



# Webinar 107: Introduction to Business in Japan from a Fiscal Perspective

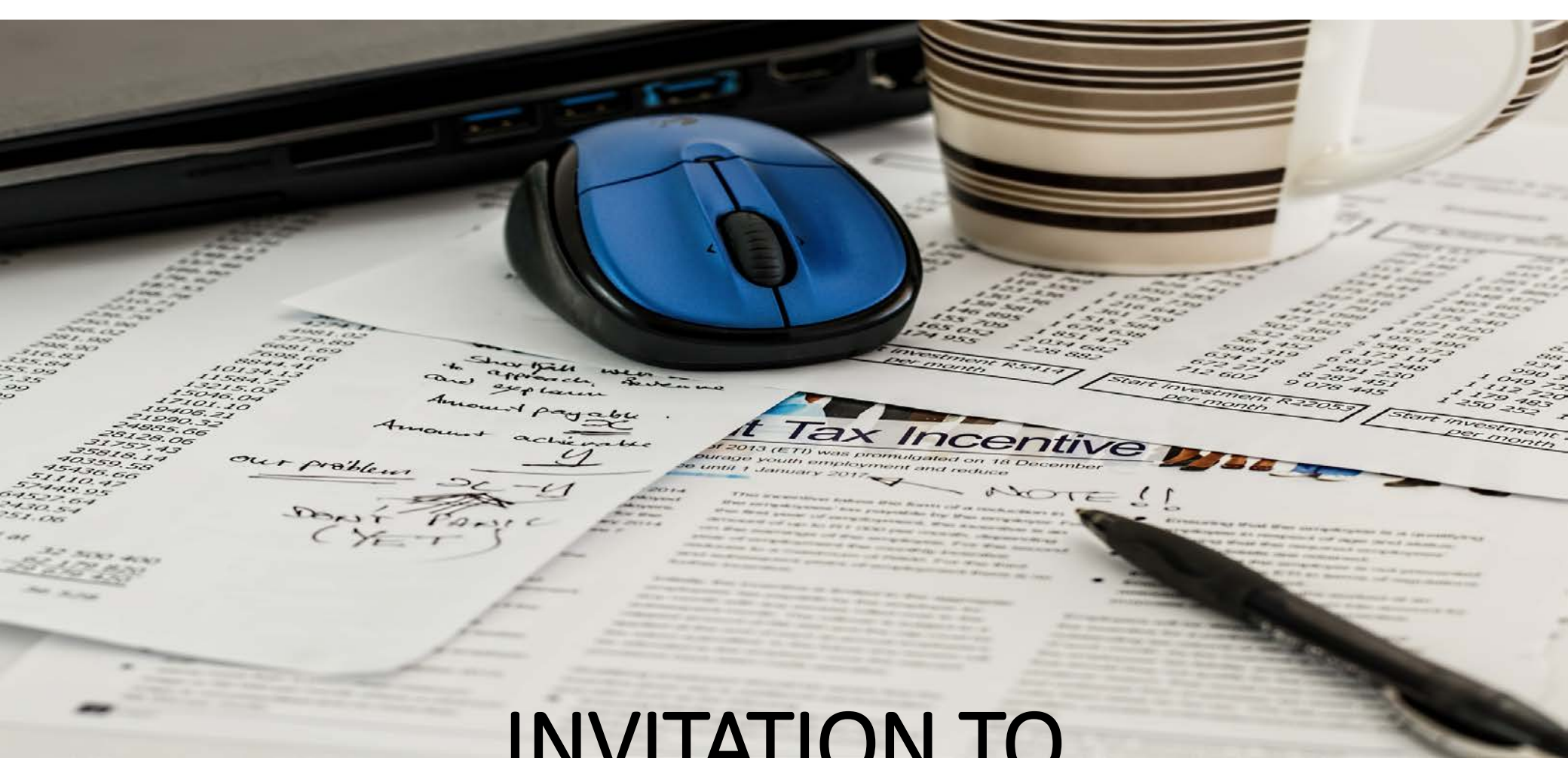
November 14, 2017, 10:30-11:30 CET



- Moderator:
  - Lyckle Griek, JTPP Helpdesk Manager
  
- Today's speaker
  - Mrs. Hiroko Koido, TGN Soleil Tax Accounting Firm



- Today's programme
  - Introduction
  - Presentation by Mrs. Koido
  - Q&A Session



