



# Learning More About Taxes

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Ministry of  
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# 1. Learn about the Significance and Role of "Tax"

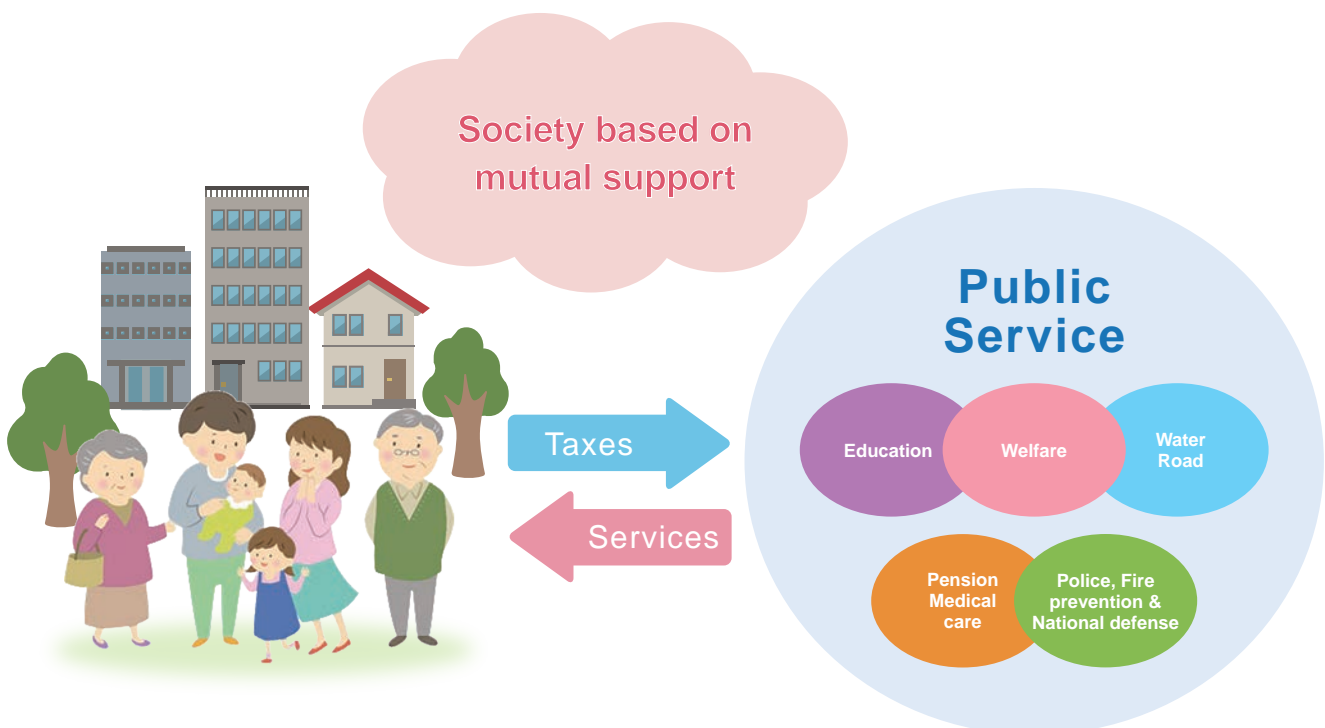
## 1 "Tax" is a "Society Membership Fee"

**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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## 2 The Role of "Tax"

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### 1 Fund Raising

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

### 2 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.

### 3 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"

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### 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

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

|                      | 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> |                      |  |   |

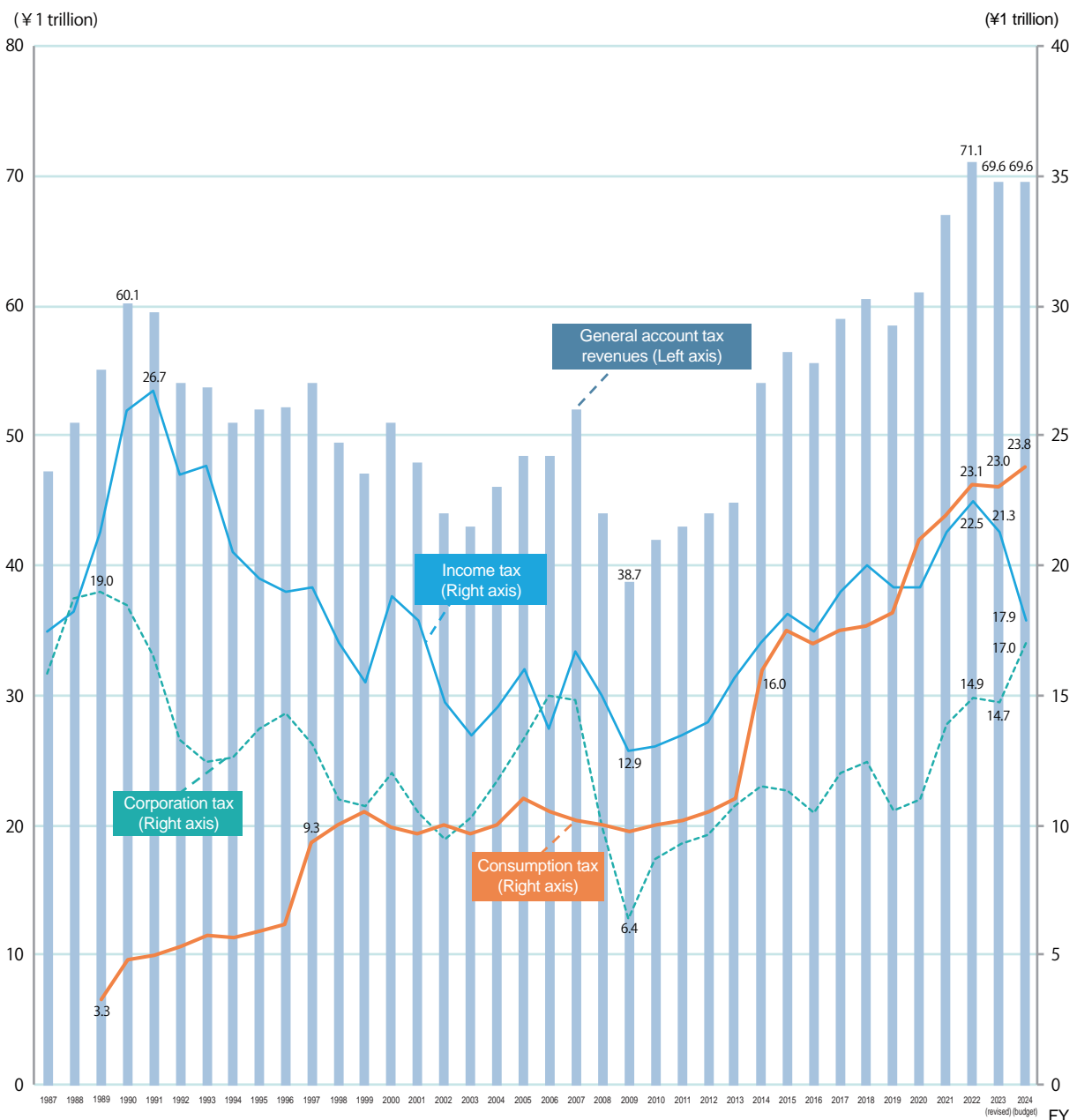
Taxes may also be classified by **who bears the tax** (effective tax contributor) **and who pays the tax** (taxpayer). There are **direct taxes** such as income tax, for which the taxpayer is identical to the effective tax contributor, and **indirect taxes** such as consumption tax, for which the taxpayer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

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## 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 FY2022 are on a settlement basis, date in FY2023 are on a revised basis, and data in FY2024 are on a budgeted basis.

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### 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<br>(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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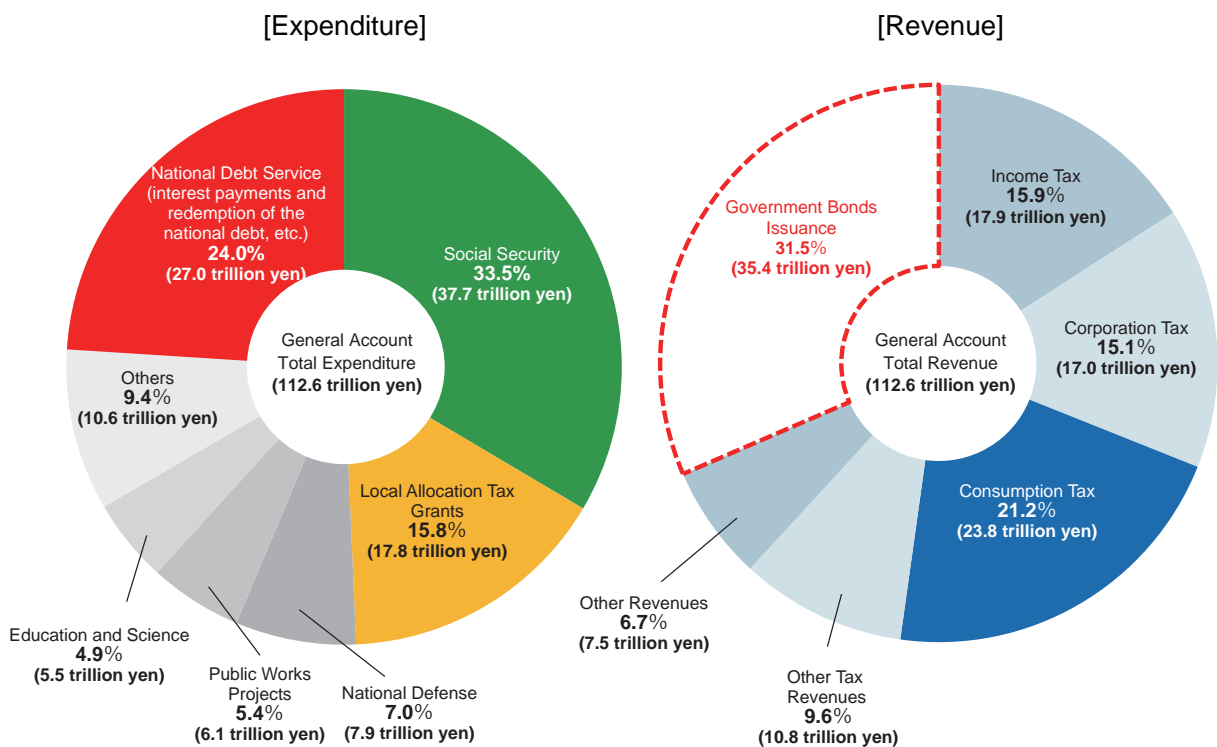
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## 4 Fiscal Situation

