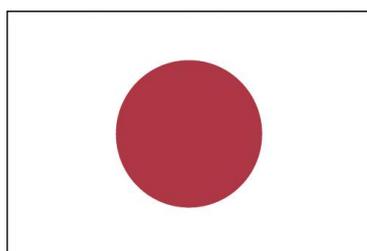


THE OECD TAX-BENEFIT MODEL FOR JAPAN

Description of policy rules for 2019



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Preface

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

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

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

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

- The **reference date** for policy rules described in this report is **January 1, 2019**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the **variable names** are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

The OECD tax-benefit model for Japan: Policy rules in 2019

1. Reference wages

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

The minimum wage [**MIN**] as of 1 January 2019 is JPY 848 per hour, which corresponds to an annual earnings level for a full-time worker of $\text{JPY } 848 \times 40 \times 52 = 1\,763\,840$.³

2. Unemployment benefits

2.1. *Employment insurance (Koyo hoken)*

Variable name:⁴ [**UI_p**; **UI_s**]

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

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

2.1.1. *Eligibility conditions*

Age: No restrictions.

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

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

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

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

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

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

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

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

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

2.1.2. Benefit amount

Calculation base:

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

Benefit amount:

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

- i) If $DAW < 4970$, $DABA = 0.8DAW$
 ii) If $4970 \leq DAW < 12210$, $DABA = DAW \times BR1$
 where $BR1 = 0.8 - [(0.3 \times (DAW - 4970)) / (12210 - 4970)]$
 iii) If $12210 \leq DAW$, $DABA = 0.5DAW$

Note that DAW must be between JPY 2480 and the maximum amount as shown in the table below.

The maximum amount of DAW

Age	In JPY
Under 30	13500
30 - 44	14990
45 - 59	16500

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

- i) If $DAW < 4970$ $DABA = 0.8DAW$
 ii) If $4970 \leq DAW < 10980$ $DABA = \min\{DABA1, DABA2\}$

where

$$DABA1 = DAW \times BR2$$

$$BR2 = 0.8 - [(0.35 \times (DAW - 4970)) / (10980 - 4970)]$$

$$DABA2 = 0.05DAW + (10980 \times 0.4)$$

- i) If $10980 \leq DAW$ $DABA = 0.45DAW$

Note that DAW must be between JPY 2480 and JPY 15740.

2.1.3. Benefit duration

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

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

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

2.1.4. Means test

The benefit is not means-tested.

2.1.5. Tax treatment

The benefit is not taxable.

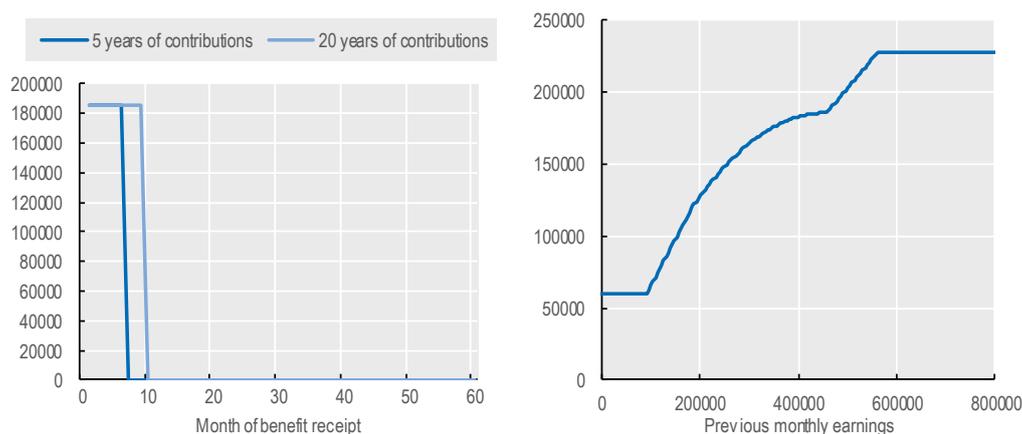
2.1.6. Interactions with other components of the tax-benefit system

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

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

The basic allowance is not paid when an insured person is employed and work at least 20 hours per week. It is reduced by the amount of earnings when an insured person does paid work for less than 4 hours per day.

