The Mipro Guide to Starting a Business in Japan

~Tax Edition~

外国人のための起業ガイドブック
（税務解説編）

To readers of this guidebook

"The Mipro Guide to Starting a Business in Japan" is designed to provide information that will help foreigners wishing to start business in Japan.

This "Tax Edition" provides explanations on taxes levied and tax procedures required according to business structures and the features, advantages, and disadvantages of each when foreign-affiliated companies start a business in Japan.

The following is a brief summary of the contents of this Guidebook.

I. Taxes and tax procedures according to business structure

This chapter provides an explanation of taxes levied on foreign entrepreneurs establishing business in Japan categorized into those capitalized by individual entrepreneurs and those capitalized as corporations. It is designed to give the reader an understanding of tax types and rates as well as an annual schedule of tax procedures.

II. Business structure for foreign-affiliated companies entering Japan

This chapter explains business structures for foreign companies advancing business in Japan with foreign capital. Taxes related to the businesses are handled in the same manner as explained in chapter **I.** Readers can gain reference for selecting one of three business structures: representative office, branch office, or local subsidiary.

III. Reference

This chapter provides a chart of Japan's tax treaty network and a list of contacts for inquiries about taxes and starting a business in Japan.

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I. Taxes and tax procedures according to business structure

1 Introduction

This chapter explains the types of taxes levied and tax procedures required when (1) starting a sole proprietor business, or (2) establishing a corporation by an individual contributing capital and conducting business as a corporation. This chapter focuses on taxes levied on main businesses; therefore, information about property taxes, such as inheritance and real estate acquisition taxes, which are levied when acquiring real estate, are omitted. Information for corporation is provided for SMEs with capital of less than 100 million yen and which are not 100% subsidiaries of companies with capital of 500 million yen or more.

2 Types of taxes

(1) For sole proprietorships

National taxes: Income tax, Special income tax for reconstruction[1], Consumption tax
Local taxes: Local residence tax, Enterprise tax, Fixed property tax

Income earned by sole proprietorships are classified as business income, and income tax, local residence tax (in part), and enterprise tax are levied on profits after subtracting expenses from revenue (income). These taxes are levied only when a profit is earned, so this means that no taxes are levied if a deficit is incurred, in principle. For business income, a tax return must be filed by the taxpayer by March 15 of the following year. (To be described hereafter.)

In contrast, a salary received from a company is classified as employment income. In the case of employment income, withholding tax is collected from each monthly payment, and income tax is settled by the year-end tax adjustment upon taking the necessary procedure. This means no income tax return needs to be filed if there is no income other than employment income.

Consumption tax is levied against the volume of business if the sole proprietorship engages in business worth more than a certain amount of money. As a rule, consumption tax paid out when purchasing merchandise (tax prepaid) is subtracted from the consumption tax received through sales to customers (tax received), and the remaining amount is paid to the government regardless of the business' profit or loss. Proprietors may select from either the standard or the simplified tax system. (To be described hereafter.)

Fixed property tax is levied on the land, buildings, and depreciable assets that proprietors own.

Terminology

[1] Special income tax for reconstruction is the government's source for securing the necessary financial resources to implement policy measures for reconstruction from the Great East Japan Earthquake, and is categorized as national tax. Taxpayers are required to file and pay the special income tax to the nation based on the same requirements for the filing and payment of income tax.

(2) For corporations

National taxes: Corporate tax, Local corporate tax[2], Consumption tax

Local taxes: Corporate residence tax, Corporate enterprise tax, Fixed property tax

As a result of engaging in corporate activities, corporate tax, local corporate tax, corporate residence tax (in part), and corporate enterprise tax (in part) are levied on profits after subtracting expenses from revenue (income). These taxes are levied only when a profit is earned, so this means that no taxes are levied if a loss is incurred, in principle. All corporations are required to file a tax return within two months after the end of the accounting period. (To be described hereafter.)

Consumption tax is levied against the volume of business. As a rule, consumption tax paid out when purchasing merchandise (tax prepaid) is subtracted from the consumption tax received from customer sales (tax received), and the remaining amount is paid to the government regardless of business profit or loss. Corporations may select either the standard or simplified tax system. (To be described hereafter.)

Fixed property tax is levied on the land, buildings, and depreciable assets corporations own.

3 Taxation method

(1) For sole proprietorships

- **Taxes levied through self-assessment[3] : Income tax, Special income tax for reconstruction, Consumption tax, Depreciable property tax (Fixed property tax)**

  Taxes to be filed and paid individually by the taxpayer should be filed and paid to the tax office that has jurisdiction over the taxpayer's address (or residence) by the due date. In addition, taxpayers have the choice of filing through the tax office that has jurisdiction over the business office.

- **Taxes levied through official assessment[4] : Residence tax, Enterprise tax, Fixed property tax (land and buildings)**

  Make payment according to and by the due date indicated on the tax notice sent from the relevant tax office.

(2) For corporations

- **Taxes levied through self-assessment: Corporate tax, Local corporate tax, Corporate residence tax, Corporate enterprise tax, Consumption tax, Depreciable property tax (Fixed property tax)**

  File tax returns through the tax office and prefectural/municipal office that have jurisdiction over the registered address of the business by the announced due date, and make payment at the office.

- **Taxes levied through official assessment: Fixed property tax (land and buildings)**

  Make payment according to and by the due date indicated on the tax notice sent from the relevant tax office.

Terminology

2 Local corporate tax is calculated by multiplying the corporate tax amount with a tax rate of 10.3%. It is categorized as national tax because its revenue becomes the nation's financial resources for the local allocation tax which is allocated to local governments. Accordingly, taxpayers are required to file and pay the local corporate tax to the nation based on the same requirements for the filing and payment of the corporate tax.

3 Self-assessment taxation is a system where the tax amount is primarily determined through the filing of a tax return by each taxpayer. Taxes including corporate tax, consumption tax, income tax, inheritance tax and gift tax fall under this category.

4 Official assessment taxation is a system where the tax amount is determined by the nation or local governments, etc. and the taxpayer pays tax based on their notice. Taxes including fixed property tax, real estate acquisition tax and automobile tax fall under this category.

4 Due date for filing returns

(1) For sole proprietorships

The business term (accounting period) for sole proprietorships is from January 1st to December 31st (calendar year taxation) of the relevant year, and the business term cannot be revised within the year.

● **Income tax**

Tax returns must be filed by March 15th of the following year.

Therefore, for example, the due date for the filing of tax returns for the 2022 business term is March 15, 2023.

● **Consumption tax**

Tax returns must be filed by March 31st of the following year.

Therefore, for example, the due date for the filing of tax returns for the 2022 business term is March 31, 2023.

(2) For corporations

Corporations may freely select their business term (accounting period). The accounting period may be changed at mid-term with justifiable reason.

● **Corporate tax, Local corporate tax, Corporate residence tax, Corporate enterprise tax**

Tax returns must be filed within 2 months of the end of business term. However, if it is stated in a corporation's articles of incorporation that its shareholders' meeting or general meeting of members is to be held within 3 months of the end of business term, the filing due date may be extended by one month by applying for an extension. This is based on the principle of final accounts, which states that tax returns should be filed based on financial statements approved by the shareholders' meeting or general meeting of members. Thus, the due date for filing the tax return in this case is within 3 months of the end of the business term. When the due date is extended, interest tax is levied for the extended period. Interest tax can be calculated into deductible expenses as interest paid.

● **Consumption tax**

Tax returns must be filed within 2 months of the end of business term. If, however, the due date for filing a corporate tax return has been extended, the due date for filing a consumption tax return may also be extended by a month by applying for an extension. Thus, the due date for filing the tax return in this case is within 3 months of the end of the business term. When the due date is extended, interest tax is levied for the extended period. Interest tax can be calculated into deductible expenses as interest paid.

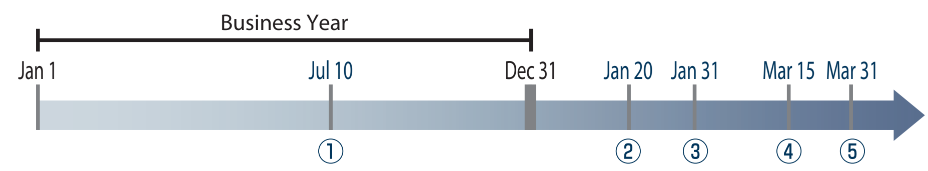
Individual

Corporation

The following is the annual schedule of due dates for filing tax returns.

Fig. 1 Annual Schedule for the Filing and Payment of Taxes

(1) For Sole Proprietorships



① Due date for payment of withholding income tax
(for the period from Jan. to June of the relevant calendar year: under special condition of semiannual payment)

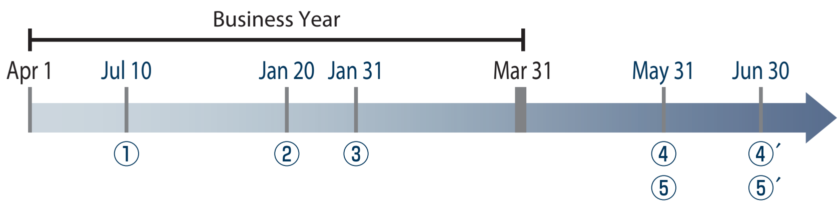
② Due date for payment of withholding income tax
(for the period from July to Dec. of the previous calendar year: under special condition of semiannual payment)

③ Submission of Legal Record Total Table including Withholding Tax Certificate for earned income, etc.
(Total of income subject to withholding and withholding income tax in the previous calendar year)
Submission of Declaration of Depreciable Assets
(Declaration of depreciable assets owned as of Jan. 1 of the current calendar year)

④ Filing and payment of income tax and special income tax for reconstruction for the previous business year
Blue Return Account Statement for income tax for the previous business year
(in the case of blue return filing)

⑤ Filing of tax returns for national and local consumption taxes for the previous business year

(2) For Corporations (whose business year ends at the end of March)



① Due date for payment of withholding income tax
(for the period from Jan. to June of the relevant calendar year: under special condition of semiannual payment)

② Due date for payment of withholding income tax
(for the period from July to Dec. of the previous calendar year: under special condition of semiannual payment)

③ Submission of Legal Record Total Table including Withholding Tax Certificate for earned income, etc.
(Total of income subject to withholding and withholding income tax in the previous calendar year)
Submission of Declaration of Depreciable Assets
(Declaration of depreciable assets owned as of Jan. 1 of the current calendar year)

④ Filing and payment of national and local consumption taxes for the previous business year

④′ Filing of tax returns for national and local consumption taxes for the previous business year
(in the case of a one-month extension for filing the corporate tax return)

⑤ Filing and payment of corporate tax and local corporate tax for the previous business year
Filing and payment of corporate enterprise tax and corporate residence tax for the previous business year

⑤′ Filing of tax returns for corporate tax and local corporate tax for the previous business year
(in the case of a one-month extension for filing the corporate tax return)
Filing of tax returns for corporate enterprise tax and corporate residence tax for the previous business year
(in the case of a one-month extension for filing the corporate tax return)

5 Tax rate

(1) For sole proprietorships

The income tax rate is categorized into 7 levels, from 5% to 45%, and calculated on progressive tax rates[5], with the exception of separate taxes[6] (taxes levied when disposing land, buildings, stock, etc.). (See Fig. 2)

Fig. 2 **Quick Income Tax Calculation Table**

Taxable Income	Tax Rate	Amount of Deduction
¥1,000 – ¥1,949,000	5%	¥0
¥1,950,000 – ¥3,299,000	10%	¥97,500
¥3,300,000 – ¥6,949,000	20%	¥427,000
¥6,950,000 – ¥8,999,000	23%	¥636,000
¥9,000,000 – ¥17,999,000	33%	¥1,536,000
¥18,000,000 – ¥39,999,000	40%	¥2,796,000
¥40,000,000 or more	45%	¥4,796,000

* According to Japanese laws and ordinances as of April 1, 2022.
* Taxpayers are required to pay special income tax for reconstruction (2.1% of their income tax liabilities of the relevant year, in principle) in addition to income tax on income arising in the period from January 1, 2013 to December 31, 2037.

