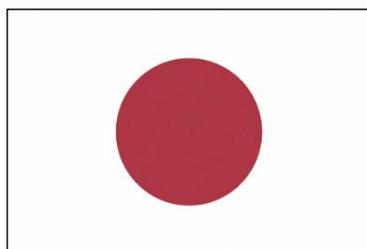


THE OECD TAX-BENEFIT MODEL FOR JAPAN

Description of policy rules for 2020



THE OECD TAX-BENEFIT MODEL FOR JAPAN

Description of policy rules for 2020

Reference contact at the OECD: Daniele Pacifico, Directorate for Employment, Labour and Social Affairs, Jobs and Income Division.

National contact: Shimizu Keiichi

International Affairs Division, Minister's Secretariat, Ministry of Health, Labour and Welfare, Japan

This version : December 2020 – via <http://www.oecd.org/els/benefits-and-wages.htm>

This work is published on the responsibility of the Director of the OECD Directorate for Employment, Labour and Social Affairs. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Organisation or of the governments of its member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

© OECD 2020

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of the source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.

Table of contents

<i>Preface</i>	4
<i>The OECD tax-benefit model for Japan: Policy rules in 2020</i>	5
1. Reference wages	5
2. Unemployment benefits	5
2.1. Employment insurance (Koyo hoken)	5
3. Social assistance and housing benefits	8
3.1. Public assistance (Seikatsu hogo)	8
3.2. Housing benefit (provision of benefits for securing housing)	13
4. Family benefits	15
4.1. Child allowance (Jido teate)	15
4.2. Child rearing allowance (Jido fuyo teate)	16
5. Net costs of Early Childhood Education and Care	19
5.1. Gross childcare fees	19
5.2. Childcare benefits	20
6. Employment-conditional benefits	23
6.1. Re-employment allowance (Saisyusyoku teate)	23
7. Social security contributions and payroll taxes	24
7.1. Social security contributions (Syakai hoken ryo)	24
8. Taxes	25
8.1. Income tax (Shotoku ze)	25
8.2. Local income taxes (Jyumin ze)	30
9. Selected output from the OECD tax-benefit model (TaxBEN)	33
<i>Annex: Other benefits and direct taxes</i>	36
A.1.1. Sickness Benefit (Kenko hoken)	36
A.1.2. Short-time work compensation scheme (Koyo chosei joseikin)	36
A.1.3. Mandatory employer sick pay	38
A.1.4. Temporary benefits for households with children (kosodate setai eno rinji tokubetsu kyuhukin)	38
A.1.5. Temporary Benefit for Single-parent Households (hitori oya setai rinji tokubetsu kyuhukin)	39

Preface

The [OECD Tax-Benefit model \(TaxBEN\)](#) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the TaxBEN model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2020**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the variable names are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.
- Text coloured in blue describes COVID-19 related measures that Japan implemented after the reference policy date (1st of January 2020). These policies are *not* part of the TaxBEN model for 2020.

The OECD tax-benefit model for Japan: Policy rules in 2020

1. Reference wages

Average wage [**AW**]: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available [here](#)).¹ If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth² to the latest available wage estimate.

The minimum wage [**MIN**] as of 1 January 2020 is JPY 901 per hour, which corresponds to an annual earnings level for a full-time worker of $\text{JPY } 901 \times 40 \times 52 = 1\,874\,080$.³

2. Unemployment benefits

2.1. Employment insurance (*Koyo hoken*)

Variable name:⁴ [**UI_p**; **UI_s**]

Unemployed people can receive employment insurance benefit (basic allowance) for a period that varies according to the reasons for leaving employment, age and the duration of insured employment.

This is an unemployment insurance benefit. It is contributory, not means-tested and not taxable. 

2.1.1. Eligibility conditions

Age: No restrictions.

Contribution/employment history: The applicant must have been insured for a period of more than 12 months, with more than 11 days per month, over 2 years before unemployment. Applicants who are unemployed as a result of bankruptcy or dismissal must have been insured for a period of more than 6 months over 1 year before unemployment. In the case of the non-renewal of a fixed term contract, six months of membership is enough to qualify.

Behavioural requirements and related eligibility conditions:  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.⁵ These conditions are that the benefit claimant has to attend the PES once every

¹ Average Wages are estimated by the Centre for Tax Policy and Administration at the OECD. For more information on methodology see the latest Taxing Wages publication.

² Wage growth projections are based on [OECD Economic Outlook](#).

³ The regional minimum wage per hour in Japan is set by each prefecture, and the minimum wage varies from prefecture to prefecture. [**MIN**] is the nationwide weighted average of the regional minimum wage.

⁴ The variable names ending with “_p” refer to the first adult (so-called “principal” adult) whereas those ending with “_s” are related to the spouse.

⁵ Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated OECD reports, see e.g. [Immervoll and Knotz \(2018\)](#).

4 weeks and carry out job-seeking activities at least twice during this period. Examples of job seeking activities include:

- making a job application,
- undergoing a consultation, job matching services, seminar or lecture etc. offered by an MHLW-authorized private employment services (PES) or another public organisation, and
- taking an examination towards a qualification that will aid re-employment.

2.1.2. Benefit amount

Calculation base:

The basic allowance is calculated from the daily amount of wages (DAW). DAW is the total amount of wages, excluding bonuses, paid over the previous 6 months divided by 180.

Benefit amount:

The daily amount of basic allowance (DABA) is calculated for those less than 60 years old using the following formula:

- i) If $DAW < 5010$ → $DABA = DAW * 0.8$
- ii) If $5010 \leq DAW < 12330$ → $DABA = DAW * BR1$, where:
 $BR1 = 0.8 - [(0.3 \times (DAW - 5010)) / (12330 - 5010)]$
- iii) If $DAW \geq 12330$ → $DABA = DAW * 0.5$

DAW must be between JPY 2500 and the maximum amount shown in the table below.

The maximum amount of DAW

Age	In JPY
Under 30	13630
30 - 44	15140
45 - 59	16660

The DABA for recipients who are between 60 and 64 is calculated using the following formula:

- i) If $DAW < 5010$ → $DABA = DAW * 0.8$
- ii) If $5010 \leq DAW < 11090$ → $DABA = \min\{DABA1, DABA2\}$, where:
 $DABA1 = DAW \times BR2$,
 $BR2 = 0.8 - [(0.35 \times (DAW - 5010)) / (11090 - 5010)]$,
 $DABA2 = 0.05 \times DAW + (11090 \times 0.4)$
- iii) If $DAW \geq 11090$ → $DABA = DAW * 0.45$

DAW must be between JPY 2500 and JPY 15890.

2.1.3. Benefit duration

The benefit is paid on a four-weekly basis, following a seven-day waiting period, for a period that varies from 90 to 360 days according to the period of insured employment, the age of the recipient and the reason for leaving employment, as outlined below. A claimant can become eligible once they again meet the requirements.

Age	Insured period (in years)				
	Less than 1	1 to 4	5 to 9	10 to 19	20 or more
Panel 1: Duration of benefits for the ordinary unemployed (other than those difficult to re-employ)					
All ages	—	90 days	90 days	120 days	150 days
Panel 2: Duration of benefits for persons difficult to re-employ					
Younger than 45	150 days	300 days			
45 – 64		360 days			
Panel 3: Duration of benefits for the unemployed as a result of bankruptcy, dismissal, etc. (other than those difficult to re-employ)					
Younger than 30	90 days	90 days	120 days	180 days	—
30 – 34	90 days	120 days	180 days	210 days	240 days
35 – 44	90 days	150 days	180 days	240 days	270 days
45 – 59	90 days	180 days	240 days	270 days	330 days
60 – 64	90 days	150 days	180 days	210 days	240 days

The number of unemployment benefit days for fixed-term workers who are unable to renew their contracts is, in principle, set out in Panel 1 “Duration of benefits for the ordinary unemployed”, but the regulations in Panel 3 will apply until the end of FY2021.

TaxBEN note: The OECD calculations assume the case of dismissal (Panel 3) as the main reason for unemployment.

In response to the COVID-19 crisis, a temporary measure has been introduced on June 12, 2020 to address prolonged jobless period due to the effect of the pandemic, which allows the heads of PES to extend benefit days for additional 60days (or 30 days for some job seekers).

2.1.4. Means test

The benefit is not means-tested.

2.1.5. Tax treatment

The benefit is not taxable.

2.1.6. Interactions with other components of the tax-benefit system

The basic allowance is not reduced when an insured person receives other benefits. The basic allowance is taken into account in the means test for Public Assistance.

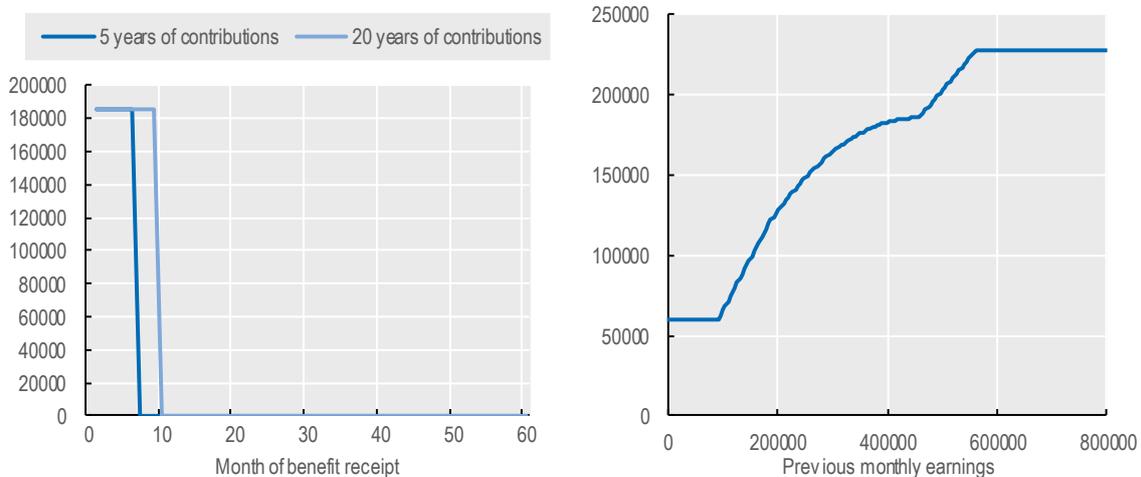
2.1.7. Combining benefit receipt and employment/starting a new job

If the person takes up employment and works less than 20 hours per week, the basic allowance is reduced by the amount of gross employment earnings. The reduced basic allowance is paid until the right to Employment Insurance expires. The timing of payments is the same as for the Employment Insurance.

