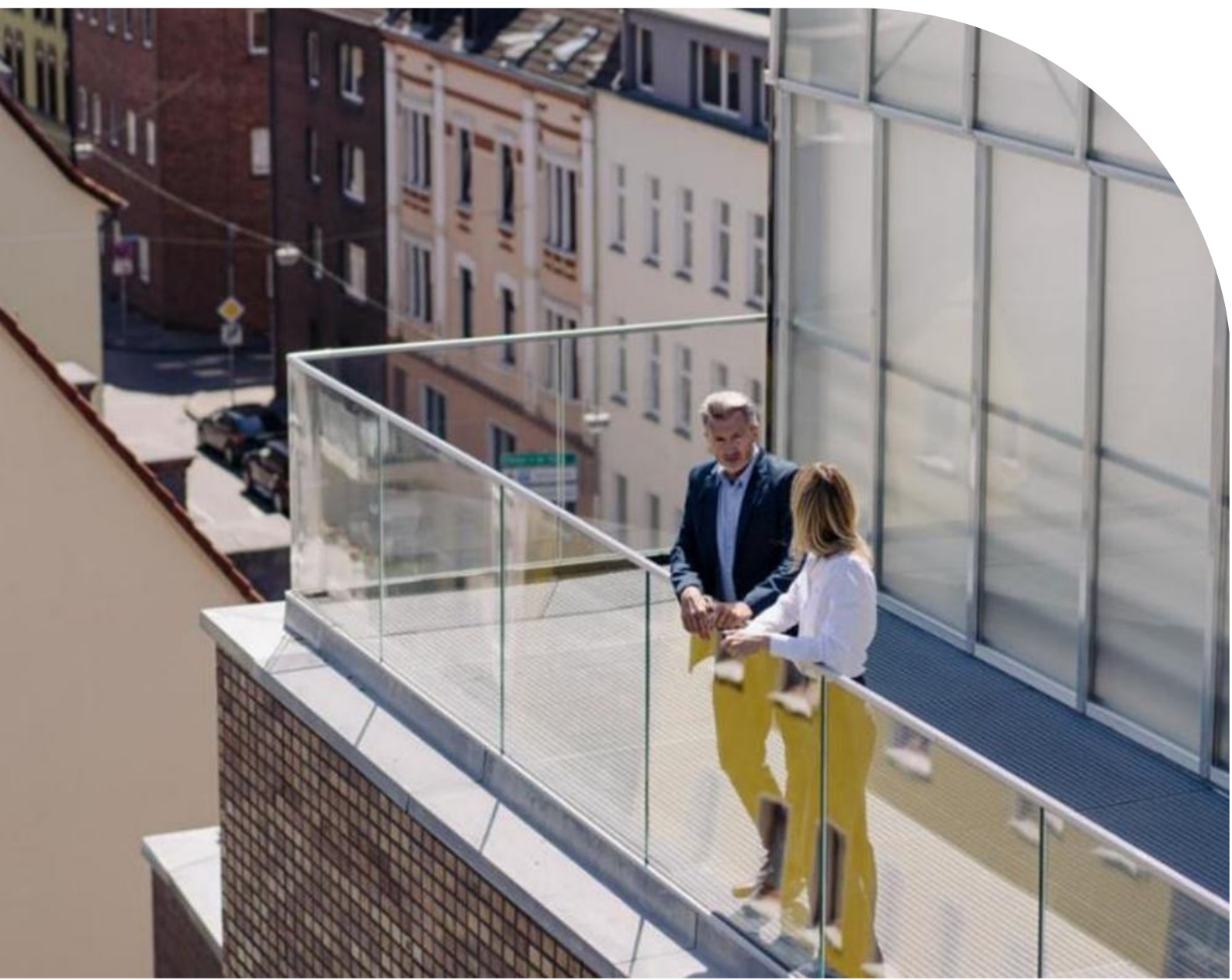


Doing business in Japan

27 November 2024



Contents

Foreword	1
Business entities	2
Corporate Entity	6
Partnerships	8
Accounting and Reporting Requirements	11
Corporate Taxation	14
Consumption Tax	24
Individual Taxation	30
Social Security	46
International Social Security Agreements	51
Inheritance Tax and Gift Tax	53
Other Taxes	58
Employment Regulations and Industrial Relations	62
Manufacturing and Other Trade Regulation	64
Contact details	65

If you are planning on [doing business in Japan](#) knowledge of the investment environment and information on the legal, accounting and taxation framework are essential to keep you on the right track...

Foreword

“Grant Thornton Japan” represents a collaboration of independent professional firms including Grant Thornton Taiyo LLC, Grant Thornton Taiyo Tax Corporation, Grant Thornton Taiyo Inc., Grant Thornton Taiyo Advisors Co., Ltd, Grant Thornton Taiyo Human Capital Corporation and Grant Thornton Taiyo Accounting Service Inc. We are the Japan member of Grant Thornton International Ltd.

Grant Thornton International is one of the world's leading organisations of independently owned and managed accounting and consulting firms providing assurance, tax and specialist advice to independent businesses and their owners.

The strength of each local firm is reflected in the quality of the international organisation. All Grant Thornton International member firms share a commitment to providing the same high-quality service to their clients wherever they choose to do business.

If you require any further information, please do not hesitate to contact your nearest Grant Thornton member firm.

This guide has been prepared for the assistance of those interested in doing business in Japan. It does not cover the subject exhaustively but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Japan and to obtain appropriate accounting and legal advice. This guide contains only brief notes and includes legislation in force as of 27 November 2024.

Grant Thornton International is not a worldwide partnership. Member firms of the international organisation are independently owned and operated.

Services are delivered nationally by the member and practising correspondent firms of Grant Thornton International, a network of independent firms throughout the world. Grant Thornton International is a non-, international umbrella organisation and does not deliver services in its own name.

Business entities

Summary

There are a number of entities available to the foreign investor doing business in Japan. Naturally the nature of the investor's activities in Japan largely determine the entity chosen. The most common entities used include:

Representative Office

Japan Branch Office

Corporate-type entity, such as:

- Kabushiki Kaisha ("KK": a limited stock corporation)
- Godo Kaisha ("GK": a limited liability corporation)

Partnership-type arrangements, such as:

- Nini Kumiai (partnership)

Representative Office of a foreign company

Foreign companies looking to expand into Japan may initially conduct market research and other "non-commercial transactions" through an unregistered Representative Office. A Representative Office is not required to comply with government reporting or corporate registration requirements, except where the foreign company is a financial institution.

As the Representative Office is not carrying on sale-type activities in Japan, and therefore not generating any income through its activities, it need not file a tax return. However, the employees of the Representative Office will be liable for Japanese income taxation if they receive compensation for the rendering of personal services in Japan.

As a Representative Office is unable to engage in customer negotiations, or solicit sales, and the individual representative is held jointly and severally liable with the foreign company for any transactions, claims, or other liabilities in Japan, the entity is used primarily on a temporary basis by foreign companies that intend to establish a registered branch office or Japanese subsidiary in the near future

Japan Branch Office

Foreign companies looking to do more than marketing or other Representative Office type activities may incorporate a branch office, as a branch office is generally able to perform sales activities without restriction. As a branch office is regarded as being the same entity as its foreign head office from a Japanese legal and tax viewpoint, its Japan source income will be subject to Japanese taxation.

While a branch is subject to Japanese corporate tax, there are some potential benefits in establishing a branch as opposed to a corporate entity such as a KK or GK. These, along with some disadvantages are discussed in more detail in on page 11

Establishment

The establishment of a branch requires the appointment of a representative who is a resident of Japan (no nationality requirement), and registration as a foreign company under the Corporate Law, before it can commence its business activities. It typically takes about four weeks to set up a Japan branch.

Corporate type entities

There are four types of incorporated companies available under Japan's Commercial Code:

- Kabushiki Kaisha (limited stock corporation which is organized only by limited shareholder(s).);
- Godo Kaisha (limited liability corporation which is organized only by member(s) with limited liability);
- Gomei Kaisha (general partnership corporation which is organized only by member(s) with unlimited liability); and
- Goshi Kaisha (limited partnership corporation which is organized by members with unlimited liability and limited liability).

Kabushiki Kaisha

The most common form of corporate entity used in Japan by foreign investors is the Kabushiki Kaisha (“KK”). The KK is a limited stock corporation, meaning its shareholders are protected from liability claims made by third parties (up to their capital contribution). The minimum capital requirement to set up a KK is as low as JPY1.

The KK has a higher level of prestige in Japan than other corporate forms and further, under Japanese law, certain regulated activities (such as pharmaceutical, securities, or telecommunications) in some cases may only be performed by a KK.

Formation

The formation of a KK requires at least one director, who is not required to be a Japanese resident, and also requires at least one shareholder (who can also be the director). Articles of Incorporation and other registration documents are prepared and filed with the Legal Affairs Bureau. Once the registration has been processed, the KK may open a bank account, execute contracts, and engage in other activities as a legal entity. Capital contributions made by shareholders may be in the form of either assets or cash. Non-cash contributions for a KK require a court supervised appraisal unless one of the following applies: (i) the number of shares issued to persons who make a non-cash contribution is not more than 10% of the value of the outstanding shares, (ii) The value of the non-cash contribution is JPY5 million or less, (iii) the non-cash contribution is in the form of marketable securities, (iv) a qualified person such as lawyer, CPA or licensed Tax Accountant issues an appraisal report.

It typically takes about four weeks to set up KK.

Internal Structure

The Companies Act in Japan outlines the requirements for establishing a KK, which has created a number of categories of KK, based on whether it is large or small, open or closed, listed or non-listed. The corporate governance and management structure for KKs will vary depending on whether or not the KK is open or closed, and large or small.

All KKs need at least one director. In cases where three or more directors are appointed, a board of directors and a statutory auditor need to be appointed.

Statutory Filings

Once the KK has been organised in accordance with the relevant corporation law requirements, the following reports need to be filed:

Tax filing report to the relevant district tax office, and the relevant metropolitan or prefecture tax office

Social Insurance report to the Social Insurance Office, the Labour Standards Inspection Office, and the Employment Security Bureau.

A report must also be submitted to the Minister of Finance and other Ministers having jurisdiction over the company's business activities through the Bank of Japan.

Subject to a shareholders' resolution, the KK is allowed to pay dividends, within the Distributable Amount defined in the Companies acts, at any time during the year or any number of times.

Godo Kaisha

A Godo Kaisha ("GK") is a corporate entity loosely based on the U.S. LLC in that the liability of the investors in the GK is limited to their capital contribution. However, unlike the U.S. LLC for US tax purposes, it is not a pass through entity for Japanese tax purposes.

Formation

Unlike the KK, in which those who invest are known as shareholders, investors in a GK are referred to as "members"; with each member signing the GK's Articles of Incorporation. When there are no individual members, a management person, responsible for managing the company on the members' behalf, needs to be appointed. Articles of Incorporation must be prepared and filed. Once capital contributions have been made and the registration has been processed, the company may open a bank account, execute contracts, and engage in other activities as a legal entity. Capital contributions made by members may be in the form of either assets or cash (unlike KKs, non-cash contributions do not require an inspection by a court appointed inspector). It typically takes two to three weeks to establish a GK.

Statutory Filings

The statutory filings for the GK are the same as for the KK, listed above.

Internal Structure

The legal duties of GK managers are similar to the legal duties of KK directors. GK members may sue managers in the same way that KK shareholders may sue directors on the company's behalf.

Unlike certain types of KK, a GK is not required to establish a board of directors or hold members' meetings to manage the GK's affairs. Each member is responsible for managing the affairs of and representing the GK, however there is scope for this role to be narrowed under the GK's articles.

U.S. Tax Entity Classification

Whether a GK will be treated as a separately taxed (corporate) or as a pass-through entity will depend on the tax laws of the applicable jurisdiction. For U.S. tax purposes, a GK can be treated as a default corporation that can elect to be treated as a pass-through (either disregarded or as a partnership).

Partnership Companies

In addition to KK and GK, Japan's commercial law provides two partnership company forms, the gomei kaisha and the goshi kaisha.

Gomei Kaisha

A gomei kaisha is a company with unlimited liability members who are jointly and severally liable for the company's liabilities.

Goshi Kaisha

A gomei kaisha is a company with unlimited liability members who are jointly and severally liable for the company's liabilities.

Corporate Entity

Summary

Generally, there are no major differences between the branch of a foreign company and a Japanese company from a tax perspective. However, different legal definitions as well as some small differences in terms of taxation exist.

Additionally, the following needs to be considered on a practical level:

The advantages of a branch relative to a subsidiary are:

- There is no requirement to appoint directors and statutory auditors for it, however the Branch Manager must be a resident of Japan
- Loss of branch business can be added to the financial figures of the head office.
- No Japanese withholding income tax is applicable to the remittance of branch profits to its head office. In the case of a company, dividends remitted overseas (including liquidation dividends) are subject to Japanese withholding tax at 20.42% or reduced tax treaty rates.
- Additional tax on undistributed profits of a family company (see page 24) is not applicable to a Japan branch of a foreign company.

The disadvantages of a branch relative to a subsidiary are:

- In addition to the financial statements of the Japanese branch office, the financial statements of the foreign company's head office need to be submitted to the tax office.
- Per capita inhabitant tax is assessed based on the share capital of the head office, leading to generally higher assessments than for a Japanese subsidiary company.
- Business scale taxation is determined based on the capital stock of the head office. Therefore, if a branch has a head office with a big amount of capital, the branch is subject to business scale taxation leading to generally higher tax..
- Company entities (in particular KKKs) have greater prestige than a branch office in the eye of Japanese customers, clients and other stakeholders.

Permanent Establishment (PE)

Under the 2018 tax reform, the AOA (Authorised OECD Approach) rule was applied to the taxation of a Permanent Establishment (PE) and applicable for fiscal years beginning on or after 1 January 2019. As a result, the taxation of foreign corporations depends on whether they own PE or not. A branch should be treated as a typical PE. The definition of PE is the following:

- Branch Permanent establishments

A branch permanent establishment includes the following facilities:

1. A place of management, a branch, an office, a factory or a workshop,
 2. A mine, an oil or gas well, a quarry or any other place of extraction of natural resources
- Construction activity permanent establishment

A building site or construction site or installation project or similar work or services in the supervision of such projects in Japan, which is carried on for a period of more than 1 year.

- Agency permanent establishment

A person who is acting in a contracting state on behalf a foreign company and habitually concludes contracts, or habitually plays the principal role leading to the conclusion of contracts that are routinely conclude without material modification by a foreign company.

Change of source rule

The source rule covers the separation of Japan source income and foreign source income. Previously, a foreign corporation operating in Japan through a PE was liable to corporate income tax on the Japan source income of the PE. Therefore, any foreign source income that was attributable to the PE was out of the scope of corporate income tax. Under the AOA, any sourced income through a PE in Japan for business income purposes is considered income attributable to the PE. A foreign tax credit is available for the PE under this reform.

Intra-company transactions

The intra-company transactions such as intra-company licences, intra-company loans etc., need to be recognized, because a PE is deemed a separate enterprise conducting business independently from the foreign corporation. Therefore, transfer pricing rules apply to transactions between PEs and head offices. In addition, a PE is required to prepare and maintain documents relating to both intra-company transactions and its transactions with third parties.

Partnerships

Summary

Partnerships in Japan are not recognized as separate legal entities for Japanese tax purposes. Therefore, partners (kumiai-in) in a partnership (kumiai) are taxed on the basis of the profits or losses allocated to them under such an agreement.

Partnerships fall under one of two categories: the Nini Kumiai (“NK”) type partnership and the Tokumei Kumiai (“TK”) partnership. NK-type partnerships are governed by the Japanese Civil Code while TKs are governed by Japan’s Commercial Code.

NK-type Partnerships

NK-type partnerships are formed by an agreement among parties (kumiai-in) whereby each partner makes an investment in the partnership and carries on a business jointly with the other partners. Such partnerships typically involve arrangements where partners jointly carry on business and together own the assets (and liabilities) of the partnership. A description of the three NK-type partnerships available in Japan follows.

