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Outline of the Temporary Reduction in the Consumption Tax Rate on Food and Beverages and the Introduction of the Employment Burden Relief Benefit

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The 'Outline of the Temporary Reduction in the Consumption Tax Rate on Food and Beverages and the Introduction of the Employment Burden Relief Benefit' (hereinafter the 'Proposal') was approved by the Cabinet on 15 September 2026.

We have set out below brief summaries of the measures outlined in the Proposal, mainly focusing on the temporary reduction in the consumption tax rate on food and beverages.

With a view to implementing the necessary legislative and other measures as promptly as possible, the relevant bills based on the Proposal are expected to be submitted to, and deliberated in, an extraordinary session of the Diet which is expected to be convened in early October 2026.

The Proposal itself is only indicative of the policy direction for the temporary reduction in the consumption tax rate on food and beverages and the introduction of the Employment Burden Relief Benefit. The details of these measures will be unveiled in the relevant bills and subsequent relevant tax laws, cabinet orders and ministerial ordinances. Please note

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that the contents could differ from the Proposal depending on the outcome of deliberations in the Diet, etc.

I. Developments Regarding the Refundable Tax Credit and the Employment Burden Relief Benefit

1. Background to the Discussions to Date

In February 2026, the National Council for Social Security was established for the government and the participating political parties to discuss the 'Comprehensive Reform of Social Security and Tax', which is closely related to the benefits and burdens of the public. A series of discussions on a 'refundable tax credit' and a 'zero consumption tax rate on foods' were held through the Council's expert panel and working-level panel, and in July 2026, based on those discussions, an 'Interim Report' on the refundable tax credit and related matters was released.

In response to the above, in August 2026, the Cabinet approved the 'Basic Policy for Introducing a Refundable Tax Credit System,' which establishes the government's basic policy while giving due respect to the contents of the Interim Report.

2. Policy for the Introduction of the Employment Burden Relief Benefit

Based on the Interim Report and the basic policy described above, the Proposal stated the following policy:

- The Employment Burden Relief Benefit (hereinafter the 'Benefit') will be introduced as a new system providing an unprecedented level of 'finely targeted benefits linked to income.'
- As an interim measure pending the full-scale introduction of the Benefit system from the year beginning on 1 April 2029, the following two measures will be implemented in combination for a limited two-year period from April 2027:

  (i) A temporary reduction to 1 percent of the consumption tax rate on food and beverages currently subject to the reduced tax rate

  (ii) A Benefit system providing benefits up to an amount equivalent to the consumption tax imposed on food and beverages at a rate of 1 percent

  These measures are intended to ensure a smooth transition to the full-scale introduction of the Benefit system.

The Benefit system is the first step towards the full-scale introduction of the refundable tax credit, and the future design of the system will remain under consideration.

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II. Temporary Reduction in the Consumption Tax Rate on Food and Beverages from 1 April 2027 to 31 March 2029

1. Special Measure for the Consumption Tax Rate on Food and Beverages

(1) Outline of the special measure

Under the current tax law, the standard consumption tax rate is 10 percent (national consumption tax of 7.8 percent and local consumption tax of 2.2 percent), while a reduced tax rate of 8 percent (national consumption tax of 6.24 percent and local consumption tax of 1.76 percent) applies to the following items:

- Food and beverages (excluding alcoholic beverages and dining out, etc.)
- Subscriptions to newspapers published at least twice a week

According to the Proposal, in light of the current rise in prices, a special measure(*) will be provided under which a consumption tax rate of 1 percent (national consumption tax of 0.78 percent and local consumption tax of 0.22 percent) (hereinafter the 'special tax rate') will apply to sales of food and beverages conducted in Japan by business operators during the period from 1 April 2027 to 31 March 2029 (hereinafter the 'Taxable Sales Transactions Subject to the Special Tax Rate') and to food and beverages withdrawn from bonded areas during the same period (hereinafter the 'Taxable Goods Subject to the Special Tax Rate').

Please note that with respect to the fact that the application period of the special tax rate will end on 31 March 2029 and the tax rate applicable to food and beverages will be raised to 8 percent from 1 April 2029, the Proposal does not include a so-called economic conditions clause (a clause providing that the implementation of a consumption tax rate increase is to be determined after comprehensively taking into account economic conditions and other factors).

