

Business Start Up in Osaka, Japan

Accounting and Taxation



The 23rd edition as of May 2025

Introduction

In this pamphlet, we have outlined only general terms, but do not specify great detail. Since accounting and tax treatment depend upon varying circumstances, please forward any specific questions to Osaka Business and Investment Center (O-BIC). We will refer you to an appropriate professional firm.

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Table of Contents

Accounting and Tax.....	3
1. Type of corporation taxes and tax rate.....	3
<List of Tax Rates>	8
2. Transfer pricing taxation.....	8
3. The method to tax on the profit of a branch of a foreign corporation.....	10
4. Differences by types of entities.....	11
5. Notification	12
6. Losses treated for tax purposes	13
Social Security System	14
1. Social Security System in Japan	14
2. Overview of Each Program and Premium Rate	14
3. Notification to Authorities	15
4. Application to Foreign Workers	16
5. Coverage for Directors of Corporation	17
Others.....	17
1. Vacation.....	17
2. Rules of Employment	18
3. Labor-management Agreement.....	18
4. Annual Health Check-up.....	18
Salary and Individual Income Tax	19
1. Monthly Salary	19
2. Bonus	19
3. Retirement Allowance	19
4. Withholding Income Tax	19
5. Year-End Adjustment of Income Tax.....	19
6. Individual Inhabitant Tax.....	19
7. Director's Remuneration, Bonus and Retirement Allowance.....	20
8. Difference in Salary by Types of Company.....	21
9. Income Tax Applied to Foreigners Staying in Japan.....	21

Accounting and Tax

1. Type of corporation taxes and tax rate

Taxes imposed on corporations are broadly classified into national and local taxes. Local taxes are taxes imposed by prefectures and municipalities (city / town / village).

Major taxes imposed on Japanese corporations in general include:

- ⇒ Taxes payable to the national government: Corporation tax, local corporation tax, consumption tax, income tax (withholding income tax)
- ⇒ Taxes payable to the local government: Inhabitant tax, enterprise tax, special local corporate tax, fixed property tax, business facility tax

(1) Corporation tax

Corporation tax is assessed on the taxable income of corporations. Corporation tax is calculated in the same manner for both subsidiaries (domestic corporation) and branch offices (foreign corporation).

- ① Calculation method: Taxable income calculated by making the necessary tax adjustments* to the net income per the statement of income is multiplied by the corresponding tax rate specified in item ② below. (*Non-deduction of entertainment expense, directors' bonus etc.)
- ② Tax rate: 23.2%
For small and medium sized companies with capital of 100 million yen or less (with the exception of wholly owned subsidiaries of large companies with capital of no less than 500 million yen), a reduced tax rate of 15 % tentatively applies for their portion of taxable income not exceeding 8 million yen. For the fiscal years reduced tax rate is not applied, 19 % is applied for the same portion of taxable income in principle.
- ③ Filing / Payment
 - a) Final return: (In principle) Within 2 months from the fiscal year end.
(Exception) If settlement of accounts is not completed within 2 months due to the audit schedule or for other unavoidable reasons, this 2-month period may be extended to a maximum of 3 months, subject to prior notification. Extension to file, however, does not extend payment of taxes due. Accordingly, interest tax will be imposed on corporation tax that is not paid within the original 2 month deadline.
 - b) Interim tax return: Required only when the amount of corporation tax for the first 6 months of the fiscal year is over 100,000 yen when calculated based on the tax amount of the previous year. Filing and payment for the interim tax return must be completed within 2 months from the end of the first 6 months of the fiscal year.

(2) Local corporate tax

A corporation which is liable for the corporate tax is also liable for the local corporate tax. The taxable year of the local corporate tax is the same as that of the corporate tax. Taxable basis of the local corporate tax for a given year is the amount of the corporate tax of such year and the tax rate is 10.3%. Filing of the local corporate tax return should be made within two months after the end of such taxable year.

(3) Consumption tax

A taxable enterprise for consumption tax purposes must file a tax return and pay the difference between consumption taxes received from sales or other revenues and consumption tax paid on purchases. Neither filing nor payment of consumption tax is required if an entity is not a taxable enterprise. Whether an entity is classified as a taxable enterprise or not is determined based on the amount of taxable sales which exceed 10 million yen in the period two years to the current year in principle. In case of newly established company whose capital is less than 10 million yen and met certain requirements, such entity is tax-exempt enterprise at first. Because requirements are complicated, please have a tax professional for more details, whether an entity is classified as a taxable enterprise or not.

① Calculation method:

Consumption Tax Payable = Consumption tax received - Consumption tax paid*

Consumption tax received: Consumption tax received on sales and asset transfers

Consumption tax paid: Consumption tax paid in connection with purchases and expenditures plus consumption tax paid to customs upon import. (*There are some cases where consumption tax paid on purchases and import is not deductible.)

② Tax rate: Standard tax rate 10% (National tax 7.8%, Local tax 2.2%)

Reduced tax rate 8% (National tax 6.24%, Local tax 1.76%)

③ Filing / Payment

a) Final return: Within 2 months from the fiscal year end (No extension system)

b) Interim tax return: If the tax amount of the preceding fiscal year exceeds 480,000 yen (national tax portion), an interim tax return must be filed within 2 months from the last day of each of the corresponding periods below:

- More than 480,000 yen and no more than 4 million yen: 6 months period from the beginning of the fiscal year
- More than 4 million yen and no more than 48 million yen: Every 3 months period from the beginning of the fiscal year (except for the last 3 months period)
- More than 48 million yen: Every one month period (except for the last month)

The Invoice System (Qualified Invoice (QI) System) (Enforcement: October 1, 2023)

A seller who is a Qualified Invoice Issuer (QI Issuer) is required to issue a QI and retain a copy of the issued QI when a buyer (Taxpayer) requests a QI. A Buyer is required to retain the QI issued by QI Issuer in order to claim input Consumption Tax credit.

