



# Japan Tax Profile

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# 1 Corporate Income Tax

## 1.1 General Information

### Tax Rate

Companies are subject to four types of corporate tax; corporation tax, local corporation tax, business tax and prefectural and municipal inhabitant taxes.

#### ***Tax Rate applicable to fiscal years beginning between 1 April 2016 and 31 March 2018***

Tax rates for companies with stated capital of more than JPY 100 million are as follows:

Corporation tax is payable at 23.4%.

Local corporation tax applies at 4.4% on the corporation tax payable.

Business tax comprises of regular business tax, special local corporate tax and size-based business tax.

- The regular business tax rates vary between 0.3% and 1.4% depending on the tax base (taxable income) and the location of the taxpayer.
- The special local corporate tax rate is 414.2% and is imposed on taxable income multiplied by the standard regular business tax rate.
- Size-based business tax consists of two components:
  - (i) added value component
    - tax rate: from 1.2% to 1.44%
    - tax base: labor costs, net interest payment, net rent payment and current year income
  - (ii) capital component
    - tax rate: from 0.5% to 0.6%
    - tax base: larger amount of the following:
      - stated capital and capital surplus for tax purposes
      - stated capital and capital reserve for accounting purposes

Prefectural and municipal inhabitant taxes consist of two elements:

- (i) income tax calculated based on national corporation tax (from 12.9% to 16.3%)
- (ii) a per capita tax

As an illustrative example, a Tokyo company with stated capital of greater than JPY 100 million will have an effective tax rate of 30.86%.

#### ***Tax Rate applicable to fiscal years beginning between 1 April 2018 and 30 September 2019***

Tax rates for companies with stated capital of more than JPY 100 million are as follows:

Corporation tax is payable at 23.2%.

Local corporation tax applies at 4.4% on the corporation tax payable.

Business tax comprises of regular business tax, special local corporate tax and size-based business tax.

- The regular business tax rates vary between 0.3% and 1.4% depending on the tax base (taxable income) and the location of the taxpayer.
- The special local corporate tax rate is 414.2% and is imposed on taxable income multiplied by the standard regular business tax rate.
- Size-based business tax consists of two components:
  - (i) added value component
    - tax rate: from 1.2% to 1.44%
    - tax base: labor costs, net interest payment, net rent payment, and current year income
  - (ii) capital component
    - tax rate: from 0.5% to 0.6%
    - tax base: larger amount of the following:
      - stated capital and capital surplus for tax purposes
      - stated capital and capital reserve for accounting purposes

Prefectural and municipal inhabitant taxes consist of two elements:

- (i) income tax calculated based on national corporation tax (from 12.9% to 16.3%)
- (ii) a per capita tax

As an illustrative example, a Tokyo company with stated capital of greater than JPY 100 million will have an effective tax rate of 30.62%.

### ***Tax Rate applicable to fiscal years beginning on or after 1 October 2019***

Tax rates for companies with stated capital of more than JPY 100 million are as follows:

Corporation tax is payable at 23.2%.

Local corporation tax applies at 10.3% on the corporation tax payable.

Business tax comprises of regular business tax and size-based business tax.

- The regular business tax rates vary between 1.9% and 4.32% depending on the tax base (taxable income) and the location of the taxpayer.
- Size-based business tax consists of two components:
  - (i) added value component
    - tax rate: from 1.2% to 1.44%
    - tax base: labor costs, net interest payment, net rent payment, and current year income
  - (ii) capital component
    - tax rate: from 0.5% to 0.6%

tax base: larger amount of the following:

- stated capital and capital surplus for tax purposes
- stated capital and capital reserve for accounting purposes

Prefectural and municipal inhabitant taxes consist of two elements:

- (i) income tax calculated based on national corporation tax (from 7.0% to 10.4%)
- (ii) a per capita tax

As an illustrative example, a Tokyo company with stated capital of greater than JPY 100 million will have an effective tax rate of 30.62%.

## Residence

A Japanese resident company is a company that has its head office or main office located in Japan. Resident companies are taxed on worldwide income, whereas a non-resident company is only taxed on Japanese sourced income.

## Basis of Taxation

The tax basis for corporate income tax (except for size-based business tax and per-capita tax) is taxable income, which is calculated by adding/deducting relevant adjustments prescribed in the tax laws to/from net income calculated in accordance with generally accepted accounting principles. Japan has applied the worldwide system except for the foreign dividend exclusion rules discussed in 1.2.1 is the only exception

## Tax Losses

Losses can be offset up to 55% (50% for fiscal years beginning on or after 1 April 2018) of taxable income for a given year.

As an exception, the following companies can offset their tax losses against the total taxable income for a given year:

- Small and medium-sized companies
- Tax qualifying Toshi Hojin (J-REITs) and Tokutei Mokuteki Kaisha (TMKs)
- Newly established companies not belonging to a large-sized company group (for the first 7 years)

Losses can be carried forward for 9 years, which will be extended to 10 years for tax losses incurred in fiscal years beginning on or after 1 April 2018. Tax losses can be carried back a year (generally suspended and applicable for certain, limited circumstances).

