

“Decision on Delaying Further Consumption Tax Hike”

It had been decided under the Revised Consumption Tax Law that the consumption tax should have been raised from 8% to 10% in future from October 2015 following a hike from 5% to 8% in April 2014. However, it was allowed to be postponed or suspended subject to economic conditions. On November 18, PM Abe announced that the further raise of consumption tax to 10% should be delayed considering the Jul.-Sep. quarter GDP growth rate was too weak.

Point 1

The ruling and opposition parties had agreed on the tax raise in 2012 Usage limited for social security and the falling birthrate countermeasures

- The consumption tax hike was determined by the “Law on integrated reform of the social security and tax systems through the consumption tax” in August 2012. The law prescribes that the consumption tax should be used only for the purpose of enhancing social security such as pension, medical treatment and nursing and for countermeasures to the falling birthrate. It was agreed by five parties under the Democratic Party ruled government to use the tax revenue to fix the issues of aging population with less children.

Point 2

Consumption tax as a contributor to fiscal soundness The tax accounts for more than 30% of the total tax revenue

- The consumption tax hike is one of the measures to improve the national fiscal soundness. In August 2013, Japanese government set a target of improving the primary balance (central government and local authorities) from -6.6% of GDP in FY2010 to -3.3% in FY2015 and turn to a surplus by FY2020. This target is deemed as an international commitment.
- The revenue from the consumption tax in FY2014 budget is forecasted to amount to approx. JPY15.3trillion, increase by JPY4.7trillion compared to the previous year’s budget, as the tax rate has been raised to 8% from 5% since April 2014. The consumption tax is one of the important revenue sources as it accounts for 16.0% of the total revenue in annual national budget and 30.7% of the revenue from taxes & stamp duty. Effect of the postponement of further tax hike for a year and a half is approximately JPY6trillion tax revenue decrease for the period.

Future Outlook

Delaying the further consumption tax hike will contribute to support for ending deflation through stimulating consumption

■ The postponement resulted in Lower House dissolution for a general election

On October 18, Prime Minister Abe officially announced delaying further consumption tax hike originally scheduled to be implemented from October 2015 to April 2017 without any conditional clauses. The decision was made on an announcement of Jul.-Sep. real GDP growth rate figure (-1.6%), which was unexpectedly negative for two consecutive quarters. PM Abe decided to dissolve the Lower House of parliament for a general election to confirm people’s support for his decision delaying the further consumption tax hike.

■ His First priority is on ensuring the economic recovery at this stage

The Prime Minister reiterated his solid policy of improving the fiscal soundness by committing himself to raising the consumption tax rate in April 2017 without fail at a press conference on November 18. At the same time, he explained that his decision this time was aiming to set an appropriate course to ensure ending deflation by delaying the further tax hike. Additional economic measures are also anticipated to ensure the economic growth which enables the future tax hike, in order to materialise the improvement of fiscal soundness in the national financial balance.

■ Disclaimer

Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter “SMAM”), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM’s judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indexes belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM’s authorization, or from disclosing this material to a third party.

Registered Number: Kanto Local Finance Bureau (KINSHO) No.399

Member of Japan Investment Advisers Association and the Investment Trusts Association, Japan

© Sumitomo Mitsui Asset Management Company, Limited



Sumitomo Mitsui Asset Management