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DOING BUSINESS IN JAPAN

Antea
Alliance of independent firms

General Aspect of Japan

Population	123 Million (as of April 1st 2025)
GDP	662,000 billion JPY (3,481 billion EUR) (2025 year)
Climate	Most area is generally mild. There are 4 seasons and June is rainy season.
Language	Japanese English is popular for business
Currency	Japanese Yen (184 JPY/EUR as of Mar 6, 2026)

Legal Forms of Business Entities (1/2)

Legal form	Japanese Name (Abbreviation)	Feature	Minimum Paid in Capital
Joint Stock Company	Kabushiki Kaisha (KK)	Liability of shareholder is limited to the value of the share (Detail is in next page)	1 JPY ~
Limited Liability Company (LLC)	Godo Kaisha (GK)	Liability of equity holder is limited to the value of the equity. GK is increasingly popular for subsidiaries of foreign companies due to simpler governance.	1 JPY ~
Branch	Shiten (-)	See below	-

Advantage vs Disadvantage for Branch

Advantage	Disadvantage
- Loss can be off set against profit of head office in overseas. - Easier legal procedures for deregistration than corporation.	- Tax on branch is more complicated than corporation in general. e.g.) Payment of Japanese source income to Japan branch of foreign corporation is basically subject to withholding tax. - Taxable income of the branch needs to be calculated based on Japanese tax law. On the other hand taxable income in the country where head office is located needs to be calculated again based on the tax law in the country. - Amount of paid in capital of the foreign corporation affects tax status of the Japanese branch. e.g.) In case paid in capital of foreign corporation is more than JPY100 million Japan branch is regarded as large corporation for income tax purposes and not able to enjoy tax concessions allowed for small corporations.

Legal Forms of Business Entities (2/2)

Operation of KK

Incorporation	It takes usually from one to two months for incorporation. Incorporation is handled by a legal firm.
Fiscal Year	It is determined by shareholder and it is written in the Articles of Incorporation. March 31st is popular for Japanese companies and December 31st is popular for International companies.
Shareholders’ Meeting	Annual shareholders' meeting shall be held within 3 months after fiscal year end.

Professional Qualifications other than Lawyers

Area	**Qualification** (in Japanese)	**Remarks**
Accounting & Tax	Certified Public Accountant - CPA (Konin Kaikeishi)	- Statutory auditing needs to be performed by CPA. - There are approximately 38 thousand CPAs in Japan as of December 31, 2025.
	Certified Public Tax Accountant - CPTA (Zeirishi)	- Tax works needs to be performed by CPTA. CPA is not able to do tax works but CPA can be registered as CPTA. - There are approximately 82 thousand CPTAs in Japan as of December 31, 2025.
Social Insurance & Employment	Labor Consultant (Shakaihoken Romushi)	- Labor consultant handles social insurance matters, consulting on labor problems, preparation of employment rule and others.
Registration	Judicial Scrivener (Shiho Shoshi)	- Registration works such as registration of incorporation or land and building are handled by judicial scrivener.
VISA	Administrative Scrivener (Gyosei Shoshi)	- VISA works are generally handled by the profession.

Taxation – Overall

Japan has concluded tax treaties with 88 countries and regions as of October 1, 2025.
Some special concessions are granted under tax treaties.

Major tax law and brief explanation on each tax follow:

National/Local	Type of Tax
National	Income Tax
	Corporate Income Tax
	Inheritance Tax
	Japanese Consumption Tax (JCT) (JCT return needs to be filed with national tax office)
Local	Income Tax
	Fixed Property Tax

Taxation – Personal Income Tax

Tax Year : Calendar Year
Filing Due Date : March 15th

- Provisions on personal income tax and withholding tax are in the Income Tax Law.
- Different tax methods are applied depending on residential status: Resident (Permanent / Non-permanent) and Non-resident.
- Resident income is classified into 10 groups: 1) Interest 2) Dividends 3) Real estate 4) Business 5) Salary 6) Retirement 7) Timber 8) Capital gains 9) Occasional 10) Miscellaneous.
- Retirement income and part of capital gains are separately taxed from other income.
- Major deduction items: 1) Basic deduction 2) Social insurance premium 3) Insurance premium (with limit) 4) Medical expense (with limit).
- Tax rate: Progressive rate from 5% to 45% plus flat 10% local income tax (combined max 55%).
- From 2026, income tax threshold will be raised to JPY 1.78M (previously JPY 1.03M).
- Permanent resident is taxed on entire global income. Non-permanent resident is taxed on Japanese source income and overseas income remitted to Japan.
- Non-resident is taxed on Japanese source income at 20.42% withholding rate on some kind of income such as salary, and comprehensive income taxation is applied on some kind of income such as real estate income.