① Registration as a QI Issuer

It is not an obligation and you can decide whether you register as a QI Issuer or not.

In order to issue QI, you need to be registered as a “QI Issuer” by submitting QI Issuer Registration Application to the National Tax Agency.

The National Tax Agency publishes information on Registered QI Issuer such as a name of registered entity, registration number at “National Tax Agency Qualified Invoicing Business Publication Site”.

Only a Taxpayer can apply for the registration, therefore, a Consumption Tax Exempt Entity should first become a Taxable Entity by submitting the Taxable Entity Application. Once an entity becomes a Taxable Entity, consumption tax declaration is required.

② Information required in QI

Information required in QI is as follows:

- Name of the QI issuer
- Transaction date
- Transaction details (including that the item is subject to reduced tax rate)
- Compensation amount totaled separately by tax rate
- Name of customer receiving the QI
- QI issuer number
- Applicable tax rate
- Consumption tax amount categorized by tax rate

(4) Withholding income tax applicable to domestic corporation

Corporations that make certain payments such as salaries, remuneration / fees etc. to residents in Japan are obligated to withhold taxes upon payment (withholding at the source) and pay the withheld amount to the government. It is important to note that it is the responsibility of the payer of income to withhold taxes, and failure to collect or pay withholding tax may result in such penalties as additional tax on non-payment or overdue tax on payer of income (Please have tax professional for more details on withholding tax assessed against payments to non-residents and foreign corporation). For 25 years from January 2013, Restoration Income Surtax (2.1 % of withholding tax) must be withheld together with withholding income tax.

① Payments subject to withholding income tax

- a) Salary, bonus, retirement allowance, etc.
- b) Professional fees to lawyers, licensed tax accountants, etc.
- c) Fees for manuscript and lectures
- d) Dividends
- e) Other

② Payment: No later than the 10th day of the month following the month the payments listed in section ① above were made.

③ Special provision for the due date: If a corporation pays salaries to fewer than 10 employees, income tax withheld for item a) and b) above may be paid semiannually (July and January) by submitting the notification to the tax office.

(5) Inhabitant tax

Inhabitant tax is imposed by prefectures and municipalities. The tax return must be filed with both the prefecture and municipalities.

- ① Calculation method: Inhabitant tax is calculated as the sum of “corporation tax levy” and “per capita levy”
- ② Tax rate
 - a) Corporation tax levy: 10.2 % of the corporation tax (7 % for companies whose capital is no more than 100 million yen, or without capital or investments, and corporation tax taxable base amount is no more than 20 million yen per year).
 - b) Per capita levy: Tax amount is determined according to capital size* and the number of employees (within the range of 70,000 yen - 3,800,000 yen), so this levy is imposed even on deficit corporations. For example, in the case of a corporation having business facilities in Osaka city, the per capita levy is 20,000 yen for Osaka prefecture and 50,000 yen for Osaka-city when the capital is not more than 10 million yen and the number of employees is no more than 50. (*In the case of a branch office in Japan, the per capita levy is determined according to the capital size of the overseas head office).
- ③ Filing / Payment: Same as in the case of corporation tax.

(6) Enterprise tax

Enterprise tax is levied by prefectures on businesses conducted by corporations. Taxation is based either on the pro-forma basis or on the income of corporations.

1) Pro-forma basis taxation

① Calculation method

Pro-forma basis taxation, as a general rule, applies to corporations whose capital is more than 100 million yen (in the case of branch offices in Japan, the capital of the overseas head office applies). However, from the fiscal year beginning on or after April 1, 2025, corporations that were subject to the new regulation in the fiscal year preceding the relevant fiscal year, had capital of 100 million yen or less due to capital reduction in the relevant fiscal year, and had paid-in capital (capital plus capital surplus) of over 1 billion yen at the end of the relevant fiscal year will also be subject to the new regulation. Tax is calculated as the sum of the following three components: (i) income levy based on the taxable income of corporation tax, (ii) capital levy based on the size of capital etc. and (iii) the added-value levy based on payroll, interest, etc.

② Tax rate: Refer to List of Tax Rates on page 8.

2) Corporation not subject to the pro-forma basis taxation

Tax Rate: Refer to List of Tax Rates on page 8.

(7) Special corporate enterprise tax

Special local corporate tax applies to corporations that are obligated to file an enterprise tax return. This is classified as national tax, but is payable to prefectures based on the local enterprise tax amount.

(8) Fixed property tax

Fixed property tax is imposed by municipalities on tangible fixed assets (land, buildings, depreciable assets) owned by corporations.

For real property (land and buildings), municipalities will automatically send tax payment slips based on the registered information (“Official assessment method”). Other assets must be declared by the taxpayer.

Fixed property tax on depreciable assets (Declaration of depreciable assets)

① Tax rate: 1.4 %

② Filing and payment

Details of depreciable assets (furniture and fixtures, interior equipment, etc.) owned as of January 1 of each year must be declared to municipalities by January 31. Tax amount is calculated by municipalities and paid in a maximum of four installments per year.

③ Other

Fixed assets tax is exempted in the following cases.

If the taxable valuation of an asset in a municipality is less than 300,000 yen for land, 200,000 yen for a building, or 1,500,000 yen for a depreciable asset, fixed property tax will not be levied.

(9) Business Facility Tax

Business Facility Tax is imposed on corporations that own large business facilities (office, hotel, warehouse, etc.). Corporations that have business facilities in designated municipality such as Osaka city must declare this tax.

