

Taxes in Japan

Foreign companies with a fixed place of business in Japan are subject to tax on income attributable to the Japanese operations.

Foreign corporations without a fixed place of business in Japan are only subject to tax on certain items of Japanese source income and this is administered through the system of withholding taxes.

(Note - In FY2005, a new size-based taxation scheme (Gaikei Hyojun Kazei) was introduced as an assessment method of local enterprise tax, but only where a business has paid in capital of greater than ¥100m.)

National vs. Local Taxation

There are 47 prefectures (Japanese equivalent of "states") in Japan. The governmental authorities of the prefectures do not have the same degree of legislative power and autonomy as the state legislatures in the U.S. and they generally do not have separate labor or tax laws. Therefore, even though both businesses and individuals are required to pay national and local taxes, the prefectures generally follow the rules set by the national government.

Administration

Corporations are required to file the following tax returns:

- National corporation tax return – due two months after the end of the accounting period, but can be extended on a case by case basis;
- Consumption tax return;
- Prefectural enterprise tax and inhabitants tax return;
- Municipal inhabitants tax return.

It is recommended that this method of payment be used only at the very early stages of a U.S. company's operations in Japan. Even though there is no legal requirement to do so, it may be advisable to obtain a written declaration from the employees acknowledging their responsibility for filing their individual tax returns and paying the income taxes to the authorities.

Corporation Tax - National

Japanese resident corporations are subject to corporation tax on their worldwide income. National corporation tax is imposed on all corporations except those which are specifically exempt

Taxed on aggregate income at flat rates

	%
Paid in capital of over ¥100m	30
Paid in capital of ¥100m or less:	
<i>First ¥8m of income</i>	22
<i>Over ¥8m of income</i>	30

The effective tax rate (including local enterprise and inhabitants' tax) will be in the region of 29% for business with less than ¥4m income, 31% for business with income between ¥4m and ¥8m, and 41% for business with income over ¥8m.

Enterprise Tax - Local

This is applicable to Japanese corporations and branches. As with corporation tax it is levied on the taxable profits of an enterprise. The rates vary depending on whether the corporation has paid in capital of over ¥100m:

(1) Paid in capital of ¥100m or less – in Tokyo

	%
Paid in capital of ¥10m or more and offices in three or more prefectures	9.6 or 10.08
Paid in capital of less than ¥10m or offices in less than 3 prefectures:	
<i>First ¥4m of income</i>	5.0 or 5.25
<i>Next ¥4m of income</i>	7.3 or 7.665
<i>Over ¥8m of income</i>	9.6 or 10.08

(The higher rates in each category apply to companies with annual taxable income of over ¥25m)

(2) Paid in capital over ¥100m – in Tokyo

	%
Paid in capital of over ¥100m and offices in three prefectures or more	7.56
Paid in capital of over ¥100m and offices in less than three prefectures:	
<i>First ¥4m of income</i>	3.99
<i>Next ¥4m of income</i>	5.775
<i>Over ¥8m of income</i>	7.56

(Plus extra charges, i.e. 0.504% on total added value [personnel costs, net interest, net rent and net taxable income loss] and 0.21% on paid in capital.)

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Inhabitants' Tax - local

This is applicable to both Japanese corporations and branches. Each prefecture and municipality selects a rate within the following range:

	Standard Rate (%)	Maximum Rate (%)
Prefectural	5.0	6.0
Municipal	12.3	14.7
Tokyo metro (combined)	17.3	20.7

Each local government also imposes an "equalization per capita tax" on each corporation with an office in its jurisdiction. This varies between ¥70,000 and ¥3,800,000.

Taxes on Transactions Registration and License Taxes

Where compulsory registration of real property applies, there is an imposition of registration tax. This also applies on the registration of a company or branch. The rate varies depending on the type of property.

Individual Income Tax

Income tax is levied on individuals at graduated rates between 0 and 37% depending on taxable income. An U.S. citizen is deemed to be a resident of Japan and subject to individual income tax if they spend more than 183 days in Japan measured over any 12-month period. This is a significant change which came about with the new treaty, as the test was previously 183 days in any calendar year. Business visitors to Japan should therefore take care to record their days

Consumption Tax

Consumption tax is payable on:

- Compensation received by business enterprises for the transfer or use of assets and the provision of services in Japan;
- Imports of goods.

The base rate is 5% (4% national consumption tax and 1% local consumption tax.)

Consumption tax is an "in and out" tax; i.e., businesses will be subject to consumption tax on supplies they purchase and will withhold it on goods they sell. The business is then required to periodically pay the difference between the tax it has suffered on its supplies and the tax is has charged on its goods or services. Certain supplies are non-taxable.

Small enterprises (those with capital of less than ¥10m) and Japanese branches of foreign corporations may be exempt from consumption tax for the first 2 years after formation. It is also possible for small and medium-sized enterprises to elect to pay consumption tax at a simplified fixed rate.

Stamp Tax

Stamp tax is payable on documents which require formal stamping to have legal effect, for example agreements concerning transfers of title to real estate, rights relating to intangible property etc.

Withholding Taxes

Under the new U.S./Japan double tax treaty which was ratified on March 30, 2004, withholding taxes on payments between the two countries were significantly reduced. Beginning July 1, 2004, all royalties paid by residents of one contracting state to residents of the other can be paid without being subject to withholding tax at source.

The treaty also eliminates withholding tax at source on dividends where the shareholder owns more than 50% of the dividend paying company. The withholding tax rate on dividends is reduced to 5% where the beneficial ownership is between 10% and 50% and the rate is reduced to 10% where the beneficial ownership is less than 10%.

Other Treaty Considerations

The new U.S.-Japan Treaty also modifies the Article identifying which activities will create a Permanent Establishment (and consequently a taxable presence) in Japan. This now includes "a place of management" as creating such a taxable presence.