

Doing Business in Japan

2015



AIC Tax Co.

Preface

In the preparation of this pamphlet, every effort has been made to offer current, correct and clearly expressed information. However, the information in the text is intended to afford general guidelines only. This publication is distributed with the understanding that AIC Tax Co. is not responsible for the result of any action taken on the basis of information in this publication, nor for any errors or omissions contained herein.

Readers are encouraged to consult with a professional advisor concerning specific matters before making any decision.

If you have any questions regarding tax and accounting, please contact us. We would be happy to help you.

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1. Establishment

1) Organization form for foreign investors in Japan

1-1) Companies

A subsidiary or joint venture can take either one of the following two corporate forms recognized under the Japanese law: a Joint Stock Company (Kabushiki-Kaisha) or a Membership Company (Mochibun-Kaisha) that includes General Partnership Company (Gomei-Kaisha), Limited Partnership Company (Goshi-Kaisha), Limited Liability Company (LLC, Godo-Kaisha).

The major difference between these corporate forms is based on how and to what extent a shareholder or partner is liable for the company's debts and obligations, or whether investment and management is from the same source or not.

There used to be a type of company called a Limited Liability Company (Yugen Kaisha) under the Limited Liability Company Law until April 2006, but it was abolished and merged with Joint-stock company when the commercial code was amended in May, 2006.

Joint Stock Company

The Joint Stock Company (*Kabushiki Kaisha*, or KK) is the most widely used form in Japan. It is also used by foreign investors for a wholly owned subsidiary or joint venture with Japanese partners. It consists of a large number of shareholders whose liabilities are limited to the capital invested. The incorporation procedure and management, accounting, and auditing requirements of a joint stock company are provided in detail under the Companies Act. In general, a joint stock company has greater advantages in business than other forms. For example, a joint stock company enjoys financial and business credibility and a better public image.

Establishment of a joint stock company used to have a minimum capital requirement of ¥10 million, but the regulation changed which made it possible to establish a company with any amount of capital.

Further, previously a Japanese company formed as a kabushiki kaisha was required to appoint from among its directors at least one individual who was a resident of Japan (Non-Japanese national is acceptable). Since 17th March 2015 the local residency requirement has been eliminated and a company can be incorporated in Japan by non-resident of Japan alone.

Membership Company

The Membership Company (Mochibun-Kaisha) includes following three forms, General Partnership Company (Gomei-Kaisha), Limited Partnership Company (Goshi-Kaisha), Limited Liability Company (LLC, Godo-Kaisha).

While the management of joint stock companies is definitely detached from the investors, membership companies have the characteristics that the investors are also directors who carry out operation, that is to say, investment and management is from the same source.

The merit of these types of companies is that they are established by investors at the same time directors who enjoy mutual trust, thus they are good for small business.

General Partnership Company (Gomei-Kaisha) and Limited Partnership Company (Goshi-Kaisha) exist in the old Commercial Act. They enjoy the merits of internal self-governing and simple formalities when established. But because of the unlimited liabilities of directors, few of them exist at present.

On the other hand, Limited Liability Company (LLC, Godo-Kaisha) is lately institutionalized by the new Companies Act. The merits of Membership Company remain and the limited liabilities of directors are recognized.

Difference between Joint Stock Companies (KK) and LLC

Form	KK	LLC
Investors	Stock holders	Directors with limited liabilities
Indispensable board	Stockholders' meeting, directors	Agreement of directors
Business operator	Managing director etc.	Directors
Minimum capital requirement	None	None
Equity transfer	Free in principle	Directors' consent
Change in articles of incorporation	Special resolution in stockholders' meeting	Agreement from all directors
Change in organization	Possible	Possible

1-2) Branch of foreign company

Registration

A foreign investor may set up a branch of a foreign company to engage in any commercial activities in Japan by filing a notification with the government office under the Foreign Exchange and Foreign Trade Law. To conduct business in Japan, a branch must also be registered under the Commercial Registration Law. Although a branch operation is acceptable in any business category, it is considered most suitable for purchase, sales and service operations. A branch of a foreign company must be established in compliance with the legal requirements of the Companies Act. Under the Act, a foreign company continually engaging in commercial transactions in Japan must appoint a representative in Japan (branch manager), set up a place of business and register with the local registry office of the Legal Affairs Bureau of the Ministry of

Justice. The registered representative is authorized under Japanese law to perform all acts on behalf of the branch. If the branch manager changes, that change must be registered.

Conversion to a subsidiary

Converting a branch to subsidiary is legally possible, but requires careful consideration. It is a rather time-consuming and costly process. The foreign corporation may set up a subsidiary and then transfer the branch's assets to the subsidiary. If a foreign investor plans to conduct business in Japan over a long period, setting up a subsidiary at the outset may be more desirable.

1-3) Representative office

A representative office is not a legal entity and is not required to obtain commercial registration. Consequently, foreign investors can generally open a representative office without filing any report with government ministries. (The opening of an office of a foreign bank, foreign securities company or foreign insurance company, however, requires notification to the Ministry of Finance.) The only document required for its establishment is a notification to the relevant tax office in the case of the establishment of an office employing salaried workers. Also joining social insurance may be required in the case of employing salaried workers.

Because of its lack of legal status, a representative office is not allowed to engage in any commercial transactions nor set up a bank account. Its activities are limited solely to purchasing or storing items and other liaison activity like gathering information, market research and publicity etc. for the head office of a foreign corporation; a representative office is not subject to Japanese corporate tax for its liaison activities on behalf of a foreign corporation. If its performance was beyond those permitted, however, a representative office could become a taxable entity.

A representative office can bring in funds as operating expenses without restriction. The restrictions imposed on the activities of a representative office make that status generally suitable only for temporal operations for a foreign investor who intends to establish a branch or subsidiary in the near future. Therefore this approach is often used by a foreign investor who requires a great big deal of market research before developing a legally recognized branch operation.

2) Differences between Company (subsidiary), branches of foreign company and representative offices

2-1) Company (subsidiary) vs. Branch

The main differences in the tax treatment between Japanese branches and Japanese subsidiaries are as follows.

Expense allocation

Expense incurred by the head office for the benefit of a Japanese branch may be allocated to the Japanese branch and deducted by the Japanese branch on its Japanese tax return.

In case of Company (subsidiary), direct allocation will not be allowed without a contract between parent company and subsidiary.

Dividends

Dividends paid by a Japanese subsidiary to a foreign shareholder are subject to Japanese withholding tax while remittance of branch profits after tax to its head office in a foreign country is not subject to Japanese withholding tax.

Interest or royalty

Interest or royalty paid by a Japanese subsidiary to a foreign corporation is deductible for the Japanese subsidiary unless it is excessive, although it is subject to Japanese withholding tax.

On the other hand, interest or royalty paid by a Japanese branch to the foreign head office is not tax deductible.

However, if it can be demonstrated that the head office has paid interest on a loan or royalty for industrial property, etc. that is utilized in the Japan branch's operation, such interest or royalty may be deducted by the Japanese branch although such interest or royalty is subject to Japanese withholding tax.

	Branch	Company (subsidiary)
Expense allocation	Possible if not excessive	Not possible in principle
Dividends	Remittance of after-tax profit not subject to Japanese withholding tax	Subject to Japanese withholding tax
Interest or royalty	Not tax deductible in principle	Tax deductible, subject to withholding tax

Previously, Japan adopted the "Entire income approach" under which a foreign corporation with a PE in Japan is liable to pay tax on all Japan-source income irrespective of whether the income is attributable to the PE or not. However this will be changed to "Attributable income approach" in accordance with the OECD model tax treaty.

Under the principle of the attribution of profits to a PE, PE's attributable income would be calculated based on the functional and factual analysis of the PE by allocating external dealings, assets, risks and capital to the PE and recognizing inter-company dealings on an arm's length basis as if it were a separate and independent enterprise.

This change will be effective for fiscal years beginning on or after 1st April 2016.

