

JAPAN

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Last reviewed: **January 5, 2024**

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0- SYNOPSIS TABLE: TAXATION OF RESIDENTS AND NON-RESIDENTS

	RESIDENTS	NON-RESIDENTS
CORPORATE INCOME TAX	15% - 23.2%	15% - 23.2% (only on Japanese source income)
TAXES ON CAPITAL GAINS	Taxed as ordinary income. Capital gains on the sale of land: additional tax of 5%-10%	
WITHHOLDING TAXES		
Dividends	20.42%, 20.31%, 15.31%	
Interests	15.31% - 20.31%	
Royalties	20.42%	
PERSONAL INCOME TAX	5%-45%	5%-45% on Japanese Source income + surtax of 2.1%
OTHER TAXES		
Fixed asset tax	1.4%/year + 0.3% on lands and buildings	
Transfer of land and buildings	Registration and licence: 2%	
Stamp tax	On different documents at amounts between Yen 200 and Yen 480,000	
Inhabitants tax	Different rates according to municipalities	
VAT (consumption tax)	0%, 8%, 10%	
LOSSES	Losses are deductible from all income and capital gains of the same accounting period. Companies using blue form return may carry forward losses for 10 years.	
DEPRECIATION		
Fixed assets	Machinery and equipment: 4-17 years	
Intangible assets	Goodwill: 5 years	

1- AN OUTLINE OF COMPANY LAW

BUSINESS ENTITY	MAIN TRAITS	FORMATION	GOVERNANCE
<i>Corporation</i>	It's the most widely used form of business in Japan. Limited companies are a simplified form of stock company designed to be used by small and medium-scale businesses.	Starting from 2006, the date of entry into force of the new Law on companies, the existing limited companies are integrated with the joint stock companies and considered as such and it is no longer possible to set up new limited companies.	
<i>Unlimited partnership</i>	An unlimited partnership is a company consisting of only unlimited partners.		
<i>Limited partnership</i>	Members of limited partnerships can include both members with limited liability and members with unlimited liability. A limited partnership is taxed as an ordinary corporation.	Members with limited liability may make contributions only in the form of money or property and may not administer the affairs or represent the partnership. A limited partnership is taxed as an ordinary corporation.	
<i>Limited liability company</i>	It was introduced in the Company Law enacted in 2005. It is taxed as an ordinary corporation.	An LLC can be incorporated with a single member, and no member is required to have unlimited liability.	
<i>Special purpose company SPC</i>	Recent legislation in Japan has created or modified several vehicles suitable for the securitisation of assets. Unlike the older stock and bond investment trust, the new vehicles are not limited to stock and bond investments, but may invest in a variety of properties, most notably real property.		
<i>Public interest corporations</i>	Public interest corporations represent those entities which are engaged in worship, religion, charity, art, etc, for public interest. Public interest corporations are exempt from corporation tax, but profits accruing to them from profit-making business are subject to corporation tax at a reduced rate of 15%.		
<i>Cooperatives</i>	Cooperatives are organisations of individuals or small to medium sized enterprises that join together for mutual aid. The tax rate applicable to cooperatives is a reduced rate of 15% levied on their taxable income.		
<i>Unincorporated associations</i>	There are 3 types of unincorporated associations in Japan which are taxed at the member level, rather than at the entity level. These are the voluntary partnership (VP), the anonymous partnership (AP) and the Japanese limited liability partnership or LLP.		
<i>Trusts</i>	A revision of the Japanese Trust Law of 8 December 2006 contains different new types of trust.		

2- WHEN JAPANESE COMPANIES CAN BE CONSIDERED RESIDENT OR NON-RESIDENT?

A Japanese company is considered resident if its head or principal office is located in Japan. Resident Japanese companies are subject to corporate tax on all income produced worldwide. Non-resident companies are subject to Japanese corporate tax only on income derived from a permanent establishment in Japan. Income from other sources is subject to withholding tax.

3- BUSINESS AND NON-BUSINESS ACTIVITIES (ADMINISTRATIVE OFFICES, LIAISON OFFICES, PURCHASING OFFICES, ETC.)

Under Japan's tax treaties, a foreign company is not liable to Japanese tax on trading or business profits unless it has a PE in Japan.

Even then, the terms of the double tax treaty between Japan and the non-resident's country of residence will usually specify that the non-resident is to be liable to Japanese tax only if it has a Japanese branch, PE or dependent agent with power to conclude contracts.

Administration or liaison activities carried out in Japan will not cause an administered non-Japanese company to be taxed as a Japanese resident, provided the company's branch, or agent entitled to conclude contracts, is not located in Japan.

