

A New Stage for the *Furusato Nozei* System

In Japan, there is a strong tendency for young people to migrate to cities in order to continue their education or seek employment. As a result, despite the fact that rural areas may have contributed to these young people's upbringing and early education, they will not receive a return in the form of tax revenue, leading to a discrepancy in tax revenue between urban and rural areas. The *furusato nozei* system was created in 2008 to address this situation. Under this system, individuals are able to pay a local tax to a regional administration of their choice, enabling them to provide support to regional towns and regional bodies. However, a variety of problems affecting the system have also been noted, for example excessive competition between municipalities in relation to the "thank you gifts" offered for its use. It will be necessary to achieve a transformation of the *furusato nozei* system to ensure that it contributes to the sustainable development of rural areas while also working to ensure that reconsideration of the practice of providing high-priced gifts as an incentive for use of the system does not lead directly to a reduction in revenue. What are the issues of the existing system? What is the most effective means of using the *furusato nozei* in accordance with its fundamental purpose? Ten years after the introduction of the system, this issue of *My Vision* takes the opportunity to consider the direction for its next stage.

About this Issue

A New Stage for the *Furusato Nozei* System: Reconnecting the Country and the City

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Keywords...Supporters outside the region, regional revitalization, creation of new value in rural areas, rebuilding of relationships between country and city

Expert Opinions

A New Stage for the *Furusato Nozei* System

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Keywords...Virtual citizens, emotional bonds, promotion of industry, independence of industry

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Journalist

Keywords...Improvement of policy quality, sustainable regional revitalization, continuing long-term bonds with rural areas, utilization of pro bono services

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A New Stage for the *Furusato Nozei* System – Reconnecting the Country and the City



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Competition in the Area of “Thank You Gifts” and the Outflow of Residence Tax Funds from Cities

Introduced in 2008, the *furusato nozei* system has now been in existence for 10 years. The system has displayed a steady increase in scale. For example, in fiscal 2016, contributions made through the system exceeded 280 billion yen. There are many cases in which local municipalities are formulating original ideas and using the system as a means of attracting people to their region and promoting an ongoing involvement. If the system makes people aware of specific regions, develop an interest in those regions, and, furthermore, support local projects, then it can be said to have realized its original aim.

However, this is not to say that the *furusato nozei* system is free of problems. The first problem that should be indicated is competition between municipalities in the area of “thank you gifts”. Clearly, the offering of these gifts is not the fundamental purpose of the system. “Thank you gifts” are no more than a sign of gratitude, a small bonus. If, despite this, there is an excessive focus on these gifts, and the system comes to resemble catalogue shopping, then we would be compelled to say that it has deviated from its original purpose. Taking into consideration an appropriate balance with the efforts made by local governments in implementing the system, providing “thank you gifts” equivalent to half or more of the amount of the contribution directed to the local municipality is getting the correct order of priorities backwards. From this perspective, it is regrettable that the Minister of Internal Affairs and Communications was forced to issue a notification urging municipalities to curb excessive competition, as discussed by Tatsuo Ikeda, Director of the Municipal Tax Planning Division of the Ministry’s Local Tax Bureau. It is to be hoped that the *furusato nozei* system will develop in future with a focus on its original purpose.

There is another criticism to be made of the *furusato nozei* system. Ryo Tanaka, Mayor of Tokyo’s Sugunami Ward, points out that the system “distorts the proper functioning of taxation,” given the principle that the burden of the cost of government services should be borne by the residents who are the beneficiaries of the services. Demand for government services is also increasing in the cities, for example as a result of the aging of the population. Mr. Tanaka’s urging that we cannot afford to simply remain unconcerned by the outflow of residence tax due to the *furusato nozei* system has a weight that makes it difficult to ignore. As Mr. Tanaka also indicates, it will be necessary to envision incentives that prompt urban municipalities to “autonomously seek to realize mutual prosperity in cooperation with rural areas.”

