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**, such as: 1) **taxes on income**; 2) **consumption**; and 3) **assets and properties**.

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.

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

	National Taxes	Local Taxes
Income Taxation	• Income tax • Corporation tax • Local corporation tax • Special corporate enterprise Tax • Forest environment tax (From FY2024) • Special income tax for reconstruction	• Inhabitant tax • Enterprise tax
Asset Taxation, etc.	• Inheritance/gift tax • Registration and license tax • Stamp tax	• 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

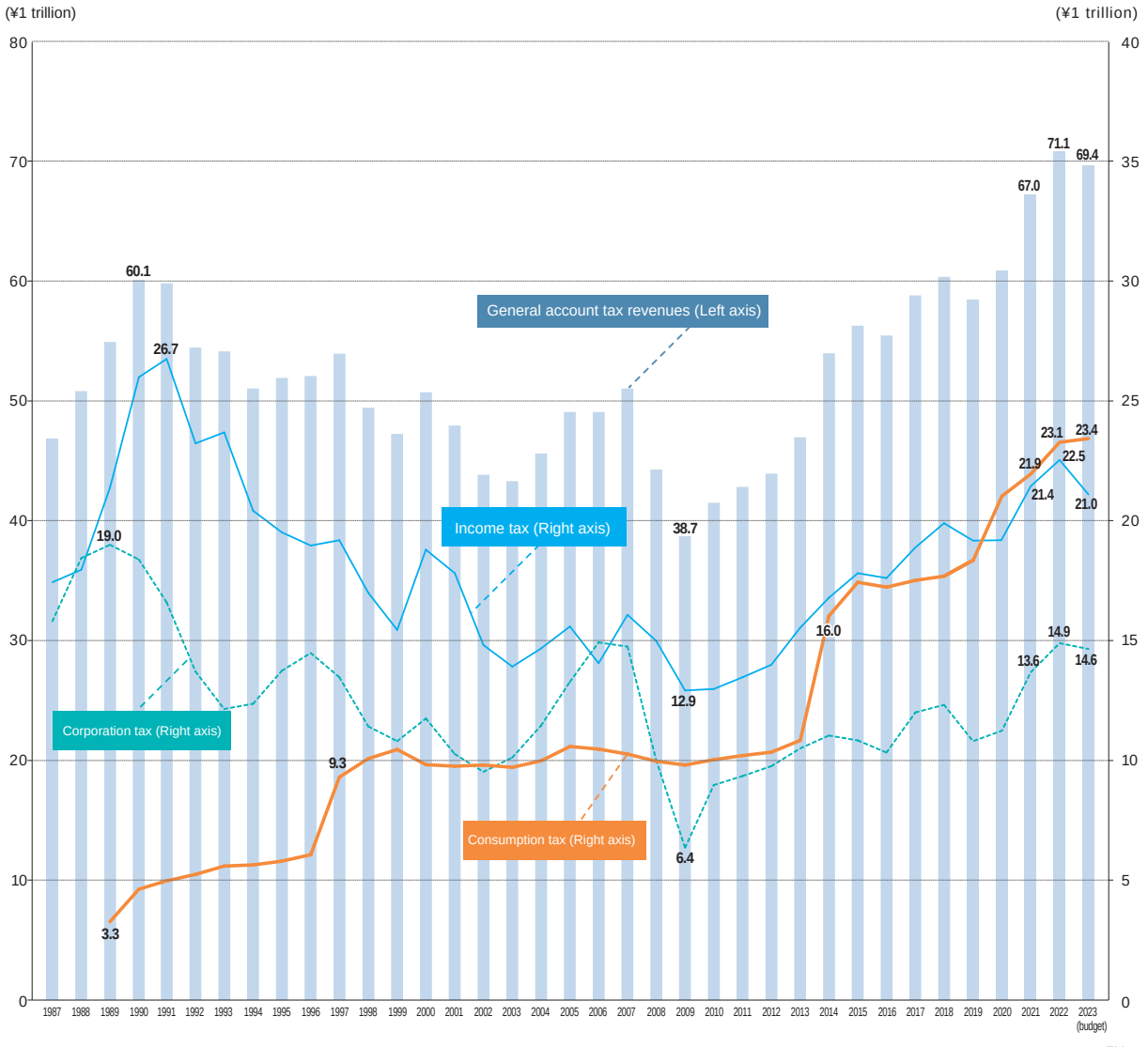
	National Taxes	Local Taxes
Consumption Taxation	• Consumption tax • Liquor tax • Tobacco tax • Special tobacco tax • Gasoline tax • Local gasoline tax • Liquefied petroleum gas tax • Aviation fuel tax • Petroleum and coal tax • Promotion of power resources development tax • Motor vehicle tonnage tax • International Tourist Tax • Tariffs • Tonnage tax • Special tonnage tax	• Local consumption tax • Local tobacco tax • Golf course utilization 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