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



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

Source: Calculations using OECD tax-benefit model.

3. Social assistance and housing benefits

3.1. Public assistance (*Seikatsu hogo*)

Variable name: **[SA]**

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

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

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

3.1.1. Eligibility conditions

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

3.1.2. Benefit amount

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

Livelihood assistance is made up of two types of benefit:

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

Age	Basic Amount (1) (JPY per month)	Basic Amount (2) (JPY per month)	Basic Amount (3) (JPY per month)
0-2	21,510	26,660	44,010
3-5	27,110	29,970	44,010
6-11	35,060	34,390	45,010
12-17	43,300	39,170	47,090
18-19	43,300	39,170	46,760
20-40	41,440	38,430	46,760
41-59	39,290	39,360	46,760
60-64	37,150	38,990	46,760
65-69	37,150	38,990	44,700
70-74	33,280	33,830	44,700
75-	33,280	33,830	40,350

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

Number of family members	Basic Amount (1) (JPY per month)	Basic Amount (2) (JPY per month)	Basic Amount (3) (JPY per month)
1	44,690	40,800	28,490
2	49,460	50,180	41,830
3	54,840	59,170	46,410
4	56,760	61,620	48,400
5	57,210	65,690	48,430
6	57,670	69,360	55,440
7	58,120	72,220	58,370
8	58,570	75,080	61,040
9	59,020	77,940	63,490
10 and more amount to add per 1 increase	450	2,860	2,450

Calculating the standard amount of living expenses is done using the following steps:

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

$$(A * 2/3) + (B+C)*1/3+D, \text{ where}$$

A is the sum of the following amounts (a) and (b), except if the sum of (a) and (b) is less than 90% of A' (the sum of the following amounts (c) and (d)). In that case, A is this latter amount (i.e., $A * 0.9$):

a) multiply the sum of each family member's standard amount (2) stipulated in the table of category 1 by the following rate (2) corresponding to the number of the family members stipulated in the table of diminishing rates below.

b) the standard amount (2) stipulated in the table of category 2

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

d) the standard amount (1) stipulated in the table of category 2.

B is the sum of the following amounts (e) and (f), except if the total sum is less than 85.5% A' by 0.855. In that case B is this latter amount (i.e., $A' \times 0.855$).

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

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

Diminishing rate:

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

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

Temporary assistance for term end:

Number of family members	Amount (JPY per month)
1	13,890
2	22,650
3	23,340
4	26,260
5	27,370
6	31,120
7	33,060
8	35,010
9	36,670
10 and more amount to add per 1 increase	1,670

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

Supplementary transitional assistance(in JPY per month)

Age	Number of family members									
	1	2	3	4	5	6	7	8	9	10 and more
0-2	0	0	0	4,460	4,230	3,940	2,800	2,030	1,630	1,600
3-5	0	0	0	2,330	2,170	1,860	1,050	690	600	440
6-11	0	0	0	0	0	0	0	0	0	0
12-17	400	0	0	0	0	0	0	0	0	0
18-19	730	0	0	0	0	0	0	0	0	0
20-40	100	0	0	0	0	0	0	0	0	0
41-59	910	0	1,050	0	0	0	0	0	0	0
60-64	560	0	920	760	560	150	0	0	0	0
65-69	2,620	0	2,240	760	560	150	0	0	0	0
70-74	0	0	0	140	100	0	0	0	0	0
75-	2,060	0	1,250	140	100	0	0	0	0	0

And D is the winter supplementary assistance for each districts. winter supplementary assistance (in Tokyo, in JPY per month) is provided 5 months a year (from November to March). Note that winter supplementary assistance is added to household expenses (Category 2).

