

Is the Ratio of Burden and Benefits Fair for Households Raising Children?

- An International Comparative Analysis of Income and Rates of Economic
Burden for Employed Households-

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Increasing the incomes of young people, thus reducing their anxiety regarding the future, and redesigning the social insurance system to ensure that it is neutral with regard to the way they work will be important factors in combating Japan's declining birthrate and encouraging women to play a more active role in society. The government's response to these issues remains inadequate, and there has been no serious studies or discussion regarding whether the tax and social insurance burden and benefits such as allowances are fair, in particular when viewed on a household basis. This paper uses the OECD tax-benefit model in order to analyze tax and social insurance burdens and benefits for employed households from a variety of perspectives, including an international comparison, in order to examine the most desirable direction for burdens such as tax and social insurance and benefits such as child allowance.

The analysis conducted in this paper revealed that Japan's system is not neutral with regard to household budget behavior due to the existence of jumps in the rate of burden on households according to income level, that support for households with children is lower than support for households without children compared to other countries, and that the burden rate for the low-income bracket is relatively high compared to other income brackets. In order to realize an environment in which people are able to raise children with a feeling of security, it will be essential to ensure fairness with respect to burdens and benefits. To achieve this goal, there is an urgent need, first, to enhance support for low-income households with children. It will also be necessary to strengthen the focus on the principle of "affordable burden", and to review the method of increasing, decreasing, or eliminating the burden of taxes and social security contributions and providing benefits such as allowances at specific levels of income*.

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1. Introduction

Japan's birthrate is declining at an alarming rate. It has been pointed out that one of the factors lying behind this decline is low incomes among younger generations and the heavy economic burden of child-raising. With the economy continuing to display low growth, young people are not feeling optimism for the future, and a sense of anxiety is spreading among the younger generations. At the same time, while women's participation in the workforce is increasing, the social insurance system, as well as the benefits provided by the government, local governments, and individual companies, are not neutral with respect to women's work styles, and this may be acting to restrict the way women work. One example is the "annual income barrier" for social security contributions. What this means is that when a wife's income exceeds a certain level, she herself must pay social security contributions, which in turn reduces her amount of net income, causing women in dual-income households to curtail their working hours and forgo opportunities to increase their income.

Although the government has long been advocating measures to combat the declining birthrate and promote women's participation in the workforce, it has yet to implement reforms to make the system more neutral with regard to the way people work. In order to link the "investment in people" being implemented by the current administration to desired modes of working and living, it will be important to increase the incomes of young people and reduce their uncertainty regarding the future and design a fair tax and social insurance system, and fair mechanisms for the provision of benefits.

In this paper, we analyze the actual situation of Japanese households from a variety of perspectives in order to consider the most desirable status for tax and social insurance burdens and benefits such as allowances. We also indicate specific characteristics of Japan that are highlighted by an international perspective, allowing issues for the future to be delineated. Specifically, we will analyze the status of the burden of taxes and social security contributions and benefits such as allowances for employed households raising children and dual-income households for which international comparisons can be conducted. The study will also examine the extent to which policy considerations are taken into account and how this affects people's behavior, including women's participation in the labor force.

It goes without saying, however, that if fairness is to be addressed, issues that have long been pointed out, such as the case of full-time homemakers who are insured under Category III of the National Pension System, and who therefore receive basic pension benefits when their husbands pay insurance contributions, and the issue of differences in survivor's pension benefits

for married couples, should also be discussed. However, an overarching solution to these problems will require fundamental discussion concerning the entire pension system. Given this, we will focus here on the correction of inequities in the relationship between household income and taxes, social security contributions, and benefits as an issue that should be given urgent attention.

The integrated reform of social security and taxation implemented in Japan in 2014 was a reform that sought to secure financial resources for the country as a whole by raising the consumption tax rate in order to maintain the social security system. To date, however, there has been no serious examination or discussion of whether taxes and social security contributions are an appropriate burden when viewed on a household basis. For this reason, this paper focuses on the fairness of tax and social security burdens and benefits, in particular by household.

The analysis that forms the basis of the discussion in this paper uses data available from the OECD tax-benefit model (2021 edition) (Note 1). Due to the nature of the OECD model program, this paper analyzes the impact of taxes, social security contributions, and allowances and other benefits on the net income of households in which the primary breadwinner is employed by a company (i.e., is a regular employee) (Note 2). Therefore, it is necessary to evaluate the results of the analysis with consideration of the fact that households in which the primary earner is insured under Category I of the National Pension System, such as a part-time worker or a self-employed person, are excluded from the analysis, and that the consumption tax borne by the household cannot be taken into account. In addition, while this analysis considers tax and social security contributions as burdens, social security contributions, unlike taxes, offer commensurate benefits (e.g., pension benefits and unemployment benefits). It is important to evaluate the results of the analysis bearing in mind that there is a significant difference between the two.

2. Stepwise Jumps Distort the Curve of Japan's Burden Rate

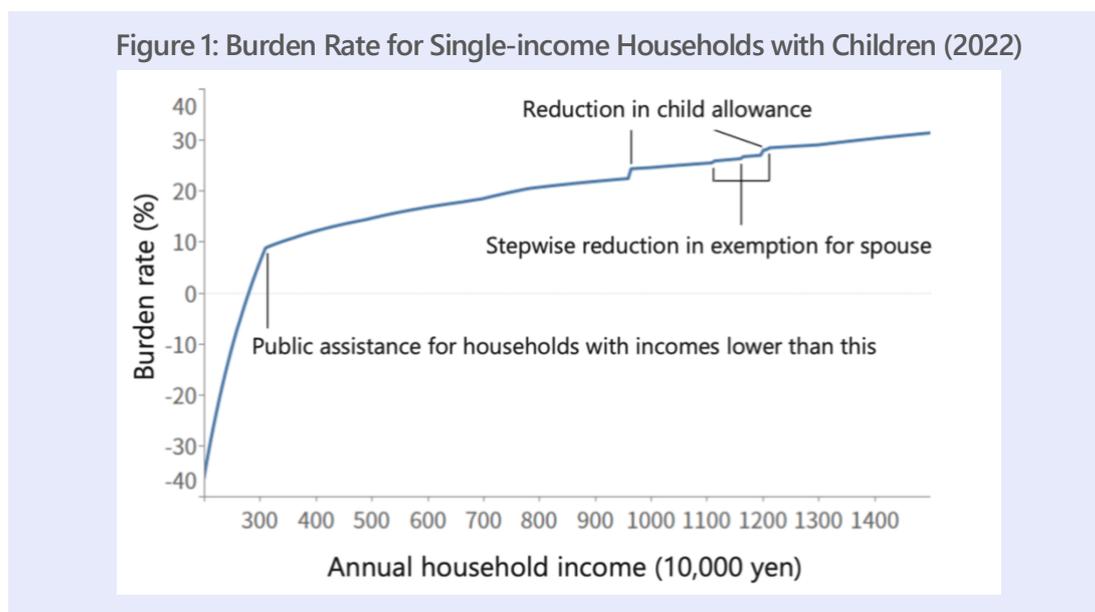
First, the analysis will consider how the burden rate calculated by subtracting benefits from the total burden of tax and social security contributions for single-income households and dual-income households as income increases. The burden rate is defined as the difference between burdens and benefits at the household level divided by the gross household income; the latter is defined as income before taxes and social security contributions are deducted and before government and other benefits are provided. The same definition will be employed below.