2-2) A representative office

The tax authorities may review the activities of the representative office to determine whether they are merely auxiliary or preparatory. If they were recognized as business activities, the Japan source income was subject to Japanese corporate income tax.

2-3) “105%” Service Company

However, the tax authorities might not challenge an arrangement where a legally separate entity in Japan provides service to other legally separate foreign corporation(s) for a reasonable service fee determined under a written agreement (e.g., a service fee may range from 105% to 110% of the expenses incurred for the said services).

3) The report for corporate tax

Please note that each report in the following table can be applied to either companies or branches unless otherwise stated separately.

Reporting for tax purposes is required after company establishment or opening branch for legal purposes. Following is a list of documents to be filed with the tax offices.

National Tax Office (See *1)	Documents necessary	Filing due
1. Report on establishment of company (company only)	Copy of articles of incorporation Copy of registry Lists of stockholders / partners B/S at establishment	Within 2 months after establishment
2. Report on establishment of a foreign corporation (branch only)	Copy of articles of incorporation in Japanese Copy of registry Headquarter B/S of previous fiscal year Business outlines in Japan	Within 2 months after commencement
3. Application for approval of filing a blue tax return	None	Within 3 months after establishment or the first fiscal year-end, whichever is earlier
4. Application for extension of corporate tax return filing due date—if necessary	None	The end of the fiscal year
5. Report on commencement of payroll payment	None	Within 1 month after paying salary
6. Application for approval of		Any time if the number of

paying withholding tax by every July 10 and January 10	None	employees is less than 10
7. Report on method of depreciation to be used	None	When first tax return is due
8. Report on method of evaluation of inventory assets	None	Same as 7 above
Local Tax Office (See *2)	Documents necessary	
9. Report on establishment of company or branch	Copy of articles of incorporation Copy of registry Lists of stockholders / employees	Within 15 days after starting business (See *3)
10. Application for extension of enterprise and inhabitant tax return filing due date—if necessary	None	Same as 4 above

*1 In addition report on consumption tax may be necessary.

*2 Required for both prefectural tax and municipal tax.

*3 It depends on autonomy; could be within one month after starting business.

2. Corporation tax

1) Closing accounts and filing tax returns

1-1) Accounting Period

The accounting period for corporation tax purposes is the accounting period provided on the Articles of Incorporation of the corporation. However, the period must not exceed 12 months.

In principle, the Japanese branch of a foreign corporation must use the same accounting period as the head office. Japanese corporations generally decide their accounting period from April 1st to March 31st.

1-2) Accounting income vs. Taxable income

Accounting for tax purposes follows, in principle, accounting principles generally accepted in Japan. An appropriately determined accounting standard must be consistently applied.

There is generally no significant difference between the pre-tax income for accounting purposes and the taxable income for corporate income tax purposes. However, in order to determine income for corporate tax purposes, certain adjustments must be made to the pre-tax accounting income.

For example, if expenses such as for entertainment, depreciation, donation and executive remuneration exceed tax limits, they would be added to taxable income.

1-3) Filing and paying income tax

A corporation must file tax return and pay the tax within two months after the end of its fiscal year. One month extension would be permitted for Japanese companies, if the application is submitted by the due. A few more month extension may be possible for foreign corporations.

Except for newly established corporations, if the fiscal year is longer than six months, the corporation must file an interim return within two months of the end of the first six months and make an advance payment at the time of filing the interim return of either 50% of its prior year’s tax liability or 100% of its estimated tax liability for the first six months of the current year.

1-4) “Blue form Return” system

There is a “Blue form Return” system in order to encourage taxpayers to declare taxable income based upon accurate accounting records.

This system provides special benefits such as taking special depreciation, establishment of certain reserves, carry forward of tax losses for seven years, carry back of tax losses and claiming tax credits under the Special Taxation Measures Law. In addition, a tax examination is conducted based upon the taxpayer's books of account.

All types of taxpayers (including foreign corporations) may apply for permission to use a blue form return. To be permitted, the taxpayer must satisfy certain requirements such as keeping proper accounting books. But once it is approved and as long as the accounting system is in order, the taxpayer can usually receive special benefits above.

For a new corporation or a new Japan branch, an application must be submitted within 3 months of the date of establishment or the last day of the first accounting period, whichever comes first.

2) The tax rate

2-1) Corporation tax

The taxable income for corporation tax purposes is calculated based on the pre-tax income of the income statement of the corporation with needful adjustments.

Corporation tax is calculated by applying the corporation tax rate to the annual taxable income.

Certain tax credits, if applicable, are deducted from the computed corporation tax.

Corporation tax rates in the case of ordinary corporations

Annual taxable income	Capital 100millions or less	Capital more than 100 millions
Annual taxable income 8 million or less	15.00%	25.50%

Annual taxable income more than 8 millions	23.90%	
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Local corporation tax will be levied at 4.4% of the base corporation tax in addition to the corporation tax.

2-2) Local inhabitants' tax

Local inhabitants' tax (i.e., prefectural tax and municipal tax) consists of the tax based on the corporate income tax liability plus per capita tax.

The per capita tax is determined based on the paid-in capital (including capital surplus) and the number of employees.

The tax based on the corporation tax liability is calculated by applying prefectural tax rates and municipal tax rates to the amount of the corporate income tax allocated each to the prefecture and municipality based on the number of employees.

Per capita corporate inhabitant tax

The capital amount	The number of employees of the local office	Prefectural tax + Municipal tax		
		Standard tax rate	Tokyo	Osaka
Above 5000M	Above 50	3,800,000	3,800,000	4,600,000
	Up to 50	1,210,000	1,210,000	2,010,000
Above 1000M Up to 5000M	Above 50	2,290,000	2,290,000	2,830,000
	Up to 50	950,000	950,000	1,490,000
Above 100M UP to 1000M	Above 50	530,000	530,000	660,000
	UP to 50	290,000	290,000	420,000
Above 10M Up to 100M	Above 50	200,000	200,000	225,000
	UP to 50	180,000	180,000	205,000
UP to 10M	Above 50	140,000	140,000	140,000
	Up to 50	70,000	70,000	70,000

Applicable tax rate is determined by the regulation of local public body.

(The applicable tax rate may be higher than the standard tax rate)

Tax based on corporation tax

Taxable base is the amount of national corporation tax.

	Municipal tax*	Prefectural tax
Any corporation	9.7%	3.2%

Applicable tax rate is determined by the regulation of local public body.

(The applicable tax rate may be higher than the standard tax rate)

2-3) Enterprise tax and Special local corporation tax

Corporations are also subject to prefectural enterprise tax.

Net taxable income for enterprise tax purposes is not necessarily the same as that for corporation tax purposes.

For example, for enterprise tax purposes, foreign source net business income earned through a fixed facility of business abroad is excluded from taxable income.

Also, the reserve for losses from overseas investments and the special deduction for certain overseas technical service transactions provided for in the Special Taxation Measures Law are not available.

The enterprise tax rate depends on the amount of taxable income allocated to each prefecture and is determined by each prefecture.

Besides, from the accounting year starting October 1, 2008, enterprise tax is severed, special local corporation tax is founded to ease the redistribution between prefectures.

Enterprise tax (Example of an ordinary corporation located within Osaka prefecture)

Company with capital of over 100M

Enterprise taxes

	Annual income threshold	Added value levy	Capital levy	Income levy
Reduced tax rate	Up to 4M	0.72%	0.3%	1.6%
	Over 4M Up to 8M			2.3%
	Over 8M			3.1%
Proportional tax rate (*1)	3.1%			
Special local corporation tax		93.5%		

Special local corporation tax

93.5% of base income tax levy(*3)

Company with capital of 100M or less

Enterprise taxes

	Annual income threshold	Income levy
Reduced Tax rate	Up to 400M	3.4%
	Over 4M up to 8M	5.1%
	Over 8M	6.7%
Proportional tax(*2)		6.7%

Special local corporation tax

43.2% of taxable income (*3)

*1. The rate in the above table is standard tax rate. Each prefecture determines the applicable tax rate which is limited to the maximum rate of 1.2 times of the standard tax rate.