# INVITATION TO BUSINESS IN JAPAN

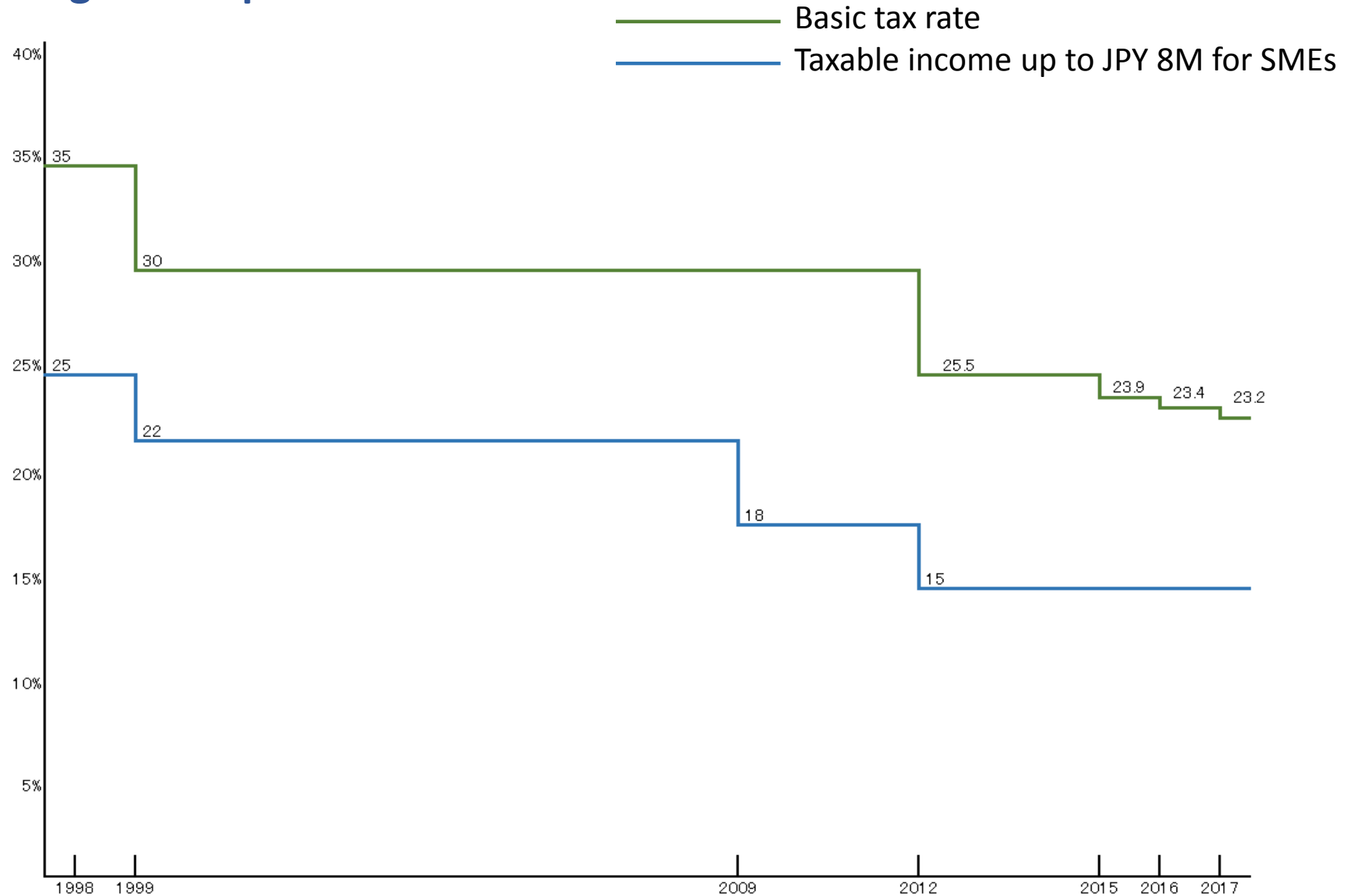
~ For your easy understanding  
of taxation

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- ✓ 1. Business environment for investment in Japan
- ✓ 2. Setting up a business
- ✓ 3. Business taxation
  - i ) Overview
  - ii ) Anti-avoidance rules
  - iii ) Withholding taxes
- ✓ 4. Individual Tax

