

Outline of Inhabitants Tax

Inhabitants (or resident) tax is the individual local tax consisting of prefectural inhabitants tax and municipal inhabitants tax. It is imposed on individuals who have a residence or domicile in Japan as of January 1 of each year. Unlike the national income tax, the inhabitants tax is levied on the income earned in the preceding calendar year. The taxable income is computed as it is done for national income tax unless particularly specified under the relevant laws.

■ Tax Rates

There are two categories of levy - per capita levy and per income levy. The current rates are as follows:

	Prefecture	Municipal	Total
Per capita levy (Yen)	1,500	3,500	5,000
Per income levy (%)	4%	6%	10%

2014 Update: The per capita levy has been increased by 1,000 yen, compared with 2013. This is due to the measure came into effect this year based on the law established in 2011 to finance for disaster reconstruction plan in Tohoku Region of Japan. This measure is in effect for the fixed period of 10 years from 2014 to 2023. Some cities may levy a bit higher tax than the standard amount of 1,000 yen.

■ Tax Calculation and Payment

By every January 31, an employer is required to submit a report of each employee's salary income of the preceding calendar year to the municipal office of each employee's place of domicile as of January 1. Based on the report, the municipal office calculates the employee's annual tax, and then sends a payment schedule to the employer no later than May 31. The annual tax is paid over 12 months from June to May of the following year in accordance with the payment schedule. For example, the 2014 tax is based on the 2013 income and is payable from June 2014 through May 2015.

When an employee leaves the company, he/she is required to settle the remaining tax liability by any of the following three methods: a) Lump-sum payment in the last payroll at the leaving company, b) Continuing monthly payment at the new employer, or c) Self-payment

Special Notes:

As indicated above, there is a large time lag between the year of income assessed and the year of tax payment. It should be noted that this time lag may cause confusing tax positions as below:

- When an expatriate finishes the Japan assignment and departs from Japan in the middle of the year, he/she is obligated to pay the entire annual tax amount calculated on the preceding year's Japan source income, even after leaving Japan. For example, when the expatriate departs from Japan on January 1, 2014, he/she is deemed as a Japan resident as of January 1 in principle, and is subject to the 2014 tax in its entirety for the income earned in 2013. If he/she departs one day earlier on December 31, 2013, the 2014 will not be imposed, since he/she is not a Japan resident as of January 1, 2014.
- On the contrary, when an expatriate enters Japan in the middle of a year, he/she does not need to pay until June of the following year as long as no Japan source income was earned in the year prior to the arriving year.