Grant Thornton

Japan-Ireland Social Security Agreement

Objectives

On September 9, 2010, notes concerning the Japan-Ireland Social Security Agreement ("Agreement") were signed by the two countries and will become effective December 1, 2010.

The Agreement will enable persons who have paid social insurance in both Japan and Ireland to receive a pension on the basis of their combined periods of coverage if they do not have enough contributions under one legislation alone. The Agreement also allows employees who are assigned to work for their company in the other country for up to 5 years to continue to pay insurance contributions under their national social security system instead of becoming liable for contributions in the other country.

The Japanese benefits which may be paid under the Agreement are: National Pension and Employees' Pension Insurance. The Irish benefits which may be paid under the Agreement are: State Pension (Contributory), State Pension (Transition), Invalidity Pension, Widow's and Widower's (Contributory) Pension, Guardian's Payment (Contributory) and Bereavement Grant.

Since the early 2000's, Japan has established a network of bilateral Social Security agreements ("Totalization Agreements") that coordinate the Japanese Social Insurance systems with the comparable systems of other countries to achieve two purposes: (1) elimination of dual Social Security taxation, the situation that occurs when a worker from one country works in another country and is required to pay Social Security taxes to both countries on the same earnings, and (2) filling gaps in benefit protection for workers who have divided their careers between Japan and another country.

Following is a list of agreements Japan has concluded and the effective dates of each as of November 15, 2010. Some of these agreements were subsequently revised; the dates shown are the dates the original agreement entered into effect.

Germany	February 2000
United Kingdom	February 2001
Korea	April 2005
United States	October 2005
Belgium	January 2007
France	June 2007
Canada	March 2008
Australia	January 2009
Netherlands	March 2009
Czechoslovakia	June 2009
Spain	December 2010

©2010 Grant Thornton Taiyo ASG Tax Corporation. All rights reserved.

Grant Thornton

Ireland	December 2010
Italy	In preparation

Elimination of Dual Taxation

Without some means of coordinating Social Security coverage, people who work outside their country of origin may find themselves covered under the systems of two countries simultaneously for the same work. When this happens, both countries generally require the employer and employee to pay Social Security taxes.

Dual Social Security tax liability is a widespread problem for multinational companies and their employees because, for example, one country's Social Security program may cover expatriate workers, both those coming to that country and those going abroad. Where such country's Social Security extends to citizens and resident aliens of that country employed abroad by such country's employers without regard to the duration of an employee's foreign assignment even if the employee has been hired abroad, such extraterritorial coverage frequently results in dual tax liability for the employer and employee since most countries, as a rule, impose Social Security contributions on anyone working in their territory.

Paying dual Social Security contributions is especially costly for companies that offer "tax equalization" (or "gross up") arrangements for their expatriate employees. A firm that sends an employee to work in another country often guarantees that the assignment will not result in a reduction of the employee's after-tax income. Employers with tax equalization programs, therefore, typically agree to pay both the employer and employee share of host country Social Security taxes on behalf of their transferred employees.

Under the tax laws of many countries, however, an employer's payment of an employee's share of a Social Security contribution is considered to be taxable compensation to the employee, thus increasing the employee's income tax liability. The tax equalization arrangement generally provides that the employer will also pay this additional income tax, which in turn serves to increase the employee's taxable income and tax liability even further. The employer again pays the additional tax, etc., etc. As one can readily see, the employee's foreign Social Security coverage results in a substantially greater tax burden for the employer than the nominal Social Security tax alone.

Detached-worker Rule

Most agreements include an exception to the territoriality rule, a rule whereby an employee who would otherwise be covered by both Japan and a foreign system remains subject exclusively to the coverage laws of the country in which he or she is working, designed to minimize disruptions in the coverage periods of workers whose employers send them abroad on temporary assignment. Under this "detached-worker" exception, a person who is temporarily transferred to work for the same employer in another country remains covered only by the country from which he or she has been sent.

A Japanese citizen or resident, for example, who is temporarily transferred by a Japanese employer to work in Ireland continues to be covered under the Japanese system and is exempt from coverage

©2010 Grant Thornton Taiyo ASG Tax Corporation. All rights reserved.

under the system of Ireland. The worker and employer pay contributions only to the Japanese system.

The detached-worker rule in Japanese agreements generally applies to employees whose assignments in the host country are expected to last 5 years or less. The 5-year limit on exemptions for detached workers is substantially longer than the limit normally provided in the agreements of other countries.

Totalization of Coverage Periods

Workers who have divided their careers between two countries sometimes fail to qualify for retirement, disability, or survivors' benefits from one or both countries because they do not have enough periods to be eligible. Under the totalization agreement, such workers may qualify for partial or full benefit based on combined, or "totalized", coverage periods from both countries.

©2010 Grant Thornton Taiyo ASG Tax Corporation. All rights reserved.