

5 Learn about "Consumption Tax"

1 Consumption Tax

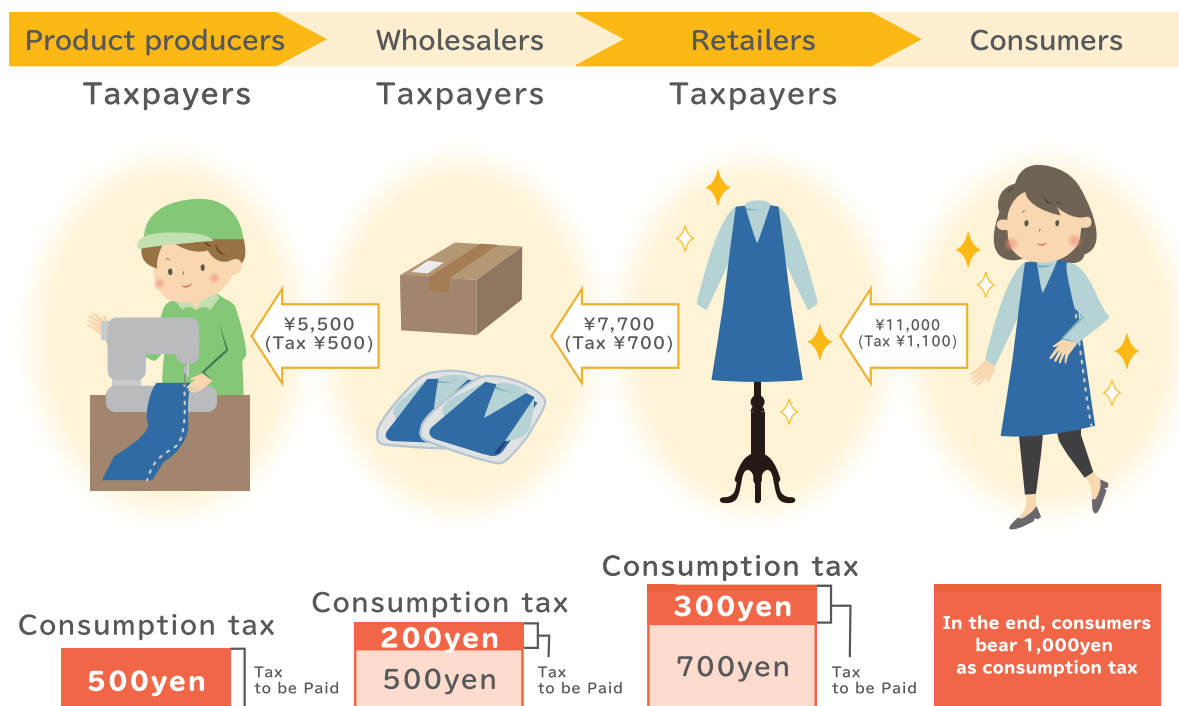
Consumption tax is levied broadly and fairly on consumption in general. In principle, sales and provision of goods and services in Japan are subject to consumption tax, and it is imposed on sales of business entities as taxable person. To avoid tax accumulation, business entities may deduct input tax 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".

Structure of Consumption Tax

Business entities may deduct input tax on purchase from output tax on sales.



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2 Consumption Tax Rate Hike

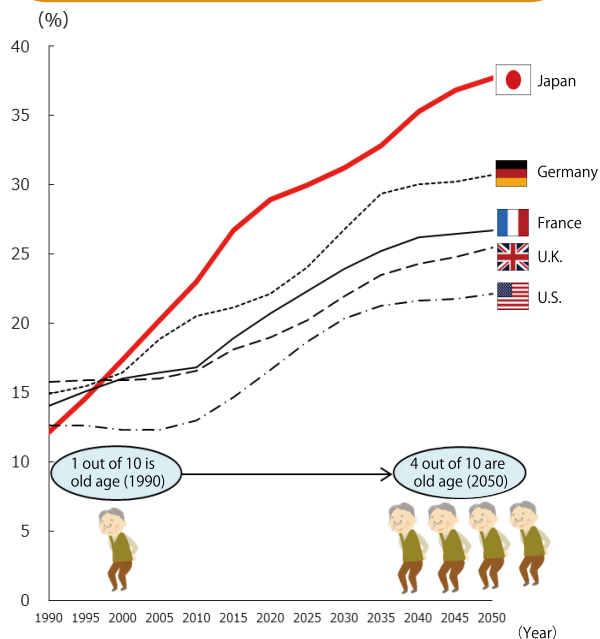
The financial source of social security, in principle, is based on mutual support through insurance premiums. As it is difficult to cover social security expenses solely by insurance premiums, other than putting heavy burden on working-age population, tax revenues and debts are also used for that purpose. In Japan, the aging is rapidly progressing and, at the same time, 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**.