The results of the analysis show that in Japan, for single-income households, the burden rate increases in stages as the child allowance is reduced or suspended. For dual-income households, in addition to the reduction or suspension of the child allowance, there is a jump in the burden rate at the level of annual income at which the secondary earner begins paying social security contributions. In both cases, it is clear that there are thresholds at which an increase in annual income results in a temporary decrease in the household's net income. By contrast, in countries such as the Netherlands and Sweden, because the increase in the burden rate describes a gradual curve as income increases, no decrease in net income occurs. In other words, in Japan, the existence of thresholds at which net income declines even as annual income increases, due to the system of burdens and benefits, suggests that the public system may be influencing the behavior of households.

This will be examined in more detail below. Here, we will assume a household with two children.

Single-income Households

Looking at single-income households, there are two thresholds at which the burden rate jumps in stages as the earner's annual income increases (Figure 1) and the net income decreases. Households that fall below a certain level of annual income are eligible for public assistance, and the burden rate is kept at a low level. If an income earner is removed from public assistance and their income increases to a certain level, child allowance is reduced; in addition, under the current system, the allowance is suspended when income reaches an even higher level. This represents a two-step jump in the burden rate (Note 3) (Note 4).



(Note) Assumes that both spouses are 40 years old and have two children, aged 2 and 6. Welfare is provided to households with annual incomes of less than 3.1 million yen. However, housing assistance is not included, and will not be included throughout this study. In addition, the Temporary Special Benefit for Child-rearing Households, the Temporary Special Benefit to Support Low-income Households with Children, and the Temporary Special Cash Benefit for Households Exempt from Resident Tax, etc. are not included (this is also the case for Figures 2 and 3).

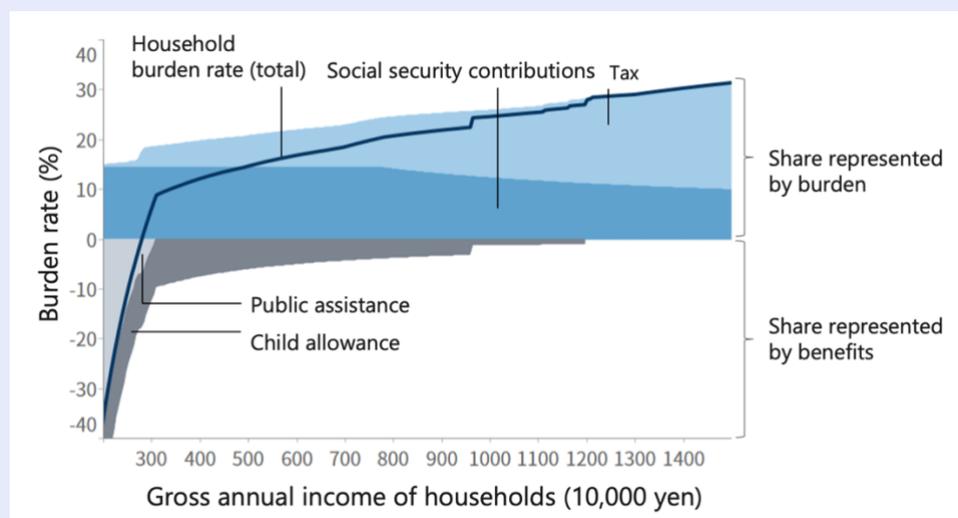
(Source) NIRA calculations based on output from the OECD tax-benefit model, version 2.5.2

We will now consider the breakdown of this burden rate (Figure 2). First, with regard to social security contributions, even single-income households that are eligible for public assistance will pay social security contributions (unemployment insurance contributions and pension insurance contributions) multiplied by a certain percentage of their income if they meet the social insurance coverage requirements, but because public assistance is increased by the amount paid, there is therefore no real burden on these households. On the other hand, social security contributions are a significant burden for low-income households that are not eligible for public assistance (Note 5). In Figure 2, the burden rate of social security contributions decreases as income increases, but this is due to the fact that there is a cap on the standard monthly remuneration which serves as the basis for premium payments (Note 6).

Next, looking at taxes, local resident tax and income tax each increase in stages when specific levels of income are exceeded, and the burden rate therefore increases gradually. There is also an incremental increase in the burden rate as annual household income increases because income tax increases as the spousal exemption is reduced in stages. The fact that the tax burden rate rises with an increase in annual income is an effect of the progressive tax system. Thus, although a variety of taxes are imposed as annual income increases, this does not result in a decrease in net income.

In addition, with regard to benefits, child allowances are also paid to households receiving public assistance. Even if the household income increases as a result of the allowance, the amount of net income will increase because public assistance is not reduced by the increase in income. Furthermore, as mentioned above, the child allowance is reduced at a certain income level, and under the current system, the allowance is suspended at a certain level with a further increase in income.

Figure 2: Composition of Burden Rate for Single-income Households with Children (2022)



(Source) NIRA calculations based on output from the OECD tax-benefit model, version 2.5.2.

Dual-income Households

We will consider the total household burden rate in a case in which the primary breadwinner (in the majority of cases the husband) in a dual-income household earns 70% of the average annual per capita income in Japan (Note 7), when the income of the other breadwinner (termed the “secondary breadwinner” below; in the majority of cases this is the wife) gradually increases from a lower level. In this case, there is a threshold at which the burden rate jumps as income increases from the low income level, and net income decreases at this threshold (Figure 3).

As shown below, the jump in the burden rate for dual-income households occurs not only in relation to social security contributions, but also child allowances, and there is a total of three thresholds at which the burden rate displays a stepwise increase.

(1) Social security contributions: The secondary breadwinner (in the majority of cases, the wife) is enrolled in social insurance if her annual income exceeds approximately 1.06 million yen.

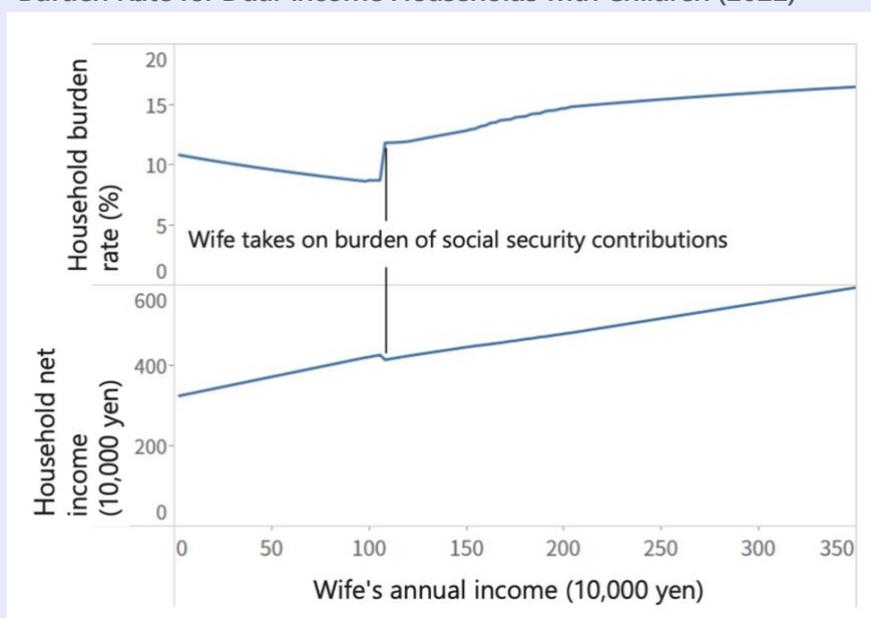
(2) Benefits: If annual income exceeds a certain level (in the case of the model household, this means that the annual income of the primary breadwinner supporting the children is approximately 9.6 million yen or higher), the child allowance is reduced, and if it increases further (to approximately 12 million yen or higher), the payment is suspended (Note 8).

