

Doing business in Japan

30 September 2026



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If you are planning on [doing business in Japan](#), knowledge of the investment environment and information on the legal, accounting and taxation framework are essential to keep you on the right track.

Foreword

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This guide has been prepared for the assistance of those interested in doing business in Japan. It does not cover the subject exhaustively but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Japan and to obtain appropriate accounting and legal advice. This guide contains only brief notes and includes legislation in force as of 30 September 2026.

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Business Entities

Summary

There are a number of entities available to the foreign investor doing business in Japan. Naturally the nature of the investor's activities in Japan largely determines the entity chosen. The most common entities used include:

Representative Office

Japan Branch Office

Corporate-type entity, such as:

- Kabushiki Kaisha ("KK": a limited stock corporation)
- Godo Kaisha ("GK": a limited liability corporation)

Partnership-type arrangements, such as:

- Nini Kumiai (partnership)

Representative Office of a foreign company

Foreign companies looking to expand into Japan may initially conduct market research and other "non-commercial transactions" through an unregistered Representative Office. A Representative Office is not required to comply with government reporting or corporate registration requirements, except where the foreign company is a financial institution.

As the Representative Office is not carrying on sale-type activities in Japan, and therefore not generating any income through its activities, it need not file a tax return. However, employees of the Representative Office will be liable for Japanese income taxation if they receive compensation for the rendering of personal services in Japan.

As a Representative Office is unable to engage in customer negotiations, or solicit sales, and the individual representative is held jointly and severally liable with the foreign company for any transactions, claims, or other liabilities in Japan, the entity is used primarily on a temporary basis by foreign companies that intend to establish a registered branch office or Japanese subsidiary in the near future.

Japan Branch Office

Foreign companies looking to do more than marketing or other Representative Office type activities may register a branch office, as a branch office is generally able to perform sales activities without restriction. As a branch office is regarded as being the same entity as its foreign head office from a Japanese legal and tax viewpoint, its Japan source income and income attributable to the Japan branch will be subject to Japanese taxation.

While a branch is subject to Japanese corporate tax, there are some potential benefits in establishing a branch as opposed to a corporate entity such as a KK or GK. These, along with some disadvantages are discussed in more detail in on page 6.

Establishment

The establishment of a branch requires the appointment of a representative who is a resident of Japan (no nationality requirement), and registration as a Japan branch of a foreign company under the Corporate Law, before it can commence its business activities. It typically takes about four weeks to set up a Japan branch.

Corporate type entities

There are four types of incorporated companies available under Japan's Commercial Code:

- Kabushiki Kaisha (limited stock corporation which is organised only by limited shareholder(s).);
- Godo Kaisha (limited liability corporation which is organised only by member(s) with limited liability);
- Gomei Kaisha (general partnership corporation which is organised only by member(s) with unlimited liability); and
- Goshi Kaisha (limited partnership corporation which is organised by members with unlimited liability and limited liability).

Kabushiki Kaisha

The most common form of corporate entity used in Japan by foreign investors is the Kabushiki Kaisha ("KK"). The KK is a limited stock corporation, meaning its shareholders are protected from liability claims made by third parties (up to their capital contribution). The minimum capital requirement to set up a KK is as low as JPY1.

The KK has a higher level of prestige in Japan than other corporate forms and further, under Japanese law, certain regulated activities (such as pharmaceutical, securities, or telecommunications) in some cases may only be performed by a KK.

Formation

The formation of a KK requires at least one director, who is not required to be a Japanese resident, and also requires at least one shareholder (who can also be the director). Articles of Incorporation and other registration documents are prepared and filed with the Legal Affairs Bureau. Once the registration has been processed, the KK may open a bank account, execute contracts, and engage in other activities as a legal entity. Capital contributions made by shareholders may be in the form of either assets or cash. Non-cash contributions for a KK require a court supervised appraisal unless one of the following applies: (i) the number of shares issued to persons who make a non-cash contribution is not more than 10% of the value of the outstanding shares, (ii) The value of the non-cash contribution is JPY5 million or less, (iii) the non-cash contribution is in the form of marketable securities, (iv) a qualified person such as lawyer, CPA or licensed Tax Accountant issues an appraisal report.

It typically takes about four weeks to set up KK.

Internal Structure

The Companies Act in Japan outlines the requirements for establishing a KK, which has created a number of categories of KK, based on whether it is large or small, open or closed, listed or non-listed. The corporate governance and management structure for KKs will vary depending on whether or not the KK is open or closed, and large or small.

All KKs need at least one director. In cases where three or more directors are appointed, a board of directors and a statutory auditor need to be appointed.

Statutory Filings

Once the KK has been organised in accordance with the relevant corporation law requirements, the following reports need to be filed:

Tax filing report to the relevant district tax office, and the relevant metropolitan or prefecture tax office

Social Insurance report to the Social Insurance Office, the Labour Standards Inspection Office, and the Employment Security Bureau.

A report must also be submitted to the Minister of Finance and other Ministers having jurisdiction over the company's business activities through the Bank of Japan.

Subject to a shareholders' resolution, the KK is allowed to pay dividends, within the Distributable Amount defined in the Companies Act, at any time during the year or any number of times.

Godo Kaisha

A Godo Kaisha ("GK") is a corporate entity loosely based on the U.S. LLC in that the liability of the investors in the GK is limited to their capital contribution. However, unlike the U.S. LLC for US tax purposes, it is not a pass-through entity for Japanese tax purposes.

Formation

Unlike the KK, in which those who invest are known as shareholders, investors in a GK are referred to as "members"; with each member signing the GK's Articles of Incorporation. When there are no individual members, a management person, responsible for managing the company on the members' behalf, needs to be appointed. Articles of Incorporation must be prepared and filed. Once capital contributions have been made and the registration has been processed, the company may open a bank account, execute contracts, and engage in other activities as a legal entity. Capital contributions made by members may be in the form of either assets or cash (unlike KKs, non-cash contributions do not require an inspection by a court appointed inspector). It typically takes two to three weeks to establish a GK.

Statutory Filings

The statutory filings for the GK are the same as for the KK, listed above.

Internal Structure

The legal duties of GK managers are similar to the legal duties of KK directors. GK members may sue managers in the same way that KK shareholders may sue directors on the company's behalf.

Unlike certain types of KK, a GK is not required to establish a board of directors or hold members' meetings to manage the GK's affairs. Each member is responsible for managing the affairs of and representing the GK, however there is scope for this role to be narrowed under the GK's articles.

U.S. Tax Entity Classification

Whether a GK will be treated as a separately taxed (corporate) or as a pass-through entity will depend on the tax laws of the applicable jurisdiction. For U.S. tax purposes, a GK can be treated as a default corporation that can elect to be treated as a pass-through (either disregarded or as a partnership).

Partnership Companies

In addition to KK and GK, Japan's commercial law provides two partnership company forms, the gomei kaisha and the goshi kaisha.

Gomei Kaisha

A gomei kaisha is a company with unlimited liability members who are jointly and severally liable for the company's liabilities.

Goshi Kaisha

A gomei kaisha is a company with unlimited liability members who are jointly and severally liable for the company's liabilities.

Corporate Entity

Summary

Generally, there are no major differences between the branch of a foreign company and a Japanese company from a tax perspective. However, different legal definitions as well as some small differences in terms of taxation exist.

Additionally, the following needs to be considered on a practical level:

The advantages of a branch relative to a subsidiary are:

- There is no requirement to appoint directors and statutory auditors for it, however the Branch Manager must be a resident of Japan
- Loss of branch business can be added to the financial figures of the head office.
- No Japanese withholding income tax is applicable to the remittance of branch profits to its head office. In the case of a company, dividends remitted overseas (including liquidation dividends) are subject to Japanese withholding tax at 20.42% or reduced tax treaty rates.
- Additional tax on undistributed profits of a family company (see page 24) is not applicable to a Japan branch of a foreign company.

The disadvantages of a branch relative to a subsidiary are:

- In addition to the financial statements of the Japanese branch office, the financial statements of the foreign company's head office need to be submitted to the tax office.
- Per capita inhabitant tax is assessed based on the share capital of the head office, leading to generally higher assessments than for a Japanese subsidiary company.
- Business scale taxation is determined based on the capital stock of the head office. Therefore, if a branch has a head office with a big amount of capital, the branch is subject to business scale taxation leading to generally higher tax.
- Company entities (in particular KJs) have greater prestige than a branch office in the eye of Japanese customers, clients and other stakeholders.

Permanent Establishment (PE)

Under the 2018 tax reform, the AOA (Authorised OECD Approach) rule was applied to the taxation of a Permanent Establishment (PE) and applicable for fiscal years beginning on or after 1 January 2019. Under AOA rule, business income sourced through a Japanese PE is treated as income attributable to that PE, and a foreign tax credit is available for taxes paid abroad on that attributable income. As a result, foreign corporations which have a PE in Japan are taxed in Japan and income is attributable to that PE. A branch should be treated as a typical PE. The definition of PE is the following:

- Branch Permanent establishments

Where a foreign enterprise has a fixed place of business in Japan through which the business of the enterprise is carried on, it may be regarded as a branch PE. The essential conditions are generally summarized as follows:

- The place must constitute a place of business at the disposal of the enterprise;
- The place must have a degree of permanence (i.e., it must exist for a certain period of time);
- The business of the enterprise is carried on through that place.

A branch PE is not formed if the activities are preparatory or auxiliary in nature. A branch permanent establishment includes the following facilities:

- Construction activity permanent establishment

A building site, construction, installation or assembly project, or supervisory activities in connection therewith carried on in Japan by a non-resident or a foreign enterprise constitutes a construction PE if such site or project lasts for more than twelve months. For the purpose of applying this time threshold, where contracts are divided or split up with the principal purpose of avoiding the twelve-month test, the periods of such projects shall be aggregated to determine whether the threshold is exceeded. As with a branch permanent establishment, an exemption exists for activities of a preparatory or auxiliary character.

- Agency permanent establishment

An agency PE consists of “contracting” agents or “negotiating” (or “secures orders”) agents.

A contracting agent is an agent who concludes contracts on behalf of and in the name of a foreign corporation or a non-resident individual. The authority may be given by a power of attorney, but more often it arises out of an employment, partnership or other underlying contract between the agent and the principal. A person who is authorized to negotiate all elements and details of a contract in a way that is binding on the foreign enterprise would be said to exercise sufficient authority even though the contract is formally signed by another person outside Japan. A negotiating agent is an agent who exclusively or principally on behalf of a foreign corporation or non-resident “secures orders, negotiates, or performs other important acts leading toward the conclusion of contracts” in connection with the business of the foreign corporation or non-resident.

- Intra-company transactions

The intra-company transactions such as intra-company licences, intra-company loans etc., need to be recognized, because a PE is deemed a separate enterprise conducting business independently from the foreign corporation. Therefore, transfer pricing rules apply to transactions between PEs and head offices. In addition, a PE is required to prepare and maintain documents relating to both intra-company transactions and its transactions with third parties.

Partnerships

Summary

Partnerships in Japan are not recognized as separate legal entities for Japanese tax purposes. Therefore, partners (kumiai-in) in a partnership (kumiai) are taxed on the basis of the profits or losses allocated to them under such an agreement.

Partnerships fall under one of two categories: the Nini Kumiai (“NK”) type partnership and the Tokumei Kumiai (“TK”) partnership. NK-type partnerships are governed by the Japanese Civil Code while TKs are governed by Japan’s Commercial Code.

NK-type Partnerships

NK-type partnerships are formed by an agreement among parties (kumiai-in) whereby each partner makes an investment in the partnership and carries on a business jointly with the other partners. Such partnerships typically involve arrangements where partners jointly carry on business and together own the assets (and liabilities) of the partnership. A description of the three NK-type partnerships available in Japan follows.

Nini Kumiai (NK)

The NK is the most commonly used NK-type partnership used in Japan, with all partners jointly owning the assets within the partnership and jointly and severally liable for the partnership’s liabilities. Advantages to using the NK are the partnership is not required to be registered and the NK is not limited in the kind of business it can perform.

Investment Limited Partnership (Toshi Jigyo Yugen Sekinin Kumiai or ILPS)

This partnership type is provided for under the Investment LPS Act which governs ILPSs conducting investment business. The typical ILPS consists of general partners who have unlimited liability and limited partners whose liability is limited to their capital investment. General partners are responsible for managing the partnership’s business. Such partnerships need to be registered with the Legal Affairs Bureau.

Limited Liability Partnership (Yugen Sekinin Jigyo Kumiai or LLP)

The Limited Liability Partnership (“LLP”) Act which came into effect in 2005, governs limited liability partnerships. The key feature of the LLP is all partners’ liability is limited to their capital investment. In addition, each partner is required to be active in the management of the partnership, however unlike NKs, some restrictions are placed on an LLP’s activities. Two further requirements of the LLP are it needs to submit registration with the Legal Affairs Bureau and at least one of the partners must reside in Japan (either an individual or a Japanese company).

Taxation of Partners

The taxation of a partner in NK-type partnerships will depend on whether the partner is a resident or non-resident of Japan. In the case of non-residents, their tax position will change if they have a permanent establishment in Japan. The nature of the income earned by partners will also determine how it is taxed.

Japan Resident Partners

Japan resident partners are required to declare any income/loss generated from their partnership arrangements in their Japanese tax return, regardless of whether any actual distribution is made. The nature of the income generated by the partnership's activities will generally be retained in the hands of the individual partner, and taxed accordingly. It should be noted the introduction of a number of laws since 2005 has restricted the utilization of losses generated from partnerships.

Foreign partners without a Permanent Establishment in Japan

Profit distributions made to a foreign partner in an NK-type arrangement will not be subject to Japan tax if the resident partners are not deemed to be a permanent establishment of the non-resident partner. It should be noted, given the nature of the relationship between the partners in an NK-type arrangement, the risk of the tax authorities deeming the resident partners to be a permanent establishment is significant.

Foreign partners with a Permanent Establishment in Japan

In such cases, the foreign partner will be required to file a Japan tax return and pay tax at the applicable marginal rate presuming the partner is an individual. Any withholding tax paid on distributions is creditable on their tax return.

Permanent Establishment

There is no clear guidance under Japanese tax law as to whether the activities of a Japan resident partner of an NK-type partnership create a permanent establishment for non-resident partners in such partnerships. As the determination of a permanent establishment is based on facts and circumstances, each case needs to be analyzed on its own merits.

Tokumei Kumiai (TK)

A TK is provided for under Japan's Commercial Code. It consists of a TK operator and one or more "silent" or TK investors. A TK is not a legal entity for Japanese tax purposes, but rather an agreement between the TK investor and the TK operator under which the TK operator agrees to operate the business on behalf of itself and the investor. The TK investor makes a contribution to the TK operator in exchange for a percentage of the TK operator's profits or losses. Critically, the TK investor must not have any control in the management of the TK operator.

Taxation of the TK operator

The TK operator is subject to normal Japanese corporate/income tax as a taxable entity doing business in Japan, however the TK operator is able to claim any income distributions made to the TK investor as a deductible expense. The TK operator will report net income in the case net losses are distributed.

