

Doing Business in Japan

2007



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 Subaru Accounting Office 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 professional advisor concerning specific matters before making any decision.

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

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1. Establish form

1) Organization form for foreign investors in Japanese business

1-1) Company

A subsidiary or joint venture can take one of the following five corporate forms recognized under the Japanese law: a Joint stock company (Kabushiki-kaisha), Incorporation company (LLC), Unlimited partnership, Limited partnership and Limited liability partnership (LLP)

The major difference between these five corporate forms is based on how and to what extent a shareholder or partner is liable for the company's debts and obligations.

We have a formation of Limited Liability Company and it was established under the Limited liability company law before Apr.2006, but it was abolished and was unification to a Joint-stock company by commercial code was reversed in May, 2006.

Joint stock companies

The joint stock company (*kabushiki kaisha*, or KK) is the most widely used form of business 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. Incorporation procedure, management and accounting and auditing requirements of a joint stock company are provided in detail under the Commercial code. In general, a joint stock company has greater advantages in the conduct of business than other forms of business. For example, a joint stock company enjoys financial and business credibility and better public image.

When we established Joint-stock company, we needed minimum amount of capital 10,000,000yen or more before, but that regulation was changed and we can establish a company with any amount of capital .When foreign company or foreigners establish company in Japan, among directors you have to employ at least 1 person who is Japanese resident as a director. (Foreigners are acceptable if they are Japanese resident)

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 notification with the government ministries 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 operation. A branch of a foreign company must be established in compliance with the legal requirement of the Commercial code. Under the code, 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 Ministry of justice. The registered representative is authorized under the Japanese law to perform all acts on behalf of the branch. A change in the branch manager 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 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 of notification to the ministry of finance. The only document requires establishing a representative office is the notification to the relevant tax office of the establishment of an office employing salaried workers.

Because of its lack of legal status, a representative office is not allowed to engage in any commercial transaction. Its activities are limited solely to information gathering, market research and general liaison with the

head office of a foreign corporation; a representative office is not subject to Japanese corporation tax for its liaison activities on behalf of a foreign corporation. If it performs services beyond those permitted, however, representative office could become a taxable entity.

A representative office can bring in funds for operating expenses without restriction. The restrictions imposed on the activities of a representative office make that status generally suitable only for temporary operations for a foreign investor that intends to establish a branch or subsidiary in the near future. This approach is often used by a foreign investor that requires a great big deal of market research before developing a legally recognized branch operation. Changing from a representative office to a branch operation is common and can be accomplish with little difficulty.

2) Difference between Company, branches of foreign company and representative offices

2-1) Company and branch of foreign company

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

i) 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 in its Japanese tax return.

No direct allocation by a parent company is allowable for its Japanese subsidiary unless provided in a contract.

ii) Dividends

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

iii) 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.

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 for the Japan branch operation, such interest or royalty may be deducted by the Japanese branch although such interest or royalty is subjects to Japanese withholding tax.

2-2) A representative office

The activities of a representative office in Japan maybe reviewed by the tax authorities to determine if the activities are more than mere auxiliary or preparatory activities for the head office and constitute doing business in Japan.

If the representative office is doing business in Japan, the Japan source income is subject to Japanese corporate income taxes.

2-3) “105%” Service Company

However, the tax authorities might not challenge an arrangement where a legally separate entity in Japan provides a 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).

Payments of dividends, interest, royalties, and rent by a Japanese subsidiary to a foreign corporation are subject to withholding tax at a flat rate of 20%, unless otherwise provided in a tax treaty.

2. Accounting & Tax for company**1) The report for corporate tax**

Please note that company in the following sentences means both company and branch unless otherwise stated separately.