① Corporations subject to Business Facility Tax: Corporations that have a business facility with floor space exceeding 1,000 square meters or the total number of employees working in the facility is over 100.*

② Tax rate

a) Asset based tax: Floor area (square meters) \times 600 yen

b) Employee-based tax: Total payroll \times 0.25 %

③ Filing / Payment: Within 2 months after the fiscal year end

*Corporations with either business facilities with floor space exceeding 800 square meters but under 1,000 square meters or total employee number exceeding 80 employees but under 100 square meters are not levied business facility tax but has obligation to file Business Facility Tax.

[Reference: Mandatory Electronic Declaration (via e-Tax, eLTAX) by Large Companies]

Companies (excluding foreign companies) with capital or investments exceeding 100 million yen are required to submit their final and interim returns for corporate tax, local corporate tax, consumption tax, corporate inhabitant tax, enterprise tax, and special corporate enterprise tax via electronic declaration system (For National Tax: e-Tax, For Local Tax: eLTAX) has become mandatory.

<List of Tax Rates>

Tax rate applied for taxable income recognized by corporations (for small and medium sized enterprises with paid-in-capital of 100 million yen or less)

Brackets of taxable income	Up to 4 million yen per year	4 million yen to 8 million yen per year	Over 8 million yen per year
Corporate tax	15.00 %	15.00 %	23.20 %
Local Corporate tax	1.54 %	1.54 %	2.38 %
Inhabitant tax	1.05%	1.05%	1.62%
Business tax (except pro forma basis taxation)	3.50%	5.30%	7.00%
Special corporate enterprise tax	1.29%	1.96%	2.59%
Total tax rate	22.38 %	24.85 %	36.79 %
Effective tax rate	21.35 %	23.16 %	33.57 %

※ The above tax rates are applicable under the following conditions:

- A small and medium sized enterprise with paid-in-capital of 100 million yen or less that is *not* wholly owned subsidiary of a large corporation with paid-in-capital of 500 million yen or more.
- Resides in Osaka-city and corporate tax amount is 20 million yen or less.
- Annual taxable income is 50 million yen or less.
- Excepting offices or other places of business located in two prefectures or more.

Per capita levy on corporate inhabitant tax

Capital amounts	Total Number of Employees	Per capita levy		
		Osaka Prefecture	Osaka City	Total
Over 5,000,000,000 yen	Over 50	1,600,000 yen	3,000,000 yen	4,600,000 yen
	50 or under	1,600,000 yen	410,000 yen	2,010,000 yen
Over 1,000,000,000 yen and 5,000,000,000 yen or under	Over 50	1,080,000 yen	1,750,000 yen	2,830,000 yen
	50 or under	1,080,000 yen	410,000 yen	1,490,000 yen
Over 100,000,000 yen and 1,000,000,000 yen or under	Over 50	260,000 yen	400,000 yen	660,000 yen
	50 or under	260,000 yen	160,000 yen	420,000 yen
Over 10,000,000 yen and 100,000,000 yen or under	Over 50	75,000 yen	150,000 yen	225,000 yen
	50 or under	75,000 yen	130,000 yen	205,000 yen
10,000,000 yen or under	Over 50	20,000 yen	120,000 yen	140,000 yen
	50 or under	20,000 yen	50,000 yen	70,000 yen

Pro-forma basis taxation

	Applicable for the fiscal years beginning on or after April 1, 2022	
	Excess tax rate	Standard tax rate
Income levy	1.180%	1.000%
Added-value levy	1.260 %	-
Capital levy	0.525 %	-
Special corporate enterprise tax	260% of income levy calculated applying standard tax rate	

* Tax rate may be different among the prefectures.

2. Transfer pricing taxation

Under the transfer pricing system, if a business entity engages in sales/purchase of assets, rendering of services or any other transactions with its “foreign-related parties”, and the value received/paid in such transaction is less/more than the arm's-length price respectively, the foreign-related transaction is deemed to have been executed at an arm's-length price for taxation purposes.

Transfer pricing taxation is a system designed to prevent a company from shifting income to a foreign country through transactions with its foreign affiliates or “Foreign-Related Parties”. For example, a corporate group can minimize its global tax obligations by reducing the export price of its product to a foreign affiliate that is located in a low-tax country, which in effect shifts income taxable in Japan to a foreign affiliate.

The transfer pricing system assesses tax based on the assumption that such controlled transactions within a corporate group are executed at a reasonable price called the “Arm’s-Length Price”.

1) What is the definition of a “Foreign-Related Party”?

The transfer pricing system applies to transactions among foreign-related parties. Foreign-related parties specifically refer to the following corporations.

- ① A foreign corporation that basically has a 50 % or more shareholding relationship with the Japanese company.
- ② A foreign corporation with less than 50 % shareholding relationship but has a substantial control relationship (in terms of directors, business dependency, funding) with the Japanese company.

2) What is Arm’s-Length Price?

In order to compute arm’s-length price, there are three methods; ① Comparable Uncontrolled Price Method (CUP Method), ② Resale Price Method (RP Method), ③ Cost Plus Method (CP Method), referred to as the “Three Basic Methods”. If the “Three Basic Methods” are not applicable, equivalent methods to the “Three Basic Methods”, “Profit Split Method (PS Method)”, “Transactional Net Margin Method (TNMM Method)”, and “Discounted Cash Flow Method (DCF Method)” can be applied. There is no order of priority of the application among the methods to compute the arm’s-length price. The most suitable method to a certain controlled transaction is applied (the Best Method Rule).

3) Transfer pricing documentation rules

- ① Notification for Ultimate Parent Entity, Country-by-Country Report (CbC report) and Master File

In correspondence with the discussion on base erosion and profit shifting (BEPS) in the OECD, a multinational enterprise group (MNE) meeting a certain criterion (a specified MNE group) is required to file “Notification for Ultimate Parent Entity”, “Country by Country Report (CbC Report)” and “Master File” in addition to the existing transfer pricing documentation (Local File). The criterion of filing obligation and other information of the CbC Report and the Master File is described in the table below.