Similarly, such activities will not cause foreign companies to be taxed as trading in Japan provided the Japanese office does not engage in the types of activities categorised as trading in Japan.

Japanese domestic law in effect provides that a Japanese office used solely for advertising and promoting, supplying information, market surveys, basic research and similar auxiliary functions, purchasing or storage of goods is tax exempt.

4- CALCULATING TAXABLE INCOME

Profits are calculated for Japanese tax purposes in accordance with the financial accounts, adjusted for some items.

Company incorporation expenses may be written off as incurred or amortised within 5 years.

Contributions and donations to state and local institutions and to public interest corporations are fully deductible.

Donations to corporations specified as meeting some public interest may be deducted according to a formula

The Japanese Government has stringently applied restrictions on the tax deductibility of entertainment expenses. Until 31 March 2022, a corporation with paid-up capital exceeding Yen 100 million can deduct up to 50% of entertainment expenses, whereas a corporation with paid-up capital of Yen 100 million or less may deduct up to Yen 8 million or 50% of the actual entertainment expenses incurred.

Compensation to officers and directors will be disallowed as a deduction if considered excessive. Bonuses paid to directors are not deductible.

Local enterprise tax is deductible as and when due.

The following expenses are recognised as deferred expenses for tax purposes: corporation organisation costs, starting costs, research and development costs, issuing costs for new stocks and bonds, bonds discounts, costs paid to a public entity for building or improving public or common facilities, premiums paid to rent assets or for services, costs of property supplied for advertising and other costs for future services.

Dividends received by domestic corporations from other domestic corporations, refunds of corporation tax or of other non-deductible taxes and appreciation in the value of assets are excluded from taxable income.

Against the balances of receivable accounts outstanding at the end of each accounting year, there is a deduction at the following rates for the types of business listed:

Type of business	%
Wholesalers and retailers	1
Manufacturers	0.8
Banking and insurance	0.3
Retailers selling on instalment basis	1.3
Other businesses	0.6

These fixed rates only apply to small and medium companies with paid-up capital of Yen 100 million or less.

Certain reserves may be deducted only by companies filing a blue form return: credit for research and development costs, investment tax credit for effective utilisation of energy, machinery or information infrastructure.

5- TREATMENT OF LOSSES

Trading losses are deducted from all income and capital gains of the same accounting period. Only companies filing the blue form income tax return may carry forward taxable losses for 10 consecutive years. Companies with paid-up capital exceeding Yen 100 million are limited to applying brought-forward losses to a maximum of 50% of profit.

6- IS INTEREST DEDUCTIBLE?

Generally, all interest is deductible for Japanese tax purposes on an accrual basis or cash basis for most businesses.

Interest is partly excluded from a Japanese corporation's deductible expenses when the corporation has borrowed money exceeding 3 times the amount of its capital from its leading shareholders.

The deductibility of interest payments is restricted to an amount equal to 20% of taxable income, if annual net interest exceeds Yen 20 million and interest paid to related parties exceeds 50% of total interest payable.

A related party is an entity with a 50% or more ownership of, or controlling interest in, the taxpayer or an entity so owned or controlled by the taxpayer.

7- IS DEPRECIATION DEDUCTIBILITY ACKNOWLEDGED?

The Japanese depreciation system was changed with the 2007 tax reform. Depreciation limits and residual values were removed, and it became possible to depreciate the whole acquisition price to the nominal value of Yen 1 at the end of the asset's useful life, either on a straight-line basis or on an accelerated basis (declining balance method). It is also now possible to depreciate the existing assets with the depreciation limit to the nominal value of Yen 1, by writing off the depreciation limit in equal annual instalments over 5 years. The useful life of certain types of assets has also been shortened.

The current system distinguishes between assets that were acquired before the revision and those acquired after.

Corporations which file a blue tax return form may use the special initial depreciation method and 4% to 30% of the acquisition cost can be charged to income in the acquisition year.

An asset costing less than Yen100,000 per unit can be written off immediately.

Intangible assets, such as patents and copyrights, may be amortised on a straight-line basis over their statutory useful lives. Goodwill is depreciated over 5 years.

With respect to plant and equipment located in one factory, depreciation is computed as one unit of plant.

