

## Japan Consumption Tax Hike การปรับขึ้นภาษีอุปโภคบริโภคของประเทศญี่ปุ่น

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### Abstract

Japan faces a hard path in restoring its fiscal health. In 1990 to 2010, Japan's gross public debt has raise from 292 trillion yens to 936 trillion yens, to well over 223% of GDP. While social security spending has grown expeditiously as a result of weak economic growth and population aging has been related with a drop in tax revenue. With limited area to lessen non-social security and aging society expenditure, new revenue measures must play a role to bring down Japan's high public debt levels. In 2019 Japan government maintaining to raise consumption tax from 8% to 10% for the first time in five years bringing the long-delayed policy into effect despite concerns it may knock the economy. While Japan's economy has continued to recover moderately as a trend despite a decline in demand following the consumption tax hike, the virtuous cycle among production, income and spending has been continuing. This paper studies the evolution of Japan's tax from past decade, weak economic growth, public debt and tax base and cites the reasons for the increased tax rates in the country.

**Keywords:** consumption tax hike; tax system; tax rate; aging society

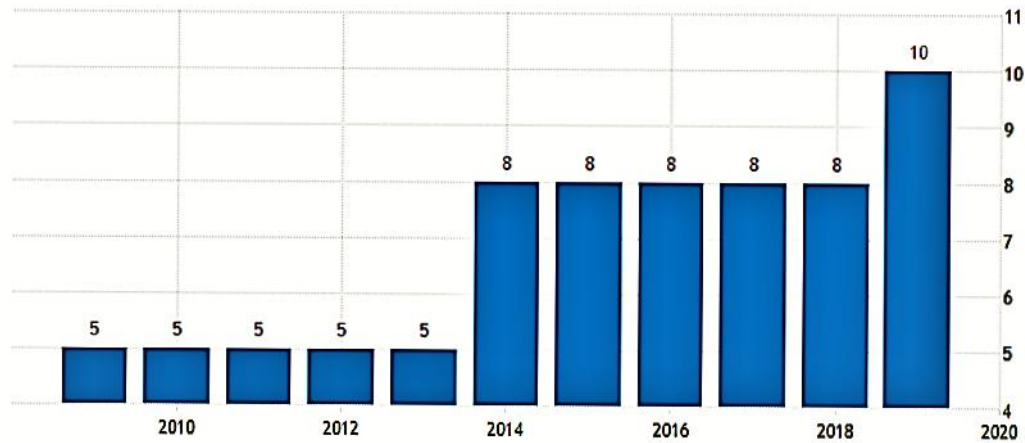
### Introduction

The challenge of world population aging has been driven into clearer issue by the financial crisis in 2008. Especially enlarging national debt has drawn government awareness to conflicting priorities such as the need to sustain public spending on pensions, sustain health in long term care and aging society expenditure. Many of countries are reconsidering their pension and health care provisions. Japan population aged above 65 has increased 8.2% from 1965 to 1995 this circumstance causing serious problem in Japan society. Japan government is struggling to cover ballooning social security costs stemming from the

country's aging population and falling birthrate. Japan has experienced domestic tax consumption contributing to radical economic changes. They raised 5% to 8% in 2014 the long-delayed policy responsible for making changes in economic developments influences the tax increase. According to the article by Tateno, Tsunashima, and Akiyama (2019), the declined economic status in the country triggered the legislators to increase the consumption rate from 8% previously to 10% in 2019. The new rates are intended to apply to goods and services, despite that the country had accepted various categories of goods and services from tax implications. Considerably, the increase in consumption tax rate increased the sales tax, making the country the third-largest country with increased economic spending domestically and internationally (Cashin & Unayama, 2016). The introduction of new tax measures by the government includes the purchase of electronics and rebates of purchases. The government plans to spend extra revenue on funding social programs such as pre-school education and settling debts affecting the country. These plans aim to influence the living standards of people and to improve economic development and growth. Factors such as economic forecast and uncertainty in the global economy contributed to the tax increase (Cashin & Unayama, 2016). Thus, improving trading activities would increase the roles of Japan in meeting the demand of the global market. As a result, the country can effectively compete with other economically heavyweight countries such as China and the United States of America.

### **Japan History of Consumption Tax Law**

The introduction of VAT in Japan can be traced to early 1989 when the country faced a severe decline in revenue, which resulted from a bursting state of economic development affecting respective roles in participating in international trade activities (Arbatli et al. 2017). During the period, tax changes and VAT measures attracted support from Japanese business communities' analysts, bureaucrats, and economists. However, it received opposition from the general public fueled by privacy concerns, increased political scandals, and wastage of resources through undefined expenditure measures (Hasegawa & Kiyota, 2017).