*2. Proportional tax rate shall be imposed on a company which has offices in more than 3 prefectures and a capital of 10M or more.

*3. base income levy amount means the income levy tax amount which calculated by standard tax rate.

2-4) Effective rate of corporation tax (Small or medium size company)

The effective rate of corporation tax reflecting the reduction of the corporation tax rate effective from 2014 is as follows;

	From fiscal year commencing on or after 1 st April 2014	From fiscal year commencing on or after 1 st April 2015
a) corporate tax	25.5%	23.9%
a) local corporation tax + inhabitant tax (Prefecture + municipal)	5.0% + 12.3% = 17.3%	4.45 + 3.2% + 9.7% = 17.3%
c) Enterprise tax + special local tax rate (注 2)	9.59%	9.59%
d) Effective tax rate $\{(a)+(a)X(b)+(c)\}/1+(c)$	36.05%	34.33%

Standard tax rate is used in the above table. The calculation does not consider the reduced tax rate of corporate tax for a company with annual income of 8M or less or the corporate inhabitant tax per capita.

Details of enterprise tax rate and special local tax rate are as follows;

	From fiscal year commencing on or after 1 st April 2014	From fiscal year commencing on or after 1 st April 2015
c)'Rate of Enterprise tax income levy	5.3%	6.7%
c)''Special local tax rate	c)'X81%=4.29%	c)'X43.2%=2.89%
c)Corporate tax rate and special local tax rate	9.59%	9.59%

3) Depreciation

3-1) Depreciable assets and depreciation

Tangible assets used for business (e.g. buildings, building improvements, structures, tools, and motor vehicles) and intangible assets such as software generally lose their value as time passes. These types of assets are called depreciable assets. On the other hand, assets that do not lose value such as land or antiques are not subject to depreciation.

The acquisition cost for depreciable assets shall be allocated periodically over the usable period instead of being expensed at the time of acquisition. A number of usable years are designated by law for each type of asset.

3-2) Depreciation methods

There are two types of depreciation method, the “straight-line method” and the “declining-balance method”. A company has to report to the tax office which method will be used for each asset. If it’s not reported, the declining-balance method shall be applied. The building which is obtained after April 1st 1998 and Intangible assets must be amortized by the straight-line method.

Assets in use after April 1, 2007, are subject to the new depreciation method. This also affects the depreciation method for assets acquired before April 2007. The table below explains the details.

Depreciation formulas

	Assets in use before 31 March, 2007	Assets in use after 1 April, 2007
Straight-line method	(Acquisition cost – salvage cost (= acquisition cost × 10%)) ÷ old depreciation rate ^(*1)	Acquisition value × depreciation rate
Declining-balance method	Un-depreciated cost in the beginning of the fiscal year × old depreciation rate ^(*1)	Un-depreciated cost at the beginning of the fiscal year × depreciation rate ^(*5) . Once the depreciated cost falls below the insured amount ^(*2) , the formula “revised acquisition value ^(*3) × revised depreciation rate ^(*4) ” shall be used instead.

(*1) Different depreciation rates are applied for assets acquired after April 1, 2012 and assets acquired before that date.

(*2) Once the depreciated cost falls below the 5% of the acquisition cost, the rest shall be depreciated equally over 5 years.

(*3) Acquisition cost × a specific rate according to the number of usable years.

(*4) Un-depreciated cost of the first year that the original depreciation cost falls below the insured

amount.

(*5) The rate depends the usable period of the asset such that the same depreciation cost would be applied in the future.

If the tangible asset was acquired in the middle of the fiscal year, the number of months of actual use is subject to depreciation. For certain tangible assets, the special depreciation shall be applied according to the Act on Special Measures Concerning Taxation.

3-3) Usable period

Japan Tax Law defines a number of usable years depending on asset type, structure, and purposes of use. If the asset is neither used for more than a year nor costs more than ¥100,000, it can be expensed in the year of acquisition.

Table of depreciation rates (apply for assets acquired after April 1, 2012)

Number of Usable Years	Straight-line method	Declining-balance method			Usable Years	Straight-line method	Declining-line method		
		Rate	Revised rate	Insured rate			Rate	Revised rate	Insured rate
2	0.500	1.000	-	-	18	0.056	0.111	0.112	0.03884
3	0.334	0.667	1.000	0.11089	19	0.053	0.105	0.112	0.03693
4	0.250	0.500	1.000	0.12499	20	0.050	0.100	0.112	0.03486
5	0.200	0.400	0.500	0.10800	21	0.048	0.095	0.100	0.03335
6	0.167	0.333	0.334	0.09911	22	0.046	0.091	0.100	0.03182
7	0.143	0.286	0.334	0.08680	23	0.044	0.087	0.091	0.03052
8	0.125	0.250	0.334	0.07907	24	0.042	0.083	0.084	0.02969
9	0.112	0.222	0.250	0.07126	25	0.040	0.080	0.084	0.02841
10	0.100	0.200	0.250	0.06552	26	0.039	0.077	0.084	0.02716
11	0.091	0.182	0.200	0.05992	27	0.038	0.074	0.077	0.02624
12	0.084	0.167	0.200	0.05566	28	0.036	0.071	0.072	0.002568
13	0.077	0.154	0.167	0.05180	29	0.035	0.069	0.072	0.02463
14	0.072	0.143	0.167	0.04854	30	0.034	0.067	0.072	0.02366
15	0.067	0.133	0.143	0.04565	40	0.025	0.050	0.053	0.01791
16	0.063	0.125	0.143	0.04294	50	0.020	0.040	0.042	0.01440
17	0.059	0.118	0.125	0.04038					

3-4) Special tax treatment for small sum depreciable properties

Small business, that use the “Blue form Return” system and acquired depreciable properties amounting less than 300,000 yen by March 31, 2016, can allocate the expense to the year of acquisition. The maximum of each year is 300 million yen.

In the case of properties over 100,000 yen and less than 200,000 yen, the acquisition expenses are allowed to be allocated equally over 3 years with no scrap value.

4) Expenditures that can't be allocated as expense**4-1) Entertainment expenses and donation expenses**

Under the Corporation Tax Law, the tax-deductibility of entertainment expenses and donation is limited.

1) The entertainment expenses of a company whose capital at the end of the business year is not exceed ¥100M will be deductible up to ¥8M. Over 8M will not be deductible.

2) For all companies, only eating cost will be deductible up to 50% of its total amount.

(Therefore, small and middle-size companies can select 1) or 2) whichever is favorable.)

*Above treatment is applied only for the financial years commencing between April 1st, 2014 and March 31, 2016. For the fiscal years beginning on or after April 1st 2016, the company whose capital is over 100M, cannot deduct all the entertainment expenses. The other companies, cannot deduct 10% of entertainment expenses up to ¥6M and full amount of over ¥6M.

Economic profit given free of charge by a corporation to public welfare organization or other facility, which do not directly benefit the business of the corporation, is regarded as donations for tax purpose.

The allowance of deductible donations is generally limited to the sum of 0.625% of taxable income (before deduction of donations) plus 0.0625% of paid-in capital and capital surplus of the corporation.

The paid-in capital of a Japan branch of a foreign corporation, which is applied in calculation of the limit of tax deductible entertainment expense and donation, is calculated as the paid-in capital of the foreign corporation multiplied by the ratio of the total assets of the Japan branch over the total assets of the foreign corporation.

4-2) Directors' remuneration

There are restrictions on the tax-deductibility of directors' remuneration.

The board members of a corporation are considered directors under the Corporation Tax Law and they are classified into two groups: directors without employee status and directors with employee status.

For tax restriction purposes, the remuneration for a director with employee status consists of both the compensation earned as a director and as an employee.