Number of family members	Amount (JPY per month)
1	2,580
2	3,660
3	4,160
4	4,490
5	4,620
6	4,910
7	5,120
8	5,280
9	5,450
10 and more amount to add per 1 increase	170

Housing assistance is also available for those with rental costs:

The amount depends on household size as set out in the table below, but 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 is available:

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

- a) Under 3 years old: JPY 13,300 per month.
- b) Over 3 years old and prior to elementary school graduation (for the first two children): JPY 10,000 per month.
- c) Over 3 years old and prior to elementary school graduation (for the third and subsequent children): JPY 13,300 per month.
- d) Junior and senior high school students: JPY 10,000 per month.

Supplementary transitional assistance of 950 yen per month is paid in respect of each child who is:

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

Supplementary lone parent assistance is available:

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

- One child 21,400 per month
- 2 children 24,200 per month
- 3 or more children $24,200 + 1,600*(n-2)$ per month

where n is the number of children.

Supplementary lone-parent assistance until the 1st of April following the child's 18th birthday, or until the child turns 20 if the child is a recipient of supplementary disability assistance.

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

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

Age	Each child in a family of three or more
0-14	1,090
15-17	0
18-19	1,090

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

One child	Two children
1,090	100

3.1.3. Benefit duration

No limit.

3.1.4. Means test

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

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

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

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

3.1.5. Tax treatment

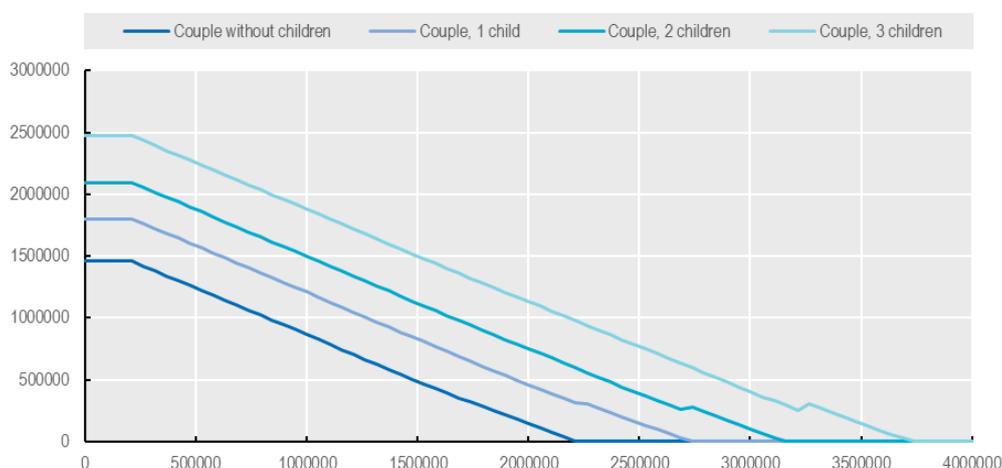
Not taxable.

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

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

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

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

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

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

Source: Calculations using OECD tax-benefit model.

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

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

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

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

3.2.1. *Eligibility conditions*

Three conditions must be met in order to receive benefits:

1. Income condition (see Section 3.2.3).

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

3. Job seeking condition

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

⁶ Note that this value differs by region.

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

3.2.2. *Benefit amount*

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

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

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

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

3.2.3. *Benefit duration*

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

3.2.4. *Means test*

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

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

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

3.2.5. *Tax treatment*

The benefit is not taxable

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

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

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

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

4. Family benefits

Variable name: **[FB]**

4.1. Child allowance (Jido teate)

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

4.1.1. Eligibility conditions

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

4.1.2. Benefit amount

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

1. For persons earning incomes below the income threshold, per-child benefit amounts are as follows:
 - a) Under 3 years-old: JPY 15,000 per month.
 - b) From age 3 to elementary school graduation (for the first and second children): JPY 10,000 per month
 - c) From age 3 to elementary school graduation (for the third and subsequent children): JPY 15,000 per month
 - d) Junior high school students: JPY 10,000 per month
2. For persons with incomes at or above the income threshold, the per-child benefit amount is as follows:
 - Special Interim Allowances: JPY 5,000 per month for each child until 31 March following their 15th birthday.

