Learning More About Taxes

July 2023 Ministry of Finance

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1 Learn about the Significance and Role of "Tax"

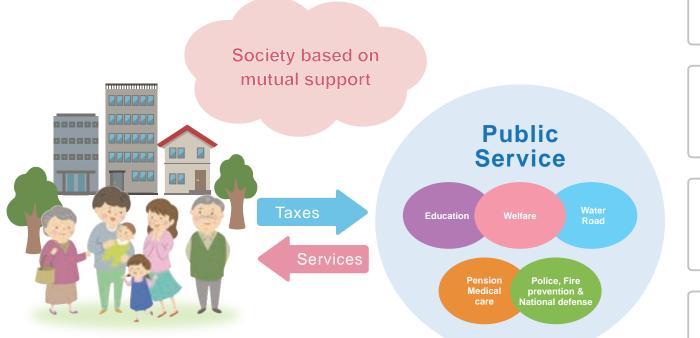
"Tax" is a "Society Membership Fee"

Public services such as social security (e.g. pensions and medical care), infrastructure (e.g. tap water and road), education, police services, fire prevention, and defense services are indispensable for our life. However, such provision does not come for free.

It is socially inappropriate to provide social security and education only for people who can afford the costs. It is also difficult to provide police and defense services only for people who need them. If **public services** are left to be provided by the private sector under the market principles, they may fail to be provided in sufficient volume or at sufficient levels.

Thus, public services should be implemented in the public sector by using taxes to accommodate the need of public services.

People need to broadly and fairly share the costs of **public services** to support each other and build a better society. Therefore, taxes can be accurately described as a **"society membership fee"**.



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Fund Raising

The tax system is positioned as the most direct and important means to **raise funds** for the **public services**.

Income Redistribution

Income tax and Inheritance tax have **progressivity**, which demand a greater burden on people with economic power, and they play a role in **redistributing** income and assets in conjunction with expenditures of social security benefits, etc.

Economic Stabilization

The tax automatically limits economic fluctuations and **stabilizes the economy** by holding down total demand through a tax revenue rise during an economic boom and stimulating total demand through a tax revenue decline during a slump.

3 The Three Principles of "Tax"

Principle of Fairness

- "Horizontal fairness" principle: requires people with the same economic capacity to pay the same tax
- "Vertical fairness" principle: requires people with greater economic capacity to pay higher tax
- In recent years, "fairness across generations"
 has become more important

Principle of Neutrality

Tax system should not distort economic activities by individuals and business corporations

Principle of Simplicity

Tax system should be as simple as possible and made understandable

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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

Income tax, corporation tax, inhabitant tax, etc.

The income tax, corporation tax and other taxes that are imposed on income (profit)

Tax on Consumption Consumption Taxation

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

Tax on Assets Property Taxation

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		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 	Consumption	 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 	 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
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 National health insurance tax 	n Taxation	 Promotion of power resources development tax Motor vehicle tonnage tax International Tourist Tax Tariffs Tonnage tax Special tonnage tax 	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.

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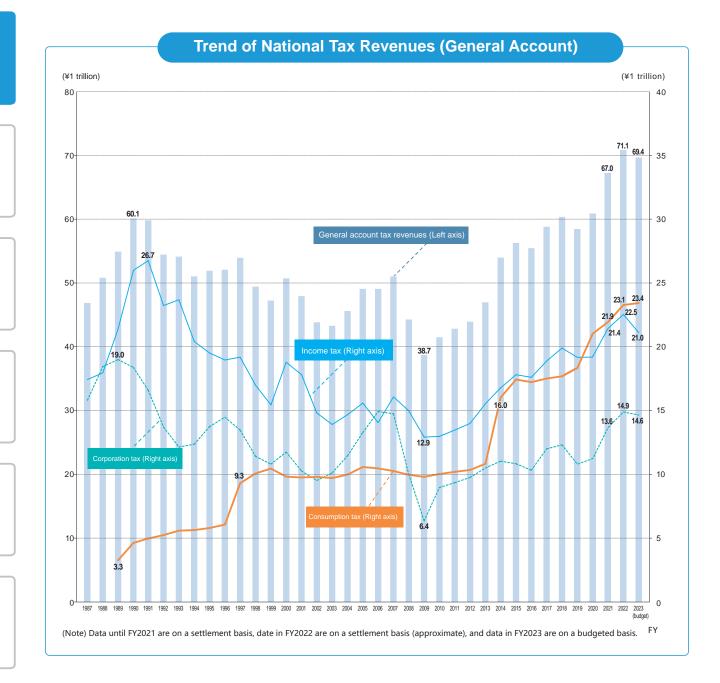
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National tax revenues hit roughly 60 trillion yen in FY1990 during the bubble economy period. However, tax revenues later fell to 38.7 trillion yen in FY2009, due to economic slowdown and the impact of the Lehman Brothers collapse. After a while, an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



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.

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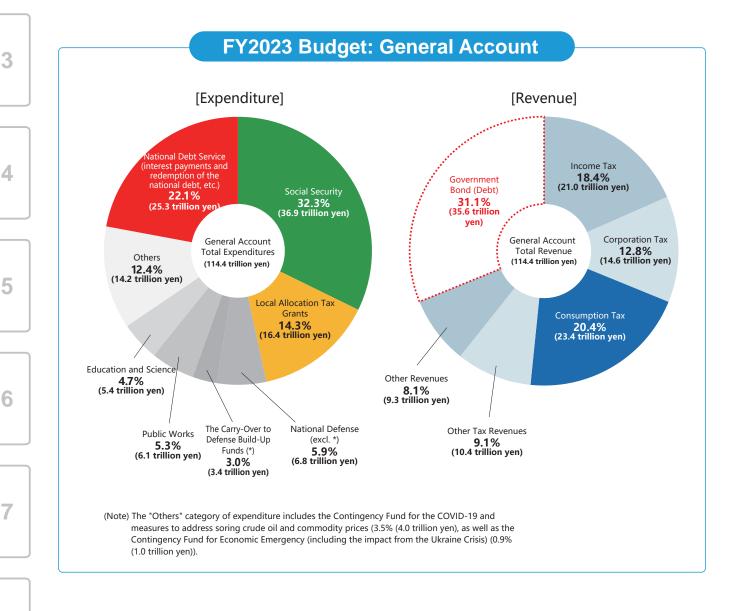
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4 Fiscal Situation

