

2 Learn about “Tax” Situations

1 Various Taxes

There are several ways to categorize taxes. Firstly, taxes may be categorized by **targets taxes are imposed on**. Roughly, there are taxes on income, consumption, and assets.

Secondly, taxes are categorized by **who imposes taxes on**. Taxes imposed by the national government are called national tax, while taxes imposed by prefectural or municipal governments are called local tax. There are more than 40 national or local taxes stipulated by law.

Taxes may also be classified by **who bears the tax (effective tax contributor) and who pays the tax (taxpayer)**. There are direct taxes such as income tax, for which the taxpayer is identical to the effective tax contributor, and indirect taxes such as consumption tax, for which the taxpayer differs from the effective tax contributor.

Tax on Income Income Taxation	Tax on Consumption Consumption Taxation	Tax on Assets Property Taxation
Income tax, corporation tax, inhabitant tax, etc.	Consumption tax, liquor tax, tobacco tax, gasoline tax, etc.	Inheritance tax, gift tax, registration and license tax, etc.
The income tax, corporation tax and other taxes that are imposed on income (profit)	The consumption tax and other excise taxes that are levied on consumption of goods and services	The inheritance, fixed asset tax, and other asset taxes that are imposed on the acquisition and possession of assets

	National Taxes	Local Taxes		National Taxes	Local Taxes
Income Taxation	<ul style="list-style-type: none"> ●Income tax ●Corporation tax ●Special local corporation tax ●Special corporate enterprise tax ●Forest environment tax (From FY2024) ●Special income tax for reconstruction ●Local corporation tax 	<ul style="list-style-type: none"> ●Inhabitant tax ●Enterprise tax 	Consumption Taxation	<ul style="list-style-type: none"> ●Consumption tax ●Liquor tax ●Tobacco tax ●Special tobacco tax ●Gasoline tax ●Local gasoline tax ●Liquefied petroleum gas tax ●Aviation fuel tax ●Petroleum and coal tax ●Promotion of power resources development tax ●Motor vehicle tonnage tax ●International Tourist Tax ●Tariffs ●Tonnage tax ●Special tonnage tax 	<ul style="list-style-type: none"> ●Local consumption tax ●Local tobacco tax ●Golf course utilization tax ●Automobile acquisition tax ●Light oil delivery tax ●Automobile tax (Environmental performance excise·category base) ●Light motor vehicle tax (Environmental performance excise·category base) ●Mine lot tax ●Hunting tax ●Mine production tax ●Bathing tax
Asset Taxation, etc.	<ul style="list-style-type: none"> ●Inheritance/gift tax ●Registration and license tax ●Stamp tax 	<ul style="list-style-type: none"> ●Real estate acquisition tax ●Fixed asset tax ●City planning tax ●Establishment tax ●Water utility and land profit tax ●Common facilities tax ●Housing land development tax ●Special land possession tax ●Discretionary tax earmarked for general use ●Discretionary tax earmarked for special use ●National health insurance tax 			

