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Liquor Tax Reform Japan

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Beverages

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Report Highlights:

The Government of Japan revised the national liquor tax law in 2017. As a result, liquor tax rates for beer and wine will be changed in three stages over the next ten years. Both beer and beer-based alcoholic beverages, currently in different tax categories, will be unified in a single tax category in 2026. As a result, and beginning in 2020, the liquor tax on malt based beer (not less than twenty five percent malt) will be lowered and the rate for beer-flavored liquors (less than twenty five percent malt) will be increased. The liquor tax applied to wine will be increased in 2020 and again in 2023. For U.S. wines, those tax increases coincide with declining import duties on competing wines from Europe. The competitiveness of beer and wine from the United States may be affected.

General Information:

Japan's liquor tax categories have encouraged the development of several beer-flavored products that take advantage of lower tax classifications. GOJ revised the liquor tax on beer to rationalize these special market conditions and to promote internationalization in order to export beer to abroad. In addition to these liquor taxes, all alcoholic beverages are subject to an eight percent general sales tax.

Wine is currently taxed at a lower rate than Japanese sake, despite similarities in production and consumption. As a result of the tax revisions, the GOJ will increase taxes on wine and decrease rates on Sake beginning in 2020 and the rates will be equal in 2023. In 2017, Japan signed the EU-Japan Economic Partnership Agreement (EPA) that will begin reducing the import duties on European wines from as early as 2019. Chilean and Australian wines already enjoy lower import duties from their economic agreements with Japan. Taken together, these changes are expected to reduce the price competitiveness of U.S. wines.

- Liquor tax rates on beer will change in three stages in 2020, 2023 and 2026, and wine in two stages in 2020 and 2023 (details see the table below for details).
- The GOJ will consolidate various beer products including *Happoshu* (low malt beer) into a single liquor tax category called "beer flavored effervescent alcoholic beverages" in 2026.
- This new definition for beer will allow the expanded use of adjunct ingredients such as fruits; spices; herbs; honey; sugar; salt; and other products-- in addition to original allowed ingredients including malt; grains; starches and sugar; and specific aromatic agents.
- The current liquor tax rate on wine of ¥80,000 (about \$720) per kiloliter, and the rate for Japanese sake, ¥120,000 (about \$1,090) per kiloliter, will be equal at ¥100,000 (about \$910) per kiloliter in 2023.
- Tax rates for sparkling, low-alcohol spirits which use distilled liquors including whiskey, brandy and other spirits will be changed; from ¥80,000 (about \$730) per kiloliter for products less than 9 percent (18 proof) alcohol content to ¥100,000 for products less than 11 percent (22 proof) alcohol content.
- There will be no change to tax rates for ordinary spirits (alcohol contents more than 11 percent [22 proof]), including whiskey and brandy.

Chart 1: Timetable of Japan Liquor Tax Revision in 2017

Liquor taxes per kiloliter Category\Effective Date	Current Apr/1/2018	Stage 1 Oct/1/2020	Stage 2 Oct/1/2023	Stage 3 Oct/1/2026
Beer – (beer flavored effervescent alcoholic beverages)	¥220,000 (\$2,000)	¥200,000 (\$1,820)	¥181,000 (\$1,640)	¥155,000 (\$1,400)
<i>Happoshu</i> (beer flavored effervescent alcoholic beverages with other ingredients) – malt contents: more than 50 %	¥220,000 (\$2,000)	¥200,000 (\$1,820)	¥181,000 (\$1,640)	
<i>Happoshu</i> - malt contents: not less than 25% and less than 50% Alcohol content: less than 10 %	¥178,125 (\$1,610)	¥167,125 (\$1,510)	¥155,000 (\$1,400)	
<i>Happoshu</i> - malt contents: Less than 25% Alcohol content: less than 10 %	¥134,250 (\$1,220)	¥134,250 (\$1,220)	¥134,250 (\$1,220)	
Other effervescent alcoholic beverage – fermented with hops, sugar and water, or add spirits into <i>happoshu</i> and/or soda water Alcohol content: less than 10 %	¥80,000 (\$720)	¥108,000 (\$980) Less than 10%	Less than 10%	
Others effervescent alcoholic beverage – no hop or bitter agent used, such as <i>Chuhai</i> (mix of spirits and soda water) Alcohol content:	Less than 10%	¥80,000 (\$720) Less than 10%	¥80,000 (\$720) Less than 10%	¥100,000 (\$910) Less than 11%
Non-sparkling low alcohol spirits: <i>Shochu</i> , whiskey, brandy & liquor	¥80,000 (\$720) Less than 9%	¥80,000 (\$720) Less than 9%	¥80,000 (\$720) Less than 9%	¥100,000 (\$910) Less than 11%