Nini Kumiai (NK)

The NK is the most commonly used NK-type partnership used in Japan, with all partners jointly owning the assets within the partnership and jointly and severally liable for the partnership’s liabilities. Advantages to using the NK are the partnership is not required to be registered and the NK is not limited in the kind of business it can perform.

Investment Limited Partnership (Toshi Jigyo Yugen Sekinin Kumiai or ILPS)

This partnership type is provided for under the Investment LPS Act which governs ILPSs conducting investment business. The typical ILPS consists of general partners who have unlimited liability and limited partners whose liability is limited to their capital investment. General partners are responsible for managing the partnership’s business. Such partnerships need to be registered with the Legal Affairs Bureau.

Limited Liability Partnership (Yugen Sekinin Jigyo Kumiai or LLP)

The Limited Liability Partnership (“LLP”) Act which came into effect in 2005, governs limited liability partnerships. The key feature of the LLP is all partners’ liability is limited to their capital investment. In addition, each partner is required to be active in the management of the partnership, however unlike NKs, some restrictions are placed on an LLP’s activities. Two further requirements of the LLP are it needs to submit registration with the Legal Affairs Bureau and at least one of the partners must reside in Japan (either an individual or a Japanese company).

Taxation of Partners

The taxation of a partner in NK-type partnerships will depend on whether the partner is a resident or non-resident of Japan. In the case of non-residents, their tax position will change if they have a permanent establishment in Japan. The nature of the income earned by partners will also determine how it is taxed.

Japan Resident Partners

Japan resident partners are required to declare any income/loss generated from their partnership arrangements in their Japanese tax return, regardless of whether any actual distribution is made. The nature of the income generated by the partnership's activities will generally be retained in the hands of the individual partner, and taxed accordingly. It should be noted the introduction of a number of laws since 2005 has restricted the utilization of losses generated from partnerships.

Foreign partners without a Permanent Establishment in Japan

Profit distributions made to a foreign partner in an NK-type arrangement will not be subject to Japan tax if the resident partners are not deemed to be a permanent establishment of the non-resident partner. It should be noted, given the nature of the relationship between the partners in an NK-type arrangement, the risk of the tax authorities deeming the resident partners to be a permanent establishment is significant.

Foreign partners with a Permanent Establishment in Japan

In such cases, the foreign partner will be required to file a Japan tax return and pay tax at the applicable marginal rate presuming the partner is an individual. Any withholding tax paid on distributions is creditable on their tax return.

Permanent Establishment

There is no clear guidance under Japanese tax law as to whether the activities of a Japan resident partner of an NK-type partnership create a permanent establishment for non-resident partners in such partnerships. As the determination of a permanent establishment is based on facts and circumstances, each case needs to be analyzed on its own merits.

Tokumei Kumiai(TK)

A TK is provided for under Japan's Commercial Code. It consists of a TK operator and one or more "silent" or TK investors. A TK is not a legal entity for Japanese tax purposes, but rather an agreement between the TK investor and the TK operator under which the TK operator agrees to operate the business on behalf of itself and the investor. The TK investor makes a contribution to the TK operator in exchange for a percentage of the TK operator's profits or losses. Critically, the TK investor must not have any control in the management of the TK operator.

Taxation of the TK operator

The TK operator is subject to normal Japanese corporate/income tax as a taxable entity doing business in Japan, however the TK operator is able to claim any income distributions made to the TK investor as a deductible expense. The TK operator will report net income in the case net losses are distributed.

Taxation of the TK investors

The Japanese tax implications of a TK investor may vary, depending on whether the TK investor is a resident of Japan, and in the case where the TK investor is a non-resident of Japan (i) whether it has a PE in Japan, or (ii) the jurisdiction in which the TK investor is a resident.

Japan resident partners

The Tokumei Kumiai profit/loss allocation is treated as normal taxable income/loss of the TK investor for the particular period in which the income/loss is received. 20.42% withholding tax will be levied on such distributions. Profit/loss distributions received by the investor will be aggregated with the taxpayer's other income and taxed at the applicable marginal rate. With respect to a TK arrangement in which the investment is real estate, an active individual TK investor may be able to offset losses against other income, however a passive TK investor is prohibited from doing so. An active TK investor is one who plays an active role in the business decisions of the Japan TK operator.

Foreign partners having a permanent establishment in Japan

The profit/loss allocation from the TK to a TK investor deemed to have a PE in Japan is treated as normal taxable income/loss of the TK investor for the period in which the accounting period end date of the TK operator falls. The TK investor is required to file a tax return and pay income tax at the applicable marginal rate. The distributions from a TK to foreign partners are subject to 20.42% withholding tax, which is creditable for the TK investors when declaring such income in their Japanese tax returns.

Foreign partners not having a permanent establishment in Japan

A TK investor who does not have a PE in Japan is taxed 20.42% withholding on the actual distributions of the TK's profit allocations. There are no further Japanese tax obligations in respect of the TK allocations and no requirements to file a tax return in Japan. It should be noted that non-resident TK partners residing in certain jurisdictions may be able to claim a tax exemption by virtue of that jurisdiction's Double Tax Agreement ("DTA") with Japan containing an "Other income" article which provides such income is only taxable in the country in which the investor resides, meaning such TK distributions are not taxed in Japan. One example is the Ireland-Japan DTA. While Japan's DTAs with other jurisdictions such as the US and the Netherlands also contain an "Other income" provision, protocols to these agreements give Japan the right to impose Japan domestic withholding tax rates on such income, resulting in the 20.42% rate being levied.

Accounting and Reporting Requirements

Summary

All companies that are incorporated as profit organizations conform to the “Companies Act”, which plays a role in coordinating the interests of creditors and shareholders. In addition, listed companies shall be governed by the “Financial Instruments and Exchange Act” which lays down the rules for the protection of investors. The preparation of financial statements is also established by these laws.

Contents of financial statements

The Companies Act requires companies to prepare financial statements for each fiscal year. The period of a fiscal year may not exceed one year. Additionally, listed companies of domestic exchanges are required to disclose financial statements on a quarterly basis and annual audited financial statements in accordance with the Financial Instruments and Exchange Act.

The Companies Act requires every company to prepare the followings:

- Balance Sheet
- Income Statement
- Statement of Changes in Net Assets
- Annotations for the above statements
- Supporting schedules

In addition to the above, listed companies are required to prepare a cash flow statement in accordance with the Financial Instruments and Exchange Act.

Accounting Principles

The financial statements must be prepared in accordance with accounting principles generally accepted in Japan, called J-GAAP. In certain circumstances, the consolidated financial statements are allowed to be prepared in accordance with other accounting standards including International Financial Reporting Standards (IFRS).

Comparison of J-GAAP and IFRS

Other comprehensive income not reclassified to profit or loss

Under J-GAAP, all of the items recognized in other comprehensive income will be eventually reclassified (recycled) to profit or loss, while IFRS requires some ‘non-reclassifying’ items.

Goodwill

Under J-GAAP, goodwill must be amortized over not more than 20 years using either the straight line method or any other rational method. If there is an indicator that goodwill has been impaired, the realization of an impairment loss must be considered. Under IFRS, goodwill is not amortized, however an impairment test must be carried out annually and whenever there is an indicator that impairment may have occurred.

Research and development costs

Under all expenditure on research and development cost shall be recognized as expenses when incurred. Under IFRS, only research expenditures are generally recognized as expenses. Development expenditures, however, are only considered to be intangible assets if certain requirements are met, such as the asset either being intended to be used or sold later on.

Reversal of impairment losses

Under J-GAAP, reversals of impairment loss are prohibited. Under IFRS, only reversals of impairment losses relating to goodwill are generally prohibited. Regarding other assets, impairments can be reversed if there is an indication that such treatment may be necessary.

Fair value model

Under J-GAAP, neither the revaluation model for property, plant and equipment, nor the fair value model for investment property is allowed

Timing of revenue recognition

In Japan, there has been no comprehensive accounting standard for revenue recognition. On the other hand, IFRS 15 "Revenue from Contracts with Customers" has been applied internationally. Therefore, in Japan, a new rule has been developed from the viewpoint of convergence with international accounting standards, and the new rule will be mandatory for large companies for fiscal years beginning on or after April 2021*. The new rules are based on IFRS 15, and revenue will be recognized when performance obligations are satisfied.

* For small and medium enterprises, the application is voluntary

Voluntary adoption of IFRS

The Japanese government has eased the required conditions to promote greater use of IFRS on a basis of voluntary adoption. As a result, the number of voluntary adoption is increasing so far. All listed companies and unlisted companies are allowed to use IFRS for consolidated financial statements as of 2019, if they meet some criteria. IFRS is not permitted to be used in statutory financial statements in Japan.

Statutory audit

Large companies, as defined by the Companies Act, and listed companies need to receive audit from a CPA. According to the Companies Act, a "large Company" is any Stock Company which satisfies any of the following requirements:

- (a) The amount of stated capital in the balance sheet as of the end of its most recent Business Year is JPY 500 million or more; or
- (b) The total sum of liabilities in the balance sheet at the end of its most recent Business Year is JPY 20 billion or more.

Retention of accounting documents

Retention period of accounting documents are determined by the Companies Act and the Corporation Tax law. In the main place, the Companies Act requires companies to keep and maintain proper accounting records (financial statements, general ledgers, sub-ledgers, journals, etc.) and important operational and financial documents including minutes or agreements for ten years. Accounting records can be maintained electrically subject to approval by the tax office. Regarding language, no legal regulation specify the official language, however using Japanese is considered appropriate. For foreign companies, using English may be applicable.

Accounting and reporting requirements applicable to branches

- (1) A foreign company, which has a branch in Japan, must attach the financial statements of the Japan branch as well as those of the company as a whole to the Japanese corporate tax return to be filed each fiscal year.
- (2) A foreign company which conducts banking, insurance, or other regulated business must prepare financial statements for the Government in compliance with the relevant laws governing such industries. There are no accounting and reporting requirements applicable to a branch that conducts non-regulated businesses.

Tax authorities (and regulated authorities in the case of regulated businesses) may examine the branch's business records.

currency

Accounting record and statutory financial statements must be presented in Japanese Yen.

Corporate Taxation

Summary

The amount of taxable income is computed as the net of gross revenue less costs, expenses and losses on the realisation basis in accordance with J-GAAP and tax adjustments in accordance with the requirement of the corporate tax law. This chapter deals with some of the most important rules of corporate taxation with a special regard to those that are of importance to companies from overseas

Administrative overview

Place of payment of taxes

The place of payment of taxes for a domestic Japanese corporation is usually the place where its head office or principal office is located. The corporation must notify the tax office with jurisdiction within two months of incorporating and before moving from the jurisdiction to another jurisdiction.

Tax year

The tax year of a corporation is the year specified in its Articles of Incorporation or in laws or regulations. If the tax year is not so specified, the corporation may elect a tax year by notifying the tax office within two months of the date of incorporation. Once established, the tax year may be changed by notifying the tax office.

Tax returns

Corporate tax returns are due two months after the last day of the corporate taxpayer's fiscal year, however, generally a one month extension can be obtained from the tax authorities. Therefore, a company with a fiscal year of 1 January to 31 December needs to file its corporate tax return on or before 28 February in the following year (31 March if an extension has been granted).

If corporations meet the accounting requirements, corporations receive permission to file interim and final blue tax returns. In this case, corporations obtain some privileges as follows:

- (1) Exclusion from the restriction on use of carried-forward losses
- (2) Ability to claim tax refunds by carrying back losses
- (3) Availability of various tax credit systems

Also, corporate taxpayers are required to file an interim tax returns if the tax for the prior year was more than JPY200,000. A corporation should file an interim tax return within two months from the end of the sixth month of the tax year.

Payments and fines

Tax reported on interim and final tax returns is required to be paid by the due date for filing tax returns. Late payments of tax carry a penalty basically at a rate of 14.6% per annum (7.3% for the first two months when the payment is overdue)*.

*Reduced to 8.8% per year (2.5% for the first two months) for the period from 1 January 2021 to 31 December 2021 and 8.7% per year (2.4% for the first two months) for the period from 1 January 2022 to 31 December 2023.

Tax rates

Japanese corporate taxes consist of corporation tax (national tax), local corporation tax (national tax), inhabitant tax (prefectures and municipalities), enterprise tax (prefectures) and special corporate enterprise tax (prefectures).

(1) Corporation tax

Company with capital of:	Annual taxable income bracket	Applicable rates for fiscal years beginning on or after 1 April 2018 (%)	Applicable rates for fiscal years beginning on or after 1 April 2019 (%)	Applicable rates for fiscal years beginning on or after 1 April 2020 (%)
Small or Medium-Sized Enterprises	JPY0 to 8 million	15%	15% (※19%)	15%(※19%)
	Over JPY8 million	23.20%	23.20%	23.20%
Ordinary Enterprises	All income	23.20%	23.20%	23.20%

A Small or Medium-Sized Enterprise (SME) is a company with share capital of JPY100 million or less. However, a company may not be treated as an SME, if 100% of the shares of the company is directly or indirectly owned by a large sized company whose capital is JPY500 million or more. In the case, the definition of a large-sized company includes not only a Japanese parent company but also foreign parent companies.

※In fiscal years beginning on or after 1 April 2019, a tax rate of 19% applies to the portion of JPY8 million or less per year for exempted business enterprises (Tekiyou-Jogai Jigyousha), whose annual average taxable income for each fiscal year ended within three years prior to the beginning of the fiscal year exceeds JPY1.5 billion.

(2) Local corporation tax

Local corporation tax was introduced along with the reduction in the inhabitant tax rate in the 2014 tax reforms. The tax applies to fiscal years beginning on or after 1 October 2014. The local corporation tax rate was 4.4% of the national corporation tax rate, but for fiscal years beginning on or after 1 October 2019, the rate increases from 4.4% to 10.3%.

(3) Inhabitant tax

Inhabitant taxes are computed as a percentage of corporation tax within the ranges shown below.

Type	Applicable rates for fiscal years beginning before 30 September 2019 (%)	Applicable rates for fiscal years beginning on or after 1 October 2019 (%)
Prefecture	3.2 to 4.2	1.0 to 2.0
Municipality	9.7 to 12.1	6.0 to 8.4
Total	12.9 to 16.3	7.0 to 10.4

In addition to the above income-based tax, the following per capita taxes are assessed as part of Inhabitant tax.

(Based on a taxpayer in Tokyo Metropolitan Area)

Sum of share capital and capital reserve (JPY '000,000s)	Prefecture (JPY '000s)	Municipality	
		Companies with 50 or fewer employees (JPY '000s)	Companies with more than 50 employees (JPY '000s)
0 to 10	20	50	0 to 10
Over 10 to 100	50	130	Over 10 to 100
Over 100 to 1,000	130	160	Over 100 to 1,000
Over 1,000 to 5,000	540	410	Over 1,000 to 5,000
Over 5,000	800	410	Over 5,000

(4) Enterprise tax

Enterprise tax is computed as a percentage of taxable income at the following rates.

Some types of tax in Japan are levied on a company's share capital amount. Size based business tax is a component of enterprise tax and is levied on a company's business scale, not on the scale of its profits. The taxation applies to corporate tax payers with share capital of more than JPY100 million at the end of a fiscal year. (※1) (※2)

The tax basis of size-based business tax consists of 3 factors, taxable income, value added based tax and capital based tax

(※1) Starting from the fiscal year beginning on or after April 1, 2025, corporations that were subject to size based business tax and had a total share capital and capital surplus of more than JPY1 billion in the previous fiscal year will also be subject to size based business tax, even if their share capital is JPY100 million or less in the current fiscal year.

(※2) Starting from the fiscal year beginning on or after April 1, 2026, even corporations with total share capital of JPY 100 million or less will be subject to size based business tax if their total share capital and capital surplus exceed JPY 200 million, and they are 100% subsidiaries of corporations whose total share capital and capital surplus exceed JPY 5 billion.

