ENGLISH

Laws & Regulations

on Setting up Business in Japan

JETRO

INVEST JAPAN

Index

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1.1 Types of operation in Japan

Foreign companies generally establish a business presence in Japan in one of three modes.

1.1.1 Representative office

Representative offices are established as locations for carrying out preparatory and supplemental tasks aimed at enabling foreign companies to engage in full-scale business operations in Japan. These offices may conduct market surveys, collect information, purchase goods, and implement publicity/advertising efforts, but they are not permitted to engage in sales activities. The establishment of representative offices does not require registration. A representative office cannot ordinarily open bank accounts or lease real estate in its own name, so agreements for such purposes must instead be signed by the head office of the foreign company or the representative at the representative office in an individual capacity.

1.1.2 Branch office

Foreign companies wishing to engage in continuous transactions in Japan must register in the country (see Article 818 of the Companies Act). To do so, they must at least register (1) the appointment of a representative in Japan, (2) the establishment of a branch office, (3) a Japanese corporation, or (4) a partnership. Of these, the simplest means for a foreign company to establish a base for business operations in Japan is to set up a branch office. The branch office can begin business operations as soon as an office location is secured, the branch office representative determined, and the necessary information registered. A Japanese branch office is a business location that provides services in Japan decided upon by an organization authorized by the foreign company, and ordinarily is not expected to engage in independent decision making. A branch office does not have its own legal corporate status, but instead is deemed to be encompassed within the corporate status of the foreign company. In general, therefore, the foreign company is ultimately responsible for all debts and credits generated by the activities of its Japanese branch office. A Japanese branch office, however, may open bank accounts and lease real estate in its own name.

1.1.3 Subsidiary company

A foreign company establishing a subsidiary company in Japan must choose to establish the subsidiary company as a joint-stock corporation (Kabushiki-Kaisha (K.K.)), limited liability company (Godo-Kaisha), or similar entity stipulated by Japan's Companies Act. Both unlimited partnerships (Gomei-Kaisha) and limited partnerships (Goshi-Kaisha) are granted corporate status under the Companies Act, but they are rarely chosen in practice because equity participants bear unlimited rather than limited liability. All types of subsidiary companies can be established by completing the required procedures stipulated by law and then registering the corporation. A subsidiary is a separate corporation from the foreign company, so the foreign company will bear the liability of an equity participant stipulated by law for all debts and credits generated by the activities of the subsidiary. Other methods by which a foreign company may invest in Japan using a Japanese corporation but without establishing a subsidiary are by establishing a joint venture with a Japanese enterprise or investment company, and by equity participation in a Japanese enterprise.

Joint-stock corporations and limited liability companies are similar insofar as liability in them is limited to the assets contributed by equity participants. Compared with joint-stock corporations, however, limited liability companies have greater freedom of self-government through their articles of association and, unlike joint-stock corporations, they may stipulate the procedures for preparing and approving their financial statements in their articles of association as there are no laws and regulations relating to finalizing annual financial statements and do not have to publish their financial results. Additionally, although their members are as a rule required to execute business, their articles of association may allow for the appointment of “managing partners.”

1.2 Comparison of types of business operation

Foreign companies generally engage in business operations by establishing a branch office or subsidiary company, and the legal differences between each of these are summarized in the following table.

<Table 1-1> Legal differences between a branch and a subsidiary

Subject matter	Branch office	Subsidiary company	
		Kabushiki-Kaisha (joint-stock corporation)	Godo-Kaisha (limited liability company (LLC))
Capital	No capital	1 yen or more*1	1 yen or more*1
Number of investors	---	1 or more	1 or more
Liability of equity participants/parent company toward creditors	Unlimited	Limited to amount of equity participation	Limited to amount of equity participation
Transfer of equity participation share	No equity participation share	May be transferred freely in principle. May be stipulated in articles of incorporation that approval of Board of Directors is needed for transfer of shares.	Unanimous approval of equity participants (members) required
Number of executives required	Representative in Japan. 1 or more*2	See Tables 1-2, 1-3*2	No legally stipulated minimum. In principle, all members are executive officers, but may be stipulated otherwise in articles of association. *2
Legally stipulated term of office for executives	No legally stipulated term	See Tables 1-2, 1-3	No legally stipulated term
Regular general meeting of shareholders (members)	Not required	In principle, must be held every year	Not required
Possibility of public offer of stock (equity participation share)	No equity participation share	Possible	Not possible
Possibility of reorganization into joint-stock corporation	Not possible. Need to separately close branch office and register resignation of all representatives in Japan, and establish joint-stock corporation*3	--- (A joint-stock corporation may be reorganized into a limited liability company.)	Possible
Distribution of profits and losses	---	Allocated according to equity participation ratio	May be allocated at a different rate from equity participation rate if specified in articles of association
Taxation of profits	Income arising within Japan is in principle taxed.	Taxed according to profits of joint-stock corporation and profits allocated to shareholders	Taxed according to profits of Godo-Kaisha and profits allocated to participants

(Note) Regardless of the type of operation, filing prior notification of inward direct investment with the Bank of Japan is required as a general rule when conducting a business in an industry specified by the Foreign Exchange and Foreign Trade Act, etc.

*1 Although establishment with capital of zero yen is theoretically possible, approval is granted ex post facto, and it is not in practice possible to incorporate a company without paying in capital.

*2 When a branch office is to be established in Japan, at least one representative must have an address in and be a resident in Japan. Said address requirement does not apply to a representative director (or a representative executive officer) of a Kabushiki-Kaisha and a representative member (a person performing duties of such member, if such representative is a corporation) of a Godo-Kaisha (on and after March 16, 2015).

*3 See 1.7.1 "Closure of a branch office and resignation of all representatives in Japan."

Comparison regarding directors of Kabushiki-Kaisha (joint-stock corporations)

<Table 1-2> Companies without nominating committee, etc. or audit and supervisory committee*1

Subject matter	Small and medium companies (joint-stock corporations with capital of less than 500 million yen and total liabilities of less than 20 billion yen)		Large companies (joint stock corporations with capital of 500 million yen or more or total liabilities of 20 billion yen or more)	
	Kabushiki Joto Seigen Kaisha (joint-stock corporations subject to restrictions on the transfer of all or part of issued shares)	Kokai Kaisha (publicly traded joint-stock corporations that are not Kabushiki Joto Seigen Kaisha)	Kabushiki Joto Seigen Kaisha (joint-stock corporations subject to restrictions on the transfer of all or part of issued shares)	Kokai Kaisha (publicly traded joint-stock corporations that are not Kabushiki Joto Seigen Kaisha)
Number of Directors	Appointment of 1 or more required. Representative director with right to execute business. If no representative director is appointed, executive officers each have the right of representation.*2	Appointment of 3 or more required	Appointment of 1 or more required. Representative director with right to execute business. If no representative director is appointed, executive officers each have the right of representation.*2	Appointment of 3 or more required*3
Term of Directors	1 to 10 years. Extendable up to 10 years	2 years	1 to 10 years. Extendable up to 10 years	2 years
Board of directors (3 directors or more)	Establishment optional. Establishment required if board of auditors is established	Establishment required	Establishment optional. Establishment required if board of auditors is established	Establishment required
Representative director(s)	Appointment possible if 2 or more directors appointed. Executive officer with right of representation*2	Appointment of 1 or more required. Executive officer with right of representation*2	Appointment possible if 2 or more directors appointed. Executive officer with right of representation*2	Appointment of 1 or more required. Executive officer with right of representation*2
Number of Auditors	1 or more may be appointed. However, appointment of 1 or more is required if a board of directors is established and no accounting counselor is appointed.	Appointment of 1 or more required		Appointment of 3 or more required
Terms of Auditors	4 years in principle Extendable up to 10 years	4 years	4 years in principle Extendable up to 10 years	4 years
Board of auditors (3 or more auditors)	Establishment possible			Establishment required
Appointment of Accounting auditor	Appointment possible		Appointment necessary	
Term of Accounting auditors	1 year			
Appointment of Accounting councilors*4	Appointment possible. However, 1 or more must be appointed if a board of directors is established and no auditor is appointed.	Appointment possible		
Term of Accounting councilors*4	2 years in principle. Extendable up to 10 years	2 years	2 years in principle. Extendable up to 10 years	2 years

*1 A "company with audit and supervisory committee" was newly established due to the revisions to the Companies Act (enforced on May 1, 2015). A "company with nominating committee, etc." used to be called a "company with committees" before the said revisions.

*2 The requirement that at least one representative director must be domiciled in Japan is no longer applied to Kabushiki-Kaisha (on and after March 16, 2015).

*3 Companies subject to the Financial Instruments and Exchange Act must have one or more outside directors.

*4 An accounting councilor must be a certified public tax attorney or certified public accountant. An auditing councilor prepares financial documents in association with the directors, and may not hold another position as well, such as director, auditor, or accounting auditor.

Comparison regarding directors of Kabushiki-Kaisha (joint-stock corporations)

<Table 1-3> Companies with a nominating committee, etc.*1

Subject matter	Small and medium companies (joint-stock corporations with capital of less than 500 million yen and total liabilities of less than 20 billion yen)	Large companies (joint stock corporations with capital of 500 million yen or more or total liabilities of 20 billion yen or more)
	(1) Kabushiki Joto Seigen Kaisha (joint-stock corporations subject to restrictions on the transfer of all or part of issued shares) (2) Kokai Kaisha (publicly traded joint-stock corporations that are not Kabushiki Joto Seigen Kaisha)	
Number of Directors	Appointment of 3 or more required	
Term of Directors	1 year	
Board of directors (3 or more directors)	Establishment required	
Representative director	Appointment not possible	
Number of Executives	Appointment of 1 or more required. Appointment of representative executive officer if 2 or more*2	
Term of Executives	1 year	
Auditors	Appointment not possible	
Board of auditors (3 or more auditors)	Appointment not possible	
Appointment of Accounting auditor	Required	
Term of Accounting auditor	1 year	
Accounting councilor Appointment	Possible	
Accounting councilor Term	1 year	
Auditors committee	Establishment required (for auditing, etc. of performance of duties by executive officers). Consists of 3 or more directors, of which a majority must be outside directors*3	
Nominating committee	Establishment required (to decide on proposed appointment and dismissal of directors for submission to the general meeting of shareholders). Consists of 3 or more directors, of which a majority must be outside directors*3	
Benefit committee	Establishment required (to determine compensation of executive officers, etc.). Consists of 3 or more directors, of which a majority must be outside directors*3	

*1 "Companies with nominating committees" used to be called "companies with committees" before the revisions to the Companies Act (enforced on May 1, 2015).

*2 The requirement that at least one representative executive officer must be domiciled in Japan is no longer applied to Kabushiki-Kaisha (on and after March 16, 2015).

*3 Note that the requirements of outside directors have been altered by the enforcement of revisions to the Companies Act (enforced on May 1, 2015).

Comparison regarding directors of joint-stock corporations

<Table 1-4> Companies with audit and supervisory committee[*1]

Subject matter	Small and medium companies (joint-stock corporations with capital of less than 500 million yen and total liabilities of less than 20 billion yen)	Large companies (joint stock corporations with capital of 500 million yen or more or total liabilities of 20 billion yen or more)
	(1) Kabushiki Joto Seigen Kaisha (joint-stock corporations subject to restrictions on the transfer of all or part of issued shares) (2) Kokai Kaisha (publicly traded joint-stock corporations that are not Kabushiki Joto Seigen Kaisha)	
Number of Directors (members of comm. of auditors, etc.)	Appointment of 3 or more required [*2]	
Term of Directors (members of comm. of auditors, etc.)	2 year	
Number of Directors (excl. members of comm. of auditors, etc.)	Appointment of 1 or more required	
Term of Directors (excl. members of comm. of auditors, etc.)	1 year	
Board of directors	Establishment required	
Representative director	Appointment required[*3]	
Auditors	Appointment not possible	
Board of auditors	Appointment not possible	
Appointment of Accounting auditor	Required	
Term of Accounting auditor	1 year	
Appointment of Accounting councilor	Possible	
Term of Accounting councilor	1 year	
Auditors committee	Establishment required (for audit, etc. of performance of duties by directors). Consists of 3 or more directors, a majority of which must be outside directors[*2]	

*1 A "Company with audit and supervisory committee" was newly established due to the revisions to the Companies Act (enforced on May 1, 2015).

*2 A majority must be outside directors. They do not have to be full time.

*3 The requirement that at least one representative director must be domiciled in Japan is no longer applied to Kabushiki-Kaisha (on and after March 16, 2015).

1.3 Procedures for registering establishment

1.3.1 Registration of establishment of a branch office

A branch office may begin business operations after registering its establishment at the Legal Affairs Bureau; branch offices of foreign companies must register in accordance with the registration requirements for Japanese corporations of most similar form to that of the foreign company. In order to select the most similar form of Japanese corporations and to determine the information of the Japanese corporations to be registered, reference should be made to the foreign company's articles of incorporation, establishment certificate, registration certificate, and other such documentation. Once the details to be registered in accordance with Article 933 of the Companies Act — specifically, the address of the branch office, the representative in Japan, the date of establishment of the branch office and the disclosure method for balance sheets, etc. — are determined, the information that must be registered can be ascertained.

Document(s) certifying the information to be registered must be submitted when applying for registration of the establishment of a branch office, and the certified document(s) must be issued by the competent authorities in the home country of the foreign company. Instead of these certification documents, it is often convenient to use an "affidavit" on information for registration certified by a notary public, etc. in the home country of the foreign company or that country's embassy/consulate in Japan.*1 Document(s) actually required will be determined individually for each company. When using certification document(s) issued in the home country of the foreign company in a foreign language for application for registration, a Japanese translation shall be submitted for the parts necessary for application for registration.*2

General flow of procedures for establishing a branch office

1. Prior notification of establishment of branch office to the Bank of Japan depending on category of industry
2. Determination of branch office information to be registered
3. Examination at the Legal Affairs Bureau of identical corporate names
4. Establishment of branch office (date of branch office establishment is at the branch office's discretion)
5. Preparation of affidavit on establishment of branch office
6. Certification of affidavit by notary public, etc. in the home country of the foreign company or embassy/consulate in Japan*3
7. Application at the Legal Affairs Bureau for registration of branch office establishment; registration of company seal at Legal Affairs Bureau
8. Acquisition of certificate on registered information and company seal impression certificate (approx. two weeks after application for registration)
9. Opening of bank account under branch office name

(Note) Time required: about one month after determination of branch office information to be registered

*1 For a sample affidavit, see "Translation Example of the Written Oath Statement" on page 12 in "Application Form for Registration of Appointment of Representative of Foreign Company in Japan" (https://www.moj.go.jp/content/001384053.pdf).

*2 For the parts other than the contents regarding application for registration, translation can be partly omitted. For details, see the webpage "Translation of Documents to be Attached to Applications for the Commercial Registration." https://www.moj.go.jp/MINJI/minji06_00102.html

*3 If your embassy does not provide notary services regarding such contents, certification by a public notary, etc. in your home country is required.

1.3.2 Registration of establishment of a subsidiary company

Subsidiary companies are established through registration with the Legal Affairs Bureau. The application date for registration will also be the date of establishment, and the company may carry out business operations from that date. Some of the documents needed for the subsidiary establishment procedures should be prepared in the home country of the foreign company: document(s) certifying the profile of the foreign company, document(s) certifying the representative authority of the foreign company's representative, document(s) certifying the authenticity of the signature of the foreign company's representative and certificate(s) of signature for the person(s) to be appointed as director(s), etc. (if any) of the subsidiary company.

The foreign company's articles of incorporation, establishment certificate, registration certificate and other official documents as well as an affidavit and a certificate of signature notarized by a notary public in the home country of the foreign company are ordinarily used. These documents will be required in completing the procedures for certifying the subsidiary company's articles of incorporation in Japan. Document(s) certifying that the foreign company has decided to establish a subsidiary company may also be needed when requesting a financial institution to take custody of the subsidiary's capital and issue a capital custody certificate. The capital custody certificate is a certificate issued by a financial institution when the full amount of the subsidiary's capital has been remitted to a special account specified by the financial institution asked to take custody. The certified articles of incorporation and the capital custody certificate may both be needed when applying for registration of company establishment. Document(s) actually required will be determined individually for each company.

General flow of procedures for establishing a Kabushiki-Kaisha (joint-stock corporation)

1 Determination of profile of joint-stock corporation to be established[*1]

▼

2 Examination at the Legal Affairs Bureau of identical corporate names

▼

3 Preparation of joint-stock corporation's articles of incorporation

▼

4 Acquisition of registration certificates, etc. for parent company, and preparation of affidavits regarding profile of parent company and affidavits regarding signatures of representatives of parent company (affidavits must be attested by a public notary in equity participants' own countries)[*2]

▼

5 Notarization of joint-stock corporation's articles of incorporation[*3] by Japanese notary

▼

6 (Application to bank for capital custody and issue of capital custody certificate in case of incorporation with outside offering)[*4]

▼

7 Remittance of joint-stock corporation capital to account of incorporator, representative director, or director at incorporation[*5*6*7]
(Remittance of joint-stock corporation capital to special bank account in case of incorporation with outside offering)[*8]

▼

8 Appointment of directors and other officers, such as representative directors and auditors

▼

9 Examination by directors and auditors of legality of establishment procedures

▼

10 Application at the Legal Affairs Bureau for registration of joint-stock corporation establishment (joint-stock corporation establishment date)[*9]; registration of company seal at the Legal Affairs Bureau[*10]

▼

11 Acquisition of certificate on registered information and company seal impression certificate (approx. within about two weeks from four days after application for registration)[*11*12]

▼

12 Opening of bank account under company name

▼

13 Notification of stock acquisition to the Bank of Japan (notification prior to company establishment may be required in certain sectors)

(Note) Time required: about two months after determination of profile of company to be established

*1 This profile should contain information including the following: trade name, location of head office, business objectives, business year, amount of capital, issue price of shares, existence of provisions restricting transfer of shares, existence of board of directors, names of directors and representative directors, terms of directors, names of equity participants, and values of their investments.

*2 If an individual or corporation with an address in Japan is the promoter of a joint-stock corporation and a foreign enterprise is the subscriber of shares in that corporation at incorporation (this method is called "incorporation by outside offering," or *Boshû Setsuritsu*), affidavits regarding the parent company may not be required. Note, however, 6.[*4]

*3 When a foreign national or the representative director, etc. of a foreign company signs a document consisting of several pages such as articles of incorporation, tally impression of the seal, signing over the edges of adjacent sheets; signing on the covered binding, or signing in the margin (or initialing) is possible.

*4 There are two methods of establishing joint-stock corporations: *Boshû Setsuritsu* and *Hokki Setsuritsu*. *Hokki Setsuritsu*, whose procedures are simpler, is generally preferred. As stated within brackets in 6 and 7, in *Boshû Setsuritsu*, a bank capital custody certificate is required to certify the amount paid in by the promoter as well as the subscriber of shares at incorporation.

*5 A bank account opened at a headquarters and branch located in Japan, and overseas branch of a Japanese bank, and a branch of a foreign bank located in Japan can be used as the payment handling bank for capital payment.

*6 If a joint-stock corporation is incorporated with the joint equity participation by an individual or corporation with a bank account that can be used for capital payment ("incorporation without outside offering," or *Hokki Setsuritsu*. This method includes the incorporation by a sole promoter.), it is sufficient that the capital is paid into the bank account whose account holder is the joint equity participant and that a document created by the representative director of the joint-stock corporation to certify that payment of the full amount of capital has been received and a copy of the bankbook, a statement of internet banking, etc. of that account are submitted. (A bank capital custody certificate is not required.)

*7 When all of the promoter, the representative director, and directors at the time of incorporation have their domicile overseas, the promoter may delegate receipt of capital payment to a third party other than those members. When adopting this method, a document created by the representative director of the joint-stock corporation to certify that payment of the full amount of capital has been received, a power of attorney from the promotor to the third party regarding receipt of the payment, and a copy of a bankbook, etc. whose account holder is the third party are required. (A bank capital custody certificate is not required.)

*8 In the case of incorporation without outside offering, it is possible to select the method of transmitting money to special bank accounts, but this method is in practice rarely used. This is due to several reasons, including the high level of bank fee on capital custody certificates, and the fact that banks often do not allow special accounts to be opened if there are no previous dealings with them.

*9 When a foreign enterprise incorporates a joint-stock corporation with an equity participant, an individual or corporation with an address in Japan by incorporation with or without outside offering, shares at incorporation are held by the foreign enterprise and such individual or corporation. After incorporation, the joint stock corporation may become a wholly owned subsidiary of the foreign enterprise by acquisition of all shares held by such individual or corporation.

*10 In order for a foreign national living overseas to become a director, representative director, or a representative executive officer, a signature certificate of such foreign national might be needed. For example, a foreign national from Country A living in Country B can use an affidavit

*11 On March 12, 2018, the fast track system came into effect. It prioritizes exclusively the registration of establishment of joint-stock corporations and limited liability companies over other applications for registration. With the exception of the busy period when the many apply for registration, in principle such registrations are completed within three business days from the day following the date of receipt of such applications (in the case of online application when the documents are to be sent separately, the date when all documents arrive at the registration office).

*12 From March 17, 2020, fully online applications for registration of establishment meeting specific conditions are processed within 24 hours.

(The Ministry of Justice website https://www.moj.go.jp/MINJI/minji06_00006.html (Japanese))

For details of the system, please see the following website:

The Ministry of Justice:

Procedures of commercial and corporation registration for foreign nationals and expatriates certified by (1) an administrative organ or a notary of Country A, (2) the consul of Country A residing in Country B, or (3) the consul of Country A residing in Japan as the signature certificate. (Under certain conditions, a signature certificate certified by a notary of Country B or a Japanese notary may be accepted.) https://www.moj.go.jp/ENGLISH/m_minji06_00004.html

The Ministry of Justice:

Procedures for Establishment of Stock Companies (establishment by initiative, application forms for registration and samples available)

https://www.moj.go.jp/EN/MINJI/m_minji06_00001.html

General flow of procedures for establishing a Godo-Kaisha (LLC)

1 Determination of profile of Godo-Kaisha to be established[*1]

▼

2 Examination at the Legal Affairs Bureau of identical corporate names

▼

3 Acquisition of certification regarding equity participants (in equity participants' own countries if they are foreign corporations or residents outside Japan):
Acquisition of registration certificates, etc. for companies that will become equity participants, and preparation of affidavits regarding profiles of companies that will become equity participants and affidavits regarding signatures of representatives of companies that will become equity participants (affidavits must be attested by a public notary in equity participants' own countries)

▼

4 Acquisition of certification regarding equity participants (in Japan if they are Japanese corporations or residents in Japan):
Acquisition of registration certificates for companies that will become equity participants Acquisition of seal certificates for individuals/companies that will become equity participants

▼

5 Preparation of Godo-Kaisha's articles of incorporation[*2]

▼

6 Payment by members of investment stipulated in articles of incorporation (to members' bank accounts)

▼

7 Application at the Legal Affairs Bureau for registration of establishment of Godo-Kaisha (Godo-Kaisha establishment date), registration of company seal at the Legal Affairs Bureau

▼

8 Acquisition of certificate of registered information and company seal impression certificate (approx. within about two weeks from four days after application for registration)[*3*4]

▼

9 Opening of bank account under company name

▼

10 Notification of stock acquisition to the Bank of Japan
(notification prior to company establishment may be required in certain sectors)

(Note) Time required: about one month after determination of profile of company to be established

*1 This profile should contain information including the following: trade name, location of head office, business objectives, business year, amount of capital, names of members (equity participants) and values of their subscriptions, names of representative members, and names of executive officers (when a managing member is a corporation).

*2 When a foreign national or a representative director, etc. of a foreign company signs a document consisting of several pages such as articles of incorporation, tally impression of the seal, signing over the edges of adjacent sheets; signing on the covered binding, or signing in the margin (or initialing) is possible.

*3 On March 12, 2018, the fast track system came into effect. It prioritizes exclusively the registration of established joint-stock corporations and limited liability companies over other applications for registration. With the exception of the busy period where many apply for registration, in principle such registration within three business days from the day following the date of application (in the case of online application when the documents to be sent, the date when all documents arrive at the registration office).

*4 From March 17, 2020, fully online applications for registration of establishment meeting specific conditions are processed within 24 hours.

(The Ministry of Justice website https://www.moj.go.jp/MINJI/minji06_00006.html (Japanese))

For details of the system, please see the following website:

The Ministry of Justice: Procedures for Establishment of Limited Liability Companies (application forms for registration and samples available)
https://www.moj.go.jp/EN/MINJI/m_minji06_00003.html

1.4 Information listed in articles of incorporation of a company

Articles of incorporation of a company list "absolute matters" and "relative matters". Absolute matters are matters that must be stated for the articles of incorporation to be valid, and relative matters are matters that do not have legal effect unless stated in the articles of incorporation.