# 1. Business environment for investment in Japan

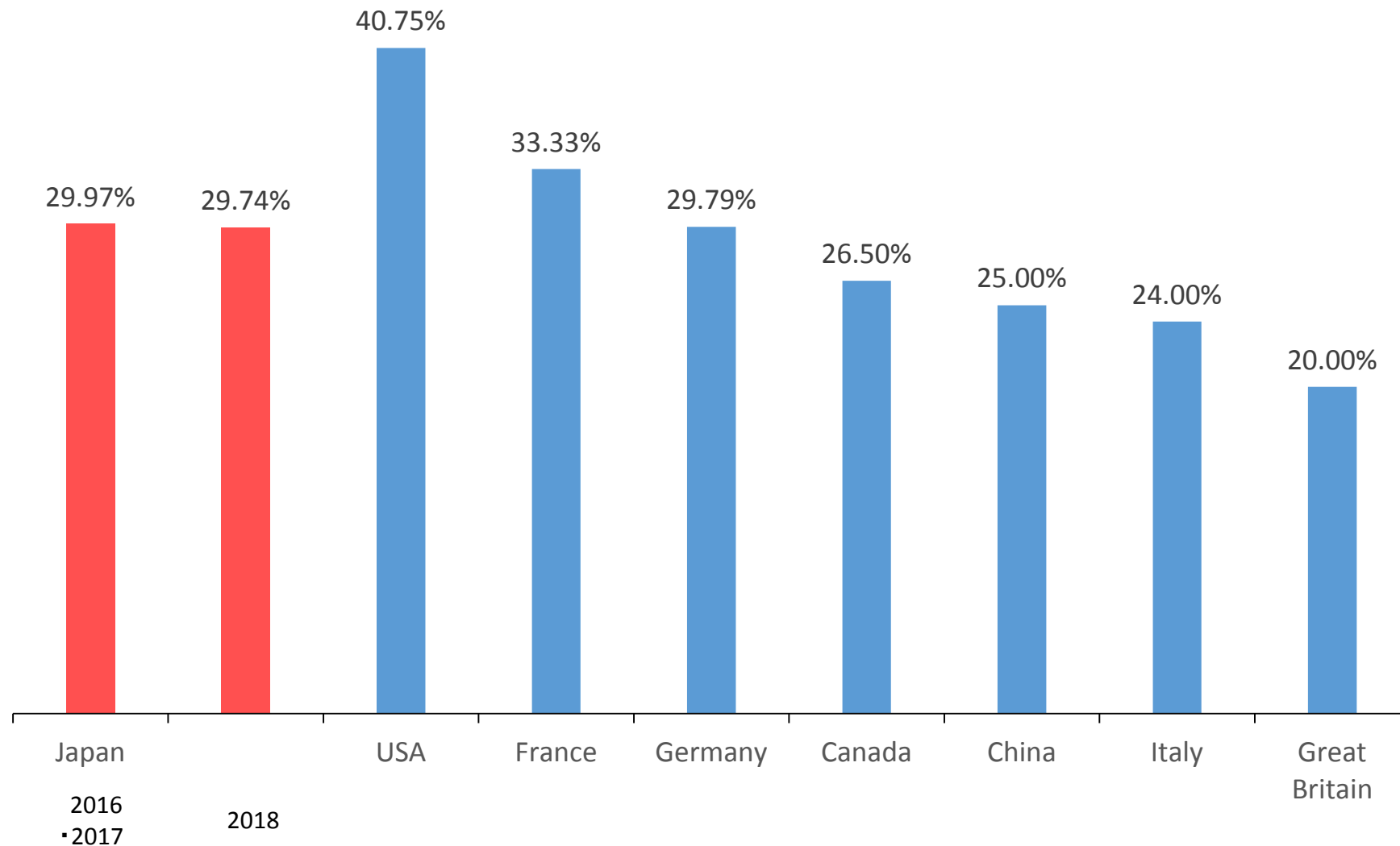
## Change of Corporate tax rate



# 1. Business environment for investment in Japan

International comparison of effective statutory tax rate

As of 2017



## 2. Setting up a business

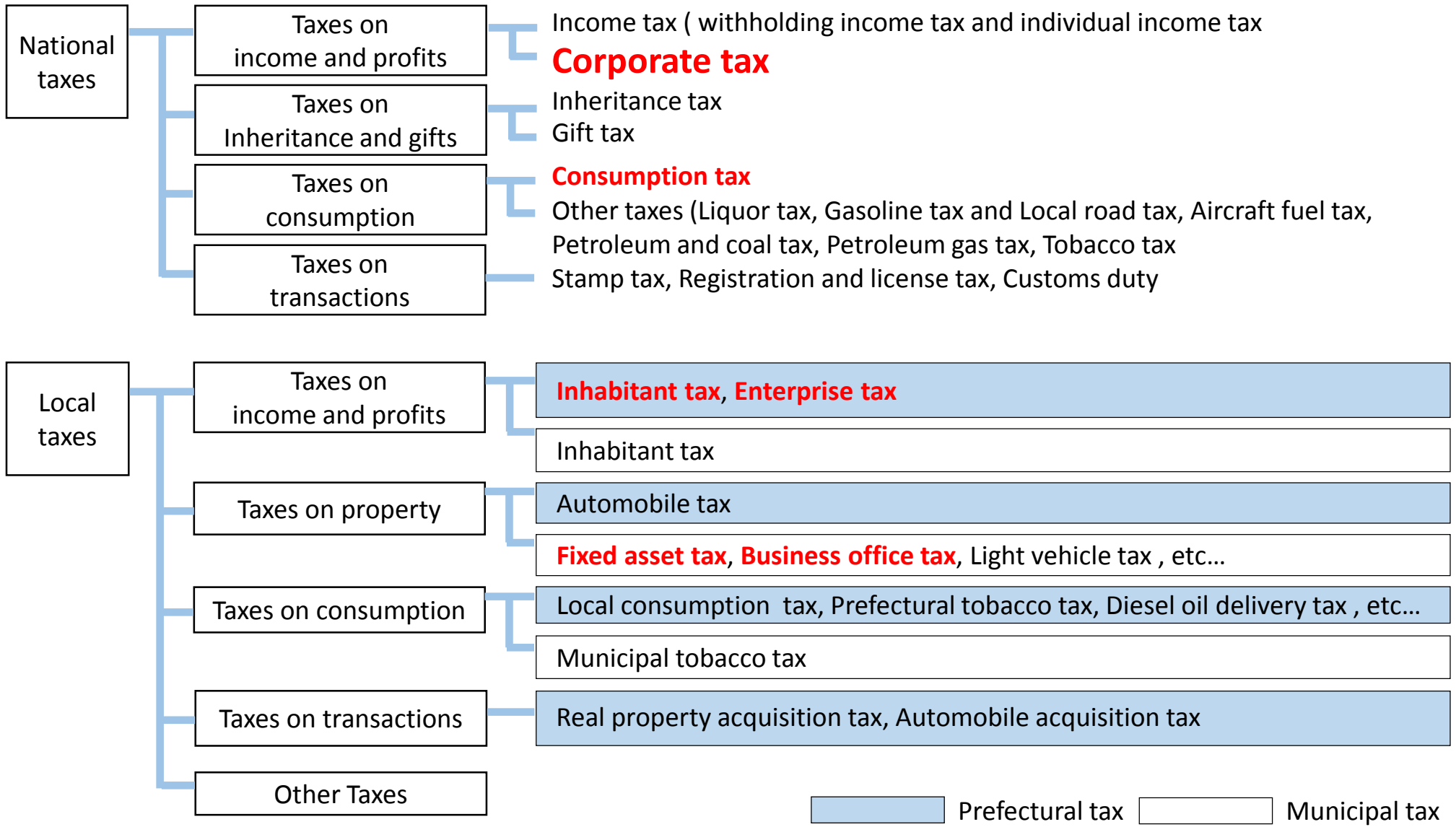
### Business Entity

Joint-stock company (Kabushiki Kaisha (KK))	Capital: more than JPY 1.- Shareholder: more than one, it can be an individual or a legal person Director: more than one, it is not necessary to be a Japanese citizen or resident
Limited liability company (Godo Kaisha (GK))	Simpler structure with the same limited liability protection as KK with a benefit of a true partnership
Registered branch office	A resident in Japan must be appointed as a representative



