## Contents

1 Corporate Income Tax  
2 Income Tax Treaties for the Avoidance of Double Taxation  
3 Indirect Tax  
4 Personal taxation  
5 Other Taxes  
6 Free Trade Agreements  
7 Tax Authority
Corporate Income Tax

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

Tax Rate

Tax rates for companies with stated capital of JPY 100 million or greater are as follows:

- Corporation tax is payable at 25.5 percent.
- Local corporation tax applies at 4.4 percent on the corporation tax payable.
- Business tax comprises of three variables – Regular business tax, special local corporate tax and size-based business tax.
  - Regular business tax rates currently apply and vary between 2.2 percent and 5.16 percent depending on the tax base (taxable income) and the location of the taxpayer.
  - Special local corporate tax rate is 67.4 percent which is imposed on taxable income multiplied by the standard of regular business tax rate.
  - Size-based business tax consists of two components:
    - (i) added value component
      - tax rate: from 0.48 percent to 0.576 percent
      - tax base: labour costs, net interest payment, net rent payment and current year income
    - (ii) capital component
      - tax rate: from 0.2 percent to 0.24 percent
      - tax base: stated capital and capital surplus for tax purposes

Prefectural and municipal inhabitant taxes consist of two elements:

- (i) income tax calculated based on national corporation tax (from 12.9 percent to 16.3 percent)
- (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 35.64 percent.
Tax Rate
(Applicable to fiscal years beginning between 1 April 2015 and 31 March 2016)

Tax rates for companies with stated capital of JPY 100 million or greater are as follows:

Corporation tax is payable at 23.9 percent.

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

Business tax comprises of three variables – Regular business tax, special local corporate tax and size-based business tax.

- Regular business tax rates currently apply and vary between 1.6 percent and 3.72 percent depending on the tax base (taxable income) and the location of the taxpayer.
- Special local corporate tax rate is 93.5 percent which is imposed on taxable income multiplied by the standard of regular business tax rate.
- Size-based business tax consists of two components:
  (i) added value component
      tax rate: from 0.72 percent to 0.864 percent
      tax base: labour costs, net interest payment, net rent payment and current year income
  (ii) capital component
      tax rate: from 0.3 percent to 0.36 percent
      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:

- income tax calculated based on national corporation tax (from 12.9 percent to 16.3 percent)
- 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 33.06 percent.
Tax Rate
(Applicable to fiscal years beginning on or after 1 April 2016)

Tax rates for companies with stated capital of JPY 100 million or greater are as follows:

Corporation tax is payable at 23.9 percent.

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

Business tax comprises of three variables – Regular business tax, special local corporate tax and size-based business tax.

- Regular business tax rates currently apply and vary between 0.9 percent and 2.28 percent depending on the tax base (taxable income) and the location of the taxpayer.
- Special local corporate tax rate is 152.6 percent which is imposed on taxable income multiplied by the standard of regular business tax rate.
- Size-based business tax consists of two components:
  (i) added value component
      tax rate: from 0.96 percent to 1.152 percent
      tax base: labour costs, net interest payment, net rent payment and current year income
  (ii) capital component
      tax rate: from 0.4 percent to 0.48 percent
      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 percent to 16.3 percent)

(ii) a per capita tax

As an illustrative example, an effective tax rate using the standard tax rates applied to a company whose stated capital is over JPY100 million is 31.33 percent.

(As the regular business tax rates of Tokyo applied to fiscal years beginning on or after 1 April 2016 have not yet been determined, the effective tax rate of a Tokyo company is not available at the time of writing (1 June 2015).)
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.

Compliance requirements

Japan has a self-assessment system.

Final tax returns must be filed within two months from the end of the fiscal year. Generally, an extension of 1 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.

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.

International Withholding Tax Rates

Withholding tax is imposed on payments such as dividends, interest, royalties to non-residents. The following are the Japanese domestic tax rates. Rates may be reduced where there is an appropriate tax treaty.

- Dividends: 20 percent
- Dividends (certain listed shares): 15 percent
- Interest (on loans): 20 percent
- Interest (from bonds and bank deposits): 15 percent
- Royalties: 20 percent
- Rents (from real properties): 20 percent
- Specified services (e.g. lawyers, certified accountants and service providers with scientific knowledge or managerial skills): 20 percent

Special reconstruction income tax will be imposed on withholding tax at 2.1 percent from 2013 to 2037, except for cases where the withholding tax rate is reduced under a relevant tax treaty.
Holding rules
Dividends from a resident subsidiary are tax exempt provided that the recipient owns at least 25 percent (1/3 for fiscal years beginning on or after 1 April 2015) of the shareholding in the resident subsidiary for a minimum period of 6 months.

