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Individual Tax: Hot Topics

Recent income tax updates including 2017 tax reform changes

Amendments to Spousal deduction

Effective January 1, 2018, the spousal deductions will change

An increase in the spousal income (secondary earner) cap for which the tax payer (primary earner) can claim the full spouse deduction of JPY 380,000 has changed as below:

- Spouse income cap: increase from JPY 1,030,000 to JPY 1,500,000

2) If the spouse earns between JPY 1,500,000 to JPY 2,010,000, the tax payer will be able to claim the special spouse deduction instead of the spouse deduction of JPY 380,000.

- Deduction amount decreases in stages based on the spouses income level
- Once the spouse income reaches JPY 2,010,000, the tax payer will no longer qualify for the deduction

3) Tax payer income cap: where the tax payer earns more than JPY 12,200,000, no deduction is available

Spouse / Special spouse deduction (JPY)	Spouse income (JPY)										
	Up to 1.03 M	Up to 1.5 M	Up to 1.55 M	Up to 1.6 M	Up to 1.67 M	Up to 1.75 M	Up to 1.83 M	Up to 1.9 M	Up to 1.97 M	Up to 2.01 M	2.01 M and above
Tax payer income (JPY)	Spouse deduction	Special Spouse deduction									NO DEDUCTION AVAILABLE
Up to 11.2M	380,000	380,000	360,000	310,000	260,000	210,000	160,000	110,000	60,000	30,000	
Up to 11.7M	260,000	260,000	240,000	210,000	180,000	140,000	110,000	80,000	40,000	20,000	
Up to 12.2M	130,000	130,000	120,000	110,000	90,000	70,000	60,000	40,000	20,000	10,000	
12.2 M and above	NO DEDUCTION AVAILABLE										

Change in sourcing rules for non-permanent residents (NPRs)

- Prior to 1 January 2017, NPRs were subject to tax on Japan source income and foreign source income paid in or remitted to Japan

- From 1 January 2017, NPRs are subject to tax on ALL income except foreign source income not paid in or remitted to Japan

- The definition of foreign source income no longer includes capital gains on the sale of shares and securities held overseas (except in certain cases involving an applicable tax treaty); and from 1 January 2017 such gains would be taxable regardless of whether they are remitted to Japan.

- To limit the impact of this change, a further revision was introduced from 1 April 2017. From 1 April 2017, any gains on shares acquired prior to 1 April 2017 or at a time when the individual was not an NPR within the last 10 years could be taxed on the remittance basis.

Reminder – expansion to equity report

- Branches and subsidiaries (50% or more) of foreign companies are required to submit an annual report to tax authorities of employee equity events.

- Report should cover all events where the value of payment received is based on the value of company share price (e.g. Cash payments such as phantom stock, deemed dividends etc.)

- From 1 Jan 2016, must report for all current and former employees and directors

- From 1 Jan 2016, must report for residents and non-residents

- The tax authorities will cross check to tax returns filed and will actively review the reports in the course of tax audits

- More important to ensure compliance for global mobile populations. Companies should consider communications to their employees and how to support trailing tax filings.

Others

- Expansion to NISA system – Nippon Individual Saving Account
- New long term accounts to sit alongside existing system.
- Can invest up to 400,000yen in a tax year and hold for 20 years.
- Gains and dividends over the qualifying period can be earned tax free.

Individual Tax:
Trends in taxation

Taxes affecting individuals are increasing

2013	Earthquake surtax of 2.1% on national tax introduced
2014	Consumption tax increased from 5% to 8%
2015	45% top rate of income tax introduced on income over 40m JPY
2015	New top rate of 55% for inheritance and gift taxes
2019	Consumption tax expected to rise to 10%
Ongoing	Gradual increases in social security (notably pension element)

Available deductions being rolled back

2011	Dependent deductions stopped for under 16s
2013	Employment income deduction capped at 2.45m
2015	Basic deduction for inheritance taxes lowered from 50m JPY (plus 10m JPY per statutory heir) to 30m JPY (plus 6m JPY per statutory heir)
2016	Employment Income deduction capped at 2.3m
2016	Additional reporting requirements for claiming a foreign / overseas dependent
2017	Employment Income deduction capped at 2.2m
2018	Spouse deduction restricted

Connectivity of Data

2012	Employer equity report starts
2013	Introduction of foreign asset reporting
2015	MyNumber introduced
2015	Expansion of asset and liability statement into detailed asset and liability report
2016	Expansion of employer equity report to include non-residents and former employees
2018	MyNumber to be linked to bank accounts.
Ongoing	Expansion of treaty network and data sharing with other countries

Importance of Visa Type

There are now 2 recent reforms where visa category for a foreign national has a direct impact for taxation

1. Exit Tax

Foreign nationals from 2020 will be subject to the Exit Tax regime (assessed on unrealized capital gains upon leaving Japan).

Liable if they have more then 5 years in Japan on a category 2 type visa (PR, spouse, dependent of a Japanese national)

Only individuals with more than 100m JPY liable to the exit tax.

2. Inheritance Tax

Holders of a category 2 type visa subject to inheritance and gift taxes on worldwide assets similar to Japanese citizens

Individuals on a category 1 type (work visa) enjoy beneficial treatment on gifts / inheritances involving non Japanese / overseas assets.

Individual Tax:
Tax planning?

Minimizing taxes

- Claim available deductions (Medical, Dependent etc.)

- Ownership of income (split with spouse?)

- Claim relief for overseas workdays (for expats on offshore payrolls who are non-permanent resident)

- Timing of leaving Japan

    Local inhabitants taxes not due in final year

    Difference between (resident (56%) and non-resident (20%) tax rates)

    Reducing taxable income during a tax year (more captured at lower bands)

- Offset employment income with a loss on other income – business income / rental income

- Rental income in Japan is particularly generous as depreciation and mortgage interest on buildings can be claimed as a deduction.

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