

## Raising the National and Local Consumption Tax Rates and Associated Responses

( October 1, 2013  
Cabinet decision )

In light of the importance of balancing economic revitalization with fiscal consolidation, and the intention of comprehensive reform of social security and tax systems to secure the sustainability of expanding social security and safety and maintain Japan's credibility, based on Article 18 of Supplementary Provision of the Act on Partial Revision, etc. of the Consumption Tax Act for Comprehensive Reform of Tax to Secure Stable Financial Resources for Social Security, etc. (Act No. 68 of 2012) (hereinafter referred to as the "Comprehensive Tax Reform Act") and Article 19 of Supplementary Provision of the Act on Partial Revision, etc. of Local Tax Act and Local Allocation Tax Act for Comprehensive Reform of Tax to Secure Stable Financial Resources for Social Security, etc. (Act No. 69 of 2012), and as a result of comprehensive considerations of the economic situation, etc. as explained below, we confirm to raise the consumption tax rate (national and local) from 5% to 8% in April 1, 2014.

Pursuant to this, in order to address risks of economic downturn by alleviating reactionary impact that could be caused by rate hike, as well as also realize an increase of the economic growth potential and a virtuous cycle, and put the economy on a path of sustainable growth, we will adopt the "Economic Policy Package" as stated in item 4 below, and put the economy on a firm path towards ending deflation and revitalization.

## 1. Current economic situation and measures towards sustainable economic growth

The tasks of highest priority are overcoming persistent deflation early and revitalizing the Japanese economy, and the government is pressing ahead with all of the “three arrows” comprised of the Bank of Japan’s “Aggressive Monetary Policy,” “Flexible Fiscal Policy,” and “Growth Strategy for Promoting Investment.”

The Council on Economic and Fiscal Policy confirmed various economic indicators, such as nominal and real economic growth rates and price developments, and as indicated in the “opinion on comprehensive consideration of the economic situation, etc. in relation to raising the national and local consumption tax rates” (October 1, 2013 decision by the Council on Economic and Fiscal Policy), there have been results from the policies implemented thus far, and the Japanese economy is on the way to recovery at a moderate pace. Recent price developments indicate that the deflation is ending. Concerning short-term prospects, the economic recovery is expected to take hold. It is necessary to also keep in mind that slowing down of overseas economies is still downside risk of the Japanese economy.

Amid these circumstances, in order to mitigate the reactionary decrease in demand and address risks of economic downturn that could be caused by rate hike, as well as subsequently raise the economic growth potential, create a virtuous cycle, and put the economy on a path of sustainable growth, when raising the consumption tax rate we will take the measures listed in item 4 and put the economy on a firm path towards overcoming deflation and achieving revitalization of the economy.

## 2. Fiscal situation

Japan's fiscal situation is severe with the primary deficit of national and local governments to GDP ratio in FY2012 reaching -6.4%, and with outstanding government bonds to GDP ratio accounting for approximately 190%. The situation is getting worse due to the increased expenditures for social security and economic recession. If market confidence in fiscal sustainability were to be shaken, there may be significant effects on the economy and people's daily lives due to increases in interest rates, etc.

The government is defining the fiscal consolidation targets about the primary balance of national and local governments ("Basic Policies for Economic and Fiscal Management and Reform" (June 14, 2013 Cabinet decision)). In addition, "Medium-term Fiscal Plan" (agreed upon by the Cabinet on August 8, 2013) was formulated in August 2013, and reported at the G20 St. Petersburg Summit in September 2013. From now on we will work steadily to achieve the fiscal consolidation targets.

The government will also make all the efforts to eliminate wasteful expenditures in each policy area and to take budget measures for things of high priority, while asking the people for additional burden.

## 3. Social security reform

The Comprehensive Reform of Social Security and Tax Systems will be conducted from the perspective of aiming to simultaneously accomplish securing stable revenues to finance social security and implementing fiscal consolidation, and the government will comprehensively and intensively promote social security system

reforms in order to establish a sustainable social security system that has a balance between benefits and burdens.

In August 2013, in light of the results of deliberation by the National Council on Social Security System Reform, the Government adopted the “Outline of Legislative Measures Based on the Provisions of Article 4 of the Act for Promoting Social Security System Reforms” (August 21, 2013 Cabinet decision). As for social security system reform, we will clarify their direction and schedule, and proceed with the reform to be fully financed by the increase of consumption tax and spending cut through prioritizing and streamlining social security benefits.