1.4.1 Matters listed in articles of incorporation of Kabushiki-Kaisha (joint-stock corporations)

- Absolute matters
  Purpose, trade name, place of principal office, value or minimum amount of assets contributed at time of incorporation, name and address of each promoter
- Main relative matters
  Names of persons contributing in kind, assets to be contributed, value of the assets, and number and type of shares assigned therefore; assets to be taken over after the coming into existence of the corporation, value thereof, and name of transferor; incorporation expenses incurred by the corporation; appointment of auditor(s); establishment of board of directors; rules on payment of dividends of surplus

1.4.2 Matters listed in articles of incorporation of Godo-Kaisha (limited liability companies)

- Absolute matters
  Purpose, trade name, place of principal office, names and addresses of members, statement that all members are limited liability members, and the purpose and value of members' contributions
- Relative matters
  Relative entries may be freely determined provided that they do not contravene the Companies Act.

1.5 Certificate on registered company information and company seal impression certificate

Once registration of establishment has been completed for a Japanese branch office or a subsidiary company, a certificate on registered company information can be obtained from the Legal Affairs Bureau. The certificate on registered company information is a document officially certifying a company's registered information.

The principal information to be registered for a joint-stock corporation is as follows:

- Corporate number
- Corporate name
- Location of head office
- Business purposes
- Method of giving public notice
- Total number of shares to be issued
- Types and numbers of outstanding shares
- Rules on the limitation of transfer of shares
- Amount of capital
- Directors
- Representative directors
- Auditors
- Date of company establishment

The certificate on registered company information must ordinarily be presented whenever opening a bank account, filing notifications with administrative authorities, purchasing assets for which name registration is required (real estate, securities, vehicles, telephones, etc.), and concluding important agreements with business partners.

On certain occasions, the company seal impression certificate will need to be submitted along with the certificate on registered company information. The company seal impression certificate is a document publicly certifying the company seal that has been registered. This certificate is used to confirm whether or not company seals placed on applications, filings, contracts, etc., have been placed there with legitimate authorization from the company; the certificate may be obtained from the Legal Affairs Bureau after completion of establishment registration. The company seal as well as the names of the persons authorized to use the seal must be applied for registration with the Legal Affairs Bureau when applying for establishment registration. The representatives of the branch office/subsidiary company are the only parties authorized to use the company seal, and their personal seal registration certificates or signature certificates must be presented when registering the company seal.

In the event of changes to the registered information or the company seal, the prescribed modification procedures must be completed promptly. Applications for registration of changes to registered information must be submitted to the Legal Affairs Bureau within two weeks of the changes for subsidiary companies, and within three weeks of the changes for branch offices.

1.6 Notifications required after registration

After completing the process of incorporation or establishment of a branch, the following notifications need to be filed with the authorities.

1.6.1 National tax authorities (See SECTION 3 Taxes in Japan for details.)

- Notification of incorporation in case of a subsidiary corporation
  File within 2 months from date of incorporation.
- Notification of acquisition of status of foreign ordinary corporation in case of a branch
  File within 2 months from date of acquisition of status of foreign ordinary corporation.
- Notification of establishment of an office paying salaries.
  File within 1 month from establishment of office.
- Application for approval of filing a blue form tax returns (see 3.3.10(3) regarding the blue form return system)
  File the day before the sooner of the day 3 months after incorporation or the last day of the first business year after incorporation.
  As other documents needing to be filed with the tax authorities will vary according to the circumstances of a corporation, please consult a professional for detailed advice.

1.6.2 Prefectural and municipal tax authorities

- Notification of incorporation or establishment of branch, etc.
  Notifications of incorporation or establishment of branch, etc. must be filed with each of the prefectural and municipal authorities to which local taxes are to be paid.
  As the forms required vary according to prefecture and municipality, please check the requirements online.
  (Example: In the case of a head office established in Tokyo, notification must be filed within 15 days of the date of start of business.)

1.6.3 Labor standards inspection authorities (See SECTION 4 Human Resource Management for details.)

- Labor standards enforcement report
  This must be filed without delay when a business becomes subject to the Labor Standards Act (i.e., when it employs workers).
- Labor insurance: notification of establishment of labor insurance relationship and declaration of estimated insurance contributions
  A business becomes subject to labor insurance as soon it employs any workers (even if just one). These documents must be filed within 10 days of the date of hiring and insurance contributions paid within 50 days.
- Agreement on overtime and holiday work
  This must be filed in advance if workers will be required to work in excess of statutory working hours (more than 8 hours per day or 40 hours per week) or on statutory holidays (1 day per week).
- Rules of the Employment
  Any business ordinarily employing 10 or more workers must draw up and submit a copy of its Rules of the Employment without delay.
  Note: “Employees” here also includes representatives of corporations, such as representative directors.

1.6.4 Public employment security authorities

(See SECTION 4 Human Resource Management for details.)

- Notification of coverage of establishment by employment insurance (including notification of acquisition of insured status)
  This must be filed within 10 days of first hiring workers.

1.6.5 Pension authorities

(See SECTION 4 Human Resource Management for details.)

- Notification of first-time coverage by health/employees' pension insurance
  File within 5 days of first hiring employees at a corporation or other establishment covered by social insurance.
- Notification of acquisition of insured status under health/employees' pension insurance
  File within 5 days of hiring employees.
- Notification of addition/removal of dependents of insured employees
  File within 5 days if a person (employee) covered by health insurance has dependents.
- Notification of acquisition of type 3 insured status under the National Pension
  File within 5 days if a spouse of an insured person (employee) is a dependent.
  Note: "Employees" here also includes representatives of corporations, such as representative directors.

1.7 Closure of branch offices or subsidiary companies

1.7.1 Closure of a branch office and resignation of all representatives in Japan

Branch offices can be closed down in two ways: by registering the closure of a branch office or by registering the resignation of all representatives in Japan. A Japanese branch office's register will not be closed unless all representatives in Japan resign. This is because it is possible for business to be continued in Japan as long as representatives are registered. Conversely, a branch office in Japan is closed down when all its representative directors in Japan resign. The approach commonly adopted in practice is to only register the resignation of all representatives in Japan. In order to register the resignation of all representatives in Japan, the following procedure must normally be completed. Creditors of the branch office must be given a period of no less than one month prior to the closure to submit objections to the closure of the branch office.

General flow of procedures for resignation of all representatives in Japan

1. Decision on branch office closure and resignation of all representatives in Japan by foreign company
2. Call for creditors with objections to the branch office closure, on an individual basis and through a notice in official gazettes, to submit claims
3. Notification of tax agent to tax authorities
4. Branch office closure (no sooner than one month after call/notice in 2. above)
5. Preparation of affidavit regarding closure of branch office and resignation of all representatives in Japan
6. Attestation of affidavit by embassy consul or similar official
7. Application for registration of resignation of all representatives in Japan with the Legal Affairs Bureau
8. Acquisition of certificate on registered closure information (about two weeks after registration application)
9. Notification of branch office closure to tax authorities, etc.

These procedures for closing a branch office must also be completed when upgrading a branch office to a subsidiary company. Because a branch office cannot be directly reorganized into a joint-stock corporation (Kabushiki-Kaisha (K.K.)) or a limited liability company (Godo-Kaisha (LLC)), the branch office closure procedures and the subsidiary company establishment procedures must be carried out simultaneously. In such instances, however, the branch office's assets may be passed on to the subsidiary through investment in kind.

Once the resignation of all representatives in Japan has been registered, the register is closed without a date being entered for the branch office's closure. Although it is normally sufficient for the date of closure to be recorded in the affidavit, it is necessary to register both (1) branch office closure (abolishment) and (2) resignation of all representatives in Japan if a date of closure is required in the register. Where the address of a representative in Japan and the branch office fall under the jurisdictions of different regional legal affairs bureaus, it may be necessary that a registration application similar to that for registration of transfer of a business office is made to the bureau with jurisdiction over the representative's address.

1.7.2 Dissolution and liquidation of a subsidiary company

The following procedures must be completed when dissolving/liquidating a subsidiary company. Creditors of the subsidiary company must be given a period of no less than two months prior to the liquidation to submit their claims against the subsidiary company. Should the subsidiary company have negative net assets, the corporation cannot independently complete the liquidation procedures below but instead must follow special liquidation procedures under the direction of a court.

General flow of procedures for dissolving/liquidating a subsidiary company (Kabushiki-Kaisha (joint-stock corporation)/Godo-Kaisha (LLC))

1. Resolution at the general meeting of shareholders or equivalent on the dissolution of the subsidiary company and the appointment of a liquidator
2. Application to the Legal Affairs Bureau for registration of the dissolution of the subsidiary company and the appointment of a liquidator
3. Notification to tax authorities of the dissolution of the subsidiary company and the appointment of a liquidator
4. Call for creditors with claims against the subsidiary company, on an individual basis and through notices in official gazettes, to submit claims.
5. Preparation of a balance sheet and inventory of property at dissolution
6. Approval by a general meeting of shareholders or equivalent of the above balance sheet and inventory of property (notification delivered to members in the case of a limited liability company)
7. Ascertainment and distribution of residual assets
8. Resolution approving conclusion of liquidation at the general meeting of shareholders or equivalent (no sooner than two months after the call and placement of notices in 4 above)
9. Application for registration of the completion of liquidation of the subsidiary company with the Legal Affairs Bureau
10. Acquisition of certificate on registered closure information (approx. two weeks after application for registration)
11. Notification of completion of liquidation of the subsidiary company to tax authorities, etc.

Reference (1)

1. Consultation with specialists on business establishment

Attorneys-at-law, judicial scriveners, and administrative scriveners (gyoseishoshi lawyers) are among the specialists who may be consulted on the establishment of branch offices and companies. These specialists can prepare various documents (e.g., documentation related to the establishment of Japanese branch offices and Japanese corporations, transfers of location, changes of executives, changes of business purposes, increases in capital, organizational changes, mergers, dissolution, etc.) and help with acquiring a visa upon a client's request. Filing of commercial registration applications for submission to the Legal Affairs Bureau as attorney-in-fact is the exclusive province of judicial scriveners and attorneys-at-law.

[Reference]

You can find experts in establishing business bases, including corporate registration, and opening bank accounts, in the following directories: Experts Finder https://www.jetro.go.jp/en/invest/setting_up/directory/

2. Opening of corporate bank accounts

Please refer to the following information for opening a corporate bank account.

Notice from the Japanese Bankers Association

In general, the following documents are required to open a corporate bank account. However, the necessary documents vary by financial institution, so, please check with the bank where you will apply for an account for details:

・Certificate of the registered matters of the corporation
・Corporate seal registration certificate
・Identification documents of the person in charge of the transaction (who applies for the account at the bank)
・Seal (stamp) to be registered for banking transactions (bank seal)

(Note) ・Please purchase a bank seal for banking transactions at a specialty shop. (However, it is usually possible to divert the registered seal as a bank seal.)
・Each financial institution conducts screening when opening a corporate bank account and may decline the application based on comprehensive judgment. Generally, details of the screening are not disclosed.
・Account trading and money laundering are crimes. To prevent such crimes, financial institutions are required to conduct strict screening of bank accounts and confirmation of unnatural transactions.
・Financial institutions may inquire about your transactions from the perspective of continuously managing/grasping your account information. Please cooperate in responding to the inquiries in consideration of the above perspective.

[Reference 1] Consultation desks of Japanese three megabanks for opening corporate bank accounts of subsidiaries of foreign corporations

●Mizuho Bank
New Account Support Line, International Business Promotion Office, Corporate Business Department https://www.mizuhogroup.com/japan/corporate
(+81-3-6838-7391)

●Sumitomo Mitsui Banking Corporation (SMBC)
Global Business Promotion Department
https://www.smbc.co.jp/global/info/global_biz_contact.html
(+81-3-6871-0251)

●MUFG Bank, Ltd.
Global Corporate Banking Department, Global Corporate Banking Office, Global Corporate & Investment Banking Planning Division
https://www.bk.mufg.jp/global/globalnetwork/asiaoceania/others/global_subsidiary_banking_info.html
(+81-3-3240-7886)

[Reference 2] List of branches of financial institutions in each prefecture
https://www.zenginkyo.or.jp/en/banksearch/（the Japanese Bankers Association）

When opening a corporate bank account, in addition to the above-mentioned perspective of preventing crimes such as account trading and money laundering, the actual business conditions may also be examined. Accordingly, the company may be required to explain its corporate profile and financial condition, including information on its beneficial owner(s) (see Note below), the purpose of opening the account, and the details of the business (including the license or permit if the business is a licensed or authorized business). Since incomplete submissions or delays in responding to inquiries may be judged unreliable, it is advisable to prepare in advance explanatory materials on such matters (e.g., websites for corporate profiles), certificates, agreements, etc. and respond promptly and reliably.

(Note) Refers to an individual(s) who is able to effectively control business management in a corporation.

3. Procedures for establishing a representative office

Representative offices aimed at the collection and provision of information may be freely established without any registration requirements under the Companies Act; no notification need be provided to tax offices, as representative offices do not engage in business operations in Japan and thus are not subject to corporate tax. However, representative offices established by foreign banks, insurance companies, securities companies, or other financial institutions are exceptions; prior notification must be provided to the Financial Services Agency for such representative offices (as stipulated in the Banking Act, the Financial Instruments and Exchange Act, and other laws).

As a representative office cannot open a bank account in its own name, the head office of the foreign company or an individual such as a representative of the office opens a bank account in place of the office (see 1.1.1). When a representative of the office opens a bank account on behalf of the office, the name of the bank account usually contains both the name of the representative office and that of the individual representative as in "(name of representative), Japan Representative Office, (name of company)."

In this case, the following documents are generally required:

- Passport of representative
- Resident card of representative
- Company brochure
- Leasing agreement
- Bank seal

2.1 Entry procedures

Any foreign national wishing to enter Japan must have a valid passport, which, in principle, contains a visa corresponding to his/her purpose of entry into Japan obtained in advance from a Japanese embassy, consulate or other Japanese diplomatic mission abroad (hereinafter, "Japanese diplomatic mission abroad"). Upon landing in Japan, the foreign national must then be screened by, and receive a landing permission stamp as a result from an immigration officer at the port of entry, who will determine the foreign national's status of residence and period of stay.

2.2 Relation between visa and status of residence

Within the context of entry and residence procedures, visa and status of residence are two terms easily and often confused.

2.2.1 Visa

A visa can be said to resemble a letter of recommendation required for entry into Japan received in advance from a Japanese diplomatic mission abroad and attached to the passport that certifies that the passport is valid and that there are no impediments to allowing the passport holder to enter Japan within the scope of that visa (however, as discussed later in 2.6 and 2.8 below, this visa requirement does not apply to entry by nationals of countries with which Japan has reciprocal visa exemption arrangements for temporary visitor or to entry by foreign nationals having re-entry permission).

2.2.2 Status of residence

Foreign nationals entering and residing in Japan must generally receive landing permission upon arriving at their port of entry, at which time their status of residence in Japan will be determined. In other words, the status of residence constitutes the grounds on which a foreign national is permitted to stay in Japan; it is a qualification enabling the foreign national to carry out the activities stipulated in the Immigration Control and Refugee Recognition Act and to reside in Japan for the purpose of carrying out those particular activities. The scope of activities in which a foreign national may engage during his/her stay in Japan is determined according to his/her status of residence. Except where a permit to engage in an activity other than that permitted by the status of residence is obtained, the foreign national must not, in principle, engage in any activities generating an income other than those permitted by his/her status of residence while in Japan.

2.3 Process from application of Certificate of Eligibility to acquisition of visa

Visas are applied for and obtained at Japanese diplomatic missions abroad. The visa processing may take considerable time when an applicant applies for a mid- to long-term stay in Japan, such as for the purpose of work. Thus, the Immigration Services Agency of Japan often screens these applications in advance to determine whether or not the activities intended by the foreign national wishing to enter and reside in Japan correspond to the conditions for the status of residence being sought; if it is determined that these activities do in fact meet the conditions for the status of residence, a Certificate of Eligibility is issued. If this Certificate of Eligibility is presented to a Japanese diplomatic mission abroad together with a visa application, generally a visa will be issued in five working days. A Certificate of Eligibility is not applicable to temporary visitor visa.

Flowchart from application for Certificate of Eligibility to visa acquisition and entry into Japan (general example)

In Japan

Application for Certificate of Eligibility (submitted to Regional Immigration Bureau in Japan) by the applicant or his/her proxy on behalf of the applicant

▼

Issuance of Certificate of Eligibility (by Regional Immigration Bureau; sent to applicant or his/her proxy in Japan

* As an exceptional measure, if a foreign national who has applied for a Certificate of Eligibility is already in Japan on a temporary visitor status of residence when the Certificate of Eligibility is issued, that foreign national may be able to change his/her temporary visitor status of residence to the status of residence approved in the Certificate of Eligibility while still in Japan, without the need to apply for and receive a visa at a Japanese diplomatic mission outside Japan.

▼

Outside Japan

Visa application with Certificate of Eligibility at Japanese diplomatic mission abroad by the applicant or accredited agencies

▼

Visa issuance at Japanese diplomatic mission abroad

▼

In Japan

Entry into Japan (In principle, a foreign national must land in Japan within three months from the issuance date of Certificate of Eligibility); presentation of a passport and visa, submission of Certificate of Eligibility, receipt of seal of landing verification in passport at the port of debarkation, and receipt of residence card issued to foreign nationals residing in Japan for the mid to long term

(Note) At Narita, Haneda, Chubu, Kansai, Shinchitose, Hiroshima and Fukuoka Airports, besides having a seal of landing verification stamped in their passports, mid-to long term residents will be issued a residence card. At other ports of entry/departure, a seal of landing verification will be stamped in the passport and a residence card will be issued after a mid-to long-term resident follows the residency procedure at the municipal office of the city/town/village (A residence card will be mailed by the issuance place of residence card to the reported place of residence.).
A residence card will be issued to mid-to long-term residents when granted permission pertaining to residence in Japan, such as landing permission, permission for change of resident status and permission for extension of the period of stay (see 2.7).

2.4 Types of working statuses

2.4.1 Principal working statuses related to investment in Japan

Below are shown the principal statuses of residence related to investment in Japan and the activities authorized in Japan for each status.

For more information: Immigration Services Agency of Japan website
https://www.moj.go.jp/isa/applications/guide/qaq5.html

<Table 2-1> Types of working statuses

Business Manager	Active in operating or managing international trade or other areas of business within a public or private organization in Japan
Highly Skilled Professional	(i) Activities that fall under any of the following (a) through (c) which are conducted by a person who satisfies the standards prescribed by the applicable Ordinance of the Ministry of Justice as a person with outstanding abilities and is expected to contribute to the development of academic research or economy in Japan (a) Activities to conduct research, give guidance on research, or provide education based on a contract with a public or private organization in Japan designated by the Minister of Justice, management of business related to and in conjunction with such activities, or activities to conduct research, give guidance on research, or provide education based on a contract with other public or private organization in Japan other than the applicable organization (b) Activities that require knowledge or skills in the field of natural science or humanities and conducted under contracts with public or private organizations in Japan designated by the Minister of Justice, or management of business related to and in conjunction with such activities (c) Activities to operate or manage trade and other businesses at public or private organizations in Japan designated by the Minister of Justice, or manage own businesses related to and in conjunction with such activities (ii) Activities listed in the following items conducted by a person who has engaged in the activities described in (i) and whose residence meets the standards prescribed by the applicable Ordinance of the Ministry of Justice as contributing to the interests of Japan: (a) Activities to conduct research, give guidance on research, or provide education under contracts with public or private institutions in Japan (b) Activities that require knowledge or skills in the field of natural science or humanities under contracts with public or private institutions in Japan (c) Activities to operate or manage trade and other businesses at public or private institutions in Japan (d) Activities of Professor, Artist, Religious Activities, Journalist, Legal/Accounting Services, Medical Services, Education, Engineer/Specialist in Humanities/ International Services, Care Worker, Entertainer, Skilled Labor, and Specified Skilled Worker (ii) conducted in conjunction with any of the activities set forth in Highly Skilled Professional (ii) (a) to (c) (excluding activities falling under any of Highly Skilled Professional (ii)(a) to (c))
Engineer/Specialist in Humanities/ International Services	Engaged in services which require skills or knowledge pertinent to physical science, engineering or other natural science fields, or in services which require knowledge pertinent to jurisprudence, economics, sociology or other human science fields, or in services which require special consideration or sensitivity based on experience with foreign culture, based on a contract with a public or private organization in Japan
Intra-company Transferee	A staff member transferred to a business office in Japan for a limited period of time from a business office established in a foreign country by a public or private organization which has its head office, branch office or other business office in Japan, to conduct work at said business office in Japan which is listed in the "Engineer/Specialist in Humanities/International Services" column of this Table
Legal/Accounting Services	Engaged in legal or accounting work, which is required to be carried out by registered foreign lawyers "Gaikokuhoujimubengoshi," or certified public accountants "Gaikokukoninkaikeishi" or those with other legal qualifications
Skilled Labor	Engaged in services which require industrial techniques or skills belonging to special fields based on a contract with a public or private organization in Japan
Specified Skilled Worker	(i) Activities to engage in services that require a considerable degree of knowledge or experience prescribed in the Ordinance of the Ministry of Justice in a specified industrial field designated by the Minister of Justice which is conducted based on a contract with a public or private organization in Japan designated by the Minister of Justice (ii) Activities to provide skills that require technical experience prescribed in the Ordinance of the Ministry of Justice in a specified industrial field designated by the Minister of Justice, which is conducted based on a contract with a public or private organization in Japan

2.4.2 Documentation needed when applying for a Certificate of Eligibility

The following documentation is generally needed when applying for a Certificate of Eligibility for all working statuses:

(1) Application for Certificate of Eligibility
(2) One full-face photograph (4 cm in height x 3 cm in width, taken within 3 months of the date of application)
(3) Return-mail envelope (a standard size envelope with the return address written, and 404 yen postage affixed for simplified registered mail)
(4) A copy of employment agreement
(5) Document certifying academic qualifications (may not be necessary for some statuses of residence)
(6) Curriculum vitae
(7) Certified copy of the company register of an organization of affiliation (organization to which the foreign applicant belongs) in Japan
(8) Brochure of an affiliated organization in Japan
(9) Copy of financial statements of an organization of affiliation in Japan (When a corporation, branch, or representative office to be newly established in Japan serves as the organization of affiliation, a business plan stating the cash flow forecast of such organization)
(10)
  1) If an affiliated organization is a listed company, a copy of "Shikihou (Japan Company Handobook)", etc.
  2) If an affiliated organization is not a listed company, a copy of Total Figures of Withholding Tax Paid for the Previous Year (with a receipt stamp from the tax office or a copy of confirmation of electronic submission including the "notice of receipt," or "email details," etc., or documents to prove the approval of the request for using the online residence application system (such as an email notifying the approval of the request for use))
  3) If neither of the above can be submitted as the affiliated organization is newly established, the following documents can be substituted
    - If the organization is exempted from withholding at source, certificate on the foreign corporation's exemption from withholding at source or other document stating that the organization does not require withholding at source
    - If the organization is not exempted from withholding at source, a copy of Notification on the Establishment of a Salary-Paying Office and
      a) a Statement of Collected Income Tax on employment income and retirement income of the last three months (a copy of the document with receipt date stamp) or b) if the organization is subject to special provisions regarding due dates, a document stating the approval for that

In addition to the above, submission of a certificate of job content, certificate of employment by current and past employers, foreign company's business brochure, business license, and similar documents may be required depending on the type of status of residence. Furthermore, when the organization of affiliation in Japan is a representative office of a foreign company, it is not possible to obtain the certified copy of the company register specified in (7) above. Instead, documents such as the lease agreement and layout plan and photograph of the office, and a document certifying the resolution made in the home country of opening a Japanese representative office may be required.

2.4.3 Documentation needed when applying for a visa

The following documentation is generally needed when applying for visa at a Japanese diplomatic mission abroad after a Certificate of Eligibility has been issued:

(1) Passport
(2) Visa application form
(3) Full-face photograph (1-2 photos, 4.5 cm in height x 4.5 cm in width)* Some Japanese diplomatic missions require 3.5 cm in width
(4) Certificate of Eligibility and copy thereof

2.4.4 Relation between type of operation in Japan and status of residence

A foreign company can establish a business presence in Japan in one of three ways, as described in 1.1 "Types of operation in Japan." Typically, companies do so by establishing a representative office, branch, or subsidiary company. The status of residence is determined depending on the content of the applicant's activities in Japan and not on the type of foreign business establishment. However, the relationship between the type of business establishment and the status of residence of the expatriate or the representative in Japan is generally as follows:

Expatriate of a representative office: "Intra-company Transferee" (note)
Representative of a Japan branch office: "Intra-company Transferee" (note)
Representative of a subsidiary (a Japanese company): "Business Manager"

(note) However, if the office has other employees, the representative's status may be "Business Manager."

The status of residence of foreigners (except persons falling under the category of "Business Manager") employed by a representative office, branch or subsidiary company will be "Intra-company Transferee" or "Engineer/Specialist in Humanities/International Services" in cases where the foreign national conducts duties related to his/her educational/professional background based on a contract with a public or private organization in Japan.

