Let's Think About Taxes
Along with the increase in social security costs and the changes in economic climate, caused by the rapid progression of the decline in the birthrate and the aging of society, as well as the advance of globalization, Japan’s public finances are facing a more and more severe situation. Under such circumstances, the future vision for taxes, including how and for what taxes should be spent, has become the most familiar and most important issue for every citizen in Japan.

In view of this, in order to design a new form of this country, it is absolutely imperative to secure the source of revenues necessary for building a society where people support each other, and establish a new tax system that can accommodate structural changes in the economy and society.

Let’s all think about public finance and tax policy.

<table>
<thead>
<tr>
<th></th>
<th>United States (Dollar)</th>
<th>United Kingdom (Pound)</th>
<th>Germany and France (Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 million yen</td>
<td>12,821</td>
<td>8,130</td>
<td>9,434</td>
</tr>
<tr>
<td>1 billion yen</td>
<td>12,820,513</td>
<td>8,130,081</td>
<td>9,433,962</td>
</tr>
</tbody>
</table>

*(basic exchange rate and arbitrated exchange rate: average market rate in November 2011)*
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1. Significance and Role of Tax ........................................... P.3
   • Taxes are a form of membership dues to society
   • Adequate and stable taxes are required to fund public services
   • Principles of Fairness, Transparency and Confidence
   • A tax system adaptable to structural changes in economy and society

   • Declining birthrate and aging society
   • Growing social security costs
   • Economic slowdown and globalization

   • Expenditure and revenue
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Significance and Role of Tax

Taxes are a form of membership dues to society.

Public services cover everything from social security and welfare, including pensions and medical care, to social infrastructure development, such as waterworks and roads, as well as to education, policing, firefighting and national defense. These services are essential to our daily lives yet cost money. Taxes are used to fund these public services. In order for everyone to help each other in an effort to form a better society, it is necessary that the tax burden is shared broadly and fairly among the members of society. This is why it is best to say that taxes are membership dues to society.

Society backed up through its members supporting each other

Adequate and stable taxes are required to fund public services

In order to fund public services, tax revenue needs to be secured in a stable manner and in sufficient quantity. The basic principle is that the total amount of money required for public services such as social security benefits is balanced with the burden of taxation and social insurance premiums. It is our responsibility to ensure that these burdens will not be passed on to future generations.

Participation and selection

It is up to us to choose the level of public services provided for us, including social security benefits, and the burden to be imposed on us for these public services.
Principles of Fairness, Transparency and Confidence

As members of society, we must share the tax burden broadly and fairly. Fairness, transparency and confidence should be the guiding principles for designing and operating the tax system.

**Fairness**
The tax system must be fair to all taxpayers.

**Transparency**
The tax system must be transparent and easy to understand.

**Confidence**
The tax system must gain confidence of all taxpayers for their payment of taxes.

The principle of fairness has different aspects. Horizontal fairness means that people with equal economic power are required to bear an equal burden. Vertical fairness means that people with larger economic power are required to bear a larger burden. In recent years, a new concept of fairness, inter-generational fairness, has taken on importance, focusing on fairness in the tax burden between different generations or the balance between benefits and burdens in each generation.

A tax system adaptable to structural changes in economy and society

Japan is facing diverse problems, ranging from the concurrent progression of the declining birthrate and the aging of society, to the rapid advance in globalization, social disparities, limited resources, and environmental issues, including climate change. We must build a tax system that can accommodate these structural changes in society and economy.
Changing Social and Economic Structures

Declining birthrate and aging society

With fewer children being born, Japan is aging at a speed unprecedented among the major developed countries, and is transforming into a super-aged society with a shrinking population.

■ Trends in the proportion of population aged over 65

2. For data for other countries, projections by the United Nations.

■ Trends in total population

(Note) The total fertility rate (2006) is estimated as 1.60 (high), 1.35 (medium), or 1.12 (low).

■ Trends in population composition


Proportion/population aged 20 to 64: population aged 65 or over

9.1 : 1 person
5.1 : 1 person
2.4 : 1 person
1.8 : 1 person
1.2 : 1 person
Growing social security costs

As population aging further advances, the costs of providing social security benefits, such as pensions, and medical and nursing care, will continue to increase significantly. With the decreasing proportion of working population, the members of which are the supporters of the social security system, how to secure stable revenue resources is now an important issue.

