

FY 2012 The Result of Taxation Reform Request by Ministry of the Environment

~Introduction of “Carbon Dioxide Tax of Climate Change Mitigation”~

December 2011

**FY 2012 Taxation Reform was decided by Cabinet on December 10th,
2011 as follows.**

Chapter 2: FY 2012 Approach for Major Tax Issues

5. Environmental Taxation

(2) Energy Taxation

[1] Introduction of “Carbon Dioxide Tax of Climate Change Mitigation”

Reduction of greenhouse gas is an important and urgent issue to prevent climate change not only in Japan but in global scale. Since 1990's, many countries mainly EU countries have promoted taxation for CO2 emissions sources (e.g. fuel) as an economic incentive to reduce CO2 emissions and to support introductions of energy-saving facilities into the companies.

In Japan, energy-oriented CO2 makes up approximately 90% of greenhouse gas emissions. In the strategic energy plan of Japan (decided by Cabinet on June 18th, 2010), domestic energy-originated CO2 emissions will be reduced by 30% or more in 2030 compared to the 1990 level, if we promote climate change mitigation sufficiently.

In consideration of such situation, to strengthen climate change mitigation by the tax system in Japan from the perspective of the implementing measures for reducing CO2 emissions from energy sources, in the tax form FY 2011, based on the above idea, just incorporating the “Carbon Dioxide Tax of Climate Change

Mitigation.” However, as a result of the deliberations in the Diet, now that matters and this amendment will be shelved. This amendment matters, from the viewpoint of promoting climate change is important and urgent issue of global scale, the amendment in FY 2012, continues to aim to achieve.

Concretely, **“Special Provision on Taxation for Climate Change Mitigation” shall be established that imposes additional tax rate on current Petroleum and Coal Tax (the tax on whole fossil fuels such as crude oil, petroleum products, gaseous hydrocarbons and coal), based on CO2 emissions volume of each fossil fuel category, in order to reduce energy-originated CO2 emissions in wide range of fields.**

The additional tax rate by this special provision is JPY 760 per kilo liter for crude oil and petroleum products, JPY 780 per ton for gaseous hydrocarbons and JPY 670 per ton for coal.

This “broad and light” tax imposition shall avoid tax overload to the specific areas/industries and secure fairness of taxation. Moreover, in introduction, tax rate will be increased gradually to prevent sharp increase of burden, and tax exemptions and tax refunds shall be taken in certain necessary areas. In addition, various support measures shall be implemented, such as measures to cut costs for fuel production and distribution, stabilization of fuel supply, policies to save energy for logistics and transport and to support the underpopulated or cold areas.

[2] Gasoline Tax, Local Gasoline Tax and Diesel Oil Delivery Tax

Considering the continuous severe situation of national and local government finance and **the view of tackling climate change**, current **tax rate of gasoline tax, local gasoline tax and diesel oil delivery tax shall be maintained in FY 2011.** Co-called “for the

time being” tax rate in FY 2010 shall be maintained.

[3] Forest Sink Measures

In the formulation of measures to be considered for domestic measures against climate change mitigation since 2013, give further consideration to secure finances for the steady promotion of measures including forest sink measure in terms of achieving international commitment on greenhouse gas reduction.

[4] Securing Finances on Climate Change Mitigation for Local Government

In order to promote climate change mitigation, proactive approaches in local areas are indispensable. Based on the fact that the local governments have already implemented various projects for climate change mitigation, consider the mechanism to secure finances for local governments, aiming at integral promotion climate change mitigation such as energy-originated CO2 emissions reduction and forest sink measures.

Chapter 3: FY 2012 Taxation Reform

6. Excise Taxation

(2) **Carbon Dioxide Tax of Climate Change Mitigation**

[1] Establish **“Special Provision on Taxation for Climate Change Mitigation” in petroleum and coal tax, and impose additional tax rate based on CO2 emissions volume of each fossil fuel category.**

[2] **Additional tax rate for “Special Provision on Taxation for Climate Change Mitigation” is JPY 760 per kilo liter for crude oil and petroleum products, JPY 780 per ton for gaseous hydrocarbon and JPY 670 per ton for coal.** As a result, tax rate

for petroleum and coal tax with additional rate shall be as follows.

	Crude oil/ Oil Products [per kl]	Gaseous hydrocarbon [per ton]	Coal [per ton]
Current	JPY 2,040	JPY 1,080	JPY 700
Reform plan	JPY 2,800	JPY 1,860	JPY 1,370

[3] The above reform shall be **implemented from October 1st, 2012.**
The transitional measures shall be taken as follows.

