Doing Business in Japan

2023

（Ver1.3）

AIC Tax Co.

Preface

This pamphlet is brief explanation of tax and accounting system in Japan. It has been prepared in order to guide the person who is going to start his/her business in Japan. Every effort has been made to offer current, correct and clearly expressed information.

This pamphlet reflects information current as of the end of April 2023.

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.

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.

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 (Godo-Kaisha: GK).

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 selfgoverning 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 (Godo-Kaisha) is an organization form, which makes up the disadvantage of Gomei-Kaisha and Goshi-Kaisha, keeping the merits of Membership Company and allowing the limited liabilities of directors.

Difference between Joint Stock Companies (KK) and Godo Kaisha GK

Form	KK	GK(Godo Kaisha)
Investors	Stock holders	Directors with limited liabilities
Indispensable board	Stockholders' meeting, Directors	Board of directors, Directors
Business operator	Managing director etc.	Executive employee
Minimum capital requirement	1 JPY	1 JPY
Change in articles of incorporation	Special resolution in stockholders' meeting	Agreement from all directors

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 temporary 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.

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 would be subject to Japanese corporate income tax.

1-4) Company (subsidiary) vs. Branch

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

Accounting for payments made on behalf of parent or headquarter

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), a subsidiary can account expenses paid to its parent company as management fee or royalty based on a contract between the subsidiary and the parent.

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.

Legal Status

Under the Japanese law, the branch does not have its own legal status, but is treated as a part of the legal status of the foreign corporation. In other words, branch is not a Japanese company but it is a part of foreign company. Therefore, in general, the responsibility for claims and debts arising from the activities of the branch will ultimately belong directly to the foreign company. If you would like to avoid such risks of Head office, setting up subsidiary company in Japan is one of the solution.

	Branch	Company (subsidiary)
Accounting for expenses	Possible if not excessive	Possible if not excessive
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
Attribution of responsibility	Branch and overseas company （Head office）	Company (subsidiary)

Regarding taxation on income earned by Japan branch of a foreign company, "Attributable income principle" based on OECD model tax treaty is applied.

The "Attributable income principle" dictates that income attributable to a branch should be the amount that could be earned by the branch if it were a separate and independent entity, and only such income should be taxable in Japan. In ‘’ Attributable income principle’’, transaction with third party , assets, risk should be attributed to the branch, based on function and fact made by the branch. And intercompany transactions between the head office and the branch office is recognized as a transaction done by arms-length price.

1-5) “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).

When a Japanese subsidiary of a foreign parent company uses this scheme and charges a service fee to the parent company, the transaction will be exempt from consumption tax (zero-rated supply) and as a result the subsidiary may be able to reclaim consumption tax paid on purchases (input tax).

However, this may not apply to a Japanese branch of a foreign company because such transaction may be considered as an internal transaction, not as an export of service.

2) 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
Report on establishment of company (Domestic corporation)	Copy of articles of incorporation	Within 2 months after establishment
2. Report on establishment of a foreign corporation (Foreign corporation)	Copy of articles of incorporation in Japanese	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 (See*2)	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 paying withholding tax by every July 10 and January 10	None	Any time if the number of 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 *3)	Documents necessary	
9. Report on establishment of company or branch	Copy of Articles of Incorporation (AOI) and Copy of registry	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 A company ,which applies to the application of extension of corporate tax return filing due, can also apply for extension of filing due regarding consumption tax return.

*3 Required for both prefectural tax and municipal tax.

*4 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. The Japan branch of a foreign corporation must use the same accounting period as the head office. Many Japanese corporations generally decide their accounting period from April 1st to March 31st, but the company can choose any accounting period.

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*, 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.

* The expiry period for loss carry forward is 10 years. Maximum amount of deduction is 100% of income for small and medium sized enterprises. For large companies, it is 50%.

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 (*2)
Annual taxable income 8 million or less	15.00% (*1)	23.20%
Annual taxable income more than 8 millions	23.20%	

(*1) The reduced tax rates for taxable income for fiscal years beginning before 31st March 2023 (the original tax rate is 19%). However, 23.2% will be applied if annual average income over 3 preceding years exceeds 1.5 billion yen.

(*2) A subsidiary whose parent company's or ultimate parent company's capital is 500 million yen or more is included here even if the subsidiary's own capital is 100 million or less.

(*3) In addition to the above (national) corporation tax, local corporation tax will be charged at 10.3% of the amount of the (national) 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
	50&below	1,210,000	1,210,000	2,010,000
Above 1000M 5000M&below	Above 50	2,290,000	2,290,000	2,830,000
	50&below	950,000	950,000	1,490,000
Above100M 1000M&below	Above 50	530,000	530,000	660,000
	50&below	290,000	290,000	420,000
Above 10M 100M&below	Above 50	200,000	200,000	225,000
	50&below	180,000	180,000	205,000
10M&below	Above 50	140,000	140,000	140,000
	50&below	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	6%	1%

(Note1)

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

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

(Note2)

Regarding a company with paid-in capital over JPY100,000,000, higher tax rate higher than standard is applied.