Illustrative rates of depreciation and amortisation periods are as follows:

<i>Description of assets</i>	<i>Depreciation period</i>	<i>Depreciation method % current rate (% old rate)</i>	<i>Straight-line method % current rate (% old rate)</i>
1. <i>Tangible fixed assets other than machinery and equipment</i>			
▪ Reinforced concrete buildings (for office)	50	5.0 (4.5)	2.0 (2.0)
▪ Wooden buildings (for office)	24	10.4 (9.2)	4.2 (4.2)
▪ Elevators	17	14.7 (12.7)	5.9 (5.8)
▪ Aeroplanes (for international service)	10	25.0 (20.6)	10.0 (10.0)
▪ Computers	4	62.5 (43.8)	25.0 (25.0)
▪ Desks, chairs or cabinets made of metal	15	16.7 (14.2)	6.7 (6.6)
▪ Air conditioners or heaters	15	16.7 (14.2)	6.7 (6.6)
▪ Typewriters	5	50.0 (36.9)	20.0 (20.0)
▪ Trucks (for transport business)	4	62.5 (43.8)	25.0 (25.0)
▪ Automobiles	6	41.7 (31.9)	16.7 (16.6)

<i>Description of assets</i>	<i>Depreciation period</i>	<i>Depreciation method % current rate (% old rate)</i>	<i>Straight-line method % current rate (% old rate)</i>
2. <i>Machinery and equipment</i>			
▪ Chemical manufacturing plants	7	35.7 (28.0)	14.3 (14.2)
▪ Beer brewery plants	14	17.9 (15.2)	7.2 (7.1)
▪ Worsted spinning plants	10	25.0 (20.6)	10.0 (10.0)
▪ Pulp manufacturing plants	12	20.7 (17.5)	8.4 (8.3)
▪ Chemical fertiliser manufacturing	10	25.0 (20.6)	10.0 (10.0)
▪ Polyvinyl manufacturing	8	31.3 (25.0)	12.5 (12.5)
▪ Synthetic fibre manufacturing plants	7	35.7 (28.0)	14.3 (14.2)
▪ Rayon manufacturing plants	9	27.8 (22.6)	11.2 (11.1)
▪ Glass manufacturing plants	14	17.9 (15.2)	7.2 (7.1)
▪ Cement furnaces	13	19.2 (16.2)	7.7 (7.6)
▪ Iron and steel manufacturing plants	14	17.9 (15.2)	7.2 (7.1)
▪ Metallic machine tools manufacturing plants	10	25.0 (20.6)	10.0 (10.0)
▪ Electrical machinery manufacturing plants	11	22.7 (18.9)	9.1 (9.0)
▪ Automobile manufacturing plants	10	25.0 (20.6)	10.0 (10.0)
▪ Lens or optical instrument manufacturing plants	10	25.0 (20.6)	10.0 (10.0)

Goodwill, newly acquired buildings and leased assets used outside Japan must be depreciated over the lease contract period using the straight-line method.

8- WHAT TAX TREATMENT IS APPLIED TO RESIDENT COMPANIES?

Japanese resident companies are subject to worldwide income and capital gains taxation.

The Japanese corporation tax rates for ordinary income for 2023–24 are as follows:

<i>Business entity</i>	<i>Rate %</i>
Ordinary corporations:	
Corporations with capital of more than Yen 100 m	23.2
Corporations with capital of not more than Yen 100 m:	
on annual income up to Yen 8 m	15
on annual income over Yen 8 m	23.2
Cooperative associations and corporations in public interest	
On annual income up to Yen 8 m	15
On annual income over Yen 8 m	19/22*

* The 22% rate applies to special cooperative associations with annual income over Yen 1 billion.

From 1 January 2013 until 31 December 2037, Japan's national withholding tax rates on interest are increased by a special 2.1% surtax for both residents and non-residents.

Interest on bank deposits and other similar financial income is subject to withholding tax at a rate of 15.315%.

9- ARE GROUP COMPANIES CONSIDERED SINGLE COMPANIES FOR FISCAL PURPOSES?

Japan introduced a consolidated taxation system for domestic corporations in 2002. To be taxed under this system, a qualifying group made an election to join the system.

This was followed in 2010 by the introduction of a group taxation system which automatically applies to qualifying transactions within any domestic 100% group, whether the owner was a domestic company, a foreign company or an individual.

10- WHAT TAX TREATMENT IS APPLIED TO FOREIGN LOCAL?

A Japanese branch's tax liability is limited to national and local income tax on its entire profits sourced in Japan. It is subject to taxes at the regular rates (including the lower 16.5% rate on the first Yen 8 million of profits) applicable to retained profits

Any capital gains derived by the branch from the sale of assets in Japan will also be subject to tax as normal income.

Should the foreign company be in receipt of other Japanese source income unconnected with its Japanese branch (interest, royalties, rents, etc), this will be separately liable to tax at the appropriate rates which may be reduced under the terms of a tax treaty.

