

Appendix 8 Notes on the results of the CPI on the increase of consumer tax rate in April, 2014

• The treatment of the consumer tax for calculation of the CPI

The objective of the CPI is to measure the movements in prices of goods and services purchased by households. Therefore, the CPI reflects what consumers actually pay, including the consumer tax. Therefore, the results from April 2014 onward include the effects of the increase of consumer tax rate (*).

• The treatment of non-taxable items

The main items excluded from taxation are as follows.

Housing	.....	"Rent", "Fire insurance premium"
Medical care	.....	"Medical treatment", "Delivery fees in national & public hospital"
Transportation & communication	.....	"Charges for driving license", "Automotive insurance premium (compulsion)", "Automotive insurance premium (option)"
Education	.....	"Junior high school fees, private", "High school fees, public", "High school fees, private", "College & university fees, national", "College & university fees, private", "Junior college fees, private", "Kindergarten fees, public", "Kindergarten fees, private", "Vocational school fees", "School textbooks"
Miscellaneous	.....	"Charges for accident insurance", "Nursery school fees", "Charges for nursing care", "Charges for certificates of registered stamps", "Charges for certificates of permanent registration", "Charges for acquisition of passport"

• The treatment of the items which are subject to transitional measures

On the consumer tax increase in April 2014, as for selected items which are subject to transitional measures in such cases as when charges for March are included in the fee calculation under the consumer tax Act, the same measures for each items will also be reflected in the CPI.

The main items which are subject to transitional measures are as follows.

[The items that we will adopt prices including 5% tax rate in Apr. 2014, and an 8% rate following May 2014.]

Fuel, light & water charges	.....	"Electricity", "Gas, manufactured & piped", "Liquefied propane"
Transportation & communication	.....	"Telephone charges" (excluding some carriers)
(As for "Mobile telephone charges", some carriers' transitional measure will be reflected.)		

[The items that we will adopt prices including 5% tax rate in the same term in case that the transitional measures are stipulated in respective municipal bylaw]

Fuel, light & water charges	"Water charges", "Sewerage charges"
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(*) As for each taxable items, the rate of change in prices including consumer tax will be about 2.9% points by mechanical computation on the assumption that the prices excluding consumer tax do not change. (Theoretical formula $(1.08-1.05)/1.05 = 2.9\%$)

(Reference) Trial calculation of effects of the Consumption Tax Hike on CPI by BOJ

The Bank of Japan computed the direct effects of the tax hike as for the Consumer Price Index to examine the trend of price developments from April 2014 onward on a basis excluding the direct effects of the consumption tax hike.

This calculation shows that the year-on-year rate of change in the CPI (all items less fresh food) will be pushed up by about 2.0% points by mechanical computation on the assumption that the tax hike in April (up to 8% from the current 5%) will be fully passed on to all current taxable items. The effect is smaller than the 3% hike of the tax rate because the weights of items that are not affected directly by the tax hike—primarily general services and fees for public services, including rent, school fees, and medical treatment—comprise up to nearly 30% of all items.

Also, due to the selected items including electricity and gas which are subject to transitional measures in such cases as when charges for March are included in the fee calculation under the Consumption Tax Act, in April, right after the rate of consumption tax is changed, the year-on-year rate of change in the all items (less fresh food) index will be pushed up by about 1.7% points.

Effects of the Consumption Tax Hike (5%→8%) on Consumer Price Index

(1) Effects of the Consumption Tax Hike(5% → 8%) on the Year-on-Year Rate of Increase in CPI(%points)

	Japan		Ku-area of Tokyo	
	Assuming that the tax hike is fully passed on	Reflecting transitional measures(April)	Assuming that the tax hike is fully passed on	Reflecting transitional measures(April)
All items	2.1	1.9	1.9	1.7
All items(less fresh food)	2.0	1.7	1.9	1.7
All items(less food and energy)	1.7	1.5	1.5	1.4

(2) Items not Expected to be Affected Directly by the Consumption Tax Hike

Classification in Charts	Items ¹	Weight per 10,000 (all items, less fresh food)	
		Japan	Ku-area of Tokyo
Goods ²	School textbooks	4	4
General services	House rent(private) , imputed rent , package tours to overseas , School & kindergarten fees(private) , PTA membership fees , delivery fees in national & public hospital	2,174	2,860
Fees for public services	House rent(public) , medical treatment , nursing care , School & kindergarten fees(public) , insurance premiums , charges (registered stamps , permanent registration , passport , driving license)	733	576
Total		2,911	3,440

Notes: 1.In addition to non-taxable transactions specified in the Consumption Tax Act (House rent, Educational services, etc.), Package tours to overseas (Since a large portion of services subject to price survey are not domestic transactions) and PTA membership fees (Not considered as compensation) are considered not to be affected directly by the hike.

2.Less agricultural, aquatic & livestock products.

(3) Main Items Subject to Transitional Measures and Others

	Weight per 10,000 (all items, less fresh food)	
	Japan	Ku-area of Tokyo
Electricity	330	274
Gas, manufactured & piped	100	168
Liquefied propane	84	5
Water charges	104	84
Sewerage charges	64	72
Charges for treatment of human waste	4	0
Telephone charges	97	75
Mobile telephone charges	224	184
Total listed above	1,007	862

Source : 「 Monthly Report of Recent Economic and Financial Developments, March 2014 」

(Bank Of Japan)