Taxation of the TK investors

The Japanese tax implications of a TK investor may vary, depending on whether the TK investor is a resident of Japan, and in the case where the TK investor is a non-resident of Japan (i) whether it has a PE in Japan, or (ii) the jurisdiction in which the TK investor is a resident.

Japan resident partners

The Tokumei Kumiai profit/loss allocation is treated as normal taxable income/loss of the TK investor for the particular period in which the income/loss is received. 20.42% withholding tax will be levied on such distributions. Profit/loss distributions received by the investor will be aggregated with the taxpayer's other income and taxed at the applicable marginal rate. With respect to a TK arrangement in which the investment is real estate, an active individual TK investor may be able to offset losses against other income, however a passive TK investor is prohibited from doing so. An active TK investor is one who plays an active role in the business decisions of the Japan TK operator.

Foreign partners having a permanent establishment in Japan

The profit/loss allocation from the TK to a TK investor deemed to have a PE in Japan is treated as normal taxable income/loss of the TK investor for the period in which the accounting period end date of the TK operator falls. The TK investor is required to file a tax return and pay income tax at the applicable marginal rate. The distributions from a TK to foreign partners are subject to 20.42% withholding tax, which is creditable for the TK investors when declaring such income in their Japanese tax returns.

Foreign partners not having a permanent establishment in Japan

A TK investor who does not have a PE in Japan is taxed 20.42% withholding on the actual distributions of the TK's profit allocations. There are no further Japanese tax obligations in respect of the TK allocations and no requirements to file a tax return in Japan. It should be noted that non-resident TK partners residing in certain jurisdictions may be able to claim a tax exemption by virtue of that jurisdiction's Double Tax Agreement ("DTA") with Japan containing an "Other income" article which provides such income is only taxable in the country in which the investor resides, meaning such TK distributions are not taxed in Japan. One example is the Ireland-Japan DTA. While Japan's DTAs with other jurisdictions such as the US and the Netherlands also contain an "Other income" provision, protocols to these agreements give Japan the right to impose Japan domestic withholding tax rates on such income, resulting in the 20.42% rate being levied.

Accounting and Reporting Requirements

Summary

All companies that are incorporated as profit organisations conform to the “Companies Act”, which plays a role in coordinating the interests of creditors and shareholders. In addition, listed companies shall be governed by the “Financial Instruments and Exchange Act” which lays down the rules for the protection of investors. The preparation of financial statements is also established by these laws.

Contents of financial statements

The Companies Act requires companies to prepare financial statements for each fiscal year. The period of a fiscal year may not exceed one year. Additionally, listed companies of domestic exchanges are required to disclose financial statements on a quarterly basis and annual audited financial statements in accordance with the Financial Instruments and Exchange Act.

The Companies Act requires every company to prepare the followings:

- Balance Sheet
- Income Statement
- Statement of Changes in Net Assets
- Notes to the Financial Statements (Individual Notes to the Financial Statements)
- Supporting Schedules

In addition to the above, listed companies are required to prepare a cash flow statement in accordance with the Financial Instruments and Exchange Act.

Accounting Principles

The financial statements must be prepared in accordance with accounting principles generally accepted in Japan, called J-GAAP. In certain circumstances, the consolidated financial statements are allowed to be prepared in accordance with other accounting standards including International Financial Reporting Standards (IFRS).

Voluntary adoption of IFRS

The Japanese government has eased the required conditions to promote greater use of IFRS on a basis of voluntary adoption. As a result, the number of voluntary adoptions is increasing so far. All listed companies and unlisted companies are allowed to use IFRS for consolidated financial statements. However, IFRS is not permitted for statutory individual financial statements under the Companies Act, which must continue to follow J-GAAP.

Statutory audit

Large companies, as defined by the Companies Act, and listed companies need to receive audit from a CPA. According to the Companies Act, a “large Company” is any Stock Company which satisfies any of the following requirements:

- (a) The amount of stated capital in the balance sheet as of the end of its most recent Business Year is JPY 500 million or more; or
- (b) The total sum of liabilities in the balance sheet at the end of its most recent Business Year is JPY 20 billion or more.

Retention of accounting documents

Retention period of accounting documents are determined by the Companies Act and the Corporation Tax law. In the main place, the Companies Act requires companies to keep and maintain proper accounting records (financial statements, general ledgers, sub-ledgers, journals, etc.) and important operational and financial documents including minutes or agreements for ten years. Accounting records can be maintained electrically subject to approval by the tax office. Regarding language, no legal regulation specifies the official language, however using Japanese is considered appropriate. For foreign companies, using English may be applicable.

Accounting and reporting requirements applicable to branches

- (1) A foreign company, which has a branch in Japan, must attach the financial statements of the Japan branch as well as those of the company as a whole to the Japanese corporate tax return to be filed each fiscal year.
- (2) A foreign company which conducts banking, insurance, or other regulated business must prepare financial statements for the Government in compliance with the relevant laws governing such industries. There are no accounting and reporting requirements applicable to a branch that conducts non-regulated businesses.

Tax authorities (and regulated authorities in the case of regulated businesses) may examine the branch's business records.

Currency

Accounting record and statutory financial statements must be presented in Japanese Yen.

Corporate Taxation

Summary

The taxable income is calculated by reducing gross revenue by costs, expenses and losses in accordance with J-GAAP and additional tax adjustments required under the corporate tax law. This chapter outlines Japanese corporate tax rules, with particular focus on areas relevant to foreign-owned companies operating in Japan.

Administrative overview

Place of payment of taxes

Corporate taxes for a domestic Japanese corporation must generally be paid at the tax office that has jurisdiction over the location of its head office or principal office. A company must notify the tax office within two months of incorporation and also notify the office when relocating to another jurisdiction.

Tax year

The tax year of a corporation is the period specified in its Articles of Incorporation or applicable laws or regulations. If not so specified, the corporation may elect a tax year by notifying the tax office within two months of incorporation. Once established, the tax year can be changed by notifying the tax office.

Tax returns

Corporate income tax returns are due within two months after the fiscal year end. However, generally a one-month extension can be obtained from the tax authorities. For example, a company with a fiscal year ending on 31 December must file its return by 28 February of the following year (or 31 March if an extension has been granted).

Corporations that meet certain accounting and filing requirements may obtain approval to file “blue form” tax returns, which provide the following tax benefits:

- No restrictions on the use of tax loss carry forwards
- Ability to claim tax refunds by carrying back losses
- Eligibility of various tax credit systems

Additionally, corporations must file an interim return if tax for the prior fiscal year exceeded JPY 200,000. The interim return is due within two months after the end of the sixth month of the fiscal year.

Payments and fines

Tax amount on interim and final tax returns is required to be paid by the due date for filing tax returns. Late payments generally incur interest at 2.8% per annum for the first two months and 9.1% per annum thereafter.

Tax rates

Japanese corporate taxation consists of Corporation tax (national tax), Local corporation tax (national tax), Defense special corporation tax (national tax), Inhabitant tax (prefectures and municipalities), Enterprise tax (prefectures) and Special corporate enterprise tax (prefectures). The tax rates for these taxes are as follows;

(1) Corporation tax

Company Type	Annual taxable income bracket	Applicable rates for fiscal years beginning on or after 1 April 2025 (%)
Small or Medium-Sized Enterprises	0 to JPY 8 million	15% (or 19% / 17%)
	Over JPY 8 million	23.20%
Large companies	All income	23.20%

A Small or Medium-Sized Enterprise (SME) is a company with share capital of JPY100 million or less. However, a company may not be treated as an SME, if 100% of the shares of the company is directly or indirectly owned by a large sized company whose capital is JPY 500 million or more. In this case, the definition of a large-sized company includes not only a Japanese parent company but also foreign parent companies.

※19% rate applies to excluded business enterprises (Tekiyō-Jōgai Jigyōsha), whose average taxable income exceeds JPY 1.5 billion in the previous three years.

※For SMEs whose annual taxable income exceeds JPY 1 billion, a 17% rate applies to the portion up to JPY 8 million.

(2) Local corporation tax

Tax rate is 10.3% of national corporation tax

(3) Defense special corporation tax

For fiscal years beginning on or after 1 April 2026, a Defense special corporation tax of 4% applies to the portion of corporation tax exceeding JPY 5 million.

(4) Inhabitant tax

Inhabitant taxes are computed as a percentage of corporation tax within the ranges shown below.

Type	Applicable rates
Prefecture	1.0% to 2.0%
Municipality	6.0% to 8.4%
Total	7.0% to 10.4%

In addition to the above income-based tax, the following per capita taxes are assessed as part of Inhabitant tax.

(Based on a taxpayer in Tokyo Metropolitan Area)

Sum of share capital and capital reserve	Prefecture	Municipality	
		Companies with 50 or fewer employees	Companies with more than 50 employees
0 to JPY 10 million	JPY 20,000	JPY 50,000	JPY 120,000
Over JPY 10 to 100 million	JPY 50,000	JPY 130,000	JPY 150,000
Over JPY 100 to 1,000 million	JPY 130,000	JPY 160,000	JPY 400,000
Over JPY 1,000 to 5,000 million	JPY 540,000	JPY 410,000	JPY 1,750,000
Over JPY 5,000 million	JPY 800,000	JPY 410,000	JPY 3,000,000

(5) Enterprise tax

Enterprise tax is computed as a percentage of taxable income at the following rates.

Component		Share capital exceeding JPY 100 million	Share capital of JPY 100 million or less
Income-based tax	0 to JPY 4 million	1.0% (1.18%)	3.5% (3.75%)
	Over JPY 4 to 8 million		5.3% (5.665%)
	Over JPY 8 million		7.0% (7.48%)
Value added-based tax		1.26%	N/A
Capital-based tax		0.525%	N/A

The size-based business taxation system is a type of business tax and imposes “a value added-based tax” and “a capital-based tax” on corporations such as ones with stated capital of more than JPY100 million, in addition to an income-based tax. These taxes are levied even where a corporation is currently in a loss position. (※1) (※2)

The tax bases for size-based taxation are calculated as follows:

- Value added-based tax: Taxable income or loss for the year + Employee compensation + Net interest paid + Net rent paid + Employment stability deduction
- Capital-based tax: Paid-in capital + Capital surplus for tax purposes.

(※1) Starting from the fiscal year beginning on or after April 1, 2025, corporations that were subject to size-based business tax and had a total share capital and capital surplus of more than JPY1 billion in the previous fiscal year will also be subject to size-based business tax, even if their share capital decreases to JPY100 million or less in the current fiscal year.

(※2) Starting from the fiscal year beginning on or after April 1, 2026, even corporations with total share capital of JPY 100 million or less will be subject to size-based business tax if their total share capital and capital surplus exceed JPY 200 million, and they are wholly-owned subsidiaries of a parent corporation whose total share capital and capital surplus exceed JPY 5 billion.

(6) Effective tax rate

For fiscal years beginning on or after 1 April 2026, a Defense special corporation tax of 4% applies, resulting in a slight increase in the effective corporate tax rate.

Estimated effective tax rates are as follows;

(Based on a taxpayer in Tokyo Metropolitan Area)

Company size	Effective tax rate excluding defense tax	Effective tax rate including defense tax
Capital ≤ JPY 100million	33.58% - 34.59%	34.43% - 35.43%
Capital > JPY 100million	29.74% - 30.62%	30.64% - 31.52%

Additional taxes on undistributed profits of Specified family companies

A domestic “specified family company” (tokutei dozoku kaisha) is subject to an additional surtax on retained earnings calculated in excess of a designated amount (minimum JPY20 million).

A specified family company is a controlled company where more than 50% of its total issued shares are directly or indirectly owned by a single shareholder group, and it remains a controlled corporation even after excluding non-family corporate shareholders (such as publicly traded companies) from the test. This includes Japanese subsidiaries 100% owned by a foreign parent company, if the ultimate parent company itself is closely owned by a single shareholder group.

The applicable surtax rates on annual undistributed profits are as follows:

Annual undistributed profit bracket	Applicable tax rate
0 to JPY 30 million	10%
Over JPY 30 to 100 million	15%
Over JPY 100 million	20%

The surtax generally does not apply to companies with share capital of JPY 100 million or less. However, this suspension is cancelled if the company is directly or indirectly 100% controlled by a large company (companies with share capital of JPY 500 million or more).

Tax incentives

Research and Development Tax Credit

The tax credit for research and development (R&D) is applicable to a company filing a blue tax return. In the case of companies other than SMEs, the amount of the tax credit is basically from 0% to 14% of R&D expenditure (excluding R&D expenditure related to overseas offices and a portion of overseas outsourced R&D expenses), and the limit amount of taxpayer's national corporate income tax for a fiscal year varies between 20% and 30%, depending on rate of increase or decrease in experiment and research expenses. If a company satisfies certain conditions, the maximum creditable amount increases up to 50% of the

corporation tax liability. SMEs which satisfy certain conditions may claim from 12% to 17% of R&D expenditures, with a maximum creditable amount of 25% of the corporation tax liability for a fiscal year.

Additionally, a 3-year carryforward mechanism for unused tax credits has been newly introduced for SMEs. Furthermore, a special R&D tax credit with a cap of up to 10% of the national corporate tax liability is applicable to special experiment and research expenses.

In addition, a new system targeting critical areas such as AI and semiconductors (Strategic Technology Category, etc.) has been established, offering an advanced credit rate of 40% (or 50% for joint research with universities, etc.) under an approved plan, capped separately at 10% of the national corporate tax liability with a 3-year carryforward period.

Innovation Box

When a corporation engages in patent rights assignment related transactions, it can deduct an amount equivalent to 30% of the lesser of the following (1) or (2) from its taxable income.

(1) Qualified Income

Income arising from each patent right assignment transaction $\times$ the ratio of R&D expenses(*)

(2) Current Income

The amount of current income for the fiscal year subject to the Innovation Box regime

* The R&D expenditure ratio refers to the proportion of qualifying R&D expenditure (roughly in line with the “qualifying expenditure” as defined in the OECD BEPS Action 5 Final Report) in relation to certain R&D expenditure related to a patent right assignment transaction.

SME investment promotion tax system

When a SME filing a blue tax return makes investments on certain facilities to improve productivity a special depreciation of 30% in addition to regular depreciation or a 7% tax credit will be permitted. The credit is capped at 20% of a company's corporation tax liability.

Salary Increase Incentive

If a company filing a blue tax return satisfies the requirements related to increase in salary, this tax credit is available. For the fiscal years beginning on or after 1 April 2026 through 31 March 2027, the creditable amount is 10% to 30% of the increase in salary payments over the previous year for medium-sized enterprises, and 15% to 35% for SMEs.

(Medium-sized enterprises: generally defined as corporations with 2,000 or fewer regular employees, provided that the total number of regular employees including those of its subsidiaries does not exceed 10,000.)

The system for large companies is abolished for fiscal years beginning on or after 1 April 2026, and the system for medium-sized enterprises is scheduled to be abolished for fiscal years beginning on or after 1 April 2027.

To be able to claim a higher creditable amount, the company must be certified under the law for its support on child care and higher female labour force participation. Note that the bonus credit for employee education and training expenses has been abolished for fiscal years beginning on or after 1 April 2026. The amount of the tax credit is capped at 20% of the corporation tax liability. For SMEs, any tax credit exceeding the cap limit may be carried forward for up to five years.

