

Japan Tax Bulletin

Lump-sum Withdrawal Payment from Employees' Pension Insurance

June 2023

Expatriates residing in Japan for a limited duration may find themselves ineligible for old-age pension benefits, despite having made premium payments during their assignment in the country. To address such cases, the Japan Pension Service offers a Lump-sum Withdrawal Payment from Employees' Pension Insurance.

1. Eligibility to Claim Lump-sum Withdrawal Payment

Individuals can request a Lump-sum Withdrawal Payment if they meet all of the following four requirements:

- (i) The person does not have Japanese nationality.
- (ii) The person does not have an address in Japan.
- (iii) The number of months of the Employees' Pension Insurance enrollment period is six months or more.
- (iv) The person was never eligible to receive a pension (including disability allowance).

The claim form must be submitted within two years from the date when the person no longer had an address in Japan.

To receive the Lump-sum Withdrawal Payment, it is necessary to submit the "Lump-sum Withdrawal Payment Claim Form" and the relevant documents to Japan Pension Service.

If the total period of premium payment is 10 years or more, the individual is entitled to receive the old-age pension and cannot claim the Lump-sum Withdrawal Payment.

Moreover, it should be noted that even if Japan has established a bilateral social security agreement allowing the aggregation of pension coverage periods, receiving Lump-sum Withdrawal Payments from Employees' Pension Insurance will result in the inability to include that relevant period as a pension coverage period under the agreement.

2. Income tax on Lump-sum Withdrawal Payment

(a) Withholding Income Tax

The Lump-sum Withdrawal Payment is considered income sourced in Japan and is classified as retirement income. Non-residents receiving this payment from the Japan Pension Service

are subject to a withholding income tax rate of 20.42% at the time of payment.

(b) Elective Tax Return for Retirement Income

Non-resident recipients have the option to file an elective tax return for the retirement income, which allows them to claim a refund of the withholding income tax.

By filing the elective tax return, the Lump-sum Withdrawal Payment is treated as if it were received by a resident, and the taxpayer becomes eligible for tax-favorable treatment.

Generally, taxpayers can deduct JPY 400,000 for each year of service (with a minimum deduction of JPY 800,000, regardless of the number of years) from the Lump-sum Withdrawal Payment amount (referred to as "Retirement Deduction"). Additionally, the remaining amount after the Retirement Deduction is halved (referred to as "1/2 Deduction"), except in certain cases¹ to arrive at taxable income. Taxpayers can claim a tax refund for any excessive withholding by filing the elective tax return.

(Example)

Lump-sum Withdrawal Payment: JPY 2,000,000
Withholding Income Tax: JPY 408,400
Years of Service: 3 years

- (i) Retirement Deduction
 $\text{JPY } 400,000 \times 3 = \text{JPY } 1,200,000$
- (ii) Taxable Income after Retirement Deduction and 1/2 Deduction
 $(2,000,000 - 1,200,000) \times 1/2 = \text{JPY } 400,000$
- (iii) Income Tax (including special income tax for reconstruction at 2.1%)
 $(\text{JPY } 400,000 \times 5\%) \times 102.1\% = \text{JPY } 20,420$
- (iv) Tax Refund
 $\text{JPY } 408,400 - \text{JPY } 20,420 = \text{JPY } 387,980$

¹ Starting from 2022, for taxpayers with five years of service or less, the 1/2 deduction only applies to the first JPY 3 million of

Lump-sum Withdrawal Payment after the Retirement Deduction. Amounts exceeding JPY 3 million after the Retirement Deduction is no longer be eligible for the 1/2 Deduction.

An elective tax return for the retirement income can be filed on or after 1 January of the year following the year in which the retirement allowance is paid. If the total amount of the retirement allowance is determined before 1 January in the following year, it can be filed on or after the date of determination.

When filing an elective tax return, the taxpayer should attach a "Notice of Lump-sum Withdrawal Payment Determination" issued by the Japan Pension Service.

Furthermore, the taxpayer is required to appoint a tax agent and submit a 'Notification of Income Tax Agent' (*Nozei Kanrinin Todokedesho*) to the tax office with jurisdiction over the taxpayer's place of tax payment.

(Downloads)

- English guidance for the Application of Lump-Sum Withdrawal Payment
<https://www.nenkin.go.jp/service/jukyu/todokesho/sonota-kyufu/20150406.files/A.pdf>
- Declaration of Naming a Person to Administer Taxpayer's Tax Affairs for Income / Consumption Tax
<https://www.nta.go.jp/taxes/tetsuzuki/shinsei/annai/shinkoku/pdf/h28/08.pdf>
- English guidance for the Declaration Naming a Person to Administer the Taxpayer's Tax Affairs for Income / Consumption Tax
https://www.nta.go.jp/english/taxes/individual/pdf/incometax_2018/63.pdf