

## Japan Corporate Taxes – Brief Summary

### Japanese corporate tax system for investment in Japan At a Glance / Bullet points

➤ **Neutrality of tax system with respect to mode of business presence (branch or subsidiary):**

Corporations engaged in economic activities in Japan are subject to taxes in Japan on the profits generated by those economic activities.

**Income of corporations established in Japan** is, as a rule and with the exception of certain non-taxable and tax-exempt income, subject to taxation, regardless of where it was generated (i.e., the source country of income). When income includes profits earned overseas & taxed at source foreign tax credits are available against Japanese taxes owed to double taxation between the said overseas country & Japan.

Re **Branch office of foreign corporations**, measures such as only certain income is subject to taxation in Japan, have been implemented to avoid international double taxation in Japan.

***The scope of taxable income of Branch Office has significantly changed from the business year commencing on or after April 1, 2016.*** Under this new regulation effective Apr'16 Branch Office & Head Office, etc. shall be respectively deemed to be an independent corporation and subject to taxation.

Profits/losses from the internal transactions between the **branch and head office**, etc. are to be recognized based on the presumption that transactions are conducted with the arm's length prices. Japan branch office (permanent establishment) is taxable in the third country, foreign tax credits are available whereby taxes paid in the third country.

➤ **Withholding at source and self-assessment/payment:**

**Multinational corporations** engaged in activities in Japan that earn income subject to taxation in Japan calculate and pay the taxes owed through withholding procedures or self-assessed income tax procedures according to their form of corporation and type of income.

➤ **Domestic-sourced income:**

Below is the typical example of the domestic-sourced income. Types of domestic-sourced income & taxable scope have also changed from the business year commencing on or after April 1, 2016 as mentioned in the tables.

- Business Income derived from business activities in Japan
- Income derived from the management/holding of assets in Japan
- Rent of real estates and other properties in Japan
- Other domestic-sourced income (please refer to the tables for further details) etc.

➤ **Establishment of corporations or Branch office in Japan and Tax-office notification:**

When a “**Japanese corporation**” or a “**Branch office**” is newly established & registered in Japan in accordance with Japanese law tax notification pertaining to start-up must be submitted to tax authorities within a prescribed period after establishment.

## ➤ Corporate Income Taxes and Tax rates:

The taxes levied in Japan on income generated by the activities of a corporation include **Corporate tax** (national tax), **Local corporate tax** (national tax), **Corporate inhabitant tax** (local tax), **Enterprise tax** (local tax), and **Special local corporate tax** (a national tax), are collectively referred to as "**Corporate taxes**" and please refer to the the tables for details & tax rates.

**Scope of income subject to corporate tax:** The income of corporations established in Japan is subject to taxation in Japan regardless of where it was sourced and details are mentioned in tables "Overview of taxation of corporate tax and income tax on foreign corporations".

## ➤ Income of "Representative office" in Japan:

Representative offices, etc., through which a foreign corporation engages in business in Japan are not supposed to derive any income subject to corporation tax from publicity/advertising, information provision, market surveys, basic study and other activities auxiliary to the performance of its business.

## ➤ Calculation of income subject to Corporate tax:

The amount of income used as the tax base for corporate taxes on income for each taxable year is determined by making the necessary tax adjustments to corporate profits calculated using accounting standards generally accepted as fair and appropriate. Costs and expenses incurred in earning profits are deductible, except in certain exceptional instances.

**Foreign corporations** face no restrictions on the locations in which costs and expenses deductible from Japan-sourced taxable income may be incurred. However, detailed statements of costs and expenses incurred overseas and deducted from income in Japan must be prepared, and these costs and expenses must be allocated fairly in the prescribed manner.

## ➤ Treatment of losses:

Net losses under income in each business year are carried forward for the next **nine (9) years** (or ten years in the case of losses arising during the business years beginning on or after April 1, 2018). Losses may only be carried forward in this way if a **blue form tax return** is filed for the **business year** in which the loss arose, and a final tax return is then filed every subsequent year.

## ➤ Filing of Corporate tax return and Payment of Corporate taxes:

### ▪ Final Tax return and tax payment:

Corporations **must file a final tax return** for corporate tax, local corporate tax, corporate inhabitant tax, enterprise tax, and special local corporate tax on their income **within two (2) months from the day following the last day of each fiscal / taxable year**. However, an extension of the deadline for filing a final tax return may be requested, with prior approval from the director of the taxation office, when a corporation is unable to file a final tax return because unavoidable acceptable reasons.

