

2016 Payroll Tax Updates

The 2015 tax reform includes several changes to the withholding income tax, effective January 2016. In this article, we introduce the major changes that will directly impact payroll administration.

■ Change to the Employment Deduction for High Salary Earners

Income tax for salary earners is calculated based on the Employment Income derived by deducting the standard employment income deduction from gross receipts earned in a year. The amount of the standard employment income deduction is determined by the specified formula. Starting January 2016, 2,300,000 yen is applied uniformly for gross receipts in excess of 12,000,000 yen. There is no impact on employees whose annual salaries are 12,000,000 yen or lower. For clarification, the following is a “was-is” formula for 2015 and 2016.

Annual gross receipts (salary + bonus)	Employment Deduction	
	To 2015	From 2016
~ 650,000	All receipt	All receipt
650,001 ~ 1,625,000	650,000	650,000
1,625,001 ~ 1,800,000	40%	40%
1,800,001 ~ 3,600,000	30% + 180,000	30% + 180,000
3,600,001 ~ 6,600,000	20% + 540,000	20% + 540,000
6,600,001 ~ 10,000,000	10% + 1,200,000	10% + 1,200,000
10,000,001 ~ 12,000,000	5% + 1,700,000	5% + 1,700,000
12,000,001 ~ 15,000,000		2,300,000
15,000,001 ~	2,450,000	

Further amendment is planned in 2017 to reduce the deductible ceiling to 2,200,000 yen for those employees whose annual gross receipts are in excess of 10,000,000 yen. Tax rates remain unchanged from 2015. More information on the tax rates can be found in vol.29 of this newsletter.

■ New Requirements for Tax Deductible Non-Resident Dependents

To calculate income tax, various other income deductions can be applied. Amongst others, the dependents deduction, applied for non-resident spouses and/or dependents, should be noted. From January 1, 2016, employees who have tax-deductible dependents outside Japan should submit the following documents to the tax authority to qualify for tax deductibility:

- 1) Documents to certify a family relationship
 - a) Copy of a family register or any other equivalent document issued by governmental authorities, together with a copy of the dependent’s passport, or
 - b) A document issued by a foreign government that certifies family relationships, such as family registers, birth certificates, or marriage certificates. Dependent’s name, address and date of birth must be included.
- 2) Documents to certify financial support
 - a) A document issued by a financial institution that verifies the employee has made a remittance to his/her non-resident dependents to support their living cost or educational expenses, or
 - b) A document issued by a credit card company to verify that the employee’s non-resident dependents have purchased goods with that credit card, and that the employee has reimbursed (or will reimburse) the cost of the goods.