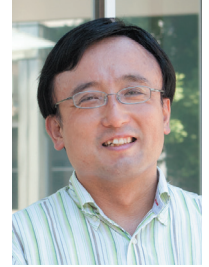


Thinking About the “1.03 Million Yen Barrier” Issue



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By Nobuo Iizuka

Ruling Party Loses Majority in House of Representatives Election

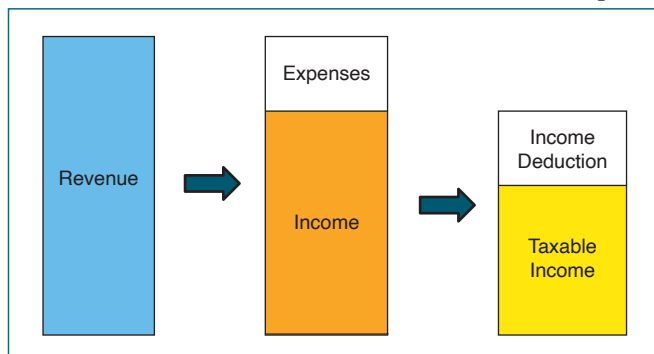
Japan’s ruling parties – the Liberal Democratic Party (LDP) and Komeito – lost a significant number of their seats in the House of Representatives election on Oct. 27. Of the total of 465 seats in the House, the ruling parties won 215, falling below the 233 seats required for a majority. In contrast, the Constitutional Democratic Party of Japan and the National Democratic Party (NDP) won a significant number of seats, with the latter taking 28 – four times more than before the election. At the time of writing this article (Nov. 4), the government and ruling parties have begun policy consultations with the NDP with a view to a partial coalition, and what the NDP set as one of its major campaign pledges was raising the “1.03 million yen barrier”. By the time this article is published, some sort of policy may have been decided, but here I will explain the “1.03 million yen barrier” by describing Japan’s income tax system.

Minimum Level of Taxable Income for All Employees

1.03 million yen is the minimum level of taxable income for all people who are employed by companies and live on earned income.

CHART 1

How to calculate income tax in Japan



Source: Compiled by the author

As indicated in *Chart 1*, income tax in Japan is calculated by multiplying the tax rate to taxable income, which is revenue minus expenses and various income deductions. If it is only earned income, then the employment income deduction is equivalent to expenses. Of the various deductions, a basic exemption applies to all people. Since the minimum guaranteed amount for exemption of employment income is currently 550,000 yen and the basic exemption is 480,000 yen, the total of 1.03 million yen becomes the minimum level of taxable income. There are other deductions such as an exemption for dependents if the employment income earner is supporting children or others, and a medical expenses deduction when such expenses exceeding a fixed amount has been incurred. The NDP is pushing to raise this 1.03 million yen to 1.78 million yen by raising the amount of the basic deduction and other measures.

Impact on Students & Housewives with Part-Time Jobs

Raising the basic exemption would be not just beneficial to those that receive earned income, but to all who pay income tax, such as those who are self-employed. This is because the amount of tax payable is reduced as taxable income declines. But the media has been giving much attention to the impact on the parents of students with part-time jobs and to part-timers who are supported by their spouses. When the salaries of students with part-time jobs (in cases of earned income only) exceed 1.03 million yen, not only does the student need to pay income tax, but parents are also unable to use the exemption for dependents (if the dependent is aged 19 to 22, 630,000 yen per person) when calculating their own income tax, and so the amount to be paid in taxes increases.

On the other hand, for part-timers, it can be said that the 1.03 million yen barrier has already gone. If part-time income is within 1.03 million yen, the exemption for spouses can be used when calculating the income tax of the spouse. But even if the salary exceeds 1.03 million yen, instead of the normal exemption for spouses, a special exemption is applied when calculating the income tax of the spouse, and it is the same amount as the exemption for spouses up to 1.5 million yen. Of course, with further increase in income, the amount of exemption decreases and if it exceeds 2.016

million yen, the amount of exemption becomes zero, but it can be said that the barrier to income tax in the case of part-timers has already been raised to 1.5 million yen.

