

**Statement by Takeshi Niinami, Chairperson of Keizai Doyukai  
on Outcome of Deliberations over ¥1.03mil Annual Income Ceiling**

1. Amid the shrinking working-age population as a result of the declining birthrate and aging society, the wage-hike trend in the recent years has made part-time and non-regular workers expedite their practices of intentional cut of working hours. Labor shortages caused by the so-called “annual income ceiling” have ended up with the status quo that strongly restricts labor supply. The current tax-free income threshold has been called the “1.03-million-yen annual income ceiling.” Against this backdrop, the recent plenary session of the House of Representatives approved a revised draft budget for fiscal year 2025 as well as tax reform bills. The approval allows for the increase of the tax-free income threshold to the maximum 1.6 million yen, depending on the annual income. We appreciate this first step of resolving the annual income ceiling issue.
2. Meanwhile, the “annual income ceiling related to social insurance premium” is even more important to pursue a reform that prevents intentional cut of working hours. A worker, whose annual income goes beyond this ceiling, will face a decline in his/her net salary due to the social insurance premium being payable. As Japan shifts further from an old-fashioned household of working husband and housewife, there must be a transformation to a tax system that fits current Reiwa generations, who have various family types and living styles including double income and sole occupant households, with different work styles such as changing jobs, by-working, dual occupation, and shorter working hours.
3. Keizai Doyukai posted a couple of opinions\*regarding the annual income ceiling issue, proposing the phase-out of the Category 3 insured persons system in the pension scheme and the participants’ prompt transition to the Category 2 insured persons system, aiming at a full-fledged reform that provides the participants with peace of mind for the future. We believe that the “annual income ceiling and support enhancement package” should be overhauled with more effective policy measures and extension of its expiry for about three years, so that the package will be in use for the time being.
4. We welcome a series of proposals made by political parties and bodies for addressing the “annual income ceiling” issue since the House of Representatives general election last fall. Taking this rising momentum for the reform as an opportunity, the parliament and the government must start quick consideration of the “Comprehensive Reform of Tax and Social Security in the Reiwa era,” leading to nationwide discussion.

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\* “How to respond to the so-called ‘annual income ceiling’ issue—Assessment of the support enhancement package and direction of medium- to long-term reform of social insurance system—” October 3, 2023  
<https://www.doyukai.or.jp/policyproposals/2023/231003t.html> English translation not available for the body text.  
“Construction of pension system that incentivizes working generations with peace of mind for the future—Aiming at a diverse and inclusive system with equity, neutrality, and simplicity—” December 2, 2024  
<https://www.doyukai.or.jp/policyproposals/2024/241202b.html> English translation not available for the body text.