## Tax Consolidation/Group Relief

A group of Japanese resident companies (a Japanese parent company and Japanese subsidiaries wholly directly or indirectly (only through Japanese companies) held by the parent company) can apply to be a tax consolidated group by an election. Taxable income/losses generated/incurred in each company are offset in a tax consolidated group. However, pre-consolidation tax losses may be extinguished or subject to limited utilization after starting or joining a tax consolidated group. Note that the tax consolidation system is applicable only for corporation tax purposes.

Moreover, the group taxation regime is automatically applied to companies in a 100% group (i.e. a group of resident and non-resident companies having a 100% shareholding relationship).

## Transfer of Shares

Capital gains/losses arising on transfers of shares are taxable as part of a company's taxable income, while capital gains arising from transfers of fixed assets, including shares, between Japanese resident companies in a tax consolidated group or a 100% group are deferred generally until the assets are transferred again or are written off.

## Transfer of Assets

Capital gains/losses arising on transfers of assets are taxable as part of a company's taxable income, while capital gains arising from transfers of fixed assets between Japanese resident companies in a tax consolidated group or a 100% group are deferred generally until the assets are transferred again or are written off.

### Capital Duty (non-tax planning)

Not applicable

### CFC Rules

A non-resident company of which more than 50% is held by Japanese residents or a non-resident company, which has a de facto control relationship with Japanese residents, is treated as a controlled foreign company ('CFC'). If a Japanese parent company holds at least 10% of the shares in a CFC, it is required to include its proportionate share of the income of the CFC in its taxable income.

The scope of income of a CFC to be included depends on the characteristics and the effective tax rate of the CFC:

- Where a CFC is a Specified CFC (i.e. a paper company, a cash-box company or a company whose head office is located in a black-list jurisdiction) and the effective tax rate of the CFC is less than 30%, the entire income of the CFC will be included in taxable income of its Japanese parent company.
- Where a CFC not being a Specified CFC does not satisfy the economic activity tests and the effective tax rate of the CFC is less than 20%, the entire income of the CFC will be included in taxable income of its Japanese parent company.
- Where a CFC not being a Specified CFC satisfies the economic activity tests and the effective tax rate of the CFC is less than 20%, only passive income of the CFC will be included in taxable income of its Japanese parent company.

### Thin Capitalization

The thin capitalization regime restricts the deductibility of interest payments by a Japanese resident subsidiary to its overseas controlling shareholder or affiliates. The safe harbor debt to equity ratio is 3:1.

### Interest Deductibility Restrictions

There are no restrictions on deductibility of interest payments except for the thin capitalization rules (discussed above) and the earning stripping rules (discussed below).

### Amalgamations of Companies

The Japanese tax law sets out conditions for tax-qualified reorganizations, including mergers. Under a tax-qualified merger, assets and liabilities are transferred at tax book value for tax purposes.

### Earnings Stripping

The earnings stripping regime disallows deductions for net interest payments to overseas related persons in excess of 50% of adjusted taxable income. Excess interest expense is carried forward for up to 7 years and is allowed to the extent of the excess limitation.

### General Anti-avoidance

Japanese tax laws include a general anti-avoidance rule for closely held companies (i.e. a company where more than 50% of its shares are held by three shareholders and related persons). The rule grants the Japanese tax authorities the right to deny a transaction if they consider that the transaction entered into by the closely held company results in an improper decrease of the tax burden for such company due to its improper or unique terms and conditions. The Japanese tax authority pays attention to the substance of transactions as well as the legal form of them.

### Anti-treaty Shopping

Tax treaties recently concluded by Japan often include anti-treaty shopping provisions such as the Limitation on Benefits provisions and the Principal Purpose Test.

## Other Specific Anti-Avoidance Rules

There are specific anti-avoidance provisions that relate to corporate reorganization transactions, transactions in a consolidated tax group and income attributable to a permanent establishment of a non-resident company.

These give Japanese tax authorities similar rights as the general anti-avoidance provisions.

## Rulings

There is a written advance ruling system in Japan. Rulings do not apply to certain transactions/circumstances (e.g. cases based on hypothetical facts and cases where the filing due date of tax returns to declare such transactions has already passed). Rulings are generally made public anonymously.

## Hybrid Instruments

There are no special rules applicable to hybrid instruments.

## Hybrid Entities

Alternative entities which can be used for the establishment of a business in Japan include:

- NK-type partnerships (Nini Kumiai (NKs), Investment LPSs and LLPs)  
Such partnerships are treated as transparent for corporate income tax purposes and income derived from the partnership business is taxed at the level of the each partner.
- Silent partnerships [Tokumei Kumiai (TKs)]  
A silent partnership consists of a TK operator conducting TK business and a TK partner. Profits derived from the TK business are allocated from the TK operator to the TK partner. Such allocations are deductible and taxable at the hands of the TK operator and the TK partner, respectively.

## Related Business Factors

A Kabushiki Kaisha (or KK) is the most common legal entity used for conducting business in Japan. This is similar to a limited stock company. The capital required to incorporate a KK is JPY1.

## 1.2 Determination of taxable income and deductible expenses

### 1.2.1 *Income*

#### General

Gross income is generally recognized from transactions (e.g. sales/transfers of goods/assets and provision of services) at fair market value when such transactions are conducted.

#### Branch Income

Income of a Japan branch of a non-resident company is only income attributable to the branch.

