

# Japan

Japan		2004			
<b>The tax/benefit position of single persons</b>					
		67	100	167	67
		Number of children			
		none	none	none	2
<b>1. Gross wage earnings</b>		2803731	4205596	7009327	2803731
<b>2. Standard tax allowances:</b>					
Basic allowance		380000	380000	380000	380000
Married or head of family		0	0	0	0
Dependent children		0	0	0	760000
Deduction for social security contributions and income taxes		324952	487429	812381	324952
Work-related expenses		1021119	1381119	1900933	1021119
Other					
	Total	1726072	2248548	3093314	2486072
<b>3. Tax credits or cash transfers included in taxable income</b>		0	0	0	0
<b>4. Central government taxable income (1 - 2 + 3)</b>		1077659	1957048	3916013	317659
<b>5. Central government income tax liability (exclusive of tax credits)</b>		86213	156564	362562	25413
<b>6. Tax credits</b>					
Basic credit					
Married or head of family					
Children					
Other					
	Total	0	0	0	0
<b>7. Central government income tax finally paid (5-6)</b>		86213	156564	362562	25413
<b>8. State and local taxes</b>		51926	89599	260601	23876
<b>9. Employees' compulsory social security contributions</b>					
Gross earnings		324952	487429	812381	324952
Taxable income					
	Total	324952	487429	812381	324952
<b>10. Total payments to general government (7 + 8 + 9)</b>		463091	733592	1435544	374241
<b>11. Cash transfers from general government</b>					
For head of family					
For two children		0	0	0	0
	Total	0	0	0	0
<b>12. Take-home pay (1-10+11)</b>		2340640	3472004	5573782	2429490
<b>13. Employer's compulsory social security contributions</b>		351307	526961	878269	351307
<b>14. Average rates</b>					
Income tax		4.9%	5.9%	8.9%	1.8%
Employees' social security contributions		11.6%	11.6%	11.6%	11.6%
Total payments less cash transfers		16.5%	17.4%	20.5%	13.3%
Total tax wedge including employer's social security contributions		25.8%	26.6%	29.3%	23.0%
<b>15. Marginal rates</b>					
Total payments less cash transfers: Principal earner		18.7%	22.9%	32.0%	18.7%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		27.8%	31.5%	39.6%	27.8%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

Japan		2004			
		The tax/benefit position of married couples			
Wage level (per cent of APW)		100-0	100-33	100-67	100-33
Number of children		2	2	2	none
<b>1. Gross wage earnings</b>		4205596	5607461	7009327	5607461
<b>2. Standard tax allowances</b>					
Basic allowance		380000	760000	760000	760000
Married or head of family		380000	0	0	0
Dependent children		760000	760000	760000	0
Deduction for social security contributions and income taxes		487429	649905	812381	649905
Work-related expenses		1381119	2031119	2402238	2031119
Other					
	Total	3388548	4201024	4734619	3441024
<b>3. Tax credits or cash transfers included in taxable income</b>		0	0	0	0
<b>4. Central government taxable income (1 - 2 + 3)</b>		817048	1406437	2274707	2166437
<b>5. Central government income tax liability (exclusive of tax credits)</b>		65364	112515	181977	173315
<b>6. Tax credits</b>					
Basic credit					
Married or head of family					
Children					
Other					
	Total	0	0	0	0
<b>7. Central government income tax finally paid (5-6)</b>		65364	112515	181977	173315
<b>8. State and local taxes</b>		47225	76274	113175	104623
<b>9. Employees' compulsory social security contributions</b>					
Gross earnings		487429	649905	812381	649905
Taxable income					
	Total	487429	649905	812381	649905
<b>10. Total payments to general government (7 + 8 + 9)</b>		600017	838693	1107533	927843
<b>11. Cash transfers from general government</b>					
For head of family					
For two children		0	0	0	0
	Total	0	0	0	0
<b>12. Take-home pay (1-10+11)</b>		3605579	4768768	5901794	4679618
<b>13. Employer's compulsory social security contributions</b>		526961	702615	878269	702615
<b>14. Average rates</b>					
Income tax		2.7%	3.4%	4.2%	5.0%
Employees' social security contributions		11.6%	11.6%	11.6%	11.6%
Total payments less cash transfers		14.3%	15.0%	15.8%	16.5%
Total tax wedge including employer's social security contributions		23.8%	24.4%	25.2%	25.8%
<b>15. Marginal rates</b>					
Total payments less cash transfers: Principal earner		20.0%	20.0%	20.0%	22.9%
Total payments less cash transfers: Spouse		17.0%	22.4%	18.7%	22.4%
Total tax wedge: Principal earner		28.9%	28.9%	28.9%	31.5%
Total tax wedge: Spouse		26.3%	31.1%	27.8%	31.1%

The national currency is the yen (JPY). In 2004 JPY 108.54 was equal to USD 1 (average of eleven months daily exchange rates). In that year, the Average Production Worker is assumed to earn JPY 4 205 596 (Secretariat estimate).