Criterion and other information of Notification for Ultimate Parent Entity, CbC Report and Master File

	Notification for Ultimate Parent Entity	CbC Report	Master File
Obligation of submission	A specified MNE group having consolidated revenue of 100 billion JPY or over in the last fiscal year is obliged to file one.		
Who to file	The Japanese entities belonging to an Entity of a specified MNE group (including PEs in Japan)	The Japanese entities that are the ultimate parent entity of the specified MNE group in principle	One of the Japanese entities belonging to a specified MNE group (including PEs in Japan)
What to be described	Names of the Ultimate Parent Entity, etc., the location of its head or principal office, its corporate number, and the name of its representative	Quantitative information such as sales amount, amount of tax, number of employees of the constituent entities of the specified MNE group	Qualitative information such as organization structure, outline of business operation, and financial condition of the specified MNE

Due date of submission	By the day when the Ultimate Parent Entity's fiscal year ends (via e-Tax)	Within one year from the following day of the end of the fiscal year of the ultimate parent entity of the specified MNE group (via e-Tax)	
Language	-	English	Japanese or English
Penalty	-	Fine of 300 thousand JPY or less	Fine of 300 thousand JPY or less

② Local File

A corporation that has received or paid 5 billion JPY or more in total for foreign controlled transactions with a foreign related company or 300 million or more JPY in total for intangible asset transactions with a foreign related company during the previous business year (the current business year if there is no previous business year), among transactions such as sales of assets, provision of services and other transactions (foreign controlled transactions) with foreign related companies, is subject to the preparation of a Local File (documents deemed necessary for the calculation of arm's length prices) and is obliged to prepare or obtain and preserve a Local File by the deadline for filing its tax return (simultaneous documentation obligation).

It should be noted that it doesn't mean the company is exempted preparation of the Local File itself even in a case where it is exempted from the contemporaneous documentation obligation since the size of the transaction is less than that of stipulated one.

Presumptive assessment or audit to similar businesses would be conducted by the tax authorities unless the company doesn't file the document equivalent to the Local File at the request of the tax auditors within a period they designate.

3. The method to tax on the profit of a branch of a foreign corporation

The method of taxation on branches of foreign corporations is the "attributable income approach". Under the attributable income approach, among the income earned by a foreign company, only income attributable to its branch (income attributable to PE) is the income subject to the declaration by the branch. On the other hand, the headquarter of which the branch is a part directly earns such income as rent or fee for the dispatch of professionals, such incomes are attributable to the headquarter and the tax obligation is imposed on the headquarter itself. If the headquarter of the foreign corporation directly earns such income as interest, dividend, royalty or some other types of investment income, withholding tax is withheld when such income is paid and the tax obligation of the headquarter is cleared.

As an income attributable to a branch is a Japan source income, an income earned by a branch outside Japan is also included in the Japan source income and subject to the declaration by the branch. Accordingly, the foreign tax credit is applied to the branch of a foreign corporation to avoid the double taxation in the source country and Japan.

The income attributable to PE is calculated according to the authorized OECD approach (AOA). Under the AOA, transactions conducted by a branch are distinguished into the external transactions and the internal dealings. The internal dealings of sales and costs should be assessed and recognized as if they were transacted between parties in arm's-length and reflect the amount in the calculation of the profit of the branch. A method similar to the one which is adopted under the transfer pricing taxation is applied to the process to validate the transaction prices of the internal dealings. Please

note a certain modification is made to the calculation of income of a branch described above, e.g. internal royalties shall not be recognized, if the country where the headquarter is a resident and Japan conclude a tax convention based on the article 7 of the former OECD model tax convention.

It is obligated to prepare documentations describing external transactions and internal dealings conducted by the branch. The documentations also need to include the information of the functions performed, assets used and risks assumed by the branch. These documentations need to be demonstrated to tax authorities when required.

In view of taxation, difference between a branch and a subsidiary is smaller under the “attributable income approach” than “entire income approach” since the rights of taxation is allocated by likening headquarters and its branches which have the same judicial personality to headquarters and its subsidiary which are the separate entities.

4. Differences by types of entities

Differences by scope of taxation

	Branch Office	Subsidiaries (KK, GK, etc.)
Classification for Tax Purposes	<ul style="list-style-type: none"> • Foreign corporation 	<ul style="list-style-type: none"> • Domestic corporation
Taxable Income	<ul style="list-style-type: none"> • Income attributable to the branch is taxable (not only Japan source income, but also foreign source income) • To avoid double taxation, the foreign tax credit applies to the branch. 	<ul style="list-style-type: none"> • Both Japan source income and foreign source income are taxable. (Foreign tax credit system is available for the purpose of avoiding double taxation.)
In the case of Loss	<ul style="list-style-type: none"> • In general, only inhabitant tax per capita levy applies to branch office. Pro-forma basis taxation in enterprise tax applies to corporations whose paid-in-capital of head office is more than 100 million yen. 	<ul style="list-style-type: none"> • In general, only inhabitant tax per capita levy applies to subsidiaries. Pro-forma basis taxation in enterprise tax also applies to subsidiaries whose paid-in-capital is more than 100 million yen.
Borrowings	<ul style="list-style-type: none"> • Lending / borrowing between the head and branch offices is also deemed as a transaction with an outside party, so the branch in Japan needs to recognize the interest of any loan transaction with its headquarter or other parts of the company of which the branch is a part (hereinafter, “headquarter or other”). • Interest expense paid in connection with the borrowing above will be deductible for tax purposes. • Related to the above, the interest derived from the lending / borrowing transactions with the headquarter or other which is located in a country with which the Japanese government concludes a tax convention based on the old model tax convention before AOA adjustment is not subject to the above rule. In this case, the interest between the branch and its headquarter or other is excluded in computing the taxable income. • A rule similar to the thin capitalization rule is introduced to limit the deduction of interest expenses of the branch. • Documents similar to contract documents should be prepared for each loan transaction between the branch and the headquarter or other. 	<ul style="list-style-type: none"> • Preparation of a loan agreement and payment of reasonable interest are required even in a parent-subsidiary relationship. • Interest expense is deductible for tax purposes but attention should be paid to the thin capitalization rule. • Tax on interest income must be withheld upon the payment of interest (Reference should also be made to the applicable tax treaty).