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.

2 Japan's Tax Revenue

National tax revenues hit roughly 60 trillion yen in FY1990 during the bubble economy period. However, tax revenues later fell to 38.7 trillion yen in FY2009, due to economic slowdown and the impact of the Lehman Brothers collapse. After a while, an economic recovery and the increase of consumption tax led to a hike in tax revenues, resulting in the tax revenues of 71.1 trillion yen as of FY2022.

Trend of National Tax Revenues (General Account)



(Note) Data until FY2021 are on a settlement basis, date in FY2022 are on a settlement basis (approximate), and data in FY2023 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 and fairly.

Later, tax reforms were implemented with the pillars of **reducing personal income taxation** and **raising consumption tax** (including the local consumption tax) rate from **3% to 5%** (in 1997), considering the inevitable increase in the financial demand for social security.

In addition, in view of sharing the expenses of social security broadly and fairly by all generations, **the consumption tax has been considered as the financial source of social security.** In 2014, the consumption tax rate was raised 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 by the policy of "**expanding the tax base while reducing the tax rate**" in order to maintain the vitality and international competitiveness of domestic businesses.

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

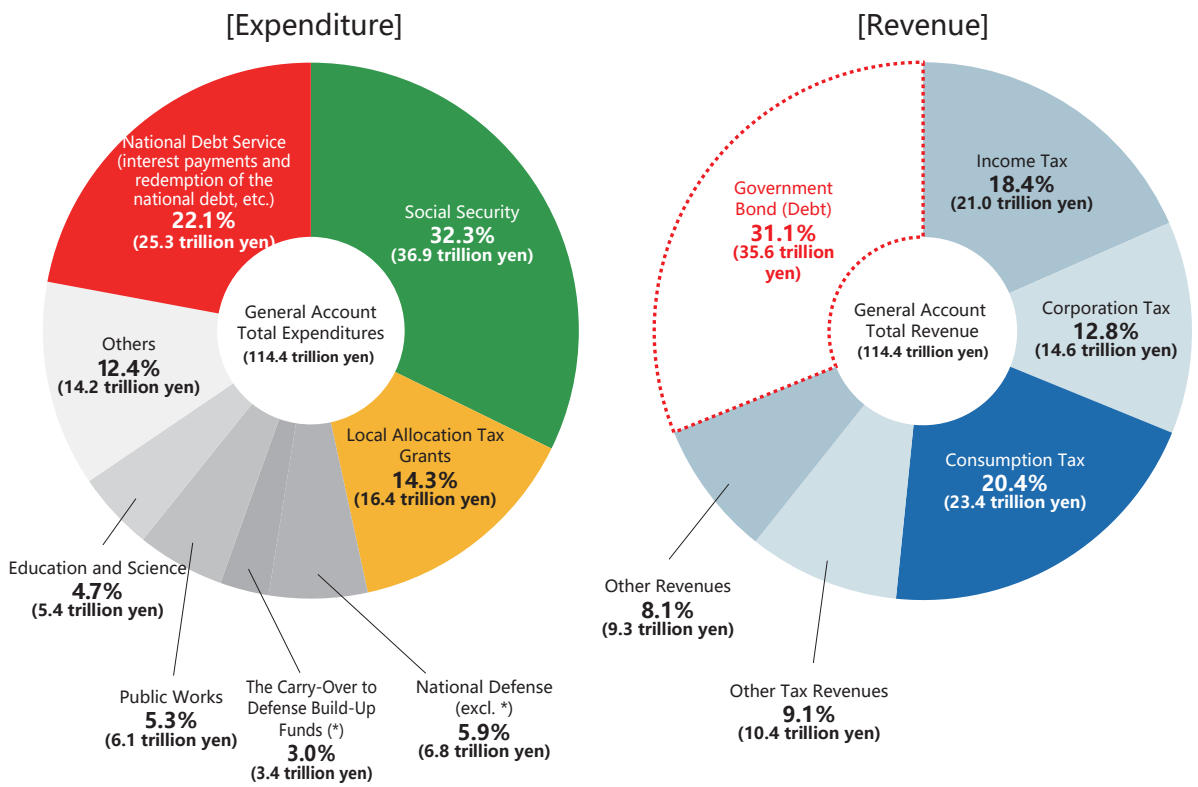
	National Tax Revenue (Budget of FY2023)	Features
Income Tax	¥21.0 trillion	・Tax burdens increase progressively according to the tax paying capacity. ・Income tax is imposed mainly on the working generation. ・Various deductions are devised to give fine-tuned considerations to individuals according to their conditions.
Corporation Tax	¥14.6 trillion	・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	¥23.4 trillion	・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	¥2.8 trillion	・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

Social security-related expenses and national debt services (principal and interest payments on the government bond) have increased in national general account expenditures, while the proportion of other policy expenses has decreased. In recent budgets, **social security-related expenses, national debt services, and local allocation tax grants account for more than two-thrids of the total expenditure.**

Tax revenue of the FY2023 general account is estimated to be approximately 69.4 trillion yen. Essentially, the government expenditure should be financed by the tax and other revenue in the same year, but the current revenue accounts for only about two-thirds of the whole expenditure in the FY2023 budget, and the rest one-third relies on the revenue from issuing government bond (i.e. debt).

