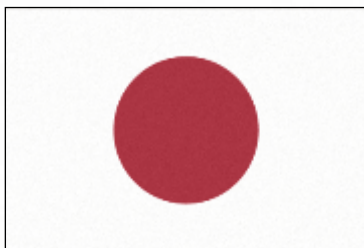


# THE OECD TAX-BENEFIT DATABASE

Description of policy rules for  
Japan 2022



# THE OECD TAX-BENEFIT DATABASE FOR JAPAN

## Description of policy rules for 2022

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**This version:** October 2022

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## Preface

This report provides a detailed description of the tax and benefit rules in Japan as they apply to working-age individuals and their dependent children. It also includes output from the [OECD Tax-Benefit model \(TaxBEN\)](#), which puts all these complex legal rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the net disposable income of families in different labour market circumstances, .e.g. in employment versus unemployment.

The **main body** of the report describes the rules that are relevant for the family and labour market characteristics that are within the scope of the **TaxBEN** model (see below for the methodology and user guide). The **annex** provides information on other cash benefits and taxes on employment income that are relevant for other groups of the working-age population, but are outside the scope of the **TaxBEN** model.

**TaxBEN** is essentially a large cross-country calculator of tax liabilities and benefit entitlements for a broad set of *hypothetical* families (“vignettes”), e.g. a married couple of 40-years-old adults with two children aged 4 and 6 (click [here](#) for a quick overview of the **TaxBEN** model). **TaxBEN** incorporates rules on the main taxes on employment income, social contributions paid by employees and employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family and childcare benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits, maternity and parental leaves benefits are included in the model for a sub-set of countries and years. The main policy instruments that are currently not included in the **TaxBEN** model are taxes on wealth (e.g. taxes on immovable and unmovable properties), indirect taxes (e.g. VAT), early-retirement benefits, short-time work compensation schemes, sickness benefits, and in-kind benefits (e.g. subsidised transport and free health care).

### Useful online resources for the OECD tax-benefit model (TaxBEN)



[TaxBEN web calculator](#)



[Methodology and user guide](#)



[OECD tax-benefit data portal](#)



[Network of national experts](#)


### Guidelines for updating this report (for national experts)



[General guidelines](#)

Detailed [guidelines for updating Section 5](#) “Net costs for Early Childhood Education and Care”

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

- **Reference date** for the policy rules described in this report: **January 1, 2022**.
- The symbol  in the text provides a link to the 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.
- **TaxBEN** variables are indicated in the text using the format **[variable name]**
- Text in **blue font colour** identifies **COVID**-related measures that are in force during the reference date of this report.

## The OECD tax-benefit model for Japan: Policy rules in 2022

### 1. Reference wages

Average wage **[AW]**: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available [here](#)).<sup>1</sup> If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth<sup>2</sup> to the latest available wage estimate.


The minimum wage **[MIN]** as of 1 January 2022 is JPY 930 per hour, which corresponds to an annual earnings level for a full-time worker of JPY 930 x 40 x 52 = 1 934 400.<sup>3</sup>

### 2. Unemployment benefits

#### 2.1. Employment insurance (*Koyo hoken*)

Variable name:<sup>4</sup> **[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 or 80 hours 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

<sup>1</sup> 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.

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

<sup>3</sup> 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.

<sup>4</sup> 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.

benefits.<sup>5</sup> These conditions are that the benefit claimant has to attend the PES once every 4 weeks and carry out job-seeking activities at least twice during this period.<sup>6</sup> 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 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  $DAW < 4970$   $\rightarrow DABA = DAW * 0.8$
- ii) If  $4970 \leq DAW < 12240$   $\rightarrow DABA = DAW * BR1$ , where:  
 $BR1 = 0.8 - [(0.3 \times (DAW - 4970)) / (12240 - 4970)]$
- iii) If  $DAW \geq 12240$   $\rightarrow DABA = DAW * 0.5$

DAW must be between JPY 2577 and the maximum amount shown in the table below.

#### The maximum amount of DAW

Age	In JPY
Under 30	13520
30 - 44	15020
45 - 59	16530

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

- i) If  $DAW < 4970$   $\rightarrow DABA = DAW * 0.8$
- ii) If  $4970 \leq DAW < 11000$   $\rightarrow DABA = \min\{DABA1, DABA2\}$ , where:  
 $DABA1 = DAW \times BR2$ ,  
 $BR2 = 0.8 - [(0.35 \times (DAW - 4970)) / (11000 - 4970)]$ ,  
 $DABA2 = 0.05 \times DAW + (11000 \times 0.4)$
- iii) If  $DAW \geq 11000$   $\rightarrow DABA = DAW * 0.45$

<sup>5</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are available here: <https://www.oecd.org/social/strictness-benefit-eligibility.htm>.

<sup>6</sup> Under Japan's unemployment insurance system, it is possible to receive benefits in the case of voluntary unemployment. Although there is no formal definition of "involuntary" unemployment, there are two types of persons eligible for unemployment benefits that are similar to involuntary unemployment: (1) those who are eligible for specific benefits, i.e. those who were forced to leave their jobs due to bankruptcy, dismissal, or other reasons with no time to prepare for reemployment. (2) Those who have left their jobs due to non-renewal of the labour contract with a fixed term, or due other unavoidable reasons, other than those who are eligible for the specified benefits.

DAW for those who are between 60 and 64 must be between JPY 2577 and JPY 15770.

*OECD note:* The Japanese law for the Employment Insurance benefit does not provide for the concept of ‘monthly’ basic allowance. Considering the functioning of the OECD tax-benefit model, which is essentially a monthly calculator, benefit amounts are expressed in monthly terms by multiplying the Daily Amount of the Basic Allowance (DABA) by 30. In addition, according to the “Law Concerning Fractional Calculation of Amounts of Claims and Debts of the State and Other Entities”, fractions of less than one YEN are discarded when calculating the DABA.

Frequency/periodicity of benefit payments: monthly.

### 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
<b>Panel 1: Duration of benefits for the ordinary unemployed (other than those difficult to re-employ)</b>					
All ages	—	90 days	90 days	120 days	150 days
<b>Panel 2: Duration of benefits for persons difficult to re-employ</b>					
Younger than 45	150 days	300 days			
45 – 64		360 days			
<b>Panel 3: Duration of benefits for the unemployed as a result of bankruptcy, dismissal, etc. (other than those difficult to re-employ)</b>					
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 March 2022.

