



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 corporations. But regardless of the company being foreign or not, some companies, depending on the category of business & activities, are required to secure authorisation 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 a legal business entity. Tax rates are also fundamentally the same for a branch office or 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.

Note: In both branch or a subsidiary co a local resident is required (Representative in Japan for branch & Local Resident Director for subsidiary Co), either a Japanese national or a foreigner with proper resident permit in Japan, and a local physical address is required for registration of a branch or subsidiary Co and not a P.O. address.

However, **effective Mar'15** Japanese government has allowed foreign company to register a **Japanese KK Co** with directors residing abroad and the mandatory requirement of at least one local Resident Director has been relaxed / abolished!

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