# 3-1. Business taxation

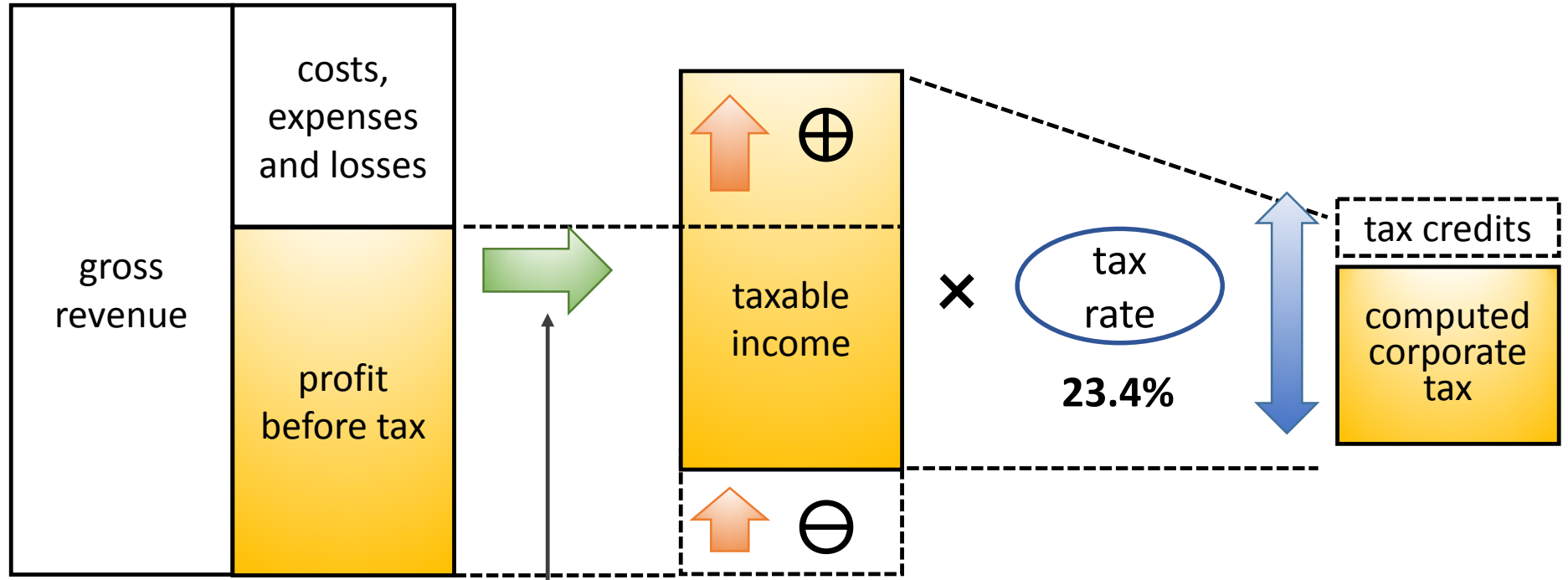
## General overview of Japanese Taxes



# 3-1. Business taxation

## Taxable Income

Fair Accounting Standard



adjusted in accordance with the tax law

## 3-1. Business taxation

### Adjustment of the additional items (Summary )

Provisions	<p>Bad Debts: The allowable amount is determined by the tax authority.</p> <p>Bad Debt Expenses: It is treated as deductible bad debt expenses when the debtor is certainly in the state of insolvency.</p>
Director's compensation	It is allowed when it is regularly paid with a fixed amount through a fiscal year.
Expenses not for its business	Donations/Contributions Entertainment expenses (When the amount is more than the deductible amount, they are not allowed.)
Others	Dividends Corporate taxes

# 3-1. Business taxation

## Fixed Assets and Depreciation

### (1) Acquisition Cost

- ① The entire purchase or manufacturing cost
- ② As well as incidental expenses incurred directly in connection with acquisition of fixed assets or in making the fixed assets available for use.

For example, cargo handling expense, insurances, intermediary fee.

### (2) Ordinary Depreciation

	Purchased after April 2016	Before that
<b>Buildings</b>	Straight-line method	
<b>Equipment attached to buildings</b>		
<b>Other tangible assets</b>	Declining-balance method ✕ the company may select the straight-line method	
<b>Leased assets</b>	Straight-line method	
<b>Intangible assets</b>		

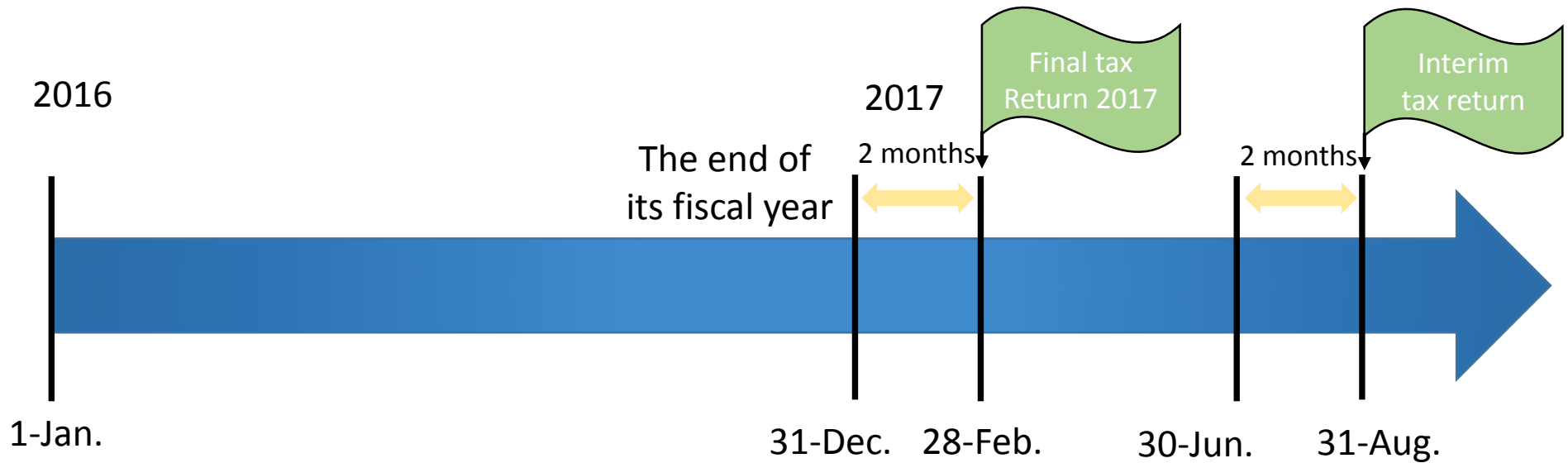
☆ The depreciation for tax purposes must be computed in accordance with the rates corresponding to the statutory useful lives.