4.1.3. Benefit duration

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

4.1.4. Means test

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

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

4.1.5. Tax treatment

The benefit is not taxable.

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

None.

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

No restrictions.

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

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

4.2.1. Eligibility conditions

The benefit is available to mothers, or other guardians (grandparents, etc.), with custody of and who are caring for their children, but who receive no contribution towards living expenses from the father. It is also available to fathers with custody of and who share living expenses for children who do not receive a contribution towards living expenses from the mother. 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:

Legislative change (yyyy/mm)	Benefit amount (in JPY per month) One child	Two 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

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

Legislative change (yyyy/mm)	One child		Two 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

TaxBEN note: the model for 2019 uses the amounts that are applicable on 2018/04.

4.2.3. Benefit duration

No limit, as long as the conditions are fulfilled.

4.2.4. Means test

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

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

Income thresholds are based on the number of dependants (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:

$$\text{Benefit amount} = 42,500 - \{(\text{Amount of income} - \text{“Income-tested threshold of full benefit”}) \times 0.0226993 + 10\}$$

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

Benefit amount = $10,040 - \{ \text{Amount of income} - \text{"Income-tested threshold of full benefit"} \} \times 0.0035035 + 10$

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

Benefit amount = $6,020 - \{ (\text{Amount of income} - \text{"Income-tested threshold of full benefit"}) \times 0.0020979 + 10 \}$

4.2.5. Tax treatment

The benefit is not taxable.

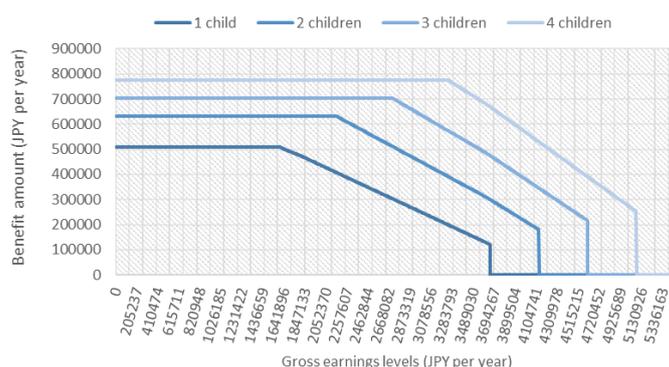
4.2.6. Interaction with other components of the tax-benefit system

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

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

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

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



Source: Calculations using OECD tax-benefit model.

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

The upper limit of the cost born by a user is set by the national government, depending on the residence tax of the user which is imposed based on the household income. The actual fee that a user pays is decided by the municipal government within the limit.

5.1.1. Discounts for part-time usage

See Section 5.2.2.

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

In order to use day-care centres, parents should be recognized to be in need of childcare service for reasons such as in order to work. The upper limits of monthly costs set by the national government are as follows (2019 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
1	Household income less than the public assistance threshold	0 yen	0 yen	0 yen	0 yen
2	Household income less than residence tax thresholds	For the first child 6000 yen For the second child and after 0 yen	For the first child 6000 yen For the second child and after 0 yen	For the first child 9000 yen For the second child and after 0 yen	For the first child 9000 yen For the second child and after 0 yen
		※single parent family 0 yen for all children			
3	Earnings related residence tax Less than 48,600 yen	16500 yen	16300 yen	19500 yen	19300 yen
		※for single parent family For the first child: 6000yen For the second child and after: 0 yen		※for single parent family For the first child: 9000 yen For the second child and after: 0 yen	
4	Earnings related residence tax Less than 57,700 yen	27000 yen	26600 yen	30000 yen	29600 yen
		※for single parent family For the first child 6000yen For the second child and after 0 yen		※for single parent family For the first child 9000yen For the second child and after 0 yen	
	Earnings related residence tax Less than 97,000 yen	27000 yen	26600 yen	30000 yen	29600 yen
5	Earnings related residence tax Less than 169,000 yen	41500 yen	40900 yen	44500 yen	43900 yen
6	Earnings related residence tax Less than 301,000 yen	58000 yen	57100 yen	61000 yen	60100 yen