Under this background, the consumption tax rate was hiked from 8% to 10% in October 2019.

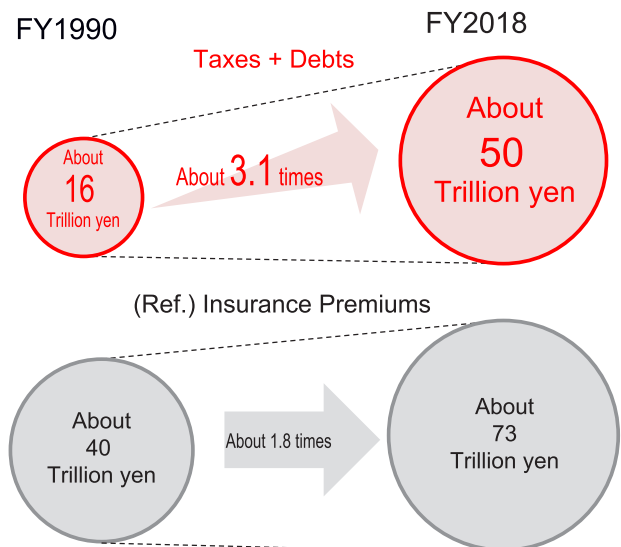
- * Consumption tax is suitable as a stable financial source for social security, as the burden is not shouldered only by specific generations such as working-age population. In addition, the impact on economic activities is relatively small, and the tax revenue is not easily affected by fluctuations 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 (April 2017)" by National Institute of Population and Social Security Research
Other Countries: "World Population Prospects 2019" by United Nations

Increases in taxes and debts to cover social security benefits



(Source) "The cost of Social Security Benefits in FY 2017" by National Institute of Population and Social Security Research

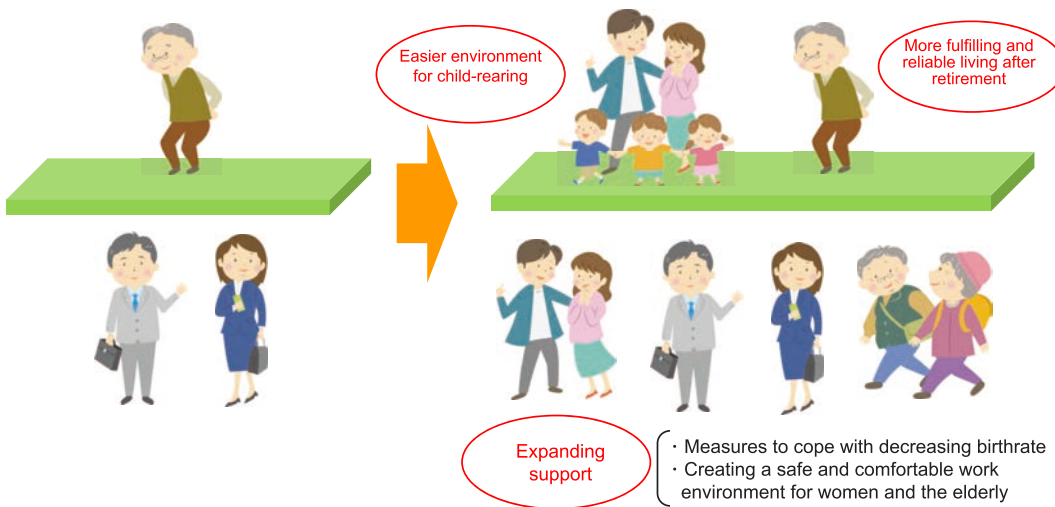
Convert to the Social Security System for All Generations

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.