2.4.5 Status of residence for foreign IT professionals

Foreign IT professionals are generally considered to fall under the status of residence for "Engineer/Specialist in Humanities/International Services." If a professional is deemed highly skilled by the "points-based system" based on educational background, work experience, annual income, etc. and gains the status of residence for Advanced specialized/technical activities: "Highly Skilled Professional(i)(b)", the person may be eligible for preferential immigration treatment (See 2.11). If a person wants to obtain the status of residence for "Engineer/Specialist in Humanities/International Services", then the person has to have an income equal to or higher than the amount a Japanese would earn in the same job and should fall under any of the following:

(1) Majored in subjects related to skill/knowledge in the field of natural sciences or humanities and graduated from university, or received education at a similar level or higher
(2) Majored in subjects related to skill/knowledge in the field of natural sciences or humanities and completed a specialized course at an advanced vocational school in Japan (Only those who have been given the diploma or Advanced diploma")
(3) Have more than 10 years of work experience (including the period spent majoring in the related subjects at university, etc.)

However, (1) to (3) above are not required if the person has one of the IT qualifications or has passed one of the IT exams specified in announcements by the Minister of Justice.

2.4.6 Necessity of having an office

In order to obtain the status of residence for "Business manager," it is required for the Japanese subsidiary, branch, or representative office, etc. that serves as the organization of affiliation to have an exclusive and physical office independent from other companies. With a non-physical virtual office, a shared office with a related corporation, or an open space such as a co-working space or a shared workspace, which are often used when a foreign company advances into Japan, the possibility of not obtaining the status of residence for "Business Manager" becomes higher (When it is not possible to have an independent office immediately, you can consider using the "Projects for Encouraging Foreign Entrepreneurs to Start Business" or "Program to increase foreign entrepreneurs" in national strategic special zones as stated later in 2.12). When acquiring an office by renting, it is, as a general rule, required to clearly state in the lease agreement of such property that it is used for business purposes and that

the name of the lessee to be such corporation, etc. When the lease period is short, such as using a short-term rental space on a monthly basis, it is treated as if the office is not secured.

Furthermore, when applying for a status of residence other than "Business Manager," depending on the case, the Regional Immigration Bureau might require to submit the lease agreement of the office, and photos, etc. of the interior and exterior of the office in cases where there is a suspicion whether the office is substantial or not, such as the cases where there is a serviced office at the registered address of the head office or where the location of the head office is the same as the representative's residential address.

2.5 Temporary visitor visa and status

Temporary visitor status covers tourism, recuperation, sports, visits to relatives, field trips, participation in short courses or meetings, business liaison and similar activities undertaken staying temporarily in Japan. Holders of temporary visitor status may not engage in working activities. Some concrete examples of the type of person involved in business who would be covered by this status are as follows:

- Persons staying in Japan for the purpose of field trips and inspections (e.g. plant tours and trade fair visits)
- Persons participating in seminars and briefings organized by companies
- Persons participating in conferences and other meetings
- Persons sent to Japan for business liaison, business negotiations, contract signing, after-sales service, advertising or publicity, market research or other short-term business activities

Market research and other activities in preparation for investing in and commencing a business in Japan are normally considered to fall under temporary visitor status. The periods of stay of temporary visitor status is basically either 90 days, 30 days, or 15 days.

2.6 Reciprocal visa exemptions for temporary visitor

The countries listed on the website of the Ministry of Foreign Affairs of Japan have concluded reciprocal visa exemption arrangements with Japan, and nationals of these countries wishing to engage in activities that fall within the scope of a temporary visitor are not required to receive a visa to enter Japan. However, these visa exemption arrangements do not apply to foreign nationals intending to work or engage in other activities for compensation.

- List of countries that have visa exemption arrangements on the Ministry of Foreign Affairs of Japan website: https://www.mofa.go.jp/j_info/visit/visa/short/novisa.html

2.7 Residence card and residence management system

Under the residence management system for foreign nationals in Japan, "residence card" is issued to foreign nationals. For details of the residence management system and a residence card, please see the following website:

- Immigration Services Agency of Japan website: https://www.moj.go.jp/isa/applications/procedures/index.html

2.7.1 What is a residence card?

A residence card is a card issued to foreign nationals residing legally in Japan for the mid to long-term who have resident status under the Immigration Control Act ("mid to long-term residents") when they are granted a residence-related permit, such as landing permission, permission for change of status of residence, and permission for extension of period of stay. Mid to long-term residents carry a residence card while living in Japan, and are included in the Basic Resident Register like Japanese nationals. In addition to a photograph of the bearer (excluding those cards which expire by the 16th birthdays), the residence card contains information such as the bearer's identity, address, and status of residence. Should any of these details change, the bearer is required to notify the authorities.

2.7.2 Who are issued a residence card?

A residence card is issued to mid to long-term residents who do not come under any of (1) through (6) below:

(1) Persons granted permission to stay for 3 months or less
(2) Persons granted "Temporary Visitor" status
(3) Persons granted "Diplomat" or "Official" status
(4) Persons recognized by Ministry of Justice ordinance as equivalent to foreign nationals coming under any of (1) to (3) above
(5) Special permanent residents
(6) Persons with no resident status

2.7.3 Information recorded on a residence card

The following information is included on a residence card:

(1) Name, date of birth, sex, and nationality or region
(2) Place of residence (address of main residence in Japan)
(3) Status of residence, period of stay, and date of expiration of period of stay
(4) Type and date of permission
(5) Number, date of issue, and date of expiration of residence card
(6) Working restrictions
(7) Permission to engage in activities other than that permitted under the status of residence previously granted (if any)

2.7.4 Period of validity of a residence card

Residence cards are valid for certain periods. These are as follows.

<Table 2-2> Residence card validity

Age	Permanent residents, Highly Skilled Professional(ii)	Non-permanent residents, Non-Highly Skilled Professional(ii)
16 or older	7 years from date of issue	Expiration date of period of stay
Under 16	Until 16th birthday	Earlier of expiration date of period of stay or 16th birthday

2.7.5 Notification requirements regarding a residence card

Mid to long-term residents are required to notify the authorities in the event of any change in the details entered in the residence card and certain other matters during the period of stay. These notifications regarding a residence card are of the following types: (1) notification of place of residence and (2) notification of item other than place of residence.

(1) Notification of place of residence (performed at municipal office)
   1) Foreign nationals newly arriving in Japan (mid to long-term residents)
      Mid to long-term residents must visit the municipal office where they live with their residence card (or passport if a residence card was not issued at the time of entry to Japan) to file notification of place of residence within 14 days of establishing a place of residence.
   2) Foreign nationals moving into a new address (mid to long-term residents)
      Mid to long-term residents who have changed their place of residence must visit their new municipal office with their residence card to file notification of their place of residence within 14 days of moving to the new residence.

(2) Notification of items other than place of residence (performed at the Regional Immigration Bureau (or branch office thereof))

When filing any of the following notifications or applications, foreign nationals are required to bring their passport, photo, and residence card. A new residence card will as a rule be issued on the day of notification or application.

1) Notification of change of name, date of birth, gender, nationality/region
   Notification must be filed within 14 days of the change of name, date of birth, gender, or nationality/region.
2) Application to update period of validity of residence card
   A permanent resident or a Highly Skilled Professional (ii) or a foreign resident of Japan younger than 16 years old whose residence card expires on his/her 16th birthday is required to apply to renew the period of validity of the residence card before it expires.
3) Application for re-issuance of a residence card
   In case of loss, theft or damage of a residence card, foreign residents must apply for re-issuance within 14 days of noticing this (or the day of reentry to Japan if noticed outside Japan).

The above notifications and applications must be made in person at the Regional Immigration Bureau (or branch office thereof) by the individual concerned. However, if that person is under the age of 16 or unable to do so because of illness, etc., a co-resident family member must file the notification or application on his/her behalf. If approved by the director of the Regional Immigration Bureau (or branch office thereof), a legal representative or any of the following persons requested by the individual may submit documents or complete other procedures related to notifications and applications on his/her behalf:

- The staff of a host institution or public interest corporation approved as an application agent by the director of the Regional Immigration Bureau
- An attorney or an administrative scrivener (gyoseishoshi lawyer) who files a notification regarding documents submission with the director of the Regional Immigration Bureau (or branch office thereof) by way of the bar association or administrative scrivener association to which the attorney or administrative scrivener belongs

In certain cases, family members, cohabitants, and persons equivalent to cohabitants of the individual who have been approved by the director of the Regional Immigration Bureau (or branch office thereof) may also complete procedures related to notifications and applications on behalf of the individual.

2.7.6 Notification of address under the Basic Resident Registration Act

When a person who is issued a residence card takes up residence, it is necessary for him/her to complete procedures for moving in and create a residence certificate in compliance with the Basic Resident Registration Act. For details of the procedures, including the necessary documents, please contact your local municipality.

2.7.7 My Numbers

My Number is a 12-digit number used in the three areas of social security, tax, and disaster recovery in Japan. If you are a foreign person staying in Japan for more than three months, you can apply and obtain a My Number Card that contains the My Number. Approximately one month after you create a resident certificate for the first time in Japan, you will receive a notification of My Number Card issuance by mail (postcard) to the address on your residence card. You need to bring the required personal items and receive the Card at the issuance location by the due date specified in the issuance notice. The number should be kept by the person without disclosing it to others with no good reason. A detailed explanation of My Numbers is available at the link below.

- Digital Agency website: https://www.digital.go.jp/policies/mynumber/ (Japanese)

2.7.8 Notifications required by the residence management system

Notification concerning organization to which foreign resident belongs (submitted to the Regional Immigration Bureau (or branch office thereof))

(1) Notification regarding organization to which foreign resident belongs

In the case that a mid to long-term foreign resident with "Engineer/Specialist in Humanities/International Services," "Intra-company Transferees" or another working status (excluding "Artist," "Religious Activities," and "Journalist"), or "Student" or another learning status, leaves the organization (employer or educational institution) to which he/she belongs (due to termination of contract) or moves to another organization (on a new contract), or such an organization changes its name, location, or ceases to exist, he/she must notify the incident to the Ministry of Justice within 14 days of its occurrence by any of the following: visiting nearest Regional Immigration Bureau (bringing his/her residence card with him/her), posting notification to the Notification Reception, Resident Management Information Department of the Tokyo Regional Immigration Bureau (enclosing a photocopy of his/her residence card), or submitting notification online using the Immigration Services Agency's "Immigration Bureau e-Notification System" at https://www.ens-immi.moj.go.jp/NA01/NAA01S/NAA01STransfer

(2) Notification regarding spouse

A mid to long-term foreign resident who is legally married to a working foreign national and accompanies him/her to Japan, has resident status of "Dependent" or similar, and loses his/her spouse by death or divorce, must notify the nearest Regional Immigration Bureau (or branch office thereof) of the event within 14 days by visiting a Regional Immigration Bureau (bringing his/her residence card with him/her), posting notification to the Notification Reception, Resident Management Information Department of the Tokyo Regional Immigration Bureau (enclosing a photocopy of his/her residence card), or submitting notification online using the Immigration Services Agency's "Immigration Bureau e-Notification System" at https://www.ens-immi.moj.go.jp/NA01/NAA01S/NAA01STransfer

2.8 Re-entry permission

2.8.1 What is re-entry permission?

A foreign national residing in Japan who wishes to leave Japan temporarily within his/her permitted period of stay and, after traveling to his/her home country or a third country, to enter and reside in Japan again with the same status of residence as before needs to apply for and receive re-entry permission. Under this system, a foreign national who receives re-entry permission before leaving Japan does not need to apply for an entry visa again at a Japanese diplomatic mission abroad prior to re-entering Japan, and can reside in Japan after re-entry with the same status of residence held prior to leaving Japan. Please note that departing Japan without receiving this re-entry permission will result in forfeiture of the status of residence and the period of stay previously granted.
(This shall not apply, however, to a foreign national who has obtained a Special Re-entry permit.)

2.8.2 Types of re-entry permits

There are two types of re-entry permits: single re-entry permit, which allows only one re-entry into Japan during the period of validity, and valid multiple times, with which one can leave and re-enter Japan any number of times during the period of validity. Multiple re-entry permit is especially convenient for those persons who must often travel back and forth between Japan and the parent company or other foreign business locations. It is not possible to obtain re-entry permission beyond the permitted period of stay in Japan. In addition, persons staying in Japan on a temporary visitor's status of residence are not normally eligible for re-entry permission.

2.8.3 Application method

As a general rule, the foreign national must personally appear at the Regional Immigration Bureau having jurisdiction for his/her place of residence to apply for re-entry permission. However, if the foreign national is under the age of 16 or is unable to appear personally due to illness or some other reason, a parent or spouse may apply on his/her behalf. In addition, the applicant does not need to go to the Regional Immigration Bureau if applying through the persons approved by the director of the Regional Immigration Bureau or a registered attorney-at-law or administrative scrivener.

2.8.4 Necessary documentation, fees, etc.

- Application for re-entry permission
- Passport (re-entry permit will be delivered into the passport)
- Residence card
- Payment of fees through the purchase of revenue stamps
  3,000 yen for one-time re-entry permit
  6,000 yen for multiple re-entry permit

2.8.5 Special re-entry permit system

The introduction of the new residency management system from July 9, 2012 was accompanied by the introduction of a new "special re-entry permit" system. Under this system, foreign nationals in possession of a valid passport and a residence card who declare their intention when they leave to re-enter Japan within 1 year of their departure to continue their activities in Japan are no longer, in principle, required to obtain a re-entry permit. However, if the period of stay will expire less than 1 year after departure, they must re-enter Japan before the expiration of this period of stay.

(Note) This special re-entry permit system also applies to foreign nationals in possession of a passport stating "A residence card is to be issued later."

2.9 Family members accompanying working foreign nationals

Spouses and children dependent on working foreign nationals are granted a "Dependent" status of residence and are permitted to engage in the day-to-day activities of a dependent spouse or child of a working foreign national residing in Japan. Activities such as attendance at school fall within the scope of activities of a "Dependent," but work for compensation is in principle prohibited; part-time work (in principle no more than 28 hours per week) is possible if permission to engage in activities other than that permitted under the status of residence previously granted is received.

Applications for Certificates of Eligibility and subsequent visa for "Dependents" may be submitted at the same time as those applications for the working foreign national, but applications for "Dependents" may also be submitted after the working foreign national has first received status of residence to work in Japan.

2.10 Extension of period of stay and change of status of residence

2.10.1 Extension of period of stay

The period of stay is determined together with the status of residence when the foreign national lands in Japan or changes his/her status of residence, and the foreign national may only reside in Japan for this stipulated period of stay.

Consequently, a foreign national wishing to continue the same activities in Japan with his/her present status of residence beyond this stipulated period of stay must apply for permission to extend the period of stay no later than the last day of that period of stay. Extensions will not be permitted if the purpose of the stay has already been completed or there are other problems connected with the status of residence.

Applications for extension of period of stay are basically accepted from three months before the expiration of the period of stay if the period of stay is six months or more.

If a foreign national who has applied for permission for an extension of period of stay does not receive the results before the expiration date of the period of stay, he or she may continue to stay in Japan with the status of residence then in force for two months from the expiration date of the period of stay or until the decision of the results, whichever comes earlier. If two months have elapsed since the expiration date of the period of stay without any measures being taken, the foreign national will be unable to stay in Japan.

If the status of residence is a temporary visitor's status, extensions will, in principle, be granted only when there is a truly excusable circumstance from the standpoint of humanity or a comparable special circumstance. However, under the visa exemption agreement, nationals from Ireland, Austria, Switzerland, Germany, Liechtenstein, the United Kingdom, and Mexico may stay for more than 90 days and stay up to 6 months if permitted by the procedures for extension of period of stay at the Regional Immigration Bureau before the expiration of the period of stay.

Regarding period of stay, please refer to the following web site,

- Immigration Services Agency of Japan https://www.moj.go.jp/isa/applications/procedures/16-3.html

2.10.2 Change of status of residence

A foreigner residing in Japan who wishes to cease the activities in which he/she is currently engaged and to engage exclusively in activities belonging to a status of residence other than that which he/she presently holds must apply and receive permission for a change of status of residence. For example, a foreign national dispatched from a parent company in a foreign country to a subsidiary in Japan and currently residing in Japan on an "Intra-company Transferee" status of residence who wishes to resign from the company to which he is dispatched and to invest in and operate his own company needs to apply and receive permission for a change to "Business Manager" status of residence.

However, applications for a change in status of residence are not automatically approved, and permission will not be granted if the new activities do not correspond to the requirements and criteria of the status of residence sought. A foreign national residing in Japan on a temporary visitor status will not be permitted to change his/her status of residence unless the application is made based on special and unavoidable circumstance.

If a foreign national who has applied for permission to change his or her status of residence does not receive the results by the expiration date of his or her period of stay, he or she may continue to stay in Japan with the status then in force for two months from the expiration date of the period of stay or until the decision of the results, whichever comes earlier. If two months have elapsed since the expiration date of the period of stay without any measures being taken, the foreign national will be unable to stay in Japan.

Please refer to the following website for procedures for changing the status of residence.

- Immigration Services Agency of Japan https://www.moj.go.jp/isa/applications/procedures/16-2.html

2.11 Points-based preferential immigration treatment for highly-skilled foreign professionals

2.11.1 What is the points-based system for highly-skilled foreign professionals?

It is the preferential immigration control system for highly-skilled foreign professionals who receive at least a certain number of points (70 points) by utilizing the points-based system for highly-skilled foreign professionals, which was designed to promote acceptance of highly-skilled foreign professionals who can be expected to contribute to Japanese economic growth, etc. and have a high level of ability. For the highly-skilled foreign professional who newly enters Japan, the status of residence " Highly Skilled Professional(i)" and preferential treatment are provided first. For the foreign professional who has stayed in Japan for more than three years after receiving the status of residence called Highly Skilled Professional(i), Highly Skilled Professional(ii) and further preferential treatment are provided.

For details of the system, please see the following website:

- Immigration Services Agency of Japan website:
  https://www.moj.go.jp/isa/publications/materials/newimmiact_3_index.html

2.11.2 Point evaluation

The activities of highly-skilled foreign professionals are classified into the following categories, and points are assigned for "educational attainment," "professional experience," "annual salary," "research performance," etc. based on the nature of the category of activity.

(1) Advanced academic research activities: " Highly Skilled Professional(i)(a)"
(2) Advanced specialized/technical activities: " Highly Skilled Professional(i)(b)"
(3) Advanced business management activities: " Highly Skilled Professional(i)(c)"

For details of the point calculation method, please see the following website.

- Immigration Services Agency of Japan website:
  https://www.moj.go.jp/isa/publications/materials/newimmiact_3_evaluate_index.html

2.11.3 Preferential treatment

For those certified as highly-skilled foreign professionals, the following preferential treatment for immigration control and residency management is granted.

In case of "Highly Skilled Professional(i)":

(1) Permission for multiple purposes of activities
(2) Grant the "five years" period of stay
(3) Easing of requirements for permanent residence
(4) Permission for spouse of the highly-skilled foreign professional to work
(5) Permission for the parent(s) to accompany the highly-skilled foreign professional to Japan under certain conditions
(6) Permission for a domestic worker to accompany the highly-skilled foreign professional to Japan under certain conditions
(7) Preferential processing of entry and residence procedures

In case of "Highly Skilled Professional(ii)":

(1) In conjunction with the activities of "Highly Skilled Professional(i)," permitted to engage in almost all of the activities of statuses of residence based on employment
(2) Granted an indefinite period of stay
(3) Eligible for the preferential treatments of the abovementioned (3) to (6)

* Those who have been active as a Highly Skilled Professional (i) for three years or more can qualify as a Highly Skilled Professional (ii).

2.11.4 Relaxations of requirements for certification as highly-skilled foreign professionals

In order to promote acceptance of highly-skilled foreign professionals, point adding up-measures have been taken since April 2017.

(1) Addition to foreign nationals who are engaged in leading edge projects involving relevant ministries in growing fields, such as IT (10 points)
(2) Addition to significant investors (5 points)
(3) Addition to graduates from top-notch universities (10 points)
(4) Addition to foreign nationals who completed human resources development projects using ODA (5 points)
(5) Addition to graduates from universities, etc. in advanced academic research activities (10 points)
(6) Addition to foreign nationals who hold multiple master's degrees or doctor's degrees (5 points)
(7) Addition to foreign nationals who have a certain level of Japanese ability, such as the level of N2 of the Japanese Language Proficiency Test (10 points)

2.11.5 Review of period of stay required for application of permission for permanent residence (Establishment of Japanese Green Cards for Highly-skilled Foreign Professionals)

In order to promote acceptance of highly-skilled foreign professionals, the period of stay required for application of permission for permanent residence is reviewed, and the so-called "Japanese Green Card for Highly-skilled Foreign Professionals" is established. (April 26, 2017)

(1) For foreign nationals who are certified as highly-skilled foreign professionals with 70 points or higher, the period to stay required for application of permission for permanent residence was shortened from five years to three years.
(2) For foreign nationals who are recognized as especially highly-skilled foreign professionals, those who certified with 80 points or higher, the period of stay required for application of permission for permanent residence was shortened greatly from five years to one year.

2.11.6 Expansion of preferential measures in the point-based system for highly-skillled professionals to become an international financial center

To improve the convenience related to status of residence, Financial Services Agency has introduced preferential measures to those involved in the asset management business, etc., as of July 2021.)

Among foreign nationals who fall under Highly Skilled Professional (i) (b) or (c), those who engage in Type II Financial Instruments Business, Investment Advisory and Agency Business, or Investment Management Business (hereinafter referred to as "Investment Management Business, etc.") are eligible for extra points (10 points).

(1) Highly-skilled foreign professionals who engage in the Investment Management Business, etc., can now employ a certain number of domestic helpers who meet the necessary requirements according to their annual household income, even if they do not meet the existing provisions related to family circumstances or accompaniment at the time of entry.

(2) Foreigners who attain registration as Investment Management Business, etc., while residing in Japan with "Temporary Visitor" status can now change their statuses of residence to "Highly Skilled Professional" or "Business Manager."

(3) The spouses of a highly-skilled foreign professionals intending to work are subjects to the same priority processing for immigration and residency procedures as the highly-skilled foreign professionals.

2.12 Promoting acceptance of foreign entrepreneurs

2.12.1 Projects for Encouraging Foreign Entrepreneurs to Start Business (Startup Visa)

Some municipalities have developed Plans for Managing and Supporting Business Startup Activities by Foreign Entrepreneurs and approved by the Minister of Economy, Trade and Industry, and have introduced " Projects for Encouraging Foreign Entrepreneurs to Start Business (Startup Visa)," aimed at increasing the acceptance of foreign entrepreneurs and supporting startups.

When a foreign national starts a business in Japan, he or she usually needs to acquire the status of residence of "Business Manager." Under the current system, securing a place of business and investing at least JPY 5 million or employing two or more full-time employees is required to acquire the residence status.

In the case of a Startup Visa, a foreign entrepreneur who wishes to start a business submits a "business preparation activity plan" to the following local government. The local government judges the applicant's prospects for the applicant to meet the visa requirements and issues a certificate of confirmation to the foreign entrepreneur. The Foreign entrepreneurs submit a certificate of confirmation issued by the local government and other necessary documents to the Regional Immigration Bureau (or branch office thereof). If the Regional Immigration Bureau (or branch office thereof) determines the foreign entrepreneur to satisfy the requirements as a result of the examination, he or she can obtain the status of residence of "Designated Activities" for a maximum of one year (required to be renewed after six months), and cane prepare for starting business.

After landing, foreign entrepreneurs can fulfill the requirements for the status of residence of "Business Manager" during their period of stay, change the status and engage in business in Japan.

For information on authorized local governments, please refer to the following website.

- Aichi prefecture: https://www.pref.aichi.jp/soshiki/kinyu/gaikokujinkigyo.html (Machine translation)
- Fukuoka city: https://www.city.fukuoka.lg.jp/keizai/r-support/business/startupviza_2_2.html
- Gifu prefecture: https://www.pref.gifu.lg.jp/page/26400.html
- Hamamatsu city: https://www.city.hamamatsu.shizuoka.jp/hamact/support/startup-visa.html (Japanese)
- Hokkaido: https://www.pref.hokkaido.lg.jp/kz/csk/startup-visa/toppage_english.html
- Ibaraki prefecture: https://www.pref.ibaraki.jp/eigyo/kokusyo/kokusyotop/documents/startupvisa_english.pdf
- Kobe city: https://www.city.kobe.lg.jp/a14333/business/sangyoshinko/shokogyo/venture/newindustry/startupvisa_en.html
- Kyoto prefecture: https://www.kyoto-obc.jp/startupvisa/
- Mie prefecture: http://www.pref.mie.lg.jp/SHINSAN/HP/000227069.htm (Japanese)
- Oita prefecture: http://www.pref.oita.jp/soshiki/14040/startupvisa.html (Machine translation)
- Osaka city: https://www.city.osaka.lg.jp/keizaisenryaku/page/0000468842.html (Machine translation)
- Sendai city: https://www.city.sendai.jp/startup-sogyo/jigyosha/kezai/jigyosho/joho/startupvisa-kigyo.html (Machine translation)
- Shibuya ward: https://shibuya-startup-support.jp/
- Yokohama city: https://www.city.yokohama.lg.jp/business/keizai/sougyo/venture/yokohama_suvisa.html

Promoting to increase foreign entrepreneurs in the National Strategic Special Zones

Some municipalities have been promoting expatriate entrepreneurship by taking advantage of the special provisions of the Immigration Control Act for the National Strategic Special Zones.

