Tax Refund Program for Food Expenditures

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INTRODUCTION

The Japanese tax system employs a general indirect tax known as the Consumption Tax (CT). Currently, a CT of 8% is charged in the sale of all commodities and services. However, the CT rate is scheduled to increase to 10% in April 1, 2017.

Citizens are not expected to favor this tax increase because it will directly increase their living costs. In order to allay any hostility, the two ruling parties, namely the Liberal Democratic Party (LDP) and New Komeito, promised to introduce a favorable tax regime for food products in November 2014. However, the details of this treatment have not yet been determined.

This month, the Ministry of Finance (MOF) announced a plan to introduce a tax refund program for food expenditures that would be introduced at the same time as the CT rate increases. The MOF's plan includes the use of the new system of unified personal identification numbers for administrative procedures, which is known as the My Number System (MNS) and will come into effect on January 1, 2016.

The MOF's plan has been both praised and criticized. The purpose of this article is not to present the author's opinion with regard to the MOF's plan. Instead, this article aims to describe the MOF's plan in detail and review opinions on both sides.

Following this introduction section, Sections 2 and 3 provide relevant background information by outlining the MNS and the CT, respectively. Then, Section 4 describes the MOF's plan and Section 5 concludes.

Overview of the MNS

For years, Japan has not had any type of unified personal identification number system for administrative procedures. The lack of such a system has created serious problems for the tax and social security authorities. For example, consider the case of a citizen who has a sufficient income but does not pay social security premiums (either by mistake or by underreporting his or her income to the social security authorities). Currently, it is not easy for the authorities to identify such an error. However, if each citizen had his or her own personal identification number and the authorities had a nationwide computer system that could be used to compare documents submitted from citizens, errors could be prevented by requiring citizens to provide their personal identification numbers every time they fill out tax and social security documents.

The MNS has long been desired by the tax and social security authorities and is based on the Law Regarding the Use of Numbers to Distinguish Authorized Individuals in Administrative Procedures, commonly known as the My Number Act (MNA). The MNA bill passed the Diet in May 2013 and the preparation period for MNS enactment is from July 2014 to December 2015.

Under the MNS, each citizen is assigned one and only one 12-digit number, known as My Number. In principle, My Number should remain unchanged throughout a person's life. An exception would be if a citizen's My Number were leaked, placing his or her privacy at risk. In this case, he or she would be permitted to receive a new My Number.

Use of the My Number is limited to administrative procedures for the following three purposes: taxes, social security, and disaster response. Only when a My Number is necessary for one or more of these three purposes is making a list of My Numbers permitted[1]. Otherwise, even inquiries regarding My Numbers are prohibited.

It is expected that usage of the MNS will be extended to purposes beyond the three referenced above. The IT Strategic Headquarters in the Cabinet is in charge of determining to which purposes the MNS should be extended.

The My Numbers of citizens will be listed on two types of personal cards: notification cards and individual cards. Municipal governments are responsible for issuing these two types of cards.

Municipal governments will begin issuing and delivering notification cards to all citizens in their jurisdictions in October 2015, i.e., two months prior to the enactment of the MNS. The front of the notification card will display the cardholder's My Number and four basic categories of information: full name, residential address, birth date, and gender. The back of the notification card will be used for postscripts only (if necessary). Neither side of the notification card will have a photo of the cardholder.

Individual cards will be issued in exchange for notification cards after citizens submit applications including their photographs. Individual cards should be renewed every 10 years for adults (aged 20 or older) and every five years for minors (aged 19 or younger).

The front of an individual card will have the cardholder's photograph, the card's expiration date, a blank line for postscripts, and four basic types of information: name, residential address, birth date, and gender. The back of an individual card will have an IC tip and the cardholder's My Number. The IC tip, where personal information is recorded, can be useful in helping with the administrative procedures of the tax and social security authorities. Thus, while each citizen can decide whether to apply for an individual card, the government is conducting campaigns to encourage their use[2].

The MNS has both advantages and drawbacks. Some argue that it has the potential to rescue Japan from the prolonged recession it has endured since the early 1990s.