#### Capital Gains

Capital gains from transfers of assets are subject to normal corporate income taxes in the same manner as ordinary trading income regardless of the holding period.

Please also see 'Transfer of shares' and 'Transfer of assets' discussed in 1.1.

#### Dividend Income

Dividends received from Japanese companies are excludable in calculating taxable income as indicated below:

- Where a company receives dividends from another company wholly held by the recipient company throughout the dividend calculation period (the maximum period is one year up to the end of the calculation period), the entire amount of the dividends is excludable.
- Where a company receives dividends from another company in which the recipient company owns more than one-third throughout the dividend calculation period (the maximum period is six months up to the end of the calculation period), the amount of the dividends less interest payments attributable to the dividends is excludable.
- Where a company receives dividends from another company in which the recipient company owns 5% or less as of the record date of the dividends, 20% (40% if the recipient company is an insurance company) of the dividends is excludable.
- In cases other than the above three cases, 50% of the dividends is excludable.

Withholding taxes imposed on dividends are creditable either fully or partly in calculating the final corporation tax liability of a recipient company.

95% of dividends from a non-resident subsidiary are exempt provided that the recipient (that must be a resident company) owns at least 25% of the shareholding in the non-resident subsidiary for a minimum period of six months. Foreign withholding taxes imposed on such dividends are neither creditable nor deductible in the hands of the recipient company.

Notwithstanding the above, if the dividends are deductible in the country where the head office of the non-resident subsidiary is located, such dividends are not covered by this rule and are fully taxed in the hands of the recipient company. In this case, foreign withholding taxes imposed on such dividends are either creditable or deductible in the hands of the recipient company.

#### Interest Income

Interest income is subject to normal corporate income taxes in the same manner as ordinary trading income.

#### Other Significant Items

Not applicable



## 1.2.2 Expenses

### General

Cost of sales and expenses attributable to gross income recognized in a fiscal year are generally deductible in the fiscal year.

### Minimum Taxation Requirements for the Deductibility of Losses

Please see 'Tax Losses' discussed in 1.1.

### Capital Losses

Capital losses from transfers of assets are offset against ordinary trading income, which includes capital gains regardless of the holding period.

Please also see 'Transfer of shares' and 'Transfer of assets' discussed in 1.1.

### Carry Forward

Please see 'Tax Losses' discussed in 1.1.

### Carry Back

Please see 'Tax Losses' discussed in 1.1.

### Bad Debts

Bad debt expenses are treated as tax deductible for certain circumstances, including where rehabilitation plans for a debtor are legally approved or where it becomes certain that a debtor cannot pay off their receivables considering the financial situation and insolvency of the debtor.

### Change of Control Rules

When an ownership change occurs for a company which has tax losses incurred in prior years or assets having built-in losses, if one of certain specified events (e.g. a company which was a dormant company just before the ownership change starts business activities after the ownership change) occurs within 5 years from the date of the ownership change, utilization of the tax losses of the company may be restricted.

An ownership change for the purposes of this rule occurs when a new shareholder directly or indirectly acquires more than 50% of the outstanding shares in a company except for acquisitions through certain events such as a tax-qualified merger.

In the above cases, deduction of built-in losses on assets of the company may be restricted as well.

### Depreciation/Capital Allowance

The depreciation and amortization allowable for tax purposes must be computed in accordance with prescribed methods (generally, the straight-line method or the declining-balance method) and depreciable rates corresponding to the statutory useful lives. The depreciation and amortization must be recorded in the books of account in order to treat them as tax deductible expenses.

Special depreciation by means of either increased first year depreciation or accelerated depreciation is available for companies in relation to certain fixed assets as specified under the tax law.

### Double Deductions

Expenses that are deducted in a company are not allowed to be deducted in other companies or more than once in the same company.

### Interest Expenses

Interest expenses are generally deductible as long as the thin-capitalization rules and the earnings stripping rules are not applied.

## Inventories

The cost of inventories must include the entire actual cost of acquisition of such inventories. Valuation of inventories at the end of each fiscal year must be made in accordance with the method(s) reported for each class of inventory to the tax office by the company.

## Other Significant Items

Compensation paid to company directors is generally deductible if it falls under one of three categories (fixed amount periodical compensation, fixed compensation notified in advance or deductible performance-based compensation).

Entertainment expenses for a fiscal year in excess of the following deductible limits are disallowed:

- A small and medium-sized company: JPY8 million or 50% of eating and drinking expenses
- A large-scale company: 50% of eating and drinking expenses

## 1.3 Tax Compliance

### Compliance Requirements

Japan has a self-assessment system.

### Mandatory Electronic Filing

The mandatory electronic filing rules are expected to be introduced for large-scale companies, etc. for fiscal years beginning on or after 1 April 2020.

### Requirement to Prepare Tax Computation / Return in Functional Currency

Tax returns must be prepared in Japanese Yen ('JPY').

### Documents to File with Tax Return

Documents relating to financial information (balance sheet, profit and losses statements, statements of changes in net assets and account details) and a statement of outline of business activities should be attached to tax returns. Certain documents (e.g. certificates obtained from governments in order to apply to certain tax incentives) may be required to be attached.

### Language to File Return, Computation and Supporting Documentation(s)

Tax returns must be prepared in Japanese. Computation and supporting documents may be prepared in foreign languages but they may be required to be translated into Japanese at the time of tax audits.