Alcohol content:				
Brewed Alcoholic Beverages: Wine & Sake		¥140,000 (\$1,270)	¥120,000 (\$1,090)	¥100,000 (\$910)
	Wine	¥80,000 (\$720)	¥90,000 (\$815)	
	Refined Sake	¥120,000 (\$1,090)	¥110,000 (\$910)	

Reference: exchange rate ¥110-111 per \$US

A Look Back on the Japanese Beer Industry

Japanese industrial beer production started in 1870. From this time, beer production increased until peaking in 1996. In 1994, regulatory changes allowed microbrewers (with capacity as low as 60 kiloliters per year) to enter the market. Shortly afterwards, however, production of beer began to steadily decrease due to economic, demographic and social factors. In addition, beer producers faced increased competition from other alcoholic beverages; including the Japanese spirit “*Shochu*” and ready-to-drink packaged cocktails such as canned whiskey and soda “Highballs.” While overall alcohol production decreased by sixteen percent between 1996 and 2016, beer production fell by twenty seven percent; from 7.1 million kiloliters to 5.2 million kiloliters. The introduction and popularity of beer-flavored alcohol products after 2003, helped fuel the decline in beer production.

Until the late 1980s, domestic brewers coordinated pricing throughout Japan. In the late 1980s, sharp changes in the yen/dollar exchange rate caused parallel imports of beers such as Budweiser, Coors and Heineken to become much more competitive. Beer imports to Japan increased from 51,000 kiloliters in 1988 to 324,000 kiloliters in 1994. In response, domestic brewers cut prices dramatically and in 1994 Sapporo Breweries developed *happoshu*, a lower-malt beer which they were able to sell at reduced prices because of its lower tax assessment. The success of *happoshu* prompted other major brewers to produce their own brands. Since then beer imports have slowly decreased as Japanese firms regain market share.





In 2003, the Japanese government raised taxes on low malt beer (*happoshu*) to boost tax revenues, and Japanese brewers countered by creating beer-flavored alcohol products which took advantage of yet another tax classification. These products were developed to have a similar taste to traditional beers and lower calorie content. The sales volume of these beer-flavored drinks, called New Genre beverages, continues to grow at the expense of both *happoshu* and beer. Nonetheless, New Genre products are not frequently served by the Japanese food service industry.

Price and tax Structure for Beer

In the table below, please find a comparison of the tax rates assessed for various categories of beer and beer-flavored beverages. It is important to note that the 8 percent consumption tax is assessed on

the product price *including* applicable liquor taxes:

