# Japan Corporate Taxes
# Brief Summary

## Japanese Corporate Tax System - At a Glance

## Japan 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),
- **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 to as "**Corporate Taxes**."

### Tax Rates (Japan Corporate Income Tax)

**(Tax rates will vary based on the starting date of the business year)**

| Taxable Income Bracket | Up to 4M Yen | 4M to 8M Yen | Over 8M Yen |
|---|---|---|---|
| Corporate Tax | 15.00% | 15.00% | 23.20% |
| Local Corporate Tax | 1.55% | 1.55% | 2.39% |
| Corporate Inhabitant Taxes | | | |
| Prefecture Inhabitant Tax | 0.15% | 0.15% | 0.23% |
| Municipal Inhabitant Tax | 0.90% | 0.90% | 1.39% |
| Enterprise Tax | 3.50% | 5.30% | 7.00% |
| Special Corporate Enterprise Tax | 1.30% | 1.96% | 2.59% |
| **TOTAL TAX RATE** | **22.40%** | **24.86%** | **36.80%** |

**** The above Tax rates (Corporate Inhabitant and Enterprise Tax) are examples of Small and Medium Sized enterprises (SMEs based in Tokyo. SME: Paid-in capital is 100 million yen or less; annual corporate tax amount 10M yen or less; annual taxable income 25M yen or less.**

### Corporate Inhabitant Tax

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. **Corporate Inhabitant tax is mandatory irrespective of the profit and loss result in the company's financial year**.

**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** |

## Enterprise Tax

Corporations with capital exceeding 100M yen are taxed on a pro forma basis using income, added value, and capital as the taxable base.

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

- **The neutrality of the Tax system concerning the mode of business presence, i.e. (Branch Office or Subsidiary Company).**

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

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

**Branch offices 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 the Branch Office has significantly changed from the business year commencing on or after April 1, 2016. Branch Office and Head Office (parent company) shall be deemed independent corporations and subject to taxation.

**Profits/losses from the internal transactions between the Japanese branch and head office** are to be recognized based on the presumption that transactions are conducted with arm's length prices.
The Japanese branch office (permanent establishment) is taxable in the third country; foreign tax credits are available, and taxes paid in the third country may be credited within certain bounds against Japanese taxes owed to avoid international double taxation.

## Withholding at source and self-assessment/payment:

**Multinational corporations** engaged in business 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:

Some examples of the domestic-sourced income.

- Business Income derived from business activities in Japan;
- Income derived from the management/holding of assets in Japan;
- Rent of real estate and other properties in Japan;
- Interest on deposits and savings; dividends received from the domestic company; interest on loans; License fees, royalties in Japan, etc.

## Establishment of a Japanese Co or Branch office in Japan and Tax-office notification:

When a "**Japanese Company**" or a "**Branch Office**" is newly established and registered in Japan, per Japanese law, tax notification about a 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 above for 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.

## Income of "Representative Office" in Japan:

Representative offices 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, preliminary study and other activities auxiliary to its business performance.

## 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. 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 if a **Blue Form Tax Return** is filed for the business year in which the loss arose, and a final tax return is 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 cannot file a final tax return because of 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$^{st}$ 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 "**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 and 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 company 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 payments regarded as income of the parent company (e.g., payments of interest, dividends or usage fees) require withholding income tax at the source at the time of payment.

Tax treatment on the remittances made by a **Branch office** of a foreign company 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 the 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 an independent entity from the head office.

## ➢ Overview of Withholding Income Tax:

Japan's tax filing system is based on self-assessed income tax payments where individuals (taxpayers) calculate their annual income and tax amount and file tax returns 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) 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 the income was paid.
**Withholding tax paid on residents' salaries and certain professional fees, a special exemption is provided for small businesses with fewer than ten persons on the payroll that allows them to make a prescribed election to pay withholding income tax in six-month instalments 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 the source. Payments made for Salary, wages, bonuses and similar compensation, retirement allowances, compensation, fees, interest, dividends, etc.

### ▪ Withholding tax on domestic corporations:

Payments are made for interest, dividends, etc.

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

Tax should be withheld in Japan when payments to a non-resident or a foreign corporation, or payments made overseas by payers with a domicile or business office, etc. Payments of certain categories of income as prescribed for non-residents and 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 to avoid double taxation of income internationally and prevent tax evasion. The provisions of tax treaties supersede those of domestic law.
Japan's Tax Convention Network website link from the Ministry of Finance:
http://www.mof.go.jp/english/tax_policy/tax_conventions/international_182.htm

- **Consumption Tax (VAT):**

**In principle, the Consumption Tax (VAT) Rate is 10% (inclusive of a local consumption tax rate of 2.2%).** The tax rate of 8% (inclusive of a local consumption tax rate of 1.76%) is applied to sales of food and beverages, except alcoholic drinks, dining out, etc.

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