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

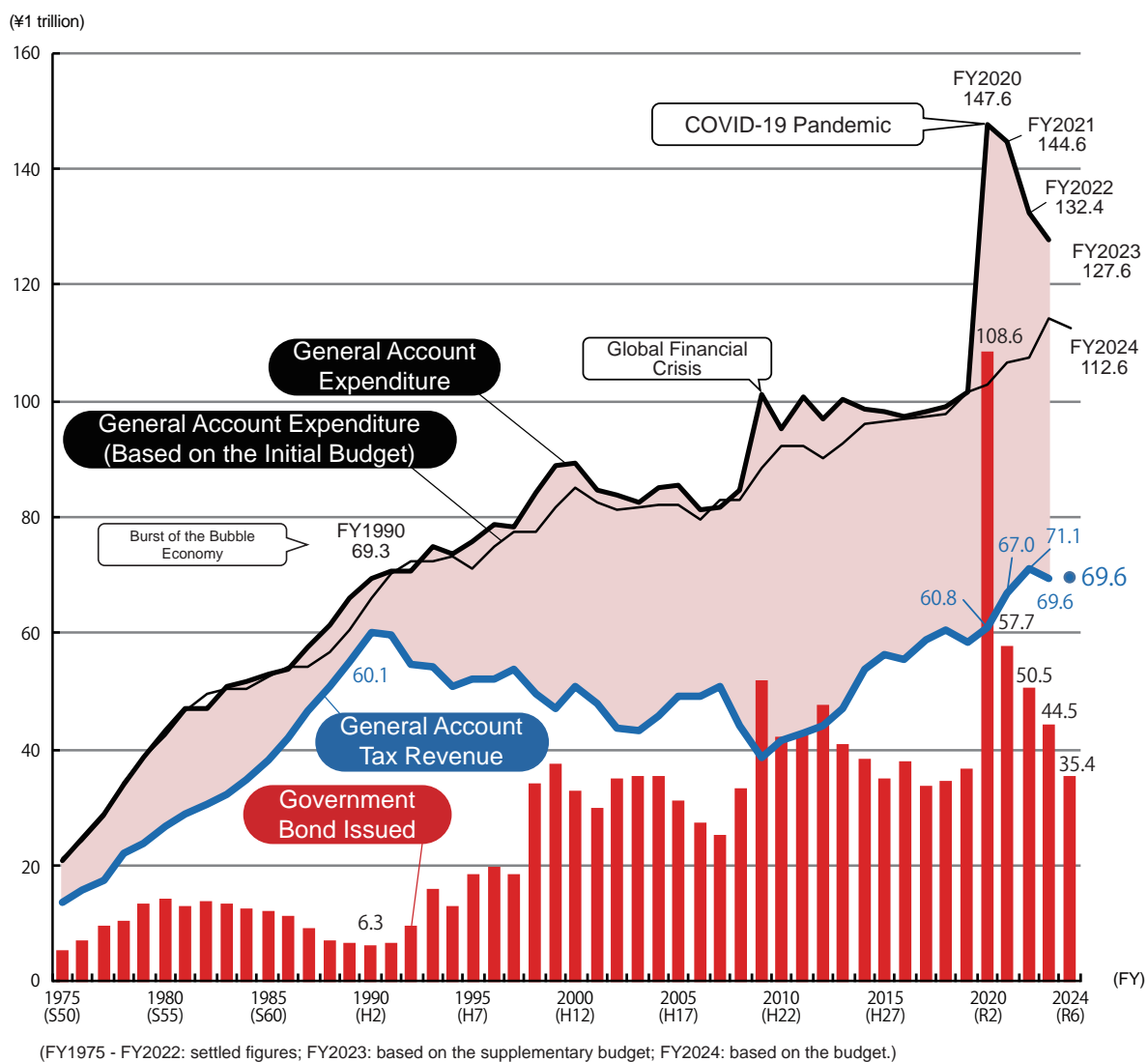


(Note) The "Others" category of expenditure includes the Contingency Fund for the Measures to Address Soaring Crude Oil and Commodity Prices and to Set up the Environment for Promoting Wage Increases (0.9%(1.0 trillion yen)).



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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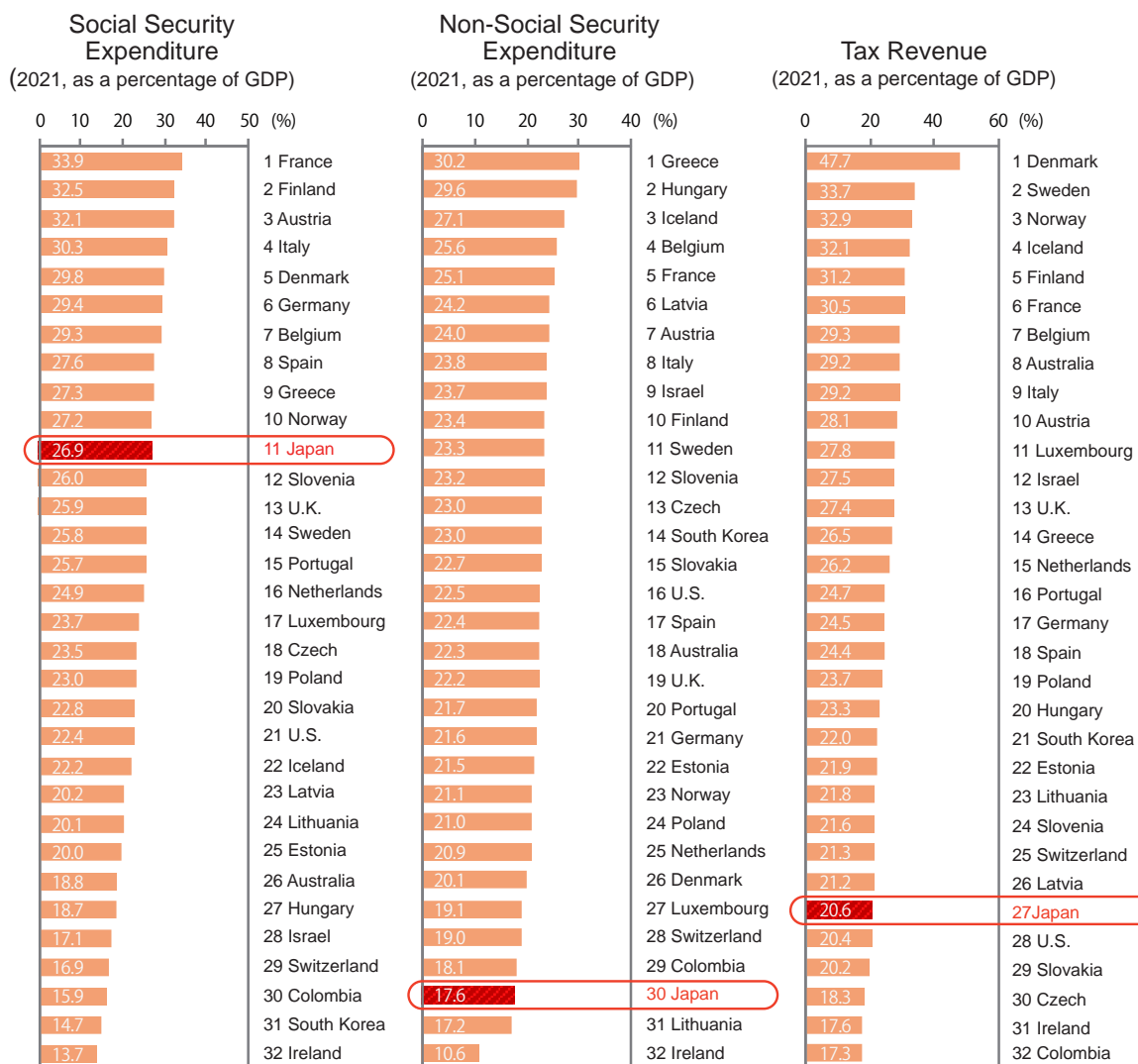
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## 5 Balance of Benefits and Burdens

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.

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# 3 . Learn about "Income Tax"

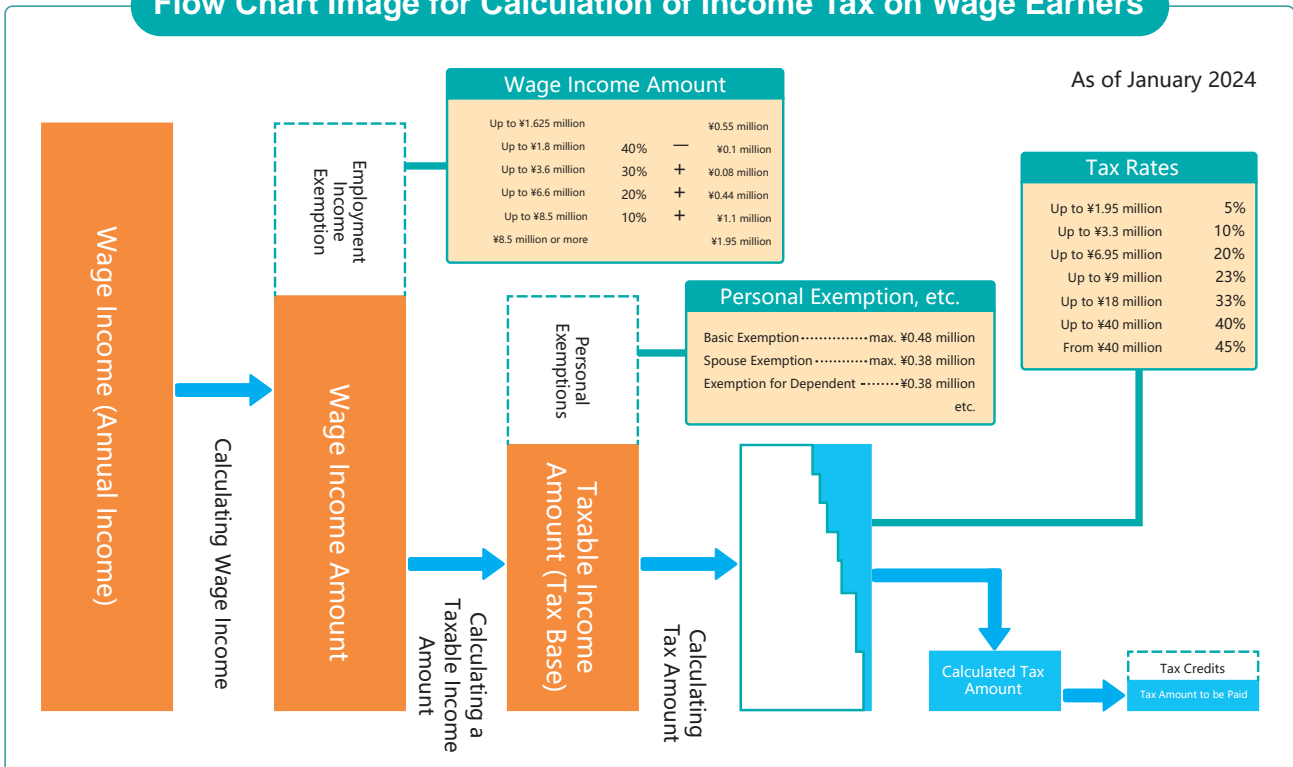
## 1 Income Tax

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

- ① 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.

