

Japan: heavier tax on households and lower corporate tax

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New tax reform plan means heavier tax burdens on households, lower corporate taxes

The ruling Liberal Democratic Party (LDP) and its coalition partner New Komeito on Dec. 12 adopted a fiscal 2014 tax reform plan calling for lower taxes on foodstuffs and other daily necessities when the consumption tax is raised to 10 percent, though without setting a specific time frame.

The new tax reform plan features a set of measures to ease corporate tax burdens to promote Prime Minister Shinzo Abe's "Abenomics" economic expansion program, but is less considerate of individuals who would be most affected by consumption tax hikes from the current 5 percent to 8 percent in April next year, and to 10 percent tentatively scheduled for October 2015.

The ruling parties are not clear-cut about when lower taxes for daily necessities will be implemented for low-income households. The planned implementation will be conditional, depending on the government's efforts to secure revenue sources to make up for reductions in tax revenue, they say.

Takeshi Noda, chief of the LDP's tax panel and former Finance Ministry bureaucrat, said at a news conference that the ruling coalition has given consideration to companies to conduct research and development, make investments and raise wages for economic revitalization.

It is essential for Japan to improve corporate performance and jack up wages to sustain economic growth and put an end to years of deflation. The ruling bloc reasons that the government will promote corporate investment, job creation and wage hikes to expand personal consumption even after the sales tax is raised to 8 percent next spring.

According to the new tax reform plan, the government will end at the end of fiscal 2013 a special 10 percent reconstruction tax on top of corporate taxes, in effect since April 2012 to finance reconstruction of regions devastated by the Great East Japan Earthquake and tsunami, and subsequent Fukushima nuclear disaster.

The government will expand tax exemptions on part of entertainment expenses paid by small and mid-sized companies to large corporations from fiscal 2014. Restaurants and similar establishments will benefit from the measure because it has no cap on wining and dining.

On the other hand, the new tax reform plan lacks preferential taxes for individuals. The LDP and New Komeito were divided over lower levies on daily necessities before reaching an agreement on introducing the lower taxes when the consumption tax is raised to 10 percent. The LDP was against such lower taxes because of a drop in tax revenue and greater paperwork, while the New Komeito insisted on implementing special tax relief to coincide with the planned tax hike to 10 percent.

As for automobile-related tax measures, car acquisition taxes on regular and light vehicles will be reduced from 5 percent to 3 percent and from 3 percent to 2 percent in April next year, respectively, when the consumption tax is raised to 8 percent. The car acquisition taxes will be eliminated in October 2015 when the consumption tax is slated to jump to 10 percent.

Annual taxes on light vehicles, however, will rise to make up for a drop in tax revenue. The tax on new small vehicles to be purchased after April 2015 will post a 1.5-fold rise to 10,800 yen. There was stiff opposition to the planned tax hike within the LDP, saying the measure would deprive people in the countryside of transportation. But Fukushima Nukaga, chairman of the LDP's tax subcommittee, overrode the opposition, saying the government is dedicated to promoting light, small and midsize cars equally.

The new tax reform plan will review the employment income deduction system for salaried men and women. Those with an annual income of more than 12 million yen will face a higher tax from January 2016 and those with an annual income of over 10 million yen from January 2017. Such heavier taxes may depress consumption and slow down the economy.

The Finance Ministry projects that the new tax reform plan will result in a tax revenue loss of 700 billion yen at both local and national levels in fiscal 2014 and a loss of about 600 billion on a full year basis if all measures under the new tax plan take effect. The government will also anticipate a revenue loss of about 600 billion yen due to lower taxes on capital investment, about 90 billion yen due to car acquisition tax cuts of 1 to 2 percent, and about 65 billion yen because of tax exemptions on portions of entertainment expenses by big companies.

Mainichi Shimbun, December 13, 2013

<http://mainichi.jp/english/english/newsselect/news/20131213p2a00m0na009000c.html>

Social financial strains rising: BOJ

More people find daily living harder than a year ago due mainly to recent price rises, a Bank of Japan poll showed Wednesday.

The diffusion index on perceived living conditions came to minus 36.9 in the September survey, down 2.6 points from the previous survey in June and logging the first setback in three quarters. Among factors pressuring daily lives, price rises were cited by 47.5 percent of the respondents, up from 33.7 percent.

Also, 83.0 percent, up from 80.2 percent, expect prices to rise in the next 12 months, and 31.2 percent, down from 34.8 percent, worry about their employment conditions in a year's time.

Jiji Press, October 3, 2013

<http://www.japantimes.co.jp/news/2013/10/03/national/social-financial-strains-rising-boj/#.UINfyFNjbRY>

Abe announces Japan will raise sales tax in April as planned

TOKYO (Kyodo) — Prime Minister Shinzo Abe said Tuesday his government will raise Japan's sales tax rate in April to 8 percent from the current 5 percent as planned, ending nearly a year of public speculation over whether he will sanction a tax increase that some experts warn could undermine the country's nascent economic recovery.

Abe also unveiled a 6 trillion yen (\$61 billion) economic stimulus package amid fears the consumption tax hike, the first increase of the tax since April 1997, may dampen business and household spending, and derail his efforts to end nearly two decades of deflation in the world's third-biggest economy with his "Abenomics" policies.

As for raising the sales tax to 10 percent in October 2015, which is the second step of the two-stage tax hike under legislation passed last year, Abe said he will carefully study economic conditions before "deciding appropriately."

The prime minister also said the government will "seriously consider" lowering corporate tax rates to further assist companies and offset the possible negative impact on their appetite for fresh capital spending from the higher consumption tax.

Japan faces the challenge of dealing with deteriorating public finances. The sales tax increase is designed to help the government secure funds to cover the swelling welfare costs in the country due to its graying population.

Raising the tax is also considered necessary for the government to maintain international confidence in Japan, as it pledged to pursue certain fiscal rehabilitation goals at forums such as the summit of the Group of 20 major economies.

The hike of the politically sensitive tax will be the first since April 1997, when the rate was increased to 5 percent from 3 percent, the level at which the tax was introduced in April 1989.

Following the introduction and the first raising of the tax, the governing Liberal Democratic Party suffered defeats in parliamentary elections in 1989 and 1998.

The legislation for the latest hike is based on an agreement reached last year among three parties — the then ruling Democratic Party of Japan, the LDP as the main opposition and its partner the New Komeito party.

Kyodo News, October 1, 2013

<http://mainichi.jp/english/english/newsselect/news/20131001p2g00m0fp084000c.html>