**Figure 1:** Japan Sale Tax Rate - Consumption

**Source:** Trading Economics, 2019

As a result, the process claimed several political careers, including the implication of the prime minister of the country (Hattori & Yetman, 2017). Even though the introduction of the challenge of new VAT tax measures contributed to the success of Japan and its economic developments, to date, changes in tax measures account for over 20% of revenue generated in Japan with reduced economic distortions. From Figure 1 Japan sales tax rate is a tax charged to consumers based on the purchase price of certain products and services which raised to 10% on October first from 8%, Japan average sales tax rate is 6.43% from 2016 until 2019.

**Table 1:** Timeline

Years	Activities
April,1989	Prime Minister Noboru Takeshita's government introduces a 3% consumption tax.
April 1997	Prime Minister Ryutaro Hashimoto's government put up the tax rate to 5%.
June 2012	Liberal Democratic Party and New Komeito party agree to put up the tax in stages to 10% and apply reforms to cut welfare costs.
April 2014	Prime Minister Shinzo Abe raises the rate to 8%.

**Table 1:** Timeline (continued)

Years	Activities
October 2015	Prime Minister Abe delays additional hike to 10% plans to April 2017 to safeguard economic growth.
June 2016	Prime Minister Abe says tax hike plans will again be postponed to October 2019
October 2018	Abe orders his government to compile measures to mitigate the potential negative impact on the economy from the planned tax hike.
October, 2019	Government raises the tax rate to 10%.

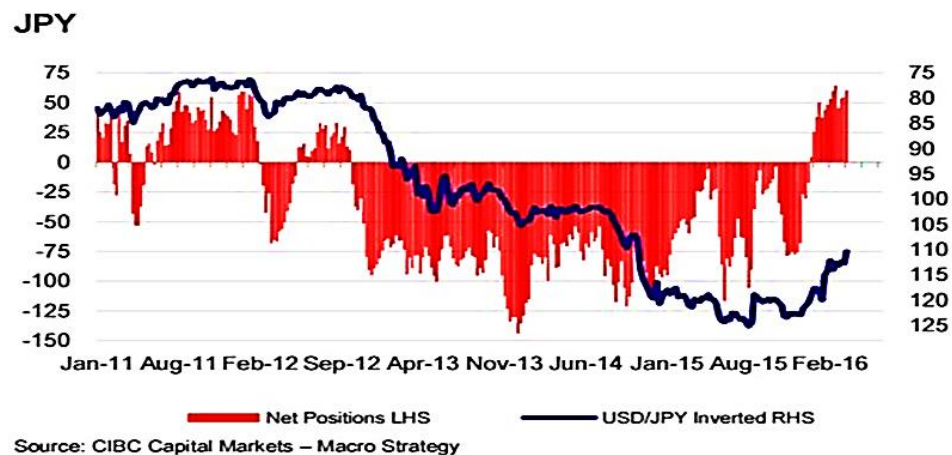
**Source:** kyodonews, 2019

In comparison to the similarities of Japan in 1989 and the current state, it provides strategies viable to support the economic development of the United States of America. The US policymakers planned to roll out similar tax implications and regime (Kang et al. 2011). These are influenced by the federal consumption rate, which replaced several indirect and excise taxes applied in Japan on the same year Prime Minister Noboru Takeshita's government introduces a 3 percent consumption tax. The success of tax changes was influenced by the government resisting to implement preferential zero percent rates on some identified goods and services, including food and healthcare (Hasegawa & Kiyota, 2017). Approaches and strategies of tax measures aimed at reducing economic complexity experienced in ensuring the success of economic development and growth (Lubik & Rhodes, 2019). Furthermore, the introduction of multiple tax rates facilitates increased tax avoidance by taxpayers presenting taxable goods as non-taxable goods. The ultimate purpose of improving tax measures is to contribute to economic developments positively.

### **Weak Economic Growth**

The struggle affecting the country, including deflation, contributes to the weak state of Japan economic. These trends have been experienced in the country since the bubble economy peaked in early 1989 (Kitao, 2018). Thus, the government, under the prime minister, launched a serious effort to provide a solution to the deflationary state of the economy (Adachi et al. 2017). The government focused on attaining sustainable

economic development for an effective recovery process influenced by the rational monitoring process of economists. Some of the factors that promote weak economic growth include the right value-added tax (VAT) rate, wage growth, and value of Japanese currency.



