

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

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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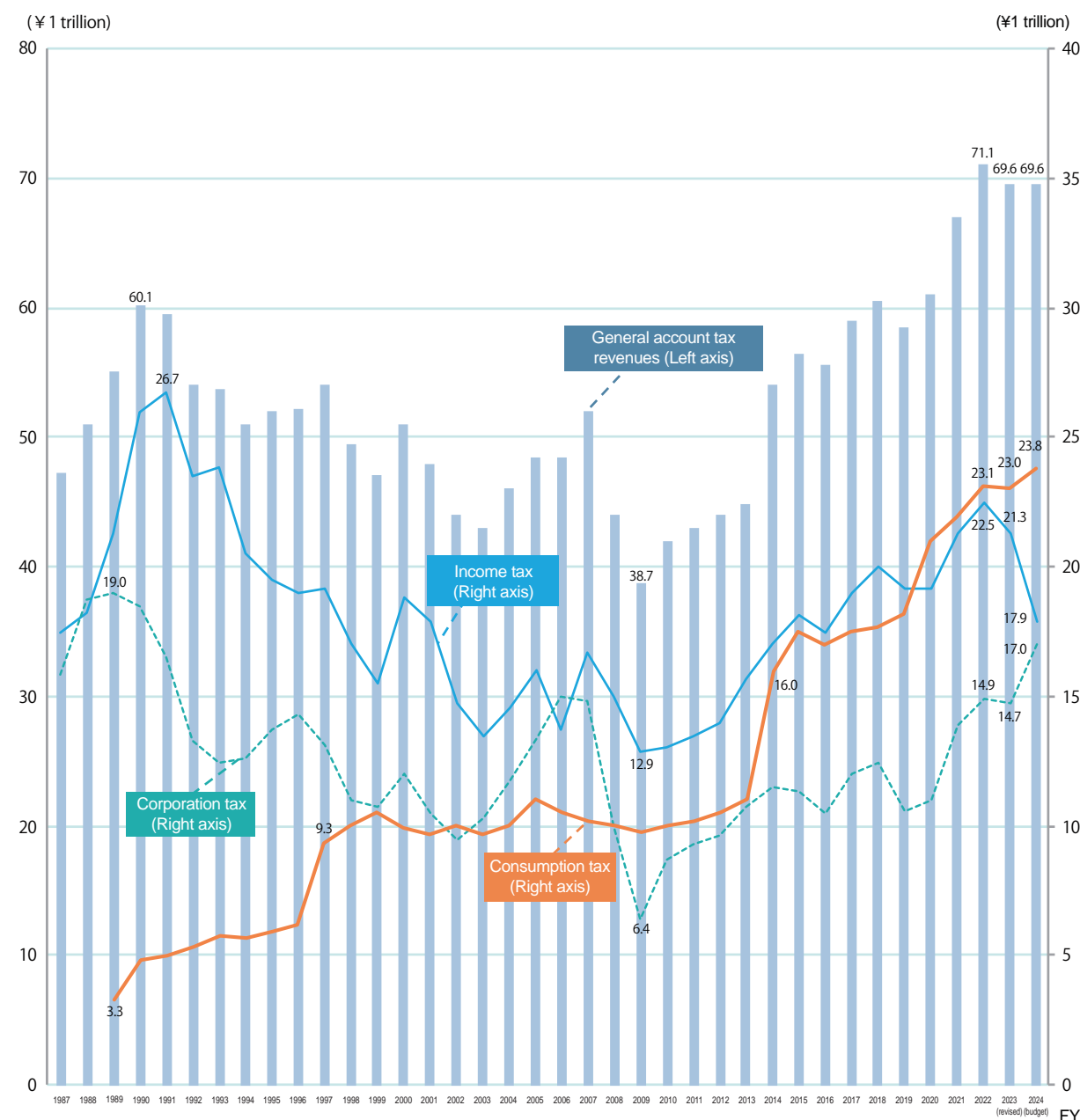
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## 2 Japan's Tax Revenue

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)