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

In response to the COVID-19 crisis, a temporary measure was introduced in June 2020 to address prolonged jobless period due to the effect of the pandemic. This measure allows the PES to extend benefit durations of 60 days for those aged between 45 and 59, and 30 days for those aged between 35 and 44. This measure was still in force on the reference date of this report (January 1, 2022).

*TaxBEN note:* the 2021 calculations include these temporary extensions due to the COVID-19 crisis. As a result, the maximum benefit duration for, e.g., a jobseeker who was previously entitled to maximum 90 days of benefit, in 2021 can receive the benefit up to 150 days.

### 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 (Section 3.1).

### 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).

## 2.2. Unemployment assistance

Variable names: [UA]

*OECD note:* In many OECD countries, jobseekers who do not qualify for Unemployment Insurance (UI – Section 2.1), or whose entitlement to UI is low or has expired, can claim Unemployment Assistance (UA – this section) and/or Social Assistance benefits (SA – Section 3). UA and SA benefits are similar but not identical benefits. They are typically both means tested benefits, but have different purposes and reach different target groups. For instance, while the main purpose of UA is to encourage the labour market reintegration of jobseekers who have exhausted or are not eligible to the standard UI benefit, the purpose of SA programmes is to provide an acceptable standard of living for families unable to earn sufficient incomes from other sources. Conditions for UA typically include requirements to register with the public employment service and participate in active job search in a similar way as for UI. This is *not always* the case for SA benefits, for which low income is the key entitlement criterion and activation requirements exist only for those who are capable of work.

Based on this definition, Japan did not have in 2022 a national Unemployment Assistance programme. Nevertheless, Japan has a Social Assistance programme (Section 3.1).

## 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 in Japan consists of eight types of support offered to those who are unable to provide minimum living standards: livelihood assistance, housing assistance, medical assistance, long-term care assistance, occupational assistance, education assistance, maternity assistance, and funeral assistance.

*TaxBEN note:* Only ‘Livelihood’ and ‘housing assistance’ are included in the OECD 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 provides the difference between the household's net income and the minimum living standard. The public assistance benefit includes the following sub-components (as applicable): livelihood assistance, housing assistance supplement, supplementary child assistance, and supplementary lone parent assistance. The remainder of this section describe how to calculate each of these sub-components.

Frequency/periodicity of benefit payments: monthly.

## ***Livelihood assistance***

Livelihood assistance is calculated as the sum of three elements:

$$\mathbf{SA = A+B+C}$$

### **Calculation of 'A' (basic amount for living expenses)**

The basic amounts of living expenses are calculated on a household basis using the information provided in Tables 1, 2 and 3 below. Any fractional part of less than 10 yen is rounded up to the nearest multiple of 10 yen.

The basic amount of living expenses (A) is the sum of sub-amounts (a1) and (a2) described below. However, if the sum of (a1) and (a2) is less than 85.5% of A<sub>bis</sub>, where A<sub>bis</sub> is the sum of amounts (a3) and (a4) described below, amount A is equal to A<sub>bis</sub>\*0.855.

- Amount (a1): Multiply the sum of each family member's "Basic Amount (2)" shown in Table 1 by the "Diminishing Rate (2)" shown in Table 3. Note that the relevant "Diminishing Rate (2)" depends on the number of family members.
- Amount (a2): Is the "Basic Amount (2)" shown in Table 2.
- Amount (a3): Multiply the sum of each family member's Basic Amount (1) shown in Table 1 by the Diminishing Rate (1) shown in Table 3. Note that the relevant Diminishing Rate (1) depends on the number of family members.
- Amount (a4): Is the Basic Amount (1) shown the Table 2.

**Table 1. Livelihood assistance for personal expenses (Category 1)**

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

**Table 2. Livelihood assistance for household expenses (Category 2)**

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

**Table 3. Diminishing rates for part A of the Livelihood assistance benefit**

Number of family members	Diminishing Rate (1)	Diminishing Rate (2)
1	1.0000	1.0000
2	1.0000	0.8548
3	1.0000	0.7151
4	0.9500	0.6010
5	0.9000	0.5683
6	0.9000	0.5383
7	0.9000	0.5087
8	0.9000	0.4844
9	0.9000	0.4639
10 and more	0.9000	0.4639

An additional “temporary assistance for term end” (Table 4) is added to the final basic amount for living expenses of December:

**Table 4. 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

*TaxBEN note:* the Temporary Assistance for Term End is implemented in the TaxBEN calculation *without* annualizing the values listed in Table 4. For instance, for a household with one member, the final *annualized* basic amount for living expenses assistance for household expenses is obtained multiplying by 12 the monthly basic amount for living expenses ‘A’ (calculated following the procedure described in the paragraphs above) and then adding JPY 14160 (without the prior multiplication by 12).

**Calculation of ‘B’ (Supplementary transitional assistance)**

B is the sum of each family member’s amount corresponding to one’s age and the number of the family members stipulated in Table 5.

**Table 5. 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

**Calculation of ‘C’ (winter supplementary assistance)**

C is the winter supplementary assistance for each district. Winter supplementary assistance is paid for 5 months a year (from November to March). The winter supplementary assistance is added linearly to the *basic amount for living expenses* (“A”) and the *Supplementary transitional assistance* (“B”)

**Table 6. Winter supplementary assistance**

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 supplement:***

Families receiving the Public assistance may also receive the Housing assistance supplement assistance if they have rental costs.<sup>7</sup> The amount of the housing supplement depends on the household size (table below) and 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:***

Families with children receiving the Public assistance may receive in addition a child assistance supplement of 10,190 JPY per month. This amount is paid for each child throughout the year (i.e. for 12 months). The benefit is paid until the 31<sup>st</sup> of March after the child's 18<sup>th</sup> birthday.

In addition, a supplement of 4,330 JPY per month is paid for each child of the family who is:

- Under 3 years old, in family of four or more children,
- Under 3 years old and in a hospital, in family of three or less children
- Over or equal to 3 years old and prior to elementary school graduation, in families with three or more children. Note that the elementary school graduation is typically at the age of 12 (this is the assumption made in the TaxBEN model).