### ▪ Interim Tax return and tax payment:

Corporations whose taxable years exceed six months must file an interim return, within two months from the day following the end of the first six months of the taxable year. Interim tax return for the period starting on the 1<sup>st</sup> day of that taxable year and ending on the day of 6 months, and must pay the interim tax amount owed (excluding instances where the amount of tax calculated using the prescribed formula does not exceed a certain amount).

## ▪ **Blue form returns:**

Tax return forms for Corporations come in two formats: “**White forms**” and “**Blue forms**”. A corporation may file a blue form tax return with prior approval from the appropriate national tax office. Corporations filing blue form tax returns enjoy a variety of tax benefits.

**Newly established “Subsidiary companies”** and foreign corporations establishing new “**Branch office**” in Japan must submit the application for approval no later than the day prior to either the day following three (3) months since & including the date of the establishment in Japan or the last day of the initial fiscal / taxable year after establishment, whichever comes first.

## ➤ **Remittances to home country:**

Remittances made by **subsidiary companies** to the parent co. are generally regarded as payments of costs/expenses, distributions of profits, loans (or repayments of loans), etc. depending on the nature of the transaction. Certain of these costs/expenses are deducted when calculating the income of the subsidiary companies. Some of the payments regarded as income of the parent co. (e.g., payments of interest, dividends or usage fees) require withholding of income tax at the source at the time of payment.

Tax treatment on the remittances made by a **Branch office** of a foreign co. to its **head office** varies depending on the business year. In case of the business year commencing by March 31, 2016, the remittances cannot as a general rule be treated as expenses by the branch office when calculating the taxable income of the branch in Japan. In case of the business year commencing on or after April 1, 2016, as mentioned, the profits/losses from the internal transactions are to be recognized based on the presumption that the Japanese branch office is a corporation which is independent entity from the head office.

## ➤ **Overview of withholding income tax:**

Japan’s tax filing system is based as a rule on self-assessed income tax payment where individuals (tax payers) calculate their annual income and tax amount, and file tax returns by themselves. *In addition, a withholding tax system where companies (employers) collect income tax on the date of payment and pay the tax on behalf of individuals (employees / income earners), and is also introduced for specific incomes. **Withholding income tax is assessed against payments of certain taxable income, whether paid to an individual or a corporation.** Income subject to withholding income tax is determined in accordance with the type of income and the classification of the recipient of that income.*

## ▪ **Withholding at source and payment procedures:**

Persons/companies who pay income subject to withholding at source must pay the taxation office the amount of tax withheld at source no later than the 10th day of the month following that the income was paid. However, when a payer with a domicile or business office in Japan pays income to a non-resident or a foreign corporation in another country, the withholding income tax may be paid by the last day of the month following that the income was paid.

**Withholding tax paid on residents’ salaries, certain professional fees, a special exemption is provided for small businesses with fewer than 10 persons on the payroll that allows them to make a prescribed election to pay withholding income tax in six-month installments twice a year (by July 10 and by January 20).**

## ▪ **Withholding tax on residents(individuals):**

Payments made in Japan to residents are subject to withholding at source. Payments made for Salary, wages, bonuses and similar compensation, retirement allowances, compensation, fees, interest, dividends, etc.

▪ **Withholding tax on domestic corporations:**

Payments made for interest, dividends, etc.

▪ **Withholding tax on non-residents and foreign corporations:**

Payments to a non-resident or a foreign corporation, or such payments made overseas by payers with a domicile or business office, etc. in Japan, tax should be withheld. Payments of certain categories of income as prescribed for non-residents and for foreign corporations to a non-resident or a foreign corporation with a permanent establishment within Japan are exempt from withholding taxation, provided that a certificate from the taxation office is presented to the payer attesting that the income will be attributed to that permanent establishment and will be added to business income subject to self-assessment for tax purposes.

➤ **Tax treaties:**

Japan has concluded tax treaties with many countries for the purposes of avoiding double taxation of income internationally and preventing tax evasion. The provisions of tax treaties supersede those of domestic law.

Japan's Tax Convention Network website link from Ministry of Finance:

[http://www.mof.go.jp/english/tax\\_policy/tax\\_conventions/international\\_182.htm](http://www.mof.go.jp/english/tax_policy/tax_conventions/international_182.htm)

➤ **Consumption tax:**

**The consumption tax rate is 8% (inclusive of local consumption tax rate of 1.7%).** Although the consumption tax rate is scheduled to **increase to 10%** (inclusive of local consumption tax rate of 2.2%) from April 1, 2017.