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.

a)Company with capital of over 100M

Enterprise taxes (*1)

Added value Levy	Capital Levy	Income Levy
1.2%	0.5%	1.0

Special local corporation tax

260% of base income tax levy(*3)

b)Company with capital of 100M or less

Enterprise taxes (*1)

	Annual income threshold	Income levy
Reduced Tax rate	Up to 400M	3.5%
	Over 4M up to 8M	5.3%
	Over 8M	7.0%
Proportional tax(*2)		7.0%

Special local corporation tax

37% of base income tax levy (*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 tax rate including corporation tax, local corporation tax, residential corporation tax, enterprise tax and special local corporation tax is as follows;

		FY beginning on or after 1st April 2022
Capital more than 100 million yen*		29.74%
Capital at or below 100 million yen	Annual income at or below 4 million yen	25.89%
	Annual income between above 4 million and at or below 8 million	27.57%
	More than 8 million	33.58%

* Note: A subsidiary whose parent company's or ultimate parent company's capital is 500 million yen or more is included here even if the subsidiary's own capital is 100 million or less.

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. Building and intangible asset which is obtained after April 1st 1998, equipment affixed to buildings(建物付属設備) and Structure(構築物) which is obtained after April 1st 2016 must be depreciated by the straight-line method.
The table below explains the details.

Depreciation formulas

	Formula
Straight-line method	Acquisition value × depreciation rate
Declining-balance method	Un-depreciated cost at the beginning of the fiscal year × depreciation rate(*2). Once the depreciated cost falls below the insured amount(*3), the formula “revised acquisition value(*4) × revised depreciation rate(*5)”shall be used instead.

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

(*2) Different depreciation rates are applied to asset acquired after 1st April 2012 and asset acquired before 1st April 2012.

(*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 usable years an asset is not used for more than one year or 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 assets

Small business (Consolidated company, fiscal year in which the number of regular employees exceeds more than 500. Also, fiscal year in which annual average income over 3 preceding years exceeds 1.5 billion yen will be excluded.), that use the "Blue form Return" system and acquired depreciable assets (*) amounting less than 300,000 yen can depreciate 100% of acquisition cost in the fiscal year of acquisition. The maximum total amount of small sum depreciable asset each year is 3 million yen.

In the case of assets over 100,000 yen and less than 200,000 yen, the depreciation expenses can be allocated equally over 3 years with no scrap value.

(*)Assets for leases are likely to be excluded unless leasing is a major part of the business. (When this will come into force is yet to be determined.)

4) Expenditures that cannot 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 does not exceed ¥100M will be deductible up to ¥8M. Over 8M will not be deductible.
2) Except company with paid-in capital over JPY10,000,000,000, 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.)

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

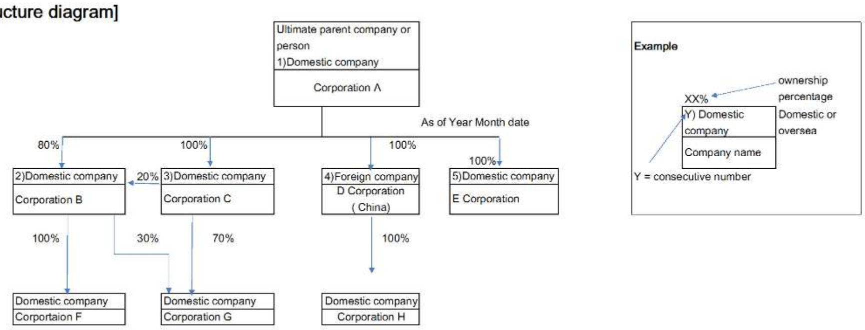
If 100% shares of the small corporation are owned by a company, whose capital is 500 million YEN or more, the special provisions can be inapplicable for the small company.

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/indivudual)	Address	Name of represen-tative	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 caital relationship chart
When the ultimate owner is an indivisual 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) Capital investment tax incentives for SMEs (see*1 below)

Blue return filing SMEs (see*2 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 machines etc…, and uses for business in Japan by March 31st, 2025.

(Treatment)

The new proposal provides for 30% of special depreciation or 7% of tax credit for the acquisition cost of machinery (see *3 and *4 below).

6-2) Capital investment for Management Capability Enhancement for SMEs

Blue return filing SMEs (see*2 below) operating certain businesses 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 designated businesses in Japan by March 31st, 2025.

(Treatment)

The new proposal provides for 100% of immediate depreciation or 7% (see *5 below) of tax credit.

(Supplementary note)

Eligible assets should be new assets such as machinery, equipment, tools, furniture, fixtures and software that are acquired in accordance with management capability improvement plan approved by the SMEs Management Capability Enhancement Act, possessing production capacity, assets that are not for leasing out, and above certain price.

6-3) Salary growth (for SMEs)

Blue return filing SMEs (see*2 below) are qualified if the following condition is met.

(Condition)

For fiscal years beginning from during April 1st,2022 to March 31st, 2024, the salary paid to domestic employees must increase by at least 1.5% compared to the salary paid in the previous fiscal year.

