

Establishing a Representative Office

The representative office is the easiest way of establishing an office in Japan, but is very restricted in the nature of the activities it can carry out and the number of employees.

The representative office is typically used when a foreign company wants to undertake market research or advertising in Japan, prior to making the more permanent commitment involved in a branch or subsidiary.

Overview

The representative office is only permitted to engage in limited activities. The following are permitted under Japanese domestic law:

- (i) Purchase of assets
- (ii) Storage of assets
- (iii) Auxiliary services
(e.g. advertising, information gathering, market research)

The representative office cannot participate in sales activities, but can supply information to distributors, communicate prices and terms of sale and identify sales opportunities.

There is no legal restriction on the number of employees a representative office can have.

Formation Procedures

There are no legal registration requirements. However, where there are employees receiving remuneration paid into a Japanese bank account, there are payroll and social insurance registration requirements.

Shareholding Requirements

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

Control of the Company

The representative office is fully controlled by the parent company. There are no local management requirements under domestic law.

Books and Records

The representative office is not required to retain books and records in Japan.

However, for consumption tax purposes, where the representative office claims the input tax credits, it is required to retain books and records in Japan. There is no statutory audit requirement.

Taxation

Representative offices are not subject to taxation in Japan.

However, if the representative office exceeds the permitted functions outlined above, there is a risk that it will be subject to full Japanese taxation.

The profits that would become subject to taxation under these circumstances would then be subject to negotiation between the company and the Japanese authorities.