

Voluntary Report – Voluntary - Public Distribution

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Report Name: Japanese Consumption Tax Increased to 10 Percent

Country: Japan

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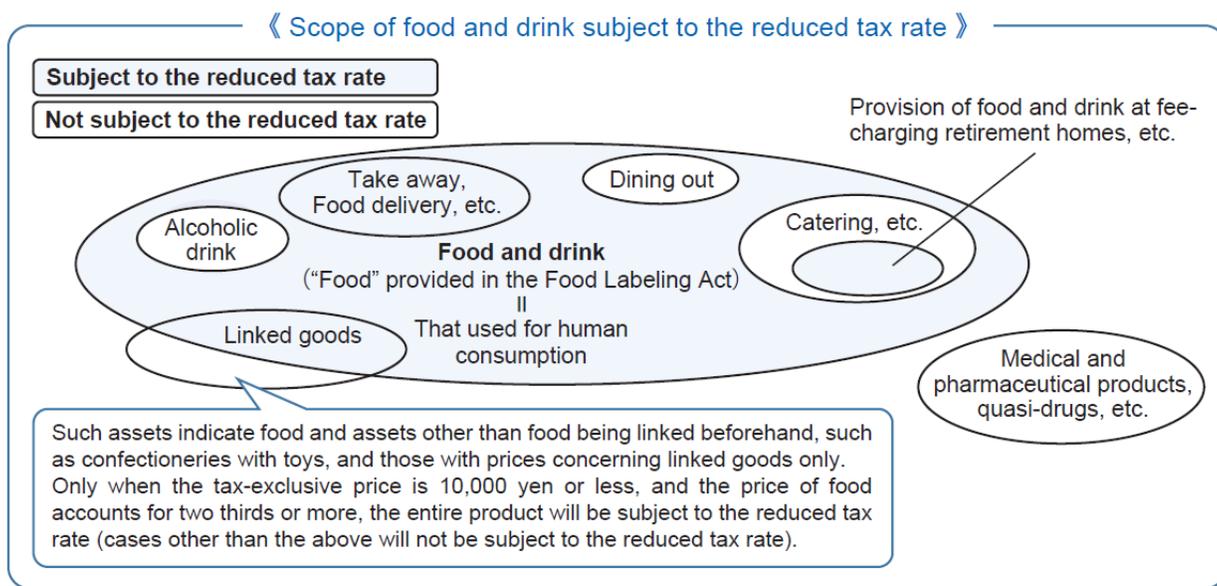
Report Highlights:

On October 1, 2019 Japan raised the consumption tax for most goods and services from 8 to 10 percent. The consumption tax for food and drink, except for liquor and meals eaten at the point of sale, remains unchanged at 8 percent. The expansion of home replacement meals, takeout menus, and food delivery options is not expected to be affected as the tax hike only covers consumption at the point of sale.

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On October 1, 2019 Japan increased the consumption tax from 8 to 10 percent. Most food and drink purchases are exempt from the 2 percent consumption tax hike, but the tax for liquor and meals eaten at the point of sale will be raised. The 10 percent rate is applied when people eat at restaurants, but the 8 percent rate is used for to-go purchases — in some cases from the same outlet. To prevent confusion, some fast food chains, Kentucky Fried Chicken, McDonald’s, *Sukiya gyūdon* beef-bowl outlets, and Italian restaurant chain *Saizeriya* have decided to charge the same tax-inclusive price for eat-in and takeout. Home meal replacement services, take-out menus, and delivery options are also likely to increase throughout Japan in an effort to take advantage of the tax difference. The tax will increase input costs for agricultural producers, food manufacturers, importers, distributors, and other components of the supply chain that could result in increased prices for all food in Japan.



[https://](https://www.nta.go.jp/english/taxes/consumption_tax/pdf/general_13.pdf)

www.nta.go.jp/english/taxes/consumption_tax/pdf/general_13.pdf

Source: National Tax Agency

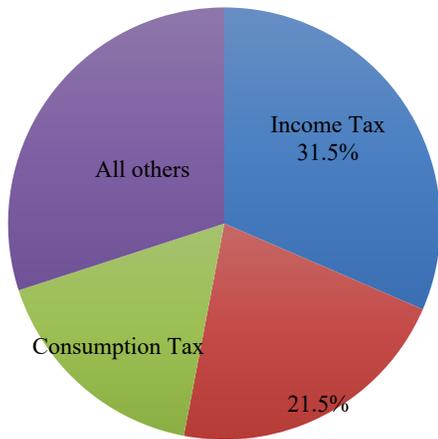
Historically, consumption tax revenue is stable as it is levied consistently on sales and the provision of all goods and services in Japan, while income and corporate tax revenue fluctuates with Japan’s overall economic situation. The consumption tax will be applied to imports and is levied on the CIF price as well as the customs duty. Business entities are responsible for remitting the tax of each respective transaction to the Government of Japan. In the 2018 Japanese fiscal year (JFY), the consumption tax revenue accounted for 17 percent of total tax revenue (Chart 1).

Japan intends to use the increased tax revenue to supplement the social security premium-benefit gap which has grown due to an aging population and falling birthrate. Japan will implement a short term rebate on purchases made using cashless systems such as credit cards or Apple Pay to prevent a downturn in consumption and stimulate a move away from cash transactions. The rebate rates are 5

percent at small and medium-sized stores and 2 percent at major retailers and will be in effect until June 2020. Japan will provide vouchers to low-income families and families with children.

Chart 1: Japanese Tax Revenue, JFY2018

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Source: Ministry of Finance

Tax revenue is the total of national and local tax revenue.

This is the third increase since the consumption tax was first introduced in 1989. Japan first introduced a 3 percent consumption tax in April 1989 with raises to 5 percent in 1997 and 8 percent in 2014. In JFY2014, consumption tax revenue increased 5.2 trillion yen (US\$48.3 billion) to 16 trillion yen (US\$148.6 billion). The Ministry of Finance expects a 1.7 trillion yen (US\$15.8 billion) increase in the consumption tax revenue in JFY2019. The revenue increase is expected to be smaller than JFY2014 because the increase starts in the middle of the fiscal year and the increase does not apply to most food and drink products.

The increase to 10 percent was postponed twice, in 2015 and 2016, over economic concerns. The Japanese economy suffered as a result of the previous tax increases, mainly due to a drop in consumer spending after a pre-tax implementation surge in spending. Japan deployed mitigation measures for the purchase of homes and automobiles this time that will hopefully minimize a downturn.

For more information on the consumption tax, see

https://www.mof.go.jp/english/tax_policy/publication/tax007/e_06.pdf

Attachments:

No Attachments.