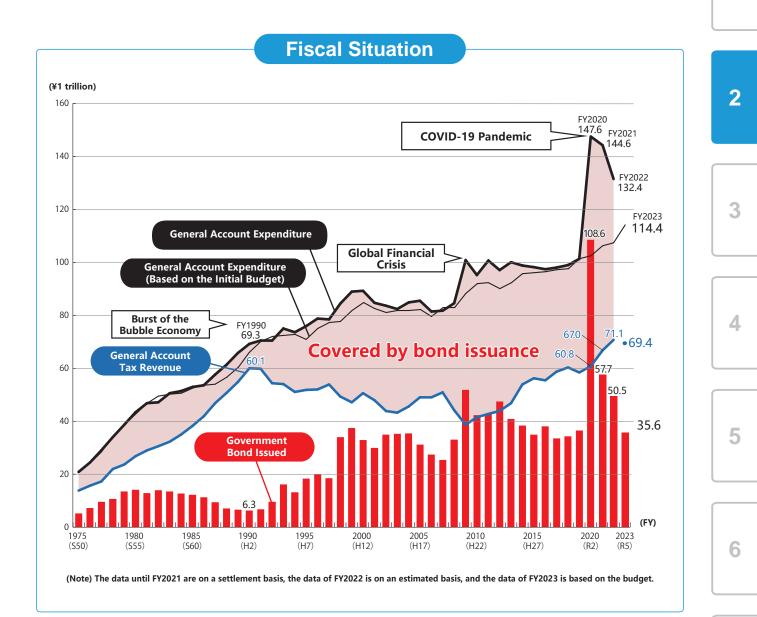
Social security-related expenses and national debt services (principal and interest payments on the government bond) have increased in national general account expenditures, while the proportion of other policy expenses has decreased. In recent budgets, **social security-related expenses, national debt 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).



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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.



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

Tax Revenues

Non-Social Security

0 10 20 30	40 (%)	0 1	0 20	30	40 (%)	0 20	40 60 (%)	
36.1	1 France	31.3			1 Hungary	47.5	1 Denmar	
33.1	2 Finland	30.6			2 Greece	33.3	2 Sweden	
32.9	3 Italy	28.2			3 Iceland	33.1	3 Iceland	
32.0	4 Norway	27.4			4 Belgium	30.7	4 France	
31.9	5 Austria	26.6			5 Norway	30.4	5 Finland	
31.4	6 Denmark	26.3			6 Israel	29.0	6 Italy	
31.4	7 Belgium	26.3			7 Australia	28.9	7 Belgium	1
30.0	8 Germany	25.7			8 U.K.	28.4	8 Australia	а
29.8	9 Spain	25.3			9 France	27.6	9 Norway	
29.2	10 Greece	25.1			10 Sweden	27.0	10 Luxemb	ourg
27.0	11 Sweden	25.0			11 Poland	26.7	11 Austria	
26.8	12 U.K.	24.9			12 Austria	26.4	12 Netherla	ands
26.6	13 Slovenia	24.6			13 Slovenia	25.9	13 Greece	
26.4	14 Japan	24.6			14 U.S.	25.9	14 U.K.	
26.2	15 Luxembourg	24.2			15 Latvia	24.9	15 Hungar	y
26.0	16 Portugal	24.0			16 Italy	24.7	16 Portuga	
25.5	17 Netherlands	23.9			17 Finland	24.4	17 Israel	
23.5	18 Czech	23.6			18 Czech	23.1	18 Spain	
23.4	19 Poland	23.6			19 Estonia	22.9	19 German	у
22.7	20 U.S.	23.2			20 South Korea	22.1	20 Poland	
22.4	21 Iceland	23.2			21 Portugal	21.2	21 Latvia	
22.2	22 Slovakia	22.8			22 Spain	21.1	22 Estonia	
21.3	23 Estonia	22.8			23 Netherlands	21.0	23 Switzerl	and
20.0	24 Australia	22.7			24 Slovakia	20.4	24 Slovenia	a
19.8	25 Hungary	22.1			25 Denmark	20.0	25 South K	orea
19.1	26 Israel	21.2			26 Japan	19.7	26 Japan	
18.8	27 Switzerland	20.5			27 Luxembourg	19.4	27 Slovakia	1
17.8	28 Latvia	20.3			28 Germany	19.2	28 U.S.	
16.9	29 Lithuania	19.6			29 Switzerland	18.9	29 Czech	
15.7	30 Ireland	17.9			30 Colombia	17.8	30 Colomb	ia
15.1	31 Colombia	16.4			31 Lithuania	17.4	31 Lithuani	а

(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.

Social Security

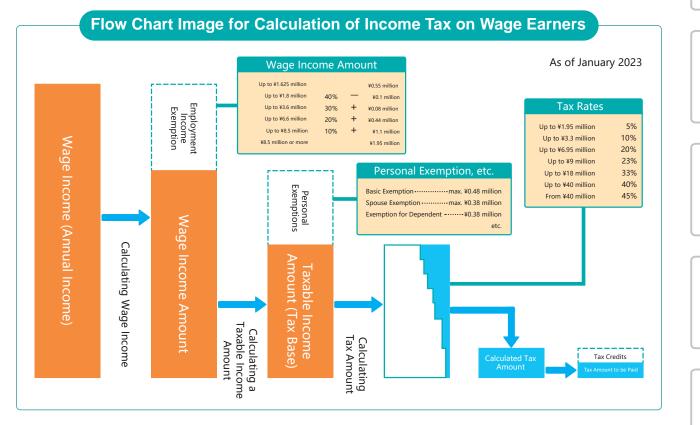
3 Learn about "Income Tax"

1 Income Tax

Income tax is imposed on wages, business profits, gains on land sale and other types of incomes. The income tax on an employee's wage is calculated by

- subtracting the employment income exemption from wage income (annual income) to determine the wage income amount,
- ② subtracting **basic, spouse and other exemptions** from the wage income amount to give consideration to the employee's taxpaying capacity and
- ③ applying **the progressive tax rate system** (where higher tax rates are applied to higher income) to the remaining amount.

