

18 December 2025

## Tax deal with Tamaki essentially an external cooperation pact

### Key takeaways

- In signing a deal to include tax relief measures demanded by the Democratic Party for the People (DPFP) in next year's tax plan, Prime Minister Takaichi Sanae has effectively concluded an informal confidence-and-supply agreement.
- With organized labor backing off from its opposition to the DPFP's participation in a coalition government, the tax agreement could be a precursor to a formal arrangement between the LDP and DPFP.
- In the meantime, it expands Takaichi's options and bolsters DPFP leader Tamaki Yūichirō after the setback of his unsuccessful premiership bid.

---

Prime Minister Takaichi Sanae and Democratic Party for the People (DPFP) leader Tamaki Yūichirō met on Thursday, 18 December to sign an agreement that secures the inclusion of a provision that will raise the income tax exemption threshold to JPY 1.78mn per year, the central plank in the DPFP's program of boosting take-home pay for Japanese households. This change will not only apply to low-income workers but raises the basic deduction for salaried workers earning up to JPY 6.65mn a year, providing a tax cut of up to JPY 36,000/year.

While this measure should deliver modest stimulus to a significant number of households over the next two years, the agreement's political significance is even greater. In effect, in making this deal Takaichi and Tamaki concluded an informal external cooperation agreement to supplement Takaichi's external cooperation agreement with Ishin no Kai. The DPFP had already drawn closer to the government in its support for the FY2025 supplemental budget, and this pact ensures that the DPFP will throw its weight behind passing the FY2026 budget. Significantly, it could also mean that the Takaichi government is able to avoid another potential hazard in 2026: Tamaki indicated Thursday that he would work with the government to pass the required once-

every-five-years bill that enables the government to issue bonds, depriving the opposition parties of a source of leverage against the government. This may not be a formal confidence-and-supply agreement but it looks like one in all but name.

The question now is whether this is a precursor to a formal coalition agreement that brings Tamaki or another senior DPFP lawmaker into the Takaichi government. Neither side has suggested that a formal coalition could be in the works, though they may have cleared a significant hurdle – [mentioned](#) yesterday – when RENGO chief Yoshino Tomoko, asked about the possibility of the RENGO-backed DPFP joining a coalition with the LDP, declined to comment. When a DPFP coalition with the LDP was mooted in October, Yoshino was emphatically and openly opposed. Against that backdrop, withholding comment looks like a tacit endorsement, or at least the green light for Tamaki to explore coalition talks. The other major obstacle to a formal coalition, the disagreement over political finance reform, remains.

In the meantime, this could make Takaichi more inclined to call a snap election – she could campaign on her government's readiness to deliver a significant tax cut for middle-class households – and will likely give a bump to the DPFP, which slipped in the polls after Tamaki's failed leadership bid. Being able to declare victory in its campaign to raise the income tax exemption and securing additional benefits for the majority to taxpayers to boot will enable Tamaki to reclaim the mantle of champion of young working- and middle-class Japanese that had helped propel his party to strong performances in the 2024 and 2025 elections. If the DPFP looks likely to perform better in a general election, its attractiveness as a partner to the Takaichi government could only grow after the general election. In the meantime, Takaichi will gain additional leverage over Ishin no Kai, which may lead the party to consider whether it wants to remain in partnership in the new year. To be sure, relying more on cooperation with Tamaki is not without its risks for Takaichi, given the DPFP leader's mercurial tendencies and the potential scandals in his proverbial closet. But with the LDP still unlikely to wield a majority of its own even if Takaichi opts for a snap election, the more external partners the prime minister has, the greater her freedom of action.

---

## **Tobias Harris**

Founder and Principal

Japan Foresight LLC

[tobias@japanforesight.com](mailto:tobias@japanforesight.com)

+1.847.738.4048

---