On June 1, 2016, Prime Minister Shinzo Abe announced that the rise in the consumption tax to 10% and the introduction of the reduced tax rate would be postponed **until October 2019**.

**Tax exempt enterprises:**

Enterprises whose taxable sales (#1) are **10 million yen or less** for the base period (#2) (excepting enterprises that have opted to be taxable) and that meet certain conditions are exempt from consumption tax filing/liability for the current year. However, enterprises can elect to be taxable enterprises if the prescribed notification is submitted to the director of the tax office. A company that has no base period, such as a newly established company, whose capital at the start of the taxable year is 10 million yen or more and in certain other cases cannot be a tax-exempt enterprise in that taxable year.

(#1) In case where a corporation's base period is not one(1) year, the taxable sales during the base period are the amount obtained by prorating the balance during the below-mentioned base period in the prescribed manner.

(#2) Base period: The base period is the full accounting period two (2) years prior to current accounting year. A corporation may not have a full base period if it was [a] newly established or [b] changed its accounting period during the two-year prior period. The base period for such corporation is found by combining all accounting periods that commenced during this two-year prior period.

## Japanese corporate tax system for investment in Japan - At a Glance

### Corporate income taxes and tax rates

The taxes levied in Japan on income generated by the activities of a corporation include:

- **Corporate tax** (national tax),
- **Corporate inhabitant tax** (local tax),
- **Enterprise tax** (local tax), and
- **Special local corporate tax** (a national tax, although filings and payments are made to local governments along with those for enterprise tax)

The above taxes are collectively referred as “**Corporate taxes**”

### Effective tax rates (standard tax rates basis) (rounded to two decimal places)

(Please note that applicable tax rates will vary according to the timing.)

Starting date of business year base period	Bracket	Small and medium-sized enterprises <sup>#1</sup>			Enterprises <sup>#3</sup> other than small and medium-sized enterprises <sup>#1</sup>
		Taxable Income			
		Up to 4 million yen	Over 4 million yen to 8 million yen	Over 8 million yen	
Apr 1, 2015 to Mar 31, 2016		21.42%	23.20%	34.33%	32.11%
Apr 1, 2016 to Mar 31, 2017		21.42%	23.20%	33.80%	29.97%
Apr 1, 2017 to Mar 31, 2018		(Reference rate <sup>#2</sup> ) 25.99%	(Reference rate <sup>#2</sup> ) 27.57%	33.80%	29.97%
On or after April 1, 2018		(Reference rate <sup>#2</sup> ) 25.99%	(Reference rate <sup>#2</sup> ) 27.57%	33.59%	29.74%

**#1** Small and medium-sized enterprises meeting the all three conditions below. - Paid-in capital is 100 million yen or less. This does not apply to wholly-owned subsidiaries of large corporations with paid-in capital of 500 million yen or more.

- Corporate tax amount is 10 million yen or less per annum and taxable income is 25 million yen or less per annum. - Offices or factories located in up to two(2) prefectures.

**#2** As the extension of the special measures of reduced tax rates for small and medium-sized enterprises has not been announced, the rates are reference tax rates on the assumption that the special measures will be abolished on March 31, 2017.

**#3** Enterprises other than small and medium-sized enterprises are the enterprises with the paid-in capital of over 100 million yen and offices or factories located in at least three(3) prefectures. **The effective tax rates for these enterprises are calculated using the standard tax rates.**

## Tax burden on “corporate income” (rounded to two decimal places)

Business year commencing between **April 1, 2015 and March 31, 2016** (applicable only to the small and medium-sized enterprises meeting the conditions specified in #1 of above Table)

Brackets of taxable income	Up to ¥4 M	¥4M to ¥8M	Over ¥8M
Corporate tax	15%	15%	23.90%
Local Corporate Tax	0.66%	0.66%	1.05%
Corporate Inhabitant taxes			
1. Prefecture	0.48%	0.48%	0.76%
2. Municipal	1.46%	1.46%	2.32%
Enterprise tax	3.40%	5.10%	6.70%
Special local corporate tax	1.47%	2.20%	2.89%
<b>Total tax rate</b>	<b>22.46%</b>	<b>24.90%</b>	<b>37.63%</b>

(Note) The rates for corporate inhabitant tax and enterprise tax are shown using Tokyo as an example.