★ Acquisition costs

Less than JPY 100,000 or used up within 1 year	Expensed immediately
JPY 100,000 or but less than JPY 200,000	Amortized in 3 years

## 3-1. Business taxation

### Tax Returns and Tax payment



#### Interim Tax Return

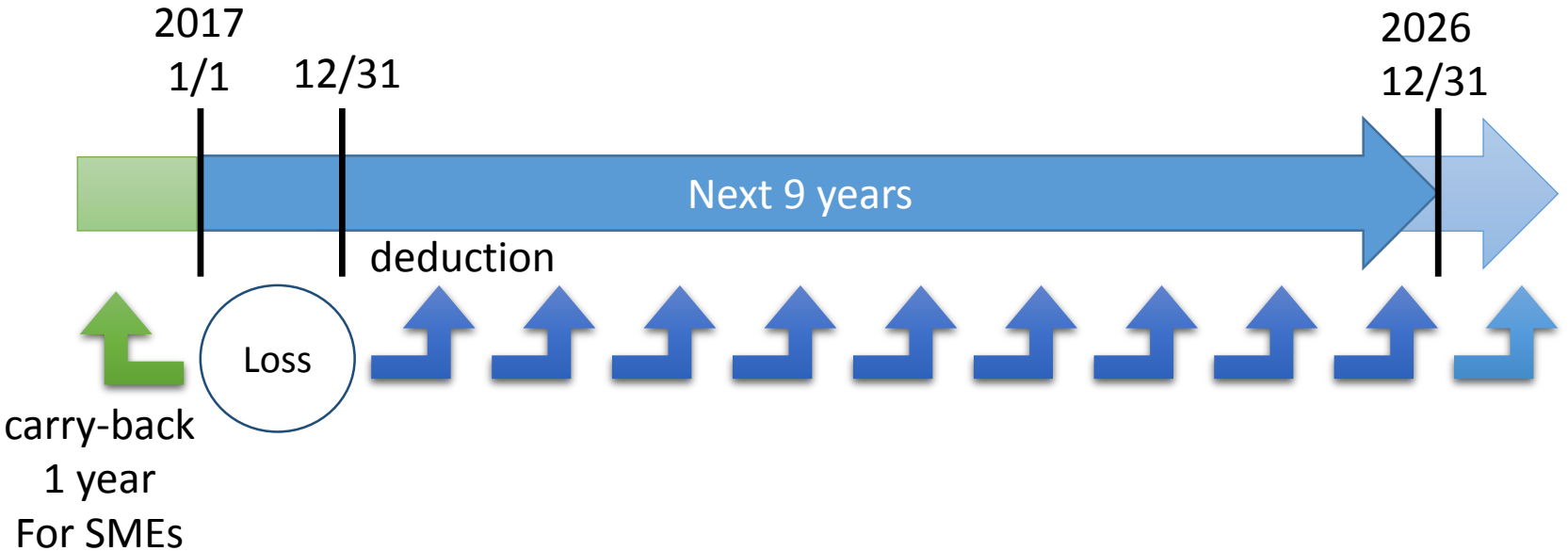
When the amount of the annual corporation tax for the previous fiscal year is JPY 200,000 or less, the company is not generally required to file interim tax returns. The amounts to be reported in the interim tax is chosen by the company from the following two methods:

- ① Provision = half of the amount of taxes of the previous year
- ② Tax computed on the basis of the provisional results of the first 6 months period