Value added based tax

Base amount of Value added-based tax is calculated according to the following formula;

Taxable income or loss for the year	+	Profit distributed (employee compensation + net interest expense + net rent payments)
-------------------------------------	---	---

Capital based tax

Base amount of the capital-based tax is calculated according to the following formula;

Paid in capital	+	Capital surplus for tax purposes
-----------------	---	----------------------------------

Enterprise tax rate

Component		Fiscal years beginning on or after 1 April 2022	
		Share capital of over JPY100 million	Share capital less than or including JPY100 million
Income Levy	1.0% (1.18%)	3.5% (3.75%)	0 to JPY4 million
	1.0% (1.18%)	5.3% (5.665%)	Over JPY4 to 8 million
	1.0% (1.18%)	7.0% (7.48%)	Over JPY8 million
Value added-based tax		N/A (1.26%)	N/A
Capital-based tax		N/A (0.525%)	N/A

(2) Effective tax rate

The effective tax rate is calculated with the following formula. Applicable rates for a fiscal year beginning on or after 1 October 2019. $\{(A) \times [1 + (B) + (C)] + (D) \times [1 + (E)]\} / [1 + (D) \times [1 + (E)]]$

Furthermore, there are some size-based taxes, not based on corporate income. These taxes slightly increase the actual tax rate. The following table shows how the effective tax rate can be calculated for a tax year beginning on or after 1 October 2019.

Tax	Companies with capital of less than JPY100 million and annual income of JPY8 million or more	Companies with capital of more than JPY100 million
(A) Corporation tax	23.20%	23.20%
(B) Local corporation tax	10.30%	10.30%
(C) Inhabitants tax	7.00%	7.00% (10.4%)
(D) Enterprise tax (Standard rate)	7.00%	1% (1.18%)
(E) Special corporate enterprise tax	37%	260%
Effective tax rate	33.58%	29.74% (30.62%)

Additional taxes on undistributed profits of family companies

A domestic “family company”, which is a domestic company, with more than 50% of its total issued shares directly or indirectly owned by one shareholder together with its relatives (excluding any corporate

shareholders who themselves are not family companies), is subject to an additional surtax at the following rates on undistributed income calculated for cash accounting period in excess of a designated amount (minimum JPY20 million):

Annual undistributed profit bracket (JPY '000s)	Applicable tax rate (%)
0 to 30,000	10
30,000 to 100,000	15
Over 100,000	20

The above surtax is suspended for family companies with share capital of JPY100 million or less. However this suspension is revoked if the company is directly or indirectly 100% controlled by a large company (companies with share capital of JPY500 million or more).

Tax incentives

Research and Development Tax Credit

The tax credit for research and development (R&D) is applicable to a company filing a blue tax return. In the case of companies other than SMEs, the amount of the tax credit is basically from 0% to 14% of R&D expenditure (excluding R&D expenditure related to overseas offices), and the limit amount of taxpayer's national corporate income tax for a fiscal year varies between 20% and 30%, depending on rate of increase or decrease in experiment and research expenses. If a company satisfies certain conditions, the maximum creditable amount increases to 50% of the corporation tax liability. SMEs which satisfy certain conditions may claim on from 12% to 17% of R&D expenditures. The maximum creditable amount is 25% of the corporation tax liability for a fiscal year. Additionally, a special R&D tax credit with a cap of up to 10% of the national corporate tax liability is applicable to special experiment and research expenses.

Innovation Box

When a corporation engages in patent rights assignment related transactions, it can deduct an amount equivalent to 30% of the lesser of the following (1) or (2) from its taxable income.

(1) Qualified Income

Income arise from each patent righty assignment transaction × the ratio of R&D expenses(*)

(2) Current Income

The amount of current income for the fiscal year subject to the Innovation Box regime

* The R&D expenditure ratio refers to the proportion of qualifying R&D expenditure (roughly in line with the “qualifying expenditure” as defined in the OECD BEPS Action 5 Final Report) in relation to certain R&D expenditure related to a patent right assignment transaction.

SME investment promotion tax system

When a SME filing a blue tax return makes investments on certain facilities to improve productivity a special depreciation of 30% in addition to regular depreciation or a 7% tax credit will be permitted. The credit is capped at 20% of a company's corporation tax liability.

Additionally if specific infrastructure, used to aid the introduction of 5G systems, is both acquired and put into use, a special depreciation of 30% in addition to regular depreciation or a 15% tax credit will be permitted (applicable to acquisitions made by 31 March 2025). The credit is capped at 20% of a company's corporation tax liability.

Salary Increase Incentive

If a company filling a blue tax return that satisfies the requirements related to increase in salary, this tax credit is available. For the fiscal years beginning on or after 1 April 2024 through 31 March 2027, the creditable amount is 10% to 35% of the increase in salary payments over the previous year for certain large companies and their subsidiaries as well as medium sized enterprises, and 15% to 45% for SMEs.

To be able to claim a higher creditable amount, there must be an increase in employee education and training expenses, and that the company has been certified under the law for its support on child care and higher female labour force participation. The amount of the tax credit is capped at 20% of the corporation tax liability. For SMEs, any tax credit exceeding the cap limit may be carried forward for up to five years.

Tax credit to promote investment in Digital Transformation(DX)

Either of the following benefits is available for certain software or other investments installed by certain blue return corporations that have received a certain certification (applicable to acquisitions made by 31 March 2023).

- A. Special depreciation (Acquisition cost x 30%)
- B. Tax credit (Acquisition cost (up to JPY30 billion) x 3 or 5%) *

Tax credit to promote investment toward Carbon Neutrality(CN)

Either of the following benefits is available for certain environmentally friendly equipment installed by blue return corporations that have received a certain certification (applicable to acquisitions made by 31 March 2024).

- A. Special depreciation (Acquisition cost x 50%)
- B. Tax credit (Acquisition cost (up to JPY50 billion) x 5 or 10%) *

* For tax credit, the total amount of DX and CN is limited to 20% of the total corporate tax amount.

Restriction on application for large corporations

If certain large companies and their subsidiaries do not invest in labour costs and equipment even though its income has expanded from the previous year, the tax credits below will not apply.

- R&D tax credit
- 5G investment promotion tax credit
- DX taxation
- CN taxation

Deduction of expenses

Limitation on deductibility of interest expenses

(1) Thin capitalization rules

The thin capitalisation rules are designed to prevent Japanese corporations and foreign corporations doing business in Japan from using excessive interest payments to foreign-related persons to reduce their Japan Corporation Tax.

Interest paid by a Japanese corporation on debt to controlling foreign stockholders is disallowed to the extent the average balance of debt on which the interest is paid is more than three times the equity of the controlling foreign shareholders in net assets of the interest paying corporation in that year.

(2) Earnings Stripping Rules

If a company's net interest payments to related parties are greater than 50% of its adjusted taxable income, the portion in excess of 50% will not be deductible for corporation tax purposes. Net interest payments to related parties do not include payments on which the recipient pays corporation tax in Japan. The interest limitation will not apply in years where the net interest payments are less than JPY10 million or where less than 50% of the total interest payments are made to related parties.

Under the 2019 tax reform, the earnings stripping rule has been amended to be more in line with BEPS Action 4 Interest Deduction and will be applied for fiscal year beginning on or after 1 April 2020. Interest expenses paid to third parties will be included when considering the restriction on interest expense deductibility. Prior to the reform, only interest paid to related parties was subject to restriction. The deductible limit will be reduced to 20% of adjusted income, compared to 50% under the old rule. Additionally, the amount of net interest expense that is exempt from the rule will be increased from JPY 10 million to JPY 20 million.

Director's remuneration

Remuneration paid to directors of Japanese companies is subject to rules different from the salaries paid to other employees. Directors of Japanese corporations include auditors and liquidators. The following remuneration paid to directors is deductible by corporations:

- (1) Fixed monthly payments
- (2) Fixed payments in accordance with an advance notice to the tax office
- (3) Performance bonuses paid in proportion to the company's earnings to directors who engage in the operation of the company's business. (only in case a company satisfies certain conditions).

Entertainment expenses

In principle, entertainment expenses (including gifts, etc.) paid by a company to external parties related to its business (customers, suppliers, etc.) are not deductible. However, entertainment expenses.(*) that are less than JPY10,000 per person are excluded from entertainment expenses. In addition, for companies with share capital of JPY10 billion or less, an amount equivalent to 50% of entertainment expenses is deductible by the company. Furthermore, for companies with capital of JPY100 million or less and which are not a subsidiary of a large corporation, either an amount equivalent to 50% of entertainment expenses or JPY8 million is deductible by the company.

*Excluding meal expenses for internal purposes

Revision of the deduction system for small amounts of depreciable assets

For depreciable assets with an acquisition cost of less than JPY200,000 (JPY300,000 for SMEs), there is a special provision that allows for accelerated depreciation deductions.

However, the provision does not apply to assets acquired on or after 1 April 2022 and used for a rental business (except for those where it is the principal business), and regular depreciation is applied.

Treatment of losses carried forward

Carried forward losses

Currently tax losses can be carried forward for 10 years (※1) and offset against up to 50% of each year's taxable income for a blue tax return filer. The 50% limit was phased in over a number of years as shown in the table below. SMEs can offset carried forward tax losses against 100% of current year taxable income. An SME is a corporation whose stated capital is JPY100 million or less, unless 100% owned directly or indirectly by a corporation whose stated capital is JPY500 million or more.

(※1) The carryforward period for losses incurred in fiscal years beginning before 1 April 2018 is limited to 9 years.

	Fiscal year beginning between 1 April 2015 and 31 March 2016	Fiscal year beginning between 1 April 2016 and 31 March 2017	Fiscal year beginning between 1 April 2017 and 31 March 2018	Fiscal year beginning on or after 1 April 2018
Credit limit	65% of taxable income	60% of taxable income	55% of taxable income	50% of taxable income

Double taxation relief

Dividends received exclusion

Dividends received by a Japanese company from another Japanese company are excluded from taxable income. The exclusion rate varies depending on the ownership rates as follows:

% ownership of related company	Dividend exclusion %
5% or less	20%
More than 5% but not more than 1/3	50%
More than 1/3 but less than 100%	100% less an amount equivalent to 4% of dividends from shares of affiliated corporations (up to 10% of the total amount of interest paid).
100%	100%

Foreign Dividend Exclusion

95% of dividends received by a Japanese company from foreign subsidiaries are excluded from taxable income, provided that the investor company owns 25% or more (or reduced tax treaty rates if available and applicable) of the shares of the company paying the dividend for more than six months.

Foreign tax credit

A Japanese company may either deduct foreign income taxes or claim a foreign tax credit against corporate income tax. However, this does not apply to withholding tax on foreign dividends upon which the foreign dividend exclusion has been utilised. Unused foreign tax credits may be carried forward for three years. Furthermore, a foreign tax credit is available for the branch of a foreign company.

Others

Withholding tax on interest, dividends and royalties

(1) Withholding tax on interest

Interest on loans paid within Japan to a non-resident is subject to withholding tax at the rate of 20.42% (20% national tax, and subject to a 2.1% surtax).

Interest on deposits paid within Japan to a non-resident is subject to withholding tax at the rate of 15.315% (15% national tax, and subject to a 2.1% surtax).

If applicable, a reduced rate under a tax treaty will apply.

(2) Withholding tax on dividends

Dividends on unlisted shares, paid within Japan by a domestic corporation to a non-resident shareholder, are subject to withholding tax at the rate of 20.42% (20% national tax, and subject to a 2.1% surtax).

Where the Japanese payer of the dividend is a listed company, the rate is 15.315% (15% national tax, and subject to a 2.1% surtax). Where a non-resident shareholder owns more than 3% of the shares in a listed company, the withholding regime for unlisted shares applies.

If applicable, a reduced rate under a tax treaty will apply.

(3) Withholding tax on royalties

Japanese tax law provides that royalties paid within Japan to a non-resident are subject to 20.42% (20% national tax, and subject to a 2.1% surtax). If applicable, a reduced rate under a tax treaty will apply.

Foreign exchange conversion

Regarding receivables and payables in foreign currency, a company may select either the method of conversion based on the exchange rate at the time receivables and payables were occurred, or the method of conversion based on the exchange rate at the end of a fiscal year.

Other taxes

There are other taxes levied on a company in addition to income taxes. Please refer to page 68 for more details.

Group taxation regime

A 100%-controlled group is formed by a direct or indirect parent-subsidary relationship and a direct or indirect brother-sister relationship. Where a 100%-controlled group does not file a consolidated tax return, there are a few special rules on transactions between domestic members.

Under the group taxation regime each corporation files tax returns and makes tax payments, but special treatments are available, including:

- (1) Dividends received from a 100% subsidiary are exempt from corporate tax.
- (2) No gains/losses are recognized on asset transfers within a 100% group.
- (3) A donor must recognize a non-deductible donation, but a donee is not required to recognize a taxable gift gain.

Capital gains/losses from in-kind distributions within a 100% group are deferred.

JP Global Minimum Taxation

Introduction to Japan's Tax Ruling on Global Minimum Taxation

Japan's 2023 tax reform marks as a substantial milestone in the arena of international taxation, particularly concerning the concept of global minimum taxation. This initiative aligns seamlessly with the OECD's framework, aimed at tackling challenges posed by digitalization and ensuring fair taxation across multinational enterprises.

Entities Subject to Global Minimum Taxation

Only "Specified Multinational Enterprise Groups" will be subject to global minimum taxation. These groups encompass domestic corporations within multinational conglomerates spanning multiple countries. Specifically, it focuses on groups with consolidated financial statement revenue exceeding €750 million in at least two of the prior four fiscal years.

Effective Date

The global minimum taxation rule takes effect in Japan from the fiscal year following April 1, 2024 (Reiwa 6), aligning with the tax reform outline.

Calculation Principle: Ensuring Minimal Taxation

If a foreign country's effective tax rate is under 15% and there's positive net income, the deficit to reach the 15% benchmark is calculated as "International Minimum Taxable Income." For instance, if a foreign subsidiary's tax rate is 10%, taxing 1000 income at 100, a 50 shortfall (to achieve 15% tax on 1000) contributes to Japan's International Minimum Taxable Income.

Enhancing Transparency through Information Reporting System

Japan enhances its information reporting system in alignment with forthcoming Global Minimum Taxation, fostering transparency. Domestic corporations in the Specified Multinational Enterprise Groups ambit must supply relevant data via e-Tax within a set period. This includes constituent company names, country-specific effective tax rates, and intent for exemptions.

Consumption Tax

Summary

Consumption tax is a multi-step, broad-based tax on most transactions in assets and services in Japan and the receipt of foreign goods from bonded areas in Japan. The tax is assessed at each state of the manufacturing, wholesale, and retail processes. Deductions for consumption taxes paid at previous stages by businesses result in the consumer bearing the full burden of Consumption tax.

Consumption tax rate

From 1 October 2019, the consumption tax rate increased from 8% to 10%. A reduced rate of 8% applies to food and beverages (except for dining out and alcoholic beverages) and newspapers issued twice weekly or more under a periodical subscription.

Where food and other items are provided together, the reduced tax rate is applicable to the entire amount if the amount of food and beverages represents more than 2/3 of the amount and the total amount is JPY10,000 or less.

Taxpayers

For the purposes of consumption tax, taxpayers are either (i) an enterprise, including both sole proprietorships and corporations, which transfers assets or provides services in Japan, or (ii) an enterprise or any person who removes foreign goods from a bonded area.

The threshold for mandatory filing of consumption tax returns is having taxable sales of more than JPY10 million during the base period (the fiscal year two years prior to the current fiscal year) or in the first 6 months of the previous fiscal year.

It is not necessary for a taxpayer to have a residence or domicile in Japan in order to be subject to consumption tax filing obligations. In this case, a taxpayer who has no residence or domicile in Japan needs to appoint a tax agent in Japan to meet the taxpayer's filing obligations.

Exempt enterprises

An exemption from the obligation to file consumption tax returns is available for small businesses whose taxable sales are not more than JPY10 million during the base period or in the first 6 months of the previous fiscal year.

Election to be a taxable enterprise

An exempt enterprise may elect to be a taxable enterprise by submitting a notification to the District Director of the Tax Office with jurisdiction over their place for tax payment. In principal, the notification must be submitted by the day proceeding the first day of the taxable period for which a business intends to elect to be a taxable enterprise.

The election may be revoked upon notice to the tax office, but the notice of revocation may not be filed before the beginning of the second tax period following the period of the election.

Newly-established enterprises

A newly-established sole proprietorship without a base period, or with sales less than JPY10 million during first 6 months of the previous year or the base period is exempt from filing consumption tax returns for its first two years.