7	Earnings related residence tax Less than 397,000 yen	77000 yen	75800 yen	80000 yen	78800 yen
8	Earnings related residence tax 397,000 yen or more	101000 yen	99400 yen	104000 yen	102400 yen

When two or more children use day-care centres at the same time, the fee for the second child is halved, and for the third child and after the service is provided free of charge.

For families whose earnings related residence tax is less than 57,700 yen, the fee for the childcare service for the second child is halved, and for the third child and after the service is free all the time, even after older children have entered elementary school.

5.2.2. *Childcare allowance for formal centre-based care childcare*

There are no allowances in Japan whose eligibility is conditional to using centre-based childcare.

5.2.3. *Childcare allowance for children NOT using centre-based childcare*

There are no allowances in Japan whose eligibility is conditional to providing childcare at home and *not* using centre-based childcare, e.g. ‘child-rising’ or ‘home-care’ allowances.

5.2.4. *Tax concessions for childcare expenditures*

Fees for the childcare expenses cannot be used to reduce tax liabilities.

6. Employment-conditional benefits

Variable name: **[IW]**

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

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

6.1.1. *Eligibility conditions*

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

6.1.2. *Benefit amount*

The amount of re-employment allowance is equal to the remaining unemployment benefit period multiplied by either 0.6 or 0.7 times the daily basic allowance of unemployment benefit. The amount of the allowance varies according to the remaining benefit period as follows:

Condition	Amount
More than two-thirds of the prescribed duration of benefit remaining	The remaining benefit period \times 0.7 \times the daily amount of basic allowance
More than one-third of the prescribed duration of benefit remaining	The remaining benefit period \times 0.6 \times the daily amount of basic allowance

6.1.3. Benefit duration

Re-employment allowance is a one-off payment.

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

Code in the OECD tax-benefit model: [\[SOCSEC_p; SOCSEC_s\]](#)

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

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

Some low-earning secondary earners working less than full time are exempt from the pension and sickness contributions. To qualify for the exemption, a worker must have a higher-earning partner, be earning less than JPY 1 300 000 per year and work less than three-quarters of a full-time work week, unless certain eligibility requirements for Employees' Pension Insurance for part-time workers are not satisfied (note that it is assumed these requirements are met in the TaxBEN model).

7.1.2. Contributions payable by employers

Variable names: [[SSCR_p](#); [SSCR_s](#)]

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

8. Taxes

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

8.1. Income tax (*Shotoku zei*)

Variable names: [[INCTAX_p](#); [INCTAX_s](#)]

8.1.1. Tax unit

Each individual is taxed separately.

8.1.2. Tax base

For the purposes of the TaxBEN model, only earnings are taxed: there are no taxable benefits or other forms of private taxable incomes included in the OECD calculations.

8.1.3. Reductions to the tax base

- *Basic allowance (Personal deduction):* a taxpayer may deduct JPY 380 000 as a personal deduction from his or her income.
- *Allowance for spouse:* allowance up to JPY 380 000 is given to a resident taxpayer whose income does not exceed JPY 10 000 000 who lives with a spouse whose income does not exceed JPY 380 000.
- *Allowance for elderly spouse:* a tax allowance up to JPY 480 000 is given to a resident taxpayer
 - whose income does not exceed JPY 10 000 000 and
 - who lives with a spouse of 70 years old and over, whose income does not exceed JPY 380 000,

This is instead of the allowance for spouse mentioned above. As the TaxBEN model focuses on working-age families, this provision is not simulated.

