Learning More About Taxes

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Ministry of Finance

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

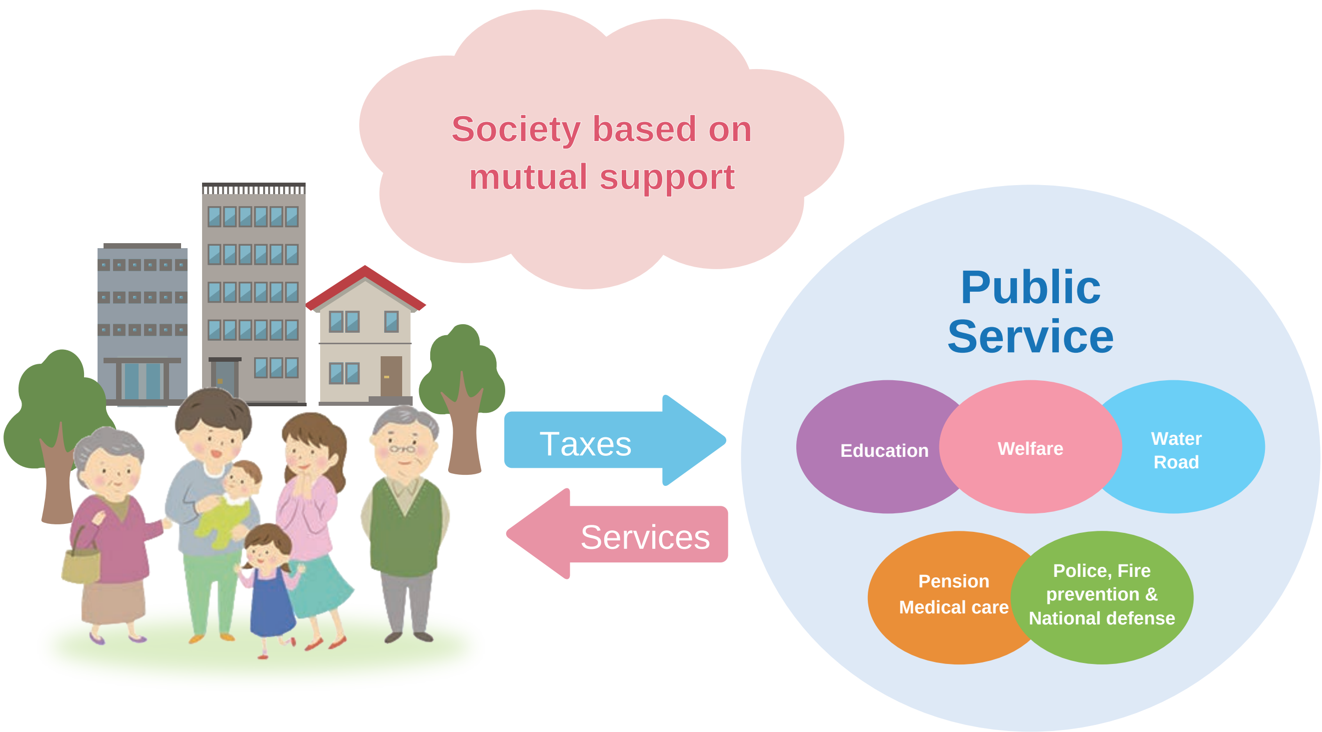
1 "Tax" is a "Society Membership Fee"

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 affluent life. However, their provision costs much money.

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 widely 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"

Fundraising Function

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

Income Redistribution Function

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.

Economy-stabilizing Function

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"

Principle of Fairness	Principle of Neutrality	Principle of Simplicity
The **"horizontal fairness"** principle requires people with the same economic capacity to pay the same tax, while the **"vertical fairness"** principle requires people with greater economic capacity to pay higher tax. In recent years, **"fairness across generations"** has become important.	The principle of **neutrality** means that the tax system should not distort economic activities by individuals and business corporations.	The principle of **simplicity** means that the tax system should be as simple as possible and made understandable.

In this way, there are various **fairness** indicators, while their implications are not always the same to everyone. It is necessary to consider such factors and build tax systems which adapt to the structured change in the economic society.

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.** Roughly, there are taxes on income, consumption, and assets.

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 stipulated by law.

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.

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

	National Taxes	Local Taxes		National Taxes	Local Taxes
Income Taxation	●Income tax ●Corporation tax ●Local corporation tax ●Special corporate enterprise Tax ●Forest environment tax (From FY2024) ●Special income tax for reconstruction	●Inhabitant tax ●Enterprise tax	Consumption Taxation	●Consumption tax ●Liquor tax ●Tobacco tax ●Special tobacco tax ●Gasoline tax ●Local gasoline tax ●Liquefied petroleum gas tax ●Aviation fuel tax ●Petroleum and coal tax ●Promotion of power resources development tax ●Motor vehicle tonnage tax ●International Tourist Tax ●Tariffs ●Tonnage tax ●Special tonnage tax	●Local consumption tax ●Local tobacco tax ●Golf course utilization tax ●Automobile acquisition tax ●Light oil delivery tax ●Automobile tax (Environmental performance excise･category base) ●Light motor vehicle tax (Environmental performance excise･category base) ●Mine lot tax ●Hunting tax ●Mine production tax ●Bathing tax
Asset Taxation, etc.	●Inheritance/gift tax ●Registration and license tax ●Stamp tax	●Real estate acquisition tax●Fixed asset tax ●City planning tax●Establishment tax ●Water utility and land profit tax ●Common facilities tax ●Housing land development tax ●Special land possession tax ●Discretionary tax earmarked for general use ●Discretionary tax earmarked for special use ●National health insurance tax			

2 Japan's Tax Revenue

National tax revenues (general account) hit roughly 60 trillion yen in FY1990 during the bubble economy period. However, tax revenues later plunged due to stagnant economic conditions. In FY2009, national tax revenues dropped to about 39 trillion yen due to the Lehman Shock. An economic recovery, etc. led to increase in tax revenues, resulting in the tax revenues of 60.8 trillion yen as of FY2020.

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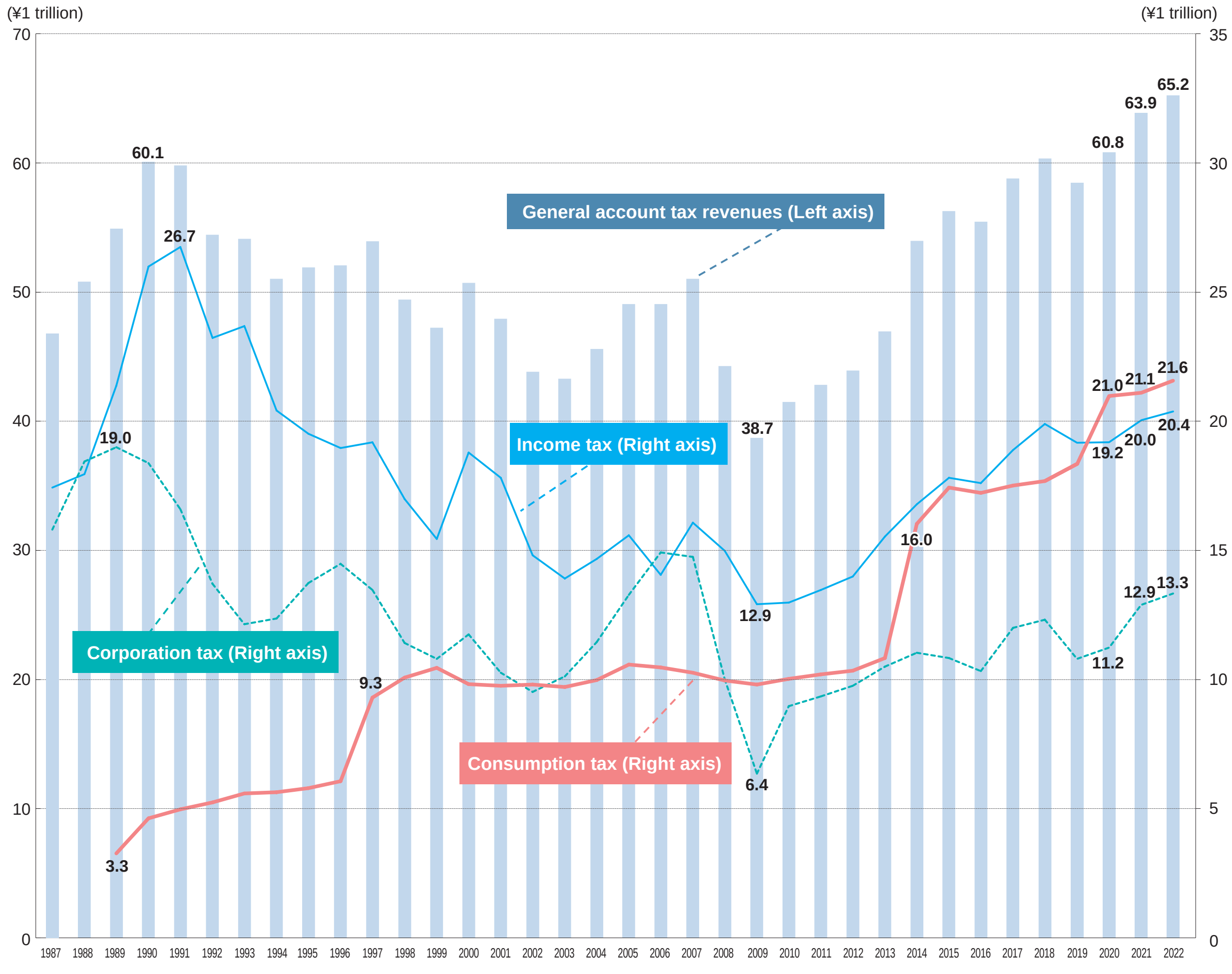
Trend of General Account Tax Revenues



Note) The data until FY2020 are on a settlement basis, the data of FY2021 is the revised budget, and the data of FY2022 is based on the budget.

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 with low- rate. This was the measures in response to the heavy burden of income tax during the late era of Showa (December 1926 to January 1989) and the diversification of consumption activities, etc.

Later, tax reforms were implemented with the pillars of reducing personal income taxation and changing consumption tax (including the local consumption tax) rate from 3% to 5% (in1997), considering the inevitable increase in the financial demand for social security, while the population of working generation has decreased relatively due to the acceleration of declining fertility and aging population.

