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Key Takeaways from the Basic Policy on Economic and Fiscal Management and Reform, Part 3: Prioritizing the reduction of social insurance contributions for the working generation

Refundable tax credit and "bridge" consumption tax cut set for introduction with policy decisions expected in early August

Economic Research Dept. **Keiji Kanda**

Summary

- On July 21, 2026, the Sanae Takaichi administration adopted the "Basic Policy on Economic and Fiscal Management and Reform" ("Basic Policy 2026") for the 2026 fiscal year. This policy framework sets a new target for the "social security burden ratio," aiming to lower social insurance contribution rates for the working-age population. However, stabilizing these rates is no easy task given the ongoing rise in medical costs driven by factors such as the aging population and advances in medical technology. Reforms that go further than ever before—such as reviewing the co-payment rates for individuals aged 70 and older—are essential.

- Regarding the refundable tax credit and a consumption tax cut on food and beverages as a “bridge” measure until its introduction, the statement went no further than noting that a policy decision would be reached by early August. The former is expected to be scheduled for full-scale introduction in FY2029 as a system of "finely tuned, income-linked benefits." It is viewed as a mechanism to strengthen income redistribution for Japan's working-age population, among whom poverty is becoming increasingly severe. While a consumption tax cut on food and beverages is also considered highly likely, it suffers from poor cost-effectiveness—as high-income households would also reap significant benefits—and there is a possibility that retail prices would not drop by the full amount of the tax reduction.

- The immediate challenge for income-linked benefits is securing revenue sources.

While a permanent revenue stream amounting to several trillion yen annually is estimated to be necessary, the fiscal situation is projected to deteriorate in the 2030s. To balance strengthened support for the working-age population with fiscal sustainability, it is crucial to prioritize and streamline social security benefits and to rigorously apply the ability-to-pay principle.