

# Indirect Tax Alert



## Japan postpones increase of consumption tax rate

On 18 November 2014, Japan's Prime Minister Shinzo Abe announced the postponement of the increase in the consumption tax rate to 10%. The rate increase was set to take effect as of 1 October 2015.

The revised Consumption Tax Law enacted on 22 August 2012 (the CTL) prescribed an increase in the tax in two phases: first, an increase to 8% as of 1 April 2014, and then an increase to 10% as of 1 October 2015. However, the CTL also included an "economic resiliency" clause which, if applied, would suspend the implementation of the tax rate increase.

The "economic resiliency" clause subjects the increase in the consumption tax to the condition of improvement in economic conditions, and states that before the rate is increased, various economic indicators such as nominal GDP, real GDP, and price trends, as well as the general state of the economy, will be considered. Based on these considerations, the clause states that necessary measures, including suspending implementation of the rate increase, will be taken.

### Timing of a future rate increase

The Prime Minister announced that the consumption tax increase to 10% will be postponed until 1 April 2017. The postponement will not include an "economic resiliency" clause, and there will be no subsequent postponement. In order to proceed with the postponement, the law must be amended during next year's regular Diet session, where it will be considered.

### Introduction of a reduced tax rate

Consideration of a reduced consumption tax rate on certain daily necessities such as foodstuffs is expected to continue. An idea has been suggested to introduce it at the same time as the above-mentioned rate increase to 10%, in light of the time it would take to design the mechanism and for companies to prepare for the changes.

### Expected timeline for revisions regarding cross-border transactions

The topic of services such as digital content provided by overseas businesses had been expected to be addressed in the 2015 tax reform. The specific direction of the tax reform is normally announced in the ruling party's outline of tax reform proposals each December, but this year's official announcement is likely to be delayed until the beginning of next year due to the dissolving of the current Parliament and the upcoming election.



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