***Supplementary lone parent assistance:***

Lone parents receiving the Public assistance may receive the following additional amount:

- One child 18,800 per month
- 2 children 23,600 per month
- 3 or more children  $23,600 + 2,900 \times (n-2)$  per month, where 'n' is the number of children.

The supplementary lone-parent assistance is paid on a monthly basis throughout the year (i.e. for 12 months). The benefit is paid until the 31<sup>st</sup> of March after the child's 18<sup>th</sup> birthday or until the child turns 20 if the one is a recipient of supplementary disability assistance.

<sup>7</sup> Only families eligible for the Public assistance can receive the housing assistance supplement.

An additional supplement is paid to lone-parent families that meet any of 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 children
0-14	3,330
15-17	0
18-19	3,330

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

One child	Two children
3,330	280

### 3.1.3. Benefit duration

Public assistance has no limit as long as the income and other eligibility condition holds.

### 3.1.4. Means test

#### Income test

Public Assistance entitlements are calculated as the sum of the minimum living expenses described above (livelihood assistance, housing assistance supplement, supplementary child assistance, and supplementary lone parent assistance) *minus* the reference net income of the family.

The reference net income of the family includes:

- Gross employment income,
- Unemployment benefits (Section 2),
- Child allowance and child rearing allowance (Section 4),
- Social security benefits, including pensions
- Any cash assistance from other relatives,
- Income from bank deposits.
- Incomes from movable and immovable assets.

Income taxes and social security contributions are subtracted from the reference income.

The special benefits described in Section 4.3, 4.4 and 8.2 are *not* included in the income test of the public assistance benefit.

Because Public assistance and the housing benefit (Section 3.2) cannot be paid together at the same time, the Public assistance income test cannot include the amount of the housing benefit.

There is a disregard for employment income. Gross family earnings up to JPY 15 200 per month are disregarded. For higher earnings, public assistance reduces progressively according to the reference net income of the family (defined above). Note that the Employment Income Allowances (section 8.1) and the employee social security contributions (Section 7) are *not* subtracted from the gross employment earnings when calculating the earnings disregard.

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 <sup>(a)</sup>

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

#### *Asset test*

Benefit recipients have to submit information on their assets at least once every 12 months. The list of assets should include cash, bank deposits, immovable and movable properties (stocks and bonds, life insurance, automobiles and other articles of value). When the submitted information is unclear, relevant authorities make necessary inquiries to relevant parties.

All movable and immovable assets should be included in the information submitted to the administration, and most of them are included in the asset test. The only two assets excluded from the test are:

- The main residence
- The vehicle that is necessary for persons with disability to visit their doctors.

The asset test in Japan requires **claimants to sell or take concrete measures to utilise their movable and immovable assets that are not deemed necessary to maintain minimum standards of living. The asset test in Japan does *not* require the conversion of assets into an income amount.**<sup>8</sup> However, once the claimant sells or turns into cash the assets that are not deemed necessary to maintain minimum standards of living, the associated incomes are included in the standard SA income test (Section 3.1.4).

#### *3.1.5. Tax treatment*

Public Assistance amounts are not taxable.

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

Other social security benefits including pensions, child allowance and the child rearing allowance (Section 4), unemployment benefits (Section 2), and assistance from relatives are considered as income in the means test. Public assistance and the housing benefit (Section 3.2) cannot be paid together.

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

No restriction, but earnings disregards (described in Section 3.1.4) are taken into account in the means test.

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

Variable name: **[HB]**

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<sup>8</sup> In other OECD countries, claimants are not required to sell their assets in order to be eligible for social assistance. Instead, these assets are transformed into incomes through ad hoc conversion coefficients are included in the SA income test.

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

The Housing benefit is targeted to those who lost or likely to lose their residence because of poverty due to unemployment.

In response to the COVID-19 crisis, the scope of the target population has been expanded as of April 2020 in order 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. In practice, the housing benefit is available also to workers whose labour income decreased during the COVID-19 crises below the income and asset eligibility threshold described in Section 3.2.1. This provision was still in place on the reference date of this report (January 1 2022).

*TaxBEN note:* the TaxBEN calculations for 2022 account for this COVID-related policy and allows employees who meet the income eligibility conditions (Section 3.2.4) to receive the housing benefit until the maximum duration (section 3.2.3).

### 3.2.1. Eligibility conditions

Three conditions must be met in order to receive benefits:

1. Income condition (see Section 3.2.4).
2. Asset condition: Cash savings of the household at the time of application must be no more than six times the base amount (1/12 of revenue for which inhabitant tax on per capita basis are not taxable<sup>9</sup>), and less than 1 million yen.
3. Job seeking conditions:<sup>10</sup>
  - 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 at the self-reliance support centres to secure housing and employment (at least four times a month).
  - Make an employment application at least once a week.

As a special measure to address the COVID-19 crisis, the job-seeking requirements listed above are temporarily relaxed as follows. The beneficiary should receive support such as job consultations at the Public Employment Security Office at least once a month, or interviews at the self-reliance support centres to secure housing and employment (at least once a month). Make an employment application at least once a month.

*OECD note:* the TaxBEN calculations assume that Job seeking and asset conditions are always met when there are not working adults in the households. Whether the income condition is met or not depends on the user's choices.

Even if claimant's partner is employed, the household is still eligible for the housing benefit as long as the three eligibility conditions described above apply. In this case, the gross earnings of the working partner are included in the benefits' income test (section 3.2.4).

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<sup>9</sup> Note that this value differs by region.

<sup>10</sup> The two job-seeking conditions described in the text apply for the claimant, not for all the adults living in the household.

### 3.2.2. Benefit amount

The maximum housing benefit amount is the same as the maximum amount of the housing assistance supplement provided as part of the Public Assistance benefit (Section 3.1.2).

*TaxBEN note:* The TaxBEN model uses the rates for Tokyo.