(Treatment)

Tax credit is 15% of the amount of the increase in salary paid in the fiscal year from previous year (additional tax credit is available if certain conditions are met) (see *4 below).

6-4) Salary growth (for both Large companies and SMEs)

Blue return filing companies are qualified if all the conditions below are met.

(Condition)

For fiscal years beginning from during April 1st,2022 to March 31st, 2024, the salary paid to employees in a continued employment (Employment Insurance General Insured Persons only) must increase by at least 3% compared to the salary paid in the previous fiscal year.

(Treatment)

In principle, a tax credit of 15% (In certain cases, an additional tax credit is available.) of the increase in salaries and wages paid to domestic employees.

(Supplementary note)

(*1)The scheme cannot be used in a fiscal year where average income over the preceding 3 fiscal years exceeds 1.5 billion yen.

(*2) 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 100 million, etc.)

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

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

(*5) For the company whose capital is JPY 30 million or less, it is 10%.

7) Documentation for TP taxation

Related with transfer pricing taxation, “Country-by-Country Report” (CbC Report), “Master File” and “Local File” should be prepared by principally large corporation.

7-1) CbC Report and Master File

CbC Report and Master File should be prepared and filed by large corporation who has more than 100 billion JPY of its consolidated revenue and its group companies that are included in its consolidated financial statements.

7-2) Local File

A company who meets following condition must prepare Local File (which explains how to determine Transfer Price as Arm’s Length Price (ALP))

<condition>

A company having transactions with a related party that exceeded a total transaction amount in the preceding tax year of 5 billion JPY or with intangible property transactions with a related party that exceed a total transaction amount in the preceding tax year of 300 million JPY.

Local file must be prepared by corporate tax filing due date and must be kept for 7 years.

8) Tax treaty

Tax treaty is “Convention between 2 countries for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income”.

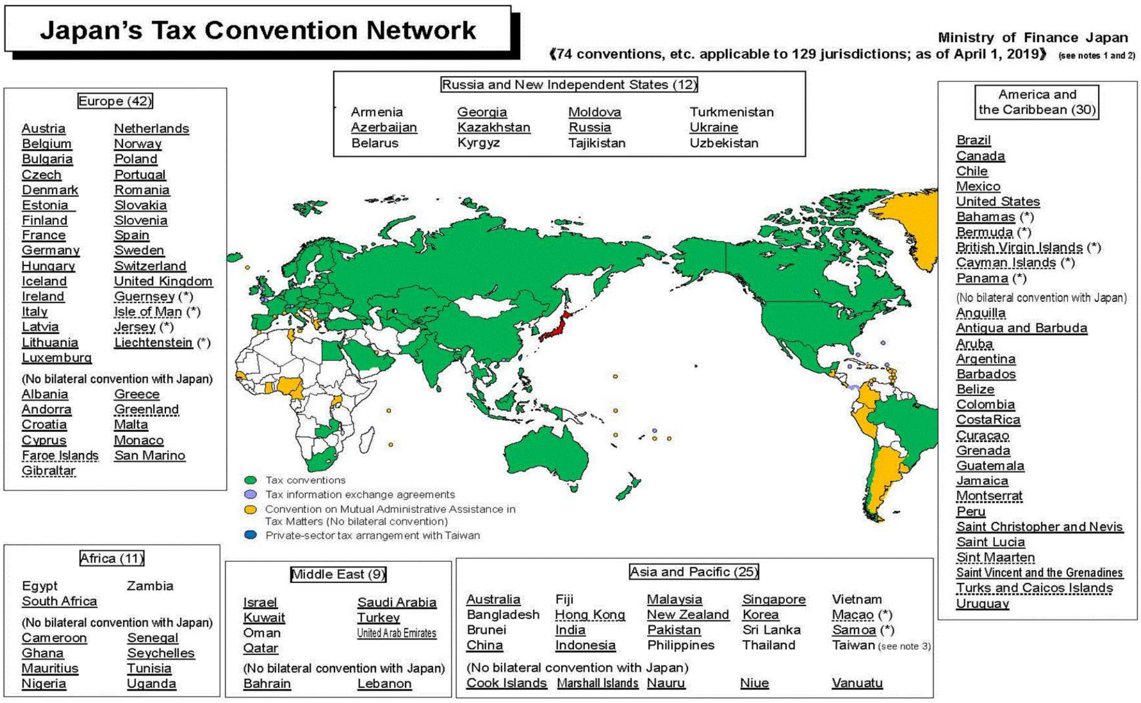
Tax treaty is mainly designed for prevent double taxation regarding International transactions between 2 business enterprises/individual, dividend, interest, royalty fee etc…
And it is also designed for prevent international tax evasion.

The government of Japan , as of April 1st, 2022, has been made tax treaties with 149 countries (region) with 82 treaties.

Source data: Ministry of Finance Japan

https://www.mof.go.jp/english/tax_policy/tax_conventions/international_182.htm

«84 conventions, etc. applicable to 153 jurisdictions; as of June 1, 2023» (see notes 1 and 2)



(Note 1) Since the Convention on Mutual Administrative Assistance in Tax Matters is a multilateral convention, and the tax conventions with the former Soviet Union and with the former Czechoslovakia were succeeded by more than one jurisdiction, the numbers of jurisdictions do not correspond to those of tax conventions, etc.

