



GES NewsFlash

Japan – New Child Allowance Bill Passed

April 30, 2010

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Background

On March 26, 2010 a Bill was passed by the Japanese Diet for a new child allowance (“kodomo teate”). This delivers on one of the key promises in the Democratic Party manifesto for last year’s election, which brought the party into Government. The new child allowance replaces the means-tested allowance which existed previously.

Outline of the new allowance

From the start of the 2010 Fiscal year on April 1, 2010, parents and legal guardians in Japan are entitled to an allowance worth 13,000 yen per month, per child aged 15 or younger. It is possible for a resident of Japan to claim the allowance even if the child is living abroad.

To claim the child allowance for a child living outside of Japan, the following conditions should be met:

- The claimant should meet the child twice or more in a year;
- The allowance should be sent overseas for the child’s support periodically (approximately every four months);
- Proof of having lived with the child before coming to Japan should be certified by a residency certificate or similar.

Responsibility for processing applications and making payments will be handled by the resident’s Ward office. The Ward office may request further documentation to support the claim for the child allowance for a child who lives outside of Japan. Any documents not in Japanese will be required to be translated into Japanese before submission.

Obtaining the allowance

If an applicant was in receipt of existing child allowances from the Ward office as of

March 31, 2010, no additional application should be required.

If the household was not eligible for the means tested allowance, an application form should be submitted to the applicant's Ward office. It is expected that Ward offices will mail out the application forms to households with registered children otherwise applicants should obtain the form at their local Ward office. An application should be submitted by September 30, 2010 to receive the allowance from April 2010 onwards.

Generally, the allowance will be paid to the applicant's Japan bank account. However, any applicant who applies to receive the allowance in cash (by collection at the Ward office) must do so within 2 years of the application being accepted or forfeit the allowance.

Payment Schedule for Fiscal 2010 allowances

<u>Payment Month</u>	<u>Allowance Months</u>
June 2010	April and May 2010
October 2010	June – September 2010
February 2011	October 2010 – January 2011
June 2011	February and March 2011

Income tax treatment

The child allowance will be exempt for Japan individual income tax purposes.

Employer contributions

Where an allowance is paid to an employee who is enrolled in the Japanese social insurance system and whose child is up to 2 years old, the employer will be required to make a contribution towards financing the allowance.

Future changes

The allowance will be increased to 26,000 yen per month per eligible child effective from the start of the next fiscal year on April 1, 2011. Also, further consideration may be given to eligibility for the allowance for children living outside of Japan.

Deloitte's View

Previously the child allowance was means-tested and therefore many assignees in Japan were ineligible to claim them except for the year of arrival. However, with the new allowance available regardless of income level, employers with assignees in Japan may wish to determine what level of support will be given for foreign employees making applications for the new child allowance. It is expected that the forms will require completion in Japanese, and completion of the form together with meeting documentation requirements could be quite

complex for those applicants whose children live outside of Japan, especially as there may be a need to have documents translated into Japanese.

Where tax equalized assignees are in receipt of the allowance, employers should consider the treatment of the child allowance for tax equalization purposes. In such cases, clawing back the relatively generous allowance through TEQ settlements may cover any additional administrative burden connected to helping employees apply for the allowance.

People to Contact

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

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