95 percent of dividends from a non-resident subsidiary are exempt provided that the recipient (that must be a resident company) owns at least 25 percent of the shareholding in the non-resident subsidiary for a minimum period of 6 months. However, if the dividends are deductible in the country where the head office of the non-resident subsidiary is located, such dividends will be taxed in principle from 1 April 2016.

Capital gains are taxable as part of a company’s taxable income, while capital gains arising from transfers of fixed assets between resident companies in a tax consolidated group or a 100 percent group are deferred generally until the assets leave the group or are written off.

Tax Losses
Losses can be offset up to 80 percent of taxable income for a given year. This is changing to 65 percent for fiscal years beginning between 1 April 2015 and 31 March 2017 and 50 percent for fiscal years beginning on or after 1 April 2017.

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) (for fiscal years beginning on or after 1 April 2015)

Losses can be carried forward for 9 years (7 years for tax losses incurred in fiscal years ending before 1 April 2008), which will be extended to 10 years for tax losses incurred in fiscal years beginning on or after 1 April 2017. If specific events occur within 5 years after an ownership change, utilisation of tax losses may be restricted.

Tax losses can be carried back a year (generally suspended and applicable for certain, limited circumstances).

Tax Consolidation / Group relief
A Japanese group (parent and subsidiaries) can apply to be a tax consolidated group by an election provided they are 100 percent wholly-owned. Moreover, the group taxation regime is automatically applied to companies in a 100 percent group (i.e. a group of resident and non-resident companies having a 100 percent shareholding relationship).

Transfer of shares
Capital gains 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 resident companies in a tax consolidated group or a 100 percent group are deferred generally until the assets leave the group or are written off.
Transfer of assets

Capital gains 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 resident companies in a tax consolidated group or a 100 percent group are deferred generally until the assets leave the group or are written off.

CFC rules

If Japanese resident taxpayers directly or indirectly own more than 50 percent of the shares in a foreign company whose effective tax rate is 20 percent or less the foreign company is treated as a CFC. This effective tax rate requirement will be amended to less than 20 percent for fiscal years of a foreign company beginning on or after 1 April 2015.

If a Japanese parent company holds at least 10 percent of shares in a CFC, it is required to declare its proportionate share of the entire income of the CFC as taxable income. However, if the CFC satisfies active tests, only certain passive income is included in taxable income for the Japanese parent company in proportion to its share ownership.

Transfer Pricing

The arm’s length principle applies to transactions with related overseas companies. There is a statutory requirement for documentation so that a taxpayer can disclose certain documents in the event of a tax audit in a timely manner.

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) is also active on bilateral APAs through Mutual Agreement Procedures (MAPs) with countries concluding tax treaties with Japan. During the 2013 administrative year (ending in June 2014), the NTA agreed 141 bilateral APAs.

Thin Capitalisation

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

Earnings Stripping

The earnings stripping regime disallows deductions for net interest payments to overseas related persons in excess of 50 percent 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 percent 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. (See additional comment below under “Other specific anti-avoidance rules”). |
| **Anti-treaty shopping** | Tax treaties recently concluded by Japan often include anti-treaty shopping provisions such as the Limitation on Benefits provisions. |
| **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 (for fiscal years beginning on or after 1 April 2016). 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 all transactions/circumstances (e.g. cases based on hypothetical facts and cases where the main purpose is tax saving). Rulings are generally made public. |
| **Intellectual Property Incentives** | N/A |
| **R&D Incentives** | Companies are permitted a tax credit for R&D expenditure at rates between 8-30 percent of total R&D expenditure (depending on the size of the company, its R&D ratio, and types of expenditure). Further, an additional tax credit (e.g. tax credit on incremental R&D expenditure) is available for fiscal years beginning before 1 April 2017. |
Other incentives

- Incentives for energy rationalization
  Companies may claim increased initial depreciation of 30 percent of the acquisition cost of new advanced low-carbon and energy-saving equipment, provided that the asset is purchased or produced in the period from 30 June 2011 to 31 March 2016 and placed into use for business in Japan within one year. If certain solar photovoltaic power facilities or wind power facilities are acquired during the period from 29 May 2012 to 31 March 2015 (to 31 March 2016 for wind power facilities), the total acquisition cost will be expensed.
  Further, a tax credit is also applicable to small and medium-sized companies instead of the increased initial depreciation.