Flow Chart Image for Calculation of Income Tax on Wage Earners



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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 taxation (filing of return not required), Separate self-assessment taxation |
| Real property income | Income from loans of real estate, ships, aircraft, etc.   | Comprehensive taxation  |
| Business income      | Income arising from business, such as agricultural business, fishing business, manufacturing business, wholesale business, retail business, or service business   | Comprehensive taxation  |
| 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 taxation (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 taxation  |
| Miscellaneous income | Income from public pensions and other sources<br>Income that does not fall into any of the above categories   | Comprehensive taxation (Note)   |

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

### 3 Major Personal Exemptions

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

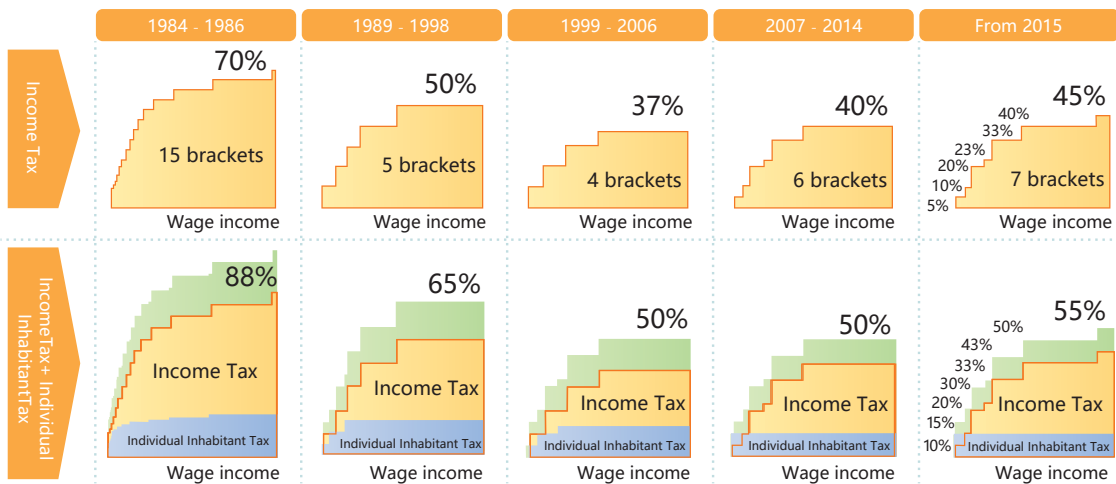
|                                    | Persons qualifying for deductions       | Income requirement for taxpayers (Total income)   |  |
|------------------------------------|---|---|--|
| Major Basic Personal Exemptions    | Personal (Basic) deduction              | <ul style="list-style-type: none"> <li>Personal(Basic) deduction</li> </ul>   | 25 million yen or under (the amount of deduction gradually decreases for taxpayers who earn more than 24 million yen)] |
|                                    | Spouse deduction                        | <ul style="list-style-type: none"> <li>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" )</li> </ul>  | 10 million yen or under (the amount of deduction gradually decreases for taxpayers who earn more than 9 million yen)   |
|                                    | Special deduction for spouses           | <ul style="list-style-type: none"> <li>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</li> </ul>  | 10 million yen or under (the amount of deduction gradually decreases for taxpayers who earn more than 9 million yen)   |
|                                    | Deduction for dependents                | <ul style="list-style-type: none"> <li>Taxpayers who have relatives, etc. who depend on them for living expenses and earn 480,000 yen or under as total income</li> </ul>   | -  |
| Major Specific Personal Exemptions | Deduction for persons with disabilities | <ul style="list-style-type: none"> <li>Taxpayers who fall within the category of persons with disabilities</li> <li>Taxpayers who have spouses qualifying for deduction or dependent relatives who fall within the category of persons with disabilities</li> </ul>   | -  |
|                                    | Deduction for Widows                    | 1) Those who have been divorced, with dependent(s)<br>2) Those who have been widowed, that have not been remarried<br>* Excludes those that fall under a single parent<br>* De facto partners who are indicated as "Husband (unregistered)" "Wife (unregistered)" in the Resident's Registration are to be excluded   | Up to ¥5 million   |
|                                    | Single Parent Exemption                 | <ul style="list-style-type: none"> <li>Those who are not currently married and have a child (total income up to 0.48 million) to make a living together</li> <li>* De facto partners who are indicated as "Husband (unregistered)" "Wife (unregistered)" in the Resident's Registration are to be excluded</li> </ul> | Up to ¥5 million   |
|                                    | Deduction for working students          | <ul style="list-style-type: none"> <li>Taxpayers who are students of schools provided under the School Education Acts</li> </ul>  | 750,000 yen or under and not more than 100,000 yen for income other than employment income                             |

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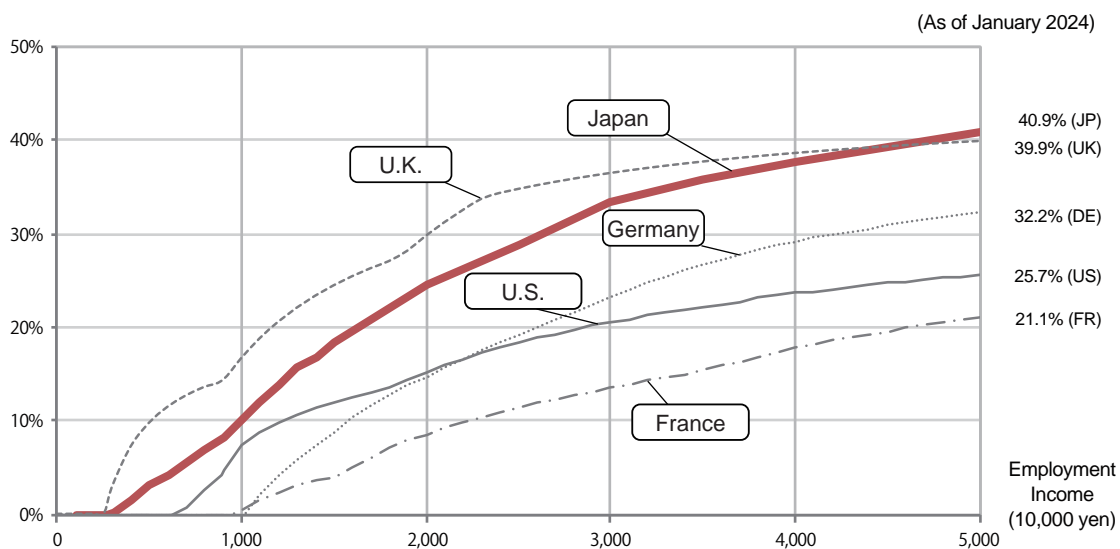
# 4 Changes in Income Tax Contributions

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.**

## Changes in individual income tax rates (Image)



## International Comparison of Effective Tax Rates for Personal Income Taxation (Working Household of a Couple with 2 children (living on a single income))