The Federation of Economic Organizations (FEO), the leading organization for large Japanese companies, supports the MNS. The FEO argues that the government should allow the private sector to use My Numbers so that various private companies can present attractive commodities and services to citizens based on their personal information.

Companies in the IT sector also have high expectations for the future development of the MNS. The Japan Association of New Economy (JANE), to which Japan's leading IT companies belong, has presented an ambitious policy proposal regarding how the MNS can be scaled up in the near future. In this proposal, the JANE asserts that individual cards should be converted into multi-function cards that can be used as bank cards, passports, library cards, and so on. Currently, the MNA stipulates that IC tips should hold only limited personal information related to public sector administrative procedures. However, the JANE insists that private companies should be allowed to use IC tips to record customer information. By promoting such reforms, the JANE estimates that the MNS has the potential to create an additional 150 trillion yen per year for the Japanese economy[3].

On the other hand, some citizens' groups have expressed serious anxiety[4]. Their biggest concern is the risk for privacy violations. They suspect that the real purpose of the MNS is to introduce heavy-handed politics by conducting surveillance on the lives of citizens. They argue that citizens should not apply for individual cards because there is the possibility that the IC tips in the individual cards will be used by the government to excessively trace and control citizens' behavior.

History of the CT

The CT is a type of value-added tax that is levied on all commodity and service transactions. When the CT came into effect in April 1989, its rate was set at 3%. It was increased to 5% in April 1997.

However, the financial health of the national treasury continued to worsen even after the 1997 CT rate increase. This is because the government needed more money to supply social security services for the aging Japanese population and economic stimulus programs intended to counteract Japan's prolonged economic recession. In the late 2000s, Japan's ratio of outstanding government bonds to GDP was the highest among the high-income OECD countries. The majority of economists, bureaucrats, and politicians in Japan were now aware that a further increase in the CT rate would be inevitable.

In September 2009, with a slogan promoting "comprehensive tax and social security reform," the Democratic Party of Japan (DPJ) achieved a landslide victory in the general election and, accordingly, implemented a one-party government. In June 2012, the DPJ concluded an agreement to reform taxes and social welfare programs with the two strongest opposition parties at the time—the Liberal Democratic Party (LDP) and New Komeito (the three-party agreement). This three-party agreement stipulated that the CT rate should be raised to 8% in April 2014 and 10% in October 2015, conditional on favorable economic circumstances.

The DPJ was removed from office in December 2012, immediately after it was defeated in the general election. Thereafter, Shinzo Abe, the president of the LDP, formed a new coalition government comprising the LDP and New Komeito. However, this power transfer did not cause the three-party agreement for the increase of the CT rate in April 2014 to be repealed.

The schedule of the three-party agreement stated that the CT rate would increase to 10% in October 2015. However, Abe decided to abandon this schedule in November 2014 because the economic growth rate had decreased significantly since April 2014. However, this did not mean that the CT rate increase was unnecessary: Abe announced that the CT rate should be increased to 10% in April 2017. In order to receive citizens' approval for this new CT tax increase schedule, Abe dissolved the Diet and set a general election for December 2014.

Throughout the general election, the LDP and New Komeito supported Abe's new CT rate increase schedule. Simultaneously, the two parties promised citizens that they would implement a favorable treatment on taxation for foods at the same time as the CT rate increase. The two parties won the general election and Abe was reappointed as Prime Minister. In March 2015, a bill for the new CT rate increase schedule (i.e., to ten percent in April 2017) passed the Diet. However, the treatment of taxation for foods has not yet been decided.

The MOF's tax refund plan

Initially, the LDP and New Komeito considered introducing different tax rates for food products. Namely, they considered maintaining the CT rate for foods at 8% after April 2017. However, this is problematic for two reasons.

The first problem relates to how "food" should be defined. Indeed, because there are many definitions of "food," which commodities should be eligible for the reduced tax is a difficult question. In this regard, the following two points should be considered: (1) the tax reduction must support low-income rather than high-income families, and (2) there should be a clear demarcation between the commodities that are and are not eligible. The two ruling parties' task force for tax problems presented three draft ideas as a basis for discussion regarding which foods should be included: rice only, fresh foods only, and all fresh and processed foods except for alcohol[5]. Japanese newspapers reported that the third option received the strongest support from the members of the task force.