TaxBEN note: According to the TaxBEN methodology, the reduced basic allowance paid when the jobseeker takes up employment is a ‘transitional into-work benefit’. When transitional into-work benefits are linked to a separate out of work benefit, like the Employment Insurance in Japan, the amount of the into-work benefit is included in the variable containing the amount of the relevant out-of-work benefit, i.e. [UB] in the case of Japan.

Employment Insurance recipients who take up employment working more than 20 hours per week receive the re-employment allowance (see Section 6 for details).

Figure 1. Employment insurance entitlement by contribution record and previous earnings



Note: In left hand panel, adult is aged 40 with previous earnings at the average wage. In right hand panel, adult is aged 40.

Source: Calculations using OECD tax-benefit model.

3. Social assistance and housing benefits

3.1. Public assistance (*Seikatsu hogo*)

Variable name: **[SA]**

This is a non-contributory benefit, means-tested and is not taxable.

Public assistance consists of eight types of support offered to those who are unable to provide minimum living standards. These are: livelihood assistance, housing assistance, medical assistance, long-term care assistance, occupational assistance, education assistance, maternity assistance, and funeral assistance. Only livelihood assistance and housing assistance are simulated in the TaxBEN model. The rates in this article are classified as Grade 1-1, as paid in Tokyo.

Public assistance is provided to a certain extent to supplement the shortfall experienced by people in need of protection based on the standards determined by the Minister of Health, Labour and Welfare. The standards are intended to be sufficient to satisfy the minimum needs of the claimant given their circumstances (age, gender, family members, regions and nature of means of assistance), but should not exceed this level.

3.1.1. Eligibility conditions

Public assistance covers people who are classified as being in poverty despite receiving several kinds of social security measures, and having made use of all available assets, such as real estate, and all capacities to work.

3.1.2. Benefit amount

Public assistance is based on net income. The difference between the household's net income and the minimum living standard is provided. Livelihood assistance, housing assistance, supplementary child assistance, and supplementary lone parent assistance are all parts of the benefit of public assistance. These are calculated as follows.

Livelihood assistance is made up of two types of benefit:

- Livelihood assistance that corresponds to personal expenses (Category 1) related to the age of each family member:

Age	Basic Amount (1) (JPY per month)	Basic Amount (2) (JPY per month)	Basic Amount (3) (JPY per month)
0-2	21,820	27,040	44,630
3-5	27,490	30,390	44,630
6-11	35,550	34,880	45,640
12-17	43,910	39,720	47,750
18-19	43,910	39,720	47,420
20-40	42,020	38,970	47,420
41-59	39,840	39,920	47,420
60-64	37,670	39,540	47,420
65-69	37,670	39,540	45,330
70-74	33,750	34,310	45,330
75-	33,750	34,310	40,920

- And household expenses (Category 2) related to the number of family members:

Number of family members	Basic Amount (1) (JPY per month)	Basic Amount (2) (JPY per month)	Basic Amount (3) (JPY per month)
1	45,320	41,380	28,890
2	50,160	50,890	42,420
3	55,610	60,000	47,060
4	57,560	62,490	49,080
5	58,010	66,610	49,110
6	58,480	70,340	56,220
7	58,940	73,240	59,190
8	59,390	76,140	61,900
9	59,850	79,040	64,380
10 and more: amount to add for 1 increase	460	2,900	2,490

The standard amounts of living expenses are calculated on a household basis and the amount is obtained using the following formula. Any fractional part of less than 10 yen is rounded up to the nearest multiple of 10 yen:

$$SA = (A * 1/3) + (B+C)*2/3 + D,$$

Where:

- A is the sum of the amounts (a) and (b) below. However, if the sum of (a) and (b) is less than 90% of A', where A' is the sum of amounts (c) and (d) below, A is equal to A'*0.9.
 - Multiply the sum of each family member's standard amount (2) stipulated in the table of category 1 by the following rate (2) corresponding to the number of the family members stipulated in the table of diminishing rates below.
 - The standard amount (2) stipulated in the table of category 2
 - Multiply the sum of each family member's standard amount (1) stipulated in the table of category 1 by the following rate (1) corresponding to the number of the family members stipulated in the table for diminishing rate.
 - The standard amount (1) stipulated in the table of category 2.
- B is the sum of the following amounts (e) and (f). However, if the total sum of (e) and (f) is less than 85.5% of A', then B is equal to this latter amount (i.e., A'*0.855).

e) Multiply the sum of each family member's standard amount (3) stipulated in the table of category 1 by the following rate (3) corresponding to the number of the family members stipulated in the table for diminishing rate.

f) The standard amount (3) stipulated in the table of category 2.

Diminishing rate:

Number of family members	Rate (1)	Rate (2)	Rate (3)
1	1.0000	1.0000	1.0000
2	1.0000	0.8850	0.8548
3	1.0000	0.8350	0.7151
4	0.9500	0.7675	0.6010
5	0.9000	0.7140	0.5683
6	0.9000	0.7010	0.5383
7	0.9000	0.6865	0.5087
8	0.9000	0.6745	0.4844
9	0.9000	0.6645	0.4639
10 and more	0.9000	0.6645	0.4639

The following amount prescribed in the table for temporary assistance for term end will be added to the standard amount of December:

Temporary assistance for term end:

Number of family members	Amount (JPY per month)
1	14,160
2	23,080
3	23,790
4	26,760
5	27,890
6	31,720
7	33,690
8	35,680
9	37,370
10 and more: amount to add per 1 increase	1,710

The temporary assistance for term end is added to the amount calculated by the equation $(A * 1/3) + (B+C)*2/3+D$.

TaxBEN note: the temporary assistance for term is added to the final annual SA amount without annualizing the values listed above. For instance, for a household with one member, the total annual amount of livelihood assistance in 2020 is calculated as follows: $(A*1/3)+(B+C)*2/3+D+JPY 14160$, where A, B C and D are calculated multiplying the related monthly values by 12.

- C is the sum of each family member's amount corresponding to one's age and the number of the family members stipulated in the table of supplementary transitional assistance below.

Supplementary transitional assistance (in JPY per month)

Age	Number of family members									
	1	2	3	4	5	6	7	8	9	10 and more
0-2	0	0	0	4,530	4,290	4,000	2,840	2,060	1,660	1,630
3-5	0	0	0	2,370	2,200	1,890	1,070	700	610	450
6-11	0	0	0	0	0	0	0	0	0	0
12-17	410	0	0	0	0	0	0	0	0	0
18-19	740	0	0	0	0	0	0	0	0	0
20-40	110	0	0	0	0	0	0	0	0	0
41-59	930	0	1,070	0	0	0	0	0	0	0
60-64	570	0	940	770	570	160	0	0	0	0
65-69	2,660	0	2,280	770	570	160	0	0	0	0
70-74	0	0	0	150	110	0	0	0	0	0
75-	2,090	0	1,270	150	110	0	0	0	0	0

- D is the winter supplementary assistance for each districts. Winter supplementary assistance is provided 5 months a year (from November to March). Note that winter supplementary assistance is added to household expenses (Category 2).

Number of family members	Amount (JPY per month)
1	2,630
2	3,730
3	4,240
4	4,580
5	4,710
6	5,010
7	5,220
8	5,380
9	5,560
10 and more amount to add per 1 increase	180

Housing assistance:

For families with rental costs, the amount of the housing assistance depends on the household size (table below). The amount cannot exceed the actual rent paid.

Number of family members	Basic amount (in JPY per month)
1	53,700
2	64,000
3-5	69,800
6	75,000
7-	83,800

Supplementary child assistance:

10,000 or 13,300 yen per month is paid to those with children. It is paid for each child until the 31 March following their 18th birthday. Amounts vary by the age of the child as follows:

- Under 3 years old: JPY 11,820 per month.
- Over 3 years old and prior to elementary school graduation (for the first two children): JPY 10,190 per month.
- Over 3 years old and prior to elementary school graduation (for the third and subsequent children): JPY 11,820 per month.
- Junior and senior high school students: JPY 10,190 per month.

Supplementary transitional assistance of 2,700 yen per month is paid in respect of each child who is:

- a) Under 3 years old in family of four or more,
- b) Under 3 years old who is in hospital in family of three or less, or
- c) Over 3 years old and prior to elementary school graduation (for the third and subsequent children).

Supplementary lone parent assistance:

The gross benefit amounts for a lone-parent family are as follows:

- One child 20,300 per month
- 2 children 24,200 per month
- 3 or more children $24,200 + 2,300*(n-2)$ per month

where 'n' is the number of children.

Supplementary lone-parent assistance until the 31 March following the child's 18th birthday, or until the child turns 20 if the child is a recipient of supplementary disability assistance.

Supplementary transitional assistance is paid to a lone-parent family which meets the following conditions (if both (a) and (b) are met, the greater amount is paid).

- a) In a family of three or more (only if the child is an only one):

Age	Each child in a family of three or more
0-14	2,230
15-17	0
18-19	2,230

- b) If one or more children in the family are in hospital:

One child	Two children
2,230	190

3.1.3. Benefit duration

No limit.

3.1.4. Means test

The final assistance amount is the minimum living expenses calculated above minus the family's income appropriation amount. This includes employment income, social security benefits including pensions, family benefits, and unemployment benefits, and assistance from relatives.