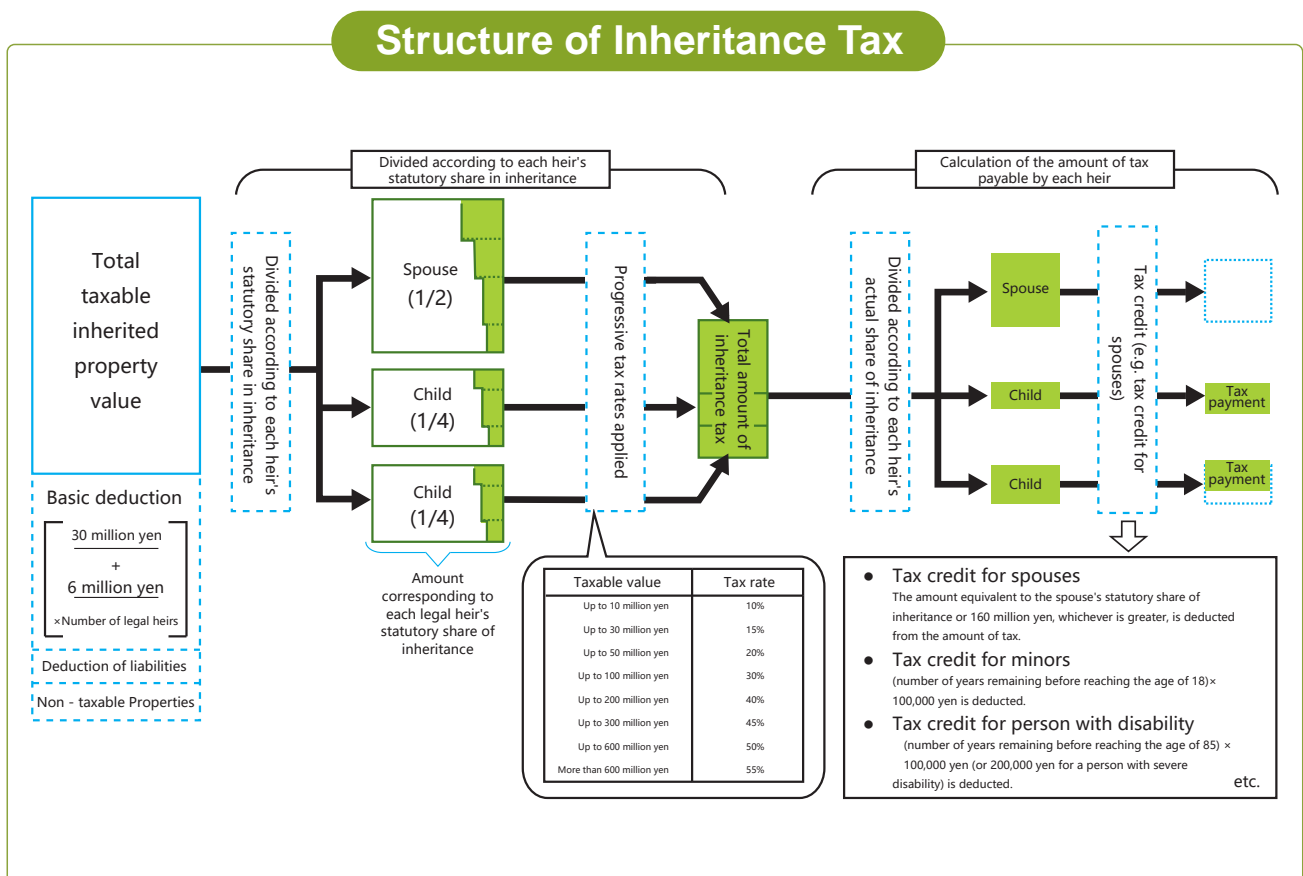
(Note 1) For comparison, the model case is calculated as having 19-year old and 16-year old children in school.  
 (Note 2) The percentages in the chart are the effective tax rates for each country. The fractions are rounded off.  
 (Note 3) Income Tax, individual inhabitant tax (income-based levy), and Special Income Tax for Reconstruction are included for Japan. For the United States, Federal Income Tax, New York State Income Tax, and New York City Income Tax are included. For Germany, Income Tax and Solidarity Surcharge (0-5.5% of the income tax) are included. For comparative purposes, taxes and premiums related to social security in each country are not included.  
 (Note 4) When calculating the burden rate for each country, only the generally applicable deductions and tax credits are taken into account, meaning the Working Tax Credit (full benefit) of the U.K. and similar measures are not considered.  
 (Note 5) For Japan, flat-amount tax cut of the income tax for the year 2024 and the individual inhabitant tax for FY2024 are not taken into account.  
 (Remarks) Japanese Currency Exchange Rate: 1 USD = 150 JPY, 1 GBP = 186 JPY, and 1 EUR = 162 JPY (basic exchange rate and arbitrated exchange rate by Bank of Japan: applied in January 2024).

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

## 1 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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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.

## Review of Inheritance Tax (Tax Reform in FY2013)

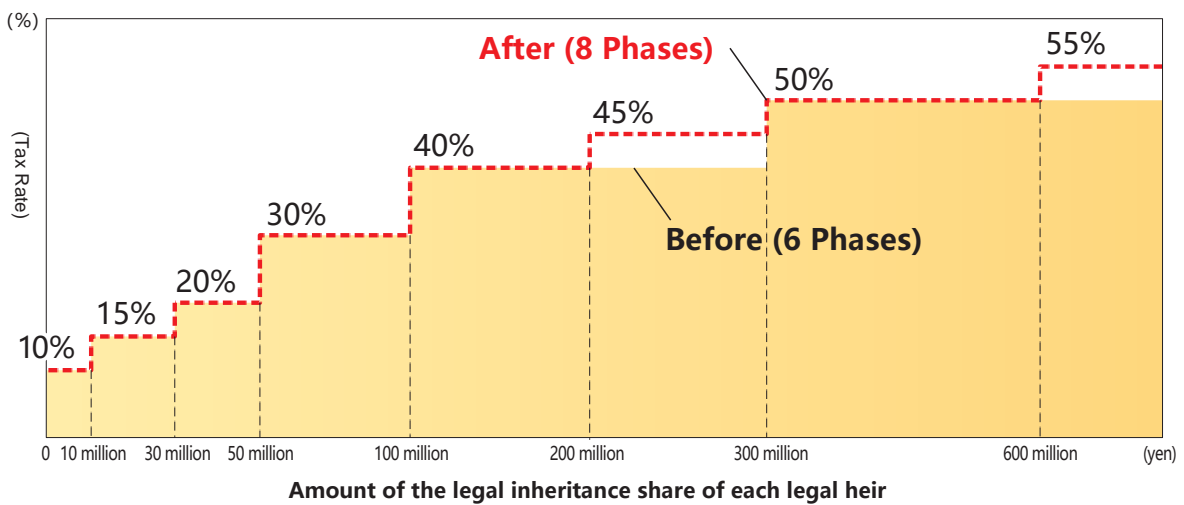
### • Reduction of Basic Exemption

50 million yen + 10 million yen x Number of statutory heirs

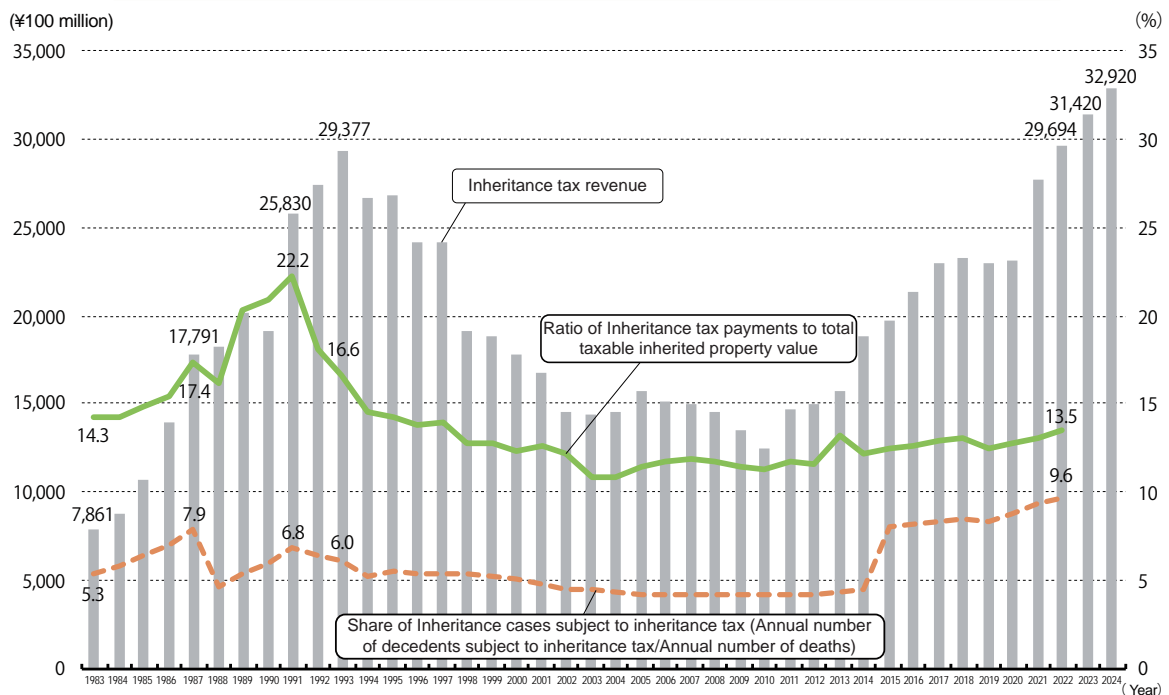


30 million yen + 6 million yen x Number of statutory heirs

### • Review of Tax Rate Structure



## Changes in Inheritance Tax Revenues, Share of Inheritance Cases subject to Inheritance Tax, Ratio of Inheritance Tax Payments to Total Taxable Inherited Property Value



(Note 1) Inheritance tax revenues in the above graph are tax revenues in each fiscal year and include gift tax revenues (the data until FY2022 are on a settlement basis, and data in FY2023 is on a revised basis, and the data of FY 2024 is on a budgeted basis).

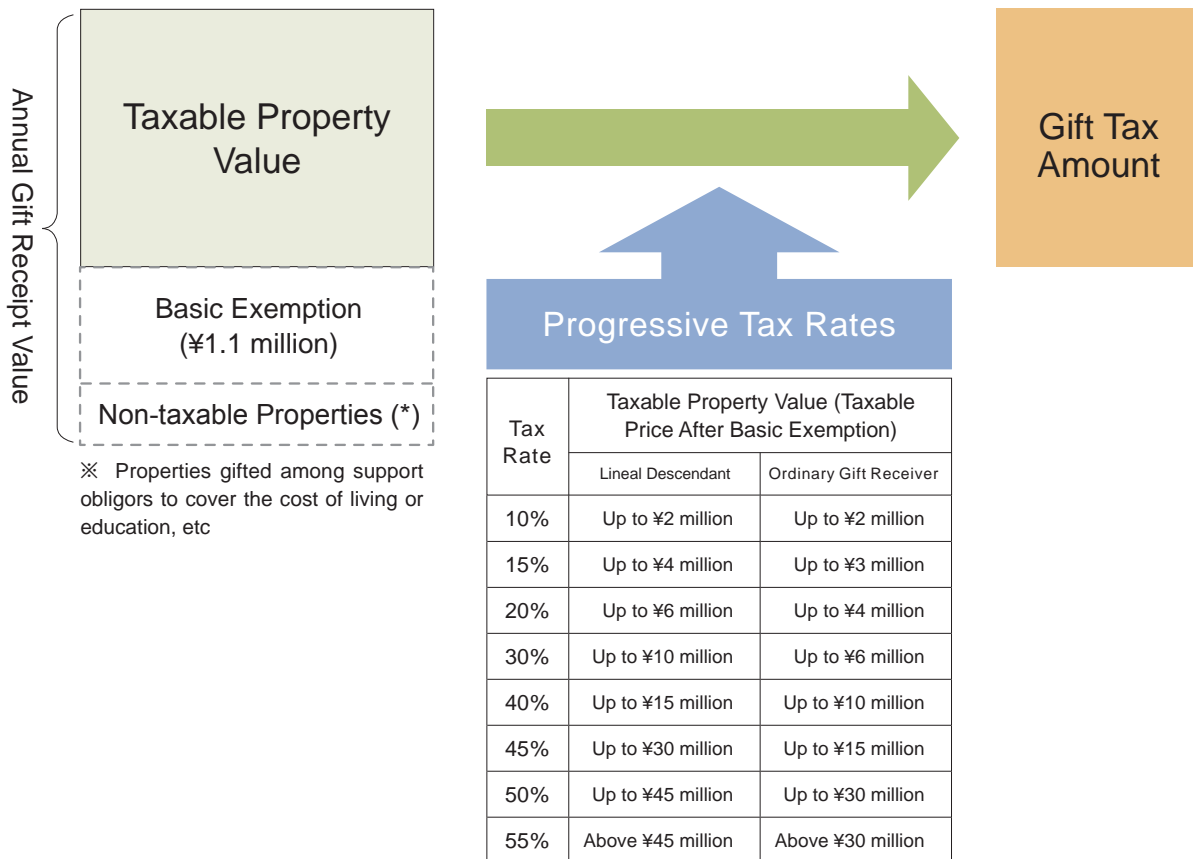
(Note 2) The number of inheritance cases subject to inheritance tax, inheritance tax payments, and total taxable inherited property value are based on the National Tax Agency's Annual Statistics Reports, and the number of deaths is based on the Ministry of Health, Labour and Welfare's Vital Statistics.



