

Japan Tax Bulletin

Taxation on income generated from overseas deposits and shares

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An individual taxpayer liable for income tax is classified as a resident or a non-resident.

A resident is an individual who has a domicile or has had a residence continuously for one year or more in Japan.

A non-resident is an individual who is not a resident.

A non-permanent resident is a resident who does not have Japanese nationality and who has had a domicile or a residence in Japan for not more than five years in total within the past ten years.

With respect to income generated from overseas assets (foreign sourced income), such as interests on overseas deposits or dividends of overseas shares, non-permanent residents are taxed when those are either paid in, or deemed to be remitted to Japan.

Residents other than non-permanent residents are taxed on worldwide income.

As such, it is both possible that income generated from assets owned outside Japan by foreigners who live in Japan be subject to or not subject to Japanese taxation. This newsletter discusses taxation on income generated from assets outside Japan when those are taxable in Japan.

Here to be exemplified are taxation on interests on overseas deposits, dividends of foreign corporations, and capital gains / losses on shares of foreign corporations as typical items.

I. Interests on Overseas Deposits

Method of Taxation	Taxation on aggregate income ¹
Tax Rate	Progressive tax rate ²
Foreign Tax	Applicable but limited to income tax subject
Credit ³	to ceiling (including tax exemption) as
	provided in tax treaty

II. Income generated from shares etc. of foreign corporation

Shares or beneficial interests in investment trusts, etc. are classified into two categories, "Listed Shares, etc." and "Unlisted Shares, etc."

"Listed Shares, etc." include listed shares (including listed stock acquisition rights), foreign listed shares, beneficial interests in publicly offered share investment trusts, beneficial interests in publicly offered specified unit shares issued trusts, and investment interests in certain share investment corporations, etc.

"Unlisted Shares, etc." are securities other than Listed Shares, etc., such as unlisted shares, and beneficial interests in privately offered shares investment trusts, etc.

(1) Dividends of foreign corporations

(i) Listed Shares, etc.

(i) Listed Shares, etc.			
Method of	Selectable from taxation on aggregate		
Taxation	income or separate self-assessment		
	taxation ⁴		
Tax Rate	Progressive tax rate in the case of taxation		
	on aggregate income		
	20.315% (national income tax etc.		
	15.315 % + local inhabitant tax 5%) in the		
	case of separate self-assessment taxation		
Dividend Credit	Not applicable		
Foreign Tax	Applicable but limited to income tax		
Credit	subject to ceiling (including tax		
	exemption) as provided in tax treaty		

(ii) Unlisted Shares, etc.

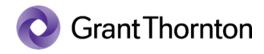
Method of	Taxation on aggregate income	
Taxation		
Tax Rate	Progressive tax rate	
Dividend Credit	Not applicable	
Offsetting capital	Not allowed	
losses		
Foreign Tax	Applicable but limited to income tax	
Credit	subject to ceiling (including tax	
	exemption) as provided in tax treaty	

¹ **Taxation on aggregate income** is a method of taxation by which total income is calculated by aggregating respective income to be used as a basis of total taxable income. By this method, tax is calculated by applying progressive tax rate to the total taxable income, and is to be paid by filing final tax return.

² **Progressive tax rate** is an income tax rate applied on taxable income that is taxed by the method of taxation on aggregate income, ranging from 5% to 45% according to a taxpayer's taxable income. Moreover, 2.1% of income tax is imposed as a surtax called special income tax for reconstruction in addition to income tax (together with income tax, "national income tax, etc.").

³ **Foreign tax credit** is claimable when a taxpayer is subject to Japanese tax on foreign-sourced income and also subject to foreign tax on that same income. A taxpayer can claim foreign tax credit for foreign income taxes paid or accrued against Japanese income tax based on certain calculation.

⁴ Separate self-assessment taxation is a method of taxation by which the tax is calculated by applying certain flat rate separate from taxation on aggregate income, and is to be paid by filing final tax return.



(2) Capital gains or losses on shares of foreign corporations (i) Listed Shares, etc.

Method of Taxation Tax Rate 20.315% (national income tax etc. 15.315% + local inhabitant tax 5%) Capital losses on Listed capital gains / other capital gains Shares, etc. Method of Taxation Separate self-assessment taxation Allowed to offset other capital gains on Listed Shares, etc.				
Tax Rate 20.315% (national income tax etc. 15.315% + local inhabitant tax 5%) Capital losses Offsetting other capital gains / other capital gains Shares, etc. dividends on Listed Shares,		Separate self-assessm	ent taxation	
+ local inhabitant tax 5%) Capital losses Offsetting other on Listed Shares, etc. + local inhabitant tax 5%) Allowed to offset other capital gains on Listed Shares,	Taxation	_		
Capital losses Offsetting other on Listed capital gains / other capital gains Shares, etc. dividends Offset Other capital gains on Listed Shares,	Tax Rate	20.315% (national inc	come tax etc. 15.315 %	
on Listed capital gains / other capital gains Shares, etc. dividends on Listed Shares,		+ local inhabitant tax 5%)		
Shares, etc. dividends on Listed Shares,	Capital losses	Offsetting other	Allowed to offset	
333 233 333 333 333 333 333 333 333 333	on Listed	capital gains /	other capital gains	
eta in and out of	Shares, etc.	dividends	on Listed Shares,	
etc. in and out of			etc. in and out of	
Japan			Japan	
Not allowed to			Not allowed to	
offset capital gains			offset capital gains	
on Unlisted Shares,			on Unlisted Shares,	
etc.			etc.	
Allowed to offset			Allowed to offset	
dividends of Listed			dividends of Listed	
Shares, etc. when			Shares, etc. when	
the capital loss is			the capital loss is	
from transaction			from transaction	
through Japanese			through Japanese	
financial firm (only			financial firm (only	
when separate self-			when separate self-	
assessment taxation			assessment taxation	
is selected)			is selected)	
Loss carry-forward Allowed to carry		Loss carry-forward	Allowed to carry	
forward the capital			forward the capital	
loss for 3 years if			loss for 3 years if	
the loss is from			the loss is from	
transaction through			transaction through	
Japanese financial			Japanese financial	
firm			firm	
Foreign Tax Applicable unless tax is exempted by tax	Foreign Tax	Applicable unless tax is exempted by tax		
Credit treaty in the relevant foreign country	Credit	treaty in the relevant foreign country		

(ii) Unlisted Shares, etc.

Method of	Separate self-assessment taxation	
Taxation		
Tax Rate	20.315% (national income tax etc. 15.315 %	
	+ local inhabitant tax 5%)	
Capital Losses	Offsetting other	Allowed to offset
on Unlisted	capital gains /	other capital gains
Shares	dividends	on Unlisted Shares,
		etc. in and out of
		Japan
		Not allowed to
		offset capital gains
		on Listed Shares,
		etc.
		Not allowed to
		offset dividends of
		Listed Shares, etc.
	Loss carry-forward	Not allowed to
		claim 3 years loss
		carry-forward
Foreign Tax	Applicable unless tax	is exempted by tax
Credit	treaty in the relevant foreign country	

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