There is a disregard for employment income. Earnings before tax up to JPY 15,200 per month are disregarded. For subsequent earnings, public assistance reduces progressively according to the net amount earned. The monthly exemption increases proportionally with gross earnings. The monthly amounts as for personal gross earnings are as follows:

Monthly gross earnings X (JPY)	Monthly threshold Y (JPY)
0 - 15,199	0 - 15,199
15,200-18,999	15,200
19,000+	15,600+400 for each additional 4,000 ^(a)

^(a) When net earnings exceed JPY 19,000, JPY 400 is added to the exemption amount for each additional 4,000 yen.

3.1.5. Tax treatment

Not taxable.

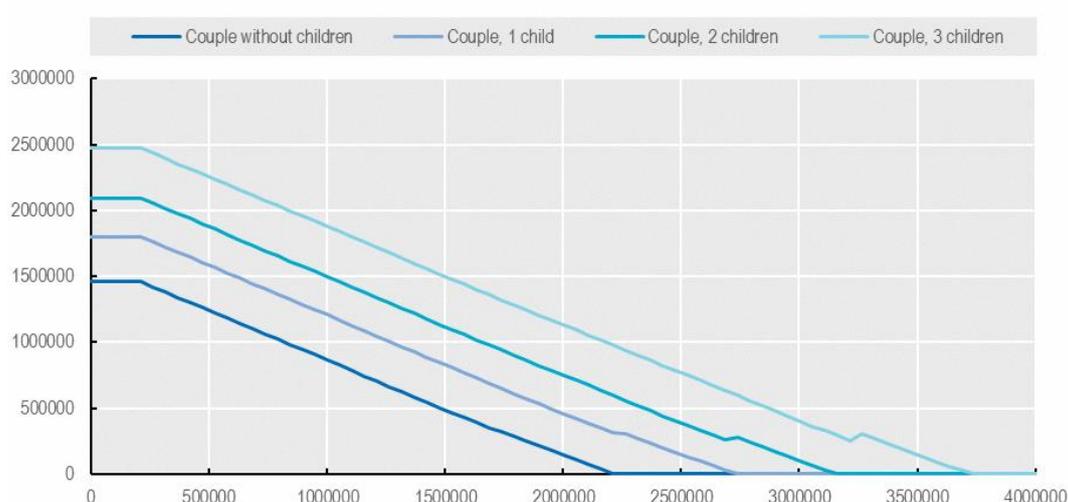
3.1.6. Interaction with other components of the tax-benefit system

Other social security benefits including pensions, family benefits, unemployment benefits, and assistance from relatives are considered as income in the means test.

3.1.7. Combining benefit receipt and employment/starting a new job

No restriction, but earnings above a disregard are taken into account in the means test as described above.

Figure 2. Public assistance entitlement by gross earnings level (JPY per year)



Note: In one child family, child is aged 4. Two child family also has a child aged 6, and three child family also has a child aged 8. Only one member of the couple has earnings in each case.

Source: Calculations using OECD tax-benefit model.

3.2. Housing benefit (provision of benefits for securing housing)

Variable name: [\[HB\]](#)

This is a non-contributory benefit, means-tested and not taxable.

The housing benefit system was introduced as a special emergency measure. This was introduced in October 2009, and ended at the end of fiscal year 2014. The provision of benefits for securing housing who lost or likely to lose residence because of poverty due to unemployment had been institutionalized by Act for self-reliance of poor persons from April 2015. This section describes the latter measure.

In response to the COVID-19 crisis, the scope of the target population has been expanded since April 20, 2020, so as to include those who have yet to lose their jobs or close businesses but are at the risk of losing their residence because of significant income loss as the result of shortened or suspended operations.

3.2.1. Eligibility conditions

Three conditions must be met in order to receive benefits:

1. Income condition (see Section 3.2.3).

2. Property condition: Cash savings of the household at the time of application must be no more than 6 times the base amount (1/12 of revenue for which inhabitant tax on per capita basis are not taxable⁶), and less than 1 million yen. Note that it is assumed that this condition is met in the TaxBEN model.

3. Job seeking condition

- While receiving the benefit, the beneficiary should receive support such as job consultations at the Public Employment Security Office (at least twice a month) or interviews by municipal staff to secure housing and employment (at least four times a month).
- Make an employment application at least once a week.

Note that it is assumed that this condition is met in the TaxBEN model.

3.2.2. *Benefit amount*

The maximum benefit amount is the actual rent paid for accommodation, up to a maximum benefit amount set regionally. These amounts are the same as the maximum amounts of housing assistance in public assistance outlined in Section 3.1.2 above. The TaxBEN model uses the rates for Tokyo.

benefit = rent amount - (household income for the month – base amount)

where the maximum allowed rent is the housing assistance for public assistance (see section 3.1.2).

In response to the COVID-19 crises, from July 2020 benefit entitlements are calculated as follows:

benefit = rent amount + base amount - household income for the month

If net income is less than the base amount, the benefit provided is the full rent amount.

In response to the COVID-19 crises, from July 2020, the latter rules does *not* apply.

3.2.3. *Benefit duration*

The basic benefit duration is three months, but the duration can be extended up to nine months, provided certain requirements are met. Requests for extension should be filed every three months.

3.2.4. *Means test*

Household income for the month of application must be less than or equal to the base amount (1/12 of the income level for which the inhabitant tax on a per capita basis are not taxable plus the rent amount (up to the housing assistance component in public assistance). Note that this value differs by region.

The base amounts for Tokyo (the example used in the TaxBEN model) are in the table below:

⁶ Note that this value differs by region.

Number of family members	Base amount (JPY per month)
1	84,000
2	130,000
3	172,000

3.2.5. Tax treatment

The benefit is not taxable

3.2.6. Interaction with other components of the tax-benefit system

If the person is eligible for employment-related benefits, these take precedence over the provision of benefits for securing housing.

3.2.7. Combining benefit receipt and employment/starting a new job

When the beneficiary obtains stable employment, such as a permanent or fixed-term contract of not less than six months, and their income exceeds the income threshold, the benefit provision is ended as of the month when their income exceeds the threshold.

4. Family benefits

Variable name: **[FB]**

4.1. Child allowance (*Jido teate*)

This is a non-contributory benefit, not means-tested and not taxable.

4.1.1. Eligibility conditions

The benefit is available for children until graduation from junior high school. Those with incomes at or above income threshold receive a lower Special Interim Allowance (stipulated in the supplementary provisions of the Child Allowance Act) as specified below.

4.1.2. Benefit amount

The monthly payment will be paid altogether once in 4 months for each child until 31 March following their 15th birthday.

1. For persons earning incomes below the income threshold, per-child benefit amounts are as follows:
 - a) Under 3 years-old: JPY 15,000 per month.
 - b) From age 3 to elementary school graduation (for the first and second children): JPY 10,000 per month
 - c) From age 3 to elementary school graduation (for the third and subsequent children): JPY 15,000 per month
 - d) Junior high school students: JPY 10,000 per month
2. For persons with incomes at or above the income threshold, the per-child benefit amount is as follows:

- Special Interim Allowances: JPY 5,000 per month for each child until 31 March following their 15th birthday.

4.1.3. *Benefit duration*

The benefit is paid for each child until 31 March following their 15th birthday.

4.1.4. *Means test*

The benefit is not means-tested as such, but there is an income threshold above which families receive a lower Special Interim Allowance. The income threshold is based on gross annual income minus the employment income deduction (see Section 8.1) minus JPY 80000 - the amount paid towards public and private insurance premiums. In couples, this is generally for the higher earner. The income threshold depends on the number of dependents (see the following table).

Number of dependents	Income threshold (JPY million)
Zero	6.22
1	6.60
2	6.98
3	7.36
4	7.74
5	8.12

4.1.5. *Tax treatment*

The benefit is not taxable.

4.1.6. *Interaction with other components of the tax-benefit system*

None.

4.1.7. *Combining benefit receipt and employment/starting a new job*

No restrictions.

4.2. *Child rearing allowance (Jido fuyo teate)*

This is a non-contributory benefit, means-tested and not taxable.

4.2.1. *Eligibility conditions*

The benefit is available to single mothers who take care of and provide protection to a child. The benefit is available also to single fathers who take care of and provides living expenses, supervision and protection to the child.⁷

It is available until March 31 after the child's 18th birthday or until age 20 for those with specific disabilities.

⁷ The benefit is available also to persons who are not the parents of the child but live with the child, take care of him/her, and provides living expenses, supervision and protection to the child instead of his/her parents as consequence of divorce, death or other events related to the parents.

4.2.2. Benefit amount

Claimants can receive either a full benefit or a partial benefit depending on their income (see section 4.2.4 below). Amounts for the full benefit over time are as follows:

Legislative change (yyyy/mm)	Benefit amount (in JPY per month) One child	Additional amount for the second child	Additional amount for the third child and after
2002/08	42,370	5,000	3,000
2003/10	42,000		
2004/04	41,880		
2006/04	41,720		
2011/04	41,550		
2012/04	41,430		
2013/10	41,140		
2014/04	41,020		
2015/04	42,000		
2016/04	42,330		
2016/08	42,330	10,000	6,000
2017/04	42,290	9,990	5,990
2018/04	42,500	10,040	6,020
2019/4	42,910	10,140	6,080

The rates and withdrawal rates for the partial payment over time are as follows:

Legislative change (yyyy/mm)	One child		Additional amount for the second child		Additional amount for the third child and after	
	The case of partial payment	coefficient	The case of partial payment	coefficient	The case of partial payment	coefficient
2002/8	42,360	0.0187052	5,000	-	3,000	-
2003/10	41,990	0.0185434				
2004/4	41,870	0.0184913				
2006/4	41,710	0.0184162				
2011/4	41,540	0.0183410				
2012/4	41,420	0.0182890				
2013/10	41,130	0.0181618				
2014/4	41,010	0.0181098				
2015/4	41,990	0.0185434				
2016/4	42,320	0.0186879				
2016/8	42,320	0.0186879	9,990	0.0028844	5,990	0.0017283
2017/4	42,280	0.0186705	9,980	0.0028786	5,980	0.0017225
2018/4	42,490	0.0187630	10,030	0.0028960	6,010	0.0017341
2018/8	42,490	0.0226993	10,030	0.0035035	6,010	0.0020979
2019/4	42,900	0.0229231	10,130	0.0035385	6,070	0.0021189

TaxBEN note: the model for 2020 uses the amounts that are applicable on 2018/04.