Raised in the Country, Working in the City

As this indicates, the *furusato nozei* system presents issues that need to be looked at. Having said this, we will be unable to accurately evaluate the system unless we return to its starting point and consider why the system was introduced. This is discussed in this issue by Mr. Issei Nishikawa, Governor of Fukui Prefecture, an advocate of the system. Governor Nishikawa

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emphasizes the fact that people who are born and raised in the country leave their home regions in order to work in the cities. In the case of Fukui Prefecture, every year 2,500 young people leave the prefecture to attend university, etc., but only around 600 return to find work. As a result, “despite the fact that it is local municipalities that provide public services such as education and assistance with child-raising, when the beneficiaries of these services become full-time workers, their tax payments are made to large cities.” There is merit in Governor Nishikawa’s argument regarding the need to correct this imbalance.

How to create Relationships with Supporters from Outside the Region?

How, then, should the *furusato nozei* system be developed in future?

As may be imagined, it is important not to make contributions to the system one-time events, but to build lasting relationships between local municipalities and their supporters outside the region via these contributions. Naruhiko Kuroda, the Mayor of Hirado City in Nagasaki Prefecture, which recorded the highest level of *furusato nozei* donations in Japan in fiscal 2014 and has since continued to attract a large number of contributors, believes that “it is not the amount of the contributions they receive that municipalities should be competing over, but rather the number of repeaters who continue to contribute.” In fact, in the case of Hirado City, the town has a resident population of approximately 30,000, while its “virtual population” of *furusato nozei* contributors is approximately 40,000. The fact that the city has more supporters outside the region than actual citizens is a measure of its appeal. Competition to make the specific appeal of regional areas known throughout Japan would surely have an effect in terms of regional revitalization.

When a rural area has won supporters outside the region, the next goal is to encourage those supporters to actually visit the region. The journalist Mariko Mikami discusses the importance of projects that foster the development of “human bonds and a continuing involvement in the community.” As an example, Ms. Mikami points to the “Town of Photography” branding concept that has been advanced by Higashikawa in Hokkaido Prefecture. The holding of the National High School Photography Championship (which has also been the subject of a movie) in the town certainly stimulates relationships between residents and outsiders. Promoting the creation of new value from the interaction between regional residents and supporters from outside the region, this is a living embodiment of the fundamental purpose of the *furusato nozei*. And this orientation can also be effectively linked to such other initiatives as the design of second careers following retirement and the establishment of bases in preparation for emergencies such as natural disasters.

Cultivating More Diverse and Autonomous Relationships

It is both enriching and essential for those living in contemporary societies to have regions in which they are involved and regions which they provide with support other than the specific place in which they reside. Such a region may be the region in which one was born and raised, or it may be a region with which one has had no previous involvement, but in which a project resonated with one and prompted an entirely new involvement. It will be vitally important for people to cultivate, via the *furusato nozei*, more diverse and more autonomous relationships with rural Japan.

In addition to teaching in The University of Tokyo’s Institute of Social Science, Professor Uno serves as NIRA’s Executive Vice President. Professor Uno took his Ph.D. in law from The University of Tokyo. He specializes in the history of political thought and political philosophy.

Expert Opinions

Clarify the uses of contributions and create ongoing connections – Commonsense is called for in relation to “thank you gifts”



Tatsuo Ikeda

Director, Municipal Tax
Planning Division, Local Tax
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Affairs and Communications

The *furusato nozei* system was created in 2008 as a mechanism giving form to the desire to support various initiatives mounted by local and regional organizations, in particular in donors’ hometowns. The amount donated under the system has steadily increased, reaching more than 280 billion yen in fiscal 2016. I believe that the system has contributed to the fostering of a culture of charitable contribution; for example, the system is also used to provide support to regions hit by natural disasters.

The system itself should not be criticized for the excessive competition which has sprung up between municipalities, for example in the provision of costly thank you gifts to donors. A notification issued by the Minister for Internal Affairs and Communications in April 2017 has received the assent of large numbers of local bodies, and we hope that they will respond with commonsense on the basis of this notification.