If foreign nationals wish to start a business in Japan, they have to obtain a status of residence for a "Business Manager". For the acquisition of this status of residence, according to current rules, they are required to invest at least 5 million yen or employ at least 2 full-time staff members as well as to open a business place for the business. However, in promoting expatriate entrepreneurship, foreign nationals intending to start a business in following autonomous bodies listed below may be given the status of residence for a "Business Manager" for 6 months without meeting the above-mentioned requirements for the status, provided that they submit the required documents including their business plan to the such autonomous bodies and that the autonomous bodies approve such business plan. This will allow the foreign entrepreneurs to make preparations for the establishment of their business, including satisfying the above-mentioned requirements, while staying in Japan.

For more information about the Program to increase foreign entrepreneurs, visit the link below:

Tokyo area

- Tokyo Metropolitan area: https://www.investtokyo.metro.tokyo.lg.jp/en/oursupports/bdc-tokyo/fhr.html
- Kanagawa prefecture: http://www.pref.kanagawa.jp/docs/sr4/startup-visa/startup-visa.html
- Chiba city: https://www.city.chiba.jp/sogoseisaku/miraitoshi/tokku/tokku_index.html (Machine translation)
- Narita city: https://www.city.narita.chiba.jp/shisei/page003600_00003.html (Machine translation))

Kansai area

- Osaka prefecture: https://www.city.osaka.lg.jp/keizaisenryaku/page/0000320671.html (Machine translation)
- Kyoto prefecture: https://www.pref.kyoto.jp/toc/ (Japanese)
- Hyogo prefecture: https://web.pref.hyogo.lg.jp/kk06/kokkasenryakutokku.html (Machine translation)

- Aichi prefecture: https://www.pref.aichi.jp/soshiki/kinyu/gaikokujinsogyo.html
- Fukuoka city: http://www.city.fukuoka.lg.jp/keizai/r-support/business/startupviza_english.html
- Hiroshima prefecture: https://www.pref.hiroshima.lg.jp/site/innovation/gaikokujinsougyo.html
- Imabari city: https://www.city.imabari.ehime.jp/sangyou/sogyosien/gaikokujin (Machine translation)
- Kitakyushu city: https://www.city.kitakyushu.lg.jp/kikaku/02000038.html (Machine translation)
- Niigata city: https://www.city.niigata.lg.jp/business/boeki/kokukei_jigyou/startupvisa.html
- Okinawa prefecture: https://www.pref.okinawa.jp/site/kikaku/chosei/staff/kokkasenryakutokku.html (Machine translation)
- Semboku city: https://www.city.semboku.akita.jp/senryaku/index.html (Japanese)
- Sendai city: http://www.city.sendai.jp/kikakushien/jigyosha/kezai/jigyosho/joho/startupvisa-english.html
- Yabu city: https://www.city.yabu.hyogo.jp/jigyosha/koyo_shugyo/senryakutokku/index.html (Machine translation)

2.13 Digitalization of the Disembarkation Card and Online Residency Application Procedure

2.13.1 Digitalization of the disembarkation card (ED card)

The disembarkation card (ED card) used by foreign nationals entering Japan has been digitalized. You need to enter information on the app in advance to use a digital disembarkation card. Minors and those unfamiliar with smartphone functions may continue to use conventional disembarkation cards (paper ED cards). Only new entrants to Japan can use digital disembarkation cards. Those re-entering the country (including those with special re-entry permissions) and those with special landing permissions are not eligible. Digital disembarkation cards are accepted at New Chitose Airport, Narita International Airport, Haneda Airport, Chubu Centrair International Airport, Kansai International Airport, Fukuoka Airport and Naha Airport.

2.13.2 Expansion of the eligible users of the online residency application procedure

Formerly, only limited users, including the staff of affiliated organizations, attorneys at law, or administrative scriveners, were eligible to submit online residency applications. To further enhance the convenience, online submissions in person by foreign nationals who have a My Number Card, etc., are accepted now (excluding applications for "diplomat" and "temporary visitor").

For details on the digital disembarkation card and online residency application procedure, please see the following website.

- Immigration Services Agency of Japan website:
  https://www.moj.go.jp/isa/applications/guide/translation.html (Machine translation)
  https://www.moj.go.jp/isa/applications/guide/onlineshinsei.html (Machine translation)

Reference (2)

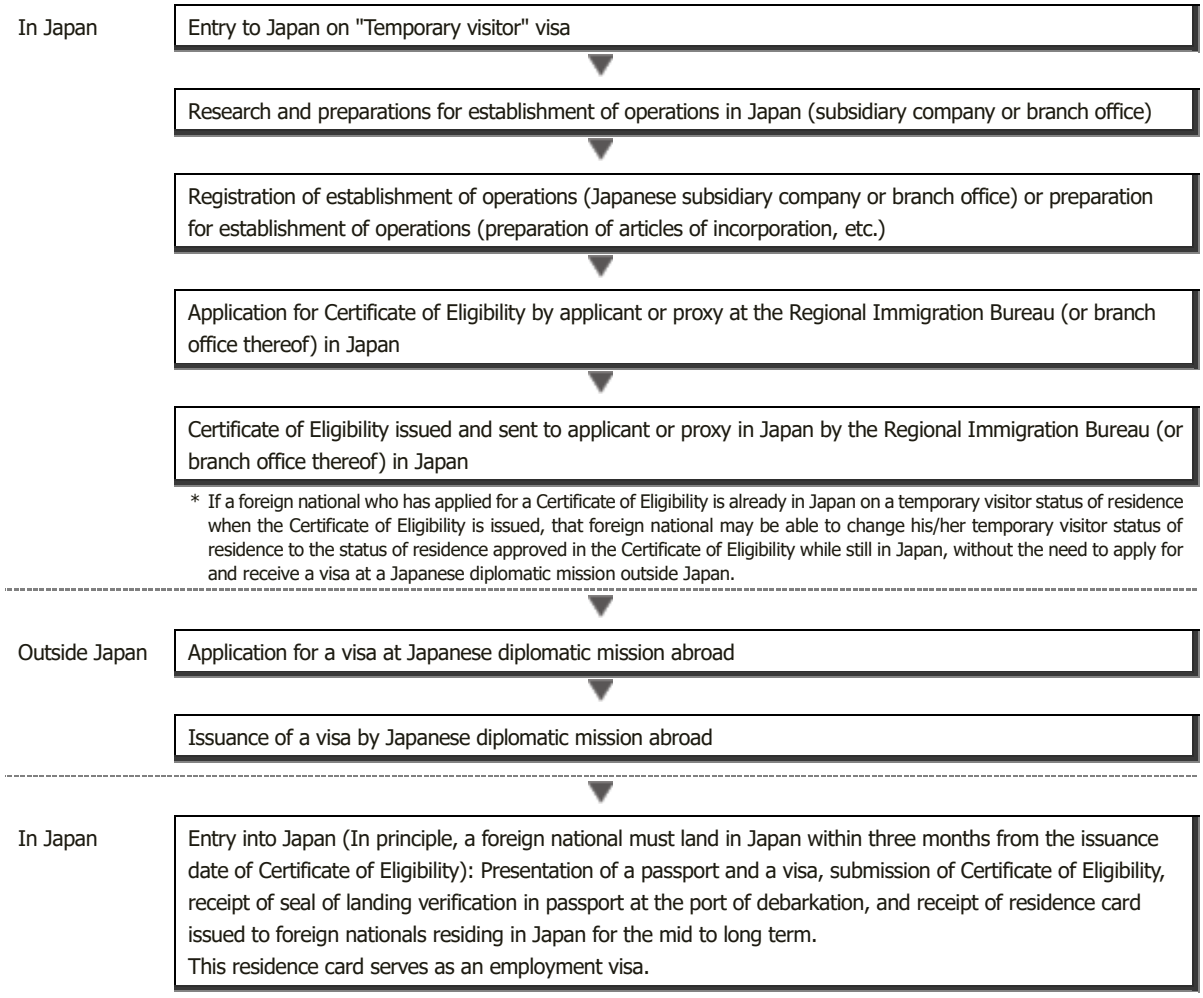
1. Consultation with specialists for procedures

In Japan, administrative scriveners are specialists authorized to advise on the immigration and residence-related procedures mentioned above.

An administrative scrivener that has notified the Regional Immigration Bureau to serve as application agents and obtained the certificate has a thorough knowledge of immigration and residency control and is authorized to act as an agent in filing applications with the Regional Immigration Bureau (or branch office thereof), such as the issuance of certificates of eligibility, permission for an extension of period of stay, permission for change of status of residence, and re-entry permission (As individual administrative scriveners work in distinct specialties within their broad-ranging profession, not all administrative scriveners are registered in this way to act as application agents). Administrative scriveners can also offer guidance on documents needed for applications, provide advice on preparing documents and, when necessary, can act as agent in preparing the documents. Use of these services exempts foreign applicants and companies employing foreigners from the need to appear personally at the Regional Immigration Bureau (or branch office thereof) and enable entry procedures to be proceeded accurately and promptly.

2. Flowchart of procedures for establishment of operations in Japan and acquisition of visa/status of residence

The following diagram depicts the sequence of procedures that are typically completed in order to establish and register the establishment of a new operation in Japan (subsidiary company or branch office) represented by a foreign national, along with the procedures for acquisition of a visa and status of residence.



(Note) At Narita, Haneda, Chubu, Kansai, Shinchitose, Hiroshima, and Fukuoka Airports, besides having a seal of landing verification stamped in their passports, mid-to long term residents will be issued a residence card. At other ports of entry/departure, a seal of landing verification will be stamped in the passport and a residence card will be issued after a mid-to long-term resident follows the residency procedure at the municipal office of the city/town/village. (Basically, a residence card will be mailed by the Regional Immigration Bureau (or branch office thereof) to the reported place of residence)

3.1 Overview of Japanese corporate tax system for investment in Japan

3.1.1 Neutrality of tax system with respect to mode of business presence (branch or subsidiary)

Corporations engaged in economic activities in Japan are subject to taxes in Japan on the profits generated by those economic activities. Steps have been taken, however, to ensure that the tax system does not impose unfair burdens on multinational corporations engaged in economic activities in Japan on the basis of the mode of their business presence in Japan.

Income of corporations established in Japan is, as a rule and with the exception of certain non-taxable and tax-exempt income, subject to taxation, regardless of where it was generated (i.e., the source country of income), but when that income includes profits earned in foreign countries that are taxed in the source countries of that income, foreign tax credits are available whereby taxes paid in a foreign country may be credited within certain bounds against Japanese taxes owed for the purpose of eliminating double taxation between the source country of income and Japan.

Regarding Japanese branches of foreign corporations, measures such as only certain income is subject to taxation in Japan, have been implemented to avoid international double taxation in Japan. The scope of taxable income of Japanese branches of foreign corporations has changed significantly from the business year commencing on or after April 1, 2016, and Japanese branches, head office, etc. shall be respectively deemed to be an independent corporation and subject to taxation. Due to this, the income of a Japanese branch subject to taxation will be the income attributable to the Japanese branch (permanent establishment) which is the income earned by the Japanese branch on the basis that if the branch is deemed to be a company which is separated/independent from the head office, etc. as well as other prescribed income. When calculating the income attributable to the Japanese branch (permanent establishment), the profits/losses from the internal transactions between the branch and head office, etc. are to be recognized based on the presumption that transactions are conducted with the arm's length prices. With the change in the scope of taxable income of Japanese branches (permanent establishment), new foreign tax credits have also become available to foreign corporations. When the income that the Japanese branch (permanent establishment) has earned in a third country which is attributable to the Japanese branch (permanent establishment) is taxable in the third country, foreign tax credits are available whereby taxes paid in the third country may be credited within certain bounds against Japanese taxes owed to avoid international double taxation.

3.1.2 Withholding at source and self-assessment/payment

Multinational corporations engaged in activities in Japan that earn income subject to taxation in Japan calculate and pay the taxes owed through withholding procedures or self-assessed income tax procedures according to their form of corporation and type of income.

3.1.3 Designation of tax agent

When individuals who do not have domiciles in Japan, or corporations conducting economic activities in Japan, as well as Japanese branches of foreign corporations that do not have a head office or an office in Japan need to file tax returns, they must appoint a tax agent and submit a notification.

After January 1, 2022, if an individual or a corporation that is required to appoint a tax agent does not submit a notification of tax agent, the director of the competent tax office can designate its related party in Japan (relative, affiliated company, etc.) as a tax agent.

3.2 Domestic-sourced income

3.2.1 Domestic-sourced income in the business year commencing on or after April 1, 2016

As described in 3.1.1, types of domestic-sourced income and taxable scope have also changed from the business year commencing on or after April 1, 2016. The major domestic-sourced income in the business year commencing on or after April 1, 2016 is as follows. Please note that the specific scope of taxation differs by the type of activity of a foreign corporation in Japan, as will be described later (see 3. 3. 4).

(1) Income attributable to permanent establishment
(2) Income derived from the management/holding of assets in Japan
(3) Proceeds from the transfer of assets in Japan
(4) Consideration for providing certain services rendered in Japan, such as engineers
(5) Rent of real estates and other properties in Japan
(6) Other domestic-sourced income

3.3 Overview of corporate income taxes (corporate tax, corporate inhabitant tax, enterprise tax)

3.3.1 Establishment of corporations/branches in Japan and tax notification

When a Japanese corporation or a branch office is newly established in Japan in accordance with Japanese law, tax notification pertaining to start-up must be submitted to tax authorities within a prescribed period after establishment. In the case of a branch office etc., they are treated as described below.

<Establishment of Japanese branches, etc. of foreign corporation and tax notification>

When a Japanese branch office etc. is newly established in Japan (i.e., where (1) of 3.3.4 Table 3-5 applies), tax notification pertaining to start-up must be submitted to tax authorities within a prescribed period after establishment. Tax notification must also be submitted when a foreign corporation generates income subject to corporate tax in Japan without establishing a branch office (i.e., where (2) of 3.3.4 Table 3-5 applies).

3.3.2 Corporate income taxes and tax rates

The taxes levied in Japan on income generated by the activities of a corporation include corporate tax (national tax), local corporate tax (national tax), corporate inhabitant tax (local tax), enterprise tax (local tax), and special corporate enterprise tax (a national tax, although filings and payments are made to local governments along with enterprise tax) (hereinafter collectively referred to as "corporate taxes"). Except in instances requiring exceptional treatment, the scope of income subject to corporate inhabitant tax and enterprise tax is (including special corporate enterprise tax; the same applies below) determined and the taxable income is calculated in accordance with the provisions for corporate tax. Corporate inhabitant taxes are levied not only on income but also on a per capita basis using the corporation's capital and the number of its employees as the tax base. Corporations having paid-in capital of more than 100 million yen are subject to enterprise tax on a pro forma basis (see 3.3.3).

The income calculated for each business year is used as the tax base for determining these corporate taxes to be levied on a corporation's income. Other corporate taxes include corporate taxes on reserves for retirement pensions, etc. (suspended in the case of business years commencing by March 31, 2026).

The tax rates for corporate tax, corporate inhabitant tax and enterprise tax on income (tax burden on corporate income) and per capita levy on corporate inhabitant tax for each taxable year are shown below. The rates for local taxes may vary somewhat depending on the scale of the business and the local government under whose jurisdiction it is located.

Please note that applicable tax rates will vary according to the timing.

<Table 3-1> Effective tax rates (standard tax rates basis) (rounded to two decimal places)

Start date of a business year / Brackets	Small and medium-sized enterprises*1			Enterprises*3 other than small and medium-sized enterprises*1
	Taxable income			
	Up to 4 million yen	Over 4 million yen to 8 million yen	Over 8 million yen	
April 1, 2021 to March 31, 2025	21.37%	23.17%	33.58%	29.74%
April 1, 2025	(Reference rate*2) 25.84%	(Reference rate*2) 27.55%	33.58%	29.74%

* 1 Small and medium-sized enterprises meeting all three conditions below.
- Paid-in capital is 100 million yen or less. This does not apply to wholly owned subsidiaries of large corporations with paid-in capital of 500 million yen or more. This does not apply to the "excluded enterprises."
- Corporate tax amount is 10 million yen or less per annum and taxable income is 25 million yen or less per annum.
- Offices or factories located in up to two prefectures.

* 2 The rates are reference tax rates on the assumption that the special measures of reduced tax rates for small and medium-sized enterprises will be abolished on March 31, 2025. Reference tax rates are based on the anticipated tax rates as of December 16, 2022.

* 3 Enterprises other than small and medium-sized enterprises are the enterprises with the paid-in capital of over 100 million yen and offices or factories located in at least three prefectures. The effective tax rates for these enterprises are calculated using the standard tax rates.

<Table 3-2 Tax burden on corporate income (rounded to two decimal places)>

Business year commencing between April 1, 2021 and March 31, 2025

(Applicable only to the small and medium-sized enterprises meeting the conditions specified in *1 of <Table 3-1>)

Brackets of taxable income	Up to 4 million yen	Over 4 million yen to 8 million yen	Over 8 million yen
Corporate tax	15.00%	15.00%	23.20%
Local corporate tax	1.55%	1.55%	2.39%
Corporate Inhabitant taxes			
1. Prefectural	0.15 %	0.15%	0.23%
2. Municipal	0.90%	0.90%	1.39%
Enterprise tax	3.50%	5.30%	7.00%
Special corporate enterprise tax	1.30%	1.96%	2.59%
Total tax rate	22.40%	24.86%	36.80%

(Note) The rates for corporate inhabitant tax and enterprise tax are shown using Tokyo as an example. However, they assume the conditions of small and medium-sized enterprises in <Table 3-1>*1. There are cases in which they may differ from actual rates as the figures are rounded off to two decimal places.

(Sample calculation of tax where taxable income is 10 million yen: Total amount of tax is 2,626,400 yen)

Brackets of taxable income	Up to 4 million yen	Over 4 million yen to 8 million yen	Over 8 million yen	Total amount
Corporate tax	4,000,000 yen x 15% = 600,000 yen	4,000,000 yen x 15% = 600,000 yen	2,000,000 yen x 23.2% = 464,000 yen	1,664,000 yen
Local corporate tax	4,000,000 yen x 1.55% = 62,000 yen	4,000,000 yen x 1.55% = 62,000 yen	2,000,000 yen x 2.39% = 47,800 yen	171,800 yen
Corporate Inhabitant taxes				
1. Prefectural	4,000,000 yen x 0.15% = 6,000 yen	4,000,000 yen x 0.15% = 6,000 yen	2,000,000 yen x 0.23% = 4,600 yen	16,600 yen
2. Municipal	4,000,000 yen x 0.90% = 36,000 yen	4,000,000 yen x 0.90% = 36,000 yen	2,000,000 yen x 1.39% = 27,800 yen	99,800 yen
Enterprise tax	4,000,000 yen x 3.50% = 140,000 yen	4,000,000 yen x 5.30% = 212,000 yen	2,000,000 yen x 7.00% = 140,000 yen	492,000 yen
Special corporate enterprise tax	4,000,000 yen x 1.30% = 52,000 yen	4,000,000 yen x 1.96% = 78,400 yen	2,000,000 yen x 2.59% = 51,800 yen	182,200 yen

(Note) The tax rates in the sample calculation are rounded off to the second decimal place. In addition, the final tax amounts are rounded down to the nearest hundred yen. Therefore, the amounts might differ from the actual number.

<Table 3-3> Per capita levy on corporate inhabitant tax

Capital amounts		Employee number	Per capita levy
Over 5,000,000,000 yen	---	Over 50	3,800,000 yen
Over 5,000,000,000 yen	---	Up to 50	1,210,000 yen
Over 1,000,000,000 yen	Up to 5,000,000,000 yen	Over 50	2,290,000 yen
Over 1,000,000,000 yen	Up to 5,000,000,000 yen	Up to 50	950,000 yen
Over 100,000,000 yen	Up to 1,000,000,000 yen	Over 50	530,000 yen
Over 100,000,000 yen	Up to 1,000,000,000 yen	Up to 50	290,000 yen
Over 10,000,000 yen	Up to 100,000,000 yen	Over 50	200,000 yen
Over 10,000,000 yen	Up to 100,000,000 yen	Up to 50	180,000 yen
---	Up to 10,000,000 yen	Over 50	140,000 yen
---	Up to 10,000,000 yen	Up to 50	70,000 yen

3.3.3 Imposition of enterprise tax on a pro forma basis

Corporations whose share capital or contributed capital exceeds 100 million yen are taxed on a pro forma basis using income, added value, and capital as the taxable base. The standard tax rates for income, added value and capital are as follows.

<Table 3-4> Tax rates of enterprise tax on a pro forma basis

Business year commencing after April 1, 2020

Classification	Example: Tokyo	Standard tax rate
Income levy (Up to 4 million yen per year)	0.495 %	0.4 %
Income levy (Over 4 million yen and up to 8 million yen per year)	0.835 %	0.7 %
Income levy (Over 8 million yen per year)	1.18 %	1.0 %
Added value levy	1.26 %	1.2 %
Capital levy	0.525 %	0.5 %
Special corporate enterprise tax	260.0% of the enterprise tax income levy amount calculated by the standard tax rate	

(Note) Tax rates may differ from the standard tax rate depending on the local government concerned.

3.3.4 Scope of income subject to corporate tax

The income of corporations established in Japan is subject to taxation in Japan regardless of where it was sourced. Corporations established in foreign countries are grouped, and the respective domestic-source income specified in 3.2.1 is subject to corporate tax, local corporate tax, corporate inhabitant tax, enterprise tax and special corporate enterprise tax in Japan corresponding to their classifications. (Note, however, that foreign corporations without PE in (2) of Table 3-5 are not subject to corporate inhabitant tax, enterprise tax and special corporate enterprise tax.)

<Table 3-5> Overview of taxation of corporate tax and income tax on foreign corporations

Business year commencing on or after April 1, 2016

Types of domestic-sources income (See 3.2.1)	(1) Foreign corporations with PE*1		(2) Foreign corporations without PE
	Income attributable to PE	Domestic-sourced income not attributable to PE	
Income from business activities	Corporate tax	-	-
Management/holding of assets in Japan	Corporate tax	Corporate tax	Corporate tax
Transfer of real estate and certain assets in Japan*2	Corporate tax	Corporate tax	Corporate tax
Consideration for dispatch business such as engineers*2	Corporate tax	Corporate tax	Corporate tax
Rent of real estates and other properties in Japan*2	Corporate tax	Corporate tax	Corporate tax
Other domestic-sourced income	Corporate tax	Corporate tax	Corporate tax
Interest on deposits and savings*2	Corporate tax	Withholding at source only	Withholding at source only
Dividends, etc.*2	Corporate tax	Withholding at source only	Withholding at source only
Interest on loans*2	Corporate tax	Withholding at source only	Withholding at source only
Usage fees and other fees*2	Corporate tax	Withholding at source only	Withholding at source only

*1 Permanent Establishments (PE) are locations, sites, agents, etc. of the foreign corporations falling under the following:

- Foreign corporations having a certain fixed place of business (*1), such as a branch, sub-branch, business establishment, office, or factory in Japan.
  (*1) However, the following locations do not fall within the definition of a "certain fixed place of business" herein only if they have a preliminary or ancillary function for the conduct of the business of the foreign corporation (see 3.3.5):
  (a) A fixed location used by a foreign corporation solely for the purchasing of its assets or collecting information.
  (b) A fixed location used by a foreign corporation solely for the storage, display and delivery of its assets.
- A foreign corporation engaged in business through a long-term construction site, etc. in Japan or an agent for conclusion of a contract, etc. Business year commencing on or after January 1, 2019, certain activities which constitute complementary functions that are part of a cohesive business operation provided by a person or entity closely related will be regarded as PE.

*2 Even when filing for corporate tax return, withholding at the source is required. As for transfer of assets located in Japan, only transfer of land, etc. is subject to withholding at the source. However, foreign corporations who have PE will be exempted from the withholding tax if they obtain a withholding exemption certificate regarding income attributable to PE.

3.3.5 Income of representative offices, etc.

Representative offices, etc., through which a foreign corporation engages in business in Japan are not supposed to derive any income subject to corporation tax from storing, displaying, and delivery, or collecting information on goods, etc. and other activities auxiliary to the performance of its business (see 3.3.4). Business year commencing on or after January 1, 2019, certain activities which constitute preliminary and complementary functions that are part of a cohesive business operation provided by a person who has a special relationship with the foreign corporation or foreign corporation will be regarded as PE.