For example, the tax on a taxable income of ¥5 million is as shown below:

Income tax: ¥5,000,000 × 20% - ¥427,500＝¥572,500
(Any fraction of less than one hundred yen shall be rounded down.)
Special income tax for reconstruction[7] : ¥572,500 × 2.1%＝¥12,000
(Any fraction of less than one hundred yen shall be rounded down.)

Residence tax is calculated in two parts: per income, taxed against income, and per capita levy[8], taxed uniformly for residents in the municipality. The standard tax rate is set for per income and per capita levy, which differ by municipality, and should be checked at the relevant municipal office. (See Fig. 3)

Terminology

5 Progressive taxation is a method to tax income at a progressive tax rate (the tax rate increases as the taxable income increases). Examples include income tax and inheritance tax.

6 Separate taxation, which is applied to transfer income when disposing of land or building, or capital gains, etc., is a method to assess tax on certain income separately from income subject to aggregate taxation. Aggregate taxation is a method to assess tax on certain income by aggregating several kinds of income such as salary income, business income and real estate income, etc.

7 Special income tax for reconstruction is a newly introduced tax for reconstruction from the Great East Japan Earthquake. An additional 2.1% tax is imposed on all forms of income taxes on income arising in the period from January 1, 2013 to December 31, 2037.

8 Per capita levy is a type of residence tax that is levied regardless of the amount of taxable income. This means a fixed amount is levied even if a business has a deficit balance.

Fig. 3 **Standard Rate of Residence Tax**

	Prefectural Residence Tax	Municipal Residence Tax
Per income	4%	6%
Per capita levy (standard rate)	¥1,500	¥3,500

* According to Japanese laws and ordinances as of April 1, 2022.
* Tax rate per income differs by municipality. For the Tokyo Metropolitan Area, the prefectural residence tax rate is 4% while the municipal residence tax rate is 6%.
* Rate of per capita levy differs by municipality. For the Tokyo Metropolitan Area, the prefectural per capita levy is ¥1,500 while the municipal per capita levy is ¥3,500.
* Prefectural and municipal residence taxes are combined in the 23 wards of Tokyo.

Enterprise tax is levied on Class 1, 2 and 3 businesses. The standard tax rate is set for per income and per capita levy, which differ by municipality, and should be checked at the relevant municipal office. (See Fig. 4)

Fig. 4 **Enterprise Tax Rate (Tokyo)**

Class	Tax Rate	Type of Business			
Class 1 Business (37)	5%	Merchandising	Forwarding	Restaurants	Sightseeing park or place
		Insurer	Marina	Food service	Product dealer
		Financing	Warehousing	Broker	Real estate sales
		Rental	Parking	Agency	Advertising
		Real estate rental	Contracting	Intermediary	Private detective
		Manufacturing	Printing	Wholesaler	Guide
		Power supply	Publishing	Money exchange	Ceremony business
		Quarrying	Photographer	Bathhouse (Sauna house)	—
		Telecommunication	Rental room	Entertainment	—
		Transportation	Inn	Pachinko or other gaming hall	—
Class 2 Business(3)	4%	Stock breeding	Fisheries	Firewood and charcoal production	—
Class 3 Business (30)	5%	Doctor	Notary public	Design supervisor	Bathhouse (Sento)
		Dentist	Patent attorney	Real estate appraiser	Dental hygienist
		Pharmacist	Tax accountant	Designer	Dental technician
		Veterinarian	Certified public accountant	Master of various arts	Surveyor
		Lawyer	Accountant	Barber	Land and house investigator
		Judicial scrivener	Social insurance consultant	Beautician	Maritime procedure agent
		Administrative scrivener	Consultant	Cleaner	Printing and processing
	3%	Massage, finger pressure therapy, acupuncture, moxibustion, judo- osteopathy or any other therapeutic care, etc.			Farrier

* According to Japanese laws and ordinances as of April 1, 2022.
* Tax rate differs by municipality.

(2) For corporations

The corporate tax rate is 15% for the ¥8 million or less portion of the year's taxable income, and 23.2% on the portion exceeding ¥8 million. Local corporate tax is 10.3% of the amount of corporate tax. (See Fig. 5)

Fig. 5 **Corporate Tax Rate and Local Corporate Tax Rate**

Tax	Income	Tax Rate
Corporate Tax	Income over ¥8 million per year	23.2%
	Income of ¥8 million or less per year	15.0%
Local Corporate Tax		Corporate tax ×10.3%

* According to Japanese laws and ordinances as of April 1, 2022.

Corporate residence tax consists of a "prefectural residence tax" that is paid to the prefecture and a "municipal residence tax" that is paid to the municipality. However, an exception applies to corporations in the 23 wards of Tokyo. Corporations in the 23 wards of Tokyo pay a "corporate metropolitan residence tax" that includes the amount corresponding to the municipal residence tax.

Corporate residence tax is calculated in two parts: per income, which is taxed against income, and per capita levy, which is taxed uniformly for residents of the municipality, both levied according to taxable income, amount of capital and number of employees. A standard tax rate is set for per income and per capita levy, which differs by municipality, and should be checked with the relevant municipal office. (See Fig. 6)

Fig. 6 **Corporate Residence Tax Rate and Per Capita Levy (Tokyo)**

Per Income	End-of term Capital, etc.		¥10 million or less		Over ¥10 million and ¥100 million or less	
			Prefectural Tax	Municipal Tax	Prefectural Tax	Municipal Tax
	Corporate Tax	¥10 million or less	1.0%	6.0%	1.0%	6.0%
		Over ¥10 million	2.0%	8.4%	2.0%	8.4%
Per Capita Levy (Annual Tax)			¥20,000	¥50,000	¥50,000	¥130,000

* According to Japanese laws and ordinances as of April 1, 2022.
* This table applies to a corporation with a number of employees in the relevant workplace, etc. of 50 or less.
* Tax rate per income and per capita levy differs by municipalty.

Corporate enterprise tax is calculated per income, taxed against income; per value added, taxed against value added generated from business activities (i.e. salary or rent paid); and per capital, taxed against the amount of capital. For corporations with capital of ¥100 million or less, only per income tax is levied. The tax rate differs by prefecture, and should be checked with the relevant prefectural office. (See Fig. 7)

Fig. 7 **Corporate Enterprise Tax Rate (Tokyo : companies with workplaces in Tokyo only)**

<table>
<tr><th>Taxable Income</th><th colspan="2">Taxable Income Segment</th><th>Rate of Corporate Enterprise Tax</th><th>Rate of Special Corporate Enterprise Tax</th></tr>
<tr><td rowspan="3">¥25 million or less per year</td><td rowspan="6">Per Income</td><td>¥4 million or less per year</td><td>3.5%</td><td rowspan="6">Corporate Tax Liabilities per income ×37.0%</td></tr>
<tr><td>Over ¥4 million and ¥8 million or less per year</td><td>5.3%</td></tr>
<tr><td>Over ¥8 million per year</td><td>7.0%</td></tr>
<tr><td rowspan="3">Over ¥25 million per year</td><td>¥4 million or less per year</td><td>3.75%</td></tr>
<tr><td>Over ¥4 million and ¥8 million or less per year</td><td>5.665%</td></tr>
<tr><td>Over ¥8 million per year</td><td>7.48%</td></tr>
</table>

* According to Japanese laws and ordinances as of April 1, 2022.
* Tax rate differs by prefecture.

6 Consumption Tax

(1) Determining taxable and tax–exempt[9] business entities

Sole proprietorships do not have an obligation to pay consumption tax in their first business year of commencing their business. Corporations, on the other hand, are exempted from tax in their first term after establishment if their amount of capital at the time of establishment was less than 10 million yen; they are taxed (in their first and second terms after establishment) if their amount of capital at the time of establishment was more than 10 million yen.

For the second year for sole proprietorships and for the second term for corporations established with a capital of less than 10 million yen, a judgment of whether consumption tax is to be paid or exempted is decided in accordance with their financial standing in their first year of business or their first term after establishment.

(2) Consumption tax rate

The standard rate of consumption tax is 10%. However, a reduced tax rate of 8% is applied to items that are subject to the reduced tax rate, such as food and beverages excluding alcoholic beverages and dining out. (See Fig. 8)

Fig. 8 **Consumption Tax Rate**

Income	Tax rate
Standard tax rate	10%
Reduced tax rate	8%

Items subject to the reduced tax rate
- Food and beverages excluding alcoholic beverages and dining out (Take-out and deliveries are not considered as dining out)
- Subscriptons to newspapers issued more than twice a week

* According to Japanese laws and ordinances as of April 1, 2022.