- Incentives for salary growth
  Companies may claim a tax credit of 10% of the amount of the increase in salary paid in a fiscal year from the ‘base year’ (generally, the fiscal year preceding the first fiscal year commencing on or after 1 April 2013), if all of the conditions prescribed by the tax law are satisfied. This tax credit is applicable for fiscal years commencing between 1 April 2013 and 31 March 2018 unless the tax credit for job creation discussed below is applied.

- Incentives for job creation
  Companies may claim a tax credit in the amount of JPY 400,000 per person for the increased number of employees for fiscal years beginning before 1 April 2016, if the companies submit a plan to a public job placement agency to increase the number of employees and satisfy all of the conditions under the tax law.

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.
### 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.

### 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. There are no other local requirements for establishing a KK.

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.
# 2 Income Tax Treaties for the Avoidance of Double Taxation

<table>
<thead>
<tr>
<th>In Force</th>
<th>Negotiated or signed, but not yet in force at time of publication</th>
<th>Agreements for the exchange of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>France</td>
<td>In force: Bahamas, Bermuda, The British Virgin Islands, Cayman, Guernsey, The Isle of Man, Jersey, Liechtenstein, Macao and Samoa.</td>
</tr>
<tr>
<td>Australia</td>
<td>Georgia</td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>Germany</td>
<td></td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Hong Kong</td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Hungary</td>
<td></td>
</tr>
<tr>
<td>Belarus</td>
<td>India</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>Indonesia</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>Ireland</td>
<td></td>
</tr>
<tr>
<td>Brunei</td>
<td>Israel</td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Italy</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>Kazakhstan</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>Korea (Republic of)</td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Kuwait</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>Kyrgyz Republic</td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>Luxembourg</td>
<td></td>
</tr>
<tr>
<td>Fiji</td>
<td>Malaysia</td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>Mexico</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Moldova</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Netherlands</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New Zealand</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Norway</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oman</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pakistan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Turkey</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Turkmenistan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sweden</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Switzerland</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tajikistan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Thailand</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Turkey</td>
<td></td>
</tr>
<tr>
<td></td>
<td>United Kingdom</td>
<td></td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Vietnam</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Zambia</td>
<td></td>
</tr>
</tbody>
</table>

New treaties or amendment protocols have been signed or being negotiated with Germany, Hong Kong, Qatar and the United States.

Source: IBFD

© 2015 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.
# 3 Indirect Tax

<table>
<thead>
<tr>
<th>Indirect Tax(es)</th>
<th>Consumption tax</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Standard Rate</strong></td>
<td>Standard rate of consumption tax is 8 percent and applies to the sale or lease of an asset in Japan and services performed in Japan. The tax rate will be increased from the current 8 percent to 10 percent on 1 April 2017. Certain supplies of goods and services are zero-rated or exempt from consumption tax.</td>
</tr>
</tbody>
</table>
4 Personal taxation

Income Tax

Income tax

Top Rate

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

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

Social Security

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

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

International Social Security Agreements

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

Signed but not yet in force: India, Italy and Luxemburg

Under negotiation: China, Philippines, Sweden and Turkey
5 Other Taxes

**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.

**Stamp duty**
Stamp duty is imposed on certain transactions such as deeds and contracts. The levy is either based on the value involved or 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 which are in use in a business as at 1 January each year. The tax is levied at 1.4 percent of the higher of net book value and the assessed value of depreciable assets, and 1.4 percent of the assessed value of real estate.

In addition, city planning tax is assessable on real property at 0.3 percent 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 percent 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**
Generally, beneficiaries who are domiciled in Japan or have Japanese nationality are subject to inheritance or gift taxes on assets received regardless of the location of those asses.

Rates vary from 10 percent to 55 percent.
6 Free Trade Agreements

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

Concluded / signed (pending domestic ratification)
- Mongolia

In negotiation
- Canada
- China/Korea
- Colombia
- EU
- GCC (Gulf Cooperation Council) (Negotiation postponed)
- Korea (Negotiation suspended)
- RCEP (Regional Comprehensive Economic Partnership)
- TPP (Trans-Pacific Partnership)
- Turkey

Source: Ministry of Foreign Affairs of Japan
7 Tax Authority

Tax Authorities
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.

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

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.
This profile was provided by professionals from KPMG’s member firm in Japan.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG International Cooperative (“KPMG International”), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.