Essence of Raising “1.03 Million Yen Barrier” to Counter Inflation Tax

The focus, then, has tended to be on the impact on students with part-time jobs and part-timers with spouses, but the essence of raising the 1.03 million yen barrier as put forward by the NDP is thought to be a measure to counter inflation tax. As indicated in the September/October 2023 article in this series, national tax revenues in Japan saw historical highs for three consecutive years up to fiscal 2022, and then increased further in fiscal 2023 (Chart 2).

One factor behind such increased tax revenue is the rise in prices in recent years. For example, a rise in prices of goods and services can lead to increased tax revenues from the consumption tax. If salaries are raised in accordance with the rise in prices, even if the increase in salaries does not catch up with price rises, revenues from income tax will increase. Giving back such an increase in revenue in the form of tax reductions can be seen as the pledge of the NDP.

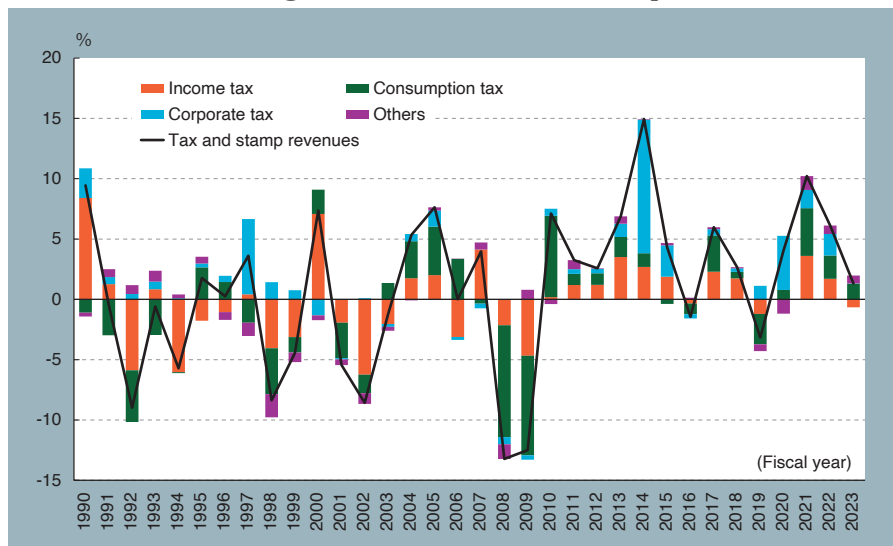
In fact, the total amount of basic exemption and employment income deductions has been raised in the past. In 1995, 1 million yen (basic exemption of 350,000 yen + minimum guaranteed amount of employment income deduction of 650,000 yen) was raised to 1.03 million yen. Before that, 900,000 yen up until 1988 was raised to 1 million yen in 1989. The 2023 average consumer price index (overall) rose by approximately 10% compared to the 1995 average. Perhaps the time has come to move forward with measures against inflation tax.

Adjustment with Social Security Premium Barrier Also Necessary

On the other hand, if the barrier is raised to 1.78 million yen such as with a raise in basic exemptions in line with the NDP’s pledge, an adjustment with the social security premium barrier may become an issue. For part-timers whose spouses are enrolled in the Employees’ Pension Insurance System, if their annual income exceeds 1.3 million yen, they are required to join the Public Pension System and the National Health Insurance on their own and pay the premium. If their annual income is less than 1.3 million yen, there is no need to

CHART 2

Contribution of growth in tax & stamp revenues



Source: General Account Settlement by Ministry of Finance

pay the insurance premium, and receipt of a public pension in the future is possible (Category 3 insured persons) and they can join the spouse’s health insurance. From the perspective of a decrease in net income, the real barrier to income for part-timers may be considered to be 1.3 million yen.

Further, in cases where employment is with a company with over 51 employees and working more than 20 hours a week, there is a need to join the Employees’ Pension Insurance System and National Health Insurance if annual income exceeds 1.06 million yen, and the need to pay the insurance premium arises. While future pension amounts will increase by joining the Employees’ Pension Insurance System, joining the spouse’s health insurance is possible if annual income is less than 1.06 million yen, and it can be said that this gives rise to additional cost burdens.