## 1. Personal income tax systems

### 1.1. Central government income tax

#### 1.11. Tax unit

Each individual is taxed separately.

#### 1.12. Allowances and tax credits

##### 1.121. Standard reliefs

- *Basic allowance*: A taxpayer may deduct JPY 380 000 as basic allowance from his or her income.
- *Allowance for spouse*: Allowance equal to JPY 380 000 is given to a resident taxpayer who has a spouse, provided certain requirements are met.
- *Allowance for dependents*: If a resident taxpayer has children and other relatives who meet the same requirements as for a spouse mentioned above, an allowance of JPY 380 000 is given for each dependent.
- *Special allowance for dependents*: If a resident taxpayer has dependents who meet the requirement mentioned above and who are between 16 and 22 years old, an allowance of JPY 630 000 is given for each dependent instead of the allowances for dependents mentioned above.
- *Deduction for social insurance premiums*: The amount of social insurance premiums for a resident taxpayer or his/her dependents shall be deducted from his/her income without any ceiling.
- *Employment income deduction*: The following amounts may be deducted from the income in calculating taxable income:
  - ❖ If income received does not exceed JPY 1 800 000 the deduction is 40 per cent of salaries *et cetera*, but the minimum amount deductible is JPY 650 000.
  - ❖ If income received exceeds JPY 1 800 000, but not JPY 3 600 000, the deduction is JPY 180 000 plus 30 per cent of salaries etc.
  - ❖ If income received exceeds JPY 3 600 000, but not JPY 6 600 000, the deduction is JPY 540 000 plus 20 per cent of salaries etc.
  - ❖ If income received exceeds JPY 6 600 000, but not JPY 10 000 000, the deduction is JPY 1 200 000 plus 10 per cent of salaries etc.
  - ❖ If income received exceeds JPY 10 000 000, the deduction is JPY 1 700 000 plus 5 per cent of salaries etc.

## 1.122. Main non-standard tax reliefs applicable to an APW

- *Credit for housing loans:* A resident taxpayer who constructs, purchases, enlarges or rebuilds a house, financing its cost by housing loans and uses it as his or her own dwelling, is entitled to an income tax credit up to the amount described below for 10 years after the year including the day when the house is put in use, provided that: the floor space is 50 m<sup>2</sup> or more, and more than half of the floor space in use is for own dwelling. Base of the tax credit is equal to the balance of the housing loan debt amount, calculated at the end of each year, consisting of the loan obtained not only from private financial institutions but also from public institutions. This tax credit cannot be claimed by those whose total income exceeds JPY 30 million.
- The rates for tax credits correspond to the year in which residence in the house commenced as follows:

Residence starts	From 1 July in 2001 to 31 December 2004	From 1 January in 2005 to 31 December 2005	From 1 January in 2006 to 31 December 2006
Tax credit rate	If the remaining housing loan balance at the end of year (R.H.L.B.) is JPY 50 million or less: The R.H.L.B. × 1.0%.	If the R.H.L.B. is JPY 40 million or less: The R.H.L.B. × 1.0% (for first 8 years). The R.H.L.B. × 0.5% (for last 2 years).	If the R.H.L.B. is JPY 30 million or less: The R.H.L.B. × 1.0% (for first 7 years). The R.H.L.B. × 0.5% (for last 3 years).
Maximum tax credit amount (for each year)	JPY 500 000	JPY 400 000	JPY 300 000
Maximum tax credit amount (for the deductible period in total)	JPY 5 million	JPY 3.6 million	JPY 2.55 million
Residence starts	From 1 January in 2007 to 31 December 2007	From 1 January in 2008 to 31 December 2008	
Tax credit rate	If the R.H.L.B. is JPY 25 million or less: The R.H.L.B. × 1.0% (for first 6 years). The R.H.L.B. × 0.5% (for last 4 years).	If the R.H.L.B. is JPY 20 million or less: The R.H.L.B. × 1.0% (for first 6 years). The R.H.L.B. × 0.5% (for last 4 years).	
Maximum tax credit amount (for each year)	JPY 250 000	JPY 200 000	
Maximum tax credit amount (for the deductible period in total)	JPY 2 million	JPY 1.6 million	

