

3 Learn about "Income Tax"

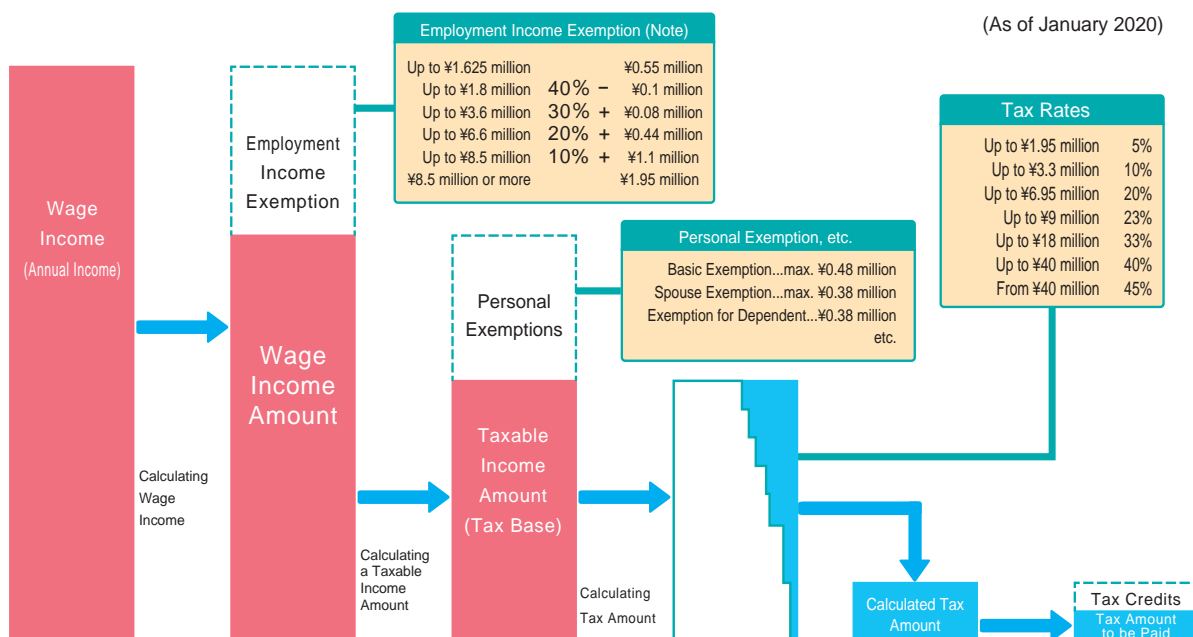
1 Income Tax

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



(Note) For those with dependents under the age of 23 or dependents with special disabilities, etc., the amount is to be adjusted by the income amount adjustment deduction so to prevent increase in burden due to the reduction of salary income at or over 8.5 million where the exemption becomes constant.
For those with both employment income and pensions, adjustment will be made by the income amount adjustment deduction so as not to increase the burden due to the transfer from employment income exemption/public pensions exemptions to basic exemptions which became effective in the revision made in FY2018.

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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 - [Interest on loans taken out for acquiring shares, etc.]	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 (Note 3)	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.)	[Amount of revenue] - [Acquisition costs and expenses for transfer of the assets sold] - [Special deduction (¥ 500,000)]	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	[Amount of revenue] - [Expenses for gaining revenue] - [Special deduction (¥ 500,000)]	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 real estate agents' short-term transfer of land, etc. (business/miscellaneous (taxation suspended until March 31, 2023)); and income from futures transactions (business/capital gains/miscellaneous).

(Note 3) For those with dependents under the age of 23 or dependents with special disabilities, etc., the amount is to be adjusted by the income amount adjustment deduction so to prevent increase in burden due to the reduction of salary income at or over 8.5 million where the exemption becomes constant.

For those with both employment income and pensions, adjustment will be made by the income amount adjustment deduction so as not to increase the burden due to the transfer from employment income exemption/public pensions exemptions to basic exemptions which became effective in the revision made in FY2018.

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")
	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
	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) Those who have been divorced, with dependent(s) 2) Those who have been widowed, that have not been remarried * Excludes those that fall under a single parent * De facto partners who are indicated as "Husband (unregistered)" "Wife (unregistered)" in the Resident's Registration are to be excluded
	Single Parent Exemption	• Those who are not currently married and have a child (total income up to 0.48 million) to make a living together * De facto partners who are indicated as "Husband (unregistered)" "Wife (unregistered)" in the Resident's Registration are to be excluded
Deduction for working students	• Taxpayers who are students of schools provided under the School Education Acts	

