

## Social Insurance Consulting Firm EOS News Letter – October, 2011 –

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#### Updated News

The following are the Cabinet Office announcement of September Monthly Labor Economy Report:

(Main changes in business trend from the previous month)

1. Construction of homes is on the recovery trend of improvement from reaching a floor.
2. Corporate earnings are into gradually decreasing from slow increase.
3. Bankruptcy case gradually having been rising stays flat.
4. The domestic goods prices on the slow recovery path remain unchanged.
5. Consumption prices continue to decline compared with a year earlier.

Japanese government has made an all-out effort to recover from the devastation of the Great East Japan Earthquake and simultaneously will quickly undertake the comprehensive countermeasure against the strong yen and compilation of the third supplementary budget in 2011 to manage the risks of downward economy and hollowing-out of industry due to sharp progress towards the strong yen and the like, and to make the utmost use of the merits of the strong yen.

The National Tax Agency announced the results of “the Statistical Survey of Actual Status for Salary in the Private Sector in 2010” as follows:

The number of employment income earners as of Dec 31 2010 is 54.15 million (0.5 % rise compared with the previous year). The total sum of the salary which business places in the private sector paid in 2010 is 194 trillion 372.2 billion yen (1.0% increase from a year earlier) and the amount of withholding income tax is 7 trillion 500.9 billion yen (0.9% decrease compared with a year ago). The ratio of the amount of tax to the total sum of salary is 3.86%.

The following are employment income earners who worked through a year.

1. Employment income earners are 45.52 million (1.0% rise from last year), of which the average salary is 4.12 million yen (1.5% increase compared with the previous year). On a gender basis, male employment income earners are 27.29 million (0.3% rise from last year) and female employment income earners 18.23 million (2.1% rise from a year earlier), of which the average salary is 5.07 million yen (1.5% increase compared with the previous year) for male and 2.69 million yen (2.4% rise from a year earlier) for female.
2. The most in number of employment income earners and the amount of the annual salary by range of salary are that 5.32 million male (composite rate 19.5%) earn greater than 3 million yen and 4 million yen or less, while 4.88 million female (composite rate 26.8%) greater than 1 million yen and 2 million yen or less.
3. 37.55 million people pay withholding income tax, which accounts for 82.5% of employment income earners and the amount thereof is 7 trillion 247.3 billion yen (1.7% increase compared with the previous year).
4. The number of people with the year-end adjustment undertaken amongst employment income earners is 42.40 million, among which the people to whom standard spousal exemption or standard dependency exemption is applied are 16.54 million, and the average dependents per person having dependents are 2.04 persons.

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### **Labor Acts**

We introduced the overall Japanese legal systems at the previous article. The outline of the labor related laws and regulations will be covered from this time onward.

Labor acts stand for the general name of laws for protection and guarantee of the rights of labor. There are three representative acts relating to fundamental rights in labor: Labor Standards Act, Labor Union Act and Labor Relations Adjustment Act. Since these are the essence of labor acts, they are referred to as the three labor acts.

Article 27-2) of the Constitution of Japan prescribes “Standards for wages, hours, rest and other working conditions shall be fixed by law”, under which Labor Standards Act was enacted in 1947. In the case that management and labor enter contract freely without any limits, the disadvantageous labor terms and conditions might occur. Thus the nation intervenes in the relation between management and labor, and provides a certain limit to the principle of freedom of contract. Labor Standards Act was established to maintain such a relationship of equality between them.

Since Labor Standards Act is applied to all the business enterprises including the one hiring only one worker, even if a business enterprise has no labor union, he or she is protected under Labor Standards Act. Some business enterprises to which Labor Standards Act are applicable provide their own systems to ensure effectiveness of the labor conditions based on Labor Standards Act.

The minimum standards of the labor conditions such as wages and working hours based on Labor Standards Act allow no free alteration of contract between management and labor, and not abiding by these statutory standards results in void contract or punishments by compulsory means. It also functions as the criminal law since some articles thereof stipulate the criminal punishments.

The amendment thereof in 1987 introduced 40 Hours A Week System, Irregular Working Hour System, Discretionary Labor System, Flex Time System, and Shorter Working Hours Promotion Act.

### **Tips for Employment Management at Foreign Firms**

Japanese companies are obliged to have their employees enter social insurance like the following:

- A. Health insurance: used in going to hospital for injury or sickness and paying medical costs.
- B. Nursing insurance: needed in the case of obtaining nursing services for bedridden people due to aging or sickness.
- C. Welfare pension insurance: needed to receive pension after age 65 from the retirement of the work downward.
- D. Workmen’s accident compensation insurance: used for receiving medical treatment and compensation for absent from work for injury or sickness resulted from work.
- E. Employment insurance: needed to obtain unemployment benefits in unemployment after resignation (A, B, and C referred to as social insurance, and D, E labor insurance).

The social insurances above are excluded to be applicable to some individual business, while applicable to corporations without exception. When companies employ workers under employment contract, they should have workers enter the above social insurance. In addition to the cases not required for foreign workers to enter social insurance as described in the August article, it is not necessary for making the following workers enter it regardless of nationality.

- (Workers excluded from application of social insurance)
- Contract term of employment within 2 months
  - Contract term of employment for seasonal work within 4 months
  - Contract term of employment for temporary business within 6 months
  - Prescribed working hours or working days less than 3/4 of full time workers
  - etc.



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(Workers excluded from application of employment insurance)

Short working hours less than 20 hours per week  
Contract term of employment for 30 days and below  
Regular daytime students  
etc.

The first two months of employment is able to be considered as the trial period to decide to continue employment or not under provisions on exclusion from application of social insurance. When such workers continue to work over 2 months, employers have to make them enter social insurance.

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