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# A "Consumption Tax Cut on Food" Becomes Increasingly Likely: What Are Its Effects and Post-Implementation Challenges?

## *Ensuring a Smooth Transition to a Refundable Tax Credit and Maintaining the Consumption Tax's Function as a Social Security Revenue Source*

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### Summary

- A consumption tax cut on food is likely to be implemented as early as April 2027. Heightened tensions in the Middle East have driven up prices, particularly for energy, and the impact is gradually spreading to food as well. While rising prices remain an ongoing challenge, a consumption tax cut as a countermeasure is cost-ineffective, as the absolute tax reduction is larger for high-income households. Moreover, as price pass-through progresses, retail prices may not fall by the full amount of the tax cut. If concerns over fiscal deterioration push interest rates higher, this would undermine the Takaichi Sanae administration's "crisis management investment" and "growth investment" initiatives aimed at stimulating domestic investment.
- The consumption tax is a vital and stable revenue source for funding social security. As long-term responses to population aging continue to be required, if a consumption tax cut on food is implemented as a price-relief measure, it should be concluded as scheduled after two years, followed by a smooth transition to a refundable tax credit. While this institutional shift is expected to increase the burden on high-income households, their need for economic support is inherently low. On the other hand, the burden on low- and middle-income individuals (households) would be contained (or further reduced), and because the refundable tax credit would be a permanent system, its effect in underpinning living standards would be greater than that of a time-limited

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consumption tax cut. It is also expected to help raise the average propensity to consume among working households, which has been stagnant.

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