In addition, under the initiative of Comprehensive Reforms of Social Security and Tax, the consumption tax has been considered **as the financial source of social security**, with the view to **share the cost by all generations which the large part of citizens would benefit.** As such, in 2014, the consumption tax rate was hiked 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 to be more growth-oriented** by **"expanding the tax base while reducing the tax rate"** in order to maintain the vitality and international competitiveness of domestic companies.

As described, each of the tax categories has been revised to respond to the changes in social and economic situation.

The features of the main tax items are as follows in the table below.

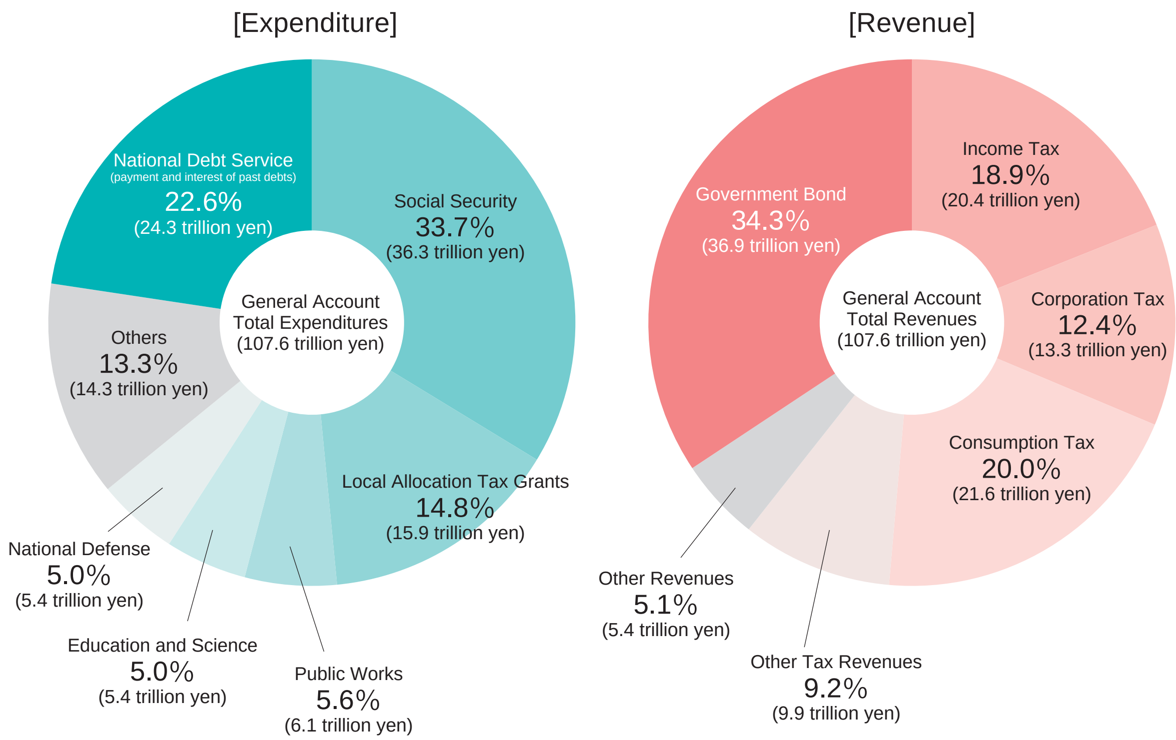
	National Tax Revenue (Budget of FY2022)	Features
Income Tax	¥20.4 trillion	・Tax burdens increase progressively according to the tax paying capacity. ・Income tax is imposed mainly on the working generation. ・Various deductions are devised to give fine-tuned considerations to individuals according to their conditions.
Corporation Tax	¥13.3 trillion	・Tax policy requires to be consistent with government's Growth Strategy and also considerations must be given to maintain and improve international competitiveness. ・Various tax preferences to achieve certain policy goals are taken. ・Tax revenues are relatively sensitive to economic conditions.
Consumption Tax	¥21.6 trillion	・Consumption tax burdens are shared widely by all citizens including elderly, instead of putting heavy burden on the working generation. ・Consumption tax revenues are relatively stable irrespective of economic changes. ・The impact on economic activities is relatively small.
Inheritance Tax	¥2.6 trillion	・It plays a role of preventing the gap between the rich and the poor from consolidating, so as to achieve the purpose of the redistribution of assets. ・The tax is levied on the personnel holding some assets as the subjects.

4 Fiscal Situation

In recent years, social security expenditure 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 expenditure, national debt services, and local allocation tax grants account for about three-quarters of total expenditures.**

Tax revenue is estimated to be approximately 65.2 trillion yen in the FY2022 general account budget. 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 FY2022 budget, and the rest one-third relies on the revenue from issuing government bond (i.e. debt).

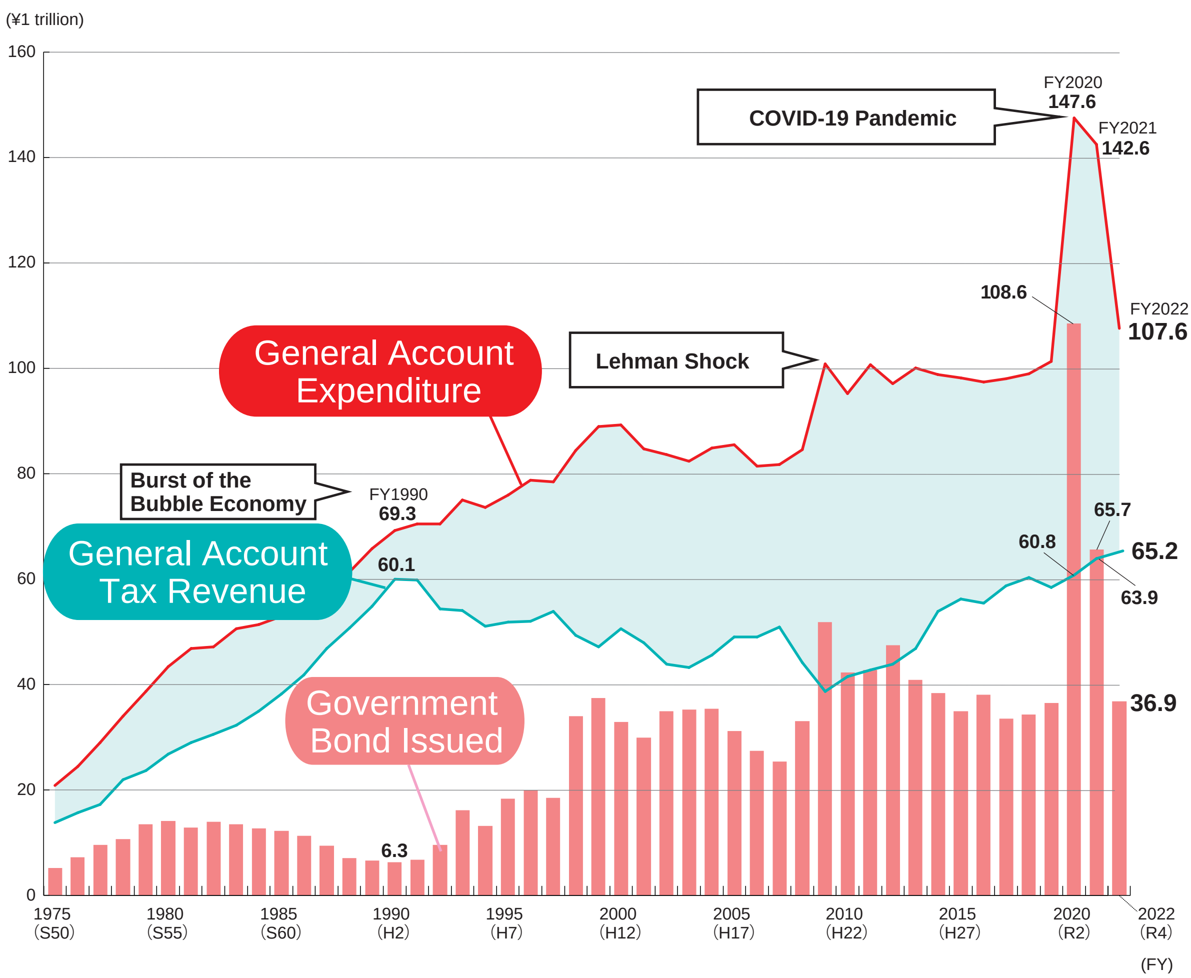
FY2022 Budget: General Account



(Note 1) Budget-based
(Note 2) The "Others" category of expenditure includes the reserve for measures against COVID-19 (4.6% (5.0 trillion yen)).

There is a large gap between general account expenditures and tax revenues, which has been financed by issuing **government bonds** (construction bonds and special deficit-financing bonds) as debt. **The burden has been postponed to the future generation**. In addition, expenditure is recently expanding due to the responses to the COVID-19. 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 its basic function of **fund raising**.

