

SETTING UP BUSINESS IN JAPAN



General Aspects

Population: 127 Million (as of July, 31st 2017)

GDP: 538,446 billion JPY (4,018 billion EUR) (2016 year)

Climate: Most area is generally mild. There are 4 seasons and June is rainy season.

Language: Japanese. English is popular for business

Currency: Japanese Yen (134 JPY/EUR as of Feb, 2nd 2018)

Legal Forms of Business Entities

Legal form	Feature	Remarks	Minimum Paid in Capital
Branch Office	Kabushiki Kaisha (KK)	Liability of shareholder is limited to the value of the share (Detail is in next page)	1 JPY ~
Sole Proprietorship	Godo Kaisha (GK)	Liability of equity holder is limited to the value of the equity	1 JPY ~
Partnerships	Shiten (-)	See below	-

Advantage vs Disadvantage for Branch

Advantage	Disadvantage
<p>Loss can be off set against profit of head office in overseas.</p> <p>Easier legal procedures for deregistration than corporation.</p>	<p>Tax on branch is more complicated than corporation in general. e.g.) Payment of Japanese source income to Japan branch of foreign corporation is basically subject to withholding tax.</p> <p>Taxable income of the branch needs to be calculated based on Japanese tax law. On the other hand taxable income in the country where head office is located needs to be calculated again based on the tax law in the country.</p> <p>Amount of paid in capital of the foreign corporation affects tax status of the Japanese branch. e.g.) In case paid in capital of foreign corporation is more than JPY100 million Japan branch is regarded as large corporation for income tax purposes and not able to enjoy tax concessions allowed for small corporations.</p>

Operation of KK

Incorporation	It takes usually from one to two months for incorporation. Incorporation is handled by a legal firm.
Fiscal Year	It is determined by shareholder and it is written in the Articles of Incorporation. March 31st is popular for Japanese companies and December 31st is popular for International companies.
Shareholders' Meeting	Annual shareholders' meeting shall be held within 3 months after fiscal year end.

Professional Qualifications other than Lawyers

Area	Qualification (in Japanese)	Remarks
Accounting & Tax	Certified Public Accountant - CPA (Konin Kaikeishi)	Statutory auditing needs to be performed by CPA. There are 30 thousand CPAs in Japan as of November 30th, 2017.
	Certified Public Tax Accountant - CPTA (Zeirishi)	Tax works needs to be performed by CPTA. CPA is not able to do tax works but CPA can be registered as CPTA. There are 77 thousand CPTAs in Japan as of February 2018
Social Insurance & Employment	Labor Consultant (Shakaihoken Romushi)	Labor consultant handles social insurance matters, consulting on labor problems, preparation of employment rule and others.
Registration	Judicial Scrivener (Shiho Shoshi)	Registration works such as registration of incorporation or fixed assets are handled by judicial scrivener.
Visa	Administrative Scrivener (Gyosei Shoshi)	VISA works are generally handled by the profession.



Taxation – Overall

Japan has concluded tax treaties with 66 countries and regions as of June 30th, 2017. Some special concessions are granted under tax treaties.

Major tax law and brief explanation on each tax follow:

National / Local	Type of Tax
National	Type of Tax
	Corporate Income Tax
	Inheritance Tax
	Japanese Consumption Tax (JCT) (JCT return needs to be filed with national tax office)
Local	Income Tax
	Fixed Property Tax

Taxation – Personal Income Tax

Tax Year : Calendar Year

Filing Due Date : March 15th

- Provisions on personal income tax and withholding tax are in the law.
- Definition of resident , non resident and permanent resident are prescribed in the law.
- Different tax method on the residential status is applied.
- Resident income is classified to following 10 groups and methods of calculation for each type of income are prescribed respectively:
 1. Interest income
 2. Dividends income
 3. Real estate income
 4. Business income
 5. Salary income
 6. Retirement income
 7. Timber income
 8. Capital gains
 9. Occasional income
 10. Miscellaneous income
- Retirement income and part of capital gain are separately taxed from other income.
- Major deduction items allowed for resident are following:
 1. Basic deduction
 2. Social insurance premium paid
 3. Insurance premium paid with certain limit
 4. Medical expense paid with certain limit

- Income tax rate is applied on total of income other than separately taxed group from other income less allowed deduction. The rate is from 5% to 45% depending on level of income plus 10% flat rate local tax. So maximum tax rate is 55%.
- Permanent resident is taxed on global income while non-permanent resident is taxed only on Japanese source income and income remitted from overseas in the year.
- Non resident is taxed on Japanese source income only and the rate is 20.42% flat rate for some kind of income such as salary and comprehensive income taxation is applied on some kind of income such as real estate income.