- *Special allowance for spouse:* the allowance up to the amount shown in the following table is given to a resident taxpayer whose income does not exceed JPY 10 000 000 and who lives with a spouse:

Spouse's income	Amount
0-380,000	0
380,001-850,000	380,000
850,001-900,000	360,000
900,001-950,000	310,000
950,001-1,000,000	260,000
1,000,001-1,050,000	210,000
1,050,001-1,100,000	160,000
1,100,001-1,150,000	110,000
1,150,001-1,200,000	60,000
1,200,001-1,230,000	30,000
1,230,001 or more	0

- *Allowance for dependents:* if a resident taxpayer has children and other relatives whose income does not exceed JPY 380 000 and who are aged 16 and over, an allowance of JPY 380 000 is given for each dependent.
- *Special allowance for dependents:* if a resident taxpayer has dependents whose income does not exceed JPY 380 000 and who are between 19 and 22 years old, an allowance of JPY 630 000 is given for each dependent instead of the allowances for dependents mentioned above (not modelled).
- *Allowance for elderly dependent:* if a resident taxpayer has dependents who are 70 years old and over whose income does not exceed JPY 380 000, a tax allowance of JPY 480 000 per each dependent is given to the taxpayer, 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.) As the TaxBEN model focuses on working-age families, this allowance is not simulated.
- *Deduction for social insurance premiums:* the amount of social insurance premiums for a resident taxpayer or his/her dependents are deducted from their income without any limit.

- *Employment income deduction:* the following amounts may be deducted from employment income in calculating taxable income:
 - If gross employment income does not exceed JPY 1 800 000 the deduction is 40 per cent of earnings, but the minimum amount deductible is JPY 650 000.
 - If gross employment income exceeds JPY 1 800 000, but not JPY 3 600 000, the deduction is JPY 180 000 plus 30 per cent of earnings.
 - If gross employment income exceeds JPY 3 600 000, but not JPY 6 600 000, the deduction is JPY 540 000 plus 20 per cent of earnings.
 - If gross employment income exceeds JPY 6 600 000, but not JPY 10 000 000, the deduction is JPY 1 200 000 plus 10 per cent of earnings.
 - If gross employment income exceeds JPY 10 000 000, the deduction is fixed at JPY 2 200 000.

There are other ‘non-standard’ tax reductions in Japan which are not part of the TaxBEN calculations. These non-standard reductions include deductions for life insurance premiums, deductions for insurance contracts made on or after 1 January 2012, deductions for medical expenses, deduction for earthquake insurance premiums and credits for housing loans

8.1.4. Income tax schedule

Taxable Income (JPY) (*)		Tax Rate (%) (A)	Deductible Amounts for Each Bracket (JPY) (B)
Over	Not over		
	1 950 000	5	--
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% (special income tax surcharge for reconstruction). This provision will apply each year from 2013 until 2037.

8.1.5. Tax credits

None.

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 on the basis of the previous year's income.

8.2.1. Tax base

The tax base for local taxes is the same as for the central government tax, see Section 8.1.2 above.

8.2.2. Reductions to the tax base

The main difference from the central income tax is the amount of some income tax allowances (Section 8.1.3). Specifically, the amount of Basic Allowance, Allowance for Spouse, Allowance for Dependants is JPY 330 000 rather than JPY 380 000, and the specified allowance for dependants is JPY 450 000 rather than JPY 630 000. The Special Allowance for a Spouse is also lower, as follows:

For a taxpayer whose income does not exceed JPY 9 000 000:

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

For a taxpayer whose income exceeds JPY 9 000 000, but not JPY 9 500 000:

Spouse's income	Amount
0-380,000	0
380,001-900,000	220,000
900,001-950,000	210,000
950,001-1,000,000	180,000
1,000,001-1,050,000	140,000
1,050,001-1,100,000	110,000
1,100,001-1,150,000	80,000
1,150,001-1,200,000	40,000
1,200,001-1,230,000	20,000
1,230,001 or more	0

In addition, for a taxpayer
000 but not JPY 10 000 000:

Spouse's income	Amount
0-380,000	0
380,001-950,000	110,000
950,001-1,000,000	90,000
1,000,001-1,050,000	70,000
1,050,001-1,100,000	60,000
1,100,001-1,150,000	40,000
1,150,001-1,200,000	20,000
1,200,001-1,230,000	10,000
1,230,001 or more	0

whose income exceeds JPY 9 500

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 rate of the Prefectural and Municipal inhabitants tax is a flat rate of 10% (Prefectural inhabitants tax: 4%, Municipal inhabitants tax: 6%). Note: these rates are a country-wide average rate.