Remittances of branch profits are not subject to Japanese withholding taxes.

Administration or liaison activities carried out in Japan will not be taxed as a Japanese resident, provided the company's branch, or agent entitled to conclude contracts, is not located in Japan.

11- ARE CAPITAL GAINS TAXED?

Capital gains are taxed in Japan in the same way as ordinary income and are calculated by deducting the depreciated cost of the asset from its sale proceeds.

Capital gains can be deferred in the following circumstances:

- where assets of like kind are exchanged to be used for the same purposes, and provided any other consideration received or paid is not more than 20% of the more valuable asset
- on the sale of real property in specified, usually metropolitan, areas where the proceeds are used to reinvest in property in other areas for business use within one to 3 years. This policy is designed to encourage investment in the specified areas
- on the sale of any real property owned for more than 10 years as at 1 January in the year of sale, where the proceeds of which are reinvested in depreciable assets
- where real property is expropriated by the Government and new property is acquired.

Special taxes are payable on capital gains arising from land (excluding buildings) according to the holding period of the land as follows: when the land disposed of has been held for 5 years or less on 1 January in the year of disposal, the additional tax rate is 10%; otherwise the additional tax rate is 5%. In cases where the land is sold to the Government, local government or a similar body, there is no additional tax.

Indirect disposals by selling shares in a landowning company are also taxable.

Until 31 March 1992, a landowning foreign corporation could exchange its land for shares in a subsidiary company established for this purpose and could then sell the shares. The company selling the shares could avoid tax by taking advantage of tax treaties. To prevent this tax avoidance, tax deferral is not available on the transfer of land to a subsidiary in the case where a foreign corporation transfers its land to a subsidiary in connection with a business termination.

12- WHAT TAX TREATMENT IS APPLIED IN CASE OF COMPANY LIQUIDATION?

As far as the liquidated Japanese company is concerned, the liquidation may result in a "liquidation profit", defined as the sum of cash and other assets distributed to the shareholders in excess of the sum of paid-up capital, capital surplus and taxed retained earnings at the date of liquidation. This profit represents the untaxed earnings of the company, in particular the untaxed value of assets distributed.

The liquidation profit is taxable and income derived during the liquidation period is subject to the standard income tax rules. In addition, if no cash or other assets remain, expired tax losses are deductible from taxable income.

13- TRANSFER OR REPURCHASE OF SHARES: HOW ARE THEY TAXED?

To the extent of the shareholder's own portion of paid-up capital in a Japanese company, a return of capital is tax free. That part of the capital return in excess of the corresponding paid-up capital in the issuer corporation is treated as follows: if the consideration paid as return of

capital is higher than the paid-up capital and capital surplus attributable to the shares, the excess capital reduction will be taxed as a constructive dividend; if it is lower, the difference is taxed as a capital gain to the extent that the shareholder's attributable paid-up capital and surplus exceeds the cost.

In a repurchase of shares, the Japanese tax implications for the shareholder are the same as in relation to a return of capital.

Under Japan's 2006 tax reform, if the company repurchases treasury shares, capital reserve is reduced immediately for tax purposes upon a repurchase.

14- WHAT OTHER TAXES ARE APPLIED IN JAPAN?

VAT

VAT is calculated on the purchase price of goods and services, including imports. From 1 October 2019, the standard rate is 10%. A reduced rate of 8% applies to certain goods and services, including foodstuffs, non-alcoholic beverages and certain newspapers. Payments for services rendered offshore are exempt from the consumption tax.

Sales of land and land rights, lease of assets with interest and services rendered by the government, local governments public corporations, and public interest corporations, etc, are not subject to the consumption tax.

Fixed asset tax and city planning tax

Owners of land, buildings and depreciable assets are liable to a fixed asset tax on the assessed value (and sometimes the purchase price) of fixed assets, generally at the rate of 1.4% pa. In addition, land and buildings are subject to the city planning tax of 0.3% pa. These taxes are deductible for corporate income tax purposes. With regard to land for housing and agricultural land, a taxable value of one-half to two-thirds of the assessed value is applied for fixed asset tax and city planning tax. For certain machinery and equipment acquired by small and medium-sized companies for the purpose of enhancing productivity, fixed asset tax is levied on one-half of the assessed value for the first 3 years after acquisition.

Transfer of land and buildings

For the transfer of land and buildings, the registration and licence tax rate is normally 2%.

Paid-up capital

A 0.7% registration and licence tax applies to the paid-up capital of a Japanese company on initial and subsequent share issues. The minimum amount is Yen 150,000.