In this way, income tax can require contribution according to income size and can be fine-tuned according to family structure and other personal circumstances.



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2 Major Types of Income

There are various types of income, which can be divided into the following ten types of income depending on the nature of the income. In addition, the method of calculating income and the taxation method are determined according to the nature of each income.

Category of income	Description	Taxation method	
Interest income	Income from interest on bonds and savings accounts	Separate withholding taxation at source	
Dividend income	Income from dividends, etc. by corporations	Comprehensive taxatio (filing of return not required), Separate self-assessment taxatio	
Real property income	Income from loans of real estate, ships, aircraft, etc.	Comprehensive taxatio	
Business income	Income arising from business, such as agricultural business, fishing business, manufacturing business, wholesale business, retail business, or service business	Comprehensive taxatio	
Employment income	Income from salaries, bonuses, etc.	Comprehensive taxation	
Retirement income	Income from retirement and other benefits	Separate taxation	
Timber income	Income from the transfer of mountains and/or forests	Separate taxation	
Capital gains income	Income arising from the transfer of assets	Comprehensive taxatio (Note)	
Occasional income	Income arising occasionally which is not income arising from a continuous act carried out for the purpose of profit, and which does not have a nature of compensation for any service such as labor or transfer of assets	Comprehensive taxatio	
Miscellaneous income	Income from public pensions and other sources Income that does not fall into any of the above categories	Comprehensive taxatio (Note)	

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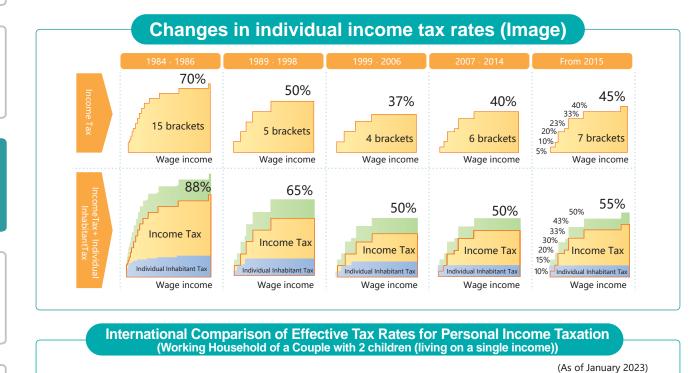
(Note) Some items are treated as separate taxation (income from transfer of stocks, transfer of land, futures trading, etc.).

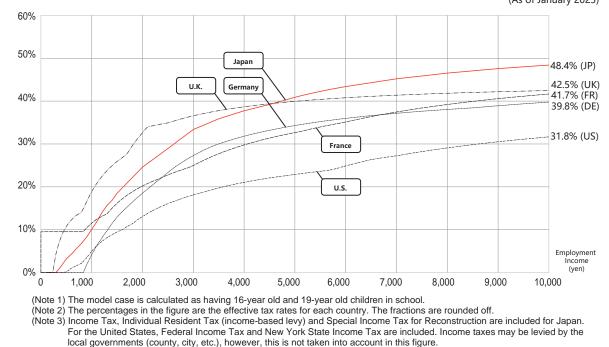
There are exemptions such as basic exemption which applies to all people and exemptions which take into account individual circumstances such as family structure.

<			Income requirement	
		Persons qualifying for deductions	for taxpayers (Total income)	
Ma	Personal (Basic) deduction	•Personal(Basic) deduction	25 million yen or under (the amount of deduction gradually decreases for taxpayers who earn more than 24 million yen)]	
ajor Basic Pei	Spouse deduction	• Taxpayers who have spouses who depend on them for living expenses and earn 480,000 yen or under as total income ("spouses qualifying for deduction")	10 million yen or under (the amount of deduction gradually decreases for taxpayers who earn more than 9 million yen)	
Major Basic Personal Exemptions	Special deduction for spouses	• Taxpayers who have spouses who depend on them for living expenses and earn more than 480,000 yen and not more than 1,330,000 yen as total income	10 million yen or under (the amount of deduction gradually decreases for taxpayers who earn more than 9 million yen)	
ions	Deduction for dependents	• Taxpayers who have relatives, etc. who depend on them for living expenses and earn 480,000 yen or under as total income	_	
Major Specific Personal Exemptions	Deduction for persons with disabilities	 Taxpayers who fall within the category of persons with disabilities Taxpayers who have spouses qualifying for deduction or dependent relatives who fall within the category of persons with disabilities 	_	
	Deduction for Widows	 Those who have been divorced, with dependent(s) Those who have been widowed, that have not been remarried Excludes those that fall under a single parent De facto partners who are indicated as "Husband (unregistered)" "Wife (unregistered)" in the Resident's Registration are to be excluded 	Up to ¥5 million	
	Those who are not currently married and have a child (total income up to 0.48 million) to make a living together De facto partners who are indicated as "Husband (unregis-tered) " "Wife (unregistered)" in the Resident's Registration are to be excluded		Up to ¥5 million	
	Deduction for working students	 Taxpayers who are students of schools provided under the School Education Acts 	750,000 yen or under and not more than 100,000 yen for income other than employment income	

4 Changes in Income Tax Contributions

In the past, the highest income tax rate was 70% (for taxable income exceeding 80 million yen), but the rate has been lowered to reduce tax burdens on wage earners. For income from 2015, a new tax rate of 45% was created for taxable income exceeding 40 million yen to **revive income redistribution function of the tax system**.





Social Security-related Contributions (9.7%) are included. When calculating the rate of the burden in each country, only the generally applicable deductions and tax credits are taken into account, so the Earned Income Tax Credit of the US, Working Tax Credit (full benefit) of the UK and similar measures are not considered. (Remarks) Japanese Currency Exchange Rate: 1 USD = 142 JPY, 1 GBP = 168 JPY, and 1 EUR = 145 JPY (basic exchange rate and arbitrated exchange rate by Bank of Japan: applied in January 2023).