Terminology

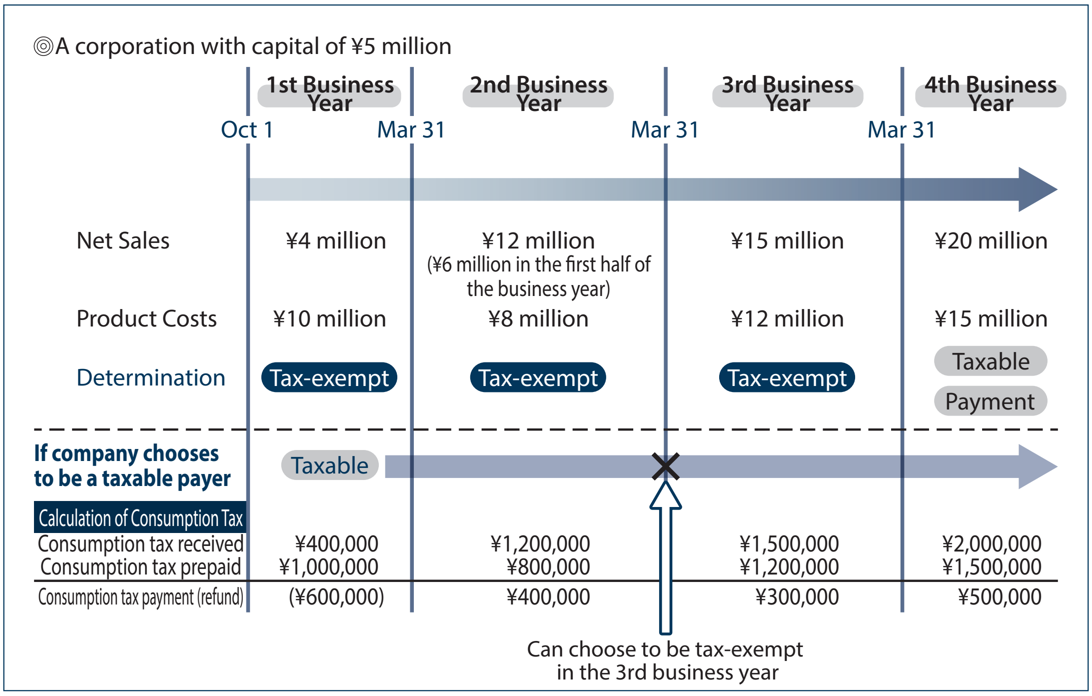
[9] Businesses that fall under the tax-exempt category do not have an obligation to pay consumption tax. At the same time, however, they can neither receive a tax refund, because they cannot file a tax return for consumption tax.

(3) Calculation method

Consumption tax is calculated by either the standard or simplified method. If sales are not expected to reach more than a certain amount, the standard method is frequently more advantageous, so the calculation of consumption tax according to the standard method will be explained below.

Under the standard method, consumption tax is calculated by subtracting the consumption tax paid, when purchasing merchandize, from the consumption tax received through customer sales, and the remaining amount is paid to the government. For this reason, if the consumption tax paid when making the initial investment on facilities exceeds the consumption tax received from customer sales, submission of a consumption tax return may result in a refund. Since tax-exempt business entities cannot file a consumption tax return, they are exempt from payment of consumption tax. However, they are also ineligible to receive a consumption tax refund. Tax-exempt business entities that wish to receive a consumption tax refund may choose to become a taxable payer. However, once they decide to become a taxable payer, they cannot change their status for 2 years, so the matter should be given sufficient consideration before choosing to become a taxable payer. (See Fig. 9)

Fig. 9 **Calculation of Consumption Tax**

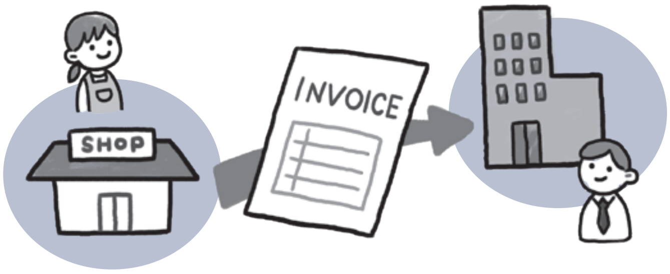


(4) Qualified invoice system

On October 1, 2023, the qualified invoice system will be introduced as a method for claiming a purchase tax credit on consumption tax[10]. Conventionally, suppliers in Japan have been able to claim a purchase tax credit on consumption tax they have paid, regardless of whether they are taxable or tax-exempt business entities. As such, tax-exempt business entities were frequently seen charging their customers consumption tax. When the qualified invoice system is introduced, purchase tax credits will apply only to qualified invoices issued by qualified invoice issuers. This means that tax-exempt business entities will no longer be able to charge their customers consumption tax, as a rule. Furthermore, from the customer standpoint, there might be a tendency to avoid purchases from tax-exempt business entities. Therefore, tax-exempt business entities should consider registering as a qualified invoice issuer and not only charging their customers consumption tax but also filing a return on consumption tax themselves.

Business entities must apply with the tax authority to register as a qualified invoice issuer. Once they apply, they will be given a registration number by the tax authority. That number is to be specified on the invoice along with the amount of consumption tax.

Qualified invoice issuers can be confirmed in the "List of qualified invoice issuers" provided by the National Tax Bureau (https://www.invoice-kohyo.nta.go.jp/index.html).



Terminology

[10] Claiming a purchase tax credit on consumption tax means calculating the payment amount of consumption tax by subtracting the amount of suspense consumption tax paid by the taxable business entity from suspense consumption tax received from the customer.

7 Notifications to be submitted when commencing business

(1) For sole proprietorships

An individual who commences their business needs to submit the following application forms. An explanation and the due date of submission for each application form is as follows.

Fig. 10 **Application Forms for Income Tax, Withholding Tax and Local Taxes Required to be Submitted by Individuals when Commencing Business, and their Due Dates**

Destination to Submit	Tax	Form, etc.	Description	Due date, etc.
Tax Office (National Tax)	Income Tax	Notification of Commencement or Termination of Sole Proprietor Business	[1]When commencing business [2]When establishing a place of business	Within one month after the date of commencement of business
		Application Form for Approval of filing Blue Income Tax Return	When applying for blue return filing (Various benefits are available when choosing blue return filing)	In principle, by March 15 of the year for which a sole proprietor wishes to file a blue return (When he/she starts business after Jan. 16 of the relevant year, within 2 months from the date of commencement)
		Notification of Family Employees' Salaries of Blue Return Taxpayers	When including family employees' salaries of blue return taxpayers as business expenses	By March 15 of the year for which a sole proprietor wishes to include family employees' salaries as business expenses (When he/she starts business or an relevant employee is added after Jan. 16 of the relevant year, within 2 months from the date of commencement or employment)
	Withholding Income Tax	Notification of Establishment/ Relocation/Closure of a Salary-paying Office	When establishing, relocating or closing a salary-paying office, etc. (Excluding cases when Notification of Commencement or Termination of Sole Proprietor Business is submitted)	Within one month after the date of establishment, relocation or closure
		Application for Approval Made in Relation to Special Provisions for Due Dates for Withholding Income Tax	When a salary payer/employer whose employees are always fewer than 10 persons wishes to be entitled to special provisions for payment of withholding income tax semiannually	At any time (A salary payer who has submitted this application becomes eligible for these special provisions from withholding tax payments from two month after the month of application if they do not receive any notice of dismissal from the relevant tax office)
	Consumption Tax	Notification of Choosing to Become a Taxable Payer of Consumption Tax	When a tax-exempt business entity chooses to become a taxable payer	By the day before the first day of the taxable term from which the business entity chooses to become a taxable payer
Local Government Bureau of Taxation (Local Taxes)	Enterprise Tax and Local Residence Tax	Notification of Business Commencement	When commencing business	Varies by prefecture. Within one month from the date of commencement of business (within 15 days in the case of Tokyo)
Municipal Office Revenue Department (Local Taxes)	Local Residence Tax	Notification of Business Commencement	When commencing business	Varies by municipality. Within one month from the date of commencement of business

* When conducting business within the 23 wards of Tokyo, submission of this form to a municipal office is not required.

(2) For corporations

A corporation which commences its business needs to submit the following application forms. An explanation and the due date of submission for each application form is as follows.

Fig. 11 **Application Forms for Corporate Tax, Consumption Tax, Withholding Tax and Local Taxes Required to be Submitted by Corporations when Commencing Business, and their Due Dates**

Destination to Submit	Tax	Form, etc.	Description	Due date, etc.
Tax Office (National Tax)	Corporate Tax	Notification of Corporation Establishment	When establishing a corporation	Within 2 months after the date of establishment
		Application Form for Approval of Filing Blue Return	When applying for blue return filing (Various benefits are available when choosing blue return filing)	Date immediately before the following [1] or [2], whichever comes first; [1]Date when 3 months have passed since the date of establishment, or [2]Closing date of the first business year
		Application for Special Provision for Extension of the Due Date for Filing a Final Return Form	When a corporation wishes to extend the due date for filing its final corporate tax return if unable to submit it within the predetermined due date. (This situation may arise if its articles of incorporation provide that the shareholder's meeting or the general meeting of members is scheduled within three months of the end of the business year, etc.)	Closing Date of the business year for which a corporation wishes to extend the due date for the first time
	Consumption Tax	Notification of Extension of the Due Date for Filing a Consumption Tax Return	When a corporation that has applied for an extension of the due date of its final corporate tax return is unable to file a consumption tax return by the due date and wishes an extension	Closing Date of the business year for which a corporation wishes to extend the due date for the first time
		Notification of Choosing to Become a Taxable Payer of Consumption Tax	When a tax-exempt business entity chooses to become a taxable payer	By the day before the first day of the taxable term from which the business entity chooses to become a taxable payer
	Withholding Income Tax	Notification of the Establishment of a Salary-Paying Office	When establishing, relocating or closing a salary-paying office, etc.	Within one month after the date of establishment, relocation or closure
		Application for Approval Made in Relation to the Special Provision for Due Dates for Withholding Income Tax	When a salary payer/employer whose employees are always fewer than 10 persons wishes to be entitled to special provisions for payment of withholding income tax semiannually	At any time (A salary payer who has submitted this application becomes eligible for these special provisions from withholding tax payments from 2 months after the month of application if they do not receive any notice of dismissal from the relevant tax office)
Local Government Bureau of Taxation (Local Taxes)	Enterprise Tax and Local Residence Tax	Notification of Corporation Establishment	When establishing a corporation	Varies by prefecture. In the case of Tokyo, within 15 days of the date of establishment of the corporation In the case of Kanagawa, within two months of the date of establishment of the corporation
		Notification / Application for Approval for Extension of Due Date for Filing a Return Form	When a corporation wishes to extend the due date for filing its final corporate tax return if unable to submit it within the predetermined due date. (This situation may arise if its articles of incorporation provide that the shareholder's meeting or the general meeting of members is scheduled within three months of the end of the business year, etc.)	Closing Date of the business year for which a corporation wishes to extend the due date for the first time
Municipal Office Revenue Department (Local Taxes)	Local Residence Tax	Notification of Corporation Establishment	When establishing a corporation	Within 2 months after the date of establishment
		Copy of "Application for Special Provision for Extension of the Due Date for Filing a Final Return Form" for corporate tax (with "received" seal)	When a corporation wishes to extend the due date for filing its final corporate tax return if unable to submit it within the predetermined due date. (This situation may arise if its articles of incorporation provide that the shareholder's meeting or the general meeting of members is scheduled within three months of the end of the business year, etc.)	Varies by municipality. Closing Date of the business year for which a corporation wishes to extend the due date for the first time

* When conducting business within the 23 wards of Tokyo, submission of this form to a municipal office is not required.

