

## Cabinet OKs corporate tax cut, carbon levy

### Overall burden on individuals will rise if Diet approves reform plan

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The government approved tax reform plans Thursday for fiscal 2011 that include a cut of 5 percentage points in the corporate tax and a hike worth about ¥500 billion for individuals, especially high income earners.

The tax reform plans, proposed by the Tax Commission and adopted by Cabinet, include an environment tax on carbon emissions to fight global warming, as well as a cut in the aviation fuel tax.

The package is aimed at creating a more business-friendly environment through cutting the 40.69 percent corporate income tax, relatively high compared with international standards of around 25 to 30 percent. The government hopes the 5-point cut will strengthen companies' competitiveness overseas, attract foreign companies and create more jobs.

"We took bold action (by cutting the corporate tax), which will lead to more employment and more demand," Finance Minister Yoshihiko Noda, who heads the Tax Commission, told reporters.

The 5-point cut would amount to a roughly ¥1.5 trillion reduction in the tax burden for companies, but the government has only been able to find less than ¥700 billion to cover the revenue shortfall.

Noda admitted revenue sources are currently "insufficient" but added that the government will try to come up with more resources in the process of compiling the fiscal 2011 budget. Adjustments in revenue could also be made over the next few years, he said.

However, Noda stressed that the government will cap the new bond issuance in fiscal 2011 at ¥44 trillion as earlier pledged, denying the possibility of issuing more bonds to cover the revenue shortfall.

On raising the consumption tax, which Prime Minister Naoto Kan had sought

but abandoned after the ruling Democratic Party of Japan's huge setback in the July Upper House election, the reform plans only say the matter should be "urgently studied."

The plans call for a cut in the aviation fuel tax, which airlines have said is too high, from the current ¥26,000 per kiloliter of fuel to ¥18,000, which would be applied for three years starting with fiscal 2011.

Another major reform is the introduction of an environment tax in the form of price hikes for fossil fuels such as coal, natural gas and crude oil.

The tax would be raised gradually starting next October. As a result, the rate for a kiloliter of crude oil and petroleum products would rise from the current ¥2,040 to eventually reach ¥2,800 in April 2015.

The government estimates that revenue from the environment tax will be ¥35 billion in the first year and ¥240 billion a year when fully implemented.

While the package is somewhat business friendly, it will ask individuals, especially those with a high income, to bear a greater burden.

For instance, under current regulations the amount of deductions from taxable income for salaried workers expands as the amount of income increases.

Under the proposed change, the deductions will be capped at a maximum of ¥2.45 million for people who earn more than ¥15 million a year. In addition, the deduction will be ¥1.25 million for company executives with more than ¥40 million in annual income.

These measures would boost government revenue by an estimated ¥120 billion.

The reform plans also abolish the exemption for adult dependents in households with annual income of more than ¥6.89 million, which would add about ¥110 billion to government coffers.

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## Gist of fiscal 2011 tax reform plans

The government will:

- Cut the effective rate of corporate income tax by 5 percentage points from the current 40.69 percent.

- Introduce an environment tax next October.
  - Accelerate the study of comprehensive tax reforms, including whether to raise the consumption tax.
  - Further lower the reduced corporate tax for smaller businesses to 15 from 18 percent.
  - Limit deductions from taxable income for salaried workers with relatively high incomes and for corporate executives.
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