The initial jump occurs when the wife, who initially paid no contributions, is burdened with social security contributions. When the wife meets certain conditions, such as an annual income

of 1.06 million yen or more, she will no longer be considered to be supported by her husband, and she herself will be enrolled in social insurance (Employees' Pension Insurance and Employees' Health Insurance) (Note 9). This means that the wife will be required to pay social security contributions equivalent to approximately 14% of her annual income, and the net household income will decrease by approximately 120,000 yen (Note 10). It should also be noted that at the stage at which the wife in the household does not meet the criteria for enrolment in social insurance, the structure is regressive, in that the lower the income, the higher the burden rate.

Furthermore, as of 2022, if the household has two children, the child allowance will be reduced if the annual income of either earner exceeds approximately 9.6 million yen, and the allowance will be suspended if it exceeds approximately 12 million yen. In the calculations shown in Figure 3, there is no difference because the incomes of the two breadwinners combined have not reached that level, but the amount of net income decreases at the thresholds when either earner's annual income exceeds 9.6 million yen or 12 million yen. As this indicates, it can be seen that even for dual-income households, a fair burden rate in relation to increase in income has not been realized.

Figure 3 : Relationship between Wife's Annual Income and Gross Household Income / Burden Rate for Dual-income Households with Children (2022)



(Note: Assumes that both spouses are 40 years old and have two children, aged 2 and 6, that the husband's annual income is fixed at 70% of the average annual income per capita in Japan (about 3.6 million yen) and that the wife works 20 hours per week. It should be borne in mind that the results of the estimation depend on the assumptions on which it is based.

(Source) NIRA calculations based on output from the OECD tax-benefit model, version 2.5.2.

In summary, for both single- and dual-income households, due to the design of social security contributions and child allowances, there are thresholds in Japan at which the burden rate increases and the amount of net income decreases even if annual income increases, and it is possible that this may affect household behavior.

3. The Burden Rate is High in Japan for Low-income Households with Children

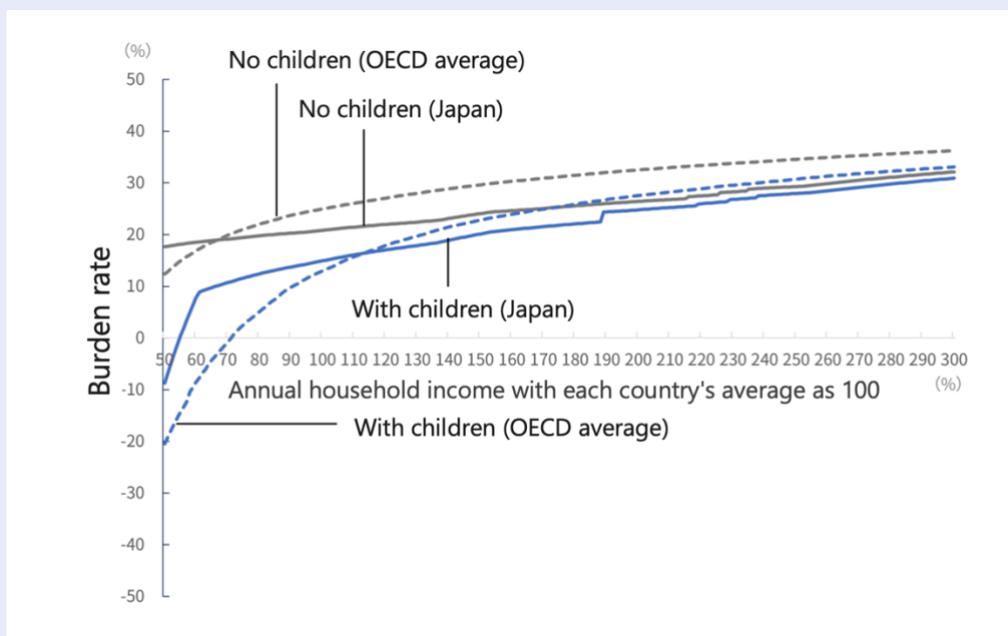
Next, we analyzed the tax and social insurance burdens and benefits for households with children from an international perspective. The results showed that in Japan, the provision of support for households with children is less generous than for households without children. The reason for this is that the tax and social insurance premium and benefit systems differ significantly from those in other developed countries. Here we attempt a comparison with the average for OECD countries.

Single-income Households

First, we compared single-income households without children to those with children (Figure 4) (Note 11). For single-income households, the burden rate for households with children (blue line) is lower than that for households without children (gray line); this is the same for the OECD average (dotted line) and Japan (solid line). However, what is particularly noteworthy here is that the difference in burden rates with the presence or absence of children is much larger for the OECD average (the distance between the blue and gray dotted lines) than for Japan (the distance between the blue and gray solid lines). Looking at household income levels in the 60-90% range of the average income, the difference in burden rates with the presence or absence of children is 7-11% in Japan, while the OECD average is 14-25%, which represents a considerable difference.

This difference is due to the fact that the burden rate for households with children in Japan is similar to the OECD average (with the exception of the low-income bracket, which will be discussed below), while the burden rate for households without children in Japan is lower than the OECD average. In other words, from an international perspective, Japan provides less support to households with children than to households without children. Particularly problematic is the fact that among households with children, the burden rate is higher from an international perspective for those in the slightly lower income bracket with annual incomes between 60% and 90% of the average.

Figure 4: Relationship between Annual Income and Burden Rate for Single-income Households (OECD Average and Japan, 2021)



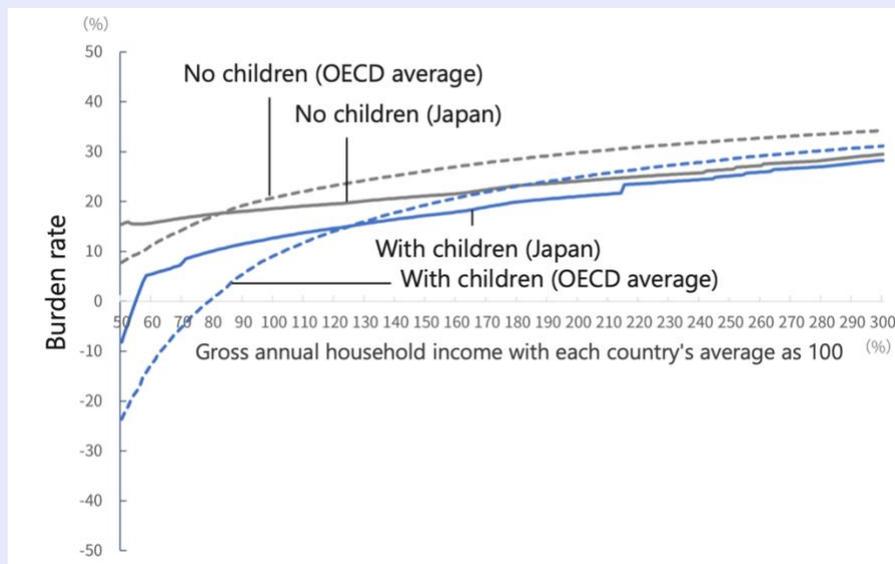
(Note) Assumes that both spouses are 40 years old and the household has two children, aged 2 and 6. The horizontal axis represents the relative position compared to the country's average annual per capita income (about 5.1 million yen in the case of Japan) considered as 100.

