Current Status of the Tax System

Types of taxes

Taxes can be roughly categorized as taxes on income, taxes on consumption, and taxes on property.

Income taxes
- Individual income tax, corporation tax

Consumption taxes
- Consumption tax, etc.

Property taxes
- Inheritance tax, etc.

Trends in tax revenue, by tax item

Tax revenue fluctuates due to various factors, such as economic changes and tax system revisions. While revenue from individual income tax and corporation tax is susceptible to economic trends, consumption tax revenue has been relatively stable, staying at a level of around 10 trillion yen.

Trends in general account tax revenue

(Note) Figures up to FY2010 are settled accounts, those for FY2011 are revised budgeted accounts, and those for FY2012 are budgeted accounts.
Individual income tax 13.491 trillion yen (14.9% of revenue)

Through the repeated relaxation of progressive taxation and enhancement of various deductions and exemptions, the burden of individual income tax has been reduced significantly.

- Trends in individual income tax revenue

          ![Graph showing trends in individual income tax revenue]

(Note) Individual income tax revenues up to FY2010 are settled accounts, that for FY2011 is a revised budgeted account, and that for FY2012 is a budgeted account; all were calculated after transferring tax revenue sources by way of income tax transfer (0.4 trillion yen in FY2004, 1.1 trillion yen in FY2005, and 3 trillion yen in FY2006).

The maximum tax rate for individual income tax has been reduced from 70% as of 1986 to the current rate of 40%.

- Tax rate structure of individual income tax (conceptual diagrams)

          ![Diagram showing tax rate structure]

1986: 15 brackets, 70% (Employment income)
1994: 5 brackets, 50% (Employment income)
2006: 4 brackets, 37% (Employment income)
Current structure: 6 brackets, 40% (Employment income)
The burden of individual income tax in Japan is lower than that in other countries.

**International comparison of burden of individual income tax, by employment income**

![Graph showing income tax burden for couple with two children and couple without children in Japan, United States, United Kingdom, and France.](image)

*Explanation* In the United Kingdom, working tax credit (WTC) and child tax credit (CTC) are granted in the form of benefits equivalent to the full amount of each credit, rather than deducting the amount of credit from taxable income. For this reason, in international comparison, these elements are excluded from the calculation of the actual amount of burden of individual income tax. (Supposing these elements are taken into account, the burden of individual income tax in this country is 780,000 yen (employment income: 5 million yen) for the household of a couple with two children or one child, and 316,000 yen (employment income: 5 million yen) for the household of a couple without children or a single person. In addition, the amounts of WTC and CTC (the amounts of benefits) decrease along with the increase in annual household income. Accordingly, even if these elements are taken into account, the amount of burden of individual income tax would remain the same in the case of employment income of 7 million yen or 10 million yen.)

**Notes**
1. Individual income tax includes individual income tax and individual inhabitants tax, etc. (In France, general social contribution (Contribution Sociale Généralisée (CSG)) and other taxes related to social security are imposed on income at a fixed rate (currently 8% in total)). In 2012, France introduced an additional temporary high income tax (at the maximum rate of 4%), as a measure to reduce the deficit.
2. In the data of Japan, children are general dependents (aged between 16 and 18, or 23 or older). In the case of the couple with two children, one is a specific dependent (aged between 19 and 22) and the other is a general dependent.
3. In the data of the United States, children are aged 17 or older.
4. The data of Japan does not take into account the special income tax for reconstruction introduced in January 2013, the upper limit for the salary income deduction for FY2013 and onward, or the proposed hike of the maximum tax rate for FY2015 and onward.
5. For Japan, the individual inhabitants tax above is adopted on an income base only.
6. For the United States, income tax of the State of New York is adopted.
7. Exchange rates: USD1=JPY78, GBP1=JPY123, EUR1=JPY106 (basic exchange rate and arbitrated exchange rate: average market rate in November 2011) (figures rounded off)

Approximately 80% of all taxpayers in Japan are eligible for relatively lower tax rates (5% or 10%).