### Filing Extension Availability and Details

Final tax returns must be filed within two months from the end of the fiscal year. Generally, an extension of one month can be obtained from the tax office for a resident company or longer for a branch of a non-resident company. A two-month filing extension can generally be obtained if a group files a consolidated tax return.

### Payment of Estimated Tax

Even if a company obtains an extension for filing final tax returns, the company generally pays estimated tax within two months from the fiscal year end in order to minimize interest on underpayments of taxes since interest is payable after two months from the fiscal year end.

### Interim Tax Returns

A company, the fiscal year of which is longer than six months, should generally file interim tax returns within two months of the end of the first six months of each fiscal year. The amount of taxes to be reported in interim returns is either (i) tax for the preceding fiscal year multiplied by six and divided by the number of months of the preceding fiscal year or (ii) tax computed on the basis of the provisional results for the first 6-month period of the present fiscal year.

### Payment of Tax

The final tax liability is due within two months from the end of the fiscal year. No extension is available for the payment of tax.

### Penalties for Non-Compliance

Penalties for failure to file a tax return are imposed on the original tax liability at rates between 5-30% (40% or 50% in fraud cases). Penalties for understatement in a tax return are imposed on the original tax liability at rates between 5 -15% (35% or 45% in fraud cases).

### Penalties and/or Interest for Underpayment of Taxes

Interest for underpayment of taxes is imposed on the underpayment of taxes at 7.3% p.a. (that is reduced to 2.6% p.a. for 2018) for the first two months and then at 14.6% p.a. (that is reduced to 8.9% p.a. for 2018).

### Statute of Limitation

The statute of limitations depends on items to be amended:

- Items relating to underreporting of taxable income: 5 years
- Items relating to amendment of excess tax losses: 10 years
- Items relating to transfer pricing issues or internal dealings for a PE of a non-resident company: 6 years
- Items relating to fraud: 7 years

## 1.4 Financial Statements/Accounting

### Details of Local Accountant Requirements

In computing taxable income for each accounting period, the amount of revenue and expenses should be computed in accordance with Japanese generally accepted accounting principles, unless otherwise provided for. The statutory financial statements are required to be submitted to the competent tax office together with a corporation tax return although the financial statements may not need to be audited by an external auditor depending on the size of the company.

### Fiscal Year

A fiscal year of a company is not allowed to exceed one year except for very limited cases under the Company Law and is generally provided in the Articles of Incorporation of the company.

### Periodicity of Local Books to be Closed

Accounting books should be closed for each fiscal year.

### Retention Period for Statutory Financial Statements / Working papers

Statutory financial statements, accounting books, and related documents of a company should be retained for 10 years under the Company Law. Such documents should be retained for 7 years (10 years for fiscal years in which tax losses are incurred) under the Corporation Tax Law.

### Requirements to Retain Physical Copies Locally/Electronically Stored Data to Reside on In-country Server

Statutory financial statements, accounting books, and related documents of a company should be retained in a place where its head office is located under the Corporation Tax Law. Such documents are allowed to be retained electronically upon approval from the relevant tax office if certain conditions are met. In this case, electronically stored data may be managed by servers located outside Japan.

### Requirements to Prepare Financial Statements in Local Currency

Financial statements must be prepared in Japanese yen.

### What GAAP must the Financial Statements be Prepared Under?

Financial statements should be prepared in accordance with accounting rules released from the Business Accounting Council and the Accounting Standards Board of Japan. The Accounting Standards for SMEs are also applicable for small and medium-sized companies.

### Prescribed Format and Details for Financial Statements

Securities issuing companies (e.g. listed companies) that are required to file an Annual Securities Report to the government under the Financial Instruments and Exchange Act should prepare financial statements in accordance with related regulations.

### Filing Due Date

Securities issuing companies (e.g. listed companies) are required to file Annual Securities Reports within three months from the end of a fiscal year.

### Penalties for Non-Compliance

If securities issuing companies fail to submit Annual Securities Reports, an administrative surcharge in the amount of the audit certification fees for the previous fiscal year (4 million yen if audit certification is not required for the previous fiscal year).

### Filing Format of Financial Statements

Securities issuing companies (e.g. listed companies) are required to file an Annual Securities Report to the government through the EDINET (Electronic Disclosure for Investors' NETwork) that enables people to see Annual Securities Report on the internet.



### Filing Extension Availability and Details

Where there is a compelling reason (e.g. where a securities issuing company makes an announcement that they cannot receive a report from an external auditor due to material misstatements in the Annual Securities Reports for past fiscal years) that a securities issuing company is not able to file an Annual Securities Report by the filing due date, the company may be able to obtain approval for extension for filing from the government.

## 1.5 Incentives

### Intellectual Property Incentives

Not applicable.

### R&D Incentives

Companies are permitted a tax credit for R&D expenditure at rates between 6-30% of total R&D expenditure (depending on the size of the company, its increase/decrease ratio for R&D expenditure and types of expenditure).

