

KPMG Japan Tax Newsletter

6 March 2025

2025 TAX REFORM BILLS

ADDITIONAL REFORM BILLS REGARDING BASIC DEDUCTION

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By virtue of the 2025 tax reform, personal reliefs, etc. such as increase of the basic deduction, increase of employment income deduction, introduction of special deduction for specified relative, etc. will be amended in order to adjust the tax burden during the inflation phase and deal with working hours adjustments.

The ‘Outline of the 2025 Tax Reform Proposals’ (hereinafter the ‘Proposal’) published by the ruling coalition (the Liberal Democratic Party and Komeito) last December, stated that the so-called ‘JPY1.03 million threshold’ (tax-free threshold of income tax), will be raised to JPY1.23 million by increasing the basic deduction and employment income deduction by JPY100,000, respectively from 2025. The Proposal also stated that the ruling coalition had reached an agreement with the Democratic Party For the People (hereinafter the ‘DPFP’) to raise the ‘JPY1.03 million threshold’ from 2025 aiming to reach JPY1.78 million insisted on by the DPFP and the discussions on how to implement this would continue among the relevant parties.

On 4 February, the ruling coalition submitted the tax reform bills (hereinafter the ‘reform bills’), in which the tax-free threshold of income tax was set at JPY1.23 million, to the Diet. After submitting the reform bills, the discussions on the tax-free threshold of income tax between the ruling coalition and the DPFP continued following the above agreement. On 28 February, although a final agreement was not reached, the ruling coalition submitted the revised bills with the special measures for the incremental amount of the basic deduction (hereinafter the ‘additional

reform bills') presented in discussions with the DPFP, to the Diet. On 4 March, the House of Representatives passed the above reform bills and the additional reform bills, and those bills are currently under deliberation in the House of Councillors.

This newsletter explains the outline of the additional reform bills.

(*) Regarding the outline of the proposal about the increase of the basic deduction and other personal reliefs, etc. which are indicated in the Proposal, please refer to the Tax Newsletter '[Outline of the 2025 Tax Reform Proposals](#)' issued on 26 December 2024.

I. Outline of the additional reform bills

Regarding the basic deduction, in response to the income tax issue that the effective tax burden increases as prices rise due to the fixed amount of the basic deduction, in the reform bills, the deduction amount for individuals whose total income is JPY23.5 million or less will be increased from JPY480,000 to JPY580,000 by JPY100,000 in light of the rising trend in prices. (This increase will be applied from 2025 for national income tax purposes.)

In the additional reform bills, the incremental amount of deduction will be reflected to the amount of the basic deduction in the reform bills. As a result of the additional reform bills, the amount of the tax-free threshold of income tax will be raised from JPY1.23 million (the total amounts of basic deduction JPY580,000 and employment income deduction JPY650,000) to JPY 1.6 million (the total amounts of basic deduction JPY950,000 and employment income deduction JPY650,000).

1. Measures in 2025 and 2026

In light of the situation where the increase in wages does not keep up with the increase in prices, as the special measures for reducing the tax burden on the low-income and middle-income earners, the amount of basic deduction for individuals whose total income is JPY6.55 million or less (equivalent to JPY 8.5 million or less in salary income in the case of salary income only) will be the total of the amount of basic deduction in the reform bills (JPY580,000) and the incremental amount of deduction in the additional reform bills (depending on the amount of total income, from JPY 370,000 to JPY50,000) as shown in the table below.

(JPY)

Amount of total income	Basic deduction			
	Current tax law	Proposal		
		Reform bills (a)	Additional reform bills (b)	Total (a+b)
Up to 1,320,000	480,000	580,000	370,000	950,000
Excess over 1,320,000 Up to 3,360,000			300,000	880,000
Excess over 3,360,000 Up to 4,890,000			100,000	680,000
Excess over 4,890,000 Up to 6,550,000			50,000	630,000
Excess over 6,550,000 Up to 23,500,000				580,000
Excess over 23,500,000 Up to 24,000,000			480,000	
Excess over 24,000,000 Up to 24,500,000	320,000	320,000	0	320,000
Excess over 24,500,000 Up to 25,000,000	160,000	160,000		160,000
Excess over 25,000,000	0	0		0

2. Measures in or after 2027

In or after 2027, taking into consideration the tax burden on low-income earners, the special measures for the incremental amount of the basic deduction in the additional reform bills will be maintained and the amount of basic deduction will be JPY950,000 where the amount of total income is JPY1.32 million or less (equivalent to JPY2 million or less in salary income in the case of salary income only).

(JPY)

Amount of total income	Basic deduction			
	Current tax law	Proposal		
		Reform bills (a)	Additional reform bills (b)	Total (a+b)
Up to 1,320,000	480,000	580,000	370,000	950,000
Excess over 1,320,000 Up to 23,500,000			0	580,000
Excess over 23,500,000 Up to 24,000,000		480,000		480,000
Excess over 24,000,000 Up to 24,500,000	320,000	320,000		320,000
Excess over 24,500,000 Up to 25,000,000	160,000	160,000		160,000
Excess over 25,000,000	0	0	0	0

II. Timing of application

For national income tax purposes, the above amendments will be applied from 2025.

For the purposes of withholding tax on salaries and public pensions, etc., the above amendments will be applied to those paid on or after 1 January 2026.

For salaried employees, the above amendments will be applicable in the year-end adjustment for 2025 (salaries paid in 2025, the last payment of which is on or after 1 December 2025).

III. Other considerations

Corresponding to the above amendments, the amendments of the withholding tax on public pensions, etc. and other necessary measures will be provided.

Considering the drastic reform of income tax including the amendment of the taxation of various types of income and various types of deductions, the basic direction that the amount of basic deduction is increased in a timely manner in light of the rising prices will be clearly stated in the supplementary provisions of the additional reform bills.

Since the Proposal did not include the increase of basic deduction for inhabitant tax purposes, the maximum amount of basic deduction for inhabitant purposes will remain at the current JPY430,000 (for the amount of total income of JPY24 million or less).

KPMG Tax Corporation

Tokyo Office

Izumi Garden Tower,
1-6-1 Roppongi, Minato-ku,
Tokyo 106-6012
TEL : +81 (3) 6229 8000
FAX : +81 (3) 5575 0766

Hiroshima Office

Hiroshima Kogin Buiding 7F,
2-1-22 Kamiya-cho, Naka-ku,
Hiroshima 730-0031
TEL : +81 (82) 241 2810
FAX : +81 (82) 241 2811

Osaka office

Osaka Nakanoshima Building 15F,
2-2-2 Nakanoshima, Kita-ku,
Osaka 530-0005
TEL : +81 (6) 4708 5150
FAX : +81 (6) 4706 3881

Fukuoka Office

Kamiyo Watanabe Building 4F,
1-12-14 Tenjin, Chuo-ku,
Fukuoka 810-0001
TEL : +81 (92) 712 6300
FAX : +81 (92) 712 6301

Nagoya office

Dai Nagoya Building 26F,
28-12 Meieki 3-chome, Nakamura-ku,
Nagoya 450-6426
TEL : +81 (52) 569 5420
FAX : +81 (52) 551 0580

Kyoto Office

Nihon Seimei Kyoto Yasaka Building 7F,
843-2 Higashi Shiokoji-cho,
Shiokoji-dori Nishinotoin-higashiiru, Shimogyo-ku,
Kyoto 600-8216
TEL : +81 (75) 353 1270
FAX : +81 (75) 353 1271

info-tax@jp.kpmg.com

home.kpmg/jp/tax-en

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