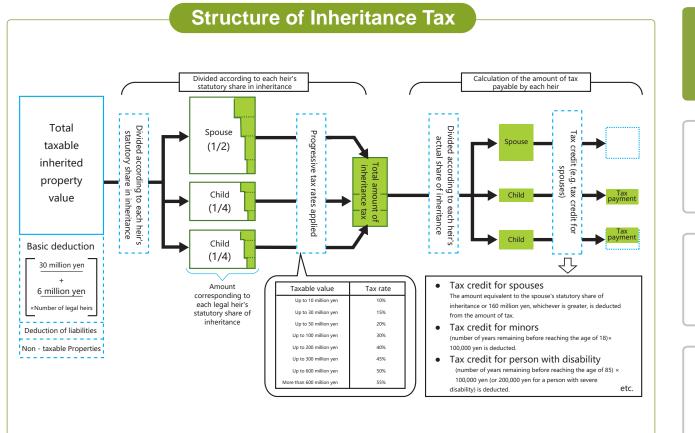
Income Tax and Solidarity Surcharge (0-5.5% of the income tax) are included for Germany. For France, Income Tax and

4 Learn about "Inheritance Tax" and "Gift Tax"

Inheritance Tax

Inheritance taxes imposed on properties which tax payers acquire by inheritance. Progressive tax rates which apply higher tax rates to higher asset values are used for the inheritance tax to **redistribute wealth**.

When the inheritance tax is calculated, a basic exemption is deducted from the value of inherited properties. The basic exemption was raised in line with substantial land price hikes during the bubble economy period and later kept unchanged despite continuous land price drops. Also tax rates were gradually lowered. As a result, the inheritance tax was imposed for only 4% of decedents, leading to an argument that the inheritance tax's function of redistributing wealth was declining.



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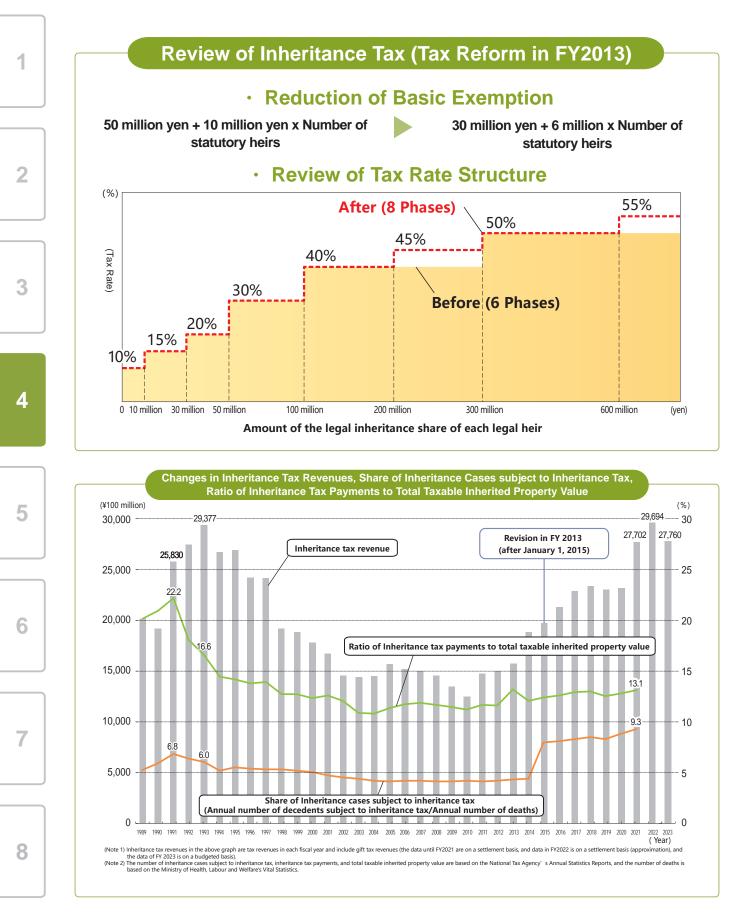
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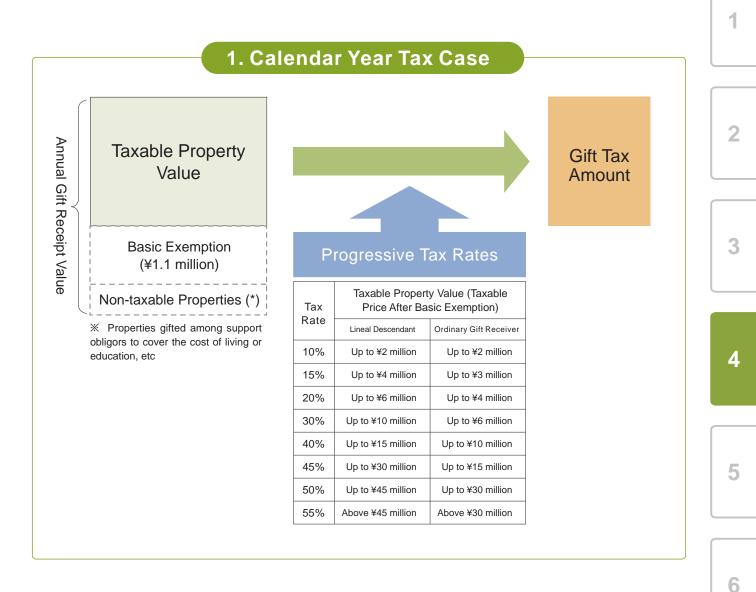
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In response, the FY2013 tax reform expanded the inheritance taxation base by reducing the amount of basic exemption, and revised the inheritance tax rates to revive the inheritance tax's function of redistributing wealth and prevent the consolidation of disparity.





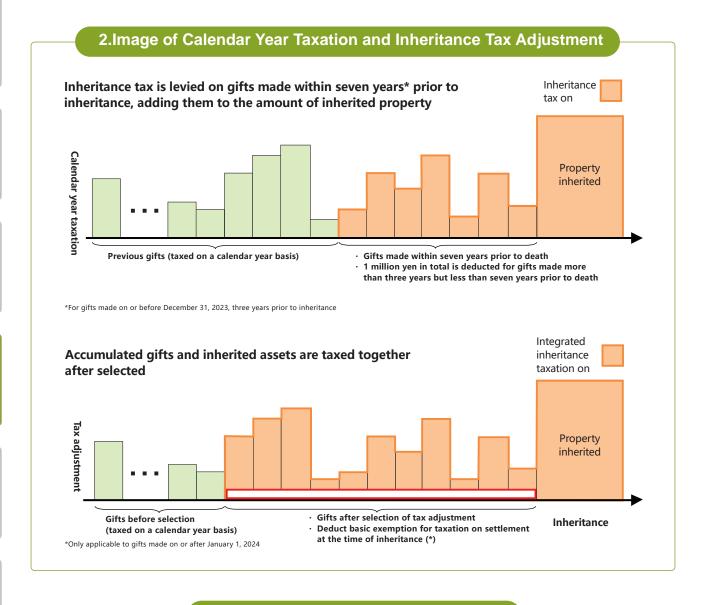
Gift tax is imposed on properties that tax payers acquire by gift. It **supplements the inheritance tax** by preventing people from attempting to take advantage of lifetime gifting to avoid theinheritance tax.