4.2.3. Benefit duration

No limit, as long as the conditions are fulfilled.

4.2.4. Means test

The benefit is means-tested. Those with incomes above the threshold for the full benefit receive a partial benefit, and those with incomes above the threshold for the partial benefit receive nothing.

The income measure used is gross annual income minus the employment income deduction (see Section 8.1) minus JPY 80 000 - the amount paid towards public and private insurance premiums.

Income thresholds are based on the number of dependents (see the following table):

Number of dependants	Applicant	
	Income-tested threshold of full benefit	Income-tested threshold of partial benefit
0	490,000	1,920,000
1	870,000	2,300,000
2	1,250,000	2,680,000
3	1,630,000	3,060,000
4	2,010,000	3,440,000
5	2,390,000	3,820,000

The amount of partial benefit is calculated as follows:

For families with one child:

Benefit amount = 42,910 – {(Amount of income – “Income-tested threshold of full benefit”) × 0.0229231 + 10}

The additional amount for the second child is calculated as follows:

Benefit amount = 10,140 – {Amount of income – “Income-tested threshold of full benefit”) × 0.0035385 + 10}

And the additional amount for the third and subsequent children as follows:

Benefit amount = 6,080 – {(Amount of income – “Income-tested threshold of full benefit”) × 0.0021189 + 10}

4.2.5. Tax treatment

The benefit is not taxable.

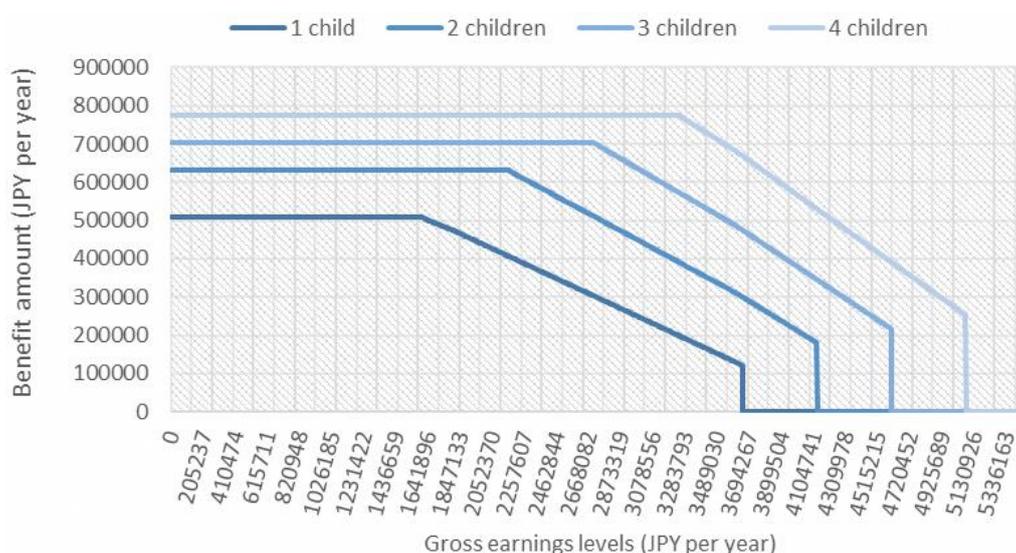
4.2.6. Interaction with other components of the tax-benefit system

Child rearing allowance is taken into account in the means test for social assistance.

4.2.7. Combining benefit receipt and employment/starting a new job

No restrictions, but earnings are taken into account in the means test.

Figure 3. Child rearing allowance entitlement by gross earnings level (JPY per year)



Earnings-related residence tax between JPY 97,001 and 169,000	41500 yen	40900 yen	44500 yen	43900 yen
Earnings-related residence tax between JPY 169,001 and 301,000	58000 yen	57100 yen	61000 yen	60100 yen
Earnings-related residence tax between JPY 301,001 and 397,000	77000 yen	75800 yen	80000 yen	78800 yen
Earnings-related residence tax above JPY 397,000	101000 yen	99400 yen	104000 yen	102400 yen

The earnings-related residence tax brackets shown in the table refer to the overall tax paid by both parents. The amount of the earnings-related residence income tax is equal to the overall local income tax less the standard fixed per-capita amount of Prefectural and Municipal inhabitant taxes. See Section 8.2 for details.

Other fee reductions and discounts set by the government for other family characteristics, e.g. for lone parents and large families, are described in Section 5.2.1.

Parents do not pay an additional charge for the meal costs for children younger than 3 years, as these costs are already included in the childcare fee. For children aged 3 and over, parents pay the meal costs *separately*. See Section 5.2 for the calculation of meals costs.

TaxBEN note: the model uses the part-time rates shown in the table if there is at least one parent working less than 20 hours a week.

In response to the COVID-19 crises, childcare costs have been reduced since the 25th of February 2020. In case of temporary closures of childcare facilities during the coronavirus outbreak, fees have been calculated on a pro rata basis.

5.2. Childcare benefits

Variable name: `[cc_benefit]`

Childcare benefits are support measures that depend explicitly on the use of centre-based childcare: a family that does not use centre-based childcare is not eligible for this type of benefits. In general, childcare benefits take the following forms:

- Fee discounts / rebates, including fee provision, applied directly by the childcare centre to reduce the cost of the fees charged to parents in particular circumstances (e.g. for low-income families, large families, lone parents, etc.).
- Allowances related to the use of centre-based childcare (including the purchase of meals at the childcare centre);
- Top-ups or supplements to other cash benefits (e.g. social assistance or family benefits) in order to reduce the cost of centre-based childcare;
- Tax concessions related to family expenditures on centre-based childcare.

5.2.1. Fee discounts and free provision

Families with two or more children attending a kindergarten, day-care centre or community-based childcare centre: the fee for the childcare service is halved for the second child attending the centre, whereas for the third child and after the service is free of charge. For example, a family with two children - one of 2 years old attending a day-care centre and the other of 3 years old attending a kindergarten - pay half of the fee for the oldest child. However, parents are still responsible for the meal costs for the 3-year-old child (meal costs are already included in the childcare fee for the youngest child).

Lone parents with an earnings-related residence tax liability below JPY 57700: the fee for the first child younger than three years is JPY 9000 (JPY 6000 if the child is aged three and over), and zero for any additional child, *even after older children have entered elementary school*. For example, a lone parent with an earnings-related residence tax below JPY 57700 and two children of, e.g., 2 and 7 years old, does not pay the childcare service (including meal costs) for the 2-years-old child.

Two-parent family with *total* earnings-related residence tax liability below JPY 57700: the fee for the childcare service for the second child is halved whereas for the third child and after the service is free all the time, *even after older children have entered elementary school*. For example, a family with a total earnings-related residence tax below JPY 57700 and three children of, e.g., 2, 7 and 8 years, does not pay the childcare service (including meal costs) for the 2-years-old child.

Families receiving public social assistance (Section 3.1) do not pay for the childcare service. Parents do not pay for the childcare service also if their taxable income for local tax purposes is lower than the local income tax thresholds for the exemption to the proportional tax rate (see Section 8.2 for details on the local income tax exemptions). If both parents work, the total income of both parents must be lower than the sum of the income thresholds that apply to each person.

Free Early Childhood Education and Childcare (F-ECEC) programme

In an effort to boost Japan's declining birth rate through reducing the cost of child rearing, and given the importance of early childhood education in building the foundation for lifelong learning, government in 2020 expanded the Free Early Childhood Education and Childcare (F-ECEC) programme for children aged between 3 and 5. The new programme covers the majority of kindergartens, day-care centres and facilities providing both education and childcare in Japan, as well as community-based childcare services.

Under the new F-ECEC programme, kindergartens, day-care centres, facilities providing both education and childcare, and community-based childcare services, are provided free of charge from the age of three and until the entrance to elementary school.⁸ Parents are still responsible for transportation costs to and from the school, meals (including staple foods and non-staple foods), school materials and participation in external events organized by the school. However, regarding the meal costs:⁹

- Households with a reference annual income below JPN 3 600 000 are exempted from meal costs for non-staple foods. The reference annual income is given by the sum of earnings from employment of both spouses less the respective employment income deductions (see Section 8 for details). The income threshold of JPN 3 600 000 as well as the reference annual income are not adjusted to the household size.

⁸ In Japan, among children between the age of 3 and 5, those whose parents need childcare services due to their work or other circumstances can continue attending childcare facility instead of kindergarten.

⁹ In Japan, regular lunch meals provided by childcare facilities are typically composed of staple food (e.g. rice or bread) and non-staple food (e.g. fish or meat for the main dish and vegetables for the side dish). However, each F-ECEC facility has their own meal policy. Some facilities do not prepare lunch meals at all and children attending that facility bring their own lunch box prepared by their parent every day, while other facilities prepare lunch meals every day or a few days in a week and children attending that facility bring their lunch box for the rest of a week.

- Non-staple foods are free of charge also for families with three or more young children and independently on the household income. Only children below a certain age are considered. If the third child is attending a kindergarten, only children below the fourth grade of elementary school are considered (i.e. children under 9 years). If the third child is attending childcare facilities, only pre-school age children (i.e. children under 6) are considered.

More details on the free childcare and preschool education program is available here: <https://www.youhomushouka.go.jp/about/en/>.