# 3-1. Business taxation

## Loss relief

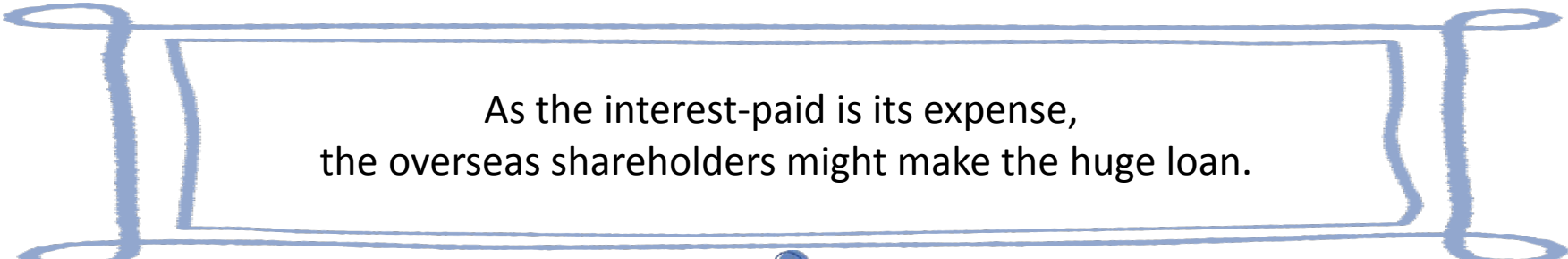
- Tax losses carry-forward : 9 years  
(10 years after April 2018)
- Tax losses carry-back : 1 year only for SMEs



## 3-2. Business taxation ~ Anti-avoidance rules

### Limitation on deductions for excessive interest to be paid to overseas shareholders

- (1) Thin-Capitalization Rules: Application based on the debt-equity ratios  
When the Japanese company pays the interest to the overseas controlling shareholders, it must be its expense. But the dividend to-be-paid is not.
- (2) Earnings Stripping Rules: Basically applied when the amount of the interest paid to the overseas shareholders is more than 50% of adjusted taxable income



As the interest-paid is its expense,  
the overseas shareholders might make the huge loan.



Then it is limited to pay too much interest compared to the amount of the capital (1) or that of the taxable income (2).

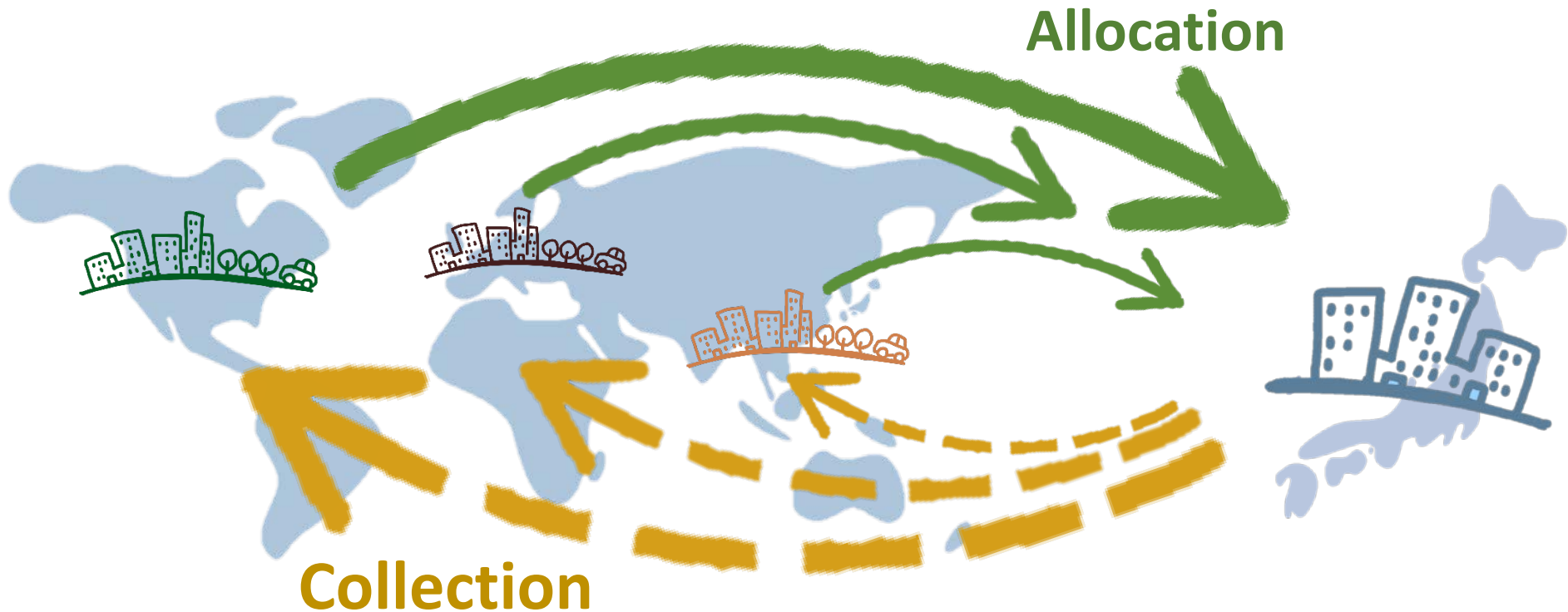
When the both of the above two rules are applied, only the larger of the disallowed amount should be applied.