- *Deduction for life insurance premiums and personal pension plan premiums:* If a resident taxpayer pays insurance premiums on life insurance contracts, under which the recipient of insurance proceeds is the taxpayer, his/her spouse or other relatives living with him, that portion of such premiums which does not exceed the maximum prescribed below, is deductible from ordinary income, retirement income or timber income.

In addition, if a resident taxpayer pays insurance premiums for a “qualified personal pension plan (insurance type)”, under which the recipient of the pension payment is the taxpayer or his/her spouse under a specific condition, the portion of such premiums which

does not exceed the maximum prescribed below, is deductible from ordinary income, retirement income, or timber income.

Premiums paid (JPY)		Deduction
Over	Not over	
	25 000	Total amount of premiums paid (1)
25 000	50 000	(1) × 1/2 + JPY 12 500
50 000	100 000	(1) × 1/4 + JPY 25 000
100 000	–	JPY 50 000

As for the insurance premiums of this type of pension plan, the deduction for life insurance premiums is not applied:

- *Deduction for medical expenses:* If a resident taxpayer pays bills for medical or dental care for himself/herself or for his/her spouse or other relatives living with him/her and the amount of such expenses (excluding those recovered by insurance) exceeds the lesser of JPY 100 000 and 5 per cent of the total of his/her ordinary income, retirement income and timber income, the excess amount is deductible from his/her ordinary income, retirement income or timber income. The maximum deductible is JPY 2 million.
- *Deduction for casualty insurance premiums:* If a resident taxpayer pays insurance premiums for fire or other casualty insurance, covering the house which he/she, his/her spouse or other relatives own and live in, or on household goods necessary for daily living, a portion of those premiums up to the maximum indicated below, is deductible from ordinary income, retirement income, or timber income.

Type of insurance	Premiums paid		Deduction
	Over	Not over	
Long-term insurance		JPY 10 000	Total amount of premiums paid (1)
	JPY 10 000	JPY 20 000	(1) × 1/2 + JPY 5 000
	JPY 20 000		JPY 15 000
Short-term insurance		JPY 2 000	Total amount of premiums paid (2)
	JPY 2 000	JPY 4 000	(2) × 1/2 + JPY 1 000
	JPY 4 000		JPY 3 000

### 1.13. Tax schedule

Taxable income (JPY)		Tax rate (%) (A)	Deductible amounts for each bracket (JPY) (B)
Over	Not over		
	3 300 000	10	
3 300 000	9 000 000	20	330 000
9 000 000	18 000 000	30	1 230 000
18 000 000		37	2 490 000

Proportional Tax Reduction (C): 20 per cent of calculated amount (ceiling: JPY 250 000).

Tax liability is obtained by multiplying the taxable income by tax rate (A) and deducting the amount (B). In addition, Proportional Tax Reduction (C) is granted from (Fy) 1999. For example, income tax due on taxable income of JPY 7 million is:

$$7\,000\,000 \times 0.20 \text{ (A)} - 330\,000 \text{ (B)} - 214\,000 \text{ (C)} = \text{JPY } 856\,000.$$

## 1.2. State and local income taxes

### 1.2.1. General description of the system

State and local income taxes in Japan consist of prefectural inhabitants tax levied by prefectures and municipal inhabitants tax levied by cities, towns and villages. The prefectural inhabitants tax is collected together with the municipal inhabitants tax by cities, towns and villages.

### 1.2.2. Tax base

The base for prefectural and municipal inhabitants' taxes is taxable income augmented by a fixed per capita amount. The taxable income is similar to the one computed for the purpose of the previous year's central income tax (see below).

Note: Calculation of income for local inhabitants' taxes is slightly different from the one for the national income tax. For example, the amount of Basic Allowance, Allowance for Spouse, Allowance for Dependants is JPY 330 000, the amount of Special Allowance for dependants is JPY 450 000, etc.