Other Fund Transfers	<ul style="list-style-type: none"> • Surplus funds etc. to be remitted to the head office is merely an intra-company money transfer and will not be recognized as dividends. (No such matters as tax withholding will arise.) • Documents similar to contract documents which explains the character of each remittance of funds need to be prepared. 	<ul style="list-style-type: none"> • Transfer of funds between the parent and subsidiary such as payment of dividend, interest & royalties, repayment of borrowings, settlement of AP and costs of assets purchased must be evidenced with invoices or agreements. Note that certain payments such as dividends are subject to withholding tax (Reference should also be made to the applicable tax treaty). • Remittance of surplus funds of the subsidiary to the parent is considered as a loan from the subsidiary to the parent. Accordingly, the subsidiary must recognized interest income.
Expenses incurred by the head office / parent company	<ul style="list-style-type: none"> • Expenses to be borne by the branch office may be allocated to the branch (based on reasonable standards). Evidence materials for allocation should be retained to prepare for tax audits in the future. Financial statements of the head office must be attached to the tax returns. 	<ul style="list-style-type: none"> • No such concept as expense allocation since the subsidiary is a separate entity (Expenses paid on behalf of the subsidiary needs to be billed via an invoice and settled through payment).
Withholding tax	No withholding tax obligations will arise to any internal dealings between the branch and its headquarter or other.	Refer to each of the above explanations.
Tax Rate	There is no tax rate difference by types of entities.	
Advantages Disadvantages	<p><Advantages></p> <ul style="list-style-type: none"> • Because representatives at subsidiaries who do not meet certain requirements are not considered as directors in corporate tax law, bonus is deductible as expense. <p><Disadvantages></p> <ul style="list-style-type: none"> • Corporate tax return should be filed with financial statements of head office. • Inhabitant tax per capita levy and pro-forma basis taxation applies to corporations whose head office has paid-in capital of more than 100 million yen (even if the size of branch office in Japan is small). • Documents similar to contract documents should be prepared for all internal dealings between the branch and its headquarter and other. 	<p><Advantages></p> <ul style="list-style-type: none"> • Burden of inhabitant tax per capita levy and pro-forma basis taxation can be reduced if a subsidiary whose paid-in capital is low even in case paid-in capital of foreign-parent company is more than 100 million yen. • Corporate tax return should be filed without financial statements from foreign-parent company. <p><Disadvantages></p> <ul style="list-style-type: none"> • Preparation of agreements for sending funds and/or any business transactions is required even in a parent-subsidiary relationship.

5. Notification

In case of opening a branch office or establish a subsidiary, it is required to submit the following notifications regardless of types of entities. Note that failure to submit notifications by the due date may result in the loss of various tax benefits.

Submit to	Notifications	Upon foundation	By the first fiscal year end	Remarks
Tax Office	Notification of Incorporation (National tax)	○		Within two months from the establishment of a branch/subsidiary.
	Application for Approval of Filing a Blue-form Tax Return	○		The earlier of the end of the first fiscal year or within three months from the establishment of a branch/subsidiary.
	Notification of Establishment of an Office Paying Salaries	○		Within one month from the establishment.

	Application for Approval of Extension of Withholding Tax Payment	○		Applicable to W/H tax payments from the month following the application. Extension available only to businesses with less than 10 employees.
	Application for Extension of Filing (National Tax)		○	Not required if extension is not necessary.
	Notification of Inventory Valuation Method		○	Not required when adopting the final purchase method.
	Notification of Asset Depreciation Method		○	Not required when adopting the straight line method (for buildings, equipment attached to buildings, structure) and declining balance method (for other assets).
	Report on the Selection of Taxable Enterprise for Consumption Tax		○	When a Tax Exempt Entity selects to become a Taxable Entity
	Report on the Selection of the Simplified Tax System for Consumption Tax		○	Required only when applying for the simplified taxation method.
Prefectural Tax Office	Notification of Incorporation (Prefectures)	○		
	Application for Approval of Extension (Prefectures)		○	Not required if extension is not necessary.
	Application for Extension of Filing the Corporation Tax Return (Prefectures)		○	Not required if extension is not necessary.
Municipal Tax Office	Notification of Incorporation (Municipalities)	○		

Online application is also available for each notification. Please refer to the following website for details (available in Japanese only): Tax office: [https:// www.e-tax.nta.go.jp/](https://www.e-tax.nta.go.jp/); Osaka Pref. (Osaka city): <https://www.eltax.lta.go.jp/first/>

6. Losses treated for tax purposes

Tax losses are treated in the following two ways:

1) Tax loss carry forward

Net losses incurred in each of the nine fiscal years prior to the first day of a given fiscal year may be offset against the income of such given year. However, other than the case where the corporation is Small and Medium-sized Corporations (“SMCs”)*, deductible amount is limited up to 50% of the income. In other words, losses incurred in the current fiscal year may be utilized against future income and may be carried forward for the next ten years.

