

## Individual Inhabitants Tax in Japan

There are two types of tax collected from payroll in Japan: a) the withholding income tax that is a national tax, and b) the inhabitants (or resident) tax consisting of prefectural inhabitants tax and municipal inhabitants tax. The inhabitants tax is imposed on individuals who have a residence or domicile in Japan as of January 1 of each year. Unlike the withholding income tax, the inhabitants tax is levied on the income earned in the preceding calendar year.

### ■ Tax Rates

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

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

Note: An additional 1,000 yen will be imposed on the per capita levy until 2023 to finance the reconstruction plan in the Tohoku region.

### ■ 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 2021 tax is based on the 2020 income and is payable from June 2021 through May 2022. The calculation of the tax is done by the local municipal offices. The employer's obligation is to collect the tax from payroll and pay it to the authority on behalf of employee.

### ■ Handling of Employees Who Leave the Company in the Middle of the Tax Year

As described in the preceding paragraph, there is a large time lag between the year of income assessed and the year of tax payment. Due to this unique system, we need to handle carefully the settlement of tax liability when an employee leaves the company in the middle of the tax year. He/she is required to pay the remaining tax liability by one of three methods: a) Pay in a lump-sum from last payroll at the time of leaving the company, b) Continue monthly payment at the new employer without break, or c) Pay by him/herself directly to the authority.

#### **Employee who arrives in/leaves Japan in the middle of the tax year:**

- When an expatriate finishes the Japan assignment and departs from Japan in the middle of the tax 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, 2021, he/she is deemed as a Japan resident as of January 1, 2021 in principle, and is subject to the 2021 tax in its entirety for the income earned in 2020. If he/she departs one day earlier on December 31, 2020, the 2021 tax will not be imposed, since he/she is not a Japan resident as of January 1, 2021.
- On the contrary, when an expatriate enters Japan in the middle of the tax year, he/she is not a Japan resident as of January 1 of the arriving year, and 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.

Thus, the key point is resident status as of January 1. This treatment is also applied to Japanese employees who will be transferred abroad due to a foreign assignment.

### ■ Inhabitants tax on Retirement Allowance

Retirement allowance is not included in the annual income referred to above for calculating annual inhabitants tax. An employer is required to calculate the tax separately and pay it to the authority when the retirement allowance is paid.