(*) The following points should be noted with respect to this special measure:

- The scope of food and beverages subject to the special tax rate will be the same as that under the current reduced tax rate system.
- Subscriptions to newspapers published at least twice a week will be outside the scope of this special measure and will remain subject to the 8 percent rate.
- Where there are returns of consideration on sales, bad debts, returns of consideration on purchases, etc. related to Taxable Sales Transactions Subject to the Special Tax Rate, the relevant amounts will be calculated based on the special tax rate.

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		Up to 31 March 2027	From 1 April 2027 to 31 March 2029	From 1 April 2029
Items subject to the standard tax rate		10%	10%	10%
Items subject to the reduced tax rate	Food and beverages	8%	1%	8%
	Subscriptions to newspapers published at least twice a week		8%	

(2) Transitional measures for regular supply contracts (subscription sales) and mail-order sales

As it is expected that it will be difficult in certain cases to amend contracts, etc. to reflect the special tax rate, transitional measures will be provided under which the following sales of food and beverages under regular supply contracts (subscription sales) and by mail order will be excluded from Taxable Sales Transactions Subject to the Special Tax Rate and will remain subject to the 8 percent rate:

- Sales of food and beverages conducted on or after 1 April 2027 under a regular supply contract concluded before 1 January 2027 (meaning a contract for the regular and continuous supply of goods to multiple and unspecified persons, excluding contracts premised on the special tax rate), for which the consideration is received before 1 April 2027 (limited to the portion for which the consideration is received)
- Sales of food and beverages conducted on or after 1 April 2027 by mail order where the terms of sale are presented before 1 January 2027 (excluding terms premised on the special tax rate) and the order is received before 1 April 2027

2. Necessary Measures Related to the Special Measure for the Consumption Tax Rate on Food and Beverages

(1) Special measures for application forms electing not to apply the exemption from consumption tax liability, etc.

Under the current tax law, a tax-exempt business operator that elects to become a taxable person and apply the general taxation method must submit an application form to become a taxable person. A business operator applying the simplified tax credit system that elects to apply the general taxation method must submit an application form to discontinue applying the simplified tax credit system. Each application form must, in principle, be submitted by the day before the first day of the taxable period from which the business operator intends to apply the general taxation method.

In addition, a business operator applying the simplified tax credit system may, in principle, submit an application form to discontinue applying that system only on or after the first day of the taxable period including the day before two years have passed since the first day of the taxable period in which the business operator began applying the simplified tax credit system (hereinafter the 'Two-Year Continued Application Requirement').

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Therefore, even where the amount of consumption tax on purchases is expected to exceed the amount of consumption tax on sales as a result of the temporary reduction in the consumption tax rate on food and beverages, under the current tax law, a business operator whose taxable period including 1 April 2027 has already commenced, or that does not satisfy the Two-Year Continued Application Requirement under the simplified tax credit system, would be unable to apply the general taxation method, under which a refund may be claimed, due to the restrictions described above.

To address this, the following measures will be provided with respect to the submission of an application form to become a taxable person, etc.:

- Where a tax-exempt business operator conducting sales of food and beverages elects to become a taxable person from the taxable period including 1 April 2027 and submits an application form to become a taxable person by the last day of that taxable period, the application form will be treated as having been submitted on the day before the first day of that taxable period.
- Where a business operator conducting sales of food and beverages and applying the simplified tax credit system elects to discontinue applying that system for the taxable period including 1 April 2027 and submits an application form to discontinue applying that system by the last day of that taxable period, the application form will be treated as having been submitted on the day before the first day of that taxable period, and the Two-Year Continued Application Requirement under the simplified tax credit system will not apply.

These measures will enable business operators whose taxable period including 1 April 2027 has already commenced, and those that do not satisfy the Two-Year Continued Application Requirement under the simplified tax credit system in the taxable period including 1 April 2027 to flexibly consider applying the general taxation method.

(2) Special measures under the simplified tax credit system for sales of food and beverages

Business operators applying the simplified tax credit system would still have a certain amount of tax payable on sales of food and beverages under the current tax law even after the temporary reduction in the consumption tax rate on food and beverages, while it is expected that in many cases no tax would be payable if the general taxation method were applied.