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

(Table 2-1)

National Tax Office	Filing due
1. Report on establishment of company (company only)	Within 2 months after establishment
2. Report on the establishment of a foreign corporation (branch only)	Within 2 months after Commencement
3. Application for approval of filing a blue tax return	Within 3 months after established day or the first fiscal year-end, whichever is earlier
4. Application for extension of corporation tax return filing due date - if needed	The end of the fiscal year
5. Report on commencement of payroll payment	Within 1 month after paying salary
6. Application for approval of paying withholding tax by every July 10 and January 10	Anytime if the number of employees is less than 10
7. Report on method of depreciation to be taken	First tax return filing due
8. Report on method of evaluation of inventory assets	Same as 7 above
Local Tax Office(see to *1)	
1. Report establishment of company or branch	Within 15 days after starting business (see to *2)
2. Application for extension of enterprise and inhabitant tax return filing due date - if needed	Same as 4 above

*1 it is necessary for each of the prefectural tax and the municipal tax.

*2 it depends on autonomy and there is another case that is

within 1 month after starting business.

*3 except above, you may need to report about consumption tax.

2) Accounting period and filing tax return

The accounting period for corporation tax purposes is the accounting period provided for in 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 corporation generally decide their accounting period from April to March.

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 a corporation has entertainment expenses and/or depreciation expenses exceeding tax limits, a corporation must adjust "income for accounting purposes" in its tax return to take into account these limits.

A corporation must file a tax return within two months of the end of its fiscal year, paying the tax at that time. One month extension for filing due date of a tax return is generally permitted to Japanese companies, if an application form is submitted to the tax authorities timely. Extension for one month or more than one month period may be permitted to foreign corporations as the case may be.

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 to 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.

There is a "Blue form Return" system in order to encourage taxpayers to

declare taxable income based upon accurate accounting records. All types of taxpayers (including foreign corporations) may apply for permission to use a blue form return. In order to qualify for this system, the taxpayer must satisfy certain requirements such as keeping proper accounting books. Once approval has been granted, the taxpayer can receive special benefits such as taking special depreciation, establishment of certain reserves, carryforward of tax losses for subsequent 7 years and claiming tax credits under the Special Taxation Measures Law. In addition, a tax examination may only be conducted based upon the taxpayer's books of account.

In order to file a blue form return, an application form for filing a blue form return must be filed with the district tax office concerned before the accounting period begins. 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. The application form must clearly state the accounting book system which is to be used by the taxpayer. The blue form return application is usually approved as long as the accounting book system is in order.

3) Taxes on corporate income and gains

The taxable income for corporation tax purposes is determined based on the net income stated in the income statement of the corporation and after taking into account necessary reconciling items.

Corporation tax is calculated by applying the corporation tax rate of 30% to the taxable income. For corporations capitalized at ¥ 100 million or less, the rate is 22% if taxable income is ¥ 8 million or less.

Certain tax credits if applicable, are credited against the computed corporation tax.

Local inhabitants' tax (i.e., prefectural tax and municipal tax) consists of the tax based on the corporation tax liability and the equalization 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 corporation tax allocated to each prefecture and municipality based on

the number of employees.

In addition, corporations are 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 place 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 tax rate of enterprise tax depends on the amount of taxable income allocated to each prefecture and is determined by each prefecture.

Per Capita tax

(Table 2-3)

Capital etc.	Number of employee	City tax	Prefectural tax
more than 5,000 M yen	more than 50	3,000,000	800,000
	less or equal to 50	410,000	(1,600,000)
more than 1000M yen and less or equal to 5000 M yen	more than 50	1,750,000	540,000
	less or equal to 50	410,000	(1,080,000)
more than 100M yen and less or equal to 1000 M yen	more than 50	400,000	130,000
	less or equal to 50	160,000	(260,000)
more than 10M yen and less or equal to 100 M yen	more than 50	150,000	50,000
	less or equal to 50	130,000	(75,000)
less or equal to 10 M yen	more than 50	120,000	20,000
	less or equal to 50	50,000	(20,000)

Note:

City Tax may differ

() of Prefectural tax is for Osaka prefecture

Prefectural tax rate

The standard tax rate on a tax amount for the national corporation tax

5.0%

(The rate should not exceed 6.0%)

Municipal tax

Taxable income is basically the amount of national Corporation tax.