(Source) NIRA calculations based on output from the OECD tax-benefit model version 2.5.2.

Dual-income Households

A similar trend is observed for dual-income households (Figure 5). First, when considered from an international perspective, Japanese dual-income households with children also receive less support than households without children. In addition, while the burden rate for Japanese dual-income households with children is about the same level as it is internationally, the major issue is that the burden rate is higher for households with below-average annual incomes than it is in other countries.

Figure 5: Relationship between Gross Annual Income and Burden Rate for Dual-income Households (OECD Average and Japan, 2021)



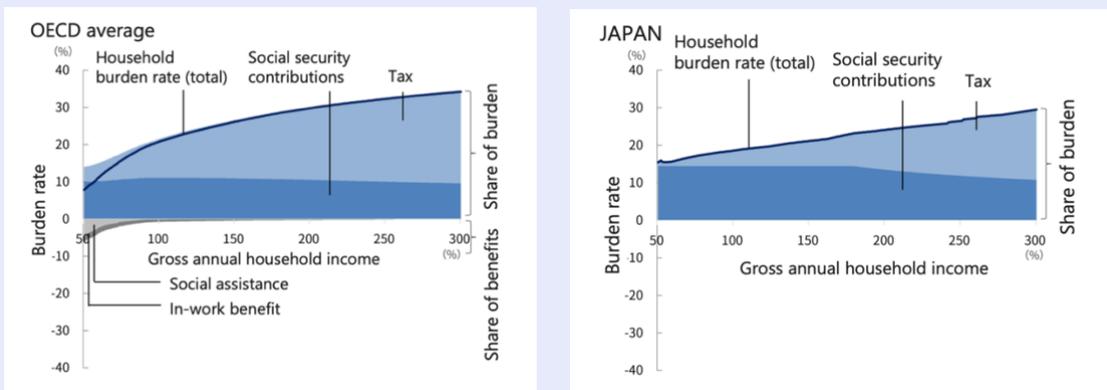
(Note) Assumes that both spouses are 40 years old and have two children, aged 2 and 6, that the secondary wage-earner works 75% of full-time hours (30 hours per week) and that their wage rate is fixed at 35% of the per capita average (which in Japan would be approximately 1.33 million yen per year). Based on the assumption that the primary wage-earner works full-time, the gross annual household income following changes in the annual income of the primary wage-earner was calculated. The horizontal axis shows the relative position of gross annual household income with the national average annual income per capita considered as 100.

(Source) NIRA calculations based on output from the OECD tax-benefit model, version 2.5.2.

Next, we will consider a breakdown of the burden rate into tax and social security contributions, and various benefits. First, looking at taxes and social security contributions, while the OECD average shows a high tax burden rate, Japan is characterized by a high social insurance premium burden. In particular, it can be seen that the social insurance premium burden rate is high among households with low incomes, while the tax burden is low. This tendency is independent of the presence or absence of children.

In the case of dual-income households with children, the OECD reduces the cost burden associated with child-raising for low-income households through the provision of allowances. It is noteworthy that family benefits, the equivalent of child allowances in Japan, are considerably more generous on average in the OECD than in Japan (Figures 6 and 7). Although lower-income households receive more benefits, even households with annual incomes three times higher than the average receive a wide range of benefits. Compared to dual-income households with no children, OECD countries provide higher allowances to households with children, thereby reducing the cost burden associated with child-raising.

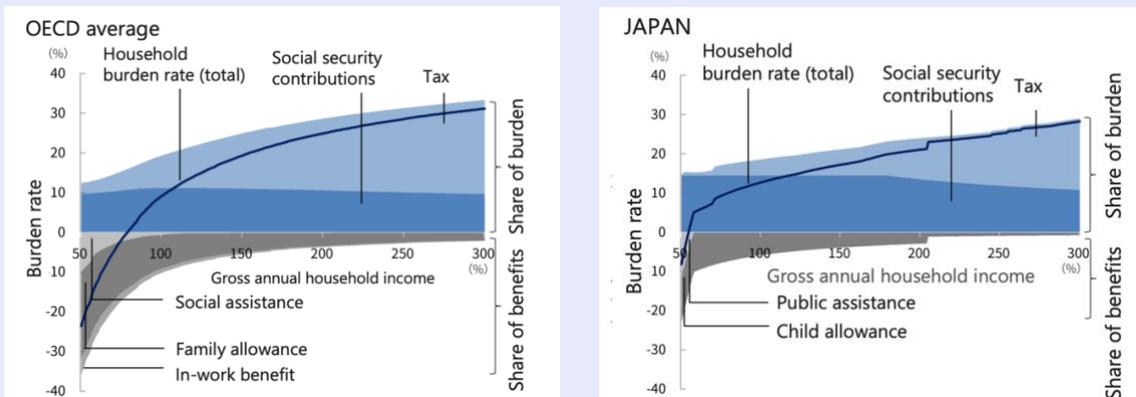
Figure 6: Structure of Gross Annual Income and Burden Rate for Dual-income Households with No Children (OECD Average and Japan, 2021)



(Note) The above figure shows the burden rates represented by the gray dotted line (OECD) and the solid line (Japan) in Figure 5, broken down into taxes and social insurance contributions. The horizontal axis shows the relative position of gross annual household income with the country's average annual per capita income as 100. Japan's welfare coverage is not shown in the graph because it is limited to the 43% level of annual household income.

(Source) NIRA calculations based on output from the OECD tax-benefit model, version 2.5.2.

Figure 7: Breakdown of Gross Annual Income and Burden Rate for Dual-income Households with Children (OECD Average and Japan, 2021)



(Note) The above figure shows the burden rates represented by the blue dotted line (OECD) and solid line (Japan) in Figure 5, broken down into taxes, social security contributions, and various allowances. The horizontal axis shows the relative position of gross annual household income with the country's average annual per capita income as 100.

(Source) NIRA calculations based on output from the OECD tax-benefit model, version 2.5.2.

