

Daiwa's Economic View

Consumption tax cut: Considering the timeline from implementation to termination

- *Yomiuri Shimbun's* reporting on the schedule leading up to the extraordinary Diet session
- Timeline to the realization of a consumption tax cut
- Timeline to the termination of the consumption tax cut
- One model case covering the period from the start to the end of the consumption tax cut

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According to a *Yomiuri Shimbun* report, it appears that Prime Minister Sanae Takaichi has instructed the Ministry of Finance (MOF) to accelerate considerations for implementing a consumption tax cut. The plan seems to be to pass related legislation during the autumn extraordinary Diet session, with an eye on implementation within the following year.

Regarding the subsequent timeline, *Yomiuri Shimbun* cited past examples where it took approximately one and a half years from the promulgation of the law to its implementation. Additionally, in the case of refundable tax credits, a considerable amount of time is required from system design to the actual deduction and payment of benefits.

As one model case, we have considered the start of a consumption tax cut from January 2028. This would allow for a preparation period of just over one year following legal revisions around Oct-Nov 2026.

Two years later, at the end of December 2029, the consumption tax cut would end. To transition seamlessly to a refundable tax credit program thereafter, it would be necessary to capture income data for 2029 under the new system. The preparation period of approximately two years, starting after a basic policy is decided by autumn 2026, is close to the timeframe mentioned in Finance Minister Satsuki Katayama's remarks.

***Yomiuri Shimbun* reports on timeline leading up to the extraordinary diet session**

On 14 February, *Yomiuri Shimbun* reported on the timeline for the introduction of a consumption tax cut. It seems that on 12 February, PM Takaichi "instructed Finance Minister Katayama and MOF senior officials to accelerate considerations toward implementing a consumption tax cut." The plan seems to be to "establish a path toward securing funding sources by June at the national council" and "consider a timeline to pass related legislation in the autumn extraordinary Diet session for implementation within the next year."

Yomiuri Shimbun also reported that "the government plans to discuss the refundable tax credits and the consumption tax cut simultaneously at the national council." To implement the consumption tax cut and ensure that it terminates definitively after two years, a system design that integrates the termination of the tax cut with the introduction of the refundable tax credit program is necessary. It is likely that this was the intention when PM Takaichi, at a press conference on 9 February, positioned the consumption tax cut as a "bridge" to the refundable tax credits. (Please refer to our report dated 16 Feb 2026 [Daiwa's Economic View: Consumption tax cut likely to proceed: Is discontinuation after two years possible?](#))

Considering the timeline for implementing the consumption tax cut

Regarding the implementation timing of the consumption tax cut, a certain amount of time is required after the law is revised and promulgated for businesses to prepare. The *Yomiuri Shimbun* article on 14 February touches upon the fact that "in the past, taking into account the burden on businesses such as system modifications, a preparation period of at least one and a half years was set between the promulgation of the related law and its implementation."

Considering the timeline for terminating the consumption tax cut

A refundable tax credit is a system that deducts individual income tax according to income, with any amount that cannot be fully offset provided as a benefit. (Please refer to our report dated 16 Feb 2026 [Daiwa's Economic View: Consumption tax cut likely to proceed; Is discontinuation after two years possible?](#)) In fact, the later the start date of the consumption tax cut, the more convenient it is for a seamless transition to a refundable tax credit. This is because a significant amount of time is required from the design and introduction of the refundable tax credit system to the start of the actual deductions and benefit payments.

The system design needs to determine, for example, the following:

- Scope of income capture
- To what extent will salaries, self-employment, pensions, miscellaneous income, and non-taxable groups be treated under the same definition?
- Will existing income definitions be used as is, or will new rules be introduced to address regressivity?
- Frequency of benefit payments
- Monthly or quarterly payments would impose a heavy administrative burden and take a long time for system development.
- A single, annual post-payment tied to year-end tax adjustments or final tax returns would have a lighter administrative burden and require less time for system development.
- The initial deduction or payments would occur after the year in which the income was captured.
- Heaviness of the administrative burden at initial implementation
- In the first year of introduction, there is the burden of starting all new practical operations simultaneously.
- It is desirable to have a reasonable lead time to translate the completed system design into practical operations.
- Public notification
- It is difficult for individuals to know if they are eligible for refundable tax credits.
- It is necessary for taxpayers to understand the eligibility conditions and benefit timing prior to system commencement.

Considering a model case for the timeline from start to finish

Based on the above, we have considered the start of a consumption tax cut from January 2028 as one model case. Although the start of the tax cut is quite late, the time for system design and preparation cannot be considered sufficient, making it a very tight schedule. While the government would likely stake its credibility on ensuring that the tax cut is terminated exactly after two years, progress in the design and preparation phases warrants close monitoring.

First, the consumption tax cut would begin in January 2028. This would mean a preparation period of just over one year following legal revisions around Oct-Nov 2026, which is slightly shorter than the period mentioned in the *Yomiuri Shimbun* report.

Two years later, at the end of December 2029, the consumption tax cut would end. To start the refundable tax credit program with minimal disruption, it would be necessary to capture income for 2029 under the new system. Based on the actual income for 2029, year-end adjustments could be made at the end of 2029, and tax credits or benefit payments could be made after the final tax return filing period in Feb-Mar 2030.

By autumn 2026, the basic policy for the system would be determined alongside the consumption tax. Consideration would continue thereafter, with system design completed during 2028, relevant legislation passed, and the public informed. Income would then be captured under the new system starting in January 2029. This would make the preparation period slightly shorter than, but close to, the “maximum of two years” for system design mentioned by Finance Minister Katayama at a press conference on 13 February.

It should be noted that accurate identification of taxpayer income is indispensable for implementing the refundable tax credit program. However, at the press conference on the 13th,

Finance Minister Katayama stated that no country achieves perfectly comprehensive income capture, and that practical compromises within a certain range are unavoidable. Accordingly, it appears unlikely that concerns over income identification alone would derail the introduction of the system.

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