Economic slowdown and globalization

Since the burst of the bubble economy in the early 1990s, Japan has been struggling through sluggish growth. It is also experiencing rapid progress in the globalization of the economy. With the vigorous cross-border movement of people and capital, and increasingly intensifying international competition, it is essential to take into account the perspective of maintaining and enhancing economic vitality across society in the process of considering public finance and tax policy.

[Diagram showing trends in GDP and inflation rate]

Sources: Cabinet Office, “National Accounts (GDP),” Ministry of Internal Affairs and Communications, “Consumer Price Index (CPI)

Notes: 1. For the GDP figures, those for FY1955 to FY1979 are under the 1990 System of National Accounts (SNA), those for FY1980 to FY1993 are under the 2000 SNA, and those for FY1994 and onward are under the 2005 SNA. For the growth rate, figures for FY1955 to FY1985 are under the 1990 SNA, those for FY1981 to FY1994 are under the 2000 SNA, and those for FY1995 and onward are under the 2005 SNA.

2. The inflation rate is the year-on-year percentage change of the CPI (yearly average) (Ministry of Internal Affairs and Communications). The data have been compiled since 1970.
Current Status of National Finance

Expenditure and revenue (General account budget for FY2012)

- General account expenditure
  Of the total expenditure, the three budget items of social security (26.4 trillion yen), national debt service (21.9 trillion yen), and local allocation tax grants (16.6 trillion yen) account for approximately 70%.

- General account revenue
  Tax revenue accounts for only less than 50% of the total revenue, with approximately 50% generated from government bonds (national debt).
Trends in fiscal condition

Looking at Japan’s fiscal condition, expenditure has been in excess of tax revenue. In the past few years, the efforts to achieve economic recovery and fiscal soundness contributed to reducing the shortage in revenue. However, since FY2008, the gap between expenditure and revenue has widened again mainly because of the decrease in tax revenue caused by deteriorating economic conditions.

| Trends in general account tax revenue, total expenditure, and amount of government bond issues |

The amount of government bonds outstanding at the end of FY2012 is estimated to stand at approximately 709 trillion yen, or approximately 5.54 million yen per capita. This huge debt, which is equivalent to 17 times the amount of tax revenue gained in FY2012, would be left and imposed on future generations. As for a percentage of GDP, Japan’s outstanding debt is at the worst level among the major developed countries.

| Trends in government bonds outstanding |

(Source) The data in the above graph, taken from OECD, “Economic Outlook” (No. 90, December 2011), does not reflect the FY2012 budget.

(Note) Figures are on a general government basis (national and local governments, and social insurance funds).
Japan’s national burden ratio, defined below, is at a lower level as compared to other major developed countries.

**International comparison of national burden ratio**

[National burden ratio = Tax burden ratio + Social security burden ratio]

![Chart showing international comparison of national burden ratio](chart)

**What is national burden ratio?**

The national burden ratio refers to the proportion of tax burden and social security burden (e.g. social security premiums) to national income. When the ratio of fiscal deficit to national income is taken into account, this is termed as potential national burden ratio.

**Lifetime benefits and burdens, by generation**

Looking at the relation between benefits and burdens of public services enjoyed or sustained by each generation throughout their lives, the estimate shows that if the current system is maintained without any modification, younger generations would have to bear a larger burden, due to the declining birthrate and aging of society as well as the existing burdens passed on to future generations.

![Graph showing lifetime benefits and burdens, by generation](graph)


(Note) The data in the above graph are based on a test calculation made by generational accounting, which measures the relation between the total lifetime benefits from the government sector (e.g. social security benefits and public services) and the total lifetime burdens of payments to the government sector (e.g. tax and social security premiums) for each generation.
Comparing the government budget to a household budget

Below is an example case where Japan’s national finance is likened to an ordinary household with a monthly income of 400,000 yen.