(Sample calculation of tax where taxable income is 10 million yen : Total amount of tax is 2,647,200 yen)

### Sample Calculation:

Brackets of taxable income	Up to ¥4 M	¥4M to ¥8M	Over ¥8M	Total amount
Corporate tax	4,000,000 yen x 15% = 600,000 yen	4,000,000 yen x 15% = 600,000 yen	2,000,000 yen x 23.90% = 478,000 yen	1,678,000 yen
Local Corporate Tax	4,000,000 yen x 0.66% = 26,400 yen	4,000,000 yen x 0.66% = 26,400 yen	2,000,000 yen x 1.05% = 21,000 yen	73,800 yen
Corporate Inhabitant taxes				
1. Prefecture	4,000,000 yen x 0.48% = 19,200 yen	4,000,000 yen x 0.48% = 19,200 yen	2,000,000 yen x 0.76% = 15,200 yen	53,600 yen
2. Municipal	4,000,000 yen x 1.46% = 58,400 yen	4,000,000 yen x 1.46% = 58,400 yen	2,000,000 yen x 2.32% = 46,400 yen	163,200 yen
Enterprise tax	4,000,000 yen x 3.40% = 136,000 yen	4,000,000 yen x 5.10% = 204,000 yen	2,000,000 yen x 6.70% = 134,000 yen	474,000 yen
Special local corporate tax	4,000,000 yen x 1.47% = 58,800 yen	4,000,000 yen x 2.20% = 88,000 yen	2,000,000 yen x 2.89% = 57,800 yen	204,600 yen

Business year commencing between **April 1, 2016 and March 31, 2017** (applicable only to the small and medium-sized enterprises meeting the conditions specified in #1 of above Table)

Brackets of taxable income	Up to ¥4 M	¥4M to ¥8M	Over ¥8M
Corporate tax	15%	15%	23.40%
Local Corporate Tax	0.66%	0.66%	1.03%
Corporate Inhabitant taxes			
1. Prefecture	0.48%	0.48%	0.75%
2. Municipal	1.46%	1.46%	2.27%
Enterprise tax	3.40%	5.10%	6.70%
Special local corporate tax	1.47%	2.20%	2.89%
<b>Total tax rate</b>	<b>22.46%</b>	<b>24.90%</b>	<b>37.04%</b>

Business year commencing between **April 1, 2017 and March 31, 2018** (applicable only to the small and medium-sized enterprises meeting the conditions specified in #1 of above Table)

Brackets of taxable income	Up to ¥4 M	¥4M to ¥8M	Over ¥8M
<b>Corporate tax</b>	Reference rate) 19.00% (#1)	Reference rate) 19.00%	<b>23.40%</b>
<b>Local Corporate Tax</b>	<b>1.96%</b>	<b>1.96%</b>	<b>2.41%</b>
<b>Corporate Inhabitant taxes</b>			
<b>1. Prefecture</b>	<b>0.19%</b>	<b>0.19%</b>	<b>0.23%</b>
<b>2. Municipal</b>	<b>1.14%</b>	<b>1.14%</b>	<b>1.40%</b>
<b>Enterprise tax</b>	<b>5.00%</b>	<b>7.30%</b>	<b>9.60%</b>
<b>Special local corporate tax</b>	<b>abolished</b>	<b>abolished</b>	<b>abolished</b>
<b>Total tax rate</b>	(Reference rate) <b>27.29%</b>	(Reference rate) <b>29.59%</b>	<b>37.05%</b>

(#1) As the extension of the special measures of reduced tax rates for small and medium-sized enterprises has not been announced, the rates are reference tax rates on the assumption that the special measures will be abolished on March 31, 2017.

**Corporate Inhabitant taxes are levied not only on income but also on a per capita basis using the corporation's capital and the number of its employees as the tax base. Corporations having paid-in capital of more than 100 million yen are subject to enterprise tax on a pro forma basis**

#### Per capita levy on Corporate Inhabitant Tax

Capital amounts		No of Employees	Per capita levy
Over 5,000,000,000 yen	----	Over 50	3,800,000 yen
Over 5,000,000,000 yen	----	Or under 50	1,210,000 yen
Over 1,000,000,000 yen	Or under 5,000,000,000 yen	Over 50	2,290,000 yen
Over 100,000,000 yen	Or under 1,000,000,000 yen	Or under 50	950,000 yen
Over 100,000,000 yen	Or under 1,000,000,000 yen	Over 50	530,000 yen
Over 100,000,000 yen	Or under 1,000,000,000 yen	Or under 50	290,000 yen
Over 10,000,000 yen	Or under 100,000,000 yen	Over 50	200,000 yen
Over 10,000,000 yen	Or under 100,000,000 yen	Or under 50	180,000 yen
----	Or under 10,000,000 yen	Over 50	140,000 yen
----	Or under 10,000,000 yen	Or under 50	70,000 yen