If the monthly household income (as defined below in Section 3.2.4) is higher than the income eligibility threshold (see the table below), the housing benefit amount is calculated as follows:

- Housing benefit = rent amount – (household income for the month – income eligibility threshold) *if monthly household income  $\geq$  income eligibility threshold*

If the monthly household income is below the income eligibility threshold, the housing benefit amount is equal to the rent amount, up to the maximum housing benefit amount:

- Housing benefit = minimum(rent amount, maximum benefit amount) *if monthly household income  $<$  income eligibility threshold*

Housing benefit entitlements cannot be higher than the actual rent paid or the maximum housing benefit amounts (Section 3.2.1).

Frequency/periodicity of benefit payments: monthly.

### 3.2.3. Benefit duration

The basic benefit duration is three months, but the duration can be extended up to a maximum of nine months, provided that certain requirements are met. Requests for extensions after the first three months should be filed every three months.

*TaxBEN note:* the TaxBEN model assumes the duration of the housing benefit is the maximum possible, i.e. 9 months.

### 3.2.4. Means test

The household income for the selected month of application must be below a specific income eligibility threshold. This threshold is equal to 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 of the public assistance benefit (Section 3.1). Note that this value differs by region.

The base amounts for Tokyo (the reference for TaxBEN) are in the table below:

Number of family members	Income eligibility threshold (JPY per month)
1	84,000
2	130,000
3	172,000
4	214,000
5	255,000
6	297,000

The reference household income considered for the means test includes:

- Employment income (of jobseekers who move back into employment as well as of the working partner, if any),
- Unemployment insurance (Section 2),
- Social security benefits including child allowance and child rearing allowance (Section 4),



- Any cash assistance from other relatives.

Income taxes and social security contributions are *not* subtracted from the reference household income. The special benefits described in Section 4.3, 4.4 and 8.2 are *not* included in the income test of the housing benefit.

### Examples of calculation of the housing benefit

**Scenario 1:** Consider a 40-year-old jobseeker with an employment record of 20 years and previous full-time annual earnings of JPY 1 200 000 (JPY 100 000 per month). Assume that the jobseeker has been unemployed for 2 months, does not claim Public Assistance (Section 3.1), does not have other properties or assets, and lives in Tokyo with a partner who is not working and not eligible for the unemployment insurance benefit. Finally, assume that the monthly rent is JPY 21 731.

Under this conditions, the jobseeker receives JPY 79 980 per month of Employment insurance (Section 2.1) and is eligible for the “Benefits for securing housing” (Section 3.2).<sup>11</sup>

Because this family does not have incomes other than the Employment Insurance benefit received by the jobseeker, the relevant household income for the means test of the housing benefit is JPY 79 980 per month, which is below the income eligibility threshold for a family of two members in Tokyo (JPY 130 000).

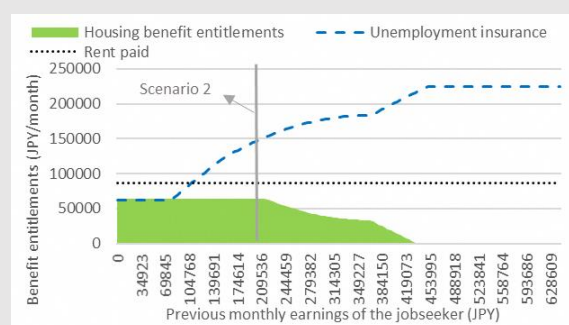
This implies that the housing benefit entitlements for this family is equal to the full rent amount (JPY 21 731) as the rent amount is lower than the maximum amount of the housing assistance supplement provided as part of the Public Assistance benefit (Section 3.1.2).

**Scenario 2.** Let us consider again Scenario 1 and assume that (a) the previous annual earnings of the jobseeker were JPY 2 500 000 (JPY 208 333 per month) and (b) the monthly rent was JPY 86 924. Under these assumptions, the monthly Employment insurance in 2022 would be JPY 149 700 (section 2.1), which is higher than the HB income eligibility threshold for a family of two members (JPY 130 000). In this case, the housing benefit is calculated as the rent amount (JPY 86 924) minus the difference between the household income for the month and the HB income eligibility threshold:

$$HB = 86924 - (149700 - 130000) = \text{JPY } 67\,224.$$

Because this amount is higher than the maximum amount of the housing assistance supplement provided as part of the Public Assistance benefit in Tokyo (Section 3.1.2), the final housing benefit entitlement is capped at its maximum level, i.e. JPY 64 000 per month.

The application of these rules over a broad range of previous earnings levels implies the following housing benefit entitlements (assuming that all the other relevant parameters are fixed at the level of Scenario 2):



*Notes:* results for a jobless couple without children, assuming 2 months of unemployment, two adults of 40 years old, a monthly rent of JPY 86 924, and an employment record of 20 years for the person receiving unemployment insurance.

<sup>11</sup> See the ‘TaxBEN note’ in Section 2.1.2 for details on the calculation of the ‘monthly’ Employment Insurance benefit with the OECD Tax-benefit model.

Source: OECD tax-benefit model, 2022.

### 3.2.5. Tax treatment

The housing 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 (Section 6), these take precedence over the provision of benefits for securing housing.

Claimants cannot receive both Public Assistance (Section 3.1) and the Housing benefit at the same time. The decision on which benefit to receive is made by the self-reliance support centres. If the claimant aims to, and has the possibility of becoming independent by finding a job, he/she will receive housing benefit and will be encouraged to find employment. However, if the claimant has difficulties to become independent by working, they may receive Public Assistance protection.

*OECD note:* due to the ‘static’ characteristic of the TaxBEN model, calculations that allow families to claim social assistance benefits will assume that claimants meet all the personal and behavioural requirements needed to receive this benefit, as long as they meet the necessary income conditions. Under this modelling assumption, and considering that a family cannot receive both Public Assistance and Housing benefit at the same time, those receiving social assistance will *not* receive the Housing benefit. However, for model calculations that do *not* allow families to claim social assistance benefits, claimants may still receive the Housing benefit as long as they meet the eligibility conditions described in Section 3.2.1.

### 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 the reference household income (as defined in Section 3.2.4) exceeds the income eligibility threshold (table above), the benefit provision is ended as of the month when their income exceeds the threshold. If the income does not exceed the eligibility threshold after the labour market transition, the person can keep receiving the benefit until the maximum duration (section 3.2.3).

