

3 Learn about "Income Tax"

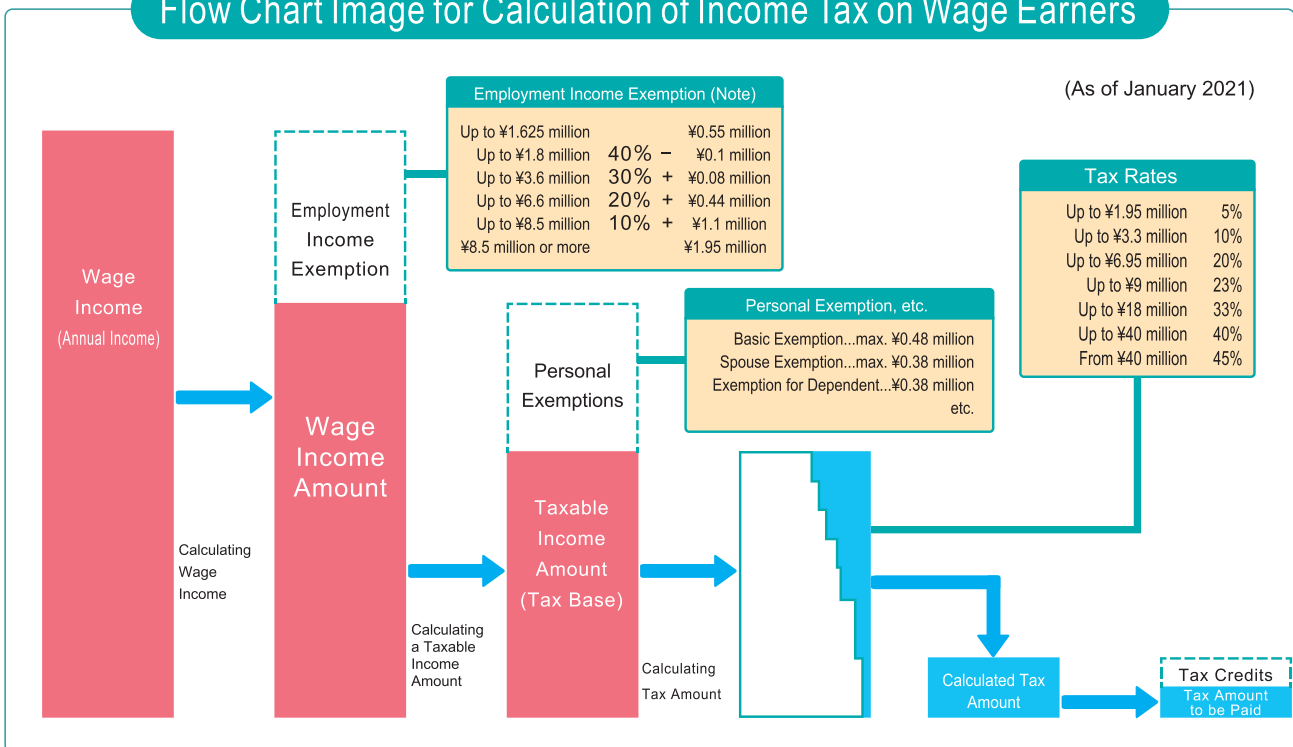
1 Income Tax

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 Image for Calculation of Income Tax on Wage Earners



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2 Major Types of Income

There are various types of income, which can be divided into the following ten types of income depending on the nature of the income. In addition, the method of calculating income and the taxation method are determined according to the nature of each income.