#### Imposition of enterprise tax on a pro forma basis

Corporations whose capital or investment exceeds 100 million yen are taxed on a pro forma basis using income, added value, and capital as the taxable base. The standard tax rates for income, added value and capital are as follows

**Tax rates of enterprise tax on a pro forma basis Business year commencing between Apr 1, 2015 and Mar 31, 2016**

		Example: Tokyo	Standard tax rate
Income levy	Up to 4 million yen per year	1.755%	1.6%
	Over 4 million yen and up to 8 million yen per year	2.53%	2.3%
	Over 8 million yen per year	3.4%	3.1%
Added value levy		0.756%	0.72%
Capital levy		0.315%	0.3%
Special local corporate tax		93.5% of income levy calculated by the standard tax rate	

(Note) Tax rates may differ from the standard tax rate depending on the local government concerned.

**Tax rates of enterprise tax on a pro forma basis Business year commencing between April 1, 2016 and March 31, 2017**

		Example: Tokyo	Standard tax rate
Income levy	Up to 4 million yen per year	0.395%	0.3%
	Over 4 million yen and up to 8 million yen per year	0.635%	0.5%
	Over 8 million yen per year	0.88%	0.7%
Added value levy		1.26%	1.2%
Capital levy		0.525%	0.5%
Special local corporate tax		414.2% of income levy calculated by the standard tax rate	

(Note) Tax rates may differ from the standard tax rate depending on the local government concerned.

**Tax rates of enterprise tax on a pro forma basis Business year commencing between April 1, 2017 and March 31, 2018**

		Example: Tokyo	Standard tax rate
Income levy	Up to 4 million yen per year	1.995%	1.9%
	Over 4 million yen and up to 8 million yen per year	2.835%	2.7%
	Over 8 million yen per year	3.78%	3.6%
Added value levy		1.26%	1.2%
Capital levy		0.525%	0.5%
Special local corporate tax		to be abolished (to be reflected on the corporate enterprise tax)	

(Note) Tax rates may differ from the standard tax rate depending on the local government concerned.



## Overview of Taxation of Corporate tax and Income tax on foreign corporations: Business year commencing by March 31, 2016

Types of income	Classification	(1) Foreign corporations with PE		2) Foreign corporations without PE			
		1-A) Corporations having a certain fixed place of business, such as a branch	1-B) Corporations conducting construction works that take more than one year or having an agent satisfying certain requirements				
<b>Domestic-sourced income</b>	Income derived from business activities in Japan	Corporate Tax	Corporate Tax	Exemption			
	Consideration for dispatch business such as engineers			Corporate Tax			
	Rent of real estate and other properties in Japan						
	Transfer of real estate in Japan						
	Management of assets in Japan						
	Interest on deposits and savings				Corporate tax (attributable to domestic business)	Withholding at source only (not attributable to domestic business)	Withholding at source only
	Dividends etc.						
	Interest on loans						
	Usage fees and other fees						

[Note] Permanent Establishments (PE) are locations, sites, agents, etc. of the foreign corporations falling under the following: Foreign corporations having a certain fixed place of business:

(#1) Such as a branch, sub-branch, business establishment, office, or factory in Japan.

However, the following locations do not fall within the definition of a “certain fixed place of business”:

- A fixed location used by a foreign corporation solely for publicity/advertising, information provision, market surveys, basic study, and other activities auxiliary to the performance of its business.
- A fixed location used by a foreign corporation solely for the purchasing of its assets.
- A fixed location used by a foreign corporation solely for the storage of its assets.

## Overview of Taxation of Corporate tax and Income tax on foreign corporations: Business year commencing after Apr 1, 2016

Types of income	Classification	(1) Foreign corporations with PE		2) Foreign corporations without PE	
		Income attributable to PE	Domestic-sourced income not attributable to PE		
<b>Domestic-sourced income</b>	Income from business activities	Corporate Tax	----	----	
	Management/holding of assets in Japan		Corporate Tax	Corporate Tax	
	Transfer of real-estate in Japan				
	Consideration for dispatch business such as engineers				
	Rent of real estates and other properties in Japan		Corporate tax (attributable to domestic business)	Withholding at source only	Withholding at source only
	Other domestic-sourced income				
	Interest on deposits & savings				
	Dividends etc.				
	Usage fees and other fees				
	Interest on loans				

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