All of the increased revenue of the consumption tax hike is allocated to social security and converting to the social security system for **"all generations"**

<Before Conversion>
Consumption tax revenue is mainly allocated to elderly population

<After Conversion>
Consumption tax revenue is newly utilized for elimination of childcare placement waiting list, free early childhood education and childcare, etc., in order to expand usage to child-rearing generations



Measures to be implemented at the time of consumption tax rate hike from 8% to 10%

Elimination of childcare placement waiting list



Offering additional 320 thousand child care places by the end of FY2020

Improvement of working conditions long-term care workers



Securing more support for nursing by improving benefits and compensation for care workers

Free early childhood education and childcare



Free preschool education (kindergartens, nursery schools, and certified childcare centers) for all children between the ages of 3 and 5 (For households of lower income, infants and toddlers of ages 0-2 will also be free of charge)

Reduction of contribution on long-term care insurance fee for elderly people with low income



More reduction of insurance premiums for the elderly population with low income

Free higher education



Reduced tuition/grant-based scholarship for students who are truly in need with lower income family background

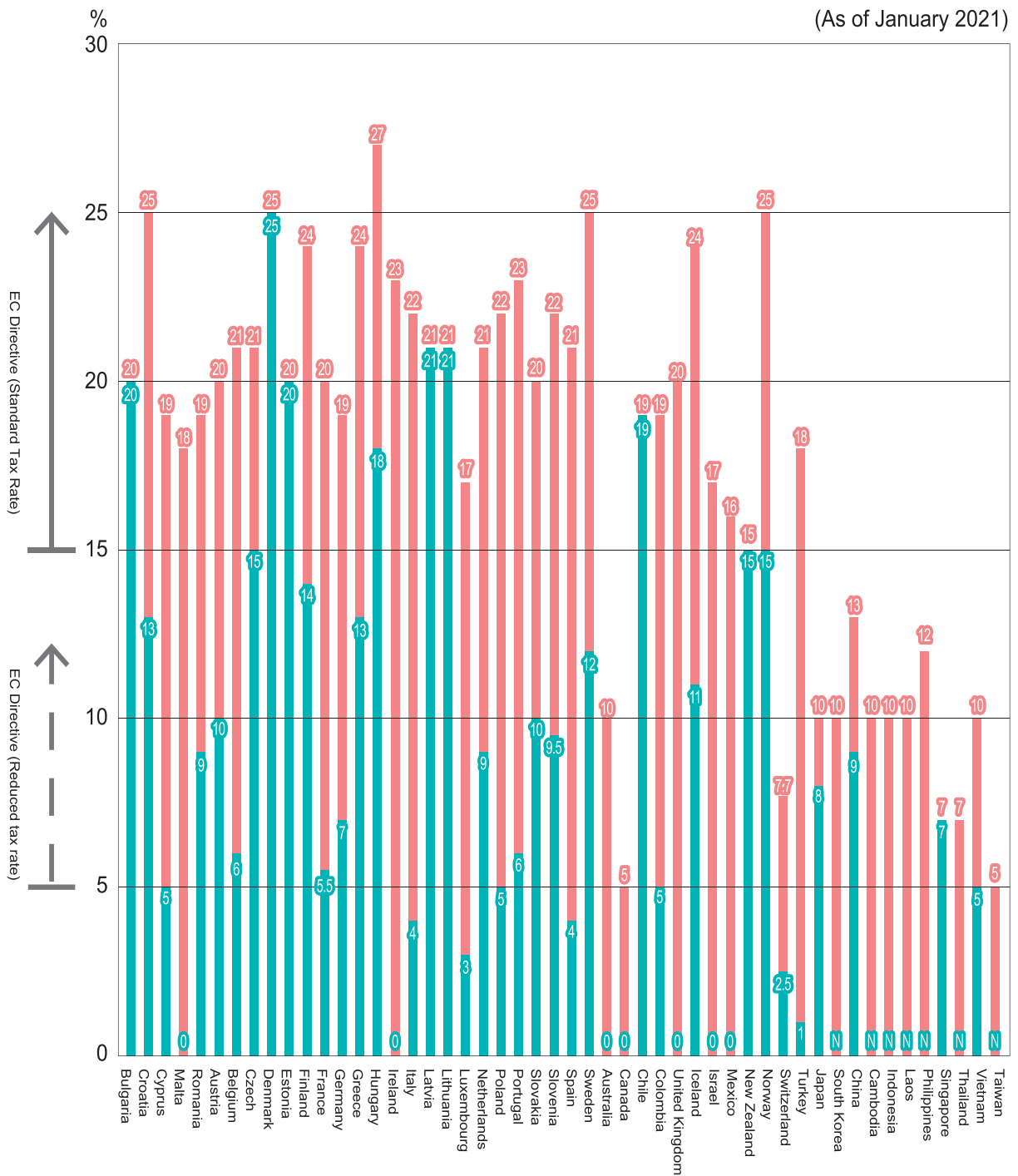
Provision of benefits for supporting low-income pensioners