Productivity Improvement Investment Tax Credit

This tax incentive is available to a corporation filing a blue tax return that acquires and places into business use qualifying facilities under an investment plan confirmed by the Minister of Economy, Trade and Industry. Eligible facilities are those acquired and put into use within 5 years after receiving confirmation on or before 31 March 2029. Eligible corporations may elect either immediate depreciation (100% of the acquisition cost) or a tax credit. When electing the tax credit, the credit rate is 4% for buildings and structures, and 7% for machinery, equipment, and software. The tax credit amount is capped at 20% of the corporation tax liability for each fiscal year. In addition, certified corporations meeting certain conditions related to sudden changes in international economic environments are permitted a 3-year carryforward mechanism for any unused tax credit amounts exceeding the cap. Note that during the application period of this regime, it cannot be used in combination with other investment tax incentive programs.

Deduction of expenses

Limitation on deductibility of interest expenses

(1) Thin capitalization rules

Thin capitalization rule focus on a company's capital structure. This rule is designed to prevent Japanese corporations and foreign corporations doing business in Japan from reducing their Japanese corporate tax burden by making excessive interest payments to foreign-related parties. Interest expense is disallowed to the extent that debt owed to a controlling foreign shareholder exceeds a 3:1 debt-to-equity ratio.

(2) Earnings Stripping Rules

Earnings stripping rule focuses on the amount of net interest relative to the company's income. This rule disallows the deduction of net interest paid by a corporation to related parties and third parties to the extent that it exceeds 20% of its adjusted income. Net interest refers to interest payments to related parties that are not subject to Japanese income tax, as well as interest paid to third-party lenders. The adjusted earnings amount is a concept similar to EBITDA, calculated by adding back depreciation expenses and net interest paid etc, and then excluding dividends received from group companies or foreign subsidiaries from the corporate tax income amount. Net interest disallowed under the earnings stripping rule may be carried forward for seven years and deducted in business years in which the 20% threshold is not exceeded. A de minimis exemption applies where the net interest subject to the rule is JPY 20 million or less in a fiscal year. If both the thin capitalization rules and the earnings stripping rules apply, the rule that results in the larger non-deductible interest amount will take precedence.

Director's remuneration

Remuneration paid to directors of Japanese companies is subject to rules different from the salaries paid to other employees. Directors of Japanese corporations include auditors and liquidators. The following remuneration paid to directors is deductible by corporations:

- (1) Fixed monthly payments
- (2) Fixed payments in accordance with an advance notice to the tax office
- (3) Performance bonuses paid in proportion to the company's earnings to directors who engage in the operation of the company's business (only in case a company satisfies certain conditions).

Entertainment expenses

In principle, entertainment expenses (including gifts, meals, etc.) paid by a company to external parties related to its business (customers, suppliers, etc.) are not deductible, except for the portion that falls within the allowable deductible limit.

The allowable deductible limits based on stated capital are as follows:

(1) SMEs with share capital of JPY 100 million or less*:

The larger of either 50% of food and drink expenses (excluding internal meal expenses) or JPY 8 million per year.

(*This does not apply to corporations that are directly or indirectly 100% owned by a large corporation with share capital of JPY 500 million or more.)

(2) Corporations with share capital of over JPY 100 million to JPY 10 billion:

50% of food and drink expenses (excluding internal meal expenses).

(3) Corporations with share capital of over JPY 10 billion:

Zero (the entire amount of entertainment expenses is non-deductible).

In addition, food and drink expenses (excluding internal meal expenses) that are JPY 10,000 or less per person are completely excluded from the definition of entertainment expenses.

Deduction system for small amounts of depreciable assets

A special tax provision is available for SMEs filing a blue tax return, allowing them to fully expense the acquisition cost of small-amount depreciable assets in the fiscal year they are placed in service. For assets acquired and placed in service on or after 1 April 2026, the threshold for asset acquisition costs has been raised to less than JPY 400,000 per asset (previously less than JPY 300,000), up to an aggregate limit of JPY 3 million per fiscal year. On the other hand, the eligible employee count requirement has been tightened to 400 or fewer regular employees (previously 500 or fewer).

Treatment of losses carried forward

Carried forward losses

Currently, tax losses can be carried forward for 10 years for a blue tax return filer.

The deduction limit against each year's taxable income is as follows:

(1) SMEs with share capital of JPY 100 million or less*:

Carried-forward losses can offset up to 100% of taxable income for the current fiscal year.

(*This does not apply to corporations that are directly or indirectly 100% owned by a large corporation with share capital of JPY 500 million or more.)

(2) Other Corporations (Large Enterprises):

Carried-forward losses can offset up to 50% of taxable income for the current fiscal year.

In addition, eligible SMEs may carry back a net tax loss incurred in the current fiscal year to the preceding year to claim a corporate tax refund.

Double taxation relief

Foreign Dividend Exclusion

95% of dividends received by a Japanese company from foreign subsidiaries are excluded from taxable income, provided that the investor company owns 25% or more of the shares of the company paying the dividend for more than six months.

Foreign tax credit

A Japanese company may either deduct foreign income taxes as expenses or claim a foreign tax credit against corporate income tax. However, this does not apply to withholding tax on foreign dividends upon which the foreign dividend exclusion has been utilised. Unused foreign tax credits may be carried forward for three years. Furthermore, a foreign tax credit is available for the Japan branch of a foreign company.

Others

Withholding tax on interest, dividends and royalties

(1) Withholding tax on interest

Interest on loans paid within Japan to a non-resident is subject to withholding tax at the rate of 20.42% (20% national tax, and subject to a 2.1% surtax).

Interest on deposits paid within Japan to a non-resident is subject to withholding tax at the rate of 15.315% (15% national tax, and subject to a 2.1% surtax).

If applicable, a reduced rate under a tax treaty will apply, provided that the required application form is submitted to the tax office prior to the payment.

(2) Withholding tax on dividends

Dividends on unlisted shares, paid within Japan by a domestic corporation to a non-resident shareholder, are subject to withholding tax at the rate of 20.42% (20% national tax, and subject to a 2.1% surtax).

Where the Japanese payer of the dividend is a listed company, the rate is 15.315% (15% national tax, and subject to a 2.1% surtax). Where a non-resident shareholder owns more than 3% of the shares in a listed company, the withholding regime for unlisted shares applies.

If applicable, a reduced rate under a tax treaty will apply, provided that the required application form is submitted to the tax office prior to the payment.

(3) Withholding tax on royalties

Royalties paid within Japan to a non-resident are subject to withholding tax at the rate of 20.42% (20% national tax, and subject to a 2.1% surtax). If applicable, a reduced rate under a tax treaty will apply, provided that the required application form is submitted to the tax office prior to the payment.

Global Minimum Taxation

Overview

The 2023 tax reform introduced the global minimum taxation framework in Japan. This initiative aligns seamlessly with the OECD's framework, aimed at tackling challenges posed by digitalization and ensuring fair taxation across multinational enterprises.

Entities Subject to Global Minimum Taxation

Only "Specified Multinational Enterprise Groups" are subject to global minimum taxation. These groups encompass domestic corporations within multinational conglomerates spanning multiple countries. Specifically, it focuses on groups with consolidated financial statement revenue exceeding €750 million in at least two of the prior four fiscal years.

Income Inclusion Rule (IIR)

The Income Inclusion Rule (IIR) serves as the primary mechanism of the global minimum taxation framework. If a foreign country's effective tax rate is under 15% and there's positive net income, the deficit to reach the 15% benchmark is calculated as "International Minimum Taxable Income." For instance, if a foreign subsidiary's tax rate is 10%, taxing 1,000 income at 100, a 50 shortfall (to achieve 15% tax on 1,000) contributes to Japan's International Minimum Tax.

QDMTT and UTPR: Complementary Tax System to the IIR

Two additional systems (QDMTT and UTPR) are applied to supplement the IIR in Japan. QDMTT is a system that imposes additional taxation on the Japanese corporation until its domestic effective tax rate reaches 15%. QDMTT aims to avoid additional taxation by other foreign tax authorities on other group corporations located abroad when the effective tax rate of the Japanese corporation falls below 15%. UTPR is a system designed to collect any residual top-up tax after the application of the IIR, for example when the ultimate parent company is located in a low-tax country or no parent company is located in an IIR jurisdiction.

Enhancing Transparency through Information Reporting System (GIR)

Japan enhances its information reporting system in alignment with Global Minimum Taxation by introducing rules on the filing of the GloBE Information Return (GIR), fostering transparency. Domestic corporations in the Specified Multinational Enterprise Groups ambit must supply relevant GIR data via e-Tax within 15 months (18 months for the initial year). This includes constituent company names, country-specific effective tax rates, and intent for exemptions.

Effective Dates

*IIR and GIR: Apply to fiscal years beginning on or after 1 April 2024.

*QDMTT and UTPR: Apply to fiscal years beginning on or after 1 April 2026.

New Documentation Preservation Regime for Specified Related Party Transactions

Where a domestic corporation engages in specified transactions with a related party (such as the transfer or licensing of industrial property rights or copyrights, or the provision of services including R&D and management guidance), it is obligated to obtain or prepare, and retain documentation that clarifies the transaction details and the breakdown of consideration calculations. This regime aims to ensure proper tax reporting by enhancing transparency in transaction terms and cost allocations within corporate groups. Failure to preserve the required documentation in accordance with applicable rules may result in the revocation of blue tax return approval, necessitating appropriate internal controls for document management.

Consumption Tax

Summary

Consumption Tax is Japan's multi-stage, broad-based indirect tax, which operates in a manner broadly similar to a value-added tax (VAT). It is levied on most domestic transfers of assets, provisions of services and the importation of foreign goods from bonded areas in Japan. The tax is assessed at each stage of manufacturing, wholesale, and retail. Through the tax credit mechanism for previous stages, the end consumer bears the full burden.

Tax rate

The standard tax rate is 10%. A reduced rate of 8% applies to food and beverages (excluding dining out and alcohol) and qualified subscription newspapers published twice a week or more.

For combined goods (sales bundling food with non-food items), the reduced tax rate applies to the entire amount if the overall tax-exclusive price is JPY10,000 or less and food accounts for more than two-thirds of the value.

Taxpayers

General rules

Taxpayers include: (i) enterprises (sole proprietorships and corporations) transferring assets or providing services in Japan, and (ii) an enterprise or any person removing foreign goods from a bonded area.

Mandatory filing is required if taxable sales exceed JPY10 million during the base period (the fiscal year two years prior to the current fiscal year) or during the first 6 months of the previous fiscal year.

Non-resident businesses without a permanent establishment in Japan remain subject to these obligations and must appoint a tax agent in Japan to file tax returns.

Exempt enterprises

Small businesses with taxable sales of JPY10 million or less during both the base period and the first 6 months of the previous fiscal year are generally exempt from filing Consumption Tax returns.

Newly-established corporations

Corporations without a base period (newly-established corporations) are treated as taxable enterprises even if they meet the above requirements for tax-exempt enterprises where, at the beginning of the taxable period:

- the corporation has stated capital of JPY 10 million or more; or
- the corporation has stated capital of less than JPY 10 million, but more than 50% of its shares are directly or indirectly held by another person or entity, and the controlling person or entity or certain related group companies had either:
 - Japanese taxable sales exceeding JPY500 million; or
 - a worldwide gross income exceeding JPY5 billion

Election to be a taxable enterprise

An enterprise that meets the requirements for exempt enterprises may elect to become a taxable enterprise by submitting a notification to the tax office with jurisdiction. In principle, the notification must be submitted prior to the intended taxable period.

The election generally cannot be revoked for two years.

Note: An enterprise must be a taxable enterprise in order to claim a refund of Consumption Tax or to register as a Qualified Invoice Issuer. Accordingly, businesses expecting significant input tax credits or wishing to issue qualified invoices may consider making this election.

Tax periods

General rules

For sole proprietorships, the Consumption Tax period is the calendar year. For corporations, the tax period generally corresponds to the corporation's fiscal year for corporate tax purposes.

Optional shortened tax periods

Enterprises may elect to shorten their tax periods to one month or three months by filing a notification to the tax office. The notification must be submitted no later than the day before the first day of the taxable period to which the election will apply.

An enterprise may discontinue the use of shortened tax periods by filing a notification with the tax office. However, the notification to discontinue the election generally may not be filed within two years after the election was made.

This election is often used by enterprises expecting regular Consumption Tax refunds.

Taxable transactions

Consumption Tax is imposed on:

- The transfer or lease of assets, and the provision of services, carried out in Japan by a business for consideration in the course of its business activities; and
- The importation of foreign goods into Japan upon release from a bonded area

Transactions that do not satisfy the requirements for a taxable transaction, such as dividends, capital contributions, donations and certain damages, are outside the scope of Consumption Tax.

Non-taxable transactions

Certain transactions are not subject to Consumption Tax for policy reasons or because the nature of the transaction is not considered suitable for taxation.

Examples include:

- Sales and leases of land (including rights to land)
- Transfers of securities
- Interest, guarantees, and certain other financial transactions
- Sales of postage stamps and document stamps
- Gift certificates, gift cards and certain prepaid payment instruments
- Government fees
- International money orders and foreign exchange
- Medical services covered by the public health insurance system
- Social welfare services
- Residential rent

Tax-exempt export transactions

Consumption Tax is generally based on the destination principle. Accordingly, exports of goods and certain transactions whose consumption is regarded as taking place outside Japan are exempt from Consumption Tax while generally preserving the right to claim input tax credits.

Documentary evidence supporting the exemption, such as export documentation and other relevant records, must generally be retained.

Examples of tax-exempt export transactions include:

- Exports of goods from Japan
- International transportation and telecommunications services
- Transfers and licensing of intellectual property to non-residents
- Services provided to non-residents, except for:
 - Transportation, storage or similar services relating to assets located in Japan
 - Restaurant, accommodation and similar services provided in Japan
 - Services relating to real estate located in Japan, including agency or intermediary services relating to the transfer, exchange or lease of such real estate (for services provided on or after 1 October 2026)
- Other services that are substantially provided and consumed in Japan

Cross-border digital services

General rules

Cross-border digital services are generally taxed based on the location of the customer. Examples of digital services include the online supply of software, cloud services, applications, e-books, music, video content, online advertising and similar services provided through telecommunications networks.

For Consumption Tax purposes, cross-border digital services are generally categorized as either B2B transactions or B2C transactions.

- B2B transactions: Certain digital services supplied by a foreign business to a Japanese business customer are subject to a reverse charge mechanism. Under this mechanism, the Japanese customer, rather than the foreign supplier, accounts for the Consumption Tax. Foreign suppliers should clearly indicate on invoices or similar documents that the transaction is subject to the reverse charge mechanism.
- B2C transactions: Foreign businesses supplying digital services directly to customers in Japan may be required to register, file Consumption Tax returns and pay the tax.

Platform taxation for digital services

From 1 April 2025, certain B2C digital services supplied by foreign businesses through a specified platform operator designated by the National Tax Agency (NTA) are subject to platform taxation rules.