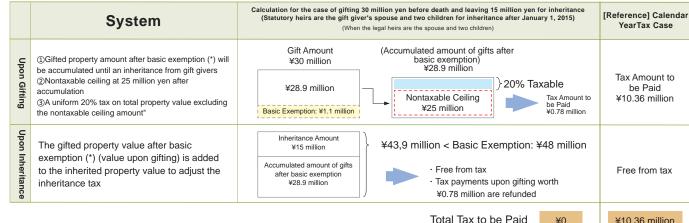
In line with aging population, ages for property transfers to children and grandchildren by inheritance are growing higher. If older **people's properties are transferred to their children and grandchildren earlier**, their effective utilization may help **revive the economic society**.

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In order to allow elderly people to transfer their properties to their children and grandchildren, the government has introduced an inheritance tax adjustment system under which gift receivers will pay a uniform 20% tax on gifts and make adjustments upon their late calculation of inheritance tax amounts (with optional calendar year taxation).



3.Inheritance Tax Adjustment System



*Basic exemption will not be applied to gifts made on December 31, 2023 or earlier.

Total Tax to be Paid

¥10.36 million

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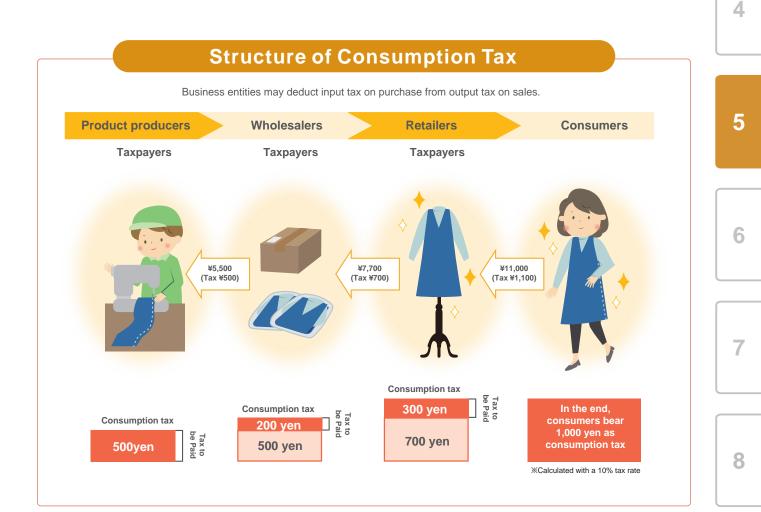
5 . Learn about "Consumption Tax"

Consumption Tax

Consumption tax is levied broadly and fairly on consumption in general. In principle, sales and provision of goods and services in Japan are subject to consumption tax, and it is imposed on sales of business entities as taxable person. To avoid tax accumulation, business entities may deduct input tax from output tax they collected through their sales and pay the remainder to the tax authority.

Consumption tax paid by business entities is added to sales prices as cost and supposed to be borne by final consumers (in contrast to income tax called "**direct tax**", consumption tax of which taxable person and actual tax bearer are different is called "**indirect tax**").

* In this chapter, consumption tax (national tax) and local consumption tax (local tax) are collectively referred to as "consumption tax".



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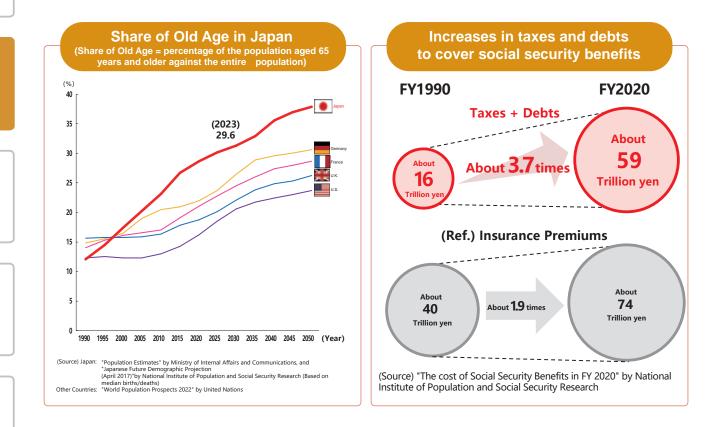
The financial source of social security, in principle, is based on mutual support through insurance premiums. As it is difficult to cover social security expenses solely by insurance premiums, other than putting heavy burden on working-age population, tax revenues and debts are also used for that purpose. The cost of social security associated with aging continues to increase. Most of the expenses currently depends on the debts, which means the burden is deferred to future generations such as our children and grandchildren.

In order for all generations to share the burden of social security that we benefit from and to pass on the current social security system to the next generation, it is indispensable to **secure stable financial sources**.

Against this background, the consumption tax rate was increased from 5% to 8% in April 2014, then further hiked from 8% to 10% in October 2019.

All of the increased revenue due to the consumption tax rate increase will be allocated to social security, expanding the social security system, which was traditionally centered on the elderly, converting the social security focused on the elderly to cover "All Generations" by expanding the benefits for working and child-rearing generation through eliminating the waitlists for nursery/preschool as well as making preschool education and nursery free of charge.

* Consumption tax is suitable as a stable financial source for social security, as the burden is not shouldered only by specific generations such as working-age population. In addition, the tax revenue is not easily affected by fluctuations in the economy.



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3 Reduced Tax Rate System for Consumption Tax

Along with the change of standard tax rate to 10%, a reduced tax rate system is introduced, which applies 8% to the purchase of food and beverages (excluding liquors and eating-out), to take care the impact on lower-income group.



