

Empirical Analysis of Reduced Tax Rate and Benefits in Japanese Consumption Tax across Age Groups*

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Abstract

The primary purpose of this study is to clarify the redistribution effects of a reduced consumption tax rate and benefits in Japan using empirical methods. We analyze the impacts of these consumption tax reforms on social welfare. We estimate parameters in an empirical model and perform a simulation analysis of the effects of three consumption tax reforms: uniform tax increase, reduced tax rate, and benefits on social welfare. This analysis considers the scale of tax revenue and inequality aversion, which indicates the social value judgment about income inequality. Our results indicate that benefits have a more significant redistributive effect than a reduced tax rate when there is a high level of inequality aversion. However, uniform taxation is supported in situations where equity considerations are absent. We conclude that providing benefits to young households is more effective than reducing the consumption tax rate as a redistribution policy when increasing the consumption tax. This conclusion considers both social inequality aversion and the age effect.

Keywords: Reduced consumption tax rate, Benefit, Age effect, Redistribution effect

JEL: H21, H22, H23

*This study received support from Sapporo Gakuin University Research Support Grant, Number SGU – AS2023 – 01, in 2023.

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