Taxation – Corporate Income Tax

Tax Year : Same as Fiscal Year

Filing Due Date : Two months after fiscal year end (*)

- Provisions are made for domestic corporation and foreign corporation separately. However they are the same in most areas.
- Consolidated taxation system is allowed for 100% ownership group of domestic corporations.
- Tax return shall be based on the accounts legally finalized. Usually annual accounts are legally finalized at the annual shareholders meeting.
- Taxable income is calculated based on generally accepted accounting principles (GAAP) except items prescribed by tax law. Major examples of those items are following.
 1. Directors remuneration
 2. Entertainment expense is tax deductible up to certain limit
 3. Donation is tax deductible up to certain limit
 4. Depreciation method is prescribed by tax law in detail
 5. Taxation on lease: Finance lease and Operating lease
 6. Tax deductible bad debts written off
 7. Merger and acquisition
 8. Loss carry forward and carry back

() One month extension is allowed in case Articles of Incorporation says annual shareholders meeting is held within three months after fiscal year end. Foreign corporation has different rule to finalize annual accounts in the country where the head office is located and as tax returns shall be based on the accounts legally finalized more than one month extension may be allowed for foreign corporations. To get extension permission an application form needs to be filed before end of the fiscal year.*

Topic	Remark
Tax rate	In addition to national corporate tax there are local inhabitant tax and enterprise tax. Aggregate effective tax rate is 29.97%.
Tax Payment Due Date	Two months after fiscal year end. No extension is allowed.
Tax Concession on Small Corporations	Small corporation defined the amount of paid in capital is 100 million JPY or less at the end of the fiscal year can enjoy tax concessions, for example: <ul style="list-style-type: none"> • Lower income tax rate up to 8million JPY taxable income • Higher limit of tax deductible amount on entertainment expenses • Loss carry back to previous year is allowed
Tax Credit	For example, Withholding tax paid, Withholding tax paid in overseas, Some portion of R&D expenses and salary increase can be tax credit.
International Tax Matters	Transfer Pricing, Anti-tax haven measure and Taxation on thin capital can be international tax matters when international transaction is conducted.

Taxation – Income Tax (Withholding Tax)

Withholding Tax on Payment to Resident

- Following payments are subject to withholding tax:
 1. Bank Interest
 2. Dividends
 3. Salary
 4. Severance payment
 5. Pension
 6. Fee paid to professionals and other outside service providers

Withholding Tax on Payment to Non-Resident or Foreign Corporations

- Definition of foreign corporation is head office is not located in Japan.
- Therefore payment to Japanese branch of foreign corporation is subject to this withholding tax.
- Payment of Japanese source income is subject to this withholding tax.

- Example of Japanese source income follow:

1. Interest
2. Dividends
3. Royalty
4. Salary on working in Japan
5. Rent income on premises in Japan
6. Capital gain on premises in Japan



Taxation – Inheritance Tax & Gift Tax

- Inheritance tax and gift tax are prescribed by the law. In both cases persons who receives assets needs to file tax return.
- There are some limitation on tax on tax payer and on location of the assets.
- There are special rules on valuation of assets and it is used for both taxes.

Type	Topic	Remarks
Inheritance Tax	Basic Deduction	30 million JPY + number of heir X 6 million JPY
	Filing and tax payment due date	Within 10 months after the date of death
Gift Tax	Basic deduction	1,100 thousand JPY per year
	Tax Year	Calendar Year
	Filing and tax payment due date	March 15th in the following year

Taxation – Japanese Consumption Tax (JCT)

- JCT is so structured as to be passed on ultimately to consumers by addition to the price of products sold and services provided by an enterprise.
- It is also designed to eliminate multiple taxation at each stage of manufacture and distribution by allowing for the credit of JCT on purchasing against the on sales.
- There are some exemption or tax relief provisions which makes complicated in practice and tax strategy is necessary on choice of options on JCT status.

Topic	Remark
Tax rate	8% made up of 6.3% of national JCT and 1.7% of local JCT.
Exemption	Export
Items not subject to JCT	For example: Land sales and rent - Interest - Prepaid card - Medical expense - Rent for residential purposes
Filing and tax payment due date	Within two months after fiscal year end.

Taxation – Local Taxes

Topic		Remark	
Income Tax	Personal Tax	<ul style="list-style-type: none"> Taxable income is calculated basically in the same method as national income tax. Tax rate is 10% flat rate. 	
	Corporate Tax	Inhabitant Tax	<ul style="list-style-type: none"> Corporation has to file income tax return with local tax office where the corporation has office. For instance head office of a corporation is in Tokyo and the company has branch in Osaka the company needs to file local income tax return with Tokyo metropolitan tax office, Osaka prefecture tax office and Osaka
		Enterprise Tax	<ul style="list-style-type: none"> Enterprise tax return needs to be filed with the same local tax office as inhabitant tax office. Enterprise tax is tax deductible in the following year.
Fixed Property Tax		<ul style="list-style-type: none"> Fixed property tax is imposed on land, buildings, leasehold improvements, machines and furniture and equipment. On land and buildings tax payment slip is sent to the owner based on registration. On other assets used for business tax return needs to be filed by the end of January on assets as of January 1. Based on the tax return tax office send tax payment slip to the owner of the premises. 	

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