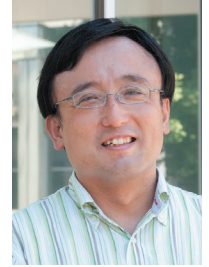


Japan's Tax Revenue Records Historical High for 3rd Consecutive Year



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Settlement Amount Exceeding Initial Budget Not Uncommon Anymore

On July 3, 2023, the Ministry of Finance released the settlement overview outlook for the fiscal 2022 general account, and it was revealed that tax and stamp revenues for fiscal 2022 were 71.1 trillion yen, a record historical high for the third consecutive year.

Chart 1 illustrates the growth of Japan's tax and stamp revenues (rate of increase against financial results of the previous year) since 1961, and the settlement for tax and stamp revenues as indicated with a solid line has shown many instances of positive growth in recent years. There were only nine instances (45%) of positive growth during the 20 years (fiscal 1991 to fiscal 2010) after the burst of the bubble economy, but since then (between fiscal 2011 and fiscal 2022) there were 10 instances (83%) of positive growth and only two (fiscal 2016 and fiscal 2019) of negative growth.

Comparing the initial budget and the settlement of tax and stamp revenues, settlement has tended to exceed initial budget (marked ■ in *Chart 1*) in recent years. From fiscal 1991 to fiscal 2010, settlement only exceeded initial budget eight times (40%), but exceeded it nine times (75%) from fiscal 2011 to fiscal 2022. Growth in tax revenues exceeding government estimations is also becoming more frequent.

Tax and stamp revenues for fiscal 2022 were initially estimated to be 65.2 trillion yen when the initial budget was formulated at the end of the previous year (end of 2021). The budget after the correction (marked * in *Chart 1*), which was estimated around the end of 2022, was revised upward to 68.4 trillion yen, considering the actual results of tax revenues for fiscal 2022. In spite of this revision, settlement was even higher at 71.1 trillion yen.

As such, settlement exceeding the budget after correction has also become more frequent in recent years, and between fiscal 2011 and fiscal 2012 settlement exceeded the budget after correction nine times (75%). In fiscal 2020 when

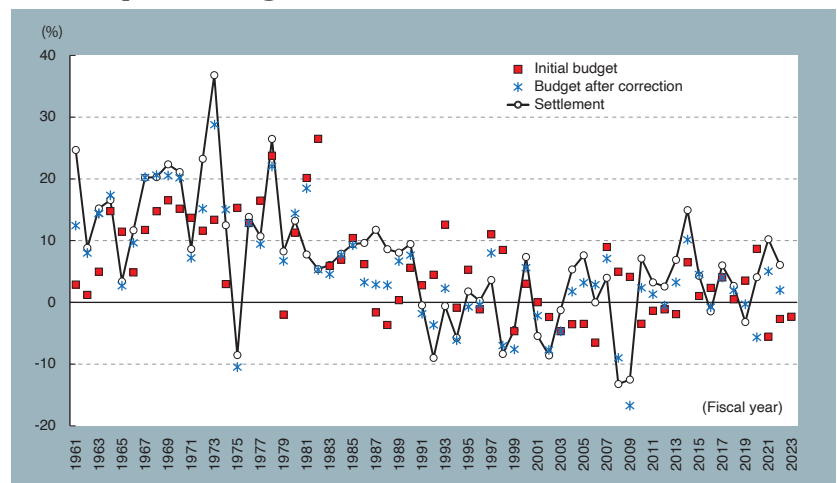
Japan was hit by the coronavirus pandemic, tax and stamp revenues saw a sharp downward revision in the budget after correction, and it was estimated that they would be lower than in fiscal 2019. Despite that, however, settlements saw tax revenues exceeding the previous year. With settlements exceeding the estimates, tax and stamp revenues for fiscal years 2021 to 2023 continued, as a result, to be lower than the settlement of the previous fiscal year.

