

Japan Individual (Personal) Tax System – Brief Summary

➤ Personal Income Tax System in Japan

All individuals living in Japan, irrespective of nationality, are classified as either “Residents” or “Non-residents”. “Individual income tax” comprises of “self-assessed income tax” and “withholding income tax” and will be levied on the individual's income for the “calendar year”.

➤ “Residents” & “Non-residents” tax payers

Residents: Persons having a domicile (principal base and center of one's life) in Japan and persons having a residence in Japan for one year or more are termed **residents**. The worldwide income of residents, regardless of the location of the source of income, is subject to income tax.

Non-permanent residents: Residents having no Japanese citizenship and having a domicile or residence in Japan for five years or less within the period of ten years are non-permanent residents.

The scope of taxation for non-permanent residents corresponds to that for residents, but tax will not be assessed in Japan on income sourced outside Japan as long as that income is not paid within Japan or is not remitted to Japan. However, the salary paid based on the work in Japan is applicable to domestic-sourced income even if it is paid outside Japan, and income tax will be assessed summing the salary paid within and outside Japan.

Non-residents: Persons not qualifying as residents are termed non-residents. Japanese income tax for non-residents will be assessed on income sourced within Japan.

➤ Scope of personal taxable income

Type of Residence	Category of Income	Income except foreign-sourced income		Foreign-sourced income	
		Paid within Japan	Paid outside Japan	Paid within Japan	Paid outside Japan
				Remitted to Japan	Other
Residents	Permanent residents	Taxable			
	Non-residents	Taxable			
Non-residents		Taxable		Non-taxable Exemption	

➤ Self-assessed income tax

Self-assessed income tax on residents: Income is calculated using methods established for each of a number of income classifications. The tax is calculated by subtracting the various income deductions from the total amount of income and then multiplying the difference, which is the amount of taxable income, by the progressive tax rates below. Any withholding income tax levied on the income beforehand will be deducted from the calculated tax.

Self-assessed income tax on non-residents: Non-residents are classified by their circumstances into (a) non-residents having an office, etc., in Japan, (b) non-residents continuously engaged in construction or assembly in Japan for one year or more, or doing business through a designated agent in Japan, or (c) other non-residents.

Taxable income is calculated within the scope of income established for each classification. The method of taxation for non-residents will also change in terms of income tax pertaining to 2017 or later. The

amount of self-assessed income tax levied on non-residents is, as a rule, calculated in the same manner as for residents (subject to certain limits such as non-application of applicable income deductions and foreign tax deductions). Non-residents who earn salary income paid for services provided in Japan and not deemed subject to withholding tax in Japan must file a individual tax return and pay a 20.42% tax on the total amount of that salary.

➤ Individual income tax rates

(in the case of residents and of aggregate taxation of non-residents)

Brackets of taxable income		Tax rates
--	Or under 1,950,000 yen	5%
Over 1,950,000 yen	Or under 3,300,000 yen	10%
Over 3,300,000 yen	Or under 6,950,000 yen	20%
Over 6,950,000 yen	Or under 9,000,000 yen	23%
Over 9,000,000 yen	Or under 18,000,000 yen	33%
Over 18,000,000 yen	Or under 40,000,000 yen	40%
Over 40,000,000 yen	--	45%

➤ Employment income deductions

(Income tax on employment income is calculated based on the amount obtained by deducting the following employment income deductions from income)

Employment income	Employment income deductions
Up to 1,625,000 yen	650,000 yen
Over 1,625,000 yen and up to 1,800,000 yen	(Employment income) x 40%
Over 1,800,000 yen and up to 3,600,000 yen	(Employment income) x 30% + 180,000 yen
Over 3,600,000 yen and up to 6,600,000 yen	(Employment income) x 20% + 540,000 yen
Over 6,600,000 yen and up to 10,000,000 yen	(Employment income) x 10% + 1,200,000 yen
Over 10,000,000 yen and up to 12,000,000 yen	(Employment income) x 5% + 1,700,000 yen#
Over 12,000,000 yen	2,300,000 yen

From 2017 onwards, employment income deduction for the income of over 10,000,000 yen will be 2,200,000 yen.

➤ Withholding income tax:

Withholding tax on residents (individuals) : Payments made in Japan of the following or other prescribed income to residents are subject to withholding at source. **Such as:** Interest, Dividends, Salary, wages, bonuses and similar compensation, Retirement allowances Compensation, fees, etc., to certain professionals.

Withholding tax on non-residents (individuals) & foreign corporations: Payments to a non-resident or a foreign corporation, or such payments made overseas by payers with a domicile or business office, etc. in Japan, tax should be withheld. Payments of certain categories of income as prescribed for non-residents and for foreign corporations to a non-resident or a foreign corporation with a permanent establishment within Japan are exempt from withholding taxation, provided that a certificate from the taxation office is presented to the payer attesting that the income will be attributed to that permanent establishment and will be added to business income subject to self-assessment for tax purposes.

Filing and payment : Residents must submit an income tax return for the income earned each year, except when tax payment procedures have been completed through withholding at source by the employer etc., and must pay the tax owed between February 16 and March 15 of the following year.

Individuals whose total income does not exceed total deductions and persons who receive salary income subject to withholding tax at source (year-end adjustment) from only one payer not exceeding 20 million yen in that year and who have no other income exceeding 200,000 yen do not, as a rule, need to file an individual tax return.

As a rule, non-residents file and pay taxes following the same regulations as residents. However, non-residents leaving Japan without designating a tax agent and reporting this fact to the director of the taxation office must submit an income tax return and pay the tax owed prior to leaving Japan.

Restoration income surtax : From January 1, 2013, to December 31, 2037, individuals and corporations will be subject to a 2.1% restoration income surtax on the amount of withholding tax on income and self-assessed income tax. For example, the tax rate under domestic law for withholding tax on interest paid to a foreign corporation is 20%, to which will be added restoration income surtax (20% x 2.1%), resulting in a total 20.42% tax withheld at source.

Note that a restoration income surtax is not levied where the withholding tax rate provided for under domestic law is reduced or eliminated by tax treaty.

➤ Individual inhabitant taxes, individual enterprise tax:

"**Individual inhabitant taxes**" is the collective term for **prefectural tax** and **municipal tax on individual income**, and **individuals having a domicile etc. in Japan as of January 1 each year are subject to these taxes**. Individual inhabitant taxes consist of an income-graded component and a flat-rate (fixed amount) component etc. The income-graded component is assessed on income for the preceding year and, except in special cases, taxable income for these taxes is calculated in accordance with the provisions for calculating income for income tax purposes.

Inhabitant tax returns must be filed by March 15, but persons submitting self-assessed income tax returns do not have to file again for individual inhabitant tax. The standard rates of individual inhabitant taxes for the income-graded component.

➤ Standard rates of individual inhabitant tax (income-graded component)

Prefectural tax rate	Uniformity	4%
Municipal tax rate	Uniformity	6%

The standard rate of tax for the flat-rate component is 1,000 yen for prefectural inhabitant tax and 3,000 yen for municipal inhabitant tax. **For 10 years from 2014 to 2023**, however, these rates will respectively be **1,500 yen and 3,500 yen**.

Tax rates may differ from the standard tax rate depending on the local government concerned.

Individuals engaged in certain businesses specified in local tax laws must pay enterprise taxes.

Returns must be filed by March 15, and taxes must be paid in August and November in accordance with tax notices issued by the prefectural government.

Individual enterprise tax rates range from 3% to 5%, depending on the type of business.

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