

5. Activities related to Tax Reform

a) Activities Related to FY2007 Tax Reform

The Life Insurance Association of Japan (LIAJ) submitted the following requests for tax reform in FY2006 (to the Minister of Finance and other relevant parties in September 2006):

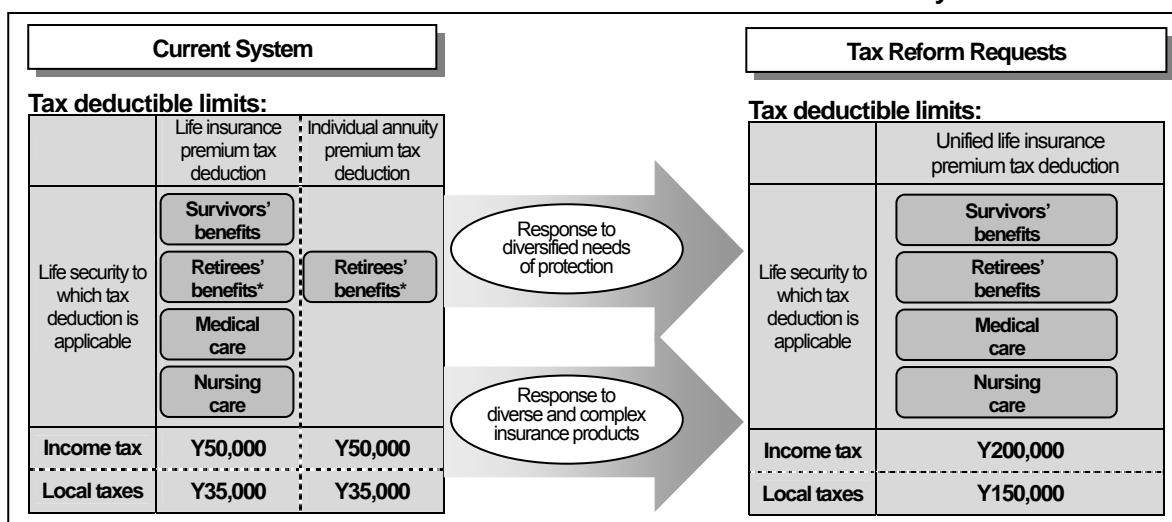
Key requests:

(1) Creation of the unified life insurance premium tax deduction system

Creation of a “simple” and “easy-to-understand” universal system to support self-help efforts (the unified life insurance premium tax deduction system) in response to people’s diverse needs for survivors’ benefits, retirees’ benefits, medical and nursing care as well as to the diversified and complex life insurance products

The LIAJ, in light of the diversified needs of life security and the availability of diverse and complex life insurance products, has requested the creation of the “unified life insurance premium tax deduction system,” which consolidates the currently separate systems for deductions of life insurance premiums and individual annuity premiums in order to broaden the support for overall life security.

The Vision of the New Life Insurance Premium Tax Deduction System



* Regarding the **Retirees' Benefits** under the current system, only individual annuities that meet certain criteria are eligible for the individual annuity premium tax deduction, and all other individual annuities are subject to the life insurance premium tax deduction.

Reasons for requests:

(a) Necessity of the system to support self-help efforts

While concerns are mounting over the decreasing population due to the “falling birthrate” and the rising cost of social security benefits stemming from the “aging population,” Japan cannot expect to sustain economic growth to make up for these demographic and social changes in light of the declining workforce. Under these circumstances, the role of private coverage will likely become increasingly important in the future, as the overhaul of the social security system is being considered and public and private coverage is expected to complement each other under the concept of the “two main pillars (public/private) of life security.” The best approach to encourage self-help efforts to increase private coverage is to improve the life insurance premium tax deduction system, which is currently utilized and recognized quite widely.

(b) Necessity of the creation of a new life insurance premium tax deduction system

- i) In order to address people’s diverse life security needs such as survivors’ benefits, retirees’ benefits and medical care, it is necessary to create a more “universal” system with the expanded support for overall life security; and

- ii) Diverse and complex insurance products are becoming widely available in response to diversified needs, and each individual requires different types of coverage. Therefore people can benefit from a “simple” and “easy-to-understand” system, which enables them to secure focused coverage and to freely select products.

(c) Necessity of favorable tax system for survivors’ benefits

According to an opinion survey conducted by the LIAJ, about 70 percent of the respondents said that public security is not enough to cover living expenses of bereaved family members. In particular, families that have small children to raise are anxious about their livelihood in case anything should happen. In the current request for the unified life insurance premium tax deduction system, the Association continues to ask for favorable tax treatment for survivors’ benefits.

(d) Necessity of favorable tax systems by both the central and local governments

In recent years, local governments have been under financial pressure from increasing social security burdens. As the role of private coverage is expected to gain in importance going forward, the Association requests the creation of the unified life insurance premium tax deduction system for local taxes as well.

(2) Increase in the exemption limit for inheritance tax applicable to death benefits

For the exemption limit for inheritance tax applicable to death benefits, add the sum of (Y5 million in death benefit received by the spouse) + (Y5 million in death benefit received by an underage dependent legal heir) \times (number of such dependent heirs) to the existing exemption limit (Y5 million \times number of legal heirs)

Reasons for requests:

- (a) Death benefits are paid out from a pool of insurance premiums contributed by many policyholders. Unlike ordinary inherited assets, death benefits are paid for the stability of bereaved families’ livelihood based on the principle of mutual aid. This particular aspect needs to be duly considered.
- (b) Given that most single-mother households are financially squeezed and that most of the inherited assets are illiquid assets such as land and houses, it is essential to secure adequate money to cover living expenses of bereaved families.

b) Views of the government/ruling party regarding the “insurance premium tax deduction system”

The LIAJ has requested the raising of the tax-deductible limits for insurance premiums every year. Since 1995, however, the government’s Tax Commission and the ruling party (LDP Tax Panel) have held a negative view of the continuation of the tax deduction system itself.

(1) Report submitted by the government’s Tax Commission:

(Concerning deductions for income-based individual inhabitant tax) “In particular, as for the policy-induced tax deduction systems, taking into consideration the planned shift of income-based progressive tax rates to a single proportional tax rate and other factors, the level of deductions and other aspects should be reviewed promptly.” (“Report on Tax Reform for FY2007– Policies for Economic Revitalization” (1 December 2006))

(2) “Tax Reform Outline” unveiled by the ruling party

“A drastic overhaul of the system is necessary from the standpoint of supporting self-help efforts of policyholders.” (14 December 2006)