TaxBEN notes:

- When users select the option ‘childcare’, TaxBEN assumes that families with children between 3 and 5 years access the F-ECEC programme and that children attend a kindergarten providing regular meals on a daily basis. As a result, the cost for the childcare services is zero for these families. Because parents are still responsible for meal costs, TaxBEN uses an average daily cost for *both* staple and non-staple foods of JPY 375 (this is not a legally prescribed cost). This daily cost corresponds to a monthly cost of JPY 7500 (assuming 20 days of attendance) and an annual cost of JPY 90 000.
- For households with reference annual income below JPY 3 600 000 or with a third child (as defined above), the cost borne by parents is only for the staple food. In this case, the average daily cost for staple food used in the TaxBEN model is JPY 150 (this is not a legally prescribed cost), which corresponds to a monthly cost of JPY 3000 (assuming 20 days of attendance) and an annual cost of JPY 36 000.
- For children younger than 3 years old, when users select the option ‘childcare’, TaxBEN assumes that the child attends a day-care centre providing regular meals on a daily basis. The cost of the meals is included in the cost of the childcare service and is the same as for older children attending kindergartens, whereas the cost of the childcare service is reported in Section 5.1. The other discounts described above for large families and lone parents also apply.

5.2.2. *Childcare allowance for children using day-care centres*

Japan does not have a national cash transfer programme whose eligibility requires using centre-based childcare services. However, as of 2020, for children aged three and over attending kindergartens that are not covered by the F-ECEC programme (Section 5.2.1), a monthly allowance up to JPN 25700 is provided. In addition, for children attending childcare facilities run by employment-based organizations, a monthly subsidy of the amount of prescribed standard childcare fee is provided. In this case, the subsidy is paid by the employers’ contribution fund.

TaxBEN note: when users select the option ‘use childcare’, TaxBEN assumes that families with children between 3 and 5 years access the F-ECEC programme and therefore do not receive the monthly allowance described in this section.

5.2.3. *Childcare allowance for children NOT using day-care centres*

Japan does not have any national cash transfer programmes whose eligibility requires the family NOT to use centre based childcare services and to raise the children at home (e.g. ‘homecare’ or ‘child raising’ allowances)

5.2.4. Tax concessions for childcare expenditures

Japan does not provide any tax concessions, e.g. tax allowances or tax credits, for expenditures related to the use of centre-based childcare services.

6. Employment-conditional benefits

6.1. Re-employment allowance (*Saisyusyoku teate*)

The re-employment allowance is contributory, not means-tested and not taxable.

It can be claimed by a jobseeker who is receiving Employment Insurance (Section 2.1) when s/he takes up employment.

TaxBEN note: According to the TaxBEN methodology, the re-employment allowance is classified as a ‘transitional into-work benefit’. When transitional into-work benefits are linked to a separate out of work benefit, like the Employment Insurance in Japan, the amount of the into-work benefit is included in the variable containing the amount of the relevant out-of-work benefit. Because the eligibility for the re-employment allowance depends on the residual Employment Insurance entitlements (Section 2.1), the re-employment allowance is added to the **[UB]** TaxBEN variable.

6.1.1. Eligibility conditions

Re-employment allowance is a lump sum paid to an unemployment benefit recipient who acquires steady employment or starts their own business with more than one-third of their available benefit duration remaining.

6.1.2. Benefit amount

The amount of re-employment allowance is equal to the remaining unemployment benefit period multiplied by either 0.6 or 0.7 times the daily basic allowance of unemployment benefit (“DABA”, see Section 2.1.2 for details). The amount of the allowance varies according to the remaining benefit period as follows:

Condition	Amount
>2/3 of the prescribed maximum duration	The remaining benefit period \times 0.7 \times the daily amount of basic allowance
>1/3 of the prescribed maximum duration	The remaining benefit period \times 0.6 \times the daily amount of basic allowance
\leq 1/3 of the prescribed maximum duration	0

Example: consider a jobseeker receiving Employment Insurance (section 2.1) who takes up full time employment (40 hours per week) after 2 months of benefit receipt. Assume that the maximum duration of Employment Insurance for this jobseeker is 9 months. Hence, the remaining benefit period is 7 months, or $7 \times 30 = 210$ days. Because the remaining unemployment benefit period is more than two-third or the prescribed maximum duration ($7/9=0.77 > 2/3=0.66$), the jobseeker will receive 70% of the remaining Employment Insurance, i.e. $0.7 \times (\text{daily amount of basic allowance}) \times 210$ days.

6.1.3. Benefit duration

Re-employment allowance is a one-off payment.

TaxBEN note: the re-employment allowance enters the TaxBEN calculations as a monthly payment received until the right to Employment Insurance (Section 2.1) expires. The monthly payment is equal to the total amount of the re-employment allowance divided by the number of residual monthly payments of the Employment Insurance.

6.1.4. Means test

Not means-tested.

6.1.5. Tax treatment

Not taxable.

6.1.6. Interaction with other components of the tax-benefit system

The re-employment allowance is not reduced when an insured person receives other benefits, but it is taken into account in the means test for social assistance.

7. Social security contributions and payroll taxes

7.1. Social security contributions (*Syakai hoken ryo*)

7.1.1. Contributions payable by employees and benefit recipients

Variable names: `[SOCSEC_p; SOCSEC_s]`

Social security contributions in Japan paid by employees are as follows (note that contributions are paid only on earnings, so benefit recipients do not pay any contributions if they have no earnings):

- Pension: 9.15% of total remuneration (standard remuneration and bonuses). The insurable ceiling of the monthly amount of pensionable remuneration is JPY 620,000 and the insurable ceiling of the standard amount of bonus is JPY 1,500,000.
- Sickness: 5.00% of total remuneration (standard remuneration and bonuses). The insurable ceiling of the monthly amount of standard remuneration is JPY 1,390,000 and the insurable ceiling of the yearly amount of standard bonus is JPY 5,730,000. Self-employed persons, irregular workers, pensioners, etc. are enrolled in National Health Insurance and pay contributions with a different premium rate.
- Unemployment: 0.3% of total remuneration except for businesses in the agriculture, forestry and fisheries, and construction sectors and those in the rice wine brewing business, where the rate is 0.4%. These exceptions are not simulated in the TaxBEN model.
- Work injury and Child allowance: None. (Contributions payable only by employers).

Some low-earning secondary earners working less than full time are exempt from the pension and sickness contributions. To qualify for the exemption, a worker must live in Japan in principle, have a higher-earning partner and be earning less than JPY 1 300 000 per year unless certain eligibility requirements for Employees' Pension Insurance for part-

time workers are not satisfied (note that it is assumed these requirements are met in the TaxBEN model).

7.1.2. Contributions payable by employers

Variable names: `[SSCR_p; SSCR_s]`

- Pension: 9.15% of total remuneration (standard remuneration and bonuses). The insurable ceiling of the monthly amount of pensionable remuneration is JPY 620,000 and the insurable ceiling of the standard amount of bonus is JPY 1,500,000.
- Sickness: 5.00% of total remuneration (standard remuneration and bonuses). The insurable ceiling of the monthly amount of standard remuneration is JPY 1 390 000 and the insurable ceiling of the yearly amount of standard bonus is JPY 5 730 000.
- Unemployment: 0.6% of total remuneration except for businesses in the agriculture, forestry and fisheries and construction sectors and those in the rice wine brewing business. The rate is 0.7% for businesses in the agriculture, forestry and fisheries sector and those in the rice wine brewing business, and 0.8% for businesses in the construction sector. These exceptions are not simulated in the TaxBEN model.
- Work injury: 0.25% to 8.8% of total remuneration, the contribution rate depending on each industry's accident rate over the last three years and other factors. There are twenty-eight rates for fifty-four industrial categories at present. The minimum rate is used in the TaxBEN model.
- Child allowance: 0.34% of total remuneration (standard remuneration and bonuses).

8. Taxes

Japan has individual income taxation, though there are some joint elements as there are additional allowances for those who have a low-income spouse.

8.1. Income tax (*Shotoku ze*)

Variable names: `[INCTAX_p; INCTAX_s]`

8.1.1. Tax allowances

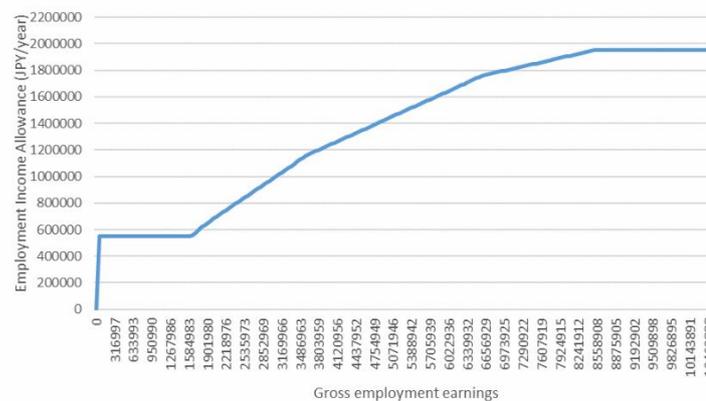
Tax allowances for employment income earners in Japan are as follows:

First step deductions:

- *Employment income deduction:* first, the following amounts may be deducted from gross employment income.:
 - If gross employment income does not exceed JPY 1 800 000, the deduction is 40 per cent of gross employment income less JPY 100 000. The minimum amount deductible is JPY 550 000, even at very low earnings levels.
 - If gross employment income exceeds JPY 1 800 000, but not JPY 3 600 000, the deduction is JPY 80 000 plus 30 per cent of gross employment income.

- If gross employment income exceeds JPY 3 600 000, but not JPY 6 600 000, the deduction is JPY 440 000 plus 20 per cent of gross employment income.
- If gross employment income exceeds JPY 6 600 000, but not JPY 8 500 000, the deduction is JPY 1 100 000 plus 10 per cent of gross employment income.
- As of 2020, if gross employment income exceeds JPY 8 500 000, the deduction is fixed at JPY 1 950 000. However, in consideration of child-care and long-term care, measures will be taken to avoid increase in tax burden for households with a dependent relative(s) under 23 years of age and households with a member(s) dependent on care.¹⁰

Figure 4. First step deductions



Source: OECD tax-benefit model, 2020.