## 2 Gift Tax

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 their inheritance tax.

### 1. Calendar Year Tax Case



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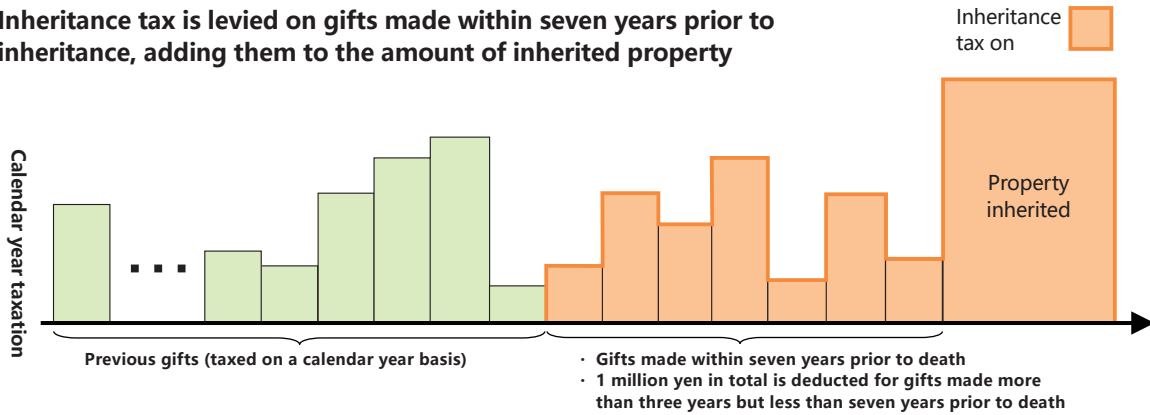
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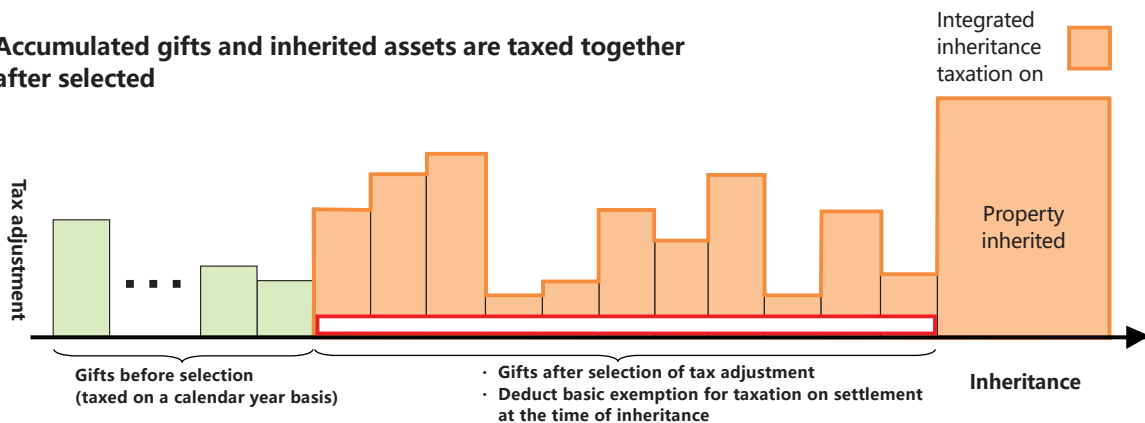
In order to allow elderly people to transfer their properties to their children and grandchildren, the government has introduced **an inheritance tax adjustment system** under which gift receivers will pay a uniform 20% tax on gifts and make adjustments upon their late calculation of inheritance tax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

## 2. Image of Calendar Year Taxation and Inheritance Tax Adjustment

Inheritance tax is levied on gifts made within seven years prior to inheritance, adding them to the amount of inherited property



Accumulated gifts and inherited assets are taxed together after selected



## 3. Inheritance Tax Adjustment System

|   | System  | Calculation for the case of gifting 30 million yen before death and leaving 15 million yen for inheritance<br>(Statutory heirs are the gift giver's spouse and two children for inheritance after January 1, 2015)<br>(When the legal heirs are the spouse and two children) | [Reference] Calendar Year Tax Case      |
|---|---|--|---|
| 7 | <p>① Gifted property amount after basic exemption will be accumulated until an inheritance from gift givers</p> <p>② Nontaxable ceiling at 25 million yen after accumulation</p> <p>③ A uniform 20% tax on total property value excluding the nontaxable ceiling amount</p> | <p>Gift Amount<br/>¥30 million</p> <p>(Accumulated amount of gifts after basic exemption)<br/>¥28.9 million</p> <p>Basic Exemption: ¥1.1 million</p> <p>Nontaxable Ceiling<br/>¥25 million</p> <p>20% Taxable</p> <p>Tax Amount to be Paid<br/>¥0.78 million</p>             | Tax Amount to be Paid<br>¥10.36 million |
| 8 | The gifted property value after basic exemption (value upon gifting) is added to the inherited property value to adjust the inheritance tax   | <p>Inheritance Amount<br/>¥15 million</p> <p>Accumulated amount of gifts after basic exemption<br/>¥28.9 million</p> <p>¥43.9 million &lt; Basic Exemption: ¥48 million</p> <p>Free from tax</p> <p>Tax payments upon gifting worth ¥0.78 million are refunded</p>           | Free from tax                           |
|   |   | Total Tax to be Paid   | ¥0                                      |
|   |   |  | ¥10.36 million                          |

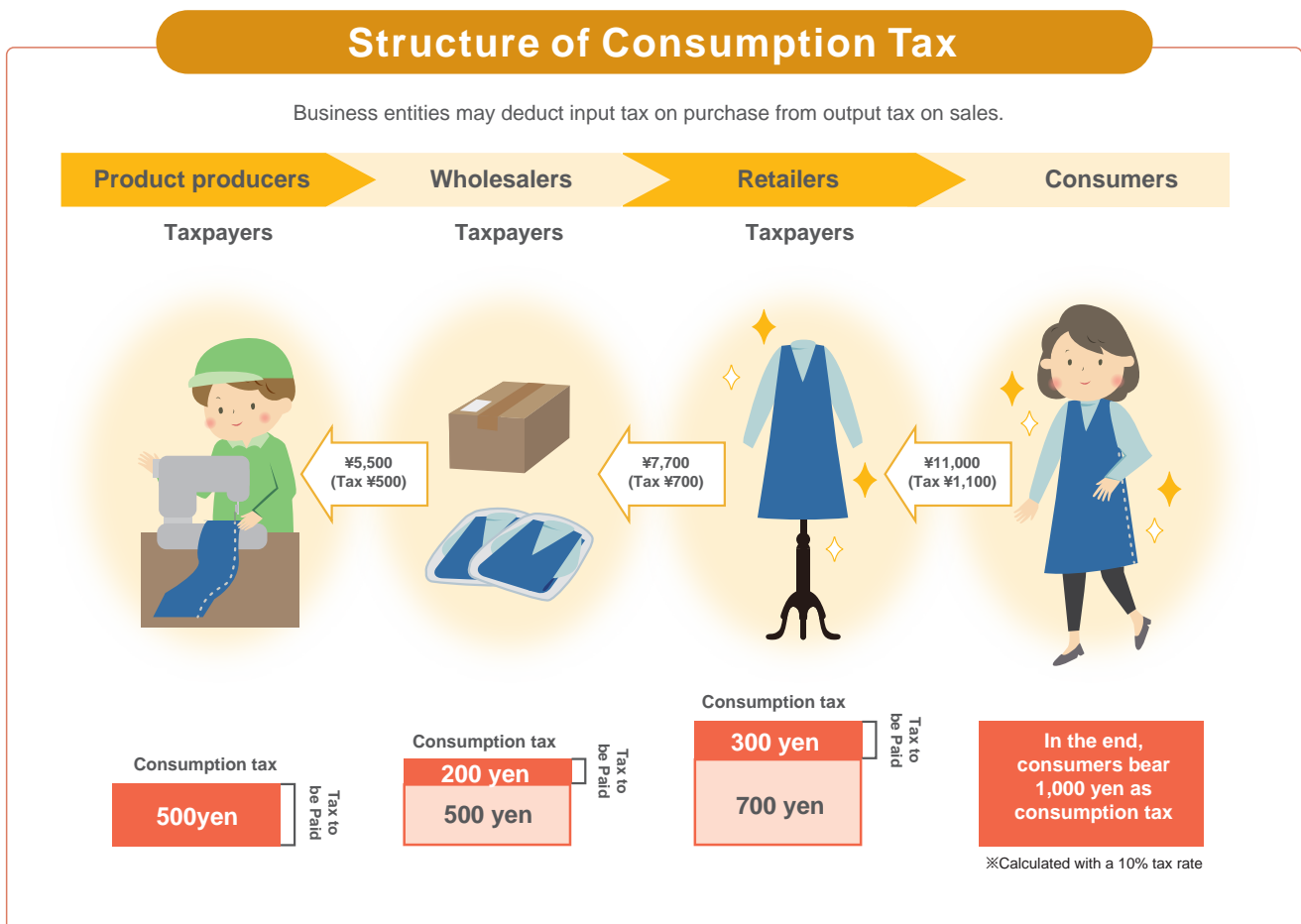
# 5 . Learn about "Consumption Tax"

## 1 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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## 2 Use of Consumption Tax Revenue

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**.