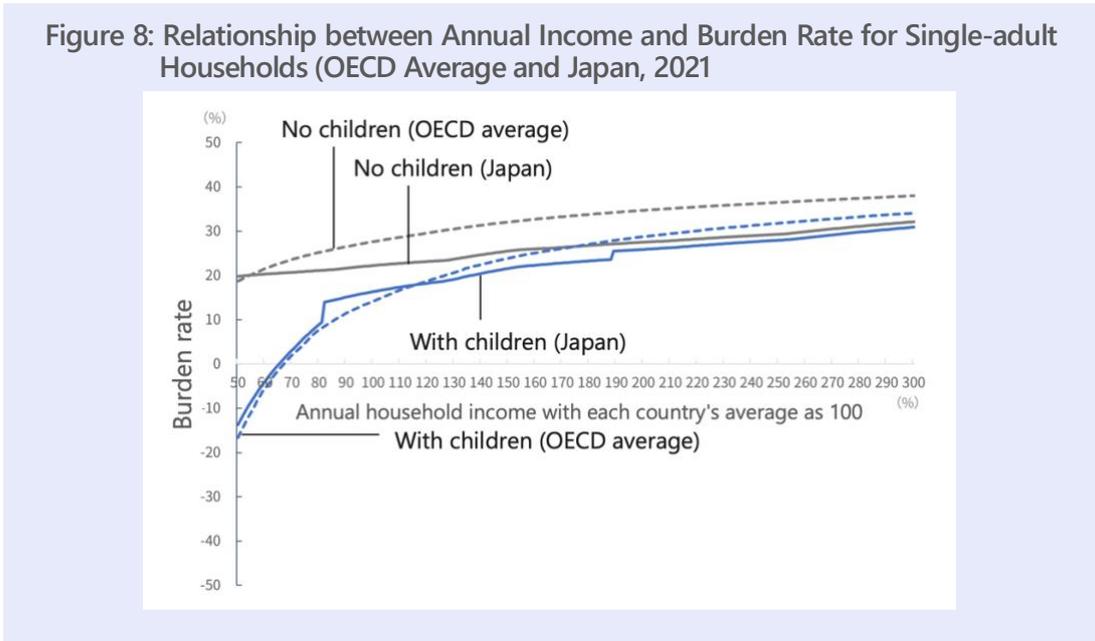
Single-adult Households (Single-person Households or Single-mother/Single-father Households)

In the case of single-adult households, we will compare households without children to those with children (Figure 8).

For single-adult households, the OECD average burden rate for households with children (blue

dotted line) is much lower than that for households without children (gray dotted line). In contrast, in Japan, the burden rate for households with children (solid blue line) is slightly lower than that for households without children (solid gray line) up to an annual income level of about 190% of the average, but the rates are almost the same beyond that income level. In other words, with regard to the difference in burden rates depending on the presence or absence of children, the OECD average (distance between the dotted lines) is much larger than Japan (distance between the solid lines), other than for the low-income bracket of about 50% of average annual income, indicating that households with children receive more favorable treatment than those in Japan. Looking at household income levels between 80% and 190% of the average, there is a clear difference in burden rates; the figure is 3-7% in Japan, while the OECD average is 6-17%. In the case of Japanese households with children, the burden rate jumps when the household's annual income reaches 82% of the average. This is because the child rearing allowance paid to single-parent households exceeds the income limit and the payment of the allowance is stopped. Net income decreases at this income threshold.

The difference from OECD countries is caused by the fact that Japanese households with children have a burden rate that is roughly the same as the OECD average, while the burden rate for households without children is lower. This trend is similar in the case of single-income and dual-income households. An international comparison of single-adult households with children shows that the burden rate is about 4-5 percentage points higher for households with below average annual incomes (80-100% of the average annual income and not receiving public assistance). Given that most single-mother households with one or more children receive below the average annual income, the high burden rate in this income group represents a problem.



(Note) The horizontal axis shows the relative position of annual household income with the country's average annual per capita income as 100.

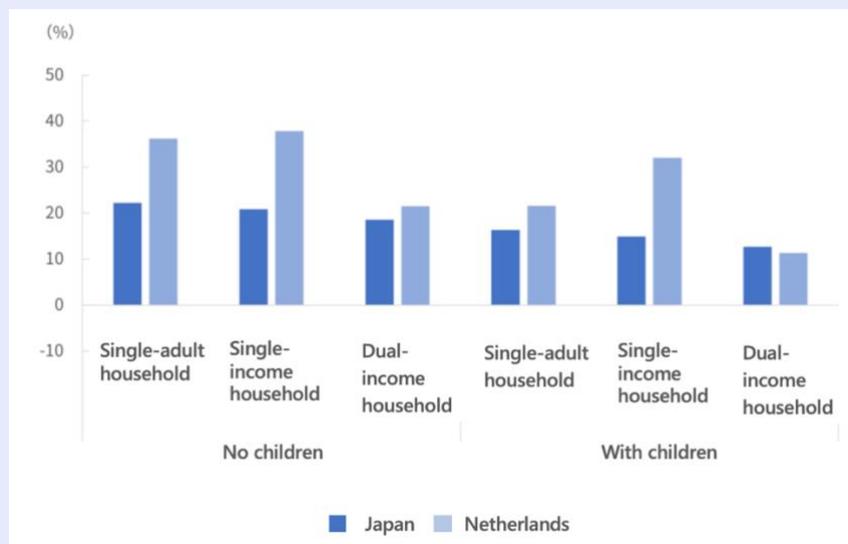
(Source) NIRA calculations based on output from the OECD tax-benefit model, version 2.5.2.

Here we will summarize the differences in burden rates by the presence or absence of children. Compared to OECD countries, in the case of single-income, dual-income, and single-adult households, it is clear that households with children in Japan are less well supported than households without children. In particular, for households with annual incomes below the average level, the tax burden is lower in Japan, but the social insurance premium burden is higher. In addition, while the OECD average provides for generous family allowances to households raising children, relative to their annual income, Japan provides less generous allowances. In other words, Japan provides less support for households with children than other countries, and this results in a particularly high burden rate for low-income households with children. Changing this structure may be essential in order to boost Japan's support measures for child-raising.

Column: How Does the Netherlands Treat Households with Children?

Here we will compare Japan's burden rate with that of the Netherlands, which is often referred to in Japan as a model example of the integration of tax and social insurance (Figure 9). We will consider the burden rate for households with average annual incomes in each country. Although the burden rate in Japan is generally lower than that in the Netherlands, the difference between types of households is low, while in the Netherlands, the burden rate differs greatly depending on the type of household. The burden rate for single-income households is higher than in Japan, regardless of whether or not they have children, and the burden rate for single-adult households with no children is similarly high. In contrast, the burden rates for dual-income households without children and single-adult households with children are almost identical to those in Japan. Furthermore, the burden rate for dual-income households with children is lower than in Japan. In other words, in the Netherlands, the reduction in burden rate as a percentage of annual income is particularly high for dual-income households and households raising children.

Figure 9: Differences in Burden Rates between Household Types in Japan and the Netherlands (Households with Average Annual Income, 2021)



(Note) Assumes that both spouses are 40 years old and have two children, aged 2 and 6. Compares burden rates in households where gross annual household income is equivalent to the national average annual income per capita. In the case of dual-income households, it is assumed that both spouses work full-time, their respective wage rates are 50% of the average annual income, and their combined annual incomes are equivalent to the national average annual income.

(Source) NIRA calculations based on output from the OECD tax-benefit model, version 2.5.2.