*OECD note:* the TaxBEN model assumes that jobseekers move back into work always with a permanent contract. Hence, the housing benefit is terminated when the job seeker moves back into employment *and* the earnings in the new job are such that the reference household income (as defined in Section 3.2.4) exceeds the income eligibility threshold. When this does not happen, the recipient keeps the benefit until the maximum duration.

## 4. Family benefits

Variable name: **[FB]**

### 4.1. Child allowance (*Jido teate*)

Variable name: **[FAMBEN]**, part of the macro variable **[FB]**.

This is a non-contributory benefit 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 the income threshold (section 4.1.4) 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 is be paid altogether once in 4 months for each child until the 31<sup>st</sup> of March following the 15<sup>th</sup> birthday.

1. For persons with a reference income below the first threshold (section 4.1.4 for details), the per-child amounts are as follows:
  - a) For children under the age of 3: JPY 15000 per month.
  - b) From age 3 to elementary school graduation (i.e. until the age of 12 included): JPY 10000 per month for the first and second child within this age range.
  - c) From age 3 to elementary school graduation (i.e. until the age of 12 included): JPY 15000 per month for the third and each subsequent child in this age range.
  - d) For junior high school students (i.e. for children between 13 and 15 included): JPY 10000 per month.
2. For persons with a reference income between the first and the second income thresholds (section 4.1.4 for details) the allowance is JPY 5000 per month for each child until the 31<sup>st</sup> of March following the 15<sup>th</sup> birthday. Note: this amount does not depend on the number and age of dependents.

Frequency/periodicity of benefit payments: every four months.

*OECD note:* The annual benefit amount is equal to [monthly\_amount]\*3. As a result, the average monthly payment shown in the TaxBEN result is [monthly\_amount]\*3/12.

#### 4.1.3. Benefit duration

The benefit is paid for each child until the 31<sup>st</sup> March after the 15<sup>th</sup> birthday.

#### 4.1.4. Means test

The benefit is means-tested. Those with incomes above the first threshold receive a lower Special Interim Allowance. Those with incomes above the second threshold receive nothing.

Whether a family receives the Child allowance or Special Interim Allowance, or whether they are eligible for Special Interim Allowance or not, depends on the income of the child's primary breadwinner, not the overall household income. The reference income is the gross annual income minus JPY 80 000 minus the following tax deductions (where applicable): deduction for casualty losses, deduction for medical expenses, deduction for small business mutual aid premiums, exemption for persons with disabilities, exemptions for widows or single parents, exemption for working students. The "first-step deductions" (section 8.1) are not subtracted from the gross earnings.

The income thresholds depend on the number of dependents. Definition of dependant: children under the age of 18 and adults whose reference income for tax purposes does not exceed JPY480 000 (see section 8 for details). This implies that the non-working

spouse of a one-earner couple counts as an additional dependent. Similarly, for jobless couples, both spouses count as dependents.

Number of dependents	First Income threshold (JPY million)	Second income threshold (JPY million)
Zero	6.22	8.58
1	6.60	8.96
2	6.98	9.34
3	7.36	9.72
4	7.74	10.10
5	8.12	10.48

#### 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*)

Variable name: **[LPB]**, part of the macro variable **[FB]**.

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.<sup>12</sup>

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

#### 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:

<sup>12</sup> 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.

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
2020/4	43,160	10,190	6,110
2021/4	43,160	10,190	6,110

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
2020/4	43,150	0.0230559	10,180	0.0035524	6,100	0.0021259
2021/4	43,150	0.0230559	10,180	0.0035524	6,100	0.0021259

TaxBEN note: the model for 2022 use the amounts that apply on 2020/04.

Frequency/periodicity of benefit payments: January, March, May, July, September, November.

#### 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 the 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 = 43,160 – {(Amount of income – “Income-tested threshold of full benefit”) × 0.0230559 + 10}

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

Benefit amount = 10,190 – {Amount of income – “Income-tested threshold of full benefit”) × 0.0035524 + 10}

And the *additional* amount for the 3<sup>rd</sup> and subsequent children as follows:

Benefit amount = 6,110 – {(Amount of income – “Income-tested threshold of full benefit”) × 0.0021259 + 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 Public 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.

### 4.3. Special Benefit for Child-raising families (*kosodate setaieno rinji tokubetsu kyuhu*)

Variable name: **[SBCRF]**, part of the macro variable **[FB]**.

In response to the COVID-19 prolonged pandemic status, as of 2022, the Government initiated a new Special benefit for child-raising families, with the view to providing stronger support to families with children.

#### 4.3.1. Entitlement and eligibility conditions

Eligible households are those with a child from the age of zero to the third grade of high school (i.e. 18 years old, included). Households with an annual income higher than JPY 9.6million are not eligible for this benefit (Section 4.3.4 for details).

#### 4.3.2. *Benefit amounts*

The annual amount is JPY 100 000 per child.

*OECD note:* the benefit enters the TaxBEN calculations as a *monthly* payment equal to 1/12 of the total benefit amount.

#### 4.3.3. *Benefit duration*

Lump sum payment.

*OECD note:* the benefit enters the TaxBEN calculations as a *monthly* payment equal to 1/12 of the total benefit amount.

#### 4.3.4. *Means test*

Only the parent with the higher income can claim the allowance. The income eligibility threshold is JPY 9.6million. The definition of annual income is the same as the Child allowance (Section 4.1.4).

#### 4.3.5. *Tax treatment*

The benefit is not taxable.

#### 4.3.6. *Interactions with other components of the tax-benefit system*

The government utilises the system of Child allowance system to choose households with a child under the third grade of junior high school.

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

No restrictions.

### **4.4. *Special Benefit for Supporting Low-income households with Children*** (*kosodate setai seikatsu shien tokubetsu kyuhukin*)

Variable name: **[SBLIF]**, part of the macro variable **[FB]**.

#### 4.4.1. *Entitlement and eligibility conditions*

Low-income households with children who are under the age of 18, as of March 31, 2021 (under age 20 if they have special needs) are eligible to this one-time benefit. The benefit aims to support livelihood in light of current situation affected by persistent impact of COVID-19 pandemic.

#### 4.4.2. *Benefit amounts*

JPY 50 000 per child (fixed amount).