Fiscal Situation



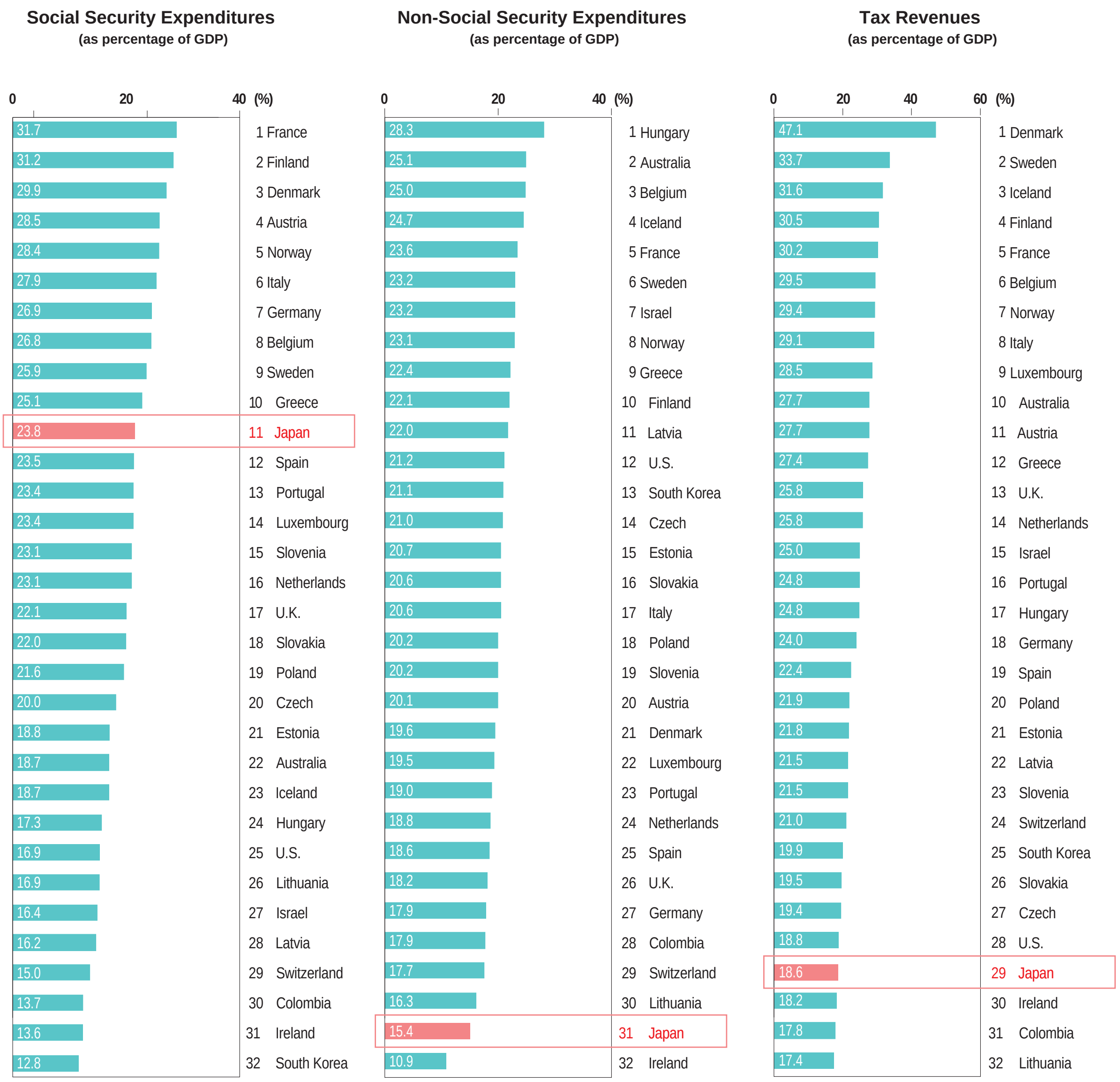
Note) The data until FY2020 are on a settlement basis, the data of FY2021 is the revised budget, and the data of FY2022 is based on the budget.

5 Balance of Benefits and Burdens

Compared with other countries, **the scale of current tax revenues in Japan is relatively low as a percentage of GDP**. As for expenditures, the scale of expenditure other than social security expenditure 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 aging population, 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) Japan: Actual Figures of FY2019, Lithuania: Actual Figures of FY2017, Other countries: Actual Figures of CY2019.

3. Learn about "Income Tax"

1 Income Tax

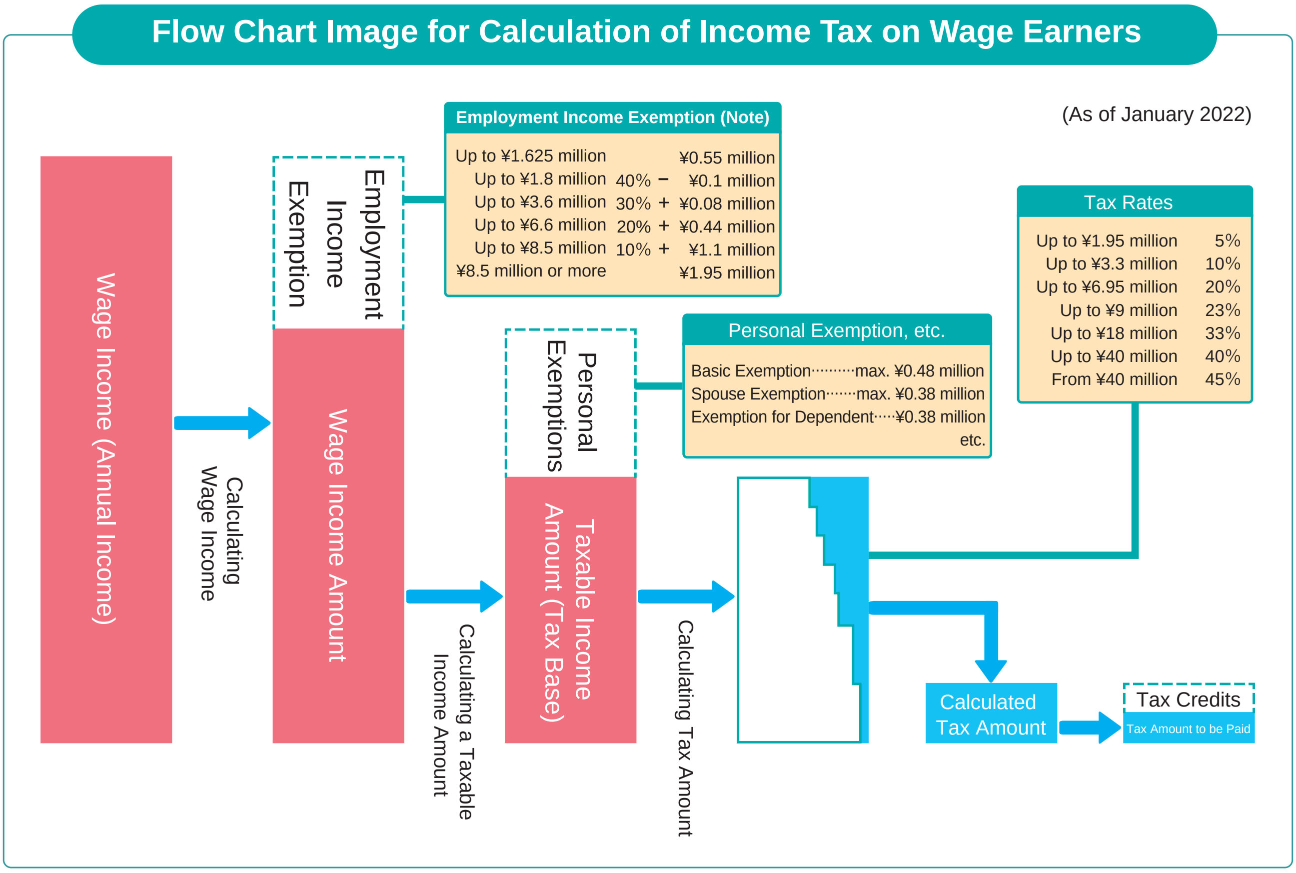
Income tax is imposed on wages, business profits, gains on land sale and other types of incomes. The income tax on an employee's wage is calculated by

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.



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	Filing of return not required Comprehensive taxation 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 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

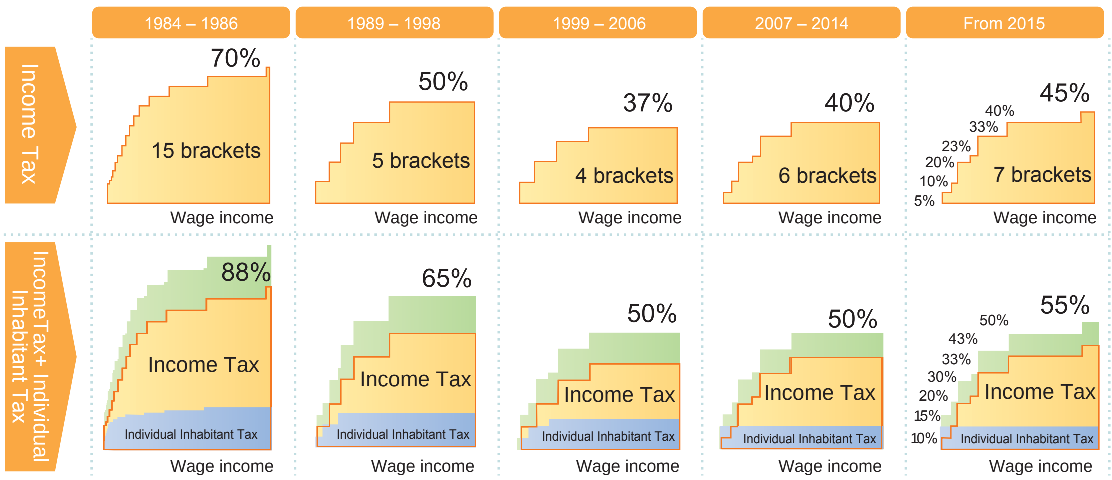
There are exemptions such as basic exemption which applies to all people and exemptions which take into account individual circumstances such as family structure.

		Persons qualifying for deductions	Income requirement for taxpayers
Major Basic Personal Exemptions	Personal (Basic) deduction	●Taxpayers	Income must be 25 million yen or under (the amount of deduction gradually decreases for taxpayers who earn more than 24 million yen)
	Spouse deduction	●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”)	Income must be 10 million yen or under (the amount of deduction gradually decreases for taxpayers who earn more than 9 million yen)
	Ordinary spouses qualifying for deduction	●Taxpayers who have "spouses qualifying for deduction" aged under 70 years	
	Special deduction for spouses	●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	Income must be 10 million yen or under (the amount of deduction gradually decreases for taxpayers who earn more than 9 million yen)
	Deduction for dependents	●Taxpayers who have relatives, etc. who depend on them for living expenses and earn 480,000 yen or under as total income (“dependent relatives”)	—
	Ordinary dependent relatives	●Taxpayers who have dependent relatives aged 16 to 18 years or 23 to 69 years	
	Specified dependent relatives	●Taxpayers who have dependent relatives aged 19 to 22 years	
Major Specific Personal Exemptions	Deduction for persons with disabilities	●Taxpayers who fall within the category of persons with disabilities ●Taxpayers who have spouses qualifying for deduction or dependent relatives who fall within the category of persons with disabilities	—
	Deduction for Widows	1) Those who have been divorced, with dependent(s) 2) Those who have been widowed, that have not been remarried ※ Excludes those that fall under a single parent ※ De facto partners who are indicated as “Husband (unregistered)” “Wife (unregistered)” in the Resident’s Registration are to be excluded	Total income up to ¥5 million
	Single Parent Exemption	●Those who are not currently married and have a child (total income up to 0.48 million) to make a living together ※De facto partners who are indicated as “Husband (unregis-tered) “ “Wife (unregistered)” in the Resident’s Registration are to be excluded	Total income up to ¥5 million
	Deduction for working students	●Taxpayers who are students of schools provided under the School Education Acts	Income must be 750,000 yen or under as total income and not more than 100,000 yen for income other than employment income