The corporation must have a blue-form tax filing status to benefit from this treatment. Furthermore, this nine-year loss carry forward provision is not applicable if a corporation obtains a tax refund by way of a tax loss carryback.

2) Tax refund by loss carryback

If a SMC* filing a blue-form tax return incurs losses in a given year and has paid corporation tax in the immediately preceding year, the SMC is entitled to a refund of prior year’s taxes by filing a claim for refund.

*Small and Medium-sized Corporations: Corporations with paid-in-capital of 100 million yen or less, and not wholly owned subsidiaries of Large Corporation with paid-in-capital of 500 million yen or more.

Social Security System

1. Social Security System in Japan

Employers are required to join the following insurance programs if they hire employees who meet certain conditions:

① Workers' Accident Compensation Insurance

This insurance provides the prescribed insurance benefits to workers or their family members if workers become injured, ill or disabled, or die due to an accident at work or during commute.

② Employment Insurance

This insurance provides benefits to workers when, for example, they lost their jobs in order to secure workers' living and employment stability.

③ Employees' Health Insurance (including Long-term Care Insurance)

This is a public health insurance program which provides insurance benefits for illness or injury outside work and the time off work due to such illness or injury, childbirth, death, etc. If employees and dependent family members receive medical treatment at authorized insurance medical institutions, 70% of the medical costs are covered by the insurance.

④ Employees' Pension Insurance

This insurance provides old age pension as well as disability pension and survivors pension to help employees and their families stabilize their living and improve social welfare.

In general, ① Workers' Accident Compensation Insurance and ② Employment Insurance are collectively called "labor insurance", and ③ Health Insurance and ④ Employees' Pension Insurance are collectively called "social insurance".

In Japan, all individuals are required to join health insurance and pension insurance under "universal insurance system". This system applies to all individuals regardless of the nationality.

2. Overview of Each Program and Premium Rate

Insurance	Benefits	Applies to	Premium Rate ※1	
			Employer's contribution	Employee's contribution
Worker's Accident Compensation Insurance	Benefits for work-related death/injury/illness/disability, etc.	All business entities which employ one or more workers.	0.25~8.8% (Varies by industry)	(N/A)
Employment Insurance ※5	Benefits for unemployed employees on childcare leave, elderly workers, etc.	Applies to all workers expected to be employed by a business entity for minimum 20 hours per week and 31 days	0.9% (Except for some industries such as construction, etc.)	0.55%

General Contribution	Benefits for workers who suffer from health damage by asbestos and their families	All business entities covered by Workers' Accident Compensation Insurance	0.002%	(N/A)
Employees' Health Insurance	Benefits for death/injury/illness outside work, childbirth, etc.	Applies to full time workers employed by a corporation or business entity, and workers whose normal working hours/days are approx. 3/4 or more of regular employees※6	Rate for Japan Health Insurance Association, Osaka branch: 5.12% (5.915% for aged 40 or older)	Rate for Japan Health Insurance Association, Osaka branch: 5.12% (5.915% for aged 40 or older)
Long-term Care Insurance (applies to employees aged 40 or older)	Benefits for employees/family members who require long-term care, etc.			
Employees' Pension Insurance	Old age pension, disability pension and survivors pension		9.15 %	9.15 %
Child Welfare Contribution	Contribution for child allowance, etc.	All employers covered by Employees' Pension Insurance	0.36%	(N/A)
Total			15.832% ※2, 3, 4 (16.627% for aged 40 or older)	14.82% ※3, 4 (15.615% for aged 40 or older)

※1 Premiums rates as of April 2025

※2 Total percentage for employer is estimated assuming Workers' Accident Compensation Insurance is 0.3%.

※3 For Workers' Accident Compensation Insurance and Employment Insurance, premiums are generally calculated by multiplying employees' annual income by the premium rates.

※4 For Health, Long-term Care, Pension Insurance and Child Welfare Contribution, premiums are calculated by multiplying Monthly Standard Remuneration (determined for each employee based on their monthly salary) by the premium rates.

※5 Employment Insurance: employees aged 65 or older are eligible workers and required to pay employment insurance premium.

※6 Short-time workers working at a business entity which constantly employs over 50 insured persons (excluding short-time workers) shall be also applicable.

3. Notification to Authorities

Insurance	Submission deadline	Submit to
Workers' Accident Compensation Insurance	Within 10 days from the date following the date of establishment of insurance relationship (the date the first worker is employed) *Estimated insurance premium must be reported and paid within 50 days from the date following the date of establishment of insurance relationship.	Local Labor Standards Inspection Office
Employment Insurance	Within 10 days from the date following the date of establishment of insurance relationship	Local Public Employment Security Office (Hello Work)
Employees' Health Insurance	Within 5 days from the date following the date of establishment of insurance relationship	Local Pension Office (or proceeding centers located in each prefecture by post) or Health Insurance Society
Employees' Pension Insurance	Within 5 days from the date following the date of establishment of insurance relationship	Local Pension Office (or proceeding centers located in each prefecture by post)

4. Application to Foreign Workers

(1) Labor Insurance

① Worker's Accident Compensation Insurance

Workers' Accident Compensation Insurance applies to foreign workers as well, regardless of the nationality, even to "illegal residents".

② Employment Insurance

Employment Insurance applies to foreign workers as well regardless of the nationality. Employers are required to report information such as names and resident status of foreign workers to Hello Work upon hiring and termination.

(2) Social Insurance

In Japan, social insurance is mandatory for all foreign employees regardless of the nationality except for:

- ① Individuals who are paid by Head Office outside Japan
- ② Part-time workers who work short time
- ③ Temporary workers
- ④ Individuals employed by a business entity exempted from social insurance (e.g. a sole proprietor's office with less than 5 employees, etc.)
- ⑤ Individuals aged 70 or older (75 or older for Health Insurance)
- ⑥ Individuals who have Certificate of Coverage for International Social Security Agreement

*Individuals who fall under any of ① through ⑤ above are required to join National Health Insurance and National Pension Insurance on their own.

