

Japan Tax Bulletin

Tax credit for salary increase and facility investment

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1. Overview

As the result of the 2018 tax reform, a new salary increase tax credit will apply to fiscal years that begin between 1 April 2018 and 31 March 2021. This new tax credit is designed to assist corporations that invest in new assets and develop human resources.

A corporation that files blue tax returns, can benefit from a tax credit if certain requirements related to salary, education and training cost and acquisition cost of domestic facility are satisfied. The creditable amount is 15% to 20% of the increase in salary payments over the previous year and is capped at 20% of the corporation tax liability.

2. Tax credit for a corporation except for a Small and Medium-Sized Enterprises (SME)^(*5)

(i) Requirements

In order to benefit from this tax credit, a corporation needs to satisfy the 3 requirements below.

- (a) Salary payments^(*1) in the current fiscal year > Salary payments^(*1) in the previous fiscal year;
- (b) At least a 3% increase in average salary paid to employees^(*2) from the previous fiscal year; and
- (c) Domestic investment in depreciable assets^(*3) is equal to more than 90% of the total depreciation amount in the fiscal year.

(ii) Tax credit amount

A corporation that satisfies all the requirements above can take a credit against its corporation tax liability of 15% of the increase in salary payments.

Increased in salary payments = salary payments^(*1) in the current fiscal year – salary payments^(*1) in the previous fiscal year.

The credit is capped at 20% of the corporation tax liability.

(iii) Additional tax credit amount

The credit is increased by an additional 5% (up to 20%) if an additional criteria related to education and training costs is met. In order to benefit from the additional credit, education and training costs^(*4) must increase by at least 20%, compared to the average education and training costs incurred during the previous 2 fiscal years.

The credit is still capped at 20% of the corporation tax liability.

3. Tax credit for a SME^(*5)

(i) Requirements

In order to benefit from this tax credit, a SME^(*5) needs to satisfy the 2 requirements below.

- (a) Salary payments^(*1) in the current fiscal year > Salary payments^(*1) in the previous fiscal year;
- (b) At least a 1.5% increase in average salary paid to employees^(*2) from the previous fiscal year

(ii) Tax credit amount

If a SME satisfies the requirement above, 15% of increase in salary payments is deductible from its corporate tax liability.

Increase in salary payments = salary payments^(*1) in the current fiscal year – salary payments^(*1) in the previous fiscal year.

The credit is capped at 20% of the corporation tax liability.

(iii) Additional tax credit amount

The credit is increased by an additional 10% (up to 25%) if the SME satisfies the following 2 additional requirements:

- (a) There is at least a 2.5% increase in average salary paid to employees^(*2) from the previous fiscal year; and
- (b) Education and training costs increase by at least 10%, compared to the costs incurred during the previous fiscal year.

The credit is still capped at 20% of the corporation tax liability.

(*1) Salary payments

Salary paid to executives, directors and their relatives is excluded.

(*2) Average salary paid to employees

An “employee” is defined as an individual who works in Japan and is listed on the corporation’s payroll. The employee should be covered by employment insurance during the current year and the previous fiscal year. An employee who works part-time (fewer than 20 hours per week), or whose age is over 65 is excluded.

“Average salary” should be paid to an employee in full period (during the current fiscal year and the previous fiscal year). Therefore, the salary paid to an employee who is newly hired during the full period or who left during the full period is excluded.

(*3) Domestic investment in depreciable assets

“Domestic investment in depreciable assets” is the total amount



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of depreciable assets which a corporation acquires in the current fiscal year. The asset should be located in Japan and held by the corporation at the end of the fiscal year.

(*4) Education and training costs

“Education and training costs” is the cost incurred in employees acquiring new skills or knowledge necessary for domestic employment duties or to improve their current skills and knowledge.

(*5) SME

In this case, a “SME” is a corporation whose paid in capital is 100M JPY or less. However, if one of the below applies, the corporation is not treated as a SME, irrespective of its paid in capital amount.

1. When a large-sized corporation owns more than half of the SME's shares.
2. When multiple large-sized corporations own more than two-thirds of the SME's shares.
3. When the number of regular employees of the SME excess 1,000.