It would be good if the current request from the NDP can trigger adjustment of various “barriers” to social security and taxes, and it will be interesting to see in which direction the discussions have progressed by the time this article is published.

Note: This article was written based on information obtained as of Nov. 4, 2024.

Article translated from the original Japanese by Mio Uchida **JS**

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Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion yen)	Rate of increase over previous year/term (%)	Amount (trillion yen)	Rate of increase over previous year/term (%)		
2016	542.1	0.8	544.4	1.2	-0.0	-0.3
2017	551.2	1.7	553.1	1.6	3.1	0.5
2018	554.8	0.6	556.6	0.6	0.6	0.9
2019	552.5	-0.4	557.9	0.2	-2.6	0.6
2020	529.5	-4.2	539.6	-3.3	-10.4	-0.2
2021	543.8	2.7	553.1	2.5	5.4	-0.2
2022	548.9	0.9	560.5	1.3	-0.1	2.3
2023	557.0	1.5	591.9	5.6	-1.3	3.1
2023/4th Qtr.	555.5	0.2	597.0	0.6	1.1	2.5
2024/1st Qtr.	552.4	-0.6	596.2	-0.1	-5.2	2.5
2nd Qtr.	555.4	0.5	607.5	1.9	2.7	2.5
3rd Qtr.	557.1	0.3	610.2	0.5	-0.3	2.7
2024/March	—	—	—	—	4.4	2.6
April	—	—	—	—	-0.9	2.2
May	—	—	—	—	3.6	2.5
June	—	—	—	—	-4.2	2.6
July	—	—	—	—	3.1	2.7
Aug.	—	—	—	—	-3.3	2.8
Sep.	—	—	—	—	1.6	2.4
Oct.	—	—	—	—	2.8	2.3
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2016	70.0	-7.4	66.0	-15.8	14.1	-7.1	7.3	-9.2	6.5	-2.8
2017	78.3	11.8	75.4	14.1	15.1	6.9	8.1	10.5	7.1	9.5
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	7.7	7.8
2019	76.9	-5.6	78.6	-5.0	15.3	-1.4	8.6	-4.2	7.4	-3.0
2020	68.4	-11.1	68.0	-13.5	12.6	-17.3	7.5	-13.7	6.3	-15.1
2021	83.1	21.5	84.9	24.8	14.8	17.6	8.9	19.6	7.7	21.4
2022	98.2	18.2	118.5	39.6	18.3	23.1	11.8	31.9	9.4	22.0
2023	100.9	2.7	110.4	-6.8	20.3	11.0	11.6	-1.7	10.4	10.9
2023/4th Qtr.	27.6	3.7	29.1	-10.2	5.8	11.3	3.0	-4.9	2.8	6.4
2024/1st Qtr.	25.1	8.8	26.8	-5.1	5.0	13.8	3.1	6.2	2.5	10.0
2nd Qtr.	26.5	8.8	27.9	6.9	5.4	14.0	3.4	24.5	2.4	-8.5
3rd Qtr.	27.1	4.5	28.7	6.8	5.4	1.4	3.1	8.6	2.5	-7.7
2024/March	9.5	7.3	9.1	-5.1	1.8	8.5	1.1	3.7	0.9	3.0
April	9.0	8.3	9.5	8.0	1.8	8.8	1.1	28.9	0.9	-2.0
May	8.3	13.5	9.5	9.4	1.7	23.9	1.2	29.8	0.7	-10.1
June	9.2	5.4	9.0	3.3	1.9	11.0	1.1	14.8	0.8	-13.4
July	9.6	10.2	10.2	16.5	1.9	7.3	1.2	21.6	0.9	-5.3
Aug.	8.4	5.5	9.1	2.2	1.6	-0.7	1.0	-2.0	0.7	-9.1
Sep.	9.0	-1.7	9.3	1.9	1.9	-2.4	1.0	6.4	0.8	-9.0
Oct.	9.4	3.1	9.9	0.4	1.8	-6.2	1.0	-0.7	0.8	-11.3
Sources	"Trade Statistics of Japan", Ministry of Finance									