< Lump-Sum Withdrawal Payment for short-term foreign residents >

If a foreign employee who meets all of the conditions listed below withdrew from National Pension Insurance or Employees' Pension Insurance and left Japan due to international transfer or employment termination, they can apply for Lump-sum Withdrawal Payment after they left Japan.

(It is possible to apply for such payment in Japan.)

- ① An individual who does not have Japanese nationality
- ② An individual who has at least 6 months of coverage under National Pension Insurance or Employees' Pension Insurance
- ③ An Individual who has canceled registered address in Japan within 2 years
- ④ An individual who has never been entitled to any Japanese public pension

※Note for the lump-sum withdrawal payment application:

Qualified period for old-age basic pension was shortened to 10 years from August 2017. You may be qualified for the totalization benefits under Japanese system as well as foreign system if you have qualifying coverage periods

under pension systems of countries with which Japan has totalization agreements, subject to each qualification conditions. Please check the social security agreement.

< International Social Security Agreement >

A foreign employee who is covered by a social security system of a country which signed the International Social Security Agreement with Japan is exempt from the Japanese social security system if certain conditions are met. As of May 2025, Japan has signed the Agreement with and has come into effect in 23 countries. Please note that a Certificate of Coverage for International Social Security Agreement is required in order to qualify for exemption.

Implemented	Germany, United Kingdom, Republic of Korea, United States, Belgium, France, Canada, Australia, Netherlands, Czech Republic, Spain, Ireland, Brazil, Switzerland, Hungary, India, Luxembourg, Philippines, Slovakia, China, Sweden, Finland, Italy
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Note: Only “Elimination of Dual Coverage” is applicable to the Agreements with United Kingdom, Republic of Korea, Italy and China.

5. Coverage for Directors of Corporation

(1) Worker’s Accident Compensation Insurance

In principle, Workers’ Accident Compensation Insurance does not apply to directors of a corporation as a director is not considered as an employee.

However, if a director is a “director-employee” or has duties in an employee's capacity, the director may be entitled to receive benefits from Workers’ Accident Compensation Insurance for illness or injury related to such duties.

(2) Employment Insurance

In principle, directors of a corporation are not eligible to join Employment Insurance.

However, a director may be able to join Employment Insurance if they are a “director-employee” or has duties in an employee's capacity, and if their income as an employee is higher than their income as a director.

(3) Social Insurance

Health Insurance and Pension Insurance are mandatory for directors of a corporation.

However, since Health Insurance benefits are limited for the illness or injury outside work, they are not paid for work-related illness or injury suffered by a director of a corporation except for certain cases.

In other words, directors should be aware that they may not be able to receive any benefits or compensation from Health Insurance or Workers’ Accident Compensation Insurance for their illness or injury at work.

Others

1. Vacation

(1) Annual Paid Leave

An employer must grant annual paid leave of 10 working days to an employee who has been employed continuously for 6 months and who has worked at least 80 percent of the total working days. The entitlement to annual paid leave expires in 2 years from the date of grant due to the statute of limitations. The table below shows the relationship between the service years and the number of annual paid leave days granted.

Service years	0.5 years	1.5 years	2.5 years	3.5 years	4.5 years	5.5 years	6.5 years or longer
Annual paid leave days granted	10	11	12	14	16	18	20

Employers required to have all employees, who are granted annual paid leave of 10 or more working days, take at least 5 annual paid leave a year.

(2) Other types of paid leave

In Japan, it is common for employers to grant additional paid leave as employee benefits for occasions such as employee's marriage or death of their family members.

Employers are not required to grant paid leave for an employee's leave of absence due to illness or injury outside work.

2. Rules of Employment

An employer which continuously employs 10 or more employees is required to draw up and submit Rules of Employment to the local Labor Standards Inspection Office. Also, the employer must ask the employees' opinion about the rules and attach it in writing when submitting the rules. The same procedure is required when any change is made to the rules. Employers must notify the rules to all employees.

Submission of the Rules of Employment is not mandatory for business entities with fewer than 10 employees. However, it is recommended for all business entities to prepare the rules in order to avoid unnecessary disputes between labor and management.

3. Labor-management Agreement

Labor-management agreement is a written agreement signed between a person representing a majority of the workers and the management. A typical example is "Agreement on overtime work and work on holidays." Employers should be aware that they cannot have employees work exceeding statutory working hours or on statutory holidays unless this agreement is signed and submitted to the local Labor Standards Inspection Office.

4. Annual Health Check-up

Employers have an obligation to provide employees with health check-up once every year. Employers are also required to provide health check-up to new employees when they are hired.

Salary and Individual Income Tax

1. Monthly Salary

Monthly salary means the payments that are paid monthly at a fixed amount. Monthly salary includes base salary, commuting allowance, position allowance, etc.

Employment income refers to income relating to salary, compensation, wage, annual allowance, bonus or any other pay that has the nature of any of these

2. Bonus

Bonus is a payment which is paid separately from monthly salary, in the name of bonus, summer bonus, year-end bonus, etc., or any other payments similar to those.

When it is uncertain whether a payment has the nature of bonus, the payment is considered as bonus if (1) the amount or standards of payment are not predetermined and (2) it is an extra payment based on company profit.

3. Retirement Allowance

Retirement allowance is a lump-sum payment or pension which is paid to an employee upon retirement or employment termination.

4. Withholding Income Tax

Employers have an obligation to withhold employees' income tax from their monthly salary or bonus payments and pay it to the government. The amount of income tax is calculated in accordance with the statutory "Withholding Tax Amount Table for Employment Income".

