

# 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 <sup>1</sup>                                                                   |
| Tax Rate                        | Progressive tax rate <sup>2</sup>                                                                           |
| Foreign Tax Credit <sup>3</sup> | Applicable but limited to income tax subject 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.

|                    |                                                                                                                                                                                           |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Method of Taxation | Selectable from taxation on aggregate income or separate self-assessment taxation <sup>4</sup>                                                                                            |
| Tax Rate           | Progressive tax rate in the case of taxation on aggregate income<br>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 Credit | Applicable but limited to income tax subject to ceiling (including tax exemption) as provided in tax treaty                                                                               |

##### (ii) Unlisted Shares, etc.

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

<sup>1</sup> **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.

<sup>2</sup> **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.”).

<sup>3</sup> **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.

<sup>4</sup> **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                    | Separate self-assessment taxation                                               |                                                                                                                                                                                        |
| Tax Rate                              | 20.315% (national income tax etc. 15.315 % + local inhabitant tax 5%)           |                                                                                                                                                                                        |
| Capital losses on Listed Shares, etc. | Offsetting other capital gains / dividends                                      | Allowed to offset other capital gains on Listed Shares, etc. in and out of Japan                                                                                                       |
|                                       |                                                                                 | Not allowed to offset capital gains on Unlisted Shares, etc.                                                                                                                           |
|                                       |                                                                                 | Allowed to offset dividends of Listed Shares, etc. when the capital loss is from transaction through Japanese financial firm (only when separate self-assessment taxation is selected) |
|                                       | Loss carry-forward                                                              | Allowed to carry forward the capital loss for 3 years if the loss is from transaction through Japanese financial firm                                                                  |
| Foreign Tax Credit                    | Applicable unless tax is exempted by tax treaty in the relevant foreign country |                                                                                                                                                                                        |

(ii) Unlisted Shares, etc.

|                                   |                                                                                 |                                                                                    |
|-----------------------------------|---------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| Method of Taxation                | Separate self-assessment taxation                                               |                                                                                    |
| Tax Rate                          | 20.315% (national income tax etc. 15.315 % + local inhabitant tax 5%)           |                                                                                    |
| Capital Losses on Unlisted Shares | Offsetting other capital gains / dividends                                      | Allowed to offset other capital gains 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 Credit                | Applicable unless tax is exempted by tax treaty in the relevant foreign country |                                                                                    |