

Establishing a Branch Office

Foreign companies have the option of doing business in Japan through the establishment of a branch office. This is not a separate legal entity from its parent company but, unlike the representative office, is permitted to carry on sales and business activities in Japan.

The branch office is required to undertake certain legal registrations and is subject to Japanese tax on the profits attributable to the branch operations.

The branch office generally has fewer procedural requirements under Japanese company law than a KK or Mochibun Kaisha and may therefore be less time-consuming to operate.

Overview

The branch office is an extension of the parent company so does not have a legal identity or liability separate from that of its parent company. It can engage in a full range of business and sales activities in Japan.

The branch is subject to Japanese taxation on the profits attributable to its activities in Japan.

Formation Procedures

The procedures for a foreign company to form a branch office are as follows:

It is first necessary to determine the details of the branch (for example the address, date of commencement, the business activities) and appoint the resident branch manager.

The company should firstly check with the Legal Affairs Bureau that the name they require is available, (this requirement will be abolished when the Commercial Code revisions take effect later this year). The company will then prepare an affidavit containing foreign company information (for example name, address, directors' information) and the "Application for Registration of a Business Office of a Foreign Company". The information contained in the affidavit must be accompanied by a Japanese translation where appropriate. The affidavit will then be certified by home country's consul in Japan.

In order to make the branch registration, the company submits the application and affidavit to Legal Affairs Bureau and pays a registration fee of ¥90,000. The Legal Affairs Bureau will provide certification that the branch has been registered within three to four weeks of submission.

When the branch is registered, it is required to notify the Bank of Japan of the registration within 15 days. Other authorities who will require notification include:

- National and local tax offices (including the relevant office dealing with payroll)
- Labor Standards Inspection office
- Public Employment Security office
- Social Insurance office.

Once the registration is complete the branch may open a bank account, remit funds and commence activities.

Shareholding Requirements

The branch is simply an extension of the parent company and there are therefore no shareholding requirements or restrictions.

Control of the Company

The branch is required to have one branch manager who is resident in Japan.

Books and Records

The branch is required to retain sufficient books and records to support its corporation tax return. These should be retained for ten years. There is no statutory audit requirement.

Taxation

Under domestic Japanese law, the branch office is subject to corporation tax on its Japanese source income. However, this is modified when there is an income tax treaty in place with the home country and, generally speaking, only profits attributable to the branch operations will be subject to Japanese tax.

Repatriation of Profits

There is no tax withholding imposed on the repatriation of branch profits to the home office.