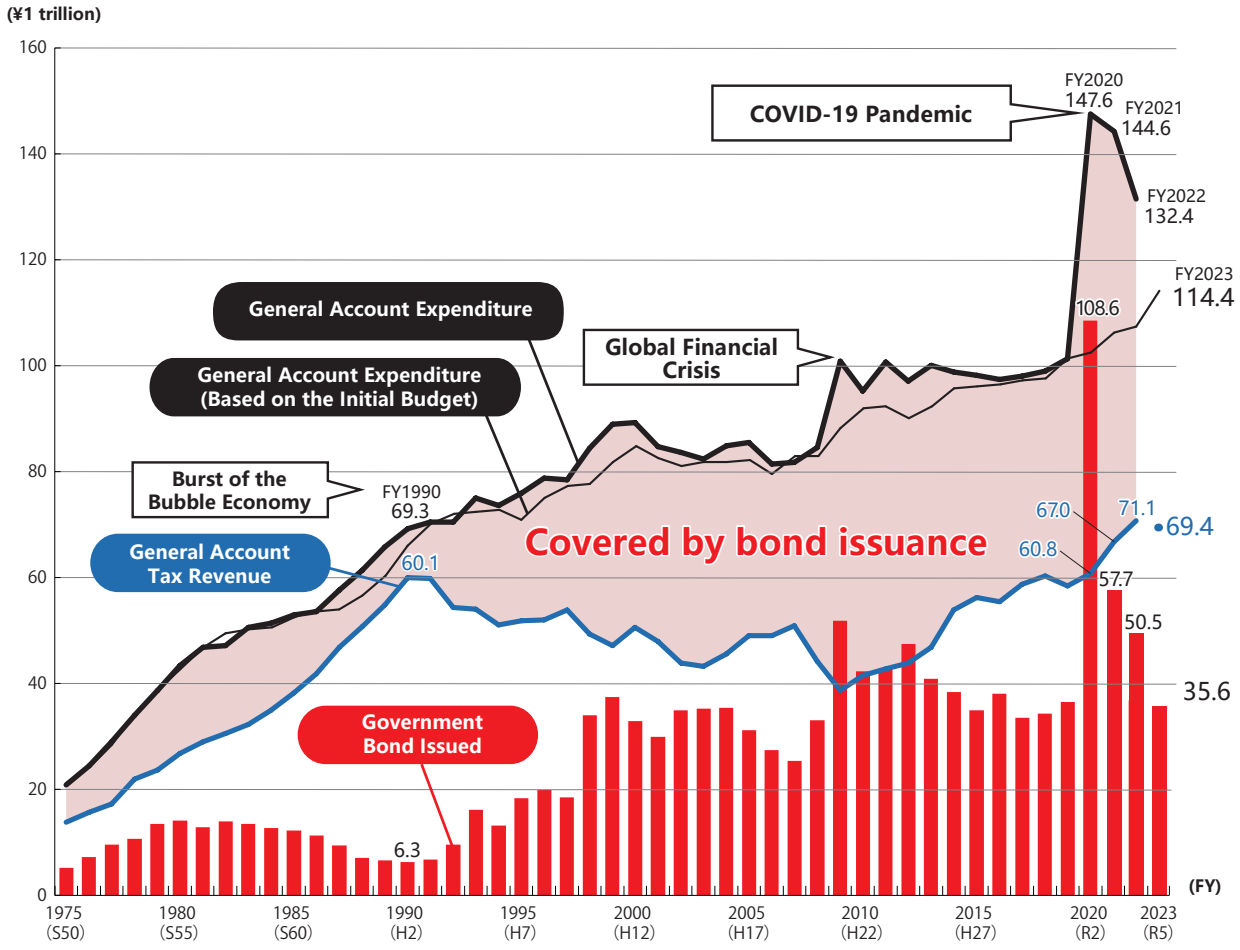
FY2023 Budget: General Account



(Note) The "Others" category of expenditure includes the Contingency Fund for the COVID-19 and measures to address soring crude oil and commodity prices (3.5% (4.0 trillion yen), as well as the Contingency Fund for Economic Emergency (including the impact from the Ukraine Crisis) (0.9% (1.0 trillion yen)).

There is a large gap between general account expenditures and tax revenues, which has been financed by issuing **government bonds** as debt. **The burden has been postponed to the generation of our children and grandchildren**. In addition, expenditure is recently expanding due to the responses to the COVID-19 starting from FY2020. 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 **fund raising**.