## 3-2. Business taxation ~ Anti-avoidance rules

### Transfer Pricing

- Management Service fees
- Royalty
- Allocation of Head Office expenses

They are a deductible expenses for the Japanese tax purposes.  
However, they should not be used for the purpose of the shifting profit from the Japanese company to the overseas parent company





## 3-3. Business taxation ~ withholding taxes

### Withholding income tax / Dividends, Interest and Royalties

Japanese withholding income tax is ordinarily imposed on ;

- Dividend
- Interest
- Royalty payments to foreign companies and non-resident individuals

The normal withholding rate is 20.42 percent.

Where a reduced withholding tax rate or exemption is applied under a tax treaty, the special reconstruction income tax will not be imposed.

### 3-3. Business taxation ~ reduced withholding tax rates under the tax treaties (Normal withholding tax rate: 20.42%)

Name of country	Dividends		Interest	Royalties	
	Between Parent and Subsidiary (the minimum ownership ratio)	Other			
<b>Austria</b>	10%	(50%)	20%	10%	10%
<b>Belgium(current)</b>	10%	(25%)	15%	10%	10%
<b>Belgium(revised)</b>	0%	(10%)	10%	0-10%	0%
<b>France</b>	0% 5%	(15% directly or-25% directly or indirectly) (10%)	10%	0-10%	0%
<b>Germany(current)</b>	10%	(25%)	15%	10%	10%
<b>Germany(revised)</b>	0% 5%	(25%) (10%)	15%	0%	0%

### 3-3. Business taxation ~ reduced withholding tax rates under the tax treaties (Normal withholding tax rate: 20.42%)

Name of country	Dividends		Interest	Royalties	
	Between Parent and Subsidiary (the minimum ownership ratio)	Other			
<b>Luxembourg</b>	5%	(25%)	15%	10%	10%
<b>Netherlands</b>	0%	(50%)	10%	0-10%	0%
	5%	(10%)			
<b>Norway</b>	5%	(25%)	15%	10%	10%
<b>Spain</b>	10%	(25%)	15%	10%	10%
<b>Sweden</b>	0	(10%)	10%	0%	0%
<b>Switzerland</b>	0%	(50%)	10%	0-10%	0%
	5%	(10%)			
<b>UK</b>	0%	(10%)	10%	0%	0%

## 3-3. Business taxation ~ withholding taxes

### Resident Status

The scope of taxable income is determined by your resident status. Therefore, first of all, you are requested to make clear what your resident status is.

Resident status is divided into three categories: Non-permanent Resident, Permanent Resident, Non-resident.

The following is a brief explanation of each type of resident status.

#### 1. Resident

A person who has a domicile in Japan, or has had a residence in Japan for one year or more.

##### i. Non-permanent resident

A resident who has not Japanese nationality and has had his/her domicile or residence in Japan for period or periods in the aggregate 5 years or less in last 10 years.

##### ii. Permanent resident

A resident other than non-permanent resident.

#### 2. Non-resident

A person other than resident.

# 4. Individual Tax

## Taxable Income

The following table shows the scope of taxable income according to your resident status.

### INDIVIDUAL SCOPE OF TAXABLE INCOME

CLASSIFICATION		SCOPE OF TAXABLE INCOME			
		INCOME FROM SOURCES IN JAPAN		INCOME FROM SOURCES ABROAD	
		PAID IN JAPAN	PAID ABROAD	PAID IN JAPAN	PAID ABROAD
RESIDENT	NON=PERMANENT RESIDENT	Taxable	Taxable	Taxable	Only the portion deemed remitted to Japan is taxable. (This means that the remainder retained abroad is not taxable.)
	PERMANENT RESIDENT	Taxable	Taxable	Taxable	Taxable
NON-RESIDENT		Taxable in principle		Not taxable	

## 4. Individual Tax

### Short-Term visitors

The foreign employees temporarily working in Japan are generally tax exempted if they fulfill the following three criteria depending on the tax treaties:

- They are present in Japan for no more than 183 days in any twelve-month period commencing or ending in the fiscal year concerned.
- Their salary is paid by a non-resident employer.
- None of the salary is borne by a permanent establishment in Japan.

# Conclusion

- ☆ We discussed the circumstances for foreign investors in Japan.  
They are getting better, but still further improvement is desirable
- ☆ It is important to know the taxation system when deciding on your investment
- ☆ Today we have learned more about taxable expenses in Japan
  - ☆ Advice: Be aware of the anti-avoidance rules!
  - ☆ Advice: Be aware of the withholding tax for transferring money from Japan.

See you in Japan!!



# Q&A





# Thank you for your attention!

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<http://www.eu-japan.eu/taxes-accounting>