	Crude oil/ Oil Products [per kl]	Gaseous hydrocarbon [per ton]	Coal [per ton]
Current	JPY 2,040	JPY 1,080	JPY 700
Oct. 1 st , 2012	JPY 2,290	JPY 1,340	JPY 920
Apr. 1 st , 2014	JPY 2,540	JPY 1,600	JPY 1,140
Apr. 1 st , 2016	JPY 2,800	JPY 1,860	JPY 1,370

[4] Current tax exemptions and tax refunds on the petroleum and coal tax (following a. to e.) shall be applied on additional tax rate in **“Special Provision on Taxation for Climate Change Mitigation.”**

- a. Imported and domestic volatile oil for producing petrochemical products
- b. Imported specific coal (used for making steel, coke and cement)
- c. Specific coal used for power generation in Okinawa
- d. Imported and domestic heavy oil (class A) for agriculture, forestry and fisheries use
- e. Domestic petroleum asphalt, etc.

5. Tax exemptions and tax refunds following a. to f. shall be implemented for only the tax rate added by **“Special Provision on Taxation for Climate Change Mitigation”** until March 31st, 2014.

- a. Imported coal used for in-house power generation for producing sodium hydroxide in sodium hydroxide production industry
- b. Heavy oil and diesel oil used for ships/vessels for coastal shipping and specific passenger ships for regular services
- c. Diesel oil used for railroad business
- d. Aviation fuel loaded onto the aircraft for domestic airline transport
- e. Imported coal used for in-house power generation of power for the production of salt in manufacturing salt by ion-exchange membrane
- f. Diesel oil used for agriculture, forestry and fisheries

[6] Other required measures shall be taken.

7. Discussion Items

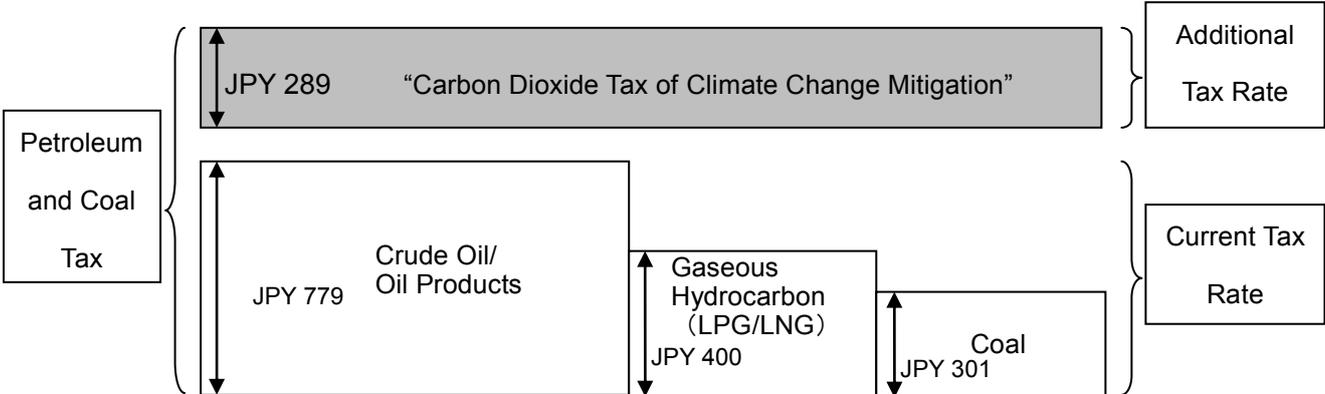
[National Tax]

[7] Concerning climate change mitigation, it is essential to secure consistency among “Provision of Taxation for Climate Change Mitigation” that are newly established as the “Carbon Dioxide Tax of Climate Change Mitigation” in terms of reduction of CO₂ emissions, Emissions Trading System and Feed-In Tariff. Considering the progress of every measure and verification of consistency and effects of the policies, **the name of tax shall be examined** as necessary.

[National Tax and Local Tax]

[5] Give further consideration to mechanism to secure and enhance local government finance on the basis of national and local role sharing on climate change mitigation to implement in FY 2013.

(Ref. 1) Tax Rate per t-CO2 of “Carbon Dioxide Tax of Climate Change Mitigation”



Source: 23rd Government Tax Commission