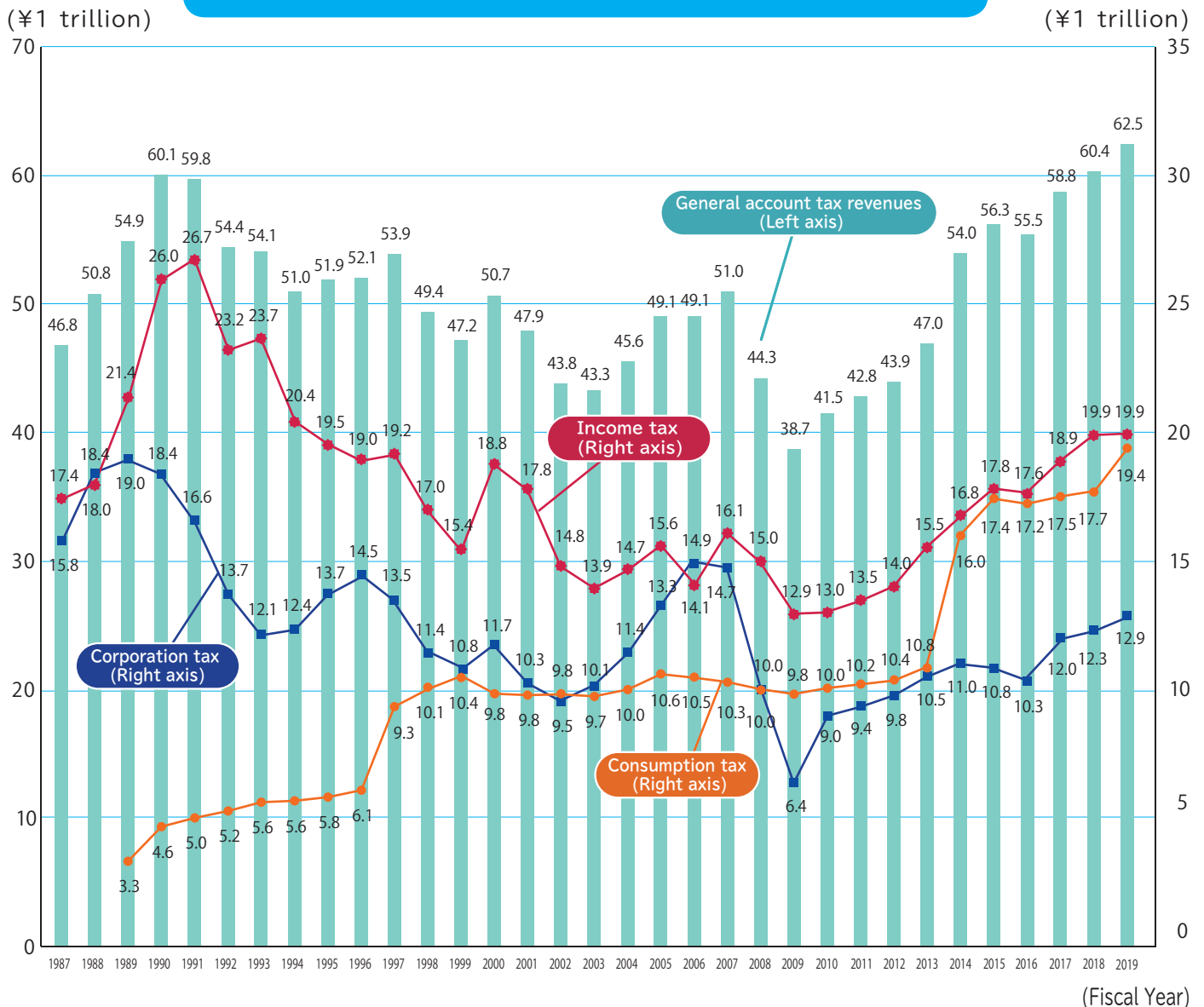


2 Japan's Tax Revenue

National tax revenues hit the record high of roughly 60 trillion yen in FY1990 during the bubble economy period. However, tax revenues later plunged due to tax cuts primarily in individual income tax and stagnant economic conditions.

In FY2009, national tax revenues dropped to roughly 39 trillion yen mainly due to the Lehman Shock. The later economic recovery and other factors led to tax revenues in FY2018 to rise to 60.4 trillion yen.

Trend of General Account Tax Revenues



(Note) Data until FY2018 are on a settlement basis, and data in FY2019 are on a budgeted basis.

3 Changes in the Tax System and Tax Item features

During the era of Heisei (January 1989 to April 2019), in order to create fairer tax burden in the entire tax system, the personal income tax rate was reduced and consumption tax (3%) was established in 1989 to impose tax burden on consumption broadly with low-rate. This was the measures in response to the heavy burden of income tax during the late era of Showa (December 1926 to January 1989) and the diversification of consumption activities, etc.

