

# Japan Tax Bulletin

## Tax credit for promotion of securing human resources

### November 2021

#### 1. Overview

Under the 2021 tax reform, a tax credit for new employee payroll expenses will be available for corporations that actively recruit human resources through new graduates and mid-career hires and invest in human resource development for fiscal years beginning between April 1, 2021 and March 31, 2023. This new tax credit is a revamp of the tax system for the promotion of wage increase and investment, which expired on March 31, 2021 and is intended to support corporations that engage in new hiring and human resource development.

Corporations filing a blue tax return can benefit from the tax credit if the amount of new employment payroll costs meets certain requirements. The amount of the tax credit is 15% to 20% of the increase in the amount of new employee salaries paid in the previous year, up to a maximum of 20% of the corporate tax amount.

In addition, the requirements for application of the "Income Expansion Promotion Tax credit for SMEs<sup>(\*)</sup>" applicable on and after April 1, 2021 to SMEs, have also been revised as discussed below.

#### 2. Tax Credit for Promotion of Securing Human Resources

##### (i) Application period

Fiscal years beginning on or after April 1, 2021 and ending on or after March 31, 2023 (excluding the fiscal year of incorporation, the fiscal year including the date of dissolution (excluding dissolution due to merger), and each fiscal year in liquidation)

##### (ii) Requirements

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

- (a) Provide salaries to new domestic employees<sup>(\*)</sup>; and
- (b) At least a 2% increase in salary paid to new employees<sup>(\*)</sup> from the previous fiscal year.

##### (iii) Tax credit amount

Corporations that meet all of the above requirements can deduct 15% of the creditable new employee salary payment<sup>(\*)</sup> from their corporate income tax.

However, since the maximum amount of the credit is calculated by subtracting the amount of salary payment<sup>(\*)</sup> in the previous fiscal year from the amount of salary payment in the current fiscal year, if the overall amount of payroll including new employees has not increased from the previous year, the maximum amount of the credit will be zero, and as a result, the tax credit cannot be taken.

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

##### (iv) Additional tax credit amount

The credit is increased by an additional 5% (up to 20%) if an additional requirement related to education and training costs is met. In order to benefit from the additional credit, education and training costs<sup>(\*)</sup> must increase by at least 20%, compared to the education and training costs incurred in the previous fiscal year.

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

#### 3. Tax credit for Income Expansion Promotion for a SME

##### (i) Requirements

For fiscal years beginning between April 1, 2021 and March 31, 2023, in order to benefit from this tax credit, a SME needs to satisfy the requirement below.

- (a) At least a 1.5% increase in salary paid to employees<sup>(\*)</sup> 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.

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 salary paid to employees<sup>(\*)</sup> 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.

For an SME, both the Income Expansion Tax Credit and the Tax Credit for Securing Human Resources cannot be used together.

Therefore, the taxpayer can choose the one with the larger tax credit amount.

(\*1) SME

In this case, a “SME” is a corporation whose paid in capital is JPY100M or less and whose average taxable income in the previous three fiscal years is less than JPY1,500M. 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.

(\*2) New domestic employees

A domestic employee who has been working at the domestic office of the corporation for less than one year. A person who was employed by a corporation in the past, left the corporation, but was employed by the same corporation again after a certain period of time is also included as a new domestic employee.

(\*3) New employee salary payments

Salaries and wages paid to newly-hired employees in Japan who are covered by employment insurance within one year from the date of employment.

(\*4) Creditable new employee salary payment

The amount of salary to be paid to a new domestic employee within one year from the date of employment. The difference between this and the amount for (\*3) is that new employees are not limited to those who are generally covered by employment insurance.

(\*5) Salary payment

Salary paid to employees but excluding executives, directors and their relatives. An employee is defined as an individual who works in Japan and is listed on the corporation’s payroll.

(\*6) 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.