Price Increases also Pushing Up Tax Revenues

Tax and stamp revenues in fiscal 2022 exceeded the previous fiscal year's settlement by around 6%. Looking at the contribution to this rate of increase, income tax (tax revenue in fiscal 2022: 22.5 trillion yen) was 1.7%, corporate tax (14.9 trillion yen) was 1.9%, and consumption tax (23.1 trillion yen) was 1.8%, each showing positive contributions. Looking at the year-on-year change in the settlement amount of tax and stamp revenues since the consumption tax was introduced and the contribution of each tax, it can be confirmed that the positive contribution of consumption tax was large when its rate

CHART 1

Trends in growth of tax & stamp revenues of the Japanese government



Source: General Account Budget and Settlement by Ministry of Finance

was raised (Chart 2). The positive contribution was 6.2% in fiscal 1997 when the consumption tax rate was raised to 5%, and 11.1% in fiscal 2014 when the rate was raised to 8%. The consumption tax rate was raised to 10% in October 2019, in the middle of the fiscal year, and thus its effect was also seen in fiscal 2020 (4.5%) and led to an increase in tax revenue despite being in the middle of the coronavirus pandemic. The 1.8% contribution in fiscal 2022 is relatively high, excluding those periods when the tax rate was raised. Since revenue from the consumption tax is linked to consumption values, the recent rise in prices is thought to be pushing up the revenue.

The volume of fluctuation in contributions stands out for corporate tax. While it pushed down tax revenue sharply in fiscal 2008 (negative 9.3%) and fiscal 2009 (negative 8.3%) when the Lehman Shock occurred, it became a positive contribution of 7.1% in fiscal 2010.

Despite being in the recovery phase from the coronavirus pandemic and rises in wages being insufficient, the positive contribution of income tax in fiscal 2021 (3.6%) exceeded fiscal 2022, partly due to the rise in dividend income from securities. Looking at the statistics of the National Tax Agency, the amount of withholding income tax for the calendar year 2021 was up by around 1.6 trillion yen compared to the previous year, and of this, tax revenue on dividend income was up by approximately 0.6 trillion yen. On the other hand, tax revenue on earned income was also up by 0.5 trillion yen. This is also likely impacted by the “Improvement of earned income deduction” which was incorporated into the fiscal 2018 tax reform and implemented from 2020. Households without children and others with earned income exceeding 8.5 million yen saw an increase in their financial burden as result.

Is There a Cautious Bias in the Government’s Tax Revenue Outlook?

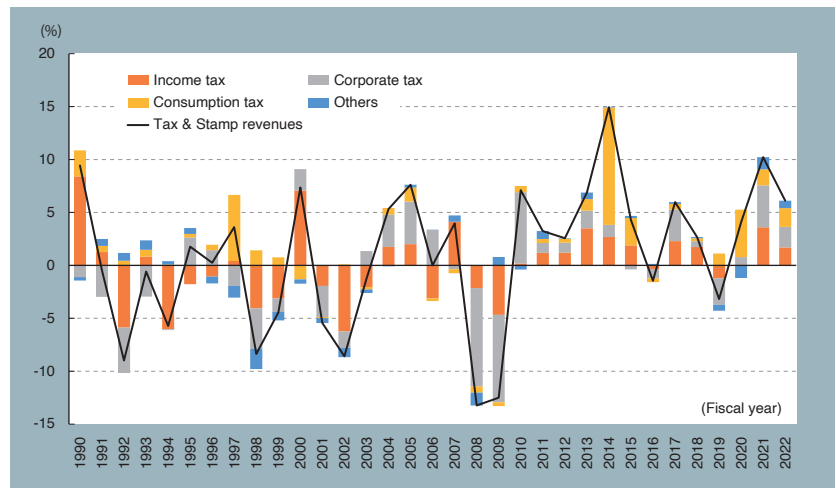
Tax and stamp revenues are impacted by the changes in the tax system and shifts in economic conditions. The revenue amounts of the initial budget are forecasted based on such preconditions. In this instance, one of the preconditions used for economic conditions is the government economic outlook. Since tax revenue is impacted by fluctuations in prices as mentioned, the nominal GDP growth rate is of particular importance.

If the actual value of the nominal GDP growth rate exceeds (falls short of) the government’s economic outlook, the settlement amount of tax and stamp revenues is estimated to exceed (fall short of) the initial budget amount. During the 62 years between fiscal 1961 and fiscal 2022, there were 44 instances which fit this pattern.

On the other hand, what has been more frequent in recent years is

CHART 2

Contribution analysis of growth in tax & stamp revenues



Source: General Account Budget and Settlement by Ministry of Finance

that despite actual values of the nominal GDP growth rate falling short of the government’s economic outlook, the settlement amount of tax and stamp revenues exceeded the initial budget amount. There were eight such instances between fiscal 2011 and fiscal 2022 (between fiscal 2011 and fiscal 2014, fiscal 2017 and fiscal 2018, and fiscal 2021 and 2022). Since it was 17 instances for the entire period of 62 years between fiscal 1961 and fiscal 2022, the frequency in recent years is striking. I also used statistical analysis and as a result speculate that there may be a bias toward underestimating the government tax revenue outlook (https://www.tkfd.or.jp/research/detail.php?id=4027#_ftn4).