The Government will promptly draft a bill based on this outline and submit it at the beginning of the next session of the Diet. In addition, the Government will make permanent fix of the share of government contribution to the basic pension funds to 50%, and as measures to enhance social security system by utilizing the increased income from raising consumption tax rate, it will promote childcare support such as “Plan to Accelerate Elimination of Children Wait-listed for Childcare Services” and steadily work on measures for people with low incomes such as measures to reduce national health insurance premiums for people with low incomes.

#### 4. Response to the rise in consumption tax rate

In raising the consumption tax rate, we will allocate increased tax revenue to improving and stabilizing social security, and, in addition, work on the things below as an economic policy package in order to further strengthen efforts aimed at putting the economy on a path towards ending deflation and achieving revitalization of

the economy.

(1) Policy measures for raising growth potential

i) Outline of the Action Plan to Implement the Growth Strategy

In order to achieve the targets that were set in the “Japan Revitalization Strategy” (June 14, 2013 Cabinet decision), based on a “Action Plan to Implement the Growth Strategy” (October 1, 2013 Headquarters for Japan's Economic Revitalization decision), we will steadily promote related measures, of which the measures below constitute the core, and also accelerate and reinforce the growth strategy.

By establishing National Strategic Special Zones, the Special System for Corporate Field Tests(popular name) , and the System to Eliminate Regulatory Gray Zones(popular name) for confirmation of new business legality, and promoting regulatory and institutional reforms through discussions in the Council for Industrial Competitiveness, the Council for Regulatory Reform and the like, we will accelerate structural reforms with the three-area approach: on a region-wide basis, on a corporation basis, and on a nation-wide basis.

Through the tax incentives for stimulating private investment that are indicated in b., we will promote private investment and industrial metabolism.

In order to promote such measures, we will take necessary measures such as submitting bills related to National Strategic Special Zones and the Industrial Competitiveness Enhancement Act to the next Diet session.

In particular, from the perspectives of creating competitive

international cities with comfortable living environments, and of developing international innovation hubs in medicine and other fields, the government will materialize the concept of National Strategic Special Zones, zones as a breakthrough to force through bold regulatory and institutional reforms to drastically change Japan's economic society, by combining and implementing exceptional measures, so that the most business-friendly environment in the world will be realized in Japan, thereby igniting the growth.

Specifically, the matters as follows will be discussed and materialized: the review of regulations on land use, such as floor-area ratios and usage; opening of the operation of public schools to the private sector; approval of new construction and increase of beds in international medical centers through exceptional measures on regulations on the number of beds; facilitating the combination use of both services covered by public health insurance and advanced healthcare services not covered by the insurance; exclusion of traditional buildings used as lodging facilities from application of the Inns and Hotels Act; special measures to enhance competitiveness of agriculture.

In order to accelerate market creation in strategic fields such as agriculture, medicine and energy, we will submit related Acts for the Development of Farmland Intermediary Management Institutions (provisional title) and a bill to Revise the Electricity Business Act to the next session of Diet. Also, we will aim at early passages of a bill to Revise the Pharmaceutical Affairs Act, etc. and of a bill to Ensure the Safety of Regenerative Medicine, etc., bills which remain under deliberation of the Diet.

Besides, with regard to public and quasi-public funds, we will

hold discussions on the promotion of portfolio diversification, including diversification of the types of assets to invest in. The results of the discussions will be compiled by the end of November.

In addition, with regard to fields such as employment, medicine and nursing care, and agriculture, we will collaborate with the Council for Industrial Competitiveness, the Council for Regulatory Reform and the like and will consider further structural reforms.

ii) Tax reduction to promote investment, etc.

In order to vitalize private investment in keeping with the “Japan Revitalization Strategy,” based on “Outline of Tax Reform for Vitalizing Private Investment, etc.” (October 1, 2013) (hereinafter referred to as the “Ruling Parties’ Outline of Tax Reform”), we will implement the tax measures generated by policy below.

- We will introduce tax measures for promoting investment on facilities that will contribute to improving productivity, such as acquisition of Cutting-edge facilities, expand tax measures for the promotion of investments in small and medium-sized enterprises, and expand measures for the R&D tax credit.
- We will introduce tax measures to promote strategic, fundamental business reorganization to improve profitability dramatically and tax measures to promote investment of venture capitals by private enterprises.
- As tax measures suited to environmental improvement in terms of systems and regulations that contribute to investment on facilities, we will introduce tax measures to

promote seismic retrofitting, and will substantively support the promotion of dissemination of renovations for energy conservation purposed and measures to cope with global warming, and non-chlorofluorocarbon products through tax measures for promoting investment on facilities that will contribute to improving productivity.

