

2013 Payroll Tax Updates (2)

Following the previous issue of our newsletter, in this issue we introduce the remaining two topics of the changes in the 2011 and 2012 tax reforms, both of which are related to retirement allowance calculation.

- Retirement income for directors
- Inhabitants tax on retirement allowance

■ Retirement Income for Directors

Under the income tax law, retirement income was calculated as 50% of the gross receipt of retirement allowance less retirement income deduction*. From 2013, the 50% deduction is no longer applied for directors whose service years are 5 years or less. The new rule applies to payments that are resolved at shareholders' meetings on or after January 1, 2013.

*Retirement income deduction is calculated as indicated below based on the years of service.

Service years	Deduction
Up to 20 years	400,000 yen × service years (minimum: 800,000 yen)
More than 20 years	8 million yen + {700,000 × (number of service years – 20)}

■ Inhabitants Tax on Retirement Allowance

Retirement allowance is subject to not only the income tax as a national tax, but also the inhabitants tax as a local tax. In addition to the changes to the income tax as described above, there is another tax change to the inhabitants tax. Until 2012, a 10% special tax reduction had been applied to the inhabitants tax, but the special treatment ended as of December 31, 2012, and the 10% reduction cannot be enjoyed any longer from 2013. The tax calculation formulas are as follows.

Prefectural tax = (Gross receipt – Retirement income deduction) × 50% × 4%	× 0.9	→ Abolished
Municipal tax = (Gross receipt – Retirement income deduction) × 50% × 6%	× 0.9	

The change applies to the payments for those who resign on or after January 1, 2013. Furthermore, please note that for directors with 5 service years or less, the 50% deduction is not applied in the inhabitants tax calculation nor in the income tax calculation.

For better understanding of the above two changes, below is an example of the retirement allowance calculation for a director with 5 service years or less.

	2012	2013
Gross amount	3,000,000 yen	
Service years	3 years	
Income deduction	400,000 × 3 = 1,200,000	
Retirement income	(3,000,000 – 1,200,000) × 50% = 900,000	3,000,000 – 1,200,000 = 1,800,000
Income tax	900,000 × 5% = 45,000	1,800,000 × 5.105% = 91,890**
Inhabitants tax (Prefectural):	900,000 × 4% × 0.9 = 32,400	1,800,000 × 4% = 72,000
(Municipal):	900,000 × 6% × 0.9 = 48,600	1,800,000 × 6% = 108,000
Total tax amount:	126,000	271,890

**Income tax rate was increased from January 2013 as introduced in the last issue.

As can be seen, the total tax amount in 2013 is 271,890 yen, which is more than double the 126,000 yen in 2012.