

Japan Tax Bulletin

Reform of tax credit for salary increase

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Under the 2024 tax reform, the Japanese government strengthened tax credit for salary increase from the perspective of (a) easing the burden on citizens whose wage increases have not kept pace with rising prices, (b) aiming to achieve an economy where wage increases that fully exceed price increases are sustained and (c) supporting efforts to balance work and child-caring and promote the advancement of women.

The main points of the revision are the establishment of a new definition called “medium-sized enterprises” and the raising of the tax credit ratio through the establishment of additional deductions for childcare support and the promotion of women's activities.

1. Tax credit for salary increase for all enterprises

This tax credit rules which apply to all enterprises (including corporate and individual enterprise) are as follows:

(1) Applicable enterprise

Enterprises that submit blue tax returns.

However, certain enterprises are required to publish their multi-stakeholder policy on their website by the end of the applicable fiscal year and submit a notification to the Ministry of Economy, Trade and Industry.

In case of corporations, certain enterprises are defined as those with capital of at least JPY 1 billion and at least 1,000 employees or those with over 2,000 employees, at the end of the applicable fiscal year.

In case of individual enterprises, certain enterprises are defined as those with over 2,000 employees, at the end of the applicable fiscal year.

(2) Applicable period

Fiscal years beginning between April 1, 2024 and March 31, 2027 (excluding the fiscal year of incorporation).

(3) Requirements

The mandatory requirement and the 3 additional requirements are defined. The applicable tax credit ratio varies depending on the range of requirements that the enterprise meets. The maximum ratio is 35%.

A) Mandatory requirement

At least a 3% increase in salary paid to continuous employees (*1) from the previous fiscal year.

B) Additional requirements

(a) Increase ratio in salary paid to continuous employees

The tax credit ratio changes depending on the percentage increase, which is 4%, 5%, or 7%.

(b) Education and training costs (*2)

At least a 10% increase from the previous fiscal year and at least 0.05% of the total salary of all domestic employees (*3) for the applicable fiscal year.

(c) Childcare support and the promotion of women's activities

Acquisition of Platinum Kurumin certification* or Platinum Eruboshi certification* at the end of the applicable fiscal year.

*Details are on “4. Explanation of the terms”.

(4) Tax credit amount for each requirement

The amount of tax credit is the amount of increase in the total salary of all domestic employees from the previous fiscal year multiplied by the following tax credit ratio for each requirement.

However, the credit is capped at 20% of the corporate or personal income tax liability.

If the required requirement is met, in addition to the corporate tax credit a certain amount can be deducted from the tax base of the value-added element of local corporate enterprise tax.

Type	Reference	Increase ratio	Tax credit ratio
Mandatory	(3)(a)	At least 3%	10%
Additional	(3)(b)(i)	At least 4%	+5%
Additional	(3)(b)(i)	At least 5%	+10%
Additional	(3)(b)(i)	At least 7%	+15%
Additional	(3)(b)(ii)	At least 10% etc.	+5%
Additional	(3)(b)(iii)	-	+5%

The maximum ratio is (3)(a) + (3)(b)(i)(7% increase) + (3)(b)(ii) + (3)(b)(iii)=35%

2. Tax credit for salary increase for a medium-sized enterprise

This tax credit rules which apply to a medium-sized enterprise are as follows:

(1) Applicable enterprise

Enterprises that submit blue tax returns and have 2,000 or fewer employees at the end of the applicable fiscal year.

However, this does not apply to corporations that have subsidiaries (including overseas subsidiaries) and have a total of over 10,000 employees, including subsidiaries' ones.

And corporations with capital of at least JPY 1 billion and at least 1,000 employees, at the end of the applicable fiscal year, are required to publish their multi-stakeholder policy on their website by the end of the applicable fiscal year and submit a notification to the Ministry of Economy, Trade and Industry.

(2) Applicable period

Fiscal years beginning between April 1, 2024 and March 31, 2027 (excluding the fiscal year of incorporation).

(3) Requirements

The mandatory requirement and the 3 additional requirements are defined. The applicable tax credit ratio varies depending on the range of requirements that the enterprise meets. The maximum ratio is 35%.

A) Mandatory requirement

At least a 3% increase in salary paid to continuous employees (*1) from the previous fiscal year.

B) Additional requirements

(a) Increase ratio in salary paid to continuous employees

At least a 4% increase in salary paid to continuous employees (*1) from the previous fiscal year.

(b) Education and training costs (*2)

At least a 10% increase from the previous fiscal year and at least 0.05% of the total salary of all domestic employees (*3) for the applicable fiscal year.

(c) Childcare support and the promotion of women's activities

Acquisition of Platinum Kurumin certification* or Platinum Eruboshi certification* at the end of the applicable fiscal year, or acquisition of Eruboshi certification (3rd level) * during the applicable fiscal year.

*Details are on "4. Explanation of the terms".

(4) Tax credit amount for each requirement

The amount of tax credit is the amount of increase in the total salary of all domestic employees from the previous fiscal year multiplied by the following tax credit ratio for each requirement.

However, the credit is capped at 20% of the corporate or personal income tax liability.

If the required requirement is met, in addition to the corporate tax credit a certain amount can be deducted from the tax base of the value-added element of local corporate enterprise tax.