The standard tax rate 12.3%
 (The rate should not exceed 14.7%)

Enterprise tax rate

Standard tax rates applicable to ordinary corporations are as follows: 5.0%
 For annual income of no more than ¥4,000,000 7.3%
 over ¥4,000,000 but no more than ¥8,000,000 9.6%
 over ¥8,000,000

Only if Paid in Capital excess 100M yen, then the Enterprise tax rate is the following:

a. Income tax levy

Annual income: ¥4 million or less: 3.80%
 From more than ¥4 million
 to ¥8 million or less: 5.50%
 more than ¥8 million: 7.20%

b. Added value levy: 0.48%

c. Capital levy: 0.20%

* Added value: Salary + interest paid + rent exp. + profit for the year

Corporation tax calculation (example)

Assumption

1. Subsidiary company, located in Osaka, Japan has 30 employees with paid-in capital of ¥10 million.
2. The company which operates trading business has not places of business in more than two prefectures.
3. Its taxable income for the year ending December 31, 2003 is ¥30 million.

	¥	Tax rate	¥	¥
National tax	8,000,000	22%	1,760,000	
	22,000,000	30%	6,600,000	
	30,000,000			8,360,000
Enterprise tax	4,000,000	5%	200,000	

	4,000,000	7.3%	292,000	
	<u>22,000,000</u>	9.6%	<u>2,112,000</u>	
	30,000,000			2,604,000
Inhabitant tax				
Prefectural tax				
Corporation tax	8,360,000	5%	418,000	
Per capita tax			<u>20,000</u>	
				438,000
Municipal tax				
Corporation tax	8,360,000	12.3%	1,028,200	
Per capita tax			<u>50,000</u>	1,078,200
Total income taxes due				<u>12,480,200</u>

4) Depreciation of tangible and intangible assets

Methods of depreciation

There are two depreciation methods; “Straight-line method” and “Declining-balance method”, for tangible fixed assets such as buildings, building improvements, structures, motor vehicles, tools, furniture and fixtures, machinery, and equipment.

Taxpayers have to report to the tax office on which method will be used. If it is not reported, the declining-balance method will be automatically applied. However, for all buildings acquired on or after April 1, 1998, the straight-line method only is applicable.

All intangible assets must be amortized using the straight-line method. Land, rights belonging to land, art work, and antiques are not depreciable.

Revision of the taxation system in 2007

Before April 2007, straight-line depreciation was calculated by taking the acquisition cost of an asset subtracted by the salvage value (10% of the acquisition cost) divided by the useful life. However, for depreciable assets acquired on or after April 1, 2007, the salvage value is abolished, enabling them to be depreciated to ¥1 (memorandum price).

Declining-balance depreciation was calculated by multiplying declining-balance-depreciation-rate by the remaining balance to be depreciated.

However, for depreciable assets acquired on or after April 1, 2007, the “250% Declining-balance method” is applicable. In this method, depreciation rates are calculated by multiplying the straight-line-depreciation-rate by 2.5.

When the depreciation expense calculated by the 250% declining-balance method is smaller than the amount calculated by dividing the book value by the remaining useful life, depreciation method should be switched to the straight-line method.

The depreciable assets acquired before March 31, 2007, are also allowed, after having depreciated to the final depreciable limit, to ¥1 in five years using the straight-line method.

Other information related to depreciation

If the assets are acquired during the fiscal year, depreciation should be calculated according to the number of months that they are in service.

Regarding intangible assets, there is no amortizable limit. For certain tangible and intangible assets, there are specific depreciation ways provided by the Special Taxation Measures Law.

Goodwill is deductible over 5 years by the straight-line method. The cost of assets with 1 year or less useful life, or with ¥100,000 or less acquisition cost per unit can be appropriated for the expense of the year of acquisition.

If medium or small sized company (capitalized less than 100 million yen) acquires depreciable assets of under ¥300,000 acquisition cost from April 1, 2006 to March 31, 2008, the amount of acquisition cost (up to ¥3 million yen a year) can be appropriated for the expense of the year of acquisition.

For assets of ¥100,000 or more, and less than ¥200,000 acquisition cost, the whole cost can be depreciated in 3 years dividing the amount equally, along with using the above-mentioned depreciation methods.