Taxation – Corporate Income Tax 1/2

Tax Year : Same as Fiscal Year
Filing Due Date : Two months after fiscal year end (*)

- Provisions are made for domestic corporation and foreign corporation separately. However they are the same in most areas.
- Group Tax Relief system (replaced former consolidated taxation in April 2022) is allowed for 100% ownership group of domestic corporations.
- Tax return shall be based on the accounts legally finalized at the annual shareholders meeting.
- Taxable income is calculated based on GAAP except items prescribed by tax law:

1) Directors remuneration 2) Entertainment expense (deductible up to limit)
3) Donation (deductible up to limit) 4) Depreciation method prescribed by tax law
5) Taxation on lease: Finance lease and Operating lease
6) Tax deductible bad debts written off 7) Merger and acquisition
8) Loss carry forward and carry back

(*) One month extension is allowed in case Articles of Incorporation says annual shareholders meeting is held within three months after fiscal year end. Foreign corporation has different rule to finalize annual accounts in the country where the head office is located and as tax returns shall be based on the accounts legally finalized more than one month extension may be allowed for foreign corporations. To get extension permission an application form needs to be filed before end of the fiscal year.

Taxation – Corporate Income Tax 2/2

Topic	Remark
Tax Rate	In addition to national corporate tax there are local inhabitant tax and enterprise tax. Aggregate effective tax rate is 29.74%. Defense special corporate tax (4% of corporate tax liability) will apply from FY starting April 2026.
Tax Payment Due Date	Two months after fiscal year end. No extension is allowed.
Tax Concession on Small Corporations	Small corporation defined the amount of paid in capital is 100 million JPY or less at the end of the fiscal year can enjoy tax concessions, for example: - Lower income tax rate up to 8million JPY taxable income - Higher limit of tax deductible amount on entertainment expenses - Loss carry back to previous year is allowed
Tax Credit	For example, Withholding tax paid, Withholding tax paid in overseas, Some portion of R&D expenses and salary increase can be subject to tax credit.
International Tax Matters	Transfer Pricing, Anti-tax haven measure and Taxation on thin capital are international tax matters when international transaction is conducted.

Taxation – Income Tax (Withholding Tax)

Withholding Tax on Payment to **<u>Resident</u>**

- Following payments are subject to withholding tax:
  1) Bank Interest 2) Dividends 3) Salary 4) Severance payment
  5) Pension 6) Fee paid to professionals and other outside service providers

Withholding Tax on Payment to **<u>Non-Resident or Foreign Corporations</u>**

- Definition of foreign corporation is head office is not located in Japan.
- Therefore payment to Japanese branch of foreign corporation is subject to this withholding tax.
- Payment of Japanese source income is subject to this withholding tax.
- Example of Japanese source income follow:
  1) Interest 2) Dividends 3) Royalty 4) Salary on working in Japan
  5) Rent income on premises in Japan 6) Capital gain on premises in Japan

Taxation – Inheritance Tax & Gift Tax

- There are inheritance tax and gift tax. In both cases persons who receives assets needs to file tax return.
- There are some limitation on tax payer and on location of the assets.
- There are special rules on valuation of assets and it is used for both taxes.

Type	Topic	Remark
Inheritance Tax	Basic Deduction	30 million JPY + number of heir X 6 million JPY
	Filing and tax payment due date	Within 10 months after the date of death
Gift Tax	Basic deduction	1,000 thousand JPY or 1,100 thousand JPY per year depending on method of filing tax return
	Tax year	Calendar year
	Filing and tax payment due date	March 15th in the following year

Taxation – Japanese Consumption Tax (JCT)

- JCT is passed on to consumers by addition to the price of products sold and services provided.
- Designed to eliminate multiple taxation by allowing credit of JCT on purchasing against JCT on sales.
- Exemption/relief provisions exist; tax strategy is necessary on choice of JCT status options.
- Qualified Invoice System introduced Oct 2023. Only registered issuers can issue qualified invoices; purchasers need them to claim full input tax credit.

Topic	Remark
Tax Rate	10% made up of 7.8% of national JCT and 2.2% of local JCT. 8% rate is applied on grocery and others.
Exemption	Export
Items not subject to JCT	For example, - Land sales and rent - Interest - Prepaid card - Medical expense - Rent for residential purposes
Filing and tax payment due date	Within two months after fiscal year end. One month extension is allowed for corporations such extension is allowed on corporate income tax return filing.

Taxation – Local Taxes

Type of Tax			Remark
Income Tax	Personal Tax		- Taxable income is calculated basically in the same method as national income tax. - Tax rate is 10% flat rate.
	Corporate Tax	Inhabitant Tax	- Corporation has to file income tax return with local tax office where the corporation has office. - For instance head office of a corporation is in Tokyo and the company has branch in Osaka the company needs to file local income tax return with Tokyo metropolitan tax office, Osaka prefecture tax office and Osaka city tax office.
		Enterprise Tax	- Enterprise tax return needs to be filed with the same local tax office as inhabitant tax office. - Enterprise tax is tax deductible in the following year.
Fixed Property Tax			- Fixed property tax is imposed on land, buildings, leasehold improvements, machines and furniture and equipment. - On land and buildings tax payment slip is sent to the owner based on registration from local tax office. - On other assets used for business tax return needs to be filed by the end of January on assets as of January 1. - Based on the tax return tax office makes assessment and sends tax payment slip to the owner of the premises.

Antea

Alliance of
independent firms

Sugiyama & Co., CPA

Asakawa Bldg. 6th floor

Shibadaimon 2-1-17, Minato-ku

Tokyo, JAPAN

Tel.: + 81 3 3433 3600

Fax: + 81 3 3433 0588

Email:

sugiyama@cpa-sugiyama.jp

http://cpa-sugiyama.jp/