

Update: 2018 Japan Individual Income Tax Reforms

April 2018

In brief

On March 28, 2018, the 2018 Japan Tax Reform Proposals were passed into law.

The main changes to individual income tax under the 2018 Japan Tax Reforms (“2018 Tax Reforms”) include decreases in the allowable deductions against employment and public pension income, an increase in the basic exemption for taxpayers with less than 24 million yen of income accompanied by a phased-out basic exemption for taxpayers with 24 million yen or more of income and a potential decrease to the “blue form” deduction for taxpayers with business income. These changes will come into effect from January 1, 2020.

In detail

The 2018 Japan Tax Reforms include the following changes to Japanese individual income tax.

1. Decrease in earned income deduction for employees by 100,000 yen and income level deduction cap reduced to 1.95 million yen

Resident taxpayers are eligible for deduction against earned income (so-called, ‘earned income deduction’) based on the percentage of the employment income. Currently, the earned income deduction has the minimum deduction of 650,000 yen, and it is capped at 2,200,000 yen.

Under the 2018 Tax Reforms, the earned income deduction for employees will be decreased by 100,000 yen and income level deduction cap will be reduced to 1.95 million yen (the reduced deduction cap will not apply to taxpayers with dependent children age under 23 or those taking a special disability exemption).

The following changes will apply to the earned income deduction for a permanent resident and / or non-permanent resident employee effective January 2020.

Taxpayer’s annual salary	Earned Income Deduction*
1,625,000 yen or below	550,000 yen
over 1,625,000 yen and up to 1,800,000 yen	Gross income x 40% - 100,000 yen
over 1,800,000 yen and up to 3,600,000 yen	Gross income x 30% + 80,000 yen
over 3,600,000 yen and up to 6,600,000 yen	Gross income x 20% + 440,000 yen
over 6,600,000 yen and up to 8,500,000 yen	Gross income x 10% +1,100,000 yen
over 8,500,000 yen	1,950,000 yen

* For taxpayers with gross employment income over 8.5 million yen with dependent children age under 23 or those taking a special disability exemption, the current rate (10%) will apply (up to gross employment income of 10 million yen; the deduction is capped at 2.1 million yen).

2. Increase in personal exemption by 100,000 yen but reduction of all personal exemptions at income levels between 24 million and 25 million yen which will be eliminated fully at income levels over 25 million yen

Resident taxpayers are entitled to a personal exemption for themselves (so-called, ‘basic exemption’: currently JPY 380,000 for national tax and JPY 330,000 for local tax). Currently, there is no salary threshold to be eligible for the basic exemption and all taxpayers can take the same level of exemption.

The following changes will apply to personal exemptions effective January 2020. For the first time, the basic exemption will be abolished for taxpayers with total annual income over JPY 25,000,000.

Taxpayer’s total annual income	‘Basic Exemption’ for national tax	‘Basic Exemption’ for local tax
Below 24,000,000 yen	480,000 yen	430,000 yen
Over 24,000,000 yen and up to 24,500,000 yen	320,000 yen	290,000 yen
Over 24,500,000 yen and up to 25,000,000 yen	160,000 yen	150,000 yen
Over 25,000,000 yen	None	None

3. Decrease in the public pension income deduction by 100,000 yen and introduction of a cap on the deduction at 1.955 million yen for seniors whose annual pension income exceeds 10 million yen. Also, reduction of the public pension deduction for seniors with ‘other income’ over 10 million yen.

Taxpayers are entitled to a deduction against qualified public pension income. Currently, this deduction has no limit to the taxpayer’s income level.

Under the 2018 Tax Reforms, the public pension income deduction will be capped at 1,955,000 yen when the gross public pension income reaches JPY 10,000,000. Furthermore, the public pension income deduction will be reduced for taxpayers with income other than public pension income over 10,000,000 yen in two phases (please see footnotes in the table below).

The following changes will apply to public pension income deduction effective January 2020.

Recipient’s age	Amount of pension received (A)	Public Pension Income Deduction
Under 65	Below 1,300,000 yen	600,000 yen
	Over 1,300,000 yen and up to 4,100,000 yen	(A) x 25% + 275,000
65 and above	Below 3,300,000 yen	1,100,000 yen
	Over 3,300,000 yen and up to 4,100,000 yen	(A) x 25% + 275,000
All ages	Over 4,100,000 yen and up to 7,700,000 yen	(A) x 15% + 685,000
	Over 7,700,000 yen and up to 10,000,000 yen	(A) x 5% + 1,455,000

* For individuals who have income other than public pension income of over 10 million yen and up to 20 million yen, the pension deduction from the table above is reduced by 100,000 yen (the maximum deduction of 1,855,000 yen).

** For individuals who have income other than public pension income of over 20 million yen, the pension deduction from the table above is reduced by 200,000 yen (the maximum deduction of 1,755,000 yen).

4. Decrease in the ‘blue form’ tax return deduction by 100,000 yen and increase in the ‘blue form’ deduction by 100,000 yen for filing and maintaining tax returns and accounting documents electronically.

Under the 2018 Tax Reforms effective January 2020, the maximum ‘blue form’ deduction for taxpayers with business income will be reduced by 100,000 yen from the current 650,000 yen. As an incentive for taxpayers to file blue form tax returns electronically, taxpayers who do so and maintain accounting documents electronically will receive an additional 100,000 yen blue form deduction (that is, 650,000 yen in total).

The Takeaway

The shift in income deduction from the earned income deduction to the basic exemption reflects the Japanese government’s focus on promoting diversity in ways individuals work in Japan from earning salary to other means of generating income. The 2018 Tax Reforms also reduce various income deductions/exemption (to potentially zero for the basic exemption).

Although the deduction and exemption amounts adjusted under the 2018 Tax Reforms may be limited, the introduction of the phase-out rules will add complexity to the Japanese income tax calculations.

Let’s talk

For a deeper discussion of how this issue might affect your business, please contact:

PwC Tax Japan

Kasumigaseki Bldg. 15F, 2-5, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo 100-6015

Tel: 81-3-5251-2400

Email: pwcjapan.taxpr@jp.pwc.com

www.pwc.com/jp/e/tax

Global Mobility Services

Nasir Majid

Partner

81-3-3539-6310

nasir.majid@pwc.com

Marcus Wong

Partner

81-3-3539-6406

marcus.wong@pwc.com

Katsuyo Oishi

Partner

81-3-5251-2565

katsuyo.oishi@pwc.com

Ichiro Kawakami

Partner

81-3-3539-6369

ichiro.kawakami@pwc.com

Ryo Uehara

Director

81-80-4105-4116

ryo.uehara@pwc.com

Jia Ee

Manager

81-90-9106-7365

jia.ee@pwc.com

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