Second step deductions:

Second step deductions are calculated using as a “reference income” the earnings from employment *less* the employment income deductions described above. The second step deductions are:

- *Basic allowance (personal deduction)*: allowance up to JPY 480 000 is given to a resident taxpayer whose reference income does not exceed JPY 25 000 000. The amount of tax allowance gradually decreases once the income exceeds JPY 24 000 000. Specifically, between JPY 24 000 000 and JPY 24 500 000, the allowance is JPY 320 000. Between JPY 24 500 000 and JPY 25 000 000 is JPY 160 000, and above JPY 25 000 000 is zero
- *Allowance for spouse*: allowance up to JPY 380 000 is given to a resident taxpayer whose reference income does not exceed JPY 10 000 000 who lives with a spouse whose reference income does not exceed JPY 480 000.
- *Special allowance for spouse*: the allowance up to the amount shown in the following table is given to a resident taxpayer whose reference income does not exceed JPY 10 000 000 and who lives with a spouse whose reference income exceeds JPY 480 000 but does not exceed JPY 1 330 000.

¹⁰ Relatives receiving “special deduction for persons with disabilities”.

Spouse's income	Amount
0-480,000	0
480,001-950,000	380,000
950,001-1,000,000	360,000
1,000,001-1,050,000	310,000
1,050,001-1,100,000	260,000
1,100,001-1,150,000	210,000
1,150,001-1,200,000	160,000
1,200,001-1,250,000	110,000
1,250,001-1,300,000	60,000
1,300,001-1,330,000	30,000
1,330,001 or more	0

The amounts of the Allowance for spouse and of the Special allowance for spouse, decrease gradually when the reference income (as defined above) of the taxpayer is between JPY 9 000 000 and JPY 10 000 000, then they become zero. Specifically, the amounts of the allowances is as follows:

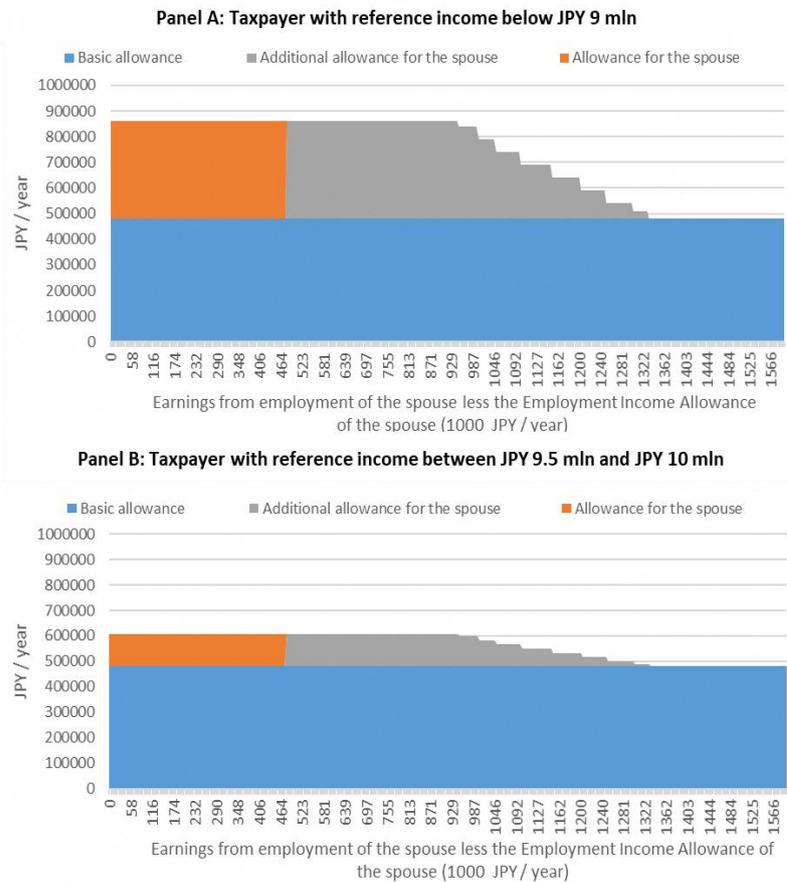
- Reference income less than JPY 9 000 000: full amount;
- Reference income between JPY 9 000 000 and JPY 9 500 000: full amount*2/3;
- Reference income between JPY 9 500 000 and JPY 10 000 000: full amount*1/3
- Reference income above JPY 10 000 000: no allowance.

Allowance amounts are rounded up to the closest multiple of 10 000 JPY. For instance, an amount of JPY 73 333 is rounded to JPY 80 000.

- *Allowance for elderly spouse*: a tax allowance up to JPY 480 000 is given to a resident taxpayer
 - whose income does not exceed JPY 10 000 000 and
 - who lives with a spouse of 70 years old and over, whose income does not exceed JPY 480 000,

This allowance may replace the allowance for spouse described above. Similarly to the allowance for spouse, also the allowance for elderly spouse decreases when the reference income (as defined above) of the taxpayer is between JPY 9 000 000 and JPY 10 000 000. The final amount is rounded up to the closest multiple of 10 000 JPY. *TaxBEN note*: As the model focuses on working-age families, the allowance for elderly spouse is not considered in the calculations.

Figure 5. Second step allowances
Two-earner couple without children



Source: OECD tax-benefit model, 2020.

- *Allowance for dependents:* if a resident taxpayer has children or other relatives whose reference income does not exceed JPY480 000 and who are 16 years old and over, an allowance of JPY 380 000 is given for each dependent. Two taxpayers cannot receive the allowance for the same dependent. *TaxBEN note:* for two-earner couples, the OECD calculations assign the allowance to the highest earner.
- *Special allowance for dependents:* if a resident taxpayer has dependents whose reference income does not exceed JPY 480 000 and who are between 19 and 22 years old, an allowance of JPY 630 000 is given for each dependent instead of the allowances for dependents mentioned above. Two taxpayers cannot receive the allowance for the same dependent. *TaxBEN note:* this allowance is not simulated as the model does not include calculations for families with children or other dependents who are older than 18 years.
- *Allowance for elderly dependent:* if a resident taxpayer has dependents who are 70 years old and over whose reference income does not exceed JPY 480 000, there is a tax allowance of JPY 480 000 per each dependent, instead of the allowances for dependents mentioned above. If the dependents are direct ascendants of the taxpayer or their spouse and permanently live with the taxpayer or their spouse, a

tax allowance of JPY 580 000 per each dependent is given to the taxpayer. TaxBEN note: this allowance is not simulated as the model focuses on working-age families.

- *Deduction for social insurance contributions:* the amount of social insurance contributions for a resident taxpayer or his/her dependents are deducted from their income without any limit.

8.1.2. Tax base

For the purposes of the TaxBEN model, only earnings are taxed: there are no taxable benefits in Japan, and the TaxBEN model does not include other forms of private income.

The taxable income is given by the earnings from employment minus the first and second step deduction described in Section 8.1.1.

Fractions of taxable income of less than JPY 1 000 are rounded down.

TaxBEN note: the calculations for two-earner couples assign the allowances for the spouse and the allowances for dependents to the partner with the highest earnings. As a result, the taxable income for the partner with the lower earnings is reduced only by the own social security contributions, the own Employment Income Deduction, and the basic allowance.

8.1.3. Income tax schedule

Taxable Income (JPY) (*)		Tax Rate (%) (A)	Deductible Amounts for Each Bracket (JPY) (B)
Over	Not over		
	1 950 000	5	0
1 950 000	3 300 000	10	97 500
3 300 000	6 950 000	20	427 500
6 950 000	9 000 000	23	636 000
9 000 000	18 000 000	33	1 536 000
18 000 000	40 000 000	40	2 796 000
40 000 000		45	4 796 000

Tax liability is obtained by multiplying the taxable income by tax rate (A) and deducting the amount (B). For example, income tax due on taxable income of JPY 7 million is:

$$7\,000\,000 \times 0.23 \text{ (A)} - 636\,000 \text{ (B)} = \text{JPY } 974\,000.$$

Finally, the tax amount is increased by 2.1%. This provision will apply each year from 2013 until 2037.

8.1.4. Tax credits

None.

Example of calculation of national income tax liabilities for a two earner couple

Let us consider a two-earner couple without children and with the following labour market characteristics: the first adult works full time with earnings equal to JPY 11253379. The second adult works full time with earnings equal to JPY 1874080. The following table summarises the tax position of each partner:

	First adult	Second adult
Gross earnings from employment [1]	11 253 379	1 874 080
Social security contribution [2]	1277189	270805
Employment Income deduction [3]	1950000	642224

Reference income for 2 nd step deductions [4] = [1]-[3]	9303379	1231856
Basic allowance [5]	480000	480000
Allowance for spouse [6]	0	0
Special Allowance for spouse [7]	80000	0
Total deductions [8] = [2]+[3]+[5]+[6]+[7]	3787189	1393029
Taxable income [9]=[1]-[8]	7466000	481000
Income tax liability [10]	1081180	24050
2.1% Surtax [11]	22704	505
Overall tax liability [12]=[10]+[11]	1103884	24555

8.2. Local income taxes (*Jyumin zei*)

Variable names: [\[LOCTAX_p\]](#); [\[LOCTAX_s\]](#)

Local taxes in Japan (personal inhabitant's taxes) consist of prefectural inhabitant's tax levied by prefectures and municipal inhabitant's tax levied by cities, towns and villages. The prefectural inhabitant's tax is collected together with the municipal inhabitant's tax by cities, towns and villages.

Local taxes (prefectural and municipal inhabitant's taxes) consist of two parts; one is proportional taxable income and the other is a fixed per capita amount. The taxable income of personal inhabitant's taxes is computed using the income of the previous year.

TaxBEN note: In Japan, the local income tax is calculated using the incomes of the previous fiscal year. However, according to the methodology of the OECD tax-benefit model, this time lag is ignored and only the rules that apply on the incomes on the reference policy date, i.e. the 1st of January 2020, enter the calculations of tax liabilities and benefit entitlements.

8.2.1. Local tax allowances

Local tax allowances for employment income earners in Japan are as follows:

First step deduction: same as the deductions for the central government income tax.

