



BDO Seidman, LLP
Accountants and Consultants

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U.S.-Japan Totalization Agreement Comes into Force

Expatriate Tax Alert

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On October 1, 2005, the new totalization agreement between the United States and Japan comes into force. The agreement was signed on February 19, 2004. One of the purposes of the agreement is to ensure that mobile employees between these two countries and their employers are not subject to social security contributions in both countries. The other purpose is to ensure that the eventual social security pensions earned are maximized, by recognizing the years of employment service from the other country in computing the total years of service for the pension calculation.

The general default rule is the employed and self-employed individuals will be subject to social security tax in the location in which they are working. The exception to this rule, as in most such agreements, is the "detached worker" rule—if you are temporarily seconded abroad by your home country employer, you will remain in your home country social security system. Self-employed individuals are also covered by this rule.

The detached worker rule applies to a temporary secondment period of up to five years, but an extension can be requested.

Transition Rule: For temporary assignments already underway as of Oct. 1, 2005, the period of temporarily detachment is considered to commence on Oct. 1.

Employers in the United States and in Japan who have temporarily seconded employees to the other country will need to apply for Certificates of Coverage (although we understand the system for doing that is still in development as of this writing). To read the full agreement and get updates, please check the Social Security Administration website at: <http://www.ssa.gov/international/whatsnew.html>

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