**Figure 2:** Net position in dollar-yen against movements in the exchange rate.

**Source:** CIBC Capital Market – Macro Strategy, 2018

From figure 2 show maps net positioning in the US dollar-Japanese yen against movements in the exchange rate the value of the Japanese Yen has experienced a drastic decline from 2012 to 2016 compared to the US dollar, with approximately 30% (Adachi, 2018). This trend resulted in many implications on overall corporate profits generated by the country and several business activities. Thus, it failed to make Japanese products more attractive in the international market (Adachi, 2018). As a result, the weakening of Japanese Yen affected the competitive state of the country, leading to the introduction of massive competition among Korea, Taiwan, and China. The presentable nature of products from respective countries compelled these changes. Increasing of the value-added tax rate in 2014 from 5% to 8% further weakened economic development and growth in Japan, and attributes to struggles experienced by consumers in making spending decisions leading to declining economic development and growth (Hansen & İmrohoroğlu, 2016). The revenue generated from the increased rate of VAT was used by the government to finance and make payments to huge debts affecting the country (Uemura et al. 2016). Thus, constant increase and hiking of VAT have contributed to the weak economic state in Japan affecting levels of economic growth and respective development levels required.

To some extent, wage growth and standards in Japan has affected the rate of economic growth and development. Reduced wages among workers in different industries have influenced negative spending behaviors with higher corporate profits (Cashin & Unayama, 2016). In the recent past, the pressure is mounted on industrial firms increasing wages for workers (Adachi et al. 2017). The ultimate purpose is to influence the spending rate among consumers and influence investment rates. The outcomes of changes are to facilitate economic development and positive economic changes.

### Japan Public Debt and Tax Base

The economic activities and development of Japan depend on sovereign debt to finance operations of the government and general economic developments. The desire is to facilitate economic moderation and growth process as required by fiscal policies. However, the accumulation of much debt has resulted in severe negative issues to economic development (Hasegawa & Kiyota, 2017). Debt-to-GDP ratios have affected levels of investment in the country, leading to declined economic developments. As a result, the Japanese blame the debts for poor economic performance and respective industrial growth (Hansen & Imrohoroğlu, 2016). These are facilitated by poor economic planning and leniency of agencies to provide direction to the government on rational approaches to borrow. Thus, it has drastically affected economic growth and development of policies ineffective to attract investment activities in the country. Changes are indicated by declined projected growth over the years to meet desired goals and objectives.

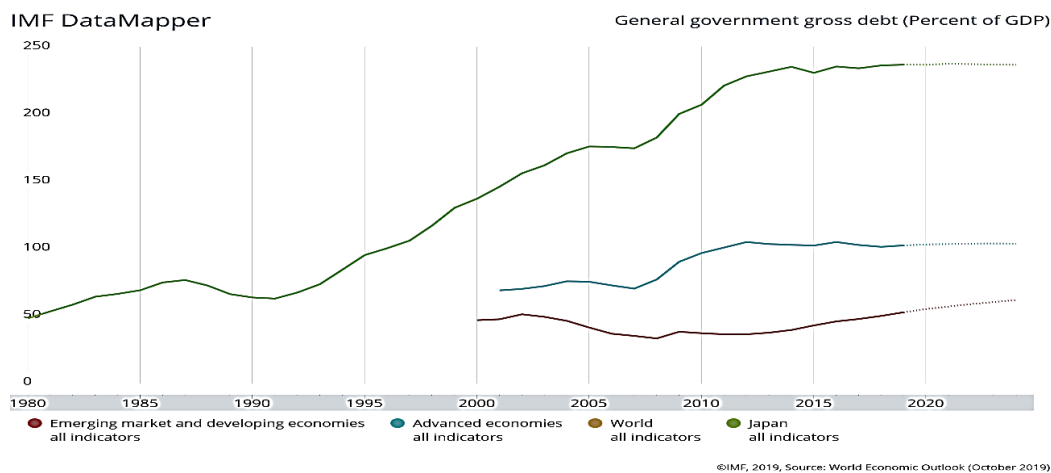


Figure 3: Expanding public debt of Japan

Source: IMF, 2019

From figure 3 the general government gross debt is exceeding 200 percent of GDP. This level of gross debt is the highest since the end of World War II. In order to finance international debt obligations, the country has embarked on systems to finance debts and to meet financial goals. The development of the tax base for generating corporate revenue essential to financial-economic developments influences these systems (González & Hosoda, 2016). According to tax laws, the country subjects all corporate entities income tax deduction calculated by reasonable adjustments to economic state. The aim and approaches of the tax base are to enhance mechanisms of generating revenue to finance outstanding debts (Eccleston, 2007). Tax rate applicable to fiscal years start from April 1, 2018 to September 30, 2019. Therefore, regular tax rates in Japan tend to vary between the rate of 0.3% and 1.4%, depending on the taxable income of payers. However, local corporate rates are considered to be 414.2% imposed on taxable income, which is determined by regular rates (Kang et al. 2011). Conventional processes are provided by Japan authority to influence active tax collection to determine levels generated.