Second step deductions: Second step deductions are calculated using as a "reference income" the earnings from employment *less* the first step deductions. The second step deductions are:

- *Basic Allowance:* JPY 430 000. Differently from the basic allowance for the central government, the local basic allowance does not decrease with the taxpayer's income. As of January 1 2021, also the local basic allowance will decrease with the taxpayer's income. The details of the reforms will be described in the TaxBEN report for 2021.
- *Allowance for dependents:* if a resident taxpayer has children and other relatives whose reference income does not exceed JPY 330 000 and who are 16 years old and over, an allowance of JPY 330 000 is given for each dependent. Two taxpayers cannot receive the allowance for the same dependent. *TaxBEN note:* for two-earner couples, the OECD calculations assign the allowance to the highest earner.
- *Special allowance for dependents:* if a resident taxpayer has dependents whose reference income does not exceed JPY 330 000 and who are between 19 and 22 years old, an allowance of JPY 450 000 is given for each dependent instead of the allowances for dependents mentioned above. Two taxpayers cannot receive the allowance for the same dependent. *TaxBEN note:* this allowance is not simulated

as the model does not include calculations for families with children who are older than 18 years.

- *Allowance for spouse*: JPY 330 000 for resident taxpayers whose reference income does not exceed JPY 10 000 000 and who live with a spouse whose reference income does not exceed JPY 380 000.
- *Special allowance for spouse*: the allowance up to the amount shown in the following table is given to a resident taxpayer whose reference income does not exceed JPY 10 000 000 and who lives with a spouse whose reference income exceeds JPY 380 000 but does not exceed JPY 1 230 000.

Spouse's income	Amount
0-380,000	0
380,001-900,000	330,000
900,001-950,000	310,000
950,001-1,000,000	260,000
1,000,001-1,050,000	210,000
1,050,001-1,100,000	160,000
1,100,001-1,150,000	110,000
1,150,001-1,200,000	60,000
1,200,001-1,230,000	30,000
1,230,001 or more	0

The amounts of the local allowance for spouse and of the local special allowance for spouse, decrease gradually when the reference income (as defined above) of the taxpayer is between JPY 9 000 000 and JPY 10 000 000, then they become zero. Specifically, the amounts of the allowances is as follows:

- Reference income less than JPY 9 000 000: full amount;
- Reference income between JPY 9 000 000 and JPY 9 500 000: full amount*2/3;
- Reference income between JPY 9 500 000 and JPY 10 000 000: full amount*1/3;
- Reference income above JPY 10 000 000: no allowance.

Allowance amounts are rounded up to the closest multiple of 10 000 JPY. For instance, an amount of JPY 73 333 is rounded to JPY 80 000.

- *Local tax allowance for elderly spouse*: a tax allowance up to JPY 380 000 is given to a resident taxpayer
 - whose income does not exceed JPY 10 000 000 and
 - who lives with a spouse of 70 years old and over, whose income does not exceed JPY 380 000,

This allowance may replace the allowance for spouse described above. Similarly to the allowance for spouse, also the allowance for elderly spouse decreases when the reference income (as defined above) of the taxpayer is between JPY 9 000 000 and JPY 10 000 000. The final amount is rounded up to the closest multiple of 10 000 JPY. TaxBEN note: this allowance is not simulated as the model focus on working age families.

8.2.2. Tax base

Taxable income for local income tax purposes is given by sum of earnings from employment less the first-step and the second-step deductions described in Section 8.2.1.

Fractions of taxable income of less than JPY 1 000 are rounded down.

8.2.3. *Income tax schedule*

- The standard fixed (annual) per-capita amount of Prefectural inhabitants tax is JPY 1 500.
- The standard fixed (annual) per-capita amount of Municipal inhabitants tax is JPY 3 500.
- The standard proportional amount of the Prefectural and Municipal inhabitants tax is a flat rate of 10 per cent (Prefectural inhabitants tax: 4 per cent, Municipal inhabitants tax: 6 per cent). This represents a countrywide average rate.

8.2.4. *Local tax credits*

Taxable income for local income tax purposes	Tax credit amount
JPY 2 000 000 or less	The tax credit is calculated as: $TC = 0.05 * \min(a, b)$ Where: a = difference between national and local tax allowances (as described in sections 8.1.1. and 8.2.1) – note that this difference cannot be negative; b = taxable income for local income tax purposes.
More than JPY 2 000 000	The tax credit is calculated as: $0.05 * (a - (b - \text{JPY } 2\,000\,000))$ Where values (a) and (b) are the same as above. Note that in this income range the tax credit cannot be lower than JPY 2 500

Note: local tax credit reduce the standard proportional amount of the Prefectural and Municipal inhabitants tax (but not the fixed per-capita amount).

8.2.5. *Local tax exemptions*

Local authorities do not levy the fixed per-capita rate and the proportional rate of the Prefectural and Municipal inhabitants taxes (section 8.2.3) on taxpayers whose taxable income for local income tax purposes of the previous fiscal year is below a certain amount. For example, in selected districts of Tokyo, the example used in the TaxBEN model, this income threshold is calculated as follows:

- For the exemption to the fixed per-capita rate: $(1 + \text{number of spouse and dependents who qualify for the local allowance for spouse/dependents} - \text{note that spouses who qualify for the special allowance for the spouse are excluded from this calculation}) * 350000 (+ 210000 \text{ in case the taxpayer has a qualified spouse or dependents})$. For example, for a family with one dependent child and a dependent spouse, the income threshold for the exemption to the fixed per-capita rate is $(1+2)*350000 + 210000 = \text{JPY } 1260000$.
- For the exemption to the proportional rate: $(1 + \text{number of spouse and dependents who qualify for the local allowance for spouse/dependents} - \text{note that spouses who qualify for the special allowance for the spouse are excluded from this calculation}) * 350,000 (+ 320000 \text{ in case the taxpayer has a qualified spouse or dependents})$. For

example, for a family with a dependent child and without a qualifying spouse, the income threshold for the exemption to the proportional rate is $(1+1)*350000 + 320000 = \text{JPY } 1020000$.

Example of calculation of local income tax liabilities for a two earner couple

Let us consider a two-earner couple with a 16-years-old child without income. The first adult works full time with earnings equal to JPY 11 253 379. The second adult works full time with earnings equal to JPY 1 874 080. The following table summarises the tax position of each partner:

	First adult	Second adult
Gross earnings from employment [1]	11253379	1874080
Social security contribution [2]	1277189	270805
Employment Income deduction [3]	1950000	642224
Reference income for 2 nd step deductions [4] = [1]-[2]-[3]	9303379	1231856
Basic allowance [5]	430000	430000
Allowance for spouse [6]	0	0
Special Allowance for spouse [7]	0	0
Allowance for dependents [8]	330000	0
Total deductions [9] = [2]+[3]+[5]+[6]+[7]+[8]	3987189	1343029
Taxable income for local income tax [10]=[1]-[9]	7266000	531000
Difference between total national and local deductions	180000	50000
Local tax credits [11]	2500	2500
Income tax liability - proportional rate: [12] = [10]*0.1 - [11]	724100	50600
Income tax liability - fixed per-capita rate: [13]	5000	5000
Income threshold for local tax exemptions (proportional rate)	1020000	350000
Income threshold for local tax exemptions (fixed per-capita rate)	910000	350000
Total local income tax liability	729100	55600

**TaxBEN note:* In Japan, the local income tax is calculated using the incomes of the previous fiscal year. However, according to the methodology of the OECD tax-benefit model, this time lag is ignored and only the rules that apply on the incomes on the reference policy date enter the calculations.

9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Japan 2020 (Figure 6). TaxBEN by default produces the following output: 1) net household incomes (**black lines**) and 2) related income components (**coloured stacked areas**) for selected family and individual circumstances (e.g. a lone parent working at different earnings levels with two children aged 4 and 6 respectively – users are free to select many of these circumstances). The model and the related web calculator is accessible from the [project website](#). Figure 6 shows outputs for four scenarios:

- By gross earnings (**Panel A**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);

- By previous employment record, for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas shows the following household income components: **GROSS** = gross earnings; **SSC** = social security contributions; **IT**= income tax; **FB** = family benefits; **HB** = Housing benefits; **SA** = social assistance / Guaranteed minimum income benefits; **IW** = in-work benefit. Note that these components may be the result of the aggregation of more than one benefit into a single component. Please refer to the table of content to see the benefits included in each category.

Results in Figure 6 refer to a 2-adult family with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefits are assumed to be available in all the four scenarios when the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