It was followed by tax system reforms with the pillars of reducing personal income taxation and increasing consumption tax rate (from 3% to 5% in 1997). This was to prepare for the inevitable increase in the financial demand for social security, since the population of working generation has decreased relatively due to the acceleration of declining fertility and aging population.

In addition, under the initiative of Comprehensive Reforms of Social Security and Tax, the consumption tax has been considered as the financial source of social security, with the view to share the cost by all generations which the large part of citizens would benefit. As such, in 2014, the consumption tax rate was hiked from 5% to 8%, and in October 2019, it was further hiked from 8% to 10%. During this period, the maximum tax rate of income tax has been revised in order to restore the income redistribution function and the structure of corporation taxation has been reformed to be more growth-oriented by “expanding the tax base while reducing the tax rate” in order to maintain the vitality and international competitiveness of domestic companies.

As described, each of the tax categories has been revised to respond to the changes in social and economic situation.

The features of the main tax items are as follows in the table below.

	Tax Revenues (FY 2019 Budget)	Features
Income Tax	¥19.9 trillion	<ul style="list-style-type: none"> • Tax burdens increase progressively according to the tax paying capacity. • Income tax is imposed mainly on the working generation. • Various deductions are devised to give fine-tuned considerations to individuals according to their conditions.
Corporation Tax	¥12.9 trillion	<ul style="list-style-type: none"> • Tax policy requires to be consistent with government's Growth Strategy and also considerations must be given to maintain and improve international competitiveness. • Various tax preferences to achieve certain policy goals are taken. • Tax revenues are relatively sensitive to economic conditions.
Consumption Tax	¥19.4 trillion	<ul style="list-style-type: none"> • Consumption tax burdens are shared widely by all citizens including elderly, instead of putting heavy burden on the working generation. • Consumption tax revenues are relatively stable irrespective of economic changes. • The impact on economic activities is relatively small.
Inheritance Tax	¥2.2 trillion	<ul style="list-style-type: none"> • It plays a role of preventing the gap between the rich and the poor from consolidating, so as to achieve the purpose of the redistribution of assets. • The tax is levied on the personnel holding some assets as the subjects.



4 Fiscal Situation

Out of the total expenditure, the sizes of social security expenditure and national debt services have increased in recent years, while the proportion of other policy expenses has decreased during the same period.

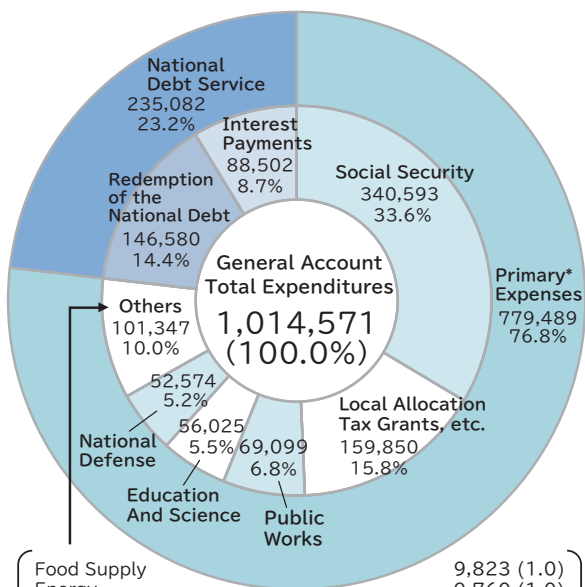
National debt services, local allocation tax grants, and social security expenditures account for about 3/4 of the total expenditure.

Tax revenue is estimated to be approximately 62.5 trillion yen of the revenues in the general account budget of FY2019. In principle, the expenditures of the year should be covered by the tax and non-tax revenues of the same year. However, the budget of FY2019 only covers about two-thirds of the total expenditure. As a result, the remaining one-third relies on debt financing (i.e., revenue generated by issuing government bonds), which constitute a burden for future generations.

