

3 Learn about “Income Tax”

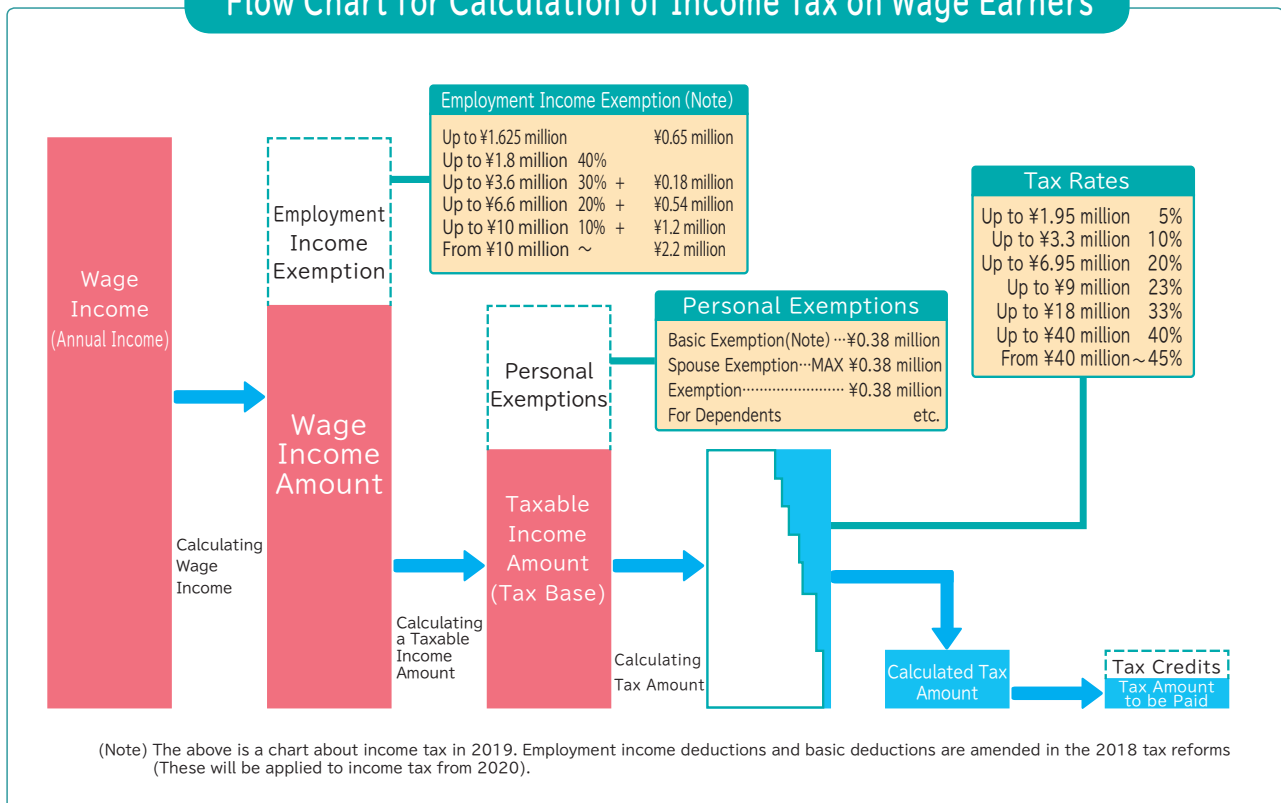
1 Income Tax

Income tax is imposed on wages, business profits, gains on land sale and other types of incomes. The income tax on an employee’s wage is calculated by

- ① subtracting the employment income exemption from wage income (annual income) to determine **the wage income amount**,
- ② subtracting **basic, spouse and other exemptions** from the wage income amount to give consideration to the employee’s taxpaying capacity and
- ③ applying **the progressive tax rate system** (where higher tax rates are applied to higher income) to the remaining amount.

In this way, income tax can require contribution according to income size and can be fine-tuned according to family structure and other personal circumstances.

Flow Chart for Calculation of Income Tax on Wage Earners



2 Category of Income

Income is divided by type into the following 10 categories. Each income category is decided by the scope of income and necessary expenditures or other factors such as income calculation method.