Chart 2: Current Tax/Price Structure of Domestic Beers

Category Ingredients	Packages (350 ml/can) 0.35 L	Retail price included taxes*	Liquor tax per 0.35 L	Consumption tax: 8%	Total taxes paid
Premium Beer (ex: Sapporo Yebisu) malt and hops		¥230 (\$2.09) (\$12.21/6- pack)	¥77 (\$0.70) (33.5% of retail price)	¥17 (\$0.15) (price without taxes=¥136)	¥94 (\$0.85) (41% of the total retail price)
Regular Beer (high malt beer) (ex: Asahi Super Dry) malt, hops, rice, corn starch		¥211 (\$1.92) (\$11.22/6- pack)	¥77 (\$0.70) (36.5%)	¥15.6 (\$0.14) (price without taxes=¥118.4)	¥93 (\$0.84) (44.1%)
Happoshu (ex: Kirin Tanrei) malt, hops, barley, corn and sugar		¥143 (\$1.30) (\$7.62/6- pack)	¥47 (\$0.43) (32.9%)	¥10.6 (\$0.10) (price without taxes=¥85.4)	¥58 (\$0.52) (40.6%)
New Genre (ex: Suntory Kin-mugi) happoshu, spirits and carbon dioxide		¥124 (\$1.13) (\$6.60/6- pack)	¥28 (\$0.25) (22.6%)	¥9.2 (\$0.08) (price without taxes=¥86.8)	¥37 (\$0.34) (29.8%)

* Retail prices at Kakuyasu, a major on-line liquor shop, in January 2018; <http://www.kakuyasu.co.jp>

Unit: ml = milliliter, L = Liter

Exchange rate: ¥110 per US\$

U.S. craft beer exporters face higher costs for shipping and distribution, and their products generally retail at about two to three times the price of domestic premium beer (**). As a result, the liquor tax burden as a percentage of the final price is substantially smaller than for domestic beers. The beer tax reform will generally provide less benefit to high quality imported beers.

Chart 3: Current Tax/Price Structure of Imported U.S. Beers

Category Ingredients	Package (355ml=12oz. /bottle)	Retail price including all taxes**	Liquor tax per 355 ml (0.355 L)	Consumption tax: 8%	Total taxes paid
Imported U.S. Craft Beer: Kona Beer, HI-Golden Ale, Lager, Pale Ale		¥1,180/3-pack @¥394/bottle (\$3.58/bottle)	¥78.1 (\$0.71)	¥29.2 (\$0.27) (price without taxes=¥287)	¥107.3 (\$0.98) (27.2%)
Imported U.S. Craft Beer, CA: Lagunitas IPA		¥3,240/6-pack @¥540/bottle (\$4.91/bottle)	¥78.1 (\$0.71)	¥40.0 (\$0.36) (price without taxes=¥422)	¥118.1 (\$1.07) (21.9%)
Imported U.S. Craft Beer, CA: Ballast Point- Pale Ale		¥2,198/3-pack @¥733/bottle (\$6.66/bottle)	¥78.1 (\$0.71)	¥54.3 (\$0.49) (price without taxes=¥600)	¥132.4 (\$1.20) (18.1%)

**Retail prices at Amazon Japan in January 2018; <https://www.amazon.co.jp>

Unit: ml = milliliter, L = liter

Exchange rate: ¥110 per US\$

Import Duties on Beer

In 2002, the Japanese government abolished import duties for beer, as per terms of the World Trade Organization (WTO) agreement. There have been no significant changes in tariff codes or rates since and/or even after the implementation of the liquor tax revision.

Influence after the Tax Reform

In addition to the liquor tax reform, Japan's Government will increase the consumption tax rate from 8 to 10 percent in October 2019. Even taking into account the increase in the consumption tax, the ratio of taxes as a percentage of the final price will be reduced for high malt beers, but will rise for *happoshu* and increase substantially for New Genre products. Meantime, retail prices of imported U.S. craft beer will be only marginally impacted.

Chart 4: Estimated Domestic Beer Price after 2026

Type of beer: current retail price	Price before taxes (reflection of the Chart 2)	New Liquor tax ¥155,000/KL of 350 ml	Consumption tax 10% in 2019	Total Taxes	Estimated retail price (\$), taxes as % of retail price

Regular Beer: ¥211	¥118.4 (\$1.08)	¥54.25 (\$0.49)	¥17.3 (\$0.16)	¥71.5 (\$0.65)	¥190 (\$1.73) 37.6%
Happoshu: ¥143	¥85.4 (\$0.78)	¥54.25 (\$0.49)	¥14.0 (\$0.13)	¥68.2 (\$0.62)	¥154 (\$1,40) 44.3%
New Genre: ¥124	¥86.8 (\$0.79)	¥54.25 (\$0.49)	¥14.1 (\$0.13)	¥68.4 (\$0.62)	¥156 (\$1.41) 43.8%