Further, an additional tax credit is available for fiscal years beginning before 1 April 2019 where R&D expenditure exceeds 10% of the average of sales for the preceding three years

### Other Incentives

#### *Incentives for salary growth*

A company may claim a tax credit of 15-25% of the amount of the increase in salary paid in a fiscal year from the preceding fiscal year, if certain conditions (e.g. increase in salaries, sufficient domestic capital investment and increase in training expenses) are satisfied. This tax credit is applicable for fiscal years commencing between 1 April 2018 and 31 March 2021.

#### *Incentives for investment in information collaboration*

A company which obtains approval for its business plan from the government under the Special Measures Act on Improvement of Productivity and acquires eligible assets for data collaboration and puts them into use for the period from the effective date of the Act to 31 March 2021, the company can choose to apply (i) special depreciation for the assets (30% of the acquisition costs) or (ii) tax credits (3-5% of the acquisition costs).

### Special Tax Regimes for Specific Industries or Sectors

#### *Mining industry*

Special regimes for tax qualified reserves/income deduction for mining businesses

#### *Shipping industry*

Special regime for tonnage tax on proceeds from Japanese vessels of corporations carrying on international vessel navigation business

#### *Agricultural industry*

Special regimes for tax qualified reserves/roll-over of capital gains for qualified agricultural production corporation, etc.

## 1.6 International Taxation

### Double Taxation Relief

Relief from double taxation is available in the form of a foreign tax credit or deduction of foreign tax paid.

A foreign tax credit is granted on an overall basis not on a basket basis. The creditable amount is limited to the portion of Japanese tax payable resulting from applying the ratio of foreign source income to total taxable income. Foreign taxes in excess of the limitation and the limitation in excess of foreign taxes paid may be carried forward for 3 fiscal years.

### Foreign-Exchange Controls

Foreign exchange control rules exist in Japan. The Foreign Exchange and Foreign Trade Law provides rules on inbound and outbound investment and commercial transactions between residents and non-residents. Submitting post facto reports or prior notifications may be required for certain inward direct investments and remittances to foreign countries for example.

### International Withholding Tax Rates

Withholding tax is imposed on payments of certain Japanese-source income such as dividends, interest, royalties to non-residents (individuals and foreign companies). The following are general Japanese domestic tax rates. There are neither minimum participation requirements nor explicit anti-avoidance rules in connection with the application of the following withholding tax rates.

- **Dividends:** 20.42%
- **Dividends (certain listed shares):** 15.315%
- **Interest (on loans):** 20.42%
- **Interest (from bonds and bank deposits):** 15.315%
- **Royalties:** 20.42%
- **Proceed for transfers of land:** 10.21%
- **Rents (from real properties):** 20.42%
- **Specified services** (e.g. lawyers, certified accountants and service providers with scientific knowledge or managerial skills): 20.42%
- **Distributions from certain partnerships:** 20.42%



## Withholding Tax Rates under the Income Tax Treaties

### Japan – Treaty Withholding Rates Table

	Dividends		Interest	Royalties
	Individuals, companies	Qualifying companies		
	(%)	(%)	(%)	(%)
<b>Domestic Rates</b>				
<b>Companies:</b>	15.315/20.42	-	20.42	20.42
<b>Individuals:</b>	15.315/20.42	-	20.42	20.42
<b>Treaty Rates</b>				
<b>Albania</b>	-	-	-	-
<b>Armenia</b>	15	15	10	0/10 <sup>*1</sup>
<b>Australia</b>	10	0/5	0/10 <sup>*1</sup>	5
<b>Austria</b>	20	10	10	10
<b>Azerbaijan</b>	15	15	10	0/10 <sup>*3</sup>
<b>Bangladesh</b>	15	10	10	10
<b>Belarus</b>	15	15	10	0/10 <sup>*3</sup>
<b>Belgium</b>	15	10	10	10
<b>Bhutan</b>	-	-	-	-
<b>Botswana</b>	-	-	-	-
<b>Brazil</b>	12.5	12.5	12.5	12.5/15/25 <sup>*4</sup>
<b>Brunei Darussalam</b>	10	5	10	10
<b>Bulgaria</b>	15	10	10	10
<b>Canada</b>	15	5	10	10
<b>Chile</b>	15	5	4/10 <sup>*1</sup>	2/10 <sup>*5</sup>
<b>China (People's Rep.)</b>	10	10	10	10
<b>Colombia</b>	-	-	-	-
<b>Croatia</b>	-	-	-	-
<b>Cyprus</b>	-	-	-	-
<b>Czech Republic</b>	15	10	10	0/10 <sup>*3</sup>
<b>Denmark</b>	15	10	10	10

