Consumption tax is levied widely and fairly on consumption in general. In principle, sales and provision of all goods and services in Japan are subject to consumption tax. While the tax is imposed on sales of business entities as taxable person, they may deduct tax on purchases from that on sales and pay the remainder to prevent tax accumulation.

Consumption tax paid by business entities is added to sales prices as cost and supposed to be bore 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”).

* Calculated with an 8% tax rate
About the “Comprehensive Reform of Social Security and Tax”

Since the basic framework of the current social security system was built in the 1960s, the socioeconomic situation which is the premise for the social security system has dramatically changed. While social security benefits have grown greatly in line with aging population, social insurance premiums have failed to catch up with the benefit expansion, with the premium-benefit gap widening.

The gap has been covered not only by tax revenues but also by massive debt issues. If this situation does not change, it may become difficult to sustain the present social security system. However, we must maintain the social security system that Japan boasts to the world which supports livelihood of citizens including older people such as your grandfathers and grandmothers, and which contributes to the world’s highest life expectancy.
Therefore, we must secure stable financial resources for maintaining the social security system to improve Japan’s fiscal situation which is in a more difficult situation than in foreign countries.

- **Achieving fiscal consolidation targets**
  - Overcoming the worst fiscal situation among major countries
  - "Seeking to halve the national and local government primary budget deficit as a percentage of gross domestic product from FY2010 to FY2015, achieve a primary budget surplus by FY2020 and reduce outstanding government debt’s ratio to GDP stably later"
  - Increasing the consumption tax rate (national and local) in stage to 10% by October 2019

- **Expanding and stabilizing social security**
  - Childcare facilities, expanding home medical care, promoting dementia measures, reducing premiums, etc.
  - Addressing benefit growth under aging population to stabilize current social security system (Securing stable financial resources)

Given that consumption tax is contributed by all people including senior citizens and brings in stable revenues, consumption tax revenues are destined to cover social security.

All increase in consumption tax revenues goes to social security!!

- ¥3.2 trillion: Childcare support, healthcare and long-term care, and public pension system will be improved.
- ¥2.8 trillion: The increase in expenses due to the increase in consumption tax will be handled.
- ¥0.8 trillion: This will build a stable system which decreases the debt that will be placed onto the future generations.
- ¥7.3 trillion: Stabilizing the payment of basic pension benefits

*The increase in consumption tax revenues due to a 5% increase (for the whole fiscal year). It includes the amount of secured financial resources in regards to the decrease in revenues due to the implementation of reduced tax rate system.*
To be more specific,

(1) Expand and diversify childcare facilities, aim to eliminate the problem of children on the waiting list for childcare facilities, and enhance parenting support, such as increasing parenting advice and temporary custody.

(2) Develop hospital, home medical care, and long-term care arrangements to allow citizens to use medical and long-term care services in familiar community.

(3) Increase government’s share of basic pension benefit payments to 50% permanently and stabilize payment of pensions.
The reduced tax rate system for the consumption tax will be implemented from October 1, 2019, for “foods and drinks excluding liquors and eating-out services” and “subscribed newspapers published twice or more a week” to give considerations to low-income people after the consumption tax hike. The consumption tax rate for these goods will be 8% (6.24% in national tax and 1.76% in local tax), (the standard tax rate will be 10% (7.8% in national tax and 2.2% in local tax).

**Images of Tax-reduced Goods (Drinks and Foods Excluding Liquors and Eating-out Services)**

- **Eating-out Services**
  - Food and drink services that business entities provide to customers at sites with dining equipment (including tables, chairs, and counters) designed for such services

- **Takeout**

- **Catering and Cooking Services**
  - Food and drink services provided at sites designated by customers

- **Foods and Drinks**
  - (Foods defined in the Food Labeling Act)
  - * Goods provided for human drinking or eating

- **Liquors**
  - (Liquors defined in the Liquor Tax Act)

- **Combined product**

- **Drugs and Quasi-drugs**

**How to handle combined product**
- Where food is sold together with goods other than food as one combined product, such combined product will be treated as “foods and beverage” and the reduced tax rate is applied if the price of the product (excluding tax) is less than JPY 10,000 and 2/3 or more of the price relates to food. (only if the price of the product alone is posted)

* The colored part is the items eligible for a reduced tax rate.
The new system, so called “the invoice-based method”, will be introduced in October 2023. So that the tax amount can be calculated properly under the multiple tax rate system.

For four years from October 2019 until the invoice-based method is introduced, the simplified transitional method (Separate accounting invoice-based method and special measure for the calculation of the tax amount) will be provided.

<Reference> International comparison of value added tax rates (standard rates and rates on food)

[Notes] 1. Japan’s consumption tax rate at 8% includes 1.7% in local consumption tax (local tax).
2. In Canada, most provinces impose value added and other provincial taxes in addition to the federal good and service tax (value added tax) (e.g. 8% in Ontario).
3. In the United States among the member countries of the Organization for Economic Cooperation and Development, a transaction tax is imposed as tax on sales. No sales tax exists in Brunei.
4. In Myanmar among the members of the Association of Southeast Asian Nations, a transaction tax is imposed as tax on sales. No sales tax exists in Brunei.
5. In the above figure, blue bar portions represent tax rates on food. Scopes of food subject to reduced tax rates differ from country to country. Some food products may be handled differently from the above indication.
6. The EC directive denies any zero tax rate or any reduced tax rate below 5%.

[Source] Interviews with relevant embassy officials, the European Union and other relevant government websites, etc.