*OECD note:* the benefit enters the TaxBEN calculations as a *monthly* payment equal to 1/12 of the total benefit amount.

#### 4.4.3. *Benefit duration*

One-off payment benefit.

#### 4.4.4. *Means test*

Only the parent with the higher income can claim the allowance. To be eligible, the principal earner should be in one of the following categories:

- Eligible to the Child rearing allowance (Section 4.2).
- Exempted from the fixed per-capita part of the local tax for the fiscal year 2021 (Section 8.2), or with an income that is equivalent to the income level exempted from the fixed per-capita part of the local tax.

#### 4.4.5. Tax treatment

Not taxable.

#### 4.4.6. Interactions with other components of the tax-benefit system

No interactions.

#### 4.4.7. Combining benefit receipt and employment/starting a new job

No restrictions.

## 5. Net costs of Early Childhood Education and Care

Public and private day-care centres are available for children whose parents need childcare as a result of work, illness, job seeking, etc. In such cases, day-care centres accept children between 0 and 6 years old prior to elementary school. In Japan, compulsory schooling starts on the 1st of April following a child's 6th birthday.

### 5.1. Gross childcare fees

Variable name: `[cc_cost]`

The cost of childcare is estimated by the national government. A certain share of the cost is born by users and the rest is publicly funded.

*OECD note:* In the TaxBEN model, the gross childcare fee is set at the maximum fee paid by users.

The national government sets the upper limit of the cost born by a user, depending on the residence tax of the user that is imposed based on the household income. Municipal governments decides the actual fee that a user pays within the national limit.

#### Upper limits of monthly costs set by the national government (2022 amounts)

	For children aged 3 and over		For children younger than 3 years old	
	for full-time workers	for part-time workers	for full-time workers	for part-time workers
Family on public social assistance (Section 3.1) or exempted from local tax payments (Section 8.2)	0 yen	0 yen	0 yen	0 yen
Earnings-related residence tax positive but lower than JPY 48600	0 yen	0 yen	19500 yen	19300 yen
Earnings-related residence tax between JPY 48,601 and 57,700	0 yen	0 yen	30000 yen	29600 yen
Earnings-related residence tax between JPY 57,701 and 97,000	0 yen	0 yen	30000 yen	29600 yen
Earnings-related residence tax between JPY 97,001 and 169,000	0 yen	0 yen	44500 yen	43900 yen



Earnings-related residence tax between JPY 169,001 and 301,000	0 yen	0 yen	61000 yen	60100 yen
Earnings-related residence tax between JPY 301,001 and 397,000	0 yen	0 yen	80000 yen	78800 yen
Earnings-related residence tax above JPY 397,000	0 yen	0 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.

Childcare costs as well as discounts set by the government for other family characteristics, e.g. for lone parents and large families, are described in Section 5.2.1.

Meal costs are included in the childcare fee for children younger than 3 years (parent do not pay an additional charge for the meal - parent pay only childcare cost and this includes the meals costs). For children aged 3 and over, parents pay for the meal costs *separately*. See Section 5.2 for the calculation of meals costs.

If the guardian of the child works less than 120 hours per month, he/she is, in principle, subject to the approval for short-time childcare (for part-time workers in the table).

*OECD note:* the responsible Ministry suggests using a weekly threshold of 20 hours per week for the application of the part-time rates.

## 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

#### *Free provision*

Parents with their children aged between 3 (included) and 5 (included) do not pay childcare fees in childcare centres that are covered by the Free Early Childhood Education and Childcare (F-ECEC).<sup>13</sup> Parents are still responsible for the meals

<sup>13</sup> Most of Japan's kindergartens, day-care centres, facilities providing both education and childcare, as well as community-based childcare services are covered by the F-ECEC. Details on this program are available here: [www8.cao.go.jp/shoushi/shinseido/musyoutuka/about/index](http://www8.cao.go.jp/shoushi/shinseido/musyoutuka/about/index).

(including staple foods and non-staple foods), transportation costs to and from the school, school materials and participation in external events organised by the school.<sup>14</sup>

*Other groups eligible for free provision*

Families on welfare (Section 3.1) do not pay childcare fees for their children. They are exempted also from non-staple foods payments. However, they are still responsible for the payment of staple food.

Parents do not pay childcare fees 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 (Section 8.2). 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.

Receiving employment insurance (Section 2.1) do not automatically fall under the category of free childcare fees. However, if the guardian of the child has a significant decrease in income due to serious physical or mental disability, long-term hospitalization, or unemployment, the municipality may reduce the childcare fees by recognising that the guardian has difficulty paying childcare fees and revising the calculation of the reference income.

*Other discounts for children aged three and over*

For children aged 3 and over who benefit from the F-ECEC, the discounts refer only to the meals (as the service is provided free of charge). More specifically, 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 the sum of earnings from employment of both spouses less the respective employment income deductions (Section 8). The income threshold of JPN 3 600 000 as well as the reference annual income are *not* adjusted for the household size.

Non-staple foods are free of charge also for families with three or more children, independently of 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.

*TaxBEN note:* for children between 3 and 5 years (included), when users select the option 'use childcare' TaxBEN assumes that families have access to 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 nil. However, 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 a child from a household with an income below JPY 3 600 000 or with a third child (as defined in the main text), 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.

<sup>14</sup> 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.

For children younger than 3 years old, when users select the option ‘use 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 reported in Section 5.1.

#### *Other discounts for children under the age of three*

For 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).

For a single parent with an earnings-related residence tax liability below JPY 57 700, the fee for the first child younger than three years is JPY 9 000, 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 57 700 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.

For a 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.

#### *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 25 700 is provided. In addition, for children attending childcare facilities run by employment-based organisations, 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 (*Syuugyousokushin 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, leaving a certain number of days that can be received benefits.

*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 paid to unemployment benefit recipients who acquire 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 paid during the first month in the new job.