(Note 2) The breakdown of the numbers of conventions, etc. and jurisdictions is as follows:

・Tax convention (a convention principally for the elimination of double taxation and the prevention of tax evasion and avoidance); 61 conventions applicable to 71 jurisdictions.

・Tax information exchange agreement (a convention principally for the exchange of information regarding tax matters); 11 conventions applicable to 11 jurisdictions (These jurisdictions are marked with (*) above).

・Convention on Mutual Administrative Assistance in Tax Matters; Entered into force by 95 jurisdictions (not including Japan) (These jurisdictions are underlined above) and applicable to 112 jurisdictions due to the extension of the application of the Convention (Jurisdictions to which the Convention is extended are underlined above with dotted lines). 46 jurisdictions out of 112 do not have a bilateral convention with Japan.

・Private-sector tax arrangement with Taiwan; 1 jurisdiction

(Note 3) As for Taiwan, a framework equivalent to a tax convention is established in combination of (1) a private-sector tax arrangement between the Interchange Association

(Japan) and the Association of East Asian Relations (Taiwan) and (2) Japanese domestic legislation to implement the provisions of the private-sector tax arrangement in Japan.(The two associations are now named Japan-Taiwan Exchange Association (Japan) and Taiwan-Japan Relations Association (Taiwan), respectively.)

3. Other taxes for corporation

1) Consumption tax

1-1) How it works

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. It is also designed to eliminate multiple taxation at each stage of manufacture distribution by allowing for the credit of consumption tax on purchases against that on sale.

（Note） Consumption tax on taxable purchases relating to certain residential rental buildings acquired on or after 1 October 2020 will be excluded from the tax credit.

1-2) Subject of consumption tax

Taxable transactions

Taxable transactions are domestic transactions and import transactions. Overseas transactions are basically out of scope.

Domestic transactions mean transfers of assets leases of assets and the provision of services which are conducted for consideration and as a business by the enterprises. Foreign cargo taken over from bonded areas is considered to be import transactions.

(Provision of electronic services from overseas)

Provision of electronic services, such as e-books or digital music etc…, from overseas companies are classified as taxable transactions. If it is provided from overseas company to domestic consumers (B to C transaction), then overseas company is liable to pay consumption tax. If it is provided from overseas company to domestic company, then domestic company is liable to pay consumption tax (reverse charge).

Tax exempt transactions

The export of goods, international transportation services, etc. are exempt from consumption tax (i.e., zero-rated). However domestic transportation charge, warehouse charge, domestic hotel charges, etc… will not be exempted even you pay to overseas.

Non-taxable transactions

Transactions which are deemed not to be properly taxable by their nature are categorized as non-taxable transactions.

There are 17 kinds of consumption tax exempt transactions, namely, sale and leasing of land, sale of securities, sale of means of payment such as money and virtual currencies, interest from deposit and loan, sale of postal stamps and gift vouchers, fees for registration and licensing paid to the government and local public bodies, foreign exchange charges, medical services under social security system, nursing care and social welfare services, educational services and certain textbooks, housing rent etc.

(Note) However, from 1 April 2020, even if the purpose of the loan is not clearly stated in the contract, the loan will be exempt from tax if it is clearly for residential use, judging from the circumstances of the loan.

Out of scope transactions

Transactions corresponding to not mentioned above are not subject to consumption tax, including tax, salary, donation, compensation for damages etc…

Classification

<table>
<tr><td rowspan="5">Transaction by Enterprises (business owner individual and corporation)</td><td rowspan="4">Domestic transactions</td><td rowspan="3">Transfer of assets or the provision of services</td><td>17 items</td><td>Non taxable transactions</td></tr>
<tr><td rowspan="2">Other than above</td><td>Taxable transactions</td></tr>
<tr><td>Tax exempted</td></tr>
<tr><td colspan="2">Non transfer of assets or provision of services</td><td>out of scope</td></tr>
<tr><td colspan="3">Non-domestic transactions</td><td>Out of scope</td></tr>
<tr><td colspan="4" rowspan="2">Import transactions</td><td>Non taxable transactions</td></tr>
<tr><td>Taxable transactions</td></tr>
</table>

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 pay consumption tax return.

Business enterprises whose yearly taxable sales amount of the base period (Note 1) was equal to 10 M yen or less 10 M yen, then they become tax-exempt enterprise.

Tax exempt enterprises are not liable to pay consumption tax. However tax exempt enterprises can not recognize consumption tax paid from purchases or import transactions. So, the enterprises can strategically select to become a taxable enterprise by submitting a notification to Tax office, if it has a large capital investment plan and tax paid on purchase likely exceeds tax received on sales. By doing so, the enterprise can claim the refund of tax paid on purchases.

(Note 1) The two fiscal years before that year

(Note 2) Even if base period's taxable sales is 10M or less, if both the taxable income and total salary of the first 6 months of the previous period exceed 10M yen, then the enterprises will not be exempt from consumption tax.