Under these rules, the designated platform operator, rather than the foreign supplier, is deemed to provide the services to customers in Japan and is responsible for Consumption Tax reporting and payment obligations. As a result, foreign suppliers providing such services through a designated platform generally do not have Consumption Tax obligations in respect of those supplies.

Input tax credits

General rules

An enterprise may generally claim input tax credits for Consumption Tax incurred on taxable purchases against Consumption Tax collected on taxable sales.

To claim input tax credits, enterprises are generally required to maintain books and records and retain qualified invoices issued by registered Qualified Invoice Issuers.

Input tax credits are generally available for purchases attributable to taxable transactions, including tax-exempt export transactions. However, input tax credits are generally not available to the extent purchases relate to non-taxable transactions. Where an enterprise makes both taxable transactions and non-taxable transactions, the amount of available input tax credits may be restricted.

Qualified Invoice System

The Qualified Invoice System came into effect on 1 October 2023.

Only a registered Qualified Invoice Issuer may issue a qualified invoice. To become a Qualified Invoice Issuer, an enterprise must apply for registration with the tax office and obtain a registration number. A qualified invoice must contain prescribed information, including:

- Name and registration number of the Qualified Invoice Issuer
- Transaction date
- Details of the transaction (mentioning that the transaction is subject to the reduced tax rate)
- Total amount of consideration for each tax rate (excluding or including tax), and applicable tax rates
- Amount of Consumption Tax (fractions are available once for each tax rate per invoice)
- Name of the recipient

Purchases from suppliers that are not registered Qualified Invoice Issuers are generally not eligible for input tax credits.

To mitigate the impact of the introduction of the Qualified Invoice System, transitional measures are available for a limited period in respect of purchases made on or after October 1, 2023.

Under these transitional measures, purchases from suppliers that are not Qualified Invoice Issuers may continue to qualify for a partial input tax credit based on the percentages shown below, provided that the prescribed books and records are retained.

Period	Deductible percentage
1 October 2023 – 30 September 2026	80%
1 October 2026 – 30 September 2028	70%
1 October 2028 – 30 September 2030	50%
1 October 2030 – 30 September 2031	30%
From 1 October 2031	0%

The above transitional measures do not apply to certain B2C cross-border digital services supplied by foreign enterprises.

The following transitional measures are also provided.

(1) An enterprise with taxable sales of JPY100 million or less in the base period, or taxable sales of JPY50 million or less in the first 6 months of the preceding fiscal year, may claim input tax credits for taxable purchases of JPY10,000 or less based solely on books and records without retaining invoices. This measure applies until 30 September 2029.

(2) If an exempt enterprise becomes a taxable enterprise, its net Consumption Tax liability may be reduced to 20% of the output tax amount for taxable periods that include a date on or before 30 September 2026.

For taxable periods beginning on or after October 2024, (2) above does not apply to foreign enterprises without a permanent establishment in Japan.

Simplified system

The simplified system is a special method for calculating input tax credits that is available only to certain small enterprises. However, foreign enterprises without a permanent establishment in Japan are not eligible to use the simplified system for taxable periods beginning on or after 1 October 2024.

For eligible enterprises, the simplified system may be elected where taxable sales during the base period do not exceed JPY50 million. The election generally must be made in advance by submitting a notification to the tax office.

Under this method, actual taxable purchases are not used to calculate input tax credits. Instead, taxable purchases are deemed to be a specified percentage of taxable sales depending on the type of business.

Type of business		Deemed purchase ratio
Type 1	Wholesalers	90%
Type 2	Retailers	80%
Type 3	Agriculture, forestry and fisheries, mining, construction, manufacturing (including manufactures who sell manufactured inventory to retailers), electricity, gas, heat or water suppliers	70%
Type 4	All business other than Types 1, 2, 3 and 5 (e.g. restaurant industry)	60%
Type 5	Transportation and communications, service industry, finance and insurance companies (except the restaurant industry)	50%
Type 6	Real estate	40%

Once elected, the simplified system generally must be continued for at least two years.

Imports

Import Consumption Tax

Imported goods are taxed when they are released from a bonded area. The tax base on imported goods is the sum of the Cost, Insurance and Freight (CIF) price, custom duties and excise taxes. The taxpayer who withdraws foreign goods from a bonded area must pay the Consumption Tax before being able to receive those goods.

Import Consumption Tax paid upon release from a bonded area may generally be claimed as an input tax credit, provided the applicable documentation and record-retention requirements are satisfied.

Upcoming rules for low-value imports and platform sales

Under tax reform measures scheduled to take effect on or after April 2028, certain low-value imported goods sold through cross-border mail-order transactions will become subject to Consumption Tax, even where the value of each item does not exceed JPY 10,000, which is currently generally exempt from import Consumption Tax.

In addition, platform taxation rules are scheduled to be introduced for certain sales of goods by non-resident enterprises conducted through specified digital platforms. Under these rules, platform operators designated by the National Tax Agency (NTA) may be treated as the supplier for Consumption Tax purposes and become responsible for filing and paying the tax on qualifying transactions, rather than the underlying seller.

Tax returns

The final Consumption Tax return and associated payment are generally due two months after the end of the tax period. However, for sole proprietorships, the due date is the end of March of the following year. If a company files an application to extend the due date of its final corporation tax return, it may also submit a notification to extend the filing due date for its Consumption Tax return by one month.

Interim tax payments

Depending on the amount of Consumption Tax in the prior period return, interim Consumption Tax return(s) and payment(s) may apply to the taxpayer. Interim return(s) and payment(s) are generally due two months following the end of the applicable interim period.

Final Consumption Tax for the prior tax period	Interim tax payments due
Over JPY48,000,000	11 interim (monthly) payments due, each equal to 1/12 of the prior period Consumption Tax liability
Over JPY4,000,000 but less than JPY48,000,000	3 interim payments, each equal to 1/4 of the prior period Consumption Tax liability
Over JPY480,000 but less than JPY4,000,000	1 interim payment equal to 1/2 of the prior period Consumption Tax liability
JPY480,000 or less	N/A

Refund of excess input tax

Where input tax credits exceed output tax for a taxable period, the excess amount is generally refundable to the taxpayer. To receive the refund, the taxpayer needs to file a Consumption Tax return within two months after the end of the tax period (three months in case an approved filing extension applies).

Refund positions commonly arise where an enterprise primarily makes tax-exempt export transactions, as input tax credits relating to such transactions are generally preserved.

Individual Taxation

Summary

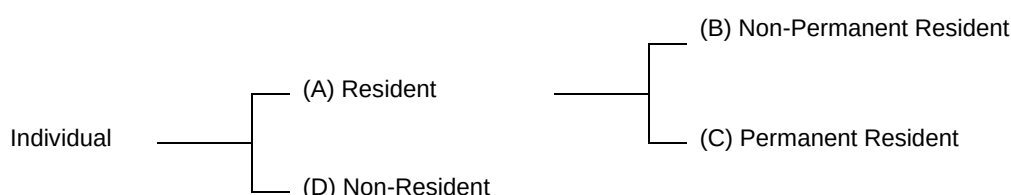
There are two levels of direct income taxes for individuals in Japan – national income tax (hereinafter referred to as “Income Tax”) and local inhabitant income tax (hereinafter referred to as “Inhabitant Tax”).

Income tax is a direct tax on the income of individuals during a calendar year and is assessed by the National Tax Office. How an individual is assessed Income Tax will depend on the individual's residency status for Income Tax purposes, source of income and nature of income among other factors.

Inhabitant Tax is also a direct tax on the income of individuals during a calendar year but is assessed by municipal governments on individuals who, as of 1 January of the following year, have an address registered on the Residence Register of that municipal government or who have an address within the territory that municipal government has jurisdiction over.

Residency status

As in many countries, an individual's exposure to income taxes in Japan is based on that individual's residency status. An individual for Japanese income tax purposes is categorized as either a (A) resident or (D) non-resident of Japan. A resident is further classified as either a (B) non-permanent resident or (C) permanent resident.



(A) Resident

A resident is an individual (1) who has an address in Japan, (2) who has resided in Japan continuously for one year or more or (3) who is in Japan with the intention to stay for more than one year.

Under administrative rulings, there is a general presumption that an individual in Japan has a domicile in Japan if the following conditions are met.

- Has employment in Japan that normally requires presence in Japan for a period of 12 months or more
- Holds Japanese nationality, maintains dependents in Japan and has sufficient employment and economic ties to Japan as would be expected for an individual with a Japanese domicile

A resident is further classified into (B) a non-permanent resident and (C) a permanent resident.

(B) Non-Permanent Resident

A non-permanent resident of Japan is a resident individual who does not have Japanese citizenship and who has maintained an address or has resided in Japan for 5 years or fewer during the preceding 10 years.

A non-permanent resident is taxed on all income except foreign source income that is not paid in, remitted, or effectively remitted to Japan.

(C) Permanent Resident

A permanent resident of Japan is a resident other than a non-permanent resident - any individual who is either a Japanese national or a foreign national who has maintained an address or has resided in Japan for more than 5 years during the preceding 10 years.

A permanent resident is taxed on worldwide income.

It is important for expatriates who have been on more than one assignment to Japan, even for different employers, to check when they become a permanent resident due to the ten-year look back rule.

(D) Non-Resident

A non-resident of Japan is an individual other than a resident – any individual who has not had an address in Japan or has not resided in Japan for a continuous period of 1 year or more.

A non-resident is generally taxed only on Japan source income at a flat rate of 20.42% on a gross basis. Generally, no deductions are available.

An expatriate on assignment to Japan will become a non-resident from the day following their permanent departure from Japan.

Address

The term “address” is defined by the Japanese Civil Code as the individual’s principal place of abode. Whether or not an individual has his or her address in Japan is determined on objective facts such as the individual’s employment, household or place of business in Japan. In view of the nature of an address, an individual can never be treated as having more than one address at the same moment.

In general, if an individual, regardless of nationality, has taken residence in Japan to engage in a trade, business or employment, the individual is presumed to have an address in Japan unless contrary evidence directs otherwise - that the period of the individual’s stay in Japan is not 1 year or more. Type or length of visa under which a foreign national has been permitted to enter Japan is not directly relevant.

Source Income

The definition of Japan source income has been amended effective 1 January 2017 as follows:

- Income attributable to a permanent establishment through which a non-resident individual conducts business. Income attribution is determined based on functions, assets used, dealings between the permanent establishment and the non-resident’s other places of business, and other factors of the permanent establishment on the basis that the permanent establishment operates independently from the non-resident.
- Income from the management or holding of assets located in Japan;
- Income from the transfer of assets located in Japan;
- Distribution of profit from business in Japan under certain partnership agreement where such business is conducted through a permanent establishment in Japan;
- Consideration received from the sale of land, any right on land, building, etc. located in Japan;
- Consideration received by persons engaging in businesses whose primary purpose is the provision of personal services within Japan;
- Consideration received for the leasing of real estate located in Japan, any right on real estate located in Japan or a right of certain quarrying, the establishment of a certain mining lease or the leasing of a vessel or aircraft to a resident or domestic corporation;
- (1) Interest on Japanese national government bonds, Japanese local government bonds or bonds issued by a domestic corporation, (2) interest on bonds issued by a foreign corporation attributable to business conducted in Japan through its permanent establishment, (3) interest on savings deposited with branches and offices located in Japan, or (4) distribution of profit from a jointly

managed money trust, bond investment trust or publicly offered bond investment trust managed by an office located in Japan.

- (1) Certain dividend of retained earnings from a domestic corporation, dividend of profit, distribution of retained earnings, distribution of cash or interest on funds or (2) distribution of earnings from an investment trust or a specified trust issuing a beneficiary certificate managed by an office located in Japan;
- Interest on a loan made to a person conducting business in Japan and attributable to such business;
- Royalties or considerations received from a person conducting business in Japan attributable to such business including (1) royalty for or consideration received for the transfer of industrial property right or any other right concerning technology, a production method involving special technology or any other equivalent right or method, (2) royalty for or consideration received for the transfer of a copyright (including right of publication, neighbouring right and any other equivalent right) or (3) royalty for machinery, equipment or other certain tools;
- Salary, compensation and pension including (1) remuneration, salary, wage, annual allowance, bonus and any other payment or remuneration similar in nature as being compensation for provision of personal services corresponding to those performed in Japan, (2) certain public pensions or (3) certain retirement allowances arising from work or provision of personal services performed by an entitled person while such person was a resident of Japan;
- Certain awards for advertisement of a business conducted in Japan;
- Certain pension received under a contract for life insurance, casualty insurance or any other annuity contract entered into with a business office located or through a person acting as a contracting agent in Japan;
- Monetary compensation, interest, profit or margin gain attributable to business office located in Japan;
- Distribution of earnings received under certain silent partnership contract with respect to capital contributions to a person conducting business in Japan;
- Certain other income sourced in Japan.

Short-Term Visitors

Under tax treaties between Japan and various other countries, a non-resident individual visiting Japan on a short-term basis may be exempt from Japan income tax on compensation from employment. While the provisions in each tax treaty are not identical, the following conditions are typical of the requirements which need to be satisfied:

- The individual is in Japan for not more than 183 days in any twelve-month period commencing or ending in the fiscal year concerned;
- The individual's compensation is paid by a non-resident employer;
- Compensation paid to the individual is not charged to or otherwise treated as a deductible expense by a permanent establishment in Japan.

Assessable Income

An individual's taxable income is classified into ten categories and taxed under one of the following three primary methods:

Aggregate Taxation

Income subject to aggregate taxation, such as employment, business, real estate, miscellaneous, and eligible dividend/capital gains, is aggregated as ordinary income. After subtracting eligible deductions, the net taxable income is subject to progressive national income tax rates and flat local inhabitant tax rate.

Separate Self-assessment Taxation

Income is calculated separately from ordinary income and taxed at specific flat rates through a tax return filing. This applies to:

- capital gains, dividends, and interest derived from stocks, bonds and investment trusts
- capital gains on real estate (land and buildings)
- retirement income and forestry income (calculated under specialized tax rules)

Separate Taxation at Source

Tax liability is fully settled at source at the time of payment via tax withholding and no tax return filing is required (e.g., interest paid in Japan on deposits).

Typically, the most important element when considering tax positions of an expatriate on assignment to Japan is employment income. Employment income includes salaries and wages, commissions and bonuses, shares and options received in respect of employment, benefits in kind and various allowances received in exchange for services rendered. Commonly included allowances include, but are not limited to, the following:

- cost of living allowance (COLA)
- housing allowance
- allowance related to tax equalization
- utility allowance
- allowance for language lessons
- children's tuition allowance
- medical allowance
- home leave allowance
- commuter allowance
- stock options and other stock-based compensation

An expatriate may continue to be covered by pension and/or profit sharing plans maintained by the home office, where the home office will continue to make contributions to the expatriate's individual account even while on assignment to Japan. These types of benefits are generally treated as assessable income for Japanese tax purposes.

Benefits in kind

Assessable income from employment is not limited to employment income but also include payments in kind and economic benefits unless specifically exempted from tax under tax codes, regulations and administrative rulings. Below are Japanese tax implications of some of the popular benefits in kind offered to expatriates on assignment to Japan.

(a) Company provided housing

Rent paid by the employer to the landlord for housing leased under the company name and made available to an employee is included in assessable employment income. Under certain conditions, however, rent paid by an employer to a landlord may be excluded from employment income.

