

## Japan tax alert

Ernst & Young Shinnihon Tax

# Japan tax reform bill including consumption tax hike approved in the Lower House

The revised bill for Japan's tax reform, including consumption tax hike ("New bill"), was approved by the Lower House of the Japanese Diet on 26 June 2012. The New bill was sent to the Upper House for approval by the end of the extended 2012 Diet session to become effective thereafter.

The initial tax reform bill ("Old bill") was revised and became the New bill after discussions between the ruling party (Democratic Party of Japan) and opposition parties. Key items of the New bill are summarized as follows:

### Consumption tax

The consumption tax rate (currently, 5%) will be increased as follows:

- ▶ From 1 April 2014: 8% (including 1.7% local consumption tax)
- ▶ From 1 October 2015: 10% (including 2.2% local consumption tax)

## Individual income tax and inheritance tax

The items proposed in the tax reform for individual income tax and inheritance tax (such as the increase of the maximum national individual tax rate (from 40% to 45%) and the amendment of the basic deduction of estate for inheritance tax purposes, etc.), initially introduced in the Old bill, are eliminated in the New bill. These items will be examined further and discussed in the next Diet session.

## Flexible clause

A flexible clause, which states that the proposed increase in the consumption tax rate may be suspended if the comprehensive economic condition is not appropriate for the tax hike, still remains in the New bill.

Comments or general inquiries regarding this tax alert may be directed to our Corporate Communications team at [tax.marketing@jp.ey.com](mailto:tax.marketing@jp.ey.com).

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