**International comparison of the percentage of taxpayers (tax returns), by marginal tax rate bracket for income tax**

![Graph showing the percentage of taxpayers in each tax bracket for Japan, United States, United Kingdom, and France.](image)

*Notes* 1. Data for Japan are calculated based on the budget for FY2011.
2. Data for other countries are compiled based on the tax statistics of each country.
3. In the United States, where couples can choose individual taxation or joint taxation, and in France, where taxes are paid by households, it is difficult to calculate the percentage of taxpayers; therefore, the percentage of tax returns is used in the above graph.
4. For Germany, where the tax rate changes successively depending on taxable income, the percentage of tax payers in each bracket is unknown.
5. The tax rate structure in operation in each country during the taxable period targeted in the above graph is as follows: Japan, 6 brackets (5,10,20,23,33, and 35%); United States, 6 brackets (10, 15, 25, 28, 33, and 35%); United Kingdom, 3 brackets (10,22, and 40%); and France, 4 brackets (5,5.14,30, and 41%).

As of January 2012, the tax rate structure in the United Kingdom has 3 brackets (20,40, and 50%) and that in France has 4 brackets (5,5.14,30, and 41%).
Inheritance tax 1.43 trillion yen (1.6% of revenue)

The burden of inheritance tax has been significantly reduced through the increase in basic exemptions and the drop in land prices. Currently, an inheritance tax burden arises only with regard to 4% of persons who die.

Trends in the proportions of taxable inheritance cases and inheritance tax revenue

(Notes) 1. Inheritance tax revenue includes gift tax revenue for each year (figures up to FY2010 are settled accounts, that for FY2011 is a revised budgeted account, and that for FY2012 is a budgeted account).
   2. The number of taxable cases is from the National Tax Agency Annual Statistics Report, and the number of deaths is from Vital Statistics (Ministry of Health, Labour and Welfare).

Trends in the tax rate structure and basic exemptions for inheritance tax

(Notes) 1. The figure in the brackets in "basic exemption" is the amount in the case where there are three statutory heirs (spouse and two children).
   2. The posted land price is an index for the three metropolitan areas (commercial districts), the level in 1983 being set as 100.
Corporation tax 8.808 trillion yen (9.8% of revenue)

The basic corporation tax rate has been reduced from the perspective of responding to globalization and enhancing international competitiveness. Corporation tax revenue, which had fluctuated widely along with changes in the economic climate, did not recover significantly even when corporate earnings picked up, due to the reduction in the tax rate and other tax-cut measures for corporations. Since FY2008, there has been a sharp drop in tax revenue caused by economic recession following the collapse of U.S. investment bank Lehman Brothers.

- Trends in corporation tax revenue

Of all corporations in Japan, only about 30% post profits and pay corporation tax, while the remaining 70% incur losses. Focusing on large corporations with capital of over 100 million yen, only 50% are in surplus, while the remaining 50% are in deficit.

- Trends in the number of corporations and the percentage of corporations in deficit

(Source) National Tax Agency, "Corporation Sample Survey"
(Notes) 1. Data for FY1995 to FY2005 are related to the respective business years starting from February 1 each year and ending on January 31 of the following year, and data for FY2006 and thereafter are related to the respective business years starting from April 1 each year and ending on March 31 of the following year.
2. Data for FY2003 to FY2009 include consolidated corporations in terms of the percentage in all corporations, but do not contain consolidated corporations in terms of corporations with capital of over 100 million yen.
3. As for the category according to capital, applied to the calculation of the percentage of corporations in deficit, "corporations with capital of 100 million yen or more" up to FY2007 are targeted.
In international comparison of the levels of effective tax rates of corporation taxation (the theoretical rate of tax burden after adjustment between national tax and local taxes on corporations), Japan stands at a higher level than other developed countries, except for the United States. It should be noted that when considering the level of tax burden on corporations, factors such as various tax-cut measures and the burden of employers’ social insurance premiums should also be taken into account in addition to the tax rates.

