

# Making allowances

By THOMAS J. NEVINS

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I am sure many expatriate managers in Japan read with interest an article in this newspaper in January concerning changes in the new tax law taking place from April 1. There is one minor change which is worth taking a minute to focus on. Have you noticed it? And are you aware of its implications?

It read, "The ruling party decided to exempt from income tax commuting allowances of up to ¥50,000 a month, compared with the non-taxable ceiling of ¥26,000 at present."

Fair enough. A good, reasonable attempt to reduce taxable income of salaried workers in a country where the high land price is causing people to live further and further outside the center of the city and their place of work.

## Costly commuting

Because Japan has always provided a tax deduction to employees for their commutation allowance and for whatever other reasons, there is an unusual practice in Japan of having the employer pay the employee's commutation allowance at cost. This, of course, always greatly surprises human resource types from the home office. Their initial reaction is that the place where an employee lives has nothing to do with the job; and there is no reason why compensation should vary in this way — depending on the distance between home and office.

Nevertheless, I have always recommended to clients that they provide the commutation allowance at cost, as it is such an ingrained practice here, and the employees you hire certainly expect it.

In most employment contracts, letters of offer, or in

the Rules of Employment, it generally states that "the commutation allowance will be paid up to the maximum tax-deductible (currently ¥26,000), the employee would have to pay the difference out of his or her own pocket.

In my company, for example, we had similar language in both our letters of employment and our Rules of Employment. Such language was acceptable when the tax-deductible limit was at the more reasonable level and when it only went up gradually and incrementally every year or two.

Now, however, in one quick shot, the limit moves from ¥26,000 up to ¥50,000.

While employees and unions may hope that the current widespread policy language prevails, allowing the potential for a not insignificant number of employees to enjoy a commutation allowance of as high as ¥50,000 per month, I believe companies should move quickly and should point out that assumptions have drastically changed and that it will be necessary to change policy language, such that, for example, "commutation allowance will be paid up to the maximum level of ¥26,000."

## Fairness and equity?

In my opinion, this is not just a question of unacceptable, rapidly increasing cost to firms. It also gets into a question of fairness and equity between employees. Frankly, it is not in either the employee's or the employer's interest to have employees commuting as much as 1½, two, or even three hours one way per day! Such employees will be tired and their health could be endangered.

Although it is a pity that an employee must commute so far in order to own his own home or apartment, there will

be employees who will give up their dream or hope of owning their own place and enjoying the tremendous growth in personal assets and will sacrifice themselves for their jobs in order that they can be fresh, rested, and able to do their jobs better.

## Subsidizing some

That is another aspect of this problem. Is it fair to subsidize and encourage a small number of employees, paying as much as ¥50,000 per month, which may amount to one-third of lower-level employees' monthly pay, while other employees live in close so they can avoid the travel and do a better job for their employers?

I believe that few Japanese companies will continue to pay at cost as much as ¥50,000 for an employee's monthly commutation pass. I also don't think that increasing the tax deductible amount to ¥50,000 is really an answer to the problem. It is more important to bring down the land price, make better utilization of land and buildings, accompanied by improving and speeding up train services to outlying areas.

But in the short term this spring, this particular change in the tax law is going to cause a lot of headaches for employers.

I hope the Ministry of Labor and local Labor Standards offices will be sensitive to this problem and provide fair and reasonable administrative guidance to employers in their need to adjust their policy language and achieve a fair reconciliation between this change in the tax code and the financial constraints of running a business in this competitive marketplace.

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