### 1.2.3. Tax rate

- The standard per capita tax rate of Prefectural inhabitants' tax is JPY 1 000.
- The standard per capita tax rate of Municipal inhabitants' tax is JPY 3 000.
- The standard rate of Prefectural and Municipal inhabitants' tax is as follows:

Taxable income (JPY)		Tax rate (%) (A)	Deductible amounts for each bracket (JPY) (B)
Over	Not over		
<b>Prefectural inhabitants' tax</b>			
	7 000 000	2	–
7 000 000	–	3	70 000
<b>Municipal inhabitants' tax</b>			
	2 000 000	3	–
2 000 000	7 000 000	8	100 000
7 000 000	–	10	240 000

Proportional tax reduction (C): 15 % of calculated amount (ceiling: JPY 40 000).

Tax liability is obtained by multiplying the taxable income by tax rate (A) and deducting the amount (B). In addition, Proportional Tax Reduction (C) is granted from FY 1999. For example, income tax due on taxable income of JPY 3 million is:

$$3\,000\,000 \times (0.02 + 0.08) \text{ (A)} - 100\,000 \text{ (B)} - 30\,000 \text{ (C)} = \text{JPY } 170\,000.$$

### 1.2.4. Tax rate selected for this study

Country-wide rates as described above.

## 2. Compulsory social security contribution to schemes operated within the government sector

### 2.1. Employees' contributions

#### 2.11. Pension

6.79 per cent of total remuneration (standard remuneration and bonuses), or not more than 6.79 per cent of the insurable ceiling of JPY 620 000 (monthly).

#### 2.12. Sickness

4.1 per cent of total remuneration (standard remuneration and bonuses) up to the insurable ceiling of JPY 980 000 (monthly).

#### 2.13. Unemployment

0.7 per cent of total remuneration.

#### 2.14.-2.15. Work injury and family allowance

None.

### 2.2. Employers' contributions

#### 2.21. Pensions

6.79 per cent of total remuneration, or not more than 6.79 per cent of the insurable ceiling of JPY 620 000 (monthly).

#### 2.22. Sickness

4.1 per cent of total remuneration up to the insurable ceiling of JPY 980 000 (monthly).

#### 2.23. Unemployment

1.05 per cent of total remuneration.

#### 2.24. Work injury

0.5 per cent to 12.9 per cent of total remuneration, the contribution rate depending on each industry's accident rate over the last three years and other factors. There are thirty-one rates for fifty-one industrial categories at present.

#### 2.25. Family allowance

0.09 per cent of standard remuneration.

## 3. Universal cash transfers

### 3.1. Transfers related to marital status

Not available.

### 3.2. Transfers for dependent children

JPY 5 000 for the first and second child until the first March after the age of six, and JPY 10 000 for the third and subsequent children until the first March after the age of six.



## 4. Main changes in the tax/benefit systems since 1998

As part of the Fiscal Year 1999 tax reform, the highest marginal rate of the personal income tax imposed by the central government was reduced from 50 per cent to 37 per cent. The top rate of the local inhabitants tax was reduced from 15 per cent to 13 per cent. Proportional tax reduction: national income tax (deduction rate 20%, ceiling JPY 250 000), local inhabitants' tax (deduction rate 15%, ceiling JPY 40 000).

Eligible age for transfers for dependant children was raised to six from three from 1 June 2001.

## 5. Memorandum item

### 5.1. Average gross annual wage earnings calculation

The source of calculation is the *Basic Survey on Wage Structure*, published by the Ministry of Health, Labour and Welfare. This survey covers all establishments with ten or more regular employees over the whole country, and contains statistical figures for monthly contractual cash earnings in June and annual special cash earnings (such as bonuses) received by various categories of workers. Male and female workers of the manufacturing sector in an average age group are the point of departure. Their gross annual earnings have been calculated by multiplying monthly contractual cash earnings by 12 and adding any annual special cash earnings. In the *Basic Survey*, sickness and unemployment compensations are excluded from cash earnings, but average overtime and bonuses are included.

As far as the *Basic Survey* is concerned, it covers the whole country, and no special assumption is made regarding the place of residence of the average production worker. But note that in calculating the per capita part of the local inhabitants' tax, the rate is the one that is applicable in cities with a population of over half a million is used.

### 5.2. Employer contributions to private pension and health schemes

No information available.