To address this, to the maximum extent possible under the simplified tax credit system, a special measure will be provided under which, where a business operator applying that system conducts Taxable Sales Transactions Subject to the Special Tax Rate, the deductible input tax corresponding to those sales will be the same amount as the output tax on those sales, regardless of the business category. As a result, no net

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consumption tax will be payable in respect of Taxable Sales Transactions Subject to the Special Tax Rate.

The same treatment will also apply where the transitional measures(*) allowing small business operators that become registered suppliers under the invoicing system to calculate the consumption tax payable using an easier method are applied.

Where these special measures are applied, the tax payable under the simplified tax credit system, etc. of the current tax law will be calculated based on the output tax relating to taxable sales transactions other than Taxable Sales Transactions Subject to the Special Tax Rate.

(*) These transitional measures are as follows:

- A transitional measure under which a small business operator (an individual or a company) who had consumption tax exempted status, but elects to become a registered supplier (i.e. a taxable person) may, in its consumption tax return for a taxable period including the day from 1 October 2023 to 30 September 2026, calculate the consumption tax payable as 20 percent of the consumption tax on the taxable base for that taxable period
- A transitional measure under which a small business operator (limited to an individual) who had consumption tax exempted status, but elects to become a registered supplier (i.e. a taxable person) may, in its consumption tax return for a taxable period in 2027 or 2028, calculate the consumption tax payable as 30 percent of the consumption tax on the taxable base for that taxable period

(3) Special measures for the items to be stated in interim consumption tax returns, etc.

The interim tax amount calculated for business operators, whose tax payable decreases as a result of the temporary reduction in the consumption tax rate on food and beverages, is expected to be excessive, since the interim tax amount is based on the final consumption tax amount for the previous taxable period.

To address this, the following measures will be provided with respect to the interim tax amounts of such business operators:

- For an interim return period beginning on or after 1 April 2027(*1), a business operator may state in its interim return an interim tax amount calculated on the assumption that, in the previous taxable period, the special tax rate is applied to sales of food and beverages, taxable purchases relating to such sales, and food and beverages withdrawn from bonded areas (or zero, if no interim tax amount arises).
- For an interim return period beginning on or after 1 April 2029(*2), a business operator may state in its interim return an interim tax amount calculated on the assumption that, in the previous taxable period, the special tax rate is not applied to Taxable Sales Transactions Subject to the Special Tax Rate, taxable purchases relating to such sales and the

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Taxable Goods Subject to the Special Tax Rate (or zero, if no interim tax amount arises).

These measures will enable business operators to calculate interim tax amounts reflecting the changes in the tax rate on food and beverages.

(*1) For such interim return periods, this special measure may be applied on the assumption that the special measures in (2) above are applied.

(*2) For such interim return periods, this special measure may be applied on the assumption that the special measures in (2) above are not applied.

(4) Special measures for the tax-inclusive price labeling rule for sales of food and beverages

Where business operators display prices in advance to multiple and unspecified persons (consumers), they must display tax-inclusive prices including the amount of consumption tax (hereinafter the 'tax-inclusive price labeling rule').

In implementing the temporary reduction in the consumption tax rate on food and beverages, the tax-inclusive price labeling rule will be maintained, taking into account that tax-inclusive display is easier for consumers to understand. On the other hand, situations may arise in which business operators are unable to display tax-inclusive prices reflecting the appropriate tax rate in time for rate changes.

To address these circumstances, only where it is difficult to comply immediately with the tax-inclusive price labeling rule, business operators may, during the periods listed in the table below, display the corresponding special display prices set out in that table as the tax-inclusive prices of food and beverages that they are required to display. This will apply only where the business operators take measures to prevent those special display prices from being mistaken for the tax-inclusive prices required under the tax-inclusive price labeling rule.

Period	Special display price
From 1 April 2027 to 31 May 2027 (the two months after the rate is reduced to 1%) and From 1 February 2029 to 31 March 2029 (the two months before the rate is raised to 8%)	Tax-inclusive price based on the reduced tax rate (8%)
From 1 February 2027 to 31 March 2027 (the two months before the rate is reduced to 1%) and From 1 April 2029 to 31 May 2029 (the two months after the rate is raised to 8%)	Tax-inclusive price based on the special tax rate (1%)

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These special measures will enable business operators to display tax-inclusive prices for food and beverages based on either the 8 percent rate or the 1 percent rate during each of the two-month periods before and after each tax rate change, where the above condition is satisfied.

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In addition to the above, necessary measures will be provided.

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