

Japan Tax Bulletin

Reform of tax credit for salary increase

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1. Overview

Under the 2022 tax reform, the Japanese government will strengthen tax incentives for companies that actively raise wages, in order to encourage companies to return profits to their employees in order to realize a virtuous cycle of growth and distribution.

The current tax credit measure for "promotion of securing human resources," which targets only new hires such as new graduates, will be revised. For the fiscal year beginning April 1, 2022, the tax credit measure will be changed from "new hires" to "continuing employees" as a tax measure that will contribute to promoting wage increases for all employees.

2. Tax credit for salary increase for large corporation

(i) Applicable large corporation

This tax credit rules differ in the requirements and tax credit rates for large companies and small and medium-sized enterprises(SMEs). For large corporation, the applicable large corporations are as follows;

a large-sized corporation is a corporation with more than 1,000 employees or stated capital of over JPY 100 million, or a corporation with share capital less than JPY100 million having a 100% ownership relation with a corporation of which stated capital of JPY 500 million or more, or more than 50% ownership relation with a corporation of which stated capital of JPY100 million or more.

(ii) Applicable period

Fiscal years beginning between April 1, 2022 and March 31, 2024 (excluding the fiscal year of incorporation).

(iii) Requirements

The normal requirement and the 2 additional requirements are defined. The applicable tax credit ratio is 15% if only the normal requirements are met, but if the normal requirement plus the additional requirements are met, the tax credit rate can be increased to a maximum of 30%.

(a) Normal requirement

At least a 3% increase in salary paid to continuous employees (*1) from the previous fiscal year¹.

(b) Additional requirement ①

At least a 4% increase in salary paid to continuous employees from the previous fiscal year.

(c) Additional requirement ②

At least a 20% increase in education and training costs (*2) from the previous year

(iv) Tax credit amount for each requirement

(a) Normal requirement

If the normal requirement is met, 15% of the increase in the total salary of all domestic employees (*3) from the previous year may be deducted from corporate income tax.

In other words, to qualify for the tax credit, in addition to the stipulated normal requirement, the total salary of all domestic employees for the current year must have increased from the total in the previous year.

(b) Additional requirement ①

The tax credit rate in (a) will be increased by an additional 10%, Therefore 25% of the increase in the total salary of all domestic employees from the previous year may be deducted from corporate income tax.

(c) Additional requirement ②

The tax credit rate in (a) will be increased by an additional 5%, so that if requirements (a) and (c) are met, 20% of the increase in total salaries of all domestic employees from the previous year may be deducted from corporate income taxes.

Furthermore, if all of the normal requirement and 2 additional requirements are met, 30% of the increase in the total salary of all domestic employees from the previous year may be deducted from corporate income tax.

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

If the normal requirements are met, in addition to the Corporate income tax credit a certain amount can be deducted from the tax base of the value-added element of local corporate enterprise tax.

3. Tax credit for salary increase for an SME

For fiscal years beginning between April 1, 2022 and March 31, 2024, in order to benefit from this tax credit, an SME needs to satisfy the requirement below.

(i) Requirements

(a) Normal requirement

At least a 1.5% increase in the total salary all domestic employees from the previous fiscal year

¹ Large companies with capital of JPY1 billion or more and 1,000 or more employees are required to publish their multi-stakeholder policy on their website and

submit a notification to the Ministry of Economy, Trade and Industry.

(b) Additional requirement ①

At least a 2.5% increase in the total salary of all domestic employees from the previous year

(c) Additional requirement ②

At least a 10% increase in education and training costs from the previous year

(ii) Tax credit amount for each requirement

(a) Normal requirement;

If a SME satisfies the normal requirement, 15% of the increase in total salary of all domestic employees from the previous year is deductible from its corporate tax liability.

(b) Additional requirement ①

The tax credit rate in (a) will be increased by an additional 15%.

Therefore 30% of the increase in the total salary of all domestic employees from the previous year may be deducted from corporate income tax.

(c) Additional requirement ②

The tax credit rate in (a) will be increased by an additional 10%, so that if requirements (a) and (c) are met, 25% of the increase in total salaries of all domestic employees from the previous year may be deducted from corporate income taxes. Furthermore, if all of the normal requirement and 2 additional requirements are met, 40% of the increase in the total salary of all domestic employees from the previous year may be deducted from corporate income tax.

Once again although the theoretical maximum tax credit rate is 40%, the credit is capped at 20% of the corporate income tax liability.

The following is an explanation of the terms.

(*1) Salary paid to continuous employees

Total amount of salaries, bonuses, etc. paid to continuing employees (domestic employees who were paid salaries, bonuses, etc. for ALL the months of the previous fiscal year and the applicable fiscal year).

(*2) 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.

(*3) the total salary of all domestic employees

The total amount of payroll paid to all domestic employees, not limited to continuing employees. Domestic employees are defined as an individual who works in Japan and is listed on the

corporation’s payroll. Part-timers, and day laborers are also included, but executives, directors and their relatives are excluded.

(*4) SME

In this case, an “SME” is a corporation whose paid in capital is JPY100 million or less and whose average taxable income in the previous three fiscal years is less than JPY1.5 billion. However, if one of the below applies, the corporation is not treated as an 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; or
3. When the number of regular employees of the SME exceeds 1,000.