*TaxBEN note:* the re-employment allowance enters the TaxBEN calculations as a *monthly* payment received until when the right to Employment Insurance (Section 2.1) expires. The amount of this monthly payment is given by the total amount divided by the number of residual monthly payments of 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 paid by employees are as follows. Note that contributions are paid only on earnings, so benefit recipients do not pay 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 650,000 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 second earners may be exempted from pension and sickness contribution payments. To qualify for the exemption, the second earner must meet the following conditions (*all of them*):

1. Living in Japan;
2. Having annual earnings below JPY 1 300 000;
3. Working less than 75% of full-time (either in terms of working hours per week or working days per month);
4. Having a partner who is covered by the Employees' Insurance (see below);
5. Not being covered by the Employees' Insurance (see below).

In order to be covered by the Employees' Insurance, an employee in Japan must meet the following conditions (*all of them*):

1. Working for a company with 501 employees or more. This threshold will be reduced to 100 employees in October 2022, and 50 employees in October 2024.
2. Having monthly earnings above JPY 88 000 (i.e. JPY 1056000 or more per year);
3. Having a contract with a duration of at least one year. This requirement will be abolished in October 2022.
4. Working 20 hours or more per week.
5. Not begin a student at high schools or universities.

*OECD note:* Requirements 1, 3 and 5 are always assumed to be met in the TaxBEN calculations, whereas requirements 2 and 4 will depend on the user's choice. This means that the Employees' Insurance coverage as well as the eligibility for the social security contribution exemptions will depend on the user's choices regarding the earnings levels and the hours of work of both partners.

### 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 650,000 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 1390000 and the insurable ceiling of the yearly amount of standard bonus is JPY 5730000.
- 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: 0.36% 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 zei*)

Variable names: `[INCTAX_p; INCTAX_s]`

#### 8.1.1. Tax allowances

Tax allowances for employment income earners are described below.

##### First-step deductions (*employment income deductions*)

- If gross earnings do 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 if the amount of income is very small.
- If gross earnings exceed 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 earnings exceed 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 earnings exceed 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.
- If gross earnings exceed JPY 8 500 000, the deduction is fixed at JPY 1 950 000.
- There is an additional deduction up to JPY 150 000 for taxpayers in any of the following circumstances: (1) they are disable; (2) they have a spouse or other dependent relatives with disabilities; (3) they have dependent children or other dependent relatives under the age of 23. The exact amount of this additional deduction is equal to 10% of the difference between JPY 8 500 000 and the gross earnings. If the gross earnings exceed JPY 10 000 000, the amount of the additional deduction remains fixed at JPY 150 000, i.e. 10% of the difference between JPY 8 500 000 and JPY 10 000 000.

For example, for a taxpayer with gross earnings equal to 9 000 000 JPY and a dependent under the age of 23, the tax deduction would be  $1 195 000 + 0.1 \cdot (8 500 000 - 9 000 000) = 1 900 000$  JPY. Similarly, for a taxpayer with gross earnings equal to 11 000 000 JPY and a dependent under the age of 23, the tax deduction would be  $1 195 000 + 0.1 \cdot (8 500 000 - 11 000 000) = 1 800 000$  JPY.

##### 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, the allowance is JPY 320 000 for a taxpayer with income from JPY 24 000 001 to JPY 24 500 000, JPY 160 000 for those with income from JPY 24 500 001 to JPY 25 000 000, and zero for those with income above JPY 25 000 000.

- *Allowance for spouse*: a tax allowance up to JPY 380 000 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 does not exceed JPY 480 000.
- *Allowance for elderly spouse*: a tax allowance up to JPY 480 000 is given to a resident taxpayer
  - whose reference income does not exceed JPY 10 000 000 and
  - who lives with a spouse aged 70 or older, whose income does not exceed JPY 480 000,

This allowance may replace the allowance for spouse described above. *TaxBEN note*: As the model focuses on working-age families, the allowance for elderly spouse is not considered in the calculations.

- *Special allowance for spouse*: a tax 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.

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 allowances for spouse and for the elderly spouse, as well as the Special allowance for spouse, all decrease gradually when the reference income (as defined above) of the taxpayer is from JPY 9 000 001 to JPY 10 000 000, then they become zero. Specifically, the amounts of the allowances is as follows:

- Reference income not more than JPY 9 000 000: full amount;
- Reference income from JPY 9 000 001 to JPY 9 500 000: full amount\*2/3;
- Reference income from JPY 9 500 001 to 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 dependents*: if a resident taxpayer has dependent children or other dependent relatives who are aged 16 or older, whose reference income does not exceed JPY 480 000, a tax allowance of JPY 380 000 per each dependent is paid. Two taxpayers *cannot* receive the allowance for the same dependent.

*OECD 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 aged 19 to 22, 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.

*OECD note:* this allowance is not simulated as the model does not include calculations for families with children aged above 18.

- *Allowance for elderly dependent:* if a resident taxpayer has dependents who are aged 70 or older 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.

*OECD 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 resident taxpayers or their dependents are deducted from their income without any limits.<sup>15</sup>

### 8.1.2. Tax base

The taxable income is the sum of the earnings from employment and certain taxable benefits, less the first and second step deduction (Section 8.1.1).

*TaxBEN note:* for the purposes of the TaxBEN model, the taxable income is given by the sum of the earnings from employment, as all the benefits that are taxable are outside the scope of the TaxBEN model.

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.

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<sup>15</sup> For working dependent spouses, if social insurance contributions are deducted directly from a spouse's income *in advance* before the salary is paid, the other partner will not be able to pay for the spouse's contributions and, as a result, he or she will not be able to deduct the spouse's contributions from their taxable income. *OECD note:* the OECD tax-benefit model assumes that social insurance contributions are deducted in advance before the salary is paid. As a result, the other partner cannot pay for these contributions, even when the spouse's taxable income is below JPY 480 000.

### 8.1.3. Income tax schedule

Taxable Income (JPY) (*)		Tax Rate (%)	Deductible Amounts for Each Bracket (JPY)
Equal to or over	Less than	(A)	(B)
	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

(\*) The fraction of taxable income that is less than JPY 1 000 is rounded down.

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 in 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 <sup>nd</sup> 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 1<sup>st</sup> of January 2022, 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. Similarly to the basic allowance for the central government, also the local basic allowance decreases with the taxpayer’s income. 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 290 000. Between JPY 24 500 000 and JPY 25 000 000 is JPY 150 000, and above JPY 25 000 000 is zero
- *Allowance for dependents:* if a resident taxpayer has children and other relatives whose reference income does not exceed JPY 480 000 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 for dependents to the highest earner. A taxpayer living with a dependent spouse and without other dependents, does not receive the allowance for dependents. However, they receive the ‘Allowance for spouse’ and the ‘Special allowance for spouse’ (described below).