Treaty Rates	Dividends	Dividends (Qualifying)	Interest	Royalties
<b>Egypt</b>	15	15	-	15
<b>Estonia</b>	-	-	-	-
<b>Ethiopia</b>	-	-	-	-
<b>Faroe Islands</b>	-	-	-	-
<b>Fiji</b>	-	-	-	10
<b>Finland</b>	15	10	10	10
<b>France</b>	10	0/5	0/10 <sup>*1</sup>	0
<b>Georgia</b>	15	15	10	0/10 <sup>*3</sup>
<b>Germany</b>	15	0/5	0	0
<b>Greece</b>	-	-	-	-
<b>Hong Kong</b>	10	5	10	5
<b>Hungary</b>	10	10	10	0/10 <sup>*3</sup>
<b>Iceland</b>	-	-	-	-
<b>India</b>	10	10	10	10
<b>Indonesia</b>	15	10	10	10
<b>Ireland</b>	15	10	10	10
<b>Israel</b>	15	5	10	10
<b>Italy</b>	15	10	10	10
<b>Japan</b>	-	-	-	-
<b>Jordan</b>	-	-	-	-
<b>Kazakhstan</b>	15	5	10	5
<b>Kenya</b>	-	-	-	-
<b>Korea (Rep.)</b>	15	5	10	10
<b>Kuwait</b>	10	5	10	10
<b>Kyrgyzstan</b>	15	15	10	0/10 <sup>*3</sup>
<b>Latvia</b>	0/10	0	0/10 <sup>*2</sup>	0
<b>Libya</b>	-	-	-	-
<b>Lithuania</b>	-	-	-	-
<b>Luxembourg</b>	15	5	10	10

Treaty Rates	Dividends	Dividends (Qualifying)	Interest	Royalties
Macedonia	-	-	-	-
Malaysia	15	5	10	10
Malta	-	-	-	-
Mauritius	-	-	-	-
Mexico	15	0/5	10/15 <sup>*1</sup>	10
Moldova	15	15	10	0/10 <sup>*3</sup>
Mongolia	-	-	-	-
Montenegro	-	-	-	-
Morocco	-	-	-	-
Mozambique	-	-	-	-
Myanmar	-	-	-	-
Namibia	-	-	-	-
Nepal	-	-	-	-
Netherlands	10	0/5	0/10 <sup>*1</sup>	0
New Zealand	15	0	0/10 <sup>*1</sup>	5
Norway	15	5	10	10
Oman	10	5	10	10
Pakistan	10	5/7.5	10	10
Philippines	15	10	10	10/15 <sup>*6</sup>
Poland	10	10	10	0/10 <sup>*3</sup>
Portugal	10	5	5/10 <sup>*1</sup>	5
Qatar	10	5	0/10 <sup>*1</sup>	5
Romania	10	10	10	10/15 <sup>*3</sup>
Russia	15	15	10	0/10 <sup>*3</sup>
Saudi Arabia	10	5	10	5/10 <sup>*5</sup>
Serbia	-	-	-	-
Singapore	15	5	10	10
Slovak Republic	15	10	10	0/10 <sup>*3</sup>
Slovenia	5	5	5	5

Treaty Rates	Dividends	Dividends (Qualifying)	Interest	Royalties
South Africa	15	5	10	10
Spain	15	10	10	10
Sri Lanka	20	20	-	0/10 <sup>*7</sup>
Sudan	-	-	-	-
Sweden	10	0	0	0
Switzerland	10	0/5	0/10 <sup>*1</sup>	0
Syria	-	-	-	-
Taiwan	10	10	10	10
Tajikistan	15	15	10	0/10 <sup>*3</sup>
Tanzania	-	-	-	-
Thailand	-	15/20	10/25 <sup>*1</sup>	15
Trinidad and Tobago	-	-	-	-
Turkey	15	10	10/15 <sup>*1</sup>	10
Turkmenistan	15	15	10	0/10 <sup>*3</sup>
Uganda	-	-	-	-
Ukraine	15	15	10	0/10 <sup>*3</sup>
United Arab Emirates	10	5	10	10
United Kingdom	10	0	0	0
United States	10	0/5	0/10 <sup>*1</sup>	0
Uruguay	-	-	-	-
Uzbekistan	15	15	10	0/10 <sup>*3</sup>
Vietnam	10	10	10	10
Zambia	0	0	10	10

Notes:

- The above table contains general withholding tax rates for dividends, interest and royalties paid in Japan under tax treaties in force as of 9 February 2018.
- Japan continues to apply the treaty with the USSR in relations with ex-USSR countries (Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan).
- Japan continues to apply the treaty with Czechoslovakia in relations with Czech Republic and Slovak Republic.

- The original tax treaty with the UK is eligible for Fiji, with exceptions for dividends and interest, to which domestic tax rates are applied.
- Please note that ‘-’ means that there is no tax treaty or the treaty does not provide tax rates. Thus, domestic tax rates will be applied.

\*1: The lower rate is applied to interest paid to financial institutions, etc.

\*2: The higher rate is applied to interest on contingent loans.

\*3: The lower rate is applied to cultural royalties and the higher rate is applied to industrial royalties.

\*4: 15%: cinematograph films, etc., 25%: trademarks, 12.5%: other royalties

\*5: The lower rate is applied to industrial, commercial or scientific equipment

\*6: The lower rate is applied to cinematograph films, etc.

\*7: 0%: copyrights, cinematograph films, 10%: patents, designs, models, plans or trademarks, etc.

### Other Agreements

Japan signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting in June 2017 and chose 35 bilateral tax treaties to be covered by the convention.

Australia	Hong Kong	Luxembourg	Romania
Bulgaria	Hungary	Malaysia	Saudi Arabia
Canada	India	Mexico	Singapore
China	Indonesia	Netherlands	Slovak Republic
Czech Republic	Ireland	New Zealand	South Africa
Fiji	Israel	Norway	Sweden
Finland	Italy	Pakistan	Turkey
France	Korea	Poland	United Kingdom
Germany	Kuwait	Portugal	

### Income Tax Treaties for the Avoidance of Double Taxation (Negotiated, not yet in force at time of publication)

New treaties or amendment protocols have been signed or are being negotiated with Argentina, Austria, Belgium, Colombia, Denmark, Estonia, Iceland, Lithuania, Russia, Spain, and the United States.