National Tax Agency : Application forms
https://www.nta.go.jp/taxes/tetsuzuki/shinsei/index.htm
https://www.nta.go.jp/english/Guidelines.htm

8 Benefits of filing a blue return

Proprietors or corporations can select either the blue or white return form. Use of the blue return provides favorable tax treatment; however, it requires that accounting ledgers be kept according to the principle of orderly bookkeeping (generally, double-entry bookkeeping).

In addition to requiring accounting ledgers to be kept, the blue return requires accounting ledgers and documents to be retained over a certain amount of time. (See Fig. 12)

Fig. 12 **Storage of Accounting Ledgers and Documents in the case of the Blue Return**

Ledger/Document	Specific Examples	Retention Period
Ledgers	Journal	7 years
	General ledger	
	Cash journal	
	Accounts receivable ledger	
	Accounts payable ledger	
	Fixed asset ledger, etc.	
Documents	Bank book	7 years
	Receipts	
	Invoices	
	Quotations, delivery notes, waybills, etc.	
	Contracts, etc.	
Documents (financial)	Balance sheet	7 years
	P/L statements	
	Inventory book, etc.	

The blue return filing is advantageous for sole proprietors; however, limited management resources and the time required for paperwork may counter the advantage. For corporations, on the other hand, it is desirable to use the blue return filing in view of business relations and social responsibility. Here are the major advantages of selecting to file a blue return. (See Fig. 13)

Fig. 13 **Benefits of Filing a Blue Return**

Submission destination	Sole Proprietorship	Corporation
Special deduction for blue return filing	¥100,000 or ¥650,000 (¥550,000 if electronic ledger storage or electronic filing is not used)	Non-applicable
Payment of salaries to family employees	Applicable (notification of family employees' salaries of blue return taxpayers required)	Applicable regardless of blue return filing
Loss carried forward	3 years	10 years

(1) For sole proprietorships

● Special deduction for blue return filing

A special deduction of ¥650,000 (¥550,000 if electronic ledger storage or electronic filing is not used) is granted from income when ledgers, such as journals, general ledgers, cash journals, bank books, fixed asset ledgers, etc., are kept, and balance sheets and P/L statements are prepared based on these ledgers and attached to the return form. (Special deduction of ¥100,000 for simplified ledgers.)

● Family employees' salaries of blue return taxpayers

The salaries of spouses and other family members, aged 15 and above, sharing livelihood with a blue return taxpayer and who were paid salaries for the work performed in the business of the blue return taxpayer, may be included in the business expenses within the appropriate range noted in the application and notification of change regarding family employees' salaries of blue return taxpayer submitted to the tax office.

● Carry-forward deduction and carry-back refund of net loss

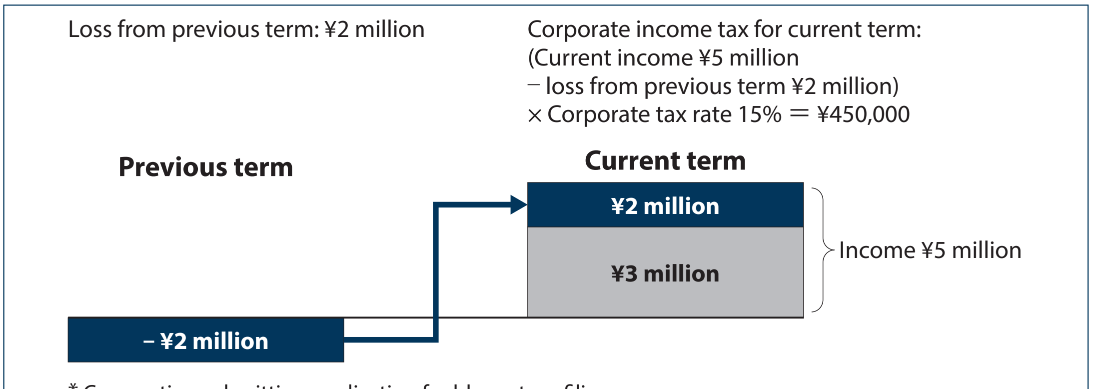
With respect to sole proprietorships that file a blue return, when there is a loss in business profit, and a net loss is incurred after settlement of profit and loss with other income, said loss can be carried forward for the period of three years starting from the subsequent year with the loss deducted from the income each year. (See Fig. 13)

(2) For corporations

● Loss[11] carried forward

In the case of corporations that file a blue return, a loss that has been incurred in a business year may be carried forward 10 years from the next business year and deducted from the income of each of those ten years. (See Fig. 14)

Fig. 14 **Deduction of Loss Carried Forward**



* Corporation submitting application for blue return filing

Terminology

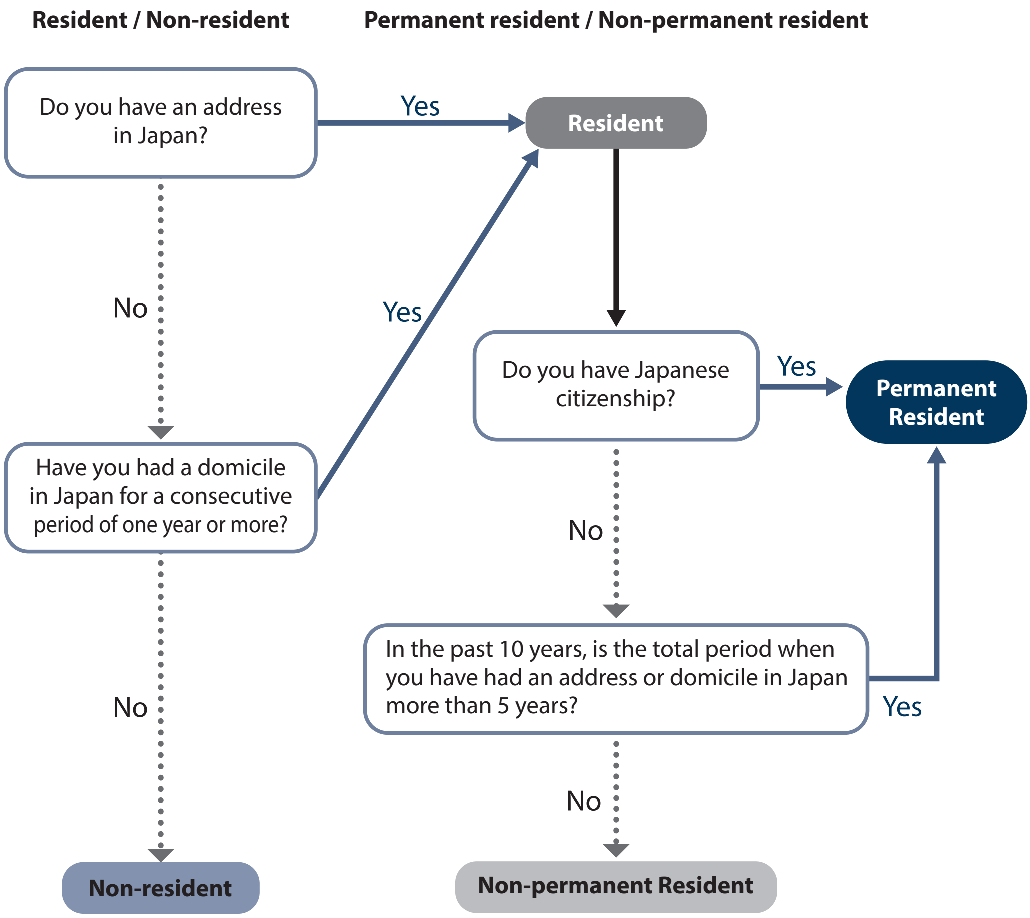
11 Under the Corporation Tax Act, loss refers to the amount that is recorded when there are more expenses (loss) than sales (profit). It can be carried forward ten years. Loss that is incurred in one term may be offset by any surplus (taxable income) in the following term.

9 Determination of resident and non-resident classification

Individuals are categorized as residents or non-residents according to whether or not they possess a domicile in Japan, or continue to reside in Japan for more than one year. Residents are also categorized as permanent or non-permanent according to whether they hold Japanese citizenship, or if they have had an address or domicile in Japan for a total of 5 years within the past 10 years.

These categories are unrelated to residence status. Individuals who do not hold a resident status of "Permanent Resident" may fall into the permanent resident category for tax purposes. (See Fig. 15)

Fig. 15 **Determination of Resident Status**



* Address…The core location of an individual's daily life, determined by where the center of the individual's daily life is located

Domicile…Not the core location of the individual's daily life, but the location where the individual actually resides

(1) Resident

Residents are those who have address in Japan, or who have resided continuously in Japan for one year or more, and residents are categorized into permanent or non-permanent residency.

1) Non-permanent resident

Non-permanent residents are residents who do not possess Japanese citizenship but who have had an address or residence in Japan for a period for a total of 5 years or less in the past 10 years. Therefore, individuals with Japanese citizenship are never categorized as non-permanent residents.

2) Permanent resident

Permanent residents are individuals other than non-permanent residents. Individuals falling into this category are those holding Japanese citizenship and individuals who have had an address or domicile in Japan for a period totaling more than 5 years in the past 10 years.

(2) Non–resident

Non-residents are individuals not falling into the resident category. These are individuals who do not have an address or domicile in Japan, or who do not have an address and whose period of domicile in Japan is less than one year.

10 Range of taxable income according to resident status

The range of taxable income differs according to the resident status discussed in section 9 above (permanent resident, non-permanent resident, non-resident). (See Fig. 16)

Fig. 16 **Range of Taxable Income According to Resident Status**

<table>
<tr><th colspan="2" rowspan="3">Income category / Resident status</th><th colspan="2">Japan source income</th><th colspan="3">Overseas source income</th></tr>
<tr><th rowspan="2">Paid in Japan</th><th rowspan="2">Paid overseas</th><th rowspan="2">Paid in Japan</th><th colspan="2">Paid overseas</th></tr>
<tr><th>Portion remitted to Japan</th><th>Portion not remitted to Japan</th></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[12]</td></tr>
<tr><td colspan="2">Non-resident</td><td colspan="2">Taxable</td><td colspan="3">Non taxable</td></tr>
</table>

Terminology

[12] Non-taxable transaction means a transaction on which consumption tax is not levied because it is far from the concept of consumption or improper to be the subject of consumption tax according to social norms. Examples include transfer of land, leasing houses and apartments, and medical care under the social insurance system, etc.

Non-taxed transaction means a transaction that is out of the range of consumption tax, which is supposed to apply to the transfer of property with compensation performed by a proprietor in Japan and import transactions. Examples of non-taxed transactions are transactions arising in foreign countries, donations and gifts with no compensation and equity dividends, etc.

(1) Permanent resident

All income is taxable. Foreign nationals falling under permanent resident status are taxed for all income including Japan-source income and overseas-source income, which is income earned throughout the world.