### Tax principle in Japan

The basic principle of taxes in Japan is to guide and assist the government on mechanisms and approaches to achieving equitable tax regimes. The country's authority uses different approaches to increase overall revenue generated from taxes. The ultimate purpose of developing the rationale of the tax principle in facilitating the provision of essential public service and creating a favorable economic environment (González & Hosoda, 2016)

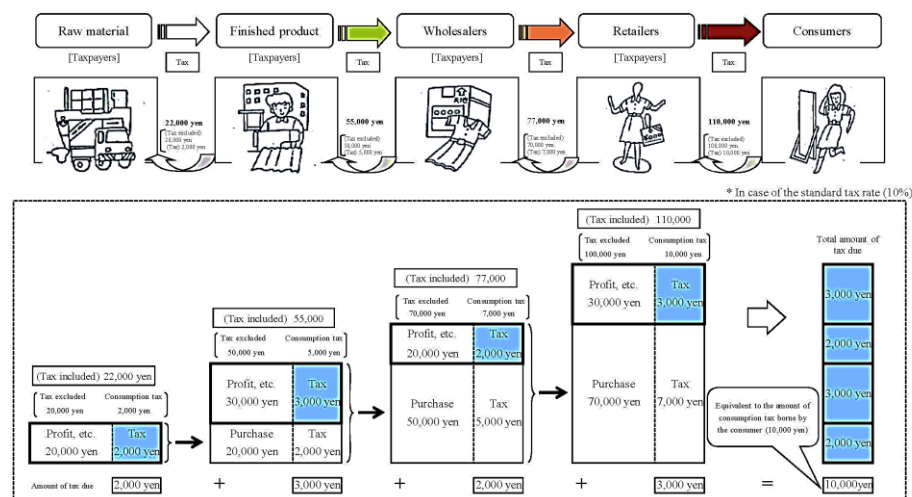


Figure 4: Structure of Multi-stage Taxation of Consumption Tax

Source: Ministry of Finance, Japan 2019

Consumption tax is imposed with a focus on goods and services consumption. Thus, possible tax measures in Japan are determined and influenced by a possible section of the population and economic sectors with the desire to minimize the individual tax burden. To success in tax revenue collection, laws are appropriately coordinated to create a high level of neutrality and maintaining the roles and objectives of governance (Uemura et al. 2016). As a result, convenient tax collection is enforced in compliance with the tax laws of Japan to achieve the intended financial status (Arbatli et al. 2017). Favorable economic conditions for making investments facilitate the success of tax collection and revenue. Revenue generated by the country is used to influence economic activities and operations essential to ensure the development of the country. Thus, the government is considering strategies to improve levels of investment in and funding social programs to improve the living standards of people (Ogura, 2017). The approach to rational economic interaction and influencing the standards of citizens is through product cost determination. Other benefits linked to tax expenditure include establishing industries and infrastructure maintenance to achieve a competitive global market (González & Hosoda, 2016). As a result, the provided economic circumstances and the influence of the government's decision-making role in determining the fiscal policies determine the rationale of the prevailing tax principles. The tax collection process and desire to exempt some goods from taxation is to encourage investment and development of industrial standards.

### **Calculation of Tax for Small Businesses in Japan**

Enterprise tax mechanisms are allocated and determined by the size of the company and the contribution it holds to economic development. Allocation to each prefecture is determined by various economic factors, which include the number of employees in the business and location of the company's office. Thus, the local corporate tax is multiplied by the income of the business tax (Eccleston, 2007). Other different factors are influenced to determine general methods of developing a tax bracket for small businesses (İmrohoroğlu et al. 2016). These businesses include a company that is receiving payment exceeding 100 million yen at the end of the financial period. The tax laws further advocates for the application of a profit-based system in determining the calculation of tax for small businesses (Cashin & Unayama, 2016). The variance of tax measure exercised in Japan is influenced by tax deductibility, which is essential in determining effective tax rates, which is less than the total regulatory rate of corporation tax, enterprise tax, and inhabitant's tax.