3.3.6 Calculation of income subject to corporate tax and tax credit

The amount of income used as the tax base for corporate taxes on income for each taxable year is determined by making the necessary tax adjustments to corporate profits calculated using accounting standards generally accepted as fair and appropriate. Costs and expenses incurred in earning profits are deductible, except in certain exceptional instances (examples provided below).

Foreign corporations face no restrictions on the locations in which costs and expenses deductible from Japan-sourced taxable income may be incurred. However, detailed statements of costs and expenses incurred overseas and deducted from income in Japan must be prepared, and these costs and expenses must be allocated fairly in the prescribed manner.

Examples of items for which there are limits on deductible costs and expenses:

- Corporate taxes and penalties
- Nondeductible amount for donations
- Nondeductible entertainment expenses
- Amount of allowance reserved
- Amount exceeding depreciable limit of depreciable and deferred assets
- Write-down of assets
- Compensation or retirement benefits for directors

Special credit against corporate tax for increasing the amount of salary payment, etc.

(Small and medium enterprise salary increase tax credit):

Small and medium enterprises that increase salary payments in the financial years starting between April 1, 2022, and March 31, 2024, from the previous year can deduct part of the increase from corporate tax. If the amount of employee salary payment increases by 1.5% or more of the prior year, 15% of the salary payment increase to applicable employees is deducible from corporate tax. If the salary payment amount increases by 2.5% or more, another 15% of the increase is deductible. Also, small and medium enterprises that expand spending on education and training by 10% or more from the previous year can claim a further 10% of the salary payment increase as a credit against corporate tax. The tax credit will be capped at 20% of the corporate tax amount.

Examples of other tax credits:

Followings are some examples of other tax credits. A tax credit can be available against the amount of corporate tax imposed on taxable income if certain requirements are met:

- Small and Medium Enterprise Investment Promotion Tax Incentives (tax credit for the acquisition of machinery, etc. by small and medium enterprises, etc.*)
- Digital Transformation investment promotion tax incentives (tax credit for the acquisition of equipment for information technology business adaptation*)
- Carbon Neutrality-related investment promotion tax incentives (tax credit for the acquisition of equipment for improving production process efficiency*)

* Can choose special depreciation (for calculating depreciation expenses) instead of a tax credit.

3.3.7 Taxation of retained earnings of family corporations

A Japanese corporation that is a family corporation and meets certain conditions is subject to taxation of retained earnings as well as corporate tax on ordinary income. Taxation of retained earnings is calculated by multiplying the taxable amount of retained earnings (obtained by subtracting the retained earnings deductible from the amount of retained earnings in each business year) by the special tax rate. The special tax rate varies according to the taxable earnings. If the annual taxable earnings do not exceed 30 million yen, it is subject to a tax rate of 10%. However, if the taxable earnings exceed this amount, a rate of 15% is charged on the amount in excess of 30 million yen and up to 100 million yen, and any amount in excess of 100 million yen is taxed at a rate of 20%.

3.3.8 Treatment of losses

Net losses under income in each business year are carried forward for the next nine years (or ten years in the case of losses arising during the business years beginning on or after April 1, 2018). Losses may only be carried forward in this way if a blue form tax return is filed for the business year in which the loss arose, and a final tax return is then filed every subsequent year. Note that if a corporation has paid-in capital in excess of 100 million yen or is a wholly owned subsidiary of a large corporation with paid-in capital of at least 500 million yen (including foreign corporations), the amount of loss that may be deducted from income cannot exceed 50% of income. Certain corporations, such as prescribed small and medium-sized enterprises that file a blue form return, are also allowed to carry back a loss to the business year commencing not more than one year prior to the date of commencement of the business year in which the loss arose, and are allowed to receive a full or partial refund of the amount of corporate tax in the business year in which the loss was carried back.

However, the deductible percentage is 100% for a certain period if the corporation is an unlisted company, undergoing reconstruction, etc.

3.3.9 Corporate reorganization tax system

If a corporation transfers assets as a result of a split, merger, or investment in kind ("reorganization"), gain or loss from the transferred assets is subject to taxation in principle. However, reorganizations meeting certain conditions, such as certain reorganizations between corporations that are wholly owned/owning directly or indirectly in ownership, certain reorganizations between corporations that are owned/owning 50% directly or indirectly in ownership, or those undertaken for the purpose of a joint venture, are treated as "qualified reorganizations," and qualify for deferment of taxation of gain or loss on the transferred assets.

3.3.10 Filing of tax return and payment of corporate taxes

(1) Final tax return and tax payment

Corporations must file a final tax return for corporate tax, local corporate tax, corporate inhabitant tax, enterprise tax, and special corporate enterprise tax on their income within two months from the day following the last day of each taxable year. However, an extension of the deadline for filing a final tax return may be requested, with approval from the director of the taxation office, when a corporation is unable to file a final tax return because of the situation where the annual shareholders meeting is not called within two months pursuant to the provisions of articles of incorporation or due to an exceptional circumstance of the corporation or because accounts remain unsettled for other unavoidable reasons. The income and tax amounts to be entered in the final tax return must be calculated in accordance with the statement of accounts approved by the general meeting of stockholders. The calculated tax must also be paid within this period. The payment deadline will not be extended even if the deadline for filing of a final tax return is extended as described above. Therefore, interest tax and overdue tax for the extended period are imposed (as deductible expenses) if the tax payment is made during the extended period. Any interim payment made in advance on the amount of tax owed shall be deducted from the total amount to be paid.

(2) Interim tax return and tax payment

Corporations whose taxable years exceed six months must file an interim return, within two months from the day following the end of the first six months of the taxable year, an interim tax return for the period starting on the first day of that taxable year and ending on the day six months thence, and must pay the interim amount of tax owed (excluding instances where the amount of tax calculated using the prescribed formula does not exceed a certain amount).

For corporations (other than foreign corporations) with share capital or contributed capital exceeding 100 million yen, from the fiscal year beginning on or after April 1, 2020, it became mandatory for corporations to submit final returns and interim returns for corporation tax, local corporation tax, consumption tax, corporate inhabitants tax, enterprise tax, special corporate enterprise tax, etc. via electronic filing. Corporations that are subject to the obligation are required to submit certain notifications and file tax returns by e-tax, eLtax for the applicable fiscal year and thereafter.

(3) Blue form returns

Tax return forms for corporations come in two formats: white form and blue form. A corporation may file a blue form tax return with approval from the appropriate national tax office. Corporations filing blue form tax returns enjoy a variety of tax benefits. To receive approval from the tax office to file a blue form tax return, a corporation must submit an application for approval prepared in the prescribed format no later than the day prior to the starting day of the taxable year. Newly established subsidiary companies and foreign corporations establishing new branch offices in Japan must submit the application for approval no later than the day prior to either the day following three months since and including the date of the establishment of the corporation/branch or the last day of the corporation's/branch's initial taxable year after establishment, whichever comes first, if intending to file a blue form tax return from the taxable year in which the date of establishment occurs.

3.3.11 Remittances to home country

Remittances made by subsidiary companies to their parent company arise from business-to-business transactions, and so are generally regarded as payments of costs/expenses, distributions of profits, loans (or repayments of loans), and so forth depending on the nature of the transaction concerned. Certain of these costs/expenses are deducted when calculating the income of the payer subsidiary companies. Some of the payments regarded as income of the parent company (e.g., payments of interest, dividends, or usage fees) require withholding of income tax at the source at the time of payment (see 3.4.4).

On the other hand, in tax treatment on the remittances made by a branch of a foreign corporation to its head office as mentioned in 3.1.1, the profits/losses from the internal transactions are to be recognized based on the presumption that the Japanese branch is a corporation which is independent from the head office. Please note that funding for opening a branch from the head office to the branch and repatriation of profit, etc. to the head office are categorized as capital transaction, and profits/losses do not occur. In addition, internal transactions are not subject to withholding income tax.

3.4 Overview of withholding income tax

Japan's tax filing system is based as a rule on self-assessed income tax payment where individuals (taxpayers) calculate their annual income and tax amount, and file tax returns by themselves. In addition, a tax withholding system where companies (salary payers) collect income tax on the date of payment and pay the tax on behalf of individuals (income earners), is also introduced for specific incomes. Tax withholding at source is required when payments of certain taxable income are made, whether paid to an individual or a corporation. Income subject to the tax withholding system is determined in accordance with the type of income and the classification of the recipient of that income.

3.4.1 Withholding at source and payment procedures

Persons/companies who pay income subject to withholding at source must pay the taxation office the amount of tax withheld at source no later than the 10th day of the month following that the income was paid. However, when a payer with a domicile or business office in Japan pays income to a non-resident or a foreign corporation in another country, it must fill out the required items on the tax payment slip and pay the withholding tax by the last day of the following month. Regarding withholding tax paid on residents' salaries, certain professional fees, a special measure is provided for small businesses with fewer than 10 persons on the payroll that allows them to pay withholding tax in six-month installments twice a year (by July 10 and by January 20).

3.4.2 Withholding tax on residents (individuals)

Payments made in Japan of the following or other prescribed income to residents are subject to withholding at source:

- Interest
- Dividends
- Salary, wages, bonuses, and similar compensation
- Retirement allowances
- Compensation, fees, etc., to certain professionals

3.4.3 Withholding tax on domestic corporations

Payments made in Japan of the following or other prescribed income to domestic corporations are subject to withholding at source:

- Interest
- Dividends

3.4.4 Withholding tax on non-residents and foreign corporations

Upon the payments made in Japan of the prescribed domestic-sourced income described in 3.2.1 (4) or (5) above to a non-resident or a foreign corporation, or such payments made overseas by payers with a domicile or business office, etc. in Japan, tax should be withheld. Of these payments, payments of certain categories of income as prescribed for non-residents and for foreign corporations to a non-resident or a foreign corporation with a permanent establishment within Japan are exempt from withholding taxation, provided that a certificate from the taxation office is presented to the payer attesting that the income will be attributed to that permanent establishment and will be added to business income subject to self-assessment for tax purposes.

3.5 Tax treaties

In order to prevent double taxation on the same income, Japan has concluded tax treaties with many countries for the purposes of promoting investment and economic exchange with those countries through providing legal stability in taxation, eliminating international double taxation, and preventing tax evasion and avoidance.

The provisions of tax treaties supersede those of domestic law. For the tax liability in Japan of individuals and corporations domiciled in a country with which Japan has a tax treaty, the location of the source of income (the provisions concerning where income that provides the rationale for taxation is generated) deemed taxable income under Japanese law (the provisions concerning where income that provides the rationale for taxation is generated) may at times be amended from Japan to her counterpart (or from her counterpart to Japan) to accord with these tax treaties. For various types of income, Japan where income is generated has tax reduction or exemption measures. Through these measures, majority of international double taxation can be avoided.

- Japan's Tax Convention Network website:
  https://www.mof.go.jp/english/tax_policy/tax_conventions/international_182.htm

3.6 Overview of consumption tax

The following domestic and import transactions, except for certain transactions deemed non-taxable, are subject to consumption tax. In principle, the consumption tax rate is 10% (inclusive of local consumption tax rate of 2.2%). The reduced tax rate of 8% (inclusive of local consumption tax rate of 1.76%) will be applied to sales of food and beverages, except for alcoholic drinks and dining out, and sales of newspapers published more than twice a week (under subscription contracts).

(1) Domestic transactions: the transfer or rental/lease of assets or the provision of services as a business in Japan by an enterprise for consideration.

(2) Import transactions: foreign cargo retrieved from a bonded zone

Financial transactions, capital transactions and certain transactions in the areas of medical care, welfare and education are deemed non-taxable. Export transactions and export-like transactions such as international communications and international transport are exempt from consumption tax.

3.6.1 Tax exemption for enterprises

Enterprises whose taxable sales[*1]are 10 million yen or less for the base period[*2] are exempt from consumption tax filing/liability (such enterprises are referred to as "tax exempt enterprises"). However, tax exempt enterprises can opt to be taxable by submitting an advance notification.

Tax filing/liability will not be exempt for certain corporations and enterprises, such as a newly established corporation with capital of 10 million yen or more, a newly established corporation whose capital is less than 10 million yen but is established by a group of enterprises whose taxable sales are more than 500 million yen with the group having more than a 50% stake (only for two years after the establishment, for either case), and an enterprise whose taxable sales[*3] during the first half of last year or the previous fiscal year are more than 10 million yen.

*1 In the case where a corporation's base period is not one year, the taxable sales during the base period are the amount obtained by prorating the balance during the below-mentioned base period in the prescribed manner.

*2 Base Period: The base period is the full accounting period two years prior to the current accounting year. A corporation may not have a full base period if it was a) newly established or b) changed its accounting period during the two-year prior period. The base period for such corporation is found by combining all accounting periods that commenced during the one year from one day before two years prior to the first day of the current account year.

*3 Amount of salary paid can be used instead of taxable sales.

3.6.2 Deduction of purchase tax

Consumption tax on taxable purchases may be deducted from consumption tax on taxable sales when calculating the amount of consumption tax to be paid. In order for the consumption tax on purchase to be deducted, both account ledgers and invoices that describe certain matters have to be retained according to the following classifications.

(1) From October 1, 2019 to September 30, 2023

- Account ledgers indicating matters necessary for tax rate categories classification
- Invoices that describe tax rate categories, etc.

(2) On or after October 1, 2023 (after the implementation of the so-called 'invoice system')

- Account ledgers indicating matters necessary for tax rate categories classification
- Qualified invoice, etc. (invoice) issued by business issuer of qualified invoice*

On or after October 1, 2023, as a general rule, taxable purchases other than those from business issuer of qualified invoice will no longer be eligible for deduction of consumption tax on purchases. However, a transitional measure has been established to treat a certain percentage of the amount equivalent to the consumption tax on purchases to be deductible as follows:

From October 1, 2023, to September 30, 2026: 80% of the amount equivalent to the consumption tax on purchases

From October 1, 2026, to September 30, 2029: 50% of the amount equivalent to the consumption tax on purchases

The amount of the deduction, however, varies depending on factors such as the proportion of taxable sales to total sales. For certain cross-border supplies of electronic commerce by foreign enterprises, only the consumption tax on purchases that are subject to the reverse charge system (see 3.6.3) and on purchases that are received from registered foreign enterprises can be deducted.

If taxable sales during the base period amounted to 50 million yen or less, the amount calculated by multiplying the consumption tax on taxable sales by a specific percentage given to each industry may be considered the consumption tax on purchases to be deducted and allowed as a deduction if advance notification is submitted (such system is called the "simplified tax system").

* Business issuer of qualified invoice refers to a consumption tax paying business that has applied for and been registered as a "business issuer of qualified invoice" by the District Director of the tax office of jurisdiction.

3.6.3 Self-assessment and payment

Enterprises engaged in domestic and/or import transactions are obliged to file and pay consumption tax. (If the amount of consumption tax on purchases to be deducted is more than the amount of consumption tax on taxable sales, the difference can be refunded by filing in a tax return.) In the case of certain cross-border supplies of electronic commerce by foreign enterprises, Japanese enterprises who have received the provision of services are responsible for filing and payment (reverse charge system). Regarding certain cross-border supplies of electronic commerce to consumers, foreign enterprises providing services are responsible for filing and payment. The tax return filing and payment deadline is within two months from the day after the taxation period (in principle, the last day of the business year in the case of corporations)

Note: Corporations that are subject to the extension of the filing deadline for their corporate tax returns, taxable periods that include fiscal years ending on or after March 31, 2021, may be eligible for a one-month extension by notification.

Note: "Certain cross-border supplies of electronic commerce to consumers" is defined as the services not classified as B2B electronic services which includes "Provision of services that are normally limited to businesses, considering the nature of the services, or the terms and conditions relating to the provision of the services".

As mentioned in 3.3.10 above, with respect to consumption tax, corporations (excluding foreign corporations) with share capital or contributed capital exceeding 100 million yen are also required to submit final returns and interim returns via electronic filing from fiscal years beginning on or after April 1, 2020.

3.7 Overview of individual tax system

All individuals, regardless of nationality, are classified as either residents or non-residents. Individual income tax will be levied on the individual's income for the calendar year.

3.7.1 Concept of residence and taxable income

(1) Residents

Persons having a domicile in Japan*1 and persons having a residence in Japan*2 for one year or more are termed residents. The worldwide income of residents, regardless of the location of the source of income, is subject to income tax.

*1 "Domicile" as used in (1) above refers to the principal base and center of one's life. "Residence" refers to a location in which an individual continually resides for a certain time but which does not qualify as a base and center of his/her life.

*2 Non-permanent residents: Residents having no Japanese citizenship and having a domicile or residence in Japan for five years or less within the period of ten years are non-permanent residents. The scope of taxation for non-permanent residents corresponds to that for residents, but tax will not be assessed in Japan on income sourced outside Japan as long as that income is not paid within Japan or is not remitted to Japan. However, the salary paid based on the work in Japan is applicable to domestic-sourced income even if it is paid outside Japan, and income tax will be assessed summing the salary paid within and outside Japan.

(2) Non-residents

Persons not qualifying as residents are termed non-residents. Japanese income tax for non-residents will be assessed on income sourced within Japan. As described in 3.4.4 above, the scope of taxable income for withholding tax on non-residents is covered under the provisions for domestic-sourced income, so, except in special cases, taxation for non-residents is now more commonly completed only through withholding at source procedures.

<Table 3-6> Scope of personal taxable income

Type of residence / Category of income	Income other than foreign-sourced income		Foreign-sourced income		
	Paid within Japan	Paid outside Japan	Paid within Japan	Paid outside Japan	
				Remitted to Japan	Other
Permanent residents	Taxable	Taxable	Taxable	Taxable	Taxable
Non-permanent residents	Taxable	Taxable	Taxable	Taxable	Non-taxable
Non-residents	Taxable	Taxable	Non-taxable	Non-taxable	Non-taxable

3.7.2 Self-assessed income tax

(1) Self-assessed income tax on residents

Income is calculated using methods established for each of a number of income classifications. The tax is calculated by subtracting the various income deductions from the total amount of income and then multiplying the difference, which is the amount of taxable income, by the progressive tax rates below. Any withholding income tax levied on the income beforehand will be deducted from the calculated tax.

(2) Self-assessed income tax on non-residents

Non-residents are classified by their circumstances into non-residents who have a permanent establishment (PE) ((a) non-residents having an office, etc., in Japan, (b) non-residents continuously engaged in construction or assembly in Japan for one year or more, or (c) doing business through a designated agent in Japan) and to non-residents who do not have a PE. In case PE is defined differently in tax treaty, tax treaty definition shall prevail. Taxable income is calculated within the scope of income established for each classification. In the method of taxation for non-residents, income tax becomes taxable by dividing income into income attributable to PE and other domestic source income depending on the existence of PE. The amount of self-assessed income tax levied on non-residents is, as a rule, calculated in the same manner as for residents (subject to differences in the treatment such as the limit amounts of applicable income deductions and foreign tax deductions). Non-residents who earn salary income paid for services provided in Japan and not deemed subject to withholding tax in Japan must file a return and pay a 20.42% tax on the total amount of that salary.

(3) The tax rates for self-assessed income tax on individual income (in the case of residents and of aggregate taxation of non-residents) are as shown below.

<Table 3-7> Individual income tax rates

Brackets of taxable income		Tax rates
---	Up to 1,950,000 yen	5%
Over 1,950,000 yen	Up to 3,300,000 yen	10%
Over 3,300,000 yen	Up to 6,950,000 yen	20%
Over 6,950,000 yen	Up to 9,000,000 yen	23%
Over 9,000,000 yen	Up to 18,000,000 yen	33%
Over 18,000,000 yen	Up to 40,000,000 yen	40%
Over 40,000,000 yen	---	45%

(4) Income tax on employment income is calculated based on the amount obtained by deducting the following employment income deductions from income.

<Table 3-8> Employment income deductions (Applied to employment income in FY2020 and after)

Employment income		Employment income deductions
-	Up to 1,625,000 yen	550,000 yen
Over 1,625,000 yen	Up to 1,800,000 yen	(employment income) x 40% - 100,000 yen
Over 1,800,000 yen	Up to 3,600,000 yen	(employment income) x 30% + 80,000 yen
Over 3,600,000 yen	Up to 6,600,000 yen	(employment income) x 20% + 440,000 yen
Over 6,600,000 yen	Up to 8,500,000 yen	(employment income) x 10% + 1,100,000 yen
Over 8,500,000 yen	-	1,950,000 yen

3.7.3 Withholding income tax

The withholding income tax for residents and non-residents is as described in 3.4.2 and 3.4.4.

3.7.4 Filing and payment

Residents must submit an income tax return for the income earned each year, except when tax payment procedures have been completed through withholding at source, and must pay the tax owed between February 16 and March 15 of the following year. Persons whose total income does not exceed total deductions and persons who receive salary income subject to withholding tax at source (year-end adjustment) from only one payer not exceeding 20 million yen in that year and who have no other income exceeding 200,000 yen do not, as a rule, need to file a return.

As a rule, non-residents file and pay taxes following the same regulations as residents. However, non-residents leaving Japan without reporting the designation of a tax agent to the director of the taxation office must submit an income tax return and pay the tax owed prior to leaving Japan.

3.7.5 Restoration income surtax

From January 1, 2013, to December 31, 2037, individuals and corporations will be subject to a 2.1% restoration income surtax on the amount of their income tax. In case of tax withholding at source, the 2.1 % restoration income surtax will also be levied on the amount of withholding tax on income and collected together with the income tax. For example, the tax rate for withholding tax on interest paid to a foreign corporation is 20%, to which the restoration income surtax (20% x 2.1%) will be added, resulting in a total 20.42% tax withheld at source.

Note that a restoration income surtax is not levied where the withholding tax rate provided for under domestic law is reduced or eliminated by tax treaty.

3.7.6 Individual inhabitant taxes, individual enterprise tax

"Individual inhabitant taxes" is the collective term for prefectural tax and municipal tax on individual income, and persons having a domicile etc. in Japan as of January 1 each year are subject to these taxes. Individual inhabitant taxes consist of an income-graded component and a flat-rate (fixed amount) component etc. The income-graded component is assessed on income for the preceding year and, except in special cases, taxable income for these taxes is calculated in accordance with the provisions for calculating income for income tax purposes. Individual inhabitant tax returns must be filed by March 15, but persons submitting self-assessed income tax returns do not have to file again for individual inhabitant tax. The standard rates of individual inhabitant taxes for the income-graded component are as shown below.

<Table 3-9> Standard rates of individual inhabitant tax (income-graded component)

Prefectural tax rate	Uniformity	4%
Municipal tax rate	Uniformity	6%

(Note) The standard rate of tax for the flat-rate component is 1,000 yen for prefectural inhabitant tax and 3,000 yen for municipal inhabitant tax.
For 10 years from 2014 to 2023, however, these rates will respectively be 1,500 yen and 3,500 yen.
Tax rates may differ from the standard tax rate depending on the local government concerned.

Individuals engaged in certain businesses specified in local tax laws must pay enterprise taxes. Taxable income for enterprise tax purposes is generally calculated in accordance with the provisions for calculating income for income tax purposes, except where special stipulations apply. Returns must be filed by March 15, and taxes must be paid in August and November in accordance with tax notices issued by the prefectural government. Individual enterprise tax rates range from 3% to 5%, depending on the type of business.

3.7.7 Inheritance tax and gift tax

(1) Taxpayers and scope of taxable properties

<Table 3-10> Inheritance & gift taxpayers and scope of taxable properties

a. Address in Japan (Heir/Devisee or Legatee)

Decedent/Donor (person who gave properties)	Heir/Devisee or Legatee/Donee (person who received properties)	
	Address in Japan	Address in Japan Temporary resident*1
Address in Japan	Both domestic and foreign properties are taxable.	Both domestic and foreign properties are taxable.
Address in Japan Foreigner decedent / donor*2	Both domestic and foreign properties are taxable.	Only domestic properties are taxable.
No address in Japan, but had an address in Japan within the preceding 10 years (and has a Japanese nationality)	Both domestic and foreign properties are taxable.	Both domestic and foreign properties are taxable.
No address in Japan	Both domestic and foreign properties are taxable.	Only domestic properties are taxable.

b. No address in Japan (Heir/Devisee or Legatee)

Decedent/Donor (person who gave properties)	Heir/Devisee or legatee/Donee (person who received properties)		
	No address in Japan Japanese nationality Address in Japan within the prior 10 years	No address in Japan Japanese nationality No address in Japan over the prior 10 years or more	No address in Japan No Japanese nationality
Address in Japan	Both domestic and foreign properties are taxable.	Both domestic and foreign properties are taxable.	Both domestic and foreign properties are taxable.
Address in Japan Foreign decedent / donor*2	Both domestic and foreign properties are taxable.	Only domestic properties are taxable.	Only domestic properties are taxable.
No address in Japan Address in Japan within the preceding 10 years (and has a Japanese nationality)	Both domestic and foreign properties are taxable.	Both domestic and foreign properties are taxable.	Both domestic and foreign properties are taxable.
No address in Japan Address in Japan within the preceding 10 years	Both domestic and foreign properties are taxable.	Only domestic properties are taxable.	Only domestic properties are taxable.
No address in Japan	Both domestic and foreign properties are taxable.	Only domestic properties are taxable.	Only domestic properties are taxable.