Start-up enterprises are exempt from consumption tax during their first and second business years, because no taxable sales occur for the relevant base periods. The enterprise, 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. But they may become tax payer from 3rd business year if the first year's taxable sales exceed 10M yen.

1-4) Computation of consumption tax

The consumption tax rate is 10% (national tax 7.8%, local tax 2.2%).

A reduced tax rate 8% (6.24% for national tax and 1.76% for local tax) applies to food and beverage products (excluding alcoholic beverages and food service) and to newspapers published more than twice a week (based on subscription contracts).

Basic formula of tax calculation is as follows:

［Tax due］ = ［Consumption tax on sales］ – ［Consumption tax on purchase］

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 / SALES amount

TAXABLE SALES amount is the total amount of transfer of taxable assets in Japan plus Export sales. SALES amount is the total amount of transfer of taxable assets in Japan plus Export sales plus Non-tax transaction.

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

<table>
<tr><td rowspan="3">Purchase tax credit</td><td>Taxable sales ratio is equal or more than 95%,
and
Annual taxable sales is less than 500M JPY</td><td>100% credit</td></tr>
<tr><td rowspan="2">Taxable sales ratio is less than 95%,
or
Annual taxable sales is over 500M JPY</td><td>Itemized method (A)</td></tr>
<tr><td>Proportional method (B)</td></tr>
</table>

(A) Itemized method: Expenses are categorized in three groups: expenses corresponding only to ［①Consumption tax corresponding to taxable sales］, ［②Consumption tax corresponding to non-taxable sales］, and ［③Consumption tax corresponding to both taxable and non-taxable sales］. Purchase tax credit is calculated as below:

① + (③ × ［Taxable sales ratio］)

(B) Proportional method: Purchase tax credit is calculated as below:

(① + ② + ③) × [Taxable sales ratio]

Once a company selects to use Proportional method, it is required to apply this method continuously for 2 years. It is necessary to consider which method would be more advantageous for at least two years. Company which calculates purchase tax credit by using Itemized method, may select to apply the Proportional method in the next year.

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.

Company is required to book consumption tax amount by each different tax rate (10% and 8%), along with original purchase invoices (separate invoice storage method).

From October 2023, Invoice method will begin in which every company is required to have company number on each invoice. (Please refer 1-6) Qualified invoice-based method)

1-6) Qualified invoice-based method (Invoice system)

1-6-a) Registration as the issuer of qualified invoice

With implementation of the qualified invoice-based method (Invoice system), only the operator registered as the issuer of qualified invoice (Registered operator) can issue the qualified invoice

The operator to be registered need to submit the application of registration. If the operator would like to be registered as of 1st October 2023, the operator has to submit the application by 30th September 2023. After the submission the tax office will inform the operator its registration number and the registration number will be released on National Tax Agency's publication site.

1-6-b) Qualified Invoice / Existing invoice (current system)

A qualified invoice is a document by which a seller informs a buyer the applied rate of consumption tax and the amount of consumption tax and the buyer does its accounting process based on it.

Items to be mentioned in an existing invoice (current system) until 30 September 2023

① Name of operator
② Date/month//year of transaction
③ Content of transaction (clarify reduced rate 8% item)
④ Total amount of price including consumption tax, sorted by tax rate
(Basic rate 10% and reduced rate 8%)
⑤ Name of recipient of Invoice

Additional items to be mentioned in the Qualified invoice from 1 October 2023

⑥ Registration Number of registered operator
⑦ Applied tax rate (10% and 8%)
⑧ Amount of consumption tax , separately calculated by tax rate 10% and 8%

1-6-c) Issuance and retention of the qualified invoice

In the Invoice System, the seller and the buyer have to do below respectively.

The registered operator as a seller has to issue the buyer a qualified invoice upon request and save the copy of the issued invoice for 7 years.

The buyer has to keep the qualified invoice issued by the registered operator to be applied of deduction of consumption tax credit.

1-6-d) Non-taxpayer

A company or an individual business person exempted from an obligation of filing consumption tax return (Non-taxpayer) can't register as an registered operator and can't issue an qualified invoice. Therefore when the buyer receives the invoice issued by Non-taxpayer, the buyer can't deduct the consumption tax paid to the Non-taxpayer in the calculation of consumption tax return. (There is a Transitional period for 6 years. Please refer 1-6-e)) If Non-taxpayer wants to register as an registered operator , the Non-taxpayer has to become Tax payer .

1-6-e) Transitional measures

With the implementation of the invoice system, assuming the increase of the tax burden for Non-taxpayer by becoming the taxpayer, and the increase of administrative burden related with the retention obligation of the invoices, the below transitional measures are applied.