In the future, broadening the base of users of the system and ensuring even more effective use of the funds obtained in promoting regional revitalization will be important to the sound development of the system. Essential to the realization of these goals will be efforts on the part of local bodies to clarify to the greatest possible extent the purpose and details of the projects that they will be implementing when soliciting contributions, and to notify contributors to the system regarding project outcomes, etc. In addition to this, given that people who contribute via the *furusato nozei* system are people who have an interest in or concern with the local community, efforts to maximize the bonds created by the system and increase the number of visitors and potential residents will also be important. The Ministry of Internal Affairs and Communications is compiling case studies of examples of excellence from regional areas across the country, seeking to provide feedback to local bodies and expand best practice throughout Japan.

Today, we are seeing creative ingenuity applied to the use of the *furusato nozei* in line with the specific circumstances of specific regions, and efforts to solicit contributions based on crowdfunding approaches are resonating with donors. Examples of projects include the preservation and restoration of cultural resources and the purchase of books for children.

In order to provide active support for efforts of this type, the Ministry of Internal Affairs and Communications has launched a new program to support the establishment of businesses in regional areas and promote migration to and settlement in those areas, utilizing crowdfunding-based *furusato nozei*. We seek to provide support to ensure that the funds obtained from the *furusato nozei* system are used effectively in regional revitalization and to create a virtuous circle of people, goods and jobs in regional economies.

It is my hope that regional organizations will advance efforts that are full of ingenuity, and that the *furusato nozei* system will continue to develop soundly.

Mr. Ikeda is the director of a department in the Ministry of Internal Affairs and Communications, the entity with authority over the *furusato nozei* system. He entered the (then) Ministry of Home Affairs in 1990, and took his present position in 2016, following experience in positions including Director of the Akita Prefecture Public Finance Division, Planning Director for Local Tax in the Local Tax Planning Division of the Ministry of Internal Affairs and Communications’ Local Tax Bureau, Executive Director of the Department of Planning and Finance, Saitama Prefecture, Counsellor of the Secretariat of the Minister of Internal Affairs and Communications (Local Public Finance Division, Local Public Finance Bureau), Director of the Office for the Special Local Allocation Tax for Recovery from Earthquake Disaster (Ministry of Internal Affairs and Communications), and Director of the Cabinet Office’s Office for Decentralization Reform. Up to the present, Mr. Ikeda has chiefly been engaged in supervising regional taxation and public finance systems, and is now involved in the planning of systems related to municipal taxes.

Offer incentives to the cities also – The one-way flow of tax is problematic



Ryo Tanaka

Mayor, Sugunami Ward,
Tokyo

Residence tax is the basic tax by means of which the cost of government services in a region is shared between residents of the region. The *furusato nozei*, which uses this tax as a source of funds, distorts the proper functioning of taxation. I believe that the current system is a strange one. In fiscal 2017, approximately 1.4 billion yen in residence tax flowed out of Sugunami Ward as *furusato nozei*. Two years previously, the figure was 130 million yen, which is to say that the figure increased approximately tenfold in two years. Demand for government services is increasing in urban areas also, for example measures to deal with an aging population, urban disaster responses, and the provision of daycare centers. What will happen if the outflow of residence tax continues unchecked?

The system is also causing problems in regional areas. Special local products are being supplied as “thank you gifts”, while they may be profitable within that particular framework, the economy will not remain viable if the system is stopped. This does not generate true regional revitalization, but rather encourages a reliance on subsidies. The Showa period concept of redistributing city tax revenues to rural areas does not result in a fundamental correction of disparities.

The original expectation for the *furusato nozei* system was that it would correct the disparity between country and city, and revitalize regional areas. At the least, it is essential to revise the existing system in order to foster a relationship of co-existence and mutual prosperity between country and city. The current system simply reduces the motivation of the city. It will be necessary to introduce incentives that prompt Tokyo and other cities to autonomously seek to realize mutual prosperity in cooperation with rural areas.