(2) Materialization of a virtuous cycle through partnership among the government, labor, and employers

We aim to create a virtuous cycle in which enhanced corporate earnings leads to wage increases and job creation, and it leads to further corporate earnings through increases in consumption and capital investment. For that reason, collaborating with both the employer side and the labor side, the government established the “trilateral partnership forum towards a virtuous cycle of the economy,” on September 20 and we are working to foster shared understanding of task resolution among participants, and taking the necessary measures.

In order to strongly encourage companies to increase wages, the tax measures for promoting expansion of income that was introduced under FY 2013 tax reform, based on the Ruling Parties’ Outline of Tax Reform, will be expanded and improved.

We will consider abolishing the special corporate tax for reconstruction one year ahead of schedule, on the premise that recent economic growth will lead to increase in wages. We will draw a conclusion in December, in light of things such as assessing the trends in tax revenue, securing financial resources for the post-earthquake reconstruction that will take place of the special corporate tax for reconstruction, obtaining public



understanding, particularly the sufficient understanding of people in the disaster areas, and confirming measures and prospects that the abolishment of the special corporate tax for reconstruction will surely lead to increases in wages.

### (3) Formulation of new economic measures

We will formulate new economic measures along with payouts (discussed below) to mitigate negative impacts to moderate the rush demand and negative reaction caused by the rise in the consumption tax rate, thus coping with the risks of an economic downturn, and to subsequently raise the level of economic growth and return to solid economic growth trajectory as soon as possible.

For new economic measures, they will amount to JPY 5 trillion in total, which will be much more than magnitude of the negative impact of the rate hike on the economy that are expected in the period between April and June next fiscal year, broadly mitigate the negative reaction caused by the 3% consumption tax rate hike, and respond to early return to solid economic growth trajectory by raising the level of economic growth. By doing these things, we will let the fruits of growth to permeate to every corner of regional areas.

We will work on specific measures along with the next budget, which will be crystallized in the new economic measures in early December while considering development of the economy and tax revenue. These measures include:

- Measures to strengthen competitiveness (measures to support capital investment, such as investment subsidies that focusing on small and medium-sized companies, energy cost measures,

building traffic and distribution networks for the Tokyo Olympics etc., research and development for priority areas that lead to strengthening competitiveness and innovations, and promotion of new agriculture business combining producing, processing and marketing, which would help contribute to boost regional economy etc.);

- Policies for the elderly, women, and young people (lump-sum benefits for the affected, measures for job creation and wage increases, including for young people and women, and support for child-rearing, etc.); and
- Acceleration of measures for reconstruction, disaster prevention and safety (restoration of areas damaged by disasters, measures to lengthen service life of social infrastructure, and improving school facilities' resistance to earthquakes, etc. As for reconstruction projects, alternative budget resources will be identified and allocated in case there is a reduction of the special corporate tax for reconstruction.)

In addition, in order to implement the measures mentioned above, the Government will formulate the supplementary budget for FY2013 along with the budget for the next fiscal year.

Also the Government will focus on measures that will contribute to economic growth in the budget for the next fiscal year.

#### (4) Lump-sum benefits for the affected

In raising the consumption tax rate, the Government will consider the effects of burdens on people with low incomes, take measures for the enhancement of social security system that will be conducted amid a framework of combined reforms, and provide about 300 billion yen as Lump-sum benefits, as stated in

Attachment 1, as provisional and temporary measures to take appropriate consideration to people with low incomes.

(5) Lump-sum payouts for home buyers, etc., and review of automobile taxation

i) Lump-sum payouts for ordinary home buyers

From perspectives such as equalizing effects from the temporary tax burden increase in light of the fact that rush demand and its return actions, etc. will have large effects around the time of the consumption tax rate increase, we have taken measures to expand home buyers' tax break as part of fiscal 2013 tax revisions. We will steadily implement such measures and, for income groups for which advantages are limited despite such benefits, we will conduct lump-sum payouts of a total value of approximately JPY 310 billion, as stated in Attachment 2, in order to significantly limit the consumption tax burden related to acquisition of housing.

ii) Lump-sum payouts for rebuilding homes of disaster victims

As for disaster victims, in order to avoid disparities of the burdens between people as a result of external factors such as zone designation related to restoring towns and the timing of housing land development, etc., the Government will provide about 50 billion yen as Lump-sum payouts, as stated in Attachment 3, as measures to make it possible to cope with an increased burden of standard consumption tax related to acquisition of housing, etc.

iii) Revision of automobile taxation

Regarding the automobile acquisition tax and the motor vehicle tonnage tax, we will take into account alleviation of rush demand and negative reactions around the time of the consumption tax rate is raised, from the perspective of considering the economic situation. Based on Article 7-1 (14) of the Comprehensive Tax Reform Act, we will reconsider how related tax systems should be arranged through the national and local governments, secure stable financial resources, give consideration to local government finances, and reconsider the taxes from the perspectives of simplification, reduction of burdens, and making taxes more environmentally friendly.