“Legal rent,” as it is often referred to, is an arrangement whereby if an employee incurs at least the basic rent each month, rent paid by an employer for an employee may be excluded from employment income. Basic rent is calculated as the total of the following three computations.

- (i) 0.2% of the basis of the building for the purposes of Fixed Assets Tax
- (ii) JPY12 x (total floor space of the building in square meters / 3.3 square meters)

- (iii) Taxable basis of the ground site of the building for the purposes of Fixed Assets Tax x 0.22%

For simplicity purposes, however, many employers use a range between 5 to 15 percent of the actual monthly rent to be incurred by an employee as the result of the above calculations generally falls within this range. For a director, at least 50 percent of the actual monthly rent needs to be incurred unless the premises are used partly for business purposes, in which case the amount may be reduced to 35 percent of the actual monthly rent.

(b) Children's tuition allowance

Children's school tuition paid by an employer is generally included in assessable employment income.

If the employer, however, makes a donation to an international school under an eligible scholarship plan and in recognition of such donation, children of employees of that employer are exempted tuition payments for attending the school, an employee may not be taxed on such tuition-free benefits made available by the donation.

(c) Moving expenses

Reasonable moving expenses are not included in assessable income provided they are in nature reimbursement of necessary business costs to relocate an employee on international assignment.

(d) Home leave transportation

Reimbursement provided to an employee on international assignment for the purpose of temporarily visiting his or her home country once a year is typically not included in assessable income, subject to certain conditions.

(e) Tax reimbursements

Tax payments made by an employer on behalf of an employee to cover that employee's personal tax liabilities are included in assessable employment income to the employee. Under gross-up tax arrangements, where incremental increase in tax liabilities occur as a result of the tax-on-tax effect of paying taxes of an employee, assessable income will increase dramatically.

It is important to take into account the effect of inhabitant tax for its deferred tax assessment timing. Incomplete gross-up tax arrangements will often result in an expatriate's assessable income and employer's salaries and wages expenses to snowball to an astonishing sum.

(f) Stock options

An employee on international assignment to a Japanese subsidiary or branch may often receive equity-based compensation, such as stock options, from the foreign parent company or head office during their assignment in Japan. Tax treatment of stock options will generally depend on whether the options are qualified or non-qualified. Stock options granted by a foreign parent company are generally treated as non-qualified stock options in Japan.

Generally, there are no withholding requirements on such earnings but the individual is required to declare the income on his/her individual income tax return. Japanese subsidiary or branch of foreign parent companies are required to report the details of all stock compensation recognized by employees during the calendar year by March 31 the following year.

When a foreign parent company or home office provides equity compensation to directors and employees of the Japanese subsidiary or branch and such persons recognize economic benefits through exercise, vesting, etc. of such equity compensation, the Japanese subsidiary or branch is required to prepare and file an informational return to disclose details of the benefits recognized by directors and employees. The scope of individuals who receive economic benefits subject to this reporting requirement has been expanded to include non-resident individuals and terminated directors and employees of the Japanese subsidiary or branch who received equity compensation.

(i) Qualified stock options

Qualified stock options are subject to Japanese income tax and inhabitant tax at the time the shares are sold. Capital gain equivalent to sales price less exercise price is taxed at a flat 20.42% separately from other types of income.

Stock options granted under the Japanese Company Law may be qualified if the following conditions are satisfied:

- Holder of the stock options is a director, or an employee of the issuing company or of a company whose voting stock is 50 percent or more owned directly or indirectly by the issuing company;
- Stock options are granted by resolution at a shareholders' meeting where vesting period of the stock option is 2 years or more and life of stock option 10 years (15 years for unlisted companies that have been established for a period of less than 5 years) or less after the date of such resolution, respectively;
- Exercise price of the option must equal to or be higher than the fair market value of the underlying shares on the date of grant;
- Total exercise price of all options exercised in a year must not exceed JPY12 million;
- Option rights cannot be transferred; and
- Issued share certificates must be kept in a trust and under custody of either a securities company or a trust company in accordance with a prearranged agreement made between the company and the trust company.

(ii) Non-Qualified Stock Options

Non-qualified stock options are subject to income tax and inhabitant tax upon both exercise and sale. At the time of exercise, the difference between the fair market value and the exercise price is taxed as employment income. Subsequently, upon sale of the share, the difference between sales price and fair market value at exercise is subject to capital gains tax.

Exemptions and Concessions

There are a number of benefits which may specifically be excluded from assessable income.

- **Commuter Allowance Exemption:** Allowances or tickets for use on trains or buses are tax free to an employee up to a maximum of JPY150,000 per month. Allowances for use of personal automobile or motor bicycles are limited based on the one-way distance of the daily commute. Effective April 2026, monthly parking fees (up to JPY 5,000) near workplaces or stations can be added to the tax-exempt limit.
- **Other Non-Taxable Items:** Long-service awards, anniversary gifts (up to JPY 10,000), employee merchandise discounts (sold at 70% or more of regular price), reasonable recreation expenses, and the new NISA scheme (annual investment limit up to JPY 3.6 million, lifetime tax-exempt limit JPY 18 million with unlimited tax-free holding periods).

Allowable Deductions

A number of deductions may be made from a resident taxpayer's assessed income.

Standard deduction

– Employment income

The base minimum deduction is raised to JPY 690,000. Additionally, a temporary JPY50,000 increase applies for 2026 and 2027 only, providing a guaranteed total minimum deduction of JPY 740,000 for these tax years.

Gross earnings	Standard deduction	
	2026 & 2027	Starting 2028
Up to JPY2,200,000	JPY 740,000 (Minimum guaranteed amount)	30% of compensation + JPY80,000 (Minimum JPY 690,000)
JPY2,200,001 – JPY3,600,000	30% of compensation + JPY80,000 (Minimum JPY 740,000)	
JPY3,600,001 – JPY6,600,000	20% of compensation + JPY440,000	
JPY6,600,001 – JPY8,500,000	10% of compensation + JPY1,100,000	
JPY8,500,001 or more (*)	JPY1,950,000	

(*) Taxpayers with gross earnings over JPY8,500,000 with dependent children aged under 23, taxpayers suffering special disability or taxpayers with a spouse or other dependent family suffering special disability, may claim additional deduction up to JPY150,000 subject to the following formula:

$$[\text{Gross compensation (capped at JPY10 million)} - \text{JPY8,500,000}] \times 10\%$$

– Retirement income

Circumstances	Standard deduction
Up to 20 years of service	JPY400,000 per year of service
For each year of service over 20 years	JPY700,000 per year of service
Minimum deduction	JPY800,000
Special deduction for those retiring due to physical hardship	Amount of the above deduction + JPY1,000,000

Taxable retirement income is calculated as 50% of retirement income after the standard deduction and taxed at the ordinary tax rate separately from other income. The 50% reduction does not apply to retirement allowances for a director whose service period is 5 years or fewer. Further, effective 1 January 2022, the 50% reduction does not apply to retirement income (retirement allowance less standard deduction) over JPY3,000,000 for an employee whose service period is 5 years or fewer.

Specific Deductions

- Casualty losses. A deduction is available for losses from disaster or theft on taxpayer's assets or on those of family members living in the same household.
- Medical expenses. A deduction is available for medical expenses not covered by insurance proceeds minus the lesser of 5 percent of assessable income or JPY100,000, capped at JPY2,000,000. Switch OTC medicine deduction can be claimed as an alternative.
- Social insurance premiums. A full deduction is available for social insurance premiums withheld from an employee's payroll or paid directly outside of payroll.
- Life insurance premiums. A deduction is available for life insurance premiums, qualified contributions to private pension plans and nursing care insurance premiums. The combined maximum amount deductible is JPY120,000 for income tax and JPY70,000 for inhabitant tax.
- Earthquake insurance premiums. A deduction is available for (1) earthquake insurance premiums of up to JPY 50,000 and/or (2) certain long-term casualty insurance premiums of up to JPY 15,000. The combined maximum amount deductible is JPY50,000 for income tax and JPY25,000 for inhabitant tax.
- Charitable contributions. A deduction is available for qualified charitable contributions in excess of JPY2,000 made each year to the Japanese government, municipalities or certified NPOs.

Personal and dependent exemptions

- A resident taxpayer may claim a Basic Deduction for him/herself and for qualified dependents as shown below. Children under age 16 cannot be claimed as a dependent, however, may be eligible for disability exemption. Effective 1 January 2023, overseas dependents aged between 30 and 69 cannot be claimed as dependents unless they (1) have become non-residents of Japan to study abroad, (2) suffer disability or (3) receive financial support from the taxpayer during the applicable tax year of JPY380,000 or more. In all of these cases, supporting documents must be submitted as proof.

Taxpayers with dependent family members who are non-residents of Japan are required to submit documents to verify family relationships and remittances in order to claim dependent deduction, spouse deduction, special spouse deduction or disability deduction.

A non-resident taxpayer is only entitled to the basic deduction.

Basic deduction for taxpayer		Amount deductible for Income Tax		Amount deductible for Inhabitant Tax
		2026 and 2027 only	Starting 2028	
Total income:	Less than JPY1.32 million	JPY1,040,000 (*1)	JPY990,000 (*1)	JPY430,000
	over JPY1.32 million but less than JPY4.89 million		JPY620,000	
	over JPY4.89 million but less than JPY6.55 million	JPY670,000 (*1)		
	over JPY6.55 million but less than JPY23.5 million	JPY620,000		
	over JPY23.5 million but less than JPY24 million	JPY480,000	JPY480,000	

	over JPY24 million but less than JPY24.5 million	JPY320,000	JPY320,000	JPY290,000
	over JPY24.5 million but less than JPY25 million	JPY160,000	JPY160,000	JPY150,000
	over JPY25 million	Not eligible	Not eligible	Not eligible

(*1) JPY620,000 for non-resident taxpayers.

Spouse deduction		Amount deductible for Income Tax		Amount deductible for Inhabitant Tax	
		For a spouse aged		For a spouse aged	
		Under 70	70 and above	Under 70	70 and above
Total income of taxpayer:	Less than JPY9 million	JPY 380,000	JPY 480,000	JPY 330,000	JPY 380,000
	over JPY9 million but less than JPY9.5 million	JPY 260,000	JPY 320,000	JPY 220,000	JPY 260,000
	over JPY9.5 million but less than JPY10 million	JPY 130,000	JPY 160,000	JPY 110,000	JPY 130,000
	over JPY10 million	Not eligible	Not eligible	Not eligible	Not eligible

The table above is only applicable for a spouse whose income does not exceed JPY620,000.

A special spouse deduction (deductible amount ranging from JPY10,000 to JPY380,000 for income tax purpose, and from JPY10,000 to JPY330,000 for Inhabitant Tax purpose depending on the income of both taxpayer and spouse) for a spouse whose income is over JPY620,000 but not exceeding JPY1,330,000, may be claimed by a taxpayer whose income does not exceed JPY10 million.

Dependent deduction	Amount deductible for Income Tax	Amount deductible for Inhabitant Tax
Dependent aged 16-18	JPY380,000	JPY330,000
Dependent aged 19-22	JPY630,000	JPY450,000
Dependent aged 23-69	JPY380,000	JPY330,000
Dependent aged 70 and above and living with taxpayer	JPY580,000	JPY450,000
Dependent aged 70 and above and not living with taxpayer	JPY480,000	JPY380,000

The table above is only applicable for a dependent whose income does not exceed JPY620,000.

Special Deduction for Specified Dependent Relative		Amount deductible for Income Tax	Amount deductible for Inhabitant Tax
Total income of Specified Dependent Relative:	over JPY620,000 but less than JPY850,000	JPY630,000	JPY450,000
	over JPY850,000 but less than JPY900,000	JPY610,000	JPY450,000
	over JPY900,000 but less than JPY950,000	JPY510,000	JPY450,000
	over JPY950,000 but less than JPY1,000,000	JPY410,000	JPY410,000
	over JPY1,000,000 but less than JPY1,050,000	JPY310,000	JPY310,000
	over JPY1,050,000 but less than JPY1,100,000	JPY210,000	JPY210,000
	over JPY1,100,000 but less than JPY1,150,000	JPY110,000	JPY110,000
	over JPY1,150,000 but less than JPY1,200,000	JPY60,000	JPY60,000

	over JPY1,200,000 but less than JPY1,230,000	JPY30,000	JPY30,000
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Effective 2024, when a resident has a “specified dependent relative,” a special deduction allows the resident to deduct the amount in the table above from their total income for each specified dependent relative, based on that relative’s total income.

A specified dependent relative refers to a family member who shares living expenses with the resident, is aged 19 or older but under 23, and whose total income exceeds JPY 620,000 but does not exceed JPY 1,230,000.

Additional exemptions are available for taxpayer, spouse and dependents under certain cases as follows.

Disability deduction	Amount deductible for Income Tax	Amount deductible for Inhabitant Tax
Taxpayer, spouse or dependent with disability	JPY270,000	JPY260,000
Taxpayer, spouse or dependent with severe disability	JPY400,000	JPY300,000
Spouse or dependent with severe disability living with taxpayer	JPY750,000	JPY530,000

Deduction for female divorcee or widow	Amount deductible for Income Tax	Amount deductible for Inhabitant Tax
	JPY270,000	JPY260,000

Only claimable by (1) female divorcee with a dependent or (2) widow, who is not eligible to claim single parent exemption and whose income does not exceed JPY5 million.

Deduction for single parent	Amount deductible for Income Tax	Amount deductible for Inhabitant Tax
Deductible from income prior to 2026	JPY350,000	JPY300,000
Deductible from income in and after 2027	JPY380,000	JPY330,000

Only claimable by single parent whose income does not exceed JPY5 million and for a dependent child whose income does not exceed JPY620,000.

Deduction for working student	Amount deductible for Income Tax	Amount deductible for Inhabitant Tax
	JPY270,000	JPY260,000

Subject to a certain income threshold.

Tax credits

The following tax credits can, where applicable, be claimed by a resident taxpayer filing a final tax return. A non-resident taxpayer subject to progressive tax rates is also entitled to credits for withholding income tax and donations.

Dividends received credit

This credit is applicable to domestic dividend receipts only. While the amount of the credit is generally calculated as follows, complex tax credit arrangements are also available for certain other types of distributions.

A taxpayer electing to not report dividends received from Japanese public companies and instead suffer final withholding cannot claim the dividend received credit.

Taxpayer's total income	Type	Income tax	Inhabitant tax
Up to JPY10,000,000	Dividends from shares	10%	2.8%
	Distribution from stock investment trusts	5%	1.4%
Over JPY10,000,000	Dividends from shares	5%	1.4%
	Distribution from stock investment trusts	2.5%	0.7%

Credit for withholding income tax

Income tax withheld from employment income, from dividends not subject to separate taxation and from other income reportable in a final return is creditable against income tax due on the final tax return. Surtax imposed on such withholding tax is also creditable against surtax due on the final tax return.

Foreign tax credit

A foreign tax credit is designed to provide relief where a taxpayer is taxed twice on the same income within Japan and outside of Japan. To be eligible for a credit, taxpayer must have foreign source income.

