

2013 Payroll Tax Updates (1)

In the series of the 2011 and 2012 tax reforms, there are some important changes as follows on the individual income and inhabitants taxes that will impact payroll calculation effective on January 1, 2013. We will cover the first two topics in this issue. The other two are to be introduced in the next issue.

- Cap of employment deduction
- Special income tax for Disaster Reconstruction in the Tohoku region of Japan
- Retirement income for director
- Inhabitants tax on retirement allowance

■ Cap of Employment Deduction

Currently, there is no cap of employment deduction for salaried workers, however, it will be limited to 2,450,000 yen for those who earn more than 15 million yen in a calendar year from 2013. (See the column with * of the table below.) Taking an example of the gross receipt of 25 million yen, the employment deduction will be 2,450,000 yen in 2013. This is down 500,000 yen from 2,950,000 yen in 2012.

Table 1: Employment deduction (JPY)

Gross receipt (salary + bonus)	Employment deduction
~ 650,000	All receipt
650,001 ~ 1,625,000	650,000
1,625,001 ~ 1,800,000	40%
1,800,001 ~ 3,600,000	30% + 180,000
3,600,001 ~ 6,600,000	20% + 540,000
6,600,001 ~ 10,000,000	10% + 1,200,000
10,000,001 ~ 15,000,000	5% + 1,700,000
*15,000,001 ~	2,450,000

■ Special income tax for Disaster Reconstruction in the Tohoku region of Japan

The Government announced in December 2011 to establish a special income tax measures to finance the reconstruction and rehabilitation plan in the Tohoku region of Japan. The employer will be required to withhold a special income tax from the salary and pay it to the national tax office together with withholding income tax. This measure is in effect for a fixed period from 2013 through 2037. The additional tax is 2.1% of the rate of withholding income tax. The total tax rates will be as follows.

Table 2: Total tax rates

Taxable salary income (JPY)	Withholding income tax (%)	Total with special tax (%)
~ 1,950,000	5	5.105
1,950,001 ~ 3,300,000	10	10.210
3,300,001 ~ 6,950,000	20	20.420
6,950,001 ~ 9,000,000	23	23.483
9,000,001 ~ 18,000,000	33	33.693
18,000,001 ~	40	40.840

The special income tax will also apply to payments for non-resident and retirement allowance. The withholding tax rate for non-resident is 20% flat, so the total rate will be 20.42%. The tax on retirement allowance is calculated using the above Table 2.