Category of income	Description	Calculation method	Taxation method
Interest income	Interest on bonds and savings/deposits, and distribution of revenue from a joint operation trust, bond investment trust, and publicly offered bond management investment trust	Amount of revenue=Amount of income	Separate withholding taxation at source (Note 1)
Dividend income	Dividends of surplus, dividends of profits, distribution of surplus, distribution of money from an investment corporation, interest on funds, and distribution of revenue from an investment trust (excluding bond investment trusts and publicly offered bond management investment trusts) and a specified beneficiary certificate issuance trust, all of which are to be received from a corporation	Amount of revenue - $\left[\begin{array}{l} \text{Interest on loans} \\ \text{taken out for} \\ \text{acquiring shares,} \\ \text{etc.} \end{array} \right]$	Comprehensive taxation (filing of return not required), Separate self-assessment taxation
Real property income	Income arising from the lease of real property, any right on real property, vessels or aircraft	Amount of income–Necessary expenses	Comprehensive taxation
Business income	Income arising from business, such as agricultural business, fishing business, manufacturing business, wholesale business, retail business, or service business	Amount of income–Necessary expenses	Comprehensive taxation (Note 2)
Employment income	Salary, compensation, wage, annual allowance, bonus, and any similar payment	Amount of revenue– Employment income deduction	Comprehensive taxation
Retirement income	Any payment received in lump sum due to retirement such as a retirement allowance or lump-sum pension	(Amount of revenue–Retirement income deduction) × ½ * The 1/2 taxation rule does not apply to retirement allowances paid to corporate directors, etc. who have served for five years or under.	Separate taxation
Timber income	Income from cutting or transfer of timber that has been owned for more than five years	Amount of revenue–Necessary expenses –Special deduction (¥500,000)	Separate taxation (divided-by-five and tax rate applied, then multiplied-by-five for the total tax amount)
Capital gains income	Income arising from the transfer of assets (including establishment of a superficies right for owning a building, etc.)	$\left[\begin{array}{l} \text{Amount} \\ \text{of} \\ \text{revenue} \end{array} \right] - \left[\begin{array}{l} \text{Acquisition costs} \\ \text{and expenses for} \\ \text{transfer of the} \\ \text{assets sold} \end{array} \right] - \left[\begin{array}{l} \text{Special} \\ \text{deduction} \\ \text{(¥500,000)} \end{array} \right]$	Comprehensive taxation (Note 2)
Occasional income	Income arising occasionally which is not income arising from a continuous act carried out for the purpose of profit, and which does not have a nature of compensation for any service such as labor or transfer of assets	$\left[\begin{array}{l} \text{Amount} \\ \text{of} \\ \text{revenue} \end{array} \right] - \left[\begin{array}{l} \text{Expenses for} \\ \text{gaining revenue} \end{array} \right] - \left[\begin{array}{l} \text{Special} \\ \text{deduction} \\ \text{(¥500,000)} \end{array} \right]$	Comprehensive taxation (Note 2)
Miscellaneous income	Income that does not fall under any of the above categories, such as public pension, etc. (e.g. national pension, employees' pension)	(Public pension, etc.) Amount of revenue–Pension income deduction (Other income) Amount of revenue–Necessary expenses	Comprehensive taxation (Note 2)

(Note 1) Interest on specified bonds, etc. is subject to taxation without filing of return or separate self-assessment taxation.

(Note 2) The following types of income are subject to separate taxation: income from the transfer of shares, etc. (business/capital gains/miscellaneous); income from the transfer of land, etc. (capital gains); income from the short-term transfer, etc. of land by real estate agents, etc. (business/miscellaneous [taxation suspended until March 31, 2020]); and income from futures transactions (business/capital gains/miscellaneous).