The nominal GDP growth rate is forecasted to be 2.1% in the government economic outlook for fiscal 2023. In contrast, the forecast average of private research institutions (July survey) conducted by the ESP Forecast Survey (Japan Center for Economic Research) is 3.81%, higher than the government outlook and reflecting recent rises in prices. Tax and stamp revenues for fiscal 2023 are estimated to be 69.4 trillion yen in the initial budget, but the actual value for fiscal 2022 is already exceeding this amount. How this will be revised hereafter with the budget after correction will be worth noting.

Note: This article was written based on information available as of July 31, 2023.

Article translated from the original Japanese by Mio Uchida.



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Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion yen)	Rate of increase over previous year/term (%)	Amount (trillion yen)	Rate of increase over previous year/term (%)		
2015	538.1	1.6	538.0	3.7	-1.1	0.5
2016	542.1	0.8	544.4	1.2	-0.0	-0.3
2017	551.2	1.7	553.1	1.6	3.1	0.5
2018	554.8	0.6	556.6	0.6	0.6	0.9
2019	552.5	-0.4	557.9	0.2	-2.6	0.6
2020	529.1	-4.2	539.3	-3.3	-10.4	-0.2
2021	540.9	2.2	550.1	2.0	5.4	-0.2
2022	546.5	1.0	557.2	1.3	-0.1	2.3
2022/3rd Qtr.	547.3	-0.3	554.7	-0.8	3.1	2.7
4th Qtr.	547.6	0.0	561.3	1.2	-1.7	3.8
2023/1st Qtr.	552.6	0.9	574.2	2.3	-1.8	3.5
2nd Qtr.	560.7	1.5	590.7	2.9	1.4	3.2
2022/Nov.	—	—	—	—	0.0	3.7
Dec.	—	—	—	—	-0.6	4.0
2023/Jan.	—	—	—	—	-3.9	4.2
Feb.	—	—	—	—	3.7	3.1
March	—	—	—	—	0.3	3.1
April	—	—	—	—	0.7	3.4
May	—	—	—	—	-2.2	3.2
June	—	—	—	—	2.4	3.3
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2015	75.6	3.4	78.4	-8.7	15.2	11.5	8.1	6.9	6.7	4.4
2016	70.0	-7.4	66.0	-15.8	14.1	-7.1	7.3	-9.2	6.5	-2.8
2017	78.3	11.8	75.4	14.1	15.1	6.9	8.1	10.5	7.1	9.5
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	7.7	7.8
2019	76.9	-5.6	78.6	-5.0	15.3	-1.4	8.6	-4.2	7.4	-3.0
2020	68.4	-11.1	68.0	-13.5	12.6	-17.3	7.5	-13.7	6.3	-15.1
2021	83.1	21.5	84.9	24.8	14.8	17.6	8.9	19.6	7.7	21.4
2022	98.2	18.2	118.1	39.2	18.3	23.1	11.7	31.6	9.4	22.0
2022/3rd Qtr.	25.6	23.2	31.9	47.3	4.8	30.0	3.2	42.6	2.4	27.2
4th Qtr.	26.6	18.7	32.3	34.0	5.2	28.1	3.2	32.9	2.6	29.0
2023/1st Qtr.	23.0	4.8	28.2	11.2	4.4	11.4	2.9	12.2	2.3	10.5
2nd Qtr.	24.3	1.6	26.1	-8.5	4.8	10.6	2.7	-0.3	2.6	14.3
2022/Nov.	8.8	20.0	10.9	30.3	1.7	32.6	1.0	21.7	0.9	32.0
Dec.	8.8	11.5	10.2	20.8	1.7	16.9	1.1	31.9	0.9	27.0
2023/Jan.	6.6	3.5	10.1	17.6	1.2	10.4	1.0	21.4	0.7	9.5
Feb.	7.7	6.5	8.6	8.5	1.5	14.9	0.9	6.6	0.8	18.6
March	8.8	4.3	9.6	7.4	1.7	9.4	1.0	9.6	0.9	5.1
April	8.3	2.6	8.7	-2.3	1.7	10.5	0.9	1.1	0.9	11.8
May	7.3	0.6	8.7	-9.8	1.4	9.4	0.9	2.5	0.8	16.6
June	8.7	1.5	8.7	-12.9	1.7	11.7	0.9	-4.2	0.9	15.0
Sources	"Trade Statistics of Japan", Ministry of Finance									