A person appointed as a branch representative in Japan of a foreign corporation is normally regarded as an employee, rather than a director, unless he is a board member of the foreign corporation.

A director's regular salary is tax-deductible unless it is in excess of the amount that the tax authorities consider reasonable. If the amount of the director's remuneration is provided for in the articles of incorporation or authorized by a resolution at a general

shareholder's meeting, any amount in excess of this authorization is not deductible. Directors' bonuses can be deductible on condition that the corporation submits a report accordingly to tax authority in advance. However, the bonus to a director with employee status may be deductible if the bonus is paid at the same time as other employees. However, the deductible amount is limited to the amount of the bonus paid to a comparable employee.

Generally, any economic benefits given to directors are regarded as either salary or bonuses. Economic benefits include transfers of assets to directors on advantageous terms, free provision of company houses to directors, interest-free loans to directors, assumption of liabilities on behalf of directors, etc. However, fixed amounts of economic benefits paid on a monthly basis are fully deductible unless they are excessive.

Further, based on corporation tax act, in a case where the amount of directors' remuneration is changed by a resolution of the general shareholder's meeting held within 3 months from the beginning of the fiscal year, the total amount can be deductible.

Therefore, when the monthly remuneration is changed after the period, the amount which exceeds the original amount cannot be deductible in the fiscal year.

5) Group taxation regime

5-1) Outline of group taxation regime

In Japan, group taxation regime is applied to 100% owned corporate group. 100 % ownership means that a company owns 100% shares of the other company.

Mechanism of group taxation regime regards corporations in a 100% group corporations as a single legal entity, having two significant contents; Specific transactions between corporations in the group are taken an internal transaction. And the amount of capital of a parent company is used to determine applicability of special provisions for a small corporation.

5-2) Corporation subject to group taxation regime

Group taxation regime is applied to 100% owned group corporations, so-called complete dominance relationship. Complete dominance relationship means direct or indirect 100% ownership of share. If shares owned by stock options and shares owned by the employee stock ownership plan are less than 5 % of the outstanding shares, those shares are exclude in determine of percentage of the ownership.

Complete dominance relationship also includes mutual relationship between subsidiaries of the parents companies, if one parent company has 100% owned relationship with other parent company.

5-3) Provisions of Group tax regime

The following provisions apply to corporations subject to Group tax regime.

When an asset is transferred between group corporations, the transfer profit or loss is deferred until the asset is transferred out of the corporate group.

Donation between group corporations is excluded of tax deductible expenses and Gift receipt profit is excluded of taxable income. This rule, however, is not applied to a corporate group which is 100% owned by an individual owner.

Total amount of the dividend from 100% owned subsidiary stocks is not included in taxable income.

In Japan, a small corporation, whose capital is 100 million YEN or less can benefit from several special provisions as below in its tax calculation.

- Reduced rate of corporation tax
- Non-application of the special tax rate of a particular family company
- Exceptions to the deductibility of entertainment expenses
- Legal provision rate of allowance for doubtful account
- Refund due to loss carryback

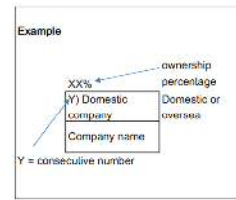
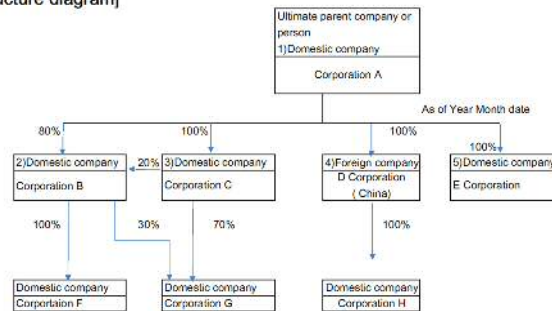
If 100% shares of the small corporation are owned by a company, whose capital is 500 million YEN or more, the special provisions can be inapplicable for the small company.

5-4) Submission of group structure diagram

It is a requirement of a domestic company to submit its group structure diagram with the tax return where the company has 100% controlling interest in other company or the company is under control of the other, i.e. subsidiary or parent company etc. The diagram should illustrate systematically the investment relationship within the group. It should be prepared as at the end of the fiscal year and should also include the details such as the name and address of the company, the registered tax office, the name of the representative, the type of business, the amount of capital and the accounting year end. A separate sheet can be prepared for these details in case of large group companies and attach to the main diagram.

Below is an example of the group structure diagram;

[Group structure diagram]



*1 As a rule, please write the all companies that relate to the ultimate parent company or person
 *2 When the group company is foreign company, please write the country name under the company name.

Group table

							As of x xxth 20XX
consecutive Number	Tax office	Name(company/individual)	Address	Name of representative	Type of business	Capital(Currency)	Accounting Period
(1)	kojimachi	Corporation A					
(2)	Sendaikita	Corporation B					

The consequence number have to be numbered according to the capital relationship chart
 When the ultimate owner is an individual person, please write his or her name in the column of company name

6) Preferential treatments under the corporation tax

In the case a company which invests in facilities or establishes expansion of the employment can meet certain requirements, preferential treatment shall be applied under the corporation tax law. The introduction of preferential treatment is as follows.

6-1) Investment in equipment

Blue return filing SMEs (see*1 below) operating certain businesses are qualified if the following condition is met.

(Condition)

When a company acquires the qualified investments that are capital expenditures for fixtures, facilities, cars and software, and uses for business in Japan during the fiscal years from 1 June 1998 to 31 March 2017.

(Treatment)

The new proposal provides for 30% of special depreciation or 7% of tax credit for the acquisition cost of machinery (see *2 and *3 below).

6-2) Investment in production efficiency enhancing equipment

a) All blue return filing companies are qualified if the following condition is met.

(Condition)

When a company acquires an equipment which contributes to the improvement of the productivity and uses it for business in Japan during the fiscal years from 20 January 2014 to 31 March 2017.

(Treatment)

The new proposal provides for immediate full depreciation or 5% (for buildings and structures, it is 3%) of tax credit (see *6 below).

(Supplementary note)

Eligible assets are machinery, tools, furniture and fixtures and software which compose the productive capacity, meeting the requirement of “production efficiency enhancing equipment” which is defined by Industrial competitiveness Enhancement Act and shall be above a certain scale. About certain assets, the investment plan should be certified by Bureau of Economy as to whether the asset meets the requirements.

b) Blue return filing SMEs (see *1 below) which runs certain business can apply following preferential treatments if the following condition is met.

(Condition)

It is same as condition of a).

(Treatment)

The new proposal provides for immediate full depreciation or 7% (see*7) of special credit.

(Supplementary note)

Eligible asset are equipments meeting the requirement of “production efficiency enhancing equipment” of those described above 6-1. If the asset meets the requirements, this regulation shall be applied instead of 6- 1.

6-3) Green investment

Blue return filing companies are qualified if the following condition is met.

(Condition)

When a company invests in renewable energy and energy-saving equipment and uses for business in Japan within 1 year after acquisition from 30 June 2011 to 31 March 2016.

(Treatment)

The new proposal provides for 30% of special depreciation (total acquisition costs can be expensed upfront) or 7% of tax credit (see *2 and *3 below).

(Supplementary note)

Eligible assets are equipments helping rationalization of the energy utilization to affect building remarkably including new energy utilization equipments and high insulation window equipments such as solar power generation equipment and wind power generation equipment.

6-4) Investment for business improvement

The middle sized blue return filing company (see*1 below) operating certain businesses such as wholesale retail and service businesses are qualified if the following condition is met.

(Condition)

When a company receives advice on improving its operations from an organization authorized by Japanese government (see*4 below) and acquires equipment and puts it to use between 1 April 2013 and 31 March 2015

(Treatment)

The new proposal provides for 30% of special depreciation or 7% of tax credit for acquisition cost of equipment (see*2 and *3 below).