Item	Overview	Applicable operator	Applicable period
Tax credit for the purchase from non-taxpayer	80% or 50% tax credit can be applied to the purchase from the non-taxpayer	Tax-payer (Buyer)	Purchase between 2023/10/1-2026/9/30: 80% Purchase between 2026/10/1-2029/9/30: 50%
Special measure for small-sized operator (20%-Special measure)	20% of the base amount of the taxable period can be regarded as the tax payable of the taxable period	Non-taxpayer (Seller) which becomes the tax-payer by registration as the qualified invoice issuer	Taxable period to which any date between 2023/10/1 to 2026/9/30 belongs.
Exemption of retention obligation of small-amount invoice	Regarding the purchase less than JPY10,000, the tax credit can be applied only by keeping the accounting book with certain related description and the retention of the related invoice is not necessary.	Tax-payer (Buyer) with the base period's taxable sales not exceeding JPY100M or the special period's taxable sales not exceeding JPY50M	Purchase between 2023/10/1-2029/9/30

※The above transitional measures are reflects the law as of 1st June 2023.

1-7) 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), Business that are not included in others	60%
Financial Services, Insurance, Transportations and Service Industries(except restaurants)	50%
Real Estates	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 classifies 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.

If an operator, to which the simplified tax system can be applied, also meet the requirement of 20% -Special measure mentioned in 1-6-e), the operator can calculate the tax payable by either of the simplified tax system or 20% -Special measure.

1-8) 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 (*1)
Taxpayer	Individual or company who is registered as its owner as of January 1st at the legal affairs bureau.	Individual business owner or company who have depreciable asset for business use as of January 1st.
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 (課税標準)	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.

*1. If the small or medium sized company newly invests to a certain kind of machineries, equipment or building's accompanying facilities based on the plan which is approved by the city in advance regarding plans of Advanced Equipment, then the taxable base amount of depreciable assets tax levied by the city will be reduced to 1/2-1/3 of the original taxable base amount for 3-5 years. In this case, the machines or the equipment, or the building's accompanying facilities must be newly purchased by March 31st, 2025.

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 ㎡, or have over 100 employees.

Tax amount	Per floor space tax : ¥600/㎡ 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) Real estate acquisition tax

Anyone who purchase Real-estate (land, building) is liable to pay this tax. (It does not matter whether purchase transaction is registered or not.)

Taxable amount:	The amount which evaluated by the city in order to levy property tax	
Tax rate:	4%	
Tax exemption amount:	Land	100,000 yen
	Building	230,000 yen per one, 120,000 for additional one
Non taxable transactions:	Inhelitance, Marger of Split of company	

4. Salary and Taxes for Employees

1) Employment income

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 commuting allowance to a certain limit, moving expenses, loans interest above market rate and, for resident foreigners and nonresidents, home-leave expenses(until a predetermined number of times), are excluded from taxable income.

Regarding company housing, when an employer collects "Taxable value of company provided housing (i.e. legal rents)" from directors and employees, they are treated as not being provided any taxable benefits by the employer. Please see the following page for how this “Taxable value of company provided housing” is calculated.

Rapid calculation table for deduction for employment income (2020)

Gross Receipts		Amount of employment Income deduction (¥)
Exceeding	Not exceeding	
0	1,800,000	Gross salary x 40% - 100,000 If above is less than 550,000, 550,000.
1,800,000	3,600,000	Gross salary x 30% + 80,000
3,600,000	6,600,000	Gross salary x 20% + 440,000
6,600,000	8,500,000	Gross salary × 10% + 1,100,000
8,500,000		1,950,000 (upper limit)

2) Company provided housing

When a director or an employee is using company provided housing and if the company is not deducting legal rent from the individual, it will be treated as a benefit in kind for the tax purpose. Therefore, normally the amount equivalent to the legal rent is deducted from the salary. The legal rent is calculated as below, based on floor space and taxable value of fixed asset tax for land and building.

<table>
<tr><td rowspan="4">Employee</td><td>Legal rent</td><td colspan="3">(0.2% of the value of building for fixed asset tax purpose) ＋
(12 yen × total floor space of the building in ㎡/3.3 ㎡) ＋
(0.22% of the value of land for fixed asset tax purpose on which the building stands)</td></tr>
<tr><td rowspan="3">Taxable benefit</td><td colspan="2">100% rent paid by the company</td><td>Employee is taxed on legal rent</td></tr>
<tr><td colspan="2">Employee pays 50% or more of the legal rent</td><td>No taxable benefits</td></tr>
<tr><td colspan="2">Employee pays less than 50% of the legal rent</td><td>Employee is taxed on the difference between the legal rent and the rent paid by the employee</td></tr>
<tr><td>Director</td><td>Legal rent</td><td>Luxurious housing</td><td>Total floor space over 240 ㎡ and luxurious (i.e. luxurious internal /external decorations, expensive rent or property price)</td><td>Market value</td></tr>
</table>

	Small size residence	Total floor space is 132 ㎡ or under. (99 ㎡ or under if the useful life of the building is over 30 years)	(0.2% of the value of building for fixed asset tax purpose) + (12 yen × total floor space of the building in ㎡ /3.3 ㎡) + (0.22% of the value of land for fixed asset tax purpose on which the building stands)
	None of the above	Property owned by the company	(1% of the value of building for fixed asset tax purpose) + (0.5% of the value of land for fixed asset tax purpose on which the building stands)
		Property leased by the company	The higher of (1) 50% of the actual rent and (2) the amount computed by the formula immediately above
Taxable benefits	100% rent paid by the company		Director is taxed on legal rent
	Director pays 50% or more of the legal rent		Director is taxed on the difference between the legal rent and the rent paid by the employee
	Director pays less than 50% of the legal rent		

3) 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

.