Newly established corporations without a base period, or with sales less than JPY10 million during first 6 months of the previous year or the base period may be exempt only if their capital is less than JPY10 million at the start of their first two fiscal years. However, a new company may choose to file a consumption tax return as mentioned above if it anticipates being in a net refund position. When a foreign company starts a new business in Japan, it will be deemed to have no base period, and its consumption tax filing obligation will be determined based on its first two fiscal years.

In addition, even if the initial share capital of a newly established corporation without a base period is less than JPY10 million, the corporation is not exempt from filing consumption tax returns if it is a subsidiary of a company with taxable sales exceeding JPY500 million or a worldwide gross income exceeding JPY5 billion.

Tax periods

For sole proprietorships, the consumption tax period is the calendar year. For corporations, the tax period is the company's fiscal year for corporate tax purposes.

Special tax periods

Enterprises may elect to use special tax periods of three months/one month if the tax office is notified. The notification must be submitted by the day preceding the first day of the applicable taxable period.

An enterprise may discontinue the use of special tax periods upon notification to the tax office. However, the notification to discontinue use may not be filed within two years of the notification to use the special tax periods.

Taxable transactions

The scope of consumption tax includes (i) the transfer (either by sale or lease) of assets or the provision of services in Japan by an enterprise in return for payment, and (ii) the removal of foreign goods upon their release from a bonded area.

Non-taxable transactions

Transfers of certain designated types of assets and services are non-taxable either because the asset is not of the type contemplated for Consumption Tax or for reasons based on social policy concerns.

- Sales and leases of land and rights to land
- Transfers of securities
- Financial transactions
- Sales of postage stamps and document stamps
- Merchandise and service cards
- Government fees
- International money orders and foreign exchange
- Medical services
- Nursing care services
- Social welfare services

Exempt Transactions

Consumption Tax is based on the principle of taxing assets and services in the place where they are consumed. Exemptions therefore are provided for assets for export and international communications and

transport activities. Records need to be kept, such as export authorizations, in order to apply for the export exemption. Examples of exempt transactions include:

- International transportation of passengers, freight, and international communications, including shipment and communication occurring in Japan
- Transfer of intellectual property to non-residents
- Most services for non-residents, excluding (i) the transport or safekeeping of property in Japan, (ii) the provision of food or lodging in Japan, or (iii) services provided in Japan which are similar to (i) and (ii).

Taxation of cross-border electronics services

Cross-border-telecommunicated services

Books, music, advertising etc. distributed through telecommunication lines (collectively telecommunicated services) will be deemed to be provided in the location of the purchaser. This change came into force on 1 October 2015. Cross-border telecommunicated services provided by foreign enterprises fall into two categories, “B2B” transactions and “B2C” transactions.

B2B transactions are cross-border service transactions established through telecommunication lines such as internet or telephone lines where the recipients of the services are identified as enterprises with reference to the nature of service or trading terms etc. The recipients of B2B services from foreign enterprises will need to pay consumption tax on behalf of the foreign enterprises through a reverse charge mechanism.

B2C transactions are cross-border service transactions provided both inside and outside of the country through telecommunication lines such as internet or telephone lines, which do not fall under the definition of the B2B transaction. Foreign service providers providing B2C transactions are required to file a tax return and pay taxes in Japan.

Treatment of providers or the service (Foreign enterprises etc.)

A) Recognition as taxable sales

Foreign enterprises which provide cross-border telecommunicated services will need to issue an invoice showing consumption tax added to the service price. If the invoice does not include the consumption tax separately, the price will be deemed tax inclusive thus reducing the net receipt to the enterprise. Foreign enterprises engaging in B2C transactions will be required to file a consumption tax return and pay consumption tax to the government.

B) Duty of notification

Foreign enterprises engaging in B2B transactions will need to make it clear to domestic enterprises (recipients of the service) that the purchase of the services is subject to consumption tax.

Treatment of recipients of B2B services (Domestic enterprises etc.)

A) Reverse charge mechanism

The recipients of B2B services from foreign enterprises will need to pay consumption tax on behalf of the foreign enterprises through a reverse charge mechanism.

Under the reverse charge mechanism, recipients of the services will be required to report a “reverse charge” output tax in their consumption tax return. For most enterprises this output tax will be equal to the input tax paid by the enterprise for the service provided if it is related to business expenses.

B) Exception

If the proportion of taxable sales of the recipients of the services is 95% or more, the purchase of the telecommunicated services is ignored for the time being. This means that the recipients of the service do not need to recognize both consumption tax received and suspense consumption tax paid.

Regardless of whether the proportion of taxable sales is more than 95% or not, the transactions which are subject to reverse charge mechanism affect the recipient's consumption tax return filing. Therefore we recommend classifying these transactions separately from other transactions when they are booked.

Platform taxation

Starting in April 2025, for inbound B2C electronically supplied services (ESS) provided through a specified platform operator designated by the National Tax Agency (NTA), that specified platform operator will be deemed the provider of the ESS.

Credit for taxable purchases

Because the Japan consumption tax is a multi-step tax assessed at all levels of the commercial process, a system is needed to prevent imposition of multiple layers of tax summing to more than the tax based on the price charged to the final consumer. Consumption tax can be reduced by deducting taxes on purchases against taxes on sales. The taxpayer files a tax return at the time specified above with the consumption tax reduced to reflect the credit for taxable purchases.

Simplified system

Type of business		Deemed purchase ratio (%)
Type 1	Wholesalers	90
Type 2	Retailers	80
Type 3	Farming, forestry, fishing, mining, construction, manufacturing (including manufactures who sell manufactured inventory to retailers), electricity, gas, heat or water suppliers	70
Type 4	All business other than Types 1, 2, 3 and 5 (e.g. restaurant industry)	60
Type 5	Transportation and communication, service industry, finance and insurance companies (except the restaurant industry)	50
Type 6	Real estate	40

A simplified method of calculating the amount of consumption tax on taxable purchases is provided to relieve small businesses from administrative burden. If a taxpayer has taxable sales of JPY50,000,000 or less during its base period, the taxpayer may elect to use the simplified system to calculate the amount of creditable consumption tax by submitting a notification to the authorities.

However, for taxable periods beginning on or after October 2024, foreign businesses that do not have a permanent establishment in Japan cannot apply the simplified method.

Under this simplified system, the cost of purchases is estimated as a percentage of the sales price using a “deemed purchase ratio” which varies depending on the type of enterprise.

Once the taxpayer elects to use the simplified method, it cannot use the regular method for the two following years.

Qualified Invoice system

Historically, Japan has always followed a transaction based system (based on books) for computing consumption tax rather than based on invoices. However, effective from 1 October 2023, a new and mandatory consumption tax invoicing system called the “Qualified Invoice system” will be implemented. Under this method, taxpayers in principle, are required to maintain “qualified invoices” issued by registered “qualified invoice issuers” to be eligible for purchase tax credit.

Only a qualified invoice issuer can issue a qualified invoice. In order to become a qualified invoice issuer, an enterprise must submit an application for the registration to the tax office. As part of the registration, each taxpayer will receive a unique registration number. Once registered, the company will have to conform to certain requirements listed by the authorities to be compliant to the system.

The six items below have to be mentioned in the invoice for it to be deemed a qualified invoice.

- Name and registration number of the qualified invoice issuer
- Date of transaction
- Details of the transaction (mentioning that the transaction is subject to the reduced tax rate)
- Total amount of consideration for each tax rate (excluding or including tax), and applicable tax rates
- Amount of consumption taxes, etc. (fractions are available once for each tax rate per invoice)
- Name of the entity to which the invoice is to be delivered

It has to be noted that after the introduction of the qualified invoice preservation method on 1st October 2023, taxable purchases from suppliers other than the qualified invoice issuers (i.e. tax exempt entities and general consumers) will not be eligible for the credit for taxable purchase. However, certain transitional measures are also available to ease the adoption. When an enterprise retains invoices that contain the same information as the classified invoices, and books describing that the company applies to the transitional measure, a company can claim a certain percentage of the purchase tax credit during a certain period as shown in the following table even if the taxable purchases from suppliers other than the qualified invoice issuers:

Period	Deductible amount
From 1st October to 2023 to 30th September 2026	80% of the purchase tax
From 1st October to 2026 to 30th September 2029	50% of the purchase tax

* For taxable purchases from suppliers other than the qualified invoice issuers, the above transitional measures do not apply to inbound B2C-type ESS.

The following transitional measures are also available to ease the application.

(1) Enterprise with taxable sales of JPY100 million yen or less in the base period or taxable sales of JPY50 million or less in the first 6 months of the previous fiscal year can claim credit for purchase tax on taxable purchases of less than JPY10,000 only by keeping books until September 30, 2029, and are not required to keep invoices.

(2) If a tax exempt entity become a taxable enterprise, the tax amount can be reduced to 20% of the consumption tax on the taxable base amount until September 30, 2026 (so, tax returns can be filed only based on sales amount).

* For taxable periods beginning on or after October 2024, (2) above does not apply to foreign businesses that do not have a permanent establishment in Japan.

Overseas business importing goods

Imported goods are taxed when they are released from a bonded area. The tax base on imported goods is the sum of the Cost, Insurance and Freight (CIF) price, custom duties and excise taxes. The taxpayer who withdraws foreign goods from a bonded area must pay the consumption tax before being able to receive those goods.

Consumption tax returns

The final consumption tax return and associated payment are generally due two months after the end of the tax period. However, for sole proprietorships the due date is the end of March of the following year. If a company files an application to extend the due date of their final corporation tax return, they can, however, also submit an application for a filing extension of their consumption tax return, which would then allow them to submit both returns one month later.

Interim consumption tax payments

Depending on the amount of consumption tax in the prior period return, interim consumption tax return(s) and payment(s) may apply to the taxpayer. Interim return(s) and payment(s) are generally due two months following the end of applicable interim period.

Final Consumption Tax for the prior tax period	Interim tax payments due
Over JPY48,000,000	11 interim (monthly) payments due each equal to 1/12 of the prior period consumption tax liability
Over JPY4,000,000 but less than JPY48,000,000	3 interim payments each equal to 1/4 of the prior period consumption tax liability
Over JPY480,000 but less than JPY4,000,000	1 interim payment equal to 1/2 of the prior period consumption tax liability
JPY480,000 or less	N/A

Refund of excess tax on purchases

If the amount of consumption tax paid on taxable purchases exceeds the consumption tax on the tax base, the excess tax is refundable to the taxpayer. To receive the refund, the taxpayer needs to file a consumption tax return within two months after the end of the tax period (three months in case the request for extension has been filed and granted).

Individual Taxation

Summary

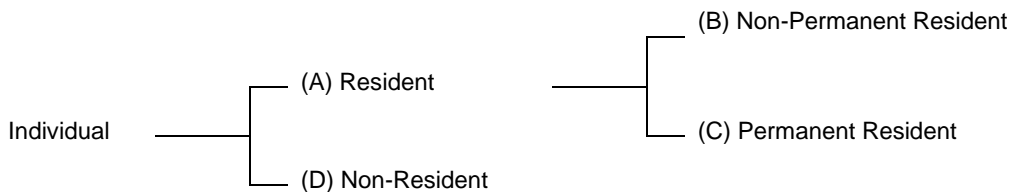
There are two levels of direct income taxes for individuals in Japan – national income tax (hereinafter referred to as “Income Tax”) and local inhabitant income tax (hereinafter referred to as “Inhabitant Tax”).

Income tax is a direct tax on the income of individuals during a calendar year and is assessed by the National Tax Office. How an individual is assessed Income Tax will depend on the individual’s residency status for Income Tax purposes, source of income and nature of income among other factors.

Inhabitant Tax is also a direct tax on the income of individuals during a calendar year but is assessed by municipal governments on individuals who, as of 1 January of the following year, have an address registered on the Residence Register of that municipal government or who have an address within the territory that municipal government has jurisdiction over.

Residency status

As in many countries, an individual’s exposure to income taxes in Japan is based on that individual’s residency status. An individual for Japanese income tax purposes is categorized as either a (A) resident or (D) non-resident of Japan. A resident is further classified as either a (B) non-permanent resident or (C) permanent resident.



(A) Resident

A resident is an individual (1) who has an address in Japan, (2) who has resided in Japan continuously for one year or more or (3) who is in Japan with the intention to stay for more than one year.

Under administrative rulings, there is a general presumption that an individual in Japan has a domicile in Japan if the following conditions are met.

- Has employment in Japan that normally require presence in Japan for a period of 12 months or more
- Holds Japanese nationality, maintains dependents in Japan and has sufficient employment and economic ties to Japan as would be expected for an individual with a Japanese domicile

A resident is further classified into (B) a non-permanent resident and (C) a permanent resident.

(B) Non-Permanent Resident

A non-permanent resident of Japan is a resident individual who does not have Japanese citizenship and who has maintained an address or has resided in Japan for 5 years or fewer during the preceding 10 years.

A non-permanent resident is taxed on all income except foreign source income that is not paid in, remitted, or effectively remitted to Japan.

(C) Permanent Resident

A permanent resident of Japan is a resident other than a non-permanent resident - any individual who is either a Japanese national or a foreign national who has maintained an address or has resided in Japan for more than 5 years during the preceding 10 years.

A permanent resident is taxed on worldwide income.

It is important for expatriates who have been on more than one assignment to Japan, even for different employers, to check when they become a permanent resident due to the ten-year look back rule.

(D) Non-Resident

A non-resident of Japan is an individual other than a resident – any individual who has not had an address in Japan or has not resided in Japan for a continuous period of 1 year or more.

A non-resident is generally taxed only on Japan source income at a flat rate of 20.42% on a gross basis. Generally, no deductions are available.

An expatriate on assignment to Japan will become a non-resident from the day following their permanent departure from Japan.

Address

The term “address” is defined by the Japanese Civil Code as the individual’s principal place of abode. Whether or not an individual has his or her address in Japan is determined on objective facts such as the individual’s employment, household or place of business in Japan. In view of the nature of an address, an individual can never be treated as having more than one address at the same moment.

In general, if an individual, regardless of nationality, has taken residence in Japan to engage in a trade, business or employment, the individual is presumed to have an address in Japan unless contrary evidences direct otherwise - that the period of the individual’s stay in Japan is not 1 year or more. Type or length of visa under which a foreign national has been permitted to enter Japan is not directly relevant.

Source Income

The definition of Japan source income has been amended effective 1 January 2017 as follows:

- Where a non-resident person conducts business through a permanent establishment, income attributable to a permanent establishment through which a non-resident individual conducts business. Income attribution is determined based on functions, assets used, dealings between the permanent establishment and non-resident’s place of businesses and other factors of the permanent establishment on the basis that the permanent establishment operates independently from the non-resident.
- Income from the management or holding of assets located in Japan;
- Income from the transfer of assets located in Japan;
- Distribution of profit from business in Japan under certain partnership agreement where such business is conducted through a permanent establishment in Japan;
- Consideration received from the sale of land, any right on land, building, etc. located in Japan;
- Consideration received by persons engaging in businesses whose primary purpose is the provision of personal services within Japan;
- Consideration received for the leasing of real estate located in Japan, any right on real estate located in Japan or a right of certain quarrying, the establishment of a certain mining lease or the leasing of a vessel or aircraft to a resident or domestic corporation;
- (1) Interest on Japanese national government bonds, Japanese local government bonds or bonds issued by a domestic corporation, (2) interest on bonds issued by a foreign corporation attributable to business conducted in Japan through its permanent establishment, (3) interest on savings deposited with branches and offices located in Japan, or (4) distribution of profit from a

jointly managed money trust, bond investment trust or publicly offered bond investment trust managed by an office located in Japan.