Invoice System (Qualified Invoice System)

With the implementation of the reduced tax rate system, the consumption tax rate is now either the standard rate of 10% or the reduced rate of 8%. In order for businesses to accurately calculate the amount of consumption tax, the Qualified Invoice System is going to be introduced from October 2023.

Under this new system, businesses that issue qualified invoices are required to clearly state the applicable tax rate and amount on their invoices or bills, so that both sellers and buyers can confirm that there are no errors in calculation of the tax rate, etc.

* A four-year preparation period from the implementation of the reduced tax rate system (from October 2019) has been provided to allow businesses to comply with the Qualified Invoice System.

		Invoice		
To: Ae	3C Co	(December)) MM DD, YYY XYZ Company umber: T123456	Additional items for the Qualified Invoice from general
Γ	Date	Item sold	Amount	invoice under single tax rate
Γ	11/1	Fish (*)	5,000 yen	(1) Registration Number
Γ	11/1	Pork *	10,000 yen	2) Tax rate applicable
Γ	11/2	Towel Set	2,000 yen	
Γ				3 Consumption tax
	Total	120,000 yen Consumptio	n Tax 11,200 yen	$(\widehat{4})$ Indication that items are
2	(8% Ta	xable: 40,000 yen Consump	tion tax: 3,200 yen	eligible for a reduced tax rate
	10% Ta	xable: 80,000 yen Consump	tion tax: 8,000 yen	

Example of Qualified Invoice

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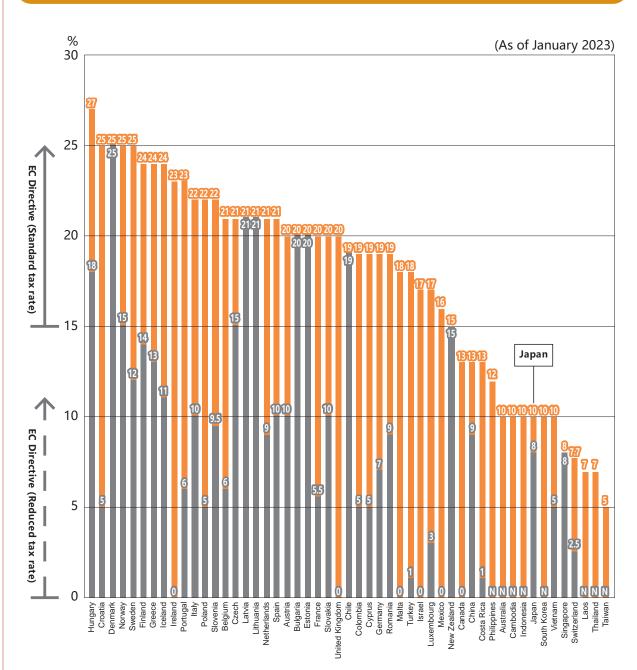
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International Comparison of Value-added Tax rates (standard rates and rates on food)



(Note 4) The EC Directive had originally denied zero tax rates and reduced tax rates less than 5%, but an amendment in April 2022 permitted them for certain items. (Note 5) Figures as of July 2022 for Denmark, Greece, Italy, and Czech Republic. Figures as of January 2022 for Cyprus.

(Note 6) As for Canada, there are three types of taxation systems: 1) Provinces with only federal GST/HST; 2) Provinces with a provincial value-added tax in addition to the federal GST/HST; and 3) Provinces with a federal-provincial value-added tax. In this figure, the tax rate of Ontario categorized as 3) is shown (13% federal-provincial value-added tax. tax, including 8% provincial tax).

(Note 7) In Poland, the main tax rates are 22%, 7%, and 5%, but there is a provision to change the tax rates depending on the fiscal situation. Currently, 23%, 8%, and 5% are applied as special exceptions.

(Source) OECD Statistics, websites of the European Commission and each country, and IBFD.

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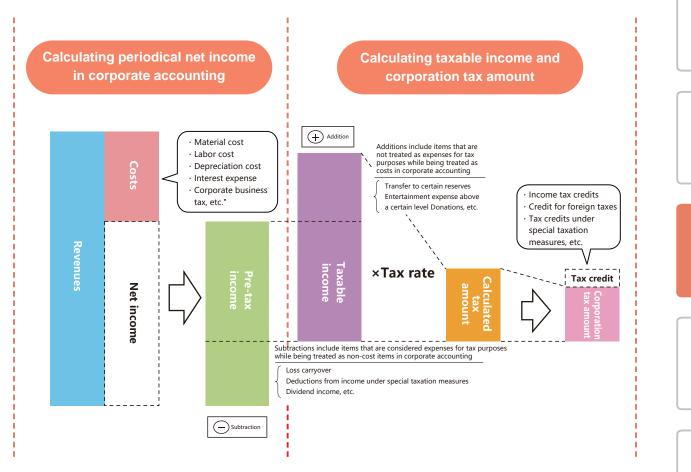
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6 Learn about "Corporation Tax"

Corporation Tax

The corporation tax is levied on net income earnings of their business operations. **Taxable income** of corporations is determined by subtracting **costs** from **gross revenues**. **Gross revenues** include income from sales of goods, services, lands, and buildings, etc. **Costs** include sales costs and losses from disasters, etc. (In practice, in order to determine taxable income, corporate accounting-based pre-tax income is subject to additions and subtractions (called tax adjustments) based on the Corporation Tax Act, as in the diagram below.)"

Corporation tax amount is calculated by multiplying **taxable income** by the **tax rate** and subtracting **tax credits**.



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The corporate tax rate has been lowered through a series of revisions.

Most recently, reformation has been carried out under the policy of "lowering the corporate tax rate while securing financial resources by expanding the tax base" in the tax reforms of FY2015 and FY2016. As a result, the current effective corporate tax rate for both national and local governments combined is at the 20% level, which has been their goal.

The specific corporate effective tax rates in these revisions are 37.00% to 32.11% (FY2015), to 29.97% (FY2016 and 2017), and to 29.74% (FY2018 onward), respectively.



(Note 1) This figure shows the tax rates applicable to corporate income (national and local taxes are combined). Local tax rates represent the standard rate for Japan, the California State rate for the United States, the national average rate for Germany and the Ontario Provincial rate for Canada. If a part of tax on corporate income is included in deductible expresses, rates after such adjustment are shown.