A Japanese branch of a foreign company is liable to a once only flat Yen 60,000 registration and licence tax on establishment.

Stamp tax

Stamp taxes are payable on various documents at amounts between Yen 200 and Yen 480,000.

Automobile tax

In Japan, an annual tax calculated on the power of the vehicle and one on its weight are applied, while there are reductions and exemptions for low-emission vehicles.

Energy tax

The Japanese Government levies an energy tax on fossil fuels based on carbon emissions.

Inhabitants tax

Inhabitants tax is a local tax levied on corporations having their offices or place of business in a municipality. It is levied in fixed amounts and is not deductible for corporate tax purposes.

Enterprise tax

Companies with capital of less than Yen 100 million are taxed at a rate between 3.5% and 7.48% of the company's taxable income and this tax is deductible from corporate tax. The profits of a foreign PE of a Japanese company are not subject to enterprise tax, but are subject to corporate tax.

Companies with capital exceeding Yen 100 million are taxed on the basis of value added and capital, in addition to the taxation system mentioned above, with rates ranging from 0.4% to 1.18%. The tax basis for the calculation consists of a mix of profits and capital and other value-added factors such as wages, interest and royalties. Particular measures have been adopted to reduce the tax burden for companies with a high salary / capital ratio.

If a Japanese company carries out an activity outside of Japan, the amount of the added value factors and / or capital relating to the activity carried out abroad will be deducted from the tax base.

Companies with tax losses must also pay enterprise tax.

Real estate acquisition tax

The standard rate of real estate acquisition tax is 4%.

15- DIVIDENDS, INTEREST AND ROYALTIES: HOW ARE THEY CONSIDERED AND TAXED?

Dividends

A part of the dividends distributed by Japanese corporations is not taxable and this part is established on the basis of the percentage of shares owned by the company distributing the dividends: for holdings of less than 5%, 20% of the dividends are tax free; for holdings between 5% and 33.33%, 50% of dividends are tax free; for holdings between 33.33% and 100%, dividends are totally tax free.

Interest expense attributable to the purchase cost of shares must be deducted from dividends. Dividends received are taxable if they relate to short-term holdings in Japanese companies purchased within the previous month and sold within the two months following the declaration of dividends.

The withholding tax applied to dividends paid by unlisted companies is 20.42%; for listed companies or investment funds, the withholding tax is 20.315%, if dividends are distributed to resident or non-resident companies with a PE, and 15.315% if distributed to non-residents.

Furthermore, from 1 January 2013 to 31 December 2037 rates are increased by a surcharge of 2.1% for residents and non-residents, not applicable in case of tax treaty.

Interest and royalties

Withholding tax is deducted at source (15.315% or 20.315%) from payments made to non-residents on: interest on securities and bonds issued by the Japanese government or companies resident in Japan, interest on bank deposits in Japan or similar credits, interest on commercial loans in Japan, royalties deriving from property rights, including patents, trademarks, copyrights, know-how, etc., including their sale.

Interest on certain types of foreign currency bonds and loans paid to non-residents and foreign companies is exempt from Japanese tax.

Royalties are taxed at the rate of 20.42%.

Tax treaty signed by Japan with other countries may contain reduced rates.

16- HOW ARE CALCULATED STOCKS OR INVENTORIES?

For Japanese tax purposes, inventory is valued at the lower between cost and market value. Cost may be determined by any one of the following methods: first-in first-out (FIFO), weighted average, moving average, and the most recent purchase.

There is no allowance for inflation in relation to inventory.

17- HOW ARE RESIDENT INDIVIDUALS TAXED?

Tax liability criteria

“Resident” or “resident of Japan” means a person, other than a company, who has a domicile or has had a residence for one year or more in Japan.

Tax rates

Japanese residents are subject to Japanese tax on their worldwide income.

From 1 January 2013 until 31 December 2037, Japanese income tax rates (including capital gains and withholding tax rates) are increased by a special 2.1% surtax for both residents and non-residents.

The tax due is calculated by multiplying the taxable amount by the corresponding rate, adding to the result obtained the fixed amount related to the band.

Taxable income Yen	Tax rate (before surtax) %	Tax rate (including 2.1% surtax) %	Deduction Yen	Cumulative tax Yen
0 – 1,950,000	5	5.105	-	99,547
1,950,001 – 3,300,000	10	10.21	99,547	237,382
3,300,001 – 6,950,000	20	20.42	436,477	982,712
6,950,001 – 9,000,000	23	23.483	649,356	1,464,114
9,000,001 – 18,000,000	33	33.693	1,568,256	4,496,484
18,000,001 – 40,000,000	40	40.84	2,854,716	13,481,284
Oltre 40,000,000	45	45.945	4,896,716	-

Resident individuals are also subject to inhabitants tax.