The second problem is that retailers may find it difficult to apply different tax rates to different types of commodities. For example, different CT tax rates will complicate the tax-report-related clerical work of grocery stores that sell both food and non-food products.

In this context, the MOF presented a new way to provide favorable treatment for food expenditures using the MNS[6]: a tax refund program. The refunds would be provided after the following two steps were taken. First, when citizens purchased foods, they would present their individual cards and ask retailers to record the food expenditures in their IC tips. Then, based on their final tax declarations, citizens would receive refunds for the food expenditures recorded in the IC tips of their individual cards every year (those who do not have identification cards would not be able to receive tax refunds). The amount of money refunded would be calculated by multiplying a citizen's total food expenditure amount by 1/55[7]. The MOF also plans to set an upper limit for refunds. The reason for this is that refunds should be provided only for goods essential to daily life. For example, high-income families may allocate large amounts of money to buy extravagant foods. By setting an upper limit, the MOF aims to prevent such lavish expenditures from benefiting from tax refunds. The amount of the upper limit is still under discussion[8]. The MOF plans to build a new institute to operate the nationwide system used by retailers and consumers to record food expenditures in the IC tips of individual cards. The MOF estimates that retailers would suffer a lower burden under the tax refund system than in the case of applying different CT rates for foods and others goods.

The MOF's plan has both advantages and disadvantages. Some members of the ruling parties have expressed concern that the burden on retailers (especially small retailers) would be heavier than the MOF estimates. Additionally, assuming that the MOF's plan aggressively promotes the spread of individual cards, those who oppose the MNS are also critical of the MOF's plan. However, the Minister of Finance, the FEO, and some members of the ruling parties clearly support the MOF's plan.

CONCLUSION

In the context of the long-lasting Japanese recession, it is important to balance the government's need to raise funds by increasing the CT with the need to minimize the burden placed on Japanese consumers. As a result, the implementation of a favorable tax treatment for food expenditures has been proposed in conjunction with the upcoming CT rate increase. However, what the tax treatment for food expenditures will entail is still being debated. In this regard, the following four questions must be taken into consideration: (1) How can the tax burden for low-income families be reduced? (2) How can the clerical burden for retailers be reduced? (3) How can sufficient revenues for the national treasury be maintained? (4) Should the use of individual cards in the MNS be promoted? It is difficult to solve these problems simultaneously. While the MOF's tax rebate plan is thought to be the most likely to be implemented, it has been the object of significant criticisms and further discussion is necessary to reach an acceptable solution. Nevertheless, since the CT rate increase to ten percent is scheduled for April 2017, the government is pressed for time.

Notes

1. After the required record-keeping period, the list of My Numbers should be disposed of such that the restoration of the information is impossible.
2. The front of an individual card is used as an official identification card and is permitted to be photocopied if the cardholder agrees to do so. In contrast, photocopying the back side, which contains the cardholder's My Number, is prohibited except for limited cases stipulated by the MNA.
3. Details of JANE's assertion are explained in Morinobu, Shigeki, and Toshio Kawamoto (2012), *Mai Nanba* (My Number), Tokyo: Kinyuzaise Jjijo.
4. For example, see Shiraishi, Takashi, Koji Ishimura, and Seiji Mizunaga (2015), *Kyotsu Bango-no Kiken-na Tsukawarekata* (Dangerous Uses of the Unified Personal Identification Number System), Tokyo: Gendai Jinbun Sha.
5. Details of their discussions are available on the LDP's homepage: https://www.jimin.jp/news/policy/127841.html
6. On September 8, 2015, the MOF submitted this plan at the meeting of the task force for tax problems of the two ruling parties
7. If a consumer buys a commodity costing 100 yen at a grocery store, he or she pays 110 yen if the CT rate is ten percent. Therefore, compared with the case of eight percent CT tax, he or she pays an additional 2 yen and the refund should thus be 2 yen. Dividing 2 by 110, we obtain 1/55.
8. When the MOF presented the tax refund plan, it set the limit at 4,000 yen per family member per year. However, this limit was only provided as an example.

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