

## Japan tax alert

Ernst & Young Shinnihon Tax

# National election in Japan

On 16 December, the opposition Liberal Democratic Party (LDP) won a resounding election victory (294 seats out of 480) in the House of Representatives, the Lower House of the Diet and the ruling Democratic Party of Japan (DPJ) suffered a historic defeat. The LDP-New Komeito alliance won more than two-thirds of the 480 seats in the Lower House and Shinzo Abe, the LDP Party leader, will be confirmed as Japan's new prime minister in late December.

It will now be the new LDP government which takes the initiative in the tax legislation process. The 2013 tax reform proposal, which will be drafted by the LDP's advisory tax panel, is expected to be released in late January. The timing of the release may push back subsequent steps and possibly cause delays in passing the tax reform.

A law for comprehensive reform of the tax and social security system was passed by the Diet in August including the consumption tax hike (rate increases from 5% to 8% on 1 April 2014). The law, however, includes a flexible clause which states that the tax rate increase may be suspended if economic conditions are not appropriate. Mr. Abe is expected to adopt progressive fiscal management such as making a sizable fiscal 2012 supplementary budget and setting up an inflation target of 2% in order to pull the Japanese economy out of deflation. Signs of improvement in the economy by next summer or fall would support implementation of the consumption tax increase as planned.

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