- **International comparison of effective tax rate of corporate taxation**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Corporate Tax Rate</th>
<th>Corporate Tax Rate 15%</th>
<th>Corporate Tax Rate 24%</th>
<th>Corporate Tax Rate 25.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan (Tokyo)</td>
<td>35.64%</td>
<td>40.75%</td>
<td>32.71%</td>
<td>31.91%</td>
</tr>
<tr>
<td>United States</td>
<td>24.00%</td>
<td>24.00%</td>
<td>24.00%</td>
<td>24.00%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>29.48%</td>
<td>33.33%</td>
<td>33.33%</td>
<td>33.33%</td>
</tr>
<tr>
<td>Germany (average)</td>
<td>26.30%</td>
<td>26.30%</td>
<td>26.30%</td>
<td>26.30%</td>
</tr>
<tr>
<td>France</td>
<td>6.90%</td>
<td>4.00%</td>
<td>4.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.60%</td>
<td>4.90%</td>
<td>4.90%</td>
<td>4.90%</td>
</tr>
</tbody>
</table>

(Note) 1. The effective tax rate shown above is the total of tax rates on corporations, calculated on the assumption that part of tax on income of corporations may be deductible.

2. As for Japan, local tax includes local special corporation surtax (corporation tax collected by prefectures as a national tax and paid into the national treasury, and then transferred to prefectures in the name of local transfer tax of special corporation surtax). For corporation enterprise tax and local special corporation surtax, the tax rate applicable to corporations with capital of over 100 million yen, which are subject to pro forma standard taxation, is applied. Added value levy and capital levy are also applied. For the years from FY2012, special corporation tax for reconstruction shall be imposed (10% of the corporate tax amount).

3. In the United States, corporations are liable to pay municipal tax in addition to state tax depending on where they are based. For example, in New York City, the effective tax rate consisting of the federal state tax (7.1% with a surtax at 17% of the tax amount) and the municipal tax (8.35%) is 56.17%. Some states do not levy state tax on corporation income. In the State of Nevada, for instance, the effective tax rate is 7%, corresponding to the federal corporation tax rate.

4. The corporate tax rate in the United Kingdom is scheduled to be lowered to 23% in April 2013 and to 22% in April 2014.

5. In France, as corporations are liable to pay social contribution on corporate profits (contribution sociale sur les benefices (CSB), 33% of corporation tax amount) in addition to corporation tax, the effective tax rate is 1.33% total. (In the calculation of social contribution on corporate profits, 783,000 Euros shall be basically deducted from the corporation tax amount; however, this deduction is not taken into account in the calculation of the effective tax rate.) In 2012, France introduced an additional corporation tax (5% of the basic tax) upon companies with a turnover of above 250 million Euros (effective only for two years). Corporation annual estimated tax and economic contribution on national land (contribution economique territoriale (CET), local tax) are also levied.

6. The corporation tax in Germany consists of joint tax (Gemeinschaftssteuer; the revenue is equally distributed to federal government and local governments) and is a solidarity surcharge (federal tax). Business tax is a municipal tax, the amount of which is calculated by multiplying 3.1% of trade profits by the different municipal assessment rates. For the data shown above, the assessment rate is 30% (the national average in 2010) according to the data released by the Federal Statistical Office.

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**Review of special taxation measures**

A drastic review will be made, targeting all of the special taxation measures and rules provided for in the Act on Special Measures Concerning Taxation, which are intended to reduce the tax burden for industry policy and other specific policy purpose. The review period will be four years, starting from FY2010.