(Note 2) For the U. K., the highest tax rate (applicable to companies with extended profits (*) exceeding 250K pounds) is shown. The tax rate is reduced based on the formula for extended profits of 250K pounds or less, where the rate is 19% for extended profits of 50K pounds or less.
* Extended profits refer to the amount of taxable profits and any qualified dividends, etc., received from other companies (excluding its subsidiaries, etc.).

* Extended profits refer to the amount of taxable profits and any qualified dividends, etc., received from other companies (excluding its subsidiaries, etc.). (Source) Relevant government documents

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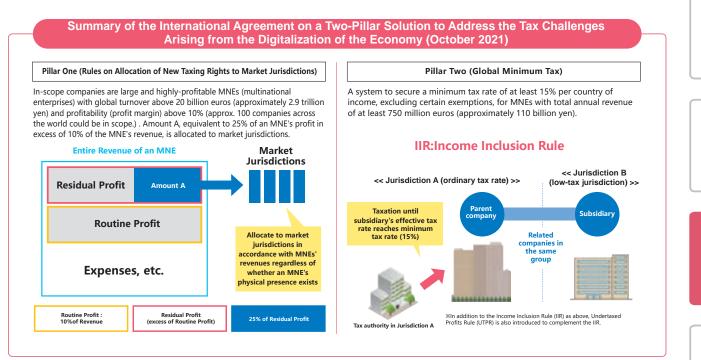
7 Learn about "International Taxation"

1 International Taxation Systems

The international taxation system is a mechanism to adjust tax procedures for corporations and individuals which engage in cross-border economic activities. The coordination and clarification of international tax rules are important for economic activities and governments. Therefore, designing Japan's international taxation system reflects international discussions.

A recent major international effort is the **BEPS (Base Erosion and Profit Shifting)** Project. In order to achieve a level playing field, the Project aims to prevent multinational enterprises from engaging in BEPS. The OECD has been taking the lead of the Project collaborating with countries including Japan. The major nations endorsed the package of measures developed under the Project in October 2015, and now the Project has been increasingly inclusive with more than 140 jurisdictions participating.

Our recent and major initiatives include the introduction of "Global Minimum Taxation," Pillar 2 of the two-pillar solution, which was agreed in the OECD/G20 "Inclusive Framework on BEPS" in October 2021. With regard to Pillar 1, "Rules on Allocation of New Taxing Rights to Market Jurisdictions", discussion is under way in order to formulate the Multilateral Convention.



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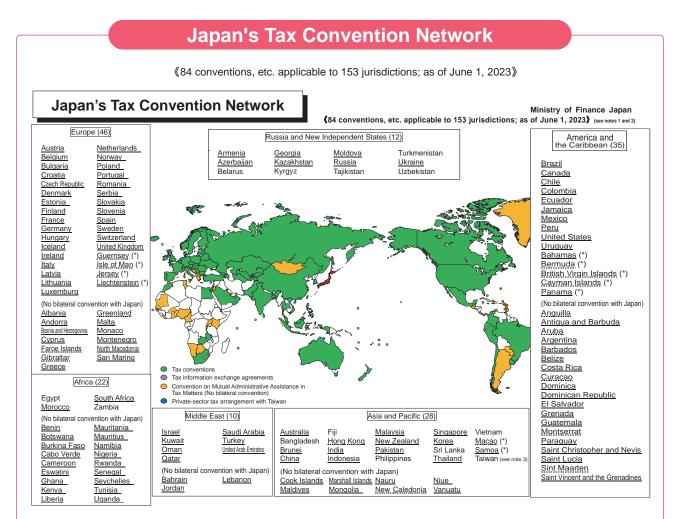
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Tax Conventions

Japan has concluded tax conventions with other jurisdictions to eliminate double taxation and promote investment and economic exchanges with those jurisdictions. Tax conventions provide the measures against international tax avoidance and the avoidance of tax collection through a framework for cooperation between tax authorities including exchange of information on taxpayers and mutual assistance in the collection of unpaid taxes.

Japan holds 84 taxation treaties with 153 countries and regions as of June 1, 2023.



(Note 1) Since the Convention on Mutual Administrative Assistance in Tax Matters is a multilateral convention, and the tax conventions with the former Soviet Union and with the former Czechoslovakia were succeeded by more than one jurisdiction, the numbers of jurisdictions do not correspond to those of tax conventions, etc.

 (Note 2) The breakdown of the numbers of conventions, etc. and jurisdictions is as follows:
 Tax convention (a convention principally for the elimination of double taxation and the prevention of tax evasion and avoidance); 71 conventions applicable to 79 jurisdictions • Tax information exchange agreement (a convention principally for the exchange of information regarding tax matters); 11 conventions applicable to 11 jurisdictions (These jurisdictions are marked with (*) above)

 Convention on Mutual Administrative Assistance in Tax Matters: Entered into force by 122 jurisdictions (not including Japan) (These jurisdictions are underlined above) and applicable to 140 jurisdictions due to the extension of the application of the Convention (Jurisdictions to which the Convention is extended are underlined above with dotted lines). 62 jurisdictions out of 140 do not have a bilateral convention with Japan.

Private-sector tax arrangement with Taiwan; 1 jurisdiction

(Note 3) As for Taiwan, a framework equivalent to a tax convention is established in combination of (1) a private-sector tax arrangement between the Interchange Association (Japan) and the Association of East Asian Relations (Taiwan) and (2) Japanese domestic legislation to implement the provisions of the private-sector tax arrangement in Japan. (The two associations are now named Japan-Taiwan Exchange Association (Japan) and Taiwan-Japan Relations Association (Taiwan), respectively.)

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8. Let's discuss How "Taxes" should be in the Future

The Government Tax Commission reported **"The State and Issues of the Tax System in Japan: Structural Changes and the Ideal Tax System for the Reiwa Period"** in June 2023. The report provides "materials" to be considered when we discuss how the tax system should be for the future society.

Structural Changes in the Economic System

Taxes are "society membership fees to cover the common cost." In order to construct a "fair, neutral, and simple" tax system that is acceptable to the majority, while securing "sufficient" and necessary financial resources to provide public services, it is important to understand various social problems and issues, and to take into account any possible changes that could occur in the future.

