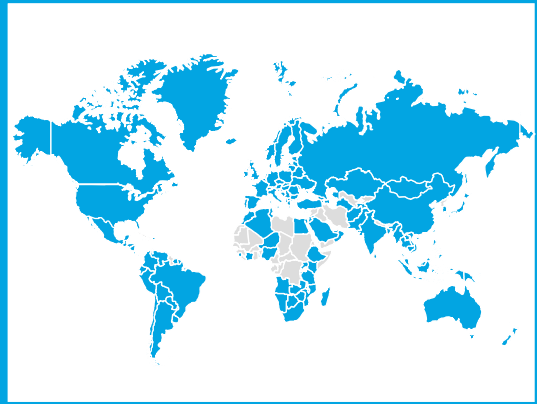


# EXPATRIATES JAPAN

## Tax facts for international assignees



### INCOME TAX: WHO IS LIABLE

#### Employment Income Tax System

Employment income of foreign employees working in Japan is subject to two kinds of taxation. One is income tax (national tax) and the other is inhabitant tax (local tax).

Income tax is administered by the National Tax Office and Inhabitant tax is administered by Local Tax Office.

Income tax will be declared and taxed from 1/1 to 12/31 by March 15<sup>th</sup> of the following year. There is no extension of the deadline for both declaration and tax payment. The inhabitant tax is calculated based on the income of the previous year for the resident as of 1/1 of that year. The local tax office issues a notice in June.

#### Income Tax Withholding

All employers in Japan are required to withhold and pay their employees' income taxes levied on their salaries.

The taxation methods and scope of taxable income differ depending on whether an employee is a "resident" or "non-resident."

For salary paid overseas, a tax return needs to be filed by March 15<sup>th</sup> of the following year if tax is not withheld by a company in Japan.

#### Resident and Non-residents

A foreign national who has "domicile (core base of life)" or has had residence for one year or longer in Japan, is regarded as "resident" and is subject to the same income tax rate as Japanese employees. However, a salary earner is regarded as a "resident" immediately after entering Japan unless the employment contract identifies that the period of stay is less than one year.

A "resident" may be either a "permanent resident" or a "non-permanent resident." A resident is a "non-permanent resident" if he or she does not possess Japanese citizenship and the total period of stay in Japan during the past 10 years does not exceed five (5) years. All other residents are "permanent residents." All incomes are taxed for a "permanent resident" while only the incomes earned in Japan and incomes earned

elsewhere but paid in or transferred to Japan are taxed for a "non-permanent resident."

#### Resident Taxation

Tax on residents is determined as follows:

- Net employment income is computed by deducting allowable employment deductions
- Taxable income is then computed by deducting social insurance premiums and allowable income deductions, such as the dependent deduction or the basic deduction.
- Tax is assessed in accordance with the graduated tax rates applicable (5% to 45%)

#### Special Reconstruction Income Tax

From 2017 to 2037, Social Reconstruction Income Tax is calculated by multiplying income tax by a 2.1% tax rate. Please see page 3 for tax rates.

Part of capital gains from the transfer of overseas stock is taxable in Japan.

#### Non-resident Taxation

In the case for a non-resident, his/her domestic source income (salary, etc. which was paid as remuneration for work in Japan) is subject to taxation. Remuneration for work outside of Japan is exempted from taxation.

#### Inhabitant Tax

A person who resides in Japan as a resident as of January 1 is subject to Inhabitant tax. Therefore, it should be noted that the person is still subject to Inhabitant tax even if he/she changes address or leaves Japan after January 1 as long as the person had income in the previous year.

The amount of inhabitant tax is decided based on the previous year's income tax record by the municipal office, and the individual is notified of the amount after June that year. It is necessary to pay all inhabitant tax up to the year of departure. If an individual does not pay tax in full or a payment slip has not arrived, they need to appoint a tax agent. It is also possible to appoint a tax agent separate from a tax agent for income tax.