Joint tax returns are not applied.

Main deductions and reliefs

Residents are entitled to the following monthly child benefit payments for resident children under their care:

- For each child under 3 years old 15,000 Yen
- For first or second children from the age of 3 to the completion of primary school education 10,000 Yen
- For a third child from the age of 3 until the completion of primary school education 15,000 Yen
- For each child under the age of 15 until the completion of middle school education 10,000 Yen

Inheritance and gift tax

Japanese residents are subject to inheritance tax on worldwide estate. From 2013 also the transfer of assets abroad by Japanese resident individuals in favor of non-residents is subject to tax.

The rate of inheritance and gift tax ranges from 10% to 55%, depending on the value of the inheritance.

Pension, social security and national health policy

It is compulsory for an employee or individual who is self-employed in Japan to join the four social insurance schemes, ie health insurance, pension insurance (both payable monthly by the employee and their employer in equal amounts), workers' accident compensation insurance and employees' insurance (unemployment benefits) (both payable for two by the employer).

Any contributions made by an individual will be deductible for income tax purposes.

18- HOW ARE FOREIGN INDIVIDUALS TAXED? WHEN ARE THEY CONSIDERED RESIDENT?

Tax liability criteria

“Resident” or “resident of Japan” means a person, other than a company, who has a domicile or has had a residence for one year or more in Japan.

Tax rates

They are subject to Japanese tax only on Japanese source income at the same rates applied to residents.

From 1 January 2013 until 31 December 2037, Japanese income tax rates (including capital gains and withholding tax rates) are increased by a special 2.1% surtax for both residents and non-residents.

Taxable income Yen	Tax rate (before surtax) %	Tax rate (including 2.1% surtax) %	Deduction Yen	Cumulative tax Yen
0 – 1,950,000	5	5.105	-	99,547
1,950,001 – 3,300,000	10	10.21	99,547	237,382
3,300,001 – 6,950,000	20	20.42	436,477	982,712
6,950,001 – 9,000,000	23	23.483	649,356	1,464,114
9,000,001 – 18,000,000	33	33.693	1,568,256	4,496,484
18,000,001 – 40,000,000	40	40.84	2,854,716	13,481,284
Oltre 40,000,000	45	45.945	4,896,716	-

Income from dividends, interest, capital gains are subject to withholding tax of 10.21%, unless otherwise provided by a tax treaty.

Main deductions and reliefs

No reliefs are applied to non-residents.

Inheritance and gift tax

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The rate of inheritance and gift tax ranges from 10% to 55%, depending on the value of the inheritance.

Pension, social security and national health policy

It is compulsory for an employee or individual who is self-employed in Japan to join the four social insurance schemes, i.e. health insurance, pension insurance (both payable monthly by the employee and their employer in equal amounts), workers' accident compensation insurance and employees' insurance (unemployment benefits) (both payable for two by the employer).

Any contributions made by an individual will be deductible for income tax purposes.

19- BLUE FORM SYSTEM: FISCAL BENEFITS AND CONSEQUENCES

The “blue return system” (named for the colour of the tax form) is provided by the National Tax Agency with the objective of facilitating tax administration and promoting the use of modern accounting methods. All companies filing blue returns undertake to maintain the required bookkeeping, records and documentation for a period of 10 years.

A new company intending to file a blue return must file an application to become a blue return filer within 3 months of incorporation or before the end of the initial accounting period, whichever is earlier.

Blue return filers are entitled to various concessions not otherwise available, including:

1. tax losses can be carried forward for a period of up to 10 years
2. losses incurred in the year before an accounting period may qualify for a refund of corporation tax provided the tax office accepts the calculation
3. deductions are available for various reserves not otherwise deductible
4. special accelerated depreciation is allowed
5. tax credits are available for designated research and development (R&D) expenses, for business conversion, and for the import of manufactured goods
6. a special deduction is available from the gross sale or licensing proceeds of industrial property exploited abroad, and
7. the tax examination is based on the books and records of the company.

20- TERMS FOR TAX PAYMENTS: THE FISCAL YEAR IN JAPAN

There is no standard corporate tax year in Japan, although most corporations prefer 31 March as their tax/accounting year end, as this is the Government's accounting year end. A corporation may choose an alternative tax year; however, its tax year end must be the same as its accounting year end. The provisions of the tax law are often expressed in terms of a 12-

month business year. If a corporation has a business year shorter than a calendar year, then each figure regarding its income should be converted into a figure in annual terms.