3 Personal Exemption

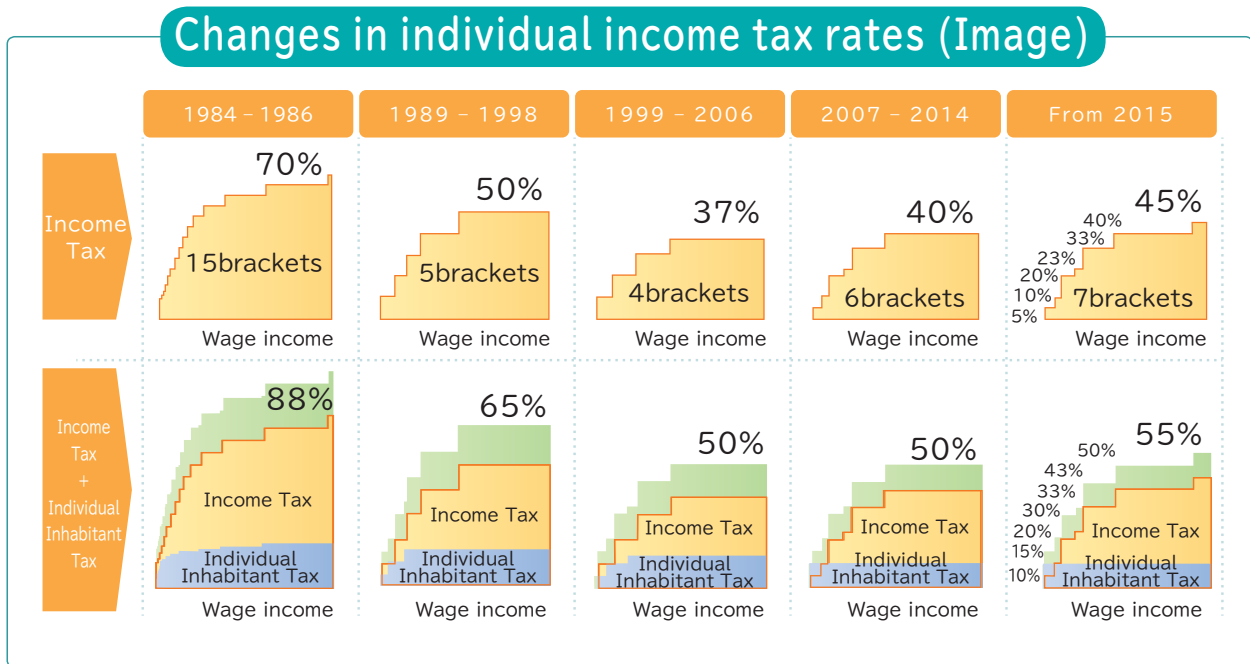
There are exemptions such as basic exemption which applies to all people and exemptions which take into account individual circumstances such as family structure.

	Persons qualifying for deductions	Income requirement for taxpayers
Basic personal deductions	Personal(Basic) deduction ●Taxpayers	— [Income must be 25 million yen or under (the amount of deduction gradually decreases for taxpayers who earn more than 24 million yen)]
	Spouse deduction ●Taxpayers who have spouses who depend on them for living expenses and earn 380,000 yen [480,000 yen] or under as total income ("spouses qualifying for deduction")	Income must be 10 million yen or under (the amount of deduction gradually decreases for taxpayers who earn more than 9 million yen)
	Ordinary spouses qualifying for deduction ●Taxpayers who have "spouses qualifying for deduction" aged under 70 years	
	Elderly spouses qualifying for deduction ●Taxpayers who have "spouses qualifying for deduction" aged 70 years or older	
	Special deduction for spouses ●Taxpayers who have spouses who depend on them for living expenses and earn more than 380,000 yen[480,000 yen] and not more than 1,230,000 yen [1,330,000 yen] as total income	Income must be 10 million yen or under (the amount of deduction gradually decreases for taxpayers who earn more than 9 million yen)
	Deduction for dependents ●Taxpayers who have relatives, etc. who depend on them for living expenses and earn 380,000 yen[480,000 yen] or under as total income ("dependent relatives")	—
	Ordinary dependent relatives ●Taxpayers who have dependent relatives aged 16 to 18 years or 32 to 69 years	—
	Specified dependent relatives ●Taxpayers who have dependent relatives aged 19 to 22 years	—
	Elderly dependent relatives ●Taxpayers who have dependent relatives aged 70 years or older	—
(Addition for elderly parents, etc. living with taxpayers) ●Taxpayers who live at all times with their elderly dependent relatives who are their lineal ascendants	—	
Special personal deductions	Deduction for persons with disabilities ●Taxpayers who fall within the category of persons with disabilities ●Taxpayers who have spouses qualifying for deduction or dependent relatives who fall within the category of persons with disabilities	—
	(Deduction for persons with severe disabilities) ●Taxpayers who fall within the category of persons with severe disabilities ●Taxpayers who have spouses qualifying for deduction or dependent relatives who fall within the category of persons with severe disabilities	—
	(Deduction for persons with severe disabilities living with taxpayers) ●Taxpayers who live at all times with spouses qualifying for deduction or dependent relatives who fall within the category of persons with severe disabilities	—
	Deduction for widows (1) Taxpayers who lost their husbands (2) Taxpayers who lost or divorced their husbands and have dependent relatives	In the case of (1) Income must be 5 million yen or under
	(Special addition for widows) ●Widows who have children who fall within the category of dependent relatives	Income must be 5 million yen or under
	Deduction for widowers ●Taxpayers who lost or divorced their wives and have children who fall within the category of dependent relatives	Income must be 5 million yen or under
Deduction for working students ●Taxpayers who are students of schools provided under the School Education Acts	Income must be 650,000 yen [750,000 yen] or under as total income and not more than 100,000 yen for income other than employment income	