### 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 Revenues (Budget of FY2024)	Features
Income Tax	¥17.9 trillion	<ul style="list-style-type: none"><li>Allows progressive tax burdens based on taxpayer capacity</li><li>Income tax imposed primarily on the working generation</li><li>Various deductions devised to give fine-tuned considerations to individuals according to their taxpaying capacity</li></ul>
Corporation Tax	¥17.0 trillion	<ul style="list-style-type: none"><li>Tax burden is based on the activities of companies in the country</li><li>International competitiveness of companies also needs to be taken into consideration</li><li>Tax revenues are relatively sensitive to economic conditions</li></ul>
Consumption Tax	¥23.8 trillion	<ul style="list-style-type: none"><li>The tax burden can be shared broadly among the public regardless of generation or employment status</li><li>Tax revenues are relatively stable regardless of economic conditions</li><li>Neutral to decisions on savings, capital investment, etc., with relatively small impact on corporate activities</li><li>The impact on international competitiveness due to different tax rates between Japan and other countries can be insulated based on the common international rule that tax is imposed at the place of final consumption</li></ul>
Inheritance Tax	¥3.3 trillion	<ul style="list-style-type: none"><li>Plays a role in preventing the fixation of disparities and promoting equal opportunity through redistribution of assets</li><li>Neutral to taxpayers' work ethic, etc.</li></ul>

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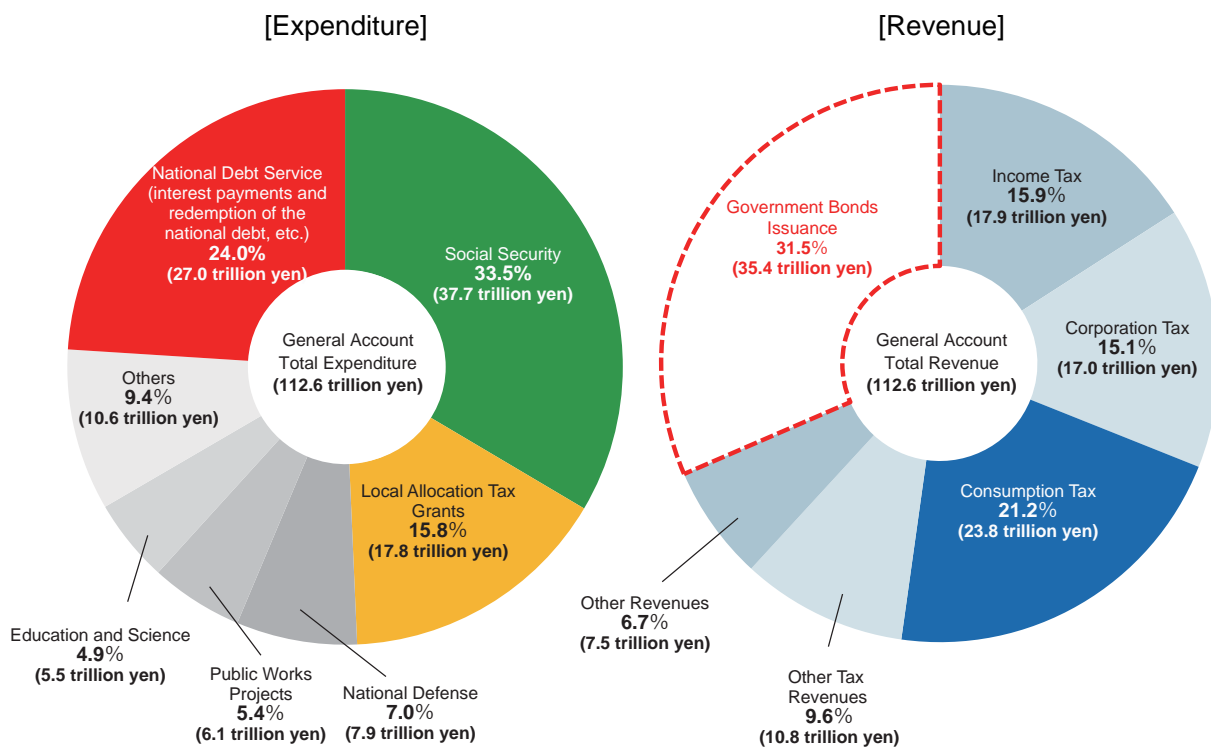
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## 4 Fiscal Situation

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 expenditures, national debt services, and local allocation tax grants account for about three-quarters of the total expenditure.**

Tax revenue of the FY2024 general account is estimated to be approximately 69.6 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 FY2024 budget, and the rest one-third relies on the revenue from issuing government bond (i.e. debt).