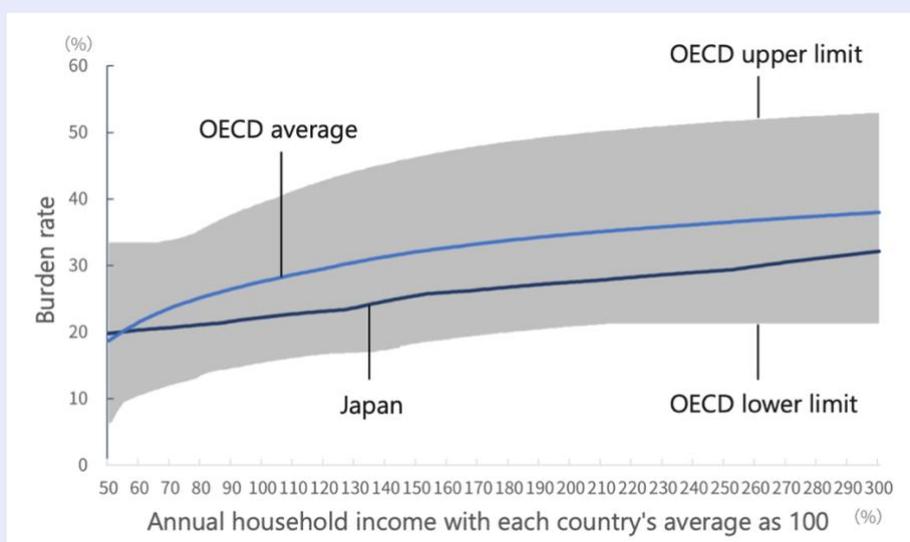
4. Japan Is Characterized by High Burden Rates for Low-income Households and Low Burden Rates for High-income Households

Finally, international comparisons were conducted regarding the burden rates for low-income and high-income households. The results revealed that Japan's burden rate is higher for the low-income bracket but lower for the high-income bracket than in OECD countries. In other words, the progressivity of the burden rate in Japan is low, and the burden is relatively heavier on the low-income bracket. In particular, the burden rate for the low-income bracket is particularly high for households with children, while the low burden rate for the high-income bracket is more pronounced for households without children. The following is a breakdown by household.

Single-adult Households (Single-person Households or Single-mother/Single-father Households)

First, looking at changes in the burden rate for single-adult households without children, we find that the burden rate increases as income increases for both Japan and the OECD average, with the OECD average rising to the 30-39% range, while the burden rate in Japan remains generally in the 20-29% range, indicating that the progressivity of the burden rate in Japan is low (Figure 10) (Note 12). On the other hand, compared to the OECD average, the burden rate for single-adult households with children in Japan is almost the same in the high-income bracket, and the degree of progressivity appears to be similar, but the burden rate is higher in the low-income bracket (80% to 100% of average annual income) (Figure 11).

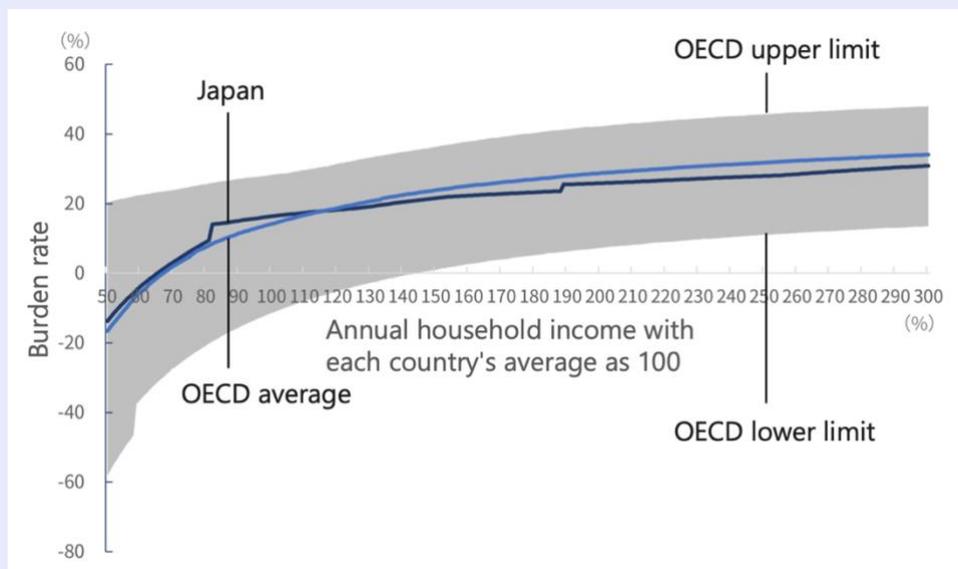
Figure 10: Range of Annual Income and Burden Rates for Single-adult Households with no Children (OECD Countries and Japan, 2021)



(Note) Age is assumed to be 40. The horizontal axis shows the relative position of household income with the country's average annual per capita income as 100. The gray area indicates the range between the OECD's upper and lower limits.

(Source) NIRA calculations based on output from the OECD tax-benefit model, version 2.5.2.

Figure 11: Range of Annual Income and Burden Rates for Single-adult Households with Children (OECD Countries and Japan, 2021)



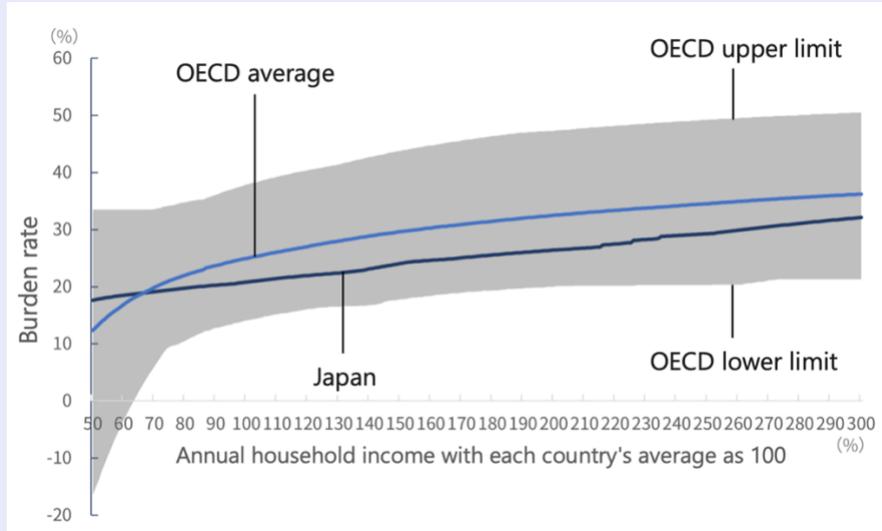
(Note) Assumes adult is aged 40 and has two children, aged 2 and 6. The horizontal axis shows the relative position of household income with the country's average annual per capita income as 100. The gray area indicates the range between the OECD's upper and lower limits.

(Source) NIRA calculations based on output from the OECD tax-benefit model, version 2.5.2.

Single-income Households

In the case of single-income households, the burden rate for households without children increases with annual income in both Japan and the OECD average, but progressivity is lower in Japan (Figure 12). On the other hand, the burden rate for single-income households with children is higher in the low-income bracket (60-100% of average annual income) than the OECD average, indicating lower progressivity (Figure 13).