Benefit of up to 60,000 yen per year for pensioners with low income

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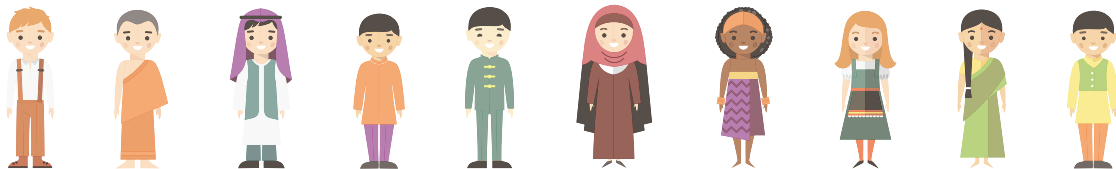
<Reference> International Comparison of Value-added Tax Rates (standard rates and rates on food)



(Remarks)

- Most provinces impose a provincial tax, such as a value-added tax, on top of the federal goods and services tax, or as a common federal-provincial tax (e.g., Ontario, 13% federal-provincial value-added tax, including 8% provincial tax).
- Among the OECD member nations, in the United States, as opposed to value added tax for sales transactions, Sales Tax (local tax) is imposed by states, counties, or cities (i.e. 8.875% as total of New York State and New York City)
- Of listed above, the shades in blue are the effective tax rate for food. Those with "0" indicate countries with zero tax rate levied on food. Those with "N" indicate countries where food is non-taxable. The range of food items subject to the reduced/zero tax rate or being non-taxable varies from country to country, and depending on the food item, it may be handled differently from above

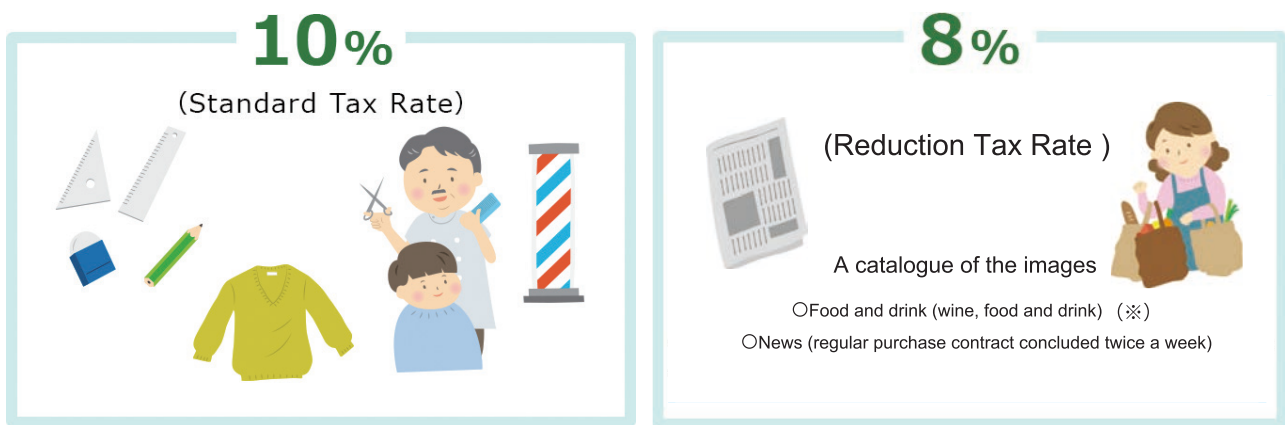
(Source) Interviews with embassies of each country, websites of the European Nations and governments of each country.