Unit: per a can/bottle of 350 milliliter

Unit: ml = milliliter, KL = kiloliter

Exchange rate: ¥110 per US\$

Chart 5: Estimated U.S. Craft Beer Price after 2026 (by three different price categories)

Current retail price (/bottle) of Imported U.S. craft beer	Price before taxes	New Liquor tax ¥155,000/KL of 355 ml (12 oz)	Consumption tax 10% in 2019	Total Taxes	Estimated retail price (\$), taxes as % of retail price
¥394 (\$3.58)	¥287 (\$2.61)	¥55.03 (\$0.50)	¥34.2 (\$0.31)	¥89.2 (\$0.81)	¥376 (\$3.42) 23.7%
¥540 (\$4.91)	¥422 (\$3.84)	¥55.03 (\$0.50)	¥47.7 (\$0.43)	¥102.7 (\$0.93)	¥525 (\$4.77) 19.6%
¥733 (\$6.66)	¥601 (\$5.46)	¥55.03 (\$0.50)	¥65.6 (\$0.60)	¥120.7 (\$0.93)	¥721 (\$6.56) 16.7%

Unit: per a can/bottle of 355 milliliter = 12 US ounce

Unit: ml = milliliter, KL = kiloliter

Exchange rate: ¥110 per US\$

The Liquor Tax Revision and Wine

The liquor tax for wine is ¥80,000 (\$727) per kiloliter at present. It will be increased to ¥100,000 (\$909) per kiloliter in 2023. According to the revised tax schedule, taxes on wine will be increased to ¥90,000 (\$818) in 2020 and to ¥100,000 (\$909) in 2023. On a per-bottle (750 ml) basis that tax is currently ¥60 (\$0.55) and will rise to ¥75 (\$0.68) after the liquor tax reform.

The Japanese Government justifies increasing the wine tax as elimination of the gap between taxes on wine and Japanese sake, both of which are similarly fermented alcoholic beverages with similar consumption patterns. The current liquor tax for sake is ¥120,000(\$1,092) per kiloliter, equivalent to ¥90 (\$0.82) per bottle (750 milliliter). The tax applied to sake will be reduced by ¥10,000 in both 2020 and 2023, complementing the increasing taxes for wine and resulting in an applied liquor tax of ¥100,000 (\$909) per kiloliter, equal to wine.

Chart 6: Year of Change in Liquor Taxes (per kiloliters)

Liquors	Wine		Sake		Beer	
	Japan ¥	US\$*	Japan ¥	US\$*	Japan ¥	US\$*
1989	46,300	421	133,700	1,215	208,400	1,895

1994	56,500	514	140,500	1,277	220,000	2,000
2006	80,000	727	120,000	1,091	220,000	2,000
2020	90,000	818	110,000	1,000	200,000	1,818
2023	100,000	909	100,000	909	181,000	1,645
2026	100,000	909	100,000	909	155,000	1,409

Source: ATO Tokyo research

*Reference: Ex-change rate Japan ¥110 per US\$

Japan Import Duties on Wine

Japan's import duties on wine vary depending on country of origin. Wine produced in the U.S. faces a tariff of ¥125 per liter or fifteen percent of the CIF price (to a minimum of ¥67 per liter), whichever is lower.

Due to preferential access agreements with Japan, many competitor countries enjoy favorable rates for wine as detailed below: (See [JA8023](#) for more information on Japan's tariff reductions for wine).