The foreign tax credit is equal to the lesser of:

- The amount of foreign tax paid during the taxable year, or
- The amount of foreign tax credit limitation computed as follows

(Japanese income tax for the year) x (Foreign source income for the year / Total income taxable in Japan for the year)

If the amount of foreign taxes paid during the taxable year exceeds the amount of the credit limitation, the excess may be carried forward three years.

Credit for donations

– Income tax

If a taxpayer pays donations to the following organisations, the taxpayer may elect to claim a tax credit instead of taking an income deduction.

Creditable amount = (a) + (b)	
(a) Tax credit for donations to political parties (the lesser of (i) or (ii))	(i) (Donations to political parties – JPY2,000) x 30%
	(ii) Income tax before tax credits x 25%
(b) Tax credit for donations to authorized NPOs and public interest entities (the lesser of (iii) or (iv))	(iii) Total of the following: - (Donations to designated NPOs – JPY2,000) x 40% - (Donations to certain public interest entities – JPY2,000) x 40%
	(iv) Income tax before tax credit x 25%

In principle, the total of the creditable donations and deductible donations is subject to a ceiling of 40% of total assessable income.

– Inhabitant tax

For inhabitant tax purposes, the following tax credits are available:

Creditable amount = (a) + (b)	
(a) Basic tax credit	(Total amount of eligible donations – JPY2,000) x 10%
(b) Additional tax credit (the lesser of (i) or (ii))	(i) (Total amount of donations to local governments – JPY2,000) x (90% - marginal income tax rate for the individual x 102.1%)
	(ii) Inhabitant tax before tax credits x 10%

Tax rate

Income tax

(i) Aggregate Taxation

The following progressive tax rates are applied to the net of assessable ordinary income.

Taxable Income	Tax Rate	Standard Deduction
Up to JPY1,950,000	5%	JPY 0

JPY1,950,000 - JPY3,300,000	10%	JPY97,500
JPY3,300,000 - JPY6,950,000	20%	JPY427,500
JPY6,950,000 - JPY9,000,000	23%	JPY636,000
JPY9,000,000 - JPY18,000,000	33%	JPY1,536,000
JPY18,000,000 - JPY40,000,000	40%	JPY2,796,000
JPY40,000,000 or more	45%	JPY4,796,000

Note: In addition to the national income tax rates above, a flat 10% local inhabitant tax is imposed, resulting in a combined tax rate ranging from 15% to 55%.

(ii) Separate Self-assessment Taxation

The following tax rate applies to specific categories of income separated from aggregate taxation, such as capital gains and certain dividends.

Type of Income	National Income Tax	Local Inhabitant Tax
Capital Gains and Dividends (Listed stocks, bonds, mutual funds, etc.)	15%	5%
Real Estate Capital Gains (Long-term) (Holding period: more than 5 years)	15%	5%
Real Estate Capital Gains (Short-term) (Holding period: 5 years or less)	30%	9%

Surtax

A surtax called Special Reconstruction Income Tax comprises of 2.1% of income tax above is additionally imposed. Effective 1 January 2027, the tax rate will be reduced to 1.1% while a new surtax called Special Defense Income Tax of 1% will be introduced. Additionally, the taxable period of Special Reconstruction Income Tax has been extended by 10 years, until December 31, 2047.

Minimum Tax Rule

Effective 2024, a new measure has been introduced to promote fairness by imposing an additional tax on individuals with exceptionally high income.

(i) From 2024 to 2026

(a) Standard income tax amount

(b) $(\text{Total income amount}^* - \text{Special deduction (JPY 330 million)}) \times 22.5\%$

If (b) exceeds (a), the excess must be reported and paid as additional tax.

(ii) From 2027

(a) Standard income tax amount

(b) $(\text{Total income amount}^* - \text{Special deduction (JPY 165 million)}) \times 30.0\%$

If (b) exceeds (a), the excess must be reported and paid as additional tax.

* Total income amount encompasses various categories of income, including gains from the transfer of stocks, land or buildings, typically subject to separate taxation, as well as income generally aggregated for tax purposes, such as employment income, business income, and other taxable income.

Filing tax returns and making tax payments

Income tax return and tax payments

The tax year for individuals is the calendar year and a final income tax return must be filed by 15 March of the following year or the next business day if 15 March falls on a weekend or a holiday. Extensions of the filing deadline are not available in Japan unless granted by the National Tax Office in regions affected by natural disasters and other events. Final tax due needs to be paid by the same day which may be extended for approximately one month if automatic bank transfer system is elected. Credit cards will be accepted for national tax payments made and the credit card transaction date will be considered as the tax payment date.

If remuneration subject to withholding tax (paid within Japan and not offshore) is less than JPY20 million and the amount of other income is less than JPY200,000, filing of an income tax return is not required since tax liabilities are settled through year-end adjustment of income tax on salaries and wages made by the employer and other income is deemed insignificant. If such individual has claimable deductions such as casualty losses, medical expenses and donations not deductible through year-end adjustment, a final tax return may be filed to declare such deductions.

Estimated tax prepayment

An individual having filed a tax return in the previous year will be required to make estimated tax payments for the current year in July and November if the final tax payment on the previous year's tax return was more than JPY150,000. Estimated tax payments are generally equal to one-third of the net of income tax less withholding tax on the previous year's tax return.

Inhabitant tax return and tax payments

An inhabitant tax return is generally not required to be filed since information necessary for assessment of inhabitant tax is either submitted by employers or included in income tax return filed with the National Tax Office.

If remuneration is paid through an employer in Japan, inhabitant tax on such income is paid to municipal tax office by the employer through monthly payroll. Inhabitant tax on other income, including remuneration paid outside of Japan in the previous year, is generally paid directly by the taxpayer in four instalments – on or before June 30, August 31 and October 31 of the current year and January 31 of the following year.

Assets and liabilities reporting

- (i) An individual is required to file an Assets and Liabilities Report with the tax office by June 30 of the following year (or the next business day if June 30 falls on a weekend or national holiday) if either of the following conditions is met: An individual who is required to file an income tax return or an individual who can claim refund by filing an income tax return and:

- (a) Has total amount of various net income excluding retirement income for the year exceeding JPY 20 million, and
- (b) As of December 31, of the tax year, holds either
 - total value of the assets amounting to JPY 300 million or more, or
 - total value of the assets subject to Exit Tax amounting to JPY 100 million or more
- (ii) Residents who hold worldwide assets with a total value of JPY 1 billion or more as of December 31 of the tax year.

Assets subject to the Exit Tax are financial assets such as stocks, securities, bonds, unsettled derivative transactions and similar financial instruments.

If the reporting is not made and income generated from such assets are not reported on the tax return, an additional 5% penalty is assessed on the non-reported income.

Overseas asset reporting

A permanent resident taxpayer of Japan will be required to submit a report of overseas assets to the tax office by 30 June every year (or the next business day if 30 June falls on a weekend or a national holiday) if such assets are worth over JPY50M on the last day of the previous year. Those who do not file or file a false report may face imprisonment of up to one year or a fine of up to JPY 500,000. Further, if the reporting is not made and income generated from such overseas assets are not reported on the tax return, an additional 5% penalty is assessed on the non-reported income.

Exit tax regime

In an effort by the Japanese government to prevent individuals from escaping tax by moving out of Japan, an exit tax regime to impose income tax on unrealized capital gains on financial assets at the time of departure has been introduced and became applicable from 1 July 2015.

In order to eliminate the potential for double-taxation previously created by the exit tax, effective from tax year 2016, stock options and other similar rights, where all or a portion of the income from exercising the right is considered as Japan source income, will be excluded from the scope of the exit tax.

Excess capital losses from listed securities due to the exit tax can be carried forward for up to three years.

Exit tax is applicable to a resident individual terminating domicile or residency in Japan and who satisfies the following conditions:

- Total value of financial assets is JPY100 million or more.
- Resident individual has lived in Japan for more than 5 years within the last 10 years before terminating domicile or residency.

For the purpose of the 5 out of 10 years test above, the period of stay in Japan with a residency status of working visas such as intra-company transferee and specialist in humanities and international services will be excluded. The period of stay in Japan with a residency status of personal status visas such as permanent resident and spouse or children of Japanese national will be included, however due to transitional measures, will not be subject to the exit tax until 1 July 2020.

Exit tax will not apply to foreign expatriate employees staying in Japan with working visas such as intra-company transferee or engineer/specialist in humanities/international services.

Compensation structuring for international assignees

An international assignee coming to Japan on International assignment will generally enter Japan as a non-permanent resident for Japanese Income Tax purposes, unless they have resided in Japan for at least five years in the preceding 10 years. Non-permanent residents are liable for Japanese Income Tax and

Inhabitant Tax only on their Japan source income plus any foreign source income deemed to be paid in Japan or remitted to Japan.

Where payroll is processed overseas and salaries and bonuses are paid overseas, the portion of the international assignee's employment income corresponding to the number of days spent outside of Japan on business during the year may be treated as non-Japan source income. Such income will not be taxable in Japan, provided no part of the relevant amount is remitted to Japan. For these purposes, remittance includes drawings from the offices in Japan of an employer company, foreign currency brought into Japan, borrowings in Japan to be repaid outside Japan, etc. An overseas compensation package may therefore offer a tax-planning opportunity particularly for expatriates with business travel outside of Japan. Salaries and wages paid to a non-permanent resident within Japan are taxable in Japan regardless of where the activities are performed.

Where an overseas payroll arrangement is utilized, it is necessary for the relevant employee to maintain a record of remittances made to Japan.

This benefit is available for an international assignee with a non-permanent resident status in Japan. If an international assignee has resided in Japan for more than 5 years in the last 10 years, he/she will become a permanent resident for tax purposes and will be taxed in Japan on worldwide income.

Social Security

Summary

The underlying concept of Japan's social security may have been most eloquently expressed by the Advisory Committee on Social Security, an advisory council to the prime minister, in 1949.

“Measures shall be taken to open the way to extend economic protection to such cases as those which were caused by sickness, injury, childbirth, death, aging, unemployment, many family children, and other causes of destitution either through the means of insurance or the direct means based on public expense. National treasury assistance shall guarantee those who are in destitute the minimum standards of living, while attempts shall be made to improve public health and social welfare so that all Japanese citizens are able to have a life worthy of being members of a civilized society.”

The spirit still holds true even after more than half a century except that the benefits of improved public health and social welfare today are extended to non-Japanese citizens and all residents of Japan irrespective of nationality are valuable members and foundation of this civilized society.

The key features of Japan's social security are (1) the system targets risks that cause social instability and require involvement of the entire public; (2) it is based on the principle of compulsory participation; and (3) insurers that manage the programs are the Japanese government, local municipalities and public or quasi-public agencies or organisations. Most of Japan's social security programs are managed not only by contributions in the form of insurance premiums but also by public funds and taxes.

With few exceptions, therefore, all residents of Japan regardless of nationality are obliged to participate in the nation's social security programs. There are six frameworks of social security programs for employees in Japan categorized into “Social Insurance” (Health Insurance, Nursing Care Insurance, Welfare Pension Insurance and Childcare Allowance Contribution) and “Labour Insurance” (Workers' Accident Compensation Insurance and Employment Insurance).

Health Insurance

All residents of Japan, regardless of nationality, participate in one of a variety of public health care insurance and are issued credit card-sized health insurance certificate cards.

The type corporate employees participate in is often referred to as Employees' Health Insurance or simply Health Insurance and is managed and operated either by the Japanese government or by health insurance associations formed by large corporations and their group companies or by a group of separate companies within the same or similar industry or sector. Registration with Health Insurance is administered by the employer usually by their human resource department or outsourced service provider.

Often times, however, employees on international assignment to Japan or their employers do not recognize the benefit of registering in Health Insurance because their dependent family members and themselves are covered by global private health insurance policies offered by their direct employer as part of their assignment or secondment package. Certain bilateral social security agreements such as those between Japan and the U.S. may, under such circumstances, offer exemptions from participating in Health Insurance. It should, however, be recognized that participation exemption under bilateral social security agreements is limited and in most cases employees on international assignment to Japan and their dependent family members do not escape participation requirements.

In the rare event employees on international assignment to Japan escape participation in Health Insurance not due to the application of bilateral social security agreement but due to the nature of their service performance in Japan and other specific facts and circumstances, they are required to participate in the National Health Insurance managed and operated by local municipalities with jurisdiction over the assignees' registered address for residency card purposes. National Health Insurance is a health insurance for non-employees and participants include workers in agriculture, forestry and fisheries

industries along with shop owners, self-employed workers and those unemployed and their dependent family members. Registration with National Health Insurance requires the individual to complete necessary application forms at the national health insurance division within local municipal offices with jurisdiction over their registered address.

Benefits

Health Insurance allows affordable medical and dental care, hospitalization, prescribed medicines and various other benefits to covered employees and their dependent family members for non-work related injuries and sickness. While these benefits in kind constitute the core of the system, there are also cash benefits that include sickness/injury allowances, maternity allowances and cost compensation for childbirth, funerals, and others.

Benefits in kind

Insured employees and their dependent family members are eligible to receive outpatient and inpatient medical and dental care at hospitals, clinics, dentists and other medical institutions at 30 percent of its full cost by presenting their health insurance card at service counters. Medical services for beauty and other purposes that do not serve to cure injuries or sicknesses are often not subject to reduced cost.

Sometimes insured employees and their dependent family members may undergo costly medical examinations or surgeries at the same medical institution within the same month or over time and find their medical bills to be prohibitively expensive even at 30 percent of full cost. Such high medical costs in excess of certain predetermined amounts based on income levels of the insured may be claimed back or are reimbursable.

It is important to note that medical expenses claimed as a deduction on tax returns need to be reduced for the amounts claimed back or reimbursed through health insurance.

Cash benefits

Health Insurance also offers various cash benefits to covered employees and their dependent family members for non-work related injuries and sickness. Common cash benefits include the following:

- (1) Sickness/injury allowance is paid to insured employees to compensate lost wages, in whole or in part, during medical leave from work. Insured employees gain eligibility beginning the fourth day of leave from work to a year and half thereafter. The allowance is equivalent to two-thirds (approximately 66.67 percent) of daily standard remuneration for each day of unpaid or partial leave from work.
- (2) Maternity allowance is paid to insured female employees to compensate lost wages, in whole or in part, during maternity leave from work. Insured female employees are eligible beginning 42 days before the expected delivery date to 56 days after the date of delivery, which may be before or after the expected delivery date. The allowance is equivalent to two-thirds (approximately 66.67 percent) of daily standard remuneration for each day of unpaid or partially-paid leave from work.
- (3) Childbirth grant is paid to insured employees to compensate costs associated with giving birth. This grant is available when the insured employee gives birth or when a dependent spouse or a family member of the insured employee gives birth. The amount, when birth is delivered at qualified hospitals is JPY500,000.

Insurance contributions

Contributions to Health Insurance are shared equally by employee and employer. An employees' share of the contribution is determined by their monthly standard remuneration multiplied by the contribution rate and is deducted from salaries and bonuses.