(Supplementary note)

Eligible equipments, instruments and fixtures which the acquisition cost is JPY 300,000 or more per unit and facilities attached to buildings which the acquisition cost is JPY 600,000 or more per unit.

6-5) Job creation

Blue return filing companies are qualified if the following condition is met.

(Condition)

For fiscal years commencing between 1 April 2011 and 31 March 2014, the number of insured persons under the national employment insurance scheme at the end of the current fiscal year has increased by 10 percent or more and by 5 employees or more (2 employees or more for small and SMEs (see*1 below) when compared to the preceding year end.

(Treatment)

The new proposal provides that the amount of tax credit. Tax (see *6 below) is

Net increase in the number of employees insured under the national employment insurance between the end of the current fiscal year and the end of the preceding fiscal year.	× ¥JPY400,000 (see*5 below)
--	-----------------------------

(Supplementary note)

- 1) Under this tax credit system, a blue-return filing company which submits a job creation plan to a public job placement agency within two months after the application year began will be able to apply, and please note that this tax credit system is not applicable where the new tax credit system discussed in 6-7).
- 2) This tax credit system is not applicable for the fiscal year when the tax credit of 6-7) is applied.

6-6) Salary growth

Blue return filing companies are qualified if all the conditions below are met for the fiscal years commencing between 1 April 2013 and 31 March 2018.

(Condition 1-3)

(1) The payment (*1) for the fiscal year is larger in certain rate than that of the base fiscal

year.

(2)The payment (*1) is not less than that of the prior fiscal year.

(3) The average payment (*2) for the fiscal year is more than that of prior fiscal year.

(*1) The payment is limited to that for domestic employees.

(*2)The payment is limited to that for continued employees in domestic employees.

(Treatment)

The new proposal provides for the amount of tax credit calculated as follows.

$(\text{Payment for the fiscal year} - \text{Payment for the base fiscal year}) \times 10\%$ (see*5 below)
--

(Supplementary note)

Please note that this tax credit is not applicable for the fiscal year when the tax credit of 6-6) is applied.

(*1) SMEs for the incentives purposes are defined as corporations, whose paid-in capital is ¥JPY 100 million or less (not owned 50% or more by a corporation whose paid-in capital is more than ¥JPY 100 million, or two-thirds or more by corporations whose paid-in capital is more than ¥JPY 100million, etc.)

(*2) Companies with paid-in capital of 30 million or less are qualified for tax credit

(*3) The limit is up until 20% of the corporation tax for the current fiscal year

(*4) The AIC tax accountant corporation is authorized as the support organization

(*5) The credit is limited to 10% (20% for SMEs) of the corporation tax amount for the fiscal year

(*6)For acquisition between Apr.1st 2016 and March 31st 2017, the special depreciation of 50% (for buildings and structures, it is 25%) of the acquisition cost or 4% (for buildings and structures, it is 2%) of tax credit will be applied.

(*7) For the company whose capital is 0.3M or less, it is 10%.

3. Other tax for corporation

1) Consumption tax

1-1) Basic Principles

Consumption tax is a value-added tax which is collected at several stages.

It is levied on the consumption of goods and services and charged by sellers at the time of the sale of goods or the provision of services.

Periodically, sellers must total the tax collected on sales, deduct from this the tax paid on purchases and pay the balance to the tax authorities.

The result is that the consumer ultimately bears the tax, but the tax has been collected in a series of installments from each business enterprise involved in the chain of production and distribution depending on their value added.

The import of goods by individuals and business enterprises is subject to import consumption tax.

The export of goods, international transportation services, etc. are exempt from consumption tax (i.e., zero-rated) and the consumption tax imposed on related purchases may be claimed for refund.

Sales or lease of land, sales of securities, interest on loans, guarantee fees, insurance premiums, provision of public services, education, medical services, social welfare services, and other specified items are classified as non-taxable transactions.

However, the consumption tax on purchases relating to the above non-taxable items is not refundable.

Transactions corresponding to none mentioned above are not subject to consumption tax, including tax and a salary, a donation, and the indemnity .

1-2) Structure of Consumption Tax

The tax base for domestic transactions is the sales price.

For imports, the tax base is the delivery price inclusive of customs duties and taxes such as liquor tax, gasoline tax, etc. The tax rate is 5%.

Since the consumption tax is a value-added tax levied at each stage of distributions of goods and services, the tax already paid at the former stage is deducted.

An enterprise deducts the consumption tax paid on purchases (input tax) from the consumption tax collected on sales (output tax) based on its accounting records and periodically pays the balance to the tax authorities by filing a tax return with the district national tax office.

To substantiate the above self-assessment, an enterprise must retain records such as statements of delivery or bills.

1-3) Tax payer

With regard to domestic transactions, business enterprises who sell taxable assets have to file consumption tax return. With regard to import transactions, business enterprises and persons (including the individual who is not an entrepreneur) who take over taxable freights from the bonded area, have to file consumption tax return.

Business enterprises whose yearly taxable sales amount of the base period (the fiscal year two fiscal years prior to the current year) was 10 million yen or less, and also whose taxable sales amount of the 1st half of the last fiscal year was 10 million yen or less, are not obligated to file a consumption tax return for the current year. (Consumption tax-exempt enterprise) This regulation is applicable from the fiscal year starting on or after January 1, 2013. 10 million yen ceiling of the base period's taxable sales is the current requirement to be a tax-exempt enterprise.

Business enterprises are exempt from consumption tax during their first and second business years, because no taxable sales occur for the relevant base periods. The

corporation, however, is not exempt from tax during its first and second business years, if its paid-in capital is ¥10 million or more at the beginning of the business year.

Even if its taxable sales income of the base period is less than ¥10 million, the enterprise can strategically elect to become a taxable enterprise by submitting a notification to Tax office, if it has a capital investment plan and tax paid on purchase likely exceed tax received on sales. By doing so, the enterprise can claim the refund of tax paid on purchases.

1-4) Computation of consumption tax

The tax rate is 8%. (National tax rate 6.3% and local tax rate 1.7%). (1*)

(1*) Before March 2014, the tax rate is 5%. (National tax rate 4% and local tax rate 1%). From April 2017, the tax rate shall be 10%. (National tax rate 7.8% and local tax rate 2.2%).

Basic formula of tax calculation is as follows:

Tax due = Consumption tax on sales (5% of taxable sales amount) – Consumption tax on purchase (5% of taxable purchase amount)

Taxable sales amount is total amount of taxable sales transactions in Japan and Export tax exempt transaction. Taxable purchase amount is total amount of taxable purchase in Japan and taxable import goods removed from a bonded area. There are 2 tax system for computation of consumption tax on purchase to be credited from consumption tax on sales (Purchase tax credit), Basic tax system and Simplified tax system.

1-5) Basic tax system

In basic method, taxable sales ratio is applied for computation of purchase tax credit.

Taxable sales ratio = taxable sales amount in a financial year / sales amount in a financial year

Taxable sales amount is the total amount of transfer of taxable assets in Japan, export tax exempt transaction. Sales amount is the total amount of transfer of taxable assets in Japan, export tax exempt transaction, and non-tax transaction.

If taxable sales ratio is 95% or more also annual income is less than ¥500M, full amount of consumption tax on purchase can be credited. If it is less than 95% or annual income is over ¥500M, purchase tax credit is calculated using either Itemized method or Proportional method.

In Itemized method, expenses are categorized in three groups: expenses corresponding only to taxable sales (A), expenses corresponding only to non-taxable sales (B), and expenses corresponding to both taxable and non-taxable sales (C). Purchase tax credit is calculated as below:

Consumption tax on purchase of expenses (A) plus Consumption tax on purchase of expenses(C) x Taxable sales ratio.

In Proportional method, Purchase tax credit is calculated as below:

Total amount of consumption tax on purchase of expenses (A) (B) (C) x Taxable sales

ratio.