Japan-source income, stated here, is income earned in Japan, such as income gained through business in Japan or salary received from a company in Japan. Income received for working in Japan, even if paid through a parent company located overseas, is considered Japan-source income and taxable in Japan.

Overseas-source income is income other than Japan-source income. One example of such income is income gained through real estate in an overseas location. With overseas-source income, double taxation may occur if income tax has already been levied overseas, but this can be avoided for certain income amounts by claiming a foreign tax credit. However, since the tax rate and requirements for tax credit varies by country, this process must be examined on a case-by-case basis.

(2) Non–permanent resident

Taxable income for non-permanent residents is all Japan-source income and overseas-source income paid in Japan or remitted from overseas.

(3) Non–resident

Only Japan-source income is taxed. In such case, the method of taxation differs by type of income and whether or not the individual possesses a permanent establishment[13]. Additionally, taxes may be reduced or exempted according to the provisions of a tax treaty[14] with the overseas country in some cases, so taxable income needs to be determined on a case-by-case basis.

Resident　　Non-Resident

Terminology

[13] There are three types of permanent establishments (PEs) in Japan; i) Branch PE such as a branch, business office, etc., ii) Construction PE that has performed construction work exceeding one year and iii) Agency PE having the authority to store and deliver its own products and receive orders. Determination of PEs is made not based on structure but on the actual business situation.

[14] Tax treaty is a treaty entered into for transactions between Japan and any foreign country to promote investment and economic exchanges between both countries. To be precise, it includes provisions to exclude double taxation and to prevent tax avoidance.

II. Business structure for foreign-affiliated companies entering Japan

1 Introduction

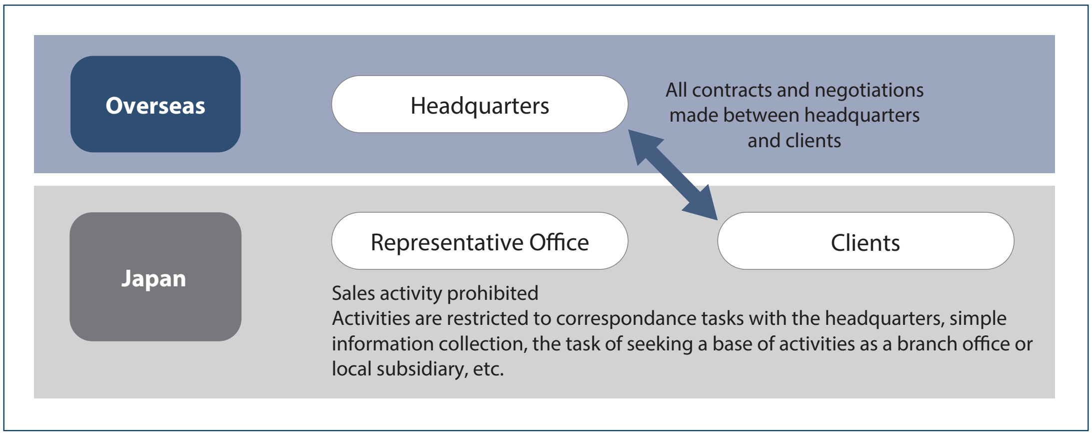
When a corporation is to commence business, a company is established with capital contributed by individuals or foreign companies for the advance into Japan. The business structures of foreign-affiliated companies commencing business in Japan may be one of the following: 1) a representative office, 2) a branch office, or 3) a local subsidiary. Local subsidiary here means a foreign-capitalized Japanese company. A representative office is convenient in that business registration is not required; however, its business activities are limited to supplementary operations, such as correspondence tasks and simple information collection, so it may not be favorable for foreign-affiliated companies wishing to actively expand their business in Japan. Therefore, companies that are planning the active expansion of business in Japan generally establish a branch office or local subsidiary. When foreign capital is to be used, it is best to determine which business structure to choose by picturing, to a certain extent, what kind of activities are initially being planned in Japan, the details of activities, what methods will be taken to procure funds and make remittances, and how large or small the business will be, among other factors, as each business structure has its advantages and disadvantages, whether a representative office, branch office, or local subsidiary. Practically speaking, many companies take the form of initially operating as a representative office in the beginning soon after commencing business in Japan and then establishing a local subsidiary at the stage where they think they can anticipate a certain amount of business.

With respect to business with non-residents, transaction procedures vary according to the country of the paying party, the bearer of the final cost, etc., so it is necessary to verify Japan's tax treaty, the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS), and other relevant conventions on each business occasion (See page 30, COLUMN 2).

2 Representative offices

Representative offices do not require business registration, which means that they do not hold corporate status. While they have the advantage of not being taxed in Japan, in principle, their business activities are strictly restricted, for example, to correspondence tasks and simple information collection on behalf of the headquarters and to seeking a base for the future establishment of a branch office or local subsidiary. In other words, representative offices may engage in supplementary and preparatory activities only; they may not engage in sales activities in any form. It should be noted that a representative office that engages in activities that extend beyond the above-noted limitations will be considered a permanent establishment and its business activities may be subject to taxation in Japan. (See Fig. 17)

Fig. 17 **Activities of Representative Offices**



3 Branch offices

(1) Outline

Branch offices and the headquarters are considered to be the same corporate entity and are established based on the laws of a foreign country, so they are treated as a foreign company. In the commercial register, they are required to register as a sales office in Japan. Furthermore, branch offices are considered an inward investment under the Foreign Exchange and Foreign Trade Act, and are required to submit, via the Bank of Japan, advance notification or ex-post facto report to the Minister of Finance or the ministry which has jurisdiction over the office, depending on their business type. Taxation of branch office business activities in Japan is, as a rule, the same as Japanese companies (Domestic companies); however, there exist several issues specific to branch offices.

(2) Structure

Generally, branch office business activity involves the Buy-Sell method. Under the Buy-Sell method, in the case of wholesale and retail businesses, the branch office purchases merchandise from the headquarters for sale directly to customers in Japan. For service businesses, the branch office provides service to Japanese customers under the name of the branch office and expenses incurred through the provision of services are accounted for as costs.

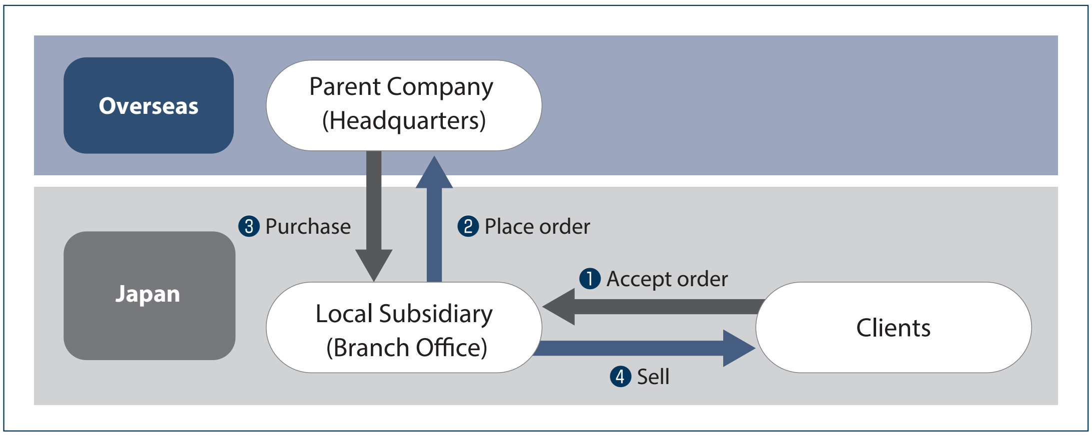
When the Buy-Sell method is taken, caution is required regarding transaction prices between headquarters and branch offices. For example, the price of purchasing goods from the headquarters is frequently determined by adding the headquarters' profit to the cost of manufacturing the goods in the country where headquarters is based. However, if the profit of the branch office is negative or extremely small as a result of the headquarters setting a high purchase price for the branch office, the transfer pricing issue becomes a concern, and the branch office should consider whether the given purchase price is valid or not.

Recently, transfer pricing taxation[15] has begun to attract widespread attention with the OECD playing a central role in launching a BEPS project to prevent multinational companies from going too far to avoid payment of taxes by taking advantage of low-tax countries. (See Fig. 18)

Terminology

[15] Transfer pricing taxation is a system designed to prevent tax avoidance, under which any cross-border transaction at a transaction price divergent from the arm's length price (generally accepted transaction price) made between multinational companies is subject to taxation with regard to the difference between the arm's length price and the transaction price.

Fig. 18 **Structure (Buy-Sell Method)**



(3) Corporate image

Japanese clients tend to view local subsidiaries more favorably than they do branch offices. Credit screening[16], for example, which is often part of new-contract negotiations, especially with large companies, tends to be much stricter for branch offices, which are considered foreign companies, than for local subsidiaries.

(4) Hiring employee

Local subsidiaries often have an advantage over branch offices when it comes to recruiting employees. Companies that have established a firm position in the Japanese market after decades of doing business through branch offices in Japan, however, are likely to have built up an advantage in hiring.

(5) Profit and loss

When loss is incurred at a branch office, the headquarters can combine it in its accounts to reduce tax burden. On the other hand, branch office profits are taxed in Japan as well as combined in the headquarters books and taxed in the country where the headquarters is located.

In this case, a double taxation of branch office profits will occur. However, by claiming foreign tax credit[17], the headquarters might be able to eliminate the double taxation with respect to the tax that is calculated according to the taxation system in its country in reference to the amount paid in Japan. Nevertheless, operation of the foreign tax credit differs according to the taxation system in the headquarters' country, so it must be checked on each occasion.

Terminology

[16] Credit screening is the assessment by financial institutions, etc. of individuals or entities regarding their repayment capacity when lending loans to them. Screening criteria vary depending on the financial institution. In general, determination is made based on the general business situation and performance of such individuals and/or entities.

[17] Foreign tax credit is a system introduced to prevent double taxation. Since Japan has applied the worldwide unitary taxation system, any and all income arising in foreign countries is taxable in Japan. On the other hand, as income arising in a foreign country is subject to taxation in such country, such income is double-taxed both in the foreign country and in Japan. In this context, the application for foreign tax credit system has been introduced to prevent such double taxation.

(6) Capital

A branch office has no capital independent of the headquarters. Operating funds are remitted from the headquarters for use in business activities.

(7) Corporate residence tax per capita levy

Corporate residence tax per capita levy is based on the capital of the headquarters and the number of employees at the branch office; thus the larger the capital of the headquarters, the larger the per capita levy. The headquarters capital is determined by the middle rate (TTM — telegraphic transfer middle rate) at the end of the term, converted to yen. Corporate residence tax per capita levy is taxed even if the branch office is in loss position.

