Grant Thornton

Japan Tax Bulletin

Revision of Income Deductions

November 2025

As part of the 2025 tax reform, revisions have been introduced to reduce the tax burden amid rising wages and to aid flexible employment arrangements. The reform includes an increase in the basic exemption and the minimum amount of the employment income deduction, as well as the introduction of a new special exemption for specific dependents.[1]

1. *Basic Exemption*[2]

Regarding income tax, the fixed amount of the basic exemption leads to an increased real tax burden when inflation rises. As Japan experienced a prolonged period of deflation, this problem did not become apparent. However, with prices now on an upward trend, the maximum amount of the basic exemption has been raised.

Furthermore, considering the need to alleviate the tax burden on low-income earners and the fact that wage increases have not kept pace with inflation, a special provision for the basic deduction has been introduced. This aims to reduce the tax burden not only for low-income individuals but also for middle-income earners.

Total amount of income (JPY)	Basic Deduction (JPY)
1.32M or less	950,000
More than 1.32M to 3.36M or less	850,000
More than 3.36M to 4.89M or less	680,000
More than 4.89M to 6.55M or less	630,000
More than 6.55M to 23.5M or less	580,000
More than 23.5M to 24M or less	480,000
More than 24M to 24.5M or less	320,000
More than 24.5M to 25M or less	160,000
More than 25M	0

2. *Employment Income Deduction*[3]

The amount of employment income is calculated by deducting the employment income deduction shown in the table below from the total amount of salary, bonuses, and other employment-related payments.

The employment income deduction is calculated based on a percentage of salary income, so the deduction amount generally increases as wages rise along with inflation. However, for taxpayers whose income falls under the minimum guaranteed amount, the deduction does not increase even if their income rises. To address both the impact of inflation and issues related to employment adjustment, the minimum guaranteed amount will be increased by JPY100,000, from JPY550,000 to JPY650,000.

Earnings from employment, etc. [A] (JPY)	Employment Income Deduction (JPY)
1.9M or less	650,000
More than 1.9M to 3.6M or less	[A] x 30% + 80,000
More than 3.6M to 6.6M or less	[A] x 20% + 440,000
More than 6.6M to 8.5M or less	[A] x 10% + 1,100,000
More than 8.5M	1,950,000

Note that for individuals whose total employment income, etc. does not exceed JPY6,600,000, the amount of employment income, etc. should be determined by applying the total salary amount to the table provided in Appended Table 5 of the Income Tax Act, rather than by using the table above.

3. *Special Exemption for Specific Dependents*[4]

In the current severe labor shortage, it has been pointed out that the tax system is one of the factors restricting flexibility for employers and employees, particularly for university students working part-time.

---

[1] Kazutaka Shimatani et al. Reiwa 7-nen ban Kaiseizeihonosubete (2025) at 77.

[2] *Id.* at 78-79.

[3] *Id.* at 84.

[4] *Id.* at 85.

Therefore, a new special exemption for specific dependents has been introduced. Under this system, parents can claim an income deduction equivalent to the amount of exemption for special dependents qualified for exemption (JPY630,000) for university-aged children between 19 and 22 years old whose total income is up to JPY850,000 (equivalent to approximately JPY1,500,000 in salary income).

Furthermore, even if the total income of these university-aged children exceeds JPY850,000, the exemption available to parents, etc. will gradually decrease on a sliding scale.

Total amount of income (JPY)	Special Exemption (JPY)
More than 580K to 850K or less	630,000
More than 850K to 900K or less	610,000
More than 900K to 950K or less	510,000
More than 950K to 1M or less	410,000
More than 1M to 1.05M or less	310,000
More than 1.05M to 1.1M or less	210,000
More than 1.1M to 1.15M	110,000
More than 1.15M to 1.2M	60,000
More than 1.2M to 1.23M	30,000
More than 1.23M	0