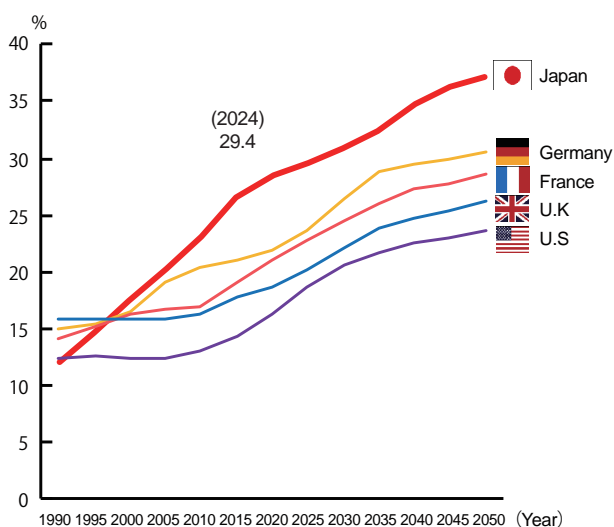
Against this background, the consumption tax rate was increased from 5% to 8% in April 2014, then further hiked from 8% to 10% in October 2019.

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.

### Share of Old Age in Japan

(Share of Old Age = percentage of the population aged 65 years and older against the entire population)



(Source) Japan: "Population Estimates" by Ministry of Internal Affairs and Communications, and "Japanese Future Demographic Projection (2023)" by National Institute of Population and Social Security Research (Based on median births/deaths)  
Other Countries: "World Population Prospects 2022" by United Nations

### Increases in taxes and debts to cover social security benefits

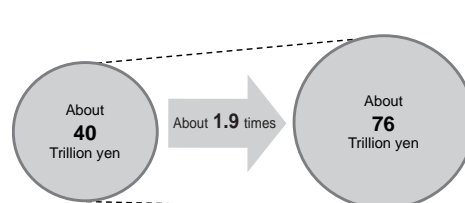
FY1990 FY2021

Taxes + Debts



(Ref.) Insurance Premiums

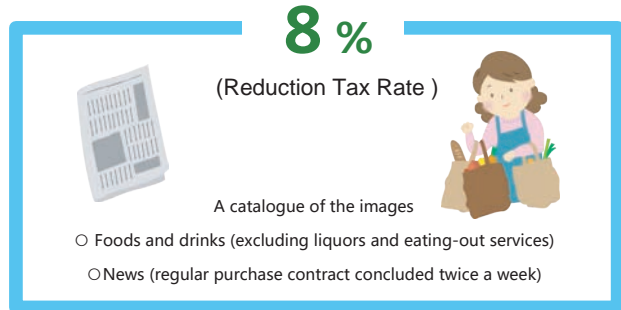
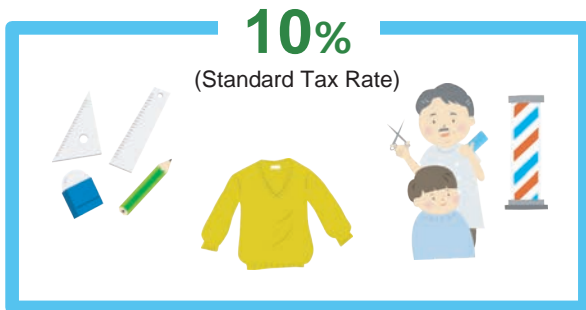
FY1990 FY2021



(Source) "The cost of Social Security Benefits in FY 2021" by National Institute of Population and Social Security Research

### 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%, and a new invoicing system was introduced in October 2023 for business operators to accurately calculate the amount of consumption tax.

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.

#### Example of Qualified Invoice

Invoice  
(December) MM DD, YYYY

To: ABC Company XYZ Company

① Registration Number: T123456...

| Date  | Item sold   | Amount                     |
|-------|-------------|----------------------------|
| 11/1  | Fish * ④    | 5,000 yen                  |
| 11/1  | Pork *      | 10,000 yen                 |
| 11/2  | Towel Set   | 2,000 yen                  |
|       | ...         |                            |
| Total | 120,000 yen | Consumption Tax 11,200 yen |

② 8% Taxable: 40,000 yen; Consumption tax: 3,200 yen; ③  
 10% Taxable: 80,000 yen; Consumption tax: 8,000 yen

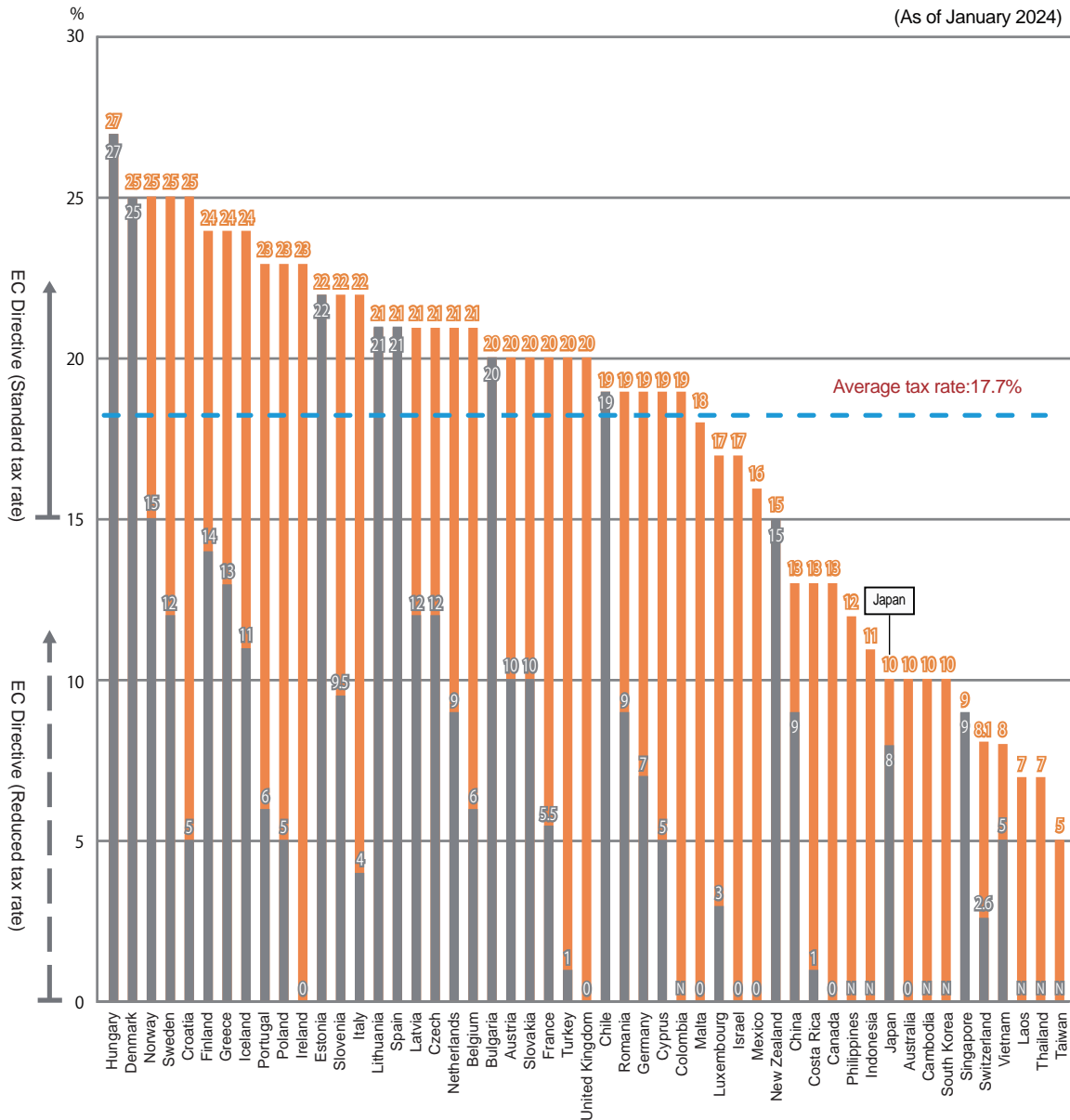
④ \* Subject to a reduced tax rate

Additions from conventional general invoices (under the single tax rate)

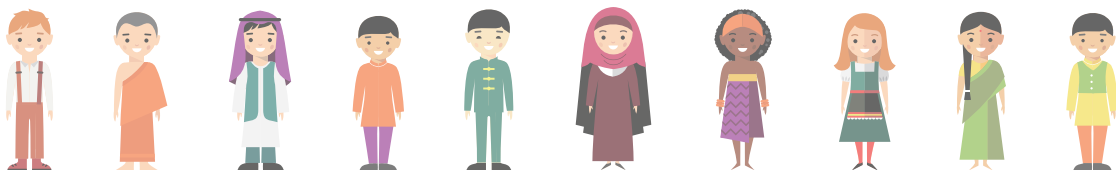
- ① Registration Number
- ② Tax rate applicable
- ③ Consumption tax
- ④ Indication that items are eligible for a reduced tax rate



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



(Note 1) This graph shows the tax rates applicable to typical items. It should be noted that the tax rates may vary depending on the item.  
 (Note 2) In this graph, the effective tax rates for food are shown as "0" indicates that zero-tax rate is applied on food in the country. "N" indicates that food is non-taxable in the country. The range of items subject to the reduced/zero tax rates or being non-taxable varies depending on countries and some types of food may be handled differently from those above.  
 (Note 3) In Japan, 2.2% of the 10% (standard tax rate) and 1.76% of the 8% (reduced tax rate) are Local Consumption Tax (local tax).  
 (Note 4) The EC Directive had previously denied zero tax rates and reduced tax rates of less than 5%, but an amendment in April 2022 permitted them for certain items.  
 (Note 5) Figures as of December 2023 for Cambodia; as of July 2023 for Denmark, Greece, Italy, and Spain; and as of July 2022 for Cyprus.  
 (Note 6) As for Canada, there are three types of taxation systems: 1) Provinces with only federal GST; 2) Provinces with a provincial value-added tax in addition to the federal GST; and 3) Provinces with a federal-provincial value-added tax. In this graph, the tax rate of Ontario, categorized as 3), is shown (13% federal-provincial value-added tax, including 8% provincial tax).  
 (Note 7) In the U.S., there is no federal value-added tax, but there are local retail sales taxes on sales transactions (e.g. the total rate of Sales and Use Tax imposed by New York State and New York City is 8.875%).  
 (Source) OECD Statistics, websites of the European Commission and national governments, IBFD, etc.