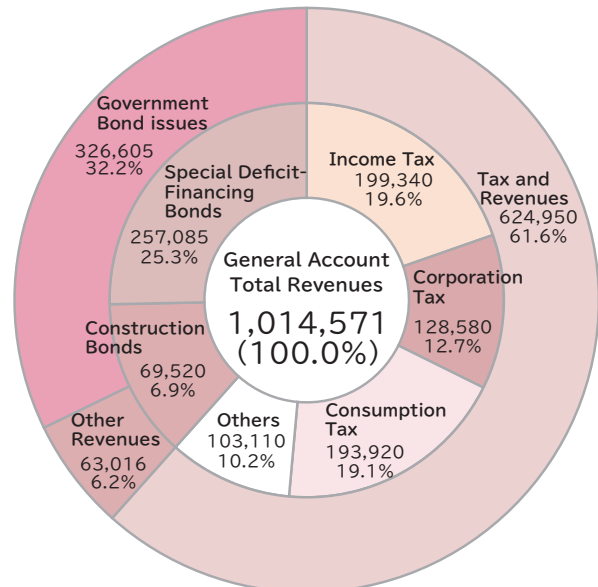
FY2019 Budget: General Account

(Unit: 100 Million Yen)

Expenditure



Revenue



Food Supply	9,823 (1.0)
Energy	9,760 (1.0)
Economic Assistance	5,021 (0.5)
Former Military Personnel Pensions	2,097 (0.2)
Promotion of SMES	1,790 (0.2)
Miscellaneous	67,856 (6.7)
Contingency Reserves	5,000 (0.5)

(Note 1) Including temporary and special measures of 2,028 billion yen.

(Note 2) Figures may not add up to the totals due to rounding.

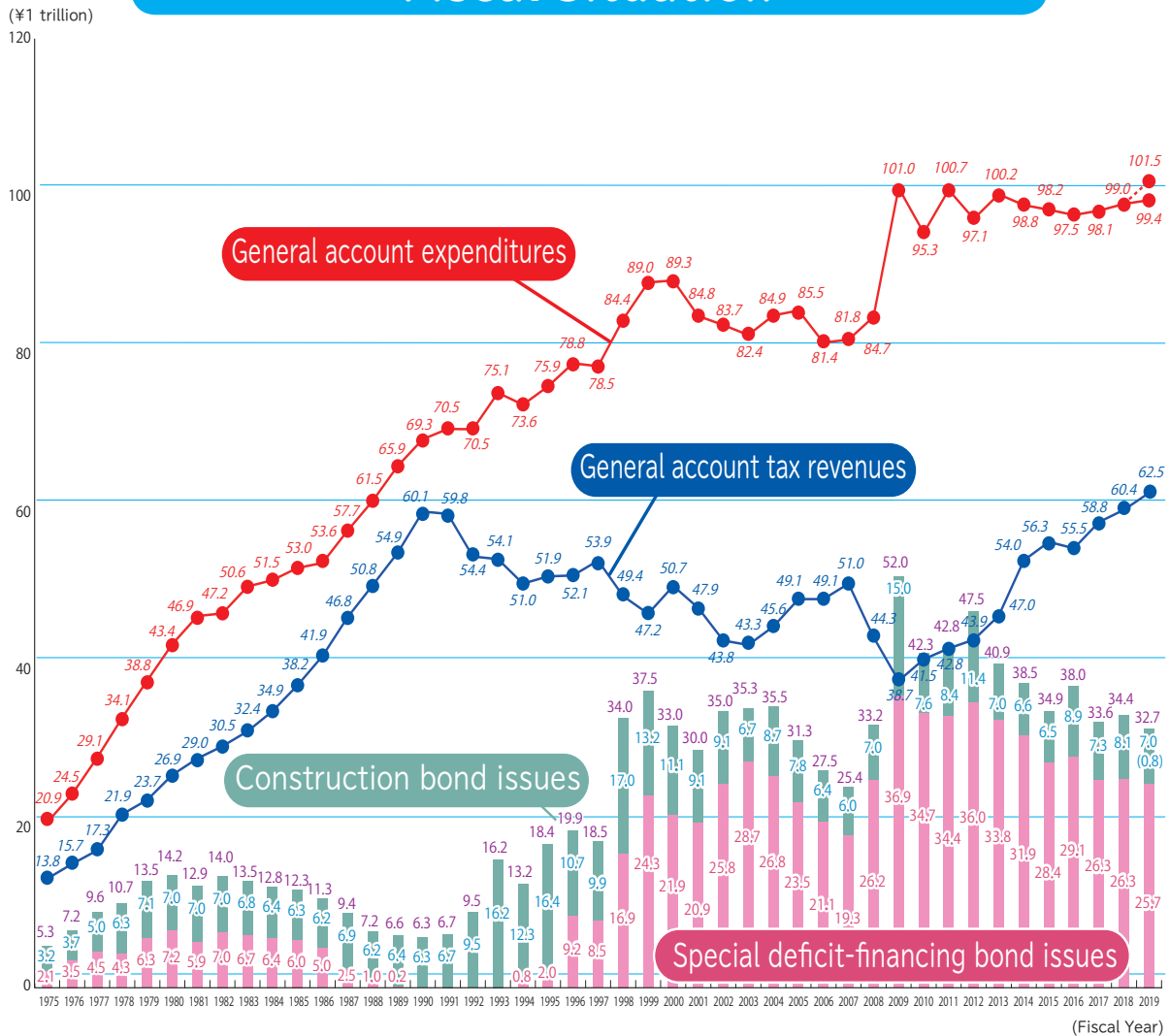
(Note 3) The percentage of social security expenses in the general expenditure* is 55.0%.