The following are the depreciation rates for both the straight-line and declining-balance methods.

(Table 2-4)

Depreciation rates

Useful lives years	straight-line	declining balance
2	0.500	0.684
3	0.333	0.536
4	0.250	0.438
5	0.200	0.369
6	0.166	0.319
7	0.142	0.280
8	0.125	0.250
9	0.111	0.226
10	0.100	0.206
11	0.090	0.189
12	0.083	0.175
13	0.076	0.162
14	0.071	0.152
15	0.066	0.142
16	0.062	0.134
17	0.058	0.127
18	0.055	0.120
19	0.052	0.114
20	0.050	0.109
21	0.048	0.104
22	0.046	0.099
23	0.044	0.095
24	0.042	0.092
25	0.040	0.088
26	0.039	0.085
27	0.037	0.082

28	0.036	0.079
29	0.035	0.076
30	0.034	0.074
40	0.025	0.056
50	0.020	0.045

5) Non deductible expense

5-1) Entertainment expense and Donation expense

The government has strictly limited the tax-deductibility of entertainment expenses.

Expenditure which is categorized as donations, welfare expenses, publication expenses, and salary are not regarded as entertainment expenses.

A corporation with paid-in capital of more than ¥100 million may not deduct any entertainment expenses.

A corporation with paid-in capital of ¥100 million or less may deduct up to ¥3.6 million or 10% of entertainment expenses.

The paid-in capital of a Japan branch of a foreign corporation for this purpose 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.

After stating business on Apr.1,2006, entertainment expenses of 5,000 or less per one person is all allowed as deductible expenses under new taxation standard. But you must keep evidences or etc. for this as a condition.

Contributions made by a corporation to public welfare organizations, corporations or other organizations, which do not directly benefit the business of the said corporation are considered "donations" for tax purposes.

The tax-deductibility of donations is generally limited to the sum of 1.25% of taxable income (before deduction of donations) plus 0.125% of paid-in capital and capital surplus of the said corporation.

Also, write-off of collectible receivables and interest in excess of arm's length rate paid to related corporations in Japan are also considered "donations" for tax purposes.

5-2) Directors Remuneration

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

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

For purposes of the restriction, the remuneration for a director with an 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 being reasonable. If the amount of the director's remuneration is provided for in the articles of incorporation or authorized by the resolution at the general shareholder's meeting, any amount in excess of this authorization is not deductible.

Director's bonus is not deductible. However, the bonus to a director with an employee status may be deductible if the bonus is paid at the same time of 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 bonus. 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 amount of economic benefits paid on a monthly basis are fully deductible unless they are excessive.

In case of family corporation, under the certain conditions shown below, the amount which represents the amount of "standard employment income deduction" (see 3-1) can not be recognized as company's expense. (This treatment is effective from the accounting period beginning on and after April 1, 2006.)

Conditions;

1. Shares of representative director and his/her family shall exceed or equal to 90% of total shares issued.
2. Majority of directors shall be the representative director and his/her family.

Note:

Please consult tax specialists about this matter. There are some cases which this treatment does not apply.

6) Consumption tax

Basic Principles

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

It is levied on 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 made by individuals, as well as by 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 maybe 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.

Business enterprises whose taxable sales during the base period (is a fiscal year for which two fiscal years ago) are ¥10 million or less are, in principle, exempt from filing consumption tax.

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 a customs duty, 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 in the former stage is deducted.

An enterprise deducts the consumption tax paid on purchase (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, bills, etc. The enterprises whose taxable sales in the taxable year are ¥50 million or less can forego the input tax creditable and calculate and pay tax at a certain rate of sale turnover.

(Table 2-6)

Type of Business	rate
Wholesale	0.5%
Retailers	1.0%
Manufactures, Constructors, Agriculture	1.5%
Restaurant (Eating and drinking industry) and Financial Service	2.0%
Real Estate, Transportation and Communication Industries (except restaurant)	2.5%

The tax period is a calendar year for personal enterprises and a business year for corporations. However, they can choose to use quarterly tax periods (each months beginning on or after April 1, 2004).