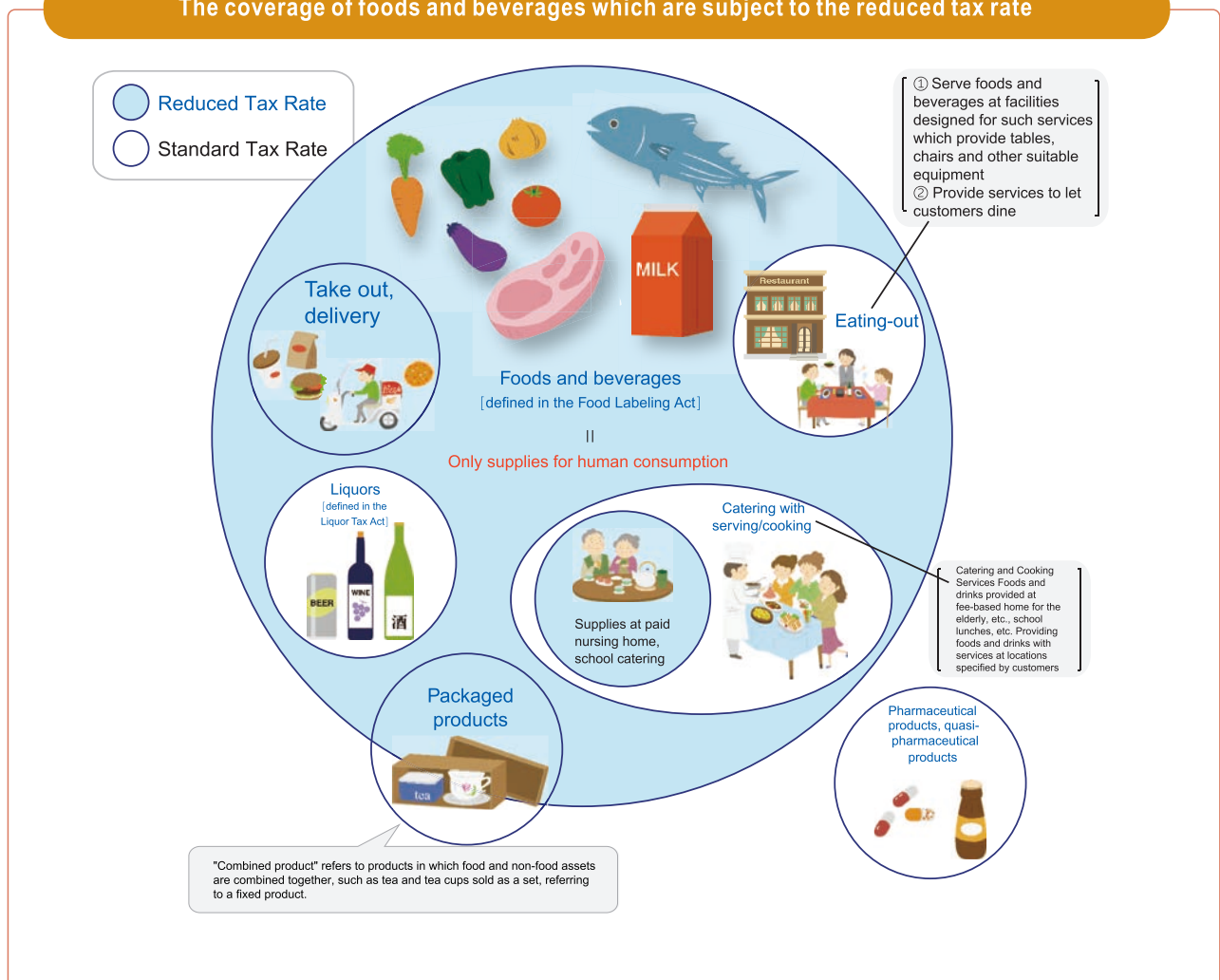
3 Reduced Tax Rate System for Consumption Tax

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.

The benefit of the scheme is to lessen the burden on household budget through applying the reduced tax rate on the goods consumed by almost all the consumers on daily basis, such as food and beverages.



The coverage of foods and beverages which are subject to the reduced tax rate



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