(Note) The figures in square brackets ([]) will go into effect after 2020 (as for inhabitant's taxes after FY2021)

4 Changes in Income Tax Contributions

In the past, the highest income tax rate was 70% (for taxable income exceeding 80 million yen), but the rate has been lowered to reduce tax burdens on wage earners. For income from 2015, a new tax rate of 45% was created for taxable income exceeding 40 million yen to **revive income redistribution function of the tax system**.

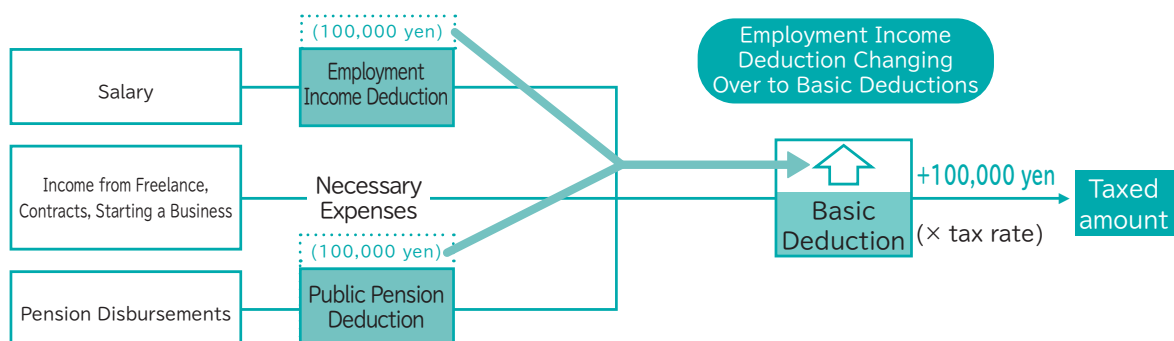


5 Revisions to Income Tax (Revised 2018)

(NOTE) The following revisions will be applied to income tax from 2020.

1. Deductions for employment income and pension will be changed over to basic deductions

In consideration of a variety of working styles, we will uniformly reduce the employment income deduction applied to employment income, as well as the public pension deduction, by 100,000 yen. This is also to support work-style reform. Regardless of the kind of income, the amount of deduction applied to the basic deductions will be raised by 100,000 yen.

