.

Next, let us look at the case of Germany, where a monthly provisional return system, coupled with the invoice method, has been adopted (see Table 6).

Recently, the delinquency rate has declined slightly, but is still higher than the extremely low delinquency rate of taxes paid by manufacturers. The delinquency rate is a little lower than that of the consumption tax and almost the same as that of the former

commodity tax in Japan. From the standpoint of prevention of delinquency, the introduction of the invoice method and the shortening of payment terms are effective to some degree, but do not provide a fundamental solution. If we are really concerned with decreasing the delinquency rate, the introduction of an individual single-stage consumption tax for which only manufacturers are liable for payment may be one solution. However, for consumption taxes for which all retailers are liable for payment, shortening the payment term is only one measure that may lead to delinquency rates similar to those for direct taxes.

Conclusion

In my opinion, as stated previously, the increased delinquency in consumption tax payments has not reached an abnormal level at present. Whether there is a defect in the system based on delinquency rates, and whether revisions to the system are needed, remains an important problem that requires further study. This problem will become even more important when pro forma standard taxation comes into effect for business taxes.

In this paper, I have attempted to examine the relationship between the tax system and accounting audits by identifying the problems related to the registered license tax and the consumption tax, which were singled out for comment in the 1998 Fiscal Audit Report. It is an important point that the Fiscal Audit Report showed its potential power to promote revisions of the tax system itself by investigating the de facto status of tax collection and identifying the defects of the tax system in addition to auditing tax disposition. It will be interesting to continue to monitor the influence that the Fiscal Audit Report of the Board of Audit has on the reform of the tax system.

15) Regarding Korean consumption tax, refer to pages after p.161- of "Structure and Problems of Value Added Tax in Korea"; Masatomi Kou, ("10 years after the enforcement of consumption tax" edited by Japan Tax Theory Association, published by Houritsu Bunkasha in 2000).