Diversification of Working Styles and Life Courses

 Diversification of work styles and life courses, including the expansion of non-traditional employment careers
 Increased dual income household, changes in the household structure, increase in foreign workforce, etc.

Changes in Energy and Environmental Issues

- The challenges to deal with SDGs and climate change and to promote environmentally friendly vehicles
- Russia's invasion of Ukraine highlighted the energy problems in Japan

Globalization and Digitalization of Economy

- Changes in the environment due to the rise of platform providers, Web 3.0 and other technologies, and growth of crypto assets
- Promoting industrial renewals, building startup ecosystems, are critical

Changes in National Security

- Corporate strategies should be renewed to ensure economic security
- National defense capabilities should be strengthened also through economic and fiscal enhancement

Changing Circumstances Surrounding Disparities

- In addition to disparities due to non-permanent employment and poverty, issues with single mothers and isolated households must also be addressed.
- Redistribution through taxation and social securities is very important, considering issues with education and decreased social mobility

Declining Population, Lowering Birthrate and Aging Society

- Ensure the sustainability of the social security system facing a declining population, falling birthrates, and an aging society
- Enhancement of policies for children and childrearing generations are essential, such as raising the income of younger and child-rearing generations

Changes in Local Communities

Structural Deterioration of Fiscal Situation

- Local governments are facing more issues, such as increasing needs to provide social security services
- \cdot Building a sustainable local tax and financial base is required
- More serious situation in finance due to increased funding to cope with the COVID-19
 pandemic
- Fulfill the tax function to fund sources, not to put the burden on future generations

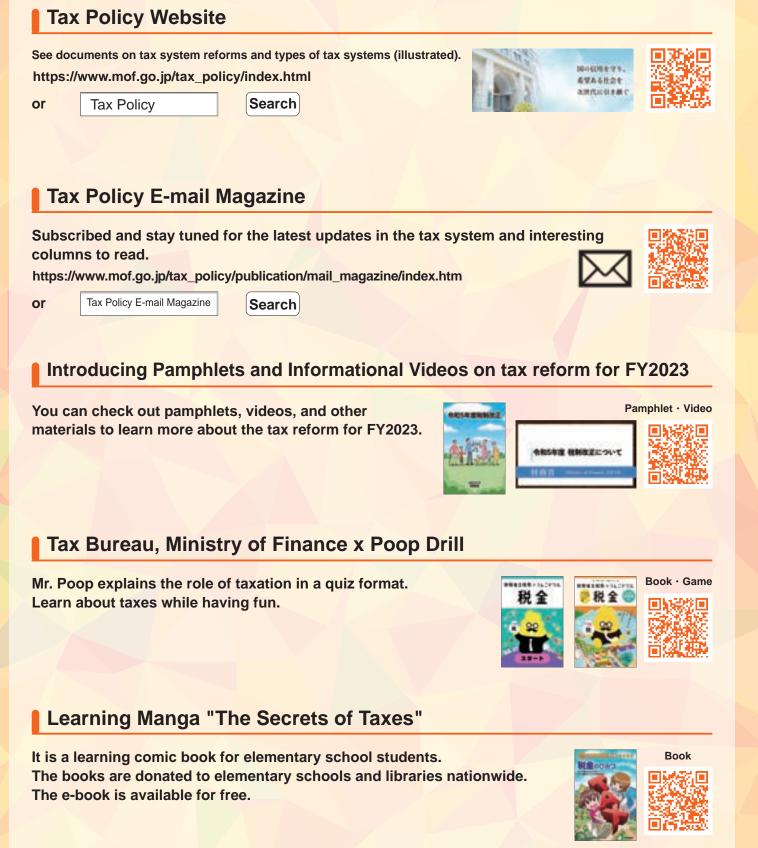
	The State and Ise	sues	s of Each Tax
Individual Income Taxation	 (1) Establish a tax system neutral to the way people work Consider a fair and neutral tax system for diverse work styles Keep attention to the balance of tax burden among salary, retirement allowance and pension benefits (2) Consider how to fulfill the proper income redistribution function Analyze and review the distribution of tax burden, including the separate taxation 	Asset Taxation	 (1) Inheritance / Gift Tax Discuss and consider the taxation system and various special treatments from a wide range of perspectives (2) Fixed Property Tax Balanced the level of burden concerning land
axation	Consider the role of tax exemption (3) Initiatives to improve reliability of tax system Improve convenience for taxpayers and ensure fairness	B	 (1) Corporation Tax "Growth-oriented Corporation Tax Policy Reform" needs to be reviewed from objective and empirical perspectives
Consumption Taxation	 (1) Consumption Tax Consumption tax will continue to play an important role, in order to provide stable support for social security, whose needs are expected to increase further (2) Liquor / Tobacco Tax Review how tax burden should be allocated according to the basic principle of consumption taxation (3) Automobile and Energy-related Taxes 	Business taxation	 (2) Special Measures Concerning Taxation In principle, Special Measures Concerning Taxation should be limited to those are necessary and valid, and should be allowed within a certain time frame Evidence based policy making (EBPM), such as a constant review based on appropriate data, should be introduced (3) Local Businesses Taxation The scope of application of Size-based Business Taxation should be reviewed
fion	Review automobile-related taxes at the background of the spread of electric vehicles	Tax Pay Ma	Promote digitalization of tax procedures, and review how legal reporting should be done for crypto assets transactions or any other transactions using
International	 Allocation of new taxation rights to market jurisdictions and implement the global minimum taxation Expand the tax treaty network in both aspects of quality and quantity, address tax evasions of individuals and businesses, and promote exchange of taxation-related information 	Tax Payment Platform Maintenance	 platforms Consider measures to deal with acts that seriously undermine a sense of fairness, including non-cooperation with tax audits, complicity in fraud by third parties, and tax evasion



The complete version of this report is available from the URL below or the QR code on the right. https://www.cao.go.jp/zei-cho/shimon/5zen27kai_toshin.pdf

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Learning Session for Tax (National Tax Agency, Japan Website)

Learning materials for elementary, junior and high school students are available.

https://www.nta.go.jp/taxes/kids/index.htm

Learning Session for Tax

or

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