* "Primary Expenses" (= "General Account Total Expenditure" minus "National Debt Service") is the amount of policy expenses for the fiscal year.

* "General Expenditure" (= "Primary Expenses" minus the "Local Allocation Tax Grants, etc" .) is 61,963.9 billion yen (61.1%).

There is still a large gap between the expenditure and revenues. This gap has been financed by issuing **government bonds** (construction bonds and special deficit -financing bonds) as debt. The current tax system has not been able to cover the increasing expenditure due to factors such as aging population, and has not adequately fulfilled its **fundraising functions**.

Fiscal Situation



(Note 1) The data until FY2018 are on a settlement basis, and data in FY2019 are on a budgeted basis.

(Note 2) The following various bonds are excluded: Ad-hoc Special Deficit-Financing Bonds issued in FY1990 as a source of funds to support peace and reconstruction activities in the Persian Gulf Region, Tax reduction-related Special Deficit-Financing Bonds issued in FY1994 - FY1996 to make up for decline in tax revenue due to a series of income tax cuts preceding consumption tax hike from 3% to 5%, Reconstruction Bonds issued in FY2011 as a source of funds to implement measures for the Reconstruction from the Great East Japan Earthquake, Pension-related Special Deficit-Financing Bonds issued in FY2012 and FY2013 as a source of funds to achieve the targeted national contribution to one-half of basic pension.

(Note3) The dotted line in General account expenditures represents a figure including the expenditure for the Temporal and Special Measures; and the solid line represents excluding it. The amount of Bond issues includes the one issued for the Temporal and Special Measures; and the amount in parentheses represents the Construction bond issued for the Temporal and Special Measures.

(Note4) Article 4(1) of the Public Finance Act prescribes that annual government expenditure has to be covered in principle by annual government revenue generated from other than government bonds or borrowings. But as an exception, a proviso of the Article allows the government to raise money through bond issuance or borrowings for the purpose of public works, capital subscription or lending. Bonds governed by this proviso of Article 4(1) are called "Construction Bonds".

(Note5) When estimating a shortage of government revenue despite the issuance of Construction Bonds, the government can issue government bonds based on a special act to raise money for the purpose of other than public works and the like. These bonds are generally called "Special Deficit-Financing Bonds".