For employees whose employer is based in Tokyo, the applicable contribution rate is 9.85% of standard monthly salary and bonus and is capped at JPY136,915 on monthly salaries of JPY1,390,000 or more and at JPY564,405 on annual bonuses of JPY5,730,000 or more. Contributions are shared equally between employer and employee. The contribution rate varies across prefectures.

Standard remuneration

Standard Monthly Remuneration (SMR) is a key concept of social security in Japan. Insured employees' SMR at the time of the insured event will determine the amount of eligible cash benefits such as for sickness/illness allowance and maternity allowance. Insured employees' SMR also determines the amounts of Health Insurance contribution to be deducted from employees' salaries and bonuses along with the employers' matching contribution.

SMR is calculated at the time of hire and generally remains in effect until the following September. SMR is calculated by summing the amounts of monthly base salary, monthly commuting allowance, monthly housing allowance, monthly child tuition allowance, monthly social security allowance and any other allowances fixed and determinable at the time of hire, regardless of given name or title, paid as compensation for services rendered. The monthly sum is then referenced to the Standard Monthly Remuneration Table and plotted within the range of monthly remuneration in an applicable grade.

Each year, the sum of monthly remunerations in April, May and June are averaged, with certain applicable adjustments, and reported to the authorities. The averaged remuneration is referenced to the Standard Monthly Remuneration Table and plotted within the range of monthly remuneration in the applicable grade which generally becomes the new SMR effective September of the same year to August of the following year.

Standard Daily Remuneration (SDR) is equivalent to SMR divided by 30, which becomes the basis for cash benefits for sickness/illness allowance and maternity allowance.

Standard Bonus Remuneration (SBR) is the amount of the actual bonus received rounded down to the nearest thousand. The health insurance contribution rate in effect is then applied to SBR to derive the amount of contributions deducted from the bonus and matched by the employer.

Nursing Care Insurance

The flip side of having one of the longest average life span in the world is that the number of elderly people unable to live on their own in their later years is on continuing rise in Japan. The Nursing Care Insurance Law was enacted in December 1997 and came to effect in April 2000 to sustain the daily livelihoods of elderly people who require care due to physical or mental incapacities related to old age. Benefits are generally provided in kind in the form of care services.

Those aged 40 and above with residency in Japan are, regardless of nationality or the length of intended stay in Japan, required to participate in insurance by having their share of contribution withheld from salaries and bonuses together with contributions for Health Insurance. Contribution rate of Nursing Care Insurance is 1.62% of SMR and SBR. It is capped at JPY22,518 on SMR of JPY1,390,000 and at JPY92,826 on cumulative SBR of JPY 5,730,000 or more. Contributions are shared equally between employer and employee and the applicable rate does not vary across prefectures.

Child and Child-Rearing Support Fund

Child and Child-Rearing Support Fund is a new system effective April 2026 that pools contributions from all employees covered under Health Insurance in order to secure funding for measures to address declining birth rate. Contributions are withheld from salaries and bonuses together with contributions for Health Insurance. Contribution rate of Child and Child-Rearing Support Fund is 0.23% of SMR and SBR. It is capped at JPY3,197 on SMR of JPY1,390,000 and at JPY13,179 on cumulative SBR of JPY 5,730,000 or more. Contributions are shared equally between employer and employee and the applicable rate does not vary across prefectures.

Welfare Pension Insurance

Prior to 31 March 2022, all residents of Japan newly participating in public pension programs were, regardless of nationality, issued a pension booklet which contained basic pension number unique to each individual. Due to integration of Individual Social Security and Tax Identification Number (MyNumber) for pension administration, effective 1 April 2022, pension booklet is no longer issued to residents of Japan newly participating in public pension programs. Instead, basic pension number notice is issued.

Corporate employees participate in Welfare Pension Insurance managed and operated by the Japanese government. Registration with Welfare Pension Insurance is administered by the employer, usually by their human resource department or outsourced service provider.

Offentimes, however, employees on international assignment to Japan or their employers do not wish to register with Welfare Pension Insurance because they are covered under similar system in their home country. Certain bilateral social security agreements, such as those between Japan and the U.S., may, under such circumstance, offer exemptions from participating in Welfare Pension Insurance. It should, however, be noted that exemption is available only if employees on international assignment to Japan obtain a certificate of coverage from a competent authority in their home country prior to their assignment or secondment to Japan.

Employees already living and working in Japan and those coming on assignment or secondment to Japan from countries that do not have a bilateral social security agreement with Japan will be required to register with the Welfare Pension Insurance regardless of whether or not the individual is covered under an equivalent or similar program in their home country.

In the event employees on international assignment to Japan avoid participation in Welfare Pension Insurance not due to the application of bilateral social security agreement but due to the nature of their service performance in Japan and other specific facts and circumstances, they are required to participate in the National Pension managed and operated by the Japanese government. National Pension is a pension system for non-employees. Participants include workers in agriculture, forestry and fishery industries along with shop owners, self-employed workers and those unemployed and their dependent family members. Registration with National Pension requires the individual to file the necessary application forms at the Pension Office or at the national pension division within local municipal offices with jurisdiction over their registered address.

Benefits

Welfare Pension Insurance provides old-age, disability and survivor's benefits to covered employees and their dependent family members.

Old-age benefits

In principle, a covered employee who has (a) contributed to Welfare Pension Insurance for 10 years or more (effective August 1, 2017), (b) reached 65 years of age and (c) is not employed is eligible to receive Old-Age Basic Pension (fixed amount) and Income-Related Pension (variable amount).

Disability benefits

Disability benefits are generally provided to employees who suffer non-work related injuries or sickness and who continue to suffer disability after 18 months. Sickness/illness allowance from Health Insurance is available during the 18 months if the employee is unable to work and unpaid.

Survivor's benefits

Survivor's benefits are provided to a dependent spouse or other qualified relatives in the case of death of the covered employee.

Lump-sum withdrawal payment

Employees on international assignment or secondment to Japan who participated in Welfare Pension Insurance may elect to claim a part of their cumulative contribution paid into the Welfare Pension Insurance through payroll deductions.

As of 1 September 2020, the contribution rate of Welfare Pension Insurance is 18.30% of SMR and SBR. It is capped at JPY118,950 on SMR of JPY650,000 or more and at JPY274,500 on SBR of JPY1,500,000 or more.

Child Raising Contribution

Child Raising Contributions are pooled by the government to fund child raising grants to eligible households with children.

Child Raising Allowance Contribution is paid by employer only, and contribution rate is currently 0.36% of SMR and SBR. It is capped at JPY2,340 on SMR of JPY650,000 or more and at JPY5,400 on SBR of JPY1,500,000 or more.

Workers' Accident Compensation Insurance

Workers' Accident Compensation Insurance provides benefits to employees who suffer injuries and sickness arising out of and in the course of employment including daily commuting to and from work. Employers with one or more employees are required to provide insurance coverage to employees under the Workers' Accident Compensation Insurance.

Contribution rates range from 0.25% to 8.8% of actual salaries and bonuses, depending on the industry in which employers operate and the type of work employees are engaged in. There are no upper limits on the contribution amounts.

Medical expenses related to injuries and sickness arising out of and in the course of employment including daily commuting to and from work are covered in full by the insurance. In the case of permanent disability, annual or lump-sum benefits are paid based on the severity of the injury.

Employment Insurance

Employment Insurance provides unemployment benefits and job securing assistance to the unemployed. Employers with one or more employees are required to provide insurance coverage to employees under Employment Insurance.

Though at different rates, employers and employees both contribute to the system by paying insurance contributions. In most industries, contributions paid by employers is 0.85% of employees' salaries and bonuses, and contributions paid by employees is 0.50% of their salaries and bonuses. There is no upper limit on the contribution amount.

Employment Insurance provides unemployment benefits for a period of 90 to 360 days depending on the length of service with the previous employer and the reason or cause of leaving the previous employer.

Monetary grants during childcare leave

Monetary grants are provided to covered employees, both female and male, on unpaid childcare leave to compensate for lost wages.

The monetary grant is equivalent to two-thirds (approximately 66.67 percent) of daily standard remuneration for each day of unpaid or partially-paid leave from work until 180 days from the eligible date. After 180 days, the allowance will be equivalent to half (50 percent) of daily standard remuneration for each day of unpaid or partially-paid leave from work.

International Social Security Agreements

Objectives

Since the early 2000's, Japan has established a network of bilateral Social Security agreements that coordinate the Japanese Social Insurance systems with the comparable systems of other countries. The topic should be of particular interest to multinational companies and to people who work abroad during their careers.

International Social Security agreements, often called “Totalization Agreements” have two main purposes: (1) elimination of dual Social Security taxation, the situation that occurs when a worker from one country works in another country and is required to pay Social Security taxes to both countries on the same earnings, and (2) filling gaps in benefit protection for workers who have divided their careers between Japan and another country.

Following is a list of agreements Japan has concluded and the effective dates of each as of 31 December, 2025. Some of these agreements were subsequently revised; the dates shown are the dates the original agreement entered into effect.

Germany	February 2000
United Kingdom	February 2001
Korea	April 2005
United States	October 2005
Belgium	January 2007
France	June 2007
Canada	March 2008
Australia	January 2009
Netherlands	March 2009
Czechoslovakia	June 2009
Spain	December 2010
Ireland	December 2010
Brazil	March 2012
Switzerland	March 2012
Hungary	January 2014
India	October 2016
Luxemburg	August 2017
Philippines	August 2018
Slovakia	July 2019
China	September 2019
Finland	February 2022
Sweden	June 2022
Italy	April 2024
Austria	December 2025

Elimination of Dual Taxation

Without some means of coordinating Social Security coverage, people who work outside their country of origin may find themselves covered under the systems of two countries simultaneously for the same work. When this happens, both countries generally require the employer and employee to pay Social Security taxes.

Dual Social Security tax liability is a widespread problem for multinational companies and their employees because, for example, the U.S. Social Security program covers expatriate workers, both those coming to the United States and those going abroad. U.S. Social Security extends to U.S. citizens and U.S. resident aliens employed abroad by U.S. employers without regard to the duration of an employee's foreign assignment, and even if the employee has been hired abroad. This extraterritorial U.S. coverage frequently results in dual tax liability for the employer and employee since most countries, as a rule, impose Social Security contributions on anyone working in their territory.

Paying dual Social Security contributions is especially costly for companies that offer "tax equalization" (or "gross up") arrangements for their expatriate employees. A firm that sends an employee to work in another country often guarantees that the assignment will not result in a reduction of the employee's after-tax income. Employers with tax equalization programs, therefore, typically agree to pay both the employer and employee share of host country Social Security taxes on behalf of their transferred employees.

Under the tax laws of many countries, however, an employer's payment of an employee's share of a Social Security contribution is considered to be taxable compensation to the employee, thus increasing the employee's income tax liability. Tax equalization arrangement generally provides that the employer will also pay this additional income tax, which in turn serves to increase the employee's taxable income and tax liability even further. The employer again pays the additional tax and so forth. As one can readily see, the employee's foreign Social Security coverage results in a substantially greater tax burden for the employer than the nominal Social Security tax alone.

Detached-worker Rule

Most agreements include an exception to the territoriality rule, a rule whereby an employee who would otherwise be covered by both Japan and a foreign system remains subject exclusively to the coverage laws of the country in which he or she is working, designed to minimize disruptions in the coverage careers of workers whose employers send them abroad on temporary assignment. Under this "detached-worker" exception, a person who is temporarily transferred to work for the same employer in another country remains covered only by the country from which he or she has been sent.

For example, an individual temporarily transferred by the US employer to work in Japan continues to be covered under US social security and can be exempt from registering with Japanese social security. The individual and employer pay contributions only towards US social security.

The detached-worker rule in Japanese agreements generally applies to employees whose assignments in the host country are expected to last 5 years or less. The 5-year limit on exemptions for detached workers is substantially longer than the limit normally provided in the agreements of other countries.

Totalization of Coverage Periods

Workers who have divided their careers between two countries sometimes fail to qualify for retirement, disability, or survivors' benefits from one or both countries because they do not have enough credits to be eligible. Under the totalization agreement, such workers may qualify for partial or full benefit based on combined, or "totalized", coverage credits from both countries

Inheritance Tax and Gift Tax

Inheritance Tax and Gift Tax

Background

Japan has one of the highest tax rates in the World for transfers of wealth, such as by inheritance or gift. Despite this, in recent years the government has sought to widen the scope of Inheritance Tax and Gift Tax as part of a drive to increase the tax levied on high-net-worth individuals. Following the business sentiment that the laws were a difficult obstacle to recruiting highly-skilled professionals from overseas, additional measures were introduced to bring Japan's inheritance and gift tax laws in line with several European countries and the U.S., which do not levy inheritance/estate tax on expats on temporary assignments with offshore assets.

The resulting tax reforms have resulted in a complicated set of rules to determine a taxpayer's obligation to file returns and pay tax.

Outline

Japan operates an Inheritance Tax system supplemented by a Gift Tax system. Inheritance Tax is levied on the transfer of property from a decedent and the Gift Tax system applies to prevent the reduction of the Inheritance Tax base through transfers during a taxpayer's lifetime. The obligation to pay and the scope of both taxes are the same in most situations, but Gift Tax rates are higher than Inheritance Tax rates and the exempt amount is lower.

Obligation and scope

The obligation to pay Japanese Inheritance Tax and Gift Tax falls on the person inheriting or receiving assets. The chart below shows the scope of Japan IHT and Gift Tax

Decedent / donor \ Successor / donee		Domicile in Japan		No domicile in Japan		
			Temporarily domiciled *1	Japanese national		No Japanese nationality
				Domiciled in Japan within the past 10 years	No domicile in Japan within the past 10 years	
Domicile in Japan						
	Foreign nationals with applicable visa status *2					
No domicile in Japan	Domiciled within the past 10 years					
	No Japanese nationality	Non-resident decendent/donor* 3				
	No domicile in Japan within the past 10 years					

Worldwide assets fall within the scope of Japan inheritance and gift tax.

Only assets located in Japan fall within the scope of Japan inheritance and gift tax.

Notes:

*1 Temporarily domiciled

Visa status from Immigration Control and Refugee Recognition Act Appendix Table 1 (other than permanent resident and Spouse of Japanese national), AND domiciled in Japan for fewer than 10 of previous 15 years

*2 Foreign nationals with applicable visa status

Visa status from Immigration Control and Refugee Recognition Act Appendix Table 1 (other than permanent resident and Spouse of Japanese national).

*3 Non-resident decedent/donor

The decedent or donor had domicile in Japan within 10 years prior to the gift or inheritance but did not have Japan nationality during that time.