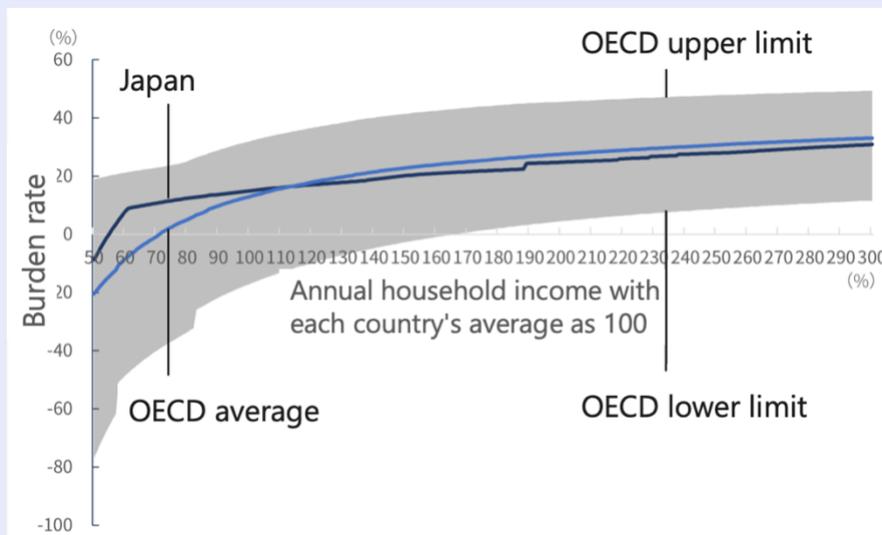
Figure 12: Range of Annual Income and Burden Rates for Single-income Households with No Children (OECD Countries and Japan, 2021)



(Note) Assumes that both spouses are 40 years old. The horizontal axis shows the relative position of household income with the country's average per capita income as 100. The gray area indicates the range between the OECD's upper and lower limits.

(Source) NIRA calculations based on output from the OECD tax-benefit model, version 2.5.2.

Figure 13: Range of Annual Income and Burden Rates for Single-income Households with Children (OECD Countries and Japan, 2021)



(Note) Assumes that both spouses are 40 years old and have two children, aged 2 and 6. The horizontal axis shows the relative position of household income with the country's average annual per capita income as 100. The gray area shows the range between the OECD's upper and lower limits.

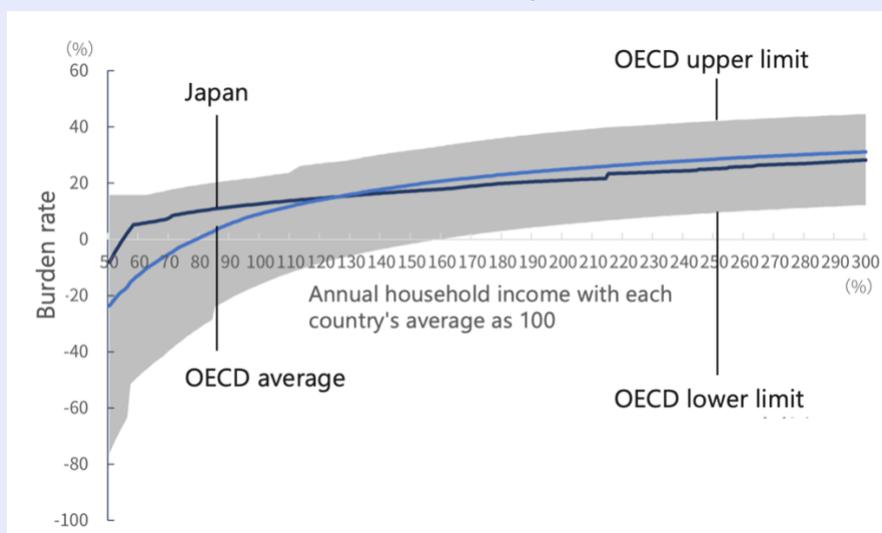
(Source) NIRA calculations based on output from the OECD tax-benefit model, version 2.5.2.

Dual-income Households

Dual-income households with no children in Japan also display lower progressivity in the burden rate with an increase in gross annual income than the average for OECD countries, similar to single-adult households with no children and single-income households with no children (Note 13).

For dual-income households with children, the low progressivity of the burden rate tends to be similar to that of households with no children. In particular, it should be pointed out that the burden rate is considerably higher than in OECD countries for individuals in the low-income bracket in which gross annual household income is less than 60-80% of the average (about 3-4 million yen in the case of Japan) and who are not eligible for public assistance (Figure 14). The income tax progressivity for dual-income households with children is considerably lower than the OECD average and yet the burden rate for low-income households is higher.

Figure 14: Range of Annual Income and Burden Rates for Dual-income Households with Children (OECD Countries and Japan, 2021)



(Note) Assumes that both spouses are 40 years old and have two children, aged 2 and 6; the secondary breadwinner works 75% of full-time hours (30 hours per week) and the wage rate is fixed at 35% of the per capita average (which in Japan would be approximately 1.33 million yen per year). Assuming that the primary breadwinner works full-time, we calculated the gross annual household income when annual income changes. The horizontal axis shows the relative position of gross annual household income with the country's average annual income per capita as 100. The gray area indicates the range between the OECD's upper and lower limits.

(Source) NIRA calculations based on output from the OECD tax-benefit model, version 2.5.2.

Here we summarize an international comparison of the burden on the low-income bracket. For all households, the progressive burden rate in Japan is lower than the OECD average, and the

burden is relatively heavier on the low-income bracket. The burden rate for low-income households is particularly high for households with children.

5. Support for Low-income Child-raising Households Is an Urgent Issue - Towards a Review of Tax and Social Insurance Contribution Burdens and the Design of Child Allowances Based on the Principle of Affordable Burden

The above comparison between Japan and OECD countries regarding the burden rate of tax and social security contributions minus allowances has highlighted the characteristics of Japanese employed households. The conclusions of this paper are, first, that the increase in the burden rate according to income level is not smooth but jumps in stages, and is not neutral to household behavior, second, that support for families with children is inadequate and benefits are especially meager, and third, that the burden rate in the low-income bracket is relatively high compared to other income brackets.

These factors suggest the possibility that, in addition to the fact that Japan's burden rate among low-income families raising children is higher when compared internationally, the system by which social security contributions and benefits are levied, reduced, or eliminated depending on a certain level of income may act as a "barrier" affecting the way women work. These factors are likely to be contributing to livelihood insecurity among the younger, low-income segment of the population.

To put it another way, there is a problem with the current system with regard to the principle of affordable burden. The principle of affordable burden means that the higher the income, the more assets are owned, and the greater the surplus in the household, the greater the burden borne by the household should be. In order to realize an environment in which people can raise their children with a feeling of security, this unfair system must be rectified.

Based on this perspective, we must now work towards an integrated reform of taxes, social security contributions, and benefits, also taking into consideration international comparisons. Our specific proposals are as follows.

- (1) In order to ensure the fairness of burdens and benefits, it will be necessary to enhance the application of the principle of affordable burden. First, premium rates should be examined

in a direction that better reflects income and asset holdings. Relaxation of the ceiling on standard remuneration, which is the basis for calculating social security contributions, should also be considered. To this end, the upgrading of data collection and collaboration among ministries and agencies will be essential. The burden rate should be increased more smoothly in proportion to income by revising the level of progressivity for high-income households. On the other hand, for the lower-income brackets, a system of tax credits with attached benefits that also takes into account the burden of insurance contributions should be introduced to smooth out the burden rate represented by taxes and social security contributions minus benefits. Households that do not meet the requirements for public assistance while also having low incomes represent a particular problem, and this issue needs to be addressed urgently.