(6) Measures for pass-through of increased consumption tax

In raising the consumption tax rate, it will be important to ensure smooth and appropriate pass-through of the rise in consumption tax. In June 2013, an act on special measures related to correcting actions that impede pass-through of the rise in consumption tax to ensure smooth and appropriate pass-through of the rise in consumption tax (Act No. 41 of 2013) was formed, and we will implement effective measures based on things such as this act.

(7) Acceleration of measures for reconstruction

The Government will use its full strength to accelerate restoration and reconstruction, so that when the consumption tax rate is raised there will be no hindrances to restoration or reconstruction in areas that were affected by the Great East Japan Earthquake. For that reason, as mentioned previously, the measures below will be taken.

- i) Among new economic measures, the Government will accelerate restoration and reconstruction, and budget measures will be taken for the supplementary budget for FY2013 and the initial budget for FY2014.
- ii) Among those measures, alternative budget resources will be identified and allocated in case there is a abolition of the special corporation tax for reconstruction.
- iii) Lump-sum payouts will be taken for rebuilding homes of disaster victims.

## Lump-sum Benefits for the Affected

As for lump-sum payouts to be implemented as provisional and temporary measures based on the provisions of Article 7.1 (iii) of the Act for the Comprehensive Reform of the Tax System, specific details while the consumption tax rate is 8% are as follow.

### (1) People subject to benefits

People who are exempted from the municipal inhabitants tax (equal ratio) (excluding dependent family members, etc. of people imposed municipal inhabitants tax (equal ratio))

Note: Wards who are handled within the social aid system are not eligible.

### (2) Amount of benefits

10 thousand yen per person subject to benefits (The portion for 18 months will be provided by procedures conducted once.)

### (3) Addition

Of the people subject to benefits under (1), people who fall under any of the items below will be given consideration for exceptional level elimination, etc. of pension on April 2014, and 5 thousand yen per person will be added.

- Recipients of the Old Age Basic pension (age 65 or older), the Basic Disability Pension, or the Basic Pension for Surviving Family, etc.
- Recipients of the allowance (the Child Rearing Allowance, the Special Disability Allowance, etc.) that is subject to the Act on Special Provisions for Revision of Amount of Child Rearing Allowance under Child Rearing Allowance Act (Act No. 9 of

2005), etc.

(4) Method of implementation

Lump-sum payouts will be implemented by obtaining the cooperation of municipalities (including special zones), based on applications from people subject to benefits. Prefectural governments will also be asked for cooperation in assisting smooth implementation by municipalities. Specifics will be decided by holding discussions with local areas.

The national government will bear the expenses required for implementing lump-sum payouts, consider the clerical burdens of municipalities, and provide the necessary cooperation.

The method of implementation will be as simple and efficient as possible in terms of both clerical work and expenses.

(5) Other

Other than provided in the cabinet decision, necessary issues concerning the provision of benefits shall be specified by the Minister of Health, Labour and Welfare.

Lump-sum payouts for ordinary home buyers

(1) Amounts of benefits

Income-based levy of the prefectural inhabitant's tax <sup>(Note)</sup>

Amount of benefits

68.9 thousand yen or less 300

thousand yen

More than 68.9 thousand yen and 83.9 thousand yen or less

200 thousand yen

More than 83.9 thousand yen and 93.8 thousand yen or less

100 thousand yen

Note: Income-based levy of the prefectural inhabitant's tax in the case of a 4% prefectural inhabitant's tax rate

(2) People subject to benefits

People who purchase to dwell on new or used houses with a certain level of quality under the increased consumption tax rate. However, as for people who purchase the houses without securing loan, this measure will be applied only to those who are age 50 or older and pay 133 thousand yen or less per annum of the income-based levy (note) of the prefectural inhabitant's tax .

(3) Methods of the benefits

In principle, provision of benefits concerning about the acquisition of a house shall be carried out with the following methods.

- The administrator publicly invites an enterprise which performs a function of the benefit provision.
- House purchasers or their substitutions apply for the benefit .



- Constructors or sellers of the purchased houses will receive the benefit as representatives for the house purchasers or their substitutions.
- They will receive the benefit through wire-transfer to their designated accounts.