Category of income	Description	Taxation method
Interest income	Income from interest on bonds and savings accounts	Separate withholding taxation at source
Dividend income	Income from dividends, etc. by corporations	Comprehensive taxation (filing of return not required), Separate self-assessment taxation
Real property income	Income from loans of real estate, ships, aircraft, etc.	Comprehensive taxation
Business income	Income arising from business, such as agricultural business, fishing business, manufacturing business, wholesale business, retail business, or service business	Comprehensive taxation
Employment income	Income from salaries, bonuses, etc.	Comprehensive taxation
Retirement income	Income from retirement and other benefits	Separate taxation
Timber income	Income from the transfer of mountains and/or forests	Separate taxation
Capital gains income	Income arising from the transfer of assets	Comprehensive taxation (Note)
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	Comprehensive taxation
Miscellaneous income	Income from public pensions and other sources Income that does not fall into any of the above categories	Comprehensive taxation (Note)

(Note) Some items are treated as separate taxation (income from transfer of stocks, transfer of land, futures trading, etc.).

3 Major Personal Exemptions

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

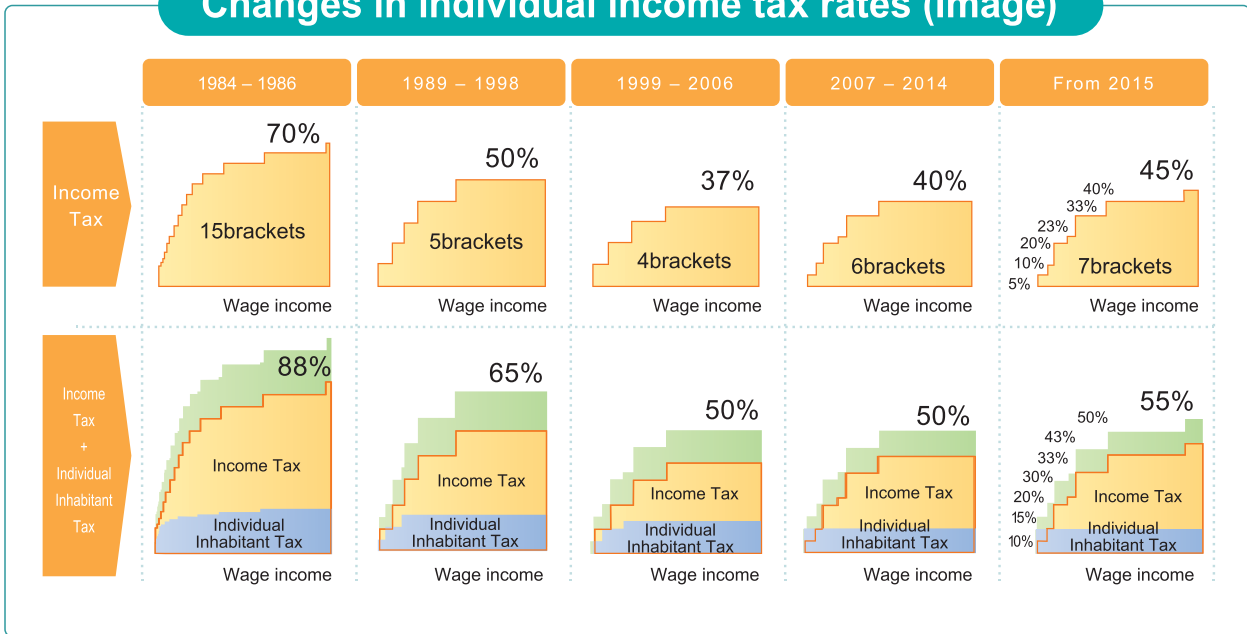
	Persons qualifying for deductions	Income requirement for taxpayers	
Major Basic Personal Exemptions	Personal(Basic) deduction	<ul style="list-style-type: none"> • Taxpayers 	[Income must be 25 million yen or under (the amount of deduction gradually decreases for taxpayers who earn more than 24 million yen)]
	Spouse deduction	<ul style="list-style-type: none"> • Taxpayers who have spouses who depend on them for living expenses and earn 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	<ul style="list-style-type: none"> • Taxpayers who have "spouses qualifying for deduction" aged under 70 years 	
	Special deduction for spouses	<ul style="list-style-type: none"> • Taxpayers who have spouses who depend on them for living expenses and earn more than 480,000 yen and not more than 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	<ul style="list-style-type: none"> • Taxpayers who have relatives, etc. who depend on them for living expenses and earn 480,000 yen or under as total income ("dependent relatives") 	—
	Ordinary dependent relatives	<ul style="list-style-type: none"> • Taxpayers who have dependent relatives aged 16 to 18 years or 23 to 69 years 	
	Specified dependent relatives	<ul style="list-style-type: none"> • Taxpayers who have dependent relatives aged 19 to 22 years 	
Major Specific Personal Exemptions	Deduction for persons with disabilities	<ul style="list-style-type: none"> • 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 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	Total income up to ¥5 million
	Single Parent Exemption	<ul style="list-style-type: none"> • 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" 	Total income up to ¥5 million
	Deduction for working students	<ul style="list-style-type: none"> • Taxpayers who are students of schools provided under the School Education Acts 	Income must be 750,000 yen or under as total income and not more than 100,000 yen for income other than employment income