### Agreements for the Exchange of Information

In force: the Bahamas, Bermuda, the British Virgin Islands, the Cayman Islands, Guernsey, the Isle of Man, Jersey, Liechtenstein, Macao, Panama and Samoa.

### Indirect Offshore Disposal Rules

Not applicable.

## 2 Transfer Pricing

### Requirements

The arm's length principle applies to transactions with related overseas companies.

By virtue of the 2016 tax reform, a three-tiered approach (local file, master file and country-by-country file) was adopted to transfer pricing documentation rules in connection with the final report of Action 13 of the Base Erosion and Profit Shifting Project.

Japan has an Advance Pricing Agreement ('APA') system under the domestic tax law. Through the process of a unilateral APA based on the Japanese taxpayer's request, the tax authority gives advance confirmation of the method for calculating the arm's length price in transactions with related overseas companies.

The Japanese competent authority [i.e. the National Tax Agency – ('NTA')] is also active on bilateral APAs through Mutual Agreement Procedures with countries concluding tax treaties with Japan. During the 2016 administrative year (ending in June 2017), the NTA agreed 143 bilateral APAs.

### Country-by-Country Reporting

A Japanese company being an Ultimate Parent Entity or a Surrogate Parent Entity of a Specified MNE Group must file a CbC Report to the competent tax office within one year after the end of the fiscal year of the Ultimate Parent Entity through an online system (e-Tax). A Specified MNE Group is an MNE group whose total consolidated revenue for the preceding fiscal year of the Ultimate Parent Entity is JPY100 billion or more.

Moreover, a Japanese company or a Japan branch of a non-resident company being a Constituent Entity of a Specified MNE Group is required to submit a notification to inform who is a reporting entity of a CbC report of the Specified MNE Group to the competent tax office by the end of the fiscal year of the Ultimate Parent Entity of the Specified MNE Group through an online system (e-Tax).

### Master and Local Files Reporting

A Japanese company or a Japan branch of a non-resident company being a Constituent Entity of a Specified MNE Group must file a master file to the competent tax office within one year after the end of the fiscal year of the Ultimate Parent Entity of the Specified MNE Group through an online system (e-Tax).

Under the Japanese contemporaneous documentation rules, a company conducting transactions with its related overseas companies must prepare or obtain documents considered to be necessary for calculating the arm's-length price for the transactions (local files) by the filing due date of a final tax return and preserve them for 7 years. A company has to submit/present them upon request from the tax authorities by the day designated by the tax authority within 45 days or 60 days depending the types of documents.

Note that there is an exceptional treatment to exempt transactions under certain thresholds from the contemporaneous documentation rules. However, a company still has to submit/present local files for such transactions upon request from the tax authorities by the day designated by the tax authority within 60 days.

### Common Reporting Standard

From the perspective of implementation of the exchange of information based on the Common Reporting Standard ('CRS') developed by the OECD, new reporting rules were introduced in Japan, under which financial institutions located in Japan are required to report financial account information held by non-residents to the NTA.

The NTA will receive the first reports from financial institutions by April 2018 and will begin providing information to foreign tax authorities by September 2018.

# 3 Indirect Tax

## Indirect Tax

Consumption tax

### Structure

Japanese consumption tax is similar in nature to European VAT, in that it is a sales based tax levied at each stage of supplies of certain goods and services. As the consumption tax burden is to be borne by final consumers, the consumption tax liability to be remitted from suppliers to the government is generally calculated based on the net of consumption tax received on domestic taxable sales transactions (output tax) minus consumption tax suffered on domestic taxable purchase transactions and import taxable transactions (input tax), but to the extent of the creditable amount. When creditable input tax exceeds the output tax, a refund of the difference will be made.

The reverse charge mechanism in which customers should remit tax to the government in lieu of suppliers applies to B2B digital services provided by foreign suppliers to domestic business customers or Japanese PEs of foreign business customers.

### Standard Rate

Standard rate of consumption tax is 8% and applies to the sale or lease of an asset in Japan and services performed in Japan.

The tax rate is slated to increase from the current 8% to 10% on 1 October 2019. At the same time, a multiple tax rate system will be introduced, under which a reduced tax rate of 8% will apply to sales of food/beverages (excluding alcoholic beverages) and certain newspapers under subscription contracts.

Certain supplies of goods and services are zero-rated or exempt from consumption tax.

### Further Information

For more detailed indirect tax information, refer to:

[KPMG's 2017 Asia Pacific Indirect Tax Country Guide](#)

# 4 Personal Taxation

## Top Rate

The top rate of income tax for a resident of Japan is 55% (55.945% including special reconstruction income tax) and applies on taxable income in excess of JPY 40 million.

Non-residents are generally taxed at 20% (20.42% including special reconstruction income tax).

## Social Security

Social security law requires contributions to national social and labor insurance systems in respect of employees in Japan. Categories of social security include; health, welfare and labor insurance.

Employer and employee contributions generally align with the exception of labor insurance.