4 Changes in Income Tax Contributions

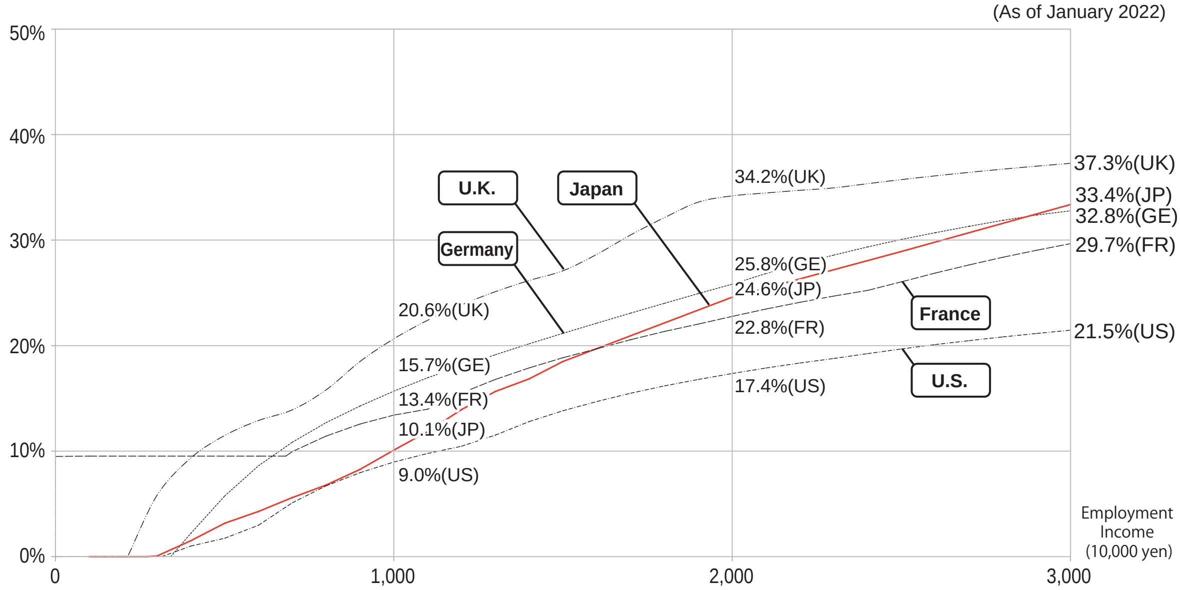
In the past, the highest income tax rate was 70% (for taxable income exceeding 80 million yen) , but the rate has been lowered to reduce tax burdens on wage earners. For income from 2015, a new tax rate of 45% was created for taxable income exceeding 40 million yen to **revive income redistribution function of the tax system**.

Changes in individual income tax rates (Image)



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

(As of January 2022)



(Note 1) For comparison, the model case is calculated as having 16-year old and 19-year old children in school.

(Note 2) The figures in the table are the effective tax rates in case employment income is 10 million yen, 20 million yen and 30 million yen in each country. The fractions are rounded off.

(Note 3) Income Tax, Individual Resident Tax (income-based levy) and Special Reconstruction Income Tax are included for Japan. For the United States, Federal Income Tax and New York State Income Tax are included. Income tax may be levied by the local government (county, city, etc.), however this is not taken into account in this table. Income Tax and Solidarity Surcharge (0-5.5% of the income tax) are included for Germany. For France, Income Tax and Social Security-related Taxes (9.7%) are included.

(Remarks) When calculating the rate of burden in each country, only the generally applicable deductions and tax credits are taken into account, so the Earned Income Tax Credit of the US, Working Tax Credit (full benefit) of the UK and similar measures are not considered.
Japanese Currency Exchange Rate: 1 USD = 114 JPY, 1 GBP = 154 JPY, and 1 EUR = 130 JPY (base exchange rate and arbitrated exchange rate: applied in January 2022) .

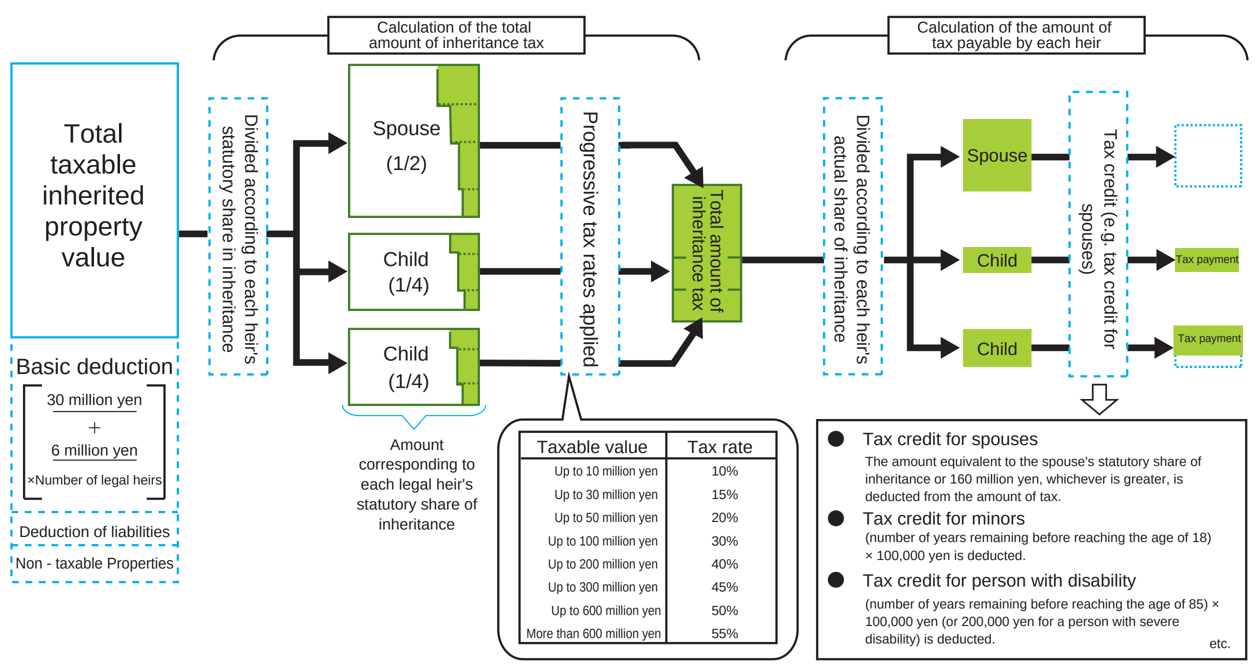
4. Learn about "Inheritance Tax" and "Gift Tax"

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.

Structure of Inheritance Tax



Taxable value	Tax rate
Up to 10 million yen	10%
Up to 30 million yen	15%
Up to 50 million yen	20%
Up to 100 million yen	30%
Up to 200 million yen	40%
Up to 300 million yen	45%
Up to 600 million yen	50%
More than 600 million yen	55%

- Tax credit for spouses
  The amount equivalent to the spouse's statutory share of inheritance or 160 million yen, whichever is greater, is deducted from the amount of tax.
- Tax credit for minors
  (number of years remaining before reaching the age of 18) × 100,000 yen is deducted.
- Tax credit for person with disability
  (number of years remaining before reaching the age of 85) × 100,000 yen (or 200,000 yen for a person with severe disability) is deducted.

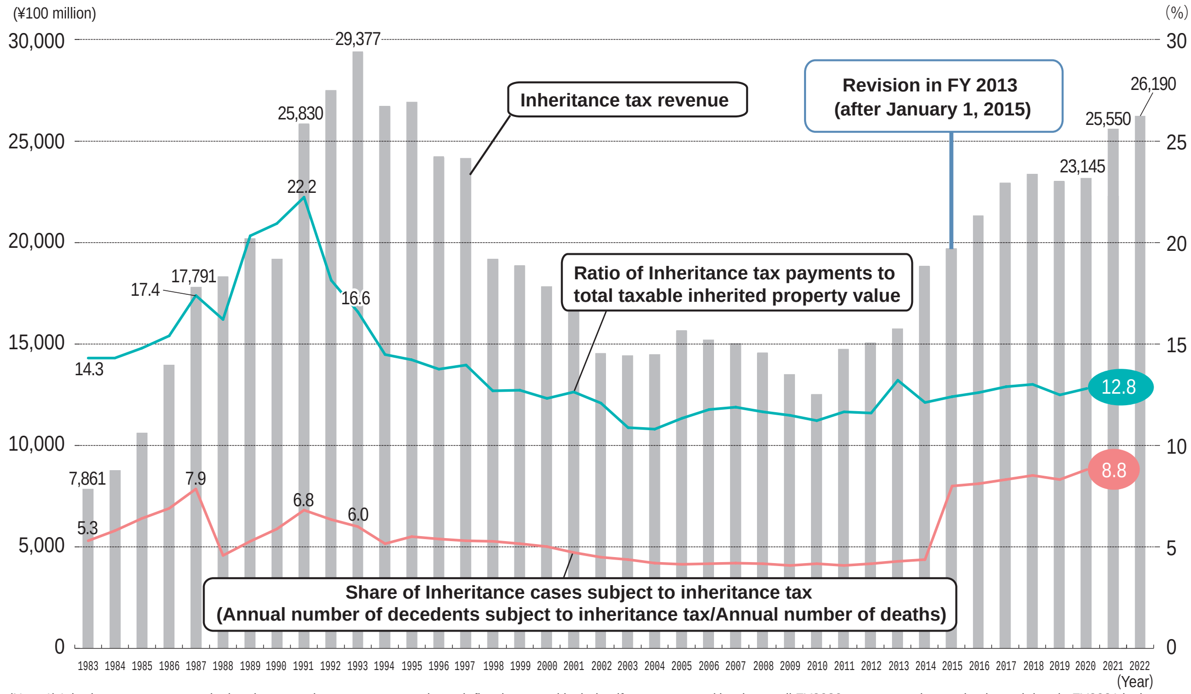
etc.

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.