(Note) Shaded areas in the table signify that both domestic and foreign properties are taxable and white areas signify that only domestic properties are taxable.

*1 Those qualified for status of residence according to Appended Table I of the Immigration Control and Refugee Recognition Act and have an address in Japan for less than 10 years in the past 15 years.

*2 Those with status of residence at the commencement of inheritance and an address in Japan. Duration of residence in Japan is not questioned.

Hereinafter, a decedent and/or donor is called "a person who gave properties" and an heir, devisee, legatee and/or donee is called "a person who received properties."

(2) When expatriates received properties by inheritance/gift while in Japan

If a person has an address in Japan at the time of inheritance/gift, the person who received the properties is an inheritance and gift taxpayer. In this case, regardless of the nationality of the person who received the properties and the address of the person who gave the properties, all of the properties acquired are taxable. In other words, not only properties located in Japan but also properties located outside the country are subject to inheritance/gift tax. However, if an expatriate is a non-permanent resident (who has status of residence and has had an address in Japan for an aggregate period of 10 years or less within 15 years preceding the commencement of inheritance) and has acquired properties outside Japan by inheritance and so on from their family living in their home country, or has received properties from a foreigner decedent or donor (who has status of residence and an address in Japan), only domestic properties are taxable.

(3) When expatriates passed away or gave a gift while in Japan

When a foreign resident acquired a property by inheritance and so on from an expatriate in Japan, if the address of the person who gave the properties at the time of giving the properties was in Japan, all of the properties acquired are subject to tax, regardless of the nationality of the person who received the properties. In other words, it is noteworthy that not only properties located in Japan but also properties located outside the country are subject to the inheritance/gift tax. However, when the expatriate is a temporary resident (who had status of residence and an address in Japan) and if the person receiving the properties lives outside Japan and does not have a Japanese nationality (or has a Japanese nationality but has not had an address in Japan for 10 years or more), only domestic properties are taxable. Also, if a person who has received the properties lives in Japan but is a non-permanent resident (who has status of residence and has had an address in Japan for an aggregate period of 10 years or less within 15 years preceding the commencement of inheritance), only domestic properties are taxable.

(4) After expatriates have returned home on completion of their business in Japan

When neither the person who gave the properties nor the person who received the properties has an address in Japan, only the properties located in Japan are subject to inheritance/gift tax. However, if the person who gave the properties or the person who received the properties had a Japanese nationality and an address in Japan within 10 years preceding the inheritance/gift, not only the properties located in Japan but also the properties located outside the country are subject to inheritance/gift tax.

(5) Tax rates of inheritance tax and gift tax

The rates are between 10% to 55% for both the inheritance tax and gift tax, but there is a difference between the inheritance tax and the gift tax in the taxable amount each tax rate is applied.

(6) Foreign tax credits

If a person who has acquired a property located outside Japan by inheritance or gift and the property is subject to a tax corresponding to the inheritance/gift tax in the country where the property is located (for gift tax, including the cases where the tax is imposed on the person who gave the property), a certain amount of the tax imposed in the foreign country will be credited against the inheritance/gift tax in Japan by the provisions of the foreign tax credits to avoid double taxation.

3.8 Other principal taxes

There are a variety of other taxes levied on income, the acquisition/ownership of assets, consumption, and other transactions in addition to those described above. Taxes levied on the ownership of assets to which many businesses are subject include the fixed asset tax and the city planning tax. Land, structures, and depreciable assets for business use are subject to a fixed asset tax of 1.4%, payable by the owners of said property as of January 1 each year. The city planning tax is levied at a rate of 0.3% on land and structures within city planning zones. Companies in major cities such as Tokyo and Osaka having facilities exceeding 1,000 square meters in floor space and/or having more than 100 employees are subject to business office taxes. The tax rates are 600 yen per square meter of floor space and 0.25% of the total amount of employee salaries.

Furthermore, there is a registration and license tax levied for the registration of real estate/companies and the issue of business licenses, as well as a stamp duty payable as a tax on stipulated documents. Gift tax, inheritance tax (see 3.7.7) and other special-purpose taxes must also be borne in mind.

3.9 Other principal corporate taxation regarding international transactions

3.9.1 Foreign tax credits and system of exclusion of dividends from foreign subsidiaries

In order to avoid double taxation of income internationally, a domestic corporation is allowed to credit foreign taxes imposed on a certain income up to the creditable limit. This foreign tax credit system provides; (1) credits for foreign taxes paid directly by a domestic corporation on income earned by it outside Japan ("direct tax credits"); (2) credits for amounts of tax that have been specially reduced or exempted in a country under the provisions of a tax convention with that country ("tax-sparing credits"); and (3) credits for foreign taxes corresponding to the income of a specified foreign subsidiary or similar entity that has been combined with the income of a domestic corporation under so-called anti-tax haven taxation system.

A Foreign Dividend Exclusion system has been introduced to avoid international double taxation. This allows domestic corporations to exclude from their taxable income a certain amount of dividend income from qualifying foreign subsidiaries (i.e., corporations that meet shareholding requirements and other conditions).

3.9.2 Transfer pricing taxation

In order to prevent corporations from setting the prices for transactions with a parent company or other overseas affiliate at a different amount from ordinary (i.e. arm's -length) prices so as to transfer profits overseas, a transaction is treated as having occurred at the arm's length price and the amount of tax calculated accordingly if the income derived from the transaction differs from the arm's length price. As a reporting system that enables each country's tax authorities to grasp the overall pictures of global companies' business activities has been established, corporations belonging to certain multinational enterprise groups have to submit a prescribed report from the fiscal year of their ultimate parent company beginning on or after April 1, 2016.

3.9.3 Anti-tax haven taxation: CFC (Controlled Foreign Company) rule

In order to prevent domestic corporations from evading taxes by retaining income through a foreign subsidiary established in a so-called tax haven, a domestic corporation is taxed by including in its taxable income an amount corresponding to its interest in the retained earnings of that foreign subsidiary.

3.9.4 Thin-capitalization taxation

If a corporation's borrowing from an overseas controlling shareholder exceeds three times its equity (or an alternative reasonable ratio), interest on borrowing corresponding to the excess cannot be deducted from taxable income.

3.9.5 Japanese earnings stripping rules

Deductions for payments of interest, etc. by corporations to parent companies or other affiliates are disallowed to the extent that such interest exceeds 20% of the adjusted taxable income.

However, this will not apply if the amount of interest paid, etc. to affiliates is 20 million yen or less, or if the total amount of the subject net interest paid, etc. of all domestic corporations with capital relationships exceeding 50% is 20% or less of the total amount of adjusted income of these domestic corporations.

Note that where interest payments are subject to both these rules and the rules on thin-capitalization taxation described in 3.9.4 above, the rules under which the non-deductible amount would be greater shall apply.

3.10 Handling of corporate, local, and consumption taxes depending on capital amount

Main items that have different handling in the taxation systems depending on the amount of paid-in capital or the amount of capital, etc., are as summarized below.

3.10.1 Corporate tax, corporate inhabitant tax and enterprise tax

Main items that have different handling in the taxation systems of corporate tax, corporate inhabitant tax and enterprise tax depending on the amount of paid-in capital and the amount of capital, etc., are as shown in Table 3-11 below. In order to be eligible for each special measure, various requirements, including (successive) filing of a blue form tax return, have to be satisfied. Please check the details of the requirements with tax professionals individually.

<Table 3-11> Handling of corporate tax and local tax depending on capital amount

Items	Paid-in capital requirements	Remarks (special measures)
Reduced corporate tax rate	100 million yen or less*1*5	Applicable to the reduced tax rate of 15% (19% if it does not fall under Capital Requirement*1 and corresponds to *5) for the part of annual taxable income of 8 million yen or less (see 3.3.2)
Per capita levy on corporate inhabitant tax	Depending on amount of capital, etc.*2 *3	Taxation depending on the amount of capital, etc., the number of employees working at a place of business, etc., or a combination of these (see Table 3-3 in 3.3.2)
Enterprise tax on a pro forma basis	100 million yen or less	Exemption (see 3.3.3)
Special tax rate for certain family corporations	100 million yen or less*1	Tax exemption on retained earnings (see 3.3.7)
Carry-over of losses	100 million yen or less*1	Not applicable to the provision of the maximum amount of loss that may be deducted from income*4 (see 3.3.8)
Refund for carry-back of losses	100 million yen or less*1	Being able to receive a refund of the tax paid by offsetting the loss in the current business year against the income made in the previous business year (see 3.3.8)
Requirement for electronic filing by large enterprises	Over 100 million yen	From tax year commencing on or after April 1, 2020, final tax return, interim return, amended return, and their appendices need to be submitted electronically using e-tax (see 3.3.10)

* 1 The following corporations are not eligible for the special measures described in the Remarks even if their paid-in capital is 100 million yen or less.
  - A corporation that is completely dominated by a large corporation (a corporation whose paid-in capital or investment exceeds 500 million yen, a mutual company defined in the Insurance Business Law or a certain other company)
  - A domestic corporation that is completely dominated by large corporations and one of all the large corporations have all the shares of or a stake in the domestic corporation
* 2 The total amount of the increase or decrease of capital etc. resulting from free capital increases or dispositions of deficits that have been made since a certain past year, which is added to or subtracted from the capital etc. prescribed in the Corporate Tax Law or other certain amount of capital etc.
* 3 The amount of capital etc. is the sum of the paid-in capital and the capital reserve or the amount of investment in the case of the amount of capital etc. as of the end of a business year is less than the amount of capital and the capital reserve or the amount of investment.
* 4 However, unlisted corporations and corporations in the middle of reconstruction are eligible for a deduction rate of 100% for a certain period of time regardless of the amount of paid-in capital.
* 5 Corporations whose average amount of income for each business year ended within three years before the commencement date of the current business year exceeds 1.5 billion yen (Corporations excluded from preferential treatments of SME)
* 6 In addition to the above, there are special measures depending on the amount of capital in the treatment of deductions of the allowance for bad debts, special provisions for taxation on entertainment expenses, various special write-offs, and tax deductions.

3.10.2 Consumption tax

The main items that have different handling in the taxation system of consumption tax depending on the amount of capital are as shown in Table 3-12 below. Please make sure to check whether or not the requirements for exemption from the consumption tax are satisfied with tax professionals individually.

<Table 3-12> Handling of consumption tax depending on capital amount

Items	Paid-in capital requirements	Remarks (special measures)
Tax exemption for enterprises	Less than 10 million yen	Tax exemption when a company that has no base period, such as a newly established company, meets certain conditions (see 3.6.1)
Requirement for electronic filing by large enterprises	Over 100 million yen	From tax year commencing on or after April 1, 2020, final tax return, interim return, amended return, and their appendices need to be submitted electronically using e-tax (see 3.3.10)

Reference (3)

1. Consultation with specialists on accounting and tax support

Certified public accountants and tax accountants are specialists providing accounting and tax support to companies operating in Japan. Both are qualification recognized by law, and only persons with these qualifications may engage in legally stipulated monopoly businesses. Certified public accountants enjoy a monopoly on the performance of audits under the Certified Public Accountant Law, while tax accountants have a monopoly on tax agent services, preparation of tax documentation and tax consultations under the Certified Tax Accountant Law. In addition to their respective monopoly businesses, both provide multi-faceted services such as accounting and business consulting.

4.1 Application of laws

Japan has a number of laws pertaining to labor and the protection of workers. These include: the Labor Standards Act which sets forth the minimum standards on working conditions; the Industrial Safety and Health Act which aims to ensure the safety and health of workers at the workplace; and the Minimum Wage Act. These laws apply in principle to all enterprises in Japan, regardless of whether the employer is Japanese or foreign, or the company is a foreign or Japanese-registered corporation. They also apply to foreign workers in Japan provided that the foreign workers meet the definition of workers under these laws.

4.2 Recruitment

4.2.1 Recruiting methods

Japan has a government-run employment agency known as "Hello Work" with offices throughout Japan. Hello Work offers free support for people looking for work and companies looking for workers; all industries are covered by the agency. Similarly, some regional public organizations and education institutions such as universities provide employment services for free. There are also many privately-run employment agencies; these come in several types, including executive search-type agencies, as well as those which build up a database of registered potential employees and employers, and where the agency collects fees on a contingency basis (i.e., when someone from their database is successfully employed with a company). Japan also has a wide range of newspapers, magazines (e.g., job-transfer magazines, industry-specific magazines, etc.), and Internet websites through which companies can advertise their job opportunities and vacancies.

4.2.2 Legislation on recruitment

As far as labor contracts are concerned, the principle of freedom of contract applies to the hiring of workers, and allows an employer to decide what kinds of workers and how many to hire. There are, however, some restrictions. For instance, under the Equal Employment Opportunities Act, employers must afford equal opportunities regardless of sex when recruiting and hiring workers. For that reason, employers may not specify male or female employees when advertising situations vacant, with the exception of a few specific positions.

Under the Employment Measures Act, employers must also afford equal opportunities regardless of the age when recruiting and hiring workers, and employers are, with some exceptions, prohibited from specifying the age limit in their recruitment and hiring.

Selection criteria should be based on whether the applicant has the aptitude and ability necessary for performing the job in question. Personal matters unrelated to aptitude and ability (such as an applicant's nationality, family, personal beliefs, and other matters) should not be used as application conditions or hiring standards.

4.2.3 Indication of working condition

Companies must indicate the working conditions when recruiting workers through newspapers, magazines or the internet, or when posting job offerings to "Hello Work" or private employment agencies. At that time, the companies must indicate the following conditions in writing.

- Job description
- The period of the agreement (or where there are no provisions pertaining to period, the fact that there are no provisions pertaining to term)
- Workplace
- Matters pertaining to start and finish times, work in excess of regular working hours, breaks, days off and leaves
- Wages
- Matters pertaining to an employee's health insurance, an employee's pension, Industrial accident compensation insurance, and Employment insurance

If the working conditions of the labor contract are different from the conditions indicated in the initial job-offering, the employer must indicate the difference. The difference should be indicated by a document through which a jobseeker can compare the difference, or by highlighting or underlining the changes in working conditions made in the document when concluding a labor contract (see also 4.3.1). Also, the following working conditions must be indicated in writing:

- Probation period (see also 4.3.3)
- Name of the person that offered the job
- If the employer recruits employees for worker dispatching undertakings, the fact that the employer does so (see also 4.3.9 (1))

4.3 Labor contracts

4.3.1 Working conditions

When hiring workers, companies enter into labor contracts with each worker. At that time, the employer must notify the employees in writing of the following employment conditions. If the worker wishes, the employment conditions can be presented via fax, email, social media, and other methods.

- The term of the agreement (or where there are no provisions pertaining to term, the fact that there are no provisions pertaining to term)
- Place of employment, and contents of duties
- Matters pertaining to start and finish times, work in excess of regular working hours, breaks, days off and work shift arrangements where work is to be performed by two or more teams of workers
- Methods of determining, calculating and paying wages, closing day of the payroll period, pay day, as well as matters pertaining to wage raises
- Matters pertaining to retirement and dismissal (including all grounds for dismissal)

(Note) In the case of part-time workers, the employer must in addition specify in writing whether they will be eligible for pay increases, retirement allowances, and/or bonuses.

Any part of a labor contract that does not meet the standards laid down by law is invalid. For example, a contract containing provisions such as "the company may dismiss the worker at any time," "the company does not pay overtime fees," and "social insurance fees shall be borne entirely by the worker" (in the case of a business establishment covered by social insurance) is invalid insofar as these provisions are concerned.

It is also illegal to impose a penalty for non-fulfillment of a labor contract. For example, it is illegal to include a clause such as the following: "If a worker retires within two years of joining the company, he/she must pay to the company the sum of 500,000 yen." However, this does not preclude an employer from claiming damages from a worker for losses actually incurred.

4.3.2 Term of labor contracts

Labor contracts generally do not stipulate a term. Where a term is specified, however, it must be no longer than three years except in a few special cases. A fixed-term Labor contract exceeding five years in total by updates can be converted to a Labor contract without a definite term upon the employee's request.

However, exceptions are made for Highly Skilled Professionals or senior citizens who continue to work after mandatory retirement under the continued employment system.

4.3.3 Probation period

Employers are allowed to set a limited period of probation prior to fully employing somebody, so as to see whether or not the probationary employee is able and suitable for the job. However, it should be noted that if the employer decides not to fully employ somebody during or after the probation period, this refusal to employ is treated in the same manner as dismissal of an employee; in order for such a refusal to be legally allowed, valid reasons for refusal (which were not evident at the time of probationary employment) must have come to light during the period of probation, and it must be objectively reasonable for the employer to refuse to fully employ that person for the aforementioned valid reasons.

4.3.4 Re-assignment, external assignment, and dispatch of workers to other companies

Japanese companies frequently redeploy their workers through internal re-assignment and external assignment, and such redeployments may often require a worker to relocate. Generally, employers have considerable discretion when it comes to changing a worker's duties or temporarily assigning him or her to another company if this is reasonably necessary to business. However, it is necessary to follow the Employment Security Act when companies order their employees temporary external assignment (see also 4.3.9 (2)).

If a worker employed by one person engages in work for another person under the instruction of the latter, while maintaining the worker's employment relationship with the former, the former will be deemed to be engaged in "worker dispatching" (see 4.3.9). To engage in worker dispatching, a company must receive a license. It is prohibited with criminal penalty to engage in worker dispatching without a license.

4.3.5 Disadvantageous change of a labor contract to the worker

Working conditions such as wages, working hours, etc. may be changed by agreement between the company and the worker. Although the company may not change the working conditions in principle in a manner disadvantageous to the worker by changing the rules of employment, if the change to the rules of employment is reasonable in light of the extent of the disadvantage to be incurred by the worker, the need for changing the working conditions, the appropriateness of the contents of the changed rules of employment, the status of negotiations with a labor union or the like, or any other circumstances pertaining to the change to the rules of employment, the working conditions that constitute the contents of a labor content shall be in accordance with such changed rules of employment.

4.3.6 Governing law

In the case of international contracts, which country's law to use as the governing law may be determined by agreement between the parties (see Article 7 of the Law on the General Rules on Application of Laws), and labor contracts are no exception. However, legislation that is clearly intended to protect workers as a matter of policy, such as the Labor Standards Act, will be compulsorily enforced in the forum state regardless of any such agreement. Even if a worker agrees to the law of a region other than that in which labor services are provided being used as the governing law for a labor contract, he/she may claim the benefit of specific forcible provisions ("relative mandatory law") in the region in which labor services are provided by indicating to the employer that he/she wishes that such provisions should be applied. If a labor contract does not stipulate the governing law, it is assumed to be the law of the region in which labor services are provided.

4.3.7 Written guarantee of good conduct

When hiring a worker, a company may require that a guarantee of good conduct be provided by a relative of the worker or similar guarantor, and such a guarantee is held to be legally valid. The term of this guarantee is deemed to be three years if not specified, and up to a maximum of five years where a term is specified. Also, if the company seeks a financial guarantee from the guarantor, it needs to set a limit on the amount.

4.3.8 Corporate directors and executive officers, etc. ("directors, etc.")

The contractual relationship between a company and directors, etc. is, as a rule, considered to take the form of an engagement agreement as opposed to a labor contract. Accordingly, the relationship is, as a rule, subject to the Companies Act rather than labor law. If a director, etc. does not have the right to represent a company and is employed in a manner very similar to that of a worker, he/she may be simultaneously subject to labor law as a dual worker/director, etc.

4.3.9 Use of workers employed by other companies

Use of workers of other companies can be made in three ways: worker dispatching, contracting, and temporary transfer.

(1) Worker dispatching

In principle, dispatched workers are allowed to engage in any types of work other than port transport, construction, and security, as well as some medical work. Continued reception of dispatched workers in the same place of business is, in principle, limited to 3 years. Also, the period where the same dispatched worker is allowed to work in the same organizational unit in the client is limited to a maximum of three years. However, the aforementioned limitation on the dispatch period is not applied to a dispatched worker employed by a dispatching business operator without an employment period. Client companies cannot act to specify the worker that is to be dispatched in advance. Also, if a client dispatches a dispatched worker to another entity, it may be punished as an act in violation of the Employment Security Act. Further, if an entity accepts dispatched workers as a client, it is required to conform to the obligation stipulated.

(2) Contracting

When one company (Company B) subcontracts part of its work to another company (Company A), even if the worker employed by Company A is to work within Company B, Company A is required to conduct its work, including personnel administration regarding said worker, independent from Company B, and thus Company B can neither give orders to nor conduct personnel administration of said worker. Regardless of the name or the content of the contract, if the actual situation is confirmed to be applicable to (1) worker dispatching, regulations related to worker dispatching will be applied, and will be the object of Article 40-7 of the Worker Dispatching Law.

(3) Temporary transfer

It is generally prohibited by the Article 44 of the Employment Security Act that an employer (A) orders its employee to make a temporal labor contract with another company (B) and to work under the direction of the company (B) based on the contract between employer (A) and company (B). Despite that, the employer (A) can order such an external reassignment under certain situations (*).

(Note) For example, external reassignment with one or more of the following purposes is usually legal;

I. To avoid firing the employee and provide the opportunity to keep working in another company (B), which is related to employer (A)
II. To make the employer to conduct technical or administrational coaching in the company (B)
III. To develop the ability of the employee for career-building
IV. To reassign as a part of personnel exchanges within group companies

4.3.10 Corporate Reorganization and Labor Contracts

Recently corporate reorganization is actively undertaken amid the advance in aggravation of enterprise competition and easing of regulations. How the labor contract is treated under such reorganization shall be, if it is divided into merger, business transfer, and company split, as follows:

(1) Merger

In the event of an enterprise's merger, all rights and obligations are comprehensively succeeded. Thus, in both the case of consolidation-type merger (where a new company is formed as a result of a merger) and the case of absorption-type merger (where an existing company initiates a merger), the company surviving after the merger succeeds all labor contracts.

(2) Assignment of Business

If an enterprise transfer all or some of its businesses to another enterprise, succession of the rights and obligations is determined by parties concerned (individual succession). Thus, succession of labor contract is determined by the agreement among the assignor company, the assignee company, and the worker. Labor contract is not succeeded to the assignee company if either the assignee company or the worker refuses the succession of the labor contract.

(3) Company Split

Company split has two types. One is incorporation-type company split where the company-A splits a part or all of the rights and obligations concerning the company-A's undertaking, and the other is absorption-type split where the company-C absorbs a part or all of the company-A's undertaking. Then, the labor contract of the worker who is primarily engaged in succeeded business is succeeded to the newly found company or the absorbed company by operation of law.

4.3.11 Equal pay for equal work

Within the same company, setting unreasonable discrimination between regular and non-regular employees (part-time, fixed-term, or dispatched workers) in respect of any treatment, such as basic pay and bonuses, is prohibited. However, dispatched workers may be treated under a labor-management agreement that meets certain requirements in lieu of equal and balanced treatment with the client company's workers.

4.4 Wages

4.4.1 Principles of wage payment

Employers must pay wages in legal tender, directly to the employee, not less than once per month, and on a specified date. However, employers are allowed to remit wages into a bank account in said employee's name specified by the employee where the employee agrees to that method of payment, and may also deduct social insurance premiums, taxes and similar expenses from wages. Digital salary payments (through fund transfer into an account held at a fund transfer service provider) are partially permitted, effective April 2023.

4.4.2 Guarantee of minimum wage

The minimum wage is determined according to region and industry. Where an employee is subject to two different minimums, the employee is entitled to the higher of the two minimum wages. The employer must pay the employee a wage that is not less than the minimum wage. The minimum wages in main prefectures are as follows (as of October 2022).

<Table 4-1> Minimum wages in main prefectures

Prefecture	Tokyo	Kanagawa	Osaka	Aichi	Hyogo	Chiba	Hokkaido	Miyagi	Hiroshima	Fukuoka
Minimum hourly wage (yen)	1,072	1,071	1,023	986	960	984	920	883	930	900

4.4.3 Wage system

It is typical for Japanese companies to pay wages on a monthly basis, and to pay employees summer and winter bonuses. One characteristic of Japanese wages is the make-up: monthly wages usually include a basic wage and a range of allowances, which may include accommodation, family, and transportation allowances. Another characteristic is that the amount paid in bonuses makes up a relatively high proportion of total wages paid to employees[*1]. An effect of the high proportion of wages made up of various allowances and bonuses consequently is to lower the rate of overtime pay paid for work outside normal working hours. This system also allows labor costs to be immediately reduced in the event of a recession, for example. Although more businesses are adopting a yearly wage system, there are often few benefits for employers in practice under Japanese labor law[*2]. Further information is available through the Basic Survey on Wage Structure statistics collated regularly and provided by the Ministry of Health, Labor & Welfare in both Japanese and English.

*1 According to Japan Business Federation ("Keidanren") statistics, the average bonus paid by private-sector companies in FY2021 was 4.6 months' worth of monthly base pay (for non-managerial positions in all industries).