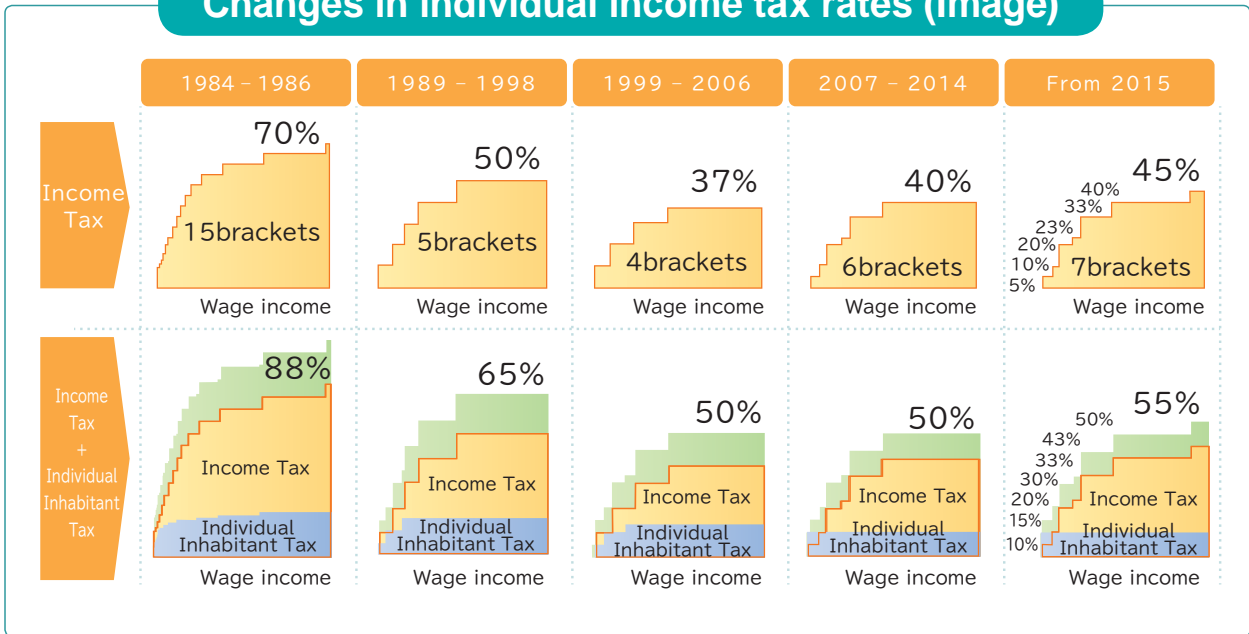
(Note) The figures in square brackets ([]) will go into effect after 2020 (as for inhabitant's taxes after FY2021)

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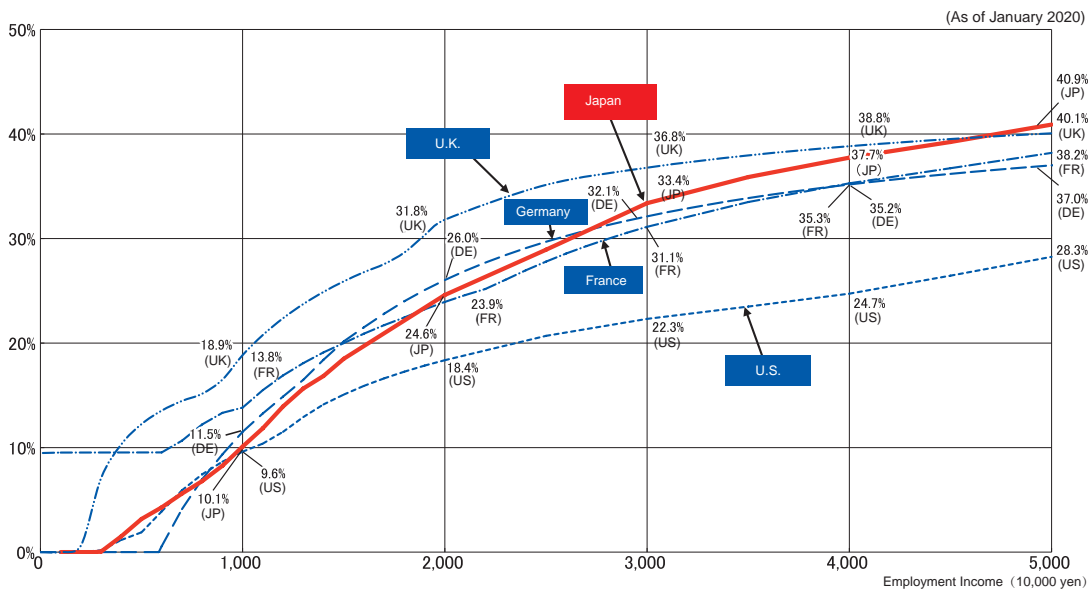
4 Changes in Income Tax Contributions

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**.

Changes in individual income tax rates (Image)



(Ref.) International Comparison of Effective Tax Rate for Personal Income Taxation (A couple with 2 children, with one parent working)



(Note) 1. Income Tax, Individual Resident Tax (income-based levy) and Special Reconstruction Income Tax are included for Japan. For the United States, Federal Income Tax and New York State Income Tax are included. Income Tax may be levied by the local government (county, city, etc.), however this is not taken into account in this document. Income Tax and Solidarity Surcharge (5.5% of the calculated income tax) are included for Germany. Income Tax and Social Security Related Taxes (General Social Tax, etc.: levied at a fixed rate (total of 9.7%) separately from the income tax) are included for France. In addition, additional income tax of 0 to 4% (3 levels) are levied on high-income earners as a measure from January 2012 until the budget deficit is resolved (however it is not included in the figure above.) When calculating the rate of burden in each country, only the generally applicable deductions and tax credits are taken into account, so the Earned Income Tax Credit or the Alternative Minimum Tax of the US, or Working Tax Credit (full benefit) of the UK is not considered.
 2. For comparison, the model case is calculated as the first child being a 19 years old in school, and the second child as a 16 years old.
 3. Japanese Currency Exchange Rate: 1 USD = 109 JPY, 1 GBP = 141 JPY, and 1 EUR = 121 JPY (base exchange rate and arbitrated exchange rate: applied in January 2020).
 4. The figures in the table are the effective tax rates for each country for employment income of 10 million yen, 20 million yen, 30 million yen, 40 million yen, and 50 million yen. The fractions are rounded off.