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**Results of the review of the special taxation measures (revision in 2012)**

<table>
<thead>
<tr>
<th>Special measures under the Act on Special Measures Concerning Taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>National policy tax measures: 236</td>
</tr>
<tr>
<td>Measures to prevent tax avoidance: 71</td>
</tr>
</tbody>
</table>

- **Measures subject to the FY2012 review**

  - **90 measures**
  - **24 review**
  - **15 abolished**
  - **9 reduced**

- **Measures existing by the end of FY2012**

  - **45 measures**
  - **15 measures with no time limitation**

(Note) 1. The number of special measures indicated above is based on the relevant laws and regulations promulgated on or before December 2, 2011.

2. Four measures abolished under the revision in FY2011 are excluded.
Consumption tax 10.423 trillion yen (11.5% of revenue)

Consumption tax plays an important role in ensuring that costs of public services, such as social security services, are shared among all generations broadly and fairly. The government has taken reforms so as to increase the reliability and transparency of the consumption tax system.

Steps taken in the reform of the consumption tax system

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Tax rate</strong></td>
<td>3% Local consumption tax established (1%)</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td><strong>Tax credit for consumption tax on purchases</strong></td>
<td>Bookkeeping required</td>
<td>Bookkeeping and keeping of bills, etc. required</td>
<td></td>
</tr>
<tr>
<td><strong>Exemption threshold</strong></td>
<td>Applicable maximum 30 million yen</td>
<td>Not applicable to corporations with capital of 10 million yen or more, only for two years following incorporation</td>
<td>10 million yen</td>
</tr>
<tr>
<td><strong>Simplified taxation</strong></td>
<td>Applicable maximum 500 million yen</td>
<td>400 million yen</td>
<td>200 million yen</td>
</tr>
<tr>
<td></td>
<td>Deemed rate of purchases: 2 classes (90% and 80%)</td>
<td>4 classes (90%, 80%, 70%, 60%) and 60%</td>
<td></td>
</tr>
<tr>
<td><strong>Self-assessment and payment</strong></td>
<td>Twice a year (interim payment and final return)</td>
<td>Interim return/payment required twice a year (four times in total), with a final return</td>
<td>Decrease in the base annual tax amount</td>
</tr>
<tr>
<td></td>
<td>(Base annual tax amount for interim return: over 600,000 yen)</td>
<td>(Base annual tax amount for interim return: 600,000 yen - 5 million yen once a year)</td>
<td>(Base annual tax amount for interim return: 480,000 yen - 4 million yen once a year)</td>
</tr>
</tbody>
</table>

(Note) In FY2011, the exemption threshold has been revised to exclude from the scope of application such businesses whose taxable sales in the first half of the previous year or the previous business year exceed 10 million yen (the revised system will be applicable to corporations for their settlements from December 2013, and to individuals from FY2013).

Japan’s consumption tax rate is the lowest among major countries. In other countries, consumption tax (value-added tax) holds an important position as a fundamental tax. In particular, EU member countries are obliged to set their standard tax rate at 15% or higher.

International comparison of value-added tax rate (standard tax rate and tax rate for foodstuffs)

(Source) Interview surveys with the embassies, information available on the websites of the European Union and of the governments, etc.

(Notes) 1. The base rate of consumption tax in Japan is 5%: 1% is local consumption tax and 4% is national consumption tax.
2. In Canada, in addition to goods and service tax (value-added tax), taxes such as retail sales tax are imposed by almost all provinces (e.g. Ontario: 8%).
3. In the United States, retail sales tax is imposed by states, counties and cities (e.g. New York State and New York City: 8.875% in total).
4. In the graph above, the blue sections represent the tax rates for foodstuffs. The scope of foodstuffs to which the reduced tax rate is to apply is different from country to country; the standard rate may apply to some kinds of foodstuffs. Unprocessed agricultural products and some other foodstuffs may be subject to different tax treatment from those described herein.
5. The EU Directives preclude the application of reduced tax rates of under 5% or 0%.
Expenses to be covered by consumption tax revenue (excluding local allocation tax grants) are limited to “basic pension,” “medical care for the elderly,” and “nursing care” under the general provisions of the budget.