

Japan Tax Bulletin

Tax filing requirements for foreign corporations with no Permanent Establishment in Japan

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Foreign corporations with no Permanent Establishment (PE) are required to file a corporate income tax return in Japan to declare certain types of income and pay corporate income tax on them at the regular tax rates. The types of income foreign corporations need to declare are summarized below.

1. *Income from investing and holding assets located in Japan*

This category includes income generated from investing and holding the following assets:

- certain Japan national, local and corporate bonds and promissory note defined by the Financial Instrument and Exchange Act fixed deposits in Japan;
- interest on non-business loans made to a borrower resident in Japan; and
- the right to receive certain distributions with respect to life insurance policies which were purchased through offices, business premises or contract agents in Japan.

2. *Income from transferring assets located in Japan*

This type of income includes the following:

- Income from transferring real property located in Japan.
- Income from rights to real property located in Japan, mining rights or quarrying rights.
- Income from felling or transferring forests located in Japan.
- Income from transferring a Japan company's shares where the shares were purchased in large quantities for the purpose of manipulating the market price and sold to a company or persons with a special relationship to the company.
- Income from transferring a Japan company's shares where the shareholder and related parties, own or owned within the past three years, 25% or more of the total shares of the corporation, and the shareholder and such related parties sell 5% or more of the shares in the current year.
- Income from transferring real property holding company's shares where a shareholder with a special relationship to the real property holding company sold more than 5% (if publicly traded) or more than 2% (if not publicly traded). A real property holding company is a company where 50% or more of its total asset value comprises of real properties located in Japan.

- Income from transferring a Japan company's shares where the company is engaged in owning or managing golf courses in Japan and the shareholders are authorized to use the golf courses under favorable terms.
- Income from transferring rights to use golf courses or other facilities.

3. *Personal service income*

Personal service is income derived from assigning special skilled persons to provide such specialized skills. Special skilled persons include the following:

- Entertainers, professional athletes.
- Lawyers, CPA, Architects, other freelance persons.
- Persons with special skill or knowledge relating to science and technology, management and administration.

4. *Rental income from real property*

This category of income includes rental income from real properties located in Japan, rights to real properties located in Japan, quarrying rights, considerations for creating mining lease rights under Mining rights, considerations for leasing aircrafts or marine vessels to domestic companies or residents in Japan

5. *Other domestic source income*

Other domestic source income includes the following:

- Insurance money, compensation, damages received in relation to business conducted in Japan or assets located in Japan.
- Income from receiving gifts of assets located in Japan.
- Income from buried property found in Japan or lost articles picked up in Japan.
- Money or economic benefits for prize contests in Japan.
- Other economic benefits received in relation to assets or businesses in Japan.

6. *Taxation of a foreign company*

The following table summarizes the taxation of a foreign company. However, it is necessary to review the relevant provisions in tax treaties as these may override the provisions in domestic law.



Classification		Foreign company with a PE		Foreign company without a PE	Withholding (see Note 1)	
		PE attributable income	Domestic source income not attributable to the PE			
Domestic source income	1) Business income	Corporate income tax filing required	Corporate income tax filing required	Corporate income tax filing required	No	
	2) Income from investing and holding assets located in Japan (excluding 7 - 14 below (see Note 2))				No	
	(1) Income from transferring assets located in Japan (limited to the items on the right)				Transfer of real properties located in Japan	No (Note 3)
					Transfer of rights to real properties located in Japan	Corporate income tax filing required
					Felling or transfer of forests in Japan	
					Transfer of shares purchased in large quantities	
					Transfer of shares equivalent to a business transfer	
	Transfer of shares of a real property holding company				No	
	Transfer of shares of a company which owns or manages golf courses in Japan					
	4) Personal service business income					20.42%
	5) Rental income from real property located in Japan					20.42%
	6) Other domestic source income					No
	7) Interest income from bonds					15.315%
	8) Dividend income					20.42%
9) Interest income from loans		20.42%				
10) Royalties		20.42%				
11) Prizes for advertising and promoting businesses		20.42%				
12) Annuities under life insurance policies		20.42%				
13) Benefit subsidy for installment savings		15.315%				
14) Distribution of profits under a silent partnership (Tokumei Kumiai)		20.42%				
Foreign source income		Out of scope of taxation			No	

Notes.

1. Withholding tax rates are the total of Income tax and Reconstruction Special Income Tax (effectively the income tax withholding rate x 102.1%)
2. The classifications shown from 7 to 14 are the classifications for the purpose of withholding tax under Income Tax Law
3. 10.21% withholding on the proceeds of transferring real property



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