- (1) Certain dividend of retained earnings from a domestic corporation, dividend of profit, distribution of retained earnings, distribution of cash or interest on funds or (2) distribution of earnings from an investment trust or a specified trust issuing a beneficiary certificate managed by an office located in Japan;
- Interest on a loan made to a person conducting business in Japan and attributable to such business;
- Royalties or considerations received from a person conducting business in Japan attributable to such business including (1) royalty for or consideration received for the transfer of industrial property right or any other right concerning technology, a production method involving special technology or any other equivalent right or method, (2) royalty for or consideration received for the transfer of a copyright (including right of publication, neighbouring right and any other equivalent right) or (3) royalty for machinery, equipment or other certain tools;
- Salary, compensation and pension including (1) remuneration, salary, wage, annual allowance, bonus and any other payment or remuneration similar in nature as being compensation for provision of personal services corresponding to those performed in Japan, (2) certain public pensions or (3) certain retirement allowances arising from work or provision of personal services performed by an entitled person while such person was a resident of Japan;
- Certain awards for advertisement of a business conducted in Japan;
- Certain pension received under a contract for life insurance, casualty insurance or any other annuity contract entered into with a business office located or through a person acting as a contracting agent in Japan;
- Monetary compensation, interest, profit or margin gain attributable to business office located in Japan;
- Distribution of earnings received under certain silent partnership contract with respect to capital contributions to a person conducting business in Japan;
- Certain other income sourced in Japan.

Short-Term Visitors

Under tax treaties between Japan and various other countries, a non-resident individual visiting Japan on a short-term basis may be exempt from Japan income tax on compensation from employment. While the provisions in each tax treaty are not identical, the following conditions are typical of the requirements which need to be satisfied:

- The individual is in Japan for not more than 183 days in any twelve-month period commencing or ending in the fiscal year concerned;
- The individual's compensation is paid by a non-resident employer;
- Compensation paid to the individual is not charged to or otherwise treated as a deductible expense by a permanent establishment in Japan.

Assessable Income

An individual's taxable income is defined as assessable income less allowable deductions. Japan's tax codes provide the following ten categories of assessable income:

- interest income
- dividend income
- real estate income
- business income
- employment income

- retirement income
- forestry income
- capital gains
- occasional income
- miscellaneous income

Typically, the most important element when considering tax positions of an expatriate on assignment to Japan is employment income. Employment income includes salaries and wages, commissions and bonuses, shares and options received in respect of employment, benefits in kind and various allowances received in exchange for services rendered. Commonly included allowances include, but not limited, to the follows:

- cost of living allowance (COLA)
- housing allowance
- allowance related to tax equalization
- utility allowance
- allowance for language lessons
- children’s tuition allowance
- medical allowance
- home leave allowance
- commuter allowance
- stock options and other stock-based compensation

An expatriate may continue to be covered by pension and/or profit sharing plans maintained by the home office, where the home office will continue to make contributions to the expatriate’s individual account even while on assignment to Japan. These types of benefits are generally treated as assessable income for Japanese tax purposes.

Benefits in kind

Assessable income from employment is not limited to employment income but also include payments in kind and economic benefits unless specifically exempted from tax under tax codes, regulations and administrative rulings. Below are Japanese tax implications of some of the popular benefits in kind offered to expatriates on assignment to Japan.

(a) Company provided housing

Rent paid by the employer to the landlord for housing leased under the company name and made available to an employee is included in assessable employment income. Under certain conditions, however, rent paid by an employer to a landlord may be excluded from employment income.

“Legal rent,” as it is often referred to, is an arrangement whereby if an employee incurs at least the basic rent each month, rent paid by an employer for an employee may be excluded from employment income. Basic rent is calculated as the total of the following three computations.

- (i) 0.2% of the basis of the building for the purposes of Fixed Assets Tax
- (ii) JPY12 x (total floor space of the building in square meters / 3.3 square meters)
- (iii) Taxable basis of the ground site of the building for the purposes of Fixed Assets Tax x 0.22%

For simplicity purposes, however, many employers use a range between 5 to 15 percent of the actual monthly rent to be incurred by an employee as the result of the above calculations generally falls within this range. For a director, at least 50 percent of the actual monthly rent needs to be incurred unless the premise is used partly for business purposes, in which case the amount may be reduced to 35 percent of the actual monthly rent.

(b) Children's tuition allowance

Children's school tuition paid by an employer is generally included in assessable employment income.

If the employer, however, makes a donation to an international school under an eligible scholarship plan and in recognition of such donation, children of employees of that employer are exempted tuition payments for attending the school, an employee may not be taxed on such tuition-free benefits made available by the donation.

(c) Moving expenses

Reasonable moving expenses are not included in assessable income provided they are in nature reimbursement of necessary business costs to relocate an employee on international assignment.

(d) Home leave transportation

Reimbursement provided to an employee on international assignment for the purpose of temporarily visiting his or her home country once a year is typically not included in assessable income, subject to certain conditions.

(e) Tax reimbursements

Tax payments made by an employer on behalf of an employee to cover that employee's personal tax liabilities are included in assessable employment income to the employee. Under gross-up tax arrangements, where incremental increase in tax liabilities occur as a result of the tax-on-tax effect of paying taxes of an employee, assessable income will increase dramatically.

It is important to take into account the effect of inhabitant tax for its deferred tax assessment timing. Incomplete gross-up tax arrangements will often result in an expatriate's assessable income and employer's salaries and wages expenses to snowball to an astonishing sum.

(f) Stock options

An employee on international assignment to a Japanese subsidiary or branch may often receive stock based compensation such as stock options of its foreign parent company or home office during their assignment in Japan. Tax treatment of stock options will generally depend on whether the options are qualified or non-qualified. Foreign stocks are non-qualified stock options.

Generally, there are no withholding requirements on such earnings but the individual is required to declare the income on his/her individual income tax return. Japanese subsidiary or branch of foreign parent companies are required to report the details of all stock compensation recognized by employees during the calendar year by March 31 the following year.

When a foreign parent company or home office provides equity compensation to directors and employees of the Japanese subsidiary or branch and such persons recognize economic benefits through exercise, vesting, etc. of such equity compensation, the Japanese subsidiary or branch is required to prepare and file an informational return to disclose details of the benefits recognized by directors and employees. The scope of individuals who receive economic benefits subject to this reporting requirement has been expanded to include non-resident individuals and terminated directors and employees of the Japanese subsidiary or branch who received equity compensation.

(i) Qualified stock options

Qualified stock options are subject to Japanese income tax and inhabitant tax at the time the shares are sold. Capital gain equivalent to sales price less exercise price is taxed at a flat 20.42% separately from other types of income.

Stock options granted under the Japanese Company Law may be qualified if the following conditions are satisfied:

- Holder of the stock options is a director, or an employee of the issuing company or of a company whose voting stock is 50 percent or more owned directly or indirectly by the issuing company;
- Stock options are granted by resolution at a shareholders' meeting where vesting period of the stock option is 2 years or more and life of stock option 10 years (15 years for unlisted companies that have been established for a period of less than 5 years) or less after the date of such resolution, respectively;
- Exercise price of the option must equal to or be higher than the fair market value of the underlying shares on the date of grant;
- Total exercise price of all options exercised in a year must not exceed JPY12 million;
- Option rights cannot be transferred; and
- Issued share certificates must be kept in a trust and under custody of either a securities company or a trust company in accordance with a prearranged agreement made between the company and the trust company.

(ii) Non-Qualified Stock Options

Non-qualified stock options are subject to income tax and inhabitant tax upon both exercise and sale. At the time of exercise, the difference between the fair market value and the exercise price is taxed as employment income. Subsequently, upon sale of the share, the difference between sales price and fair market value at exercise is subject to capital gains tax.

Exemptions and Concessions

There are a number of benefits which may specifically be excluded from assessable income.

- Commuter allowance provided by an employer may be excluded from assessable income up to the following limits:
 - Train or bus expense – Allowances or tickets for use on trains or buses are tax free to an employee up to a maximum of JPY150,000 per month. The commute must be by the most direct and economical route.
 - Use of personal vehicle – Allowances for use of personal automobile or motor bicycles are limited based on the one-way distance of the daily commute as follows:

Commuting distance	Monthly limit
Less than 2km	Fully taxable
2 km or more, but less than 10 km	JPY4,200
10 km or more, but less than 15 km	JPY7,100
15 km or more, but less than 25 km	JPY12,900
25 km or more, but less than 35 km	JPY18,700
35 km or more, but less than 45 km	JPY24,400
45 km or more, but less than 55 km	JPY28,000

55 km or more
JPY31,600

- Reasonable gifts or awards made to a director or an employee in recognition of long-term service with the employer.
- Gifts awarded to directors or employees in connection with the commemoration of anniversaries, etc. where such goods are suitable for the occasion and the estimated disposal value does not exceed JPY10,000.
- Discount sales of merchandises where the sales price is 70 percent or more of the ordinary selling price and the quantity of the discounted goods sold to an employee is reasonable for use by the household of the director or employee.
- Cost of recreation, such as outings, etc. up to a reasonable amount.
- Life insurance or casualty insurance premiums borne by the employer on behalf of directors and employees provided that the insurance proceeds are to be made to the employer upon expiration of the insurance term.
- Insurance premiums paid by the employer on behalf of the employee provided the amount borne by the employer does not exceed JPY300 a month.
- Compensation for damage paid to a third party and legal fees in connection therewith where such damage was caused by a director or employee while on duty and not due to their fault.
- Golf club or social club membership fees, etc. provided that they are connected with the business of the employer.
- Dividends and capital gains from listed shares or investment trusts held in an individual's savings account, in which an individual can make investments in listed shares or investment trusts up to JPY1,200,000 (NISA) or JPY400,000 (Tsumitate NISA) per year up to 2023 (with maximum tax exempt balance being JPY6,000,000 (NISA) or JPY8,000,000 (Tsumitate NISA) and hold them for a maximum of 5 years (NISA) or 20 years (Tsumitate NISA). The NISA scheme is scheduled to be renewed from 2024.

Allowable Deductions

A number of deductions may be made from a resident taxpayer's assessed income.

Standard deduction

- Employment income

Gross earnings	Standard deduction
Up to JPY1,625,000	JPY550,000
JPY1,625,001 – JPY1,800,000	40% of compensation – JPY100,000
JPY1,800,001 – JPY3,600,000	30% of compensation + JPY80,000
JPY3,600,001 – JPY6,600,000	20% of compensation + JPY440,000
JPY6,600,001 – JPY8,500,000	10% of compensation + JPY1,100,000
JPY8,500,001 or more (*)	JPY1,950,000

(*) Taxpayers with gross earnings over JPY8,500,000 with dependent children aged under 23, taxpayers suffering special disability or taxpayers with a spouse or other dependent family suffering special disability, may claim additional deduction up to JPY150,000 subject to the following formula:

$[\text{Gross compensation (capped at JPY10 million)} - \text{JPY8,500,000}] * 10\%$

– Retirement income

Circumstances	Standard deduction
Up to 20 years of service	JPY400,000 per year of service
For each year of service over 20 years	JPY700,000 per year of service
Minimum deduction	JPY800,000
Special deduction for those retiring due to physical hardship	Amount of the above deduction + JPY1,000,000

Taxable retirement income is calculated as 50% of retirement income after the standard deduction and taxed at the ordinary tax rate separately from other income. The 50% reduction does not apply to retirement allowances for a director whose service period is 5 years or fewer. Further, effective 1 January 2022, the 50% reduction does not apply to retirement income (retirement allowance less standard deduction) over JPY3,000,000 for an employee whose service period is 5 years or fewer.

Specific Deductions

- Casualty losses. A deduction is available for losses from disaster or theft on taxpayer's assets or on those of family members living in the same household. The deductible amount is the greater of (1) the amount of loss not covered by insurance proceeds less 10% of assessable income or (2) the amount of expenditures related to such loss less JPY50,000. Unused losses may be carried forward for 3 years.
- Medical expenses. A deduction is available for medical expenses of the taxpayer and family members living in the same household. The deductible amount is equivalent to medical expenses not covered by insurance proceeds minus the lesser of 5 percent of assessable income or JPY100,000. The deduction is capped at JPY2,000,000.
- Switch OTC medicine deduction. A special tax deduction is available to promote over-the-counter (OTC) medicine over prescribed medicine. Taxpayers who take specific self-health management steps, such as routine medical check-ups and prevention/immunization, will be eligible to deduct expenditures which exceed JPY12,000, up to a limit of JPY88,000, used to purchase specified "switch OTC medicine" not covered by insurance. Taxpayers who claim this deduction will not be able to claim the medical expense deduction.
- Social insurance premiums. A deduction is available for social insurance premiums withheld from an employee's payroll or paid outside of payroll for an employee or family members living in the same household in accordance with Japanese social insurance programs.
- Life insurance premiums. A deduction is available for (1) life insurance premiums, (2) qualified contributions to private pension plans and (3) nursing care insurance premiums paid to Japanese insurance companies or to foreign insurance companies authorized by the Ministry of Finance. The deductible amounts for each are shown in the tables below. The combined maximum amount deductible is JPY120,000 for income tax and JPY70,000 for inhabitant tax.

(1) Life insurance premiums based on contracts executed on or after 1 January 2012

Total premiums paid during the year	Amount deductible
Up to JPY20,000	Full amount
Excess over JPY20,000 Up to JPY40,000	50% of premiums paid + JPY10,000

Excess over JPY40,000 Up to JPY80,000	25% of premiums paid + JPY20,000
Excess over JPY80,000	JPY40,000

Life insurance premiums based on contracts executed on or before 31 December 2011.

Total premiums paid during the year	Amount deductible
Up to JPY25,000	Full amount
Excess over JPY25,000 Up to JPY50,000	50% of premiums paid + JPY12,500
Excess over JPY50,000 Up to JPY100,000	25% of premiums paid + JPY25,000
Excess over JPY100,000	JPY50,000

(2) Qualified contributions to private pension plans executed on or after 1 January 2012

Total premiums paid during the year	Amount deductible
Up to JPY20,000	Full amount
Excess over JPY20,000 Up to JPY40,000	50% of premiums paid + JPY10,000
Excess over JPY40,000 Up to JPY 80,000	25% of premiums paid + JPY20,000
Excess over JPY80,000	JPY40,000

Qualified contributions to private pension plans executed on or before 31 December 2011.

Total premiums paid during the year	Amount deductible
Up to JPY25,000	Full amount
Excess over JPY25,000 Up to JPY50,000	50% of premiums paid + JPY12,500
Excess over JPY 50,000 Up to JPY100,000	25% of premiums paid + JPY25,000
Excess over JPY100,000	JPY50,000

(3) Nursing care insurance premiums

Total premiums paid during the year	Amount deductible
Up to JPY20,000	Full amount
Excess over JPY20,000 Up to JPY40,000	50% of premiums paid + JPY10,000
Excess over JPY40,000 Up to JPY80,000	25% of premiums paid + JPY20,000

Excess over JPY80,000	JPY40,000
-----------------------	-----------

- Earthquake insurance premiums. A deduction is available for (1) earthquake insurance premiums and/or (2) certain long-term casualty insurance premiums paid to Japanese insurance companies or foreign insurance companies authorized by the Ministry of Finance. The deductible amounts for each are shown in the tables below. The combined maximum amount deductible is JPY50,000 for income tax and JPY25,000 for inhabitant tax.

(1) Earthquake insurance premiums

Total premiums paid during the year	Amount deductible
Up to JPY50,000	Full amount
Excess over JPY50,000	JPY50,000

(2) Certain long-term casualty insurance premiums

Total premiums paid during the year	Amount deductible
Up to JPY10,000	Full amount
Excess over JPY10,000 Up to JPY20,000	50% of premiums paid + JPY5,000
Excess over JPY20,000	JPY15,000

- Charitable contributions. A deduction is available for qualified charitable contributions in excess of JPY2,000 made each year. To qualify, contributions must be made to the Japanese government, municipalities or designated non-profit organizations.

The deductible amount is the lesser of 40% of the taxpayer's total income or the amount contributed less JPY2,000.

Personal and dependent exemptions

- A resident taxpayer may claim a Basic Deduction for him/herself and for qualified dependents as shown below. Children under age 16 cannot be claimed as a dependent, however, may be eligible for disability exemption. Effective 1 January 2023, overseas dependents aged between 30 and 69 cannot be claimed as dependents unless they (1) have become non-residents of Japan to study abroad, (2) suffer disability or (3) receive financial support from the taxpayer during the applicable tax year of JPY380,000 or more. In all of these cases, supporting documents must be submitted as proof.

Taxpayers with dependent family members who are non-residents of Japan are required to submit documents to prove verification of family and remittances in order to claim dependent deduction, spouse deduction, special spouse deduction or disability deduction.