Chart 7: Japan Wine Import Duty (HS code 2204.21-020)

Country	Import Duty	Summarized
WTO members, including U.S.A. and E.U.	15% (of CIF price) or 125 yen per liter, whichever is lower, subject to a minimum customs duty of Japan ¥67 per liter	Maximum: ¥125/liter Minimum: ¥67/liter
Australia	7.5% (of CIF price) or 125 yen per liter, whichever is lower, subject to a minimum of 33.5 yen per liter	Maximum: ¥125/liter Minimum: ¥33.5/liter
Switzerland	1.5% or 12.5 yen per liter, whichever is lower, subject to a minimum of 6.7 yen per liter	Maximum: ¥12.5/liter Minimum: ¥6.7/liter
Chile	2.3% with a maximum assessment of 125 yen per liter	Maximum: ¥125/liter Minimum: 2.3 % of CIF

The EU, Australia and Chile have negotiated Economic Partnership Agreements (EU-EPA, Australia/Chile-TPP11) with Japan's import tariffs on wine slated for immediate elimination upon entry of those agreements into force.

Chart 8: Current Tax/Price Structure of Import Wines (random selection)

Imported	Package	Retail price	Liquor	Consumption	Total
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Wine Country, Brand and type	750 ml/bottle (25.4 fl oz.)	including all taxes**	tax per 750 ml (0.75 L)	tax: 8%	taxes paid
The U.S.: Kendall-Jackson Vintner's Reserve Merlot		¥3,500/bottle (\$31.82/bottle)	¥60 (\$0.55)	¥259.3 (\$2.36) (price before taxes=¥3,181)	¥319.3 (\$2.90) (9.1% of the total retail price)
Australian: Commune of Buttons, ABCD Chardonnay		¥6,000/bottle (\$54.55/bottle)	¥60 (\$0.55)	¥444.4 (\$4.04) (price before taxes=¥5,496)	¥504.4 (\$4.59) (8.4%)
Chilean: Montes Outer Limits Zapallar, Sauvignon Blanc		¥3,000/bottle (\$27.27/bottle)	¥60 (\$0.55)	¥222.2 (\$2.02) (price before taxes=¥2,718)	¥282.2 (\$2.57) (9.4%)
French: Baron Philippe De Rothschild, Mouton Cadet, Rouge		¥1,600/bottle (\$14.55/bottle)	¥60 (\$0.55)	¥118.5 (\$1.08) (price before taxes=¥1,422)	¥178.5 (\$1.62) (11.2%)

**Retail price of Enoteca Online, a well-known Japanese wine shop, in February 2018;

<https://www.enoteca.co.jp/>

Unit: ml = milliliter, L = liter

Exchange rate: ¥110 per US\$

Chart 9: Estimated Import Wine Prices after 2023 (reflection of the above chart 8)

Current retail price (per bottle)	Price before taxes (reflection of the Chart 8)	New Liquor tax ¥100,000/KL of 750 ml (about 25.4 fl oz)	Consumption tax 10% after 2019	Total Taxes	Estimated retail price (\$), taxes as % of retail price
U.S. wine ¥3,500 (\$31.82)	¥3,181 (\$28.92)	¥75 (\$0.68)	¥325.6 (\$2.96)	¥400.6 (\$3.64)	¥3,581 (\$32.65) 11.2%

Australian wine ¥6,000 (\$54.55)	¥5,496 (\$3.84)	¥75 (\$0.68)	¥557.1 (\$5.06)	¥632.1 (\$5.75)	¥6,128 (\$55.71) 10.3%
Chilean wine ¥3,000 (\$27.27)	¥2,718 (\$3.84)	¥75 (\$0.68)	¥279.3 (\$2.54)	¥354.3 (\$3.22)	¥3,072 (\$27.93) 11.5%
French wine ¥1,600 (\$14.55)	¥1,422 (\$5.46)	¥75 (\$0.68)	¥149.6 (\$1.29)	¥224.6 (\$2.04)	¥1,646 (\$14.96) 13.6%

*Liquor taxes: after 2021 (Estimation based on the same import duty rates in 2018.)

Unit: ml = milliliter, KL = kiloliter

Exchange rate: ¥110 per US\$