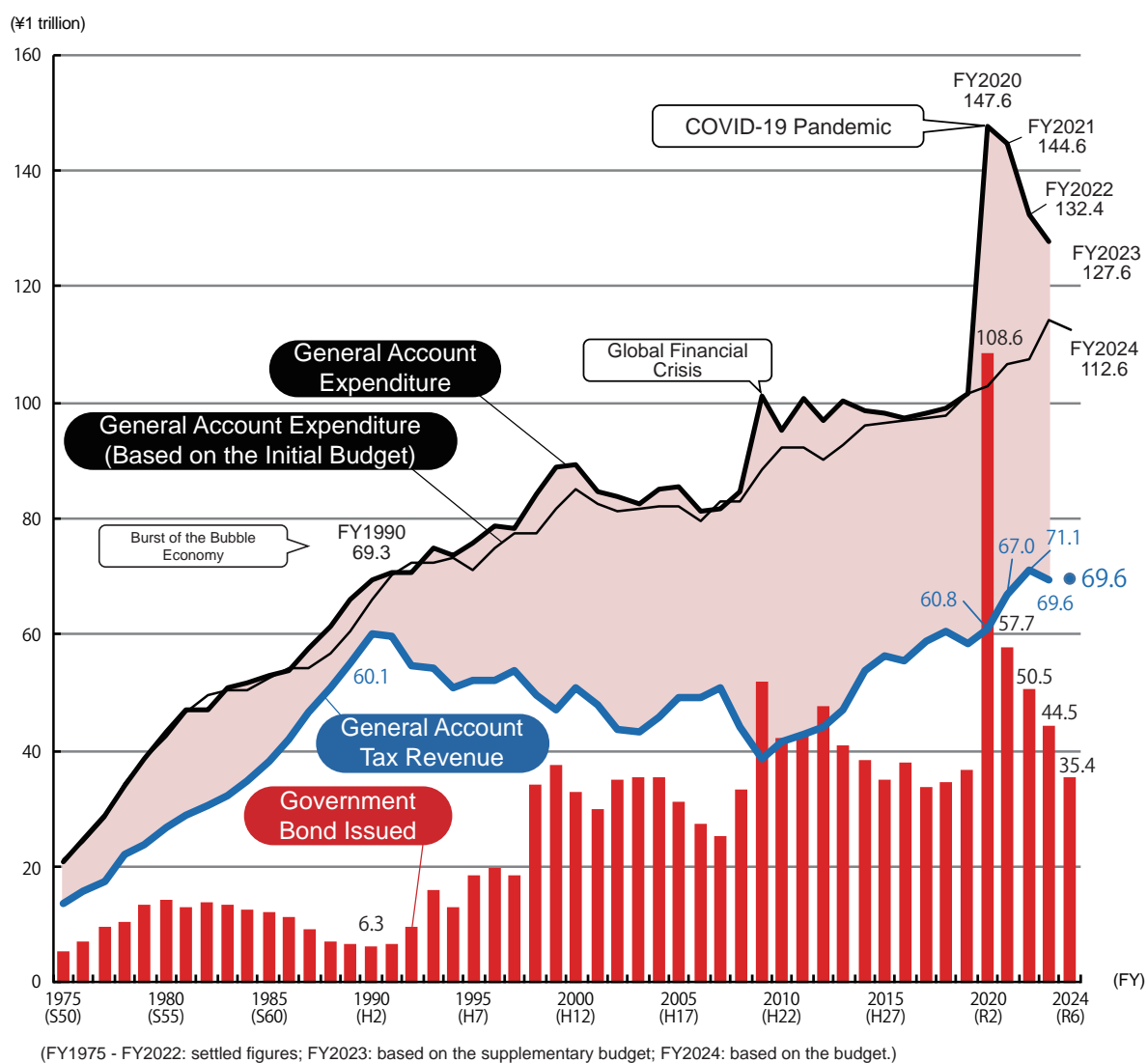
### FY2024 Budget: General Account



(Note) The "Others" category of expenditure includes the Contingency Fund for the Measures to Address Soaring Crude Oil and Commodity Prices and to Set up the Environment for Promoting Wage Increases (0.9%(1.0 trillion yen)).