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/\$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2015	0.1	1.20	3.4	3.6	-0.9	16.5	121.0
2016	0.6	1.36	3.1	3.4	5.5	21.4	108.8
2017	0.4	1.50	2.8	4.0	4.9	22.8	112.2
2018	1.4	1.61	2.4	2.9	1.1	19.5	110.4
2019	-0.4	1.60	2.4	2.4	0.2	19.3	109.0
2020	-1.2	1.18	2.8	6.5	2.8	16.0	106.8
2021	0.3	1.13	2.8	6.4	1.8	21.5	109.8
2022	2.0	1.28	2.6	3.3	-15.7	11.5	131.4
2022/3rd Qtr.	1.7	1.30	2.6	3.4	-5.5	2.4	138.4
4th Qtr.	2.9	1.35	2.5	3.0	-4.6	1.9	141.4
2023/1st Qtr.	0.9	1.34	2.6	2.6	-4.2	2.7	132.3
2nd Qtr.	2.0	1.31	2.6	2.6	-1.0	5.3	137.4
2022/Nov.	1.9	1.35	2.5	3.1	-1.5	1.9	142.2
Dec.	4.1	1.36	2.5	2.9	-1.2	0.1	134.9
2023/Jan.	0.8	1.35	2.4	2.7	-3.2	-1.9	130.3
Feb.	0.8	1.34	2.6	2.6	-0.6	2.3	132.7
March	1.3	1.32	2.8	2.5	-0.5	2.4	133.9
April	0.8	1.32	2.6	2.6	-0.1	1.9	133.4
May	2.9	1.31	2.6	2.6	-1.2	1.9	137.4
June	2.3	1.30	2.5	2.6	0.3	1.5	141.3
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2015	7.8	4.6	27.1	3.7	18.9	-2.6	13.2	-1.2	19.4	1.3
2016	7.4	-5.0	24.7	-8.7	16.2	-14.5	12.4	-6.5	17.0	-12.4
2017	8.0	7.0	28.0	13.3	18.6	14.8	14.9	20.5	18.5	8.5
2018	8.8	10.6	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2019	8.8	0.3	26.6	-7.6	19.0	-5.3	14.7	-7.6	18.5	-3.9
2020	7.8	-12.1	24.1	-9.4	17.2	-9.4	15.1	2.7	17.5	-5.1
2021	9.5	21.8	30.2	25.0	20.7	20.6	18.0	19.2	20.4	16.4
2022	11.4	20.5	36.4	20.6	28.5	37.7	19.0	5.7	24.8	21.9
2022/3rd Qtr.	2.7	8.3	9.5	23.2	7.7	46.4	5.1	14.4	6.7	33.0
4th Qtr.	3.2	28.6	9.5	16.1	7.8	35.5	5.0	1.4	6.7	20.4
2023/1st Qtr.	2.6	-1.5	8.4	2.9	7.1	14.1	3.8	-11.3	6.0	8.8
2nd Qtr.	2.9	-1.5	8.4	-8.4	6.5	-5.3	4.3	-6.0	5.8	-1.6
2022/Nov.	1.1	21.1	3.2	16.4	2.7	36.8	1.6	3.5	2.3	17.3
Dec.	1.0	25.7	3.1	10.4	2.4	17.8	1.6	-6.2	2.0	6.5
2023/Jan.	0.9	-2.1	2.5	2.3	2.4	17.4	1.0	-17.1	2.4	12.3
Feb.	0.9	4.5	2.8	4.0	2.2	16.7	1.3	-10.9	1.5	-0.5
March	0.9	-6.3	3.1	2.5	2.4	8.7	1.6	-7.7	2.1	12.4
April	1.0	-2.5	2.8	-8.0	2.1	-5.5	1.4	-2.9	1.9	14.9
May	0.9	-2.5	2.6	-10.4	2.1	-7.5	1.3	-3.4	1.9	-5.9
June	0.9	0.6	3.0	-7.0	2.3	-2.7	1.5	-10.9	2.0	-10.2
Sources	"Trade Statistics of Japan", Ministry of Finance									