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Defense Tax Hike Will Add 4-4.5% to Corporate Tax from 2024 - LDP Tax Panel Proposal

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On December 15, the LDP's tax panel revealed a proposal for tax hikes under consideration to secure financial resources to strengthen defense capabilities. The tax hike, which will be implemented at an appropriate time after 2024, will be included in the fiscal 2023 ruling party tax reform plan to be finalized on December 16.

Bloomberg has obtained materials on the proposed tax measures, which will secure more than 1 trillion yen in fiscal 2027. The tax credit for corporate income tax was to be equivalent to 10 million yen of income in consideration of small and medium-sized enterprises, but Chairman Yoichi Miyazawa explained to reporters on the evening of December 15 that the tax credit would be raised to 24 million yen based on discussions at the tax commission.

Masashi Nishida, secretary of the board, explained that he views the problem of retained earnings of domestic corporations, which have accumulated 100 trillion yen over the past five years, as “a measure to reduce the over-accumulated retained earnings of large corporations. According to corporate statistics, retained earnings of corporations have reached a record high for the 10th consecutive year, amounting to 516.475 trillion yen at the end of FY 2021.

A new additional tax of 1% will also be imposed on income tax amounts. Based on Prime Minister Fumio Kishida’s intention not to increase the income tax burden, the tax rate of the special income tax for reconstruction will be reduced by 1% to offset and extend the tax period until 2037.

According to Miyazawa, the extension period will depend on the effective date, which will be 13 years if enacted in 2024. If it is delayed, it will be shorter than 13 years, he said. The special income tax for reconstruction will be used to redeem reconstruction bonds, so “there will be no impact on the Fukushima reconstruction plan,” he said.

The cigarette tax will be raised in stages by the equivalent of 3 yen per cigarette. It also states that the government will “give due consideration to the impact on domestic leaf tobacco farmers.”

Vice Chairman Yuji Yamamoto explained to reporters after the executive meeting that of the 1 trillion yen, 600 billion yen will be set aside for corporate tax. He stated that the cigarette tax will cover heated tobacco, not combustible cigarettes. The law will not be amended in next year’s ordinary Diet session, and the details will be worked out in a year's time. Since some objections have been raised, he stated, “We still have a year to go, and I believe it will change.

Kazunori Tanaka, chairman of the LDP's Next Generation Tobacco Study Group, said that if heated tobacco, which have a lower tax rate than combustible cigarettes, were subject to higher taxes, “it would be very negative for reducing health hazards,” and that he would seek consideration in the tax system.

PM Kishida has announced his intention to implement a phased tax increase after FY2024, but he did not specify the specific tax items, method, or timing, and asked the ruling party to reach a conclusion.