- (2) There should be a review of the method of stipulating increases, decreases, or elimination of tax and social insurance premium burdens and benefits based on specific levels of income. The fact that a certain level of income has become a “barrier” that discourages people from working represents a problem. We should make the transition to a social insurance system and system of provision of benefits that promote the seeking of employment, are neutral to the way people work, and feature smooth progressivity. Consideration should also be given to abolishing the spousal deduction system, which is a mechanism that discourages the seeking of employment.
- (3) Support for households with children must be enhanced. There is an urgent need to change the tax and social insurance rates and benefit systems to make it easier for young people with low incomes to raise children and to encourage them to work. With dual-income households becoming the majority, building social systems that promote dual-work and dual-childraising, allowing people to work and raise their children with a feeling of security, is an urgent issue. To this end, it will be imperative to first ascertain the status of the income and other conditions of low-income child-raising households, including single-adult households, using My Number (Japan’s national identification number) and other means, and to provide more generous allowances to these households. While promoting reduction of burden by gradually strengthening support for child-raising households as a whole in proportion to their reduction in income, it will also be necessary to reconsider how to balance the burden rate with that of households without children. While support measures such as the expansion of the child allowance are currently under discussion, it will also be necessary

to consider how these measures should be financed, taking into account the actual burden rates of each household, as discussed above.

Note

* Data analysis in this paper was conducted by Kozue Sekijima, NIRA Research Coordinator and Research Fellow.

1 The latest data for Japan at the time of this report's release was the 2022 edition, but for international comparisons, the 2021 edition was used because it made data for more countries available. The 2022 version was used for analyses that focused solely on Japan. Some requirements that were missing from the Japanese data have been corrected.

2 For households with one breadwinner (single-income households and single-adult households) and dual-income households with two breadwinners, social security contributions for (1) Unemployment Insurance, (2) Employees' Pension Insurance, and (3) Employees' Health Insurance for the primary breadwinner (in most cases, the husband) were included in the calculation (in the cases of (2) and (3), the primary breadwinner is assumed to be insured under Category III of the National Pension System). Whether or not the secondary breadwinner (in most cases, the wife) is or is not covered by employee insurance depends on their working hours and income. In Figure 3, the analysis covers households in which the primary breadwinner is a salaried worker and the secondary breadwinner is a non-regular employee who is not covered by employee's insurance (housewives working part-time and other persons insured under Category III of the National Pension System). In other words, the issue of "annual income barriers" such as the "1.06 million yen barrier" for those insured under Category III of the National Pension System is also relevant (the annual income barrier also includes the 1.3 million yen barrier. This arises because if a wife's annual income exceeds 1.3 million yen, she will no longer be considered to be a dependent of her husband, and she will be required to pay the insurance contributions herself. However, because the 2016 and 2022 revisions of the system expanded the coverage of Employees' Pension Insurance, this report assumes that workers are subject to the expanded coverage, and the 1.3 million yen barrier therefore does not appear in this report. See note 9 for more details.) Note that income and local resident taxes are included in taxes, and family (childcare) allowances and social assistance (welfare) benefits are included in benefits, but health insurance benefits, unemployment benefits, and pension benefits are not included.

3 With regard to the Exemption for Spouse and Special Exemption for Spouse (for dual-income households), because the amount of the deduction is reduced in stages as the husband's income level increases, the incremental increase in net income is also reduced in stages. However, net income does not decrease.

4 Figure 1 features estimates based on the revised child allowance system for FY2022. In the case of the model household, the monthly benefit is reduced from 25,000 yen (the main benefit) to 10,000 yen (the special interim allowances) at an annual income level of approximately 9.6 million yen, and the benefit is suspended when the income exceeds approximately 12 million yen. Prior to the revision, all households earning 9.6 million yen or more were eligible for the special benefit.

5 Although not the subject of this analysis, there is an exemption system for low-income individuals insured under Category I of the National Pension System.

6 Included in the social security contributions in the calculation are, employees' pension insurance, employee's health insurance, and unemployment insurance. For pension and health insurance, there is an upper limit to the standard monthly remuneration, which is the basis for calculating the premium rate. The upper limit is 650,000 yen for Employee's Pension Insurance (annual income equivalent to 7.8 million yen) and 1.39 million yen for Employee's Health Insurance (16.68 million yen).

7 According to the National Tax Agency's Statistical Survey of Actual Status for Salary in the Private Sector (for 2021), the average salaries of salaried workers are approximately 3.7 million yen for those in their late 20s, 4.1 million yen for those in their early 30s, and 4.5 million yen for those in their late 30s (for both men and women nationwide). In the calculation, we estimated a value close to the

average salary for workers in their late 20s at the same point in time, i.e. 70% (about 3.6 million yen) of the average annual salary of all employed persons (about 5.1 million yen). It should be noted that the results of the estimation depend on assumptions regarding the income and working hours of each breadwinner.

8 This does not yet appear in the annual income range shown in Figure 3.

9 After October 2022, employees of companies with 101 or more employees became eligible for Employees' Pension Insurance if they meet a number of eligibility criteria, including monthly compensation of ¥88,000 (a predetermined wage) and a minimum of 20 hours of work per week. ¥88,000 multiplied by 12 is approximately ¥1.06 million, which is also known as the "1.06 million yen barrier." Note that this report does not analyze cases in which a 1.3 million yen barrier arises. See Note 2 for more information on this point.

10 Based on premium rates as of 2021. The breakdown is 9.15% for pension insurance contributions (Employees' Pension Insurance), 5% for health insurance contributions (the national average for the Japan Health Insurance Association), and 0.3% for employment insurance contributions. However, the range of the reduction in net income is less than the amount of insurance contributions paid because the tax burden is reduced by the payment of insurance contributions.

11 The gray dotted line in Figure 4 is a simple average of the burden rate per average annual income ratio in each country for single-income households with no children for which data are available. Similarly, the blue dotted line shows the same averaging process for single-income households with children.

12 As an example, the following table compares the burden rates for Japan and the OECD average when annual income is 50%, 100%, and 200% of the average. Comparing the burden rate for low-income households with incomes at 50% of the average with that for benchmark households with incomes at 100% of the average, the difference in Japan is 2.4 percentage points, which is not large even for low incomes, while the difference for the OECD average is 8.9 percentage points. For high-income households with incomes 200% of the average, the burden rate in Japan is 5.3 percentage points higher than that of the benchmark household, but this is lower than the OECD average difference of 7 percentage points. This indicates Japan's low level of progressivity.

Income (%)	Japan	OECD average
50	19.8	18.7
100	22.2	27.6
200	27.5	34.7

13 For example, for a household with a gross annual household income of 100% of the average annual income (about 5.1 million yen in Japan), the burden rate would be 18.6%, and for a household with a gross annual income of 200% of the average, the burden rate would be 24.1%, an increase of about 5.5 percentage points. This is considerably less progressive than the OECD average increase of about 9.0 percentage points (from 20.8% to 29.8%).



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