Table 2: Taxes Levied

Start date of a business year base period	Small and medium-sized enterprises			Enterprises other than small and medium-sized enterprises
	Taxable income Up to 4 million yen	Taxable income Over 4 million yen to 8 million yen	Taxable income Over 8 million yen	
April1,2016 to March 31,2017	21.42%	23.20%	33.80%	29.97%
April1,2017 to March31,2018	21.42%	23.20%	33.80%	29.97%
April1,2018 to March 31,2019	21.42%	23.20%	33.59%	29.97%
April1,2019 to September 30,2019	(Reference rate) 25.90%	(Reference rate) 27.58%	33.59%	29.74%

**Source:** Japan External Trade Organization, 2018.

From table 2 taxes levied in Japan on income lead by the activities of a company include corporate tax, national tax, corporate inhabitant tax, enterprise tax and special local corporate tax, the tax rates reference on assumption that the special measure of reduced tax rates for small and medium enterprise ends on March 31, 2019. Different factors influence the rates of calculating tax for businesses established and operating in Japan. The ultimate purpose is to attract and influence levels of foreign investment to achieve a global business hub. Thus, tax laws and regulations are desired to attract the attention of investors to consider stabling businesses in Japan. Most investors tend to make investment decisions depending on regulation and environment for conducting business (Hansen & Imrohoroğlu, 2016). Removing and eradicating business barriers contribute to increased levels of investment, leading to the rational economic development of the country. In the other case, some of the tax laws are determined and influenced by market policies and structures of economic development. These regulatory policies and restrictions are essential in enhancing and encouraging market activities for economic growth.

The regulations of Japan authority are clear and compelling to ensure that the residents and non-residents fill stable tax returns on an individual basis. The regulations

of the country do not provide a platform for filing a joint tax return as it is contrary to provide legislation. The tax collection factors are determined by the tax calendar year for the resident to file federal tax returns (Arbatli et al. 2017). A different basis is provided to provide the principle of filing government returns. Employment incomes which are usually paid by local employer not exceeding JPY 20 million make an end-year adjustment. The income of employment less than JPY 200,000 is not required to make individual tax returns.

The residential status of a taxpayer determines the payment and the rates of computing taxable income and tax liabilities. Therefore, a non-resident taxpayer is entitled to make tax compensation based on terms of income employment, which is subjected to a rate of 20.42% on a flat rate basis (Adachi, 2018). National incomes are influenced by gross compensation with no deductions. The approaches are to ensure equitable distribution of tax burden.

### **Current Status and Future Trends in Japan**

In October 2019 Japan has increased its consumption tax for the first time in five years bringing the long- delayed policy into effect the current state of economic development, experiencing rapid growth estimated to be over 20% compared to the previous financial year and attributes to the improved rate of productivity bridging gaps among industries and firms (Eccleston, 2007). As a result, the government has experienced rational economic changes contributed by investment levels and standards. Moreover, the market is experiencing competition, enhancing the provision of goods and services to consumers (Adachi et al. 2017). These are influenced by reduced business barriers and integration of required market forces to improve market development and corresponding changes required.

There are different mechanisms and action plans by the government to influence future market changes and production rates in the organization. Some of the measures to encourage investment include the provision of government subsidies and incentives (Adachi, 2018). The essence of the market approach is to encourage foreign investment with a particular increase in revenues generated by the government. As a result of the favorable business environment, the structures of markets are experiencing dynamic growth. These have increased overall tax collected to enhance economic development and improving social wellbeing. Increased and improved the efficiency of provided tax

systems have increased corporate tax collected by the government to finance operation and debts.

### Suggestion and Conclusion

There has been increasing discussion recently about tax reform in Japan aging society, the falling birthrate and aging population. The tax hike can solve the large deadweight loss that would occur under the current tax system as Japan ageing society. This can raise awareness to Thailand which will become a full-fledged aging society in 2021. There are different impacts on Japan tax increase as it is contributing to creating market security and the respective development and growth of the economy. The government approach and strategy are essential in ensuring the domestic growth of industries to generate required functional revenue. The trend reduces the rate of external borrowing as currently experienced in the country. Ultimately, it is projected to influence the double growth of the current economic index to achieve reasonable goals and objectives. As a result, more investors will be attracted to make investments and conduct business in the country. Privileges paid by investors will facilitate the functions of the government to improve the economic status and livelihood of residents. Respective change of tax mechanisms and basis has contributed to increased levels of consumption compared to previous financial periods. The latest tax measures have been developed to benefit the general public, including facilitating social programs such as pre-school education and health standard of the country.

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