A non-resident taxpayer is only entitled to the basic deduction.

Basic deduction for taxpayer		Amount deductible for Income Tax	Amount deductible for Inhabitant Tax
Total income:	Less than JPY24 million	JPY480,000	JPY430,000

	over JPY24 million but less than JPY24.5 million	JPY320,000	JPY290,000
	over JPY24.5 million but less than JPY25 million	JPY160,000	JPY150,000
	over JPY25 million	Not eligible	Not eligible

Spouse deduction		Amount deductible for Income Tax		Amount deductible for Inhabitant Tax	
		For a spouse aged		For a spouse aged	
		Under 70	70 and above	Under 70	70 and above
Total income of taxpayer:	Less than JPY9 million	JPY 380,000	JPY 480,000	JPY 330,000	JPY 380,000
	over JPY9 million but less than JPY9.5 million	JPY 260,000	JPY 320,000	JPY 220,000	JPY 260,000
	over JPY9.5 million but less than JPY10 million	JPY 130,000	JPY 160,000	JPY 110,000	JPY 130,000
	over JPY10 million	Not eligible	Not eligible	Not eligible	Not eligible

The table above is only applicable for a spouse whose income does not exceed JPY480,000.

A special spouse deduction (deductible amount ranging from JPY10,000 to JPY380,000 for income tax purpose, and from JPY10,000 to JPY330,000 for Inhabitant Tax purpose depending on the income of both taxpayer and spouse) for a spouse whose income is over JPY480,000 but not exceeding JPY1,330,000, may be claimed by a taxpayer whose income does not exceed JPY10 million.

Dependent deduction	Amount deductible for Income Tax	Amount deductible for Inhabitant Tax
Dependent aged 16-18	JPY380,000	JPY330,000
Dependent aged 19-22	JPY630,000	JPY450,000
Dependent aged 23-69	JPY380,000	JPY330,000
Dependent aged 70 and above and living with taxpayer	JPY580,000	JPY450,000
Dependent aged 70 and above and not living with taxpayer	JPY480,000	JPY380,000

Additional exemptions are available for taxpayer, spouse and dependents under certain cases as follows.

Disability deduction	Amount deductible for Income Tax	Amount deductible for Inhabitant Tax
Taxpayer, spouse or dependent with disability	JPY270,000	JPY260,000
Taxpayer, spouse or dependent with severe disability	JPY400,000	JPY300,000
Spouse or dependent with severe disability living with taxpayer	JPY750,000	JPY530,000

Deduction for female divorcee or widow	Amount deductible for Income Tax	Amount deductible for Inhabitant Tax
	JPY270,000	JPY260,000

Only claimable by (1) female divorcee with a dependent or (2) widow, who is not eligible to claim single parent exemption and whose income does not exceed JPY5 million.

Deduction for single parent	Amount deductible for Income Tax	Amount deductible for Inhabitant Tax
	JPY350,000	JPY300,000

Only claimable by single parent whose income does not exceed JPY5 million.

Deduction for working student	Amount deductible for Income Tax	Amount deductible for Inhabitant Tax
	JPY270,000	JPY260,000

Subject to a certain income threshold.

Tax credits

The following tax credits can, where applicable, be claimed by a resident taxpayer filing a final tax return. A non-resident taxpayer subject to progressive tax rates is also entitled to credits for withholding income tax and donations.

Dividends received credit

This credit is applicable to domestic dividend receipts only. While the amount of the credit is generally calculated as follows, complex tax credit arrangements are also available for certain other types of distributions.

A taxpayer electing to not report dividends received from Japanese public companies and instead suffer final withholding cannot claim the dividend received credit.

Taxpayer's total income	Type	Income tax	Inhabitant tax
Up to JPY10,000,000	Dividends from shares	10%	2.8%
	Distribution from stock investment trusts	5%	1.4%
Over JPY10,000,000	Dividends from shares	5%	1.4%
	Distribution from stock investment trusts	2.5%	0.7%

Credit for withholding income tax

Income tax withheld from employment income, from dividends not subject to separate taxation and from other income reportable in a final return is creditable against income tax due on the final tax return. Special reconstruction income tax imposed on such withholding tax is also creditable against special reconstruction income tax due on the final tax return.

Foreign tax credit

A foreign tax credit is designed to provide relief where a taxpayer is taxed twice on the same income within Japan and outside of Japan. To be eligible for a credit, taxpayer must have foreign source income.

The foreign tax credit is equal to the lesser of:

- The amount of foreign tax paid during the taxable year, or
- The amount of foreign tax credit limitation computed as follows

(Japanese income tax for the year) x (Foreign source income for the year / Total income taxable in Japan for the year)

If the amount of foreign taxes paid during the taxable year exceeds the amount of the credit limitation, the excess may be carried forward three years.

Credit for donations

- Income tax

If a taxpayer pays donations to the following organizations, the taxpayer may elect to claim a tax credit instead of taking an income deduction.

Creditable amount = (a) + (b)	
(a) Tax credit for donations to political parties (the lesser of (i) or (ii))	(i) (Donations to political parties – JPY2,000) x 30%
	(ii) Income tax before tax credits x 25%
(b) Tax credit for donations to authorized NPOs and public interest entities (the lesser of (iii) or (iv))	(iii) Total of the following: - (Donations to designated NPOs – JPY2,000) x 40% - (Donations to certain public interest entities – JPY2,000) x 40%
	(iv) Income tax before tax credit x 25%

In principle, the total of the creditable donations and deductible donations is subject to a ceiling of 40% of total assessable income.

– Inhabitant tax

For inhabitant tax purposes, the following tax credits are available:

Creditable amount = (a) + (b)	
(a) Basic tax credit	(Total amount of eligible donations – JPY2,000) x 10%
(b) Additional tax credit (the lesser of (i) or (ii))	(i) (Total amount of donations to local governments – JPY2,000) x (90% - marginal income tax rate for the individual x 102.1%)
	(ii) Inhabitant tax before tax credits x 10%

Tax rate

Income tax

Taxable Income	Tax Rate	Standard Deduction
Up to JPY1,950,000	5%	JPY 0
JPY1,950,000 - JPY3,300,000	10%	JPY97,500
JPY3,300,000 - JPY6,950,000	20%	JPY427,500
JPY6,950,000 - JPY9,000,000	23%	JPY636,000
JPY9,000,000 - JPY18,000,000	33%	JPY1,536,000
JPY18,000,000 - JPY40,000,000	40%	JPY2,796,000
JPY40,000,000 or more	45%	JPY4,796,000

A surtax called Special Reconstruction Income Tax comprises of 2.1% of income tax above is additionally imposed from 2013 to 2037.

Inhabitant tax

Taxable Income	Tax Rate	Standard Deduction
Flat rate	10%	0

Filing tax returns and making tax payments

Income tax return and tax payments

The tax year for individuals is the calendar year and a final income tax return must be filed by 15 March of the following year or the next business day if 15 March falls on a weekend or a holiday. Extensions of the filing deadline are not available in Japan unless granted by the National Tax Office in regions affected by natural disasters and other events. Final tax due need to be paid by the same day which may be extended for approximately one month if automatic bank transfer system is elected. Credit cards will be accepted for

national tax payments made from 4 January 2017 and the credit card transaction date will be considered as the tax payment date.

If remuneration subject to withholding tax (paid within in Japan and not offshore) is less than JPY20 million and the amount of other income is less than JPY200,000, filing of an income tax return is not required since tax liabilities are settled through year-end adjustment of income tax on salaries and wages made by the employer and other income is deemed insignificant. If such individual has claimable deductions such as casualty losses, medical expenses and donations not deductible through year-end adjustment, a final tax return may be filed to declare such deductions.

Estimated tax prepayment

An individual having filed a tax return in the previous year will be required to make estimated tax payments for the current year in July and November if the final tax payment on the previous year's tax return was more than JPY150,000. Estimated tax payments are generally equal to one-third of the net of income tax less withholding tax on the previous year's tax return.

Inhabitant tax return and tax payments

An inhabitant tax return is generally not required to be filed since information necessary for assessment of inhabitant tax is either submitted by employers or included in income tax return filed with the National Tax Office.

If remuneration is paid through an employer in Japan, inhabitant tax on such income is paid to municipal tax office by the employer through monthly payroll. Inhabitant tax on other income, including remuneration paid outside of Japan in the previous year, is generally paid directly by the taxpayer in four instalments – on or before June 30, August 31 and October 31 of the current year and January 31 of the following year.

Assets and liabilities reporting

Effective 1 January 2016, taxpayers filing a tax return reporting total income in excess of JPY 20 million and whose total value of assets as of the end of the calendar year is JPY 300 million or more or total value of eligible assets for exit tax purposes as of the end of the calendar year is JPY 100 million more must file a "Assets/Liabilities Report" together with their tax return to disclose details of assets and liabilities as of the end of the calendar year.

Overseas asset reporting

Permanent residents with overseas assets valued at over JPY50 million as of the end of a calendar year must submit an "Overseas Assets Report" to disclose their overseas assets by 30 June of the following year. Appropriate disclosure of overseas assets may result in reduced penalties when understatements of tax are found in a tax audit whereas improper disclosure may result in additional penalties.

Exit tax regime

In an effort by the Japanese government to prevent individuals from escaping tax by moving out of Japan, an exit tax regime to impose income tax on unrealized capital gains on financial assets at the time of departure has been introduced and became applicable from 1 July 2015.

In order to eliminate the potential for double-taxation previously created by the exit tax, effective from tax year 2016, stock options and other similar rights, where all or a portion of the income from exercising the right is considered as Japan source income, will be excluded from the scope of the exit tax.

Excess capital losses from listed securities due to the exit tax can be carried forward for up to three years.

Exit tax is applicable to a resident individual terminating domicile or residency in Japan and who satisfies the following conditions:

- Total value of financial assets is JPY100 million or more.
- Resident individual has lived in Japan for more than 5 years within the last 10 years before terminating domicile or residency.

For the purpose of the 5 out of 10 years test above, the period of stay in Japan with a residency status of working visas such as intra-company transferee and specialist in humanities and international services will be excluded. The period of stay in Japan with a residency status of personal status visas such as permanent resident and spouse or children of Japanese national will be included, however due to transitional measures, will not be subject to the exit tax until 1 July 2020.

Exit tax will not apply to foreign expatriate employees staying in Japan with working visas such as intra-company transferee or engineer/specialist in humanities/international services.

Compensation structuring for international assignees

An international assignee coming to Japan on International assignment will generally enter Japan as a non-permanent resident for Japanese Income Tax purposes, unless they have resided in Japan for at least five years in the preceding 10 years. Non-permanent residents are liable for Japanese Income Tax and Inhabitant Tax only on their Japan source income plus any foreign source income deemed to be paid in Japan or remitted to Japan.

Where payroll is processed overseas and salaries and bonuses are paid overseas, the portion of the international assignee's employment income corresponding to the number of days spent outside of Japan on business during the year may be treated as non-Japan source income. Such income will not be taxable in Japan, provided no part of the relevant amount is remitted to Japan. For these purposes, remittance includes drawings from the offices in Japan of an employer company, foreign currency brought into Japan, borrowings in Japan to be repaid outside Japan, etc. An overseas compensation package may therefore offer a tax-planning opportunity particularly for expatriates with business travel outside of Japan. Salaries and wages paid to a non-permanent resident within Japan are taxable in Japan regardless of where the activities are performed.

Where an overseas payroll arrangement is utilized, it is necessary for the relevant employee to maintain a record of remittances made to Japan.

This benefit is available for an international assignee with a non-permanent resident status in Japan. If an international assignee has resided in Japan for more than 5 years in the last 10 years, he/she will become a permanent resident for tax purposes and will be taxed in Japan on worldwide income.

Social Security

Summary

The underlying concept of Japan's social security may have been most eloquently expressed by the Advisory Committee on Social Security, an advisory council to the prime minister, in 1949.

“Measures shall be taken to open the way to extend economic protection to such cases as those which were caused by sickness, injury, childbirth, death, aging, unemployment, many family children, and other causes of destitution either through the means of insurance or the direct means based on public expense. National treasury assistance shall guarantee those who are in destitute the minimum standards of living, while attempts shall be made to improve public health and social welfare so that all Japanese citizens are able to have a life worthy of being members of a civilized society.”

The spirit still holds true even after more than half a century except that the benefits of improved public health and social welfare today are extended to non-Japanese citizens and all residents of Japan irrespective of nationality are valuable members and foundation of this civilized society.

The key features of Japan's social security are (1) the system targets risks that cause social instability and require involvement of the entire public; (2) it is based on the principle of compulsory participation; and (3) insurers that manage the programs are the Japanese government, local municipalities and public or quasi-public agencies or organizations. Most of Japan's social security programs are managed not only by contributions in the form of insurance premiums but also by public funds and taxes.

With few exceptions, therefore, all residents of Japan regardless of nationality are obliged to participate in the nation's social security programs. There are six frameworks of social security programs for employees in Japan categorized into “Social Insurance” (Health Insurance, Nursing Care Insurance, Welfare Pension Insurance and Childcare Allowance Contribution) and “Labour Insurance” (Workers' Accident Compensation Insurance and Employment Insurance).

Health Insurance

All residents of Japan, regardless of nationality, participate in one of a variety of public health care insurance and are issued credit card-sized health insurance certificate cards.

The type corporate employees participate in is often referred to as Employees' Health Insurance or simply Health Insurance and is managed and operated either by the Japanese government or by health insurance associations formed by large corporations and their group companies or by a group of separate companies within the same or similar industry or sector. Registration with Health Insurance is administered by the employer usually by their human resource department or outsourced service provider.

Often times, however, employees on international assignment to Japan or their employers do not recognize the benefit of registering in Health Insurance because their dependent family members and themselves are covered by global private health insurance policies offered by their direct employer as part of their assignment or secondment package. Certain bilateral social security agreements such as those between Japan and the U.S. may, under such circumstances, offer exemptions from participating in Health Insurance. It should, however, be recognized that participation exemption under bilateral social security agreements is limited and in most cases employees on international assignment to Japan and their dependent family members do not escape participation requirements.

In the rare event employees on international assignment to Japan escape participation in Health Insurance not due to the application of bilateral social security agreement but due to the nature of their service performance in Japan and other specific facts and circumstances, they are required to participate in the National Health Insurance managed and operated by local municipalities with jurisdiction over the assignees' registered address for residency card purposes. National Health Insurance is a health insurance for non-employees and participants include workers in agriculture, forestry and fisheries

industries along with shop owners, self-employed workers and those unemployed and their dependent family members. Registration with National Health Insurance requires the individual to complete necessary application forms at the national health insurance division within local municipal offices with jurisdiction over their registered address.

Benefits

Health Insurance allows affordable medical and dental care, hospitalization, prescribed medicines and various other benefits to covered employees and their dependent family members for non-work related injuries and sickness. While these benefits in kind constitute the core of the system, there are also cash benefits that include sickness/injury allowances, maternity allowances and cost compensation for childbirth, funerals, and others.

Benefits in kind

Insured employees and their dependent family members are eligible to receive outpatient and inpatient medical and dental care at hospitals, clinics, dentists and other medical institutions at 30 percent of its full cost by presenting their health insurance card at service counters. Medical services for beauty and other purposes that do not serve to cure injuries or sicknesses are often not subject to reduced cost.

Sometimes insured employees and their dependent family members may undergo costly medical examinations or surgeries at the same medical institution within the same month or over time and find their medical bills to be prohibitively expensive even at 30 percent of full cost. Such high medical costs in excess of certain predetermined amounts based on income levels of the insured may be claimed back or are reimbursable.

It is important to note that medical expenses claimed as a deduction on tax returns need to be reduced for the amounts claimed back or reimbursed through health insurance.