4) Deductions

4-1) Deductible expenses

If employees' actual expense during a year exceeds 50% of standard employment income deduction (see Deduction for Employment Income , 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.

4-2) 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.

4-3) Personal exemptions

Personal exemptions are available for purposes of income tax and inhabitant tax. The following table outlines personal exemptions. (Note 1)

Major personal exemptions 2020 or after

Type (outline)	Tax deduction for national tax	Amount for inhabitant tax
Basic exemption	¥480,000 In case the person's income is over JPY24,000,000, 0 – 320,000	¥430,000 In case the person's income is over JPY24,000,000, income is over JPY24,000,000, 0 – 290,000
Exemption for spouse (Note 2)	¥380,000, ¥260,000, or ¥130,000 depends on income level of tax payer (If the age of spouse equal or exceed 70 year's old, Amount of exemption become ¥480,000, ¥320,000 or ¥160,000)	¥330,000, ¥220,000 or ¥110,000 depends on income level of tax payer (If the age of spouse equal or exceed 70 year's old, Amount of exemption become ¥380,000, ¥260,000 or ¥130,000)
Special exemption for spouse (Note 2)	¥10,000 - ¥380,000 depends on income level of tax payer's and his/her spouse	¥10,000 - ¥330,000 depends on income level of tax payer's and his/her spouse

Exemption for dependents		
Younger than 16 years old	0	0
16 - 19 years old	¥380,000	¥330,000
19 - 23 years old	¥630,000	¥450,000
23 - 70 years old (Note3)	¥380,000	¥330,000
70 years old or older	¥480,000	¥380,000

(Note 1) If a resident who receives salary etc. applies for the above allowance for non-resident dependents, they are required to submit or present "Documents concerning relatives" or "Documents concerning remittances" or both to the payer of the salary when paid or at annual year-end tax adjustment. Those who file personal tax returns need to submit or present the above document(s) to the tax authority with the tax return if they have not already submitted or presented them to the payer of the salary.

(Note 2) You can not get both exemptions ("Exemption for spouse" and "Special exemption for spouse") at the same year. If the tax payer's annual income exceeds 10M yen, then the tax payer can get neither of them.

(Note 3) From 2023 onward, exemption of dependents will not applied to dependent who lives overseas and between equal or more than 30 years old and less than 70 years old, except certain people such as overseas student and person with disability.

5) 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 2023 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(¥)				
:	:	:	:	:	:	:
335,000	338,000	11,360	8,210	6,600	4,980	3,360
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, non-director, age: before 40 years old,
married with two children (both children are age 16 – 29 years old)

* 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 9-2)

* Health insurance ¥21,094, social security pension ¥37,515, employment insurance ¥2,520

<Computation for withholding income tax>

The amount of salary after deduction of social insurance premiums is

¥400,000 –¥21,094 - ¥37,515 - ¥2,520 = ¥338,871

Referring to the table of withholding from employment income above, ¥338,871 and 3 dependents cross. As a result, withholding tax is ¥5,110.

Payroll in details (example)

Payment		*Deduction		
Salary	400,000	Health insurance	21,094	
Transportation	20,000	Welfare pension insurance	37,515	
		Unemployment insurance	2,520	
		Withholding income tax	5,110	Net payment
Sum	420,000	Sum	66,239	353,761

*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.

In: JPY

	Employer	Employee
Health insurance	20,951(51.45/1,000)	20,951(51.45/1,000)
Welfare pension insurance	37,515(91.50/1,000)	37,515(91.50/1,000)
Unemployment insurance	2,730(9.50/1,000)	1,260(6.00/1,000)
Workmen's compensation insurance	1,260(3.0/1,000)	None
Total amount	62,456(155.45/1,000)	59,726(148.95/1,000)

6) Individual income 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 45% (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	40,000,000	2,796,000	40
40,000,000		4,796,000	45

(*) An extra amount of 2.1% of income tax levied will be imposed as Special Reconstruction Income Tax until 2037.

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). Per-capita tax is around 5,000 yen annually (*1). Non-residents are not subject to local inhabitant tax.

(*1) A person who lives in Osaka city, per-capita tax is 5,300 yen (prefecture tax 1,800 yen + city tax 3,500 yen). A person who lives in Tokyo, per-capita tax is 5,000 yen (metropolitan tax 1,500 yen + city tax 3,500 yen).

7) 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 (Note) 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.

(Note) Tax return claiming refund can be filed before February 16.