*2 Whether or not a yearly wage system is introduced or extra wages are paid for overtime work is irrelevant. If a company in Japan introduces a yearly wage system, it almost always only covers management-level employees.

4.4.4 Severance pay system

Almost all enterprises in Japan have some form of severance pay system. Normally when a worker leaves an enterprise, his/her employer will make a one-off payment calculated according to factors including length of service and reason for leaving the enterprise. This is not subject to social insurance contributions and is treated more favorably for tax purposes than ordinary pay. Provided that certain conditions are met, an enterprise that contributes to a severance pay reserve held by a government, financial, or similar institution may recognize these contributions as expenses for accounting purposes.

4.5 Legislation on working hours, breaks and days off

4.5.1 Working hours, breaks, days off

(1) Working hours must, in principle, not exceed 40 hours per week or eight hours per day excluding breaks (this is known as "statutory working hours"). However, some businesses are permitted to have their employees work up to 44 hours per week at a maximum of eight hours per day. These businesses include retail and beauty services, cinemas and theatres, businesses related to health and hygiene, as well as restaurants and entertainment businesses with less than 10 regular employees.

(2) In the event that an employee works six hours, the employer must give that employee not less than a 45 minute break; this increases to a one hour break where working hours exceed eight hours.

(3) Employers must grant employees at least one day off per week, or four days off in any four-week period (this is known as "statutory days off"). Sundays or public holidays need not necessarily be days off, and other days may be selected as employees' days off instead by agreement between the employer and employees.

4.5.2 Agreements on overtime and work on days off

Any employer that requires workers to work in excess of statutory working hours or on statutory days off must submit a Notification of Agreement on Overtime and Work on Days off to the chief of the relevant labour standards inspection office. If employers force employees to do overtime work or work on days off without submitting a Notification of Agreement on Overtime and Work on Days off, they may be penalized.

Even if employers submit a Notification of Agreement on Overtime and Work on Days off, there are limitations for overtime work and work on days off as follows.

<Table 4-2> Limitations for overtime work and work on days off

Period	1 week	2 weeks	4 weeks	1 month	2 months	3 months	1 year
Limit	15 hours	27 hours	43 hours	45 hours	81 hours	120 hours	360 hours

However, the extension of working hours to a certain amount of hours beyond the limitations can be included in the Agreement through the appropriate labor-management procedures on a certain period only if there are exceptional circumstances for the extension of working hours beyond the set limitations above (36 Agreement with Special Provisions).

4.5.3 Employers' "obligation to ascertain and calculate working hours"

Working hours refers to the time that is placed under the command of the employers, and the time the worker engages in the work by the employer’s explicit or implied instruction corresponds to working hours. The Labor Standards Act contains provisions on working hours, holidays, nighttime overtime work, and other working conditions. Employers are therefore under an obligation to properly ascertain and control working hours. Regarding the calculation of working hours, in principle, it is necessary to record time in an objective manner such as through timecards and use of time on personal computers. Even in the case that workers submit their working hours, it is necessary to have measures to confirm that the declared time is accurate.

4.5.4 Overtime payment

Companies must pay an increased rate of wages as set forth in the table below to employees who work in excess of statutory working hours, work on statutory days off or work late at night (between 22:00 and 05:00).

<Table 4-3> Extra wage pay rates applied to overtime work

Types of overtime work	Rate of increase
(1) Work in excess of statutory working hours	25%
(2) Work in excess of statutory working hours exceeding 60 hours in a month*1	50%
(3) Work on statutory days off	35%
(4) Work late at night (between 10 p.m. and 5 a.m.)	25%
(5) Work late at night in excess of statutory working hours	50%
(6) Work late at night in excess of statutory working hours exceeding 60 hours in a month*1	75%
(7) Work late at night on statutory days off	60%

*1 Employers are allowed to offer paid leave in lieu of additional wages for overtime work (the 25% increased portion from 25% to 50% by the revised Labor Standards Act) if agreed upon in a labor-management agreement.

4.5.5 Exceptions for managers and supervisors

Persons in positions of management or supervision and persons handling confidential administrative work who are closely involved in management are not subject to the regulations on working hours, breaks and days off (with the exception of regulations on night work). Whether he or she is regarded as a manager/supervisor is comprehensively judged by facts such as those below：

- whether the decision-making process of his or her labor conditions and labor management are closely involved in management
- whether he or she is given the practical authority and business status of a manager/supervisor, regardless of his/her business title
- whether there is a strict limitation for working hours, such as office hours
- whether he or she is given the appropriate financial treatment of a manager/supervisor, such as salary, allowance and bonus

4.5.6 Modified working hour system

Some jobs entail large peaks and troughs in the number of working hours according to the year, month, or week. In some of these cases, companies are allowed to adopt a system of calculating working hours whereby the company need not pay increased rates in certain weeks or on certain days even where employees work in excess of statutory working hours, provided that the employees involved work no more than the statutory number of working hours on average within a predetermined period. In this case, however, a labor-management agreement must be entered into or appropriate provisions included in work rules before a flexible system can be adopted.

(1) System of annual modified working hours
Employees' working hours must not exceed 40 hours on average per week for a specified period of more than one month but not more than one year. If a company adopts this system, even workers whose statutory working hours are 44 hours per week, under the exemptions detailed in 4.5.1 (1), are subject to the aforementioned 40-hour average.

(2) System of monthly modified working hours
Provided that provisions are drawn up prohibiting employees' working hours from exceeding 40 hours*1 on average per week for a specified period of not more than one month, the employer may have employees work in excess of 40 hours in a specified week or in excess of eight hours on a specified day.

(3) Flextime system
Another system under which working hours can be adjusted within a monthly period is the flextime system. Under this, the total number of working hours that a worker must work during a fixed period of not more than three month is established, and workers are free within limits to determine what time they start and stop work each day provided that they meet the total number of working hours required.

(4) Week-based modified working hours

Under this system, employers may have employees work for more than eight hours but not more than 10 hours per day, provided that employees' working hours do not exceed 40 hours per week. It should be noted, however, that this system is limited to retailers, inns, and restaurants with less than 30 regular employees. Furthermore, if a company adopts the system, even workers whose statutory working hours are 44 hours per week, under the exemptions detailed in 4.5.1 (1), are subject to the aforementioned 40-hour average.

*1 Under this system, the working hours of workers whose statutory working hours are 44 hours per week under the exemptions detailed in 4.5.1 (1) shall remain 44 hours.

4.5.7 System of discretionary working hours

If employees work outside companies or if the progress of work is considerably left to employees, an ordinary method of calculating working hours may be unsuitable. For such case, there is a "deemed working hour system" under which employees are deemed to have worked for a certain period of time. If the deemed working hours exceed statutory working hours, increased rates of wages will occur for the excess hours.

(1) System of deemed working hours outside the workplace

This system is to deem that employees have worked for prescribed working hours where it is difficult to calculate the employees' working hours because the employees work outside the workplace for sales, media coverage or other reasons. However, in general, if the employees need to work in excess of the prescribed working hours in order to provide the services, it will be deemed that the employees have worked for "hours generally required to perform those services" or "hours prescribed in the labor-management agreement."

(2) Discretionary working system for professional services

For certain services that are highly professional and difficult to provide specific instructions pertaining to the means of performing services and the allocation of time, by prescribing working hours in the labor-management agreement and submitting that agreement to the chief of the relevant labour standards inspection office, it will be deemed that the employees worked for the hours prescribed in the agreement regardless of the actual working hours.

(3) Discretionary working system for planning services

For a person who engages in services such as planning, plan proposal, research and analysis in which the method of performing those services must be left to the employee's discretion to a large extent, if certain matters are resolved with the majority votes of four-fifth or more of the committee members at the labor-management committee, and the matter is registered to Labor Standards Inspection Office, it will be deemed that the person worked for the hours resolved at the labor-management committee regardless of the actual working hours.

4.5.8 High-Level Professionals

Upon an agreement by a worker engaged in the development of financial products, asset management, trading of securities, etc., investment advice, research analysis, or research and development, with a confirmed annual salary of 10.75 million yen or more, the worker can be exempt from the regulations on working hours, breaks, holidays, and late-night premium wages as a "high-level professional" by submitting a resolution of the labor-management committee to the labor standards inspection office concerned. However, the employer must ensure at least 104 days of holidays per year and implement health and welfare measures.

4.5.9 Paid leave

Employers must grant 10 days' paid leave to employees that worked for six consecutive months from the time of hiring and who worked on not less than 80 per cent of all schedule work days. This paid leave may be taken consecutively or separately. Where an employee's application to take paid leave will hinder the normal business operations, the employer may require the employee to take such paid leave at a different time. The number of days of paid leave available to employees increases in proportion to employees' length of service as set forth in the following table.

<Table 4-4> Number of days of annual paid leave granted

Years of service	0.5	1.5	2.5	3.5	4.5	5.5	6.5
Leave days granted	10	11	12	14	16	18	20

The right to annual paid leave expires after two years. In other words, annual paid leave left over from one year may be carried over and taken the next year only. For instance, if an employee is awarded 10 days' paid leave in 2004, but opts not to take paid leave in that year, the employee may carry those days over to 2005 and use them in addition to any leave days which become available in 2005. However, those 10 days awarded to the employee in 2004 cannot be carried over to 2006 or beyond. It should also be noted that employees that have been continuously employed at the same company for not less than seven years and six months can take a maximum of 40 days' paid leave in any one year, including days that became available within that year and those carried over from the previous year. If a worker does not fully exercise their right to annual paid leave and it expires for reasons such as expiration or retirement, whether to provide payment in lieu for the unused number of days of paid leave depends on the agreement at the company. However, such handling is not desirable as this can discourage workers from taking annual paid leave, and it is important to develop a work environment where annual paid leave can easily be taken.

The Company is obliged to ensure that employees who are granted 10 or more annual paid leave days take at least five days per year. While annual paid leave should be taken in units of whole days in principle, up to five days' worth of paid leave per year can be taken in hourly units if agreed upon in a labor-management agreement.

Employers are not required to grant paid leave days in addition to those described above to cover days on which employees did not work as a result of any non-work-related illness or injury. It should also be noted that most Japanese companies grant a few additional paid leave to employees for marriage, death of close relatives, and childbirth by the employee's spouse, etc.

Part-time workers with few working days and short working hours per week are granted annual paid leave in proportion to the number of prescribed working days that they work.

4.5.10 Maternity, childcare, and family care leave

(1) Maternity leave

If an employee of expectant mother requests permission for leave of absence six weeks prior to the expected date of delivery (14 weeks in the case of multiple pregnancies), the employer must approve the request. Furthermore, employers are, in principle, prohibited to cause any female employee to work for a period of eight weeks commencing from the day following that on which the employee gave birth.

(2) Childcare leave

If an employee with a child aged less than one-year-old requests permission for a leave of absence (by the child's first birthday in principle, or up to the age of 24 months if certain conditions are met), the employer must approve the request. Also, an employee is eligible for childcare leave at childbirth while his spouse is on maternity leave after delivery, on top of the regular childcare leave. Employers may deem employees who have worked at the company for less than one year to be ineligible for childcare leave, provided, however, that the employer does so by stipulating to that effect in a labor-management agreement.

(3) Exemption from non-scheduled work, obligation for short-time working system, and limitation of overtime work

If an employee with a child aged less than three years old requests to be exempted from non-scheduled work, he/she must not be made to work in excess of prescribed working hours. If an employee with a child aged less than three years old requests to take short-time working hour system, he/she must be allowed to

do so. If an employee with a child of preschool age requests to be exempted from non-scheduled work, he/she must not be made to work overtime in excess of 24 hours in a month or 150 hours in a year.

(4) Family care leave
If an employee with a family member who has been judged to require a certain level of nursing care requests permission for a leave of absence to provide such nursing care, the employer must approve such a request in separate periods for up to three times for a total of 93 days per family member concerned. Employers may deem employees who have worked at the company for less than one year and those whose employment will terminate after the 93 day period and 6 months pass from the scheduled start date of family care leave as ineligible for family care leave, provided, however, that the employer does so by stipulating to that effect in a labor-management agreement.

(5) Leave of absence to nurse a child or to take care of family
If an employee with a child of preschool age requests to nurse his/her sick or injured child, he/she may take a leave of absence of up to five days per year (or up to 10 days per year if he/she has two or more children of preschool age). In addition, if an employee with a family member requiring nursing care requests permission for a leave of absence to nurse such a family member, he/she may take a leave of absence of up to 5 days per year (or up to 10 days per year if he/she has two or more of such family members). This leave can be taken in hourly increments.

The above periods of leave may be unpaid. Under certain conditions, however, an employee may receive certain benefits under health insurance coverage during the above period (1) and under employment insurance coverage during the above periods (2) and (4).

4.5.11 Investigations by labor standards inspectors

Labor Standards Inspectors are professional staff members of the Ministry of Health, Labor and Welfare who enter business sites (factories, offices, etc.) under the authority of Japanese labor laws and regulations, observe how employers follow those laws and regulations and ensure sound working conditions and the welfare of workers. They are also responsible for ensuring workers' occupational accident compensation for persons who have suffered from labor-related accidents.

4.6 Rules of Employment

Work rules are specific rules for the workplace containing working conditions such as working hours and wages, as well as rules that employees must comply with when working for business reasons. Employers with 10 or more regular employees must draw up the work rules and submit these to the local Labor Standards Inspection Office. Establishments with fewer than 10 workers are also encouraged to draw up work rules. Where work rules are established, they have the same legal force as labor contracts insofar as they are reasonable in content.

4.6.1 Items to be included in Rules of Employment

Work rules must at a minimum contain the following items.

(1) Start and finish times, breaks, days off, leave of absence (including childcare and family care leave), and work shift arrangements where work is to be performed by two or more teams of workers
(2) Methods of determining, calculating and paying wages (excluding special bonuses and other pay), wage closing day of pay roll and pay day, as well as matters pertaining to wage raise
(3) Matters pertaining to resignation or dismissal (including grounds for dismissal)

Any arrangements established regarding the following matters must be included in the work rules:

(4) Retirement allowances
(5) Extraordinary wages, etc.
(6) Responsibility for meal expenses, etc.
(7) Safety and hygiene
(8) Job training

(9) Workers' accident compensation
(10) Awards and disciplinary measures
(11) Other matters

4.6.2 Obligation to inform

Employers are required to inform workers of the work rules or any labor-management agreements as provided for in the Labor Standards Act.

4.7 Safety and hygiene

Employers are obliged to pay due consideration to safety and hygiene matters so as to avoid illness or injury to workers in the course of work.

4.7.1 Health check-up upon hiring

When hiring a regular employee, employers must have the new employee undergo a predetermined health check-up before hiring him/her.

4.7.2 Health Officer appoint

The employer must appoint a Health Officer when the workplace regularly employs 50 workers or more, and have said health officer take charge of technical matters related to health.

4.7.3 Industrial Physician check-up

The workplaces regularly employing 50 workers or more, the employers must have appoint an industrial physician from among medical doctors, and have the said person provide health care for workers and carry out other matters.

4.7.4 Education at the Time of Employment

The employer shall, when a new worker is employed, educate said worker on safety and/or sanitation concerning work operations in which the worker is to be engaged.

4.7.5 Medical Examination at the Time of Employment

The employer shall, when employing a worker as a regular employee, provide said worker with a predetermined medical examination.

4.7.6 Periodical Medical Examination

The employer shall provide a regularly employed worker with a medical examination by a physician annually (biannually in the case of night shifts and specific types of work that might cause health problems, such as being exposed to X-rays).

4.7.7 Stress check system

For workplaces regularly employing 50 workers or more, the employer shall provide a regularly employed worker with a stress check and interview instruction based on the results annually.

4.7.8 Presentation duty reports of worker casualties

The employer shall, when a worker is killed or suspended from work due to an industrial accident or injury, submit a report to the chief of the competent labor standards inspection office.

4.7.9 Prevention of harassment (sexual harassment/harassment related to pregnancy, childbirth, child care leave/abuse of authority)

Employers are obliged to take measures in the workplace to prevent sexual harassment, harassment related to pregnancy, childbirth, childcare leave, family care leave, etc., and power harassment.

"Sexual harassment" means giving disadvantageous working conditions to a worker because of the worker's response to undesired sexual words or actions in the workplace, or damaging the work environment by sexual words or actions.

"Harassment related to pregnancy, childbirth, childcare leave, etc." means harming the working environment of female workers who have become pregnant or given birth or who have applied for or taken child-care leave, etc., by words and actions of superiors or colleagues (words and actions related to pregnancy, childbirth, use of child-care leave, etc.) at the workplace.

"Abuse of authority (or power harassment)" refers to words and deeds conducted in the workplace that meet all of the followings: 1. taking advantage of a person's superior position, 2. exceeding the scope necessary and reasonable in the course of work, and 3. harmful to workers' working environment. Providing proper work instructions and guidance, which are objectively considered necessary and appropriate for business purposes, are not applicable.

4.8 Resignation and dismissal

If an employee on a labor contract with no set term of agreement wishes to resign (i.e., the employee wishes to terminate the labor contract by notifying the employer of his/her intention to do so), the employee can do so by providing two weeks' notice. Furthermore, there have been judgements made in courts that company rules stipulating that employees must give more than two weeks' notice are invalid when the rules stipulate an unreasonable notice period. If an employee on a labor contract with set terms of agreement wishes to resign, the employee may resign by notifying his/her employer at any time as long as at least one year has elapsed since the date of the start of the contract term. Even in cases where the parties have specified the terms of employment, either party may immediately cancel the contract if there are unavoidable reasons.

On the other hand, employers can only dismiss an employee (i.e., the employer terminates the labor contract by notifying the employee of its intention to do so) after satisfying several criteria. The burden of proof is on the employer in the case of a dispute.

4.8.1 Approved grounds for dismissal

An employer is only allowed to dismiss an employee if there are objectively reasonable grounds for dismissal, and dismissal is deemed to be appropriate in light of socially accepted ideas. Furthermore, all possible grounds for dismissal must be clearly stated in the work rules if the dismissal of an employee is to be valid. In Japan, moreover, termination of a labor contract by the payment of a certain amount of money is not recognized as a matter of course by law (except where an amicable settlement is reached between the parties concerned). As it is exceedingly difficult to judge the validity of dismissal in concrete cases, it is recommended that employers first obtain the advice of a specialist in labor law (such as an attorney or labor and social security attorney).

There is considerable precedent in case law to the effect that it is necessary to meet the following four criteria when making employees redundant as part of company restructuring (i.e., dismissal of employees in order to reduce staff numbers as a result of deteriorating business performance) in order for the redundancies to be deemed reasonable.

(1) Necessity
The company must prove that its business circumstances are such that redundancies are unavoidable and necessary.

(2) Effort to avoid redundancy
The company must prove that it has made serious managerial efforts to avoid redundancies such as by re-assigning staff and advertising for voluntary redundancies.

(3) Reasonable selection
The company must prove that the standards by which it selected those to be made redundant are reasonable, and that redundancies were carried out fairly.

(4) Reasonable process
The company must prove that it conducted sufficient consultations with workers and labor unions.

In order to help preserve jobs in situations where employees would otherwise have to be made redundant as part of company restructuring, there exists a system of "Employment Adjustment Subsidy," which is paid by the government to companies that temporarily lay off employees instead of making them redundant. The subsidy covers two thirds (one half in the case of large enterprises) of the cost of allowances paid for temporary layoffs, subject to the maximum amount of money.

4.8.2 Restrictions on dismissal

Employers cannot dismiss employees in the following situations, and are subject to penalties for infringement.

(1) While an employee is on leave from work as a result of illness or injury incurred in the course of work, or for 30 days following the completion of such leave
(2) While an employee is on maternity leave of six weeks prior to (14 weeks in the case of multiple pregnancy) and eight weeks after the childbirth, or for 30 days following the completion of such leave

4.8.3 Cases where dismissal is invalid

The following cases of dismissal do not have legal effect:

(1) Dismissal of a female worker during pregnancy or within one year of giving birth
(2) Dismissal due to a worker's having reported an illegal act committed by his/her employer to the relevant authorities

4.8.4 Dismissal procedures

If an employer wishes to dismiss an employee, the employer must give the employee at least 30 days' notice. If the employer wishes to dismiss the employee summarily and without notice, the employer must pay the employee 30 days' wages at the time of dismissal (this payment of wages in rule of notice is known as a "notice allowance"). However, in the situations described below, employers may dismiss employees without notice and without paying a notice allowance so long as the employer obtains the approval of the head of the chief of the relevant labour standards inspection office.

(1) The company is unable to continue its business as a result of natural disaster or other such unavoidable circumstances.
(2) The dismissal of the employee is unavoidable and the result of causes attributable to the employee.
- An employee commits an act in the workplace that constitutes a crime under the Penal Code, including theft, embezzlement or causing injury.
- An employee breaches the rules or expected standards of behavior of the workplace, or exerts a negative influence on any other worker.
- An employee makes a false statement in his/her resume that is likely to be a factor in the decision to hire him/her.
- An employee is absent without leave and without due cause for a period of (generally) two weeks or more, and fails to respond to orders to report for work.
- An employee is repeatedly late for work, leaves work early or is absent without leave, and fails to improve his/her punctuality despite repeated warnings.

4.8.5 Dismissal in practice

In Japan, there are some methods apart from taking legal steps when an employer wishes to dismiss a worker for some reason. In practice, the employer will explain to the worker the business or job situation in order to persuade him or her to resign, and ultimately the worker will be persuaded, in many cases, to resign voluntarily. However, excessive retirement recommendation may be interpreted as dismissal. It is also common for various conditions to be discussed (such as the topping up of a worker's severance pay) to encourage a worker to agree to resign. However, there are judgements of courts that if persuasion goes beyond the limits of allowance and make it difficult for the worker to make free decision of leaving the company, it goes against the law.

4.8.6 Covenant not to compete

In Japan, freedom of choice of occupation is guaranteed by the Constitution. Accordingly, an agreement that prohibits working for a competitor for a certain period after leaving his/her former employer is only valid if the term,

geographical scope, professional field, commensurate compensation concerned, and similar restrictions are reasonable. Regarding trade secrets, both the disclosure of former employers' trade secrets by workers and wrongful acquisition of such trade secrets by enterprises are prohibited by law under the Unfair Competition Prevention Act.

4.8.7 Termination of office, resignation and dismissal of directors

The office of directors of Kabushiki-Kaisha (joint-stock corporations) terminates upon expiration of their term of office. Moreover, directors may resign at any time at their own discretion. However, if it causes a vacancy in the position, the directors may not be released from their obligations as directors until new directors take office.

Directors might be dismissed upon a resolution of the General Meeting of Shareholders at any time and regardless of the reasons. However, if the company dismisses the directors before the expiration of the term of office without any justifiable reason, the company must indemnify for damage caused by that dismissal.

4.9 Japan's social security system

Japan has a universal insurance system whereby everybody residing in Japan must, in principle, take part in the public health (medical) insurance and pension insurance system.

4.9.1 Labor and social insurance systems

Japan has four different kinds of insurance system which companies are legally obliged to take part in; all workers that meet certain criteria are covered by the insurance.

(1) Workers' Accident Compensation Insurance
This covers any illness or injury at work or while commuting to or from work.

(2) Employment Insurance
This provides for workers that become unemployed and helps to maintain stable employment such as by providing financial aid and subsidies.

(3) Health Insurance and Nursing Care Insurance
These cover medical and nursing care expenses incurred by workers.

(4) Employees' Pension Insurance
This provides benefits for old age, death, or disability.

Generally, Workers' Accident Compensation Insurance and Employment Insurance are known collectively as "labor insurance," while Health, Nursing Care and Employees' Pension Insurances are referred to collectively as "social insurance."

A company must enter these insurance systems when first incorporating or hiring staff/workers by submitting labor and social insurance notification forms to the relevant authorities. The company usually pays insurance premiums by deducting the portion of the premiums payable by employees/workers from their wages, and paying these together with the portion of the premiums payable by the company to the relevant authorities.

Also, from April 2020, corporations, mutual companies, investment corporations, and special purpose companies with share capital or owners’ equity exceeding 100 million yen are required to file procedures for social insurance and labor insurance electronically as a general rule.

4.9.2 Workers' Accident Compensation Insurance

<Table 4-5> Overview of Workers' Accident Compensation Insurance

Application	As a rule, this is compulsorily applicable to all workers. However, some workers such as officers of corporation or relatives living together may not be applicable. Principals of small and medium businesses (representative director, etc.) may be specially approved for coverage if they apply.
Benefit	Benefits are paid for any illness, injury, disability, or death incurred as a result of an accident caused by a work or while commuting to or from work.
Premium	Premiums are generally calculated as a certain percentage of total amounts of each worker's wage. Premium rates depend on the kind of business carried out at the workplace; the maximum premium rate is 8.8% (for metal/non-metal/coal-mining industries) and the minimum is 0.25% (for finance, insurance telecommunications and broadcasting industries) (revised in April 2018). The employer bears the whole cost of premiums. 0.002% is added to the above premium to fund benefits for asbestos-induced diseases.
Notification	Notifications shall be submitted to the local Labor Standards Inspection Office within a period of 10 days starting on the day following that on which participation in the insurance program was established.

