

SHINZO ABE'S CONSUMPTION TAX REFORM

Yoshihisa GODO & LIM Tai Wei

EAI Background Brief No. 1461

Executive Summary

1. Shinzo Abe resigned as Japanese prime minister and president of the Liberal Democratic Party in September 2007. After five years away from the spotlight, Abe returned to power in December 2012.
2. Since then, he has implemented numerous economic policies, including the reform of Japan's consumption tax, Japanese version of the GST (goods and services tax), an indirect tax.
3. Previously, the perception presented was that if a Japanese prime minister implemented, or even tried to implement, a new general indirect tax such as consumption tax, or increase the consumption tax rate, the prime minister would not be able to hold on to power.
4. During his time out of office, Abe modified his approach and managed to overcome opposition to a hike in consumption tax. When he increased it from 5% to 8% in April 2014, consumers were more ready to accept the increase in exchange for long-term care services.
5. Abe has scheduled the implementation of the second phase of the consumption tax reform in October 2019, when the rate is scheduled to increase 10%.
6. Various other changes to the tax, including a reduction in the tax rate on food and a refund for cashless trades for small and medium-sized businesses, will also be introduced.
7. As such, the reform can be seen as a way for politicians to usher in a new era of political dynamics in Japan.