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)

<table>
<thead>
<tr>
<th>Spouse income (JPY)</th>
<th>Up to 1.03 M</th>
<th>Up to 1.5 M</th>
<th>Up to 1.55 M</th>
<th>Up to 1.6 M</th>
<th>Up to 1.67 M</th>
<th>Up to 1.75 M</th>
<th>Up to 1.83 M</th>
<th>Up to 1.9 M</th>
<th>Up to 1.97 M</th>
<th>Up to 2.01 M and above</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax payer income (JPY)</td>
<td>Spouse deduction</td>
<td>Special Spouse deduction</td>
<td>NO DEDUCTION AVAILABLE</td>
<td>NO DEDUCTION AVAILABLE</td>
<td>NO DEDUCTION AVAILABLE</td>
<td>NO DEDUCTION AVAILABLE</td>
<td>NO DEDUCTION AVAILABLE</td>
<td>NO DEDUCTION AVAILABLE</td>
<td>NO DEDUCTION AVAILABLE</td>
<td>NO DEDUCTION AVAILABLE</td>
</tr>
<tr>
<td>Up to 11.2M</td>
<td>380,000</td>
<td>380,000</td>
<td>360,000</td>
<td>310,000</td>
<td>260,000</td>
<td>210,000</td>
<td>160,000</td>
<td>110,000</td>
<td>60,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Up to 11.7M</td>
<td>260,000</td>
<td>260,000</td>
<td>240,000</td>
<td>210,000</td>
<td>180,000</td>
<td>140,000</td>
<td>110,000</td>
<td>80,000</td>
<td>40,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Up to 12.2M</td>
<td>130,000</td>
<td>130,000</td>
<td>120,000</td>
<td>110,000</td>
<td>90,000</td>
<td>70,000</td>
<td>60,000</td>
<td>40,000</td>
<td>20,000</td>
<td>10,000</td>
</tr>
<tr>
<td>12.2 M and above</td>
<td>130,000</td>
<td>130,000</td>
<td>120,000</td>
<td>110,000</td>
<td>90,000</td>
<td>70,000</td>
<td>60,000</td>
<td>40,000</td>
<td>20,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>
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 400,000 yen 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.
Contact

Ken Saga-Hardie
Senior Manager
Global Employer Services
Deloitte Tohmatsu Tax Co

E-mail: ken.saga-hardie@tohmatsu.co.jp
Deloitte Tohmatsu Group (Deloitte Japan) is a collective term that refers to Deloitte Tohmatsu LLC, which is the Japan member firm of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee, and firms affiliated with Deloitte Tohmatsu LLC that include Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co., DT Legal Japan, and Deloitte Tohmatsu Corporate Solutions LLC. Deloitte Tohmatsu Group is known as one of the largest professional services groups in Japan. Through the firms in the Group, Deloitte Tohmatsu Group provides audit & assurance, risk advisory, consulting, financial advisory, tax, legal and related services in accordance with applicable laws and regulations. With about 11,000 professionals in nearly 40 cities throughout Japan, Deloitte Tohmatsu Group serves a number of clients including multinational enterprises and major Japanese businesses. For more information, please visit the Group’s website at www.deloitte.com/jp/en.

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients’ most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2017. For information, contact Deloitte Tohmatsu Tax Co.