21- WHAT TAX INSPECTIONS ARE MADE?

Usually, Japanese corporate tax returns are examined by the Japanese national tax authorities and local tax returns are not examined; although results of the examination are reported to the local tax authorities by the national tax authorities.

Where a blue form return is filed, the tax examiners must use a company's documents or books to correct taxable income. Otherwise, they may determine the taxable income by using a basis such as the average rate of return on investment in the same industry. In that case the tax authorities need not express the reasons why they determined such a taxable income.

The required period for keeping books and other records for tax purposes is 10 years.

22- CAN TAX PAYERS AGREE IN ADVANCE THEIR TAX TREATMENT?

Japan's National Tax Agency (NTA) provides a procedure for obtaining a ruling on the Japanese tax treatment of a completed or future transaction in advance where the tax law has not been previously made clear.

23- WHAT EXCHANGE CONTROLS ARE CARRIED OUT?

Japan's Foreign Exchange and Foreign Trade Control Law is the basic legislation governing foreign exchange transactions of or with Japan. The general principle is that international transactions should be unrestricted.

For specific industries and investors from nations falling under the order relating to direct foreign investment, notice of direct foreign investment in the form of share or loan capital subscribed to a Japanese company must be given to the exchange control authorities within 15 days after investment. In all other cases, 15 days' prior notice is required.

24- WHAT TAX RELIEFS AND INCENTIVES ARE GRANTED BY THE JAPANESE GOVERNMENT?

The Japanese tax credits discussed below are available only to companies filing "blue returns".

Research and development (R&D) credits

Japan's R&D tax credit system consists of a basic R&D credit based on gross R&D expenditure, an additional R&D credit and an open innovation R&D credit.

Large corporations (corporations with capital over Yen 100 million) are ineligible for R&D credits if the taxable income in the current year exceeds taxable income in the preceding year, if the total salary paid to employees in the current year is equal to or less than the total salary paid to employees in the preceding year and if the total investment in Japanese depreciable assets does not exceed 30% of depreciation.

For an SME (with capital not exceeding Yen 100 million), the basic R&D credit is between 12% and 17% of the total R&D expenses for the current year, while for a large corporation (with capital exceeding Yen 100 million), the basic R&D credit is equal to between 2% and 14% of the total R&D expenses for the current year.

For years beginning during the period from 1 April 2013 to 31 March 2023, the additional R&D credit is equal to 8% of the increase in R&D expenses (ie the R&D expenses for the current year minus the average of expenses for the past 3 years).

From 1 April 2020 until 31 March 2024, the scope of R&D expenditure includes qualifying investments in open innovation. Companies investing in innovative start-ups can deduct 25% of the amount invested from their taxable income. To be eligible, large companies need to invest at least Yen 100 million and SMEs need to invest at least Yen 10 million.

Restructuring of corporations

When a restructuring plan is formulated under the Civil Rehabilitation Law, or by certain private arrangements with certain conditions, the debtor corporation is allowed to apply the following special treatment:

1. the appraisal gain/loss of the corporation will be recognised and can be taxed/deducted, and

2. losses of the corporation arising from years prior to the previous 9 years (ie the limit for the carry forward of losses) may be deducted from the taxable gains made by the corporation from the forgiveness of debts by its creditors.

Employment tax credit

Corporations can claim a tax credit of Yen 200,000 for each new employee added to the payroll if the total workforce increase is greater than 10%. The increase must be at least 2 employees for SMEs, and 5 employees for larger corporations. The total amount is capped at 20% of their tax liability for the relevant year for SMEs, and 10% for larger corporations. This tax credit is not available if a company chooses to take advantage of the salary growth tax credit (see below).

Salary growth tax credit

A tax credit based on salary growth is available to companies. The tax credit is 15% of increased salary costs (usable against up to 20% of taxable income) if total salary paid is increased by 3% compared with the total salary cost in the preceding year.

This credit is not available if the company chooses to claim the employment tax credit instead (see (c) above).

International strategic special zones

Blue return companies operating in international strategic special zones and satisfying certain criteria may benefit from special depreciation rates or tax credits.

Relocation incentive

Large companies that invest at least Yen 20 million, and SMEs that invest at least Yen 10 million, in either relocating their headquarters from cities to local areas or in expanding their existing headquarters in local areas are eligible for incentives and may choose between accelerated depreciation or a tax credit. Subject to qualifying conditions, a tax credit is also available in respect of new employees hired within 2 years of the investment. The tax credit is either Yen 200,000 or Yen 500,000 for each new employee.