#### (4) Other

Other than provided in the cabinet decision, necessary issues concerning the provision of benefits shall be specified by the Minister of Land, Infrastructure, Transportation and Tourism.

Based on the provisions of Article 18 of Supplementary Provision of the Act for the Comprehensive Reform of the Tax System, as a result of giving comprehensive consideration to things such as the economic situation, we will keep in mind the “Liberal Democratic Party and the New Komeito agreement on lump-sum payouts for home buyers” (June 26, 2013) for lump-sum payouts in the event that the consumption tax rate is raised to 10% on October 1, 2015.

## Lump-sum payouts for rebuilding homes of disaster victims

## (1) Amounts of benefits

The amounts will be calculated as follows, irrespective of the income level of the person subject to benefits.

	Construction/ Purchase	Floor area of the re-acquired home x supplementary unit price (171 thousand yen/m <sup>2</sup> ) x 3%
Repairs	Total collapse	Floor area of the damaged home x supplementary unit price (56 thousand yen/m <sup>2</sup> ) x 3%
	Near collapse	Floor area of the damaged home x supplementary unit price (55 thousand yen/m <sup>2</sup> ) x 3%
	Half collapse	Floor area of the damaged home x supplementary unit price (46 thousand yen/m <sup>2</sup> ) x 3%
	Partial collapse	Floor area of the damaged home x supplementary unit price (28 thousand yen/m <sup>2</sup> ) x 3%

Note 1: Damaged home refers to home that was damaged by the Great East Japan Earthquake and that was recognized in a disaster certificate as “total collapse,” “near collapse,” “half collapse,” or “partial collapse,” or that is located within an area that was instructed to evacuate, an area where evacuation instruction was cancelled, or a place that was specially recommended to evacuate (including places where the recommendation was cancelled), due to a nuclear hazard.

Note 2: Re-acquired home refers to newly constructed or purchased home that replaces damaged home.

Note 3: The upper limit for floor area for benefits in the case of construction or purchase is 175m<sup>2</sup>.

Note 4: For supplementation, the upper limit will be the portion of increased consumption tax for the supplementary construction expenses actually required.

## (2) People subject to benefits

i) In the case of construction or purchase

People subject to benefits are those who meet all of the requirements below.

- a) Person who owned a damaged home
- b) Person who owns a re-acquired home
- c) Person who lives in a re-acquired home

However, even if all of the above requirements are not met, in certain cases such as when people who have requirements a) or b) can make a joint application and those people live together in a re-acquired home, it is possible for them to receive benefits.

ii) In the case of repairs

People subject to benefits are people who meet all of the requirements below.

- a) People who own a damaged home
- b) People who have ordered repair construction (things for which repair construction expenses without tax are 1 million yen or more) for a damaged home
- c) People who live in a damaged house that has been repaired

However, even if all of the above requirements are not met, in certain cases such as when people who have requirements a) or b) can make a joint application and those people live together in a re-acquired home, it is possible for them to receive benefits.

(3) Benefit method

In principle, provision of benefits concerning about the rebuilding of a house shall be carried out with the following methods.

- The administrator publicly invites an enterprise which performs a function of the benefit provision.

- House purchasers or their substitutions apply for the benefit .
- The purchaser will receive the benefit.
- They will receive the benefit through wire-transfer to their designated accounts .

#### (4) Other

Other than provided in the cabinet decision, necessary issues concerning the provision of benefits shall be specified by the Minister of Reconstruction.

Based on the provisions of Article 18 of Supplementary Provision of the Act for the Comprehensive Reform of the Tax System, as a result of giving comprehensive consideration to things such as the economic situation, we will keep in mind the “Liberal Democratic Party and the New Komeito agreement on lump-sum payouts for rebuilding homes of people who were affected by the Great East Japan Earthquake” (August 7, 2013) for lump-sum payouts in the event that the consumption tax rate is raised to 10% on October 1, 2015.

(Reference)

Estimated amount of decrease in tax revenue  
by tax reform in “Economic Policy Package”(full-year basis)

(Unit: 100 million yen)

Revised item	National tax	Local tax	Total
1. Tax reduction for promoting investments	5,500	1,900	7,300
2. Tax incentives for promoting increasing income	1,500	100	1,600
3. Tax reduction in home loan mortgage	700	400	1,100
Total	7,600	2,400	10,100

Note 1: The figures above include the effect of the FY 2013 tax reform.

Note 2: The figures above are round off to the nearest 10 billion yen. Accordingly, some fractions do not match the totals.