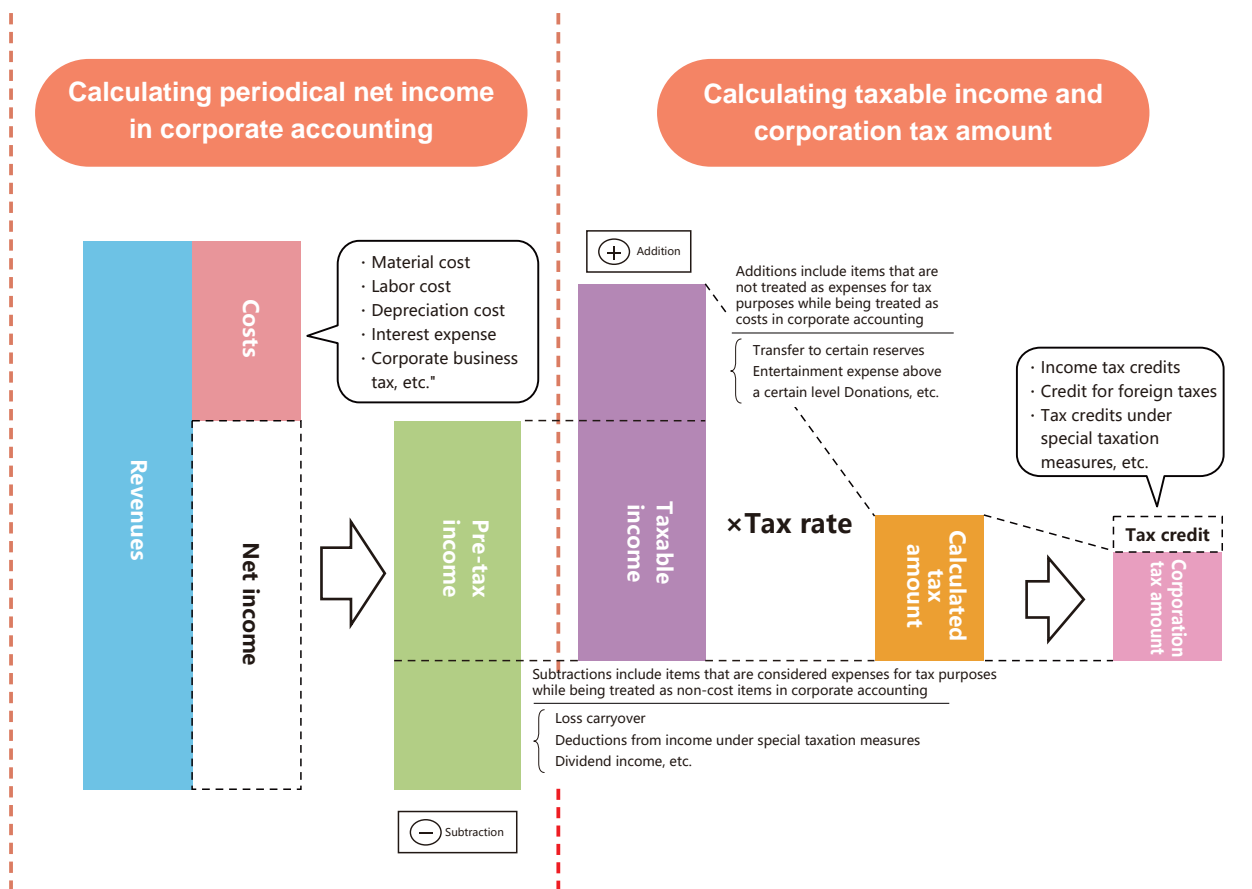
# 6 Learn about "Corporation Tax"

## 1 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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## 2 Corporation Tax Rate

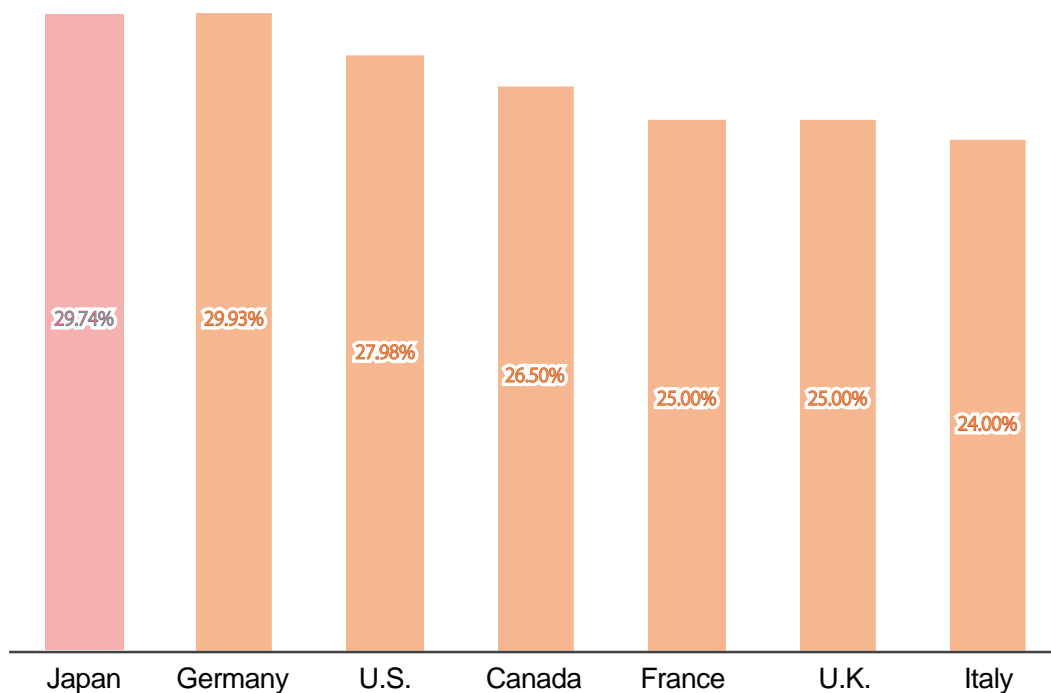
The corporate tax rate has been lowered through a series of revisions.

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 statutory corporate income 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.

### International Comparison of Statutory Corporate Income Tax Rates

(As of January, 2024)



(Note 1) The figures indicate the tax rates applicable to corporate income (national and local taxes combined). For local tax rates, the standard rate for Japan, the national average rate for Germany, the California State rate for the United States, and the Ontario Provincial rate for Canada are applied. If a part of tax on corporate income is included in deductible expenses, rates after such adjustment are shown.

(Note 2) In Japan, growth-oriented corporate tax reforms were implemented in FY2015 and FY2016, and the tax rate was gradually reduced from 34.62% in FY2014 before reform to 32.11%(FY 2015), 29.97%(FY 2016 and 2017), and to 29.74%(FY 2018-).

(Note 3) For the U.K., the highest tax rate (applicable to companies with augmented profits (\*) exceeding 250K pounds) is shown. The tax rate diminishes based on the formula for augmented profits of 250K pounds or less, and is 19% for augmented profits of 50K pounds or less.

\* Augmented profits refer to the amount of taxable profits plus any qualified dividends received from other companies (excluding its subsidiaries, etc.)

(Source) Relevant government documents



# 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.

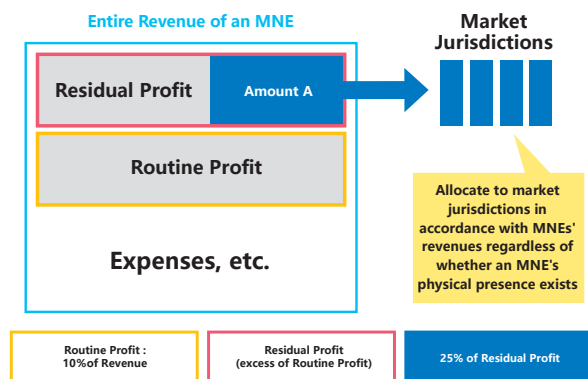
A recent major international effort is the **BEPS (Base Erosion and Profit Shifting) Project**. In order to achieve a level playing field, the Project aims to prevent multinational enterprises from engaging in BEPS. The OECD has been taking the lead of the Project collaborating with countries including 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.

### Summary of the International Agreement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalization of the Economy (October 2021)

#### Pillar One (Rules on Allocation of New Taxing Rights to Market Jurisdictions)

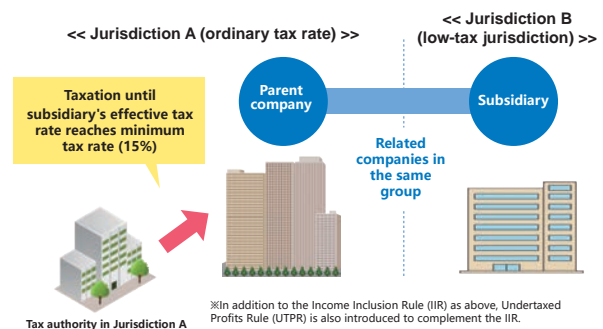
In-scope companies are large and highly-profitable MNEs (multinational enterprises) with global turnover above 20 billion euros (approximately 2.9 trillion yen) and profitability (profit margin) above 10% (approx. 100 companies across the world could be in scope). Amount A, equivalent to 25% of an MNE's profit in excess of 10% of the MNE's revenue, is allocated to market jurisdictions.



#### Pillar Two (Global Minimum Tax)

A system to secure a minimum tax rate of at least 15% per country of income, excluding certain exemptions, for MNEs with total annual revenue of at least 750 million euros (approximately 110 billion yen).