Stock options

If a stock option is to be granted as an underwriting right for issuance of new stocks granted at the shareholders' meeting, a company may deduct expenses in relation to the granting of such stock options to employees as consideration for services rendered, at the time of the exercise of the stock options unless the options are tax qualified stock options for income tax purposes. This applies to stock options for which issuance is approved on or after 1 May 2006 — the effective date of the Company Law.

Tax incentives for investment

Taxpayers investing in qualifying software between 1 April 2021 and 31 March 2023 may choose a 30% depreciation rate or a tax credit of 3% (increased to 5% if data is shared with other businesses).

Taxpayers investing in qualifying assets relating to carbon neutrality between 1 April 2021 and 31 March 2024 may choose a 50% depreciation rate or a tax credit of 5% (increased to 10% if the assets significantly reduce greenhouse gas emissions).

25- HAS JAPAN SIGNED BILATERAL TAX AGREEMENTS WITH OTHER COUNTRIES? TABLE OF WITHHOLDING TAXES

Japan has concluded tax treaties with a number of countries which specify the withholding tax rates that apply. Non-treaty withholding tax rates apply when they are lower than the rate specified in the treaty.

The following rates of Japanese withholding tax apply to non-resident entities:

	<i>Dividends</i> %	<i>Interests</i> %	<i>Royalties</i> %
<i>Non-treaty countries</i>	15.315/20.315/20.42	15.315	20.42
<i>Treaty countries</i>			
Armenia	15	0/10	0/10
Australia	0/5/10	0/10	5
Austria	0/10	0/15.315	0

Azerbaijan	15	0/10	0/10
Bangladesh	10/15	0/10	10
Belarus	15	0/10	0/10
Belgium	0/10	0/10	0
Brazil	12.5	0/12.5	12.5/15/20
Brunei	5/10	0/10	10
Bulgaria	10/15	0/10	10
Canada	5/15	0/10	10
Chile	5/15	4/10	2/10
China	10	0/10	10
Croatia	0/5	0/5	5
Czech Republic	10/15	0/10	0/10
Denmark	0/15	0/10	0
Ecuador	5/10	0/10	10
Egypt	15	15	15/20
Estonia	0/10	0/10	5
Fiji	10/15	10	10
Finland	10/15	10	10
France	0/5/10	0/10	0
Georgia	5	0/5	0
Germany	0/5/15	0	0
Hong Kong	5/10	0/10	5
Hungary	10	0/10	0/10
Iceland	0/5/15	10	0
India	10	0/10	10
Indonesia	10/15	0/10	10
Ireland	10/15	10	10
Israel	5/15	0/10	10
Italy	10/15	10	10
Jamaica	5/10	0/10	2/10
Kazakhstan	5/15	0/10	10
Korea	5/15	0/10	10
Kuwait	5/10	0/10	10
Kyrgyzstan	15	0/10	0/10
Latvia	0/10	0/10	0
Lithuania	0/10	0/10	0
Luxembourg	5/15	0/10	10
Malaysia	5/15	0/10	10
Mexico	5/15	0/10/15	10
Moldova	15	0/10	0/10
Netherlands	0/5/10	0/10	0
New Zealand	0/15	0/10	5
Norway	5/15	0/10	10
Oman	5/10	0/10	10
Pakistan	5/7.5/10	0/10	10
Peru	10	0/10	15
Philippines	10/15	0/10	10/15
Poland	10	0/10	0/10
Portugal	5/10	0/5/10	5
Qatar	5/10	0/10	5
Romania	10	0/10	10/15
Russia	0/5/10	10	0
Saudi Arabia	5/10	0/10	5/10
Serbia	5/10	0/10	5/10
Singapore	5/15	0/10	10

Slovak Republic	10/15	0/10	0/10
Slovenia	5	0/5	5
South Africa	5/15	0/10	10
Spain	0/5	0/10	0
Sri Lanka	20	0/15	0/10
Sweden	0/10	10	0
Switzerland	5/10	0/10	0
Taiwan	10	0/10	10
Tajikistan	15	0/10	0/10
Thailand	15/20	0/10/15	15
Turkey	10/15	0/10/15	10
Turkmenistan	15	0/10	0/10
Ukraine	15	0/10	0/10
United Arab Emirates	5/10	0/10	10
United Kingdom	0/10	10	0
United States	0/5/10	0	0
Uzbekistan	5/10	0/5	0/5
Vietnam	10	0/10	10
Zambia	0	0/10	10

Japan has signed TIEAs with the 12 countries, based on the OECD model convention.