- *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 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 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.

Spouse's income	Amount
0-480,000	0
480,001-1,000,000	330,000
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 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 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: 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 reference city of the OECD tax-benefit model), this income threshold is calculated as follows:

- For the exemption to the fixed per-capita rate:  $(1 + \text{number of spouse and dependents who qualify for the local allowance for spouse/dependents} - \text{note that spouses who qualify for the special allowance for the spouse are excluded from this calculation}) * 350000 + 100000 (+ 210000 \text{ in case the taxpayer has a qualified spouse or dependents})$ . 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  $(1+2)*350000 + 100000 + 210000 = \text{JPY } 1360000$ .
- For the exemption to the proportional rate:  $(1 + \text{number of spouse and dependents who qualify for the local allowance for spouse/dependents} - \text{note that spouses who qualify for the special allowance for the spouse are excluded from this calculation}) * 350,000 + 100000 (+ 320000 \text{ in case the taxpayer has a qualified spouse or dependents})$ . 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  $(1+1)*350000 + 100000 + 320000 = \text{JPY } 1120000$ .

*OECD note:* Because the reference municipality of the OECD tax-benefit model for Japan is Tokyo, the local tax exemptions described above are included in the calculations.

### 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 <sup>nd</sup> 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.

### 8.3. Special benefit for resident tax-exempted households

Variable name: **[SBRTE]**, part of the macro variable **[IT]**.

The Government implemented a Special COVID-related policy in 2022 that aims at supporting people with their daily livelihoods. Specifically, the Government made a one-off payment of 100 000 JPY, not taxable, to the following households:

- Households whose all members are exempted from resident tax on a per capita basis as of 10, December, 2021;
- Households experienced income decline, falling under the resident tax-exemption threshold, due to the effect of COVID-19.

Households whose all members are dependent on those who pay the resident tax are excluded. For example, a college student who is dependent on his/her taxpaying parents but does not live with them cannot receive these special benefits even if he/she is exempted from the resident tax.

The Special benefit for resident tax-exempted households is not taxable and does not enter the income test of any other benefits described in this report.

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

This section shows selected output of the TaxBEN model for Japan 2022 (Figure 1). 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 1 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 1 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.

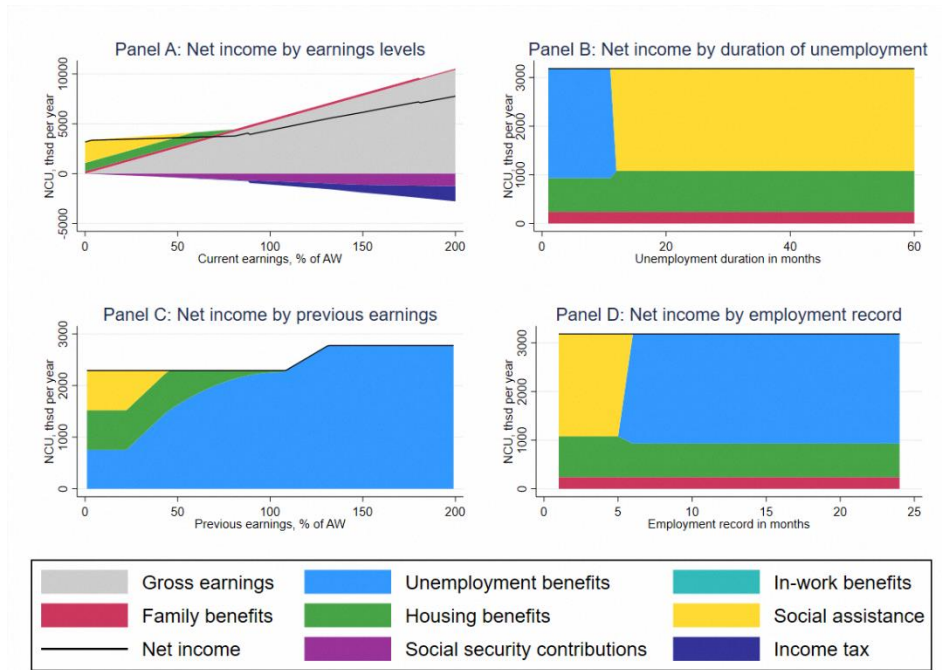
Panel A assumes that the ‘second adult’ of the couple is out of work and not eligible for unemployment benefits (e.g. because they have expired), whereas the ‘first adult’ is employed full-time and full-year at different earnings levels. When the earnings of the first adult are zero (first point of the chart), the calculations assume that the person is out of work without receiving unemployment benefits (e.g. because they have expired) and claiming social assistance.

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 2<sup>nd</sup> 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) Child Allowance (Section 4.1), 3) Child Rearing Allowance (Section 4.2), 4) Social Assistance (Section 3.1), 5) Housing benefit (Section 3.2).

**Figure 1. Selected output from the OECD tax-benefit model**

Couple with two children



Note: The housing costs that enter the calculation of the housing benefit entitlement are equal to JPY 1043085 (constant in the four panels)  
 Source: OECD tax-benefit model, 2022.



## 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 in total, after a 3-day waiting period.<sup>16</sup>

#### *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

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<sup>16</sup> Before the reform that took effect in January 2022, when sickness benefit was provided for sickness attributable to a single cause, the benefit duration was originally designed to be up to 18 consecutive months counting from the first day of benefit duration, regardless of the actual number of days for which one receives sickness payments. In other words, before the reform, the benefit duration was not extended, even though one does not receive sickness payments for several days, weeks or months during that 18-month period, because, for example, he/she went to work for several days, weeks or months. After the reform, the benefit duration can be extended beyond the 18-month period. When one does not receive sickness payments for some time during the first 18-month period, the duration can be extended until the number of days for which payment is actually made add up to 18 months.

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 March 31, 2022.

#### *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 labour-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 8,265 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 9/10 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 March 31, 2022) 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 Labour Standards Act, whatever the reason is, including sickness or injury due to non-occupational causes.