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 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

<table>
<tr><td colspan="2" rowspan="3"></td><td colspan="2">Japan-source income</td><td colspan="3">Non Japan-source income</td></tr>
<tr><td rowspan="2">Paid in Japan</td><td rowspan="2">Paid in abroad</td><td rowspan="2">Paid in Japan</td><td colspan="2">Paid in abroad</td></tr>
<tr><td>Portion deemed remitted to Japan</td><td>Remainder retained abroad</td></tr>
<tr><td rowspan="2">Resident</td><td>Permanent Resident</td><td colspan="5">Taxable</td></tr>
<tr><td>Non-permanent resident</td><td colspan="4">Taxable</td><td>Non taxable</td></tr>
<tr><td colspan="2">Non-resident</td><td colspan="2">Taxable</td><td colspan="3">Non taxable</td></tr>
</table>

Scope of taxable income for each division of resident status

<table>
<tr><td colspan="2">Classification</td><td>Japanese nationality</td><td>Period of having a residence</td><td>Aggregate period of having domicile or residence within last 10 years</td><td>Division of resident status</td></tr>
<tr><td colspan="2" rowspan="4">Having domicile</td><td>Yes</td><td rowspan="4"></td><td rowspan="2">Over 5 years</td><td rowspan="3">Permanent resident</td></tr>
<tr><td>No</td></tr>
<tr><td>Yes</td><td rowspan="2">5 years or less</td></tr>
<tr><td>No</td><td>Non-permanent resident</td></tr>
<tr><td rowspan="5">Not having domicile</td><td rowspan="5">Having residence</td><td>Yes</td><td rowspan="4">Duration of a year or more</td><td rowspan="2">Over 5 years</td><td rowspan="3">Permanent resident</td></tr>
<tr><td>No</td></tr>
<tr><td>Yes</td><td rowspan="2">5 years or less</td></tr>
<tr><td>No</td><td>Non-permanent resident</td></tr>
<tr><td></td><td>Less than a year</td><td></td><td>Non-resident</td></tr>
</table>

9) Social insurance

In a broad sense, social insurance includes Health insurance, Nursing care insurance, Welfare pension insurance, Unemployment insurance and Labor accident insurance.

9-1) Social insurance programs

Social insurance programs in Japan include health insurance, nursing care insurance, welfare pension insurance. Health insurance covers medical care expenses for employees and their dependents in the case of disease, injury and delivery. The nursing care insurance is the system that covers the care of care recipients from the budget of insurance premium. 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.

(Employer who is hiring more than 500 employees may need to let all part-time employees into social insurance system even their work hours are below 3/4 of full-time employees.)

Every person who is 40years old or more and less than 65 years old need to enter the Nursing care insurance which is part of health insurance.

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

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9-2) 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 equal or more than 31 days and if they work for equal or 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 premium rate for standard monthly remuneration (FY2023)

	Insurance Rate	Rate borne by employers	Rate borne by employees
Health insurance	102.90/1,000(*1)	51.45/1,000	51.45/1,000
Nursing care insurance	18.20/1,000(*1)	9.10/1,000	9.10/1,000
Welfare pension insurance	183.00/1,000	91.50/1,000	91.50/1,000
Employment insurance	15.50/1,000(*2)	9.50/1,000	6.00/1,000
Worker's accident compensation insurance	3.00/1,000(*3)	3.00/1,000	-

(*1) Rates may slightly vary to prefectures. This table shows the rate National Health Insurance Association Osaka Branch applies from March 2023.

(*2) Rate applicable to businesses under general industries category for April 2023 to March 2024.

(*3) Rate applicable to businesses under other business category. The rate may vary depending on the type of business.

9-3) 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 February 2022

Germany, UK, Korea, US, Belgium, France, Canada, Australia, Holland, Czech, Spain, Ireland, Brazil, Switzerland, Hungary, India, Luxemburg, Philippines, Slovakia, China, Finland, and Sweden (Italy is preparing to get into effect.)

Basically, Social Security Agreement applies to all countries listed above, there might be difference because social security systems vary from one country to another.
For more information, please see the below URL of Japan Pension Service
https://www.nenkin.go.jp/service/shaho-kyotei/index.html

9-4) Lump-sum Withdrawal Payments (Pension)

Foreigners who is leaving Japan may claim Lump-sum Withdrawal Payments when the person satisfy all conditions.
For more information, please see below;
https://www.nenkin.go.jp/service/jukyu/sonota-kyufu/dattai-ichiji/index.html

5. Appendix

Useful addresses and telephone numbers

JETRO（Japan External Trade Organization） Investing in Japan

https://www.jetro.go.jp/en/invest

TEL 03-3582-4684(Tokyo) / 06-4705-8650(Osaka)

What is "invest Tokyo"?

https://www.investtokyo.metro.tokyo.lg.jp/en/

Tokyo One-Stop Business Establishment Center (TOSBEC)

https://www.startup-support.metro.tokyo.lg.jp/onestop/en/ TEL 03-3582-4934

MIPRO(Manufactured Imports and Invest Promotion Organization)

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/eng/ TEL 06-6615-5522

The Japan Institute of Certified Public Accountants association (JICPA)

http://www.hp.jicpa.or.jp/english/index.html TEL 03-3515-1120

Japan Federation of Certified Public Tax Accountants Association

http://www.nichizeiren.or.jp/eng/index.html TEL 03-5435-0931

National Tax Agency Japan (English)

http://www.nta.go.jp/english/index.htm

Ministry of Finance (English)

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