## 2004 Parameter values

	Ave_earn	4 205 596	Secretariat estimate
Allowances for central tax	basic_al	380 000	
	spouse_al	380 000	
	child_al	380 000	
Employment income deduction	emp_inc_min	650 000	
	emp_inc_sch	0.4	1 800 000
		0.3	3 600 000
		0.2	6 600 000
		0.1	10 000 000
	0.05		
Central gov't tax schedule	tax_sch	0.1	3 300 000
		0.2	9 000 000
		0.3	18 000 000
		0.37	
Central gov't tax reduction			
	cgtax_redn_rt	0.2	
	cgtax_redn_max	250 000	
Allowances for state/local tax	s_basic_al	330 000	
	s_spouse_al	330 000	
	s_child_al	330 000	
Prefectural tax	pref_per_cap	1 000	
Municipal tax	mun_per_cap	3 000	
	local_sch	0.05	2 000 000
		0.10	7 000 000
	0.13		
Local gov't tax reduction	loctax_redn_rt	0.15	
	loctax_redn_max	40 000	
Social security contributions	SSC_pens	0.0679	
	pens_ceil	7 440 000	
	SSC_sick	0.041	
	sick_ceil	11 760 000	
	SSC_unemp	0.007	
Employer contribution proportion	SSC_empr_unemp	0.0105	
	SSC_empr_oth	0.0059	

## 2004 Tax equations

The equations for the Japanese system are mostly on an individual basis. But the tax allowances for the spouse and for children are relevant only to the calculation for the principal earner. This is shown by the Range indicator in the table below.

The functions which are used in the equations (Taper, MIN, Tax etc) are described in the technical note about tax equations. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables “married” and “children”. A reference to a variable with the affix “\_total” indicates the sum of the relevant variable values for the principal and spouse. And the affixes “\_princ” and “\_spouse” indicate the value for the principal and spouse, respectively. Equations for a single person are as shown for the principal, with “\_spouse” values taken as 0.

Line in country table and intermediate steps	Variable name	Range	Equation
1. Earnings	earn		
2. Allowances:			
	tax_al= basic_al + spousal_al+child_al + work_al + SSC	P	basic_al + Married*(earn=0)*spouse_al + Children*child_al + MAX(emp_inc_min, Tax(earn, emp_inc_sch)) + SSC
	tax_al= basic_al + work_al + SSC	S	basic_al + MAX(emp_inc_min, Tax(earn, emp_inc_sch)) + SSC
3. Credits in taxable income	taxbl_cr	B	0
4. CG taxable income	tax_inc	B	Positive(earn-tax_al)
5. CG tax before credits			
	CG_tax_excl	B	Positive(Tax(tax_inc, tax_sch)- MINA(cgtax_redn_rt*Tax(tax_inc, tax_sch), cgtax_redn_max))
6. Tax credits	tax_cr	B	0
7. CG tax	CG_tax	B	CG_tax_excl
8. State and local taxes			
Taxable income for local taxes	local_inc_princ	P	Positive(earn-(s_basic_al+Married*(earn_sp=0)* s_spouse_al+Children*s_child_al+MAX(emp_inc_ min, Tax(earn, emp_inc_sch)) + SSC))
	local_inc_sp	S	Positive(earn-(s_basic_al+MAX(emp_inc_min, Tax(earn, emp_inc_sch)) + SSC))
Tax	local_tax	P	pref_per_cap+mun_per_cap+Positive(Tax(local_in c_princ, local_sch)- MINA(loctax_redn_rt*Tax(local_inc_princ, local_sch), loctax_redn_max))
		S	(earn>0)*(pref_per_cap+mun_per_cap+Positive(T ax(local_inc_sp, local_sch)- MINA(loctax_redn_rt*Tax(local_inc_sp, local_sch), loctax_redn_max)))
9. Employees' soc security	SSC	B	SSC_pens*MIN(earn, pens_ceil)+SSC_sick*MIN(earn, sick_ceil)+SSC_unemp*earn
11. Cash transfers	cash_trans	B	0
13. Employer's soc security	SSC_empr	B	SSC_pens*MIN(earn, pens_ceil)+SSC_sick*MIN(earn, sick_ceil)+(SSC_empr_unemp+SSC_empr_oth)*e arn

Key to range of equation:

B calculated separately for both principal earner and spouse.

P calculated for principal only (value taken as 0 for spouse calculation).

J calculated once only on a joint basis.

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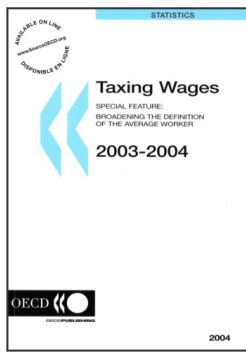
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