

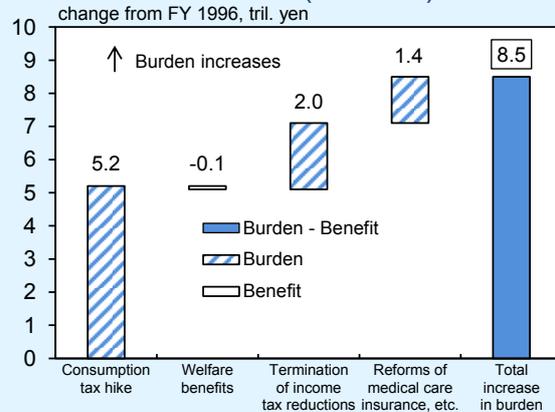
(Box 1) The Net Burden on Households around the Time of Consumption Tax Hikes

In order to consider changes in household consumption around the time of consumption tax hikes, it is necessary to take into account not only changes in the consumption tax rate but also in the household burden brought about by other factors.

A look at the increase in the net burden on households following the two previous consumption tax hikes shows that, in fiscal 1997, apart from the hike in the consumption tax rate by 2 percentage points (equivalent to a burden of 5.2 trillion yen), there were substantial additional increases in the household burden in the form of a termination of income tax reductions and an increase in medical costs resulting from reforms of medical care insurance (Chart B1-1). In fiscal 2014, the tax rate was raised by 3 percentage points, increasing the household burden by 8.2 trillion yen, and although measures to reduce the burden were taken, such as increases in welfare benefits, the effects were lessened by an increase in pension-related burdens (Chart B1-2). As a result, the increase in the net burden on households is estimated to have been about 8 trillion yen around the time of both of the previous tax hikes.

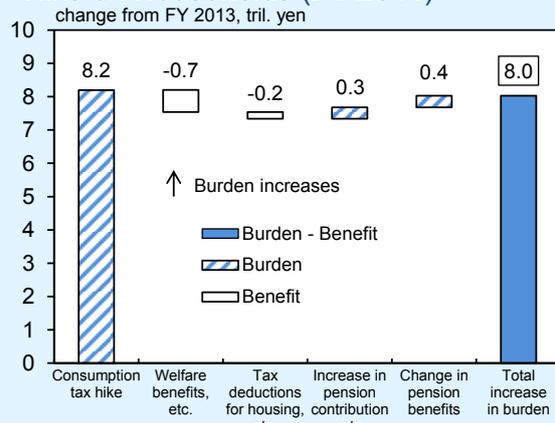
On the other hand, in fiscal 2019, even though the consumption tax is scheduled to be raised by 2 percentage points, a number of measures to mitigate the burden -- such as a reduced tax rate and an increase in welfare benefits for pensioners -- and the provision of free education are planned

Chart B1-1: Burden of Consumption Tax Hike on Households (FY 1997)



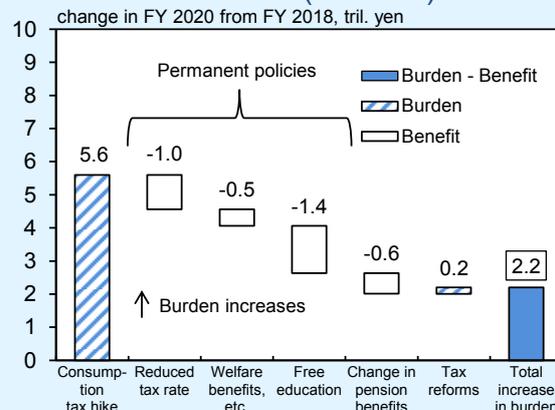
Sources: Cabinet Office; Ministry of Finance.
 Note: Based on *Keizai no Kaiko* (Review of the Japanese Economy) 1997 published by the former Economic Planning Agency.

Chart B1-2: Burden of Consumption Tax Hike on Households (FY 2014)



Sources: Ministry of Finance; Ministry of Health, Labour and Welfare, etc.
 Note: "Welfare benefits, etc." includes economic policies to mitigate the impact of the tax hike on households (Cabinet decision in October 2013).

Chart B1-3: Burden of Consumption Tax Hike on Households (FY 2019)



Sources: Ministry of Finance; Ministry of Health, Labour and Welfare; Consensus Economics Inc., "Consensus Forecast," etc.
 Notes: 1. The figure for "change in pension benefits" is based on staff calculations under the following assumptions: (i) the wage growth-slide adjustment rate is equal to the price growth-slide adjustment rate; (ii) the slide adjustment rate under the macroeconomic slide mechanism is -0.6% (including -0.3% carried over from fiscal 2018) in fiscal 2019 and -0.3% in fiscal 2020. Inflation rates are from the "Consensus Forecast."
 2. The figure for "free education" is based on staff calculations.

to be implemented (Chart B1-3).^{31,32,33} As a result, the net burden on households is expected to be only about 2 trillion yen. In addition, the fact that many burden mitigation measures are permanent is expected to increase their effects.

Thus, in terms of the net burden on households, the impact of the scheduled consumption tax hike in fiscal 2019 is expected to be smaller than that of past tax hikes. Nevertheless, the impact of the consumption tax hike is highly uncertain, partly because the effects on consumer sentiment can differ substantially, depending on economic conditions at the time of the tax hike.

³¹ The increase in welfare benefits, etc., shown in Chart B1-3 is obtained by calculating the net impact, including of welfare benefits for pensioners and the reduction in nursing care insurance premiums for low-income households, as well as of the increased burden through the end of the reduction in employment insurance premiums, which is a measure limited to three years.

³² The impact of the provision of free education has been calculated based on information such as from media reports, making bold assumptions taking into account the government's financial resources as well as cases of the reductions in the burden of early childhood education by some municipalities.

³³ Unlike in fiscal 1997 and fiscal 2014, when the consumption tax hike was implemented at the beginning of the fiscal year in April, the fiscal 2019 tax hike is scheduled for October. For this reason, in order to make it possible to compare the three tax hikes, the impact of the October 2019 tax hike in Chart B1-3 is calculated as the increase in the burden in fiscal 2020 compared to fiscal 2018.