

Annual Reporting Requirements for Payroll Tax

In principle, the individual income tax is based on a self-assessment system and individuals are required to file an individual tax return by March 15 every year to cover income earned in the previous calendar year. The withholding tax system, however, applies to salary earners where the Employer is required to withhold income tax from monthly payments and pay it to the tax office by the 10th of the following month. Under this system, salaried employees may not be required to file a return, provided their annual gross receipts do not exceed JPY 20,000,000. In such cases, the annual income tax requirements are recalculated through a year-end tax adjustment process made in the final month's salary payment of the relevant tax year.

With Japan's tax year running from January 1 to December 31, the required payroll related processes and procedures that need to be completed each January are listed below.

■ Withholding Tax Statement

Employer is obliged to issue a Withholding Tax Statement (*Gensen Choshu Hyo*) to each individual employee by January 31 each year. The Withholding Tax Statement is an official personalized certificate summarizing the yearly income of each individual employee. Employer is also required to submit a duplicate to the national tax office.

■ Declaration Form for Dependents Deductions

Employer needs to have employees submit a Declaration Form for Dependents Deduction every year by the first payday of the year to update details regarding dependents. The number of dependants directly impacts the amount of employment deductions made which in turn impacts taxable income level. We strongly recommend updating this declaration when relevant changes occur even during the course of the year. In principle the forms completed by employees must be submitted to the tax authorities, but in practice, submission is not required. Employer keeps the forms in an appropriate manner for the tax authorities' audit.

■ Information Return

Generally, Employer must file an annual Information Return (*Hotei Chosyo Gokeihyo*) that shows the aggregates of annual salary income and withholding tax paid to all employees in the year. The Information Return must be accompanied by Withholding Tax Statements of individual employees, but those who fall under certain categories are not required to submit a tax statement, for instance:

- Employees who have annual gross receipts not in excess of JPY5,000,000
- Board members that have gross receipts no more than JPY1,500,000
- Employees who terminate their employment during the year if their income to date is not in excess of JPY2,500,000

■ Annual Income Report

Employer also must file an Annual Income Report (*Kyuyo Shiharai Houkokusyo*) to the local government offices for each employee's place of residence. Inhabitant tax (individual local tax) is calculated and imposed according to the previous year's income shown on the Annual Income Report. Unlike the national tax office, the local government offices require to employer to submit the Annual Income Report of all individuals who paid in the previous year including those who terminated employment during the year.

Further details of inhabitants tax may be referred in the APO Newsletter, vol.15.