(8) Pro forma standard taxation[18]

If capital of the headquarters at the end of the fiscal year exceeds 100 million yen when converted to Japanese currency, tax is assessed according to the size of the business as a part of corporate enterprise tax. Specifically, tax is based on capital rate (amount of capital, etc. × 0.525%) and added value (total of salaries accounted for by branch offices, amount of interest paid and amount of rent paid with some adjustments × 1.26%), so a significantly high tax may result if the headquarters has a large capital at the end of the fiscal year. Since its assessment will be based on the size of business of the headquarters, tax will be levied even if the branch office is in loss position.

(9) Debt loan

The number of commercial banks that extend loan for foreign corporations is limited, which makes it more difficult for branch offices to obtain loans than it is for local subsidiaries. In addition, there is a restriction for deductible expenses which are paid for loans made by the headquarters.

(10) Transfer of expenses

The headquarters and its branch offices are members of the same corporate entity, so it appears that expenses are frequently paid on behalf of each other. If, for example, expenses paid by the headquarters include expenses disbursed for a branch office in Japan, the portion that pertains to the branch office in Japan can be included in the expenses of the branch office. When transferring expenses from the headquarters to the branch office in this way, it must be done by calculating the cost of the transfer in a rational manner.

Terminology

[18] Pro forma standard taxation is a kind of corporate enterprise tax system. Corporations with capital of 100 million yen or more are subject to this tax even if they are in loss position. In particular, tax is assessed based on value representing the size of a company such as capital as well as salaries and/or rent paid, etc.

(11) Payment by Japanese customers and tax withholdings

For real estate and consulting businesses with rental income or compensation from Japanese customers, 20.42% of tax withholdings and Special income tax for reconstruction may be subtracted from the billing amount if no procedure is taken. For example, ¥795,800 is deposited on account for a payment in the amount of ¥1,000,000. This is based on the Income Tax Act, which stipulates that 20.42% of a payment must be withheld as real estate rental and consulting fees (payment for provision of human resources) for foreign corporations.

Branch offices may submit an application for a "Certificate of Exemption from Tax Withholding for Foreign Corporations and Non-residents" to the authorized tax office and present the approved certificate to the Japanese customers. Branch offices must submit applications annually to the relevant tax office. There are other forms of income that may require withholding. These should be checked in advance.

(12) Division of profit

Profit gained at branch offices can be remitted to the headquarters as needed. This is considered a transfer of funds within a company, which does not fall into dividend distribution[19] ; therefore, tax need not be withheld at the time of remittance.

(13) Payment of salary to non–resident

When paying salary to a foreign national who has come to the branch office from the headquarters and who is a non-resident of Japan, the salary is payment for that individual's employment in Japan. Therefore, as a rule, a 20.42% withholding tax and the special income tax for reconstruction are collected when the salary is paid from the branch office to the individual, and are to be paid to the tax authorities by the 10th day of the following month. Even if the salary were to be paid from the headquarters, it would be construed as having been paid from the branch office, as the headquarters and branch office are of the same corporate entity, and the branch office would need to pay the withholding tax of 20.42% by the end of the month following the month in which the salary was paid from the headquarters to the individual.

If the salary receiver is an individual citizen of a country that is party to a tax treaty with Japan and qualifies as a non-taxable payer for short-term stay under the treaty, withholding tax may be exempted depending on the individual's length of stay in Japan. In addition to length of stay, the exemption is determined also in consideration of the individual's nationality, employment conditions in Japan, the party responsible for payment of salary, and other such factors.

For example, an individual employed at the headquarters of a company headquartered in China who is assigned to a branch office in Japan on a 5-month contract and whose salary is deposited directly into his/her account by the headquarters without involving the branch would fall under the category of non-taxable payer for short-term stay. In this case the relevant individual's tax does not need to be withheld in Japan.

Terminology

[19] Dividend distribution is the distribution of profits that is gained from a corporation as a stock dividend.

4 Local subsidiaries

(1) Outline

Local subsidiaries are separate corporations from their parent companies and are established under Japanese law, so they are treated as domestic companies. As such, they must register in the commercial register as a Japanese corporation and are taxed the same as Japanese companies.

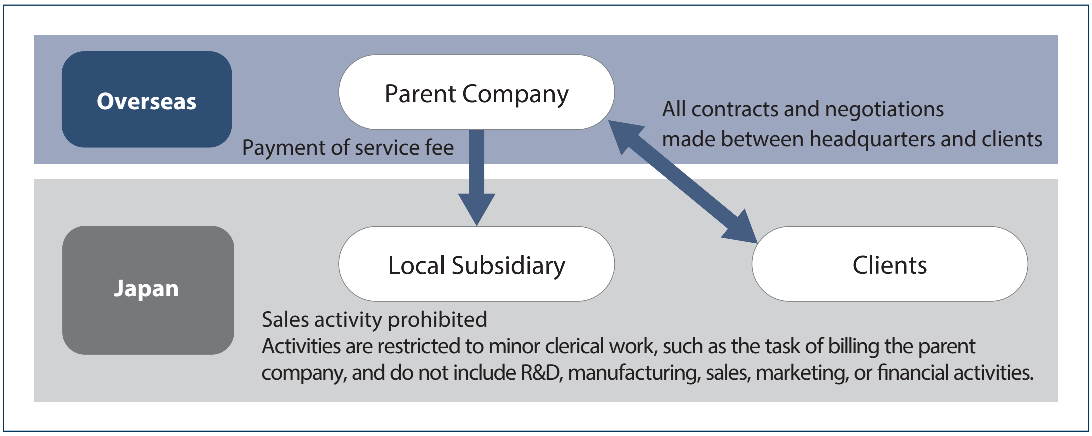
(2) Structure

Local subsidiaries generally adopt the Buy-Sell method as with branch offices. From the perspective of transfer pricing, local subsidiaries also need to be cautious of sales transactions with their parent company and must examine whether the prices of purchases from the parent company are arm's length prices (prices that are set when conducting the same transaction with an independent third party). As Japan has also embarked on legal reforms based on the earlier mentioned BEPS project, companies that engage in foreign-related transactions with their parent company or other relevant company need to prepare certain documents concerning transfer pricing.

On the other hand, there are also local subsidiaries that do not engage in sales activities but are involved in market surveys, advertising, after-sales services, and other such activities on behalf of their parent company. Such companies that provide services to their parent company adopt the Cost-Plus method instead of the Buy-Sell method in some cases. Under the Cost-Plus method, local subsidiaries record sales by claiming a service fee from their parent company, where the service fee is the sum of activity expenses that the local subsidiary incurs in Japan and a certain percentage of profits.

Conventionally, it sufficed for local subsidiaries providing such services to their parent company to add a profit corresponding to around 5 to 10% of expenses. Today, however, they are requested to calculate a markup percentage (profit rate according to the transactional net margin method) taking into consideration the profit rate of third parties engaging in similar activities. In the case of local subsidiaries that do not provide services ancillary to their main business but engage in low value-added operations, a markup percentage of 5% suffices (if they prepare and save their agreements and other specified documents). Low value-added operations include minor clerical work, such as the task of billing the parent company costs that have been paid in Japan on behalf of the parent company. It should be noted that they do not include services, research and development, manufacturing, sales, physical distribution, marketing, and financial activities that are ancillary to the main line of business. (See Fig. 19)

Fig. 19 **Structure (Cost-Plus Method)**



(3) Corporate image

Japanese clients tend to see local subsidiaries more favorably than they do branch offices. For credit screening, subsidiaries are treated in the same way as other local companies are, and there is no disadvantage in being a foreign-affiliated company in terms of screening.

(4) Hiring employees

Subsidiaries have a greater advantage than branch offices when it comes to recruiting employees.

(5) Profit and loss

When loss is incurred by local subsidiaries, the loss cannot be combined in the parent company's accounts. On the other hand, when they gain a profit, they pay tax in Japan, but the tax they pay cannot be reflected onto the parent company's accounts. Thus, double taxation cannot be avoided by using the foreign tax credit system.

(6) Capital

Under Japan's Companies Act, it is possible to establish a subsidiary with capital of 1 yen. However, until profit from sales can be gained, it is desirable to hold several million yen as operating funds.

(7) Corporate residence tax per capita levy

This tax is based on the capital of the local subsidiary and the number of employees. Companies with capital of 10 million yen or less and 50 or fewer employees may hold the tax to the minimum of 70,000 yen per year. The per capita portion of corporate residence tax is levied even when local subsidiaries are in loss position.

(8) Pro forma standard taxation

This is not taxable if the capital of local subsidiary is 100 million or less. Parent company capital is irrelevant.

(9) Debt loan

Local subsidiaries are treated the same as Japanese companies; therefore, it is relatively easier for local subsidiaries to receive loans from banks compared with branch offices. Interest on loans from a parent company can be accounted as expenses for local subsidiaries. However, caution is required, as they may be subject to thin capitalization taxation[20] (a system that limits the deductibility of interest paid for the portion of loans in amounts exceeding three times the amount of capital, etc.) or to earnings stripping rules[21] (a system that limits the deductibility of the portion of net interest expenses subject to earnings stripping rules that exceed a certain ratio of adjusted income amount).

Terminology

[20] Thin capitalization taxation is a rule introduced to prevent tax avoidance, which limits the deductibility of interest expenses in certain cases where, for example, a Japanese subsidiary of a foreign company, which is in need of funds, takes out a loan from the parent company overseas instead of receiving investment from it.

[21] Earnings stripping rules comprise a taxation system that has been stipulated for the purpose of preventing tax avoidance. They place certain restrictions on acts by corporations to decrease income by paying excessive amounts of interest compared to their income.

(10) Transfer of expenses

It is possible for the parent company to handle payment due to local subsidiaries; however, such payment must be settled at a later date. If settlement is neglected, there will be a risk that such payment will be considered as donated profit and seen as taxable income by the tax authorities. The same is true for local subsidiaries that make payments on behalf of the parent company which they fail to settle at a later date; namely, the amount will be considered as a donation and cannot be included as expenses.

Additionally, management expenses and other such expenses incurred by the parent company are in some cases transferred to its worldwide subsidiaries and affiliated companies. When doing so, however, it is necessary to prove that the amount to be transferred is a rational amount. For example, it is necessary to prepare not only a contract, but also the breakdown of the expenses to be transferred, the basis for calculation of the amount to be transferred, and the actual deliverables of the service provided, among others. When considering that the parent company is a separate entity, the transfer of expenses requires careful discretion.

(11) Payment by Japanese customers and tax withholdings

The entire invoiced amount of real estate rental and consultation fees will be deposited into the account. Unlike with branch offices, taxes are not withheld at the source.