## International Social Security Agreements

In force: Australia, Belgium, Brazil, Canada, Czech Republic, France, Germany, Hungary, India, Ireland, Korea (Republic of), Luxembourg, the Netherlands, Spain, Switzerland, United Kingdom and the United States

Signed but not yet in force: Italy, the Philippines and Slovakia

Under negotiation: China, Finland, Sweden and Turkey

## Visa Requirements

A visa must be applied for before an individual enters Japan. The type of visa required will depend on the purpose of the individual's entry into Japan. Nationals of certain countries are allowed to enter Japan for up to 90 days without a visa.

Working visa:

- Highly skilled professional
- Professor
- Artist
- Religious activities
- Journalist
- Business manager
- Legal/Accounting services
- Medical services
- Researcher
- Instructor
- Engineer/Specialist in humanities/International services
- Intra-company transferee
- Nursery
- Entertainer
- Skilled labor

## Further Information





For more detailed personal taxation information, refer to:

[KPMG's Thinking Beyond Borders](#)

# 5 Other Taxes

## Stamp Duty

Stamp duty is imposed on certain transactions such as deeds and contracts. The levy is based either on the value involved or on a flat rate. The maximum stamp duty liability is generally JPY 600,000.

## Fixed Asset and City Planning Tax

Fixed assets tax is assessable on both real and depreciable assets that are in use in a business as at 1 January each year. The tax is levied at 1.4% of the higher of net book value and the assessed value of depreciable assets, and 1.4% of the assessed value of real estate.

In addition, city planning tax is assessable on real property at 0.3% of the assessed value.

## Business Occupancy Tax

This tax is assessable by 'designated cities' (determined by those having a population of 300,000 or more) and the tax rate is based on:

- JPY 600 per square meter
- 0.25% of gross payroll

## Registration and Real Property Acquisition Tax

When certain information is legally registered, this is subject to registration tax. Key registration events giving rise to such tax include the registration of a Japanese company or a branch of a foreign company and registration of a change in the legal ownership of real estate.

Various rates apply depending on the type of established business and the nature of the transaction for real estate transfers.

Real property acquisition tax may be imposed on the transfer of land and buildings, based on the appraisal value of the property.

## Inheritance / Gift Tax

Japanese inheritance tax and gift tax are levied on an heir who acquired properties by inheritance and an individual (donee) who acquired properties from another individual (donor) as a gift, respectively. The scope of taxable properties (i.e. worldwide assets or only assets located in Japan) generally depends on the length of living in Japan of the heir/donee or the decedent /donor and the nationality of the heir/donee.

Rates vary from 10% to 55%.

## Other Taxes

There exist several other taxes for specific purposes; such as golf course utilization tax, hunting tax and bathing tax.

# 6 Trade & Customs

## 6.1 Customs

### Customs Duty

Customs duty is levied on goods entering Japan. The rates vary by product type.

### Excise Duty

Excise duty is imposed on gasoline, tobacco, and liquor.

## 6.2 Free Trade Agreements (FTA)

### In Force

- ASEAN
- Australia
- Brunei
- Chile
- India
- Indonesia
- Malaysia
- Mongolia
- Mexico
- Peru
- Philippines
- Singapore
- Thailand
- Switzerland
- Vietnam

### Concluded/Signed (Pending domestic ratification)

TPP (Trans-Pacific Partnership)

### In Negotiation

- Canada (Negotiation suspended)
- China/Korea
- Colombia / EU (Negotiation settled)
- GCC (Gulf Cooperation Council) (Negotiation postponed)
- Korea (Negotiation suspended)
- RCEP (Regional Comprehensive Economic Partnership)
- Turkey

Source: [Ministry of Foreign Affairs of Japan](#)

# 7 Tax Authority

## Tax Authority

National Tax Agency

Link to [National Tax Agency](#)

## Tax Audit Activity

There are no official rules on the frequency of tax audits. In practice, it is understood that larger and profitable companies tend to have tax audits more frequently than smaller or loss-making companies.

A typical tax audit commences with an advance notice to a taxpayer and a tax attorney who is given an authority of tax proxy for the taxpayer. The tax officials investigate various documents and conduct interviews with the taxpayer on the taxpayer's site. They also may visit business partners of the taxpayer if sufficient information is not gathered from the taxpayer.

## Appeals

At the administrative level, there is two-step appeal process; (i) request for reinvestigation to the tax office or the regional tax bureau that conducted a tax audit and (ii) request for reinvestigation to the National Tax Tribunal. If a taxpayer is not convinced by the decision of the National Tax Tribunal, they can proceed with litigation processes, which include three steps:

- (i) the District Court,
- (ii) the High Court,
- (iii) the Supreme Court.

## Tax Governance

When a taxpayer faces a new transaction, it is recommendable for the taxpayer to consult with a tax advisor on how to deal with such transaction in line with the tax laws and regulations. It is also important for a taxpayer to maintain records explaining their tax position properly so that they can show the tax authority in an event of a tax audit. As discussed in 1.1, as there is a written ruling system in Japan, it may be worthwhile considering such system.

## Current Topics for Focus by Tax Authorities

The tax authority has recently focused on reorganizations, transfer pricing and cross-border transactions that reduce the Japanese tax burden.

# Contact us

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