For example, we might consider introducing a mechanism to the *furusato nozei* system whereby, when urban municipalities become involved in exchanges or policy-based cooperation projects with rural municipalities, the equivalent of the cost of the project is returned to the urban municipality from the amount of residence tax that had previously flowed outwards via the *furusato nozei* system. Sugunami Ward is involved in exchanges with municipalities in Japan and overseas, including Nayoro in Hokkaido Prefecture and Minami-Izu in Shizuoka Prefecture. Even exchange projects alone have effects such as the promotion of tourism and the creation of jobs, and are therefore beneficial in terms of regional revitalization.

In the arena of actual municipal management, a significant increase to the regional exchange budget would face stiff political opposition, but if this mechanism was able to secure a new source of finance for exchange with rural areas, urban municipalities would not restrict themselves to exchange, but would commence a variety of initiatives, such as collaborative projects and the formulation of policy in tandem with rural municipalities. As part of this process, we would discover new hints and ideas that would stimulate economic effects in rural areas and contribute to measures to promote migration to and settlement in those areas.

Mr. Tanaka is the Mayor of Tokyo’s Sugunami Ward, a quiet residential area located on the Musashino Terrace, in the western section of the area covered by Tokyo’s 23 wards. Following his election as Mayor, Mr. Tanaka commenced actively implementing cooperative projects with municipalities in Japan and overseas seeking to become involved in exchanges. Among these, the establishment of a special nursing home for senior citizens outside the ward, in cooperation with the town of Minami-Izu in Shizuoka Prefecture, attracted attention as the first of its type in Japan. He argues that it is necessary for Tokyo to give attention to impoverished regional areas, but it is also necessary for regional areas to understand Tokyo. Upon graduation from Meiji University, Mr. Tanaka first joined TV Tokyo. He also served in positions including member of the Sugunami Ward Assembly, member of the Tokyo Metropolitan Assembly, and Chairman of the Tokyo Metropolitan Assembly before taking his current position in 2010. He is presently serving his second term.

The *furusato nozei* is a tax system tailored to peoples' lifecycles



Issei Nishikawa

Governor,
Fukui Prefecture

Ten years have passed since the *furusato nozei* system was established in 2008, based on a proposal from Fukui Prefecture. This system offers a mechanism which is entirely new for Japan, by means of which people who are now living in the cities are able to contribute to the towns in which they were born and raised (in Japanese, *furusato*) by means of donating part of their tax payments. The background to the proposal of the system was questioning of the present situation in which, despite the fact that it is local municipalities that provide public services such as education and assistance with child-raising, when the beneficiaries of these services become full-time workers, their tax payments are made to large cities. In Japan, the uneven distribution of sources of taxation revenue resulting from a lifecycle pattern in which people are raised in rural areas and work in the city has represented an issue for many years.

In Fukui Prefecture, for example, every year around 2,500 young people leave the prefecture to attend universities and other educational institutions. Of these, only about 600 return to the prefecture to find work. While certain fiscal measures are in place, child-raising expenses and investment in the future constitute one-tenth of Fukui Prefecture's budget, but the majority of the resulting human resources leave the prefecture.

As a result, the cities into which these young people flow receive an annual "population bonus," for which they do not suffer the burden of child-raising and education expenses, etc. The essential purpose of the *furusato nozei* system was to correct this imbalance. However, there has been an issue in the perception on the part of city administrations that the *furusato nozei* system is robbing them of their own money.

If the nation's rural areas develop soundly, Japan as a whole is invigorated, and this is also a benefit to large cities. I hope that the city side accepts this contribution to the regions in a spirit of tolerance.

The regional municipality side, the recipients of the *furusato nozei*, must recognize that the system rests on the tolerance of the cities and the gratitude of the municipalities, and work to operate the system in such a way that they receive the understanding of the contributors and the cities. It is natural for the municipalities that are the beneficiaries of the donations to wish to offer thanks, but we should avoid excessive competition in this area.