(12) Division of profit

When profit earned by local subsidiaries is remitted to a parent company, such deposit is seen as a dividend and, as a rule, 20.42% of the dividend is withheld as tax (income tax and special income tax for reconstruction). In the case where the receiver of the dividend is a corporation in a country that has a tax treaty with Japan and has submitted an "Application Form for Income Tax Convention" to the relevant tax office by the day before the payment of the dividend, the amount of withholding tax may be reduced or exempted. For example, if the parent company (a US corporation) wholly owns the local subsidiary and satisfies certain requirements, withholding tax involving dividend to the US corporation will be exempted according to the Japan-U.S. Tax Treaty. When withholding tax is exempted, an "Attachment Form for Limitation of Benefits" must be submitted in addition to the "Application Form for Income Tax Convention" and other documents such as the tax residency certificate of the company receiving the dividend. Dividend payment is remitted upon approval at the shareholder's meeting.

(13) Payment of salary to non–resident

As a rule, 20.42% of tax withholdings and special income tax for reconstruction must be subtracted from salaries paid to non-resident employees working in Japan. However, if the salary is paid to the employee by the parent company, unlike branch offices, local subsidiaries need not withhold 20.42% tax.

If the salary receiver is an individual citizen of a country that is party to a tax treaty with Japan and qualifies as a non-taxable payer for short-term stay under the treaty, withholding tax may be exempted depending on the individual's length of stay in Japan. In addition to length of stay, the exemption is determined also in consideration of the individual's nationality, employment conditions in Japan, the party responsible for payment of salary, and other such factors.

For example, an individual employed at the parent company of a company headquartered in China who is assigned to a subsidiary in Japan on a 5-month contract and whose salary is deposited directly into his/her account by the parent company without involving the subsidiary would fall under the category of non-taxable payer for short-term stay. In this case the relevant individual's tax does not need to be withheld in Japan.

5 Summary

Points described in II. 2～4 are listed below:
*In the case of a company with capital of less than 500 million yen and a local subsidiary with capital of 10 million yen.

	Branch office	Local subsidiary
Legal status	Foreign corporation	Japanese corporation
Structure	Buy-Sell method	Buy-Sell method and Cost-Plus method
Corporate image	More difficult to be accepted than a local subsidiary	Easier to be accepted than a branch office
Hiring employees	More difficult than a local subsidiary	Easier than a branch office
Profit gained at branch office or subsidiary	Taxed in Japan, and to be combined with the headquarters accounts Double taxation may be avoided by claiming a foreign tax credit	Taxed only in Japan Foreign tax credit not necessary
Loss incurred at branch office or subsidiary	Able to combine with the headquarters accounts	Unable to combine with parent company accounts
Capital	Capital of the headquarters	From 1 yen
Corporate residence tax per capita levy	Affected by the headquarters capital	According to capital
Pro forma standard taxation	Subject to taxation if the headquarters' capital is 100 million yen or higher	Subject to taxation if the local subsidiary's capital is 100 million yen or higher
Debt loans	More difficult to obtain loans than a local subsidiary	Easier to obtain loan than a branch office
Transfer of expenses	Requires a rational basis of calculation	Requires a rational basis of calculation
Payments by Japanese customers and tax withholding	Tax may be withheld	Tax not withheld
Division of profits	Possible to remit to the headquarters as needed	Remit as dividend (in some cases tax withholding is required)
Payment of salary to non- resident	20.42% tax withholding may be required by a branch office	No need to withhold tax by a local subsidiary

6 Conclusion

Foreign-capital companies may advance into Japan in the form of representative offices, branch offices or local subsidiaries, all of which having advantages and disadvantages. Companies should determine which form to adopt after giving careful consideration to the kind and content of business activities the company wishes to conduct, fund procurement and remittance method, range of business negotiations, etc. It is most common for foreign-capital companies to begin with representative offices then establish a local subsidiary when the potential for business becomes clearer. The handling of business with non-residents differs depending on the country of the client and the party shouldering the final expense, so the tax treaty of the relevant country needs to be checked for each transaction.

COLUMN 1

Elimination of seals on national tax documents

Conventionally, tax returns and tax documents to be submitted to the National Tax Bureau or other authority were required to be stamped with the seal of the submitting party. However, under the tax revision of 2021, seals have become no longer needed on administrative documents from April 1, 2021, with the exclusion of certain documents that still require seals. To foreign companies that used to require time to obtain the signature and seal of a representative residing overseas, this change has made it possible to process documents more quickly.

National Tax Agency: On the handling of seals at customer service counters in tax offices
https://www.nta.go.jp/information/other/data/r02/oin/index.htm

COLUMN 2

What is BEPS ?

Recently, the OECD has played a central role in launching a BEPS (Base Erosion and Profit Shifting) project to prevent multinational companies from going too far to avoid payment of taxes by taking advantage of low-tax countries. Under the project, a 15-point action plan has been announced to address the issue of intentional tax avoidance in cross-border transactions, such as by reviewing the definition of permanent facilities and documenting the corporation information of multinational companies.
See the URL below for details.

Ministry of Finance: Materials concerning the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS)
https://www.mof.go.jp/tax_policy/summary/international/tax_convention/mli.htm

National Tax Agency: BEPS Project
https://www.nta.go.jp/taxes/shiraberu/kokusai/beps/index.htm

COLUMN 3

Customs clearance taxes

Products imported from overseas and brought into Japan must be cleared at customs. Customs clearance involves two types of taxes: import consumption tax and custom duty. Import consumption tax is the taxable value of the product at the time of customs clearance multiplied by the consumption tax rate (standard rate: 10%; reduced rate: 8%). The taxable value of the product at the time of customs clearance refers, as a rule, to the price actually paid or payable (transaction value) plus the cost of transport to the import port, insurance, and additional fees such as intermediate fees borne by the buyer to import the goods and fees required for the package or packaging of the import goods.

The applicable rate of customs duties is determined by the type of import goods based on the Customs Tariff Act. However, a simplified customs duty rate separate from the standard rate may be applied to general import goods that have a total taxable value of less than 200,000 yen.
Refer to the "Customs Answer (FAQ)".

Japan Customs: Simplified tariff applicable to goods at a total value of 200,000 yen or less (general import freight and international parcel post)
https://www.customs.go.jp/tetsuzuki/c-answer/imtsukan/1001_jr.htm
https://www.customs.go.jp/english/c-answer_e/imtsukan/1001_e.htm

III. Reference

Appendix: Japan's Tax Convention Network

Ministry of Finance Japan

《84 conventions, etc. applicable to 151 jurisdictions; as of February 1, 2023》 (see notes 1 and 2)

Europe (46)

Iceland, Ireland, UK, Italy, Esthonia, Austria, Netherlands, Croatia, Switzerland, Sweden, Spain, Slovakia, Slovenia, Serbia, Czech Republic, Denmark, Germany, Norway, Hungary, Finland, France, Bulgaria, Belgium, Portugal, Poland, Latvia, Lithuania, Luxemburg, Romania, Guernsey (*), Jersey (*), Isle of Man (*), Liechtenstein (*)

(No bilateral convention with Japan)

Albania, Andorra, North Macedonia, Cyprus, Greece, Greenland, San Marino, Gibraltar, Faeroe Islands, Bosnia and Herzegovina, Malta, Monaco, Montenegro

Russia and New Independent States (12)

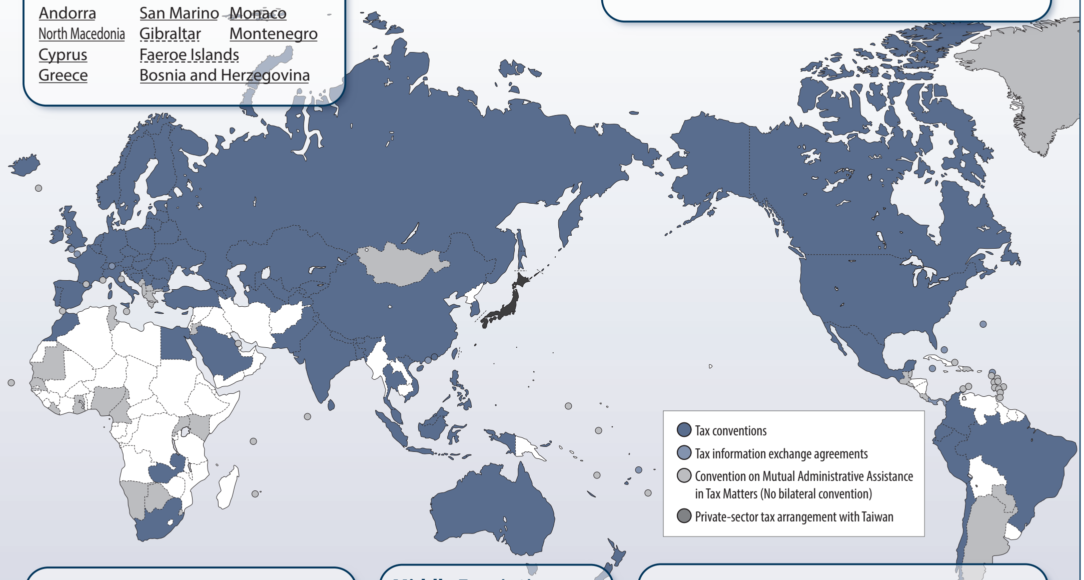
Azerbaijan, Armenia, Ukraine, Uzbekistan, Kazakhstan, Kyrgyz, Georgia, Tajikistan, Turkmenistan, Belarus, Moldova, Russia

America and the Caribbean (35)

United States, Uruguay, Ecuador, Canada, Jamaica, Chile, Brazil, Peru, Mexico, Cayman Islands (*), British Virgin Islands (*), Panama (*), Bahamas (*), Bermuda (*), Colombia

(No bilateral convention with Japan)

Anguilla, Antigua and Barbuda, Aruba, Argentina, Barbados, Belize, Costa Rica, Curacao, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Montserrat, Paraguay, Saint Christopher and Nevis, Saint Lucia, Sint Maarten, Saint Vincent and the Grenadines



Africa (20)

Egypt, Zambia, South Africa, Morocco

(No bilateral convention with Japan)

Botswana, Mauritius, Cabo Verde, Namibia, Cameroon, Nigeria, Eswatini, Rwanda, Ghana, Senegal, Kenya, Seychelles, Liberia, Tunisia, Mauritania, Uganda

Middle East (10)

United Arab Emirates, Israel, Oman, Qatar, Kuwait, Saudi Arabia, Turkey

(No bilateral convention with Japan)

Bahrain, Jordan, Lebanon

Asia and Pacific (28)

India, Indonesia, Australia, Korea, Singapore, Sri Lanka, Thailand, China, New Zealand, Pakistan, Bangladesh, Fiji, Philippines, Brunei, Vietnam, Hong Kong, Malaysia, Samoa (*), Macao (*), Taiwan (see note 3)

(No bilateral convention with Japan)

Cook Islands, Nauru, Niue, New Caledonia, Vanuatu, Marshall Islands, Maldives, Mongolia

(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); 71 conventions applicable to 79 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 120 jurisdictions (not including Japan) (These jurisdictions are underlined above) and applicable to 138 jurisdictions due to the extension of the application of the Convention (Jurisdictions to which the Convention is extended are underlined above with dotted lines). 60 jurisdictions out of 138 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.)

