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GES NewsFlash

Japan – 2010 Tax Reform: Implications for Individual Taxpayers

February 10, 2010

Background

In December 2009, the Japan Tax Commission unveiled its proposals for the Tax Reform 2010. These included a number of proposals which, if implemented, would affect individual taxpayers in Japan including changes to deductions and administrative updates such as the introduction of a Taxpayer Identification Number system.

Deductions from Income

- In light of the introduction of a 'child allowance', the deduction taken against a taxpayer's income for dependants under 16 years of age (currently￥380,000 for national tax, ￥330,000 for inhabitants tax) will be abolished.
- Due to the introduction of free tuition for high school pupils the additional deduction for dependants aged 16 and over but under 19 years of age (currently￥250,000) will be abolished. It will still be possible to claim the original dependant deduction (￥380,000 for national tax, ￥330,000 for inhabitants tax) for these dependants.
- These revisions are effective from the 2011 tax year for national tax purposes, and the same revisions for inhabitant tax will be effective for income assessed in 2012 onwards.
- The child allowance and free high school tuition will be tax exempt.

Deloitte's View

We are waiting for clarification on who will be eligible for the child allowances but expect this to include foreign residents in Japan. The loss of deductions will be felt by the employers of tax equalized assignees who do not benefit from the free tuition for high school for their accompanying dependents.

"Tax-free" accounts

- From 2012, a “tax-free” account for dividends and capital gains from listed stocks will be introduced for residents who are aged 20 years or over on January 1 of a tax year. Only one tax-free account will be allowed per resident and up to ￥1 million of listed stock, by reference to the acquisition cost, can be held in the account.
- Dividend and capital gains from listed stocks held in the “tax-free” account will be exempt of national income tax and inhabitant tax.

Deloitte’s View

The introduction of these special accounts may be of interest to foreign residents in Japan who are looking for new investment opportunities. However, foreign residents who are also tax residents in non-Japan jurisdictions, such as US Citizens, will need to consider the worldwide tax implications of holding such accounts.

Japanese “401K” pension plans

The 2010 Tax Reforms include a proposal that says matching contributions made by employees to a defined contribution plan will be deductible in full. However, it should be noted that previous reforms have included such a proposal but its implementation relies on the enactment of other additional legislation. As such, the timing of when this will come into law is unclear.

Deloitte’s View

We welcome the expansion of tax favourable pension provision for employees in Japan but this will not change the tax treatment of employee contributions to foreign pension plans which will remain non-deductible for Japan tax purposes.

Tax Administration

The Tax Reform proposals contain a number of measures in respect to the administration of tax matters in Japan, including the following:

- Establishment of a “Taxpayers’ Charter” to lay out the rights and obligations of taxpayers in Japan.
- Introduction of a Taxpayer Identification Number system that will apply for both tax and social security purposes.
- Abolition of the Social Insurance Agency, and merger of its operations with the National Tax Agency, to create a Revenue Agency, which will levy and collect both tax and social security payments in a unified manner.
- Reform of the National Tax Tribunal, to separate the appeals process further from the National Tax Authority.
- As taxpayers’ rights are enhanced, so their obligations to comply with tax law should be ensured, and stricter penalties will apply for non-compliance, including the following (applicable to violations conducted on or after June 1, 2010):

- Maximum jail terms for tax evasion to be increased from 5 years to 10 years; and,
- Penalties for tax evasion to be doubled.

Deloitte's View

The introduction of a taxpayer identification number seems long overdue and should make it easier for the authorities to keep track of taxpayers, especially when taken in conjunction with the merging of the Social Insurance Agency with the National Tax Agency.

People to Contact

If you have any questions concerning the issues in this GES NewsFlash, please contact one of the tax professionals as follows:

Russell Bird

Tel: +81 3 6213 3979

Frances Somerville

Tel: +81 3 6213 3851

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New York, NY 10019 – 6754
United States