Recent Changes in Inheritance Tax Rates and Basic Exemption

Chronology	Before the December 1988 reform	December 1988 reform (Implemented for inheritance from January 1, 1988)	FY1992 reform (Implemented for inheritance from January 1, 1992)	FY1994 reform (Implemented for inheritance from January 1, 1994)	FY 2003 (Implemented for inheritance from January 1, 2003)	FY2013 reform (current) (Implemented for inheritance from January 1, 2015)
Tax rate structure	Above ¥500 million (Highest tax rate: 75%) 14 brackets	Above ¥500 million (Highest tax rate: 70%) 13 brackets	Above ¥1 billion (Highest tax rate: 70%) 13 brackets	Above ¥2 billion (Highest tax rate: 70%) 9 brackets	Above ¥300 million (Highest tax rate: 50%) 6 brackets	Above ¥600 million (Highest tax rate: 55%) 8 brackets
Basic exemption	¥20 million + ¥4 million × Number of statutory heirs	¥40 million + ¥8 million × Number of statutory heirs	¥48 million + ¥9.5 million × Number of statutory heirs	¥50 million + ¥10 million × Number of statutory heirs	Same as on the left	¥30 million + ¥6 million × Number of statutory heirs
Posted land price index	1983: 100 →	1987: 157.1 →	1991: 336.8 →	1993: 244.1 →	2002: 80.7 →	2013: 69.6

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



(Note 1) Inheritance tax revenues in the above graph are tax revenues in each fiscal year and include gift tax revenues (the data until FY2020 are on a settlement basis, and data in FY2021 is the amount of revised budget, and the data of FY 2022 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 the inheritance tax.

1. Calendar Year Tax Case

Annual Gift Receipt Value

Taxable Property Value

Basic Exemption (¥1.1 million)

Non-taxable Properties (※)

※ Properties gifted among support obligors to cover the cost of living or education, etc

Progressive Tax Rates

Gift Tax Amount

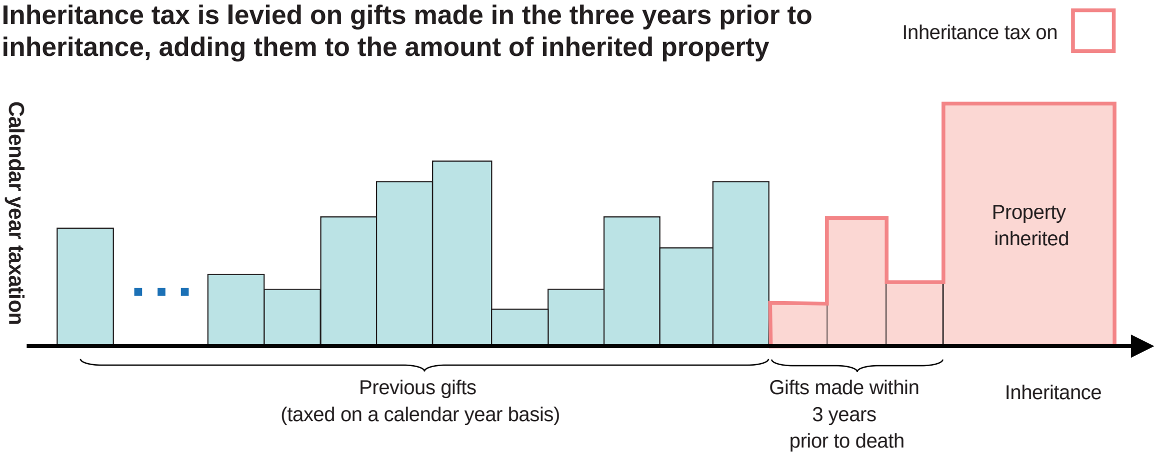
Tax Rate	Taxable Property Value (Taxable Price After Basic Exemption)	
	Lineal Descendant	Ordinary Gift Receiver
10%	Up to ¥2 million	Up to ¥2 million
15%	Up to ¥4 million	Up to ¥3 million
20%	Up to ¥6 million	Up to ¥4 million
30%	Up to ¥10 million	Up to ¥6 million
40%	Up to ¥15 million	Up to ¥10 million
45%	Up to ¥30 million	Up to ¥15 million
50%	Up to ¥45 million	Up to ¥30 million
55%	Above ¥45 million	Above ¥30 million

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**.

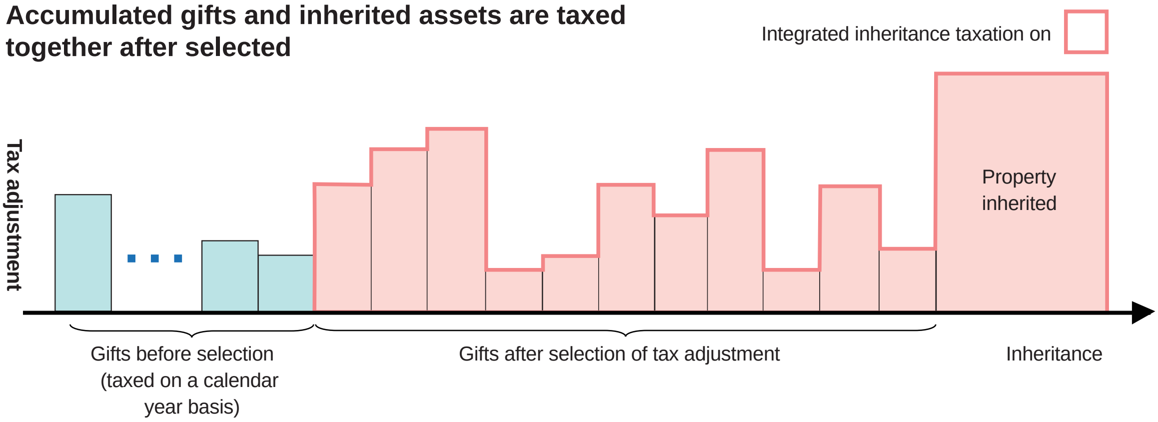
In order to allow elderly people to transfer their properties to their children and grandchildren, the government has introduced **an inheritance tax adjustment system** under which gift receivers will pay a uniform 20% tax on gifts and make adjustments upon their late calculation of inheritance tax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

2. Image of Calendar Year Taxation and Inheritance Tax Adjustment

Inheritance tax is levied on gifts made in the three 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 (Statutory heirs are the gift giver's spouse and two children for inheritance after January 1, 2015)	[Reference] Calendar YearTax Case
Upon Gifting	① Gifted property amounts will be accumulated until an inheritance from gift givers ② Nontaxable ceiling at 25 million yen after accumulation ③ A uniform 20% tax on total property value excluding the nontaxable ceiling amount	Gift Amount ¥30 million Nontaxable Ceiling ¥25 million Tax Rate 20% Tax Amount to be Paid ¥1 million	Tax Amount to be Paid ¥10.36 million
Upon Inheritance	The gifted property value (value upon gifting) is added to the inherited property value to adjust the inheritance tax.	Gift Amount ¥30 million Inheritance Amount ¥15 million ¥45 million < Basic Exemption: ¥48 million ・ Free from tax ・ Tax payments upon gifting worth 1 million are refunded	Free from tax
		Total Tax to be Paid ¥0	¥10.36 million

5. Learn about "Consumption Tax"

1 Consumption Tax

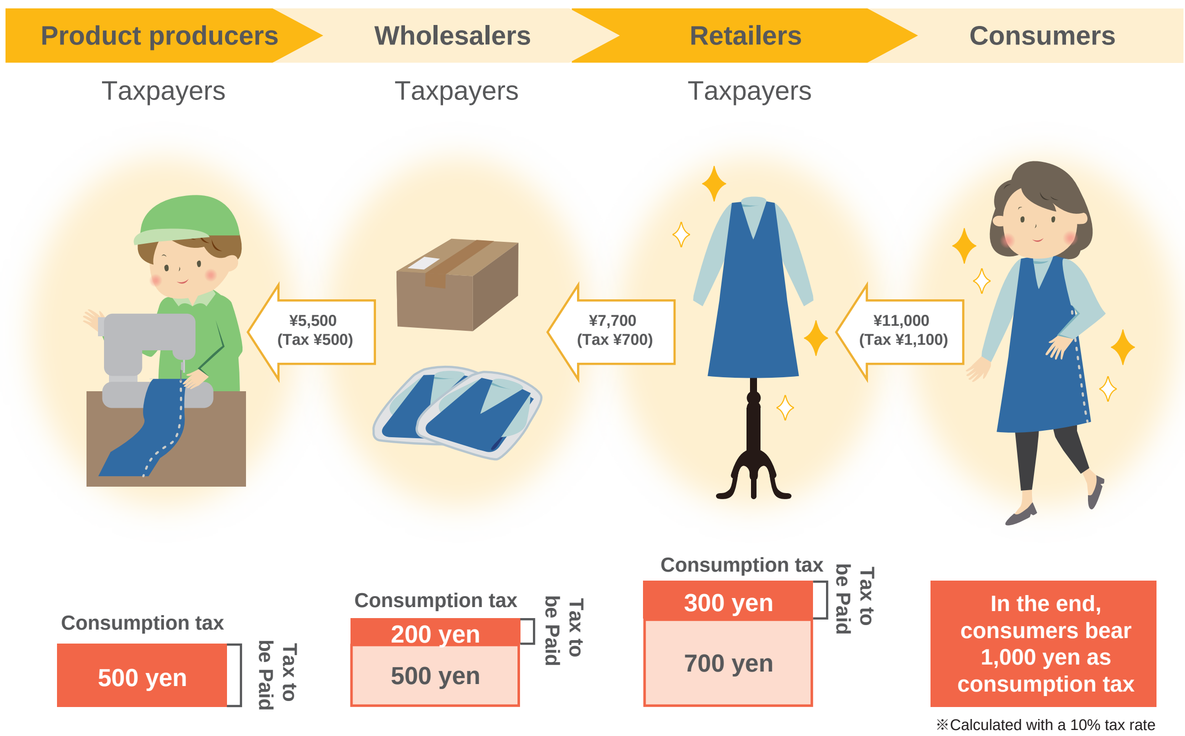
Consumption tax is levied broadly and fairly on consumption in general. In principle, sales and provision of goods and services in Japan are subject to consumption tax, and it is imposed on sales of business entities as taxable person. To avoid tax accumulation, business entities may deduct input tax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

Structure of Consumption Tax

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



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 progresses rapidly, which makes the cost of social security increase continuously. Most of the expenses currently depends on the debts, which means the burden is deferred to future generations such as our children and grandchildren.