Type	Reference	Increase ratio	Tax credit ratio
Mandatory	(3)(a)	At least 3%	10%
Additional	(3)(b)(i)	At least 4%	+15%
Additional	(3)(b)(ii)	At least 10% etc.	+5%
Additional	(3)(b)(iii)	-	+5%

The maximum ratio is (3)(a) + (3)(b)(i) + (3)(b)(ii) + (3)(b)(iii) = 35%

3. Tax credit for salary increase for a small and medium-sized enterprise

This tax credit rules which apply to a small and medium-sized enterprise (SME), or an individual enterprise with 1,000 or fewer employees that submit blue tax returns, are as follows:

(1) Applicable enterprise

SMEs are defined as corporations that submit blue tax returns, have capital of JPY100 million or less and have average taxable income of JPY1.5 billion or less over the past three fiscal years.

However, corporations that fall under any of the following are excluded from SMEs:

- (i) A large-sized corporation* owns more than half of the SME's shares.
- (ii) Multiple large-sized corporations* own more than two-thirds of the SME's shares.
- (iii) If the SME has no capital, its number of employees exceeds 1,000.

*A large-sized corporation is defined as a corporation that (i) has capital of over JPY 100 million, or (ii) is 100% owned by a corporation with capital of JPY 500 million or more, or (iii) is 100% owned by a corporation with no capital but over 1,000 employees.

(2) *Applicable period*

Fiscal years beginning between April 1, 2024 and March 31, 2027 (excluding the fiscal year of incorporation).

(3) *Requirements*

The mandatory requirement and the 3 additional requirements are defined. The applicable tax credit ratio varies depending on the range of requirements that the enterprise meets. The maximum ratio is 45%.

A) *Mandatory requirement*

At least a 1.5% increase in salary paid to continuous employees (*1) from the previous fiscal year.

Additional requirements

(a) *Increase ratio in salary paid to continuous employees*

At least a 2.5% increase in salary paid to continuous employees (*1) from the previous fiscal year.

(b) *Education and training costs (*2)*

At least a 5% increase from the previous fiscal year and at least 0.05% of the total salary of all domestic employees (*3) for the applicable fiscal year.

(c) *Childcare support and the promotion of women's activities*

Acquisition of Platinum Kurumin certification*, Platinum Kurumin Plus certification* or Platinum Eruboshi certification* at the end of the applicable fiscal year, or acquisition of Kurumin certification*, Kurumin Plus certification* or Eruboshi certification (2nd level) * during the applicable fiscal year.

*Details are on “4. Explanation of the terms”.

(4) *Tax credit amount for each requirement*

The amount of tax credit is the amount of increase in the total salary of all domestic employees from the previous fiscal year multiplied by the following tax credit ratio for each requirement.

However, the credit is capped at 20% of the corporate or personal income tax liability. The amount that cannot be deducted in the applicable fiscal year can be carried over for five years.

If the required requirement is met, in addition to the corporate tax credit a certain amount can be deducted from the tax base of the value-added element of local corporate enterprise tax in fiscal year beginning between April 1, 2025 and March 31, 2027.

Type	Reference	Increase ratio	Tax credit ratio
Required	(3)(a)	At least 1.5%	15%
Additional	(3)(b)(i)	At least 2.5%	+15%
Additional	(3)(b)(ii)	At least 5% etc.	+10%
Additional	(3)(b)(iii)	-	+5%

The maximum ratio is (3)(a) + (3)(b)(i) + (3)(b)(ii) + (3)(b)(iii) =45%.

4. *Explanation of the terms*

Explanation of the terms is as follows:

(*1) Salary paid to continuous employees

Total amount of salaries, bonuses, etc. paid to continuing employees (domestic employees who were paid salaries, bonuses, etc. for ALL the months of the previous fiscal year and the applicable fiscal year).

(*2) Education and training costs

Certain costs incurred for the purpose of acquiring or improving the skills or knowledge necessary for the duties of domestic employees.

(*3) The total salary of all domestic employees

The total amount of salaries, bonuses, etc. paid to all domestic employees, not limited to continuous employees. Domestic employees are defined as those who work at the enterprise's business offices in Japan and are listed on payroll ledgers for these business offices. Part-timers, and day laborers are also included, but executives, directors and their relatives are excluded.

(*4) Kurumin certification and Eruboshi certification

(a) *Kurumin certification*

Certification received from the Minister of Health, Labor and Welfare upon application by an enterprise that has formulated a “General Employer Action Plan” for helping workers balance work and childcare, and has met certain criteria, such as achieving the goals set out in the action plan, based on the “Act on Advancement of Measures to Support Raising Next-Generation Children”. Kurumin in Japanese has the both meaning of Swaddle and inclusion of enterprise's support to child rearing.

As shown in the diagram below, there are three levels of certification: from the lowest, Try Kurumin, and then Kurumin. Among enterprises that have received these

certifications, those that have implemented initiatives at a higher level and meet certain requirements can receive special certification (Platinum Kurumin certification).

(b) Eruboshi certification

Certification received from the Minister of Health, Labor and Welfare upon application by an enterprise that has formulated a “General Employer Action Plan” for promoting the active participation of women in the workplace, and that has met certain requirements, such as having an excellent implementation status of initiatives, based on the “Act on the Promotion of Women's Participation and Advancement in the Workplace”.

As shown in the diagram below, there are three levels of certification: from the lowest, Eruboshi certification 1st level, 2nd level and then 3rd level. Among enterprises that have received Eruboshi certification, those that have met certain requirements, such as implementing particularly excellent initiatives to promote the active participation of women or achieving the goals of the action plan can receive special certification (Platinum Eruboshi certification).

Level	Kurumin Certification	Eruboshi Certification
High	Platinum (Including Plus)	Platinum
		Eruboshi 3 rd level
Low	Kurumin (Including Plus)	Eruboshi 2 nd level
		Try Kurumin (Including Plus)
		Eruboshi 1 st level