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Cost-Effectiveness and Necessity of Zero Consumption Tax on Food & Beverage Products and Uniform 5% Consumption Tax

Instead of consumption tax cuts, introduction of tax credits with benefits should be promoted.

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Summary

- Estimates of the impact on household budgets from the Liberal Democratic Party's proposal to eliminate consumption tax on food & beverage products versus some opposition parties calling for a uniform reduction to a 5% consumption tax rate show the former would reduce household expenses by 88,000 yen annually, while the latter would reduce them by 281,000 yen. The effect on stimulating personal consumption would be about 0.5 tril yen (with a GDP boost effect of 0.3 tril yen) for the former, and about 1.5–4.6 tril yen (with a GDP boost effect of 1.1–3.2 tril yen) for the latter. For either measure, a large portion of the fiscal expenditure would go to households with less need for support, and the economic effect is seen as small relative to the required funding of about 5–15 tril yen annually.
- According to the government forecast approved by the Cabinet under the Sanae Takaichi administration, the consumer price index for fiscal year 2026 is projected to slow to a y/y increase of 1.9%. Considering the implementation of measures such as raising the basic deduction, there is no need to implement additional consumption tax cuts as countermeasures against rising prices. Even if the zero-consumption tax on food and beverages is implemented as a measure with a two-year time-limit going forward, it should end as scheduled without extension. The government should actively advance the design of a system for introducing a tax credit with benefits through the National Council.