#### IIR: Income Inclusion Rule



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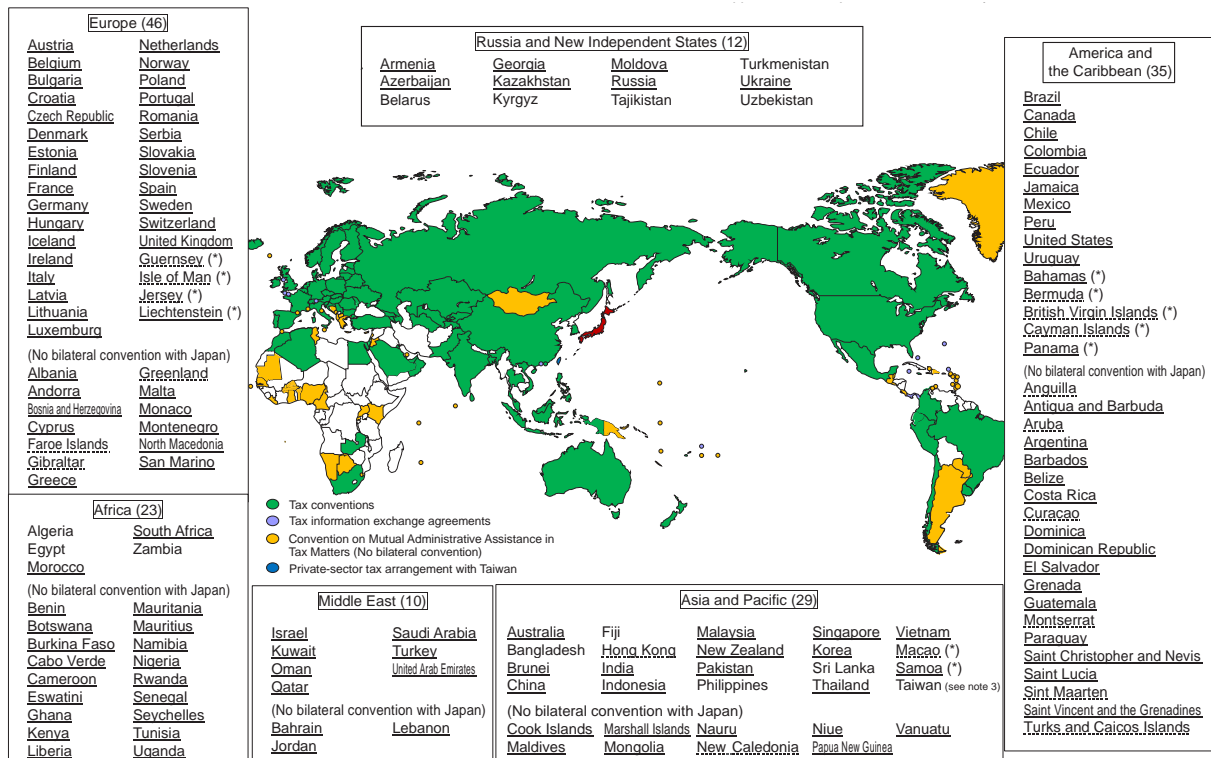
## 2 Tax Conventions

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 the exchange of information on taxpayers and mutual assistance in the collection of unpaid taxes.

Japan holds 86 taxation treaties with 155 countries and regions as of May 1, 2024.

### Japan's Tax Convention Network

《86 conventions, etc. applicable to 155 jurisdictions; as of May 1, 2024》



(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); 73 conventions applicable to 80 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 124 jurisdictions (not including Japan) (These jurisdictions are underlined above) and applicable to 142 jurisdictions due to the extension of the application of the Convention (Jurisdictions to which the Convention is extended are underlined above with dotted lines). 63 jurisdictions out of 142 do not have a bilateral convention with Japan.
- Private-sector tax arrangement with Taiwan; 1 jurisdiction

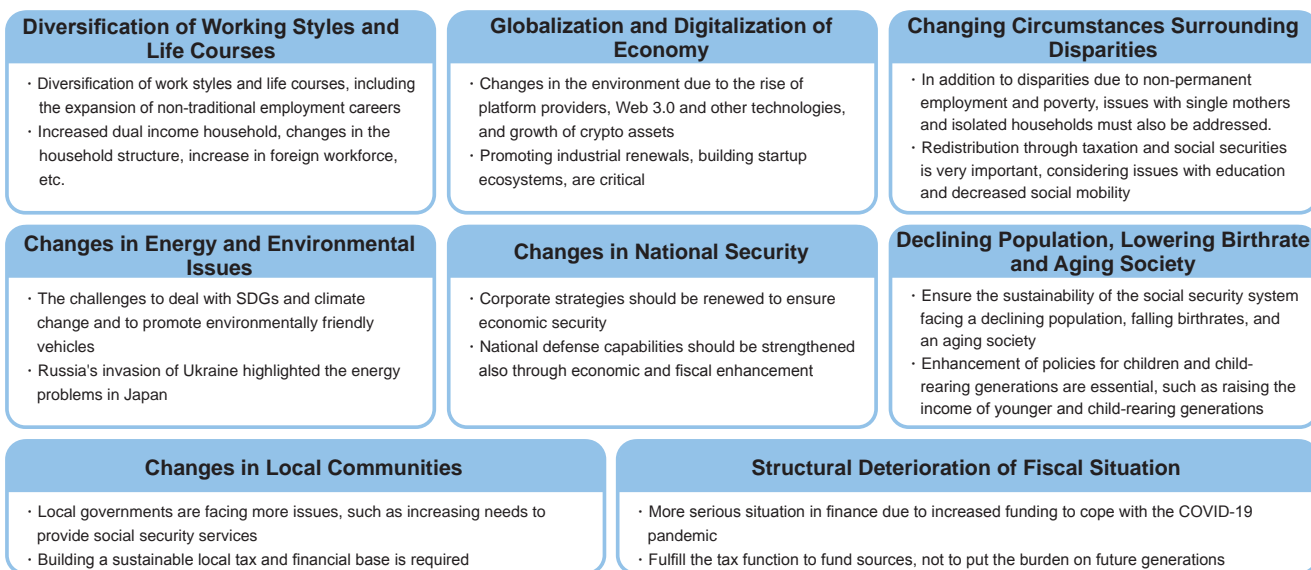
(Note 3) As for Taiwan, a framework equivalent to a tax convention is established in combination of (1) a private-sector tax arrangement between the Interchange Association (Japan) and the Association of East Asian Relations (Taiwan) and (2) Japanese domestic legislation to implement the provisions of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

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

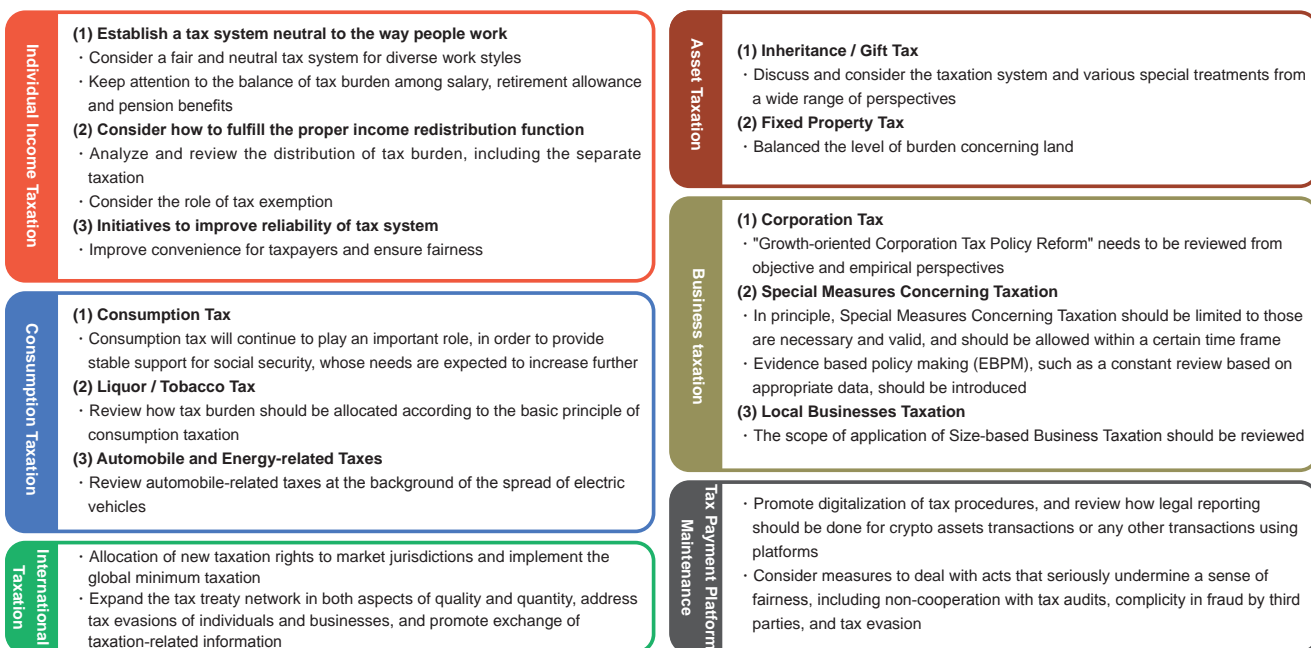
"The State and Issues of the Tax System in Japan: Structural Changes and the Ideal Tax System for the Reiwa Period" (June 2023), reported by the Government Tax Commission, provides materials to be considered when discussing how the tax system should be for future society.

## 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.



## The State and Issues of Each Tax



## Tax Policy Website

See documents on tax system reforms and types of tax systems (illustrated).

[https://www.mof.go.jp/tax\\_policy/index.html](https://www.mof.go.jp/tax_policy/index.html)

or



## Tax Policy E-mail Magazine

Subscribed and stay tuned for the latest updates in the tax system and interesting columns to read.

[https://www.mof.go.jp/tax\\_policy/publication/mail\\_magazine/index.htm](https://www.mof.go.jp/tax_policy/publication/mail_magazine/index.htm)



## Introducing Pamphlets and Informational Videos on tax reform for FY2024

You can check out pamphlets, videos, and other materials to learn more about the tax reform for FY2024.



Pamphlet · Video



## Tax Bureau, Ministry of Finance x Poop Drill

Mr. Poop explains the role of taxation in a quiz format. Learn about taxes while having fun.

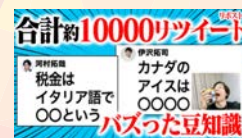


Book · Game



## Tax Bureau of the Ministry of Finance + QuizKnock

The theme of the collaboration video is "Going Viral with Tax Trivia". This video is designed to help people learn about taxes while having fun through trivia.



## Learning Manga "The Secrets of Taxes"

It is a learning comic book for elementary school students. The books are donated to elementary schools and libraries nationwide. The e-book is available for free.



Book



## 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>