From the financial year beginning on and after April 1, 2012, in the case the taxable sales exceeds 500 million yen, the purchase tax credit is calculated by either Itemized method or Proportional method, even if the taxable sales ratio is 95% or more.

Preservation of both books recording the facts of payment of expenses and invoices or receipts as evidence is indispensable to have tax purchase credit in preparation of consumption tax return.

1-6) Simplified tax system

If taxable sales of an enterprise in the base period is ¥50million or less and Notification of selecting simplified system has been filed to tax office before the date of beginning of the taxable year, the enterprise calculate purchase tax credit by applying a certain rate of sales turnover.

Type of Business	rate
Wholesales	90%
Retailers	80%
Manufactures, Constructors, Agricultures	70%
Restaurants(Eating and drinking industry)and Financial Services ※	60%
Real Estates,※ Transportations and Communication Industries(except restaurants)	50%

※From the tax period commencing on or after April 1st of 2015, the rate for Financial Services will be 50%, and that for Real Estates will be 40%.

A corporation running only one type of business can calculate purchase tax credit by multiplying taxable sales amount by corresponding sales turnover ratio. In the case a corporation runs more than two types of business, taxable sales need to be classified by types of business. If no classification given, the corporation has to apply the lowest ratio of sales turnover to calculate its purchase tax credit. The corporation, therefore, can take advantage in tax calculation by knowing exact types of business it runs and classifying its transactions accordingly.

1-7) Tax period and tax return and payment

The tax period for a corporation is its financial year. However, they can also use quarterly or monthly tax periods

A corporation whose previous year's tax due exceeded ¥480,000 must file and pay provisional tax at 50% of the consumption tax reported on the final tax return of the previous tax period within two months of after the first six months past in the tax year. If the previous year's tax due exceeded ¥4,000,000, quarterly filing and payment are required. If the previous year's tax due exceeded ¥48,000,000, a corporation must file and pay tax at 1/12 of previous year's tax.

If the amount of tax paid on purchase exceeds the tax received on sales on the date of tax period closing, the excess is refunded after the final tax return is filed with the tax

office.

If a corporation makes provisional settlement of accounts of consumption tax, the corporation is allowed to file interim return of consumption tax and make payment of the tax by using the amounts of the provisional settlement of accounts, instead of using the previous year's result. In the case that the corporation have profit in the previous financial year and has the burden of payable interim consumption tax calculated by the result of the previous year. Even if the amount figured out by provisional settlements of account is negative, the corporation can receive no refund of tax.

In the case the corporation made the interim payment of consumption tax, the sum of the interim payment is credited from annual tax amount.

With regard to the import of taxable goods, an individual or a corporation who take over the goods from bonded area submits import declaration to chief customs inspector and pay the consumption tax on the goods. The amount of the consumption tax on the goods is included in calculation of purchase tax credit mentioned in 8-5) above.

2) Fixed assets tax and City planning tax

Fixed assets tax and City planning tax are imposed when the company or individual have real estates, or depreciable property.

Object of taxation	Land / Building	Depreciable asset
Taxpayer	Individual or company who is registered as its owner as of January 1 st at the legal affairs bureau.	Individual business owner or company who have depreciable asset for business use as of January 1 st .
Taxable minimum	Land ¥300,000, Building ¥200,000	¥1.5M
Tax rate	1.4% + City planning tax (under 0.3%)	1.4%
Base of taxation	Valuation amount by each municipality	Book value by declining value method
Due date of filing	Not necessary for filing tax return	January 31st
Tax due date	Annual amount is to be paid in 4 installments in Apr., July, Dec., Feb..	
Note	There are some tax reduction measures for residence	Fixed assets 3 years equal depreciation is applied are not taxable.

3) Office tax

Some municipalities with population of 0.3M or more impose office tax on a company or individual business owner whose office is over 1000 m², or have over 100 employees.

Tax amount	Per floor space tax : ¥600/m ² Per number of employee tax : Total annual salary×0.25%
Due date of filing	Company: Within two months of the end of the fiscal year. Individual business owner : March 15
Tax due date	Same as tax filing.

4. Salary and Taxes for Employees**1) Employment income and deductions for compensation**

Individuals with employment income are subject to income tax. Employment income includes salaries, wages, director's remuneration, bonuses and other compensation of a similar nature. Benefit in kind provided by the employer, including the private use of an employment-provided automobile, permanent company housing, tuition for dependent children, life insurance premiums, private medical insurance premiums and private pension contributions, are included in employment income. However, certain employer-paid benefits, including moving expenses, loans interest above market rate and, for resident foreigners and nonresidents, home-leave expenses, are excluded from taxable income. If the employer enters into a lease directly with a landlord to provide housing for an employee, the employee is subject to tax on the value of the economic benefit only, instead of the actual cost to the employer. The formula to compute the economic benefit is based on the taxable value of the building and land, plus an amount for the floor space. The taxable amount for an employee who is not a director is

generally 10% or less of the actual rent. The taxable rent for a director is substantially higher than that for an employee, ranging from 35% to 50% of the actual rental value. The 35% rate applies if a director periodically uses the residence for business purposes, such as entertaining customers.

Employment income equals gross receipts minus an employment income deduction, as computed in the following table.

Rapid calculation table for deduction for employment income (2014~2015)

Gross Receipts		Amount of employment Income deduction (¥)
Exceeding	Not exceeding	
0	650,000	100%
650,000	1,625,000	650,000
1,625,000	1,800,000	Gross receipts × 40%
1,800,000	3,600,000	Gross receipts × 30% + 180,000
3,600,000	6,600,000	Gross receipts × 20% + 540,000
6,600,000	10,000,000	Gross receipts × 10% + 1,200,000
10,000,000	15,000,000	Gross receipts × 5% + 1,700,000
15,000,000		2,450,000

2) Salary to directors who live overseas

Director’s remuneration paid by a Japanese corporation to a nonresident is considered Japanese-source income and is subject to tax in Japan, even if the services are performed outside Japan

3) Deductions

3-1) Deductible expenses

incurred during a year exceeds 50% of standard employment income deduction which is up until ¥1,250,000 (see Employment Income and Deduction, Page 27), the excess may be deducted in addition to the employment income deduction. Specially allowed expenditures include commuting expenses, moving expenses for a company transfer, (travel expense, hotel accommodation and delivery expense of baggage), training expenses for technological skills or certain qualification directly required in the performance of duties, and expenses for books, clothes and entertainment.

Expenses for books, clothes and entertainment that are directly related to work is called “Necessary expense for work”, maximum of which is ¥650,000.

Expenditures must be documented and certified by the employer. The deduction of specific expenditures may be claimed only by filing a tax return.

3-2) Insurance premiums deduction

Social insurance premiums are fully deductible.

Life insurance, nursing/medical-care and individual pension premiums are deductible up to a maximum ¥120,000. (For nursing medical care insurance, only those contracted in or after 2012 are applicable.)

For casualty insurance premiums, the deductible amount is ¥50,000 for earthquake insurance premiums and ¥15,000 for former long-term casualty insurance. The deductible amount of combined earthquake and former long-term casualty insurance premiums may not exceed ¥50,000.

3-3) Personal exemptions

Personal exemptions are available for purposes of income tax and inhabitant tax. The following table outlines personal exemptions.

Type (outline)	Amount for national tax	Amount for inhabitant tax
Basic exemption	¥380,000	¥330,000
Exemption for spouse	¥380,000	¥330,000
Special exemption for spouse	Up to ¥380,000	Up to ¥330,000
Exemption for dependents		
Younger than 16 years old	0	0
16 - 18 years old	¥380,000	¥330,000
19 - 23 years old	¥630,000	¥450,000
24 - 69 years old	¥380,000	¥330,000
70 years old or older	¥480,000	¥380,000

4) Payroll computation and withholding income tax

Salaries paid to residents are subject to income tax withholding at the source.