FY2012 government budget

- Tax revenue and non-tax revenue: 46.1 trillion yen
- Total expenditure: 90.3 trillion yen
  - Primary balance expenses: 66.4 trillion yen
    - Local allocation tax grants, etc.: 16.6 trillion yen
  - National debt service: 21.9 trillion yen
- Government bond issues (=national debt): 44.2 trillion yen
- Government bonds outstanding: 709 trillion yen

Where compared to an ordinary Japanese household

- Household monthly income: 400,000 yen (4.8 million per annum)
- Total household expenditure: 780,000 yen
  - Household expenditure: 590,000 yen
    - Monthly allowance for parents: 140,000 yen
  - Loan payment: 190,000 yen
- Shortfall (made up with borrowings): 380,000 yen
- An outstanding loan of 73.82 million yen

Impacts of fiscal deficit

If the fiscal deficit increases cumulatively, it will have various adverse impacts, such as inflexibility in public finance, a rise in interest rates, and increased inequality among generations, and finally become a major obstacle to realizing a vigorous economy and society.

Accumulation of fiscal deficit

- Reduced flexibility in policy actions (increase in interest payment)
- Negative impact on economy due to higher interest rates
- Increased inequality among generations

Major obstacle to the realization of a vigorous economy and society
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.

(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

[Fundamental tax reforms]
Down by 3.9 trillion yen (relaxation of progressive taxation, increase in personal exemptions (basic exemption, exemption for spouses, exemption for dependents: from 350,000 yen to 350,000 yen), creation of special exemption for spouses and for specific dependents (450,000 yen), etc.

Up by 1.7 trillion yen (abolition of exemption of interest income on small deposits, taxation on capital gains from shares, etc.)

[Tax reforms]
Down by 2.4 trillion yen (relaxation of progressive taxation, increase in personal exemptions (basic exemption, exemption for spouses, exemption for dependents: from 350,000 yen to 380,000 yen), increase in employment income deduction)

Down by 0.3 trillion yen (increase in the maximum tax rate)

Up by 0.5 trillion yen (abolition of the additional part of special exemption for spouses)

Up by 0.2 trillion yen (review of income deduction for public pension, etc.)

Down by 3 trillion yen (transfer of tax revenue sources from individual income tax to individual inhabitants tax)

Up by 0.6 trillion yen (review of exemption for dependents aged under 16 and for specific dependents)

(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 transfer tax (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)
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

<table>
<thead>
<tr>
<th>Employment income 10 million yen</th>
<th>Employment income 7 million yen</th>
<th>Employment income 5 million yen</th>
<th>(As of January 2012) (Unit: 10,000 yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>United States</td>
<td>United Kingdom</td>
<td>France</td>
</tr>
<tr>
<td>Couple with two children</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>113.0</td>
<td>186.2</td>
<td>157.1</td>
<td>139.6</td>
</tr>
<tr>
<td>Japan</td>
<td>United States</td>
<td>United Kingdom</td>
<td>France</td>
</tr>
<tr>
<td>Couple with one child</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>130.0</td>
<td>194.1</td>
<td>157.1</td>
<td>157.9</td>
</tr>
<tr>
<td>Single person</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(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 592,000 yen (employment income: 5 million yen) for the household of a couple with two children or one child, and 910,000 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 a couple with two children, one of them 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 age 17 or older.
4. The data of Japan does not take into account the special income tax for reconstruction to be 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: USD=JPY78.75, GBP=JPY123, EUR=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

(As of January 2012)

(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 40%); 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, 14.3, 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>Local tax rate (%)</th>
<th>National tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan (Tokyo)</td>
<td>40.75</td>
<td>35.64</td>
</tr>
<tr>
<td>United States (California)</td>
<td>31.91</td>
<td>24.00</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15.83</td>
<td>13.65</td>
</tr>
<tr>
<td>Germany (average)</td>
<td>33.33</td>
<td>26.30</td>
</tr>
<tr>
<td>France</td>
<td>6.9</td>
<td>4.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>9.0</td>
<td>4.9</td>
</tr>
</tbody>
</table>

(Notes): 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. In Japan, local tax includes local special corporation surcharge (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 tax, 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.

3. There is no tax on corporation income in the State of Nevada, for instance, the effective tax rate is 35%, corresponding to the federal corporation tax rate.

4. The corporation tax rate in the United Kingdom is scheduled to be lowered to 22% in April 2013 and to 21% in April 2014.