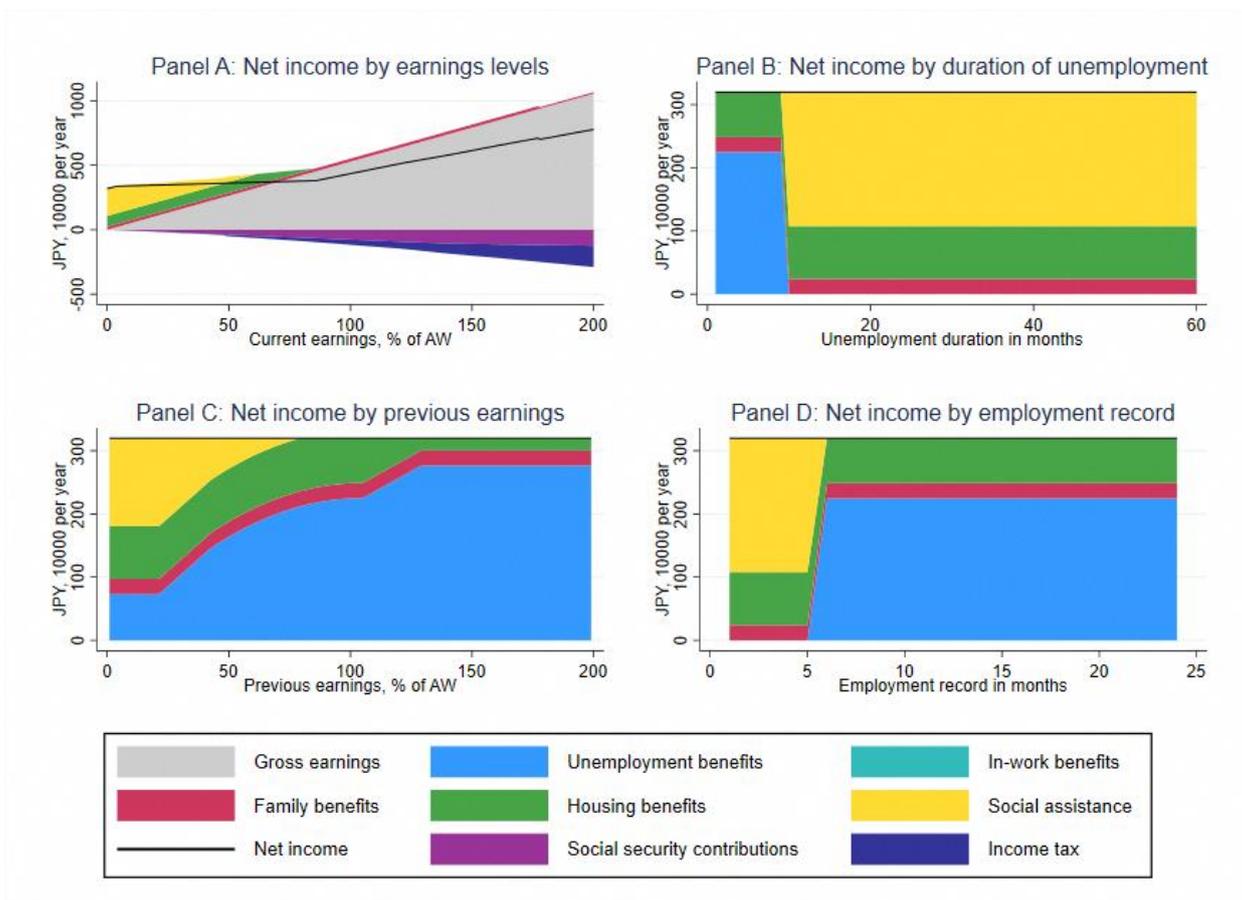
Panel A assumes that one adult family member (so-called ‘spouse’ using the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g. because they have expired) whereas the other adult member (so-called ‘principal’) is employed full-time and full-year at different earnings levels. When earnings of the first adult are zero this person is assumed to be out of work but not receiving unemployment benefits (again, e.g. because they have expired), instead claiming social assistance or guaranteed minimum income benefits, as applicable.

Panels B to D assume that the second adult is out of work and not eligible to unemployment benefits whereas the first adult is also out of work and claiming unemployment benefits. In Panel B and C the first adult is assumed to have a ‘long’ employment record of 264 consecutive months before the job loss. The horizontal axis in Panel B measures the time of benefit receipt, starting from the first month. The horizontal axis in Panel C shows the amount of previous gross earnings (before any social contribution payments). Results in Panels C and D refer to the 2nd month of unemployment benefit receipt whereas Panel D consider the case of previous earnings equal to the average Wage. Previous earnings in Panel B are also equal to the average wage.

TaxBEN assumes the following logical sequence of benefit claims: 1) Employment Insurance (Section 2.1)/Re-employment allowance (Section 6), 2) Housing benefit (Section 3.2) 3) Child Allowance (Section 4.1), 4) Child Rearing Allowance (Section 4.2), 5) Social Assistance (Section 3.1).

Figure 6. Selected output from the OECD tax-benefit model

Couple with two children



Source: OECD tax-benefit model, 2020.

Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Japan that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

A.1.1. *Sickness Benefit (Kenko hoken)*

Japan provides health insurance for workers covered by their employer health insurance programs.

Entitlement and eligibility conditions

To receive sickness benefits, a person must be assessed with an incapacity for work that lasts more than three days that is not due to a work injury or occupational disease.

Benefit amounts

Recipients receive 66.67% of their insured average daily basic wage of the past 12 months.

Benefit duration

Benefits are paid for up to 18 months, after a 3-day waiting period.

Means test

No means test.

Tax treatment

The benefit is not taxable.

Interactions with other components of the tax-benefit system

None.

Combining benefit receipt and employment/starting a new job

The benefit is not paid when insured becomes possible to work.

A.1.2. *Short-time work compensation scheme (Koyo chosei joseikin)*

Employment Adjustment Subsidy is a STW scheme that subsidizes employers who provide leave allowance to their employees based on labour-management agreement as they are forced to cut back the business operation in order to weather economic downturn or other economic shocks.

The Labour Standards Act stipulates that “In the event of an absence from work for reasons attributable to the employer, the employer must pay the worker an allowance equal to at least 60 percent of their average wage during that period of absence from work”.

As a response measure to COVID-19 crisis, the government has raised the percentage of subsidized amount and the maximum amount. This measure is effective between April 1, 2020 and December 31, 2020.

Entitlement and eligibility conditions

The employer should be covered by the employment insurance system.

The employer should be experiencing at least 10% year on year decline in the average figures over the last three months that indicate their business situations, such as the average of sales or production figures for the last three months.

The year on year increase in the average number of employees over the last three months covered by the employment insurance system or dispatched workers should be less than four and the increase rate should be up to 10% for SMEs, and for larger companies, six and 5%, respectively.

Employment adjustment measures implemented by the employer should satisfy certain requirements.

If an employer has received the subsidy before, there should be at least one year interval between the end of the old adjustment period and the start of the new adjustment period.

If the application is made as the result of the COVID-19 crisis, the eligibility conditions are adjusted as follows.

Business conditions have been deteriorated due to the COVID-19 crisis and cutbacks are inevitable.

At least 5 % year on year decrease in the sales or production figures for the last one month.

At least 60% of average wages is paid as leave allowances based on labor-management agreement.

Benefit amounts

The amount of the subsidy is calculated as follows.

(Average wage) x (rate of leave allowance) x (1/2 for large companies and 2/3 for SMEs)
= subsidy amount (up to JPY 8,370 per person per day)

In response to the COVID-19 crisis, changes have been made as follows: (Average wage) x (rate of leave allowance) x (2/3 for large companies and 4/5 for SMEs or 3/4 for large companies and 10/10 for SMEs if the employer satisfies certain requirements such as zero dismissals) = subsidy amount (up to JPY 15,000 per person per day).

Benefit duration

The duration of the Employment Adjustment Subsidy is up to 100 days a year, and 150 days over three years.

Paid leaves implemented during the emergency period (between April 1, 2020 and Dec. 31, 2020) are subsidized separately in addition to the benefit duration mentioned above.

Means test

Please refer to the description under “Eligibility conditions”.

Tax treatment

The subsidy is subject to corporate tax levy.

Interactions with other components of the tax-benefit system

None.

Combining benefit receipt and employment/starting a new job

None. Preventing dismissals is the main objective of the Employment Adjustment subsidy.

A.1.3. *Mandatory employer sick pay*

When an employee is sick or injured due to a non-occupational cause, the employer has no statutory obligation to grant a sick leave. When there is a sick leave scheme for non-occupational causes, the eligibility conditions or other conditions such as the duration of the sick leave are decided based on labour and management agreement or at the discretion of the employer.

Employees are entitled to take statutory annual paid leave under the Labor Standards Act, whatever the reason is, including sickness or injury due to non-occupational causes.

A.1.4. *Temporary special benefits for households with children (kosodate setai eno rinji tokubetsu kyuhukin)*

In order to mitigate the impact of the COVID-19 crisis on households with children, the government is handing out a one-off special cash benefit to eligible families.

Entitlement and eligibility conditions

Households that have received Child allowance (*Jido teate*) in March or April 2020 (see 4.1.4 for the eligibility criteria of the child allowance)

Benefit amount

10,000 yen per child

Benefit duration

This is a one-off cash handouts program, and the payment to each household started in May 2020.

Means test

The income threshold is aligned with that of the Child-allowance program (*Jido-teate*). For a further description see 4.1.4.

Tax treatment

The benefit is not taxable.

Interactions with other components of the tax-benefit system

None.

Combining benefit receipt and employment/starting a new job

No restrictions.

*A.1.5. Temporary Special Benefit for Single-parent Households (hitori oya setai rinji tokubetsu kyuhukin)**Entitlement and eligibility conditions*

In response to the COVID-19 crisis, a Temporary Special Benefit for Single-parent Households has been granted in order to mitigate the effects of the crisis, such as increased child care responsibility and reduced income, which might cause damage to the physical and psychological conditions of affected single parents.

Eligibility conditions for the basic benefit

- 1) Those who have received a child-rearing allowance for June 2020, or
- 2) Those who have not been receiving child-rearing allowances because they have received public pension benefits, and whose total income is under the income threshold for child-rearing allowance.
- 3) Those whose most recent income has dropped to the same level as those receiving child-rearing allowance due to the COVID-19 crisis.

Eligibility conditions for the additional benefit

Those who meet either 1) or 2) above, and whose income has dropped drastically due to the COVID-19 crisis.

*Benefit amounts*Basic benefit

50,000 yen per household, with additional 30,000 yen for each child after the first child.

A single parent is eligible for the benefit if he/she is responsible for a child/ children under 18 or under 20 for a child with specific types of disabilities. A single parent remains eligible until the end of next March, even if his/her child is 18 years of age.

Additional benefit

50,000 yen per household

Benefit duration

Both benefits are originally provided as a one-off payment.

For those who meet condition 1) above, we will do our best to deliver the basic benefit by August. For those who meet condition either 2) or 3), the payment will be made as early as possible.

The payment of the additional benefit will be made from September, after confirming a sharp drop in the income based on simple proofs at a regular annual interview session with the applicant or other occasions.

Means test

Income test is applied.

Tax treatment

The benefit is not taxable.

Interactions with other components of the tax-benefit system

The mean test for Public Assistance benefits will take the amount of the additional benefit into account.

Combining benefit receipt and employment/starting a new job

No restrictions.