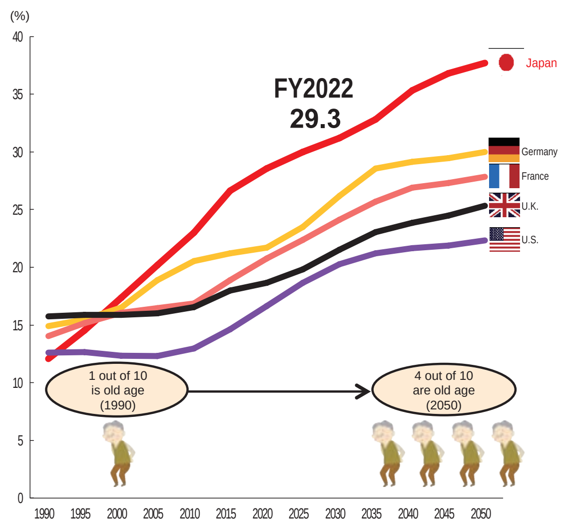
In order to make the current social security system sustainable to the next generation's era by sharing the burden of social security by all generation, it is indispensable to **secure stable financial sources**.

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.

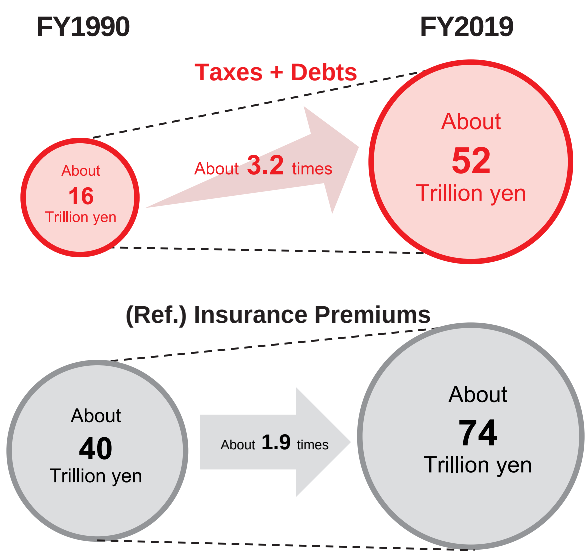
Share of Old Age in Japan

(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 2019" by National Institute of Population and Social Security Research

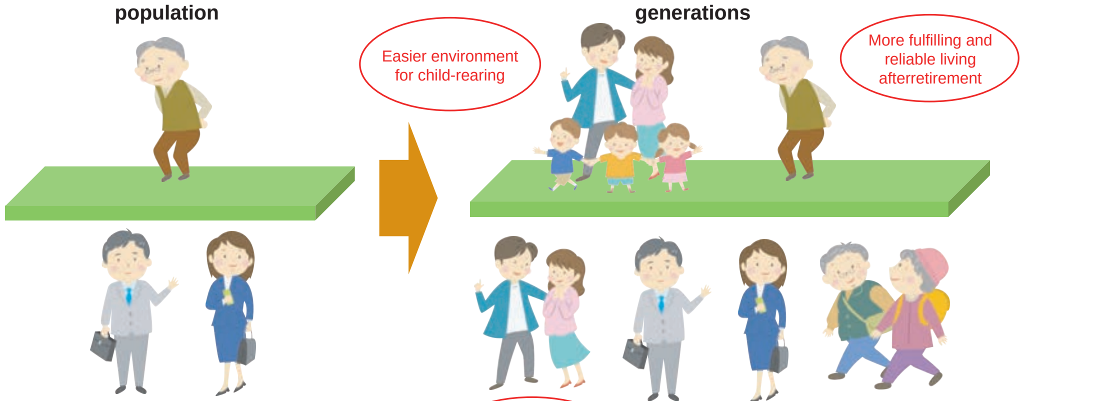
Convert to the Social Security System for All Generations

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



Expanding support

- Measures to cope with decreasing birthrate
- Creating a safe and comfortable work environment for women and the elderly

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

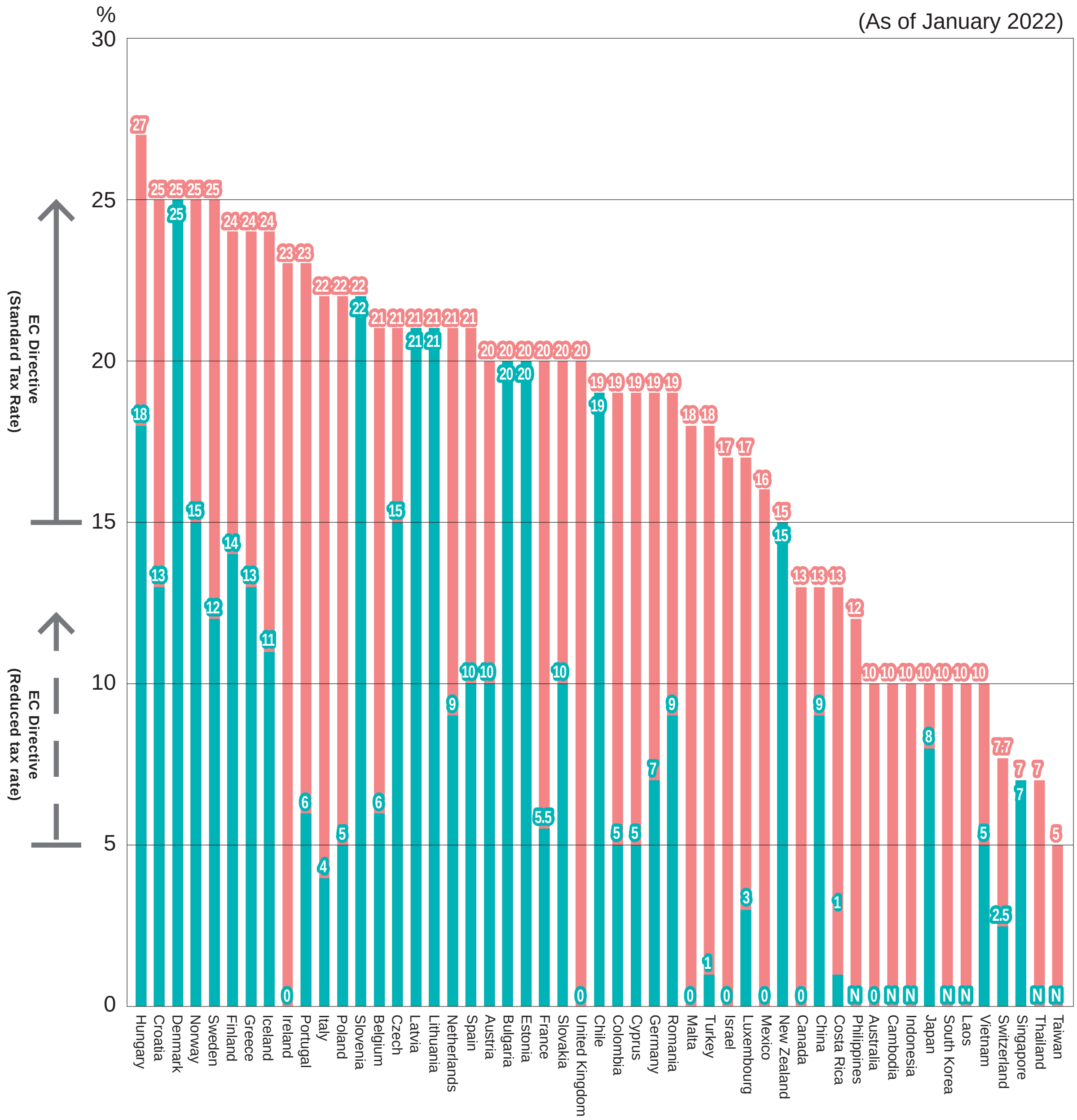
Free higher education

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

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



(Note 1) The above graph shows the principle rate, where only taxes for typical items are listed. It should be noted that the tax rates may vary depending on the item. In some cases, tax rates are reduced temporarily, or more items are subject to reduced tax as a measure against the COVID-19 pandemic.

(Note 2) The shades in blue are the effective tax rates 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 certain kind of food may be handled differently from above.

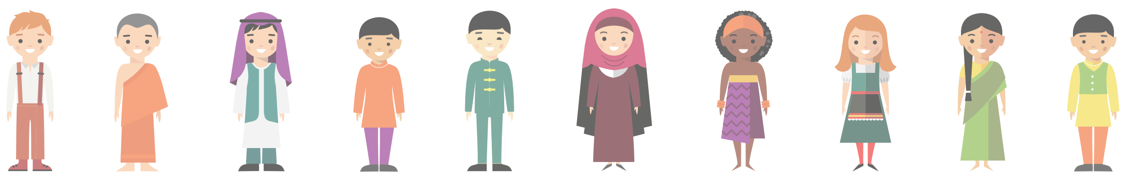
(Note 3) Figures as of January 2021 for Belgium, Croatia, Cyprus, Greece, Italy, Romania, and Slovenia.

(Note 4) As for Canada, there are three types of taxation systems: 1) Provinces with only federal GST/HST; 2) Provinces with a provincial value-added tax in addition to the GST/HST; and 3) Provinces with a federal-provincial value-added tax. The table shows the tax rate of the Ontario, categorized as 3) (13% federal-provincial value added tax, including 8% provincial tax).

(Note 5) In Poland, the main tax rates are 22%, 7%, and 5%, but there is a provision to change the tax rate depending on the fiscal situation. Currently, 23%, 8%, and 5% are applied as special exceptions.

(Note 6) In the U.S., there is no federal value-added tax. Instead, sales tax (local tax) is imposed by states, countries or cities (e.g. 8.875% as total of New York State and New York City).

(Source) OECD Statistics, websites of the European Commission and each country, and IBFD.



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.

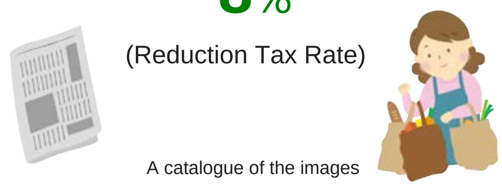
The benefit of the scheme is to lessen the burden on household budget through applying the reduced tax rate on the goods consumed by almost all the consumers on daily basis, such as food and beverages.