The amount to be withheld may be determined using the "Tax Withholding Table" provided as an attachment to the Income Tax Law according to the nature of the salary, the period of payment, and the number of dependents the income earner has. However, nonresidents are generally subject to withholding of 20.42% of income tax irrespective of the amount of the salary and the number of dependents (refer to the following table). In order to withhold income tax properly, salary recipients must submit to the tax authorities, through their employer, "a statement concerning exemptions for dependents, etc." giving the names of dependents and other necessary particulars.

For salaries paid monthly, the tax amount is obtained from the "Monthly Table" according to the amount of salary paid and the number of dependents.

The table of withholding from employment income (for 2015 (excerpt))

Monthly salary amount after deduction of social insurance premiums		Number of dependents				
Over(¥)	But not over(¥)	0	1	2	3	4
		Amount of tax(¥)				
:	:	:	:	:	:	:
338,000	341,000	11,610	8,370	6,720	5,110	3,480
341,000	344,000	11,850	8,620	6,840	5,230	3,600
344,000	347,000	12,100	8,860	6,960	5,350	3,730
:	:	:	:	:	:	:

Computation of tax withheld from a salary paid monthly (example)

<Assumption>

- * Resident taxpayer, married with two children (both children are age 16 or older)
- * Monthly salary amount before deduction of income tax and social insurance premiums is ¥400,000
- * Commutation allowance is ¥20,000
- * Social insurance premiums refer to the rate (see chart 8-2)
- * Health insurance ¥20,582, social security pension ¥35,821, employment insurance ¥2,100

<Computation for withholding income tax>

The amount of salary after deduction of social insurance premiums is

$$¥400,000 - ¥20,582 - ¥35,821 - ¥2,100 = ¥341,497$$

Referring to the table of withholding from employment income above, ¥341,497 and 3 dependents cross. As a result, withholding tax is ¥5,230.

Payroll in details (example)

Payment		*Deduction		
Salary	400,000	Health insurance	20,582	
Transportation	20,000	Welfare pension insurance	35,821	
		Unemployment insurance	2,100	
		Withholding income tax	5,230	
				Net payment
Sum	420,000	Sum	63,733	356,267

*The inhabitant tax is also deductible. The annual amount of the inhabitant tax is computed by multiplying the tax rate referred to 5) below. By a one-twelfth of the inhabitant tax is deducted from a salary every month from June in the next year to May in the year after next. The inhabitant tax deducted is paid to municipality by a company.

-Reference-

In the example above, the each burden of social insurance for employer /employee is as follows.

	Employer	Employee
Health insurance	20,582(50.02/1,000)	20,582(50.02/1,000)
Welfare pension insurance	35,821(87.37/1,000)	35,821(87.37/1,000)
Unemployment insurance	3,570(8.5/1,000)	2,100(5.0/1,000)
Workmen's compensation insurance	1,260(3.0/1,000)	None
Total amount	61,233(149.07/1,000)	58,503(142.57/1,000)

5) Tax rate

Individual income taxes consist of national income tax and local inhabitant tax. Individuals are also subject to a local enterprise tax on income derived from business at rates ranging from 3% to 5%.

Normally, a 20.42% withholding tax is levied on nonresidents, with no deductions available; however, depending on the type of income, tax may be levied at progressive rates through self-assessment (refer to 3-8). Dividends paid by Japanese companies, interest income, annuities and prizes are also subject to a withholding tax if paid to nonresidents.

National income tax rates are progressive. The rates range from 5% (on taxable income of up to ¥1.95 million) to 40% (on taxable income exceeding ¥18 million), as shown in the following table. (*)

Tax rate of income tax

Taxable income		Tax on lower amount(¥)	Rate on excess(%)
Exceeding(¥)	Not exceeding(¥)		
	1,950,000	0	5
1,950,000	3,300,000	97,500	10
3,300,000	6,950,000	427,500	20
6,950,000	9,000,000	636,000	23

9,000,000	18,000,000	1,536,000	33
18,000,000	-	2,796,000	40

(*) From 2015, tax rates below will be applied to taxable income exceeding ¥18M

18,000,000	40,000,000	2,796,000	40
40,000,000	-	4,796,000	45

(*) For the coming 25 years from Jan. 2013, an extra amount of 2.1% of income tax levied will be imposed as Special Reconstruction Income Tax.

Local inhabitant taxes, both prefectural and municipal, consist of per capita and income levies. The amount of per capita tax is ¥4,000 per year per person (¥1,000 for prefectural and ¥3,000 for municipal). The percentage of per income levy is 10% (4% for prefectural and 6% for municipal). Nonresidents are not subject to local inhabitant tax.

(*) For the coming 10 years from 2014, an extra ¥1,000 and ¥500 will be imposed as per capita for prefectural and municipal taxes.

6) Filing and payment procedures

Individual income taxation in Japan is based on the self-assessment principle. In general, taxpayers must file tax returns to declare income and deductions and to pay the tax due. However, the national income tax liability of individuals compensated in yen at gross annual amounts not exceeding ¥20 million is settled through employer withholding if income other than main income source does not exceed ¥200,000. For a nonresident, if tax is withheld from payments and the amount withheld satisfies the liability, income tax return does not need to be filed. Married persons are taxed separately, not jointly, on all types of income.

Income tax returns must be filed, and the final tax paid, between February 16 and March 15 for income accrued during the previous calendar year. For those taxpayers who filed tax returns for the preceding year and who reported tax liabilities of ¥150,000 or more after withholding, prepayment of income tax for the current year is due on 31 July and 30 November. Each prepayment normally equals one-third of the previous year's total tax liability, less amounts withheld at the source. If prepaid and withheld payments exceed the total tax due, they are refundable if a return is filed.

7) Resident status and scope of taxable income

An individual's tax status governs the types of income that are subject to national income tax and local inhabitants' tax as well as deductions and tax rates.

A nonresident taxpayer (an individual other than the resident who has a domicile or owns a residence continuously for more than one year) is subject to Japanese income tax on Japan-source income regardless of where it is paid.

Most tax treaties, however, provide for an exemption from Japanese tax on employment

income of a nonresident taxpayer present in Japan for 183 days or less during a calendar year, if certain other conditions are satisfied. One has to prepare a certain application and submit it to the tax office in order to obtain a tax exemption.

An individual of non-Japanese nationality having a domicile or residence in Japan for an aggregate period of five years or less within the last ten years is further classified as a nonpermanent resident taxpayer. A nonpermanent resident taxpayer is subject to income tax on Japan-source income plus that part of non-Japan source income that is paid in and/or remitted to Japan.

Non-Japanese individuals who are neither nonresidents nor nonpermanent residents are classified as permanent residents.

A permanent resident taxpayer is subject to Japanese income taxes on his or her world-wide income. If he or she has to pay double taxes to different countries, he or she may be allowed a tax deduction.

Division of resident status

		Japan-source income		Non Japan-source income		
		Paid in Japan	Paid in abroad	Paid in Japan	Paid in abroad	
					Portion deemed remitted to Japan	Remainder retained abroad
Resident	Permanent resident	T a x a b l e				
	Non-permanent resident					
Non-resident				N o n t a x a b l e		

Scope of taxable income for each division of resident status

Classification		Japanese nationality	Period of having a residence	Aggregate period of having domicile or residence within last 10 years	Division of resident status
Having domicile		Yes	/	Over 5 years	Permanent resident
		No			
		Yes		5 years or less	Non-permanent resident
		No			
Not having domicile	Having residence	Yes	Duration of a year or more	Over 5 years	Permanent resident
		No		5 years or less	
		Yes			
		No			
			Less than a year		Non-resident

8) Social insurance

8-1) Social insurance programs

Social insurance programs in Japan include health insurance, nursing care insurance, welfare pension insurance, employment insurance and worker’s accident compensation insurance.

Health insurance covers medical care expenses for employees and their dependents in the case of disease, injury and delivery. A certain amount is also paid as burial expense when an employee or dependent passes away.

The nursing care premiums serve as a fund to support those who need it. The employees from 40 to 65 are subject to the nursing care insurance system.