An enterprise 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 the last day of the first six-month period of the tax year.

If the previous year's tax due exceed ¥4,000,000, quarterly filing and payment is required. If the previous year's tax due exceeded ¥48,000,000, an enterprise must file and pay tax at 1/12 of previous year's tax effective tax year's beginning on or after April 1, 2004.

If the total input tax for the tax period exceeds the total output tax for

the tax period, the excess is refunded after the final tax return is filed with the tax office.

7) Incentive of enterprise tax on Osaka

Osaka prefecture offers incentive to set up new industrial on enterprise tax. The capital of company which was established from April 1, 2001 to March 31, 2004 (It expects to be extended for three years) must be less than ¥10 million, and their office has been stayed in Osaka prefecture. Their business also can not be adult business. Companies enjoy exemption of enterprise tax in 1/2. Furthermore, if the business of companies is software business or data processing business, exemption is in 9/10. In order to enjoy this incentive, a company must file an application form with inhabitant tax return.

3. Salary & Tax 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 premium, private medical insurance premiums and private pension contributions, are included in employment income. However, certain employer-paid benefits, including moving expenses, certain loans below 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 director periodically uses the residence for business purpose, such as entertaining customers.

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

(Table 3-1)

Gross Compensation		
Exceeding	Not exceeding	Employment Income
¥ thousand	¥ thousand	Deduction(In Yen)
0	650	All
650	1,625	650,000
1,625	1,800	Gross receipts X 40%
1,800	3,600	Gross receipts X 30% + 180,000
3,600	6,600	Gross receipts X 20% + 540,000
6,600	10,000	Gross receipts X 10% + 1,200,000
10,000		Gross receipts X 5% + 1,700,000

2) Salary to director’s who live in overseas

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

3) Deduction

3-1) Deductive expenses

If the aggregate amount of specific employment-related expenditure incurred during a year exceeds the amount of the employment income deduction (see Employment Income and Deduction, Page 42), the excess may be deducted in addition to the employment income deduction. Specially allowed expenditure includes commuting expenses moving expenses for a company transfer and training expenses for technology skills or knowledge directly required in performing duties. Expenditure must be documented and certified by the employer. The deduction of specific expenditure may be claimed only by filing a tax return.

3-2) Insurance premiums

Social insurance premiums are fully deductible. Life insurance premiums are deductible, up to a maximum of ¥50,000. Individual pension premiums are deductible, up to ¥50,000. For casualty insurance premiums, the deductible amount is ¥3,000 for short-term insurance (less than 10 years) and ¥15,000 for long-term insurance. The deductible

amount of combined short-term and long-term insurance premiums may not exceed ¥15,000.

3-3) Personal deductions

Personal deductions are available for purposes of income tax and inhabitant tax. The following are the amounts of the personal deductions.

(Table 3-3)

Deduction (outline)	Amount for national tax ¥	Amount for inhabitant tax ¥
Basic deduction	380,000	330,000
Deduction for spouse	380,000	330,000
Deduction for dependent		
At least 16 years old but less than 23 years	630,000	450,000
Aged person (70 years old or older)	480,000	380,000
Other dependent	380,000	330,000

4) Withholding tax of Salary

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 attached table 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 generally subject to withhold 20% of income tax irrespective of amount of the salary, period and dependents (refer to 3-8)).

In order to withhold income tax properly, salary recipients must submit to the tax authorities, through their employer, "a statement concerning the exemption for dependents, etc." giving the names of dependents and other necessary particulars.

