

# Japan Tax & Legal Inbound Newsletter

## Introduction in 2023 of new and clarified rules for the application of deduction for dependents residing outside of Japan

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### Background

Japan's National Tax Agency (NTA) issued [guidance](#) (in Japanese) dated 1 October 2022 that provides new and clarified rules, which are effective as from 1 January 2023, on the individual income tax deduction for dependents residing outside of Japan. The guidance (which includes frequently asked questions) requires more detailed disclosure information for such dependents and more oversight from the NTA in regard to the disclosures.

The current rules are vague, and the tax authorities have been limited in their oversight and recourse to pursue questionable claims. Proof of financial support for dependents residing outside of Japan has been the primary focus of the tax authorities, but there are no clearly defined parameters as to the amount or type of financial support needed. Often, a single direct payment to the dependent is deemed acceptable. This process has allowed taxpayers to claim an inordinate number of dependents for income tax deduction purposes thereby reducing the income tax burden in Japan.

### Disclosure rules

In general, a taxpayer may claim as a tax deduction a dependent aged 16 years or older. A dependent is a relative that the taxpayer financially supports (subject to certain income thresholds). However, nonresident dependents that are at least 30 years of age but not older than 69 years of age also must be studying abroad, have a disability, or receive annual financial support from the taxpayer of at least JPY 380,000 for living or educational expenses. For purposes of the rules, a resident is an individual who has a domicile in Japan or who has been living in Japan for more than one year.

A taxpayer must submit for all nonresident dependents documentation that proves a familial relationship and documentation that proves financial support. Documentation could include official government documents showing a familial relationship or banking receipts showing financial support. For nonresident dependents at least 30 years of age but not older than 69 years of age, a student visa, a certification of a disability, or documentation showing total remittances of at least JPY 380,000 also may be required.

### Comments

As foreign workers increase in Japan, taxpayers should have a clear understanding of the new guidance to avoid any unnecessary challenges from the NTA. Furthermore, as the NTA increases its scrutiny and shares information with other government agencies, a failure to comply with the tax rules can put a foreign worker's legal work status at risk.

Taxpayers should consider consulting with a tax professional and/or payroll service provider to ensure compliance with the new guidance.



#### **Deloitte Japan's View**

As an increasing number of foreign workers and expatriates enter Japan, a clear understanding of the new guidance could avoid unnecessary challenges from the NTA. As the NTA increases enforcement and shares information with other government agencies, the failure to comply may put more foreign workers' legal working status at risk. A tax professional or payroll service provider should be consulted to ensure compliance with the new guidance.

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