Ministry of Finance: Japan's Tax Convention Network

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

Inquiries related to taxes

Outline	Institutes/Organizations	URL
Laws and procedures for national taxes, etc.	National Tax Agency	https://www.nta.go.jp/
Forms for national taxes	National Tax Agency	https://www.nta.go.jp/taxes/tetsuzuki/index.htm
	National Tax Agency site (w/English explanations)	https://www.nta.go.jp/english/index.htm
Tax information desk	National Tax Agency Regional Offices	https://www.nta.go.jp/english/contact/moreinformation/
	National Tax Agency Regional Offices (w/English)	https://www.nta.go.jp/taxes/shiraberu/sodan/denwa-sodan/index.htm
Laws and procedures for local taxes, etc.	Bureau of Taxation at each Prefectural Government (The Tokyo Metropolitan Government Bureau of Taxation)	https://www.tax.metro.tokyo.lg.jp/

Contact Information for Starting Business

I. Public support agencies and organizations

●Regional Head Offices of the Organization for Small & Medium Enterprises and Regional Innovation, Japan

Eligibility: Entrepreneurs, small and medium-sized enterprises who are taking a new step
Services: Dispatch of experts, business startup consultation, provision of information on incubation facilities, etc.
Location: 10 locations nationwide
Inquiries: https://www.smrj.go.jp/regional_hq/index.html
https://www.smrj.go.jp/english/about/network.html
https://www.smrj.go.jp/venture/index.html
https://www.smrj.go.jp/english/activities/

●Prefectural Small and Medium Enterprise Support Centers

Eligibility: Small and medium-sized enterprises who want to have business or financing consultations
Services: Business diagnosis, dispatch of experts, etc.
Location: All prefectures and ordinance-designated cities
Inquiries: "Local Support Centers"
https://zenkyo.or.jp/association/

●Startup Support Center, Tokyo Chamber of Commerce and Industry

Eligibility: Small and medium-sized enterprises who have issues related to startup, business succession, new business development, and financing

Services: Consultations on issues at the time of business startup, such as procedures for starting a business, and the public loan system that can be used at the time of startup

Location: Marunouchi Nijubashi Building, 3-2-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005

Inquiries: TCCI Business Support Desk
TEL. 03-3283-7767
https://www.tokyo-cci.or.jp/entre/
https://www.tokyo-cci.or.jp/english/our_main_missions_and_commitments/business_support/

●Mirasapo plus

Eligibility: Small and medium-sized enterprises and small-scale enterprises, etc.

Services: Introduction of "support systems," such as subsidies, grants, benefits, loans, and tax breaks

Inquiries: "The Small and Medium Enterprise Agency"
TEL. 03-3501-1511 (Main number)
https://mirasapo-plus.go.jp

●Small and Medium Enterprises 119

Eligibility: Small and medium-sized enterprises and small-scale enterprises, etc.

Relevant services: Introduction of appropriate support organizations for problem solving

Inquiries: "Secretariat for Dispatch of Experts"
TEL. 03-5542-1685
https://chusho119.go.jp/

Remarks: Operation entrusted by Small and Medium Enterprise Agency

●Japan Finance Corporation (JFC)

Eligibility: Founding entrepreneur, etc.

Services: Consultations on starting a business, support for loans to startup companies with difficulty in raising funds, etc.

Locations: General Support Desk (152 locations nationwide), Business Startup Support Center (15 locations nationwide), Business Support Plaza (6 locations nationwide), etc.

Inquiries: "General Business Startup Support"
https://www.jfc.go.jp/n/company/national/initiation.html
https://www.jfc.go.jp/n/english/
"Business Support Plaza"
https://www.jfc.go.jp/n/finance/sougyou/ijuusougyou/location/index.html
"Enterprise Fund Consultation Dial"
TEL. 0120-154-505
https://www.jfc.go.jp/n/inquiry/

●Japan Federation of Credit Guarantee Corporations (JFG)

Eligibility: Small and medium-sized enterprises and small-scale enterprises

Services: Acting as a guarantor of loans to make it easier for companies to obtain business financing from financial institutions

Location: 2-1 Kandatsukasacho, Chiyoda-ku, Tokyo 101-0048

Inquiries: https://www.zenshinhoren.or.jp
https://www.zenshinhoren.or.jp/english/
"List of Credit Guarantee Associations in Japan"
https://www.zenshinhoren.or.jp/nearest/

●Tokyo One-Stop Business Establishment Center (TOSBEC)

Eligibility: Those considering opening a business in Tokyo

Services: Various procedures such as certification of the articles of incorporation, registration, taxation, pension, social insurance, and immigration management, which are necessary for incorporating a corporation or start a business

Location: Japan External Trade Organization (JETRO) Headquarters
Ark Mori Bldg. 7F, 1-12-32 Akasaka, Minato-ku, Tokyo 107-6090

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

●Japan External Trade Organization (JETRO)

Eligibility: Those considering overseas business

Services: Export/import and investment advice (such as trade promotion methods, overseas market information, and investment-related information)

Location: Ark Mori Bldg. 1-12-32 Akasaka, Minato-ku, Tokyo 107-6006

Inquiries: "JETRO General Information"
TEL. 03-3582-5511
https://www.jetro.go.jp/
https://www.jetro.go.jp/en/
"JETRO Domestic Offices"
https://www.jetro.go.jp/jetro/japan/list.html
https://www.jetro.go.jp/en/jetro/worldwide/japan/

●Manufactured Imports and Investment Promotion Organization (MIPRO)

Eligibility: Those considering starting a business

Services: Consultation on procedures for establishing and starting a company, etc.

Location: World Import Mart Bldg. 6th Floor, 3-1-3 Higashi Ikebukuro, Toshima-ku, Tokyo 170-8630

Inquiries: "Consulting Services"
TEL. 03-3989-5151
https://www.mipro.or.jp/advisement/
https://www.mipro.or.jp/english/advisement/index.html

II. Professional Associations

●Japan Federation of Certified Administrative Procedures Legal Specialists Associations (Administrative Attorney)

Services: Consultations on obtaining various types of licenses and approvals, such as application for Certificate of Eligibility, application for change of status of residence, and application for business permission, etc., and creation of articles of incorporation

Location: Toranomon Towers Office 10th Floor, 4-1-28 Toranomon, Minato-ku, Tokyo 105-0001

Inquiries: "Japan Federation of Certified Administrative Procedures Legal Specialists Associations"
TEL. 03-6435-7330
https://www.gyosei.or.jp/
https://www.gyosei.or.jp/about/language/english
"Prefectural Association of Certified Administrative Procedures Legal Specialists"
https://www.gyosei.or.jp/about/disclosure/membership.html

●Japan Federation of Shiho-Shoshi Lawyer's Associations (Solicitor)

Services: Consultation on registration, acting as agent for registration procedures, etc.

Location: 4-37 Yotsuya Honshio-cho, Shinjuku-ku, Tokyo 160-0003

Inquiries: TEL. 03-3359-4171
https://www.shiho-shoshi.jp/
https://www.shiho-shoshi.jp/global/english/
"List of Shiho-shoshi Associations in Japan"
https://www.shiho-shoshi.or.jp/association/shiho_shoshi_listh/
"List of Shiho-shoshi General Consultation Center"
https://www.shiho-shoshi.or.jp/activity/consultation/center_list/

●Japan Federation of Certified Public Tax Accountants' Associations (Certified Public Tax Accountant)

Services: Tax consultations, acting as agent to prepare tax documents including tax returns, etc.

Location: Nihon Zeirishi Kaikan Bldg. 8F, 1-11-8 Osaki, Shinagawa-ku, Tokyo 141-0032

Inquiries: TEL. 03-5435-0931
https://www.nichizeiren.or.jp/
https://www.nichizeiren.or.jp/eng/
"List of Certified Public Tax Accountants' Associations in Japan"
https://www.zeirishikensaku.jp/
https://www.nichizeiren.or.jp/eng/region.html

●Japan Federation of Labor and Social Security Attorney's Associations (Labor and Social Security Attorney)

Services: Procedures for labor and social insurance, labor management consultation, pension consultation, etc.

Location: Shakai Hokenromushi Kaikan Bldg., 3-2-12 Nihonbashi Hongoku-cho, Chuo-ku, Tokyo 103-8346

Inquiries: TEL. 03-6225-4864 (Main number)
https://www.shakaihokenroumushi.jp/
https://www.shakaihokenroumushi.jp/en/tabid/296/Default.aspx
"List of Labor and Social Security Attorney's Associations in Japan"
https://www.shakaihokenroumushi.jp/organization/tabid/238/Default.aspx

●Japan Small and Medium Enterprise Management Consultant Association (Small and Medium Enterprise Management Consultant)

Services: Provision of management diagnosis and management advice to small and medium enterprises, etc.

Location: Ginmatsu Bldg., 1-14-11 Ginza, Chuo-ku, Tokyo 104-0061

Inquiries: TEL. 03-3563-0851
https://www.j-smeca.jp/
https://www.j-smeca.jp/contents/018_english_contents.html
"List of Prefectural Small and Medium Enterprise Management Consultant Association"
https://www.j-smeca.jp/open/static/sibuindex.jsf

●Japan Federation of Bar Associations (Attorney)

Services: Legal consultation, legal services such as settlement and out-of-court negotiations, litigation activities, and appeals to administrative agencies. etc.

Location: Bengoshi Kaikan Bldg. 15F, 1-1-3 Kasumigaseki, Chiyoda-ku, Tokyo 100-0013

Inquiries: TEL. 03-3580-9841 (Main number)
https://www.nichibenren.or.jp/
https://www.nichibenren.or.jp/en.html
"Himawari Hotline (Dedicated contact for SME managers)"
TEL. 0570-001-240
"Himawari SME Center"
https://www.nichibenren.or.jp/ja/sme/about_himawari.html
"Online Consultation Office"
https://www.nichibenren.or.jp/ja/sme/contact.html
"Local Bar Associations"
https://www.nichibenren.or.jp/en/legalinfo/legal.html
"Legal Consultation for Foreigners"
https://www.nichibenren.or.jp/en/legalinfo/counceling.html

Trade and Business Startup Consultation Desk

MIPRO Consulting services for trade & starting business

TEL: 03-3989-5151
https://www.mipro.or.jp/
Consultation available weekdays from 10:30 A.M. to 4:30 P.M.

This document has been prepared based on the information as of April 30, 2022 and with the utmost care regarding accuracy. However, when actually starting a business in Japan, please inquire with the relevant public offices concerning necessary documents, matters, etc. or consult with a certified tax accountant or other specialists.
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URL：https://www.mipro.or.jp/

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