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/\$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2016	0.6	1.36	3.1	3.4	5.5	21.4	108.8
2017	0.4	1.50	2.8	4.0	4.9	22.8	112.2
2018	1.4	1.61	2.4	2.9	1.1	19.5	110.4
2019	-0.4	1.60	2.4	2.4	0.2	19.3	109.0
2020	-1.2	1.18	2.8	6.5	2.8	16.0	106.8
2021	0.3	1.13	2.8	6.4	1.8	21.5	109.8
2022	2.0	1.28	2.6	3.3	-15.5	11.4	131.4
2023	1.2	1.31	2.6	2.5	-6.5	22.6	140.5
2023/4th Qtr.	0.9	1.28	2.5	2.3	-1.0	5.9	147.9
2024/1st Qtr.	1.3	1.27	2.6	2.5	-1.4	6.6	148.6
2nd Qtr.	3.0	1.25	2.6	1.8	-1.2	6.9	155.9
3rd Qtr.	2.9	1.24	2.5	1.3	-1.2	9.0	149.2
2024/March	1.0	1.28	2.6	2.5	0.4	3.5	149.7
April	1.6	1.26	2.6	2.2	-0.7	2.2	153.6
May	2.0	1.24	2.6	1.8	-1.1	3.0	156.2
June	4.5	1.23	2.5	1.5	0.5	1.7	157.9
July	3.4	1.24	2.7	1.5	-0.5	3.3	157.9
Aug.	2.8	1.23	2.5	1.3	-0.4	3.9	146.3
Sep.	2.5	1.24	2.4	1.2	-0.3	1.7	143.3
Oct.	2.6	1.25	2.5	1.2	-0.2	2.5	149.6
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2016	7.4	-5.0	24.7	-8.7	16.2	-14.5	12.4	-6.5	17.0	-12.4
2017	8.0	7.0	28.0	13.3	18.6	14.8	14.9	20.5	18.5	8.5
2018	8.8	10.6	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2019	8.8	0.3	26.6	-7.6	19.0	-5.3	14.7	-7.6	18.5	-3.9
2020	7.8	-12.1	24.1	-9.4	17.2	-9.4	15.1	2.7	17.5	-5.1
2021	9.5	21.8	30.2	25.0	20.7	20.6	18.0	19.2	20.4	16.4
2022	11.4	21.1	36.4	20.6	28.6	37.8	19.0	5.7	24.8	21.9
2023	11.4	-0.2	34.7	-4.6	27.6	-3.4	17.8	-6.5	24.4	-1.7
2023/4th Qtr.	3.0	-5.8	9.2	-3.9	7.2	-7.5	5.0	1.0	6.6	-2.0
2024/1st Qtr.	2.6	0.1	8.8	4.2	6.8	-4.1	4.3	13.3	5.8	-3.6
2nd Qtr.	3.0	2.8	9.2	9.6	6.9	6.9	4.8	11.3	6.2	7.6
3rd Qtr.	3.2	10.1	9.8	12.5	7.5	10.1	4.7	1.5	6.3	5.2
2024/March	1.0	11.6	3.3	3.6	2.3	-5.1	1.7	12.6	1.8	-13.9
April	1.0	0.3	3.1	9.8	2.3	9.9	1.6	9.6	2.1	10.9
May	1.0	4.6	2.9	11.4	2.3	8.0	1.6	17.8	2.1	12.3
June	1.0	3.7	3.2	7.9	2.3	3.0	1.6	7.2	2.0	0.0
July	1.1	10.7	3.4	19.4	2.7	18.2	1.7	7.3	2.3	20.9
Aug.	1.1	17.2	3.2	14.7	2.3	3.3	1.5	5.2	1.9	-2.3
Sep.	1.0	2.5	3.2	4.2	2.5	9.0	1.5	-7.3	2.2	-1.8
Oct.	1.1	3.9	3.4	11.0	2.6	5.5	1.7	1.4	2.5	5.6
Sources	"Trade Statistics of Japan", Ministry of Finance									