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

Monthly table (a portion)

(Table 3-4)

Monthly salary deducting social insurance premium		The number of Dependent				
over	But not over	0	1	2	3	4
		Amount of tax (In thousand yen)				
:	:	:	:	:	:	:
587,000	590,000	43,970	37,640	31,300	24,970	19,010
590,000	593,000	44,510	38,180	31,840	25,510	19,720
593,000	596,000	45,050	38,720	32,380	26,050	19,720
596,000	599,000	45,590	39,260	32,920	26,590	20,260
599,000	602,000	46,130	39,800	33,460	27,130	20,800
602,000	605,000	46,670	40,340	34,000	27,670	21,340
605,000	608,000	47,210	40,800	34,540	28,210	21,880
:	:	:	:	:	:	:

Calculation of withholding tax on salary paid monthly person (example)

Assumption

1. Resident taxpayer, married with two children
2. Monthly salary deducting social insurance premium is ¥604 thousand

Withholding tax -----¥27,670

5) Tax rate

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

Normally, a 20% 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 and salaries paid by Japanese companies, interest income, annuities and prizes are subject to a 20% withholding tax if paid to nonresidents.

National income tax rates are progressive. The rates range from 10% (on taxable income of up to ¥3.3 million) to 37% (on taxable income exceeding ¥18 million), as shown in the following table.

(Table 3-5)

Taxable income		Tax on lower amount	Rate on excess
Exceeding	Not exceeding		
¥	¥	¥	%
	1,950,000	0	5
195 万円	330 万円	97,500	10
330 万円	695 万円	427,500	20
695 万円	900 万円	636,000	23
900 万円	1,800 万円	1,536,000	33
1,800 万円	-	2,796,000	40

Local inhabitant taxes, both prefectural and municipal, consist of per capita and income levies. The amount of per capita tax is 4,000 yen per year per head, 1,000 yen for prefectural and 3,000 yen for municipal. The percentage of income levy is 10 %, 4% for prefectural and 6% for municipal.

Nonresidents are not subject to local inhabitant tax.

6) Social insurance

Social insurance programs in Japan include health insurance, nursing care insurance, welfare pension insurance, unemployment insurance and worker's accident compensation insurance. The premium for health insurance is 8.2% of monthly remuneration. For nursing care insurance, the premium is 1.23% of monthly remuneration. Only employees 40 to 65 are subject to the nursing care insurance system. For welfare pension, the premium is 14.642% of monthly remuneration. The above premiums are borne equally by both employers and employees. The premium for unemployment insurance is 1.5%, of which 0.9% is borne by the employer and 0.6% by the employee. The premium for worker's accident compensation insurance is borne entirely by the employer at a rate 0.45% of total compensation paid to employees. Accident compensation insurance may vary every year.

7) Filing and Payment procedures

Individual income taxation in Japan is based on the self-assessment principle. In general, taxpayers must file tax return to declare income and deductions and to pay the tax due. However, 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 income does not exceed ¥200,000. If tax is withheld from payments to nonresidents and if the amount withheld satisfies the liability, the nonresidents need not file income tax return. Married person are taxed separately, not jointly, on all types of income.

Income tax returns must be filed, and the final tax paid, between 16 February and 15 March 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 the deduction of withholding tax, prepayment of payment 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 source. To the extent that prepaid and withheld payments exceed the total tax due, they are refundable if return is filed.

8) 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 who does not have a domicile in Japan and an individual who does not have a place of abode in Japan 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. He or she has to prepare certain application and submit it to the tax office, if he or she wants to have tax exemption.

An expatriate resident taxpayer is further classified as a nonpermanent resident taxpayer if he or she has less than 60 months of residency

within last 10 years in Japan. A nonpermanent resident taxpayer is subject to Japanese income taxes on Japan source income plus that part of non-Japan source income that is paid in and/or remitted to Japan.

Other than nonresident and nonpermanent resident are levied as a permanent resident.

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 have tax deduction.

4. Appendices

Useful address and telephone numbers

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

JETRO (INVEST JAPAN!)

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

Osaka Business and Investment Center

<http://o-bic.net>

TEL 06-6944-6298

IBPC Osaka

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

TEL 06-6615-7000

The Japan Institute of Certified Public Accountants association (JICPA) Kinki Chapter

TEL 06-6271-0400 <http://www.jicpa-knk.ne.jp/about/english.html>

Kinki Certified Public Tax Accountants association

TEL 06-6941-6886

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

Ministry of Finance

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

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Website: www.inpactap.com

