

---

## Some Basic differences between Opening a Branch and Establishing a Domestic Corporation in Japan

In terms of the range of business activities allowed, there are no basic differences between branch office and domestic corporation. But regardless of the firm being foreign or not, some companies, depending on the category of business, are required to secure authorization of the supervisory ministries at the time of founding.

A Branch office is not regarded as an independent legal entity, but as acting on the basis of decisions and instructions from the parent company (head office) to provide services and carry out business activities, including purchasing, importing, and sales etc. In transactions with other businesses, the branch office concludes contracts as the representative of its parent company (head office).

## Some major differences between a branch office and A domestic Japanese corporation

Either a branch office or a domestic corporation may enter into business activities by its own name as an entity. Tax rates are also fundamentally same for a branch office and a domestic corporation. However, the differences are in the following areas:

- 1) A new management body need not be set up for a branch office and there is no detailed statutory requirement for the management of a branch office. While a domestic corporation must have statutory officers or a management body such as directors, auditors, board of directors meetings and shareholders meetings, a branch does not require to do so but only needs a Representative in Japan.
- 2) Dividends paid by a domestic corporation to a foreign shareholder are subject to withholding tax, while remittance of branch profits after tax to its head office is not subject to withholding tax.
- 3) Expenses incurred by the head office for its branch may be allocated to its branch if it is spent for branch purpose.
- 4) Interest or royalty paid by the head office for activities of its branch, may be deducted by its branch although such interest or royalty is subject to withholding tax.
- 5) Local "**Resident in Japan**": Branch must have a local "**resident in Japan**" out of the max. two "**Representative in Japan**" that is allowed for registration. However, in case of a local "**subsidiary co.**" as mentioned below under new law effective Mar'15 it is no more mandatory to have a local "**resident in Japan**" "director" in case of K.K. co. & "Member / Executive Officer" in case of G.K. co. But in case of a G.K. co. the investor must be an overseas corporation!

---

Japanese govt. has allowed foreign co. to register a local **subsidiary co.** in Japan without a local "**Resident in Japan**". [*In case of G.K. Co. the overseas investor must be a corporation*]

But in both cases it would require a temporarily a local "**Resident in Japan**" for the purpose of completing the procedure of paid-up capital for K.K. Co. & equity for G.K. Co.

In case of a **K.K. Co.** a "local resident shareholder" & in case of a **G.K. Co.** a "local resident member (equity holder)".

## Comparison between Japan “Branch Office” and “Subsidiary Co.”

	Branch Office	Subsidiary Company	
		Kabushiki-Kaisha {(Kabushiki Joto Seigen Kaisha) (If No Committee is Established)}	Godo-Kaisha Limited Liability Co (LLC)
<b>Capital</b>	No capital (same as HO)	1 yen or more <b>(*1)</b>	1 yen or more <b>(*1)</b>
<b>Number of investors</b>	Not applicable	1 or more	1 or more
<b>Liability of equity participants / parent co. toward creditors</b>	<i>Unlimited</i>	Limited to amount of equity participation	Limited to amount of equity participation
<b>Transfer of equity participation share</b>	<i>Not applicable</i>	May be transferred freely in principle. May be stipulated in articles of incorporation so that approval of Board of Directors is needed for transfer of shares.	Unanimous approval of equity participants (members) required
<b>Number of executives required</b>	<i>Representative in Japan - 1 or 2(*2)</i>	Appointment of 1 or more <b>(*2)</b> . Representative director with right to execute business. If no representative director is appointed, executive officers each have the right of representation.	No legally stipulated min. In principle, all members are executive officers, but a representative member may be appointed <b>(*2)</b> .
<b>Legally stipulated term of office for executives</b>	<i>No legally stipulated term</i>	2 years in principle. Extendable up to 10 years	No legally stipulated term
<b>Regular general meeting of shareholders / members</b>	Not required	In principle, must be held every year	Not required
<b>Possibility of public offer of stock</b>	Not applicable	Possible	Not possible
<b>Possibility of reorganization into joint-stock corporation</b>	Not possible. Need to separately close branch office and establish joint-stock corporation <b>(*3)</b>	N/A	Possible
<b>Distribution of profits and losses</b>	C/o Parent Co.	Allocated according to equity participation ratio	May be allocated at a different ratio from equity participation ratio if specified in articles of association
<b>Taxation of profits</b>	Income arising within Japan is in principle taxed	Taxed on profits according to a K.K. Co and profits allocated to shareholders	Taxed on profits according to a G.K. Co and profits allocated to members

**(\*1)** Establishment with zero yen capital is theoretically possible but in practice to incorporate without paying capital is not possible.

**(\*2)** At least one representative must be a “Resident in Japan”. [Except for subsidiary company under new regulation effective Mar’15, however in case of a G.K. Co. in such case investor must be an overseas company]

**(\*3)** Refer to "Closure of branch office" for details.

Disclaimer: This information is for illustration purpose, no warranty is given that it is free from error or omission, and Sarkar Office® cannot be held liable for any decision made based on this information only!.