

Japan Tax Bulletin

Size-based business taxation in Japan

July 2017

1. Overview

Size-based business tax is a component of Enterprise tax and is levied on a company's business scale, not on the size of its profit. The tax applies to corporate taxpayers with share capital of more than JPY100M at the end of a fiscal year. The tax basis consists of three factors, taxable income, value added and paid in capital.

1.2 Value added-based tax

Value added-based tax is calculated according to the following formula:

Taxable income or loss for the year	+	Profit distributed (employee compensation + net interest expense + net rent payments)
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1.2-1 Employee compensation

This is total of the following amounts. All expenses must be deductible under corporate tax law. Expenses not allowed under corporate tax law are excluded.

- i. Salary, remuneration, wages, bonuses, retirement allowances and expenses of a similar nature paid to employees and also directors. Taxable fringe benefits are also included but not non-taxable income under income tax law such as commutation allowances under a certain level.
- ii. 75% of outsourcing fees for contract labour. Contribution for Defined Benefit
- iii. Corporate Pension Plans or Contribution for Defined Contribution Pension Plans paid for employees and directors.

1.2-2 Net interest expense

This is calculated as:

Total tax deductible interest expense paid - Total taxable interest income

If the total taxable interest income exceeds the total tax deductible interest expenses, the tax base is zero.

Interest expense includes interest on loans, discount expense of bills, interest on bonds and other interest of a similar nature. Interest income includes interest on bank deposits, interest on bonds, interest on loans and other interest of a similar nature.

1.2-3 Net rent payments

This is calculated as:

Total tax deductible rent payments - Total taxable rent income received

If the total taxable rent income exceeds the total tax deductible rent expenses, the tax base is zero.

Rent includes lease fees for land or buildings including the lease for equipment attached to buildings where the lease term is longer than one month. Lease fees for machinery, shipment and motor vehicles are not included.

1.3-1 Taxable income or loss for the year

This is calculated as:

Taxable income (before utilizing carried forward losses) – taxable expenses

For domestic corporations with Permanent Establishments (PEs) in foreign countries The tax base for value added-based tax is calculated as

Total of tax base of value added based tax – total of tax base of value added based tax attributable to PEs.

1.3-2 Employment stability deduction (*kojo ante kojo*)

If the total employee compensation amount exceeds 70% of distributed profits, the excess portion is deducted from the total amount of value added-based tax base.

1.4 Paid in Capital levy

1.4-1 Capital amount

The capital amount at the end of a fiscal year is calculated as:

Paid in capital + capital surplus for tax purposes.

2. Tax rate

The tax rate for size-based business tax for corporations in Tokyo is shown in the table below.

Component	Rate for fiscal years beginning on or after 1 April 2016
Income levy	
0 to JPY4 million	0.3% (0.395)%
Over 4 million to 8 million	0.5% (0.635)%
Over 8 million	0.7% (0.88)%
Added value levy	1.26%
Paid in Capital levy	0.525%

3. Tax returns

Enterprise tax is income tax levied by prefectural governments and returns must be filed within two months from the end of its business year. However, a one-month extension is allowed if an application is filed with the tax office. Please refer to November 2016 issue titled Corporate tax filing in Japan.



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