10%

(Standard Tax Rate)

8%

(Reduction Tax Rate)

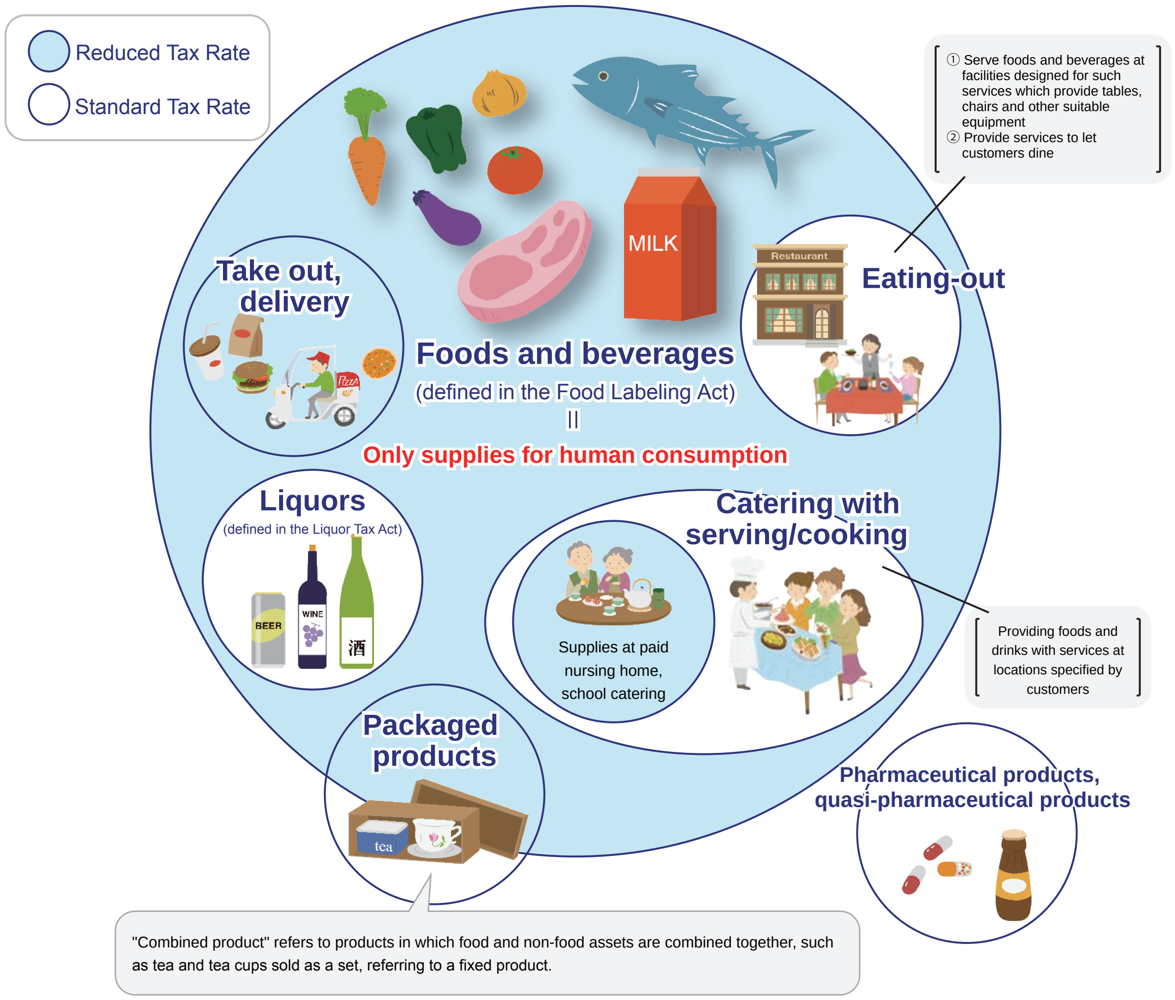


A catalogue of the images

〇Foods and drinks (excluding liquors and eating-out services) (※)

〇News (regular purchase contract concluded twice a week)

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



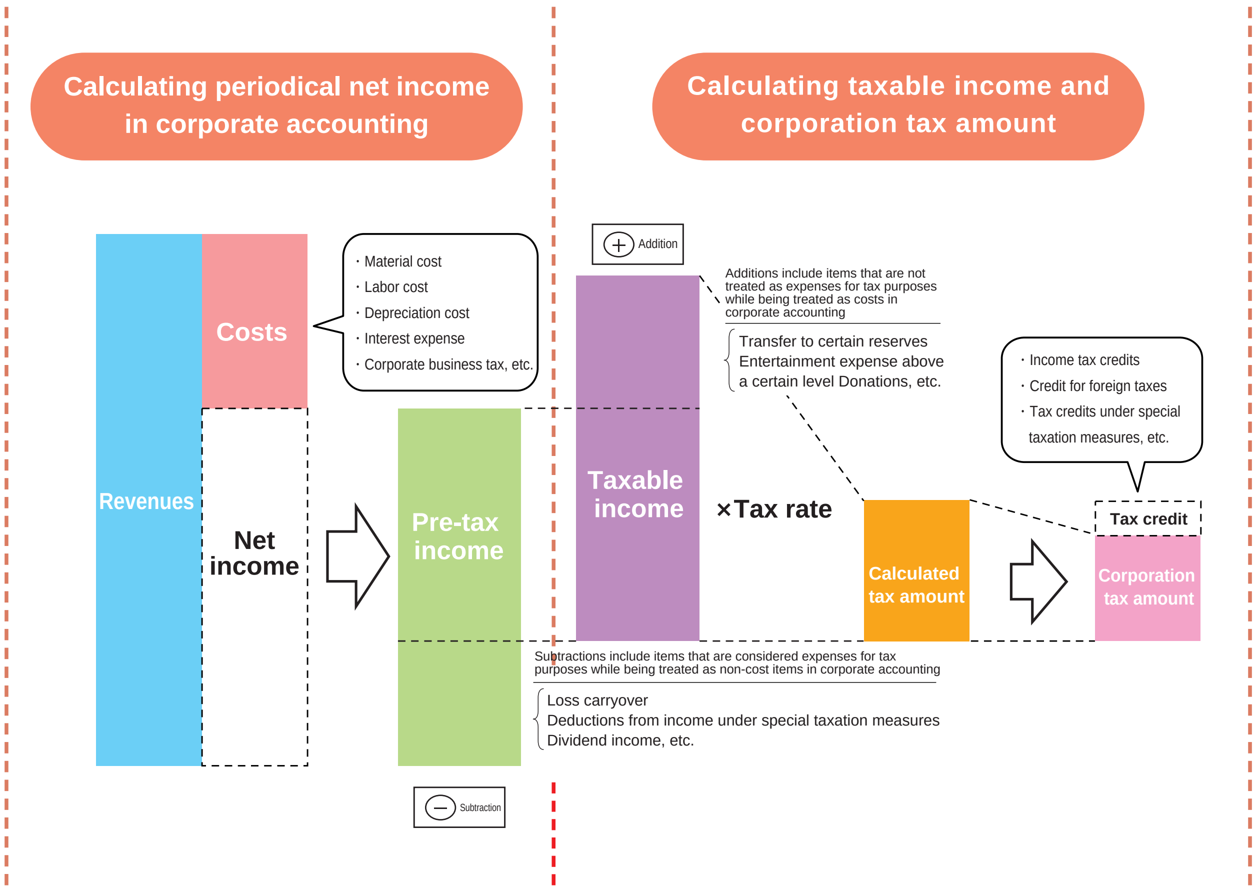
1 2 3 4 5 6 7

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**.



2 Growth-oriented Corporation Tax Reform

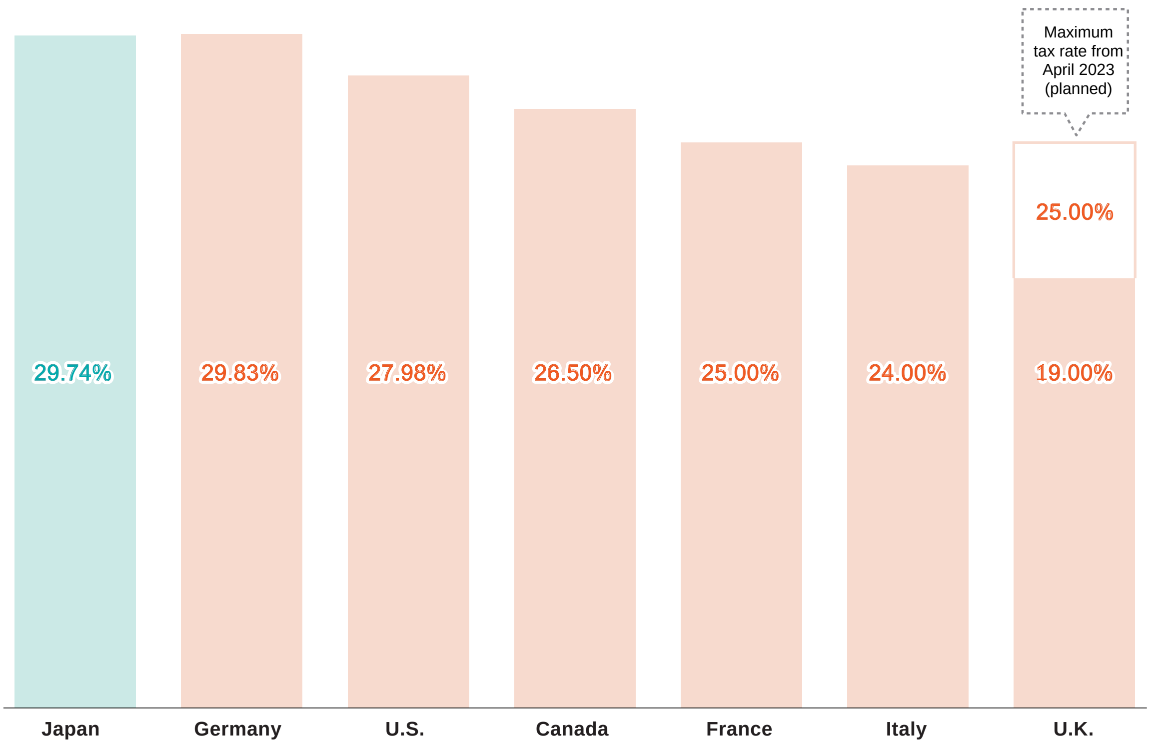
The corporation tax reform was carried out based on the idea of **"expanding the tax base (range of subject of taxation) while reducing the tax rate"**. By reforming the structure so the burdens of corporation tax are shared more broadly and reducing the tax burdens on companies, etc. that have earning power, the reform aims to encourage companies to invest more proactively in the **enhancement of their profit-earning** capacity and the shift to the business structure that allows continuous and proactive wage hikes.

