

Selective consumption

Atsushi Kodera
STAFF WRITER

The consumption tax is going up to 8 percent next Tuesday, but consumers also have to brace for another hike in October 2015, when the Abe administration plans to raise it all the way to 10 percent — double what it has been since 1997.

While the thought of having

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to tack another 10 percent onto every purchase is daunting, the government is considering providing some relief in the form of a reduced levy on daily necessities, particularly food, to mitigate the impact on low-income households.

While this measure is being weighed only for the second hike, in 2015, the ruling coalition is already gearing up for negotiations on which items should qualify for a lower rate and how much the reduction should be.

Why reduce the consumption tax for certain goods?

With the sales tax, the burden on each person goes up with the amount of consumption — the more you spend, the more you are taxed. This means wealthy individuals who buy expensive cars and dine at luxury restaurants will pay more than those who spend less.

That may seem fair, but the consumption tax is also regressive, meaning it takes a bigger bite out of the wallet of a poor person than a rich person. Lowering the sales tax on selected goods is seen as a way to counter this disparity.

How do things stand now?

Whether to introduce reduced rates for certain types of goods became an issue as soon as the consumption tax was first

proposed in the 1980s. For one thing, it's seen as a way of making the bitter pill of a tax hike easier for the public to swallow, though lawmakers have never gotten around to actually pulling the trigger.

But last December, the Liberal Democratic Party and its junior coalition partner New Komeito agreed to introduce lower rates on certain goods for the second phase of the current round of tax hikes. That hike is scheduled for the autumn of next year, except that Prime Minister Shinzo Abe has said he will consider the state of the economy before making the final decision on whether to enforce it.

Earlier this month, the LDP and New Komeito agreed to come up with a draft plan by May on how to determine which goods should qualify for reduced rates and to what extent.

What goods appear likely to get a reduced rate?

Daily necessities, especially food, are the obvious candidates, because such goods represent a significant portion of where lower-income earners spend their money, experts say.

New Komeito, which has been pushing for the reductions, came up with its own proposal last year to go easy on beverages and food, except for alcohol and dining out, and newspapers and books. But the party withdrew the proposal earlier this month and agreed to start over from scratch with the LDP.

This isn't going to be easy for the ruling bloc because various industry groups, including those that support the LDP or New Komeito, are lobbying for reduced rates. Any breaks they get on their products are sure to raise the hackles of taxpayers.

Why is consumption tax being raised, instead of income or corporate taxes?

Japan will see a rapid decrease in the working population and an increase in retired people as



A customer browses through a

society ages. This demographic situation is forcing the social welfare system to put a heavier burden on those still in the working population.

As such, increasing income taxes and corporate taxes is considered undesirable as it would add what is considered an unfair burden to the working population.

The consumption tax, which is collected from the wider population, including the elderly, is thought by lawmakers to be more appropriate for a hike.

What does the public think of reduced rates for some goods?

Not surprisingly, most people support the concept, opinion polls say.

In an online survey by the Mainichi Shimbun undertaken ahead of the Tokyo gubernatorial election in early February, 77 percent of around 70,000 re-