

Japan Tax Bulletin

Hometown Tax Donation (Furusato Nozei)

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Hometown Tax donation (Furusato Nozei) is a system that allows individuals to receive income tax and inhabitant tax deductions for donations made to local governments of their choice. In addition, since the donor can receive return gifts from the recipient local government, the number and amount of such donations have been increasing in recent years attracting more and more attention.

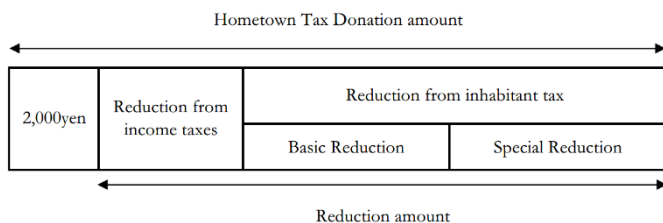
This article explains how it works and how the tax amount is reduced.

1. Overview

When an individual makes Hometown Tax donation, the portion of the donated amount exceeding 2,000 yen will be deducted as tax deduction from the donor's national income tax for the year of the donation and the local inhabitant tax resident tax amount for the following year.

An image of the deduction is illustrated as follows.

【Image】



Please note that the above reduction amount may differ from the illustration provided depending on the amount of the Hometown Tax donation, individual's income situation, and the recipient of the donation.

2. Reduction from income taxes

When an individual makes Hometown Tax donation, the deduction is available from the income in the year when the donation is made.

The amount of deductible donation is calculated by the following formula.

$$\text{Donation deduction amount}^{*1} = \frac{\text{Hometown Tax Donation amount}}{\text{amount}} - 2,000\text{yen}$$

This deduction will reduce the amount of income tax by the amount of the deductible deduction X the income tax rate (0% - 45%)*2

3. Reduction from inhabitant tax

When an individual makes Hometown Tax donation, tax credit will be available to reduce the inhabitant tax amount for the year following the year of donation.

The amount of tax credit available is the total of (a) *basic reduction* and (b) *special reduction* calculated as follows.

(a) Basic reduction

The basic reduction is calculated by the following formula.

$$\text{Basic reduction amount} = \left(\frac{\text{Hometown Tax Donation amount}^{*3}}{\text{amount}} - 2,000\text{yen} \right) \times 10\%$$

(b) Special reduction

The special reduction is calculated by the following formula.

$$\text{Special reduction amount}^{*4} = \left(\frac{\text{Hometown Tax Donation amount}}{\text{amount}} - 2,000\text{yen} \right) \times (100\% - 10\% - \text{Income tax rate})^{*2} \quad (0-45\%)*2$$

4. Procedure

In order to claim a reduction for Hometown Tax donation, an individual is required to file an annual income tax return. The name of the donation recipient, the amount of the donation, etc. must be disclosed on the tax return and an official certificate of Hometown Tax donation issued by the donation recipient must be attached to the tax return*5.

Additionally, for those individuals do not need to file an annual income tax returns (such as employees with sole source of income is wages) may utilize the "One-Stop Special Exception System" if donations are made to less than five organizations, allowing them to receive deductions for Hometown Tax donation without filing an annual income tax return. However, even if an individual is not obliged to file an income tax return, in the case he/she files an income tax return to claim a deduction for medical expenses, for example, he/she will not be able to claim the reduction under the

*1 The maximum amount is equivalent to 40% of the total income.

*2 Until 2037, the rate is calculated by adding the special income tax for reconstruction to the rate.

*3 The maximum amount is equivalent to 30% of the total income.

*4 In general, the maximum amount is equivalent to 20% of the income rate of the inhabitant tax.

*5 If an income tax return is filed electronically, this certificate can be omitted.

"One-Stop Special Exception" and will need to claim a reduction from his/her Hometown Tax donation in his/her income tax return.

5. *Return gifts*

When an individual makes Hometown Tax donation, he/she will likely receive return gifts from the local government donation was made to. Such return gift is deemed as receiving the economic benefit and value of the return gifts is classified as occasional income and is subject to taxation.

However, since a special deduction (up to 500,000 yen) is available in the process of calculating the amount of occasional income, the tax is not imposed if there is no other occasional income and the amount of the economic benefit is less than 500,000 yen.