

**The Effect of Tax Incentives on Sales of Eco-Friendly Vehicles:
Evidence from Japan**

Ibrahim Alhulail
Graduate School of Economics, Kobe University
alhulail.ibrahim@gmail.com

and

Kenji Takeuchi
Graduate School of Economics, Kobe University
takeuchi@econ.kobe-u.ac.jp

Abstract

This paper examines the effects of economic incentives on the sales of eco-friendly vehicles in Japan. We focus on the Tonnage and Acquisition Tax Cuts for Eco-Friendly Vehicles and the two waves of Eco-Car Subsidies implemented in Japan. We use the monthly sales data of 30 vehicles from April 2006 until March 2013. We found that the effects of the tax incentives were more significant than the effect of gasoline prices. This is in contrast to the results found in the United States and Canada that gasoline prices had a larger effect on increasing the adoption levels of hybrid-electric vehicles. The difference was due to the structure of the tax cut. In Japan it was on taxes paid upon purchase, which made the policy more effective compared to the United States and Canada where some tax cuts were on income taxes.

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