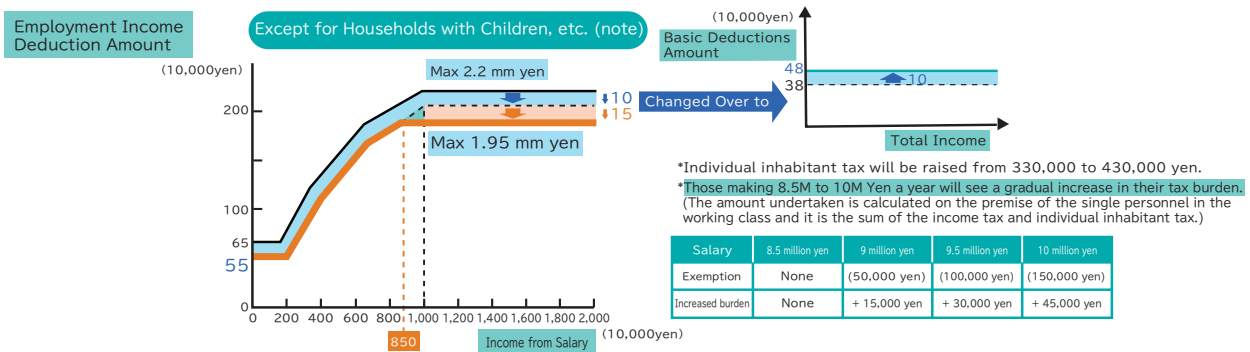


* Those who have both employment income and pension disbursements will only see a reduction for one of them.

2. Adjustments to Employment Income Deductions

Employment income deductions are sometimes too large compared to work related expenses and the standards of other countries. Therefore, we will have a policy of gradually adjusting the deduction amount in accordance with the main countries.

In accordance with the policy until now, if income exceeds 8.5 million yen, then the amount deducted will be reduced to 1.95 million yen. Measures are being taken to prevent cost increases for people with dependents who are under 23 years old, and dependents who are disabled. This is in consideration of the costs of raising children and other related expenses.

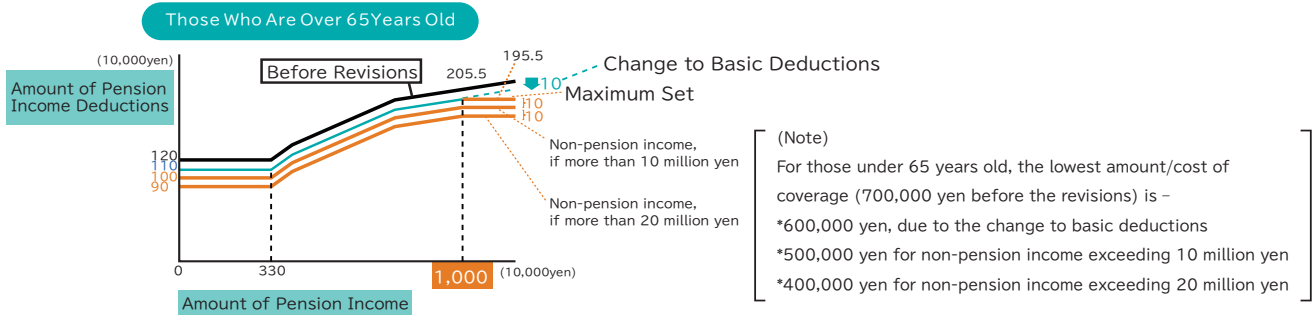


(NOTE) Those with dependents under 23 years old, as well as those with dependents who fall under the disability exemption. (Including those with disabilities who are not receiving nursing care)

3. Adjustment to Public Pension and Other Deductions

For public pension deductions, there is no maximum to deductions which are different from employment income deductions. No matter how high your non-pension income is, you will have the same deductions as those who only live on their pension. This is a generous arrangement for those receiving both their pension and other sources of income.

Considering this arrangement, we have instituted a limit of 1,955,000 yen for deductions if pension income exceeds 10 million yen. This is also for the sake of fairness to current and future generations. Furthermore, if the amount of income from non-pension sources exceeds 10 million yen, the deduction is decreased.



4. Adjustment to Basic Deductions

For basic deductions, we employ an income deduction method that deducts a fixed amount from income, regardless of the total income. However, based on the indication that it's not very necessary to expand the mitigating effects on the tax burden up to high income earners, we have made a structure that gradually decreases when the total income exceeds 24 million yen, and is eliminated at over 25 million yen.