Inheritance Tax Calculation

Basic exemption

Each estate benefits from a basic exemption and a deduction for each statutory heir. As a result, the tax basis of an estate for Inheritance Tax purposes is calculated as follows:

Taxable amount = Net value of estate received - JPY30 million (basic exemption) - (JPY6 million x no. of statutory heirs)

Tax rate

The liability is then calculated as:

Tax liability = (Taxable amount x tax rate) - deduction

based on tax rates as shown in the table below:

Total taxable amount after exemptions (JPY)	Inheritance Tax rate (%)	Deduction (JPY)
10 million or less	10	0
30 million or less	15	500,000
50 million or less	20	2 million
100 million or less	30	7 million
200 million or less	40	17 million
300 million or less	45	27 million
600 million or less	50	42 million
More than 600 million	55	72 million

Gift Tax Calculation

Gift Tax is calculated based on the sum of gifts received by a taxpayer during a calendar year. The tax basis for Gift Tax purposes is calculated as follows:

Taxable gifts = Net value of assets received during a calendar year - JPY1.1 million (annual exemption)

Tax rate

The liability is then calculated as:

Tax liability = (Taxable amount x tax rate) - deduction

Different rates and deductions apply depending on the nature of the relationship between the donor and the donee. For gifts within a family to a donee who is at least 18 years old from a lineal ascendant the tax rates and deductions are as follows:

Taxable gift (JPY)	Gift Tax rate (%)	Deduction (JPY)
2 million or less	10	0
4 million or less	15	100,000
6 million or less	20	300,000
10 million or less	30	900,000
15 million or less	40	1.9 million

30 million or less	45	2.65 million
45 million or less	50	4.15 million
More than 45 million	55	6.4 million

For gifts other than the above, the rates and deductions are as follows:

Taxable gift (JPY)	Gift Tax rate (%)	Deduction (JPY)
2 million or less	10	0
3 million or less	15	100,000
4 million or less	20	250,000
6 million or less	30	650,000
10 million or less	40	1.25 million
15 million or less	45	1.75 million
30 million or less	50	2.5 million
More than 30 million	55	4 million

Filing and payment obligations

Inheritance Tax returns must be filed within ten months of the date of the passing of the decedent. Gift Tax returns must be filed between 1 February and 15 March of the calendar year following the gift. Any Inheritance Tax or Gift Tax due should be paid by the same deadline as the tax return.

Others

Lookback period for lifetime gifts added back to estate

Property gifted by a decedent to their heirs during a certain period of time prior the date of passing is deemed to be part of the original inheritance, and is added to the inherited property. Prior to the 2023 Tax reform, gifts made within three years prior to the passing of a decedent were added back to the estate. The lifetime gifts were included with other inherited property and inheritance tax levied on the total amount. A deduction from the liability was taken for certain amounts of gift tax paid. The reform extended the lookback period to 7 years for gifts made after 1 January 2024.

Foreign Tax credit

A foreign tax credit is available for taxes similar to Inheritance Tax or Gift Tax which are paid in a foreign country on assets located outside of Japan. In the absence of an estate tax treaty with the country, the

credit is limited to taxes paid in a single jurisdiction. Currently Japan has only entered into an estate tax treaty with the USA.

For Inheritance Tax purposes, the credit is capped at using the following formula:

$$\text{Foreign tax credit limit} = \text{Japan inheritance tax due} \times \frac{\text{Property received located in the foreign country}}{\text{Total property received}}$$

For Gift Tax purposes, the credit is capped at using the following formula:

$$\text{Foreign tax credit limit} = \text{Japan gift tax due} \times \frac{\text{Gifts of property located in the foreign country during the year}}{\text{Total property received through gifts during the year}}$$

Other Taxes

Fixed Assets Tax on depreciable assets

Summary

Fixed Assets Tax on depreciable assets is a municipal tax imposed on certain business assets owned by corporations and individuals.

Taxable Assets

Depreciable assets are assets, other than land and buildings, that are used for business purposes and for which depreciation is deductible for corporation tax or income tax purposes.

Examples include structures, machinery, equipment, tools, furniture and fixtures used in a business.

Where business premises are leased, leasehold improvements, interior finishing, fixtures and certain building equipment installed by the tenant are generally treated as the tenant's taxable depreciable assets.

Taxpayers

The tax is imposed on corporations and individuals that own taxable depreciable assets as of 1 January.

Tax Base and Tax Rate

The standard taxable value of each depreciable asset is generally determined based on its acquisition cost, taking into account its statutory useful life and the period elapsed since acquisition.

$\text{Tax payable} = \text{Total standard taxable value of taxable depreciable assets} \times 1.4\%$

Exemption Threshold

No tax is imposed where the total standard taxable value of depreciable assets within the same municipality is below JPY1,800,000 (previously JPY1,500,000 before the 2026 tax reform).

For this purpose, each of the 23 special wards of Tokyo is treated as a separate municipality.

Filing and Payment Procedures

Owners of depreciable assets as of 1 January must file depreciable assets returns with the relevant local tax authorities by 31 January. Separate returns must be filed for each municipality in which taxable assets are located.

Based on the return, the tax authority determines the taxable value and generally issues a tax notice in June.

The tax is generally payable in four instalments due in June, September, December and February. Alternatively, the full amount may generally be paid by the first instalment due date in June.

Business Establishment Tax

Summary

Business Establishment Tax is a municipal tax imposed in certain major municipalities specified under the Local Tax Act to fund urban infrastructure and environmental improvement projects.

The tax applies to business premises, whether owned or leased, including offices, stores, factories and warehouses.

Taxpayers

The tax is imposed on corporations and individuals carrying on business through business premises in municipalities where Business Establishment Tax applies.

Tax Base and Tax Rate

Business Establishment Tax consists of the following two components:

(i) Asset Levy

Tax payable = Floor area of business premises (m²) × JPY600

(ii) Employee Levy

Tax payable = Total payroll of employees × 0.25%

Exemption Thresholds

The asset levy applies where the aggregate floor area of business premises within the same municipality exceeds 1,000 m².

The employee levy applies where the aggregate number of employees working at business premises within the same municipality exceeds 100.

The exemption thresholds are determined separately for the asset levy and the employee levy.

For corporations, the thresholds are determined based on the status as of the last day of the fiscal year. For individuals, they are determined as of 31 December.

Filing and Payment Procedures

Corporations must file a tax return and pay the tax within two months after the end of the fiscal year. Individuals must file a tax return and pay the tax by 15 March of the following year.

Unlike corporation inhabitant tax and enterprise tax, no extension of the filing deadline is available.

Registration and License Tax

Summary

Registration and License Tax is a national tax imposed on certain registrations, licenses and other official filings.

Taxable Registrations and Licenses

The tax is commonly imposed on:

- Company incorporations
- Registrations of increases in share capital
- Registrations of directors and other corporate officers
- Registrations relating to intellectual property rights
- Certain licenses and permits required for regulated businesses
- Registrations relating to real estate, including ownership transfers, leasehold interests and mortgages

Tax Rates

For the incorporation of a company, Registration and License Tax is generally 0.7% of share capital, subject to a minimum tax of JPY150,000.

For the registration of an increase in share capital, Registration and License Tax is generally 0.7% of the increase in share capital, subject to a minimum tax of JPY30,000.

Different rates may apply depending on the type of registration or license.

Payment Procedures

The tax is generally paid when filing the relevant registration or application.

Where the tax amount does not exceed JPY30,000, payment may generally be made using revenue stamps.

Stamp Tax

Summary

Stamp Tax is a national tax imposed on certain taxable documents specified under the Stamp Tax Act.

Taxable Documents

The tax commonly applies to agreements, bills, receipts and other documents designated under the Stamp Tax Act that are prepared in Japan.

Documents created and maintained solely in electronic form are generally not subject to Stamp Tax.

Taxpayers

The tax is imposed on persons who prepare taxable documents.

Tax Rate

The amount of Stamp Tax depends on the type of document and, in some cases, the amount stated in the document.

Payment Procedures

Stamp Tax is generally paid by affixing revenue stamps to the relevant taxable document.

Failure to properly pay Stamp Tax may result in penalty tax.

Real Estate Acquisition Tax

Summary

Real Estate Acquisition Tax is a prefectural tax imposed on the acquisition of land and buildings by purchase, gift, exchange or construction.

The tax generally applies regardless of whether ownership is registered. However, certain acquisitions are exempt, including acquisitions by inheritance and certain corporate reorganizations, such as mergers and demergers.

Taxpayers

The tax is imposed on persons who acquire land or buildings.

Tax Base and Tax Rate

The tax is calculated as follows:

$$\text{Tax payable} = \text{Assessed value of acquired real estate} \times \text{Applicable tax rate}$$

The assessed value is generally based on the value determined in accordance with the Fixed Assets Valuation Standards and does not necessarily correspond to the purchase price or construction cost.

For residential land and land assessed as residential land acquired on or before 31 March 2027, the tax base is reduced to one-half of the assessed value.

The tax rates are as follows:

- Land: 3%
- Residential buildings: 3%
- Non-residential buildings: 4%

Exemption Thresholds

No tax is imposed where the assessed value of the acquired property is below the following thresholds:

- Land: JPY160,000
- Buildings acquired through new construction, extension or renovation: JPY660,000
- Other buildings: JPY340,000

Filing and Payment Procedures

The acquirer is generally required to file a declaration with the relevant prefectural tax office within the prescribed period after the acquisition of real estate. However, this filing requirement is generally waived if an application for registration of the acquisition is submitted to the Legal Affairs Bureau within the period. The filing deadline varies by prefecture (e.g., 30 days from the acquisition in Tokyo).

A tax notice is generally issued by the relevant prefectural tax authority. The tax is payable by the due date specified in the tax notice.

Notification of Acquisition

A notification of acquisition must be filed with the competent prefectural tax office within 30 days from the acquisition date.

Fixed Assets Tax on land and buildings

Summary

Fixed Assets Tax on land and buildings is a municipal tax imposed on the owners of land and buildings.

Taxpayers

The tax is imposed on persons registered as owners of land and/or buildings in the fixed assets tax register as of 1 January.

Tax Base and Tax Rate

The tax is calculated as follows:

$$\text{Tax payable} = (\text{Standard taxable value} \times 1.4\%) - \text{Applicable deductions}$$

The standard taxable value is generally based on the assessed value determined in accordance with the Fixed Assets Valuation Standards. A reduction in the taxable value is generally available for certain residential land.

Exemption Thresholds

No tax is imposed where the total standard taxable value within the same municipality is below the following thresholds:

- Land: JPY300,000
- Buildings: JPY300,000 (previously JPY200,000 before the 2026 tax reform)

The thresholds are determined separately for land and buildings.

For this purpose, each of the 23 special wards of Tokyo is treated as a separate municipality.

Payment Procedures

A tax notice is generally issued in June by the relevant municipal tax authority.

The tax is generally payable in four instalments due in June, September, December and February. Alternatively, the full amount may generally be paid by the first instalment due date in June.

Transfer of Ownership

Where ownership of land or buildings is transferred on or after 2 January, the liability for Fixed Assets Tax for that year generally remains with the person registered as the owner as of 1 January.

The parties may agree to allocate the tax burden between themselves under the sale agreement, but such an arrangement does not affect liability for the tax.

City Planning Tax

Summary

City Planning Tax is a municipal tax imposed to fund urban planning and city development projects.

The tax generally applies to land and buildings located within urbanization promotion areas designated under the City Planning Act.

Taxpayers

The tax is imposed on persons registered as owners of land and/or buildings in the fixed assets tax register as of 1 January.

Tax Base and Tax Rate

The tax is calculated as follows:

$$\text{Tax payable} = (\text{Standard taxable value} \times 0.3\%) - \text{Applicable deductions}$$

The standard taxable value is determined under rules similar to those applicable to Fixed Assets Tax.

A reduction in the taxable value is generally available for certain residential land.

Payment Procedures

A tax notice is generally issued in June together with the Fixed Assets Tax notice by the relevant municipal tax authority.

The tax is generally payable in four instalments due in June, September, December and February. Alternatively, the full amount may generally be paid by the first instalment due date in June.

Employment Regulations and Industrial Relations

What kind of employment regulations exist?

Numerous laws regulate the employment environment in Japan. Among them, the Labour Standards Law stipulates the minimum employment conditions employers must observe including terms and conditions of labour contracts, wages, working hours, holidays, paid annual leave, safety, sanitation, women and minors, accident compensation, working regulations, etc. Labour Contract Law sets rules for the relationship between employees and employers, ensuring stability and protecting employees by governing labour contracts.

Other examples of laws regulating the employment environment include the Labour Union Law which regulates the formation of labour unions, collective bargaining, labour agreements, etc. and the Labour Relations Adjustment Law which regulates restrictions and resolutions on strikes and other labour disputes.

What are customary working hours and holidays?

Labour Standards Law stipulates those working hours must not be more than 8 hours a day and 40 hours a week. A working day from 9:00 a.m. to 6:00 p.m., with a one-hour lunch break, and a 5-day work week is common in Japan. Employer must submit an agreement on overtime and holiday work under the article 36 of the Labour Standards Law if employees are required to work more than statutory working hours and holiday work. Flexible working arrangement and other working styles are available in Japan.

The Labour Standards Law stipulates that an employer must give an employee at least 1 day of resting day for every week or 4 days of resting days for every 4-week period. Customary rest days are Sundays (and Saturdays in case of 5-day work week) and national holidays. In addition, annual paid holidays are given to employees based upon the company's internal working regulations or labour agreement. The minimum statutory requirement is 10 days following completion of the first six-months of service, with one day added for each of the following two years and two days added for each year thereafter of up to a total of 20 days.

Is compensation payable for redundancy?

Labour Standards Law stipulates that when an employer discharges an employee, the employer must notify the employee 30 days in advance; otherwise, the employer must pay the employee the equivalent of at least 30 days wages. Although not legally required, it is a common practice for Japanese companies to pay severance benefits when an employee leaves an employer. Amount of benefit is generally determined on the basis of number of years of service, current salary level and whether the termination is voluntary or involuntary.

It is important to note that due to the protective nature of the Labour Standards Law, terminating employees is very difficult and involves significant legal risk. Article 16 of the Labour Contract Law provides that “a dismissal shall, if it lacks objectively reasonable grounds and is not considered to be appropriate in general societal terms, be treated as an abuse of right and be invalid.”

Further, numerous court cases have established rules on terminating employees due to business downsizing. The rules require that termination due to downsizing (1) was necessary from a business management perspective; (2) an effort was made by management to avoid business downsizing, (3) reasonable standards were set in place in selecting employees for termination; and (4) discussions were held with the selected employee. Courts have voided terminations lacking these factors and ordered monetary compensation to employees.

What labour organisations exist?

Labour Standards Inspection Office supervises compliance with the Labour Standards Law and other employment related laws. An employer with 10 or more employees is required to prepare and file an Employers' Handbook or other internal policies with the Labour Standards Inspection Office, with the opinion of the labour union or other employee representative attached.

Are working conditions controlled?

An inspector of the Labour Standards Inspection Office may order an employer to present its books and records or inspect them at the employer's premises and question the employer or employees to investigate compliance with labour and employment laws and regulations. An employee may ask for such an investigation. Penalties include imprisonment and fines for violation of respective laws and regulations.

Are work permits required for foreign workers?

Yes. The Immigration-Control and Refugee-Recognition Law stipulates that only foreign persons who have obtained visas for (a) engaging in trade and other business or investment activities in Japan, (b) providing advanced or special technique or skills for invited organisations, (c) working as skilled labourers or (d) living permanently in Japan, may work in Japan.

Are annual health check-ups required?

Yes. Industrial Safety and Health Law required employers to have their employees undergo annual medical examinations. The contents of the medical examination differ based on age and sex of employees. The cost of the medical examination is borne by the employer and time spent undergoing medical examination is considered as time worked.

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