4.9.3 Employment Insurance

<Table 4-6> Overview of Employment Insurance

Application	In principle, this applies to all general workers. However, to qualify for Employment Insurance, prescribed working hours must not be less than 20 hours per week, and they must expect to be employed for not less than 31 days. Employees dispatched to Japan from an overseas company head office who enroll in a scheme equivalent to employment insurance overseas are exempt from this insurance.
Benefit	Benefits are paid for a predetermined period when the insured worker leaves his/her job; the amount of benefits are determined according to the reason for leaving the job, the length of time for which the insured was covered, the insured party's age, etc. There are also a number of benefits available for the purpose of maintaining stability of employment.
Premium	Premiums are calculated as a certain percentage of each worker's total wage. The insurance premium rate is 1.35% (the employer paying 0.85% and the worker paying 0.5%) with the exception of a few kinds of job (revised in October 2022).
Notification	Notifications must be submitted to the local Public Employment Security Office within a period of 10 days starting on the day following that on which participation in the insurance program was established.

4.9.4 Health Insurance and Nursing Care Insurance

<Table 4-7> Overview of Health Insurance and Nursing Care Insurance

Application: Applicable businesses	All incorporated companies without exception and a representative office which has 5 or more regular employees and falls under the prescribed kinds of businesses are obliged to take part in the insurance. Branches and sales offices of overseas companies are treated as incorporated businesses, and representative offices are treated as sole proprietorships.
Application: Insured parties	Generally, all employees of the aforementioned applicable businesses are covered. Part-time employees are covered where their prescribed working hours are not less than 75% of those of full-time employees[*1]. Employees dispatched from overseas company head offices are covered, as are presidents and representative directors of incorporated companies. However, persons dispatched from the United States, Belgium, France, the Netherlands, the Czech Republic, Switzerland, Hungary, and Luxembourg to Japan who are enrolled in medical insurance in these countries are exempt from enrolling in Japan.
Application: Dependents	Insured parties' lineal ascendants, spouses, children, grandchildren, and siblings whose livelihood is maintained mainly by the insured party are eligible to receive insurance benefits.
Application: Nursing care insurance	This applies only to those of 40 years or over.
Benefit: Medical expenses	70% of expenses incurred for medical treatment at designated Insurance Medical Institutions (this refers to medical institutions which have been designated as acceptable for medical insurance purposes; almost all medical institutions in Japan are designated) are covered by insurance, while the insured party must pay the remaining 30%. This also applies to dental expenses.
Benefit: Overseas expenses	If an insured party incurs medical treatment expenses at a medical institution while staying or traveling overseas, he/she can apply to be reimbursed after returning to Japan. The amount of medical expenses incurred overseas is converted into a comparable amount of Japanese medical expenses, and 70% of that amount is reimbursed. It should be noted that this also applies to foreign nationals insured under this system who receive medical treatment in their own countries or other countries outside of Japan.
Benefit: Excessive medical expenses	If the amount of medical expenses (e.g., the portion of medical expenses payable by the insured party) an insured party pays to a single medical institution within a single calendar month exceeds a predetermined amount, the amount of expenses excess of that predetermined level shall be reimbursed to the insured party as "Excessive medical expenses."
Contribution	General insurance premiums for the Japan Health Insurance Association Run Health Insurance are 9.81% (in Tokyo[*4], those of 39 years or under) of each insured party's standard monthly remuneration[*2] (maximum: 1.39 million yen) and standard bonus[*3] (maximum: 5.73 million yen per year). For those of 40 years or over, 11.45%. In either case, the insured party and the employer share the premiums equally (revised in March 2022). In the case of Union Run Health Insurance[*5], a certain amount of leeway in deciding insurance premiums is granted to the managing union.
Notification	Notifications must be submitted to the local Pension Office or Health Insurance Union Office within a period of five days starting on the day following that on which participation in the insurance program was established.

Ineligibility for Health Insurance (National Health Insurance)

Application	People who are not eligible for Health Insurance coverage as described above must enter into the National Health Insurance scheme run by their local city, ward, town, or village government.
Benefit	With a few exceptions, National Health Insurance benefits are virtually the same as those under the above-described Health Insurance.
Premium	Premiums are determined by each operating local government within certain limitations.

(Note) In Japan, everybody has an obligation to take out one of the above forms of public health (medical) insurance. Because you will therefore inevitably have Health Insurance in Japan, if you choose to take out private insurance with an overseas company, it is better to ensure that the coverage of that private insurance does not overlap with your Japanese public insurance coverage.

*1 Part-time employees of an enterprise with 101 or more employees (51 or more from October 2024) who work at least 20 hours per week and receive a monthly pay of at least 88,000 yen are also insured. At an enterprise with 100 or fewer employees, part-time employees meeting the same requirements become insured based on the agreement between the employer and employees (excluding students).

*2 Effective from September 2009, premium rates for health insurance administered by the Japan Health Insurance Association have changed from a uniform rate to one that varies depending on prefecture.

*3 Standard monthly remuneration refers to the division of the total amount of wages and other such payments into predetermined brackets.

*4 Standard bonus refers to the amount of the bonus rounded down to the nearest unit of 1,000 yen.

*5 Union Run Health Insurance refers to an insurance scheme provided by a union run by a company or a group of companies.

4.9.5 Employees' Pension Insurance

<Table 4-8> Overview of Employees' Pension Insurance

Application: Applicable businesses	All incorporated companies without exception and a representative office which has 5 or more regular employees and falls under the prescribed kinds of businesses are obliged to take part in the insurance. Branches and sales offices of overseas companies are treated as incorporated businesses, and representative offices are treated as sole proprietorships.
Application: Insured parties	Generally, all employees of the aforementioned applicable businesses are covered (with the exception of those over 70 years old). Part-time employees are covered where their prescribed working hours are not less than 75% of those of full-time employees*1. Employees dispatched from overseas company head offices are covered, as are presidents and representative directors of incorporated companies.
Benefit: Old-age Pension	This is generally paid to people not less than 65 years old who have paid Employee's Pension Insurance premiums (or been officially exempted from paying premiums) for not less than 10 years in total (this need not be consecutive). The amount of benefit is calculated according to the amount of insurance premiums paid and the length of the period over which they were paid.
Benefit: Disability Pension	Where the illness or injury that causes disability occurs during the period when the disabled party is insured under the Employees' Pension Insurance system, the regular pension or lump sum shall be paid to the disabled party. The amount of benefit is calculated according to the degree of disability, the amount of insurance premiums paid and the length of the period over which they were paid.
Benefit: Survivor's Pension	If an insured party, a person who is eligible to receive an old-age pension or a person receiving a disability pension who fulfills certain conditions dies, a survivor's pension shall be paid to that person's surviving family.
Contribution: Rate	Insurance Contributions are 18.3%of the insured party's standard monthly remuneration (maximum: 650,000 yen) and standard bonus (maximum: 1.5 million yen); the insured party and the employer share the Contributions equally.
Contribution: Social security agreement	Japan has concluded social security agreements with Germany, the U.K., South Korea, the U.S., Belgium, France, Canada, Australia, the Netherlands, the Czech Republic, Spain, Ireland, Brazil, Switzerland, Hungary, India, Luxembourg, the Philippines, the Slovak Republic, China, Finland, and Sweden. If any person is sent from one of these countries to Japan to work temporarily and is insured under the pension system of the sending country, that person shall be exempted from coverage of the Japanese public pension systems. Presenting the certificate of coverage issued in the sending country is requested by a Japanese relevant institution in case of necessity. Japan has already signed the agreements with Italy, and governmental talks are underway with Turkey and Austria. Preliminary talks are also underway with Vietnam, Thailand, and Poland.
Contribution: Lump-sum Withdrawal Payments	When a foreign national who has at least 6 months of coverage periods under Employees' Pension Insurance and returns to his/her country without fulfilling entitlement period of the public pension systems, he/she can claim Lump-sum Withdrawal Payments for the amount basically corresponding to the coverage periods under Employees' Pension Insurance, 36 months at most.
Notification	Notifications must be submitted to the local Pension Office within a period of five days starting on the day following that on which participation in the insurance program was established.

Ineligibility for Employees' Pension Insurance (National Pension Insurance)

Application	Every person aged between 20 and 59 (inclusive) residing in Japan and without Employees' Pension Insurance must be a part of the national pension system. Contributions are a fixed amount per month (16,590 yen from April 2022 to March 2023) and participants in the system are eligible for Old-age Pension, Disability Pension and Survivor's Pension as well as Lump-sum Withdrawal Payments for a foreign national similar to that of the above-mentioned Employees' Pension Insurance system.

*1 Part-time employees of an enterprise with 101 or more employees (50 or more from October 2024) are also insured where their working hours are at least 20 hours per week receiving a monthly pay of at least 88,000 yen with a prospect of continuous employment of at least one year. At an enterprise with 500 or fewer employees, part-time employees meeting the same requirements become insured based on the agreement between the employer and employees (excluding students).

4.9.6 Labor and social insurance coverage of representative office

Labor insurance (Workers' Accident Compensation/Employment Insurance): In principle, when the individual, who is working at the representative office of a foreign corporation, falls under the definition of "workers" under the Labor Standards Act in Japan, he/she is eligible for Industrial Compensation Insurance. Whether the representative of the office is applicable to the definition of "workers" or not is respectively determined based on the actual situation of work. When the representative of the office is not a worker, the labor insurance does not apply. However, under certain conditions, there is a scheme in place to allow the representative insured by Worker's Accident Compensation Insurance as a special enrollment at his/her own cost.

Social insurance (Health/Employees' Pension Insurance): In case of a representative office with less than 5 employees, in principle voluntary coverage with the representative of the office as the employer (the representative does not become the person insured) is available. If a representative office has 5 or more employees and falls under the prescribed kinds of businesses, as a general rule, insurance coverage is mandatory. In principle, a representative does not become the person insured, because a representative is an employer of sole proprietorship. However, as an exception, a representative can sometimes be granted eligibility to be insured if documents certifying the representative's status as an employee of the overseas head office are submitted. However, the ultimate decision to allow for this exception lies with each local competent authority.

4.9.7 Review of labor and social insurance systems

<Table 4-9> Review of labor and social insurance systems

Insurance	Benefit	Coverage	Premium rate (% of total annual wage)		Remarks
			Employer pays	Worker pays	
Workers' Accident Compensation Insurance	Benefits are paid as compensation for medical expenses, work missed, disability or death incurred as a result of work or while commuting to or from work.	All businesses that employ workers must have this insurance.	0.3% (In cases of import and trade, and sales industries)	—	- Special coverage available for employers - Premium rates differ according to industry
Employment Insurance	Benefits are paid to unemployed workers, workers on child care leave and the elderly.	All workers whose prescribed working hours are not less than 20 hours per week must have this insurance.	0.85%	0.5%	Persons enrolled in unemployment compensation programs overseas are exempt.
Health Insurance and Nursing Care Insurance	Benefits are paid for illness or injury not arising as a result of work or while commuting, and for childbirth, etc.	All incorporated companies without exception and sole proprietorships with five or more regular employees are generally obliged to take part in the insurance.	4.905% (5.725% if aged 40 or over)	4.905% (5.725% if aged 40 or over)	This premium rate applies only to Japan Health Insurance Association Run Health Insurance (in Tokyo). Maximum standard monthly remuneration: 1,390,000 yen
Employees' Pension Insurance	Benefits are paid for old age, disability, and death.		9.15%	9.15%	Lump-sum Withdrawal Payments for a foreign national when returning to his/her country. Maximum standard monthly remuneration: 650,000 yen
Child Benefits Contribution	Contribution to a social welfare system for child benefit, and it differs in nature from the welfare benefits offered to workers through their employers.		0.36%	—	Maximum standard monthly remuneration: 650,000 yen
Total			15.565% (16.385% if aged 40 or over)	14.555% (15.375% if aged 40 or over)	

* Premium rates are as of December 2022.
* 0.002% will be added to the premium rate for Workers' Accident Compensation Insurance for the time being in order to fund benefits for asbestos-induced diseases.
* When the remuneration exceeds the maximum amount of standard monthly remuneration, the insurance premium at the maximum amount of standard monthly remuneration shall be applied.

<Table 4-10> Social security agreements already effective and in preparation

Country	Agreement effective from	Totalization of coverage periods	Social security system subject to coordination of application	
			Japan	Counterparty country
Germany	February 2000	Exist	pension	pension
U.K.	February 2001	Not exist		
Korea	April 2005	Not exist		
U.S.	October 2005	Exist	pension / medical insurance	pension / medical insurance
Belgium	January 2007	Exist		pension / medical insurance / accident compensation insurance for workers / employment insurance
France	June 2007	Exist		pension / medical insurance / accident compensation insurance for workers
Canada	March 2008	Exist	pension	pension (except Quebec Pension Plan)
Australia	January 2009	Exist		Retirement pension
Netherlands	March 2009	Exist	pension / medical insurance	pension / medical insurance, employment insurance
the Czech Republic	June 2009	Exist		
Spain	December 2010	Exist	pension	pension
Ireland	December 2010	Exist		
Brazil	March 2012	Exist		
Switzerland	March 2012	Exist	pension / medical insurance	pension / medical insurance, employment insurance
Hungary	January 2014	Exist		
India	October 2016	Exist	pension	pension
Luxembourg	August 2017	Exist	pension / medical insurance	pension / medical insurance / accident compensation insurance for workers / employment insurance
Philippines	August 2018	Exist	pension	pension
the Slovak Republic	July 2019	Exist	pension	pension / accident compensation insurance for workers / employment insurance
China	September 2019	Not exist	pension	pension
Finland	February 2022	Exist	pension / employment insurance	pension / employment insurance
Sweden	June 2022	Exist	pension	pension
Italy	In preparation	Not exist	pension / employment insurance	pension / employment insurance

As of November 2022

Reference (4)

1. International Comparisons of Dismissal Regulations

OECD regularly conducts comparative research on dismissal regulations in its member countries and analyses and ranks them by the strictness of dismissal regulations. According to 2019 research, Japan ranked 13th in terms of the least strict dismissal regulations among the 37 OECD member countries. The least strict countries included the US, Switzerland, Canada, etc., while Czech, Israel, and Portugal were among the strictest nations. The UK was 6th, Germany 16th, France 24th, and Sweden 27th, as a country with low strictness.

While the effective criteria for dismissal supported by the court are stringent in Japan, Japan has simple procedures and a short notice period for dismissal. These, coupled with the absence of a legalized monetary resolution system, were the reasons for Japan's higher ranking (or being less strict) compared with many continental European countries.

2. Labor unions

In Japan, the right of its labor unions to carry out their activities is guaranteed by law. Employers cannot employ a person on the condition that he/she does not join a union, and cannot cause any disadvantage to an employee because he/she is a union member. Furthermore, no company may refuse its labor union's request for collective negotiations without due cause.

According to a survey by the Ministry of Health, Labour and Welfare, the unionization rate of Japan’s unions as of June 2021 was estimated to be 16.7%, a slight decrease from the previous year. By company size (private sector only), 39.2% of the workers at companies with 1,000 or more employees are unionized, 11.1% at companies with between 100 and 999 employees, and 0.8% at companies with less than 100 employees.

3. Coverage of temporary workers by labor law

The term "Temporary worker" refers to a worker that enters into a labor contract with a temporary staffing agency (the company that temporarily places the worker), and who, under the orders of the agency, reports for work at a client company of that agency (i.e., a company that enters into a temporary worker placement contract with the agency, and then accepts temporary placement of the worker), and who performs duties under the orders of the client company.

Labor laws such as the Labor Standards Act, the Industrial Safety and Health Act, and the Equal Employment Opportunity Act apply to temporary workers. Companies that accept placement of temporary workers bear the responsibility of complying with the provisions of the Labor Standards Act pertaining to working hours, breaks and days off; those companies may have temporary workers work overtime within the scope allowed by the Labor Standards Act provided they enter into a labor agreement regarding workers' overtime with the agency that places the temporary worker. In this case, the temporary staffing agency bears the responsibility to pay increased rate of wages.

It is the temporary staffing agency's responsibility to ensure temporary workers' annual paid leave, and to supply the client company with a replacement worker if necessary while the original temporary worker is on annual paid leave. Furthermore, it is the temporary staffing agency rather than the client company that must take out labor insurance (Workers' Accident Compensation Insurance and Employment Insurance) and social insurance (Employees' Pension Insurance and Health Insurance) for the temporary worker and pay the appropriate premiums.

If a client company accepts illegal supply of temporary workers (exceeding period limitations, disguised contract, unauthorized supply service, etc.), a direct employment relationship is deemed to have been established between the client company and the temporary workers at the time of accepting such supply of temporary workers.

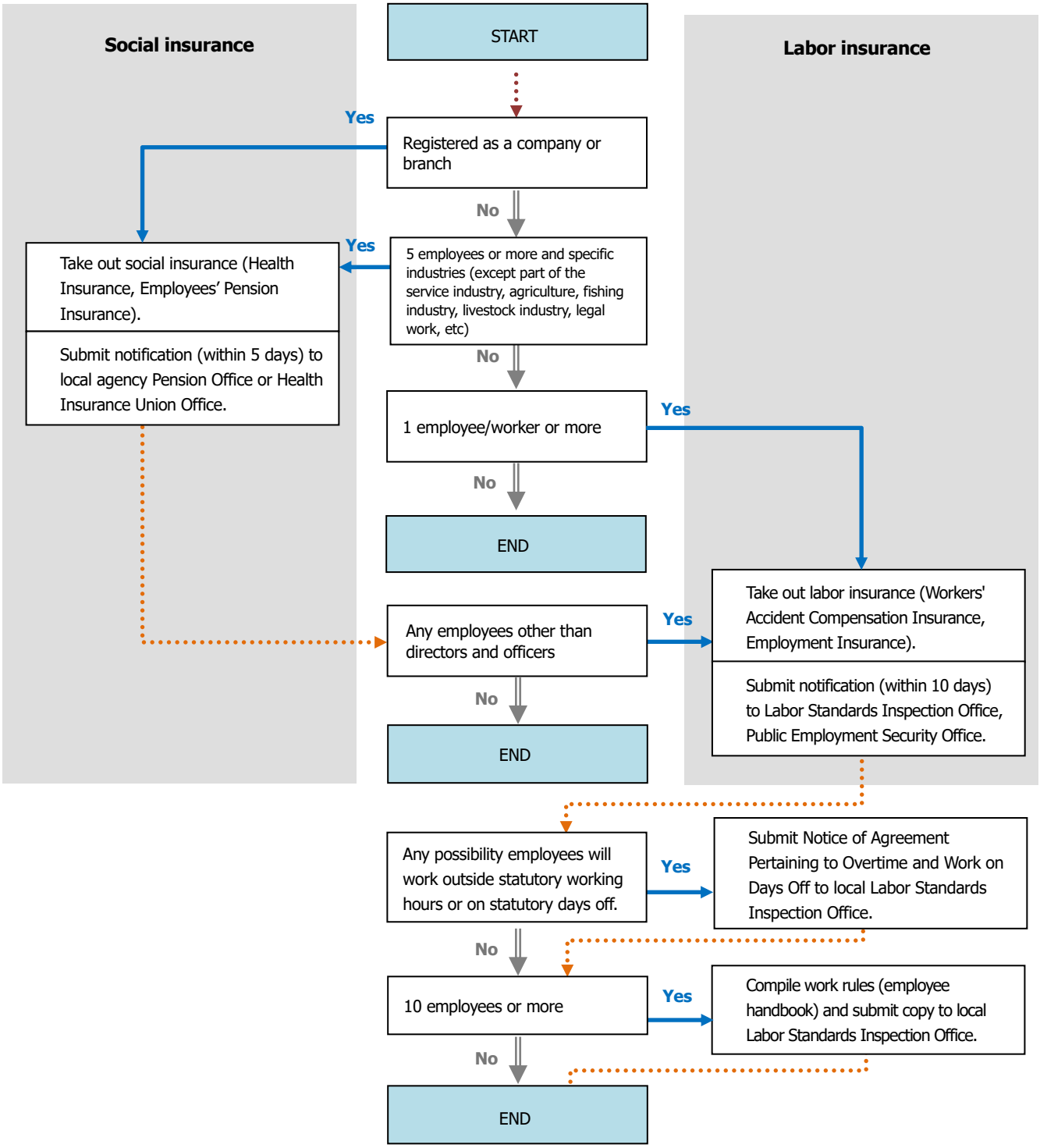
4. Consultation with specialists on human resource management

Labor and social security attorneys are human resource management experts with special nationally administered qualifications. As well as payroll accounting, they perform a range of services at companies' request, including:

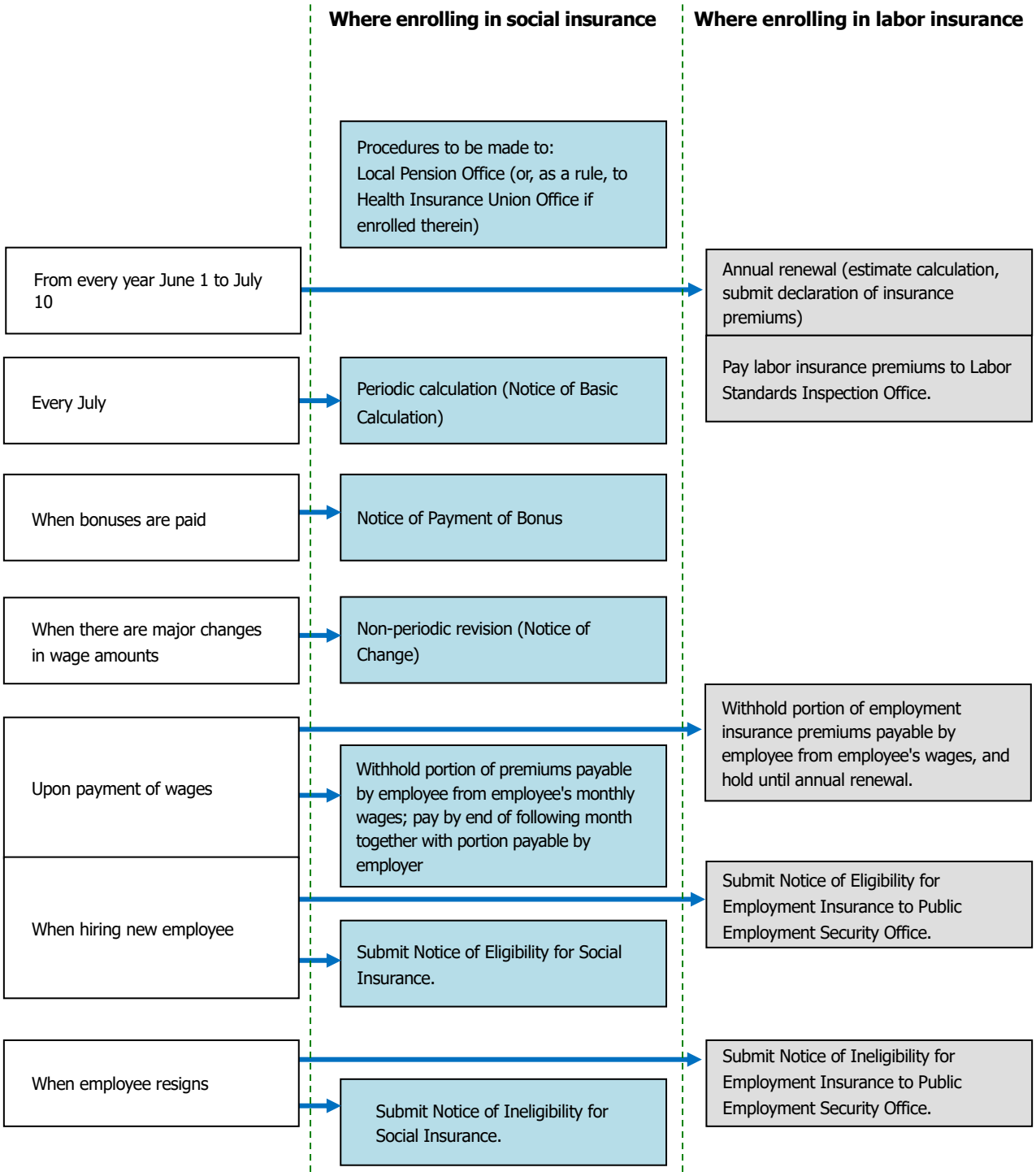
(1) Carrying out labor and social insurance-related procedures and other administrative work as a proxy for companies when hiring staff.
(2) Consulting services in relation to safety and hygiene, as well as labor management (including drawing up work rules, planning and redesigning wage structures, as well as settling employment problems).
(3) Mediation in individual employment disputes.
(4) Consulting and handling of claims regarding pensions.
(5) Other employment-related tasks.

(Performance of services covered by (1) and (3) by persons other than labor and social security attorneys in private practice, certified social insurance labor and social security attorney corporations, or attorneys is prohibited by law.)

Social and labor insurances procedures when setting up a company or hiring staff/workers



Annual procedures



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