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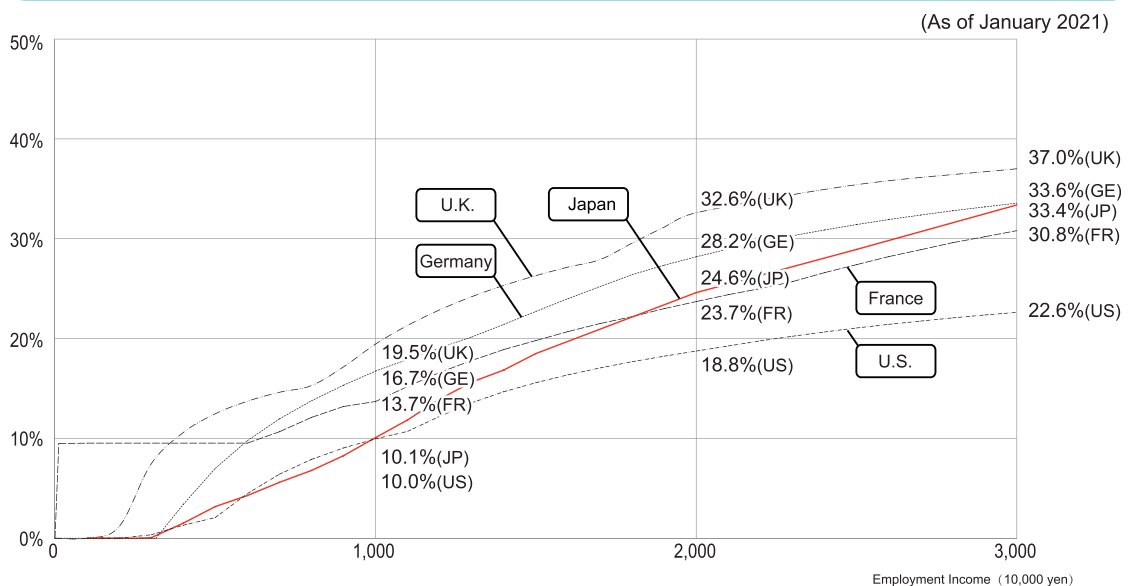
4 Changes in Income Tax Contributions

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)



International Comparison of Effective Tax Rate for Personal Income Taxation



(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, a model case of a couple (with one working) of two children, whose first child is a 19 years old student, and second child is 16 years old, is used to calculate the taxation amount.

3. Japanese Currency Exchange Rate: 1 USD = 104 JPY, 1 GBP = 137 JPY, and 1 EUR = 123 JPY (base exchange rate and arbitrated exchange rate: applied in January 2021).

4. The figures in the table are the effective tax rate for each country for employment income of 10 million yen, 20 million yen and 30 million yen. The fractions are rounded off.