5. In France, as corporations are liable to pay social contribution on corporate profits (contribution sociale sur les bénéfices (CSB); 33% of corporation tax amount) in addition to corporation tax, the effective tax rate in total is 34.43%. (In the calculation of social contribution on corporate profits, 783,000 Euros shall basically be deducted from the corporation tax amount; however, this deduction is not taken into account in the calculation of the effective tax rate.) In 2013, 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). The corporation annual estimated and economic contribution on national land (contribution économique territoriale (CET), local tax) are also levied.

6. The corporation tax in Germany consists of joint tax (Gemeinschaftsteuer; the revenue is equally distributed to federal government and local governments), and a solidarity surcharge (solidaritätszuschlag). Business tax is a municipal tax, the amount of which is calculated by multiplying 3.5% of trade profits by the different municipal assessment rates. For the data shown above, the assessment rate is 39% (the national average in 2010) according to the data released by the Federal Statistical Office.

**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.

**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</td>
</tr>
<tr>
<td>Measures subject to the FY2012 review</td>
</tr>
<tr>
<td>24 Review</td>
</tr>
<tr>
<td>9 Abolished</td>
</tr>
<tr>
<td>Measures to prevent tax avoidance</td>
</tr>
<tr>
<td>Exceptional procedural measures</td>
</tr>
<tr>
<td>Measures ending by the end of FY2012</td>
</tr>
<tr>
<td>Measures in FY2012 or later</td>
</tr>
<tr>
<td>Measures with no time limitation</td>
</tr>
</tbody>
</table>

(Notes): 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>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Tax rate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3%</td>
<td></td>
<td>Local consumption tax established (1%)</td>
<td></td>
</tr>
<tr>
<td><strong>Tax credit for consumption tax on purchases</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bookkeeping required</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Exemption threshold</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applicable maximum 30 million yen</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Simplified taxation</strong></td>
<td></td>
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</tr>
<tr>
<td>Applicable maximum 500 million yen</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deemed rate of purchases: 2 classes (90% and 80%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Self-assessment and payment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Twice a year (interim payment and final return) Base annual tax amount for interim return: over 600,000 yen</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interim return/payment required twice a year four times in total, with a final return Base annual tax amount for interim return: 600,000 yen - 5 million yen once a year Over 5 million yen: three a year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Price indication</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Intended use</strong></td>
<td></td>
<td></td>
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</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%) or municipalities.
3. In the United States, retail sales tax is imposed by states, counties and cities (e.g. New York State and New York City: 8.75%, 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%. 

OECDOecd
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.

<table>
<thead>
<tr>
<th>Intended use of consumption tax (FY2012 budget)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenses to be covered by consumption tax revenue</strong></td>
</tr>
<tr>
<td>15.1 trillion yen</td>
</tr>
<tr>
<td>- Basic pension</td>
</tr>
<tr>
<td>- Medical care for the elderly</td>
</tr>
<tr>
<td>- Nursing care</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>100% 13.1 trillion yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>4% national consumption tax 10.4 trillion yen</td>
</tr>
<tr>
<td>1% local consumption tax 2.6 trillion yen</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>National 56.4% 7.3 trillion yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>23.5% of national consumption tax revenue to be transferred to local governments as local allocation tax.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Local 43.6% 5.7 trillion yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collected by the national government and transferred to local governments</td>
</tr>
</tbody>
</table>

There are other types of taxes.

- Gasoline tax
- Tobacco tax
- Motor vehicle tonnage tax
- Liquor tax
The Ministry of Finance Japan website has a variety of information available about tax policy. Please visit our site for more information.

**step 1**

**GO to** [http://www.mof.go.jp/english/index.htm](http://www.mof.go.jp/english/index.htm) or find the website by entering **Ministry of Finance Japan** search

**step 2**

Click on **Tax Policy** → **Tax Policy Website**

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**Tax Policy Website**

You can check the content of tax system reforms, discussions in the tax commission, and other documents containing details about tax policy (with diagrams).


An e-mail magazine provides tax-related information in an enjoyable and easy-to-understand format. Please subscribe to receive the service.

**Download a Pamphlet**

You can download a pamphlet on the tax policy and tax system reforms.

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