The growth-oriented corporation tax reform started in FY2015 and in its second year FY2016 tax reform, the objective to achieve "**the percentage level of the statutory tax rate to the twenties**※" was ensured.

※ 37.00% (before reform) → 32.11% (FY2015) → 29.97% (FY2016/2017) → 29.74% (FY2018 onwards)

International Comparison of Statutory Corporate Income Tax Rates

(As of January, 2022)



(Note) This table shows tax rates are those (combining national and local taxes) imposed on corporate income. Local tax rates represent the standard rate for Japan, the California State rate for the United States, the national average rate for Germany and the Ontario Provincial rate for Canada.
If a part of tax on corporate income is included in deductible expenses, rates after such adjustment are shown.
(Source) Relevant government documents

1 2 3 4 5 6 7

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.

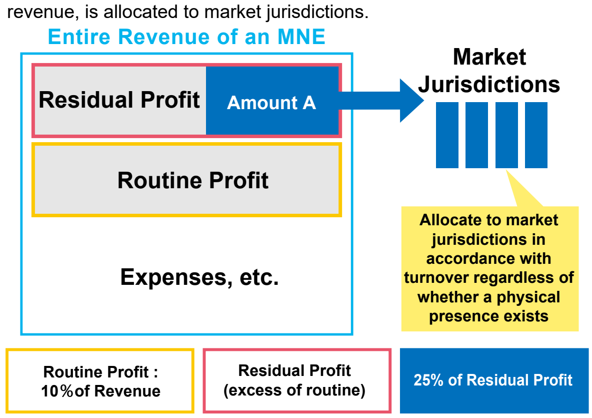
A recent major international effort is the **BEPS (Base Erosion and Profit Shifting)** Project. In order to achieve a level playing field, the Project aims to prevent multinational enterprises from engaging in BEPS. The OECD has been taking the lead of the Project collaborating with countries including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

Under the BEPS project, the two-pillar solution to address the tax challenges arising from the digitalization of economy was recently agreed internationally in October 2021. Going forward, the development and ratification of the Multilateral Convention as well as the amendment of domestic laws are needed to implement this agreement.

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

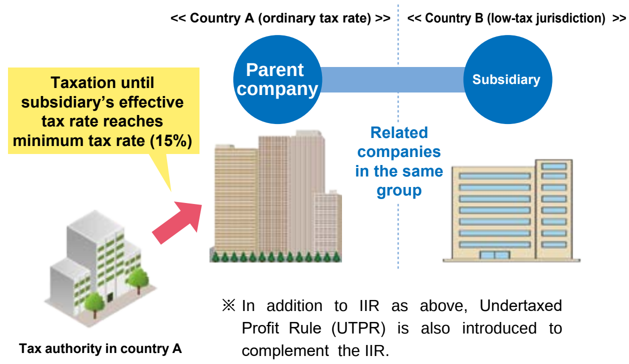
Pillar One：
Rules on Allocation of New Taxing Rights to Market Jurisdictions

In-scope companies are large and highly-profitable MNEs（Multinational enterprises）with global turnover above 20 billion euros 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

MNEs with total annual revenue of 750 million euros or more will be in scope (same as country-by-country reporting requirement). Income Inclusion Rule (IIR) :Impose “top-up” tax on a parent company in respect of a low-taxed subsidiary until its effective tax rate reaches a minimum tax rate (15%).



※ In addition to IIR as above, Undertaxed Profit Rule (UTPR) is also introduced to complement the IIR.

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

Japan holds 83 taxation treaties with 149 countries and regions as of June 1, 2022.

Japan's Tax Convention Network

《83 conventions, etc. applicable to 149 jurisdictions; as of June 1, 2022》

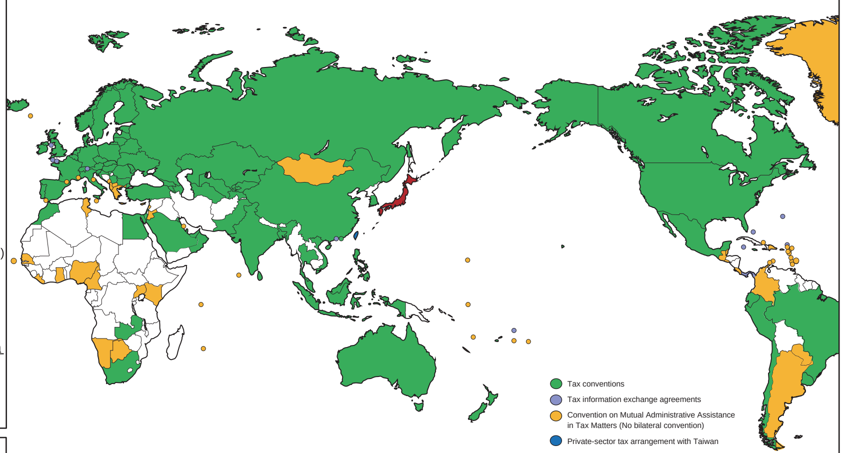
Russia and New Independent States (12)

Azerbaijan, Uzbekistan, Georgia, Belarus
Armenia, Kazakhstan, Tajikistan, Moldova
Ukraine, Kyrgyz, Turkmenistan, Russia

Europe (46)

Iceland, Norway
Ireland, Hungary
United Kingdom, Finland
Italy, France
Estonia, Bulgaria
Austria, Belgium
Netherlands, Portugal
Croatia, Poland
Switzerland, Latvia
Sweden, Lithuania
Spain, Luxemburg
Slovakia, Romania
Slovenia, Guernsey (※)
Serbia, Jersey (※)
Czech Republic, Isle of Man (※)
Denmark, Liechtenstein (※)
Germany

(No bilateral convention with Japan)
Albania, Gibraltar
Andorra, Faroe Islands
North Macedonia, Bosnia and Herzegovina
Cyprus, Malta
Greece, Monaco
Greenland, Montenegro
San Marino



America and the Caribbean (35)

United States
Uruguay
Ecuador
Canada
Jamaica
Chile
Brazil
Peru
Mexico
Cayman Islands (※)
British Virgin Islands (※)
Panama (※)
Bahamas (※)
Bermuda (※)

(No bilateral convention with Japan)
Argentina
Aruba
Angela
Antigua and Barbuda
El Salvador
Curacao
Guatemala
Grenada
CostaRica
Colombia
Saint Christopher and Nevis
Saint Vincent and the Grenadines
Sint Maarten
Saint Lucia
Turks and Caicos Islands
Dominican Republic
Dominica
Paraguay
Barbados
Belize
Montserrat

Africa (18)

Egypt, South Africa, Morocco
Zambia

(No bilateral convention with Japan)
Uganda, Senegal
Eswatini, Tunisia
Ghana, Nigeria
Cabo Verde, Namibia
Cameroon, Botswana
Kenya, Mauritius
Seychelles, Liberia

Middle East (10)

United Arab Emirates, Kuwait
Israel, Saudi Arabia
Oman, Turkey
Qatar

(No bilateral convention with Japan)
Bahrain, Lebanon
Jordan

Asia and Pacific (28)

India, Singapore, New Zealand, Philippines, Malaysia
Indonesia, Sri Lanka, Pakistan, Brunei, Samoa (※)
Australia, Thailand, Bangladesh, Vietnam, Macao (※)
Korea, China, Fiji, Hong Kong, Taiwan (Note 3)

(No bilateral convention with Japan)
Cook Islands, Niue, Vanuatu, Maldives
Nauru, New Caledonia, Marshall Islands, Mongolia

(Note 1) Since the Convention on utual Administrative Assitance in Tax Matthers is a multilateral convetnion, and the tax conventions with th former Soviet Union and with the former Czechoslovakia were succeeded by more than one jurisdiction, the numbres 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 evasionand avoidance); 70 conventions applicable to 78 jurisdictions.
- Tax information exchange agreement (a convention principaly for the exchange of information regarding tax matters); 11 conventions applicable to 11 jurisdictions (hese jurisdictions are marked with (※) above).
- Convention on Mutual Administrative Assistance in Tax Matters; Entered into force by 118 jurisdictions (not including Japan) (These jurisdictions are underlined above) and applicable to 136 jurisdictions due to the extension of the application of the Convention (Jurisdictions to which the Convention is extended are underlined above with dotted lines). 59 jurisdictions out of 136 do not have a bilateral convention with Japan.
- Private-sector tax arrangement with Taiwan; 1 convention applicable to1 jurisdiction

(Note 3) As for Taiwan, a framework equivalent to a tax treaty has been established as a whole through a private-sector tax arrangement between the Interchange Association (Japanese side) and the Association of East Asian Relations (Taiwanese side) and the laws and regulations to implement such arrangement in Japan. (Currently, these associations have been renamed as the Japan-Taiwan Exchange Association (Japanese side) and the Taiwan-Japan Relations Association (Taiwanese side).)

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

The Tax Commission compiled the mid-term report "The Desirable Tax System in the era of Reiwa* in Light of Structural Changes in the Economic System" in September 2019. It is important to continuously review the taxation system that will support society in the future, while taking the economic conditions into consideration.

Structural changes in the economic system

- Declining population, declining fertility and aging population
- Diversification of working styles and life courses
- Advancement of globalization
- Digitalization of economy
- Structural deterioration of public finance

This report may be viewed from the URL below or the QR code on the right.
https://www.cao.go.jp/zei-cho/shimon/1zen28kai1_2.pdf

Tax Policy Website

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

https://www.mof.go.jp/tax_policy/index.html

or Tax Policy [Search]

Tax Policy E-mail Magazine

The latest updates of Tax Policy will be delivered, please take this chance and register now. (Back issues are also available.)

https://www.mof.go.jp/tax_policy/publication/mail_magazine/index.htm

or Tax Policy E-mail Magazine [Search]

Introducing Pamphlets and Informational Videos on tax reform for FY2022

You can check out pamphlets, videos, and other materials to learn more about the tax reform for FY2022.

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

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 **or** Learning Session for Tax [Search]