**SOURCE OF INCOME SUBJECT TO TAXATION**

Classification		Income tax				Inhabitant tax
		Income from Sources in Japan		Income from Sources Abroad		
		Paid in Japan	Paid in Abroad	Paid in Japan	Paid in Abroad	
Resident	Non-Permanent Resident	All income paid in Japan is taxable.	All income paid abroad is taxable.	All income paid in Japan is taxable.	Only the portion deemed remitted to Japan is taxable. (This means that the remainder retained abroad is not taxable.)	Taxable if you reside in Japan as a resident as of 1st of January (including income of nonresident period if there were Japan source income in nonresident period the year before.)
	Permanent Resident	All income paid in Japan is taxable.	All income paid abroad is taxable.	All income paid in Japan is taxable.	All income paid abroad is taxable.	
Nonresident	Income is, in principle, taxable.		Income is not taxable.		Less than 3 months -- No inhabitant tax	
					*If you stay more than three (3) months and registered as a resident as of 1 January, subject to inhabitant tax	

**INCOME TAX FOR RESIDENTS**

Tax rates on Income (1)

Taxable Income	Tax Rate	Deduction
JPY0 to JPY1,950,000	5%	JPY0
JPY1,951,000 to JPY3,300,000	10%	JPY97,500
JPY3,301,000 to JPY6,950,000	20%	JPY427,500
JPY6,951,000 to JPY9,000,000	23%	JPY636,000
JPY9,001,000 to JPY18,000,000	33%	JPY1,536,000
JPY18,001,000 to JPY40,000,000	40%	JPY2,796,000
JPY40,001,000 or more	45%	JPY4,796,000

Tax rates on stock gains (2)

Classification	Tax Rate
Transfer income etc. on listed shares etc. (gain on transfer)	15%
Transfer income etc. of general stock etc. (gain on transfer)	15%
Dividend income on listed shares	15%

*Proceeds from sale of real estate are subject to a separate tax rate from above.*

Special Reconstruction Tax (3): Determined by multiplying the base income tax [(1)+(2)] by a tax rate of 2.1%.

**Total Income Tax:** Sum of (1), (2) and (3) above

**INHABITANT TAX (RESIDENTS)**

(Example: Tokyo)

	Per capita rate	(1) Tax Rate of the Per Income Rate, others	(2) Stock transfer + listed shares dividends
Special City (4)	JPY 3,500	6%	3%
Metropolitan (5)	JPY 1,500	4%	2%

**Inhabitant Tax:** Sum of (4) and (5)

## SOCIAL SECURITY

Japan has social insurance system mainly to operate pension scheme, health insurance, unemployment and labor's accident.

### Pension Scheme

#### National Pension (Kokumin Nenkin)

All people who are registered to reside in Japan and aged between 20 and 59, irrespective of their nationality, must be covered by the National Pension system by law and must pay contributions.

Monthly contributions (Apr.2020-Mar.2021) are JPY16,540.

#### National Pension Coverage Categories Enrollment:

- Category I: If individuals are registered to reside in Japan, aged between 20 and 59, and they are not a Category II insured person, they are a Category I insured person. If they are a non-Japanese residents and a Category I insured person, individuals must make sure they register their residence first at their local Municipal Office and have them establish their Japanese resident registry. They then need to register their enrollment with the National Pension system at the same Municipal Office.

#### Welfare Pension Insurance (Kosei Nenkin Hoken)

- Category II: If individuals are employed to work at a company, factory and such workplaces, and are covered by the Employees' Pension Insurance system, they are a Category II insured person.

The employer is responsible for completing enrollment to pension system on their behalf. For details, please check with your employer.

Contributions are deducted from salary and remitted by the employer on behalf of the employees.

#### Example in Tokyo (April-August 2020)

- Pension rate: Welfare Pension Insurance (18.3%)

Premium are calculated on the previous year's income.

## Health Insurance

#### Medical care system for elder senior citizens:

For elderly aged 75 and over, premium is calculated based on the previous year's income

#### Health Insurance Association

Example in Tokyo (April-August 2020)

- Health insurance rate: Health insurance (9.87%)
- Nursery insurance rate: (additional 1.79% for age over 40-64 years-old)

Each premium is usually split between the employer and the employee.

The rate changes depending on Prefectures. As it differs by participating fund/association, please contact the social security pension fund that a taxpayer joins through the company for the exemption insurance premium rate and the contribution of the social security pension contributions.

#### National Health Insurance

Japan has a mandatory public National Health Insurance. Individuals living in Japan must enroll in some form of public health insurance. Once all foreign residents, who plan to stay in Japan for one year or longer, have completed alien registration and are listed in the Basic Resident Register, they are required to enroll in the health Insurance scheme.

Premiums are calculated on the previous year's income.

## Social Security Agreement

If an individual contributes to the social security system of a country that has a social security agreement with Japan and acquires a certificate of coverage, there is a possibility that they can be exempt from joining in Japan. Submission of a certificate is necessary for exemption process in Japan.

For further information and to register for future updates contact [expat@bdo.global](mailto:expat@bdo.global)

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