The *furusato nozei* system is widely known, but is still used by only a small percentage of citizens. It will be essential to broaden the base of users of the system.

At present, there is a focus on offering things as rewards, but in future, it would be desirable to make the shift from things to personal experiences, and to solicit contributions based on projects that create situations and offer activities. It will also be important to create mechanisms to promote human movement, by means of which donors visit the municipalities and experience exchanges and brief residence in the community. I would like municipalities to work together to examine how to utilize contributions and the types of outcomes we are seeking, and in this way to mutually improve policies.

Mr. Nishikawa is Governor of Fukui Prefecture. In May 2017, the Local Government Association for the Sound Deployment of the *Furusato Nozei* was established with Mr. Nishikawa as one of the proponents of the scheme. As of December 2017, 74 municipalities were participating in the association. One of the association's roles is to award particularly excellent examples of the utilization of the *furusato nozei*. Mr. Nishikawa graduated from the Faculty of Law, Kyoto University, and entered the (then) Ministry of Home Affairs. After serving in positions including Director of the Municipal Tax Policy Division, Director of the Policy Planning Division, and Deputy Director General of the National Land Agency, Mr. Nishikawa was appointed Vice Governor of Fukui Prefecture in 1995. He was elected Governor in 2003, and is currently serving his fourth term.

The important thing is to increase the number of repeaters



Naruhiko Kuroda

Mayor, Hirado City,
Nagasaki Prefecture

In fiscal 2014, Hirado City received more than 1.4 billion yen in revenue from the *furusato nozei* system, Japan's highest figure. This situation has continued since then, with large numbers of people donating to the city. At present, between 25 and 40,000 people throughout the country support Hirado City every year.

The *furusato nozei* system was established, as I see it, on the basis of the concept of people living in cities providing support to their hometowns and regions. As a source of finance, the system enables regional municipalities to autonomously advance measures including town planning projects, the development of human resources, and policies to address depopulation. The people who offer donations through the system are, as it were, "virtual citizens." Hirado City has around 30,000 officially registered citizens. The way I think is that if you add the approximately 40,000 virtual citizens who use the *furusato nozei* system, then Hirado City has around 70,000 citizens.

The offering of gifts to donors in return for their contributions, in addition to being an expression of gratitude, has at its root a desire to share with the donor the appeal of the region, something that a local experiences every day, in order to inspire a sense of togetherness in participating in community development. Giving and receiving the gift creates mutual bonds between the municipality and the donor. Hirado City hopes that these bonds will persist, and that our donors will continue to contribute on an ongoing basis. From this perspective, it is not the amount of the contributions they receive that municipalities should be competing over, but rather the number of repeaters who continue to contribute.

Almost ten years have passed since the commencement of the system, and in that period, via the provision of thank you gifts, it has had great significance in terms of stimulating local industries. In Hirado city, we had long struggled to brand the products of our main industries, agriculture and fisheries. With the advent of the *furusato nozei* system, we were able to create a Hirado brand as a package, and this provided the impetus for success. This success enabled us to expand the scale of our production system, and at the sites of production there is a heightened awareness that we are producing directly for urban consumers.

The danger is that people will be happy to profit from the system and leave it at that. My hope is that both primary industries and the tourism industry will investigate new modes of management, formulate appealing visions for the future, and advance essential capital investment, and in doing so further boost their quality, productivity and management capacity. My aim is to actively offer the support that the administration can offer, enabling industries to become independent and creating the conditions for the formation of new industries.

Mr. Kuroda is Mayor of Hirado City. Located in the northwest of Nagasaki Prefecture, Hirado City is made up of almost 40 islands including Hiradojima, in addition to a section of Kyushu. From ancient times, the city has been a gateway to the continent, and it flourished as an international trading port until the closure of the country by the Tokugawa Shogunate. Mr. Kuroda seeks to exploit the historical scenery of Hiroda City (still intact because the city has lagged behind in economic development) while also actively incorporating future technologies, in order to make Hiroda City "Japan's hometown." His motto is "Town planning is fun!" A graduate of Reitaku University, Mr. Kuroda served in positions including Secretary to a member of the Diet and member of the Nagasaki Prefectural Assembly before successfully standing as a candidate in the Hirado City mayoral elections in 2009. He is currently serving his third term.

