

# Crash Course Japanese Taxation



## Taxation on Doing Business in Japan

What you need to be aware of, when doing business in Japan

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- Chapter 4 : Other tax considerations



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### Chapter 1

Possible forms of doing business in Japan

- Individual, partnership or incorporated entities
- With or without presence in Japan



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## Japanese legal entities used in practice – pros and cons

Form	#	Liability	Cost	Flexibility	Fiscal transparency	Purpose	Popularity in general
General partnership	2	Unlimited	Low	High	Yes	Investment	Low
Limited liability partnership	2	Limited	Medium	Low - medium	Yes	Business	Still low
Silent partnership	2	Limited (as silent partner)	Low	High	Yes	Investment	Low
Corporation	1	Limited	High	Low	No	Business	High
Limited liability company	1	Limited	Medium	Medium	No	Investment - business	Still low

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## Presence in Japan required for your business?

Business model	Title passage	Customs clearance	Contractor in Japan	Presence in Japan	Direct taxation	Indirect Taxation
Sale	Outside Japan	Customer	None	No	No	No
	Inside Japan	Seller	Forwarding agent	No	No	Yes
	Inside Japan	Seller	None	Yes	Yes	Yes
Service	Inside Japan	N/A	None	Yes	Generally yes	Yes
	Inside Japan	N/A	Yes	No	Yes/No	Yes
Online	N/A	N/A	None	None	Generally no	Yes



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### Chapter 2

#### Outline of Japanese tax system

- National tax and local tax
- Direct tax and indirect tax
- Income tax, property tax and consumption tax
- Imposed based on declaration or assessment
- Settlement through payment or withholding

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## Outline of Japanese tax system

<b>Income tax</b>	<b>National</b>	Income tax
		Corporation tax
	<b>Local</b>	Prefectural inhabitant tax (individual and corporate)
		Municipal inhabitant tax (individual and corporate)
		Enterprise tax (individual and corporate)

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## Outline of Japanese tax system

<b>Property tax</b>	<b>National</b>	Inheritance/Gift tax
		Land value tax
		Registration and license tax
		Stamp duty
	<b>Local</b>	Automobile tax
		Mine lot tax
		Property tax
		Light vehicle tax
		Special land holding tax
		Business office tax
		Urban planning tax
Real property acquisition tax		



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## Outline of Japanese tax system

Consumption tax	<b>National</b>	Consumption tax, Liquor tax, Tobacco tax, Gasoline tax, Local road tax, LP gas tax, Motor vehicle tonnage tax, Aviation fuel tax, Petroleum tax, Promotion of power resource development tax, Customs duty
	<b>Local</b>	Local consumption tax, Prefecture tobacco tax, Golf course utilization tax, Municipal tobacco tax, Bathing tax, Hunter's registration tax, Automobile acquisition tax, Hunting tax, Light oil delivery tax, Mineral products tax

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## Outline of Japanese tax system

<b>Declaration</b>	Personal income tax, Corporation tax, Inheritance/Gift tax, etc.
<b>Assessment</b>	Property tax, Real property acquisition tax, etc.
<b>Withholding</b>	Income tax on certain payments, etc.

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## Outline of Japanese tax system - most important taxes

	Tax payor	Tax Base	Tax rate	Method
Corporation tax	Japanese corporation  Foreign corporation having branch in Japan	Annual income (Revenue minus costs/expenses)	Approx. 30% (effective rate - combined national and local)	Declaration by filing tax return
Consumption tax	Entrepreneur (corporation and individual) conducting taxable transactions inside Japan	Price of goods or services sold	8%	Declaration by filing tax return
Withholding income tax	Recipient of certain payments	Gross amount of payment	10-20% Treaty reduction or exemption available	Withheld at source

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## Outline of Japanese tax system - taxation on income (revenue minus cost/expenses)

Individual	Resident	Personal income (worldwide) taxation with foreign tax credit	Declaration by filing return
	Non resident	No tax except for certain Japan source income	Withholding
Japanese corporation	Resident	Corporation income (worldwide) taxation with foreign tax credit	Declaration by filing return
Foreign corporation	Japan branch	Corporation income (attributed to branch) taxation	Declaration by filing return
	No presence in Japan	No tax except for certain Japan source income	Withholding

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## Outline of Japanese tax system - taxation on consumption (price of goods/services consumed inside Japan)

Output tax (c-tax received on sale) minus input tax (c-tax paid on purchase)  
= c-tax liability to be reported in return

Sale	Inside Japan	Taxable	Declaration by filing return
	Outside Japan	Non taxable	N/A
Service	Inside Japan	Taxable	Declaration by filing return
	Outside Japan	Non taxable	N/A
Online	Irrelevant	Taxable	B to C Declaration by filing return B to B Reverse charge



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### Chapter 3

Tax consequences of various business forms

- Case 1 : Exporter
- Case 2 : Online
- Case 3 : Branch or subsidiary
- Case 4 : Japan resident individual entrepreneur



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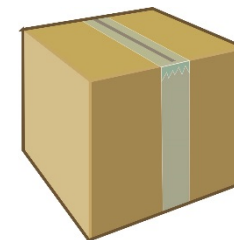


## Outline of Japanese tax system – case 1 : exporter

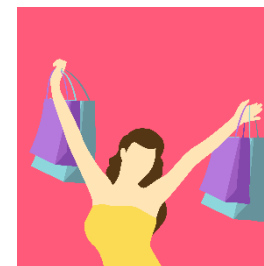


Direct shipping = customs clearance by customer

No consumption tax



JAPAN



EU

No presence in Japan

No corporation (personal income) taxation

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## Outline of Japanese tax system – case 2 : online

Contents downloaded by customers in Japan



Consumption tax



JAPAN



EU

No presence in Japan

No corporation (personal income) taxation

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## Outline of Japanese tax system – case 3 : branch or subsidiary



Headquarter in EU



Customs cleared by Japan sub. or br.  
Sales inside Japan

Consumption tax



Branch or  
Subsidiary  
in JAPAN



Presence in Japan  
Corporation tax



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## Outline of Japanese tax system – case 4 : Japan resident individual entrepreneur

Services provided  
inside Japan

Consumption tax



Residence in Japan  
Personal income tax



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### Chapter 4

#### Other tax considerations

- Blue form return
- Various favorable tax treatments for SMEs
- Tax audit 3-5 year cycle
- Personal income (aggregation → schedule taxation)
- Personal inhabitant tax upon residence as of January 1, each year
- Frequent tax law changes

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## Conclusions

**Proactive planning with good advisor  
recommended**

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