Cash benefits

Health Insurance also offers various cash benefits to covered employees and their dependent family members for non-work related injuries and sickness. Common cash benefits include the following:

- (1) Sickness/injury allowance is paid to insured employees to compensate lost wages, in whole or in part, during medical leave from work. Insured employees gain eligibility beginning the fourth day of leave from work to a year and half thereafter. The allowance is equivalent to two-thirds (approximately 66.67 percent) of daily standard remuneration for each day of unpaid or partial leave from work.
- (2) Maternity allowance is paid to insured female employees to compensate lost wages, in whole or in part, during maternity leave from work. Insured female employees are eligible beginning 42 days before the expected delivery date to 56 days after the date of delivery, which may be before or after the expected delivery date. The allowance is equivalent to two-thirds (approximately 66.67 percent) of daily standard remuneration for each day of unpaid or partially-paid leave from work.
- (3) Childbirth grant is paid to insured employees to compensate costs associated with giving birth. This grant is available when the insured employee gives birth or when a dependent spouse or a family member of the insured employee gives birth. The amount, when birth is delivered at qualified hospitals is JPY500,000.

Insurance contributions

Contributions to Health Insurance are shared equally by employee and employer. An employees' share of the contribution is determined by their monthly standard remuneration multiplied by the contribution rate and is deducted from salaries and bonuses.

For employees whose employer is based in Tokyo, the applicable contribution rate is 10.00% of standard monthly salary and bonus and is capped at JPY139,000 on monthly salaries of JPY1,390,000 or more and at JPY573,000 on annual bonuses of JPY5,730,000 or more. Contributions are shared equally between employer and employee. The contribution rate varies across prefectures.

Standard remuneration

Standard Monthly Remuneration (SMR) is a key concept of social security in Japan. Insured employees' SMR at the time of the insured event will determine the amount of eligible cash benefits such as for sickness/illness allowance and maternity allowance. Insured employees' SMR also determines the amounts of Health Insurance contribution to be deducted from employees' salaries and bonuses along with the employers' matching contribution.

SMR is calculated at the time of hire and generally remains in effect until the following September. SMR is calculated by summing the amounts of monthly base salary, monthly commuting allowance, monthly housing allowance, monthly child tuition allowance, monthly social security allowance and any other allowances fixed and determinable at the time of hire, regardless of given name or title, paid as compensation for services rendered. The monthly sum is then referenced to the Standard Monthly Remuneration Table and plotted within the range of monthly remuneration in an applicable grade.

Each year, the sum of monthly remunerations in April, May and June are averaged, with certain applicable adjustments, and reported to the authorities. The averaged remuneration is referenced to the Standard Monthly Remuneration Table and plotted within the range of monthly remuneration in the applicable grade which generally becomes the new SMR effective September of the same year to August of the following year.

Standard Daily Remuneration (SDR) is equivalent to SMR divided by 30, which becomes the basis for cash benefits for sickness/illness allowance and maternity allowance.

Standard Bonus Remuneration (SBR) is the amount of the actual bonus received rounded down to the nearest thousand. The health insurance contribution rate in effect is then applied to SBR to derive the amount of contributions deducted from the bonus and matched by the employer.

Nursing Care Insurance

The flip side of having one of the longest average life span in the world is that the number of elderly people unable to live on their own in their later years is on continuing rise in Japan. The Nursing Care Insurance Law was enacted in December 1997 and came to effect in April 2000 to sustain the daily livelihoods of elderly people who require care due to physical or mental incapacities related to old age. Benefits are generally provided in kind in the form of care services.

Those aged 40 and above with residency in Japan are, regardless of nationality or the length of intended stay in Japan, required to participate in insurance by having their share of contribution withheld from salaries and bonuses together with contributions for Health Insurance. Contribution rate of Nursing Care Insurance is 1.82% of SMR and SBR. It is capped at JPY25,298 on SMR of JPY1,390,000 and at JPY104,286 on cumulative SBR of JPY 5,730,000 or more. Contributions are shared equally between employer and employee and the applicable rate does not vary across prefectures.

Child Raising Contribution

Child Raising Contributions are pooled by the government to fund child raising grants to eligible households with children.

Child Raising Allowance Contribution is paid by employer only, and contribution rate is currently 0.36% of SMR and SBR. It is capped at JPY2,340 on SMR of JPY650,000 or more and at JPY5,400 on SBR of JPY1,500,000 or more.

Welfare Pension Insurance

All residents of Japan aged 20 and above participate in public pension programs regardless of nationality and are issued a pension booklet which contains a basic pension number unique to each individual.

Corporate employees participate in Welfare Pension Insurance managed and operated by the Japanese government. Registration with Welfare Pension Insurance is administered by the employer, usually by their human resource department or outsourced service provider.

Oftentimes, however, employees on international assignment to Japan or their employers do not wish to register with Welfare Pension Insurance because they are covered under similar system in their home country. Certain bilateral social security agreements, such as those between Japan and the U.S., may, under such circumstance, offer exemptions from participating in Welfare Pension Insurance. It should, however, be noted that exemption is available only if employees on international assignment to Japan obtain a certificate of coverage from a competent authority in their home country prior to their assignment or secondment to Japan.

Employees already living and working in Japan and those coming on assignment or secondment to Japan from countries that do not have a bilateral social security agreement with Japan will be required to register with the Welfare Pension Insurance regardless of whether or not the individual is covered under an equivalent or similar program in their home country.

In the event employees on international assignment to Japan avoid participation in Welfare Pension Insurance not due to the application of bilateral social security agreement but due to the nature of their service performance in Japan and other specific facts and circumstances, they are required to participate in the National Pension managed and operated by the Japanese government. National Pension is a pension system for non-employees. Participants include workers in agriculture, forestry and fishery industries along with shop owners, self-employed workers and those unemployed and their dependent family members. Registration with National Pension requires the individual to file the necessary application forms at the Pension Office or at the national pension division within local municipal offices with jurisdiction over their registered address.

Benefits

Welfare Pension Insurance provides old-age, disability and survivor's benefits to covered employees and their dependent family members.

Old-age benefits

In principle, a covered employee who has (a) contributed to Welfare Pension Insurance for 10 years or more (effective August 1, 2017), (b) reached 65 years of age and (c) is not employed is eligible to receive Old-Age Basic Pension (a fixed amount) and Income-Related Pension (a variable amount).

Disability benefits

Disability benefits are generally provided to employees who suffer non-work related injuries or sickness and who continue to suffer disability after 18 months. Sickness/illness allowance from Health Insurance is available during the 18 months if the employee is unable to work and unpaid.

Survivor's benefits

Survivor's benefits are provided to a dependent spouse or other qualified relatives in the case of death of the covered employee.

Lump-sum withdrawal payment

Employees on international assignment or secondment to Japan who participated in Welfare Pension Insurance may elect to claim a part of their cumulative contribution paid into the Welfare Pension Insurance through payroll deductions.

As of 1 September, 2020, the contribution rate of Welfare Pension Insurance is 18.30% of SMR and SBR. It is capped at JPY 118,950 on SMR of JPY 650,000 or more and at JPY274,500 on SBR of JPY 1,500,000 or more.

Workers' Accident Compensation Insurance

Workers' Accident Compensation Insurance provides benefits to employees who suffer injuries and sickness arising out of and in the course of employment including daily commuting to and from work. Employers with one or more employees are required to provide insurance coverage to employees under the Workers' Accident Compensation Insurance.

Contribution rates range from 0.25% to 8.8% of actual salaries and bonuses, depending on the industry in which employers operate and the type of work employees are engaged in. There are no upper limits on the contribution amounts.

Medical expenses related to injuries and sickness arising out of and in the course of employment including daily commuting to and from work are covered in full by the insurance. In the case of permanent disability, annual or lump-sum benefits are paid based on the severity of the injury.

Employment Insurance

Employment Insurance provides unemployment benefits and job securing assistance to the unemployed. Employers with one or more employees are required to provide insurance coverage to employees under Employment Insurance.

Though at different rates, employers and employees both contribute to the system by paying insurance contributions. In most industries, contributions paid by employers is 0.95% of employees' salaries and bonuses, and contributions paid by employees is 0.60% of their salaries and bonuses. There is no upper limit on the contribution amount.

Employment Insurance provides unemployment benefits for a period of 90 to 360 days depending on the length of service with the previous employer and the reason or cause of leaving the previous employer.

Monetary grants during childcare leave

Monetary grants are provided to covered employees, both female and male, on unpaid childcare leave to compensate for lost wages.

The monetary grant is equivalent to two-thirds (approximately 66.67 percent) of daily standard remuneration for each day of unpaid or partially-paid leave from work until 180 days from the eligible date. After 180 days, the allowance will be equivalent to half (50 percent) of daily standard remuneration for each day of unpaid or partially-paid leave from work.

International Social Security Agreements

Objectives

Since the early 2000's, Japan has established a network of bilateral Social Security agreements that coordinate the Japanese Social Insurance systems with the comparable systems of other countries. The topic should be of particular interest to multinational companies and to people who work abroad during their careers.

International Social Security agreements, often called "Totalization Agreements" have two main purposes: (1) elimination of dual Social Security taxation, the situation that occurs when a worker from one country works in another country and is required to pay Social Security taxes to both countries on the same earnings, and (2) filling gaps in benefit protection for workers who have divided their careers between Japan and another country.

Following is a list of agreements Japan has concluded and the effective dates of each as of 31 October, 2023. Some of these agreements were subsequently revised; the dates shown are the dates the original agreement entered into effect.

Germany	February 2000
United Kingdom	February 2001
Korea	April 2005
United States	October 2005
Belgium	January 2007
France	June 2007
Canada	March 2008
Australia	January 2009
Netherlands	March 2009
Czechoslovakia	June 2009 (Currently preparing for partial amendment)
Spain	December 2010
Ireland	December 2010
Brazil	March 2012
Switzerland	March 2012
Hungary	January 2014
India	October 2016
Luxemburg	August 2017
Philippines	August 2018
Slovakia	July 2019
China	September 2019
Finland	February 2022
Sweden	June 2022
Italy	April 2024

Elimination of Dual Taxation

Without some means of coordinating Social Security coverage, people who work outside their country of origin may find themselves covered under the systems of two countries simultaneously for the same work. When this happens, both countries generally require the employer and employee to pay Social Security taxes.

Dual Social Security tax liability is a widespread problem for multinational companies and their employees because, for example, the U.S. Social Security program covers expatriate workers, both those coming to

the United States and those going abroad. U.S. Social Security extends to U.S. citizens and U.S. resident aliens employed abroad by U.S. employers without regard to the duration of an employee's foreign assignment, and even if the employee has been hired abroad. This extraterritorial U.S. coverage frequently results in dual tax liability for the employer and employee since most countries, as a rule, impose Social Security contributions on anyone working in their territory.

Paying dual Social Security contributions is especially costly for companies that offer "tax equalization" (or "gross up") arrangements for their expatriate employees. A firm that sends an employee to work in another country often guarantees that the assignment will not result in a reduction of the employee's after-tax income. Employers with tax equalization programs, therefore, typically agree to pay both the employer and employee share of host country Social Security taxes on behalf of their transferred employees.

Under the tax laws of many countries, however, an employer's payment of an employee's share of a Social Security contribution is considered to be taxable compensation to the employee, thus increasing the employee's income tax liability. Tax equalization arrangement generally provides that the employer will also pay this additional income tax, which in turn serves to increase the employee's taxable income and tax liability even further. The employer again pays the additional tax and so forth. As one can readily see, the employee's foreign Social Security coverage results in a substantially greater tax burden for the employer than the nominal Social Security tax alone.

Detached-worker Rule

Most agreements include an exception to the territoriality rule, a rule whereby an employee who would otherwise be covered by both Japan and a foreign system remains subject exclusively to the coverage laws of the country in which he or she is working, designed to minimize disruptions in the coverage careers of workers whose employers send them abroad on temporary assignment. Under this "detached-worker" exception, a person who is temporarily transferred to work for the same employer in another country remains covered only by the country from which he or she has been sent.

For example, an individual temporarily transferred by the US employer to work in Japan continues to be covered under US social security and can be exempt from registering with Japanese social security. The individual and employer pay contributions only towards US social security.

The detached-worker rule in Japanese agreements generally applies to employees whose assignments in the host country are expected to last 5 years or less. The 5-year limit on exemptions for detached workers is substantially longer than the limit normally provided in the agreements of other countries.

Totalization of Coverage Periods

Workers who have divided their careers between two countries sometimes fail to qualify for retirement, disability, or survivors' benefits from one or both countries because they do not have enough credits to be eligible. Under the totalization agreement, such workers may qualify for partial or full benefit based on combined, or "totalized", coverage credits from both countries

Inheritance Tax and Gift Tax

Inheritance Tax and Gift Tax

Background

Japan has one of the highest tax rates in the World for transfers of wealth, such as by inheritance or gift. Despite this, in recent years the government has sought to widen the scope of Inheritance Tax and Gift Tax as part of a drive to increase the tax levied on high net worth individuals. Following the business sentiment that the laws were a difficult obstacle to recruiting highly-skilled professionals from overseas, additional measures were introduced to bring Japan's inheritance and gift tax laws in line with several European countries and the U.S., which do not levy inheritance/estate tax on expats on temporary assignments with offshore assets.

The resulting tax reforms have resulted in a complicated set of rules to determine a taxpayer's obligation to file returns and pay tax.

Outline

Japan operates an Inheritance Tax system supplemented by a Gift Tax system. Inheritance Tax is levied on the transfer of property from a decedent and the Gift Tax system applies to prevent the reduction of the Inheritance Tax base through transfers during a taxpayer's lifetime. The obligation to pay and the scope of both taxes are the same in most situations, but Gift Tax rates are higher than Inheritance Tax rates and the exempt amount is lower.

Obligation and scope

The obligation to pay Japanese Inheritance Tax and Gift Tax falls on the person inheriting or receiving assets. The chart below shows the scope of Japan IHT and Gift Tax

Decedent / donor \ Successor / donee		Domicile in Japan		No domicile in Japan		
			Temporarily domiciled *1	Japanese national		No Japanese nationality
				Domiciled in Japan within the past 10 years	No domicile in Japan within the past 10 years	
Domicile in Japan						
	Foreign nationals with applicable visa status *2					
No domicile in Japan	Domiciled within the past 10 years					
	No Japanese nationality	Non-resident decedent/donor* 3				
	No domicile in Japan within the past 10 years					

Worldwide assets fall within the scope of Japan inheritance and gift tax.

Only assets located in Japan fall within the scope of Japan inheritance and gift tax.

Notes:

*1 Temporarily domiciled

Visa status from Immigration Control and Refugee Recognition Act Appendix Table 1 (other than Permanent resident and Spouse of Japanese national), AND domiciled in Japan for fewer than 10 of previous 15 years

*2 Foreign nationals with applicable visa status

Visa status from Immigration Control and Refugee Recognition Act Appendix Table 1 (other than Permanent resident and Spouse of Japanese national).

*3 Non-resident decedent/donor

The decedent or donor had domicile in Japan within 10 years prior to the gift or inheritance but did not have Japan nationality during that time.

Inheritance Tax Calculation

Basic exemption

Each estate benefits from a basic exemption and a deduction for each statutory heir. As a result, the tax basis of an estate for Inheritance Tax purposes is calculated as follows:

Taxable amount = Value of assets received – JPY30 million
(basic exemption) – (JPY6 million x no. of statutory heirs)

Tax rate

The liability is then calculated as:

Tax liability = (Taxable amount x tax rate) – deduction

based on tax rates as shown in the table below:

Total taxable amount after exemptions (JPY)	Inheritance Tax rate (%)	Deduction (JPY)
10 million or less	10	0
30 million or less	15	500,000
50 million or less	20	2 million
100 million or less	30	7 million
200 million or less	40	17 million
300 million or less	45	27 million
600 million or less	50	42 million
More than 600 million	55	72 million

Gift Tax Calculation

Gift Tax is calculated based on the sum of gifts received by a taxpayer during a calendar year. The tax basis for Gift Tax purposes is calculated as follows:

Taxable gifts = Net value of assets received during a calendar year – JPY1.1 million (annual exemption)

Tax rate

The liability is then calculated as:

$$\text{Tax liability} = (\text{Taxable amount} \times \text{tax rate}) - \text{deduction}$$

Different rates and deductions apply depending on the nature of the relationship between the donor and the donee.