There is a large gap between general account expenditures and tax revenues, much of which has been financed by issuing **government bonds** as debt, **the burden of which has been postponed on the generations of our children and grandchildren**. In addition, expenditures have expanded in recent years due to the unprecedented scale of supplementary budgets allocated in response to the COVID-19 pandemic and inflation. 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



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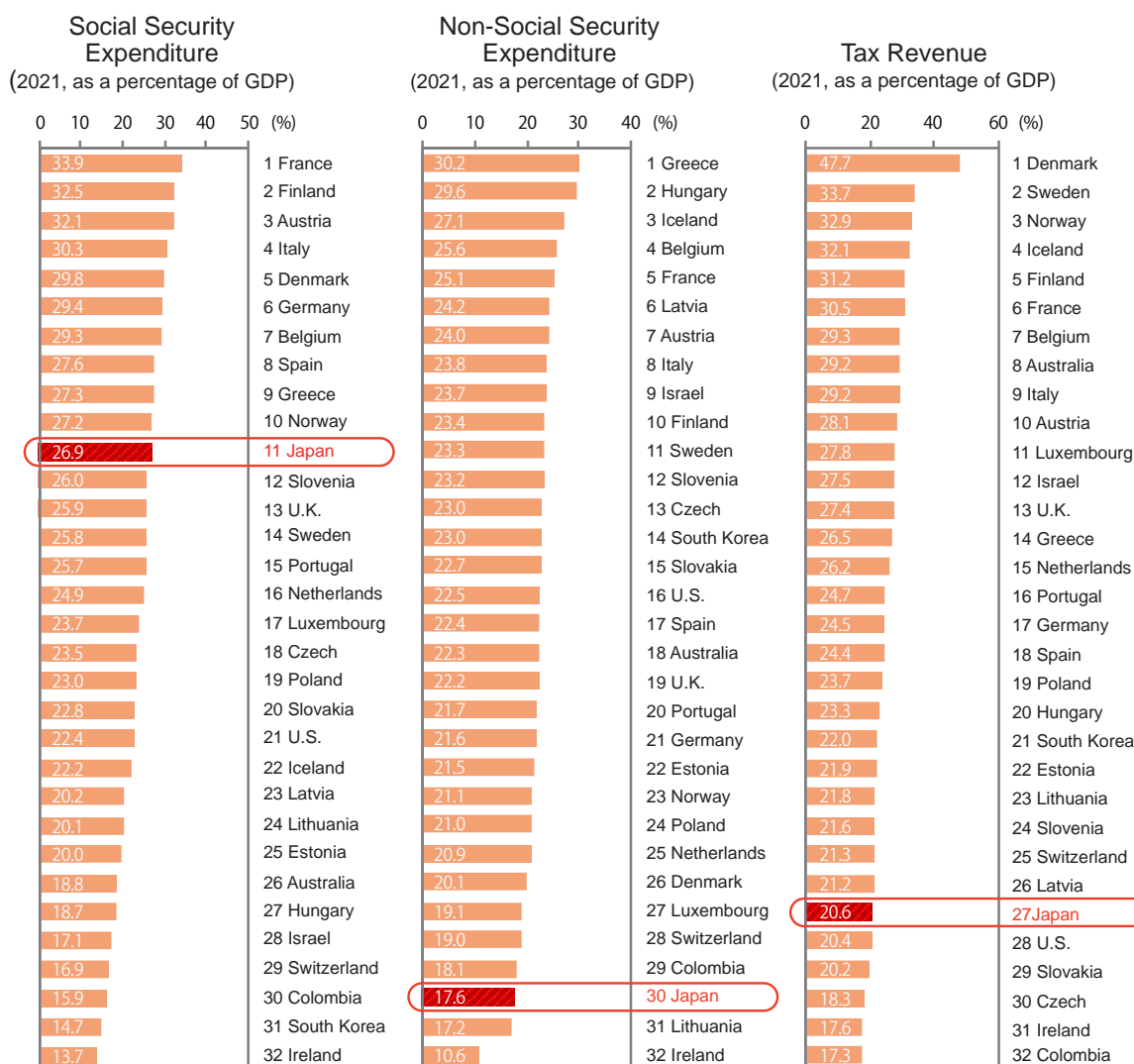
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## 5 Balance of Benefits and Burdens

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) The figures for Australia, Estonia, and Germany are estimated figures. The figures for other countries are actual figures.