Welfare pension members would receive an extra benefit besides their basic pension of the national pension system when they become elderly and in case they get handicapped. When they pass away, their spouses or children under the age of 20 would be able to receive their pension.

Full-time employees and employed directors should join Health Insurance and Welfare Pension. Contract employees or part-time workers, whose working hours exceed 3/4 of that of full-time employees should also join the systems.

The premiums are borne equally by employers and employees. Employers withhold the part borne by employees from their salary and bonus, and employers make total premiums payment at the end of the following month.

8-2) Employment Insurance and Worker's Accident Compensation Insurance

Employment Insurance is a system to help stabilize the life of employees in the case of unemployment and help them to find the next job.

Accident Compensation Insurance covers the injuries during commuting and working, and disease or death due to work, under the system, compensation is made to employees or their family.

As a rule, all employees should join Employment Insurance. The system is also compulsory for short-time workers like contract employees and part-timers if they are expected to be in employment for more than 1 month and if they work for more than 20 hours a week.

All employees except the representative director of the companies should join Accident Compensation Insurance regardless of their employment status. As a rule, other directors are not subject to this system, but if they also work like other employees, they can also join the insurance. Also, the family of the representative director is subject to this insurance only if they work like other employees and are not a board member.

Employment Insurance premium is borne by both employers and employees at a respective rate. Employers withhold the part borne by employees from their monthly salary and bonus. Accident Compensation Insurance premium is fully borne by employers.

Insurance premiums of these two systems are calculated on the expected salary amount from April to March of the following year, and the full amount is paid in July. (If the premiums exceed a certain amount, it can be paid in 3 installments in July, October and January.)

	Insurance Rate	Rate borne by employers	Rate borne by employees
Health insurance	100.40/1,000(*1)	50.20/1,000	50.20/1,000
Nursing care insurance	15.8/1,000(*1)	7.90/1,000	7.90/1,000
Welfare pension insurance	174.74/1,000(*2)	87.37/1,000	87.37/1,000
Employment insurance	13.5/1,000(*3)	8.5/1,000	5/1,000
Worker's accident compensation insurance	3/1,000(*4)	3/1,000	-

(*1) Rates may slightly vary to prefectures. This table shows the rate National Health Insurance Association Osaka Branch applies from April 2015.

(*2) Rate for September 2014 to August 2015.

(*3) Rate for 2015 applied to general industries.

(*4) Rate for 2015 applied to “other business” of 2015. The rate may vary to the type of business.

8-3) Social Security Agreement

Outline

Along with the internationalization of industries, more and more people work and live abroad. When company employees are transferred abroad, they have to join social insurance of both countries, and problem of having to pay double insurance premiums arises. To receive pension after retirement, it is necessary to be in the social insurance program for a certain period of time. Otherwise, the insurance premiums are just paid in vain.

Between Japan and the countries below, Social Security Agreement is reached in order to prevent double payment of social premiums and to total the payment period. Countries between which Japan have reached Social Security Agreement as of May 2015:

Germany, UK, Korea, US, Belgium, France, Canada, Australia, Holland, Czech, Spain, Ireland, Brazil, Switzerland, Hungary (Italy, India and Luxemburg have already signed, but are preparing to get into effect.)
Between Japan and UK, Korea, Italy, only agreement on prevention of double payment is reached.

Basically, Social Security Agreement applies to all countries listed above, there might be difference because social security systems vary from one country to another.

Counterpart countries	Social Security Systems that double payment prevention system applies to	
	System of Japan	System of counterpart countries
Germany, UK, Korea	Public pension system	Public pension system
US	Public pension system Public medical care system	Social security system (public pension system) public medical care system (medicare)
France		Public pension system, Public medical care system public employees' accident compensation system
Canada	Public pension system	Public pension system (not applied to the pension system of Quebec)
Australia		Retirement pension system
Holland	Public pension system Public medical care system	Public pension system public Medical Care System unemployment insurance system

*The system of totaling of payment period does not apply to Korea

Social security system for employees transferred to Japan

***Prevention of double payment**

Employees who are transferred to Japan from abroad or employees hired by foreign companies in Japan are subject to join Japan’s social security.

But if the working period of the employees transferred to Japan from home countries is expected to be less than 5 years, (temporary transfer) as an exception, the employees can stay in the social security program of their home countries and be exempt from joining that of Japan. The condition is that the employees should join the social security of home countries and be employed by the company during the period working in Japan. If the employees are to continue working in Japan longer than expected at the beginning, the employer of the foreign country can apply for the extension of exemption from joining Japan’s social security program.

The exemption from joining Japan’s social security program is 5 years as a rule, but can be extended under special circumstances. The maximum of exemption depends on the agreement with each country. Once the maximum is surpassed, the employees must join Japan’s social security program.

Working condition	Transfer period	Social Security Program to join
Company transfer from countries with Social Security Agreement reached	Temporary transfer within 5 years	Social security Program of home countries
	Transfer has to be prolonged due to unexpected reasons (over 5 years)	Social security program of home countries in the case Social Security Agreement is reached with Japan
	Long term transfer over 5 years	Social security program of Japan
Local employment in Japan		Social security program of Japan

If temporary transferred employees wish to be exempt from the social security in Japan, they should apply for a certification that certifies they are in the social security program of their home countries and submit it to Social Security Office after they arrive in Japan. Spouse and children who live together with the transferred employees are also exempt from the social security in Japan. (But if they wish to, they can apply and join the social security in Japan.)

****Payment of medical expense abroad that is covered by medical insurance***

When those who are in Japan’s social security program receive medical treatment abroad, they can claim the expense to the health insurance. The expense payment is made based on the same medical treatment in Japan.

****Dropping out from Japanese national pension system***

People who move to Japan from abroad might need to join and pay premiums for Japan’s national pension program. But in the case that even by the age of 60, they

cannot expect to receive pension in Japan even if they total the social security period of their home country and that of Japan. They can apply to drop out from Japan's national pension system. On the other hand, people who have once dropped out from the system can apply to join again if they expect to be able to receive pension in Japan in the future by totaling the social security period in their home countries and that of Japan, based on the Social Security Agreement.

5. Appendix

Useful addresses and telephone numbers

Several governments and private organizations provide advice and assistance to foreign investors planning to enter business in Tokyo or Osaka.

JETRO (INVEST JAPAN 対日投資・ビジネスサポートセンター)

<http://www.jetro.go.jp/investjapan/index.html>

TEL 03-3582-4684(Tokyo) / 06-6447-2309(Osaka)

財団法人対日貿易投資交流促進協会 (MIPRO)

<http://www.mipro.or.jp/english/>

TEL 03-3989-5151(Tokyo)

Osaka Business and Investment Center

<http://o-bic.net>

TEL 06-6944-6298

IBPC Osaka

<http://www.investosaka.jp/>

TEL 06-6615-7130

The Japan Institute of Certified Public Accountants association (JICPA)

<http://www.hp.jicpa.or.jp/english/index.html>

TEL 03-3515-1120

JICPA Tokyo Chapter

<http://tokyo.jicpa.or.jp/>

TEL 03-3515-1180

JICPA Kinki Chapter

<http://www.jicpa-kin.ne.jp/about/english.html>

TEL 06-6271-0400

Japan Federation of Certified Public Tax Accountants Association

<http://www.nichizeiren.or.jp/eng/index.html>

TEL 03-5435-0931

Tokyo Certified Public Tax Accountants Association

<http://www.tokyozeirishikai.or.jp/index.html>

TEL 03-3356-4461

Kinki Certified Public Tax Accountants Association

<http://www.kinzei.or.jp>

TEL 06-6941-6886

Business Development Center Tokyo

<http://www.bdc-tokyo.org>

TEL 03-6269-9981

National Tax Agency Japan

http://www.nta.go.jp/foreign_language/

Ministry of Finance

<http://www.mof.go.jp/english/index.htm>