For gifts within a family to a donee who is at least 18 years old from a lineal ascendant the tax rates and deductions are as follows:

Taxable gift (JPY)	Gift Tax rate (%)	Deduction (JPY)
2 million or less	10	0
4 million or less	15	100,000
6 million or less	20	300,000
10 million or less	30	900,000
15 million or less	40	1.9 million
30 million or less	45	2.65 million
45 million or less	50	4.15 million

More than 45 million	55	6.4 million
----------------------	----	-------------

For gifts other than the above, the rates and deductions are as follows:

Taxable gift (JPY)	Gift Tax rate (%)	Deduction (JPY)
2 million or less	10	0
3 million or less	15	100,000
4 million or less	20	250,000
6 million or less	30	650,000
10 million or less	40	1.25 million
15 million or less	45	1.75 million
30 million or less	50	2.5 million
More than 30 million	55	4 million

Filing and payment obligations

Inheritance Tax returns must be filed within ten months of the date of the passing of the decedent. Gift Tax returns must be filed between 1 February and 15 March of the calendar year following the gift. Any Inheritance Tax or Gift Tax due should be paid by the same deadline as the tax return.

Others

Lookback period for lifetime gifts added back to estate

Property gifted by a decedent to their heirs during a certain period of time prior the date of passing is deemed to be part of the original inheritance, and is added to the inherited property. Prior to the 2023 Tax reform, gifts made within three years prior to the passing of a decedent were added back to the estate. The lifetime gifts were included with other inherited property and inheritance tax levied on the total amount. A deduction from the liability was taken for certain amounts of gift tax paid. The reform extended the lookback period to 7 years for gifts made after 1 January 2024.

Foreign Tax credit

A foreign tax credit is available for taxes similar to Inheritance Tax or Gift Tax which are paid in a foreign country on assets located outside of Japan. In the absence of an estate tax treaty with the country, the credit is limited to taxes paid in a single jurisdiction. Currently Japan has only entered into an estate tax treaty with the USA.

For Inheritance Tax purposes, the credit is capped at using the following formula:

$$\text{Foreign tax credit limit} = \text{Japan Inheritance tax due} \times \frac{\text{Property received located in the foreign country}}{\text{Total property received}}$$

For Gift Tax purposes, the credit is capped at using the following formula:

Foreign tax credit limit =

$$\text{Japan Gift tax due} \times \frac{\text{Gifts of property located in the foreign country during the year}}{\text{Total property received through gifts during the year}}$$

Other Taxes

Assets Tax (Depreciable Assets)

Depreciable assets are defined as the business assets excluding land/buildings where the amount of depreciation expense is included in losses or necessary expenses when calculating the income pursuant to the Corporation Tax Act or the Income Tax Act. These assets include the structures, machinery, equipment and fixtures, which the corporations or individuals who run a business can use for their business.

(1) Submitting the tax return

Those who possess depreciable assets as of 1 January in any given year shall report the depreciable assets concerned to the municipal office or the Tokyo Metropolitan Taxation Office in the ward (the 23 special wards) where the assets are located by 31 January of the year. The property price of depreciable assets is determined based on the information contained in the taxpayer's tax return and is registered into the depreciable assets tax register.

(2) Issue of Tax Notice

The tax amount is calculated in the following way, and a Tax Notice issued in early June.

$$\text{Tax amount} = \text{Standard taxable value} \times \text{Tax rate (1.4\%)}$$

The standard taxable value is the value that is decided based on the assessed value as of the base date for assessment (1 January) and is registered into the depreciable assets tax register. If the standard taxable value calculated at assessment is less than JPY1,500,000 (tax exemption limit), no fixed assets tax is imposed, and therefore a tax notice is not issued.

(3) Payment due dates

Payment due dates are the each end of June, September, December and February. It is possible to pay the entire tax in June.

(4) When renting offices or other spaces (as tenants, etc.):

The tax is imposed on the depreciable fixed assets such as interior finishing, fixtures and building equipment installed by a tenant.

O = Taxable, X = Non-taxable

Acquisition value / Depreciation method	Less than JPY100,000	JPY100,000 to less than JPY200,000	JPY200,000 to less than JPY300,000	JPY300,000 and above
Individual depreciation	O	O	O	O
Special provision for small business enterprises	O	O	O	
Inclusion into temporary deductible expense	X			
Three-year lump-sum depreciation	X	X		

Business Establishment Tax

Business establishment tax is a special purpose tax to be used for projects which to improve and maintain the urban environment. This is also municipal tax imposed only in the cities specified by the Local Tax Act.

The term “Business establishment” refers to offices and establishments regardless of whether they are owned or rented. Specifically, this includes offices, stores, factories and warehouses.

(1) Taxpayers and tax calculation

- Fixed assets rate

Corporations or individuals whose total floor space of offices in the specific cities is more than 1,000m² (tax exemption limit).

$$\text{Tax payable} = \text{Floor areas of offices (m2)} \times \text{JPY600}$$

- Employee rate

Corporations or individuals whose total number of employees in offices located in the specific cities is more than 100 (tax exemption limit).

$$\text{Tax payable} = \text{Total amount of employees' salary} \times 0.25\%$$

(2) Decision on tax exemption limit

The tax exemption limits are decided for the fixed assets rate and employee rate respectively in accordance with the actual status as of the final day of the business accounting year for corporations and as of December 31 for individuals.

(3) Due date and procedures for tax payment

The tax must be calculated by self-assessment and paid to the municipal office or the Tokyo Metropolitan Taxation Office in the ward (the 23 special wards), in which the principal place of business is located, within two months from the closing date of the business year in case of corporations, and for individuals by March 15 of the year following the year when the business was conducted. Different from enterprise tax and inhabitant tax on corporations, business establishment tax has no system for extending the due date of filing a tax return.

Real Estate Acquisition Tax

Tax is imposed on those who acquired real estate through purchase, gift, or exchange of land/building or constructing (enlargement and remodelling) of a new residence/building, regardless of whether the property is registered or not. The tax, however, is not assessed for acquisition through inheritance.

(1) Tax calculation

$$\text{Assessed value of acquired real estate (standard taxable value)} \times \text{Tax rate}$$

For residential land or evaluated residential land acquired on or before March 31, 2021, the standard taxable value is the acquisition price x 1/2. The tax rate is as follows:

Date of Acquisition	Land	Building (Residential)	Building (Non-Residential)
From 1 April, 2008 to 31 March, 2021		3/100	4/100

(2) Due date and procedures for tax payment

A tax notice is sent from the municipal office or the Tokyo Metropolitan Taxation Office. The tax shall be paid by the end of tax period at the tax authority, at financial institutions such as banks, or post office.

(3) Value of acquired real estate

The value of acquired real estate is assessed and determined based on the Standard Valuation Code of Fixed Assets, which was established by the Ministry for Internal Affairs and Communications. The assessed values are basically equivalent to the registered prices in the fixed assets tax register except for new or enlarged buildings. Therefore, the values refer to neither purchase prices of real estate nor construction work expenses.

(4) Tax exemption limit

Real estate acquisition tax is not assessed when the standard taxable amount of the property is lower than shown in the table below:

Type		Value (JPY)
Land		100,000
Buildings	New/ expanded/renovated	230,000
	Others	120,000

(5) Notification of the acquisition of real property

Notification must be submitted to the competent municipal office or Metropolitan Taxation Office having jurisdiction over the area where the land/buildings are located, within 30 days from the date of acquisition.

Fixed assets tax (Land & Buildings)

Those who are registered in the fixed assets tax register as owners of land and/or buildings as of January 1 shall pay the fixed assets tax.

(1) Taxpayer subsequent to transfer of assets

In the event that the transfer of ownership of assets is executed on or after January 2, the obligation for paying taxes on the assets is not transferred. Although there may be cases in which the burden of the fixed assets tax is shared between the parties based on the sales contract in proportion to the length of period of ownership, such an arrangement is not required under tax laws.

(2) Tax payment

(Standard taxable value x 1.4%) - Deductions, etc.

(3) Due date and procedures for tax payment

In principle, taxpayers shall pay the tax four times a year in June, September, December, and February based on the Tax Notice that is sent in the first tax due month in June.

(4) Assessed value of fixed assets

The value of fixed assets is the price that is determined by the prefectural governors or the mayors of city, town or village on the basis of the Standard Valuation Code of Fixed Assets, which was established the Ministry of Internal Affairs and Communications, and then registered in the fixed assets tax register.

(5) Tax exemption limit

Fixed assets tax is not imposed when the total standard taxable value of fixed assets owned by the same person in the same municipality is less than JPY300,000 for land and JPY200,000 for residential buildings.

City planning tax

City planning tax is a special-purpose tax used to cover expenses for city development/maintenance and other costs. In principle, it is levied on individuals who own land or residential buildings in urbanization promotion areas designated under the City Planning Act.

(1) Taxpayers and tax payment

Those who were registered in the fixed assets tax register as owners of land and/or buildings as of January 1 pay the city planning tax.

Standard taxable value x 0.3% - Deductions

*A tax reduction is applied for small-scale residential land.

(2) Due date and procedures for tax payment

In principle, taxpayers shall pay the tax four times a year in June, September, December, and February based on a Tax Notice that is sent in the first tax due month in June. City planning tax is levied in conjunction with fixed assets tax on land, houses and buildings. The Tax Notice shows both the city planning tax and the fixed assets tax due.

Registration and license tax

Registration and license tax is 0.7% of share capital (minimum JPY150,000) at the time of incorporation of a limited stock company and 0.7% for registration of an increase in share capital (minimum tax amount JPY30,000). Registrations of ownership, leaseholds rights, real estate mortgages, industrial property and other rights, directors and statutory auditors of a company and business licenses of regulated businesses are also subject to registration and license tax.

Payment shall be made in cash, and the registration application form should be submitted together with the receipt of tax payment. When the tax amount is JPY30,000 or less, payment can be made with the stamp.

Stamp tax

Stamp tax is levied on certain taxable documents, such as agreements, bills and receipts designated under the Stamp Tax Law. Those who create these documents should paste a revenue stamp based on the value of consideration shown in the document.

The creator of the document bears the responsibility for paying the tax and if this obligation is not met, penalty tax of 3 times the stamp amount is imposed (reduced to 1.1 times if the mistake is pointed out by the taxpayer)

Employment Regulations and Industrial Relations

What kind of employment regulations exist?

Numerous laws regulate the employment environment in Japan. Among them, the Labour Standards Law stipulates the minimum employment conditions employers must observe including terms and conditions of labour contracts, wages, working hours, holidays, paid annual leave, safety, sanitation, women and minors, accident compensation, working regulations, etc.

Other examples of laws regulating the employment environment include the Labour Union Law which regulates the formation of labour unions, collective bargaining, labour agreements, etc. and the Labour Relations Adjustment Law which regulates restrictions and resolutions on strikes and other labour disputes.

What are customary working hours and holidays?

Labour Standards Law stipulates those working hours must not be more than 8 hours a day and 40 hours a week. A working day from 9:00 a.m. to 5:00-6:00 p.m., with a one-hour lunch break, and a 5-day work week is common in Japan. Employer must submit an agreement on overtime and holiday work under the article 36 of the Labour Standards Law if employees are required to work more than statutory working hours and holiday work.

The Labour Standards Law stipulates that an employer must give an employee at least 4 days' holiday in every 4-week period. Customary holidays are Sundays (and Saturdays in case of 5-day work week) and national holidays. In addition, annual paid holidays are given to employees based upon the company's internal working regulations or labour agreement. The minimum statutory requirement is 10 days following completion of the first six-months of service, with one day added for each of the following two years and two days added for each year thereafter of up to a total of 20 days.

Is compensation payable for redundancy?

Labour Standards Law stipulates that when an employer discharges an employee, the employer must notify the employee 30 days in advance; otherwise, the employer must pay the employee the equivalent of at least 30 days wages. Although not legally required, it is a common practice for Japanese companies to pay severance benefits when an employee leaves an employer. Amount of benefit is generally determined on the basis of number of years of service, current salary level and whether the termination is voluntary or involuntary.

It is important to note that due to the protective nature of the Labour Standards Law, terminating employees is very difficult and involves significant legal risk. Article 16 of the Labour Contract Law provides that "a dismissal shall, if it lacks objectively reasonable grounds and is not considered to be appropriate in general societal terms, be treated as an abuse of right and be invalid."

Further, numerous court cases have established rules on terminating employees due to business downsizing. The rules require that termination due to downsizing (1) was necessary from a business management perspective; (2) an effort was made by management to avoid business downsizing, (3) reasonable standards were set in place in selecting employees for termination; and (4) discussions were

held with the selected employee. Courts have voided terminations lacking these factors and ordered monetary compensation to employees.

What labour organisations exist?

Labour Standards Inspection Office supervises compliance with the Labour Standards Law and other employment related laws. An employer with 10 or more employees is required to prepare and file an Employers' Handbook or other internal policies with the Labour Standards Inspection Office, with the opinion of the labour union or other employee representative.

Are working conditions controlled?

An inspector of the Labour Standards Inspection Office may order an employer to present its books and records or inspect them at the employer's premises and question the employer or employees to investigate compliance with labour and employment laws and regulations. An employee may ask for such an investigation. Penalties include imprisonment and fines for violation of respective laws and regulations.

Are work permits required for foreign workers?

Yes. The Immigration-Control and Refugee-Recognition Law stipulates that only foreign persons who have obtained visas for (a) engaging in trade and other business or investment activities in Japan, (b) providing advanced or special technique or skills for invited organisations, (c) working as skilled labourers or (d) living permanently in Japan, may work in Japan.

Are annual health check-ups required?

Yes. Industrial Safety and Health Law required employers to have their employees undergo annual medical examinations. The contents of the medical examination differ based on age and sex of employees. The cost of the medical examination is borne by the employer and time spent undergoing medical examination is considered as time worked.

Manufacturing and Other Trade Regulation

Are manufacturing licences required?

Manufacturing, selling and importing of pharmaceuticals products and oftentimes medical devices require licence from the Ministry of Health, Labour and Welfare. Manufacturing, selling and importing of other products may require specific government licenses.

Are there any controls over prices and income?

While prices of certain basic products and services such as rice and other grains, petroleum, transportation fares, telephone and other utilities are controlled by the Japanese government, prices of other products and services are left to a supply and demand dynamics of economics.

Is there any legislation over restrictive practices?

Anti-Trust laws prohibit private monopolies, unreasonable trading restrictions, unfair trading methods and any unreasonable restrictions on business activities by means of combination or agreement. The Fair-Trade Commission supervises compliance with the law.

What other restrictions may be imposed on a company's business?

Various laws, guidance by the regulatory Government departments and various agreements including labour agreements and loan agreements may impose restrictions on a company's business.

Contact details

Grant Thornton International Business Centres in Japan can be located at the following addresses:

International Business Centre

Director: Isamu Takagi

AKASAKA K-TOWER 18F
1-2-7 Motoakasaka, Minato-ku
Tokyo, 107-0051
Telephone: +81-36438-9395
www.grantthornton.jp

Grant Thornton Taiyo LLC (Audit Services)

Tokyo

AKASAKA K-TOWER 22F
1-2-7 Motoakasaka, Minato-ku
Tokyo, 107-0051
Telephone: +81-3-5474-0111

Osaka

Umeda center Building 25F
2-4-12 Nakazaki-Nishi, Kita-ku
Osaka, 530-0015
Telephone: +81-6-6373-3030

Grant Thornton Taiyo Tax Corporation (Tax Services)

Grant Thornton Taiyo Inc. (Consulting)

Grant Thornton Taiyo Human Capital Corporation (Payroll solutions and Human Capital Services)

Grant Thornton Taiyo Accounting Service Inc. (Accounting solutions and Treasury Services)

Tokyo

AKASAKA K-TOWER 19F,
1-2-7, Motoakasaka, Minato-ku,
Tokyo, 107-0051
Telephone: +81-3-5770-8822

Osaka

Umeda Center Building 13F
2-4-12 Nakazaki-Nishi, Kita-ku
Osaka, 530-0015
Telephone: +81-6-6359-0002

Grant Thornton Taiyo Advisors Co., Ltd. (Advisory Services)

Tokyo

AKASAKA K-TOWER 22F
1-2-7 Motoakasaka, Minato-ku
Tokyo, 107-0051
Telephone: +81-3-6434-0



Grant Thornton

<https://www.grantthornton.jp/>

Member firm name is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered independently by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.