

## 2020 Updates of Withholding Income Tax

The 2018 tax reform includes several changes to the withholding income tax, effective January 2020. In this article, we introduce the major changes of income deductions that will directly impact payroll administration.

### ■ Employment Income Deduction

The amount of employment income shall be the balance of total salary and bonuses paid in the year minus the employment income deduction. The following amendments have been made to the employment income deduction. The details are shown in Table 1.

- 1) The deduction amount has been reduced flatly by 100,000 yen.
- 2) The amount of gross salary (including bonus) to which the upper limit of deduction applies has been lowered to 8,500,000 yen from 10,000,000 yen. The upper limit of the deduction amount has been lowered to 1,950,000 yen from 2,200,000 yen

Table 1: Employment Income Deduction

Annual Gross Salary (including bonus) [A]		Employment Income Deduction
More than	Not more than	
	~ 1,625,000	550,000
1,625,000	~ 1,800,000	[A] × 40% - 100,000
1,800,000	~ 3,600,000	[A] × 30% + 80,000
3,600,000	~ 6,600,000	[A] × 20% + 440,000
6,600,000	~ 8,500,000	[A] × 10% + 1,100,000
8,500,000	~	1,950,000

### ■ Income Adjustment Deduction

The Income Adjustment Deduction has been newly introduced to ease the tax burden on salary earners who are under certain circumstances. Salary earners whose annual gross salary (including bonus) exceeds 8,500,000 yen and who meet any of the following conditions are eligible for this deduction. The deduction amount is 10% of gross salary after deducting 8,500,000 yen with a maximum of 150,000 yen.

- 1) Being a special disabled person
- 2) Having a tax deductible dependent aged under 23 in the same household
- 3) Having a special disabled spouse /dependent in the same household

### ■ Basic Deduction

Until 2020, the Basic Deduction was applied to all salary earners regardless of their salary amount. The following amendments were made effective January 2020.

- 1) The amount of deduction has been increased to 480,000 from 380,000
- 2) For salary earners whose annual total income exceeds 24,000,000 yen, the reduced amount is applied as indicated in Table 2

Table 2: Basic Deduction

Annual Total Income*		Basic Deduction
More than	Not more than	
	~ 24,000,000	480,000
24,000,000	~ 24,500,000	320,000
24,500,000	~ 25,000,000	160,000
25,000,000	~	Nil

\* The total income includes incomes other than employment income (salary and bonus), such as retirement income, capital gains, etc.

### ■ Dependent's Income to Be Tax Deductible

In connection with the above amendments, the maximum amount of a dependent's total income to be tax deductible has been increased as follows:

- Dependent/spouse deductions                    480,000 from 380,000
- Withholding spouse deduction                950,000 from 850,000
- Special spouse deduction                    480,000 -1,330,000 from 380,000 -1,230,000
- Working student deduction                    750,000 from 650,000