Japan Tax Bulletin

Exit tax when individuals leave Japan

June 2022

The exit tax was introduced in the 2015 tax reform. The exit tax applies to residents in Japan holding relevant financial assets worth JPY100 million or more (hereinafter referred to as "relevant assets") and is imposed on the unrealized capital gains of those assets at the time of their departure from Japan.

1. *Individuals subject to exit tax*

Resident taxpayers fulfilling both a) and b) below at the time of their permanent departure from Japan are required to file an income tax return.

Individuals subject to exit tax
a) Holding relevant financial assets worth JPY100 million or more in total b) Resident in Japan for more than 5 years of the previous 10 years before the date of departure from Japan

Even if individuals have a domicile or a residence in Japan, periods of stay in Japan under certain residence status categories[1] do not count for the purpose of the five years test described in b). In addition, periods before 30 June 2017 under certain other residence status categories[2] are not counted.

Relevant assets
- Securities - Equity in silent partnership contract - Unsettled derivatives transactions - Unsettled margin transactions - Unsettled when-issued transactions

Following financial assets must be included to relevant assets when individuals calculate the value of the relevant assets.

a) Financial assets without unrealized capital gain
b) Securities at NISA account
c) Financial assets held overseas

2. *Applicable tax rate*

The income tax rate on unrealized capital gains other than equity in silent partnership contract is 15%.

The income tax rate on unrealized capital gains from equity in silent partnership contract is taxed at progressive rate from 5% to 45%.

3. *Evaluation of the relevant assets and due date for filing*

Taxable income is calculated on the deemed capital gains/losses on the relevant assets. Evaluation of relevant assets and due date of filing depend on whether or not individuals appoint a tax agent before departure from Japan.

a) Departure from Japan by appointing a tax agent before the departure

If individuals appoint a tax agent by submitting a notification to the tax office with jurisdictions over their last residence address before the departure, due date for filing and tax payment of exit tax will be March 15 of the following year of the departure.

The value of the relevant assets is determined at the time of departure from Japan and unrealized capital gains/losses will be calculated based on the value by filing their income tax return. If the individuals have other income during the residence period, such as business income, rental income, salary income or miscellaneous income, etc., this income needs to be included with that tax return.

b) Departure from Japan without appointing a tax agent

On the other hand, if individuals leave Japan without appointing a tax agent, they are required to file and pay the exit tax by the date of departure.

The taxable income will be calculated based on the value of relevant assets as of the day 3 months before departure. If the taxpayers file the income tax return after permanent departure from Japan, the taxable income will be calculated based on the value of relevant assets at the time of departure from Japan.

---

[1] Highly Skilled Professional, Business Manager, Engineer/Specialist in Humanities/International Services, Intra-company Transferee and other visa categories specified in the Table 1 of the Immigration Control and refugee Recognition Act.

[2] Permanent Resident, Spouse or Child of Permanent Resident, Long-Term Resident specified in the Table 2 of the Immigration Control and Refugee Recognition Act.

4. *Special treatments*

(i) Grace period for tax payments

Taxpayers can apply for a grace period to defer the tax payment for 5 years, provided they meet all of the following criteria.

a) Submit a notice of tax agent before the departure.
b) File the exit tax return, specifying their wish to apply the grace period before the filing due date for exit tax for the year of the departure and attaching the calculation details for the portion of tax during the grace period.
c) Provide collateral equivalent to the amount of exit tax and interest tax subject to the grace period before the filing due date for exit tax for the year of the departure.

Taxpayers eligible for the grace period are required to submit an assets report showing the value of their relevant assets as of December 31 every year, by March 15 of the following year.

The 5 year period can be extended to 10 years if an application for 10 years period is filed by the day on which 5 years have elapsed from the date of departure.

(ii) Request for correction when returning to Japan within 5 years

If individuals return to Japan within 5 years from the date of departure from Japan, and they do not sell the relevant assets, they can request for cancellation of the taxation by filing a request for correction by the tax office within 4 months of returning to Japan.

(iii) Reduction of exit tax

If individuals who filed income tax returns meet the either of the following criteria, the exit tax can be reduced by filing a request for correction by the tax office within 4 months from the date they meet either of the following conditions.

a) The relevant assets subject to the exit tax have been sold by the end of grace period and the value of the assets was lower than the originally reported exit tax value.
b) The due date of the grace period has come and the value of the assets as of the due date is lower than the original value when they file income tax returns.

(iv) Foreign tax credits in Japan

In case the individuals sold the relevant assets during the grace periods in the foreign country and foreign income tax is imposed on capital gains of the assets that were subject to Japan exit tax and the double taxation is not settled in that foreign country, the foreign tax credits can be claimed in Japan by filing a request for correction by the tax office within 4 months from the date when the foreign income tax is imposed.

Note that the calculation details of foreign tax credits with supporting document such as the notice of the foreign tax issued by the foreign tax authority, etc. need to be attached with the request for correction.