Fiscal Situation



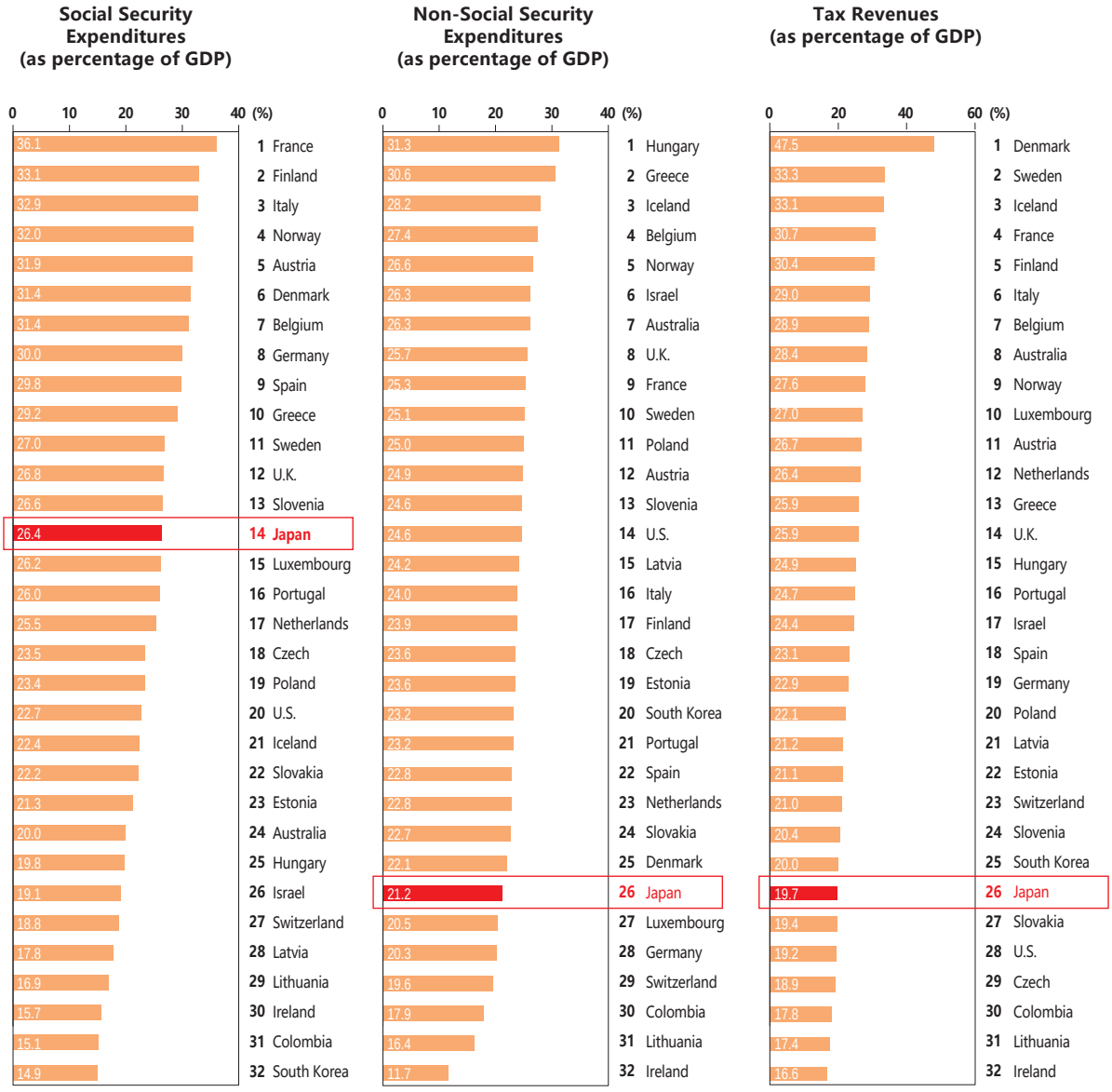
(Note) The data until FY2021 are on a settlement basis, the data of FY2022 is on an estimated basis, and the data of FY2023 is based on the budget.

5 Balance of Benefits and Burdens

Compared with other countries, **the scale of tax revenues in Japan is relatively low as a percentage of GDP**. As for expenditures, the scale of expenditure other than social security is relatively low in the world, **but the scale of social security expenditure is at a medium level**.

It is necessary to continue to discuss the relationship between the increase in social security benefits due to the aging of society, etc. and the public burden as a whole.

Balance of Benefits and Burdens



(Source) OECD "National Accounts", "Revenue Statistics", Cabinet Office "National Accounts", etc.
(Note) Japan: actual figures of FY2020, Australia and Ireland: actual figures of CY2020 (Columbia: actual figures of CY2019, Lithuania: actual figures of CY2017). The other countries: actual figures of CY2020.