8.2.4. Tax credits

In 2006, a new local income tax credit regime was introduced in order to alleviate the tax burden increase arising from changes in tax rates and in order to mitigate any increase in the tax burden arising from the difference between the personal reliefs (Basic Allowance, Allowance for Spouse, Allowance for Dependents, Special Allowance for dependents, etc.) for national income tax purposes and for inhabitant tax purposes. The tax credit amounts are as follows:

Taxable income for local income tax purposes	Tax credit amount
JPY 2 000 000 or less	5 per cent of the lesser of: <ul style="list-style-type: none"> • total amount of differences in personal reliefs between those for national income tax purposes and for local income tax purposes; or • taxable income for local income tax purposes
More than JPY 2 000 000	((total amount of differences in personal reliefs between those for national income tax purposes and for local income tax purposes) – (taxable income for local income tax purposes – JPY 2 000 000)) * 5%. The minimum credit is JPY 2 500

Note that local authorities do not levy the per-capita rate and the proportional rate on a taxpayer whose previous year's income does not exceed a certain amount. For example, in special wards of Tokyo, the example used in the TaxBEN model, this threshold is calculated as follows:

- For the per-capita rate: $(1 + \text{number of spouse and dependent(s) qualified for the allowance for spouse/dependents}) * 350,000 (+ 210,000 \text{ in case the taxpayer has a qualified spouse or dependent(s)})$.
- For the proportional rate: $(1 + \text{number of spouse and dependent(s) qualified for the allowance for spouse/dependents}) * 350,000 (+ 320,000 \text{ in case the taxpayer has a qualified spouse or dependent(s)})$.

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

This section shows selected output of the TaxBEN model for Japn 2019 (Figure 4). 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 4 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 4 refer to a 2-adult family with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefits are assumed to be available in all the four scenarios when the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

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

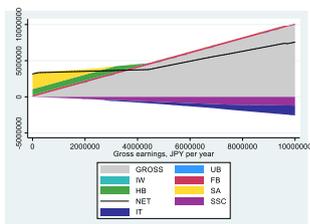
Panels B to D assume that the second adult is out of work and not eligible to unemployment benefits whereas the first adult is also out of work and claiming unemployment benefits. In Panel B and C the first adult is assumed to have a ‘long’ employment record of 264 consecutive months before the job loss.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

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

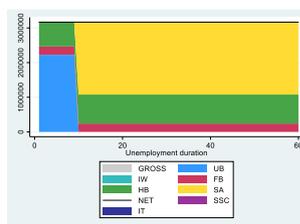
Figure 4. Selected output from the OECD tax-benefit model

Couple with two children

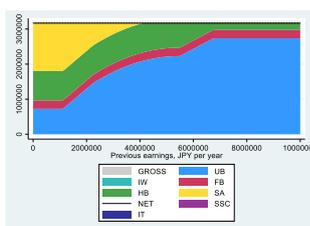
Panel A: Output by earnings levels



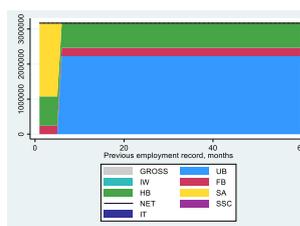
Panel B: Output by time in unemployment



Panel C: Output by previous earnings



Panel D: output by previous employment record (months)



Source: Calculations based on the OECD tax-benefit model.

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.

Employment insurance for older workers

When older workers equal to or over 65 lose their job, the benefits for them are paid as a lump sum.

The daily amount of basic allowance is calculated in the same way as that of recipients under 30 years old.