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Minimum Tax of 22.5% on Top-Income Earners Introduced

Avoiding a flat tax hike on financial income due to the "100-million-yen wall" problem

Financial and Capital Market Research Dept.
Shungo Koreeda

Summary

- On December 16, 2022, the Liberal Democratic Party and Komeito decided on the "Outline of Tax Reform for Fiscal 2023". This report explains the minimum tax which is to be introduced as an additional taxation measure for the super-wealthy from 2025.
- The minimum tax is a mechanism for taxpayers with an annual income of more than 330 mil yen whose purpose is to impose an additional tax on the difference occurring when the ratio of the amount of income tax to the portion of income exceeding 330 mil yen is less than 22.5%. The number of taxable persons is expected to be around 200-300 per year, and the estimated tax revenue is about 30-60 billion yen per year.
- Based on the average income structure for each income bracket, the guideline determining eligibility for Minimum Tax is around 3 bil yen in annual income, but in reality, it differs depending on the income structure of each taxpayer. Taxpayers with progressively taxable income, such as employment income and business income, are not subject to minimum tax, no matter how high their income. On the other hand, taxpayers whose entire income comes from the transfer of shares and long-term real estate transfers are subject to minimum tax from around 1 bil yen in annual income.
- In Japan as well as in the US, the UK, and Germany, the tax burden rate rises as income increases from the lower range to around 99.9%. However, in the upper 0.1% range, the tax burden falls as income increases (a phenomenon equivalent to the "100-million-yen wall" in Japan). The extent of the decline in the tax burden rate within the top 0.1% of income appeared to be slightly larger in Japan than in the US, the UK, and Germany, but it would be comparable if a minimum tax system was introduced.
- In the future, when the issue of vertical equity in income tax needs to be further addressed, it is better to adjust the number of taxpayers eligible for minimum tax and the tax rate. Then the necessity of uniformly raising the financial income tax rate, including the tax rate on the middle class, will be reduced. This point can be said to be good news for the majority of investors.

Attention

This report is a summary translation. The official document is only in Japanese.

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