5. Year-End Adjustment of Income Tax

Year-end tax adjustment is the process whereby an employer settles the discrepancy between the total amount of income tax withheld from each salary and bonus payment made during the year and the tax amount to be paid for total salary and bonus paid during the year for each employee who has submitted "Application for (Change in) Exemption for Dependents" to the company. Employers are required to do this settlement when the last salary/bonus of the year is paid. Individuals who received salary payments of 20 million yen or more during the year are not subject to year-end tax adjustment.

Usually, employees have year-end tax adjustment in December. However, if an employee leaves Japan during the year due to transfer, etc., they have year-end tax adjustment in their last salary paid in Japan.

6. Individual Inhabitant Tax

Individual inhabitant tax is a local tax, consisting of prefectural inhabitant tax and municipal inhabitant tax.

Employers are required to submit Salary Payment Report to the municipality of each employee's residence by January 31 every year. Based on this report, the municipalities will determine the amount of inhabitant tax for the next tax year

for each employee. Employers have an obligation to deduct inhabitant tax from employees' salary on a monthly basis and pay it to the municipalities in accordance with the tax payment notice from the municipalities.

An inhabitant tax year runs from June through May the following year. If an individual leaves Japan during the tax year, they must pay all of the remaining balance of their inhabitant tax for that tax year (the balance up to May).

Inhabitant tax is imposed on an individual's income earned during the previous year if they are registered on the Japanese "Basic Resident Registration (Jyumin Kihon Daicho)" as of January 1. It means, if an individual had registered address in Japan on January 1, they are liable to pay their inhabitant tax for the period from June that year to May the following year, even if they leave Japan between January and May. Employers should be careful when employees leave Japan.

7. Director's Remuneration, Bonus and Retirement Allowance

(1) Determination of Directors' Remuneration

Directors' remuneration is to be determined in the article of incorporation or shareholders' meeting.

(2) Definition of "Director" under the Corporate Tax Law

In addition to the director defined by the Companies Act, such as director, executive officer, and statutory auditor, a person who is substantially involved in the management of a company is deemed as director for tax purposes. As long as an individual is registered as director, this person is regarded as director for tax purposes regardless of the substance of involvement in the company.

The representative of a foreign corporation's branch office in Japan, unless being a director of the head office, will not qualify as a director for tax purposes.

(3) Director Salaries which Qualify as Deductible Expense for Corporate Tax Purposes

Director salaries deductible for corporate tax purposes are broadly categorized into following three types.

① Fixed amount periodical compensation:

Fixed amount salary paid monthly throughout the fiscal year.

② Fixed compensation notified in advance:

Salary that is paid in accordance with advance notification of amount and time of payment filed to the tax office. If the amount and time of payment for director salary is fixed in advance, such salary can qualify as deductible expense for corporate tax purposes only by submission of notification.

③ Profit-based compensation:

Salary that is calculated based on the corporation's profit (applicable to listed companies)

(4) Retirement Allowance to Director

For the calculation of income tax imposed on retirement allowance, there is a tax benefit to squeeze the taxable income to half the amount of taxable income after retirement allowance deduction.

However, this tax treatment cannot be applied to taxable income calculation for retirement allowance paid to director who has worked for 5 years or less.

8. Difference in Salary by Types of Company

In principle, types of company of the employer will not affect the treatment of salary paid by a company in Japan. However, tax and social insurance treatment will be varied based on resident status of employees (resident or non-resident) and the location where salary is paid (paid in Japan or overseas).

9. Income Tax Applied to Foreigners Staying in Japan

Under the income tax system in Japan, individuals are classified into residents and non-residents. Residents are further classified into permanent and non-permanent residents. The scope of income subject to taxation in Japan is defined for each of these categories.

<Resident Status and Tax Treatment>

Classification of Resident Status

Individual	Resident	Permanent Resident	An individual who meets either of the following conditions: *Has a domicile in Japan *Has been residing in Japan for a period of one year or more and is not a non-permanent resident.
		Non-Permanent Resident	An individual who meets both of the following conditions: *Does not have Japanese nationality. *Has been residing in Japan for a period of 5 years or less in the last 10 years.
	Non-Resident		An individual other than a resident.

① Permanent Resident

Permanent residents are subject to Japanese taxes not only on their income earned in Japan (domestic source income) but also on income earned outside Japan (foreign source income). In other words, permanent residents are subject to Japanese taxes on their worldwide income.

② Non-Permanent Resident

Non-permanent residents are subject to taxation in Japan with respect to all domestic source income and the portion of foreign source income that is paid in or remitted to Japan.

③ Non-Resident

Non-residents are individuals who reside in Japan for a period of less than one year. Non-residents are subject to Japanese taxes only on their domestic source income.

<Tax Exemption for Short-Term Visitors>

Non-residents are liable for Japanese taxes on their domestic source income. However, such taxes may be exempt if certain requirements are satisfied, such as non-resident working in Japan for only a short period of time who is a resident of a country that has a tax treaty with Japan (156 countries/areas as of May 2025). This is called tax exemption for short-term visitors.

<Calculation of tax and taxable income>

Once the scope of income subject to Japanese taxation is determined, income needs to be classified to certain types of income stated in the Income Tax Law. Then taxable income is calculated after applying certain deductions. Tax amount is calculated by multiplying the progressive tax rates shown in the below table to the taxable income.

Taxable income	Applicable tax rates
1.95 million yen or less	5%
Over 1.95 million yen and 3.30 million yen or less	10%
Over 3.30 million yen and 6.95 million yen or less	20%
Over 6.95 million yen and 9 million yen or less	23%
Over 9 million yen and 18 million yen or less	33%
Over 18 million yen and 40 million yen or less	40%
Over 40 million yen	45%