

**FY2011 The Result of Taxation Reform Request
by Ministry of the Environment
~ Introduction of “Carbon Dioxide Tax of Global Warming
Countermeasure” ~**

December 2010

FY2011 Taxation Reform was decided by Cabinet on December 16, 2010 as follows.

Chapter 2 FY2011 Approach for Major Tax Issues

6. Environmental taxation

(1) Introduction of “Carbon Dioxide Tax of Global Warming Countermeasure”

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

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

In consideration of such situation, Japan will also **introduce “Carbon Dioxide Tax of Global Warming Countermeasure” in FY2011 in terms of strengthening measures against global warming through tax incentive, and enhancing various measures to reduce**

energy-originated CO2 emission.

Concretely, **“Special Provision on Taxation for Global Warming Countermeasure” 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 emission volume of each fossil fuel categories, in order to reduce energy-originated CO2 emission 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 global warming**, current **tax rate of gasoline tax, local gasoline tax and diesel oil delivery tax shall be maintained in FY 2011. So-called “for the time being” tax rate in FY2010 shall be maintained.**

Accompanied with keeping the diesel oil delivery tax rate, transportation business promotion grants for trucks and buses for business use, shall be continued with its tax revenue allocation to local governments.

In addition, required measures shall be implemented upon the approval

of related legislation, in order to improve transparency of the revenue allocation system and secure the standard amount of the grants.

(3) Forest sink measures

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 countermeasure against global warming for local government.

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

Chapter 3 FY2011 Taxation Reform

5. Excise taxation

(1) **Carbon Dioxide Tax of Global Warming Countermeasure**

1. Establish **“Special Provision on Taxation for Global Warming Countermeasure” in petroleum and coal tax, and impose additional tax rate based on CO2 emission volume of each fossil fuel categories.**
2. **Additional tax rate for “Special Provision on taxation for Global Warming Countermeasure” 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.

Provisional translation by MOE

	Crude oil/ Petroleum 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, 2011.**
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 , 2011	JPY 2,290	JPY 1,340	JPY 920
Apr. 1 st , 2013	JPY 2,540	JPY 1,600	JPY 1,140
Apr. 1 st , 2015	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 Global Warming Countermeasure.”**

- a. Imported and domestic volatile oil for producing petrochemical products
- b. Imported specific coal (used for making steel, coke, 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 d. shall be implemented for only the tax rate added by **“Special Provision on taxation for Climate Change Countermeasure”** until March 31st 2013.

- a. Imported coal used for in-house power generation for produce 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
6. Other required measures shall be taken.

9. Discussion items

[National tax]

(11) Concerning measures against global warming, it is essential to secure consistency among "Provision on taxation for Global Warming Countermeasure" that are newly established as the "Carbon Dioxide Tax of Global Warming Countermeasure" in terms of reduction of CO2 emission, Emission 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.

(12) About the tax exemptions and refunds for feedstock oil products give further consideration to making it permanent or main provision in FY2012 taxation reform.

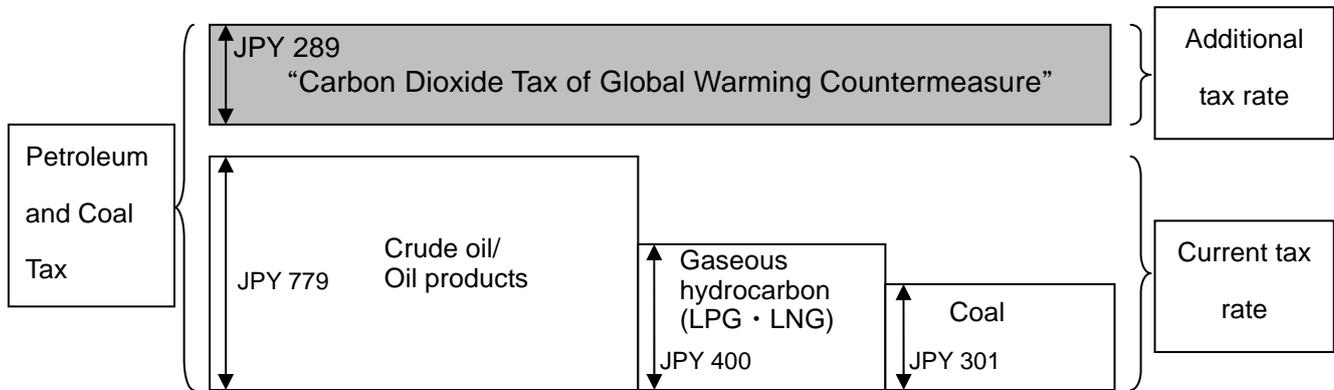
[National tax and local tax]

(4) Give consideration to sweeping reform as simplification, greening and burden relief of tax on vehicles, including so-called "for the time being" tax rate, by expiration of tax reduction for eco-friendly vehicles, taking into account the national/local financial situation and the measures against global warming.

(5) Give further consideration to mechanism to secure and enhance local government finance on the basis of national and local role sharing on measures against global warming to implement in FY2012.

Provisional translation by MOE

(Ref.1) Tax Rate per t-CO2 of “Carbon Dioxide Tax of Global Warming Countermeasure”



Source: 23rd Government Tax Commission

(Ref.2) Tax Rate of “Carbon Dioxide Tax of Global Warming Countermeasure”

Target	Current	H23.10 - H25.3	H25.4 - H27.3	from H27.4
Crude oil, Oil products [per kl]	(JPY 2,040)	JPY +250 (JPY 2,290)	JPY +250 (JPY 2,540)	JPY +260 (JPY 2,800)
Gaseous hydrocarbon [per ton]	(JPY 1,080)	JPY +260 (JPY 1,340)	JPY +260 (JPY 1,600)	JPY +260 (JPY 1,860)
Coal [per ton]	(JPY 700)	JPY +220 (JPY 920)	JPY +220 (JPY 1,140)	JPY +230 (JPY 1,370)

* Figures in parenthesis are the tax rate of Petroleum and Coal Tax.