Focus efforts on projects that will attract people – Screening of projects is an urgent task



Mariko Mikami

Journalist

Over the course of the decade since the system was commenced, the boom in “thank you gifts” has ensured that the *furusato nozei* policy has become widely known among taxpayers. Nevertheless, while the thank you gifts are effective to some degree in promoting the marketing of local products, they are basically adjuncts to the incentive to contribution represented by a tax deduction. Municipalities should now shift their emphasis from advertising gifts to boosting the quality of the projects they implement in order to inspire a deeper and longer-lasting commitment in contributors. It will be essential to realize sustainable regional revitalization via the planning and implementation of projects.

As an example, Higashikawa in Hokkaido has been advancing a “Town of Photography” branding concept for many years. In addition to developing picturesque areas to attract photographers and fostering a culture of photography, the town is also promoting projects (the commercialization of wine and agricultural products, etc.) on a multi-track basis, looking towards periods of several years to several tens of years in the future. Contributors are designated as “shareholders,” and have the opportunity to periodically attend general meetings and participate in regional inspection tours. The number of contributors has increased to equal the number of town residents, boosting the population involved in exchanges. Again, in Iwate Prefecture, contributors provide support for the educational and living expenses of children orphaned by the Great East Japan Earthquake through the *furusato nozei* (continuing up to their graduation from university), and receive ongoing updates regarding the students’ educational status. In both cases, human bonds and a continuing involvement in the community are being fostered, unlike a situation in which it is simply thank you gifts that are offered.

Identifying demand in urban areas will also be an important focal point in the determination of the makeup of projects by regional municipalities. As examples, for individuals we can consider the design of second careers following retirement as a preparation for extended lifespans, and for companies, we can consider the dispersion of bases as a preparation against natural disasters and other emergencies.

Effective strategy and detailed business models based on international trends are also prerequisites for the formulation of competitive projects. Because there are limits to what municipalities can achieve using only their own resources, I recommend the use of pro bono services. Pro bono services supplement the weak points of public services. Based on this concept, private sector specialists, for example representatives of corporate CSR divisions, consulting firms, and financial institutions, or legal professionals, are dispatched free of charge for fixed terms as a service for the public interest. We are beginning to see cases such as the involvement of US investment banks in the revitalization of depopulated regions of Japan. The professionals offering the pro bono services in these cases look to receive the benefit of training of human resources.

In the process of expanding the *furusato nozei* in future to project-based solicitation of contributions, there will be a number of urgent tasks, including the establishment of systems for the auditing of money trails, screening of the businesses that receive funding, and evaluation of project performance. Even today, there are cases in which enterprises are involved in the management of websites that introduce “thank you gifts” and the consignment of services, but, far from providing solutions that assist in regional revitalization, are actually exploiting the system. The sharing of blacklists between municipalities should be given consideration from this perspective.

A graduate of Keio University, Ms. Mikami reports on and writes about a wide range of subjects for US and Japanese media, with a particular focus on the economy and policy. She has held numerous public positions; in addition to being a member of the Review Committee for the Grand Prize for the Future of the *Furusato Nozei*, she has served as a member of committees including the Council for Small and Medium Enterprise Policy of the Ministry of Economy, Trade and Industry, the Central Selection Committee for the Monodzukuri Nippon Grand Award, and the Expert Committee on Security Trade Control. Ms. Mikami’s ongoing column in the Nikkei Global, “Straight Talk with Mariko Mikami,” presents proposals for regional revitalization based on actual case studies, and has won considerable acclaim. She is also in demand as a speaker and lecturer, and was previously a visiting associate professor at Shinshu University Graduate School of Management.